



#NORDICDIALOGUE **on Voluntary Compensation**

Draft Nordic Code of Best Practice for Voluntary Compensation of Greenhouse Gas Emissions

For public consultation 8.6.-8.8.2022



CARBON LIMITS



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LIST OF ABBREVIATIONS

CO₂	Carbon dioxide
GHG	Greenhouse gas
NICA	Nordic Initiative for Cooperative Approaches
NKL	Nordic Working Group for Climate and Air
NME	Nordic Working Group for Environment and Economy
SDG	Sustainable Development Goal
WG	Working Group for the Nordic Dialogue on Voluntary Compensation

DRAFT FOR CONSULTATION

ABOUT THE NORDIC DIALOGUE ON VOLUNTARY COMPENSATION

The Nordic Dialogue on Voluntary Compensation aims to inform Nordic and international stakeholders on using voluntary compensation of greenhouse gas (GHG) emissions as part of efforts towards and beyond carbon neutrality.

Specifically, the Dialogue aims to promote the high integrity, harmonisation and transparency of voluntary compensation. It fosters a common understanding of key issues and concepts and alignment with the principles and long-term goals of the Paris Agreement and the United Nations Sustainable Development Goals (SDGs).

In the context of the Dialogue, voluntary compensation includes the purchase and use of mitigation outcomes (emission reductions and/or removals) achieved outside of an actor's boundaries or value chain. These mitigation outcomes could either help host countries in achieving their existing mitigation targets or help to reduce global net emissions above and beyond countries' targets. Voluntary compensation may be associated with public claims about making national mitigation contributions, offsetting specific emissions or contributing to overall mitigation in global emissions.

The Dialogue brings Nordic public and private actors together to co-create recommendations and action points for a Nordic best practice approach to voluntary compensation, drawing on and complementing relevant international and national guidance and standards.

The Dialogue is managed by Perspectives Climate Research gGmbH and facilitated by an international team of leading climate experts from Perspectives Climate Research, IVL Swedish Environmental Research Institute, Carbon Limits and Tyrsky Consulting.

The Dialogue is funded by the Nordic Council of Ministers' Working Groups for Climate and Air (NKL) and Environment and Economy (NME).

For more information, please visit: www.nordicdialogue.com

ABOUT THE DRAFT CODE

This draft for a Nordic Code of Best Practice for Voluntary Compensation of Greenhouse Gas Emissions ("Code") identifies best practice elements for voluntary compensation, covering principles for both the generation and the use of mitigation outcomes for voluntary compensation and any related claims. It aims to promote the high integrity, harmonisation and transparency of voluntary compensation by Nordic and international stakeholders.

This draft Code is a result of a co-creation process under the Nordic Dialogue on Voluntary Compensation ("the Dialogue") by the Dialogue's team and the Working Group (WG) of the Dialogue, in consultation with Nordic stakeholders. It takes into account inputs gathered under the Dialogue between June 2021 and May 2022 from the WG as well as other Nordic stakeholders. This draft Code does not represent any formal Nordic consensus or position.

This draft Code draws on and complements the latest international and national guidance and standards relevant to best practices for voluntary compensation, including those summarised in the Nordic report "[Voluntary compensation of greenhouse gas emissions. International guidance and initiatives](#)".

This draft Code is open for feedback from stakeholders and experts in Nordic countries from 8 June to 8 August 2022. A final Code will be published in Q4 2022, taking into account feedback from Nordic stakeholders. The final Code will aim to be coordinated with and complement the latest relevant national and international guidance and standards. It should be considered a living document to be regularly reviewed to reflect the latest national and international developments.

SUMMARY

Nordic non-state actors are taking steps to contribute to worldwide efforts to limit the increase in the global average temperature to 1.5 degrees in line with the long-term goal of the Paris Agreement. First and foremost, all actors need to reduce their direct and indirect greenhouse gas (GHG) emissions at a scale and pace compatible with this long-term goal. These efforts contribute to the mitigation targets of the countries in which they are implemented. However, countries' existing targets fall short of meeting the long-term goal, so mitigation above and beyond countries' existing targets is also urgently needed.

Voluntary compensation of GHG emissions enables actors to support more, earlier and faster mitigation than what would be possible with own action alone, if used responsibly. Although the general principles of high-integrity voluntary compensation are well-established, their interpretation in the dynamic context of the Paris Agreement is still evolving.

This draft Nordic Code of Best Practice for Voluntary Compensation ("Code") provides a Nordic perspective on the current best practice for voluntary compensation, synthesising the most ambitious requirements and recommendations for voluntary compensation put forward by relevant initiatives as well as inputs from Nordic stakeholders. The draft Code's specific focus on best practice complements relevant international and national initiatives with a broader focus. Even where best practice may currently be out of reach, for example due to lack of supply or resources, it serves as an aspirational goal to drive a process of continuous improvement.

This draft Code has been co-created with Nordic stakeholders under the Nordic Dialogue on Voluntary Compensation, funded by the Nordic Council of Ministers. It does not represent any formal Nordic consensus or position.

There is no currently no universal definition for voluntary compensation. In this draft Code, voluntary compensation refers to voluntarily supporting mitigation (emission reductions and/or removals) through the purchase and use of mitigation outcomes achieved outside of an actor's boundaries or value chain. This mitigation could help the host country in meeting its existing targets or help to reduce global net emissions above and beyond countries' targets, thus contributing to global ambition-raising. In this draft Code, claims relating to voluntary compensation are differentiated depending on their net impact on global emissions, which in turn depends on whether they count towards or beyond the host country's existing mitigation targets and whether they are used to counterbalance specific emissions attributed to e.g., an organisation, product or services (see Figure 1).

