Department for
Energy Security
& Net Zero

Voluntary Carbon and Nature Markets

Raising integrity

Closing date: 10 July 2025

Any enquiries regarding this publication should be sent to us at: VCNMconsultation@energysecurity.gov.uk

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General information

Why we are consulting

This consultation seeks to clarify and test the UK Government's proposed policy and governance framework for helping to ensure the integrity of Voluntary Carbon and Nature Market credits and the use of credits. It provides a response to calls from business, finance, farming, and environmental stakeholders for clarity on the Government's approach. It also responds to recommendations from the Climate Change Committee and others for a new regulatory approach for these markets. It elaborates the UK Government's six Voluntary Carbon and Nature Market Integrity Principles, invites views on their potential implementation, and on several specific topics where the Government could help these markets realise more of their potential.

Consultation details

Issued: 17 April 2025

Respond by: 10 July 2025

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How to respond

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Respond online: https://energygovuk.citizenspace.com/energy-security/voluntary-carbon-and-nature-market-integrity

When responding, please state whether you are responding as an individual or representing the views of an organisation.

Your response will be most useful if it is framed in direct response to the questions posed, though further comments and evidence are also welcome.

Confidentiality and data protection

Information you provide in response to this consultation, including personal information, may be disclosed in accordance with UK legislation (the Freedom of Information Act 2000, the Data Protection Act 2018 and the Environmental Information Regulations 2004).

If you want the information that you provide to be treated as confidential, please tell us, but be aware that we cannot guarantee confidentiality in all circumstances. An automatic confidentiality disclaimer generated by your IT system will not be regarded by us as a confidentiality request.

We will process your personal data in accordance with all applicable data protection laws. See our privacy policy.

In taking forward policy development following this consultation and given the shared interests between Government departments, in addition to the Department for Energy Security and Net Zero, consultation responses will be shared with HM Treasury, the Department for Environment, Food and Rural Affairs, the Department for Business and Trade and the Department for Transport as needed. Additionally, there will likely be a need to share responses with the regulators that fall within scope of the consultation proposals to ensure that future requirements are developed and implemented in a co-ordinated manner. Unless respondents request otherwise, the consulting departments may therefore share responses to the consultation with any or all of the following: the Environment Agency, Natural England, Forestry Commission[1], Financial Conduct Authority, Financial Reporting Council, Bank of England, Competition and Markets Authority and Advertising Standards Authority/Committees of Advertising Practice.

Should the Government procure external support to process and analyse responses to this consultation, the responses to this consultation may be shared with a relevant third-party provider.

We will summarise all responses and publish this summary on GOV.UK. The summary will include a list of names or organisations that responded, but not people's personal names, addresses or other contact details.

Quality assurance

This consultation has been carried out in accordance with the Government's consultation principles.

If you have any complaints about the way this consultation has been conducted, please email: bru@energysecurity.gov.uk.

[1] Responses may also be shared with regulatory bodies for Scotland, Wales and Northern Ireland given environmental regulation, land use policy, habitat protection and regulation of forestry are all devolved matters.

Executive Summary

Climate change and nature loss are existential challenges, and this decade is critical for action. To limit global temperature rises to 1.5 degrees, build resilience to current and future climate impacts and halt and reverse global biodiversity loss, we need to reduce emissions by 43% on 2019 levels by 2030[2], protect forests and nature, empower Local Communities and Indigenous People to adapt to climate impacts and move climate finance mobilisation from the billions to the trillions.

The UK Government is leading these efforts from the front. In November 2024, the Prime Minister announced the UK's ambitious Nationally Determined Contribution target to reduce its greenhouse gas emissions by at least 81% by 2035, compared to 1990 levels. The target is in line with the advice from the Climate Change Committee who state that it is a credible contribution towards limiting warming to 1.5°C and it sits within a range of Paris-consistent equity metrics.

The Government is committed to restore and protect our natural world, taking action to deliver and support wider progress towards the international targets of the Kunming-Montreal Global Biodiversity Framework. This includes taking strong action domestically. In England, the government recently concluded a rapid review of the existing Environmental Improvement Plan (EIP23). A revised EIP will be published later this year with delivery information to help meet our statutory Environment Act targets. These cover biodiversity, air, water, marine protection, resource efficiency and tree and woodland cover.

The Government remains committed to the use of market-based measures, domestically and globally, to support our ambitious net zero and environmental targets. Domestically, the UK's key compliance market mechanism, the UK Emissions Trading Scheme (UK ETS), is central to the achievement of our ambitious climate targets and builds on over 20 years' experience in pricing UK emissions. The UK has established strengths in regulating voluntary markets for carbon sequestration, generating high integrity domestic carbon and nature credits through programmes like the Woodland Carbon Code and is developing frameworks to raise standards in the generation of nature-based and engineered removal credits from UK projects. The ambition to support integrity and scale of these and other market-based measures is shared with the Devolved Governments, with which we continue to work closely to align policies where appropriate and build on successful initiatives.

Globally, the UK oversaw crucial agreement on UN carbon trading ('Article 6') rules when presiding over the 2021 UN Framework Convention on Climate Change negotiations in Glasgow and is a leading provider of support for Emerging Markets and Developing Economies that want to access high integrity carbon market finance. These domestic and

[2] Climate Change 2022: Mitigation of Climate Change, IPCC (2022)

international efforts are underpinned by the UK's financial and environmental services sectors, and our strong regulatory environment.

In this context, the Government is supportive of action to unlock high integrity voluntary carbon and nature markets. These markets enable the generation and trade of units ('credits') representing climate and broader environmental outcomes. Where these markets are used by non-state actors as part of their voluntary action to support achievement of climate and environmental goals, we define them as Voluntary Carbon and Nature Markets (VCNMs), comprised of:

- Voluntary Carbon Markets (VCMs), which generate credits representing a tonne of CO_2 (or other Greenhouse Gas in CO_2 equivalent (e)) reduced (for example through energy efficient technology) or removed (for example by engineered or nature-based greenhouse gas removals) from the atmosphere.
- Voluntary Nature Markets (VNMs) which encompass payments for activities that deliver environmental outcomes through nature-based activities, including biodiversity, and ecosystem services, such as nutrient mitigation and nature-based carbon sequestration. Each credit represents a measured increase in biodiversity or ecosystem service.

To realise the opportunities that these markets offer, trust in their use must be strengthened. To help guide organisations towards best practice, the Chancellor announced the UK Government's six Principles for Voluntary Carbon and Nature Market Integrity in November 2024 and committed to consult on how they could be implemented.

The Introduction explains why and how the Government is acting to support VCNMs through its six Principles. Sections 1-6 set out the policy rationale for each Principle, elaborating on its relevance to different VCNMs, and inviting views on how it could be implemented, including through guidance, principles and regulation. Section 7 invites views on several discrete or cross-cutting topics that could support access, integrity and trust in VCNMs.

Introduction

The UK Government sees a clear and appropriate role for the responsible voluntary use of high integrity carbon and nature credits by companies or other organisations that wish to do so as part of their climate and nature strategies.

The use of these markets can raise additional finance and accelerate achievement of our global and domestic climate and nature goals, with estimates that VCMs, for example, could be worth between $7-35bn by 2030 and $45-250bn by 2050[3], under the right conditions. Although these figures represent a fraction of the overall investment needed for domestic and global net zero and nature goals, for example to halt and reverse deforestation by 2030, and to mobilise $200bn per year through the Global Biodiversity Framework by 2030, they would help to:

- mobilise more finance flows, including towards the New Collective Quantified Goal on Climate Finance;
- facilitate higher ambition through the reinvestment of cost savings enabled by environmental markets; and
- realise social, biodiversity and other environmental co-benefits.

For VCNMs to enable this, it is critical that they are operated and used with integrity and in ways that support a 1.5°C-aligned and nature positive transition. This means, at a minimum, better ensuring that credits deliver their intended environmental outcomes and not ‘hot air’, that buyers do not purchase and retire (‘use’) credits instead of undertaking feasible internal action needed to align with climate and environmental goals, and that any public environmental claims (‘claims’) made in relation to the use of credits are accurate, avoid misleading stakeholders and are aligned with relevant information in sustainability reporting. It is vital that markets are developed and operate in ways that protect and benefit Indigenous Peoples and local communities (IPLCs).

The broader use of these markets will form part of the UK’s clean growth story. London is already a leading global hub for sustainable finance – ranked first in the world for a seventh consecutive time in the Z/Yen Green Finance Index. The Government knows that to maintain this leadership we need to give the long-term certainty that the sustainable finance industry needs to scale and focus on key emerging opportunities, like becoming the global hub for VCNMs.

We have a solid foundation to build on: a strong ecosystem for green investments, supported by policy frameworks, a robust regulatory environment and a growing appetite for sustainable financial products that can help drive up integrity in these markets. The UK has a vibrant and growing set of project developers, a track record of innovative VCM financial products, for example the London Stock Exchange Group’s VCM Designation, fast growing market intelligence companies like BeZero and Sylvera, and over 20 years’ experience in regulating

[3] *Frozen Carbon Credit Market May Thaw as 2030 Gets Closer* – MSCI (2025)

Emissions Trading instruments. Coupled with London's experience and expertise in commodity trading and financial services, and the leadership of initiatives like the Carbon Markets Forum, the UK is very well placed to shape and benefit from stronger VCNMs. Taken together, this will ensure that the UK can drive up integrity in these markets while continuing to win the race for the global business that will drive the green transition and deliver economic growth in the UK.

Confidence in the integrity of these markets is key to unlocking their full potential, but high integrity practice has not always occurred. Clarity and consensus on what constitutes a high quality credit and how credit use should be reflected in corporate claims are critical first steps towards unlocking the stability of demand that is necessary for scaling high integrity markets. Clarity of these standards for VCMs has been highlighted as a key issue by the Climate Change Committee (CCC) and the UK Net Zero Review, as well as a wide array of stakeholders. Further, the CCC advised that the Government act to ensure the purchase of carbon credits is not used as a substitute for direct business emissions reduction, and to improve the integrity and transparency of carbon credits. The Government also recognises calls for assurance of UK programmes to provide confidence on credit quality, building on the operations already in place around the administration of the Woodland Carbon Code.

The Government intends to strengthen coherence across VCNMs. This includes alignment on common principles and processes - whilst acknowledging the divergent maturity, scale, and characteristics of different environmental markets. There is a clear role for governments to facilitate the scaling of high-integrity VCNMs by providing clarity on their role in the transition to net zero and meeting environmental targets.

In November 2024, the Government published six Principles for Voluntary Carbon and Nature Markets Integrity to guide this work. Announced by the Chancellor and launched at COP29 by Minister for Climate Change Kerry McCarthy MP, these voluntary principles are intended to:

- qualify key elements of good practice, and provide confidence to organisations on the use of credits;
- to build trust amongst consumers, investors, and civil society that the use of credits reflects good practice;
- respond to calls for policy clarity to support higher environmental and financial integrity and efficiency, better access to markets for developing countries, and, in the UK, for farmers and land managers;
- enable stakeholders and potentially UK regulators to monitor and act where good practice is not adhered to in the context of existing and future regulatory codes, as part of an effective transparency regime for the use of credits by UK organisations; and
- support coherence across voluntary carbon and nature markets, whilst reflecting the divergent maturity, scale and characteristics of different environmental markets.

When announcing the Principles, the Government committed to elaborate them and to consider options for their implementation. This consultation therefore expands on each of the Principles, taking account of their applicability in different market types, and invites views on how the application of each Principle could raise integrity. The six Principles for Voluntary Carbon and Nature Markets, in bold, and the key related topics on which views are sought, are:

1. Use credits in addition to ambitious actions within value chains: The Voluntary Carbon Market Integrity initiative (VCMI) has developed best practice guidance for organisations wishing to use carbon credits as part of their overall decarbonisation strategy. The Government invites views on a proposal to endorse VCMI's Claims Code of Practice as representing international best practice in this regard, as well as views on recognition of organisations taking interim steps to meet that best practice. The Government also seeks views on the ambitious application of insetting[4] as a way to maximise high integrity value chain emissions reductions.

2. Use high integrity credits: The Integrity Council for the Voluntary Carbon Market (ICVCM) has developed principles and a framework to assess carbon market programmes[5] and the methodologies[6] they manage so that buyers and investors can better identify high integrity credits from unregulated markets. The Government invites views on a proposal to endorse ICVCM's principles and framework as representing a minimum quality requirement for global VCM credits. It also invites views on the assurance of the British Standards' Institution's Nature Investment Standards, which would apply to nature crediting programmes in the UK, and views on validation and verification.

3. Measure and disclose the planned use of credits as part of sustainability reporting: Disclosure of the use of credits can help to reduce buyer and investor risks, and be used to inform new products and services that support market functioning. The Government invites views on the extent to which respondents voluntarily disclose, the value and practicality of doing so, and on the incorporation of VCMI disclosure elements into voluntary UK guidance.

4. Plan ahead: The Government's manifesto committed to mandating "UK-regulated financial institutions (including banks, asset managers, pension funds and insurers) and FTSE 100 companies to develop and implement credible transition plans that align with the 1.5°C goal of the Paris Agreement", with a consultation due in the first half of 2025 on how best to take forward this policy. Under Principle 4, views are sought on the role that credits could play in transition plans.

[4] interventions within an organisation's value chain that reduce and remove (sequester) Scope 3 greenhouse gas emissions whilst creating positive benefits and improving the resilience of communities, landscapes and ecosystems

[5] 'programmes' in this consultation refers to standard setting organisations that register environmental activities and issue credits. In the context of UK markets, 'scheme' is used.

[6] 'methodologies' in this consultation refers to the parameters and operations required for the calculation of environmental outcomes from a project during its lifetime.

5. Make accurate green claims using appropriate terminology: The Government wants credit buyers to be able to make claims with confidence and therefore seeks views on proportionate steps that could help bring more clarity to claims, for example through developing official definitions for key terminology, or commissioning the development of a standard for claims.

6. Co-operate with others to support the growth of high integrity markets: Countries and organisations engage in voluntary markets in a wide range of ways. This can introduce friction into markets, increasing costs and raising risks. The Government invites views on steps that could support alignment internationally and domestically, as well as exploring the potential for enhanced clarity and confidence through regulatory regimes and applicable legal definitions in the UK, England and the Devolved Administrations.

In a final section, 'Cross Cutting Enablers', the Government invites views on potential steps that could support UK project developers to access new VCNMs, as well as support the wider growth of the UK VCNM sector.

In consulting on the six Principles for Voluntary Carbon and Nature Market Integrity, our overall aims are to ensure that:

- Interventions across Government and the private sector create a cohesive regime for unlocking capital, with voluntary markets effectively integrated into the long-term strategy for financial disclosure and transition planning;
- Regulatory responsibilities are clarified, and regulations are introduced in a proportionate manner where there is clear evidence that doing so would improve the integrity, efficiency and scale of the UK market;
- The right principles and transparency requirements exist to protect investors and consumers, including ensuring additionality towards net zero and nature goals.
- Action is coherent across voluntary carbon and nature markets - including alignment on common principles and processes - whilst acknowledging the divergent maturity, scale, and characteristics of different environmental markets that may require bespoke interventions; and UK Government and international alignment is supported given the cross-border nature of many voluntary markets.

Principle 1: Use credits in addition to ambitious actions within value chain

Principle

Credits should only be used in addition to ambitious action within value chains, consistent with a science-aligned pathway to domestic and global climate and environmental goals.

Comment: Achieving climate and nature goals requires immediate, ambitious and sustained action to reduce value chain emissions and environmental impacts. In line with the mitigation hierarchy, companies should make every reasonable effort to minimise their own impacts, and those of supply chain partners, before using credits in voluntary markets. Such use should complement, and not displace, investment in value chain activities necessary to reduce source emissions and environmental impacts. These reductions could include support for insetting activities within a buyer's value chain.

