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Verra's broadside against the Integrity Council props up the status quo

Press coverage ↗ Comments to the Integrity Council ↗ Comments to the CFTC ↗

Last week the biggest player in the voluntary carbon market, Verra, created waves by declaring that the Integrity Council for the Voluntary Carbon Market is "on the wrong track" and in need of a substantial "course correction." According to Verra, the Integrity Council's plan to conduct an independent review of carbon offset credit methodologies is duplicative, administratively burdensome, and overly broad.

While we aren't surprised to see pushback from the organization responsible for issuing two of every three credits in the voluntary market, Verra's melodramatic tone appears designed to disrupt a reform proposal that is, quite frankly, modest.

This commentary sets out to explain what Verra is asking for and why it represents a fundamental rejection of independent market standards. We hope the Integrity Council will stay the course and demonstrate that they are able to exercise independence in the face of unreasonable pushback from the industry's largest carbon offset registry. Not only is this the right thing to do, but it's essential if the Integrity Council wants to be capable of distinguishing new entrants and reformers from status-quo-minded incumbents — which is precisely what buyers who care about credit quality want.

The Integrity Council process in a nutshell

For context, the Integrity Council describes itself as an independent governance body that was formed as the successor to an earlier industry effort, the Taskforce on Scaling Voluntary Carbon Markets. Although the 400-plus member Taskforce was initially focused on efforts to standardize financial contracts and support market growth, its architects subsequently recognized the need to address quality concerns as a prerequisite to scaling. The Integrity Council was launched to tackle this challenge and adopted "build integrity and scale will follow" as its official theory of change. (We think that's the right approach, as articulated in a comment letter co-authored by the UC Berkeley Carbon Trading Project, Carbon Direct, and CarbonPlan.)

To get started on its work, the Integrity Council is developing a set of quality standards called Core Carbon Principles (CCPs) and an Assessment Framework under which these principles would be applied to the voluntary carbon market on an opt-in basis. Draft documents were made available for a 60-day public consultation this summer, and as that deadline approached, Verra responded with its blistering public critique.

The Integrity Council proposes to have its Expert Panel assess carbon offset credit types and methodologies to determine which comply with its Core Carbon Principles. The Expert Panel will also review the adequacy of carbon offset registries' public documentation and internal governance processes. Carbon credits issued by approved registries under qualified methodologies will be tagged as meeting the Integrity Council's voluntary standards.[1]

In essence, the Integrity Council is proposing to hand out gold stars. If a carbon credit meets its standards, it gets a gold star. If it doesn't, then no gold star. That's it.

Verra's objection is about control

As a threshold matter, it's important to point out that Verra fundamentally mischaracterizes what the Integrity Council has set out to do.

Verra claims that the Integrity Council "seeks to directly set the scope and rules of the [carbon] market," as though Verra could be forced into some unreasonable outcome. But in fact the Integrity Council is running a voluntary, opt-in labeling effort — nothing more. The Integrity Council isn't proposing to do anything about credits that fall short of its standards, nor is it clear how they could if they wanted to. Verra isn't bound by anything the Integrity Council chooses to do, nor are any of the market actors who work with Verra today or in the future.

Ultimately, Verra is worried about whether enough of its credits are robust enough to earn the Integrity Council's gold stars. And that core insight helps explain what

Verra is so upset about:

> If it is to work, the [Integrity Council] must instead correct course and chart a feasible pathway that does not usurp the work of the crediting programs

Make no mistake, Verra has no serious objection to a group of self-organized experts setting the rules of the carbon market — after all, that's how they and every other carbon offset registry operate today. What Verra objects to is any process or standard that could threaten their dominant position on the supply side of the voluntary market.

Three poison pills

Verra's "course corrections" contain three major demands, any one of which is capable of undermining the Integrity Council's work if adopted. We review each in turn to show that none provides a functional path forward.

01 — Evaluate programs, not methodologies

First, Verra doesn't want the Integrity Council to evaluate the details of individual credit types and methodologies. Instead, they think the Integrity Council should "focus on standards and processes established at the program level."