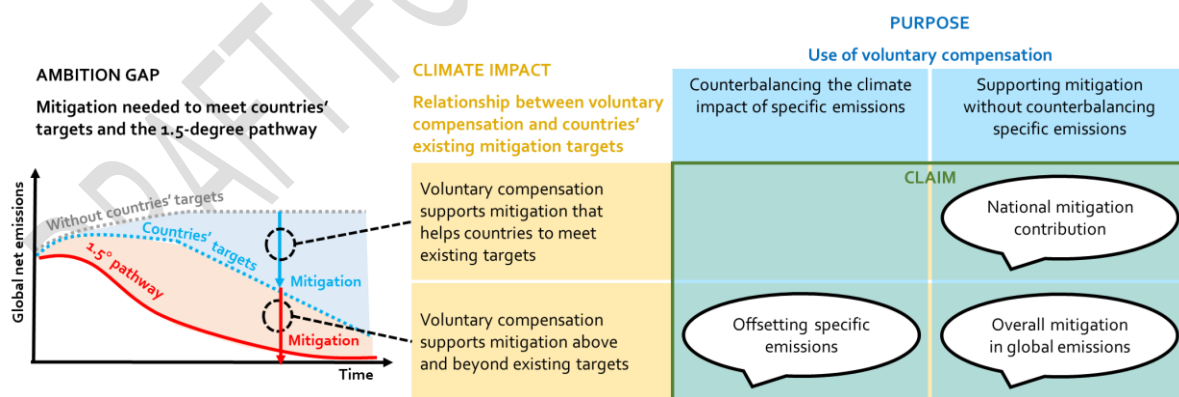


Figure 1. Illustration of the climate impacts, purposes and claims relating to voluntary compensation, and their relationship to countries' existing mitigation targets and the global 1.5°C-aligned pathway

According to this draft Code, best practice voluntary compensation consists of:

- **Robust and comprehensive quantification of relevant emissions:** Knowing your emissions is the first step to compensating them. Best practice requires calculating all direct and indirect emissions to be mitigated and compensated, using recognised tools and guidance, and third-party verification of the calculation.
- **Reduction in own emissions consistently with a 1.5°C-aligned pathway:** Limiting global warming to 1.5 degrees requires all actors to reduce their direct and indirect emissions at a scale and pace consistent with this goal. The best practice for organisations is to set and implement targets, pathways and plans for reducing their direct and indirect emissions consistent with a 1.5°C-aligned pathway, applying available tools and standards, and to verify targets, pathways and plans, as well as progress.
- **Voluntary compensation with high-integrity mitigation outcomes:** Actors can complement their own mitigation action with voluntary compensation. Best practice means that voluntary compensation is based on high-integrity mitigation outcomes that are assessed under carbon crediting programmes, and retired, cancelled or otherwise permanently removed from circulation in a carbon registry that meets relevant criteria. Mitigation outcomes, carbon crediting programmes and carbon registries need to meet relevant criteria (Annex B-D).
- **Reporting of emissions, mitigation action and voluntary compensation:** Transparent reporting is key for trust and credibility. The best practice for organisations is to publicly report on at least their direct and indirect emissions (including emissions to be compensated), mitigation targets, pathways and plans, annual changes in their emissions, action and progress towards targets and pathways, and the use of voluntary compensation, and to verify this information.
- **Ensuring the integrity of claims:** Any claims made relating to voluntary compensation must be truthful and avoid double claiming, including with the host country's existing targets. Best practice means making differentiated claims for voluntary compensation that (i) helps a country to meet its existing target ("national mitigation contribution"), (ii) exclusively counterbalances the impact of a specific volume of emissions ("offsetting") or (iii) contributes to global mitigation above and beyond targets without counterbalancing any specific emissions ("overall mitigation in global emissions"). Voluntary compensation should only be used to make claims about complementing reductions in own direct and indirect emissions in line with a 1.5°C-aligned pathway. Using voluntary compensation to claim progress along this pathway is not considered best practice.
 - *Best practice claims about carbon neutrality refer to a situation where the remaining direct and indirect GHG emissions attributed to e.g., an actor, product or service have been fully offset by using at least an equivalent volume of high-integrity mitigation outcomes that are exclusively claimed by the actor, such that the net contribution of the organisation, product or service to global GHG emissions is zero. Best practice claims about carbon neutrality can only be made by organisations that are reducing their direct and indirect GHG emissions in line with a 1.5°C-aligned pathway. In this draft Code, carbon neutrality covers also other GHGs besides carbon dioxide.*
- **Applying good marketing practices:** When using voluntary compensation in marketing, good marketing practice should be followed. This includes disclosing underlying information and proof for marketing claims and complying with relevant supranational and national guidance on claims, including guidance specifically on claims associated with voluntary compensation.

This draft Code focuses on the principles for current best practice for voluntary compensation. It aims to be coordinated with and complement available and emerging guidance and standards that are relevant for implementing the principles of the draft Code in practice and in various contexts. For example, the International Organization for Standardization and the Greenhouse Gas Protocol provide guidance on the quantification and reporting of emissions, the Science-Based Targets initiative on 1.5°C-aligned corporate targets, the Integrity Council for Voluntary Carbon Markets and the Carbon Credit Quality Initiative on the high integrity of carbon credits, the Voluntary Carbon Market Integrity Initiative on corporate claims, and the International Chamber of Commerce, the European Commission and many national authorities on good marketing practices and related claims. Non-exhaustive examples of relevant guidance and standards for implementing the requirements and recommendations of this draft Code will be highlighted in the Action Plan for a Nordic Approach to Voluntary Compensation.