Policy rationale for Principle 1

The UK Government supports the use of high integrity VCNMs towards the achievement of domestic and international climate and nature goals, as among other benefits, their use can:

- **Mobilise finance**, helping to increase the climate and nature finance available both globally, where these flows are particularly needed in lower- and middle-income countries, and domestically, in sectors such as engineered Greenhouse Gas Removals (GGRs), agriculture, forests and other land use. Structured correctly, these markets provide a financial incentive for the development and implementation of projects that address climate and/or nature impacts, that would not otherwise have occurred. Evidence indicates that over $300bn was invested into carbon crediting projects under the Clean Development Mechanism[7] with the scheme's rules becoming more stringent over time. VCMs, under the right conditions, could leverage similar or higher volumes in the future towards the achievement and enhancement of countries' Nationally Determined Contributions (NDCs).
- **Offer flexibility and support ambition** in how participants meet overall climate and nature objectives, by helping to allocate resources and achieve results more cost-effectively. When cost savings are re-invested into additional action, higher overall ambition can be realised, for example if VCM buyers or countries hosting VCM projects increase the stringency of their targets. Economic modelling and other research

[7] *Achievements of the Clean Development Mechanism* 2001-2018 (2018) UN Framework Convention on Climate Change

indicates that substantial additional abatement could be realised were savings through carbon markets to be used in this way[8],[9].

- **Realise co-benefits** (i.e. positive outcomes beyond a project's primary purpose). For example, beyond the Greenhouse Gas savings they can realise, cleaner cookstoves projects can reduce indoor pollution, free up time for education and other activities, lower risks faced by women and girls collecting firewood, and reduce the use of non-sustainable biomass. Nature-based solutions can help address biodiversity loss, while supporting multiple societal goals. For example, protecting and restoring natural green spaces brings multiple benefits for national and local communities including direct employment through the creation of jobs, new nature and climate-related business opportunities, and reduced healthcare costs through improved well-being. More widespread use of VCNMs could therefore support achievement of many development, adaptation, health and environmental objectives, including those towards which progress is at risk, for example the UN Sustainable Development Goals.

VCNMs must operate with high integrity if these benefits are to be realised. As well as ensuring that credits are additional and otherwise represent the action claimed (see Principle 2), use of carbon markets must at a minimum ensure no net increase in global emissions, and should support additional climate action through the reinvestment of cost savings made possible through markets. The use of credits as part of voluntary action on climate and nature should therefore form part of a holistic approach that includes ambitious, timebound internal targets for reducing and eliminating environmental impacts at source (i.e., within value chain), plans for meeting those targets, and progress towards achievement.

Application to markets

The Voluntary Carbon Market Integrity Initiative Claims Code of Practice

Recognising the increasing need to provide clarity on this topic as corporate net zero target setting became more widespread, the Government supported the establishment of a global non-profit organisation, the Voluntary Carbon Market Integrity Initiative (VCMI) in 2021. VCMI were tasked with developing guidance on how buyers could make meaningful impact on climate action through voluntary use of carbon credits. This guidance – the Claims Code of Practice - was developed iteratively and transparently among a broad group of governmental, private sector, carbon standard and civil society representatives, informed by several public consultations and 'road-testing' pilot activity. Version 1 was published in June 2023 with the current version 2.1 published in August 2024.

[8] How Much Could Article 6 Enhance NDC Ambition Toward Paris Agreement Goals Through Economic Efficiency? 2021 - Climate Change Economics 2021 12:02 – https://doi.org/10.1142/S201000782150007X
[9] The economic and environmental benefits from international co-ordination on carbon pricing (2021) OECD - https://www.oecd.org/en/publications/the-economic-and-environmental-benefits-from-international-co-ordination-on-carbon-pricing_d4d3e59e-en.html

Box 1: The VCMI Claims Code of Practice

The VCMI Claims Code of Practice ('the Code') aims to help corporates use credits responsibly and demonstrate this publicly, through an assurable process that allows them to make 'Carbon Integrity' claims. All VCMI Carbon Integrity claims require that users of credits:

- Meet foundational criteria to:
    - maintain and disclose an annual greenhouse gas inventory;
    - set and disclose science aligned near-term emission reduction targets, and a public commitment to reach net zero no later than 2050;
    - demonstrate progress including on financial allocation, governance and strategy towards meeting a near term emission reduction target; and
    - demonstrate that public policy advocacy supports the goals of the Paris Agreement and does not inhibit ambitious climate regulation.
- Purchase and retire carbon credits that meet the Core Carbon Principles (see Principle 2); and
- Obtain third party assurance of reported information.

Claims can be Silver, Gold or Platinum, depending on how fully high integrity credits are used to take responsibility for remaining emissions as science based decarbonisation progresses within value chains.

Source: VCMI Claims Code of Practice v2.1 (August 2024)

In 2024, Bain & Company and then Natura Cosmetics became the first corporates to successfully make Platinum Carbon Integrity claims under the VCMI Code of Practice.

Beyond VCMI, there remains an ongoing debate amongst governments, businesses, civil society, and other stakeholders on the role that credits should play for organisations wishing to use them in a credible way to accelerate near-term voluntary action. Several independent initiatives have developed guidance on the relationship between carbon credits and an organisation's reduction of source emissions:

- The British Standards Institution's International Standard 14068-1:2023 sets requirements for organisations wishing to achieve carbon neutrality, including for products. It explicitly recognises that use of high-quality carbon credits can result in measurable, additional GHG reductions over and above those made by the organisation itself and can contribute valuable financing for projects in developing countries.
- The Oxford Principles for Net Zero Aligned Carbon Offsetting (2024) focus on four elements: 1) cut emissions, ensure the environmental integrity of credits used to achieve net zero, and regularly revise offsetting strategies as best practice evolves, 2) transition to carbon removal offsetting for any residual emissions by the global net zero target date, 3) shift to removals with durable storage to compensate any residual emissions by the net zero target date, and 4) support innovative and integrated approaches to achieving net zero.
- The IETA Guidelines for High Integrity Use of Carbon Credits serve as a strategic framework for companies to mobilise finance and incorporate carbon credits into their climate strategies. They do not define how companies should set net zero pathways but emphasise that use of credits must always occur in parallel with internal abatement to reduce absolute emissions across all Scopes.
- Science Based Targets Initiative (SBTi) Corporate Net-Zero Standard encourages companies to undertake Beyond Value Chain Mitigation, which it defines as 'mitigation action or investments that fall outside a company's value chain, including activities that avoid or reduce GHG emissions, or remove and store GHGs from the atmosphere'. In February 2025, SBTi announced a consultation into several key issues under the Standard, including ways to increase the effectiveness of Scope 3 target-setting and implementation.

Among the initiatives in this space, the VCMI Code stands as the only independent third party assured mechanism for corporates wishing to gain recognition for their use of credits as 'a contribution to both the company's own climate goals and to global efforts to mitigate climate change', whilst on a science-aligned decarbonisation pathway internally, and with reference to Scopes 1-3. The role of the Code has been highlighted by several organisations and standard setters, including through the Science Based Targets Initiative's (SBTi) report on the design and implementation of beyond value chain mitigation, and although challenging, its highest integrity ('platinum') claim is achievable.

We therefore propose a) recognising VCMI's framework as good basis to guide buyers on high-integrity use of credits and to make corporate claims, and as representative of international best practice; and b) taking steps to ensure the VCMI Code interacts with and/or is appropriately embedded within Government principles and guidance. We note that not all actions recommended by the four initiatives above all fall within VCMI's remit but would raise integrity in VCMs. Some of these recommendations are explored below, along with steps the Government could take to recognise organisations that are working towards this high bar.

1. **Do you agree with the Government's proposal to recognise VCMI's Claims Code as representative of international best practice?**

The Voluntary Carbon Market Integrity Initiative Beta Scope 3 Claim

Evidence indicates that several challenges persist in relation to quantifying and working towards achievement of Scope 3 targets. In a 2023 report into Scope 3 decarbonisation, published by SBTi and based on a survey of 230 organisations, 85% of respondents agreed that limited access to data was a challenge to baselining Scope 3 emissions; 60% agreed that a lack of target setting methodologies was a challenge to setting a target; and 81% agreed that influencing upstream suppliers was a challenge to delivering a Scope 3 target[10]. Many companies that have set Scope 3 targets are not on track to meet them, with half of respondents with SBTi targets reporting as being off-track for delivering their Scope 3 targets[11].

Separate analysis indicated that across firms with climate targets, the gap between Scope 3 emissions and targets was 1.4GtCO2e in November 2023 and could be over 7GtCO2e by 2030. If high integrity carbon credits were purchased against some of this shortfall, this could both help increase delivery against Scope 3 targets or aspirations as well as generating high volumes of additional international climate finance[12], which would support the Government's overall climate finance objectives.

The VCMI Beta Scope 3 Claim was developed subsequently to the Claims Code of Practice. It aims to provide an additional way, beyond the Claims Code of Practice, to support climate action while a buyer gets closer to reducing their unabated Scope 3 emissions at a rate that aligns with what the science says is needed. It requires the temporary use of high-integrity carbon credits until barriers to reducing Scope 3 emissions are addressed. The VCMI Beta Scope 3 Claim requires that users of credits:

- Meet the VCMI Foundational Criteria (see Box 1);
- Demonstrate progress towards near term Scope 1 and 2 science based targets;
- Have an emissions gap that is less than 24% of their Scope 3 trajectory emissions;
- Disclose barriers to reducing Scope 3 emissions and actions taken to remove them; and

[10] https://sciencebasedtargets.org/blog/Scope-3-stepping-up-science-based-action
[11] Catalysing Value Chain Decarbonisation, SBTi (2023)
[12] MSCI - https://www.msci.com/www/research-report/using-carbon-credits-to-meet/04624130802

- Eliminate their Scope 3 emissions gap, and therefore cease making Scope 3 claims, by 2038 at the latest.

The Beta Scope 3 Claim was refined through a technical assessment and road tested with companies, with a final version of the guidance for Scope 3 due by May 2025. The Beta Scope 3 Claim broadens the range of high integrity approaches under VCMI beyond Carbon Integrity claims under their Code. It allows corporates who are not yet able to achieve their near-term Scope 3 science aligned target to take responsibility for this shortfall through the use of high integrity credits sourced outside their value chain and demonstrate their progress toward closing this gap through action within their value chain. As with the VCMI's Claims Code of Practice, retired credits cannot be treated as equivalent to value chain emissions reductions.

Noting the evidence around Scope 3 target setting challenges, we propose: a) welcoming the objective of VCMI's Beta Scope 3 Claim to provide a route for corporate buyers not yet in a position to make a full VCMI Carbon Integrity Claim to progress towards doing so; and b) continuing to support the work of VCMI, with a focus on ensuring the final version of the guidance for Scope 3 is applicable, attractive, and accessible for UK corporate users.

2. Do you have any views on VCMI's guidance for Scope 3, noting that the final version may be published during this consultation period?

Additional interim claim or standard

We recognise that most companies and organisations are not yet able to meet the requirements of VCMI's Claims Code, however there would still be potential benefits in them using high-integrity carbon credits. Given this, the Government also invites views on whether it would be useful to have a broader potential interim claim or means to recognise organisations' use of high integrity carbon credits in respect of emissions reductions from Scopes 1-3 that cannot be feasibly achieved in the short term, alongside an explanation of why this is not feasible. For example, such an approach would seek to:

- Recognise organisations that take responsibility to close their emissions gap using high integrity credits, while decarbonising their value chains.
- Avoid scenarios where the high number of organisations with residual emissions that could purchase such credits but lack a science-based target, opt to take no action at all on those emissions.
- Incentivise climate action while work to resolve ongoing barriers to target-setting and implementation, including through SBTi's consultation and the implementation of the International Sustainability Standards Board (ISSB) climate-related standard, is ongoing.
- Support a transition to VCMI Scope 3 and Carbon Integrity claims.

While this could attract additional finance into high integrity projects and support NDC achievement and enhancement, the Government recognises the potentially high risks that recognising or incentivising such practice could weaken incentives to quantify targets and reduce emissions. Criteria that could mitigate these risks include (i.a.) that the:

- Barriers an organisation faces in respect of baselining, setting and achieving Scopes 1, 2 and 3 target(s) as applicable, and progress towards doing so, are published in detail and frequently updated, consistent with guidance from VCMI on Scope 3.
- Current approach be time limited.
- Credits used are all from ICVCM eligible methodologies and include, subject to ICVCM eligibility, a significant proportion of high-integrity nature-based and engineered removals.

Subject to the composition of a final set of criteria, organisations meeting these over a defined time period could make a ‘towards Paris alignment’ or similar claim to reflect that the limited use of credits, in a scenario where an organisation has clearly disclosed the infeasibility of setting and/or achieving targets, can overall be more beneficial for the climate than inaction.

In practice this could apply, for example (and non-exhaustively), to an international organisation operating in regions with very carbon intensive grids, or an organisation with demonstrably very little control over or access to data related to use of products, that in response: discloses challenges faced with setting and achieving targets, and uses CCP-eligible credits, including a significant proportion of high integrity removals, to close their emissions gap. As above, credits would not be treated as equivalent to value chain emissions reductions. Subject to the final output from VCMI’s Scope 3 Claim process, there may be merit in the further elaboration of this concept and its associated opportunities and risks.

3. **Should the UK Government explore this concept further?**

4. **Do you have views on the proposed criteria above and others that could apply?**

5. **Is there alternative language to ‘towards Paris alignment’ that could recognise the above actions in a way that is attractive, accurate and understandable?**

6. **Which organisation(s) could help develop and apply the concept?**

Action within value chains

Taking action to reduce value chain emissions is crucial and the Government is supportive of activities that help to address an organisation's Scope 1, 2 and 3 emissions. The Government also recognises that the science-aligned pathway and activities to achieve this will be different for each industry.

Scope 3 emissions are among the most challenging to tackle as they encompass indirect emissions from an organisation's activities but are not owned or controlled by the organisation itself. For many industries, particularly those with natural resource and land intensive activities in their value chain, Scope 3 will represent most an organisation's total emissions.

Insetting

The term 'insetting' has emerged to describe an approach where organisations fund interventions to reduce and remove hard to abate Scope 3 greenhouse gas emissions from their value chain whilst creating positive benefits and improving the resilience of communities, landscapes and ecosystems. Insetting differs from the purchase of credits on the voluntary carbon market, as it involves companies tracing the origin of commodities they source and directly working with suppliers, such as farmers, in their value chain to fund interventions that reduce and remove emissions.

Among other sectors, insetting is associated with Forest, Land, and Agriculture (FLAG) due to the ability of land to deliver carbon removals (sequestration) through improved land and soil management.[13] The Greenhouse Gas Protocol's (GHGP) draft Land Sector and Removals Guidance, which sets out how companies should measure and report on emissions from land use, allows companies to use land-based carbon removals to contribute towards abatement when specific requirements are met – crucially, that the removal occurred on land within the companies supply chain and there is traceability to the first point of aggregation within the sourcing region, or land management unit. This approach to carbon removals is unique to the FLAG sector.

There are two main accounting methods currently being used to report on the impact of insetting activities: intervention accounting and inventory accounting. Intervention accounting uses the same methodology used to create carbon credits and quantifies the impact of a project to create a 'unit,' however this approach means the removal or reduction is sold and can only be claimed by one party in the value chain. In comparison, inventory accounting involves the impact of insetting activities being calculated and reported as lower emission factors which enables multiple actors (who source this commodity) to use the lower emission factors to calculate their Scope 3 footprint. Scope 3 carbon accounting and FLAG targets must use inventory accounting (as defined by the GHGP) and the GHGP recommends that insetting

[13] Soils can absorb and store a finite quantity of carbon. Opportunities for increasing soil carbon to its natural maximum occur where this has already been depleted e.g. by tillage. As a dynamic pool, it needs topping up, yet additions of carbon above the soil's natural maximum will not result in additional stored carbon. The effect is a one-off net gain requiring long term maintenance.

activities are accounted for via inventory accounting methods to reduce risk of double counting.