While this distinction might sound like inside baseball, it's actually a tactic to deflect any meaningful review. The central problem with carbon markets is that everyone claims that all of their projects meet a conventional set of program-wide quality criteria — such as additionality, permanence, and independent verification — while in practice the methodologies implementing these standards often fall short. There is limited value in asking whether high-level carbon offset programs, like Verra's VCS program, have appropriate "standards and processes" in place; what matters is whether the programs rely on weak methodologies to control quality at the project level (see Figure 1).

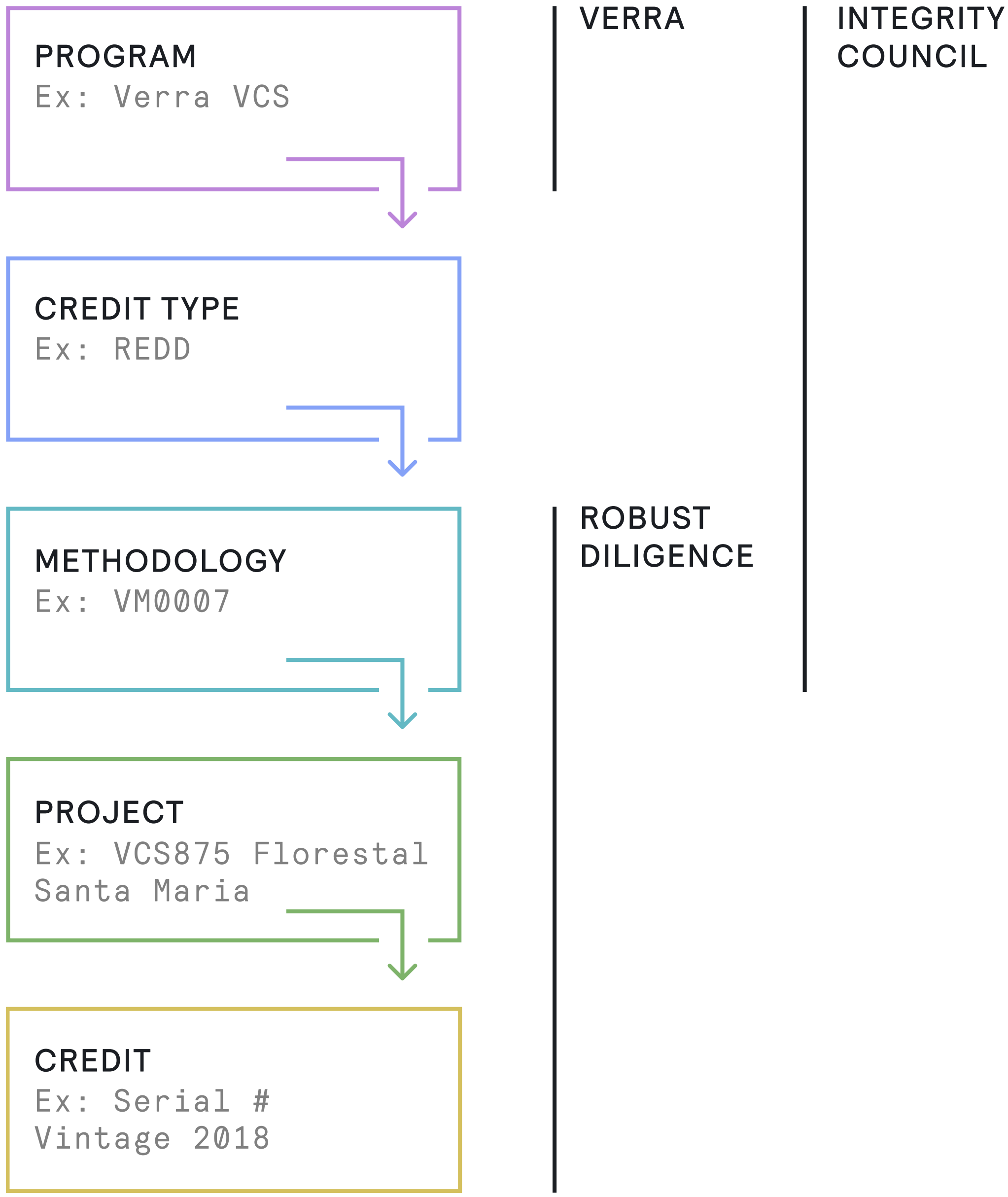

FIGURE 1 / Carbon credit hierarchy. A carbon offset program like Verra's VCS typically features multiple credit types, such as tropical forest REDD efforts. A credit type might include one or more methodologies, each of which specifies the rules that individual carbon projects must follow to earn credits. Because most carbon methodologies afford projects substantial discretion in choosing among implementation options, sophisticated buyers and rigorous academic studies often look to project-level analysis; however, project-level analysis requires significant time and resources. The Integrity Council proposes to focus its analysis at the credit-type and methodology levels. In contrast, Verra rejects any scrutiny that goes deeper than its high-level program requirements.

The Integrity Council is already on the right track with its proposed focus on credit types and methodologies. While there are often many methodologies to review for a given credit type — as evidenced by our review of 17 soil carbon offset protocols last year — these individual methodologies are the policy documents that determine quality control in the carbon markets. They are the appropriate focus of any independent review.

We think it's reasonable to focus on credit types and methodologies, rather than individual projects, given the scope of the Integrity Council's work. There are far too many offset projects to include in a global review, although project-level analysis is often necessary for critical insights[2] and robust commercial diligence (which a growing number of expert consultants provide). We hope that the Expert Panel will pay close attention to evidence from studies conducted at the project level, but we appreciate the practicality of tagging credits based on a higher-level review of credit types and methodologies.