1 INTRODUCTION

1.1 Working together towards and beyond carbon neutrality

Under the Paris Agreement, countries have set long-term goals to limit global warming to 1.5 degrees and achieve a balance between greenhouse gas (GHG) emissions and removals globally by mid-century. However, countries' current mitigation commitments fall significantly short of the scale and pace needed to meet the Paris Agreement's long-term goals.

To close this "ambition gap", mitigation efforts worldwide must be urgently stepped up at an unprecedented pace, scale and range. Countries need to implement their existing national targets and also increase their ambition. Action by non-state actors is key to achieving and enhancing national targets, and it can also support mitigation beyond current national targets. We need to engage the whole society in taking action and cooperate across all boundaries to succeed in this crucial transformation. Cooperation is a powerful tool for enhancing learning, scaling and cost-effectiveness which, in turn, can drive greater ambition. The Paris Agreement recognises that market-based cooperation under its Article 6 allows for higher ambition in climate action. The Article 6 framework can be applied to market-based cooperation for meeting national targets as well as for other purposes, including voluntary compensation.

Nordic countries are committed to leading by example. In the Helsinki Declaration on Nordic Carbon Neutrality¹ of January 2019, Nordic countries committed to catalysing global mitigation efforts, scaling up of Nordic sustainable solutions, and intensifying their cooperation to "encourage Nordic companies, investors, local governments, cities, organizations and consumers to step up their efforts towards carbon neutrality". Many Nordic non-state actors have already taken steps towards achieving carbon neutrality, and even net-negative emissions, including by setting voluntary mitigation targets, developing mitigation strategies and taking concrete mitigation action.

1.2 Accelerating mitigation with voluntary compensation

For all actors, the first and foremost strategy for moving towards – and beyond – carbon neutrality is taking action to reduce their direct and indirect emissions. Ambitious action to reduce own net emissions is crucial for limiting global warming to 1.5 degrees.

However, for many actors, the full elimination of own net emissions is not a feasible option, and even where this is possible, it can take time. Voluntary compensation can complement actors' ambitious targets and actions for mitigating own emissions by offering them the opportunity to support more, earlier and faster mitigation (emission reductions and/or removals) than what would be possible with own action alone. Voluntary compensation helps to accelerate global mitigation if and only if it is not used to substitute actors' own action to reduce emissions.

There is no universal definition for voluntary compensation, and the term is currently used in different ways². In this draft Nordic Code of Best Practice for Voluntary Compensation ("Code"), voluntary compensation refers to voluntarily supporting mitigation through the purchase and use of mitigation outcomes achieved outside of an actor's boundaries or value chain. This mitigation could help the host country in meeting its existing targets or help to reduce global net emissions above and beyond countries' targets, thus contributing to global ambition-raising.

To truly contribute to existing national targets or to global ambition-raising beyond these targets, voluntary compensation needs to be used only to complement – not to substitute – efforts to reduce own emissions³, and be based on real, additional and verified mitigation outcomes that are not double counted. While these general principles of high-

¹ In the Nordic context, carbon neutrality covers also other GHGs besides carbon dioxide.

² To date, compensation and offsetting have often been used as synonyms. Note that, in this draft Code, voluntary compensation is used in a broader sense, encompassing both offsetting and other purposes and related claims.

³ In this draft Code, "emissions" refer also to other GHGs besides carbon dioxide.

integrity voluntary compensation are well established, their interpretation in the dynamic context of the Paris Agreement is still evolving.

1.3 Fostering sustainable development with voluntary compensation

The 2030 Agenda for Sustainable Development introduces 17 globally agreed SDGs and 169 related targets covering the three dimensions of sustainable development: the economic, social and environmental. SDG 13 calls for taking urgent action to combat climate change and its impacts, covering climate change mitigation and adaptation. The Paris Agreement emphasises “the intrinsic relationship that climate change actions, responses and impacts have with equitable access to sustainable development and eradication of poverty”. Accordingly, Parties that engage in market-based cooperation under Article 6 of the Paris Agreement are required to, inter alia, promote sustainable development and minimize and, where possible, avoid negative environmental, economic and social impacts. They are also required to respect, promote and consider their respective obligations on human rights, the right to health, the rights of indigenous peoples, local communities, migrants, children, persons with disabilities and people in vulnerable situations and the right to development, as well as gender equality, empowerment of women and intergenerational equity.

In their Vision 2030, Nordic countries state that “Agenda 2030 and the Paris Agreement show the way, but we need to work even more ambitiously and faster”. Voluntary compensation can and should contribute to mitigation in a way that fosters sustainable development also beyond mitigation impacts. At the very least, voluntary compensation must avoid negative environmental, economic and social impacts by applying safeguards. In addition, voluntary compensation should strive to generate positive sustainable development impacts. Within the global SDG agenda, countries are setting national sustainable development priorities.

Voluntary compensation activities can be designed to contribute to national sustainable development priorities. The Nordic Initiative for Cooperative Approaches (NICA) has highlighted gender equality as a Nordic priority for carbon market cooperation. Voluntary compensation can promote gender equality by supporting gender-responsive or gender-transformative activities. Although voluntary compensation is focused on mitigation, it can contribute also to climate change adaptation – directly through the design of the underlying activity and/or indirectly through earmarked contributions to adaptation (for example by forwarding a share of mitigation outcomes to the international Adaptation Fund to support adaptation).

1.4 Promoting best practice for voluntary compensation

Many Nordic stakeholders, including voluntary compensation buyers, sellers and service providers as well as consumers, investors, shareholders, regulators, non-governmental organisations and researchers, have called for guidance on high-integrity voluntary compensation, citing concerns about the lack of clarity, consistency and integrity of existing practices, claims and guidance.

