

Guide to good practices for voluntary carbon markets

Supporting voluntary mitigation action with carbon credits

Anna Laine, Hanna-Mari Ahonen, Anna Pakkala, Jenni Laininen,
Kati Kulovesi, Iris Mäntylä

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Gaia Consulting Oy, Perspectives Climate Group GmbH, Laininen Law Oy,
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Abstract

Organisations use carbon credits bought from voluntary carbon markets to make climate claims related to their organisations, products and services. However, there has been much uncertainty around the production of these credits and the claims related to those credits. Good practices dictate that credible offsetting and contribution claims should be based on mitigation outcomes that fulfil internationally established minimum criteria. According to the law on environmental claims, claims should be clear, unambiguous, truthful, and verifiable. Otherwise, the claim can be considered misleading or so-called “greenwashing”.

This guide aims to synthesize and clarify international good practices for the Finnish context to improve the trustworthiness of Finnish carbon markets and to promote clarity and trust in the quality of climate claims and the production of the credits on which those claims are based.

The guide covers good practices for producers of carbon credits, those using carbon credits, and for consumers. Supporting background is presented on the current state of climate claims in Finland and current regulation on voluntary mitigation action and climate claims. In addition, the report gives recommendations for developing and supervising claims. The good practices and international guidance presented here are current as of the time of writing. International and national good practices, guidance, and regulation are developing continuously and rapidly.

Keywords emissions offsetting, carbon markets, carbon neutrality, carbon capture, emissions, communications, marketing, consumer protection, climate change

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Opas vapaaehtoisen hiilimarkkinoiden hyviin käytäntöihin Vapaaehtoisten ilmastotekojen edistäminen ilmastoyksiköillä

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Tiivistelmä

Vapaaehtoisilta hiilimarkkinoilta voi ostaa ilmastoyksiköitä, joita käytetään ilmastoväittämien tekemiseen yritysten, tuotteiden ja palveluiden markkinoinnissa. Näiden yksiköiden tuottamiseen sekä niiden käyttöön liittyviin väittämiin on liittynyt kuitenkin paljon epäselvyyttä. Hyvien käytäntöjen mukaan uskottavien ilmastoväittämien tulee perustua kansainvälisesti vakiintuneet minimikriteerit täyttäviin yksiköihin. Ympäristöväittämiä koskevan lainsäädännön mukaisesti ilmastoväittämien tulee olla selkeitä, yksiselitteisiä, todenperäisiä ja niiden todenperäisyys tulee olla tarkistettavissa. Muutoin väittämää voidaan pitää harhaanjohtavana tai nk. "viherpesuna".

Opas pyrkii kansainvälisten hyvien käytäntöjen kokoamiseen ja niiden selventämiseen kotimaisessa kontekstissa, jotta kotimaisten hiilimarkkinoiden luotettavuutta voidaan parantaa ja ilmastoväittämiin ja niihin liittyvien ilmastoyksiköiden tuottamiseen liittyvää epävarmuutta voitaisiin välttää.

Opas kattaa hyvät käytännöt ilmastoyksiköiden tuottajille, yksiköiden käyttäjille ja yksityisille kuluttajille. Hyviä käytäntöjä tukee taustakartoitus ilmastoväittämien nykytilanteesta Suomessa ja vapaaehtoisia ilmastotekoja ja väittämiä koskevasta lainsäädännöstä. Lisäksi raportissa annetaan suosituksia väittämien kehittämiseksi ja valvonnaksi tulevaisuudessa. Tässä raportissa esitetyt hyvät käytännöt ja kansainväliset ohjeistukset perustuvat tilanteeseen kirjoitushetkellä. Kansainväliset ja kansalliset hyvät käytännöt, ohjeet ja sääntely kehittyvät jatkuvasti ja nopeasti.

Asiasanat kompensointi, hiilimarkkinat, hiilineutraalius, hiilensidonta, päästöt, viestintä, markkinointi, kuluttajansuoja, ilmastonmuutos

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Vägledning till god praxis för frivilliga koldioxidmarknader Främjandet av frivilliga klimatåtgärder med hjälp av koldioxidkrediter

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Referat

Handel med frivilliga utsläppsminskningar, s.k. koldioxidkrediter, används till att göra klimatpåståenden i marknadsföringen av företag, produkter och tjänster. Det har dock funnits en hel del oklarheter kring klimatpåståenden baserade på produktionen och användningen av frivilliga koldioxidkrediter. Enligt god praxis måste trovärdiga påståenden om kompensation och klimatinsatser baseras på begränsningsresultat som uppfyller internationellt fastställda minimikriterier. I enlighet med lagstiftningen om miljöpåståenden måste påståenden vara klara, entydiga, sanningsenliga och deras sanningshalt måste kunna verifieras. I annat fall kan påståendet anses vara vilseledande och så kallad "grönmåling".

Denna guide syftar till att sammanställa internationell god praxis och förtydliga den i ett inhemskt sammanhang så att tillförlitligheten på den inhemska koldioxidmarknaden kan förbättras och osäkerheten kring klimatpåståenden baserade på frivilliga koldioxidkrediter kan undvikas.

Guiden omfattar god praxis för producenter av koldioxidkrediter, deras användare samt konsumenter. Som bakgrund presenteras det aktuella läget för klimatpåståenden i Finland och gällande reglering om frivilliga klimatåtgärder och -påståenden. Rapporten ger rekommendationer för utveckling och övervakning av klimatpåståenden. Den goda praxis och riktlinjer som presenteras avspeglar situationen i skrivande stund. Internationell och nationell god praxis, riktlinjer och reglering är i ständig och snabb utveckling.

Nyckelord kompensering, kolmarknader, kolneutralitet, kolbindning, klimatförändring, kommunikation, marknadsföring, konsumentskydd, utsläpp

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This report is a compilation of good practices for voluntary carbon markets prepared by the authors with a view to encouraging their adoption in Finland.

The report was written on the basis of the best available information. The regulatory framework for voluntary mitigation action is still incomplete and dynamic. The sector's practices, the legal framework and interpretations of public authorities are continuously reshaping and evolving.

The report's drafting process coincided with various ongoing legislative processes, in particular at the EU level, the outcomes of which will influence the matters discussed in the report. The most important of these include the Commission Proposal for a Regulation establishing a Union certification framework for carbon removals (COM(2022) 672 final), the Commission Proposal amending the Unfair Commercial Practices Directive (COM(2022) 143 final), and the EU initiative on substantiating environmental claims (Ref. Ares(2020)3820384 - 20/07/2020).

1 Introduction

Mitigating climate change calls for accelerating and strengthening mitigation action to a significant extent both in Finland and around the world. Current actions are clearly not enough to achieve the global goal agreed in the Paris Climate Agreement to hold the increase in the global average temperature to well below two degrees Celsius and to pursue efforts to limit the increase to 1.5°C. The latter 1.5°C target has been placed front and centre of international climate policy in recent years. At the same time, however, the target is slipping further and further out of reach in light of global emissions trends – achieving the target would require urgent and significant further action.

According to international good practices, all operators should first and foremost reduce their own emissions and cut down their own carbon footprint. They can complement their own mitigation action by supporting other parties' voluntary mitigation action that would not otherwise take place. This cooperation would allow them to cut more global net emissions than would be possible when acting alone.

Voluntary carbon markets may play their own role in achieving the 1.5°C target. They can facilitate the global climate effort by channelling support to voluntary greenhouse gas emissions reductions and carbon removals ('mitigation outcomes') that would otherwise fail to take place or would only be implemented at a later date. They can help achieve and surpass ambitious climate targets, thus paving the way for additional and more ambitious mitigation action. The units traded are certified carbon credits that meet the established minimum criteria.

Supporting voluntary mitigation action has become increasingly popular among businesses and several other parties, especially since the conclusion of the Paris Agreement. This support is typically related to the emissions – i.e. carbon footprint – of an operator, product or service by purchasing the corresponding number of certified carbon credits from voluntary carbon markets. In many cases, these are also used as a basis for making claims about carbon neutrality or about offsetting emissions, as part of marketing that is targeted at consumers, financing bodies and/or other stakeholders. An increasing number of non-state actors around the world and in Finland have climate targets and claims concerning carbon neutrality and net zero emissions, often involving the use of certified carbon credits.

Over 20 years of experience with voluntary carbon markets has shown that voluntary mitigation action can, at its best, promote climate benefits and sustainable development but, at its worst, be harmful due to evasion of organisational mitigation action, misleading climate claims, or various adverse social and environmental effects. This is why it is important to compile and apply good practices relating to voluntary mitigation action.

Over time, many actors have contributed to the development of internationally established minimum criteria for carbon credits, with a view to ensuring that voluntary mitigation actions lead to real, additional, quantified and permanent climate benefits and sustainability. Several international, independent and national programmes issue certified carbon credits for mitigation outcomes that meet these established minimum criteria.

The guidelines and good practices for implementing the minimum criteria are continuously being refined to make them more reliable, consistent and commensurate with the rules developed under the Paris Agreement. This development work is carried out by individual states, international organisations such as the United Nations (UN) and its specialised agencies, including the International Civil Aviation Organisation (ICAO), as well as the European Union (EU) and several non-state actors.

The good practices highlighted in this report focus on certified carbon credits as a means of supporting voluntary mitigation action. It is important to bear in mind, however, that mitigation action can – and needs to be – also supported by other means, such as by financing emissions reductions or carbon removals that are short-term, difficult to measure or planned for the future, as well as research and development (R&D) geared towards stepping up mitigation action. Many mitigation actions contribute to the achievement of climate targets, even though they fail to meet the minimum criteria for carbon credits in all respects. The minimum criteria for carbon credits ensure the consistency and credibility of claims related to carbon credits.

This report is a compilation of international good practices and minimum criteria prepared by the authors with a view to promoting their application in Finland. For the purposes of the report, the authors compared the guidelines and practices created by different countries, international organisations and non-state actors. The report aims to take into account, as far as possible, the regulation being drafted in the contexts of the Paris Agreement and the European Union, the good practices guidelines and recommendations prepared by key bodies concerning both the generation of high-quality carbon credits and presentation of credible claims relating to their voluntary use.

The report was written on the basis of the best available information. The good practices compiled in the report cover the following three target groups: carbon credit producers; credit users and claimants presenting claims based on their use; and consumers. The

regulatory framework and practices concerning relevant claims are still incomplete and continuously evolving. The drafting of the report coincided with legislative processes still underway within the EU, the outcomes of which may have a significant impact on the regulatory field concerning voluntary mitigation action. The most important legislative processes concern certification of carbon removals, environmental claims, corporate sustainability reporting and corporate sustainability due diligence.

This report reflects the situation in late 2022, recognising that the field is constantly changing. The aim is to update the good practices as required, in order to take account of key developments. As a compilation of good practices prepared by the authors, this report has no legal or binding status. The relevant regulatory framework and the public authorities' interpretation and application approaches are evolving rapidly. Compliance with these takes priority over voluntary good practices.

2 Key terminology

The good practices compiled in this report focus on **voluntary mitigation action based on carbon credits**. This refers to actions aiming to reduce greenhouse gas (GHG) emissions or enhance carbon removals from the atmosphere (collectively referred to as **mitigation outcomes**) by producing or purchasing **carbon credits** that meet the minimum criteria set for them.

The basic premise for good practices is that the credits eligible as voluntary mitigation action should meet the following internationally established minimum criteria: additionality, robust baselines, robust quantification methodologies, monitoring and reporting of emissions and mitigation outcomes, independent verification, permanence, avoidance of carbon leakage, avoidance of double counting (double issuance, use and/or claiming), and avoidance of significant harm, known as the 'do no significant harm' (DNSH) principle.

Several international, independent and national certification schemes known as **carbon crediting programmes** have been developed for the purpose of assessing whether the minimum criteria are met. These programmes provide a framework for independent third parties to assess, i.e. **validate**, mitigation activities and **verify** mitigation outcomes. The programme governing body, in turn, **registers** the mitigation activities that meet the criteria and issues carbon credits. Such programmes typically keep a registry of the credits issued and their transfers and use. The voluntary use of a credit means that it is cancelled in the **registry**. This ensures that a specific carbon credit is only used once, avoiding double issuance and use.

Organisations can buy credits from voluntary carbon markets through brokers or intermediaries or directly from credit producers. Buyers typically relate the number of credits purchased in proportion to either the total emissions of their organisation or to the carbon footprint of certain parts of its operations, products or services, aiming to use the credits to cover all or some of the emissions. Naturally, it is also possible to purchase credits above and beyond the level of emissions.

It is also common for organisations purchasing credits from voluntary carbon markets to make claims about the use of the credits. The good practices presented here define two types of claims: offsetting claims and contribution claims.

An **offsetting claim** means counterbalancing the negative climate impact caused by emissions from a certain source (organisation, product, service) using at least an equivalent number of carbon credits that are based on mitigation outcomes not counted as part of tracking and accounting of any country's climate target. Double claiming is avoided by only counting the mitigation outcome towards the entity making the offsetting claim. An offsetting claim can cover the emissions of a source or operator in part or in full. A **carbon neutrality claim** is an offsetting claim covering emissions from the source in full.

A **contribution claim** refers to supporting voluntary mitigation action by means of carbon credits, which are based on mitigation outcomes counted as part of tracking and accounting of a country's national climate targets, helping that country achieve its climate targets. Double claiming is avoided by only counting the mitigation outcome towards the country's national climate targets. A contribution claim means that the claimant, i.e. the entity making the claim, has contributed to national climate targets by purchasing carbon credits that meet the minimum criteria. In other words, the claimant does not count the mitigation outcomes from the credits towards offsetting the climate impact of its own emissions.

Table 1. Key terminology

English	Description
Carbon credit	In this report, a carbon credit refers to a mitigation outcome that equals to one tonne of carbon dioxide equivalent, meets the minimum criteria for carbon credits and is certified by a carbon crediting programme. According to established practice in carbon markets, a carbon credit is generated in a registry.
Carbon crediting programme; certification scheme (used in EU contexts)	A programme providing a framework for registering mitigation activities and monitoring their mitigation outcomes. Programmes that are consistent with good practices are independently managed, require compliance with the minimum criteria for carbon credits, issue carbon credits and monitor their transfers and uses.
Carbon dioxide removal, carbon removal (hereinafter referred to as 'carbon removal')	Carbon dioxide removals, commonly known as 'carbon removals', refer to approaches that remove carbon dioxide (CO ₂) from the atmosphere by technological means and through sequestration in the land use sector, i.e. the agriculture, forestry and other land use (AFOLU) sector.
Carbon neutrality claim	An offsetting claim that covers the carbon footprint of a specific source in full.
Carbon neutrality, climate neutrality, greenhouse gas neutrality	At the global level, the Intergovernmental Panel on Climate Change (IPCC) defines carbon neutrality, or net zero CO ₂ emissions, as a state of balance between CO ₂ emissions and CO ₂ removals. In addition to CO ₂ emissions, carbon neutrality may also refer to other greenhouse gas (GHG) emissions. By way of example, Finland's carbon neutrality targets also cover emissions of other greenhouse gases alongside carbon dioxide ¹ . At an organisational level, carbon neutrality typically means that the organisation's residual (CO ₂ and possibly other GHG) emissions are offset by at least an equivalent number of carbon credits that meet the minimum criteria in terms of avoiding double counting, among other factors ² .

1 Carbon dioxide (CO₂), methane (CH₄), nitrous oxide (N₂O) and fluorinated greenhouse gases (HFCs, PFCs, SF₆ and NF₃).

2 Intergovernmental Panel on Climate Change, 2022: Annex I: Glossary [van Diemen, R., J.B.R. Matthews, V. Möller, J.S. Fuglestvedt, V. Masson-Delmotte, C. Méndez, A. Reisinger, S. Smenov (eds)]. In: IPCC, 2022. Climate Change 2022: Mitigation of Climate Change. Contribution of Working Group III to the Sixth Assessment Report of the Intergovernmental Panel on Climate Change [P.R. Shukla, J. Skea, R. Slade, A. Al Khourdajie, R. van Diemen, D. McCollum, M. Pathak, S. Some, P. Vyas, R. Fradera, M. Belkacemi, A. Hasija, G. Lisboa, S. Luz, J. Malley, (eds.)]. Cambridge University Press, Cambridge, UK and New York, NY, USA. doi: 10.1017/9781009157926.020. Available in English at: https://www.ipcc.ch/report/ar6/wg3/downloads/report/IPCC_AR6_WGIII_Annex-I.pdf.

English	Description
Contribution claim, impact claim, climate finance claim	A claim that specific voluntary mitigation action contributes to achieving the climate targets of a certain country. This is based on carbon credits that represent mitigation counted towards that country's national climate targets (Nationally Determined Contributions, NDCs and/or other national mitigation targets). Double claiming is avoided by only counting the mitigation outcome as part of tracking and accounting of the country's national climate targets.
Mitigation activity	An intervention to reduce greenhouse gas emissions or enhance carbon removals, aiming to mitigate climate change.
Mitigation outcome	A reduction in greenhouse gas emissions or an increase in carbon removals equal to one tonne of carbon dioxide equivalent (CO ₂ e or CO ₂ -eq).
Monitoring	Monitoring the emissions and mitigation outcomes of a mitigation activity and calculating these in keeping with specific quantification methodologies.
Net zero	At the global level, the IPCC defines net zero as a synonym to carbon neutrality ³ . There is no established definition for net zero at an organisational level. The Science Based Targets initiative defines corporate net zero as a situation in which a company has reduced its direct and indirect emissions in line with the 1.5°C target, achieved its 1.5°C-aligned long-term target by reducing emissions in its own value chain (i.e. without the use of credits based on mitigation outcomes achieved outside the value chain), and offset any residual emissions with removals (within or beyond its value chain) ⁴ .
Offsetting claim	A claim that the climate harm caused by emissions from a certain source (organisation, product, service) is counterbalanced (in terms of global net emissions) with at least an equivalent number of carbon credits equal to the emissions based on mitigation outcomes that are not counted as part of tracking and accounting of any country's national climate targets. An offsetting claim can cover all or part of emissions from the source. A carbon neutrality claim is an offsetting claim covering emissions from the source in full. Double claiming is avoided by only counting the mitigation outcome towards the claimant.
Validation	An ex-ante assessment performed by an independent third party of the compliance of the mitigation activity with minimum criteria prior to its implementation.
Verification	An ex-post evaluation performed by an independent third party of the quantity of mitigation outcomes achieved during the monitoring period and quantified in keeping with the minimum criteria after the mitigation activity has been implemented.
Voluntary mitigation action	This report focuses on voluntary mitigation actions to reduce emissions or enhance carbon removals supported by producing or purchasing carbon credits that meet the minimum criteria.

³ Intergovernmental Panel on Climate Change: Frequently Asked Questions, FAQ 1.3. Available in English at: https://report.ipcc.ch/ar6wg3/pdf/IPCC_AR6_WGIII_FAQ_Chapter_01.pdf.

⁴ Science Based Targets Initiative, 2022: The Net Zero Standard. Available in English at: <https://sciencebasedtargets.org/net-zero>.

3 Good practices for voluntary production and use of credits in Finland

3.1 Good practices for credit producers

3.1.1 Minimum criteria for and certification of carbon credits

Almost all carbon crediting programmes apply internationally established minimum criteria with a view to ensuring the quality of carbon credits.

Relevant EU legislation

Released in November 2022, the European Commission's proposal for a Regulation establishing a Union certification framework for carbon removals⁵ includes four key minimum criteria for carbon removals eligible for certification: quantification of removals, determination of additionality and baselines, long-term storage relating to the permanence of removals, and sustainability of removals. The Commission's proposal refers to these as the 'QU.A.L.I.TY criteria'. The impact assessment of the proposal identified best practices for these criteria, while recognising that the certification approach for each of these criteria will differ across carbon removal activities. According to the Commission's proposal, organisations would only be able to use credits that meet the minimum criteria and have been certified by an independent body within the framework of a certification scheme recognised by the EU.

The non-binding guidance on the interpretation and application of Unfair Commercial Practices Directive 2005/29/EC⁶ deals with the general minimum criteria for carbon credits. It suggests that carbon neutrality claims can be problematic if the climate impacts of the underlying carbon credits are ineffective and if they do not represent real mitigation

5 COM(2022) 672 final: Proposal for a Regulation of the European Parliament and of the Council establishing a Union certification framework for carbon removals. Available in English at: <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:52022PC0672>. Accessed on 2 December 2022.

6 Commission Notice 2021/C 526/01: Guidance on the interpretation and application of Directive 2005/29/EC of the European Parliament and of the Council concerning unfair business-to-consumer commercial practices in the internal market, p. 77. Official Journal of the European Union 29.12.2021. Available in English at: [https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:52021XC1229\(05\)](https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:52021XC1229(05)). Accessed on 16 November 2022.

outcomes. Furthermore, it points out that carbon removals claims should be authentic, robust, transparent, reported, monitorable, verifiable, credible, certified, should not undermine near-term emission reduction action in emitting sectors, should guarantee additionality and should ensure an appropriate accounting of carbon removals in national GHG inventories.⁷

The European Commission has also proposed that the Unfair Commercial Practices Directive be updated⁸ to provide that making general environmental claims, such as claims about carbon neutrality, would require demonstrating 'recognised excellent environmental performance' relevant to the claim. 'Recognised excellent environmental performance' means environmental performance compliant with national or regional ecolabelling schemes officially recognised in a Member State or top environmental performance in accordance with other applicable Union law.

Other EU legislation may also be relevant, such as the taxonomy of sustainable investment⁹ and the regulatory framework for corporate sustainability reporting¹⁰ and corporate sustainability due diligence¹¹. This regulatory framework guides companies to

7 National GHG inventories are based on UNFCCC reporting guidelines and IPCC methodological guidelines. Each inventory covers the entire country, using applicable calculation methods consistent with these international guidelines. The baseline data sources for the inventories include administrative documentation, statistics, surveys or other samples. It is not methodologically possible to include in an inventory the impact of emission reductions or removal enhancements due to an individual operator's mitigation activity at the operator's request, although it is appropriate to indicate the activities yielding mitigation outcomes as extensively as possible in a nationwide inventory.

8 COM(2022) 143 final: Proposal for a Directive amending Directives 2005/29/EC and 2011/83/EU as regards empowering consumers for the green transition through better protection against unfair practices and better information. Available in English at: <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:52022PC0143>. Accessed on 3 December 2022.

9 PE/20/2020/INIT: Regulation (EU) 2020/852 of the European Parliament and of the Council of 18 June 2020 on the establishment of a framework to facilitate sustainable investment, and amending Regulation (EU) 2019/2088. Available in English at: https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=consil:PE_20_2020_INIT. Accessed on 3 December 2022.

