Guide:

How to purchase high integrity carbon offsetting

In this guide, we present a checklist for companies that are purchasing carbon offsetting.

Only projects that have a true climate impact can be used in companies' climate and offsetting claims – anything else can be considered as greenwashing.

For offsetting – and the voluntary carbon market – to truly make a difference, it must be done well. Only then it can be considered as the tool against climate change that it can be. This means that offsetting should be supporting emission reductions that are the primary climate change mitigation tool and that offsetting should always have an actual climate impact.

Compensate has evaluated over 170 nature-based carbon projects with scientific criteria developed together with Compensate's network of scientific advisors. **90% of these projects fail our criteria** that go beyond international standards (e.g. Gold Standard, Verra). The reasons vary, but are all equally alarming. Some projects cannot be considered additional, others have serious permanence risks. Some have unreliable baselines, because assumed deforestation is largely inflated. Worryingly, many projects also cause serious human rights violations.

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In the following pages, we'll take a closer look at these characteristics of carbon credits:

→ **Additionality:** The project would not have happened without carbon credit revenue and the project goes beyond its host country's climate objectives.

→ **Reliability:** Projects shouldn't be based on unrealistic and intentionally exaggerated predictions of the potential deforestation threat.

→ **Permanence:** Permanence refers to the stability of the carbon sink or storage born in the project. The longer the permanence, the better the quality of the carbon credit.

→ **Double counting:** This is a situation where two parties claim the same carbon removal or emission reduction, but only one of the parties' emissions are counterbalanced.

→ **Realized climate impact:** The accepted practice is that offsetting takes place with carbon credits that are sold after the carbon removal or emission avoidance has taken place, not the other way around. As an example, when a tree is being planted, we cannot be sure what will happen to it within the next few years or decades.

→ **Net positive social, biodiversity, and environmental impacts:** For carbon projects to be sustainable, they should have net positive impacts for local communities, biodiversity, and the environment.

→ **Diversification:** One of the best ways to mitigate risks related to the projects is risk diversification. This means that a carbon credit should be based on a portfolio of various carbon projects.

Additionality

Additionality separates environmental projects from offsetting projects.

While both are great for the climate, only projects that are additional can be used for offsetting.

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As an example, a real-life cookstoves project in Uganda, certified by Gold Standard and used in offsetting by various companies, doesn't result in emission reductions beyond business-as-usual, as people buy the stoves to save energy costs, unaware that they are taking part in a carbon project.
In other words, **these stoves were sold regardless of the offsetting project,** and thereby, this project cannot be considered additional.

Additionality must be examined on two levels: financial additionality and policy level additionality. While many projects struggle with demonstrating financial additionality, even fewer can tackle the latter.

Financial additionality means that the project would not have happened without carbon credit revenue. In other words, the offsetter is directly responsible for enabling the offsetting action to take place.

Policy level additionality means that the project goes beyond its host country's climate objectives. If a project only enacts what policies already require, the project may be great for the climate but is not suitable for offsetting. As an example, if a national policy already protects certain types of forests, a project protecting them is not additional on the policy level.

Additionality should be the basic requirement for all credits on the voluntary carbon market.

Offsetting emissions with credits that are additional ensures the offsetter actually makes a positive impact and truly reduces the amount of CO_2 in the atmosphere.

Next: **Reliability**
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Reliability

Projects based on unrealistic and often intentionally exaggerated deforestation predictions, result in overestimating the project's climate impact and hence taking credit for what would have happened anyway.

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Such projects have little climate impact and in fact, buying such credits is accelerating climate change,

as companies' emissions are not counterbalanced with real, additional offsets. International carbon standards are fundamentally flawed, as they develop and accept project methodologies that **allow for the issuance of millions of meaningless credits.**

As an example, in forest protection projects, carbon credits are created by predicting the deforestation which would occur if the project didn't exist. Reference areas are used to estimate potential deforestation, and the assumption is that the same "amount" of deforestation would happen in the project area were it not protected. Carbon credits are then issued based on estimated deforestation in the absence of the project. This is done by using a reference area, or regional or national deforestation rates.

Inflating a project's climate impact could result from overestimated baseline emissions or overestimated carbon stock changes. Baseline emissions refer to the CO_2 emissions that would be released in the absence of the project. Carbon stocks refer to how much carbon is stored in a forest, which is then multiplied by the area deemed to be deforested. Carbon stock varies depending on the type of forest, for example, tropical rainforests store more carbon than dry savannah.