This draft Code responds to these calls. It provides a Nordic perspective on the current best practice for voluntary compensation, in the context of the long-term goals of the Paris Agreement and the United Nations SDGs. The draft Code’s specific focus on *best* practice principles complements, and aims to be coordinated with, relevant international and national initiatives with different focus and coverage. It synthesises the most ambitious requirements and recommendations for voluntary compensation put forward by relevant international sources as well as input from Nordic stakeholders. It takes the international rules and guidance for market-based cooperation under Article 6 of the Paris Agreement (“Article 6 rules”) as the global reference point and framework also for voluntary compensation. It also reflects over two decades of Nordic experience and priorities in carbon market cooperation.

This draft Code can inform various types of stakeholders interested in high-integrity voluntary compensation, including activity developers, buyers, service providers and regulators as well as civil society organisations and the general public, in the Nordic region and worldwide. The primary users of the Code are expected to be actors that aim to voluntarily compensate emissions in line with best practice and/or assess the integrity of voluntary compensation and related claims.

This draft Code provides a set of common principles and goals for actors engaged in a journey towards - and potentially beyond - carbon neutrality. Even where best practice may currently be out of reach, for example due to lack of supply or resources, it serves as an aspirational goal to drive a process of continuous improvement. Striving for best practice is a strategy for mitigating and managing reputational, market and regulatory risks associated with voluntary compensation. Frontrunners, including but not limited to corporates, can lead by example and inspire others by piloting and sharing solutions for best practice in their voluntary compensation, creating enabling environments and demonstrating the opportunities associated with best practice.

This draft Code has been co-created with Nordic stakeholders under the Nordic Dialogue on Voluntary Compensation, funded by the Nordic Council of Ministers. The draft Code consolidates international best practice and inputs received from Nordic stakeholders through consultations. It does not represent any formal Nordic consensus or position and it does not replace national or international regulation.

The Code should be considered a living document that reflects the current understanding of best practice for voluntary compensation. Regular reviews of the Code would be needed to incorporate evolution of best practices over time. Any reviews of the Code are, however, beyond the scope of the Dialogue.

1.5 Expressing support for the draft and final Code

During the public consultation stage of the draft Code, from 8 June to 8 August 2022, Nordic and international stakeholders are invited to indicate their general support to this draft Code. This indication is non-binding and used only to inform the Dialogue's work, are publicly communicated only in an aggregated and anonymised manner. Nordic stakeholders can indicate their support through the online questionnaire in connection with the draft Code's consultation, from 8 June to 8 August 2022. Alternatively, stakeholders may indicate their support to the draft Code via email to info@nordicdialogue.com. This latter option is also available for international stakeholders wishing to express their support for the draft Code.

After the publication of the final Code in Q4 2022, Nordic and international stakeholders are invited to publicly express their support for the Code and/or express their intention to strive to follow the Code in their voluntary compensation activities. They can do this for example by publishing a statement on their website or making statements at public events.

- An expression of support does not necessarily constitute a commitment to follow the Code. Even actors that currently lack the resources to fully meet the requirements and recommendations of the Code may consider the Code a useful reference point and thus may wish to express their support for the Code.
- Organisations that publicly express their intention to strive to follow the Code in their voluntary compensation activities should provide regular (at least annual), publicly available information on their plans and progress in meeting all the requirements and recommendations of the Code.

Nordic and international organisations are also encouraged to collaborate to share experiences with and develop common approaches for such plans and reporting.

2 REQUIREMENTS AND RECOMMENDATIONS

This section lists the requirements and recommendations for best practice for voluntary compensation that need to be met for voluntary compensation to be considered as best practice.

The requirements and recommendations are designed to be applicable for actors of various types and sizes, ranging from individuals, sports clubs and small- and medium-sized enterprises to cities and large-scale corporations. Some requirements and recommendations may be applicable to public and private organisations (e.g., companies, government agencies, cities, municipalities and non-governmental organisations) but not to individuals. Thus, in the Code, we distinguish between “organisations” and “actors”, the latter referring to both organisations and individuals.

“Shall” indicates a requirement to be followed without deviation, in order to be considered best practice. “Are encouraged” indicates a recommendation for a course of action that is desired but not strictly required. The larger the organisation and the greater its resources, the more ambitiously they should interpret and implement the requirements and recommendations.

A glossary of key terms and concepts used in this draft Code is provided in Annex A. A non-exhaustive list of relevant guidance and standards for implementing the requirements and recommendations of this draft Code is provided in a separate document, namely the Action Plan for a Nordic Approach to Voluntary Compensation.

2.1 Robust and comprehensive quantification of relevant emissions

- (1) Actors shall calculate the relevant direct and indirect emissions (e.g., a company’s indirect and direct emissions, a product’s lifecycle emissions) in accordance with recognised tools or guidance that are relevant to the intended use.
- (2) Organisations shall transparently describe the approach and results of the quantification of the relevant emissions.
- (3) Organisations shall have the quantification of their relevant emissions verified by a competent third-party entity.

2.2 Reducing emissions consistently with a 1.5°C-aligned pathway

- (4) Actors shall take action to mitigate their direct and indirect emissions, striving to be consistent with the global goal to limit the increase in the global average temperature to 1.5 degrees.
- (5) Organisations shall carry out a comprehensive assessment of opportunities to mitigate their direct and indirect emissions, set targets and pathways and develop and implement plans for reducing the direct and indirect emissions in the short, medium and long term, in line with a 1.5°C-aligned pathway.
- (6) Organisations shall apply recognised tools, guidance and/or standards, if available, to demonstrate that their targets, pathways, plans and progress are aligned with a 1.5°C-aligned pathway.
- (7) Organisations shall have the targets and progress referred to in paragraph (6) verified by a competent third-party entity.