We also think it would help if the Integrity Council would affirmatively indicate its willingness to focus on a more granular analysis when circumstances warrant. If a particular methodology improves substantially on the norm within a particular credit type that fails to meet the Integrity Council's standards, it would make sense to consider awarding its labels to credits issued under that specific methodology. For example, many tropical forest REDD projects feature inaccurate baselines that lead to non-additional crediting.[3] One possible solution to this problem is a shift to the use of dynamic baselines, which are a core feature of Verra's proposed ABACUS label. Given the potential for dynamic baselines to address baseline and additionality concerns,[4] we suggest that individual methodologies be considered separately when their characteristics are capable of achieving higher standards than other approaches within a given credit type.

In contrast, Verra's suggestion that one can assess quality at the level of a broad carbon offsets program without looking at individual methodologies doesn't pass the laugh test. But there's nothing funny about a proposal to replace a serious review with the layers of bureaucratic paperwork incumbent registries have built up over the years — nor is it missing from the Integrity Council's proposal, which already includes a review of program-level governance.

Finally, Verra's dominant market share means that a review focused exclusively at the program-level would force the Integrity Council to either recognize or fully exclude about two-thirds of the voluntary market, without distinguishing between potentially reasonable and problematic approaches within this vast market segment. That is no way to confront the well-documented challenges in the voluntary carbon markets, many of which are present in Verra's offerings, and it would force the Integrity Council to either bless most of the market uncritically or categorically exclude its largest player. Either outcome would undermine the credibility of the Integrity Council's efforts, and so this approach should be rejected.

02 — Grade on a curve

Second, Verra doesn't like the Integrity Council's proposal to set "Initial" and "Full" standards for each of its Core Carbon Principles. Verra suggests this bifurcated approach will "undermine confidence in programs and the market as it implies that they are deficient until such full requirements are met."

The unfortunate truth is that current market standards are so low that any effort to set even a modest bar for quality is likely to highlight the magnitude of the gap that remains. The premise of graduated standards that ratchet up over time is a recognition that the market is unable to achieve the more robust "Full" requirements in the near future, and requires more time to get the job done. Despite Verra's concerns, this approach is fundamentally accommodational in nature because it defers the immediate adoption of rigor in the name of pragmatism. For precisely this reason, it's important for graduated standards to include an explicit description of future requirements to mitigate the risk that unstated expectations fall victim to inertia.