Project developers can influence the number of credits issued with the selection of the baseline scenario and/or the expected carbon stock changes. The baseline could be artificially inflated by e.g. predicting 100% deforestation were the project not implemented.

Next: **Permanence**

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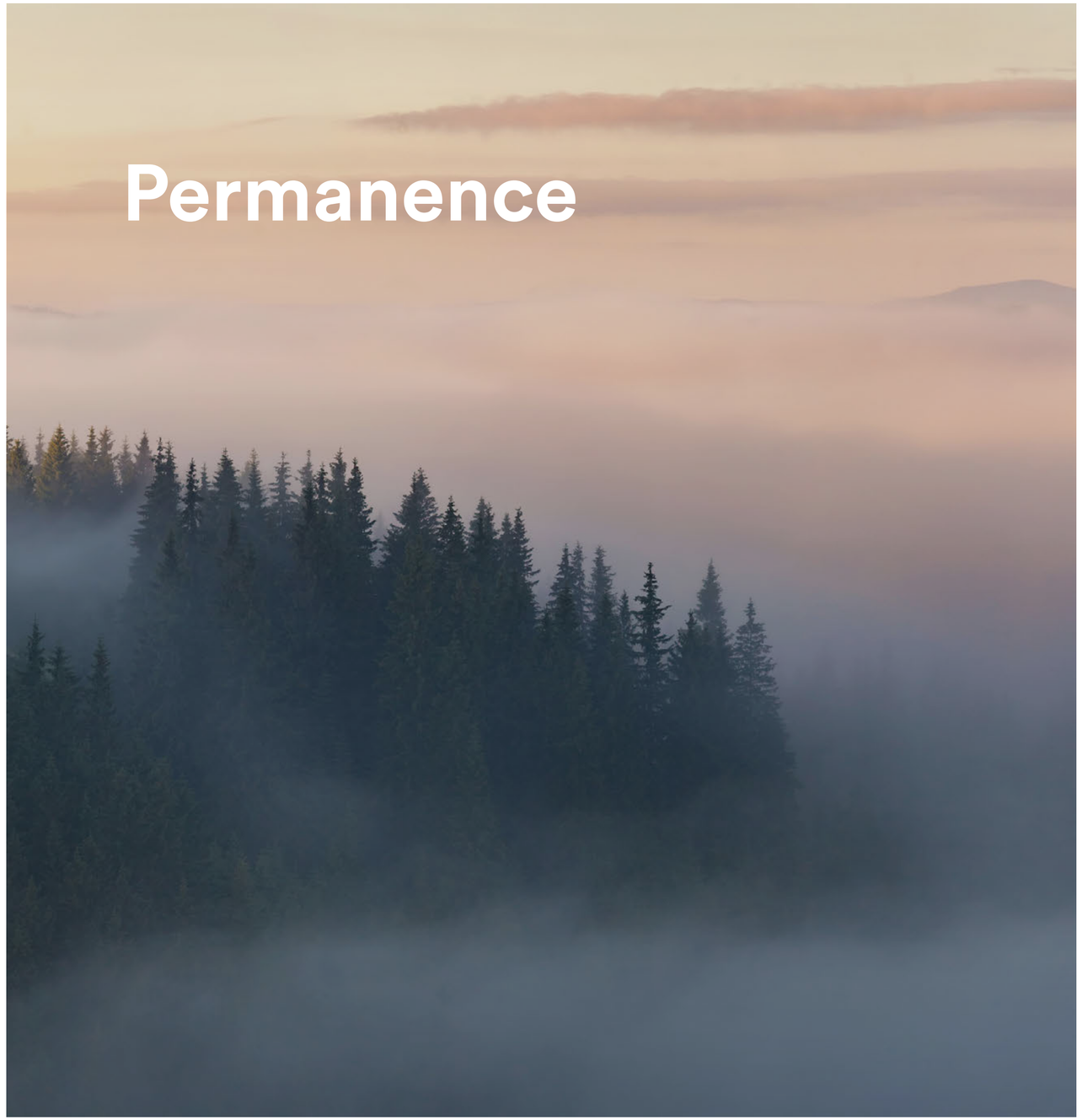

Permanence

Permanence refers to the stability of the carbon sink.

Offsetting claims should be valid for the time the amount of CO_2 avoided or removed stays that way.