10 PE/35/2022/REV/1: Directive (EU) 2022/2464 of the European Parliament and of the Council of 14 December 2022 amending Regulation (EU) No 537/2014, Directive 2004/109/EC, Directive 2006/43/EC and Directive 2013/34/EU, as regards corporate sustainability reporting. Available in English at: <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:32022L2464>.

11 COM(2022) 71 final: Proposal for a Directive on Corporate Sustainability Due Diligence and amending Directive (EU) 2019/1937. Available in English at: <https://eur-lex.europa.eu/legal-content/EN/ALL/?uri=CELEX:52022PC0071>.

ensure that their investments are in alignment with the OECD Guidelines for Multinational Enterprises and the UN Guiding Principles on Business and Human Rights, including the principles and rights that are set out in the eight fundamental conventions identified in the Declaration of the International Labour Organization on Fundamental Principles and Rights at Work and the International Bill of Human Rights.

Good practices

International good practices relating to the minimum criteria for carbon credits and to the assessment of compliance with these have been and are being developed by states within the framework of international treaties. Key examples include the Clean Development Mechanism (CDM) under the Kyoto Protocol and the international carbon crediting mechanism established under Article 6.4 of the Paris Agreement, also known as the 'Article 6.4 Mechanism' (A6.4M). Minimum criteria have also been applied and developed within independent carbon crediting programmes established and managed by non-state actors, including the Gold Standard for the Global Goals (GS4GG) and the Verified Carbon Standard (VCS). There are also multiple voluntary mitigation action initiatives around the world, such as the Carbon Credit Quality Initiative (CCQI), the Integrity Council for the Voluntary Carbon Market (ICVCM) and the International Initiative for Development of Article 6 Methodology Tools (II-AMT).

These initiatives address minimum criteria in different ways. The CDM, A6.4M, GS4GG, VCS and other carbon crediting programmes assess the fulfilment of minimum criteria specifically for each mitigation activity, whereas the CCQI and ICVCM focus on assessing compliance with quality criteria at the level of activity types and programmes, rather than individual activities. The II-AMT develops tools to facilitate existing programmes and methodologies to meet the criteria of Article 6 of the Paris Agreement. The Gold Standard Foundation has also developed guidelines for assessing the minimum criteria within the framework of the Paris Agreement and specifically its Article 6¹².

12 Gold Standard, 2022: A Practitioners' Guide: Aligning the Voluntary Carbon Market with the Paris Agreement. Available in English at: <https://www.goldstandard.org/our-story/vcm-transition-framework>. Accessed on 16 December 2022.

The internationally established minimum criteria consistent with good practices require mitigation outcomes to:

1. be additional;
2. apply robust baselines;
3. apply robust quantification methodologies;
4. apply monitoring and reporting;
5. be permanent;
6. avoid carbon leakage;
7. be real, independently verified and certified;
8. avoid double counting;
9. do no significant harm (DNSH).

Further criteria included in some carbon crediting programmes cover the delivery, monitoring, reporting and verification of net positive sustainable development impacts.

The following sections explore the details of minimum criteria that carbon credit producers should take into account when planning and implementing mitigation activities. Further information about relevant EU legislation, international guidelines or other additional details is also provided in text boxes under each criterion.

3.1.1.1 **Additionality**

Additionality is a key minimum criterion to avoid taking voluntary mitigation action to support mitigation activities that would take place anyway due to legal requirements or financial attractiveness, for example. The additionality requirement aims to ensure that mitigation activities focus on the types of measures that need additional support through carbon credit sales to be implemented, thus contributing to climate change mitigation. Delivering additional mitigation outcomes is the only way to justify that they genuinely cover emissions from certain operations. Additionality has two dimensions: financial additionality and regulatory additionality (see also Box 1). Both dimensions of additionality should be met in accordance with good practices.

Relevant EU legislation

Additionality is one of the minimum criteria for certified carbon removals included in the Commission Proposal for a Regulation on carbon removal certification. According to the proposal, additional carbon removals should go beyond statutory requirements and would not take place without the incentive effect provided by the certification.

Commission Proposal: EU carbon removal certification¹³

A carbon removal activity must be additional. The carbon removal activity is additional if it:

- a) goes beyond Union and national statutory requirements; and
- b) takes place due to the incentive effect of the certification.

Additionality relative to a baseline must be demonstrated.

Note: According to the Commission Proposal, certified carbon removals could also contribute to achieving the targets set out in the EU Nature Restoration Law, which is currently under preparation.

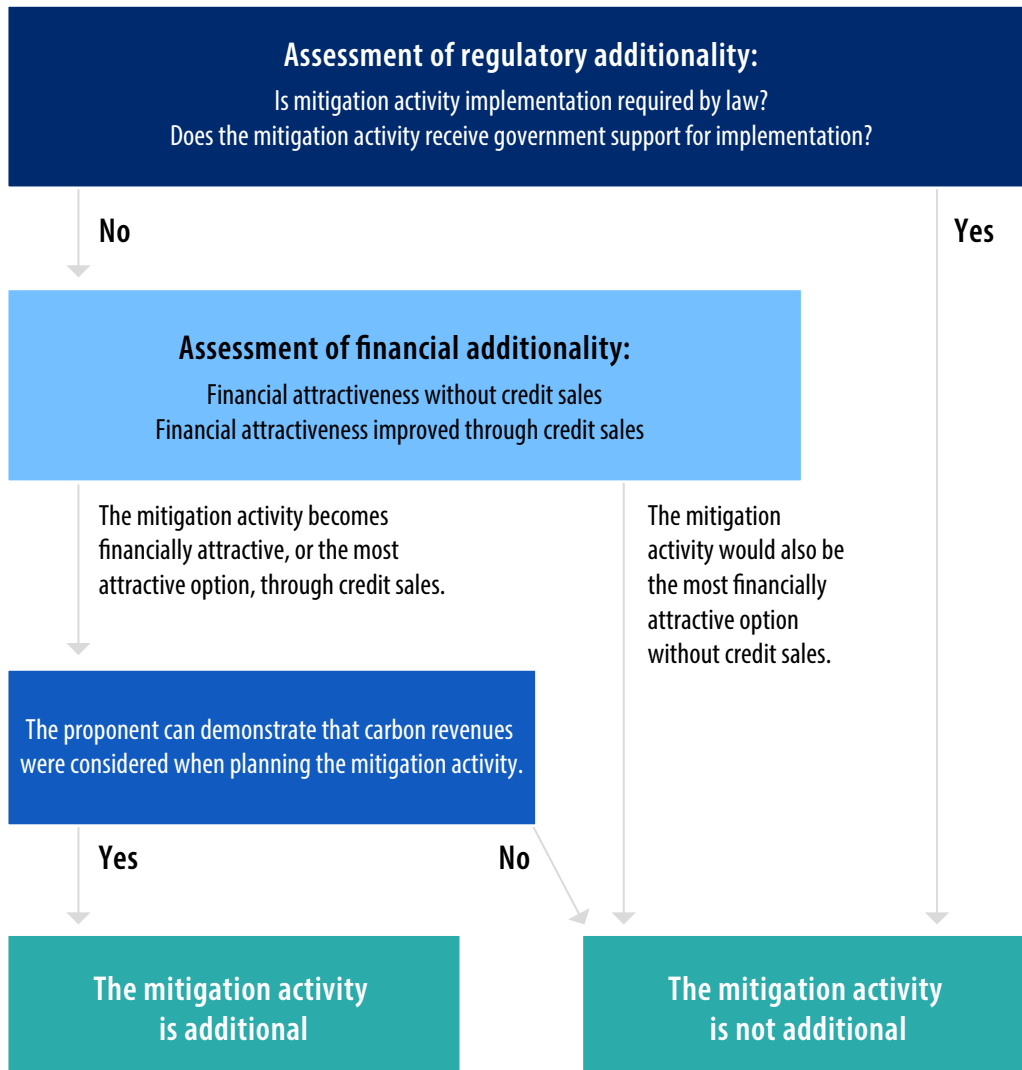
Good practices

Additionality is generally demonstrated and assessed specifically for each mitigation activity for the duration of a certain crediting period¹⁴. The developer of the mitigation activity should demonstrate that the activity is not required under any existing legislation or policy framework and that it is not financially attractive enough to be implemented at market conditions (without additional revenues from the sale of credits). Only mitigation outcomes that exceed the baseline are counted as additional. The fulfilment of the additionality criterion can be initially assessed by means of a decision tree (Figure 1).

¹³ COM(2022) 672 final: Proposal for a Regulation of the European Parliament and of the Council establishing a Union certification framework for carbon removals. Available in English at: <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:52022PC0672>. Accessed on 2 December 2022.

¹⁴ A crediting period is a period of time during which a mitigation activity registered by a carbon crediting programme may produce certified carbon credits. Crediting periods can be fixed or renewable.

Figure 1. Decision tree for determining additionality



Box 1. Good practices for additionality in international guidelines**Carbon Credit Quality Initiative (CCQI)¹⁵**

1. Mitigation activities required/triggered by law are not additional.
 - a) Mitigation activities required by law or produced/encouraged by policies are not additional.
 - b) If the law is amended during the implementation of a mitigation activity to the effect that the mitigation activity becomes a legal requirement, the mitigation activity no longer qualifies as additional.
2. Future sales of carbon credits should be considered and documented before proceeding to implement the mitigation activity.
3. The following profitability calculations should be performed to assess financial attractiveness:
 - a) Financial performance of the mitigation activity without carbon credit revenues (internal rate of return, IRR);
 - b) Improvement in financial performance of the mitigation activity due to carbon credit revenues (change in IRR);
 - c) Financial performance of the mitigation activity with carbon credit revenues.
4. Barriers
 - a) An analysis of whether mitigation activity implementation faces specific non-financial obstacles.

15 Carbon Credit Quality Initiative, 2022: Methodology for assessing the quality of carbon credits. Version 3.0. Available in English at: <https://carboncreditquality.org/download/Methodology/CCQI%20Methodology%20-%20Version%203.0.pdf>.

ICVCM draft quality criteria for carbon credits¹⁶

GHG emissions reductions or removal enhancements from a mitigation activity are additional if they would not have taken place in the absence of the added incentive created by the carbon credits. The ICVCM assesses the likelihood of additionality on the basis of typical financial viability, barriers and market penetration rates at the activity level and the rigour and thoroughness of the approach to additionality assessment at the programme level.

Draft II-AMT TOOL01¹⁷ for the assessment of additionality

Stepwise determination of additionality (see the II-AMT Tool for detailed descriptions):

1. Public notification of intent to earn carbon revenue (prior to start date of the activity);
2. Determination of regulatory additionality (consideration includes activities mandated or triggered by legal requirements during the crediting period of the mitigation activity, excluding overarching policy targets);
3. Evaluation of inherent financial additionality risks of the specific mitigation activity type;
4. Determination of financial additionality of the activity through investment analysis;
5. Re-assessment of regulatory additionality at the point of crediting period renewal.

16 The Integrity Council for the Voluntary Carbon Market, 2022: Core Carbon Principles, Assessment Framework and Assessment Procedure. Available in English at: <https://icvcm.org/public-consultation/#key-resources>.

17 Perspectives Climate Research, 2022: Tool for the Demonstration and Assessment of Additionality. Available in English at: https://www.perspectives.cc/public/fileadmin/user_upload/II-AMT_Demonstration_and_assessment_of_additionality_.pdf.

Additionality criteria of the Article 6.4 Mechanism of the Paris Agreement¹⁸

Mechanism methodologies must define an approach for demonstrating additionality. Additionality must be demonstrated by showing that the activity would not have occurred in the absence of the incentives from the mechanism, taking into account all relevant national policies, including legislation, and taking a conservative approach that avoids locking in levels of emissions, technologies or practices incompatible with national climate targets and the long-term goal of the Paris Agreement.

Financial additionality

'Financial additionality' means that a specific mitigation activity and its mitigation outcomes would not take place in the absence of revenues from carbon credit sales. In other words, implementing the mitigation activity must not be an attractive option for its proponent at market conditions. Any possible government support to implementation of the mitigation activity must be considered as part of assessing financial attractiveness. If the mitigation activity is implemented with government support (e.g. implementation becomes attractive due to government support), it is not financially additional. Any support to activity development (e.g. planning, quantification of mitigation outcomes or verification) does not have a bearing on additionality assessment.

Financial additionality focuses on the financial attractiveness of a mitigation activity. Proceeds from carbon credits should render a less viable option the most attractive one or an unattractive option viable, by means such as reducing the payback period of the activity to a feasible level. Demonstration of financial additionality also requires showing that the revenues from carbon credit sales were considered when planning the implementation and calculating the profitability of the mitigation activity before making the decision to proceed with the activity.

¹⁸ Decision 3/CMA.3: Rules, modalities and procedures for the mechanism established by Article 6, paragraph 4, of the Paris Agreement. Available in English at: https://unfccc.int/sites/default/files/resource/cma2021_10a01E.pdf. Accessed on 20 December 2022.

For further information on assessing financial additionality, please consult the Clean Development Mechanism additionality tool¹⁹ (steps 'Investment analysis' and 'Common practice analysis'). The top-level CCQI criteria for additionality are provided above in Box 1. For further details of the criteria, see the original documentation. The ICVCM additionality criteria and their assessment methodologies will probably be specified during 2023 as part of the final assessment framework. Likewise, the final version of the II-AMT additionality tool will probably be published during 2023.

Regulatory additionality

Additionality is also determined in relation to government policies. Where a specific activity is mandated by existing or planned legal requirements, it is not additional²⁰. If the mitigation activity receives substantial government support (for afforestation, fertilisation, etc.) as a result of government policies, it is not additional.

Box 2. Additionality relevant to climate targets

Following the Paris Agreement, considerations relating to national climate targets are being introduced as part of additionality determination alongside financial and regulatory additionality. Mitigation outcomes that are not counted towards achieving any country's climate targets are additional to climate targets, and can help to close the so-called ambition gap between national targets and the global 1.5°C pathway (Figure 2). Mitigation outcomes counted towards achieving national climate targets may be additional to the extent that they help close the so-called implementation or action gap between existing and planned policies and measures and the emission pathway required to achieve the targets (Figure 2).

19 United Nations Framework Convention on Climate Change: Clean Development Mechanism Methodological Tool – Tool for the demonstration and assessment of additionality. Version 07.0.0. Available in English at: <https://cdm.unfccc.int/methodologies/PAMethodologies/tools/am-tool-01-v7.0.0.pdf>.

20 As an exception, the EU has suggested that mitigation measures contributing to the proposed Nature Restoration Law could be considered additional provided that they meet the other requirements for additionality.

Ideally, national climate targets would be aligned with the 1.5°C pathway, meaning that there would be no ambition gap, and national government policies would be sufficient to achieve the targets, meaning that there would be no action gap. In reality, both ambition and action gaps exist in many countries. Their assessment is challenging. According to the Finnish Climate Change Panel, Finland's national climate target is aligned with the 1.5°C pathway, which means that there is no ambition gap in Finland²¹. The Climate Change Panel has also assessed the sufficiency of mitigation actions²². The 2022 Annual Climate Report²³ indicates that Finland currently has an action gap in emissions reductions equal to 4.2 million tonnes (Mt), which means the amount of additional emissions reductions required on top of current activities and those listed in the Medium-Term Climate Change Policy Plan and the Climate and Energy Strategy in order to achieve the 2035 carbon neutrality target. The target also requires a 21 Mt carbon sink. As Finland's land use sector was an emissions source rather than a carbon sink in 2021²⁴, Finland currently has a significant action gap in terms of carbon sinks.

In other words, there is a risk that even the binding targets will not be achieved in full if sufficient policies are not adopted, or if they turn out to be less effective than expected. This is particularly the case for ambitious, 1.5°C-aligned targets. In this context, it is possible – and would be desirable – to also use additional voluntary mitigation actions to bridge the gap, especially in the short run. Over time, such actions may become policies; in other words, they may be additional in the near term, but not necessarily in a longer perspective. In terms of additionality to climate targets, it is essential to ensure that additional mitigation outcomes credited towards achieving

21 Finnish Climate Change Panel, 2019: An Approach to Nationally Determined Contributions Consistent with the Paris Climate Agreement and Climate Science: Application to Finland and the EU. Available in English at: https://www.ilmastopaneeli.fi/wp-content/uploads/2019/10/Finlands-globally-responsible-contribution_final.pdf

22 Finnish Climate Change Panel, 2022: Ilmastotoimien riittävyyden arviointi vuosien 2030 ja 2035 tavoitteiden osalta (Assessment of the sufficiency of mitigation action with regard to the 2030 and 2035 targets). VN/990/2022 Assessment Request. Available in Finnish at: https://www.ilmastopaneeli.fi/wp-content/uploads/2022/02/VN-990-2022_ilmastotoimien-arviointi_ilmastopaneeli.pdf

23 Ministry of the Environment, 2022: Ilmastovuosikertomus 2022 (Annual Climate Report 2022). Tiivistelmä (Executive Summary). Available in Finnish at: <https://urn.fi/URN:ISBN:978-952-361-068-2>

24 Statistics Finland, 2022: Official Statistics of Finland (OSF): Greenhouse gases [online publication]. Reference period: 2021. Helsinki: Statistics Finland [Referenced: 20.12.2022]. Access method: <https://stat.fi/en/publication/cktldez2g39g20c53gh3lp5jo>.

binding national climate targets will not dilute, delay or displace policies that would have otherwise achieved equivalent mitigation outcomes without any voluntary action.

In other words, a mitigation outcome may be considered additional even if it were counted towards achieving national climate targets. The Article 6.4 Mechanism of the Paris Agreement issues carbon credits for mitigation outcomes that meet its criteria, including additionality and compatibility with national climate targets and the long-term goal of the Paris Agreement. The credits issued through the mechanism may be based on mitigation outcomes which are either counted towards national climate targets, known as 'mitigation contribution A6.4 emission reductions' (A6.4ERs), or authorised by the host country ('authorised A6.4ERs') and therefore not counted towards the host country's national targets. The carbon crediting programme administered by the Gold Standard Foundation also requires additionality assessment from the target-level perspective. Additional carbon credits may either count towards national targets as contribution claims or towards offsetting emissions as offsetting claims. Additionality is a key criterion in almost all national carbon crediting programmes (incl. Australia, France, Peru, Thailand and the United Kingdom), and the mitigation outcomes underlying the carbon credits issued through these programmes are counted towards national targets. In other words, the claims related to these represent contribution claims as referred to in this report.

From the perspective of climate targets, key questions include the extent to which, when and how long countries should also be able to make use of voluntary mitigation action to bridge their ambition and/or action gaps, and the extent to which and when countries should tighten their targets to align with the 1.5°C pathway and create adequate regulatory frameworks and incentives to meet the targets.

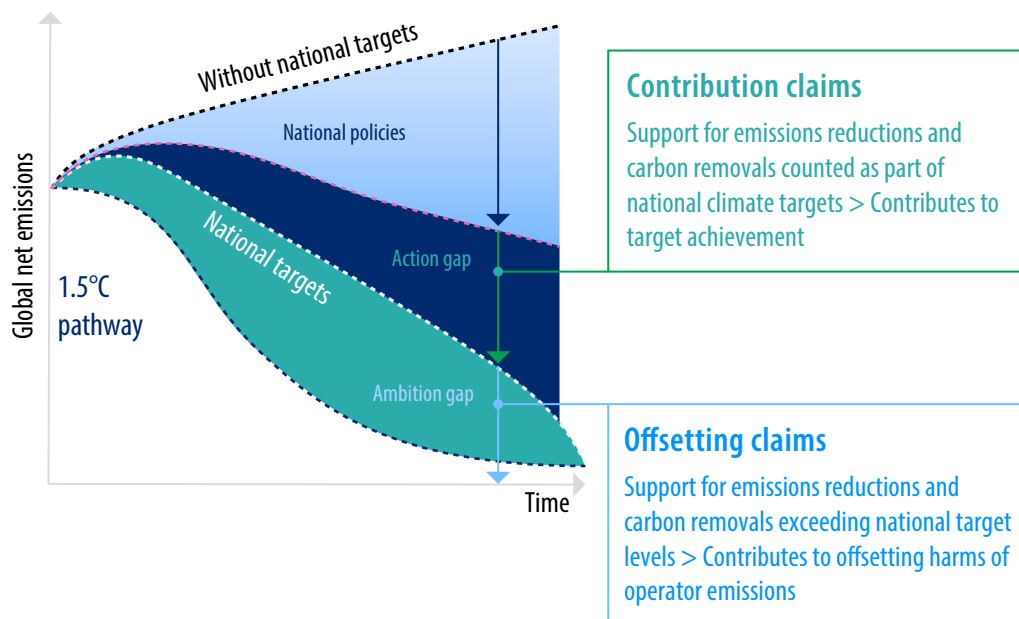
The UK Climate Change Committee²⁵ has recommended that the government should not, in the long term, rely on voluntary mitigation action to meet the national carbon neutrality target and should instead facilitate mitigation action through compliance regimes, government funding or

25 Climate Change Committee, 2022: Voluntary Carbon Markets and Offsetting. Available in English at: <https://www.theccc.org.uk/publication/voluntary-carbon-markets-and-offsetting/>

taxation. The Committee notes, however, that voluntary mitigation action could play a useful role in the near term, to help pave the way for a transition into compliance-based policies.

In a longer term, it is indeed reasonable to assume that legislated targets will be achieved in one way another, sooner or later. It would be advisable to have a national debate on these considerations as part of a broader climate strategy review.

Figure 2. Action and ambition gaps



3.1.1.2 Robust baseline setting

'Baseline' means a scenario used as a point of reference for a voluntary mitigation action to assess its mitigation impact – the baseline represents a plausible situation in the absence of the mitigation activity. The mitigation outcomes of voluntary mitigation actions are quantified and their additionality is determined in comparison to a baseline, which is a quantified estimate of the trend in emissions or carbon removals if the mitigation activity is not implemented. The baseline should be a credible scenario of the trajectory of GHG emissions or carbon removals in the absence of the mitigation activity.

Relevant EU legislation

Establishing baselines is one of the minimum criteria proposed by the Commission for certified carbon removals. The mitigation outcome of a mitigation activity should be quantified relative to a baseline. A baseline can either be standardised or specific to each mitigation activity.

Commission Proposal: EU carbon removal certification

A baseline can be set in two ways:

- a) A standardised baseline reflecting the standard carbon removal performance of comparable activities in similar social, economic, environmental and technological circumstances, taking into account the geographical context (recommended by the EU);
- b) An activity-specific baseline determined in terms of a project-specific baseline based on the operator's individual performance (trend without mitigation activities).

Baselines should be periodically updated to reflect social, economic, environmental and technological developments.

