



The U.S. Department of the Treasury (Treasury) announced a [new joint statement](#) of policy and new principles (Joint Statement) for responsible participation in voluntary carbon markets (VCMs) with the U.S. Department of Agriculture, the U.S. Department of Energy, and the White House on May 28, 2024.

The principles are meant to guide how the U.S. government engages with VCMs. By issuing the Joint Statement, Treasury intends to channel private capital to drive decarbonization efforts, ensure the integrity of carbon credits, and generate economic opportunities. While the Joint Statement adds additional legitimacy to VCMs, federal agencies should take care to craft focused and clear regulations implementing such principles to ensure the Joint Statement's objectives are met.

Overview

The Joint Statement seeks specifically to mitigate greenwashing risks as VCMs expand. Market participants "must be certain that one credit truly represents one tonne of carbon dioxide (or its equivalent) reduced or removed from the atmosphere, beyond what would have otherwise occurred." The Joint Statement encourages stakeholders to participate responsibly in VCMs and respect seven principles that acknowledge (1) protections regarding climate and environmental justice; (2) credible credit use; and (3) market-level integrity.

The principles smartly allocate responsibility for well-functioning VCMs between supply and demand, emphasizing consistency in carbon credit methodology, verification, and application. But the principles also go further, linking measurable climate goals to equity and environmental justice objectives. That raises the question of whether carbon offset protocols that do not expressly value or quantify equity and environmental justice objectives should be viewed as having the same value—and should produce the same amount of offsets—as those that do.

Greater consistency in carbon market regulation, carbon accounting, and climate risk evaluation is an endeavor worthy of federal attention. New federal and state regulations require companies to report on their use of carbon offsets to support Scope 1, 2, and 3 emissions reductions claims, and there are dozens of standards, methodologies, and registries available to choose from. Greater consistency to facilitate an "apples-to-apples" comparison among market participants is welcome.

Requiring an evaluation of whether crediting activities "respect local communities and human rights and identify, mitigate, and address any negative environmental or social impacts" could draw more market participants to particular carbon registries that track such benefits. The key will be to ensure that such requirements do not discourage market participants from finding innovative ways to capture or reduce carbon emissions. That is especially so where those innovations are agnostic to—and otherwise do not harm—laudable equity and environmental, social, and governance co-benefits. By introducing these objectives, however, the Joint Statement raises the question of whether registries that track those co-benefits produce "better" (or more valuable) carbon offsets per ton of carbon removed than those that do not.

The Joint Statement's seven principles are summarized below.

Principle 1: Carbon credits and the activities that generate them should meet credible atmospheric integrity standards and represent real decarbonization.

Principle 1 encourages more robust standards for activity design and measurement, monitoring, reporting, and verification (MMRV) of emission reductions or removals. Drawn from existing best practices for credit certification standards, this principle requires delivery on several familiar elements such as additionality, uniqueness, realness and quantifiability, validation and verification, permanence of greenhouse gas benefits, and robust baselines.

Principle 1 also calls on credit certification standards bodies to effectively govern their standards, operate and coordinate registries, ensure robust MMRV of emissions reductions and removals, adopt procedures to address double-counting risks, require information on credited activities, ensure third-party verification of reductions and removals, ensure governance procedures to avoid real or perceived conflicts of interest, and ensure equitable opportunities for participation. Some of these responsibilities may be more appropriate for verification bodies, such as coordinating to ensure that activities are not registered with more than one registry. Principle 1's suggestion that credit certification bodies "support a robust enabling environment for equitable participation, including by projects and programs in developing countries" should spur debate and process improvements

among the leading carbon registries, some of which are headquartered outside of the United States and may have different policy goals.

Principle 2: Credit-generating activities should avoid environmental and social harm and should, where applicable, support co-benefits and transparent and inclusive benefits sharing.

Principle 2 encourages understanding of climate and environmental justice impacts of credited activities and avoidance of negative community externalities. Principle 2 identifies related impacts like land use and tenure rights, food security, nature, and biodiversity. This principle also encourages "the identification and delivery of verified 'co-benefits' associated with credit-generating projects and programs, such as sustainable economic development and increased biodiversity[.]"

Carbon offset projects with measurable co-benefits should be encouraged and rewarded with higher credit prices. Whether the Joint Statement suggests that carbon offset projects that fail to generate co-benefits also fail in their fundamental purpose is unclear.

Principle 3: Corporate buyers that use credits (credit users) should prioritize measurable emissions reductions within their own value chains.

Principle 3 defines "credit use" as the purchase and cancellation or retirement of credits and associated claims of climate impacts of those credits. This principle encourages credit users to "use VCMs to complement measurable within-value-chain emissions reductions as part of their net-zero strategies." By encouraging credit users to first inventory and regularly report their emissions, this principle allows credit users to set near-term emissions reduction targets and long-term net-zero targets, adopt transition plans, and work with suppliers to develop mutually beneficial decarbonization activities. This is most evident among commercial airline companies that purchase sustainable aviation fuel for their fleets, which can reduce carbon emissions by as much as 80% compared to conventional jet fuel. The airlines then claim the emission reductions from the use of that fuel. In this way, VCMs are driving innovation in sustainable aviation fuel and, in the process, decarbonizing the commercial aviation sector.