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As an example, the majority of forestation projects have a lifetime of 30 years. If the protected forest is logged immediately after the project is completed, and the trees are used for energy, the CO_2 will be released into the atmosphere.

The longer the permanence, the better the quality of the carbon credit

and the bigger the benefit for the climate.

Next: **Double counting**

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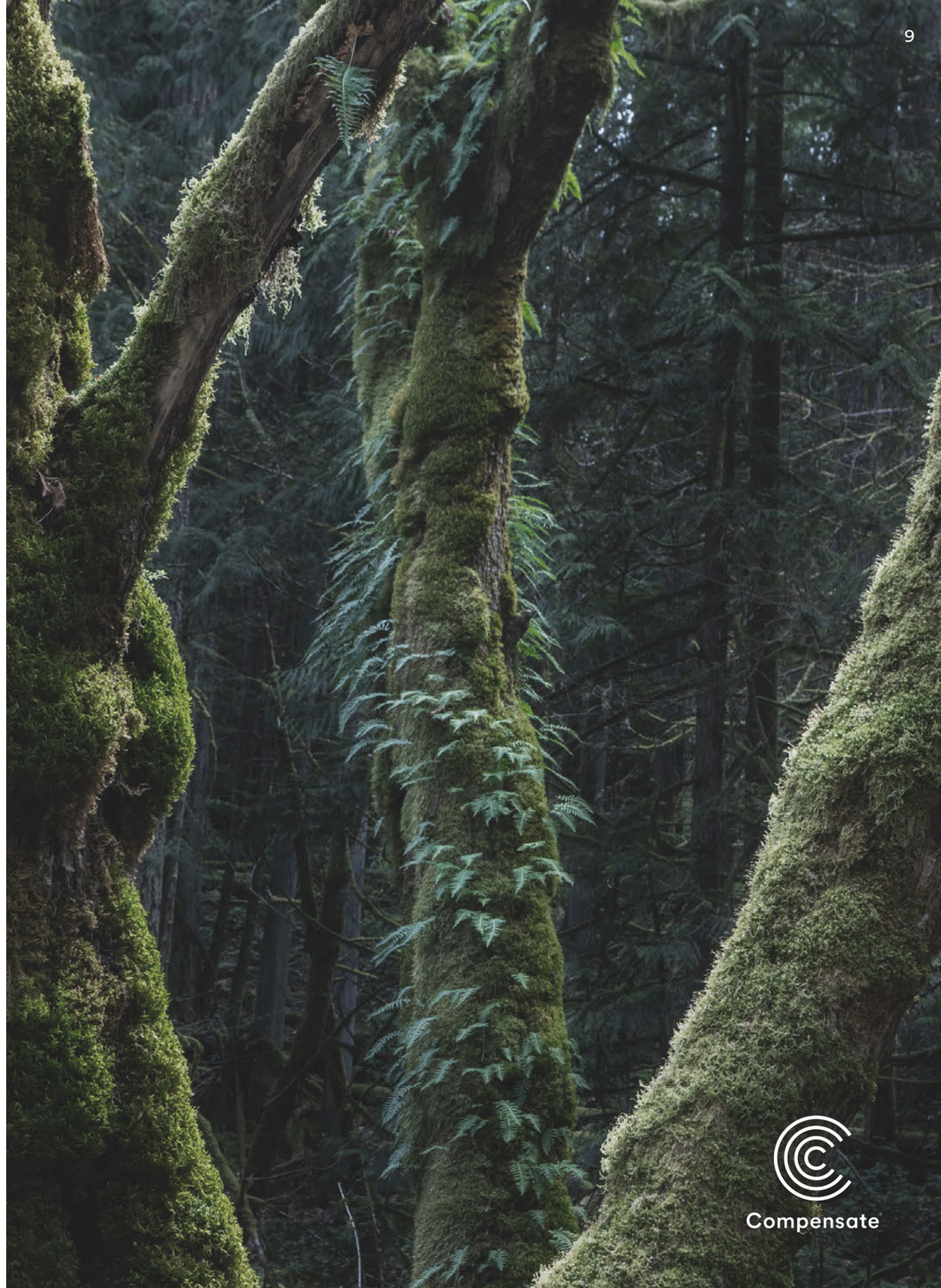

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Double counting refers to a situation where two parties claim the same carbon removal or emission reduction.

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This is highly problematic, as

two parties cannot claim credit for the same climate action.