Good practices

According to good practices, setting a robust baseline requires consideration of current and planned policies and targets and conservativeness of assumptions. The baseline should take account of legal requirements, i.e. it should be consistent with national legislation. The baseline also takes into account the relevant emissions trends outside of the mitigation activity. Box 3 provides a compilation of good practices for baselines from various international guidelines.

Box 3. Good practices for baseline setting in international guidelines

Carbon Credit Quality Initiative (CCQI)

Baseline calculation must include:

- a. the degree to which the baseline is conservative and below business-as-usual, taking into account the uncertainties and the choice of assumptions, parameters, data sources and other factors (e.g. whether sound science is applied);
- b. implemented government policies and legal requirements;
- c. updating the baseline with new government policies and legal requirements, once adopted;
- d. taking any potential perverse incentives appropriately into account, where applicable;
- e. considering fast-changing circumstances, where applicable (e.g. by using dynamic baselines);
- f. considering the targets included in nationally determined contributions (NDCs) under the Paris Agreement (and EU targets derived from these) in determining the baseline (e.g. where NDCs include binding targets for the energy sector, these should be reflected in establishing emission factors for the energy system).

ICVCM draft quality criteria for carbon credits

Criterion 10.2: Steps for determining the baseline scenario and quantifying baseline emissions or removals:

Step 1: Uncertainty inherent in the baseline must be assessed and reported.

Step 2: The following aspects must be included in determining the baseline scenario:

1. the degree of conservativeness of the selected baseline scenario, in light of uncertainties;
2. whether the baseline scenario represents best available technology (BAT);
3. whether existing government policies and legal requirements are considered in determining the baseline;

4. no overestimation of the baseline scenario (taking into account any potential perverse incentives to inflate the baseline);
5. the frequency at which the baseline scenario needs to be updated to incorporate changing circumstances, such as policy changes.

Article 6.4 Mechanism under the Paris Agreement: baseline criteria

Each mechanism methodology must require the application of one of the approaches below to setting the baseline:

- a. baseline based on best available technologies;
- b. baseline based on ambitious benchmarks;
- c. baseline based on existing actual or historical emissions, adjusted downwards.

The baseline must be set taking into account uncertainties, national policies and measures, and national, regional and local, social, economic, environmental and technological circumstances.

Host countries may determine more ambitious baselines at the national level.

Setting a robust baseline requires consideration of current and planned policies (e.g. support for afforestation and fertilisation) and targets and conservativeness of assumptions. The baseline must consider existing legal requirements. The baseline also takes into account the relevant emissions trends outside of the mitigation activity, such as emissions reductions in the energy sector and transport operations, where the baseline scenario involves energy use (e.g. according to sectoral climate roadmaps²⁶). Activities aligned with the Paris Agreement should set baselines below 'business as usual', taking

26 Ministry of Economic Affairs and Employment: Julkaistut tiekartat (Published roadmaps). Available in Finnish at: <https://tem.fi/julkaistut-tiekartat>. Accessed on 20 December 2022. Information in English available at: <https://tem.fi/en/low-carbon-roadmaps-2035>.

into account national, regional and local circumstances, best available technologies²⁷ and international and national climate targets. The Paris Agreement allows for the use of more stringent national baselines.

As a general rule, a baseline should be determined for the period during which mitigation outcomes are to be produced (known as the ‘crediting period’). Depending on the type of mitigation activity, the period should allow for significant factors influencing the baseline, such as the timing of planned forest harvesting operations. The baseline should also be updated whenever there are significant changes in circumstances.

An alternative to activity-specific baselines are standardised baselines, such as those determined for different types of forests, farmlands and wetlands in different parts of Finland. Such baselines could be based on sources such as the baseline scenarios for land use and agriculture sectors developed as part of the Carbon neutral Finland 2035 – measures and impacts of the climate and energy policies (HIISI)²⁸, updated with the latest inventory calculation data and specified to accommodate the regional circumstances and type of mitigation activity. While calculations based on national baselines may involve uncertainties due to different circumstances at the level of mitigation activity, national baselines would nevertheless facilitate the work of producers of mitigation outcomes and harmonise the basis for quantification. However, no decisions have so far been made in Finland on national baselines.

International and national carbon crediting programmes have developed more specific methodologies and tools for determining and calculating baselines and for aspects to consider in quantification (see Section 3.1.1.3).

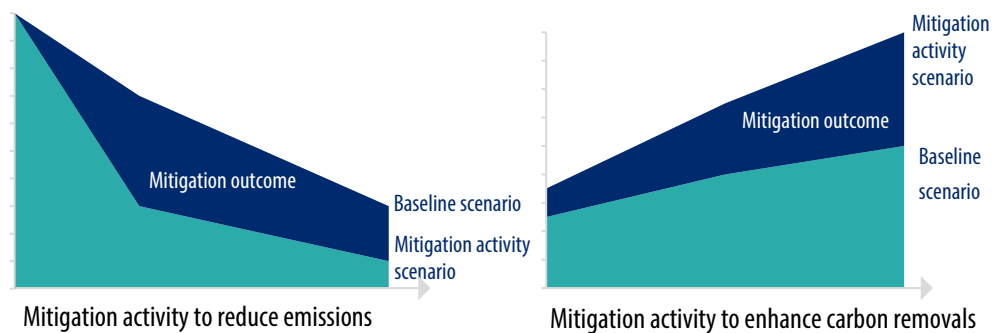
27 According to Decision 3/CMA.3, baselines must be “set in a conservative way and below ‘business as usual’ emission projections”. (Decision 3/CMA.3: Rules, modalities and procedures for the mechanism established by Article 6, paragraph 4, of the Paris Agreement. Available in English at: https://unfccc.int/sites/default/files/resource/cma2021_10a01E.pdf. Accessed on 20 December 2022.

28 Koljonen, Tiina & al. 2021: Hiilineutraali Suomi 2035 – ilmasto- ja energiapolitiikan toimet ja vaikutukset (HIISI) (*Carbon neutral Finland 2035 – measures and impacts of the climate and energy policies (HIISI)*). Available in Finnish (English abstract) at: <http://urn.fi/URN:ISBN:978-952-383-257-2>.

Follow-up study Koljonen, Tiina – Lehtilä, Antti – Honkatukia, Juha – Markkanen, Johanna, 2022: Pääministeri Sanna Marinin hallituksen ilmasto- ja energiapolitiittisten toimien vaikutusarviot: Hiilineutraali Suomi 2035 (HIISI) -jatkoselvitys (*Impact assessments of the climate and energy policy measures taken by Prime Minister Sanna Marin's Government: Carbon neutral Finland 2035 (HIISI) – follow-up study*). Available in Finnish at: <https://publications.vtt.fi/pdf/technology/2022/T402.pdf>.

Figure 3 illustrates the emissions trends produced by the baseline and the mitigation activity, and the mitigation outcomes resulting from the difference.

Figure 3. Illustration of baselines in different types of mitigation activities



3.1.1.3 Robust quantification methodologies

Emission reductions and removals should be quantified using applicable and recognised calculation methods, such as those developed and approved within the framework of international or national carbon crediting programmes.

Relevant EU legislation

Under the Commission Proposal for a Carbon Removal Certification Regulation, removals must be quantified in a relevant, accurate, complete, consistent and comparable manner. The Commission proposes that only quantification methodologies developed or approved by the Commission be applied to certified carbon removals.

Commission Proposal: EU carbon removal certification

Carbon removals must be quantified in a relevant, accurate, complete, consistent and comparable manner. Uncertainties in the quantification must be duly reported and accounted in order to limit the risk of overestimating the mitigation outcome. Carbon removals generated by carbon farming (incl. agriculture, forests) should be quantified with a high level of accuracy to assure the highest quality and minimise uncertainties. The satellite and on-site monitoring and reporting of emissions and removals need to make the best use of advanced technologies available under Union programmes and ensure consistency with the national greenhouse gas inventories.

A mitigation activity must provide a net carbon removal benefit, which is quantified using the following formula:

$$\text{Net carbon removal benefit} = \text{CR}_{\text{baseline}} - \text{CR}_{\text{total}} - \text{GHG}_{\text{increase}} > 0$$

where:

- (a) $\text{CR}_{\text{baseline}}$ is the carbon removals under the baseline;
- (b) CR_{total} is the total carbon removals of the mitigation activity;
- (c) $\text{GHG}_{\text{increase}}$ is the increase in direct and indirect greenhouse gas emissions, other than those from biogenic carbon pools in the case of carbon farming, which are due to the implementation of the mitigation activity.

The Commission proposes that potential reduction in greenhouse gas emissions resulting from the mitigation activity not be certified nor taken into account to quantify the net carbon removal benefit, but should be considered as a co-benefit of the activity.

The Commission is planning to develop quantification methodologies that meet these general criteria.

Good practices

When calculating mitigation outcomes, the benefit resulting from a mitigation activity is always compared with the baseline, meaning that a mitigation outcome is quantified in terms of the additional climate benefit generated by the activity in comparison to a baseline. This is generally expressed in terms of tonnes of carbon dioxide equivalent (CO₂e or CO₂-eq). Any emissions caused by implementing a mitigation activity should always be deducted from the mitigation outcome, including emissions from manufacturing and use of fertilisers or other products consumed, transport, fuels consumed, etc. Furthermore, any reductions in carbon sinks in forest activities, such as partial harvesting cuts, should be taken into account when calculating the mitigation outcome.

Box 4. Good practices for quantification methodologies in international guidelines

Carbon Credit Quality Initiative (CCQI)

Credible quantification of emission reductions. Quantification methodologies should include the following elements:

- a. Applicability or credibility criteria for mitigation activities;
- b. Determining the project boundary for a mitigation activity;
- c. Determining additionality;
- d. Establishing the baseline scenario;
- e. Quantification of emissions reductions or removal enhancements;
- f. Monitoring practices.

ICVCM draft quality criteria for carbon credits

The GHG emission reductions or removals from the mitigation activity must be robustly quantified, based on conservative approaches, completeness and sound scientific methods.

Quantification should also estimate the amount of any potential carbon leakage (see the criterion for avoiding leakage) and deduct the amount from the mitigation outcome.

Where no existing methodology is available in any applicable international carbon crediting programme for a certain type of mitigation activity, the Gold Standard and the VCS allow for developing a new quantification methodology suitable for the selected type of mitigation activity and Finnish conditions. In some cases, mitigation outcomes can be quantified using the methods approved by the IPCC and/or those used for GHG inventory calculations. Examples of national models suitable for quantifying mitigation outcomes from forest activities include the Motti and MELA software developed by Natural Resources Institute Finland (Luke), the Monsu model of the University of Eastern Finland, and the YASSO model for calculating soil carbon balance. Where these models and their methodologies are applied, special attention should be paid to calculating the baseline, taking account of emissions from the mitigation activity and making conservative assumptions in order to avoid overestimation of the mitigation outcome. The applicability of these quantification methodologies to the EU certification framework for carbon removals or any other selected carbon crediting programme should be verified before proceeding with the mitigation activity.

The description of the mitigation activity, fulfilment of minimum criteria and mitigation outcomes estimated in advance using a quantification methodology should be clearly and transparently specified in a mitigation activity description document. See Section 3.1.2 for further information on the contents of mitigation activity description documents.

Box 5. Examples of quantification methodologies for different types of mitigation activities

This box provides examples of international and national carbon crediting programmes which have developed and approved quantification methodologies for different types of mitigation activities. The carbon crediting programmes aim to ensure the fulfilment of their minimum criteria by means such as quantification methodologies. The producers and buyers of mitigation outcomes are ultimately responsible for using a carbon crediting programme that covers all of the minimum criteria set for carbon credits.

Gold Standard for the Global Goals (GS4GG) methodologies²⁹

Quantification methodologies available for the following types of mitigation activities:

- a. Forests: afforestation and reforestation³⁰;
- b. Agriculture: increasing soil carbon sequestration³¹, reducing livestock methane emissions³², water benefits of activities that mitigate soil erosion³³;
- c. Carbon removal: accelerating concrete carbonation³⁴.

There are also guidelines and tools for quantifying SDG impacts.

Also approves CDM methodologies within the limits of the programme (e.g. restrictions on energy activities).

29 Gold Standard: Standard Documents. Available in English at: <https://www.goldstandard.org/project-developers/standard-documents>. Accessed on 16 December 2022.

30 Afforestation/reforestation GHG emissions reduction & sequestration methodology.

31 Soil organic carbon framework methodology (and its detailed additional methodologies).

32 Reducing methane emissions from enteric fermentation in dairy cows through application of feed supplements.

33 Water and erosion impact assessment of sustainable agricultural land management projects.

34 Carbon sequestration through accelerated carbonation of concrete aggregate.

Verified Carbon Standard (VCS) methodologies³⁵

Quantification methodologies available for the following types of mitigation activities:

- a. Forests: extending rotation age³⁶, improving forest productivity³⁷, improving forest management practices³⁸, reducing logging impacts³⁹;
- b. Wetlands: rewetting drained temperate peatlands (not directly applicable to the Finnish context, but can serve as a model)⁴⁰;
- c. Agriculture: promoting soil carbon sequestration⁴¹, reducing nitrogen fertiliser use⁴², reducing livestock methane emissions⁴³, biochar utilisation as a soil conditioner⁴⁴;

35 Verra, 2022: Methodologies. Available in English at: <https://verra.org/methodologies/>. Accessed on 16 December 2022.

36 Verra: Methodologies: VM0003 Methodology for Improved Forest Management through Extension of Rotation Age, v1.2. Available in English at: <https://verra.org/methodology/vm0003-methodology-for-improved-forest-management-through-extension-of-rotation-age-v1-2/>.

37 Verra: Methodologies: VM0005 Methodology for Conversion of Low-productive Forest to High-productive Forest, v1.2. Available in English at: <https://verra.org/methodology/vm0005-methodology-for-conversion-of-low-productive-forest-to-high-productive-forest-v1-2/>.

38 Verra: Methodologies: VM0012 Improved Forest Management in Temperate and Boreal Forests (LTPF), v1.2. Available in English at: <https://verra.org/methodology/vm0012-improved-forest-management-in-temperate-and-boreal-forests-ltpf-v1-2/>.

39 Verra: VCS Methodology: VM0035 Methodology for Improved Forest Management through Reduced Impact Logging. Available in English at: <https://verra.org/wp-content/uploads/2018/03/VM0035-RIL-C-Methodology-v1.0.pdf>.

40 Verra: Methodologies: VM0036 Methodology for Rewetting Drained Temperate Peatlands v1.0. Available in English at: <https://verra.org/methodology/vm0036-methodology-for-rewetting-drained-temperate-peatlands-v1-0/>.

41 Verra: Methodologies: VM0017 Adoption of Sustainable Agricultural Land Management, v1.0. Available in English at: <https://verra.org/methodology/vm0017-adoption-of-sustainable-agricultural-land-management-v1-0/>.

42 Verra: Methodologies: VM0022 Quantifying N₂O Emissions Reductions in Agricultural Crops through Nitrogen Fertilizer Rate Reduction, v1.1. Available in English at: <https://verra.org/methodology/vm0022-quantifying-n2o-emissions-reductions-in-agricultural-crops-through-nitrogen-fertilizer-rate-reduction-v1-1/>.

43 Verra: Methodologies: VM0041 Methodology for the Reduction of Enteric Methane Emissions from Ruminants through the Use of Feed Ingredients, v2.0. Available in English at: <https://verra.org/methodology/reduction-of-enteric-methane-emissions/>.

44 Verra: Methodologies: VM0044 Methodology for Biochar Utilization in Soil and Non-Soil Applications, v1.0. Available in English at: <https://verra.org/methodology/vm0044-methodology-for-biochar-utilization-in-soil-and-non-soil-applications-v1-0/>.

d. Industrial processes and construction: reducing emissions from asphalt production⁴⁵, precast concrete production using sulphur substitute⁴⁶, CO₂ utilisation in concrete production (both carbon removal and emission reduction)⁴⁷.

Also approves CDM methodologies within the limits of the programme (e.g. restrictions on energy activities).

Clean Development Mechanism (CDM) methodologies (verify applicability)⁴⁸

Several types of mitigation activities; applicability should be verified because many of the methodologies (e.g. energy) were developed for the context of developing countries.

EU carbon removal certification methodologies

The Commission has proposed to develop quantification methodologies. If and when a suitable methodology developed by the Commission is approved, it is recommended that it be adopted in Finnish mitigation activities. The EU certification framework may also approve certain methodologies of other international and independent carbon crediting programmes.

45 Verra: Methodologies: VM0030 Methodology for Pavement Application using Sulphur Substitute, v1.0. Available in English at: <https://verra.org/methodology/vm0030-methodology-for-pavement-application-using-sulphur-substitute-v1-0/>.

46 Verra: Methodologies: VM0031 Methodology for Precast Concrete Production using Sulphur Substitute, v1.0. Available in English at: <https://verra.org/methodology/vm0031-methodology-for-precast-concrete-production-using-sulphur-substitute-v1-0/>.

47 Verra: Methodologies: VM0043 Methodology for CO₂ Utilization in Concrete Production. Available in English at: <https://verra.org/methodology/methodology-for-co2-utilization-in-concrete-production/>.

48 United Nations Framework Convention on Climate Change: CDM Methodologies. Available in English at: <https://cdm.unfccc.int/methodologies/index.html>.

Puro.earth methodologies⁴⁹

- a. Bioenergy with carbon capture and storage (BECCS), direct-air carbon capture and storage (DACCS);
- b. Biochar utilisation as a soil conditioner;
- c. Carbonated building elements;
- d. Woody biomass burial;
- e. Enhanced rock weathering, new methodologies in development.

Future methodologies of the Article 6.4 Mechanism of the Paris Agreement

The Supervisory Body of the mechanism will develop and/or approve methodologies, considering those developed in the CDM and other carbon crediting programmes, as applicable.

3.1.1.4 Monitoring and reporting

Mitigation outcomes should be monitored in accordance with the chosen quantification methodology and monitoring results should be transparently reported in a **monitoring report** in accordance with the chosen quantification methodology. The monitoring results and report should be verifiable and an independent auditor should be able to audit the mitigation outcomes and baseline quantification. For further information on the contents of monitoring reports, see Section 3.1.3.

49 Puro.earth, 2021: Carbon Removal Methods. Available in English at: <https://puro.earth/carbon-removal-methods/>.

Relevant EU legislation

Under the Commission Proposal for a Carbon Removal Certification Regulation, each mitigation activity and its carbon removals and emissions must be accurately monitored, using the best available monitoring systems developed under European Union programmes and making use of the practices laid down in the EU Land Use, Land Use Change and Forestry (LULUCF) Regulation⁵⁰ for monitoring removals in the land use sector.

Commission Proposal: EU carbon removal certification

The geographical location of the mitigation outcome and its carbon removals and emissions should be accurately monitored. For carbon farming (agriculture and forests) and carbon storage products, the LULUCF Regulation provides a blueprint for accurate monitoring and reporting of carbon removals in line with IPCC guidelines. The rules laid down under the LULUCF Regulation encourage monitoring land use in a geographically-explicit way, at low cost and in a timely fashion, for example through digital databases, Geographic Information Systems (GIS) and remote sensing, including the Copernicus Sentinel satellites and services (e.g. Climate and Land Services), or commercially available services.

Good practices

The implementation of mitigation outcomes should be accurately monitored and the outcomes should be recorded in a monitoring report. The monitoring report should clearly indicate the quantity of mitigation outcomes generated by the mitigation activity during the reporting period concerned (e.g. one year or a longer period) as **tonnes of carbon dioxide equivalent (t CO₂e)** and the parameters used for quantification, such as emission factors and their sources (broken down into continuously monitored parameters, annually monitored parameters and those fixed at the beginning of the mitigation activity). The quantity of mitigation outcomes in tonnes of CO₂e determines the number of credits sold for the mitigation activity.

⁵⁰ Regulation (EU) 2018/841 on the inclusion of greenhouse gas emissions and removals from land use, land use change and forestry in the 2030 climate and energy framework, and amending Regulation (EU) No 525/2013 and Decision No 529/2013/EU. Official Journal of the European Union. Available in English at: <https://eur-lex.europa.eu/eli/reg/2018/841>. Accessed on 2 December 2022.

Box 6. Good practices for monitoring and reporting in international guidelines

Carbon Credit Quality Initiative (CCQI)

Key information on the mitigation activity should be made publicly available, including monitoring and verification reports. The monitoring report should include verifiable and reproducible emission reductions and/or removal calculations and relevant parameters.

ICVCM draft quality criteria for carbon credits

Criterion 10.1.4 for monitoring approaches includes the following requirements:

- a. The monitoring approach is specified for all parameters needed for the calculation of the emission reductions or removals.
- b. The approaches related to use of measurements, sampling, data from third parties (e.g. studies, statistics, satellite data) or default values are robust, scientifically sound and statistically representative, where applicable.
- c. Quality assurance and quality control measures are in place, such as cross-checking the monitoring results with other sources of data.

The length of the monitoring period should be selected in compliance with the rules of the chosen carbon crediting programme. The developer of the mitigation activity can typically select a suitable duration for the monitoring period. The mitigation activity developer prepares a monitoring report and submits it to an independent third party approved by the carbon crediting programme, which audits the accuracy of information provided in the monitoring report (see Section 3.1.1.7), suggesting revisions as required.

3.1.1.5 Permanence

As a general rule, the mitigation outcomes underlying the carbon credits should be permanent in order to genuinely contribute to climate change mitigation. Potential non-permanence risks should be monitored and managed and any possible releases of carbon from carbon pools into the atmosphere should be offset through an applicable compensation mechanism. Permanence is an important characteristic for carbon credits used to offset emissions or contribute to national climate targets on a permanent basis.

Relevant EU legislation

The Commission Proposal for a Carbon Removal Certification Regulation contains a criterion for the permanence of removals, i.e. long-term storage.

Commission Proposal: EU carbon removal certification

The validity of the certified carbon removals should depend on the expected duration of the storage and the different risks of reversal associated with the given carbon removal activity. Activities that store carbon in geological formations provide enough certainties on the very long-term duration of several centuries for the stored carbon and can be considered as providing permanent storage of carbon. The land use sector's mitigation outcomes and carbon storage in products are more exposed to the risk of carbon release. To account for this risk, the validity of the certified carbon removals generated by carbon farming and carbon storage in products should be subject to an expiry date matching with the end of the relevant monitoring period. Thereafter, the carbon should be assumed to be released into the atmosphere, unless the mitigation activity developer proves the maintenance of the carbon storage through uninterrupted monitoring activities.

In addition to measures taken to minimise the land use sector's risk of carbon release into the atmosphere during the monitoring period, appropriate liability mechanisms should be introduced to address cases of reversal. Such mechanisms could include e.g. discounting of carbon removal units, collective buffers or accounts of credits, and up-front insurance mechanisms.