In contrast, Verra argues that any reformed standards should be marketed as fully adequate without committing to a timeline or details for future improvements. In effect, Verra wants all carbon credits graded on a curve, based not on what they've achieved but where they are at.

We disagree and think the Integrity Council should set robust, objective standards. If the gap between current market practice and reasonable standards is too large to close overnight, as we believe it is, then pragmatism counsels adopting interim targets designed to push the industry forward one step at a time. That's not enough, in our view, but it's much better than setting low-ambition standards with only a vague promise of future follow-up.

If the Integrity Council's work is going to mean anything — and especially if it is going to reward market participants who take risks to support high-quality outcomes — its label has to be earned, not granted as a privilege of incumbency. In particular, standards should be capable of distinguishing reformers and new market entrants from those who want to stay put.

03 — Adopt CORSIA standards

Third, Verra doesn't want an independent, *de novo* review of market standards. Instead, Verra believes that the Integrity Council should adopt the screening decisions used in the international aviation industry's CORSIA offsetting program.

It's hard to know where to start with this self-serving position. Although Verra asserts that the CORSIA program "reflects the most comprehensive program to date" and suggests it "has been quite effective at excluding programs that do not sufficiently ensure integrity," Verra immediately backs off this proposition in the very next sentence, with suggestions for supplemental analyses the Integrity Council might consider if it determines CORSIA has "shortcomings" relative to the Core Carbon Principles. Outside observers know that CORSIA standards are extremely weak,[5] and Verra does, too — which is why it can only muster a carefully hedged endorsement here.

To give just one example, CORSIA failed to screen the voluntary carbon markets for low-quality, non-additional renewable energy offset projects. The falling cost of grid-connected renewable energy technologies has made them cost-effective and commercially feasible nearly everywhere in the world. In recognition of this positive development in the global energy transition, Verra decided to stop crediting new grid-connected renewable energy projects — but has kept hundreds of projects in its registry that Verra's CEO acknowledges were non-additional at the time they were developed:

> "Those projects were developed before we came to the conclusion that they were no longer additional," says Verra's CEO David Antonioli, referring to one of the key criteria for carbon market offset projects, that the reductions they yield would not have taken place without the revenue from the carbon credits. "So they were legitimate at the time they submitted their original requests for registration."

Verra hasn't yet addressed its backlog of old renewable energy credits, which constitute more than 37% of its credit issuance to date and represent a 78% global market share (see Figure 2).[6] Many of these low-quality credits were snapped up by blockchain-based tokenization efforts that Verra has since put on hold, pending future consultation.

