

# aDryada's position on the use of carbon credits and the associated claims

## Summary

aDryada supports the global bodies and institutions (ICVCM, CCQI, VCM, etc.) that are working to raise the standards of carbon credits, their associated claims, and their role in the pathway to net zero. We share the ambition of increasing the integrity of the voluntary carbon credit market, making sure that projects have a real impact on the climate and that companies don't use credits as an excuse to emit.

In terms of impact, however, two things must be kept in mind

- Today, many reduction actions that are being implemented, though important for the climate, may have less structural impact than removal actions.
- Since the carbon market remains a voluntary one, there must be strong incentives for companies to pursue actions that have the highest impact on the environment.

The problem is that today companies that are not subject to regulatory constraints can claim they are on the path to Net Zero by only pursuing low-impact reduction actions.

In this context, aDryada has two proposals to incentivize companies to immediately finance more costly, but higher-impact carbon projects.

- Net zero pathways – like that of SBTi - should expand to incorporate the need to immediately begin neutralizing residual emissions with high-quality removal projects.
- Beyond the Value Chain activities should be included in such pathways with associated claims.

## At this moment, high-quality nature-based removal projects can have greater structural impact on the climate than most reduction projects.

Reduction measures are crucial for fighting climate change. Nevertheless, until now, impactful reduction measures have primarily occurred thanks to regulatory constraints. For example, under the European ETS, companies affected have in total decreased emissions by 47% between 2005 (when ETS came into force) and 2023.[1]

Outside of regulations, companies voluntarily reducing emissions along net zero pathways have largely implemented reduction measures that are highly reversible.

- When it comes to reducing emissions, most firms are only at the beginning of the net zero journey: In 2022, only 10% of companies around the world were measuring their emissions comprehensively (scope 1, 2 & 3)[2] and in 2023, only 1,000 companies in Europe had adopted an internal carbon price (a prerequisite to defining a coherent decarbonization strategy).[3]
- This means that currently the least expensive and easiest reduction measures are pursued, and not those with a higher impact but higher cost (e.g., switching out lightbulbs versus replacing a heating system).

[1] "Record Reduction of 2023 ETS Emissions Due Largely to Boost in Renewable Energy." *Climate Action European Commission, Directorate-General for Climate Action*, 3 Apr. 2024

[2] "Only 10% of Companies Measured Their Greenhouse Gas Emissions Comprehensively in 2022 vs. 9% in 2021." *BCG Global, Boston Consulting Group*, 20 Oct. 2022.

[3] According to data from the Carbon Disclosure Project (CDP), an international organization that helps companies disclose their environmental impact.

Given the efficiency of regulatory constraints to reduce emissions, the most impactful measure for the climate would be to immediately put all companies under such compliance regulations. However, until regulations become expansive enough to include all firms, financing high impact actions requires the voluntary market to create effective incentives for companies that are on the pathway to net zero.

Such high impact actions can be found in high-quality nature-based (NbS) carbon removal projects, which, especially at a large-scale, can have significant structural impact on the climate and can be deployed immediately.

- When properly managed, biological storage methods (i.e. NbS carbon removal projects), such as ecosystem restoration and soil carbon enhancement, can provide durable carbon removal and storage, while at the same time having positive impact on biodiversity and society (e.g. climate change resilience).
  - Ecosystem restoration, such as the restoration of forests, can provide effective carbon sinks, meaning they capture and store more carbon than they release. A single tropical tree absorbs approximately 25kg of CO<sub>2</sub> per year, an entire forest can thus absorb thousands of tons of carbon per year. Although there are risks to permanence, such as human pressure (e.g., illegal logging), these can be mitigated with a proper strategy and proper management as required by international carbon crediting standards (Verra VCS, Gold Standard, ACR Winrock, etc.).
  - Next to carbon storage, biological storage methods offer a host of co-benefits, most notably in biodiversity and socio-economic development. For example, a restored mature forest can offer a stable home to native trees, birds, and more. Various jobs offered by the project can create new revenue streams for local populations and help fight poverty.
- These biological solutions are deployable right now. On the contrary, where technological carbon removal such as Direct Air Capture (DACCS) or Bioenergy with Carbon Capture and Storage (BECCS) can certainly offer greater permanence (possibly millennia), there is little availability as of now, and it is far more expensive. In 2023 DACCS technology cost between USD 500-1000 per ton of CO<sub>2</sub> and BECCS USD 60-270, compared to USD 10-40 per ton from a reforestation/afforestation NbS project.[4]