Good practices

According to good practices, mitigation outcomes should be as permanent as possible, while potential non-permanence risks should be monitored and managed and any possible releases of carbon from carbon pools into the atmosphere should be offset in full. Good practices recommend that permanence should mean over 100 years. With the exception of the land use sector, the emissions reductions generated as a result of mitigation activities are, as a general rule, permanent and their removals are long-lasting. Carbon crediting programmes pursue various approaches to determine permanence and

manage non-permanence risk. There are also differences between types of mitigation activities and often also between methodologies. The carbon crediting programme applied determines the period of permanence required from mitigation outcomes.

Carbon crediting programmes have developed various approaches to managing the non-permanence risk of mitigation outcomes in the land use sector, including buffer pools, liability for reversal of mitigation outcomes, or partial crediting of mitigation outcomes, where only a portion of the mitigation outcomes produced is credited, considering permanence. There are also temporary credits which need to be renewed once their period of validity expires.

As part of planning a mitigation activity, the activity developer should assess the permanence of its mitigation outcomes and the risks of their reversal (due to both human activity and natural disturbances).

Box 7. Good practices for permanence in international guidelines

Carbon Credit Quality Initiative (CCQI)

The CCQI assesses the approaches applied by different carbon crediting programmes to reducing non-permanence risks and compensating for any reversals. Thoroughness in the approach is crucial to appropriately addressing reversal risks. Key factors include establishment of liability for reversals, the duration for which the occurrence of reversals is monitored and accounted for, whether and how any reversals are compensated, and whether the compensation mechanisms are robust enough to also address disastrous events.

The CCQI scoring system assigns different periods of permanence as follows:

- a. 100 years or longer: 4 points
- b. 60 years or longer: 3 points
- c. 30 years or longer: 2 points
- d. Shorter: 1 point.

ICVCM draft quality criteria for carbon credits

GHG emission reductions or removals from the mitigation activities are permanent, or if they have a risk of reversal, any reversals must be fully compensated. Reversals are either offset by the mitigation activity proponent (in case of avoidable reversals) or through a buffer pool by the carbon crediting programme (unavoidable releases). For further information, please consult Table 45 of the ICVCM draft Assessment Framework.

Achieving a 100-year period of permanence is challenging in sectors such as agriculture and forestry. In order to meet the permanence criterion, proponents of forest-related mitigation activities need to produce a prevention and contingency plan for natural disturbance (such as wind, snow, pest and fire damage) and to calculate an estimate of the resulting carbon loss, which is accounted for through buffers or by not issuing carbon credits to all mitigation outcomes, depending on the carbon crediting programme. Mitigation activities related to agriculture should take into account the permanence of carbon sequestration in agricultural soil and make a plan to ensure permanence as far as possible.

Forest or land owners are required to commit to the mitigation activity for the specific duration of permanence, which also applies to any change of ownership during the period of validity of the mitigation activity.

If the permanence of a mitigation outcome can only be confirmed for a period of 20 years, for example, some of the carbon crediting programmes issue 'temporary' credits, requiring buyers to purchase new credits after their period of validity expires, or to buy several credits at the same time in order to manage the non-permanence risk. Further guidance is also forthcoming on the requirement included in the Commission Proposal for a Carbon Removal Certification Regulation to limit the validity of certain carbon removals to the duration of the relevant monitoring period.

3.1.1.6 Avoidance of carbon leakage

Voluntary mitigation action should not result in an increase in greenhouse gas emissions or reduction in carbon sinks elsewhere, i.e. outside the boundaries of the activity. While carbon dioxide leakage is not relevant in all types of mitigation activities, its risk should be taken into account in mitigation activities carried out within the forestry and land use sector, in particular.

Relevant EU legislation

Under the Commission Proposal for a Carbon Removal Certification Regulation, carbon leakage should be taken into account in calculating mitigation outcomes in land use sector mitigation activities ('carbon farming'). The Commission intends to develop methodologies in the years to come, which will probably include further guidance for avoiding carbon leakage as well.

Commission Proposal: EU carbon removal certification

In the case of carbon farming, the carbon captured in forests or the mitigation outcomes generated by a peatland re-wetting activity should outweigh the emissions from the indirect land use change emissions that can be caused by carbon leakage.

Good practices

Activities such as extending forest rotation length or forest conservation should not result in harvesting operations moving elsewhere. However, this is virtually impossible to avoid completely. International standards, such as the Verified Carbon Standard (VCS), have applied regional assessment of timber market flexibility in North America to estimate the amount of carbon leakage (tCO₂) related to forest activities.

Box 8. Good practices for avoiding carbon leakage in international guidelines

Carbon Credit Quality Initiative (CCQI)

‘Carbon leakage’ means the net change of greenhouse gas emissions or removals that are attributable to the mitigation activity but occur outside the boundary of that activity. These include, for example, indirect emission changes in the value chain of the mitigation activity or rebound effects.

Carbon leakage should be assessed conservatively and on the basis of sound science, taking into account the choice of assumptions, parameters, data sources and other factors.

Carbon leakage assessment should determine the degree to which indirect effects, such as perverse incentives, rebound effects or ‘market leakage’ (e.g. reducing deforestation in one site could lead to an increase in deforestation in other sites) are material and, if so, how they are taken into account.

ICVCM draft quality criteria for carbon credits

Step 1: Assessing the inherent leakage risks associated with the type of mitigation activity. Any potential material sources of leakage will be identified.

Step 2: An explanation of how any identified potential leakage emissions are minimised through requirements in the respective quantification methodologies and how any residual leakage emissions are considered in the calculation of mitigation outcomes (bearing conservativeness in mind).

No corresponding market-based estimate has been made within the EU or in Finland. Global research into carbon leakage has indicated, however, that potential carbon leakage per mitigation activity varies considerably (-10 ... +100% of the benefits provided by the mitigation activity), accounting for an average of 40% of forest sector mitigation

activities in Finland, according to a report by the Finnish Climate Change Panel⁵¹. Where more specific data on the degree of carbon leakage risk is not available, a 40% average may be applied to forest activities with a clear risk of carbon leakage (i.e. deduct 40% of the mitigation outcome to calculate the final mitigation outcome). Further guidance on quantification of leakage can also be expected to be provided as part of future quantification methodologies under the EU carbon removal certification framework.

3.1.1.7 Real, independently verified and certified mitigation outcomes

A mitigation outcome is **real** when the emission reduction or carbon removal has taken place before the corresponding carbon credit is issued and used by its buyer (e.g. to make a climate claim). In order for a carbon credit to be issued, the quantity of mitigation outcomes and fulfilment of minimum criteria needs to be **verified** by a competent third party. Various **carbon crediting programmes** have been developed to ensure the quality of credits, providing the framework for verifying and certifying that mitigation activities and the resulting mitigation outcomes meet the programme criteria.

Relevant EU legislation

Under the non-binding guidance on the interpretation and application of the EU Unfair Commercial Practices Directive, carbon removals claims should be **authentic**, robust, transparent, reported, monitorable, **verifiable, credible and certified**, should not

51 Finnish Climate Change Panel, 2022: Metsät ja ilmasto: Hakkuut, hiilinielut ja puun käytön korvaushyödyt (*Forests and climate: Forest harvesting, carbon sinks and substitution benefits of wood use*). Available in Finnish (English summary) at: <https://www.ilmastopaneeli.fi/wp-content/uploads/2022/05/ilmastopaneelin-raportti-3-2022-metsat-ja-ilmasto-hakkuut-hiilinielut-ja-puun-kayton-korvaushyodyt.pdf>.

undermine near-term emission reduction action in emitting sectors, should guarantee additionality and should ensure an appropriate accounting of carbon removals in national GHG inventories^{52,53}.

Under the Commission Proposal for a Carbon Removal Certification Regulation, an independent third party should **verify** and **certify** within the framework of **a certification scheme recognised by the Commission** that carbon removals comply with the QU.A.L.I.TY criteria of the EU carbon removal certification framework and the quantification methodologies recognised by the Commission.

Commission Proposal: EU carbon removal certification

The quantification methodology and compliance of the carbon removals with the QU.A.L.I.TY criteria should be verified by third-party auditors in order to ensure the credibility and reliability of the certification process. Carbon removals will be certified within the framework of a certification scheme recognised by the Commission (recognised schemes to be selected at a later date). Eligible certification schemes should put in place publicly available and robust rules and procedures (including accreditation of third-party certification bodies) to avoid approving low-quality removals. The

52 National GHG inventories are based on UNFCCC reporting guidelines and IPCC methodological guidelines. Each inventory covers the entire country, using applicable calculation methods consistent with these international guidelines. The baseline data sources for the inventories include administrative documentation, statistics, surveys or other samples. It is not methodologically possible to include in an inventory the impact of emission reductions or removal enhancements due to an individual operator's mitigation activity at the operator's request, although it is appropriate to indicate the activities yielding mitigation outcomes as extensively as possible in a nationwide inventory.

53 Commission Notice 2021/C 526/01: Guidance on the interpretation and application of Directive 2005/29/EC of the European Parliament and of the Council concerning unfair business-to-consumer commercial practices in the internal market, p. 77. Official Journal of the European Union 29.12.2021. Available in English at: [https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:52021XC1229\(05\)](https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:52021XC1229(05)). Accessed on 16 November 2022.

certification bodies approved by certification schemes should be accredited by national accreditation authorities pursuant to Regulation (EC) No 765/2008⁵⁴.

Eligible certification schemes should operate on the basis of reliable and transparent rules and procedures and should ensure accuracy, reliability, integrity and non-repudiation of origin, and protection against fraud of information and of data submitted by operators. They should also ensure the correct accounting of the verified credits, notably by avoiding double counting (double issuance and use). To this end, the Commission should be empowered to adopt implementing acts, including adequate standards of reliability, transparency, accounting and of independent auditing to be applied by certification schemes. Certification schemes should establish and maintain interoperable public registries in order to ensure transparency and full traceability of carbon removal certificates, and to avoid the risk of fraud and double counting.

Carbon removal activities should be subject to an initial certification audit before implementation, verifying their compliance with the criteria, including the correct quantification of the expected net carbon removal benefit. Carbon removal activities should also be subject to periodic re-certification audits to verify the compliance of the generated mitigation outcomes. To this end, the Commission is drawing up implementing acts to set out the technical details and minimum information of the process.

Good practices

Real mitigation outcomes: According to good practices, mitigation outcomes should represent actual emissions reductions or carbon removals, i.e. be real.

Independent validation and verification: Mitigation activities and outcomes must be validated and verified by an independent third party.

54 Regulation (EC) No 765/2008 setting out the requirements for accreditation and market surveillance relating to the marketing of products and repealing Regulation (EEC) No 339/93. Official Journal of the European Union. Available in English at: <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:32008R0765&from=EN>. Accessed on 12 December 2022.

Certification: Mitigation outcomes should be certified within the framework of a carbon crediting programme. The programme should have effective governance to ensure transparency, accountability and credit quality.

Box 9. Good practices for REAL, independently verified and certified mitigation outcomes in international guidelines

Carbon Credit Quality Initiative (CCQI)

Robust validation and verification by an accredited third party. Third-party validation and verification entities are accredited by the carbon crediting programme applied (e.g. VCS, Gold Standard) or by an International Accreditation Forum (IAF) member body (FINAS in Finland, www.finas.fi).

Ex-post verification of mitigation outcomes after implementation ensures that the emissions reductions or removals have really taken place before carbon credits are issued and used for claims.

Some international carbon crediting programmes issue carbon credits for emissions reductions or removals that are expected to occur in the future, known as 'ex-ante crediting', allowing these credits to be sold in advance. Ex-ante crediting introduces a unique risk in that the number of the credits issued might exceed the actual emission reductions or removals generated by the mitigation activity. This could occur if the mitigation activity is discontinued or has a lower-than-expected performance. Even if these programmes have established approaches to compensate for over-issuance, use of ex-ante credits still involves significant uncertainties. Therefore, buying credits issued through ex-ante crediting for offsetting purposes is not recommended as a general principle of best practices.

ICVCM draft quality criteria for carbon credits

Robust independent third-party validation and verification to ensure the quality of mitigation outcomes.

The carbon crediting programme must operate or make use of a registry to uniquely identify, record and track mitigation activities and carbon credits issued to ensure that credits can be identified securely and unambiguously.

In the context of forest activities, for example, a ‘real mitigation outcome’ means that additional carbon sequestration or emissions reduction has verifiably taken place. Producers of mitigation outcomes may, however, conclude preliminary contracts on the credits with buyers, for example, by which buyers may pay for (some of) the credits in advance. Some carbon crediting programmes issue ‘pre-credits’ under certain conditions, based on the estimated quantity of mitigation outcomes. Nevertheless, buyers should only use credits representing real, actual and verified mitigation outcomes to make claims based on credits.

In this context, **verification** covers both the validation of the accuracy of the description and preliminary quantification of a mitigation activity based on a mitigation activity description document, on the one hand, and the verification of the actual emission mitigation outcomes of an ongoing mitigation activity based on a monitoring report, on the other. Mitigation activity description documents are typically validated only once at the start of the mitigation activity, but revalidation may be required if activity implementation changes significantly after the activity has started. Monitoring reports are typically verified once a year, but shorter or longer monitoring periods are also possible. Further information on the contents of mitigation activity description documents and monitoring reports is available in Sections 3.1.2 and 3.1.3.

In this context, **certification** refers to the opinion issued by an auditor accredited by a carbon crediting programme on the fulfilment of the minimum criteria, on the basis of which carbon crediting programmes issue and register certified credits.

3.1.1.8 Avoidance of double counting

Avoidance of double counting involves different situations. Avoidance of double issuance and double use means that the same credit is not issued through different carbon crediting programmes or used more than once by different buyers. Avoidance of double claiming means that the mitigation outcomes underlying a carbon credit are not counted towards more than one target or claim. Avoiding double counting between a state and a non-state actor would either require that the relevant mitigation outcomes are not counted towards the government target, or that the government makes a corresponding adjustment⁵⁵ to exclude them from the accounting of its own climate target.

55 For more about corresponding adjustments and avoidance of double counting, please consult the report by Laininen Jenni – Ahonen Hanna-Mari – Laine Anna – Kulovesi, Kati, 2022: Vapaaehtoiseen päästökompensaatioihin liittyvät erityiskysymykset (*Special issues related to voluntary carbon compensation*). Publications of the Ministry of the Environment 9/2022. English summary available at: <https://ym.fi/documents/1410903/42733401/SUMMARY-Report-Special-issues-related-to-voluntary-carbon-compensation.pdf>.

Relevant EU legislation

The Commission Proposal for a Carbon Removal Certification Regulation and its preparatory works discuss double counting from different perspectives. 'Fraud' refers to a situation in which more than one credit is issued for the same mitigation outcome because the mitigation activity has either been registered under two carbon crediting programmes or twice under the same programme. The proposal points out that carbon crediting programmes should establish and maintain interoperable public registries in order to avoid double counting, among other issues. The proposal also notes that the Commission should be empowered to adopt implementing rules setting out standards and technical rules on the functioning and interoperability of those registries.

The Commission's proposal also touches on the need of corresponding adjustments to avoid double claiming. According to the Commission, the need for corresponding adjustments in voluntary carbon markets in the context of climate claims is currently much debated. It points out that this is dependent on the nature and scope of the target and claim and that corresponding adjustments might be needed if a carbon credit is used to offset emissions in order to achieve a target in a situation in which the carbon removals underlying the credit are counted towards another target. Conversely, corresponding adjustments do not appear to be necessary in cases such as when carbon removal is directly counted towards a single target, which may be company-specific, instead of using it to offset emissions related to more than one target.

EU law does not currently enable Member States to make corresponding adjustments in their EU level accounting.

Good practices

Box 10. Good practices for double counting in international guidelines

Carbon Credit Quality Initiative (CCQI)

Avoid double issuance.

- a. Avoid double registration of mitigation activities.
- b. Avoid indirect overlaps between mitigation activities. Overlaps can occur in cases such as when different entities involved in the production and/or consumption of the same product or service claim credits for the same emissions reductions or removals.

Avoid double use.

Avoid double claiming:

- a. with host country NDC;
- b. with mandatory domestic emissions mitigation schemes.

ICVCM (draft) principle

Mitigation outcomes must not be double counted, i.e. they must only be counted once towards achieving climate targets. Double counting covers double issuance, double claiming, and double use.

Carbon crediting programmes aim to avoid double issuance and double use of credits by means of registries of mitigation outcomes with relevant key information, including serial numbers. Double use is avoided by cancelling credits that are used through transferring them to a cancellation account or otherwise preventing their reuse.

Double claiming can be avoided with relevant claims⁵⁶:

- Carbon credits based on mitigation outcomes not counted as part of tracking and accounting of any country's national climate targets can be used for offsetting claims. Such credits may be based on:
 - mitigation outcomes not reflected in a national GHG inventory or national targets (currently including the use of biochar as a soil conditioner, technological carbon capture and storage⁵⁷);
 - mitigation outcomes authorised by the host country. Through authorisation, the host country commits to making a corresponding adjustment to its national emissions balance as part of biennial progress reporting under the Paris Agreement, thus excluding the adjusted mitigation outcomes from the tracking and accounting of its national target.
- Carbon credits based on mitigation outcomes counted as part of tracking and accounting of national targets can be used for contribution claims (see Box 15).

3.1.1.9 The 'do no significant harm' (DNSH) principle

Mitigation activities should minimise and, wherever possible, avoid producing any and all negative environmental, economic or social effects. Mitigation activities must not endanger any values relevant to sustainable development, such as biodiversity or social and cultural values. The environmental and social impacts of mitigation activities must be taken into account as part of planning and implementation.

56 Laininen Jenni – Ahonen Hanna-Mari – Laine Anna – Kulovesi, Kati, 2022: Vapaaehtoiisiin päästökompensaatioihin liittyvät erityiskysymykset (*Special issues related to voluntary carbon compensation*). Publications of the Ministry of the Environment 9/2022. English summary available at: <https://ym.fi/documents/1410903/42733401/SUMMARY-Report-Special-issues-related-to-voluntary-carbon-compensation.pdf>.

57 Notwithstanding, the GHG inventory covers carbon capture, transfer and storage in precipitated calcium carbonate (PCC). The carbon transferred to and captured in PCC is deducted from combustion emissions when calculating inventories.

Relevant EU legislation

EU-level guidance on 'do no significant harm' (DNSH) relevant to environmental objectives is available in the Taxonomy Regulation on sustainable finance, for example. Further information about the criteria for the 'do no significant harm' principle relevant to environmental impacts is available in Finnish on the website of the Finnish Environment Institute (SYKE)⁵⁸. Relevant regulation can also be expected to be included in the Corporate Sustainability Due Diligence Directive proposed by the Commission, which would provide for an obligation of due diligence for companies to identify, prevent, mitigate and remedy the adverse human rights and environmental impacts of their own operations and those of their subsidiaries and established business relationships and to monitor the measures implemented⁵⁹. The Commission's proposal for a Corporate Sustainability Reporting Directive may also introduce new requirements for companies' non-financial reporting. It is advisable to keep a keen eye on their progress.

Commission Proposal: EU carbon removal certification

It is appropriate to establish minimum sustainability requirements for carbon removals to ensure that carbon removal activities have a neutral impact on or generate co-benefits for the sustainability objectives of climate change mitigation and adaptation, the protection and restoration of biodiversity and ecosystems, the sustainable use and protection of water and marine resources, the transition to a circular economy, and pollution prevention and control.

Those sustainability requirements should, as appropriate, and taking into consideration local conditions, build on the technical screening criteria for Do No Significant Harm concerning forestry activities and underground permanent geological storage of CO₂, laid down in Commission Delegated

58 Finnish Environment Institute (SYKE), 2022: Ei merkittävää haittaa -periaatteen soveltaminen Suomen elpymis- ja palautumissuunnitelman hankkeissa (*Implementation of the DNSH principle for measures in the Finnish recovery and resilience plan*). 2 May 2022. Available in Finnish (English abstract) at: https://www.ymparisto.fi/fi-fi/asiointi_luvat_ja_ymparistovaikutusten_arviointi/Ei_merkittavaa_haittaa_periaate. Accessed on 16 December 2022.

59 Ministry of Economic Affairs and Employment, 2022: European Commission publishes a proposal for EU corporate social responsibility legislation. Press release 23 February 2022. Available in English at: <https://valtioneuvosto.fi/en/-/1410877/european-commission-publishes-a-proposal-for-eu-corporate-social-responsibility-legislation>. Accessed 16 December 2022.

Regulation (EU) 2021/2139, and on the sustainability criteria for forest and agriculture biomass raw material laid down in Article 29 of Directive (EU) 2018/2001 of the European Parliament and of the Council.

Practices, such as forest monocultures, that produce harmful effects for biodiversity should not be eligible for certification.

Good practices

According to good practices, any potential environmental and social risks and impacts arising from mitigation activities should be assessed, implementing environmental and social safeguards to avoid, minimise and compensate potential risks and harms. Proponents of mitigation activities should develop and implement an environmental and social management plan and monitoring mechanism and report potential risks and impacts and their management measures. In line with best practices, impact assessments and monitoring reports should be verified by an independent third party.

Further guidelines on assessing, minimising and managing social and environmental risks and impacts are provided by some independent carbon crediting programmes, such as the GS4GG⁶⁰ and the ICVCM draft guidelines (document entitled 'Assessment Framework', Section 7.1, 'Robust environmental and social safeguards')⁶¹. They also refer to international guidelines, such as the widely used ICF Environmental and Social Performance Standards. Likewise, the UN-REDD Programme⁶² has also developed international social and environmental risk assessment and management tools for measures to reduce deforestation, such as the Safeguarding People and Nature in REDD+ guidelines⁶³. These tools may also be put to use in Finnish land use sector mitigation activities, where applicable.

60 Gold Standard, 2017: Safeguarding Principles Procedure. Available in English at: https://www.goldstandard.org/sites/default/files/documents/2017_02_gs4gg_safeguarding_principles_procedure_for_consultation.pdf. Accessed on 16 December 2022.

61 The Integrity Council for the Voluntary Carbon Market, 2022: Part 4: Assessment Framework (draft). Available in English at: <https://icvcm.org/wp-content/uploads/2022/07/ICVCM-Public-Consultation-FINAL-Part-4.pdf>. Accessed on 12 December 2022.

62 UN-REDD Programme, 2023. Available in English at: <https://www.un-redd.org/>

63 UN-REDD Programme, 2022: Safeguarding People and Nature in REDD+: Meeting the Safeguards Requirements under the United Nations Framework Convention on Climate Change. 17.3.2022. Available in English at: <https://www.un-redd.org/document-library/safeguarding-people-and-nature-redd-meeting-safeguards-requirements-under-united>. Accessed on 16 December 2022.