2.3 Voluntary compensation with high-integrity mitigation outcomes

- (8) Actors shall use high-integrity mitigation outcomes that meet the Mitigation Outcome Criteria (see Annex B) for voluntary compensation.
- (9) Actors shall ensure that mitigation outcomes meet the Mitigation Outcome Criteria by applying a carbon crediting programme or an equivalent framework that meets the Carbon Crediting Programme Criteria (see Annex C). A competent third-party entity shall verify that the mitigation outcome meets the Mitigation Outcome Criteria. Such mitigation outcomes are hereafter referred to as High-Integrity Carbon Credits.
- (10) Actors shall ensure that High-Integrity Carbon Credits used for voluntary compensation are retired, cancelled or otherwise permanently removed from circulation in a carbon registry that meets the Carbon Registry Criteria (see Annex D). Retirement, cancellation or permanent removal from circulation is hereafter referred to as the use of High-Integrity Carbon Credits.
- (11) Actors are encouraged to promote sustainable development co-benefits through voluntary compensation, using recognised tools to assess, monitor and report sustainable development impacts. Verification of sustainable development impacts by a competent third-party entity is also encouraged.
- (12) Actors are encouraged to use High-Integrity Carbon Credits that are associated with the delivery of assistance to developing country Parties that are particularly vulnerable to the adverse effects of climate change to meet the costs of adaptation, in line with relevant decisions on Article 6 of the Paris Agreement.
- (13) Actors are encouraged to use High-Integrity Carbon Credits that are associated with the delivery of overall mitigation in global emissions, in line with relevant decisions on Article 6 of the Paris Agreement.

2.4 Reporting of emissions, mitigation action and voluntary compensation

- (14) Organisations shall publicly report on their direct and indirect emissions (including emissions to be voluntarily compensated), mitigation targets, pathways and plans, annual changes in their direct and indirect emissions, action and progress towards targets and pathways, and the use of voluntary compensation, including detailed information on the mitigation outcomes used, in a transparent and consistent manner at least on an annual basis. The reported information shall be verified by a competent third-party entity.
- (15) Organisations are encouraged to report on the role of voluntary compensation in their broader mitigation plans and provide information on the organisation's broader climate and sustainability targets and activities, as well as experiences and lessons learned.
- (16) Organisations are encouraged to provide financial information on their mitigation actions, including any internal carbon price and support for mitigation and sustainable development within their boundaries or value chain, as well as support provided for mitigation and sustainable development beyond the organisation's boundaries or value chain through voluntary compensation and any other forms of support, including support for 1.5°C-aligned climate policy.

2.5 Ensuring the integrity of claims

- (17) Any claims relating to mitigation of own emissions and voluntary compensation shall be true and accurate; clear and relevant to their target audience; substantiated with objective, transparent, up-to-date and publicly available data; avoid overstating the beneficial environmental impacts of the activities; avoid creating a false impression or hiding trade-offs; refer to voluntary actions or achievements that go beyond complying with existing legislation or standard business practice; and avoid double-claiming.
- (18) Organisations shall only make claims about using High-Integrity Carbon Credits to complement progress towards targets and pathways referred to in paragraph (5). Organisations shall not use High-Integrity Carbon Credits to claim progress towards these targets and pathways.

- (19) Claims about offsetting are understood to be about the purchase, ownership and use of High-Integrity Mitigation Outcomes exclusively for counterbalancing an equivalent amount of direct and indirect GHG emissions attributed to an actor, product or service, such that the actor's, product's or service's net contribution to global emissions is reduced. Claims about offsetting shall be based on the use of High-Integrity Carbon Credits representing mitigation outcomes that are exclusively claimed for offsetting and not claimed towards any other mitigation purpose, including towards any country's existing mitigation targets.
- (20) Claims about overall mitigation in global emissions are understood to be about the purchase, ownership and use of High-Integrity Carbon Credits exclusively to contribute to reducing global net emissions above and beyond existing national mitigation targets without making claims about offsetting. Claims about overall mitigation in global emissions shall be based on the use of High-Integrity Carbon Credits representing mitigation outcomes that are exclusively claimed for overall mitigation in global emissions and not claimed towards any other mitigation purpose, including towards any country's existing mitigation targets.
- (21) Claims about national mitigation contributions are understood to be about the purchase and use of High-Integrity Mitigation Outcomes that help the host country in meeting its existing mitigation targets. Claims about national mitigation contributions shall be based on the use of High-Integrity Carbon Credits representing mitigation outcomes that are counted towards the host country's existing mitigation targets.
- (22) Claims about carbon neutrality are understood to be about fully offsetting the direct and indirect emissions attributed to an actor, product or service that remain after an actor has taken action to mitigate these emissions consistently with a 1.5°C-aligned pathway, such that the net contribution to global emissions of these emissions is zero. Organisations shall only make carbon neutrality claims if they have targets, pathways and plans in place in line with section 2.3 and are on track to achieving them.
- (23) Organisations shall have their claims verified by a competent third-party entity.

2.6 Applying good marketing practices

- (24) When marketing their mitigation achievements, organisations shall disclose the underlying information and proof for their claims. This information should be provided in connection with the claim (e.g., advertisements, packages etc.) to the extent possible.
- (25) Organisations shall comply with relevant supranational and national guidance on claims, including guidance specifically on claims associated with voluntary compensation.

ANNEX A: GLOSSARY OF KEY TERMS AND CONCEPTS

Key terms and concepts included in this glossary are **bolded**.