Insetting activities can lead to multiple co-benefits for nature and biodiversity, deliver positive social impact, and boost the strength and resilience of supply chains. Insetting activities can reduce vulnerability to climate risks, helping to secure a climate-resilient supply of raw materials. Additionally, insetting can strengthen relationships with suppliers, building collaborative supply chains and ensuring greater transparency and accountability.

Defra and DESNZ co-funded a project delivered by 3Keel to develop a set of principles to help organisations address agricultural Scope 3 emissions and explore best practice for insetting in FLAG. In this project the term ‘Within Value Chain mitigation’ was used to describe these scope 3 FLAG interventions and the definition for this project aligned with the GHGP’s guidance:

Within Value Chain Mitigation activities are interventions within a company’s value chain that are designed to generate greenhouse gas emission reductions and/or carbon storage, and at the same time create positive impacts and improve the resilience of communities, landscapes and ecosystems (adapted from Abatable/International Platform for Insetting, 2023).

Value chain traceability to the production landscape is a prerequisite to distinguish this approach from offsetting. In contrast to general Scope 3 decarbonisation activities, interventions are typically targeted at the production or rearing stage of agricultural raw materials (pre-farm gate) and are largely based on regenerative agriculture and agroforestry practices. Downstream activities including transportation and processing are not included.

Through engagement with businesses, farmer representatives and standard bodies, the project produced three overarching principles to support companies looking to use insetting to abate FLAG Scope 3 emissions. These are to:

1. Maximise on-the-ground impact through pre-competitive collaboration, with efforts directed toward delivering multiple outcomes in high impact value chains.
2. Support farmers to build resilience in a changing climate and provide value to farmers by sharing risk and ensuring they are fairly rewarded for engagement.
3. Ensure Monitoring, Reporting, and Verification (MRV) systems are sufficiently robust to quantify the outcomes of value chain activities, whilst taking a balanced, harmonised, and proportionate approach.

The report includes guidance on the application of these principles in practice, and two commodity specific case studies that illustrate key contextual considerations – using cocoa in Ghana and beef in the UK.[14] While parts of the report are unique to the FLAG sector, it could also be informative to other industries seeking information and clarity on insetting.

[14] https://www.3keel.com/wp-content/uploads/2025/01/WVCM_Report.pdf

Insetting requires high levels of traceability/data gathering and involves a variety of stakeholders. Stakeholder engagement in this project conveyed the importance of embedding a farmers first approach that builds resilience and ensures farmers are fairly rewarded for engagement in insetting activities to reduce Scope 3 FLAG emissions. The project work identified further gaps and challenges for organisations looking to use insetting to abate their Scope 3 emissions, including:

- Traceability: Clarity and technical guidance on the traceability boundaries for sourcing regions used in accounting methodologies
- Accounting methodologies and claims: Interaction between intervention accounting (approach used for carbon credits), and inventory accounting (recommended by the GHGP)
- MRV: Lack of standardised metrics and methodologies for MRV
- Supply side guidance: Lack of support and guidance to increase understanding of the opportunity for farmers from insetting
- Nationally Determined Contributions (NDCs): Interaction between insetting, NDCs and sources of public funding

Building on this initial dialogue with industry via the 3Keel project, we recognise there may be a further role for the Government in incentivising supply (from farmers and land managers) and demand (from supply chain partners) for industries seeking to engage in voluntary insetting action in the FLAG sector.

This consultation looks to test with stakeholders the extent to which further work is required to help address the aforementioned gaps and challenges around insetting approaches, and which actors have a role to play. Any further support for insetting approaches that the Government may facilitate (such as best practice guidance or a formal standard on high-integrity insetting) will complement international guidance in this space, such as guidance by the GHGP. We are also seeking views on whether industries outside of the FLAG sector are exploring use of insetting to reduce Scope 3 value chain emissions.

7. Is there an appetite amongst stakeholders for further standardisation of high-integrity insetting approaches for industries, particularly the FLAG sector?

8. What other support could help reduce barriers to, or facilitate, insetting?

Principle 2: Use high integrity credits

Principle

Suppliers should ensure credits meet recognised high integrity criteria that help ensure credits deliver the environmental benefits they claim. They should ensure credits are independently validated and verified; clarify and support mitigations of any social and environmental harms, and seek to demonstrate support for wider environmental and social objectives.

Comment: High integrity criteria include that voluntary credits should, at a minimum:

- represent activity additional to that required by law at the project level
- be generated through the application of conservative baselines
- not be double-counted
- be subject to independent validation and verification
- be accompanied by measures to compensate for any reversal of the activities' outcomes

Suppliers should also:

- identify and mitigate the risks of leakage
- identify, disclose and address potential or actual impacts on vulnerable groups
- respect the rights of local communities and Indigenous People, including through Free, Prior and Informed Consent
- transparently report how project activity may support wider environmental, gender and social objectives

Global initiatives set baseline quality thresholds for voluntary credits and the actors who generate and certify them, for example the Integrity Council for the Voluntary Carbon Market, and domestic initiatives such as the UK Nature Investment Standards delivered by the BSI can guide credit buyers towards activities that meet the above criteria.

Policy rationale

High integrity supply of carbon and nature credits is crucial for the achievement of the UK Government's climate and nature objectives. Voluntary carbon and nature markets have helped to support innovation in developing crediting approaches and related environmental services, have fostered increased competition and widened consumer choice. New private sector programmes looking to supply credits are emerging to supply domestic and global markets, through projects in many sectors and geographies.

Standards have brought transparency and consistency, providing confidence to investors, land managers and society. In VCNMs, the availability of standards is critical for enabling markets to build on innovation and pilot investments to attract mainstream investors and achieve scale, and VCMs are becoming more diverse as new standard-setting actors enter the market and increase their market share[15]. The Government wants to see the market continue to innovate and grow, using expertise to develop solutions for increasing private investment into nature restoration and reaching Net Zero.

However, occasional lack of standardisation and regulatory oversight in these markets has at times resulted in inconsistency and variation across schemes, in particular with regards to what constitutes a high integrity credit. Stakeholders have been clear that lack of clarity and standardisation for what can be considered a high integrity credit is hampering market growth[16]. In the case of carbon markets, a collapse in global demand across some sectors has been attributed to buyer uncertainty following critical media coverage of some projects. Where robust approaches are in place we have seen more stable investment. In the UK, for example, there has been considerable growth of investment in the UK Woodland Carbon Code and Peatland Code over the last 5 years[17].

Application to markets

Global Voluntary Carbon Markets

The Integrity Council for the Voluntary Carbon Market (ICVCM) is an independent multi-stakeholder initiative, created as a key recommendation of the Taskforce on Scaling Voluntary Carbon Markets (TSVCM), initiated under the UK's COP26 Presidency. Its mission is to ensure that all types of carbon credits issued globally for voluntary use meet a common minimum threshold standard for integrity defined through its Core Carbon Principles (CCPs) and Assessment Framework, which were published in 2023.

ICVCM is operationalising the CCPs by assessing both the governance of carbon crediting programmes, and the methodologies they manage which demonstrate how projects generate credits. Five of the largest international programmes[18] have met the CCPs. Subsequently, the first approved methodologies were announced by ICVCM in June 2024 and are eligible for a CCP label, enabling buyers to differentiate credits that have met or exceeded ICVCM's criteria. Several large, widely-used methodologies were deemed ineligible. In November 2024 ICVCM approved three methodologies that support Reducing Emissions from Deforestation and forest Degradation ('REDD+')[19]. Over 400m credits could be delivered through these methodologies.

[15] VCM 2024 Review (2025) Allied Offsets
[16] State of the Voluntary Carbon Market (2024) Ecosystems Marketplace
[17] https://www.forestresearch.gov.uk/tools-and-resources/statistics/publications/forestry-statistics/forestry-statistics-2024/2024-4-carbon/
https://www.iucn-uk-peatlandprogramme.org/peatland-code/peatland-code-projects-summary
[18] ACR, ART TREES, CAR, Gold Standard, the Verified Carbon Standard. Isometric have also met the CCPs.
[19] Two jurisdictional methodologies (ART-TREES and VCS-JNR) as well as VCS's VM0048 REDD+ v1.0

ICVCM provides a baseline for the development of carbon crediting programmes. UK experts have engaged in its development and shared lessons from the UK's Woodland Carbon Code. ICVCM in turn has helped shape the UK's Nature-based Carbon Standard (BSI Flex 703), part of the Nature Investment Standards that the British Standards Institution are developing for nature market participants, such as crediting schemes and project developers, within the UK.

Whilst we will continue to monitor the broad response to the Assessment Framework and its implementation, and note that decisions on several methodologies were outstanding at the time of writing, we assess that the CCPs and Assessment Framework provide a good basis for establishing minimum standards for high-integrity credits as they:

- Represent a step forward in the development of a coherent approach to defining the benchmarks for a good quality methodology.
- Have been broadly used by market participants, with programmes covering 98% of the market[20] submitted for assessment.
- Are influencing crediting programmes to strengthen their procedures[21].
- Enable international interoperability and independent certification, which will be visible to international buyers.
- Provide an important reference point for the development of the UK's Natural Carbon Standard and NIS framework.
- Have a robust and transparent process and governance approach in place for both defining the CCPs and AF, as well as conducting assessments.

The UK Government is therefore minded to endorse the ICVCM CCPs and accompanying Assessment Framework as an appropriate baseline mechanism for providing assurance on the integrity of carbon credit methodologies as a minimum basis for high integrity.

From 2024, carbon crediting programmes began to tag credits generated through ICVCM-eligible methodologies in their public databases ('registries') to help buyers identify them. In practice, there is variation in how well projects are implemented. ICVCM do not apply assurance at the project implementation level. Here, the Government sees a clear role for assessments carried out by carbon credit ratings agencies (CCRAs) to provide additional assurance. The Government is supportive of CCRAs continuing to consider the transparency of their methodology to users of ratings and management of risks around conflicts of interest.[22] The Government continues to support the voluntary code of conduct for ESG data and ratings providers, which is likely to be relevant to CCRAs, and includes best practice for data products provision, data sources and analysis. Alongside independent validation and verification, use of an approved methodology and a favourable rating assessment at the project level will offer stronger assurance.

[20] By September 2024 programmes had submitted methodologies for assessment that represented 50% of the market by volume. Not all methodologies were submitted for assessment.
[21] https://icvcm.org/integrity-council-approves-three-redd-methodologies/
[22] Code of Conduct for ESG Ratings and Data Products Providers » ICMA

We also recognise that airlines will be required to purchase carbon credits to meet their obligations under CORSIA. The UK successfully negotiated to ensure ICAO's criteria for CORSIA Eligible Emissions Units support overall environmental integrity and the UK fully supports use of these criteria by airlines with obligations under the scheme. The Department for Transport recently consulted on requirements for airlines to offset their emissions under CORSIA.1 CORSIA requires airlines to use CORSIA-eligible credits to comply with their CORSIA obligations.

HMG invites views on the proposal to endorse the CCPs and Assessment Framework to provide a clear signal to the market around how to identify high-integrity credits, and seeks feedback on the likely impacts of this proposal. HMG also invites views on several discrete measures which do not apply today but could accompany endorsement and improve the coherence of relevant policy, guidance, and regulation with the CCPs and their accompanying Assessment Framework. These include:

- Establishing, through guidance or legislation, minimum buyer requirements for high-integrity credits used to back up environmental claims made by UK headquartered buyers.
- Encouragement or requirements for UK crediting schemes, or public investments in schemes, to meet CCP requirements.

9. Do you have any concerns with, or feedback related to the proposal to endorse ICVCM's CCPs and their accompanying Assessment Framework, as representing a minimum quality requirement?

10. Do you have any views on the accompanying use of carbon credit ratings assessments by CCRAs, or any other steps or guidance that could help identify high integrity credits at the project level?

11. Do you have any views on the potential measures above that could accompany CCP endorsement, or any others not listed?

Global Voluntary Nature Markets

The UK Government remains committed to meeting the goals and targets of the Kunming-Montreal Global Biodiversity Framework (GBF), adopted by all Parties to the Convention on Biological Diversity. Target 19(d) of the GBF highlights the significance of market-based instruments in securing the financial flows necessary to halt and reverse nature loss. We recognise that to maximise outcomes for nature we must not only scale nature markets, but also effectively integrate and/or capture biodiversity co-benefits in carbon markets, creating a holistic approach to climate and nature finance. Carbon projects – particularly those involving reforestation, afforestation, and ecosystem restoration – have the capacity to not only sequester carbon but also to enhance biodiversity, restore habitats, and support local livelihoods.

One action the UK has taken in pursuit of Target 19(d) is, together with France, to set up the independent International Advisory Panel on Biodiversity Credits (IAPB), to help shape and scale-up the development of high-integrity biodiversity credit markets. The IAPB launched its Framework for High-Integrity Biodiversity Credit Markets ("The Framework"), at CBD COP16 in October 2024. As well as identifying principles (developed jointly with the Biodiversity Credits Alliance and World Economic Forum), and pilot projects, the Framework set out the components that will need to be established to provide a robust basis for biodiversity markets to grow.

As these markets gain prominence the Government is keen to ensure that voices from the Global South are afforded roles as leaders and co-creators, recognising that these regions are often home to much of the world's richest ecosystems and biodiversity. The Government is committed to supporting high-integrity mechanisms that prioritise local knowledge and fair compensation, ensuring that nature markets become a tool for economic equity and provide additional finance flows for demonstrable nature outcomes.

The Government recognises that biodiversity markets represent just one of several recommendations within Target 19(d) of the GBF, and we remain committed to exploring a range of mechanisms and sources that can effectively mobilise finance for nature. We welcome dialogue and collaboration to develop solutions that uphold environment integrity, support local communities and Indigenous Peoples, and contribute meaningfully to global biodiversity goals.

12. What are the necessary components to effectively mobilise VNMs to deliver against international nature finance targets? How can the UK support development of these components?

Domestic Voluntary Markets

The UK Woodland Carbon Code and Peatland Code demonstrate ongoing UK leadership in establishing robust voluntary market mechanisms to drive high quality investment into woodland and peatland projects. The UK Government is committed to creating high integrity standards across domestic carbon and nature investment markets. Further standards will help to ensure that emerging and existing schemes continue to supply high quality credits.

There are two programmes of work on standards currently underway, both being delivered by the UK's national standards setting body, the British Standards Institution (BSI), using market stakeholder participation: the BSI Nature Investment Standards (NIS) programme, and BSI development of an engineered GGR standard.

Both are being developed to support the growth of private investment into UK nature markets and engineered GGR projects respectively. They are being developed in line with the IAPB's Principles and ICVCM CCPs where applicable, to provide UK crediting schemes and projects with the standards infrastructure that they need for best practice in the UK and international contexts.

UK Nature Investment Standards programme

The NIS programme (BSI Flex 700s), delivered by the BSI, aims to develop a framework of standards for nature markets in the UK, informed by international best practice, to provide increased clarity and confidence for those seeking to engage with these markets[23]. The multi-year programme, which began in March 2023, is intended to develop a comprehensive suite of Nature Investment Standards, learning from existing practices and innovations, to set out clear expectations for nature market participants on the high integrity requirements for the generation, storage and trading of nature credits. This will support farmers and natural resource managers to attract investment.

An initial discovery phase mapped existing and emerging methodologies, identified and prioritised gaps, and proposed a pipeline of standards for development, based on an assessment of readiness, market demand and potential impact.