Mitigation activity developers should engage local communities and stakeholders in both planning and implementing the activities. Engagement is particularly important in planning and implementation of mitigation activities that may have significant social or environmental impacts. Consultations should enable local and relevant stakeholders to voice concerns and demand fair treatment and, when appropriate, seek redress or compensation. Good practices also include establishment of a feedback mechanism, consideration of feedback in activity implementation and communications about the mitigation activity. As a general rule, however, mitigation activities should be planned so as to avoid causing this type of harm, meaning that mitigation activities involving significant harm should not be implemented.

Box 11. Good practices for avoiding social and environmental harms in international guidelines

Carbon Credit Quality Initiative (CCQI)

Project impacts are rarely limited to emissions reductions or removals, and their overall social and environmental impact is often very important to buyers of carbon credits, whether because they want to limit potential liability or reputational risks and/or because they want to maximise the overall economic return on their investments. Many carbon crediting programmes have established environmental and social safeguards with the view to ensuring a do-no-harm approach to social and development impacts, particularly by enabling global as well as local and affected stakeholders to voice concerns and demand fair treatment and, when appropriate, redress or compensation.

For best practices for assessing different carbon crediting programmes, see the CCQI Methodology section ‘Scoring approach for the robustness of the crediting program’s social and environmental safeguards’.

ICVCM (draft) principle

The carbon crediting programme must have clear guidance, tools and compliance procedures to ensure that mitigation activities conform with or go beyond widely established industry best practices on social and environmental safeguards while delivering on net positive sustainable development impacts.

More specific criteria are provided in the guidance section entitled ‘Sustainable Development Impacts and Safeguards’.

3.1.2 Demonstrating compliance with the minimum criteria in mitigation activity description documents and as part of validation

The minimum activity's compliance with the minimum criteria should be demonstrated and justified as part of preparing the mitigation activity and before it is approved for a carbon crediting programme. It is an established requirement that compliance with minimum criteria should also be validated by an independent auditor. For this purpose, a **mitigation activity description document** should be drawn up, including a description of the mitigation activity, fulfilment of the minimum criteria listed above and mitigation outcomes estimated in advance using a quantification methodology. The details should be clearly and transparently specified in a mitigation activity description document. The activity description document can be drawn up using a template such as the VCS Project Description Template⁶⁴ (or a similar form of another selected carbon crediting programme).

The description document should contain at least the following details (check the specific carbon crediting programme criteria for documentation):

- name of the mitigation activity, activity type, contact;
- precise mitigation activity location (coordinates);
- description of the mitigation activity, the technologies or methods used to produce the mitigation outcome;
- start date and duration of the mitigation activity;
- scope of the mitigation activity: the GHG sources or sinks considered in quantification;
- description of the baseline scenario, situation existing prior to implementation of the mitigation activity;
- description and justification of the mitigation activity's additionality;
- description of the methodology used for quantifying the mitigation outcome (incl. the calculation formula);
- description of the legality of the mitigation activity;
- estimate of the amount of carbon leakage, description of leakage risk management (where relevant);
- mitigation outcomes estimated in advance using the quantification methodology applied (see Table 2);
- description of how the mitigation activity avoids social and environmental harms and why the activity will do no significant harm (DNSH);
- parameters monitored during the mitigation activity and those fixed at the start of the activity (e.g. emission factors).

⁶⁴ Verra: VCS Project Description Template. Available in English at: <https://verra.org/wp-content/uploads/2016/05/VCS-Project-Description-Template-v4.1.docx>.

Table 2. Example of a calculation/table template for ex-ante estimates of mitigation outcomes for the mitigation activity description report

Year/ monitoring period	A: Estimated baseline emissions/ removals (tCO ₂ e)	B: Estimated activity emissions/ removals (tCO ₂ e)	C: Estimated leakage emissions (tCO ₂ e)	D: Estimated net emissions reductions or additional carbon removals from mitigation activity (tCO ₂ e)
Period 1				(A-B-C = D)
Period 2				
Period 3				
Period 4				
...				
Total				

The mitigation activity description document is submitted to the independent auditor who audits its accuracy. As part of the validation process, the auditor should visit the mitigation activity site to audit the activity baseline and the accuracy of the information provided.

Following successful auditing, the activity description document is submitted to the registrar (of the carbon crediting programme), who checks the document and the auditor's favourable opinion and approves the mitigation activity for the registry if it meets the criteria for mitigation activities submitted for registration.

3.1.3 Contents of monitoring reports and verification

A **monitoring report** should be produced for each monitoring period (e.g. 1–5 years) for the purpose of monitoring and verification of the mitigation outcome. This is usually a requirement for issuing carbon credits eligible for registration. Monitoring reports should preferably be prepared using report templates created by carbon crediting programmes, such as the VCS Monitoring Report Template⁶⁵ (or a template of the selected programme) to ensure that the report covers all the details required.

⁶⁵ Verra: VCS Monitoring Report Template. Available in English at: <https://verra.org/wp-content/uploads/2022/01/VCS-Monitoring-Report-Template-v4.1.docx>.

The monitoring report should, nevertheless, contain at least the following details (check the specific carbon crediting programme criteria):

- name of the mitigation activity, mitigation activity type, contact;
- precise mitigation activity location (coordinates);
- brief description of mitigation activity implementation;
- methodology used to quantify the mitigation outcomes of the mitigation activity;
- results of the parameters being monitored (incl. emission factors, amount of fuel/fertiliser or other such goods used);
- quantification results of the mitigation outcome over the reporting period concerned (taking account of the baseline, mitigation activity emissions, carbon leakage), also provided in Excel format.

The monitoring report is submitted to an independent auditor who audits its accuracy. As part of this process, the auditor should visit the mitigation activity site to audit the actual status of the activity and the accuracy of the information provided. For the purposes of verification, the mitigation activity developer must be able to present the required documentation in support of quantification of the mitigation outcome, such as measurement and modelling data, receipts of purchase and other such evidence. Following verification, the monitoring report is submitted to the registrar of or under the carbon crediting programme, who checks the document and the auditor's favourable opinion and approves the mitigation activity, certifies the credit and approves the mitigation outcome for the registry. Thereafter, the credit can be sold and used for a claim.

3.2 Good practices for credit users and claimants

This section provides general guidelines and good practices for users of carbon credits that meet the minimum criteria (see Section 3.1.1) and claimants making claims related to such credits.

Organisations and private citizens can buy and use credits from voluntary carbon markets to contribute to climate change mitigation. Their motivation can be based on taking responsibility for their own carbon footprint and participating in international and national climate efforts. In many cases, organisations want to purchase and use credits to make claims about their climate performance, using these in their own marketing and communications to financing bodies, owners, employees and other stakeholders.

Good practices have been and are being developed for organisations supporting voluntary mitigation action, aiming to verify the reliability of climate benefits and related claims. Good practices evolve over time and the good practices presented here will be updated as required. The following sections present the current good practices and list the guidelines and regulations that have a bearing on the development of good practices. Among these, binding legislation plays the most influential role, as it supersedes other legal sources in EU Member States, such as Finland. Organisations should meet all the binding requirements and aim to abide by good practices as far as possible. An example of legislation that plays a key role from the perspective of claimants is consumer protection law. Its interpretations are evolving as there are legislative initiatives underway within the EU with a direct bearing on the types of claims that can be made and how they need to be justified.

3.2.1 Comprehensive and reliable quantification of organisational emissions

Organisations making climate claims based on the use of carbon credits should calculate all of their own direct and indirect (scope 1, 2 and 3) emissions prior to using credits and making claims.

Relevant EU legislation

The EU is developing guidelines for corporate sustainability reporting. The guidelines on reporting climate-related information included in the Non-Financial Reporting Directive⁶⁶ note that methodologies and best practice in the field of climate-related reporting are evolving fast. Companies and other organisations are encouraged to further improve climate-related reporting beyond the content of the guidelines provided. The guidelines propose that companies report their direct (scope 1) and indirect (scope 2 and 3) greenhouse gas (GHG) emissions. GHG emissions should be calculated in line with the GHG Protocol methodology or the ISO 14064-1:2018 standard and, where appropriate, with the Commission Recommendation 2013/179/EU on the use of common methods to measure and communicate the life cycle environmental performance of products and organisations. The third-party verification/assurance status should be indicated for the reported scope 1, scope 2 and scope 3 emissions. The guidelines also include further guidance on reporting direct and indirect emissions.

66 Commission Communication 2019/C 209/01: Guidelines on non-financial reporting: Supplement on reporting climate-related information. Official Journal of the European Union. Available in English at: [https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:52019XC0620\(01\)](https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:52019XC0620(01)). Accessed on 2 December 2022.

Good practices

According to good practices, organisations should calculate their own emissions in line with an internationally recognised methodology or standard (e.g. the GHG Protocol methodology or the ISO 14064-1:2018 standard) and the calculations should be verified by an independent third party. Organisational calculations should cover the organisation's direct and indirect emissions (scopes 1, 2 and 3⁶⁷). Where a claim concerns a product or service, the calculation should cover the life-cycle emissions of the product or service as a whole, unless the claim is otherwise specified to apply to a certain stage of the life cycle (see Section 3.2.4).

Box 12. Examples of internationally recognised standards on emissions calculation

Examples of internationally recognised standards on emissions calculation: GHG Protocol, ISO 14040/44 or ISO 14067.

The French Climate and Resilience Act only allows carbon neutrality claims for companies that have publicly reported their organisational GHG emissions (calculated in keeping with ISO 14067), among other details.

3.2.2 Prioritisation of organisational emissions reductions, climate targets and climate roadmaps

Organisations making climate claims based on the use of carbon credits should prioritise their own emissions reductions and have a climate target and roadmap in place (including measures, schedule, etc.) for reducing their own emissions. Organisations should ensure that the use of credits will supplement – rather than substitute or delay – their own emissions reduction measures. This principle also applies in cases where the use of credits is related to the emissions of a product or service.

67 Scope 3 emissions calculations are always made on the basis of a materiality analysis.

Relevant EU legislation

The guidelines on reporting climate-related information included in the Non-Financial Reporting Directive discuss reporting of the absolute GHG emissions target. Companies should describe the target scope with regard to direct and indirect emissions (scopes 1, 2 and 3); describe the development of GHG emissions against the targets set; and consider setting targets for 2025 or 2030 and reviewing them every five years. They may also consider setting a target for 2050 to align with the Paris Agreement.

The non-binding guidance on the interpretation and application of the EU Unfair Commercial Practices Directive notes that carbon removals claims should not undermine near-term emissions reduction action in emitting sectors and that they should guarantee additionality.

Good practices

To be consistent with good practices, a climate roadmap should include the organisation's climate target for reducing its own emissions as much as possible and the measures by which the organisation will implement the emissions reductions required by the target. A best-practice target is aligned with the 1.5°C emissions reduction pathway. The roadmap should cover all of the organisation's direct and indirect (scope 1, 2 and 3) emissions.

A good-practice roadmap should indicate:

- The base year for the organisation's emissions calculation and the baseline level of emissions against which the organisational emissions reductions are calculated;
- The organisation's climate target, including interim targets and, for best practices, justifications of alignment with the 1.5°C emissions pathway;
- The emissions reduction measures already implemented, planned and further required by the organisation to meet the climate target;
- What types of voluntary mitigation action the organisation has supported or plans to support in addition to its own emissions reduction measures and how;
- How the organisation ensures that it will prioritise its own emissions reduction measures and that voluntary mitigation action will supplement, rather than substitute or delay, its own emissions reduction measures;
- What international or national standards or carbon crediting programmes the organisation applies and how, and the extent to which it makes use of independent verification;
- How the roadmap will be regularly updated and how the performance of emissions reduction measures will be monitored.

Organisations can buy credits and make claims prior to implementing their own emissions reduction measures, as long as this is clearly communicated.

Box 13. Examples of guidelines on setting 1.5°C-aligned climate targets for nonstate actors

Guidelines on setting 1.5°C-aligned climate targets for non-state actors: High-Level Expert Group on the Net-Zero Emissions Commitments of Non-State Entities, ISO Net Zero Guidelines, Science Based Targets initiative (SBTi).

Various sectoral national climate roadmaps may serve as a frame of reference for companies planning their own emissions reductions.

The French Climate and Resilience Act only allows carbon neutrality claims for companies that have publicly reported, among other things, a description of how the emissions from a product or service have primarily been avoided, then minimised, and only thereafter covered with carbon credits, incl. an emissions projection. A supplementary decree to the Act requires an organisation to withdraw its carbon neutrality claim if the emissions associated with a product or service grow for two consecutive years. The decree also requires organisations to set an annual target pathway for a minimum period of 10 years.

3.2.3 Use of high-quality credits

Organisations should demonstrate that the carbon credits that they use meet the minimum criteria. Organisations are also encouraged to use credits involving co-benefits. The number of credits purchased and used may or may not be proportional to specific emissions (e.g. those of an organisation, a product or a flight).

Relevant EU legislation

The Commission Proposal for a Carbon Removal Certification Regulation⁶⁸ requires organisations to only use credits that meet the minimum criteria set out in the proposal and have been certified by an independent body within the framework of a certification scheme recognised by the EU.

The non-binding guidance on the interpretation and application of the EU Unfair Commercial Practices Directive⁶⁹ suggests that carbon neutrality claims can be problematic if the climate impacts of the underlying carbon credits are ineffective and if they do not represent real and additional emissions reductions. Furthermore, it points out that the carbon removals underlying carbon removals claims should be authentic, robust, transparent, reported, monitorable, verifiable, credible, certified, should not undermine near-term emission reduction action in emitting sectors, should guarantee additionality and should ensure an appropriate accounting of carbon removals in national GHG inventories⁷⁰.

The Commission has also proposed that the Unfair Commercial Practices Directive be updated⁷¹ to provide that making general environmental claims, such as claims about carbon neutrality, climate neutrality, climate friendliness or carbon friendliness, would require demonstrating 'recognised excellent environmental performance' relevant to the claim. 'Recognised excellent environmental performance' means environmental

68 COM(2022) 672 final: Proposal for a Regulation of the European Parliament and of the Council establishing a Union certification framework for carbon removals. Available in English at: <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:52022PC0672>. Accessed on 2 December 2022.

69 Commission Notice 2021/C 526/01: Guidance on the interpretation and application of Directive 2005/29/EC of the European Parliament and of the Council concerning unfair business-to-consumer commercial practices in the internal market. Official Journal of the European Union 29.12.2021. Available in English at: [https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:52021XC1229\(05\)](https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:52021XC1229(05)). Accessed on 16 November 2022.

70 National GHG inventories are based on UNFCCC reporting guidelines and IPCC methodological guidelines. Each inventory covers the entire country, using applicable calculation methods consistent with these international guidelines. The baseline data sources for the inventories include administrative documentation, statistics, surveys or other samples. It is not methodologically possible to include in an inventory the impact of emission reductions or removal enhancements due to an individual operator's mitigation activity at the operator's request, although it is appropriate to indicate the activities yielding mitigation outcomes as extensively as possible in a nationwide inventory.

71 COM(2022) 143 final: Proposal for a Directive amending Directives 2005/29/EC and 2011/83/EU as regards empowering consumers for the green transition through better protection against unfair practices and better information. Available in English at: <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:52022PC0143>. Accessed on 3 December 2022.

performance compliant with national or regional ecolabelling schemes officially recognised in a Member State or top environmental performance in accordance with other applicable Union law. The currently ongoing EU initiative on substantiating green claims⁷² and the regulatory framework for corporate responsibility⁷³ may also include guidance on the quality of credits underlying claims.

Good practices

There are internationally established minimum criteria for good-practice credit quality assurance and several carbon crediting programmes for evaluating compliance with the minimum criteria and for verifying and certifying carbon credits that meet the minimum criteria (see Section 3.1.1). Certified credits are recorded in a registry to ensure transparency and avoid double counting.

Box 14. Examples of carbon crediting programmes

Numerous international, independent and national carbon crediting programmes have been and are being developed, including the Article 6.4 Mechanism of the Paris Agreement (in development), the Verified Carbon Standard (ongoing) and the Gold Standard for the Global Goals (ongoing).

The EU Commission is preparing a Regulation establishing a Union certification framework for carbon removals, in the context of which it intends to develop detailed quantification methodologies and recognise schemes for certifying EU-eligible credits.

The French Climate and Resilience Act only allows carbon neutrality claims for companies that have publicly reported details such as the extent to which the carbon credits used to cover their residual emissions meet the minimum criteria.

72 European Commission: Environment: Initiative on substantiating green claims. Available in English at: https://ec.europa.eu/environment/eussd/smgp/initiative_on_green_claims.htm. Accessed on 12 December 2022. Ares(2020)3820384 - 20/07/2020: Proposal for a Regulation on substantiating environmental claims using the Product/Organisation Environmental Footprint methods (green claims). Available in English at: [https://eur-lex.europa.eu/legal-content/EN/ALL/?uri=PI_COM:Ares\(2020\)3820384](https://eur-lex.europa.eu/legal-content/EN/ALL/?uri=PI_COM:Ares(2020)3820384). Accessed on 16 December 2022.

73 Procedure 2022/0051/COD. Available in English at: https://eur-lex.europa.eu/procedure/EN/2022_51. Accessed on 4 January 2022.

3.2.4 Application of good marketing practices and credible claims

Organisations making claims related to the use of carbon credits should apply good marketing practices in their marketing. A claim must generally be sufficiently clear and detailed to ensure that it cannot be understood in any other way than the way the organisation intended. While making claims, organisations should avoid giving the misleading impression that the organisation, product or service does not generate any emissions. A claim should indicate in an accurate and intelligible way the source of emissions covered by credits, the proportion of overall emissions covered by buying credits and whether the claim is a contribution claim or an offsetting claim (see ‘Good practices’ below).

Relevant EU legislation

Based on EU Directive 2005/29/EC, the Finnish Consumer Protection Act (38/1978) prohibits provision of untruthful or misleading information and failure to provide information that is essential for the context. The guidance on interpretation and application of the Directive notes that [carbon removals] “claims should be authentic, robust, transparent, reported, monitorable, verifiable, credible, certified, should not undermine near-term emission reduction action in emitting sectors, should guarantee additionality and should ensure an appropriate accounting of carbon removals in national GHG inventories”⁷⁴. The same guidance also states that carbon neutrality claims should be based on credits that are of high environmental integrity and appropriately calculated to represent real, additional mitigation outcomes.

The European Commission has also proposed that the Unfair Commercial Practices Directive be updated⁷⁵ to provide that making general environmental claims, such as claims about carbon neutrality, climate neutrality, climate friendliness or carbon friendliness, would require demonstrating ‘recognised excellent environmental

74 National GHG inventories are based on UNFCCC reporting guidelines and IPCC methodological guidelines. Each inventory covers the entire country, using applicable calculation methods consistent with these international guidelines. The baseline data sources for the inventories include administrative documentation, statistics, surveys or other samples. It is not methodologically possible to include in an inventory the impact of emission reductions or removal enhancements due to an individual operator’s mitigation activity at the operator’s request, although it is appropriate to indicate the activities yielding mitigation outcomes as extensively as possible in a nationwide inventory.

75 COM(2022) 143 final: Proposal for a Directive amending Directives 2005/29/EC and 2011/83/EU as regards empowering consumers for the green transition through better protection against unfair practices and better information. Available in English at: <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:52022PC0143>. Accessed on 3 December 2022.

performance' relevant to the claim. 'Recognised excellent environmental performance' means environmental performance compliant with national or regional ecolabelling schemes officially recognised in a Member State or top environmental performance in accordance with other applicable Union law. The currently ongoing EU initiative on substantiating green claims is⁷⁶ also likely to include guidance on how to substantiate claims.

The Commission Proposal for a Carbon Removal Certification Regulation touches on the need for comparable adjustments to avoid double counting. According to the Commission, the need for corresponding adjustments in voluntary carbon markets in the context of climate claims is currently much debated. It points out that this is dependent on the nature and scope of the target and claim and that corresponding adjustments might be needed if a carbon credit is used to offset emissions in order to achieve a target in a situation in which the carbon removals underlying the credit are counted towards another target. Conversely, corresponding adjustments do not appear to be necessary in cases such as when carbon removal is directly counted towards a single target, which may be company-specific, instead of using it to offset emissions related to more than one target.

EU law does not currently enable Member States to make corresponding adjustments.

Good practices

Good-practice climate claims based on the use of credits that meet the minimum criteria can be divided into two categories according to their climate impact:

1. A **contribution claim** refers to the use of carbon credits that represent mitigation outcomes counted as part of tracking and accounting of national climate targets, helping to achieve a previously agreed level of ambition. Users of such credits can credibly claim to have supported national climate targets. Double claiming is avoided by only counting the mitigation outcome towards the host country's national climate targets. A contribution claim means that the entity making the claim has contributed to national climate

76 European Commission: Environment: Initiative on substantiating green claims. Available in English at: https://ec.europa.eu/environment/eussd/smgp/initiative_on_green_claims.htm. Accessed on 12 December 2022. Ares(2020)3820384 - 20/07/2020: Proposal for a Regulation on substantiating environmental claims using the Product/Organisation Environmental Footprint methods (green claims). Available in English at: [https://eur-lex.europa.eu/legal-content/EN/ALL/?uri=PI_COM:Ares\(2020\)3820384](https://eur-lex.europa.eu/legal-content/EN/ALL/?uri=PI_COM:Ares(2020)3820384). Accessed on 16 December 2022.

targets by supporting mitigation outcomes that meet the minimum criteria (see also Box 2). In other words, the claimant does not count the mitigation outcomes towards offsetting the climate impact of its own emissions.

2. An **offsetting claim** refers to the use of carbon credits that represent mitigation outcomes not counted as part of tracking and accounting of national climate targets. Users of such credits can credibly claim to have offset the climate impact of certain emissions in part or in full. Double claiming is avoided by only counting the mitigation outcome towards the party making the offsetting claim. Once the climate impact of residual emissions has been fully offset by the corresponding number of credits, it is possible to make a **carbon neutrality claim** (Box 16). A best-practice claim about carbon neutrality also requires that the organisation making the claim has a 1.5°C-aligned target, which it is implementing in line with a climate roadmap (see Section 3.2.2).

Voluntary mitigation action can also be supported by means other than using credits. In such cases, it is also possible to refer to such support as part of marketing and communications, but the above-mentioned claims based on the use of credits should not be made.

Box 15. Examples of guidelines on climate claims

Numerous international, independent and national guidelines have been and are being developed for climate claims, including the PAS 2060 carbon neutrality standard (active); the Nordic Code of Best Practice for the Voluntary Use of Carbon Credits (published); the Voluntary Carbon Market Integrity Initiative (guidance on claims being developed); the ISO 14068 carbon neutrality standard (being developed); and policies by national consumer authorities (e.g. Sweden, Denmark, Norway, the Netherlands, Germany and the UK). (For examples of cases in which a consumer authority has intervened in misleading climate claims, see Section 4.2.4).