During the finalisation of the Code, further alignment of terminology with the latest national and international guidance and standards will be sought.

Term	Description
1.5°C-aligned pathway	1.5°C-aligned pathway refers to a pathway of an actor's net emissions that is consistent with limiting the increase in the global average temperature to 1.5 degrees in line with the long-term temperature goal of the Paris Agreement.
Additionality	Additionality means that, at the time of the implementation of the activity, the mitigation outcomes of a mitigation activity would not have happened without the incentives provided by the carbon credits .
Baseline	A Baseline is a hypothetical scenario for emissions in the absence of the incentives from the carbon credits , while holding all other factors constant.
Cancellation	In this draft Code, cancellation and retirement are used interchangeably to refer to permanently removing a carbon credit from circulation so that it is not possible to cancel or retire the carbon credit for any other purpose. The term cancellation refers to the use of the carbon credit by an entity to meet voluntary commitments or compliance obligations.
Carbon credit	A carbon credit is a tradable financial instrument that is issued by a carbon crediting programme and that represents an additional, verified GHG mitigation outcome of one metric tonne of carbon dioxide equivalent. Carbon credits are uniquely serialised, issued, tracked, and retired or cancelled by means of an electronic carbon registry operated by an administrative body such as a carbon crediting programme .
Carbon crediting programme	A carbon crediting programme is a scheme for issuing carbon credits against mitigation outcomes that meet the relevant criteria of the carbon crediting programme , including but not limited to additionality , baselines , permanence , leakage , monitoring and reporting, as well as third-party validation and verification . In this draft Code, carbon crediting programmes that meet the Carbon Crediting Programme Criteria of this draft Code shall be applied to generate High-Integrity Carbon Credits .
Carbon neutrality	At the global level, carbon neutrality is the same as net-zero CO ₂ emissions, which are achieved when anthropogenic CO ₂ emissions are balanced globally by anthropogenic CO ₂ removals over a specified period. However, at the level of non-state actors, carbon neutrality and net zero are not used as synonyms. In this draft Code, carbon neutrality is used as a synonym for GHG neutrality to refer to a situation where, at the level of non-state actors, the GHG emissions attributed to an actor's operations, products or services have been fully offset by using at least an equivalent amount of High-

	Integrity Carbon Credits that are exclusively claimed by the actor, such that the net contribution of the actor's operations, products or services to global GHG emissions is zero. In this draft Code, carbon neutrality claims can only be made by organisations that have 1.5°C-aligned targets, pathways and plans in place and are on track to achieving them.
Counterbalancing	Counterbalancing refers to the use of mitigation outcomes from outside the actor's boundary or value chain exclusively for the purpose of counterbalancing the impact of an equivalent amount of the specific GHG emissions, such that that the net contribution of the source of these specific emissions (e.g. an actor's operations, products or services) to global emissions is reduced. In this draft Code, offsetting refers to the use of High-Integrity Carbon Credits for the purpose of counterbalancing .
Direct emissions	GHG emissions from GHG sources owned or controlled by the actor, as defined in ISO 14 064.
Double claiming	A situation in which the same mitigation outcome is claimed by two different actors towards achieving climate change mitigation, e.g., once by the country in which the mitigation outcome occurs, and once by the actor using a carbon credit .
Double counting	A situation in which a mitigation outcome is counted more than once. Double counting can occur through double issuance, double use and/or double claiming .
Double issuance	A situation in which more than one carbon credit is issued for the same mitigation outcome . This leads to double counting if more than one of these carbon credits is counted towards achieving climate change mitigation. This can occur, for instance, when the same mitigation activity is registered under two different carbon crediting programmes or twice under the same carbon crediting programme .
Double use	A situation in which the same carbon credit is counted twice towards achieving climate change mitigation. This could, for example, occur if an actor used a single carbon credit to fulfil two different purposes.
Environmental integrity	In the context of carbon markets, environmental integrity means that market-based cooperation must not lead to an increase in global net GHG emissions in comparison to a valid baseline scenario where market-based instruments are not used.
GHG neutrality	At the global level, GHG neutrality and net-zero GHG emissions are equivalent. However, at the level of non-state actors, GHG neutrality and net zero are not used as synonyms. In this draft Code, GHG neutrality is used as a synonym for carbon neutrality to refer to a situation where, at the level of non-state actors, the GHG emissions attributed to an organisation's operations, products or services have been fully offset by using at least an equivalent amount of High-Integrity Carbon Credits that are exclusively claimed by the actor, such that the net contribution of the actor's operations, products or services to global GHG emissions is zero.
High-Integrity Carbon Credit	In this draft Code, a High-Integrity Carbon Credit means a mitigation outcome that meets the Mitigation Outcome Criteria of this draft Code by applying a carbon crediting programme or an equivalent framework that meets the Carbon Crediting Programme Criteria of this draft Code, including verification by a competent third-party entity.