In our experience, Principle 3 is a sensible goal that aligns with the best practices of forward-thinking companies currently reducing carbon emissions within their "supply shed."

Principle 4: Credit users should publicly disclose the nature of purchased and retired credits.

Principle 4 encourages credit users to disclose their purchased, cancelled, or retired credits at least annually with enough detail to enable the public and relevant stakeholders to assess the integrity and environmental and social impacts of purchased and retired credits. This principle encourages credit users to develop the format with which they publish information but notes that—in any format—disclosures "should be made easily accessible to stakeholders, such as in a regular publication."

Principle 4 addresses an important point on consistency. There exist several voluntary carbon market pledges and principles that tend to favor the market participants who published them. Likewise, participants can choose among dozens of carbon accounting methodologies, most of which are rooted in some version of the GHG Protocol. As the use of voluntary carbon instruments becomes more visible and important from a regulatory perspective, investors and other stakeholders need greater consensus to quickly make an "apples-to-apples" comparison of companies engaged in different carbon removal strategies.

Principle 5: Public claims by credit users should accurately reflect the climate impact of retired credits and should only rely on credits that meet high integrity standards.

Recognizing the evolving standards, codes and conduct, and other frameworks defining what constitutes an appropriate claim, Principle 5 encourages these frameworks to "increase incentives to purchase high-integrity credits on an ongoing, regular basis without reducing incentives for companies to expeditiously pursue within-value-chain emissions reductions." With reference to Principles 1, 2, and 3, Principle 5 notes that "[c]laims should rely only on the impact of credits that meet current high integrity standards at the time the claim is made and that avoid adverse impacts, . . . [and] should be in the context of a corporate climate strategy that prioritizes within-value-chain emissions reductions." If a company decides to implement a sustainability or net-zero plan, Principle 5 underscores the importance of setting sensible targets and implementing a consistent strategy to meet those goals.

Principle 6: Market participants should contribute to efforts that improve market integrity.

Principle 6 recognizes that improvements to credit and demand integrity can positively affect market integrity. This principle encourages stakeholders to "improve market functionality for a variety of market participants[,]" including:

1. Creating incentives to develop and purchase high-integrity credits.
2. Improving transparency and the publicly available data of credit-generating projects and programs, including transaction volumes and prices.
3. Promoting fair and equitable treatment of suppliers involved in credit generation, including fair distribution of revenue.
4. Controlling for potential conflicts of interest among VCM service providers.
5. Preventing fraud and manipulation by bad-faith actors undermining credit integrity.
6. Providing for the appropriate accounting and legal treatment of credits and resolving any related ambiguities.
7. Enabling global interoperability of relevant standards, market infrastructure, and reporting; and supporting robust and equitable participation in these markets, including by projects and programs in developing countries.
8. Taking other measures separate from credit and demand integrity to improve the functioning and health of these markets.

Principle 6 identifies several improvements that will need to be implemented across a variety of market participants. Some of Principle 6's improved market structures could be realized by pricing in the existence of co-benefits. Other improvements could be realized by issuing a carbon offset containing more granular information, similar to how M-RETS issues renewable thermal certificates with information on feedstock, carbon intensity, and other factors.

Principle 7: Policymakers and market participants should facilitate efficient market participation and seek to lower transaction costs.

Principle 7 seeks to encourage expansion of market opportunities for credible credit providers and reduce barriers facing credit-generating suppliers to improve the overall ability of VCMs to produce high-integrity credits and generate economic opportunity. This principle asks policymakers and buyers to "consider ways to enhance market certainty for credit providers undertaking long-term and often significant investments in decarbonization that plan to rely on VCM revenues to finance their actions."

Conclusion

The Joint Statement is largely good news for VCMs and the stakeholders that participate in them. Project developers, registries, verifiers, and corporate buyers of carbon credits and VCMs should review the Joint Statement and principles to evaluate whether and, if so, how projects, carbon instruments, and registries should evolve to incorporate the principles and further improve confidence in VCMs. Corporate buyers and VCMs should also align around how they will measure and price the important co-benefits of carbon reductions, such as equity, environmental justice, and sustainable development, so that the carbon reduction element can be treated equally, regardless of how it was derived. VCMs have been successful at driving innovation in reducing carbon emissions. With the strong foundation that already exists, augmented by the commercial best practices identified by the Joint Statement, project developers and corporate buyers of carbon offset projects should feel confident that VCMs can play an important role in meeting corporate sustainability goals, particularly as those goals become more regulated.

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