The French Climate and Resilience Act only allows carbon neutrality claims for companies that have publicly reported, among other things, a description of how the emissions from a product or service have primarily been avoided, then minimised, and only thereafter covered with carbon credits, incl. an emissions projection. If the emissions associated with a product or service grow for two consecutive years, the organisation must withdraw its carbon neutrality claim.

Box 16. Difference between product/service and organisational carbon neutrality

It is important for claims to distinguish between the organisation's operations and the life-cycle emissions impacts of its products or services. As the carbon footprints of the organisation and its product or service are determined by different calculation standards, carbon neutrality should also be examined separately at both of these levels.

Where the organisation has accounted for all of the emissions sources that need to be considered in calculating the emissions of a product or service, carbon neutrality achieved at the organisational level means that all products and services are also basically carbon-neutral. However, since the standards for calculating the emissions of products or services are stricter, calculations made at the organisational level are not sufficiently accurate to ascertain the life-cycle emissions – and, consequently, carbon neutrality – of an individual product or service.

An organisation's emissions calculation (scopes 1, 2 and 3) also covers emissions during the use phase of the products and services that it has sold. These include fuel consumption of fuel-operated products or electricity consumption of electric products during their respective life cycles. Nevertheless, not all organisations make these types of products. Use phase emissions may also be indirect (e.g. heating of food or washing of clothes), making it voluntary for the organisation to include such emissions in its carbon footprinting.

Emissions calculations of products or services do not generally consider all of the emissions generated by the organisation that provides them, such as employees' commutes between home and work. Such emissions are omitted from product life-cycle calculations because they have been excluded from the scope of the standards governing product or service emissions calculations. Conversely, the raw materials purchased for making products should be included in both organisational emissions calculations and product life-cycle calculations.

Consequently, carbon neutrality claims should always be as accurate as possible and the carbon neutrality of an organisation and a product or service cannot be linked, unless the emissions of both have been calculated and unless the residual emissions have been covered by an equivalent number of credits.

Box 17. Some notes on the use of 'compensation' and 'offsetting'

As the legal and political frameworks of voluntary carbon markets are currently being rapidly reformed, there are lively debates on many formerly established terms. This is particularly relevant for the English-language terms 'compensation' and 'offsetting', which have thus far been frequently used synonymously in the sense of 'counterbalancing' (emissions). In Finland, too, the Finnish term used in the context of the preparatory works of the Money Collection Act was päästökompensointi ('emissions compensation'). The amended Money Collection Act excludes from its scope any service to compensate for greenhouse gas emissions by reducing or removing greenhouse gases from the atmosphere or by avoiding their release into the atmosphere in a verified and quantified manner (see Section 4.2.1).

However, there is currently no consensus on whether these terms will continue to be used synonymously and whether their use as a claim will require avoidance of double claiming. The use of 'compensation', in particular, is varied (in several languages) and the term can be understood in many ways. Therefore, its use as a claim is no longer recommended.

Up until the end of 2020, the majority of countries and their emissions were excluded from climate targets. The voluntary markets focus on these countries and on the carbon credits suitable for offsetting claims. Following the Paris Agreement, almost all countries have implemented climate targets since 2021. As a result, making and assessing offsetting claims while avoiding double counting now requires careful attention because there is an increasing number of carbon credits on the markets that are based on mitigation outcomes counted towards achieving national climate targets.

As a solution, market players have suggested unambiguous definitions for different claims and a new contribution claim for carbon credits that contribute towards national targets. However, different entities use different definitions, creating confusion, and there is no international consensus on the use of terms, even in the English language.

3.2.5 Transparent, intelligible and sufficiently detailed reporting

Organisations making credit-based climate claims should report intelligibly and in sufficient detail on their own direct and indirect (scope 1, 2 and 3) emissions, climate targets, emissions reduction measures and their results, and support for voluntary mitigation action, including any credits used. As part of their reporting, organisations should discuss the ways in which their targets and action relate to good practices; the ways in which they ensure that credit use does not displace or delay their own emissions reduction measures; the extent to which they have made use of international or national standards and carbon crediting programmes; and the extent to which the information they have reported has been verified by an independent third party. This information should be made publicly available and provided as part of reporting on the voluntary use of carbon credits and the related claims and marketing efforts.

Relevant EU legislation

The guidelines adopted in 2019 on reporting climate-related information included in the Non-Financial Reporting Directive⁷⁷ note that methodologies and best practice in the field of climate-related reporting are evolving fast. Companies and other organisations are encouraged to further improve climate-related reporting beyond the content of these guidelines. The Commission has concluded that the current guidelines are insufficient and is continuing its work to develop the regulatory framework for corporate sustainability reporting⁷⁸.

The EU is also developing the regulatory framework for the taxonomy of sustainable investment and for corporate sustainability reporting⁷⁹, which includes guidelines for reporting climate-related information.

77 Commission Communication 2019/C 209/01: Guidelines on non-financial reporting; Supplement on reporting climate-related information. Official Journal of the European Union. Available in English at: [https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:52019XC0620\(01\)](https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:52019XC0620(01)). Accessed on 2 December 2022.

78 Procedure 2021/0104/COD. Available in English at: https://eur-lex.europa.eu/procedure/EN/2021_104. Accessed on 4 January 2022.

79 Procedure 2022/0051/COD. Available in English at: https://eur-lex.europa.eu/procedure/EN/2022_51. Accessed on 4 January 2022.

Good practices

Good-practice reporting covers at least the following details:

- The credits used by the organisation; the name, type and registration year of the underlying mitigation activity; the carbon crediting programme applied; the number of credits and their year of production and use; and an explanation of the factors relevant to the choice of credits, such as minimum criteria;
- The organisation's own direct and indirect (scope 1, 2 and 3) emissions and, where a claim concerns a product or service, the life-cycle emissions of the product/service as a whole;
- The source of emissions and the proportion of residual emissions covered by buying credits;
- The organisation's climate roadmap (see Section 3.2.2), i.e. its climate targets, their auditing process and compliance with the 1.5°C pathway, its own emissions reduction measures and their resourcing and progress, an explanation of the role of voluntary credit use as part of its climate strategy, and an estimate on how voluntary credit use will continue in the future.

This information should be made publicly available and provided as part of reporting on the voluntary use of carbon credits and the related claims and marketing efforts.

Best-practice reporting would also require disclosing information on credit prices.

Box 18. Points to consider on reporting the voluntary use of carbon credits

Numerous guidelines for reporting on the voluntary use of carbon credits have been and are being developed by international, independent and national bodies, with a view to matching the basic level for global sustainability reporting standards, including the Global Reporting Initiative (GRI), the Climate Disclosure Standards Board (CDSB) and the CDP (formerly known as the Carbon Disclosure Project), the Sustainability Accounting Standards Board (SASB), the G20, the G7, the Financial Stability Board (FSB), the Transatlantic Corporate Governance Dialogue (TCGD), and the International Sustainability Standards Board (ISSB) of the International Financial Reporting Standards (IFRS) Foundation and its Climate-related Disclosures Prototype (in development).

The French Climate and Resilience Act only allows carbon neutrality claims for companies that have publicly reported, among other things, a description of how the emissions from a product or service have primarily been avoided, then minimised, and only thereafter covered with carbon credits, incl. an emissions projection and an annual target pathway for the minimum period of 10 years. The supplementary decree to the Act also requires reporting the use of carbon credits, incl. underlying mitigation activities and the categories of credit prices (below EUR 10 per tonne, EUR 10–40 per tonne, or over EUR 40 per tonne).

3.3 Highlights of good practices for private consumers

Consumers come across organisations' climate claims and marketing in many contexts. Product, service or other communications may involve messaging that a product, production, packaging, transport, service or organisational activity is carbon-neutral, climate-friendly or emissions-free, or that the resulting emissions have been offset. This section provides general information about good practices, how these climate claims are made and how they differ, what kind of information should be presented to back up the claims and what you should bear in mind when you come across climate claims as a consumer.

3.3.1 What should consumers know about climate claims?

When an organisation makes a climate claim, it should be truthful, meaning that it should be backed up by genuine action to mitigate climate change. As with any other marketing claims, organisations should abide by good marketing practices when making climate claims, explaining clearly and transparently what the claim means and what it is based on. In Finland, the legality of marketing towards consumers is supervised by the Consumer Ombudsman, an independent public authority operating under the Finnish Competition and Consumer Authority.

It is important to bear in mind that climate claims are only part of organisations' sustainability efforts. Some organisations, products or services may have minimal climate impacts, while their other (positive or negative) environmental and social impacts may be all the greater. In other words, climate claims are not always the whole truth about an organisation's sustainability or responsibility.

3.3.1.1 What types of climate claims are there?

Climate claims fall broadly into two categories: **1) claims based on the use of carbon credits** and **2) other claims**.

Claims based on the use of carbon credits are in part based on carbon credits that organisations purchase from voluntary carbon markets.

Credit purchases should not displace or delay the buyer's – such as a company marketing its products as climate-friendly – own emissions reductions. Emissions reductions are always the primary course of action in the fight against climate change. Prior to making credit purchases, good practices require organisations to have calculated their own emissions using internationally recognised methodologies and planned and/or implemented measures to reduce their own emissions.

Organisations can buy as many credits as they wish, but when making claims, they should clearly indicate how the amount relates to their own emissions. The credits can cover all or some of an organisation's emissions, or the organisation can buy more credits than the amount of emissions that it generates. Credits can also be used voluntarily without relating them to any specific amount of emissions.

One carbon credit equals to a mitigation outcome of one tonne of carbon dioxide equivalent (CO₂e). A mitigation outcome can refer to emissions reduction or carbon capture or removal by natural or technological means. Mitigation outcomes have specific quality criteria, known as the minimum criteria for carbon credits (see Section 3.1.1), which should be met for a credit created from mitigation outcomes to be used for making claims about voluntary mitigation action. The quality performance of mitigation outcomes is monitored by various standards and auditors around the world. The EU, for example, is also currently drafting a Carbon Removal Certification Regulation, which would create the legal framework for the quality of certain mitigation outcomes.

On voluntary carbon markets, a credit is cancelled on behalf of the buyer upon purchase, meaning that the buyer 'owns' the credit and it can no longer be sold or exchanged. Once the credit is cancelled, the buyer can make a claim about voluntary mitigation action. The claim depends on the types of credits the buyer has bought and how it has related the number of credits to its own emissions.

There are two types of claims based on the use of carbon credits:

1. A **contribution claim** means that an organisation has bought credits with climate impacts counted as part of tracking and accounting of national climate targets, helping to achieve a previously agreed level of ambition. This means, for example, that the organisation helps Finland achieve its national climate targets.

Examples: Supporting a country's climate targets (e.g. carbon-neutral Finland)

2. An **offsetting claim** means that an organisation has bought credits with climate impacts not counted as part of tracking and accounting of national climate targets. At least for the time being, it is not customary of voluntary carbon markets to consider the relationship between these credits and the long-term goals (such as carbon neutrality by 2050) set at national level or under the Paris Agreement. Once the organisation has bought a sufficient number of credits to cover the climate impact of its residual emissions in full, this creates a carbon neutrality claim.

Examples (offsetting claim): (Operational) emissions offset

Examples (carbon neutrality claim): Carbon-neutral business, carbon-neutral product

Other claims have been made on other grounds or are based on units that do not fully meet the minimum criteria for carbon credits. It is important to bear in mind that many mitigation actions contribute to achieving climate targets, even though they fail to meet the minimum criteria for carbon credits in all respects. Mitigation action can – and needs to be – also supported by other means besides buying credits, such as by financing emissions reductions or carbon removals that are short-term, difficult to measure or planned for the future, as well as research and development (R&D) geared towards stepping up mitigation action.

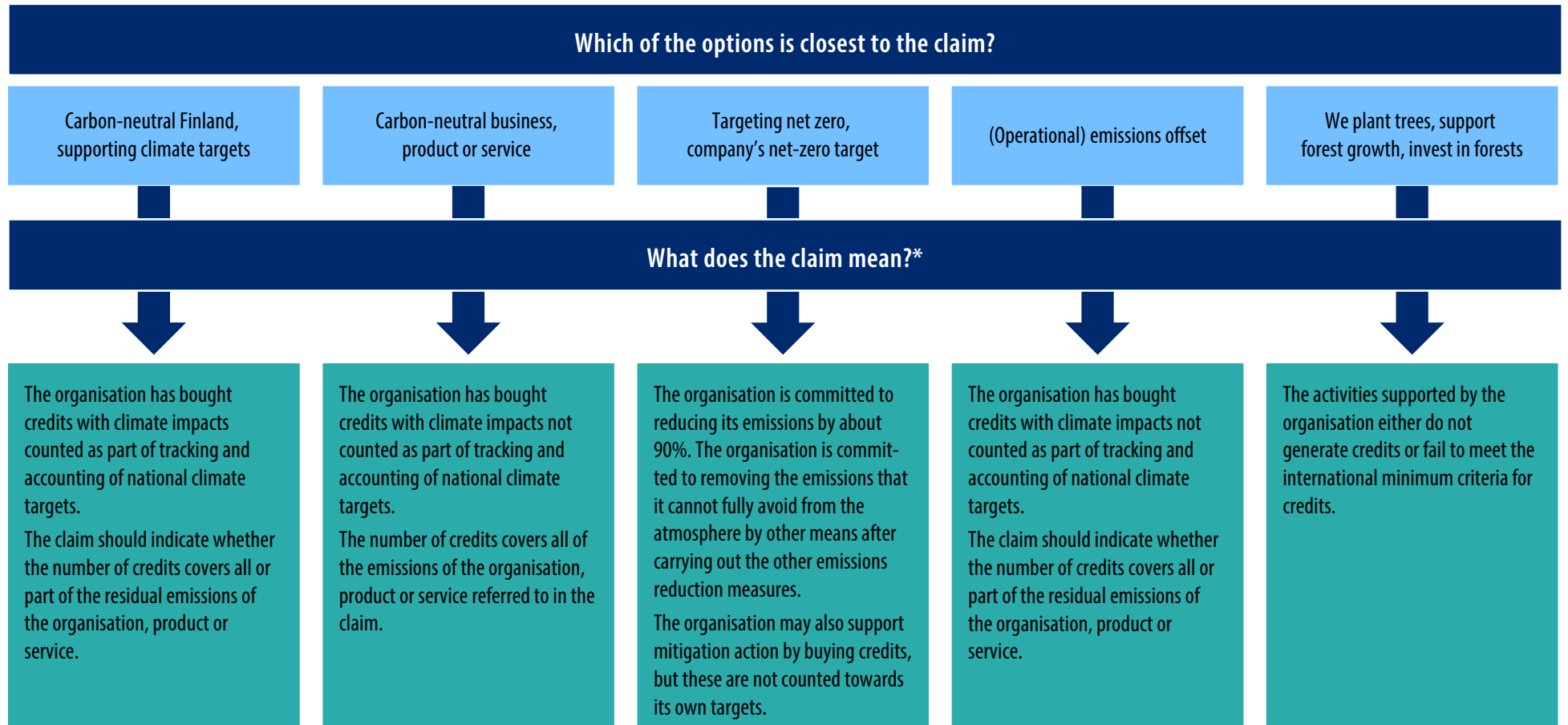
3.3.1.2 What information should be presented to back up the claims?

To back up their climate claims, organisations should always present information on where to find substantiating evidence for their claims. This information can be directly presented on packaging or on the corporate website, for example, and should include at least the following details:

- What is the organisation doing to reduce emissions? What is it doing now and what is it planning to do to reduce emissions? How does the organisation ensure that credit purchases will not delay or displace its own emissions reduction measures?
- How many credits were bought and for what mitigation activities? How was the quality of the credits assured?
- What is the level of the organisation's overall emissions and what proportion of residual emissions was covered by buying credits? Who or what is the source of the emissions covered by the number of credits?
- What else is the organisation doing in terms of sustainability and how large a role does climate play in its operations?

3.3.2 You see a climate claim – what does it mean?

Figure 4. Climate claims and what they mean according to good practice



*According to good practice

4 Status report

4.1 Climate claims in Finland

Climate claims based on the voluntary use of carbon credits are used in Finland for marketing by companies as well as on products and services. However, these claims and their definitions involve much uncertainty among companies and consumers alike. A study conducted by Finnish Environment Institute SYKE on environmental claims⁸⁰ indicates that only a third of consumers trust the environmental claims used in marketing. At the same time, entrepreneurs have felt that making environmental claims is challenging and that they need more specific guidance on making such claims⁸¹.

Legislation governing environmental claims (see Section 4.2) requires climate claims to be clear, unambiguous, truthful and verifiable. Otherwise, such claims can be considered misleading and, in the context of environmental claims, to constitute ‘greenwashing’. This section explores the types of parties that use carbon credits to make climate claims and the ways in which such claims are used. The section ends with a brief discussion of the use of climate labelling in Finland.

4.1.1 Users of climate claims in Finland

Based on a survey conducted by Finnwatch with providers of mitigation outcomes, the majority of credits are sold to companies, which generally use them to offset emissions from a certain product or operation⁸². Finland has hundreds of businesses that use credits

80 Heinonen, Tero – Nissinen Ari, 2022: Ympäristöväittämät Suomen markkinoilla (*Environmental Claims in the Finnish Market*). Publications of the Ministry of Economic Affairs and Employment 2022:48. Available in Finnish (English abstract) at: https://julkaisut.valtioneuvosto.fi/bitstream/handle/10024/164261/TEM_2022_48.pdf?sequence=4. Accessed on 20 September 2022.

81 Ibid.

82 Finnwatch, 2021: Anekauppaa vai ilmastotekoja (*Indulgences or mitigation actions*). Available in Finnish at: <https://finnwatch.org/fi/julkaisut/anekauppaa-vai-ilmastotekoja>. Accessed on 20 September 2022.

to offset their emissions⁸³. According to data from 2022, for example, about 4% of Finnish SMEs buy and use credits as part of their mitigation actions⁸⁴. The proportion of SMEs using credits has remained the same over the last two years⁸⁵.

Nevertheless, the use of credits has thus far been fairly limited in Finland compared with the country's total emissions, standing at slightly over half a per cent in 2019, for example⁸⁶. The total sales of Finnish carbon credits has been estimated to amount to about 300,000 t CO₂e, corresponding to about EUR 4–5 million per year⁸⁷. However, this is a minimum estimate, as Finnish businesses also buy credits from international services. In the 2020 Finnwatch survey, for example, the volume of credits purchased by responding businesses amounted to a total of about 400,000 t CO₂e. Based on the information collected by Finnwatch, the most significant Finnish companies making use of credits in 2020 included Finavia, Hesburger, LähiTapiola, Posti Group and Supercell.

The SME Barometer surveying mitigation actions at SMEs suggests that the key drivers for undertaking mitigation action are the enterprise's values and strategy. Emissions reductions are also driven by corporate image building, cost-savings and efficiency. The drivers for businesses to purchase credits are mostly the same as those underlying their other mitigation actions, such as enhancing their reputation, building a green brand⁸⁸ and a desire to reduce emissions more than would be possible when acting alone⁸⁹.

83 Ibid.

84 Suomen Yrittäjät ry, 2022: PK-yrittäjäbarometri 2022 (SME Barometer 2022), p. 38. Available in Finnish at: https://www.yrittajat.fi/wp-content/uploads/2022/02/SY_pk-barometri_kevat2022.pdf.

85 Ibid.

86 Niemistö, Johanna – Seppälä, Jyri – Karvonen, Jaakko – Soimakallio, Sampo, 2021: Päästökompensaatiot ilmastonmuutoksen hillinnän keinona Suomessa – nyt ja tulevaisuudessa (*Carbon offsetting as a means to mitigate climate change in Finland – now and in the future*). Publications of the Ministry of the Environment 2021:12. Available in Finnish (English abstract) at: <http://urn.fi/URN:ISBN:978-952-361-233-4>.

87 Ibid. The same estimate was also made by Finnwatch, 2021: Anekauppaa vai ilmastotokeja (*Indulgences or mitigation actions*). Available in Finnish at: <https://finnwatch.org/fi/julkaisut/anekauppaa-vai-ilmastotokeja>. Accessed on 20 September 2022.

88 International Carbon Reduction and Offset Alliance, 2014: Unlocking the Hidden Value of Carbon Offsetting, p. 8. Available in English at: https://www.icroa.org/_files/ugd/653476_e2de367d7b9e4ca4b243f192370c9b5d.pdf.

89 Hwargård, Louise, 2020: Swedish companies' current use of carbon offsetting – underlying ethical view and preparedness for post-2020 carbon market conditions, p. 31–32. Available in English at: <urn:nbn:se:uu:diva-413308>.

4.1.2 Use of climate claims in Finland

In Finland, the use of environmental and climate claims in marketing has been explored in studies conducted by Finnish Environment Institute SYKE and the Ministry of Economic Affairs and Employment (2022)⁹⁰ and WWF Finland (2022)⁹¹. The SYKE study analysed various environmental claims and divided advertising that contained carbon neutrality and climate claims into the following themes: 'carbon neutrality, zero emissions and offsetting', and 'other climate themes'. The study employed a scientific assessment methodology. The WWF study, in turn, focuses exclusively on carbon neutrality claims. The transparency of carbon neutrality and climate claims used by businesses has also been analysed in the Finnwatch survey published in 2021⁹².

The study produced by Finnish Environment Institute SYKE and the Ministry of Economic Affairs and Employment notes that the majority of environmental claims used in marketing target consumers⁹³. Environmental claims and their use can be broadly analysed in terms of relevance and depth⁹⁴, transparency⁹⁵ and accuracy⁹⁶, for example.

90 Heinonen, Tero – Nissinen Ari, 2022: Ympäristöväittämät Suomen markkinoilla (*Environmental Claims in the Finnish Market*). Publications of the Ministry of Economic Affairs and Employment 2022:48. Available in Finnish (English abstract) at: https://julkaisut.valtioneuvosto.fi/bitstream/handle/10024/164261/TEM_2022_48.pdf?sequence=4. Accessed on 20 September 2022.

91 Julkunen, Helka, 2022: Hiilineutraali nyt, tai ainakin joskus tulevaisuudessa (*Carbon-neutral now, or at least some time in the future*). Publication of WWF Finland. Available in Finnish at: <https://wwf.fi/app/uploads/9/w/k/jbgipnixad6i0cto8596g8/wwf-selvitys-hiilineutraaliusvaittamista.pdf>.