The Overarching Principles Standard (BSI Flex 701) is the first standard ready for market adoption and is designed to underpin nature market integrity across the UK. It builds on and formalises relevant domestic and international learning and principles to establish the first recognised standard for high integrity markets. Successive nested standards set additional requirements. Together, these will form a framework of interconnected standards which apply to UK nature markets, as per Table 1 below. To help market participants easily identify which standards and specific content is relevant to their context, BSI has developed and will maintain a Navigation Tool. BSI have also posted a stakeholder survey on further Nature Investment Standards which is open for input[24].

By setting out clear principles for the design and operation of nature markets, the standards will ensure that investments deliver genuine environmental benefits and that market functions operate with transparency and fairness, and consider the delivery of co-benefits, including through the engagement of local communities. This will support increased market confidence that enables the delivery of our ambitious goals for biodiversity restoration, climate change mitigation and resilience.

[23] The Nature Investment Standards are available from the BSI website here. Further information and discussions on the Nature Investment Standards programme and future standards can be found at the Nature Investment Standards Hub. Register for free to access information on the hub.
[24] https://nature-investment.bsigroup.com/standards-navigation-tool/future-standards/.

Table 1: Timeline for BSI Nature Investment Standards development and supporting workstreams.

Standard	**Status**
Overarching Principles Standard (BSI Flex 701)	Launched for adoption on 25 March 2025: BSI Flex 701 v2.0 Nature Markets – Overarching Principles | BSI
Biodiversity Standard (BSI Flex 702)	Launched for public consultation from 28 October – 17 January. The second version will now be developed based on consultation feedback: BSI Flex 702 Supply of Biodiversity Benefits Specification | BSI
Natural Carbon Standard (BSI Flex 703)	Launched for public consultation on 25 March 2025. The second version will be developed based on consultation feedback: BSI Flex 703 v1.0 Supply of Nature-Based Carbon Benefits | BSI
Nutrients Standard (BSI Flex 704)	The first version of this standard is in development, and is expected to be published for consultation in Spring 2025: BSI Flex 704 - Nature Markets - Supply of nutrient reduction benefits - Nature Investment Standards Hub)
Community Standard (BSI Flex 705)	Work for this standard commenced early 2025: BSI Flex 705 - Nature Markets - Community participation and community benefits - Nature Investment Standards Hub)
Supporting workstreams	
Navigation Tool	Initial version launched on 25 March 2025: Navigation Tool - Nature Investment Standards Hub)
Assurance research report	Published on 27 March 2025: here.

Assurance against BSI's UK Nature Investment Standards

The UK Nature Investment Standards (BSI Flex 700s) will set the bar for high integrity nature investment in the UK. An appropriate assurance framework will be needed to enable market participants to demonstrate that they meet the standards.

The first adoptable standard, the Overarching Principles Standard (BSI Flex 701) will be followed by thematic standards. Market participants should consider how they currently align to the standards, allowing time to understand any changes required to conform. BSI's Navigation Tool can support this.

ICVCM and BSI are collaborating to ensure that the BSI Flex 703 Natural Carbon standard for the UK is well coordinated with the ICVCM CCPs and Assessment Framework. Coordination prior to the finalisation of BSI Flex 703 and other BSI NIS processes will aim to ensure that UK users of one framework can efficiently access the other and avoid duplication of effort.

To develop an assurance framework, the Government will consider options based on research conducted for Defra by BSI. The framework will look to appropriately balance confidence and transparency with simplicity, scalability and cost effectiveness. BSI's report is available after registration with the NIS Hub: Assurance Research Report - Nature Investment Standards Hub. Key aspects include:

- Using appropriate conformity assessment techniques, such as methods of gathering and reviewing evidence, certification, and ongoing assessments to support continued conformity.
- Carrying out assessment processes internally (e.g. self-evaluation) or by external independent organisations or individuals (e.g. by accredited conformity assessment bodies).
- Using appropriate organisations or individuals to deliver conformity assessment processes.
- Delivering further resources required to allow effective conformity assessment, such as guidance for those undertaking conformity assessment processes.

A summary of the options and recommendations from the BSI are as follows:

Recommendations:

- Relevant BSI Flex 700 standards and provisions should be used as the basis for providing assurance of functions performed by various market participants - different market participants will perform different functions, so a specific combination of standards will be relevant to them. The standards should also be incorporated into the accreditation process of conformity assessment bodies (including validation and verification bodies).
- There should be a single, consistent route for certification of market participants, rather than multiple routes. This should include a combination of internal (first party) and external (third party) conformity assessment processes and would be helped by development of written guidance.
- A hybrid approach to independent conformity assessment could be used, for example this could incorporate conformity assessment bodies overseen by a central independent body (a mix of options 1 and 2 below). During the transition to new assurance arrangements, self-declaration could be used to show conformity.

Options shortlisted by BSI for delivery of the assurance procedure:

- Conformity Assessment Bodies (CABs) perform assessments, once they are accredited by the UK Accreditation Service (UKAS) against relevant ISO standards. There may be requirements for CABs to follow any assessment guidance set out by the Government or BSI. This option aligns to the UK National Quality Infrastructure.
- A Central Independent Body (CIB) has sole responsibility for overseeing assessment and appoints independent experts to conduct assessment activity on behalf of the CIB. The CIB would provide certification. This option aligns with the assessment model used by the ICVCM.
- Alongside these, a self-assessment procedure option could apply in the short term and provide an optional mechanism for certain market participants to be able to self-declare compliance.

The Government will analyse responses to this consultation, the recommendations and options set out by BSI, together with feedback from early adopters and from those involved in trials or pilots, to determine the structure of the assurance framework for the BSI Nature Investment Standards. Development of this framework structure through phases of delivery and testing will then begin, before full roll-out.

The assurance framework for engineered GGR Standard is at an earlier stage of development than the Nature Investment Standards, but it will draw on and seek to align as appropriate with the NIS assurance framework.

13. Do you think there are any additional considerations around assurance for BSI Nature Investment Standards that the Government should take into account?

Mitigating leakage

The risk of leakage ('displacement of negative environmental impacts to outside the supply area') must be addressed in order to support integrity in VCNMs. While leakage of impacts can take place across different scales, within a project, across regions or even between countries, it is critical that leakage risks are proactively addressed through appropriate measures and safeguards, including through standards, for example as set out in ICVCM's CCPs and under Article 6.4 of the Paris Agreement. In some cases, the Government recognises that leakage risks can extend beyond the control of individual projects and that a coordinated strategy may be required across countries.

In the next few decades, global land use will come under increasing pressure. Agricultural production will need to keep pace with the growing demand for food whilst reducing emissions. There are also new pressures such as demand for land to produce feedstocks for biofuels and other forms of renewable energy.

The nature of global agricultural markets means that land use decisions in different countries are interconnected through international trade. For example, if governments or landowners take actions that either reduce domestic agricultural production or increase the consumption of agricultural products, then its agricultural imports will increase, or exports decrease such that its net agricultural trade position will weaken. This will tend to encourage an expansion in agricultural production in other countries, possibly with significant negative environmental impacts.

Without some form of accounting there is the risk that projects, such as afforestation, could create perverse environmental outcomes by causing land change abroad, with associated impacts on biodiversity and emissions. Therefore, for a full accounting of the climate impact of projects, these indirect land use changes should be considered where they are significant. Accounting for the potential for displacement of production abroad helps ensure projects are truly additional and the stated benefits represent the actual global net benefits.

14. Do you believe that current standards adequately reflect the potential impacts of indirect land use change and fully account for net environmental impacts, and if not, how could environmental impacts be fully accounted for to help prevent leakage?

Engineered GGR Standard

Support from high integrity Voluntary Carbon Markets will play a valuable role in deploying engineered Greenhouse Gas Removal (GGR) projects in the UK. It is crucial that engineered GGR projects access these markets to mobilise the significant levels of private finance needed and reduce costs to the Government, to enable this industry to develop at the pace and scale required. Voluntary corporate purchasing of high-integrity removal credits is already happening and playing a key role for engineered GGR projects.

The Government recognises that a robust engineered GGR Standard, including MRV, will be crucial to preserve the integrity of any market for negative greenhouse gas emissions and instil public and investor confidence that engineered removals are genuine, measurable, and verifiable removals of CO_2 from the atmosphere.

Following the GGR Business Model update in December 2023, in which we confirmed our intention to define the methodologies that GGR projects would be required to meet to be eligible for support through relevant Government business models, the Government has contracted the BSI to develop technology-specific engineered GGR methodologies.

Compliance with the GGR Standard including the BSI technology-specific methodologies will be required for all GGR projects receiving Government business model support. We envisage that compliance with the GGR Standard will also be required for the sale of engineered removal credits into the UK ETS, once integration of GGRs into the UK ETS is enabled. There is no obligation for GGR projects to use the GGR Standard when they are not receiving Government business model support and are selling into the VCM. GGR projects can use a wide range of private sector standards including ICVCM approved methodologies.

Initially, BSI will define Minimum Quality Thresholds (MQTs) as an interim step for initial GGR projects seeking support under the Government GGR Business Model. The MQTs are expected to address counterfactuals, carbon leakage, life cycle assessment boundaries, emission allocation to co-products, whether there is a rationale for monitoring, reporting and verification differentiation based on project scale, and possibly other aspects that stakeholders identify as priorities.

BSI is expected to develop the MQTs to support the development of subsequent detailed methodologies in the form of a series of Publicly Available Specifications (PAS). Each PAS will cover a subset of the GGR value chain such a biomass supply, or carbon capture and transport and storage and will refer to best practice and existing Government Standards where appropriate. We expect the MQTs to be published in 2025. The development of an engineered GGR Standard will align to the design of the BSI NIS programme approach where practicable and follow shared principles

Validation and verification body accreditation at the project level

Validation and verification bodies (VVBs) play an important role in confirming that projects follow the specialised design remits and measurements set out by the methodologies of the crediting programme, and that, based on this compliance, the projected outputs of the projects are realised.

In the UK, VVBs are appointed through an accreditation process by UKAS and have played an important role in building confidence in the now well-established UK Woodland Carbon Code and UK Peatland Code. Crediting programmes set remits for VVBs to validate and verify their projects. Crediting programmes should ensure that they appoint VVBs which are independent, third-party bodies accredited by UKAS against appropriate international validation and verification standards, such as BS EN ISO/IEC 17029, and BS EN ISO 14065.

Validation and verification by third party independent individuals or organisations with appropriate expertise, which are non-biased in relation to the project and crediting scheme, are mature and essential functions in carbon markets. In some emerging markets in the UK, for example for biodiversity or nutrient mitigation, the role of independent VVBs is less well established, as acknowledged in the BSI's overarching principles standard (Flex 701).

The Government would like to see a strong VVB sector in the UK to reach the scale needed to support our climate and nature goals. We also want to see a healthy VVB sector overseas, to the extent that we can influence it. This consultation aims to understand any specific issues or barriers VVBs face, either experienced by VVBs or other market participants acting in the UK or internationally, and how these could be relieved.

15. Do you think there are any capacity barriers or other issues faced by validation and verification bodies in the UK or internationally?

Principle 3: Measure and disclose the planned use of credits as part of sustainability reporting

Principle

Information on the planned use of credits, for example to offset greenhouse gas emissions to achieve any net greenhouse gas emissions target should, where financially material, be disclosed as part of a company's sustainability reporting. All credit users are encouraged to voluntarily report publicly any use of credits, including the underlying project type, certifying standard, how any planned use of credits relates to wider environmental objectives, and whether they are used towards any target.

Comment: Disclosure of the use of credits, through processes that make such information transparent and easily accessible by the public, is encouraged where credit buyers do not already face relevant requirements. Such voluntary disclosure allows for public accountability and supports demonstration of compliance with credit integrity criteria. Disclosure of the use of carbon credits also supports credit users that choose to seek recognition under VCMI's Claims Code of Practice towards meeting that initiative's broader criteria.

Policy rationale

Transparency is key to building and maintaining underlying trust and confidence needed in credits, and their use within voluntary corporate action on climate and nature. This section considers steps that the UK Government could take to ensure information on credit use is readily available, reliable and accurate.

Disclosure of planned and actual use of voluntary credits provides important information to markets that helps participants to manage their risks, plan activities, gain recognition, and can support overall smooth market functioning. For example, a potential investor in a large company might take assurances from the information that the company reports about its planned use of carbon credits; a large carbon market project developer might aggregate information about corporate buyers' purchase plans to inform business planning; and companies seeking to make a VCMI or other claim might be required, or choose, to disclose information to substantiate their claim.

The effective disclosure of planned and actual credit use can therefore help to reduce investor and other risks, support the growth of environmental services and other sectors, and promote the adoption of better practice in supply of, and demand for, credits. The International Organization of Securities Commissions (IOSCO), in a flagship 2024 report, identified the 'quality of carbon credits and availability of information pertaining to their quality' as one of five key vulnerabilities in VCMs[25]. Disclosure rates from voluntary trades are not high: a 2024 analysis indicated that just over half of 182 companies using carbon credits disclosed the volumes they bought, along with some other credit details[26]. Approximately 45% of credits in 2024 were retired anonymously, with similar annual figures since 2020[27].

Disclosure regimes, where mandatory, must be proportionately applied, carefully balanced against calls for more streamlined, efficient corporate reporting overall, and have regard to the overarching aims of specific disclosure frameworks. The Government recognises that many organisations already make voluntary disclosures of the planned and actual acquisition and use of carbon credits and sees such discretionary action as being consistent with the aims of Principle 3 and supportive of higher integrity markets.

Application to markets

Carbon Markets

Companies may disclose their use of voluntary credits through a range of independent reporting frameworks, best practice guidance, and carbon registries, for example, the UK Land Carbon Registry. The frameworks and guidance for voluntary nature credits are less mature than voluntary carbon credits, but are starting to develop to support transparency. Credit related disclosures are also included in broader corporate sustainability frameworks and there are several initiatives underway related to the disclosure of broader sustainability metrics, many of which include carbon credit elements:

ICVCM's Assessment Framework

This specifies that, in addition to requirements under CORSIA that relate to information they manage in carbon registries[28], carbon crediting programmes must:

- Require identification of the entity on whose behalf the carbon credit was retired;
- Require the identification of the purpose of retirement; and
- Have procedures to address erroneous issuance of carbon credits that identify remedial measures (e.g., cancellation, compensation through replacement) and the entities responsible for implementing these.

VCMI's Claims Code of Practice

[25] Voluntary Carbon Markets Final Report (2024), IOSCO
[26] MSCI – n=182 companies
[27] Sylvera
[28] Programmes '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 and d) units have clearly identified owners or holders'

This specifies that corporates making Carbon Integrity Claims should disclose:

- The number of credits purchased and retired (and that from 1 Jan 2026 these all be CCP-eligible);
- The crediting programme name, project name, project ID, retirement serial number and date, and issuing registry;
- The host country, credit vintage, methodology and project type;
- Whether or not the credit is associated with a corresponding adjustment in accordance with Article 6 of the Paris Agreement; and
- How the credit promotes equity and generates co-benefits.

International Sustainability Standards Board

The International Sustainability Standards Board (ISSB) was established at COP26 under the International Financial Reporting Standards (IFRS) Foundation[29]. ISSB aims to help develop a high-quality, comprehensive global baseline of sustainability disclosures focused on the needs of investors and the financial markets.

In 2023 ISSB published its first two standards: IFRS S1 (General Requirements for Disclosure of Sustainability-related Financial Information), and IFRS S2 (Climate-related Disclosures). Under S2, reporting entities are required to disclose their planned use of carbon credits to achieve any net greenhouse emissions target, including:

- The extent to which and how achieving any net GHG target relies on the use of carbon credits;
- Which third party schemes will verify or certify the carbon credits;
- The type of carbon credit, including whether nature-based or based on technological carbon removals, and whether achieved through carbon reduction or removal; and
- Any other factors necessary for users of general purpose financial reports to understand the credibility and integrity of the carbon credits the entity plans to use (for example, assumptions regarding the permanence of the GHG reduction or removal that the credits represent).