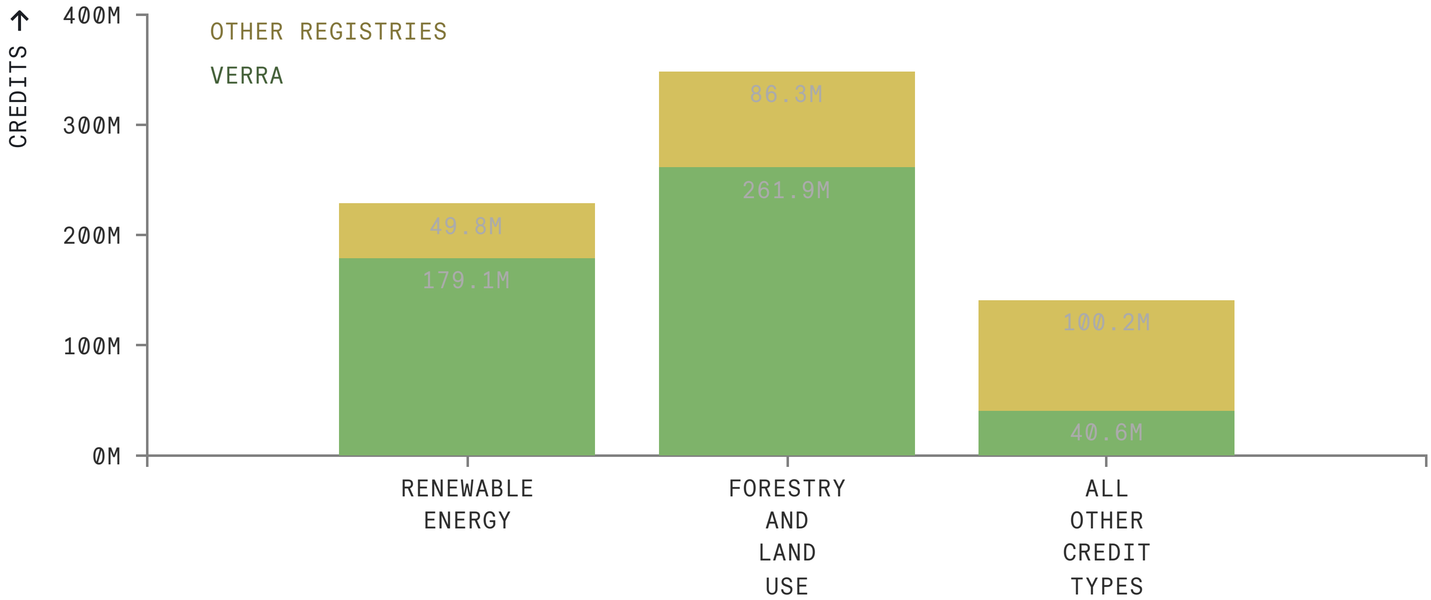

FIGURE 2 / Global credit issuance by category and registry. The voluntary carbon market is dominated by one registry (Verra) and two categories of projects (Renewable Energy, Forestry and Land Use). Verra has issued about 67% of global market supply, with all other registries contributing about 33% in total. Renewable Energy credits constitute 37% of Verra's issuance and 32% of global totals. Forest and Land Use credits constitute 54% of Verra's issuance and 48% of global totals. Combined, all other credit types constitute just 8% of Verra's issuance and 20% of global totals. Source: UC Berkeley Carbon Trading Project.

Thankfully, Verra made the decision to stop accepting new grid-connected renewable energy projects. But other registries are less discerning. The same kinds of projects are now minting credits through the Global Carbon Council, which copied Verra's defunct methodologies to print credits from projects no other registry would allow.[7] Despite representing the most obviously non-additional activity in the global carbon market, these low-quality credits remain eligible under CORSIA's standards.

As with Verra's other self-serving positions, the primary reason they want the Integrity Council to adopt CORSIA in place of an independent review process is that CORSIA approves of new projects under nearly all of Verra's existing methodologies, including the 54% of Verra's issuance that comes from forestry and land use projects. So if the Integrity Council were to adopt CORSIA standards, Verra could be confident that its status quo would continue without interruption — though perhaps they'd be happy if the Integrity Council would look into the other registries that are pursuing project types Verra has already agreed to drop.

The road ahead

Beyond pushing back on Verra's overbroad claims, we want to acknowledge two important issues about the work that is coming.

First, we expect that implementing the Integrity Council's work will be a significant and time-consuming endeavor. While we disagree with Verra that this work is duplicative or unnecessary, we agree that it will be no small undertaking and will require adequate administrative capacity to get right. We look forward to engaging with the process going forward, but are under no illusions about what will be required to make an honest and fair assessment of the voluntary carbon market.