92 Finnwatch, 2021: Anekauppaa vai ilmastotekoja (*Indulgences or mitigation actions*). Available in Finnish at: <https://finnwatch.org/fi/julkaisut/anekauppaa-vai-ilmastotekoja>. Accessed on 20 September 2022.

93 Heinonen, Tero – Nissinen Ari, 2022: Ympäristöväittämät Suomen markkinoilla (*Environmental Claims in the Finnish Market*). Publications of the Ministry of Economic Affairs and Employment 2022:48. Available in Finnish (English abstract) at: https://julkaisut.valtioneuvosto.fi/bitstream/handle/10024/164261/TEM_2022_48.pdf?sequence=4. Accessed on 20 September 2022.

94 See: Heinonen, Tero – Nissinen Ari, 2022: Ympäristöväittämät Suomen markkinoilla (*Environmental Claims in the Finnish Market*). Publications of the Ministry of Economic Affairs and Employment 2022:48. Available in Finnish (English abstract) at: https://julkaisut.valtioneuvosto.fi/bitstream/handle/10024/164261/TEM_2022_48.pdf?sequence=4. Accessed on 20 September 2022.

95 See: Finnwatch, 2021: Anekauppaa vai ilmastotekoja (*Indulgences or mitigation actions*). Available in Finnish at: <https://finnwatch.org/fi/julkaisut/anekauppaa-vai-ilmastotekoja>. Accessed on 20 September 2022.

96 See: Julkunen, Helka, 2022: Hiilineutraali nyt, tai ainakin joskus tulevaisuudessa (*Carbon-neutral now, or at least some time in the future*). Publication of WWF Finland. Available in Finnish at: <https://wwf.fi/app/uploads/9/w/k/jbgipnixad6i0cto8596g8/wwf-selvitys-hiilineutraaliusvaittamista.pdf>.

4.1.2.1 Claim depth and relevance

The study by SYKE and the Ministry of Economic Affairs and Employment assessed the use of various environmental claims in general terms, considering their themes, target groups, depth and relevance, for example. The depth of claims involved analysing how deep or extensive the information provided in support of a claim was⁹⁷.

The study judged a claim to be **shallow** if it was ambiguous, unspecified or generalised. Under the carbon neutrality theme, such claims were considered to include carbon neutrality claims that did not specify the scope of calculation or the role of credits required to achieve net zero. Claims classified as **moderate in depth** cited an individual impact or action: under the carbon neutrality theme, these included claims that explained carbon neutrality in qualitative terms (e.g. offsetting emissions by means of afforestation in a certain area, or specifying the proportion of emissions offset by the use of credits in order to achieve carbon neutrality). The study determined claims to be **deep** when they provided more specific details about the environmental impact of the product, service or company. 'Specific details' were considered to include qualitative specifications of environmental impacts, details of the number of environmental impacts, or an eco-label granted by a third party known to be reliable. For other types of climate claims, those that provided details such as the specific percentage of emissions reductions were classified as deep claims. With regard to ambiguous claims (e.g. 'carbon neutrality'), deep claims were those that specified the use of the concept in the context of the particular product, service or business.

In its analysis of the **relevance of claims**, the study by SYKE and the Ministry of Economic Affairs and Employment considered claims to be misleading if they 1) were vague, 2) omitted necessary information, or 3) presented outright lies. The study indicated that more than half (about 56%) of environmental claims used in Finnish online advertising in 2021 were misleading.

Claims were considered to have failed to provide essential information if they cited an isolated positive environmental impact while implying that the environmental impacts of a product, service or business were also low or positive in other respects. In the context of

97 See: Heinonen, Tero – Nissinen Ari, 2022: Ympäristöväittämät Suomen markkinoilla (*Environmental Claims in the Finnish Market*). Publications of the Ministry of Economic Affairs and Employment 2022:48. Available in Finnish (English abstract) at: https://julkaisut.valtioneuvosto.fi/bitstream/handle/10024/164261/TEM_2022_48.pdf?sequence=4. Accessed on 20 September 2022. Methodology based on a study by Banerjee (1995).

carbon neutrality, such claims were considered to include those about zero emissions that did not specify the operating conditions required for a product to reach a state of net zero as claimed.

If a claim did not fall within categories 1–3, it was considered acceptable (although acceptability was not analysed from the perspective of the legality of marketing)⁹⁸. Such climate claims included those that indicated an emissions reduction in percentage terms, or cited the credit producer’s ISO certification.

4.1.2.2 Claim transparency

Globally, only one fifth of companies that use voluntary carbon credits disclose their use of credits⁹⁹. No corresponding estimate of the proportion of climate claims presented has been produced for Finland. The broader Finnwatch survey on the demand for and supply of carbon credits also studied the transparency of carbon neutrality claims. In the context of the survey, ‘transparency’ meant that the company’s customers had a chance to verify the underlying mitigation activity behind the credits. This criterion was met by 22 of the 40 enterprises that responded to the survey. Sufficient transparency also required the opportunity to verify that the credits had been cancelled from the carbon crediting programme’s registry. This criterion was met by 21 of the responding enterprises. Both criteria were only met by one out of four enterprises.¹⁰⁰

4.1.2.3 Claim accuracy

The WWF Finland study on carbon neutrality claims analysed the accuracy of claims. The study found that carbon neutrality claims were often backed up by inadequate information, or the necessary information was completely absent. By way of example, the scope of emissions calculations may be too limited, meaning that they fail to include all of the relevant emissions, or emissions are not disclosed at all. Emissions reduction targets and future plans are also frequently missing.

98 See: Heinonen, Tero – Nissinen Ari, 2022: Ympäristöväittämät Suomen markkinoilla (*Environmental Claims in the Finnish Market*). Publications of the Ministry of Economic Affairs and Employment 2022:48. Available in Finnish (English abstract) at: https://julkaisut.valtioneuvosto.fi/bitstream/handle/10024/164261/TEM_2022_48.pdf?sequence=4. Accessed on 20 September 2022. Methodology based on a study by Kangun et al. (1991).

99 Carbon Pulse, 2022: Just one-fifth of VER buyers disclosing carbon credit purchases in opaque market report. 1 August 2022. Available in English at: <https://carbon-pulse.com/168160/>.

100 Finnwatch, 2021: Anekauppaa vai ilmastotekoja (*Indulgences or mitigation actions*). Available in Finnish at: <https://finnwatch.org/fi/julkaisut/aneakauppaa-vai-ilmastotekoja>. Accessed on 20 September 2022.

The study points out that, in the context of the accuracy of marketing related to corporate carbon neutrality targets, it should be borne in mind that long-term targets (such as 'carbon-neutral by 2030') are not indicative of the climate impacts of a product or service at present¹⁰¹. In addition, these claims seldom provide further information about emissions reduction measures or the potential use of credits to achieve carbon neutrality, for example. There is no market mechanism to address claims that do not deliver on their promises in the future. In general terms, the WWF study highlights the fact that these future-oriented claims are often difficult to decipher and, at worst, misleading when consumers compare the degree of climate-friendliness of different companies, products or services¹⁰².

4.1.3 Climate labelling in Finland

Climate claims can also be communicated by using a label indicating the carbon neutrality or carbon footprint of a company, product or service, or a company's emissions calculations or other mitigation actions and benefits¹⁰³. Labels are granted by third parties, which are often credit brokers or consultancy firms specialised in emissions calculations or other elements of carbon footprints. Companies may also communicate about their mitigation actions of their own accord by means such as package labelling. Consumers may mistake these labels for those granted by a third party.¹⁰⁴ A 2022 survey by the Consumers' Union of Finland, focusing on environmental claims and labelling, notes

101 Julkunen, Helka, 2022: Hiilineutraali nyt, tai ainakin joskus tulevaisuudessa (*Carbon-neutral now, or at least some time in the future*). Publication of WWF Finland. Available in Finnish at: <https://wwf.fi/app/uploads/9/w/k/jbgipnixad6i0cto8596g8/wwf-selvitys-hiilineutraaliusvaittamista.pdf>.

102 Ibid.

103 See e.g. South Pole, 2023: South Pole's Labels. Available in English at: <https://www.southpole.com/sustainability-solutions/climate-neutrality-and-renewable-electricity-labels>. Accessed on 4 January 2023.

104 Heinonen, Tero – Nissinen Ari, 2022: Ympäristöväittämät Suomen markkinoilla (*Environmental Claims in the Finnish Market*). Publications of the Ministry of Economic Affairs and Employment 2022:48. Available in Finnish (English abstract) at: https://julkaisut.valtioneuvosto.fi/bitstream/handle/10024/164261/TEM_2022_48.pdf?sequence=4. Accessed on 20 September 2022.

that consumers find it difficult to distinguish between official eco-labels and companies' own labels¹⁰⁵. Not even remotely all of the labels provide information on how they are granted¹⁰⁶.

There is a wide range of labels on the markets and no single label exists that would be established or used by the majority of companies. By way of example, the Carbon Neutral category of Green Choice symbols used by state alcohol retailer Alko covers 15 different carbon neutrality labels¹⁰⁷. Most of these are granted by international bodies. Examples of climate labelling used in Finland have been compiled into Table 3. There are EU-level plans to regulate the use of labelling under a forthcoming Directive (see Section 4.2).

105 Consumers' Union of Finland, 2022: Aidosti vihreää vai viherpesua? (Genuinely green or greenwashing?) Available in Finnish at: https://www.kuluttajaliitto.fi/uploads/2022/03/54b10f96-vihervaitteet_kuluttajaliitto_2022_web.pdf. Accessed on 15 October 2022.

106 Heinonen, Tero – Nissinen Ari, 2022: Ympäristöväittämät Suomen markkinoilla (Environmental Claims in the Finnish Market). Publications of the Ministry of Economic Affairs and Employment 2022:48. Available in Finnish (English abstract) at: https://julkaisut.valtioneuvosto.fi/bitstream/handle/10024/164261/TEM_2022_48.pdf?sequence=4. Accessed on 20 September 2022.

107 Alko, 2022: Green Choice symbols provide information about the environmental friendliness of the beverage, section Carbon Neutral. Available in English at: <https://www.alko.fi/en/responsibly/sustainability-of-products/green-choice-symbol-provide-information-about-the-environmental-friendliness-of-the-beverage#carbon-neutral>. Accessed on 20 September 2022.

Table 3. Examples of climate labelling used in Finland

Label name and/or granting body	Claim	Primary business of granting body
Carbon Trust ¹⁰⁸	Carbon-neutral	Consultancy
South Pole	Carbon-neutral	Consultancy, credit brokerage
Climate Impact Partners ¹⁰⁹	Carbon-neutral	Credit brokerage
Clonet Oy ¹¹⁰	Carbon-neutral, Carbon Footprint Calculated	Consultancy
Finland Chamber of Commerce ¹¹¹	Carbon Footprint Calculated	Association
Code from Finland ¹¹²	Carbon-neutral	Association

4.2 Current status of legislation relevant to voluntary mitigation action and related claims

Voluntary mitigation actions do not take place in a social vacuum. Despite the fact that the sector is growing rapidly and many of its practices are still taking shape, voluntary mitigation actions are subject to several legal rules and questions.

The legal frameworks of voluntary mitigation actions are diverse due to the fact that such actions are implemented using different models and between different parties. This section discusses various situations relating to voluntary mitigation action from the key legal perspectives relevant to this report. In line with prior studies and the key issues

108 The Carbon Trust, 2022: Carbon neutral certification. Available in English at: <https://www.carbontrust.com/en-eu/node/21>. Accessed on 20 September 2022.

109 Climate Impact Partners, 2022: Who we are. Available in English at: <https://carbonneutral.com/who-we-are>. Accessed on 20 September 2022.

110 Clonet Oy, 2022: OpenCO2.net Carbon Footprint Label. Available in English at: <https://www.clonet.fi/en/carbon-footprint-label/>. Accessed on 20 September 2022.

111 Finland Chamber of Commerce: Hiilijalanjälki laskettu -merkki (*Carbon Footprint Calculated label*). Available in Finnish at: <https://kauppakamari.fi/palvelut/co2laskettu/>. Accessed on 16 December 2022.

112 Code from Finland: Carbon Neutrality Label. Available in English at: <https://koodiasuomesta.fi/en/symbols/carbon-neutrality-label>. Accessed on 16 December 2022.

raised in them, this discussion is limited to charitable activities, agreements between businesses and consumer protection regulation.¹¹³ Conversely, questions of environmental law relating to areas such as domestic mitigation activities and other such legal issues are excluded from analysis in this context. Each of the selected themes is explored from the perspective of the added value that a report on good practices for voluntary mitigation action could provide in different frameworks.

4.2.1 Voluntary mitigation action as a form of charity

The Finnish Money Collection Act (863/2019) was reformed by an amendment that entered into force in 2021, aiming to broadly exclude ‘emissions compensation activities’ (term used in its preparatory works) from the Act’s scope of application. The context of the legislative amendment was the widely reported uncertainty about whether emissions offsetting should be considered to constitute an activity in which funds are collected without monetary compensation as referred to in section 2 of the Money Collection Act. The legislative amendment eventually excluded emissions compensation activities almost completely from the scope of the Money Collection Act. According to subsection 2 of section 1 of the current Money Collection Act, the Act’s scope of application does not include any service to compensate for greenhouse gas emissions by reducing or removing greenhouse gases from the atmosphere or by avoiding their release into the atmosphere in a verified and quantified manner.

The preparatory works to the Money Collection Act indicate that the legislators intended to exclude emissions compensation activities fairly broadly from its scope of application. The Act’s scope of application does not include any service consisting of offsetting a certain amount of greenhouse gas emissions by reducing or removing greenhouse gases from the atmosphere or by avoiding their release into the atmosphere.¹¹⁴ The key to assessing whether a service falls within the scope of the Money Collection Act is verifiability and quantifiability. The verifiability requirement means that the service

113 See e.g. Laine & al., 2021: Vapaaehtoisten päästökompensaatioiden sääntely (Regulation of voluntary emissions offsetting). Publications of the Ministry of the Environment 2021:26. Available in Finnish (English abstract) at: <http://urn.fi/URN:ISBN:978-952-361-408-6>. Laininen Jenni – Ahonen Hanna-Mari – Laine Anna – Kulovesi, Kati, 2022: Vapaaehtoiisiin päästökompensaatioihin liittyvät erityiskysymykset (*Special issues related to voluntary carbon compensation*). Publications of the Ministry of the Environment 9/2022. English summary available at: <https://ym.fi/documents/1410903/42733401/SUMMARY-Report-Special-issues-related-to-voluntary-carbon-compensation.pdf>.

114 Government Proposal 124/2021, p. 43.

provider must be able to show what the alleged reduction, avoidance or removal of greenhouse gases is based on.¹¹⁵ Quantifiability, in turn, means that it must be at least possible to estimate the quantity of the mitigation outcome used to offset emissions¹¹⁶.

In contrast, the Act's preparatory works do not consider the pecuniary nature of emissions compensation activities to be decisive in determining whether or not an activity falls within its scope¹¹⁷. In other words, compensation activities carried out free of charge, i.e. for charitable or donation purposes, were also excluded from its scope of application. Conversely, the intention is to retain general mitigation action work carried out by NGOs (which is not considered to constitute 'emissions compensation' in the meaning of the Money Collection Act) within the scope of the Act¹¹⁸. Climate-friendly action would only become an activity referred to in the Act in the event that the mitigation activity were to produce verified and quantified climate benefits¹¹⁹.

Following the revision of the Money Collection Act, the Act no longer applies to charitable activities as long as any emissions compensation made as part of such activities can be verified and quantified. This means, at least in theory, that any funds donated to such activities for charitable purposes do not fall within the scope of any safeguard provisions under industrial law, as the Consumer Protection Act does not apply to activities not linked to commercial objectives either.¹²⁰ Consequently, charitable compensation activities not even partially linked to commercial objectives are also not subject to any regulatory supervision. How many of such charitable activities falling outside the scope of both the Money Collection Act and the Consumer Protection Act actually exist and how significant the issue is in practical terms is, of course, quite another matter.

115 Government Proposal 124/2021, p. 45.

116 Ibid.

117 Government Proposal 124/2021, p. 43.

118 Ibid.

119 Ibid.

120 See: e.g. Preamble to Unfair Commercial Practices (UCP) Directive 2005/29/EC, recital 7, which states that the Directive addresses commercial practices directly related to influencing consumers' transactional decisions in relation to products. According to Article 2(d) of the UCP Directive, "business-to-consumer commercial practices' (hereinafter also referred to as commercial practices) means any act, omission, course of conduct or representation, commercial communication including advertising and marketing, by a trader, directly connected with the promotion, sale or supply of a product to consumers". The provisions on marketing in chapter 2 of the Consumer Protection Act (38/1978) are based on the UCP Directive (see Government Proposal 32/2008).

Good practices for voluntary mitigation action can contribute to the quality of the compensation activities falling outside regulatory supervision and the scope of money collection and consumer protection legislation, provided that operators decide to comply with good practices of their own accord. Consequently, compliance with good practices can ideally also improve donor protections by ensuring that the activities to which money is being donated are consistent with good climate practices. Conversely, information-based policy instruments or good practices cannot create binding rights or obligations for different parties and, as a result, cannot restrict the types of parties that are allowed to offer compensation. Under section 2 of the Constitution of Finland, such restrictions must be laid down by law.

4.2.2 Voluntary mitigation action in contexts other than business-to-consumer relationships

Regulation of voluntary mitigation action in contexts where such actions are offered as commercial services for consideration is built on general contract, marketing and tort law¹²¹. In practical terms, the legal framework applicable to each voluntary mitigation action must be examined on a case-by-case basis because, rather than being offered in any thoroughly standardised format or according to any specific model established on the markets, voluntary mitigation actions are carried out with divergent operating models. In some cases, the supply chain used for voluntary mitigation action services includes parties located in another country. In the context of this report, the scope of analysis is limited to legal relationships subject to Finnish law.

4.2.2.1 Service models for voluntary mitigation action

In relationships other than those established between consumers and businesses, legal relationships relating to voluntary mitigation action can be divided into the following two large categories:

- **Services relating to carbon credit purchasing directly arranged between the buyer and the seller.** In this model, the service provider offers carbon credits or voluntary mitigation actions as such as a service. By way of example, a company can provide mire restoration as a service in order to increase carbon sinks, which can then be used to offset the purchaser's

121 Laine & al. 2021: Vapaaehtoisten päästökompensaatioiden sääntely (Regulation of voluntary emissions offsetting), p. 28. Publications of the Ministry of the Environment 2021:26. Available in Finnish (English abstract) at: <http://urn.fi/URN:ISBN:978-952-361-408-6>.

carbon dioxide emissions. In this model, the contractual relationship is formed directly between the provider of mitigation activities and the purchaser. In mitigation activities consistent with the sector's established minimum criteria, this arrangement also typically involves third parties for purposes such as independent validation of mitigation activities and certification and registration of the mitigation outcomes produced.

- **Services relating to carbon credit purchasing arranged through a broker.**

This model includes a broker acting as an intermediary, typically offering carbon credit brokerage as a service. Brokerage may include different types of services. The broker can first operate on behalf of a service provider producing mitigation activities by promoting the sales or marketing of services or carbon credits, or by operating as a distributor, as an agent (acting in the name of a principal) or as a commission agent (acting in their own name but on behalf of a principal), for example. The broker may also act on behalf of a credit purchaser, acquiring carbon credits for the purchaser either as a brokering service or as a commission service. Brokering services may also comprise cancellation of carbon credits. The brokering services to be provided and their more specific contents, terms and conditions and liability considerations are recorded in each individual commission contract. The commission contract is signed between the client (principal) and the broker.

Both of the operating models described above can be assumed to constitute, at least in principle, a contractual relationship for the purchase or sale of services¹²². The more specific contents and scope of the service is agreed individually between each client and service provider. The contents of contracts for voluntary mitigation action are not determined by any special act. Nor are there any model contracts or standard terms and conditions available in the sector. The sector is also not regulated by any rules of industrial law which would set restrictions on who can offer voluntary mitigation action services or what these services should be like, for example. In this sense, voluntary mitigation actions enjoy **full freedom of business and contract**. Operations and contracts are only restricted and regulated by the general principles of law and general statutory law (such as the Consumer Protection Act). Operations may also be indirectly influenced by EU and domestic law governing the Finnish Government's emissions reduction commitments.

122 Laininen, Jenni, 2020: Hiilidioksidipäästöjen kompensointi – päästövähennysyksikön kauppaa koskeva sopimus (Carbon emissions compensation – agreements on the trade of emission reduction units). *Liikejuridiikka* journal 3/2020, p. 163–184, p. 165. However, there is an internationally recognised type of agreement, entitled the 'Emission Reductions Payment Agreement' (ERPA), which focuses on purchasing carbon credits rather than services. See e.g. [Emission Reductions Payment Agreements \(ERPA\) Climate Explainer \(worldbank.org\)](https://www.worldbank.org/).

General principles of contract law applicable to various voluntary mitigation action services can be identified by determining whether a contractual relationship concerns activities consistent with an established type of contract. In general terms, no uniform legal framework exists in Finland for business service contracts as a specific type of contract¹²³. Consequently, contracts on voluntary mitigation action have not become an established type of contract in Finland to the extent that there would be any domestic literature on the subject or that any principles specifically applicable to this type of contract would have become established in Finland. The types of contracts on voluntary mitigation action by which activities relating to mitigation action are provided in a direct contractual relationship between the buyer and the seller (such as providing carbon sink maintenance as a service) are the most difficult to classify into any of the categories of contract types established in domestic legal literature. Where voluntary mitigation action services are carried out at the request of the buyer, such contracts may be classified as commission contracts. If this is not the case, it is not necessarily possible to unambiguously identify any specific type of contract the special principles of which to apply. In such cases, the contractual relationship is subject to the general principles of contract law applicable, as a general rule, to all (business) contracts.

The potential benefit that the report on good practices for voluntary mitigation action may provide varies on a case-by-case basis. Where voluntary mitigation action is provided as such in a direct contractual relationship between the buyer and the seller, the service provider may voluntarily commit to comply with good practices for voluntary mitigation action in its operations as part of determining how (on what quality criteria) the contracted services should be provided, for example. If the contract does not specify the quality of voluntary mitigation action, the service provider has, in principle, fulfilled their obligations by delivering a service that meets the characteristics determined in the contract. Whether widely recognised good practices for voluntary mitigation action might carry any weight in potential disputes concerning the quality of voluntary mitigation action as evidence that the service does not conform to the contract, is quite another matter.

123 Hemmo, Mika – Hoppu, Kari: *Sopimusoikeus (Contract law)*. Alma Talent Oy, e-book, section: *Sopimusoikeuden normisto ja sopimusriskit – Sopimukseen sovellettavien normien soveltamisjärjestys – Sopimustyyppit – Palvelusopimukset (Rules of contract law and contract risks – Order of application of rules applicable to contracts – Contract types – Service contracts)*.