The disclosure of information about credits already purchased by the entity, and which it plans to use to meet net GHG emissions targets, is discretionary.

[29] The International Accounting Standards Board (IASB) is also part of the IFRS Foundation. It issues International Financial Reporting Standards, which are used for financial accounting by many jurisdictions around the world. They constitute a standardised way of describing the company's financial performance and position so that financial statements are understandable and comparable across international boundaries. IFRS are particularly relevant for companies with publicly listed shares or securities.

The UK Government has been a strong supporter of the ISSB since its launch and developed a framework to assess the suitability of S1 and S2 for endorsement in the UK. If endorsed, the first two UK Sustainability Reporting Standards (SRS) would be published and available for voluntary use. UK SRS will be based on IFRS S1 and IFRS S2. The Government aims to consult on the exposure drafts of UK SRS in Quarter 2 2025[30]. Following this consultation, if the Government decides to endorse UK SRS, we expect the FCA to consult regarding their proposals to require the use of UK SRS by listed companies within FCA listing rules. The Government would be able to decide on disclosure requirements against UK SRS for UK companies that do not fall within the FCA's regulatory perimeter. Any reporting requirements are subject to further consultation.

Transition Plan Taskforce (TPT)

TPT was launched by HM Treasury in April 2022 with a mandate to bring together leaders from industry, academia, and regulators to develop good practice for the development and disclosure of transition plans. The 2023 TPT Framework provides a set of Disclosure Recommendations that an entity can use as guidance on how to report more effectively on the transition plan-related aspects of IFRS S2 in its general purpose financial reports. Under its Accountability Principle, 'an entity shall:

- Disclose an explanation of why the entity is employing carbon credits and the extent to which, and how, the entity relies on the use of carbon credits to achieve the **Strategic Ambition** of its transition plan
- Disclose the number of credits sold, purchased and retired
- Disclose which third-party scheme(s) has or will verify or certify the carbon credits
- Disclose information about which standard or methodology the carbon credits have been or will be certified against
- Disclose the type of carbon credit, including whether nature-based or based on technological carbon removals, and whether achieved through carbon reduction or removal
- Disclose whether and how the entity identifies and manages the impacts and dependencies of carbon credits on its stakeholders, society, the economy, and the natural environment throughout its value chain, that may give rise to sustainability-related risks and opportunities
- Disclose any other factors necessary for users of general purpose financial reports to understand the credibility and integrity of the carbon credit the entity is using or plans to use
- Report on the use of carbon credits at least on an annual basis'.[31]

[30] https://www.gov.uk/guidance/uk-sustainability-reporting-standards
[31] disclosure-framework-oct-2023.pdf

In 2024, the IFRS Foundation assumed responsibility for the TPT's disclosure materials and announced it would use them to support company disclosures against IFRS S1 and IFRS S2, and consider enhancing IFRS S2's application guidance, with reference to TPT outputs. The FCA plans, through its consultation on implementing UK-endorsed ISSB standards, to consult on strengthening its expectations for transition plan disclosures with reference to the TPT Disclosure Framework.

Given the important role transition planning could have in mobilising finance to achieve our Growth and Clean Energy missions, the Government's forthcoming Transition Plan consultation will seek views on how the Government should take forward the manifesto commitment to mandating "UK-regulated financial institutions (including banks, asset managers, pension funds and insurers) and FTSE 100 companies to develop and implement credible transition plans that align with the 1.5°C goal of the Paris Agreement".

UK Environmental Reporting Guidelines (2019)

The UK Government's existing Environmental Reporting Guidelines (ERG) were last updated in 2019. They are designed to guide best practice approaches to voluntary reporting across a broad range of environmental impacts, including GHGs, water, waste, biodiversity and ecosystem services. They set out criteria for identifying carbon credits from international sources and UK that are suitable for using to support voluntary carbon claims. The ERG state that, where organisations purchase carbon credits, they should report: the tonnage reduction per year, crediting programme, methodology, supplier name, project documentation, date of retirement, proof verification and validation, and how credit quality criteria listed in the ERG were met.

Nature Markets

Although the volume of nature credits being used is comparatively small, the same principles for transparency and integrity apply to their use to support voluntary claims.

We recognise that transparency is key to enabling accountability and must be prevalent throughout the full credit cycle to promote trust among stakeholders and foster market credibility. We welcome the International Advisory Panel on Biodiversity Credits' (IAPB) conclusion that buyers of biodiversity credits should be transparent about their impacts and dependencies on nature (e.g. through assessments and disclosures) and ensure they articulate how impacts and dependencies will be addressed in line with the mitigation hierarchy.

The UK and Devolved Governments are committed to support the BSI Nature Investment Standards programme to develop a standards framework for nature projects in the UK. The programme has been designed to deliver transparency at all stages of the project and credit cycle. One of its principles is that market participants should make material information transparent about the supply and trading of credits (including information on how credits supplied to nature markets represent units of additional environmental outputs and outcomes), unless commercially confidential.

The UK Government has supported the Taskforce on Nature-related Financial Disclosures (TNFD) to develop a set of disclosure recommendations and guidance that encourage and enable business and finance to assess, report and act on their nature-related dependencies, impacts, risks and opportunities. The recommendations and guidance enable businesses and finance to integrate nature into decision-making. They include an integrated approach for the identification and assessment of nature-related issues - the LEAP approach (Locate, Evaluate, Assess and Prepare) - designed for use by organisations of all sizes and across all sectors and geographies. The LEAP approach aims to help organisations identify and assess their nature-related issues, regardless of their formal disclosure requirements.

TNFD also provides a metrics architecture which spotlights leading indicators for the measurement of nature-related issues for companies relating to nature credits. For example, where a company is demonstrating how it is voluntarily supporting conservation, restoration and regeneration, it could consider the use of voluntary credit market schemes (where the total value of biodiversity offsets purchased and sold by type, geography and activity are required). Companies are already able to disclose using the TNFD voluntarily, and many UK companies have signalled they will adopt the framework.

Finally, under IFRS S1 a company can disclose whether it is mitigating its financially material nature risks through the use of nature credits – through the general requirements on disclosing metrics, including in the context of understanding performance against targets. ISSB is currently conducting research into whether a bespoke nature standard may be warranted. If agreed, this standard could provide an equivalent level of detail for nature credit reporting as that which is already provided for carbon.

Options for enhancing accessibility of credit related data and information

The Government sees enhanced voluntary disclosure as an important means by which to support integrity in VCNMs, and is therefore minded to update UK guidance so it better supports this outcome. We have considered, but do not support the creation of a new VCNM disclosure framework, since whilst this would allow the tailoring of reporting requirements to the nature of voluntary claims, it would represent a less efficient overall outcome for businesses already considering sustainability reporting requirements.

The Government is minded, as a first step, to update the ERG to reflect market developments and international best practice, as described in this chapter, to support businesses to make high integrity voluntary claims, in line with VCMI, where businesses are voluntarily making claims. This could be particularly beneficial for those organisations not captured by wider corporate reporting requirements.

16. Does your organisation use the ERG to guide engagement with voluntary markets? If so, could it be improved, and how?

17. Do you agree with the proposal to reflect VCMI's disclosure elements into the ERGs for carbon credit related disclosure?

18. Are there any elements missing from the list under VCMI's Claims Code of Practice, above, which could significantly enhance the quality of available information related to carbon credits and their use, and any which might be impractical to disclose or subject to sensitivity?

19. Should similar disclosure elements also apply for voluntary disclosures of nature credits, noting that nature disclosures will require additional reporting on location? If not, what should be included on nature credit reporting?

Principle 4: Plan ahead

Principle

Where organisations make relevant transition planning disclosures, they are encouraged to use best practice guidance.

Comment: Credit users should set and disclose long-term and interim targets and strategies to achieve them. For carbon credit buyers, this should include a quantified and independently verified science-aligned target across Scopes 1-3, to achieve net zero no later than 2050. Credit users not subject to transition planning requirements are encouraged to draw on such guidance.

Policy rationale

The UK Government will be consulting shortly to seek views on how it could take forward the Manifesto commitment to mandate UK-regulated financial institutions and FTSE100 companies to develop and implement credible transition plans that align with 1.5°C.

This section explores the role that credits could play within organisational plans to transition to net zero and a nature positive future. This does not pre-suppose any outcomes from the forthcoming consultation on wider arrangements for UK transition plans. Stakeholder feedback here on the role that credits could play in transition plans will contribute to the future development of the Government’s wider policy on transition plans for UK companies and financial institutions. Similarly, there will be a need to ensure that the broader framing of this Principle on the elements relating to targets and strategies aligns with any policy decisions post-transition plan consultation.

Science-aligned climate and nature targets, set using a credible target setting framework and, for carbon, across all greenhouse gas (GHG) emissions (Scopes 1, 2, and 3), are essential for establishing an organisation’s alignment to net-zero and a nature positive future. Near and long-term targets create the framework for ambition and provide a focal point to drive corporate action to address the impacts of their value chains. Examples of prominent corporate target setting frameworks are set out in Chapter 1.

Plans that set out the actions that an organisation will take to meet their targets generate organisational momentum behind those actions. Transition planning is a process that entities undertake to define a strategic roadmap that outlines how an organisation intends to adapt and transform its operations, strategies, and business models to align with sustainability goals in response to the climate and nature crises. Implementing and disclosing transition plans supports market transparency, helping companies and investors to manage and properly price risks. They also highlight where transition risks and opportunities exist within our economy, thereby helping to stimulate investment and accelerate progress towards a Net Zero, climate resilient and nature positive future.

Transition plans that set out the intended use of credits would ensure that such use is framed within the context of wider and ambitious value chain action. Transition planning therefore offers an important tool to support the implementation of Principles 1 and 3. The TPT Framework (sub element 4.4) states “an entity shall disclose information about how it uses or plans to use carbon credits to achieve the Strategic Ambition of its transition plan, and report on the use of carbon credits on at least an annual basis.”. This provides a basis for further consideration of what the role of voluntary carbon credits could be within net zero transition plans.

Incorporating how voluntary nature credits can be deployed to support the climate and nature transition may need to be done to a different timetable as policy develops and is needed. This will be set out in the transition plan consultation. This will seek views on components the Government can put in place (for example the development of nature positive sectoral pathways) to help companies understand what nature transitions could look like and their role in delivering them.

Application to markets

This section will explore the role of credits within transition plans and will supplement evidence gathered through the transition plan consultation, without prejudice to its outcomes. Stakeholder feedback received will provide evidence to inform ongoing policy development in this area. Respondents should note that approaches to setting targets and views on the use of credits in relation to targets is covered under Principle 1, and voluntary disclosures of carbon credit usage are covered under Principle 3. Respondents should consider these proposals when considering responses to questions regarding Principle 4.

Exploring the role of voluntary carbon and nature credits in transition plans

How the Government can take forward the content and degree of net-zero alignment of future transition plan requirements will be considered in the forthcoming transition plan consultation, which will seek stakeholders’ views on preferred implementation approaches. In parallel, the Government is considering how to provide a clear signal to organisations on the acceptable use of credits and contribute to the delivery of our climate, financial and growth objectives for high-integrity VCNMs, both under voluntary transition planning and disclosure, and with a view to incorporate these expectations within any future transition plan requirements the Government takes forward. Under voluntary approaches, the primary focus would be enhancing existing guidance on the use of credits.

Building from the disclosure requirements set out by the TPT's work and guided by a Government position on acceptable uses of credits confirmed through this consultation, transition plans could provide:

- details of why and how the organisation is intending to use credits;
- quantities to be bought and retired (or sold onwards);
- what type of credits they intend to buy, including long-term plans to buy an increasing proportion of durable removals credits;
- and the verification and certification of those credits, in particular whether they meet the requirements of Government-endorsed standards.

We are therefore seeking views on what role voluntary credits could play within transition planning and transition plan disclosures.

Separate to any arrangements put in place following the transition plan consultation, the Government would like to explore what support could be put in place for a wider range of organisations to facilitate their implementation of Principle 4. This could include incorporating proportionate voluntary guidance in the ERG on setting targets and developing plans to support the implementation of this principle.

20. What role, if any, could the use of voluntary carbon and nature credits play in net-zero aligned transition plans?

21. Drawing on the TPT guidance and other relevant sources, please provide your views on what additional types of information on voluntary carbon and nature credit usage would be important for inclusion in transition plans.

22. Is there a need for additional guidance on how organisations could use credits on their transition to net zero? This could be for the purposes of supporting compliance with any transition plan requirements, or to support voluntary transition planning and transition plan disclosures by a wider range of organisations.

Principle 5: Make accurate green claims using appropriate terminology

Principle

Claims involving the use of credits should, in addition to being consistent with these Principles, accurately communicate an organisation or product's overall environmental impact, including by using appropriate and accurate terminology.

Comment: False and misleading environmental claims related to organisations, their goods and services have highlighted the need for more accurate underpinning terminology. Examples have included some claims that organisations, services or products are 'carbon neutral', or 'biodiversity positive'. While organisations should take care to ensure that such claims are accurate, the UK Government recognises that it could, in a proportionate manner, help to ensure clearer understanding of claims.

Policy rationale

The ability to make credible and attractive claims about voluntary action on climate and nature ('green claims'), and in particular the use of credits within this, can be a key part of the value proposition for investing in such actions[32]. Claims enable companies to successfully differentiate themselves, their brand, products and services, across key stakeholders in a recognised and effective format. Confidence and trust in claims are underpinned using accurate terminology that should demonstrate that the claim is supported by the necessary evidence, including the extent to which it relies on the use of voluntary credits.

Terminology in Claims

There is ongoing uncertainty around accuracy of terminology used in, and overall efficacy of, claims that involve the use of credits as part of voluntary action on climate and nature. This has been particularly true in the context of carbon credits, where buyers taking action to decarbonise their value chains may have:

- Set, and be on track to meet, net zero aligned targets for emission reduction across their value chain (Scopes 1, 2 and 3), and be using carbon credits to address remaining emissions.
- Set, and be on track to meet, such a target, but not be purchasing credits.

[32] 'Beyond Value Chain Mitigation (BVCM) Research: March April 2023 Corporate Engagement Results', SBTi (2023)

- Set, but not be on track to meet, such targets, and be using credits to address this shortfall.
- Not yet set such targets, and be using credits to compensate for unabated emissions, in relation to themselves, their products or services.

Companies can use a wide range of frameworks when setting and delivering net zero aligned decarbonisation within value chains. A recent mapping of key net zero criteria across 33 key standards and voluntary initiatives[33] found strong consensus on core net zero criteria, including on the definition of ‘net zero’ as an end point, reached once all feasible steps to decarbonise across their value chains have been undertaken and residual emissions compensated for with removals. Whilst 25 of the standards reviewed recognised the role of offsetting in an organisation’s climate strategy, 15 were found to recommend restricting its use to address residual emissions (the same research also identified a lack of guidance or specific criteria on how to define residual emissions).

Beyond the use of carbon credits under these frameworks, some organisations have used credits to take additional action through ‘net emissions’ claims (i.e. retiring credits to offset value chain emissions), or ‘contribution’ claims (i.e. retiring credits independent of value chain emissions, to support global emissions reductions). In both cases, underlying action on decarbonisation of value chains remains essential to the efficacy of the claim. In addition, where claims imply an overall equivalence with emissions reductions that would otherwise be fully achieved within value chains, the extent to which credits are used in the claim provides an equivalent level of certainty and is also a key consideration.