Contrary to some beliefs, high-quality nature-based removal projects should be developed now, given that:

- A June 2024 Oxford University report has estimated that 7 to 9 billion tons of CO<sub>2</sub> will need to be removed from the atmosphere by 2050 to reach the Paris Agreement 1.5° target.[5]
- As companies increasingly commit to ambitious climate objectives, the gap between high-quality removal credits and demand will continue to grow. A December 2023 report by McKinsey Sustainability estimates that this gap could be as high as 50 MtCO<sub>2</sub> (half the forecasted demand) by 2030.[6]

Nevertheless, in order to achieve the scale up of the development of such NbS removal projects, companies need incentives to do so.

[4] Mannion, Peter, et al. "Carbon Removals: How to Scale a New Gigaton Industry." *McKinsey & Company*, 4 Dec. 2023,

[5] "New Report States 7–9 Billion Tonnes of CO<sub>2</sub> Must Be Sustainably." *University of Oxford*, June 2024,

[6] Mannion, Peter, et al. "Carbon Removals: How to Scale a New Gigaton Industry." *McKinsey & Company*, 4 Dec. 2023

## Companies should be incentivized to pursue actions with the highest impact on the climate.

Since the carbon market is a voluntary one, there must be strong-enough incentives to encourage companies to pursue high-impact actions immediately. As of now, these incentives are lacking:

- SBTi net zero trajectories do not require a clear strategy for residual emissions in order for a company to claim it is on the path to net zero. This means that there is little incentive to begin neutralizing residual emissions now. However, The Oxford Offsetting Principles argues that organizations must progressively increase their investments in carbon removal projects starting now.[7]
- Although net zero pathways do include removal credits as an option in Beyond the Value Chain Mitigation (BVCM), meaning action outside of a company's direct value chain, there are no claims attached and thus no incentive to invest in such projects.

To encourage companies to finance high-impact NbS projects, aDryada suggests 2 main amendments to common net zero pathways (like that of SBTi):

1) They should favor an immediate and effective neutralization of residual emissions by encouraging companies:

- To begin neutralizing residual emissions with high-quality removal projects now.
- To detail how they define and measure residual emissions without imposing a standardized cap. As long as a company has a comprehensive net zero plan and is financing high-impact projects now, the regulations should allow this flexibility.
- To set interim removal targets on their path to net zero, scaling towards 100% by 2050, as suggested by the Oxford Offsetting Principles.

2) They should better incorporate BVCM actions by:

- Shifting BVCM from being an option in net zero pathways, to an essential part of the trajectory at the level of reduction and neutralization, and thus a prerequisite to meeting net zero targets.
- Designing claims that companies could make when buying carbon credits from high-impact nature-based projects that allow them to clearly differentiate themselves from their competitors.
  - A public consultation by SBTi published in February 2024 found that the lack of credible claims for communicating BVCM activities next to fears of being accused of greenwashing are the greatest barriers to implementing BVCM strategies in the private sector.[8]
  - aDryada proposes that companies investing in carbon credits generated by high-quality NbS projects be able to make a double claim (which does not imply "double-counting", which only applies to countries):
    - They "contribute to the climate strategies of the countries" in which they finance projects and,
    - They are "Net Zero" as soon as they remove from the atmosphere the quantity of carbon they emit, providing they are in a strong partway towards reduction

[7] Axelsson, Kaya, et al. "Revised Oxford Principles for Net Zero Aligned Carbon Offsetting." *Smith School of Enterprise and the Environment, University of Oxford*, Feb. 2024,

[8] Benson, Scarlett., et al. "Above and Beyond: An SBTi Report on the Design and Implementation of Beyond Value Chain Mitigation (BVCM)." *Science Based Targets Initiative*, Feb. 2024