If a company claims to be carbon neutral through offsetting that is also counted into the project's host country goals, as far as the climate is concerned, the company hasn't actually done anything extra. On the other hand, double counting can also disincentivize countries from implementing much needed climate action.

It is not acceptable for companies to make offsetting claims using emission reductions or removals which are also counted in the project host country's GHG inventory towards achieving national, EU or international climate targets. Contrary to the intention, this in fact results in a net increase of emissions in the atmosphere, as only 1 tCO_2 has been avoided or removed instead of 2 tCO_2 - one by the company and one by the host country.

To avoid using credits that have been double-counted, the following needs to be taken into account when purchasing carbon offsets:

→ **Projects are in countries that apply corresponding adjustments for credits sold to the voluntary carbon market,**

or

→ **The buyer needs to use credit vintages that are not affected by the Paris Agreement carbon accounting rules, meaning credits issued prior to 2021**

or

→ **Projects are in sectors where the host country does not have mitigation targets.**

Next: **Realized climate impact**

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Realized climate impact

To ensure a true climate impact, offsetting should be based on so-called ex-post carbon credits.

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Ex-post credits exist today and their climate benefit has already been delivered and verified.

The accepted practice is that
offsetting takes place with carbon credits that are sold after the carbon removal or emission avoidance has taken place,
not the other way around.

There are also so-called ex-ante credits in the market. These credits are based on the expectation of future emission reductions. As an example, a reforestation project planting trees can sell today the expected climate benefit of these trees in the form of ex-ante credits. However, there are many uncertainties with selling the future climate impact, and companies should not make offset claims with such projects until their climate impact has happened and been verified.

For instance, the trees might die due to drought, be destroyed in a forest fire or by pests and diseases, or be illegally logged, which means that the desired climate impact sold today will not be achieved in the next 60 years.

Ex-post carbon credits remove these kinds of uncertainties associated with carbon projects, as the climate impact has already been realized and verified.

Next: **Net positive social, biodiversity, and environmental impacts**
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Net positive social, biodiversity, and environmental impacts

For carbon projects to be sustainable, they should result in net positive impacts for local communities, biodiversity, and the environment.

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The Luangwa project in Zambia has been in Compensate's portfolio since 11/2020.
It tackles the underlying socio-economic drivers of deforestation – subsistence farming, charcoal and fuelwood collection.

→

Net positive projects do not cause community conflicts, land tenure issues, forceful evictions, human rights violations, or simply worsened health and wellbeing due to restricted access to a forest or nature area.

Net positive biodiversity impacts can include preventing poaching and illegal logging, or reforesting habitats and bringing wildlife back to previously degraded areas.

Negative environmental impacts refer to carbon leakage: Moving the deforestation, which would have happened in the project area if it was not protected, to nearby areas.

Next: **Diversification**

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Diversification

One of the best ways to mitigate risks related to the projects is risk diversification.

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← Running Tide removes carbon by growing and sinking macroalgae, such as kelp, in the deep ocean. It is part of Compensate's project portfolio as one our innovative projects.

Even the best carbon projects have their weaknesses. One of the best ways to mitigate risks related to the projects is risk diversification. This means that a carbon credit should be based on a portfolio of various carbon projects, including a wide range of project types like forest conservation, afforestation and reforestation, and innovative carbon capture methods.

Utilizing a portfolio of various project types minimizes risks related to a single project.

It also helps to reach the best climate return on investment. The portfolio needs to be constantly re-evaluated in order to maintain high quality.