23. Outside of any pre-existing disclosure requirements you might already be subject to, do you see value in making ‘net emissions’ claims and/or ‘contribution’ claims in respect of your use of carbon credits, and if not, why?

Similar terminology-related questions are emerging in non-carbon nature markets, where organisations have used credits to take voluntary action towards delivering the international goals and targets of the Kunming-Montreal Global Biodiversity Framework, and the domestic statutory targets set out in the Environment Act. There is interest in using terms such as “nature positive”, “biodiversity positive”, and “water positive” in claims. The former is perhaps the most complex as its Scope is unclear and has the potential to span many different markets. Whilst independent initiatives such as the Water Positive Initiative and Nature Positive Initiative are working to better define such and build international alignment in their use, current lack of clarity can present significant challenges.

24. To what extent is a lack of clarity on claims inhibiting wider use of voluntary credits? And is what, if any, is the role of the UK Government in addressing any challenges, e.g. through official definitions?

[33] McGivern, A., Axelsson, K., Straub, S. Craig, S. Steen, B. (2022) ‘Defining Net Zero: How do climate criteria align across standards and voluntary initiatives?’ Smith School of Enterprise and the Environment.

Action on Claims

The FCA's anti-greenwashing rule requires regulated firms to ensure any references to the sustainability characteristics of a product or service are consistent with the actual characteristics and are fair, clear and not misleading[34]. This would apply to any financial product that had carbon credits as underlying assets. The FCA also has TCFD-aligned disclosure requirements for UK-listed companies through which such companies should ensure their use (if any) of carbon credits is appropriately and accurately disclosed. This also supports third party scrutiny of companies' disclosures, which the Government recognises can play an important role in the integrity of the markets.

In the UK, the accuracy and efficacy of green claims made in corporate advertising and marketing are overseen by Competition and Markets Authority (CMA) and Advertising Standards Authority (ASA) respectively. The CMA and the ASA have acted against various UK businesses for making misleading 'carbon neutral' and 'net zero' claims. These have typically involved overstated environmental achievements or failure to fully account for emissions, for example:

- Overreliance on Carbon Credits: Some businesses have claimed 'net zero' status primarily through the purchase of carbon credits without sufficient efforts to reduce their actual emissions across Scopes 1, 2, and 3.
- Premature Claims: Companies have declared themselves 'net zero' or 'carbon neutral' before fully implementing all feasible decarbonisation measures within their value chains.
- Misleading Offsetting Practices: There have been cases where businesses used carbon credits to offset emissions but did not disclose that these were used to address residual emissions only after minimisation efforts.
- Voluntary Actions Misrepresented: Claims of 'carbon neutrality' have sometimes been based on voluntary actions that do not align with independent frameworks for net zero targets.
- No explanation given: Some businesses did not explain how carbon neutrality is being achieved.

[34] ESG 4.3.1R in the FCA Handbook

Box 2: CMA and ASA

In September 2021 the CMA published a Green Claims Code which applies to advertising of any product or service, by any commercial entity, supplied to UK consumers. The Code sets out 6 core principles that must be met for environmental claims to be accurate, impactful and compliant.

The Advertising Standards Authority (ASA) is the self-regulatory organisation of the advertising industry in the United Kingdom.

In 2023, the ASA and other organisations published updated guidance on the use of carbon neutral and net zero claims in advertising. This guidance reflects key principles from the CMA Green Claims Code. It advises advertisers to avoid using unqualified carbon neutral or net zero claims and emphasises the importance of providing accurate information about whether and to what extent they are actively reducing carbon emissions or relying on offsetting.

Both the CMA and ASA have highlighted the need for more clarity or standardisation in some areas, and outlined the steps that could be considered in addressing these including:

- legislating to create standardised definitions of commonly-used environmental terms, to which businesses must adhere in marketing and labelling their products
- adding misleading and/or unsubstantiated environmental claims to the list of banned practices under consumer law

The Climate Change Committee has recommended[35] that the Government publishes guidance for businesses on the use of carbon credits, and that this should confirm that a business can only accurately use carbon credits to claim to be 'Net Zero' once (a) approaching the point at which all planned/possible emissions reductions within value chains have been implemented, and (b) remaining (residual) emissions have been neutralised by high-quality permanent removals. It has further recommended that the Government formalise this definition of Net Zero through existing levers.

Application to markets

The UK Government wants buyers to be able to make claims with confidence when they purchase credits or related financial instruments, such as credit futures contracts. Therefore the Government is seeking views on proportionate steps that could help bring more clarity to claims. The Government could pursue one of two options:

[35] Recommendation R2023-165 in ‘Progress in reducing emissions, 2024 Progress Report to Parliament’ (Climate Change Committee, 2024)

Option 1: Develop official definitions for key terminology

This could involve assessing the utility of definitions developed by independent international initiatives, as well as conducting further research where necessary. Once developed, definitions could be set out in regulation or guidelines, which would act as a basis for regulators to challenge questionable claims. We note it would still be difficult for regulators to independently verify if the definition has been met, however, because of the evidence requirements and likelihood of impacts in overseas supply chains.

Option 2: Commission the development of a standard for claims and require those claims to be assured.

The Government could commission the development of a UK standard for claims based on the voluntary use of high integrity credits with a view to reflecting this in guidance. In the context of carbon credits, this would support and complement the transition to highest-integrity claims, such as those support by VCMI, and would need to be clearly framed as a stepping stone towards international best practice.

Such a standard would seek to provide authoritative guidance on the steps companies should take to make trusted high integrity claims. In the context of carbon credits, it could, for example, clarify the relationship between the stage of organisational decarbonisation, the use of credits (as set out in four scenarios under 'Terminology in Claims') and the type of claim that can be made, specifying the evidence requirements to substantiate the claim. In so doing, organisations choosing to make a claim under this standard would be communicating their stage of decarbonisation and the extent to which credits were being used, and how they were aligned with international and domestic targets, ultimately strengthening confidence and trust that they are using credits in the context of ambitious voluntary action within value chains. The standard would enable organisations to better navigate the risks associated with making green claims, boosting their confidence in engaging in markets and therefore incentivising demand for high-integrity credits.

Initially focused on carbon credit related claims, an appropriately designed methodology for such a standard could then be applied to non-carbon nature markets, taking account of different attributes across VCNMs. In relation to carbon credit related claims, such a standard could define:

- Key terminology for communication of claims;
- Attributes of credits/credit portfolio supporting claims (e.g. additionality, permanence);
- Appropriate balance of credit types used/portfolio composition over time;
- Relationship between nature of emissions (e.g. fossil fuel, land use change), and attributes of credits/credit portfolio supporting claims;
- Relationship between claims and planning of/implementation of ambitious action within value chains; and
- Approach to assurance.

25. What are your views on Option 1, specifically: the value of UK Government-defined credit related claims terminology, and any terms that should be prioritised?

26. What are your views on Option 2, specifically: the value of a UK claims standard as a mechanism for supporting greater use of high integrity carbon credits?

27. What other options could the Government consider to (a) support companies in making accurate claims, that use appropriate terminology, about their use of credits in voluntary action on climate and nature, and (b) support wider understanding of, and confidence in, such claims amongst relevant stakeholders?

Principle 6: Co-operate with others to support the growth of high integrity markets

Principle

Credit buyers should co-operate with other VCNM market actors to support standardisation, wider information sharing, more equitable market access, reduced transaction costs, transparency and interoperability.

Comment: Voluntary markets are a fast-evolving space, but market architecture can be fragmented in ways that might inhibit high integrity and efficient use. A range of initiatives, including those listed above, have emerged to help ensure that markets can realise more of their potential, including through supporting transparency, interoperability between carbon and nature credit registries, technological innovation to support environmental integrity, capacity building to Emerging Markets and Developing Economies, and new governance models. By contributing to, or otherwise supporting these initiatives, credit buyers should help support the growth of higher integrity markets.

Policy rationale

Countries and organisations engage in voluntary markets in many ways: selling from projects in a wide range of sectors, under nationally determined regulatory regimes, using different legal definitions, and through co-operation with a range of international partners through capacity building initiatives and carbon market agreements. This reflects national prerogatives, but can introduce friction into markets, increasing costs and limiting the benefits high integrity markets can deliver.

This principle aims to support international alignment on some of the issues above, as well as exploring the potential for enhanced clarity and confidence through regulatory regimes and applicable legal definitions in the UK and England. The UK Government sees the proposed endorsement of outputs from VCMI and ICVCM as an important way to support global standardisation, but there remains a need for enhanced co-operation between all market actors to support market integrity in three important areas:

- Co-ordination of capacity building initiatives
- Support for interoperable market infrastructure
- Clarity and consistency around the legal and tax treatment of carbon and nature credits.

This chapter explores the role that enhanced co-operation, including within and between regulators and policymakers in the UK, can play in supporting a market infrastructure that will instil confidence. This includes working across all devolved Governments to facilitate an industry-led process to develop a suite of interconnected investment standards across ecosystem services, and to ensure effective governance for projects and the use of credits.

Application to markets

Global Carbon Market Capacity Building

Many Emerging Markets and Developing Economies (EMDEs) are taking steps to access voluntary and compliance carbon market finance, through the establishment of policy and legal frameworks, and the establishment of new domestic capabilities. These efforts are often supported by other parties, including multilateral development banks, other capacity building providers, governments and the private sector. The UK Government is a longstanding contributor to programmes that support access to carbon markets, including through the Carbon Initiative for Development, the Transformative Carbon Asset Facility, and the Lowering Emissions by Accelerating Forest Finance Coalition.

However, the level of overall capacity building is widely acknowledged to fall short of what is required to meet EMDE demand. There is also evidence that existing support is not always efficiently allocated, with some duplication in key geographies, occasionally conflicting advice between capacity building providers, and geographies and sectors which are not well covered by existing initiatives. Enhanced co-operation is needed to help ensure that provision is responsive, consistent and supports high integrity use of all markets. The Government sees the publication of a high level framework, agreed by six key actors at COP29, as a helpful initial step and urges further detailed work to translate this into implementable guidance[36].

28. How could global carbon market capacity building be more effectively and efficiently deployed?

Global Nature Markets Capacity Building

The International Advisory Panel on Biodiversity Credits (IAPB) Framework – welcomed at CBD COP16 by the UK - sets out that action on the part of multiple actors is needed for high integrity biodiversity credits markets to develop at scale and pace. The UK was pleased to see the important role of nature's stewards clearly set out in the framework: IPLCs' knowledge and experience are of crucial importance and the UK wants to see them take on leadership roles in these markets. The UK is aligned with IAPB's decision to not support international biodiversity offsetting approaches as compensation must be local-to-local and like-for-like.

IAPB's Framework sets out how multiple markets for biodiversity credits are present at this stage and will continue to develop. There is space for both voluntary and compliance markets,

[36] *Navigating Decisions on Carbon Markets* (2024) – Article 6 Implementation Partnership, Global Green Growth Initiative, ICVCM, VCMI, UN Development Program, World Bank.

and compensation and contribution opportunities to co-exist and ultimately deliver equitable, positive outcomes at scale. The UK supports the IAPB's call to utilise a variety of design solutions to scale multiple markets, depending on the context, actors, and motivations. The UK is also keen to explore linkages between carbon and biodiversity markets where appropriate, and the potential for co-benefits between them. The overriding principle across use cases is that high integrity must be evident.

Support for interoperable market infrastructure

Voluntary market participants use national and private frameworks and infrastructure to support trade. While these frameworks and infrastructure have common functions across jurisdictions, some features can vary in ways that increase friction in trade, as well as the risk of fraud and error. Significant challenges have been identified that relate to roles, responsibilities and liabilities in markets as well as IT security and integrity of transactions[37]. The proliferation of public and private registries (IT platforms that record data related to credit characteristics and their trade) has not followed a common model, with the result that there is sometimes wide variation in the data that is captured and made available.

In the UK, information about UK carbon and nature credits should be recorded on registries and made available publicly, in alignment with the UK National Data Strategy. The Government provides the UK Land Carbon Registry (UKLCR) and is committed to maintaining it and recently commissioned research into the Woodland Carbon Code's data and operations. The outputs published in December 2024, will inform work to improve the UKLCR and support the wider marketplace.

The Government supports efforts to develop robust registries that share common features, including through international programmes like the Partnership for Market Implementation and domestically, UK Nature Investment Standards, as well as initiatives that seek to harmonise and link such registries in ways that improve transparency and interoperability, for example the Climate Action Data Trust. The Government welcomes these and other efforts to derive common data models for global carbon markets. While we recognise these questions will not be relevant to all stakeholders:

29. Do you see any role for additional initiative(s) to support global interoperability of carbon markets?

30. For existing initiatives, do you see any barriers that would stop your organisation, or others, from participating?

Clarity and consistency around the legal treatment of credits

Variation in the legal treatment of carbon credits between jurisdictions, specifically around their proprietary nature when traded internationally, can introduce legal risks and uncertainties that

[37] State and Trends of Carbon Pricing: International Carbon Markets (2024) World Bank Group

inhibit the broader use of voluntary carbon markets. The Government welcomes the work of The International Institute for the Unification of Private Law (UNIDROIT) towards harmonising legal definitions of carbon credits and sees this as key to the development of a well-functioning market[38]. The Law Commission sat as an observer on UNIDROIT's Digital Assets and Private Law Working Group, which recently published a set of international principles designed to facilitate transactions in digital assets[39].

In 2021, the UK Government asked the Law Commission to make recommendations for reform to ensure that the law could accommodate cryptoassets and potentially other digital assets in a way which supported their development. Following a call for evidence and a 2022 consultation paper, the Law Commission published its final report in June 2023[40] on the common law system in England and Wales for digital assets. This included, in response to stakeholder feedback, consideration of voluntary carbon credits.

The Law Commission identified a prevailing view in most jurisdictions (including England and Wales) that voluntary carbon credits can be structured as a form of intangible property to which personal property rights can relate.

The Law Commission also concluded that the common law had already moved towards the recognition of a distinct category of personal property that can better recognise, accommodate and protect the unique features of certain digital assets, potentially including voluntary carbon credits. The Law Commission recommended legislation to confirm the possibility of such a further category (or categories) of personal property. At the Government's request, it prepared a draft Bill to implement this recommendation, which was published alongside a supplemental report in July 2024.[41]

In September 2024, the UK Government introduced the draft Property (Digital Assets etc) Bill to Parliament. It is currently going through parliamentary processes in accordance with the Law Commission Bill Procedure.[42] The Bill gives effect to the Law Commission's recommendation to confirm in statute that a thing will not be deprived of legal status as an object of personal property rights merely because it does not belong to the two traditional categories of personal property, namely things in possession and things in action. However, the Bill does not attempt to specify which assets, for example voluntary carbon credits, may fall within a further category of personal property, nor what the legal implications would be. These matters are left to development by the common law.

Where appropriate, the UK Government is promoting the Bill internationally in the legal sector and exploring opportunities to share knowledge with international partners.

[38] https://www.unidroit.org/work-in-progress/verified-carbon-credits/#1637156948432-1d04168e-7a08
[39] UNIDROIT Working Group, Principles on Digital Assets and Private Law (2023), https://www.unidroit.org/work-in-progress/digital-assets-and-private-law/
[40] https://lawcom.gov.uk/project/digital-assets/
[41] https://lawcom.gov.uk/digital-assets-as-personal-property-supplemental-report-and-draft-legislation/
[42] https://bills.parliament.uk/bills/3766

The Government recognises that increased legal certainty on the classification of credits could increase confidence in their development as an investible asset class[43]. We welcome views on whether there is more the Government ought to do.