Second, while we think the Integrity Council's proposal is fundamentally modest and should proceed, it's important to point out that it is only a starting point and that any steps forward remain contingent on robust implementation. Our detailed comments to the Integrity Council are available here. In particular, we appreciate the proposed requirements for program governance and registry transparency, which we think will bring much-needed accountability to the market. At the same time, we also have several outstanding concerns:

01 — Additionality

Although the proposed Core Carbon Principles represent a significant step forward, we are wary of the proposed reliance on subjective "investment barrier" additionality tests. We think these approaches can identify when projects are obviously non-additional, but they do not prevent project proponents from putting their thumbs on the scale in an environment where they always know more than outside experts and regulators. Without prejudging what the Integrity Council will do, it's worth emphasizing that the rigor of these approaches depends on how they are applied.[8]

02 — Permanence

Similarly, while we believe the proposed requirements for extending the minimum durability of carbon storage claims can weed out the least credible and most concerning offset credits, they only reach a requirement of 50 years in the "Interim" and 100 years in the "Full" standard — a timeframe that falls well short of what's required for carbon credits to compensate for fossil CO_2 emissions.[9,10] The rigor of the proposed standards also depends substantially on unspecified provisions for how alternative financial instruments can insure or otherwise guarantee multi-decade outcomes, which is an area we think few if any systems have competently addressed today.[11]

03 — Removal

We are glad to see the Integrity Council propose to tag credits to indicate whether or not they deliver carbon removal services, but want to emphasize the disconnect between today's market — which delivers almost no meaningful supply of permanent carbon removal[12] — and the need to transition compensation-oriented claims to permanent carbon removal to support the Integrity Council's stated goal of stabilizing planetary temperatures under net-zero conditions.[13]

Furthermore, nearly half of the global market comes from forestry and land-sector projects that tend to deliver a mixture of emission reductions and temporary carbon removal. It would be problematic, for example, if all credits in a forestry-related credit type category were labeled "removal" when the real-world portfolio of credits generated 75% emission reductions and 25% removals. We know buyers have expressed frustration about the inability to distinguish between these services in today's market, and are confident the registries have adequate information to distinguish services on at the resolution of individual credits. We encourage the Integrity Council to explore a reasonable requirement for labeling only those specific credits that are associated with the removal attributes of a given carbon credit project.

At the end of the day, we believe the status quo in the voluntary carbon markets is untenable. We think the Integrity Council and its members recognize this challenge, and respectfully suggest that the most productive thing they can do is encourage (1) new market entrants who are going to set the bar higher and (2) incumbent reformers who are willing to push for integrity. Verra has just made it very clear that they are neither.

The responsible thing to do is take notice of Verra's position and move on.

Credits

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Terms

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Footnotes

1 The Integrity Council is also proposing to include additional attribute tags to indicate, for example, whether a credit represents carbon removal or emission reductions.

2 G Badgley et al. (2022) Systematic over-crediting in California's forest carbon offsets program *Global Change Biology*

3 T A P West et al. (2020) Overstated carbon emission reductions from voluntary REDD+ projects in the Brazilian Amazon *PNAS*

4 S Coffield et al. (2022) Using remote sensing to quantify the additional climate benefits of California forest offset projects *Global Change Biology*

5 S Kallbekken & D G Victor (2022) A cleaner future for flight — aviation needs a radical redesign *Nature*

6 UC Berkeley Carbon Trading Project (2022) Voluntary Registry Offset Database, Version 5

7 We cannot link directly to the Global Carbon Council registry. Although it used to be publicly accessible, it is now password-protected — perhaps due to the massive influx of questionable project proposals. As of this writing, over 400 projects are in development.

8 L Schneider (2009) Assessing the additionality of CDM projects: practical experiences and lessons learned *Climate Policy*

9 S Fankhauser et al. (2022) The meaning of net zero and how to get it right *Nature Climate Change*

10 M Allen et al. (2022) Net Zero: Science, Origins, and Implications *Annual Review of Environment and Resources*

11 G Badgley et al. (2022) California's buffer pool is severely undercapitalized *Frontiers in Forests and Global Change*

12 L Joppa et al. (2021) Microsoft's million-tonne CO_2-removal purchase — lessons for net zero *Nature*

13 M Allen et al. (2020) The Oxford Principles for Net Zero Aligned Carbon Offsetting