Next: **Conclusions**
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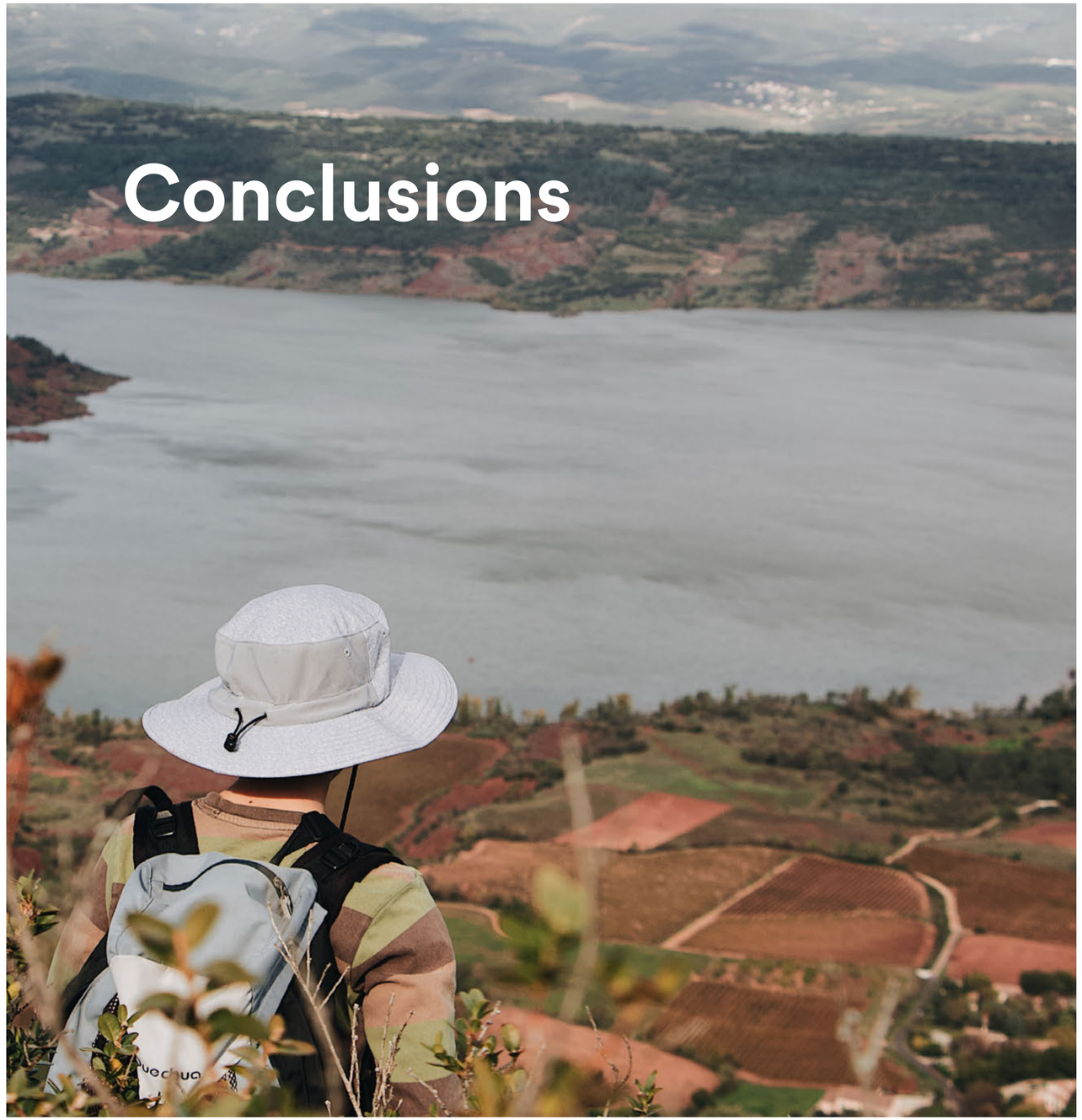

Conclusions

High quality carbon credits do exist. However, finding these requires hard work, expertise, and critical thinking.

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The current standards of the voluntary carbon market are inadequate. It is not an easy task for companies to find reliable, high integrity carbon capture projects. Even international standards, like Gold Standard or Verra, don't guarantee a true climate impact. However, there are also high quality carbon credits available - finding these requires hard work, expertise, and critical thinking.

One of the main messages of the IPCC report in spring 2022* was that **in addition to reducing emissions, we also need carbon capture.** This means that offsetting is a necessary tool to keep the global temperature rise in line with the 1.5C and the private sector has an important role to play in enabling climate change mitigation by funding carbon projects. We just need to ensure that it has the promised climate impact and that biodiversity, environment, and human rights are not harmed in carbon projects.

Compensate's strict project criteria, based on science, take into account all the characteristics mentioned in previous pages. We also have an in-built overcompensation mechanism that mitigates risks related to carbon projects and uncertainties in carbon footprint calculations. This way, we can guarantee that one carbon credit actually removes at least one tonne of CO_2 from the atmosphere. In addition, we manage a dynamic and diverse portfolio of carbon projects with different methods around the globe. The portfolio approach ensures that our carbon credits have a true climate impact.

→ Read more about our **Compensate Credit**

→ We have a solution for businesses of all sizes. **Get familiar with our services**

→ Learn more about **our unique approach**

* IPCC Sixth Assessment Report, Climate Change 2022: Mitigation of Climate Change

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