31. Do you think the legal status of credits in the UK is sufficiently clear? Please explain your answer and include examples where possible

32. What role, if any, should the UK play in promoting a consistent legal treatment for credits internationally?

Accounting treatment of credits

The UK Government is aware that the issuance and purchase of carbon and nature credits has financial accounting implications. Accounting treatment of credits is currently being discussed by international accounting standard setters and the Government will keep these conversations under review as they evolve. The Government is also aware that the accounting treatment of credits might affect the ability or willingness of stakeholders to participate in VCNMs.

The Government would welcome information from stakeholders on accounting matters which may encourage, or prevent, participation in VCNMs.

33. Will the accounting treatment for credits affect your ability to participate in voluntary credits markets? What characteristics of the credit and the market for credits will be necessary to maximise participation?

Tax treatment of credits

The UK Government recognises stakeholder concerns about uncertainties related to the tax treatment of voluntary carbon and nature markets and has therefore established a joint HM Treasury and HMRC working group with industry representatives to identify solutions that provide clarity on the tax treatment of ecosystem service markets.

Market governance in the UK

Effective governance of carbon and nature markets is crucial to maintain confidence in UK project pipelines and facilitate the growth of high integrity investment. We propose the following functional requirements for a high integrity market governance framework:

[43] Nature credits are less fungible than carbon credits and unlikely to be traded internationally. Stakeholders have highlighted that it is nevertheless important to ensure that their legal status is clear so that market participants can accurately price the value of nature credits in transactions and account for credits appropriately. Developments in the legal treatment of carbon credits are likely to have a significant influence on the legal treatment of other types of credits.

Policy mechanisms: setting out market rules that apply to market participants and guide scheme design. For example, that nature projects generating credits must be assured against a standard, and that registries that record issuance and ownership of credits must be interoperable with other registries. The precise rules needed will in part depend on the maturity of the market and the Scope of other governance aspects such as standards.

High integrity standards: guidance for how market participants (crediting schemes, projects and other market intermediaries, e.g. registries and VVBs) should operate within the market. For example, BSI development of standards for engineered and nature-based crediting schemes in the UK that will set expectations for third-party validation and verification of projects, appropriate methodologies for measurement, among other criteria.

Robust assurance: mechanisms to enable market participants to demonstrate conformity with high integrity standards to support market confidence and credit integrity. Examples of assurance against standards apply on both the supply and demand sides of the market:

- Assurance of crediting schemes against high integrity standards. See Principle 2 for further detail on the development of the future assurance framework for the BSI NIS.
- Assurance of VCMI Claims made by organisations, using VCMI's Monitoring, Reporting and Assurance Framework.
- Validation of projects and verification of outcomes. For example, validation and verification of projects against technical standards around design specifications and quantification methods, which could be set by an overarching scheme.

Accreditation of independent market evaluators: Accreditation of entities like VVBs and certifiers to appropriate national or internationally recognised standards (such as BS EN ISO/IEC 17029) shows those organisations demonstrate the competence, impartiality and ability to perform specified activities. The United Kingdom Accreditation Service (UKAS) is the sole National Accreditation Body for the UK.

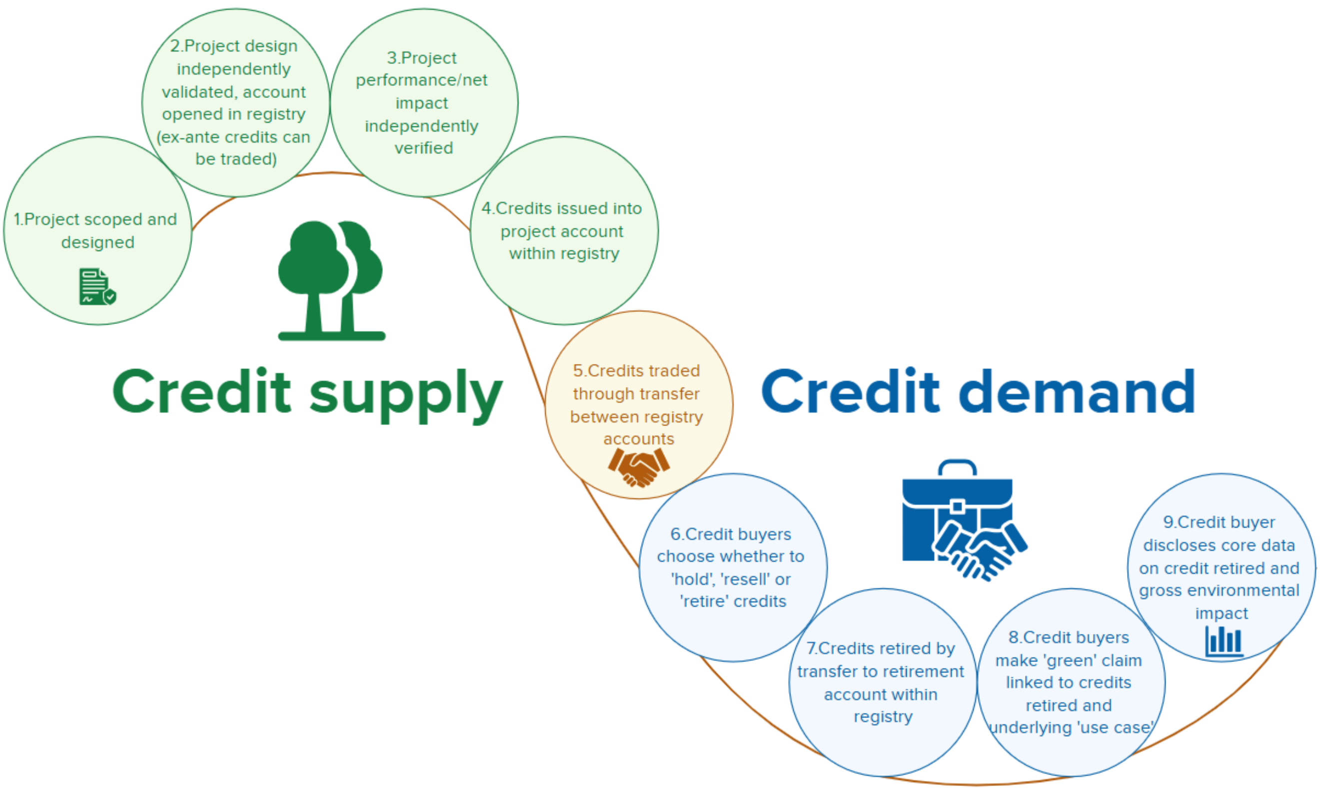
Regulatory oversight: Environmental, Financial, Advertising and Consumer Regulators already play an important role over key stages in the voluntary carbon and nature project lifecycle and the use of credits in sustainability reporting[44].

Table 2: illustrates how each aspect of governance described above applies across VCNMs. Numbers in brackets indicate which Principles apply to which parts of market activity.

[44] Environmental regulation, land use policy, habitat protection and regulation of forestry are all devolved matters with separate regulatory bodies for England, Scotland, Wales and Northern Ireland. The UK's financial services framework is established by the Financial Services and Markets Act 2000, which grants regulatory powers to the Financial Conduct Authority and Prudential Regulation Authority within a government and parliamentary policy framework. The Advertising Standards Authority and Competition and Markets Authority regulate advertising and competition, respectively, in the UK.

Governance Function (6)	Project Integrity (2)	Operational Integrity (2)	Claim integrity (1,3,4,5)
Policy mechanisms	Rules that apply to projects supplying credits	Rules that apply to market intermediaries (including registries	Rules that apply to buyers intending to make claims regarding the use of credits
Standards	Best practice for measurement of units	Best practice for quantifying, issuing, storing and trading credits	Best practice for making claims regarding the use of credits
Assurance	Process for ensuring that projects meet standards	Process for ensuring that credit issuance, storage and trading methods meet standards	Process for ensuring that claims made involving the use of credits meet standards
Accreditation	Process of appointing assurance bodies to ensure project integrity	Process of appointing assurance bodies to ensure operational integrity	Process of appointing assurance bodies to ensure claim integrity
Regulatory Oversight	Oversight of the above processes to ensure project integrity	Oversight of the above processes to ensure operational integrity	Oversight of the above processes to ensure claim integrity

Diagram 1: Overview of credit lifecycle. This sets out a summary of the main phases of credit development and use. It begins at the point of scoping a project, and ends at credit retirement and disclosure. Green represents the credit supply side, yellow represents a trade between supply and demand, and blue represents the credit demand side.



34. Do you agree with the functional requirements set out for a high integrity UK market governance framework: standards; assurance; accreditation; and regulatory oversight?

Regulatory oversight

The UK Government is committed to ensuring effective, proportionate regulatory oversight of carbon and nature markets in a way that maintains confidence in market integrity and supports innovation and access. The Government recognises that markets involving the generation and trade of carbon and nature credits raise specific considerations. Some stakeholders have suggested that, in UK markets, transactions involving these credits should be subject to additional regulatory oversight. This could include:

- A market ombudsman function to process formal complaints and disputes.
- Establishing the appropriate level of regulatory control across each area within the market. This could take the form of authorisation to enforce market actor compliance with the required conditions, such as established standards and market rules, via a licensing or registration system.
- Creating and maintaining market infrastructure, systems and processes, such as market registries.

Some stakeholders have called for the establishment of a dedicated regulatory body to oversee carbon and nature markets[45]. Others have argued that existing regulatory bodies have the potential to provide effective oversight if suitable mechanisms for joint regulatory working

[45] Environmental Markets Report - March 2023; State of UK Nature Markets October 2023 website updated.pdf

are in place. The recently published Dan Corry review recommends that Defra should explore launching a small, focussed and industry funded Nature Market Accelerator ‘to bring much needed coherence to mature markets and accelerate investment’.[46]

We welcome views in this consultation on the requirements for effective governance and the appropriate degree of regulatory oversight appropriate to support VCNMs at their current stages of development.

35. Do you agree that the measures set out in this consultation will help to provide appropriate regulatory oversight for UK VCNMs at their current stages of development? If not, what other interventions may be appropriate?

Regulatory cooperation

Clarity around the scope and activities of regulators is important for investor confidence. UK regulators already co-operate with VCNM market participants to support standardisation, information sharing, equitable market access, reduced transaction costs, transparency and interoperability.

This consultation is looking to test the key considerations for a cross-regulatory working group, bringing together Environmental, Financial, Advertising and Consumer Regulators (and engaging other regulatory bodies where appropriate) to develop a collaborative, rigorous and cost-efficient regulatory framework. This aims to:

- Clarify existing regulatory activities to ensure project, operational, and claim integrity across the carbon and nature credit lifecycle.
- Establish whether additional regulatory activities are required to deliver the functional requirements for a high integrity market governance framework.
- Set out options for ways in which regulatory bodies might best interact with the proposed regulatory oversight function.
- Consider regulatory arrangements for international VCNMs, with a view towards global interoperability of regulatory frameworks.

36. Do you agree with the considerations for the cross-regulatory working group, and are there any additional priorities for inclusion?

[46] Delivering economic growth and nature recovery: An independent review of Defra’s regulatory landscape, Dan Corry February 2025.

Cross-cutting enablers

Supporting environmental and societal outcomes

Supporting UK high integrity project pipelines

A strategic approach to land use is required to ensure that projects take place in the right locations while minimising trade-offs. The UK Government recently launched the Land Use Consultation[47], recognising that there are increasing opportunities and demands on our land. The consultation seeks views on how we can make better use of land and spatially target land use change to locations where benefits are greater and trade-offs are lower.

Strengthening community engagement and benefit sharing

As part of the NIS Programme, a voluntary "community engagement and benefit sharing" standard is being developed. The standard will set out guidance around how local communities can proportionately engage with carbon and nature market projects. BSI has identified this as an area where previous markets have failed, and as high risk if lessons are not learned.

Potential future roles for Local Nature Recovery Strategies in supporting the maximisation of environmental and societal outcomes

Local Nature Recovery Strategies (LNRS), currently being prepared across England, are designed to incentivise and encourage growth in market supply in the best places for nature and people. Each LNRS "responsible authority" is required to engage widely through communication and consultation around each strategy. Each LNRS will:

- agree priorities for nature's recovery
- map the most valuable existing areas for nature
- map specific proposals for creating or improving habitat for nature and wider environmental goals

There is considerable potential to build on the LNRS framework and governance that now exists, to support private sector investment in nature and environmental markets. The English Devolution White Paper gives LNRS responsible authorities this mandate, as part of their Environment and Climate leadership competence. For example, LNRS responsible authorities will be well placed to work with partners and stakeholders in their areas to aggregate initiatives and develop project pipelines to support delivery of LNRS priorities. They will also be well placed to market opportunities to potential investors, and keep track of projects in their areas, potentially using register type tools. They could also play an important role in supporting the development and operation of new nature markets, subject to resource and expertise.

[47] Land use in England - GOV.UK

37. **How can the LNRS and English Devolution framework be developed to:**

   a. **encourage private funds and funders to use the spatial targeting available through LNRSs; and**

   b. **better support increased private sector investment in nature and the development of nature and environmental markets?**

Helping programmes access new funding streams through voluntary markets

The UK Government is keen to enable access to markets for suppliers, alongside measures to support consistent demand for high-integrity credits. Supporting the supply of credits is an area where the UK has established strengths, both internationally and domestically. Domestically, this includes an existing skill base and a track record of innovation to build a supportive regulatory environment, as seen through the development of the UK Emissions Trading Scheme and Biodiversity Net Gain markets. Recognising VCNMs as a key opportunity for growth, the Government is committed to supporting project developers in the UK and internationally. Targeted action to help project developers unlock private investment is critical to this supply of high-integrity credits. This includes supporting rapid technology development and deployment for engineered-GGR and low carbon projects, as well as supporting famers and other land managers.

This section provides an overview of current actions and explores the actions that the UK Government is considering to further support accessibility to markets for suppliers of high integrity credits.

International carbon markets

Article 6 of the Paris Agreement enables countries to voluntarily cooperate through international carbon markets to implement their Nationally Determined Contributions (NDCs). International carbon markets through Article 6 can enable higher and cost-effective global mitigation ambition and facilitate flows of finance, particularly to emerging and developing economies, if implemented with high integrity principles. Over approximately 20 years, the UK has committed about £500m to several international programmes to support developing country access to carbon market and other forms of results-based finance. These have helped to protect critical tropical forests, leveraged high volumes of public and private finance from other sources, connected communities to cleaner energy, and provided the capacity and capability for countries to access Article 6 and other carbon markets.

The UK currently intends to meet its 2030 and 2035 NDCs through domestic emissions reductions and removals alone, in line with advice from the Climate Change Committee, but reserves the right to use voluntary cooperation through Article 6. Such cooperation could include international emissions reductions or removals, or those which result from linking the UK Emissions Trading System to another emissions trading scheme.

Given the UK's ambitious carbon budgets and NDC targets, the UK does not intend to apply corresponding adjustments to voluntary purchases of credits from UK based projects, and intends that the underlying reductions and removals from such purchases will count towards the UK's carbon budgets and NDCs. However, one route under Article 6's Paris Agreement Crediting Mechanism ('PACM'), allows trades without corresponding adjustments. These credits, termed "Mitigation Contribution 6.4 Emissions Reductions" ('MC A6.4ERs') may be sold without the requirement for a corresponding adjustment to be made by the country in which the mitigation activity has taken place. This means the buyer of this credit supports mitigation activity which counts towards the NDC of the country in which the seller undertakes the mitigation activity.

The Government recognises that project developers of mitigation activity (e.g. engineered or nature-based removals) within the UK may wish to sell credits it generates in the UK through PACM. The optionality for UK project developers to sell credits through the PACM would provide a route to generate and sell credits recognised under Article 6. The UK would need to put in relevant governance arrangements, such as the appointment of a Designated National Authority for the PACM, to enable UK project developers to engage in trading through the PACM.

