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Safeguarding Social Integrity in the Voluntary Carbon Market

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In Kenya, prolonged drought takes heavy toll

Carbon markets, like all markets, have inherent reputational risks that are systemic and potentially jeopardise their very existence. The best known of these is lack or loss of 'integrity'. This risk is taken very seriously by carbon markets and governments favouring them. It is no coincidence that the governing body launched by Marc Carney's *Taskforce on Scaling Voluntary Carbon Markets* at COP 26 was named the '*Integrity Council for Voluntary Carbon Markets*' (IC-VCM). Nor is it surprising that the [Provisional Claims Code of Practice](#) of the [VCMI](#), i.e. the VCM-Integrity (!) initiative, is stressing that "only with integrity can [voluntary carbon] markets scale to mobilize the resources and emissions reductions necessary to support achievement of the Paris Agreement goals." (for more on this VCMI code see below).

According to the dictionary, 'integrity' can refer to "the quality of being honest and having strong moral principles" or "the state of being whole and undivided". In the context of carbon markets, particularly those trading in carbon credits, the term is generally used with reference to 'environmental integrity', that is to say, the state of leaving the environment unimpaired: carbon markets should not lead to an infringement of environmental integrity or leave the environment worse off than it would have been without them.

The seriousness and systemic nature of the reputational risk from a threat to (environmental) integrity is reflected not just by the choice of nomenclature for the two governing bodies, but also by the fact that both of them feel the need to mitigate that risk through general governance arrangements/principles. In other words, introducing a special type of 'integrity credits' (traded at a premium) is **not** regarded as sufficient to ward off this risk. The only way to do that is to make sure that **all** traded credits are of sufficient quality so as not to pose a risk to the (environmental) integrity of the market.

While all this is of crucial importance to the viability of carbon markets, environmental integrity is not the only existential risk they are facing. As anyone familiar with the California Cap and Trade Program knows, [accusations of injustice](#) to the poorest and most vulnerable can be very powerful and potentially threaten the very existence of a carbon market. In other words, carbon markets must not only maintain environmental integrity. They must also adhere to strong ethical principles, or (in the words of the Paris Agreement Art. 9) "*reflect equity and the principle of common but differentiated responsibilities and respective capabilities*" to promote 'social integrity'.

As it happens, there is a keen awareness among many VCM stakeholders that 'benefit sharing' is important, and moreover, that the benefits should go beyond those derived from the sale of credits. Indeed, credits with sustainable development co-benefits to local host communities already sell at a premium. This is why some standard providers have started to offer special types of 'credits with co-benefits'.

The trouble is: the 'social integrity' risk is as systemic and potentially existential as the environmental one, and it can equally not be dealt with by introducing a special type of '(social) integrity credits'. All credits must be seen as maintaining the social integrity of market activities, which includes benefit sharing with **all** the most vulnerable communities (and not just the ones in host countries). In this context it also needs to be kept in mind that these communities are and will be disproportionately affected by adverse climate impacts largely caused by other, more affluent actors, including the VCM participants. Being left behind in the sharing of VCM benefits to help reduce these impacts will thus be seen as a grave injustice, with the inevitable reputational consequences for the VCM.

But how could that possibly be averted? One very simple way of addressing this without interfering with market choices on project types and host countries is with a share of proceeds to support adaptation in the poorest and most vulnerable countries. Such a share of proceeds would address the concern that no-one is unfairly left behind due to market host country and project choices. An [OCP/ecbi Discussion Note](#) looks into some of the technical options on how this could be done. The only thing that needs to be stressed here is that it must be done as a matter of governance, applicable to **all** credit generating projects, if it is to safeguard the VCM from accusations of infringing social integrity.



Hurricane Irma causes at least 10 deaths in Caribbean

The Provisional VCM Claims Code of Practice

On 7 June, the VCM published its Provisional Claims Code of Practice (PCCP) “for public consultation and corporate road testing.” While Section III (Purpose, Audience and Scope) of the PCCP starts by recalling that the “VCM was established to help ensure that voluntary carbon markets make a significant, measurable, and positive contribution to achieving the Paris Agreement goals while also promoting inclusive, sustainable development”, it also clearly states that the primary purpose of the PCCP is to “provide clear guidance to companies [...] on when they can credibly make voluntary use of carbon credits as part of their net zero commitments”

In short, the PCCP is primarily about ensuring the credibility of corporate (net-zero) mitigation claims, and not about promoting sustainable development. Having said that, the PCCP also states that all ‘VCM claims’ require what is referred to as ‘high-quality credits’ defined (pp.30ff) the following 5 ‘basic criteria’: The must

1. be “associated with a recognized and credibly governed standard-setting body”;
2. have “high environmental quality”;
3. be “from activities that, where relevant, are compatible with human rights”;
4. be “from activities that, where relevant, promote equity, apply social safeguards, and demonstrate positive socio- economic impacts, such as [the SDGs]”; and
5. be “from activities that, where relevant, contribute to the protection and enhancement of environmental quality”.

It is curious that the last three activity related criteria are relativised (“where applicable”). For one, it would seem that compatibility with human rights should *always* be relevant. Indeed, I would argue, for reasons stated above, that this should also be the case for criterion #4. Accordingly, there should be an additional basic criterion, namely that to be of ‘high quality’:

- credits must be associated with a **Share of Proceeds for Adaptation** in line with Article 6.6 of the Paris Agreement.

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