Indirect emissions	GHG emissions that is a consequence of an actor's operations and activities, but that arise from GHG sources that are not owned or controlled by the actor, as defined in ISO 14 064.
Leakage	Leakage refers to unintended increases in emissions attributable to the mitigation activity outside of its boundaries.
Mitigation outcome	In this draft Code, emission reductions and removals are jointly referred to as mitigation outcomes .
National mitigation contribution	In this draft Code, a national mitigation contribution refers to voluntary compensation through the purchase and use of High-Integrity Carbon Credits that help the host country in meeting its existing mitigation targets.
Offsetting	In this draft Code, offsetting refers to voluntary compensation through the purchase, ownership and use of High-Integrity Mitigation Outcomes exclusively for counterbalancing an equivalent amount of GHG emissions attributed to an actor within its boundary or value chain, such that the actor's net contribution to global emissions is reduced.
Overall mitigation in global emissions	In this draft Code, an overall mitigation in global emissions is voluntary compensation through the purchase, ownership and use of High-Integrity Carbon Credits that represent mitigation above and beyond countries' existing mitigation target and are not used for offsetting .
Permanence	In this draft Code, permanence refers to a situation where the mitigation outcomes generated by a mitigation activity are later not reversed. Where activities are prone to a risk of reversibility, the non-permanence of mitigation outcomes shall be addressed in a robust manner through the implementation of safeguards (e.g., insurance, buffer pools, liability rules).
Retirement	In this draft Code, retirement and cancellation are used interchangeably to refer to permanently removing a carbon credit from circulation so that it is not possible to retire or cancel the carbon credit for any other purpose. The term retirement refers to the use of the carbon credit by an entity to meet voluntary commitments or compliance obligations.
Use of High-Integrity Carbon Credits	Cancellation, retirement or permanent removal from circulation of a High-Integrity Carbon Credit
Validation	Assessment by a competent third-party entity of a mitigation activity design, against relevant criteria under a carbon crediting programme .
Verification	In the context of crediting standards, verification is the periodic independent review and ex-post determination by a competent third-party entity of the monitored mitigation outcomes generated by a mitigation activity during a specific monitoring period in line with a carbon crediting programme .
Voluntary compensation	In this draft Code, voluntary compensation refers to voluntarily supporting mitigation beyond an actor's boundaries or value chain through the voluntary purchase and use of mitigation outcomes achieved outside of an actor's boundaries or value chain for offsetting, national mitigation contributions and/or overall mitigation in global emissions .
Vulnerable groups	Vulnerable groups refer to "indigenous peoples, local communities, migrants, children, persons with disabilities and people in vulnerable situations", reflecting decisions on Article 6 of the Paris Agreement.

ANNEX B: MITIGATION OUTCOME CRITERIA

High-integrity mitigation outcomes shall meet all of the following criteria:

- **Real:** Real mitigation outcomes means that mitigation outcomes shall be verified ex-post and shall not represent ex-ante estimations of mitigation outcomes that are expected to occur in the future.
- **Additional:** Additionality means that the mitigation outcomes of a mitigation activity would not have happened now without the incentives provided by the carbon credits. This shall be justified by demonstrating that the mitigation activities exceed what is required by host country law, regulation, or a legally binding mandate and that the activity would not be financially viable without the revenue from the sale of carbon credits.
- **Based on a conservative baseline below business-as-usual:** Mitigation outcomes shall be conservatively quantified against a credible and robust emissions baseline that is set below the business-as-usual level of emissions.
- **Based on robust monitoring and reporting methodologies:** Mitigation outcomes shall be quantified using robust monitoring methodologies.
- **Address the risks of leakage:** Leakage, the unintended increases in emissions attributable to the mitigation activity outside of its boundaries, shall be appropriately addressed in order to prevent overestimation of an activity's mitigation outcomes. Crediting standards' measurement tools shall include adjustments for leakage.
- **Permanent:** Mitigation outcomes shall represent permanent emission reductions and removals. Where activities are prone to a risk of reversibility, the non-permanence of mitigation outcomes shall be addressed in a robust manner through the implementation of safeguards (e.g., insurance, buffer pools, liability rules).
- **Validation of activity by a competent third-party entity:** Mitigation activities shall be validated by a competent third-party entity that the proposed activity design meets relevant criteria.
- **Verification of mitigation outcomes by a competent third-party entity:** Mitigation outcomes that have been achieved through registered mitigation activities shall be verified ex-post by a competent third-party entity.
- **Avoidance of double counting:** All forms of double counting of mitigation outcomes shall be avoided.
- **Local stakeholder consultation:** Mitigation activities shall include local stakeholder consultations during the design and implementation/monitoring phase. Local stakeholder consultations shall also disclose clear 'raise flag' processes that stakeholders can exercise if something goes wrong in the design, implementation and monitoring of the activity.
- **Social and environmental safeguards:** Mitigation activities shall identify, minimise and, where possible, avoid negative environmental or social impacts, and engage with relevant stakeholders throughout the activity's lifetime, with special consideration given to vulnerable groups. An ex-ante assessment of the mitigation activities' potential negative impacts shall be carried out, robust social and environmental safeguards as well as a grievance mechanism shall be put in place to mitigate, manage and, where possible, avoid any negative impacts, and related monitoring and reporting shall be carried out throughout the activity's lifetime. Any negative impacts on human rights shall be avoided. Organisations conducting mitigation activities shall institute a policy commitment to meet the responsibility to respect human rights. They shall also conduct human rights due diligence and proactively manage potential and actual adverse human rights impacts with which they are involved in line with UN Guiding Principles. Where an organisation identifies that it has caused or contributed to actual adverse human rights impacts, it needs to address such impacts by providing for or cooperating in their remediation. Organisations shall have the ex-ante assessment and ex-post monitoring and reporting verified by a competent third-party entity.
- **Assessment of sustainable development impacts:** An ex-ante assessment of a mitigation activity's potential (positive and negative) impacts on sustainable development shall be carried out. Ex-post monitoring and reporting of significant sustainable development impacts shall be carried out. The use of available tools is encouraged. The ex-post verification of significant sustainable development impacts by a competent third-party entity is also encouraged.