38. Would you want the UK to consider and put in place governance arrangements to enable UK project developers to sell MCA6.4ERs through the Paris Agreement Crediting Mechanism? Please provide your reasons for your response.

39. If applicable, what interest do you have in buying credits through the Paris Agreement Crediting Mechanism?

Corresponding adjustments in Voluntary Carbon Markets

As outlined above, Article 6 creates use pathways for carbon credits that require the application of a corresponding adjustment to avoid the double counting of units. However, it does not mandate their application under voluntary carbon market transactions.

The Government considers that it should continue to be at the discretion of private sector buyers whether to purchase units with, or without, corresponding adjustments for such voluntary purposes. Where credits purchased are correspondingly adjusted (or not), this should however be transparently disclosed, in line with VCMI guidance. For the reasons set out above, the Government does not intend to apply corresponding adjustments to credits generated through UK based projects for voluntary purposes.

Supporting the supply of domestic nature-based projects

Targeted policy interventions are needed to make it easier and more attractive for UK land and coastal managers, including tenants and smaller farmers, to participate in carbon and nature projects. Beyond BSI's work to set Nature Investment Standards, in England, the Environment Land Management (ELM) scheme also supports farmers to undertake actions on their farm business that provide environmental benefits, whilst supporting sustainable food production.

ELM schemes remain a critical tool in the Government's commitment to improving the environment, and through these schemes public investment supports private.

Building capacity and investment readiness

Other interventions to support the nature project pipeline focus on investment readiness and aggregation. The UK Government has provided three rounds of grants supporting the development of over 130 projects through the Natural Environment Investment Readiness Fund (NEIRF), with the third round of projects due to complete by the end of March 2026.

Defra supported the Green Finance Institute to codify the learnings from NEIRF into investment readiness toolkits featuring case studies, freely available on the GFI Hive website. The Local Investment in Natural Capital programme has supported a cohort of local authorities to develop the capability to secure private finance for delivery of local priorities for nature. The UK Government will consider the provision of further investment readiness support as part of the forthcoming Spending Review.

Market infrastructure for nature friendly farming

The development of new investment schemes also depends on the infrastructure of standards and other tools that are needed to supply of high-integrity credits. The UK Government is working with industry to support the development of this infrastructure, including targeted interventions where there is a case for Government support to address key gaps.

Box 3: Carbon accounting: Conducting a carbon audit or environmental assessment is an optimal approach for understanding a landholding's emission profile or environmental condition, and identifying opportunities to reduce emissions and improve environmental outcomes. Farmers and project developers can use carbon calculator tools, along with other baseline activities, to meet eligibility requirements for environmental credit suppliers. However, quantifying farm-level impacts is complex and time-consuming. Lack of standardisation requires farmers to report data in multiple formats, while varying methodologies create inconsistencies in calculator outputs. Without guidance, many farmers struggle to interpret audit results, making it harder to justify participation. The complexity to identify and access funding options further discourages uptake of audits and advisory services.In 2023, Defra assessed the divergence among carbon calculators, their impact on users, and potential for harmonisation. This research led to updates in most tools. Building on this and working with existing tool providers, the Government aims to increase the alignment of GHG emission calculation methodologies to achieve more consistent and comparable outputs. This will reduce confusion for farmers, investors, and businesses, driving sustainable farming investment.

Defra has also been developing an Application Programming Interface (API) to make national GHG Agriculture Inventory models available to tool providers, to further support alignment of these tools in the future. An API will be available by August 2025.

40. **Is there a further role for the Government to play in enabling access to high-integrity VCNMs for UK land and coastal managers to support the pipeline of credit supply? In particular, are there any Monitoring, Reporting and Verification (MRV) or auditing requirements for private finance schemes that you would like to bring to our attention?**

Stacking policy in the UK

The Government recognises the importance of aligning incentives to minimise trade-offs and optimise the use of land, recently launching a consultation on a Land Use Framework with this aim. Voluntary nature markets are part of the range of incentives available to landowners and should be designed with that aim in mind.

One way of incentivising optimisation of land use is to allow sellers of nature credits to sell different types of credits generated from the same activity. This is called stacking (sometimes ‘payment stacking’ or ‘benefit stacking’). In 2024 we commissioned research to explore the effects of stacking nature credits in the UK and the potential impact on environmental, economic and social outcomes. The research, comprising a literature review and modelling, found that stacking could have benefits through:

- Incentivising the supply of multi-functional nature projects generating multiple credit types
- Reductions in the relative costs to generate a credit
- An increase in market competition, due to an increase in the number of suppliers and credits being generated and traded

Whilst the results of the research suggest greater stacking should be encouraged, stacking in the context of voluntary offset markets could lead to accounting differences between impact (buyer) and offset (seller) sides, which in turn could lead to worse overall environmental outcomes. The theoretical risks are well documented[48] but there is little real-world evidence regarding whether the potential benefits outweigh the potential negative effects. The Government is open to trialling a greater degree of stacking to gather real world data on the overall effects and inform future policy.

41. **Do you agree that the Government should trial a greater degree of stacking to gather real-world data on the benefits and challenges?**

42. **What are the biggest challenges and opportunities of such a trial?**

[48] von Hase, Amrei and Cassin, Jan. 2018. Theory and Practice of ‘Stacking’ and ‘Bundling’ Ecosystem Goods and Services: a Resource Paper. Business and Biodiversity Offsets Programme (BBOP). Forest Trends, 2018, Washington, D.C.

Addressing barriers to purchasing of engineered GGR credits

GGR technologies will be important for reaching net zero – balancing residual emissions from hard-to-decarbonise sectors while providing new economic opportunities. The IPCC see the use of GGRs as unavoidable for achieving net zero emissions and say rapid scale up of removals is needed. The UK is well-positioned to be a global leader in GGR technologies, with our world-class research institutions, engineering expertise and access to geological storage. Whilst the engineered removals sector is growing, it is nascent, with relatively few commercial scale projects operating globally. Engineered GGR projects which meet relevant standards can offer high-integrity permanent removal credits, and it is crucial projects leverage the opportunity of the VCM to mobilise the significant levels of private finance needed for these novel technologies.

However, engineered removals purchases have made up a small proportion of the overall voluntary carbon market to date, and purchases are dominated by a relatively small number of buyers. One of the key barriers to overcome to enable the scale up of the engineered GGR sector is to increase voluntary demand for high-integrity removals credits now, alongside emissions reductions activity, and widen the pool of buyers to establish a liquid, reliable, mature negative emissions market.

The Government encourages more companies to engage with the purchasing of high-integrity removals credits in ways that align with the Government's VCNM principles. We anticipate companies will move towards the purchase of high-integrity removals credits as part of reaching their long-term and interim climate targets, whilst reducing emissions as much as possible.

We are designing a policy approach to support a range of removals technologies to deploy in the UK and overcome barriers to commercial-scale deployment. The development of the GGR Standard is intended to increase investor confidence in purchasing of UK removals credits and leverage demand in the VCM. In addition, integration of removals into the UK ETS will help to provide a long-term demand signal. Furthermore, we are developing business models to incentivise private investment in GGR projects.

The GGR business model aims to leverage voluntary demand for GGRs in the VCM as well as potential compliance demand in the UK ETS, while providing revenue support as these markets become more established. Outside of carbon markets, the Government launched the Track-1 expansion (T1x) HyNet Process which allowed GGR and Power BECCS projects to apply for access to the HyNet CCUS cluster in the North West. We have also committed £100 million in research and innovation for GGRs, including the Direct Air Capture and the GGR Innovation Competition [49].

[49] https://www.gov.uk/government/publications/direct-air-capture-and-other-greenhouse-gas-removal-technologies-competition

On 10 February 2025, the Government announced an independent review to consider how respective GGRs[50], including large-scale Power BECCS and DACCS, can assist the UK in meeting our net zero targets and ensuring security of supply, out to 2050. The review will not seek to replicate the existing significant policy programme to support cost-effective deployment of GGRs and Power BECCS but may be informed by existing work and outputs[51]. As with this consultation, we will continue to develop and deliver policy relevant to the deployment of GGRs and Power BECCS. We remain committed to developing and deploying Greenhouse Gas Removals (GGR) at scale in the UK, recognising the important role they play in achieving net zero.

43. What further information or actions do companies need to see to feel confident and encouraged to engage in the Voluntary Carbon Market and purchasing of high-quality engineered removals credits?

[50]Statement by the Secretary of State for Energy Security and Net Zer, Statement made on 10 February 2025, https://questions-statements.parliament.uk/written-statements/detail/2025-02-10/hcws424
[51] Independent Review of Greenhouse Gas Removals: terms of reference - GOV.UK

Glossary:

The following sets out how we are defining and using terms within the context of this consultation document. These are largely taken or adapted from terminology in publications associated with the UK Government and are provided here as working definitions for the purposes of this consultation.

Afforestation - the direct human-induced conversion of land that has not been forested for a period of at least 50 years to forested land, through planting, seeding and/or the human-induced promotion of natural seed sources.

Assurance - a process that aims to provide confidence or certainty in an outcome. The level of certainty may vary according to certain factors, such as the amount of evidence/data available, the possible error margins identified, or the techniques used to assess the data. Conformity assessment may help to achieve assurance. An assurance framework is a mechanism for providing a range of assurance activity to a market.

Baseline - description of the state of supply area in the absence of the actions to supply credits to market(s)

Biodiversity credit – a certificate that represents a measured evidence-based unit of positive biodiversity outcome that is durable and additional to what would have otherwise occurred.

Buyer - party who (is registered to) buy(s) credits (in a market registry)

Carbon Market - A market which supports the trade in credits each representing a verified tonne of CO_2 (or other Greenhouse Gas (GHG) in CO_2 equivalent (e)) that could have been released into, or has been removed from, the atmosphere.

Co-benefits – the biodiversity, ecosystem services, and wider social, economic and cultural benefits from a nature-based activity that are not necessarily quantified, sold or traded. For example, enhancing adaptation to climate change, improved access to food and water, alleviating poverty, green job provision, improved forest governance, protecting Local and Indigenous rights, and diversified livelihoods.

Conformity assessment - the demonstration that what is being supplied meets the requirements specified or claimed. It is a process demonstrating whether specified requirements relating to a product, process, service, system, person or body have been fulfilled.

Credit - unit of additional environmental output or outcome generated through a quantification process, which can be issued into a registry and traded. Credits can be pending, or verified, and actions to supply them can be validated. Credits can be retired to support a corporate claim, based on the verified impact they represent. Different credit types represent different units of measured environmental improvements generated by different management actions that can be sold in markets.

Crediting scheme / programme - Crediting schemes/programmes typically provide project design and credit supply requirements and either have proprietary methodologies or work with independent methodologies for benefit quantification and verification. They may also operate registries that issue, transfer and retire credits. In this document, crediting 'schemes' generally applies in the UK context, and 'programme' internationally.

Double counting – when multiple organisations or multiple countries claim the same environmental outcome towards more than one of the same target type, e.g. two countries each claiming the same carbon credit towards their national climate targets.

Ecosystem service - functions of the natural environment that directly or indirectly provide benefits for people.

Emerging Markets and Developing Economies (EMDEs) – Developing nations that are becoming more engaged with global markets and trade but without all the characteristics of a developed market.

Environmental markets - enable the generation and trade of credits representing climate and broader environmental outcomes, for voluntary or compliance purposes.

Environmental outcome / output – environmental outcome is the measurement of the change to the environment after management action(s) has been implemented. Measurement of the immediate or short-term result of management action(s) on the environment is the environmental output. An environmental outcome might relate to the ecosystem, biodiversity, or an ecosystem service. Reduced nutrient emissions from agriculture or tree planting are examples of outputs, which can lead to improved water quality in habitats or ecosystems, or the establishment of woodlands, respectively, as outcomes. Where an environmental outcome is referred to, this could be shorthand for "outcome or output".

Governance – rules, processes, and structures through which decisions are made, the way in which decisions are implemented, regulated and enforced, and the way in which competing interests are managed. This includes consideration of key actors, institutions, and knowledge types (and the power dynamics between them) and how they shape decisions.

Greenhouse Gas Removals–a group of methods that actively remove greenhouse gases, predominantly CO2, from the atmosphere, achieving negative emissions. The range of GGR approaches fall broadly into two categories; nature-based approaches, such as afforestation, and soil carbon sequestration; and engineering-based approaches, such as Direct Air Carbon Capture and Storage, Bioenergy with Carbon Capture and Storage, biochar, and enhanced weathering.

Greenwashing - claims in which information relating to the environmental impact of a product, brand, business or service is hidden or misrepresented.

Indigenous Peoples – considering the diversity of Indigenous Peoples, there is no universally adopted term and an understanding can be based on the following: self-identification, historical continuity, strong link to territories and surrounding natural resources; distinct social, economic or political systems, distinct language, culture and beliefs; form non-dominant groups of society; resolve to maintain and reproduce their ancestral environments and systems as distinctive peoples and communities. Indigenous Peoples can be recognised as different and distinct peoples with discreet rights and interests as expressed in international and national instruments, and in traditional laws.

Insetting - interventions within an organisation's value chain that reduce and remove Scope 3 greenhouse gas emissions, whilst creating positive benefits and improving the resilience of communities, landscapes and ecosystems.

Integrity - Integrity is defined through the fairness, honesty, transparency and other characteristics that contribute to trust in a market.

Issuance - the creation and registration of a credit, usually occurring after verification.

Land use – considerations as to how land and its natural capital is owned, used, and managed.

Leakage - displacement of negative environmental impacts to outside the supply area.

Local Communities – can include 'communities of place' and are people who live, work and/or spend a continuous amount of time locally to the site of a nature-based activity and whose lives could be directly impacted by associated land use changes and/or governance processes.

Market intermediary / initiative - organisations or individuals (including codes, programmes, schemes, verification and validation bodies, information providers, trading platforms, auditors, registries, market operators) that contribute to market processes.

Market participant - party that has a direct economic interest in a trade.

Market regulator - body that regulates a market through oversight and control of its rules, such as on participation or trading requirements.

Nature Market A mechanism for the trading of credits of an environmental output or outcome.

REDD+ - 'Reducing emissions from deforestation and forest degradation'. A voluntary framework for international cooperation developed under the UNFCCC and included in Article 5.2 of the Paris Agreement to incentivise action on forest-based emissions reductions and removals in developing countries. The '+' stands for additional forest-related activities that protect the climate, namely sustainable management of forests and the conservation and enhancement of forest carbon stocks.

Registry - secure database that can uniquely register, store and track credits as they are bought, sold and retired.

Retire - Process of permanently removing a credit from a market, so that it cannot be used in any future period, by changing its status on its registry.

Scope emissions - The GHG Protocol Corporate Standard classifies a company's GHG emissions into three 'Scopes'. Scope 1 emissions are direct emissions from owned or controlled sources. Scope 2 emissions are indirect emissions from the generation of purchased energy. Scope 3 emissions are all indirect emissions (not included in Scope 2) that occur in the value chain of the reporting company, including both upstream and downstream emissions.

Seller - sell side counterparty in a credit transaction. The seller might be different to the supplier, e.g. where an intermediary manages a sale of credits.

Supplier - party or parties holding the rights to manage the supply area or project to generate credits, and with legal responsibility for delivering the credits' environmental output(s) and/or outcome(s)

Unit - defined measurement of a quantity, used as a standard metric. Units can measure the state of the environment or a flow of an ecosystem service.

Validation - evaluation of management actions and other credit supply actions against their intended environmental outputs or outcomes and other requirements for the supply of credits.

Verification - process of periodic evaluation of the environmental outputs and/or outcomes achieved by management actions.

Voluntary markets – a summary term used when discussing voluntary carbon and nature markets together.

This publication is available from: www.gov.uk/government/consultations/voluntary-carbon-and-nature-markets-raising-integrity

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