ANNEX C: CARBON CREDITING PROGRAMME CRITERIA

Option 1: Based on criteria from International Carbon Reduction and Offset Alliance's "Voluntary Carbon Market Standards: Review Criteria"⁴

- The carbon crediting programme is designed and managed by an independent organisation or group of organisations.
- The carbon crediting programme has a robust governance process and is well managed:
 - The governance process is transparent.
 - Independent decision makers manage the crediting standard.
 - The carbon crediting programme provides oversight to the validators'/verifiers' work, and ensures the work is impartially and rigorously conducted, appropriate to the requirements of the standard.
- The carbon crediting programme is linked to a publicly accessible registry, independent of the carbon credits provider, which tracks issued carbon credits to ensure uniqueness for each tonne.
- The carbon crediting programme requires that mitigation activities and their quantified mitigation outcomes are independently validated and verified. Validation and verification must be carried out by a suitably qualified, independent organisation.
- The carbon crediting programme ensures, in combination with add-on standards if needed, that the carbon credits issued under the carbon crediting programme meet the Mitigation Outcome Criteria (see Annex B).
- Legal requirements regarding the avoidance of environmental and social impacts are fulfilled.

Option 2: Based on criteria from the International Civil Aviation Organization's "Carbon Offsetting and Reduction Scheme for International Aviation Emissions Unit Eligibility Criteria"⁵

Carbon crediting programmes should meet the following design elements:

1. Clear Methodologies and Protocols, and their Development Process: Programs should have qualification and quantification methodologies and protocols in place and available for use as well as a process for developing further methodologies and protocols. The existing methodologies and protocols as well as the process for developing further methodologies and protocols should be publicly disclosed.
2. Scope Considerations: carbon crediting programme should define and publicly disclose the level at which activities are allowed under the program (e.g., project-based, program of activities, etc.) as well as the eligibility criteria for each type of offset activity (e.g., which sectors, project types, or geographic locations are covered).
3. Offset Credit Issuance and Retirement Procedures: carbon crediting programme should have in place procedures for how offset credits are: (a) issued; (b) retired or cancelled; (c) subject to any discounting; and, (d) the length of the crediting period and whether that period is renewable. These procedures should be publicly disclosed.
4. Identification and Tracking: carbon crediting programme should have in place procedures that ensure that: (a) units are tracked; (b) units are individually identified through serial numbers; (c) the registry is secure (i.e., robust security provisions are in place); and (d) units have clearly identified owners or holders (e.g., identification requirements of a registry). The program should also stipulate (e) to which, if any, other registries it is linked; and, (f) whether and which international data exchange standards the registry conforms with. All of the above should be publicly disclosed information.
5. Legal Nature and Transfer of Units: The carbon crediting programme should define and ensure the underlying attributes and property aspects of a unit, and publicly disclose the process by which it does so.

⁴ https://www.icroa.org/_files/ugd/653476_2e5379c215b64a609503b063e4de2e9f.pdf

⁵ https://www.icao.int/environmental-protection/CORSIA/Documents/ICAO_Document_og.pdf

6. Validation and Verification procedures: carbon crediting programme should have in place validation and verification standards and procedures, as well as requirements and procedures for the accreditation of validators and verifiers. All of the above-mentioned standards, procedures, and requirements should be publicly disclosed.

7. Program Governance: carbon crediting programme should publicly disclose who is responsible for administration of the program and how decisions are made.

8. Transparency and Public Participation Provisions: carbon crediting programme should publicly disclose (a) what information is captured and made available to different stakeholders; and (b) its local stakeholder consultation requirements (if applicable) and (c) its public comments provisions and requirements, and how they are considered (if applicable). Conduct public comment periods and transparently disclose all approved quantification methodologies.

Safeguards System: carbon crediting programme should have in place safeguards to address environmental and social risks. These safeguards should be publicly disclosed.

10. Sustainable Development Criteria: carbon crediting programme should publicly disclose the sustainable development criteria used, for example, how this contributes to achieving a country's stated sustainable development priorities, and any provisions for monitoring, reporting and verification.

11. Avoidance of Double Counting, Issuance and Claiming: carbon crediting programme should provide information on how they address double counting, issuance and claiming in the context of evolving national and international regimes for carbon markets and emissions trading.

Option 3: Based on criteria from the Integrity Council for the Voluntary Carbon Markets⁶, once available

⁶ <https://icvcm.org/>

ANNEX D: CARBON REGISTRY CRITERIA

Option 1: Based on criteria from the Taskforce on Scaling Voluntary Carbon Markets "Phase II Report"⁷

- The carbon crediting programme must have, or have access to, a publicly available registry that tracks the units issued and with the basic functionality to:
 - Provide access to all underlying project/program information, including carbon crediting programme documentation, verification statements, and legal representations
 - Transparently issue, retire, and cancel units
 - Individually identify units through unique serial numbers that contain sufficient information to avoid double counting (project to which the carbon credit was issued, country where the activity or project was implemented, vintage, methodology type)
 - Identify unit statuses (issued, retired, cancelled) and the purpose in case of unit retirement or cancellation
 - Track chain of custody, from creation to retirement and keep auditable transaction logs and secure transfer procedures
- The carbon crediting programme must have rules and procedures in place to ensure that:
 - All account holders:
 - Pass rigorous onboarding procedures upon registration, in order to identify fraudulent actors with spot checks performed thereafter
 - Agree to the legal requirements regarding the use of the registry, as set out in Terms of Use
 - The Registry:
 - Guards against Registry Service Provider conflicts of interest
 - Has robust registry security and provisions for redundant data storage, regular security audits, systems backups

Option 2: Use relevant criteria from the Integrity Council for the Voluntary Carbon Markets, once available

⁷ https://www.iif.com/Portals/1/Files/TSVCM_Phase_2_Report.pdf