The model where the service provider acts as a broker mainly corresponds to commission and brokerage contracts. Commission contracts essentially mean that a contractor undertakes to do business and supply something on behalf of a principal¹²⁴. As service contracts in general, commission contracts also concern intangible performances¹²⁵. However, no special legislation exists on commission contracts for voluntary mitigation action (cf. e.g. asset management assignments, in which case the Act on Investment Services is applicable as a special act). Consequently, such commission contracts are subject to the principles of commission contracts and the general principles of contract law.

Brokerage contracts are one of the sub- or special types of commission contracts. Based on a brokerage contract, the service provider may, for example, purchase carbon credits on behalf of the principal. The broker is obliged to ensure that they carry out the brokerage assignment as instructed by the principal. A brokerage assignment can also be carried out by a commission contract by which the service provider acts in their own name but on behalf of the client.

Assignments, including brokerage and commission assignments, are subject to the provisions of chapter 18 of the Code of Commerce (3/1734). The assignee is obliged to fulfil the contract, i.e. do what was agreed. In fulfilling the contract, the assignee must consider the principal's best interests.¹²⁶ In addition to this obligation to act, the assignee is subject to due diligence and information obligations and accountability, as well as liability for damages in the event of breach of contract¹²⁷. The due diligence obligation binds the assignee to fulfil their duties with due care. The information obligation, in turn, binds the assignee to provide information on the progress of the assignment while it is still underway. Accountability obliges the assignee to account for the management and use of the principal's funds and assets and for costs incurred to the principal.¹²⁸ Liability for damages, in turn, binds the assignee to compensate for any damage that they may have

124 Saarnilehto, Ari. In: *Varallisuusoiikeus (Property law)*. Alma Talent Oy. Ari Saarnilehto – Vesa Annola – Mika Hemmo – Juha Karhu – Leena Kartio – Eva Tammi-Salminen – Juha Tolonen – Jarmo Tuomisto – Mika Viljanen. Section: *Sopimustyypeistä – Edustussopimukset – Toimeksiantosopimus (On contract types – Agency contracts – Commission contracts)*. Regularly updated e-book.

125 Ibid.

126 Saarnilehto, Ari. In: *Varallisuusoiikeus (Property law)*. Alma Talent Oy. Ari Saarnilehto – Vesa Annola – Mika Hemmo – Juha Karhu – Leena Kartio – Eva Tammi-Salminen – Juha Tolonen – Jarmo Tuomisto – Mika Viljanen. Section: *Sopimustyypeistä – Edustussopimukset – Toimeksiantosopimus (On contract types – Agency contracts – Commission contracts)*. Regularly updated e-book.

127 Ibid.

128 Ibid.

caused by acting in violation of their contractual obligations. This refers to contractual liability, which entails negligence, among other things. The burden of proof for acting with due diligence rests with the assignee.¹²⁹

The potential benefit that the report on good practices for voluntary mitigation action may provide is unclear in the case of commission contracts. Brokers and other assignees generally offer carbon credits verified in keeping with a specific carbon crediting programme. As a general rule, the assignee has fulfilled their obligations when they have acted as agreed in the contract. In their contractual relationships, the assignee may choose to commit to broker credits that comply with good practices for voluntary mitigation action, for example. It is clear that a report on good practices cannot create new rights or obligations for assignees in contravention of the law in force. Any possible expansion of the broker's liability, for example, is only conceivable by laying down relevant provisions by a special act.

4.2.2.2 Marketing of voluntary mitigation action in contexts other than business-to-consumer relationships

Broadly understood, marketing is about providing information relevant to the service or product referred to in a contract. Marketing conveys impressions or statements about what the product or service being offered is like. Where marketing information is shared as part of a contractual relationship (as described above in Section 4.2.2.1 for various voluntary mitigation action services), the information provided on the service in marketing (on websites, product or service descriptions, advertising materials, etc.) can be used to help determine whether the obligations under the contractual relationship have been fulfilled. Where information provided as part of marketing voluntary mitigation action services is related to an individual contractual relationship, it is therefore assessed in relation to the specific service contract and the significance of the information provided is determined as part of the relationship between the contracting parties.¹³⁰ In this context, it is possible to assess aspects such as whether the service offered matches the information provided about it. By way of example, if the impression created of the service in online and other advertising, such as corporate presentations and tender dossiers, implies that the service is suitable for emissions offsetting, but the mitigation outcomes produced as part of the service have already been used elsewhere (double claiming), the

129 Ibid.

130 See: Laine & al. 2021: Vapaaehtoisten päästökompensaatioiden sääntely (*Regulation of voluntary emissions offsetting*), section 3.1.4. Publications of the Ministry of the Environment 2021:26, analysing the significance of information provided by virtue of general acts applicable to various contractual relationships. Available in Finnish (English abstract) at: <http://urn.fi/URN:ISBN:978-952-361-408-6>.

service does not necessarily correspond to what was agreed and may also constitute a fraud. However, each case must be assessed as an individual situation and the interest and chance to take legal action rests with the other contracting party, which in this scenario is the service purchaser.

Where the situation being considered does not (necessarily) involve an individual contractual relationship and, instead, concerns marketing per se, without a specific recipient, the relevance of marketing can be assessed in accordance with the Unfair Business Practices Act (1061/1978). The Act aims to consolidate the honesty and acceptability of business practices, thus providing both collective and individual protection.¹³¹ The Act can be applied whenever an entrepreneur's marketing efforts target non-consumer audiences exclusively or also include consumers.

Under section 1 of the Unfair Business Practices Act, "Good business practice may not be violated nor may practices that are otherwise unfair to other entrepreneurs be used in business. The commercial purpose of marketing and the party on whose behalf the marketing is done shall clearly appear from the marketing." According to section 2 of the Act, "A false or misleading expression concerning one's own business or the business of another may not be used in business if the said expression is likely to affect the demand for or supply of a product or harm the business of another. An expression that refers to irrelevant circumstances or that is presented or formulated in an unsuitable manner may not be used in business if the said expression is likely to harm the business of another."

The substance of good business practice is determined in case law based on decisions made by the Market Court and the Board of Business Practice, while the International Chamber of Commerce ICC Advertising and Marketing Communications Code can be used in support of interpretation¹³². Unfairness is always assessed on a case-by-case

131 Bärnlund, Johan. In: Yritysoikeus (Business law). Alma Talent e-book, section Sopimaton menettely - Sopimaton menettely liiketoiminnassa - Johdanto - Suojan kohteet (*Unfair practices – Unfair business practices – Introduction – Protected parties*).

132 Paloranta, Paula, 2014: Markkinoinnin etiikka käytännössä (*Marketing ethics in practice*). Alma Talent. p. 24.

basis¹³³. ‘False expression’ means an expression that is inconsistent with actual reality¹³⁴. Truthfulness can be assessed with regard to characteristics that can be objectively measured and verified in any way¹³⁵.

There are no sectoral provisions on marketing concerning voluntary mitigation action (cf. e.g. the pharmaceutical or food industry), which would specifically regulate this sector. Consequently, marketing of voluntary mitigation action must be assessed in keeping with the general principles described above, on a case-by-case basis. Pertinent points for assessing the relevance of marketing may be found in the ICC Advertising and Marketing Communications Code, for example, which also provides guidance on the use of environmental claims in marketing¹³⁶. The Board of Business Practice and the Council of Ethics in Advertising operating under the Finland Chamber of Commerce apply the ICC Advertising and Marketing Communications Code¹³⁷. They provide entrepreneurs with less onerous means than court proceedings to assess the relevance of their own or another enterprise’s marketing.

The ICC recommendations issued in 2021 also provide further guidance on and examples of claims about the voluntary use of carbon credits. The guidance on presenting climate claims includes the following points¹³⁸:

133 Ibid.

134 Bärnlund, Johan. In: Yritysoikeus (Business law). Alma Talent e-book, section Sopimaton menettely – Sopimaton menettely liiketoiminnassa – Markkinoinnin sopimattomuus – Totuudenvastaiset ja harhaanjohtavat ilmaisut (*Unfair practices – Unfair business practices – Unfair marketing – False and misleading expressions*).

135 Ibid.

136 See e.g. International Chamber of Commerce ICC, 2018: ICC Advertising and Marketing Communications Code. Chapter D. Available in English at: <https://iccwbo.org/publication/icc-advertising-and-marketing-communications-code/>.

International Chamber of Commerce ICC, 2021: ICC Framework for responsible environmental marketing communications. Available in English at: https://icc.se/wp-content/uploads/2021/11/20211123-Marketing-Environmental-framework_2021.pdf. The latter also provides guidance on claiming carbon neutrality, etc.

137 Finland Chamber of Commerce: Kansainvälisen kauppakamarin markkinointisäännöt (*ICC Advertising and Marketing Communications Code*, Finnish translation). Available in English at: https://icc.se/wp-content/uploads/2021/11/20211123-Marketing-Environmental-framework_2021.pdf.

Finland Chamber of Commerce, 2023: *Ympäristöväittämien käyttäminen* (Use of environmental claims). Recommendation 11 January 2023. Accessed on 11 January 2023.

138 International Chamber of Commerce ICC, 2021: ICC Framework for responsible environmental marketing communications, p. 20–22. Available in English at: https://icc.se/wp-content/uploads/2021/11/20211123-Marketing-Environmental-framework_2021.pdf.

- **General:** Claims about the benefits of GHG reduction actions (such as 'carbon footprint', 'carbon offset', 'carbon-neutral', 'carbon negative', or 'climate positive') should clearly specify whether the claim involves actions to reduce CO₂ emissions only or all GHGs. Marketers should specify if a claim relates to a product, component, package, service or company's business processes or operation and, if the claim applies to only portions of the product's life cycle, which portions. Marketers must substantiate all claims of the measures taken to limit, reduce or offset emissions using a reliable scientific method. Providing access to further information may increase confidence in the validity of such claims.
- **Aspirational claims or commitments:** Communications that reflect specific environmental commitments or expressions of climate (or sustainability) goals that are aspirational in nature and not likely to be met until many years in the future (e.g. 'net zero', 'carbon negative', 'climate positive'), require that the company is able to demonstrate, in concrete terms, that it has a reasonable capacity and methodological approach to meet such a commitment, including the permanence of mitigation outcomes. Information about when advertised carbon-related benefits are likely to be realised may be important to consumers. Consequently, information on when the carbon reductions or offsets are likely to occur should be disclosed. As with all claims, the marketer should have reliable scientific evidence to support any climate claim. Claims should be based on reliable scientific evidence of a sort likely to be accepted by experts qualified by education, training and experience in the field.

Carbon neutrality or climate claims: Carbon neutrality claims are understood to mean that the net-carbon footprint is zero, but in many cases, this can still only be achieved through voluntary use of carbon credits. Claims should be clear and include further details as needed regarding the method, basis and time frame relied upon for such commitments to be realised. Steps taken by the operator to reduce its emissions should be clearly distinguished from the use of credits. Special care should be used in adopting climate-related terms such as 'carbon-neutral', 'climate-neutral' and 'net zero', as each may be interpreted and defined somewhat differently and require substantiating data.

In order to ban a practice prohibited under the Unfair Business Practices Act, it is possible to seek an injunction through the Market Court. Such action may be brought by another entrepreneur or a registered association operating to protect the interests

of entrepreneurs and the defendant must be an entrepreneur.¹³⁹ The Unfair Business Practices Act allows for a competing enterprise to intervene in another enterprise's marketing if the marketing measure is unfair to the competitor¹⁴⁰. Each case must be assessed on its individual merits.

The regulatory framework for marketing is supplemented by the Criminal Code of Finland (39/1889), which imposes sanctions on marketing offences in section 1 of chapter 30.

Voluntary commitment to good practices for the voluntary use and production of carbon credits by operators on their own initiative may increase the quality and reliability of marketing carried out by carbon credit providers. Commitment to good practices indicates that the operator wants to act honestly and in line with good practices while also being likely to reduce the risk that marketing might violate good business practice.

4.2.3 Legal questions of double claiming related to the use of carbon credits

From the perspective of supporting successful voluntary mitigation action, avoidance of double counting is quite as important as the other quality criteria for carbon credits (such as additionality and permanence). In simplified terms, 'double counting' means that a mitigation outcome is counted more than once for reasons such as double issuance or use of credits, or double claiming of mitigation outcomes underlying the credits.

The legal questions of double claiming were discussed in a report completed in September 2022 about special issues related to voluntary carbon compensation (term used in the report)¹⁴¹. Double claiming involves legal dimensions which are essential to consider when planning mitigation activities, for example. The key question in assessing double claiming is whether the mitigation outcome of a (domestic) mitigation activity is reflected in reporting on (Finland's) progress towards climate targets, i.e. whether the government counts the same mitigation outcome towards achieving its own climate

139 Paloranta, Paula, 2014: *Markkinoinnin etiikka käytännössä (Marketing ethics in practice)*. Alma Talent, p. 23.

140 Paloranta, Paula, 2014: *Markkinoinnin etiikka käytännössä (Marketing ethics in practice)*. Alma Talent, p. 22.

141 Laininen Jenni – Ahonen Hanna-Mari – Laine Anna – Kulovesi, Kati, 2022: *Vapaaehtoiseihin päästökompensaatioihin liittyvät erityiskysymykset (Special issues related to voluntary carbon compensation)*, p. 56–57. Publications of the Ministry of the Environment 9/2022. English summary available at: <https://ym.fi/documents/1410903/42733401/SUMMARY-Report-Special-issues-related-to-voluntary-carbon-compensation.pdf>.

targets¹⁴². If the mitigation outcomes generated by a mitigation activity are to be counted, due to a binding legal obligation, for example, as part of tracking and accounting of progress towards the climate targets of any other party, such as the Finnish Government, the same mitigation outcomes should not be used for credible offsetting aligned with good practices.

The report by Laininen et al. indicates that double issuance and double use are avoided by means of registries of credits with relevant information, including serial numbers. According to Laininen et al., double claiming can be avoided with relevant claims as follows:

To be credible, **offsetting claims** relating to domestic voluntary action should be based on mitigation outcomes that Finland does not count towards meeting its climate targets. Such mitigation outcomes are either outside the scope of national climate targets or authorised by the host country in line with the rules for implementing Article 6 of the Paris Agreement. Through authorisation, the host country commits to making a corresponding adjustment to its national emissions balance, thus excluding these from being counted towards the national target. The rules for implementing Article 6 of the Paris Agreement allow, but do not require, avoidance of double counting mitigation outcomes used for voluntary purposes.

Reporting to the UN by EU Member States is primarily subject to EU law, which does not currently recognise any possibility to make corresponding adjustments or equivalent accounting measures at Union or Member State levels¹⁴³. The EU legal framework is currently being reviewed, but the Commission Proposal for a Carbon Removal Certification Regulation published in November 2022, for example, does not include provisions on corresponding adjustments, nor express a final position on whether or when they are needed in the context of voluntary carbon markets (outside the Carbon Offsetting and Reduction Scheme for International Aviation, or CORSIA scheme). Furthermore, due to the imminence of elections, some of the development work of EU law will probably carry over to the next Commission's term starting in November 2024, as the current Commission is expected to issue its last significant initiatives no later than during summer 2023. Finland may choose to advocate for the EU framework to also enable corresponding adjustments

142 Ibid.

143 Laininen Jenni – Ahonen Hanna-Mari – Laine Anna – Kulovesi, Kati, 2022: *Vapaaehtoiisiin päästökompensatioihin liittyvät erityiskysymykset (Special issues related to voluntary carbon compensation)*, p. 57. Publications of the Ministry of the Environment 9/2022. English summary available at: <https://ym.fi/documents/1410903/42733401/SUMMARY-Report-Special-issues-related-to-voluntary-carbon-compensation.pdf>.

to domestic voluntary mitigation activities.¹⁴⁴ In addition to potential amendments to EU law, avoiding double claiming with corresponding adjustments would, according to the Paris Agreement, require development of national processes, possibly including new domestic legislation. Current national carbon crediting programmes (e.g. Label Bas Carbone in France) focus on mitigation outcomes counted towards achieving national climate targets, which do not require corresponding adjustments.

To the extent that a mitigation activity's outcomes are counted towards achieving Finland's climate targets, the buyer of the credits produced by these outcomes can avoid double claiming by making **contribution claims**¹⁴⁵. A **contribution claim** is an immediately available way to avoid double claiming (see Box 2). Verifying the credibility of contribution claims requires some of the same measures as corresponding adjustments, such as assessing additional mitigation activities for which the host country wishes to receive voluntary support and their impact on national climate targets, general quality criteria and guidance, a national mechanism to approve the mitigation activities and the resulting mitigation outcomes, and supervision of the truthfulness of claims.¹⁴⁶

4.2.4 Voluntary mitigation action in business-to-consumer relationships

Provisions on relationships between consumers and businesses are laid down in the Consumer Protection Act (38/1978). Various models for voluntary mitigation action offered to consumers essentially cover the following situations:

1. Consumers are offered (sold and marketed) services consisting of voluntary mitigation action as such.
2. Consumers are offered the chance to offset emissions as part of buying consumer goods and services.

144 Ibid.

145 Laininen Jenni – Ahonen Hanna-Mari – Laine Anna – Kulolesi, Kati, 2022: Vapaaehtoiseen päästökompensatioihin liittyvät erityiskysymykset (*Special issues related to voluntary carbon compensation*), p. 56. Publications of the Ministry of the Environment 9/2022. English summary available at: <https://ym.fi/documents/1410903/42733401/SUMMARY-Report-Special-issues-related-to-voluntary-carbon-compensation.pdf>.

146 Laininen Jenni – Ahonen Hanna-Mari – Laine Anna – Kulolesi, Kati, 2022: Vapaaehtoiseen päästökompensatioihin liittyvät erityiskysymykset (*Special issues related to voluntary carbon compensation*), p. 57–58. Publications of the Ministry of the Environment 9/2022. English summary available at: <https://ym.fi/documents/1410903/42733401/SUMMARY-Report-Special-issues-related-to-voluntary-carbon-compensation.pdf>.

3. Consumers are offered consumer goods or services marketed to them using claims about mitigation action.
4. As part of their consumer-facing marketing, businesses claim that the company is carbon-neutral, using offsetting to substantiate their claim.¹⁴⁷

From the perspective of the Consumer Protection Act, not all of the above-mentioned scenarios are equal. According to the competent authority, it is currently unclear whether the Consumer Protection Act is applicable to emissions offsetting services sold to consumers as such (see Section 4.2.1)¹⁴⁸. It is possible, however, that chapters 3 and 4 of the Consumer Protection Act on regulation of contract terms and adjustment and interpretation of a contract, respectively, can be applied to situations in which agreements on voluntary mitigation action are concluded with consumers. It is also not allowed to deviate from the general principles of contract law to the detriment of the consumer in cases where special product-specific law is not applicable to the contractual relationship.

From the perspective of the Consumer Protection Act, points 2–4 of the list above are partly treated in the same way. Each of these situations is, at least, subject to the provisions of chapter 2 of the Consumer Protection Act on marketing. Section 6 of chapter 2 of the Consumer Protection Act lays down a prohibition to provide consumers with false or misleading information in marketing. Section 7 of chapter 2 of the Act prohibits failure to provide consumers with material information about a product. Furthermore, the provisions of chapter 5 of the Consumer Protection Act on the sale of consumer goods and services also apply to consumer goods and services marketed as carbon-neutral (item 3 on the list above). Chapter 5 contains provisions governing aspects such as defects in goods, which may also be relevant in terms of the alleged carbon neutrality of goods (should the goods not conform to what was said about their carbon neutrality).

From the perspective of voluntary mitigation action, various **climate claims** relating to credits (such as a product or company being carbon-neutral or the carbon footprint of a product being offset) lie at the core of consumer protection law. Claims based on the voluntary use of credits form part of the marketing information provided on consumer goods or services and their conformity is always assessed using the criteria under chapter 2 of the Consumer Protection Act. Claims based on the voluntary use of credits must not be misleading and failure to provide consumers with information material

147 Laininen Jenni – Ahonen Hanna-Mari – Laine Anna – Kulovesi, Kati, 2022: *Vapaaehtoiisiin päästökompensaatioihin liittyvät erityiskysymykset (Special issues related to voluntary carbon compensation)*, p. 65–66. Publications of the Ministry of the Environment 9/2022. English summary available at: <https://ym.fi/documents/1410903/42733401/SUMMARY-Report-Special-issues-related-to-voluntary-carbon-compensation.pdf>.

148 Ibid.

to their decision-making when making such claims is not allowed. The provisions on marketing laid down in chapter 2 of the Consumer Protection Act are mandatory. Several domestic and international reports have pointed out that, regardless of this, companies do not actually comply with the requirements for consumer marketing while making environmental claims.¹⁴⁹

For the purpose of assessing the relevance of environmental claims (thus also including claims based on the voluntary use of credits), it is essential to determine what kinds of claims are considered misleading. Several domestic and international guidelines have been issued on assessing environmental claims. The guidelines of the Consumer Ombudsman, operating under the auspices of the Finnish Competition and Consumer Authority, require compliance with the following principles when making climate claims:

- The importance of environmental impact should be assessed before making a claim. Environmentally oriented claims may be used once it has been verified that the product being marketed has some environmental effect

149 See: Julkunen, Helka, 2022: Hiilineutraali nyt, tai ainakin joskus tulevaisuudessa (*Carbon-neutral now, or at least some time in the future*). Publication of WWF Finland. Available in Finnish at: <https://wwf.fi/app/uploads/9/w/k/jbgipnixad6i0cto8596g8/wwf-selvitys-hiilineutraaliusvaittamista.pdf>.

Heinonen, Tero – Nissinen, Ari, 2022: Ympäristövaihtamät Suomen markkinoilla (*Environmental Claims in the Finnish Market*). Publications of the Ministry of Economic Affairs and Employment 2022:48. Available in Finnish (English abstract) at: https://julkaisut.valtioneuvosto.fi/bitstream/handle/10024/164261/TEM_2022_48.pdf?sequence=4.

Accessed on 20 September 2022.

Consumers' Union of Finland, 2022: Ympäristövaihteet ja viherpesu (*Environmental claims and greenwashing*). Available in Finnish at: <https://www.kuluttajaliitto.fi/viherpesuviisari/>. Accessed on 4 January 2023.

European Commission, 2021: Screening of websites for 'greenwashing': half of green claims lack evidence. Press release 28 January 2021. Available in English at: https://ec.europa.eu/commission/presscorner/detail/en/ip_21_269.

Competition and Markets Authority, 2021: Global sweep finds 40% of firms' green claims could be misleading. Press release 28 January 2021. Available in English at: <https://www.gov.uk/government/news/global-sweep-finds-40-of-firms-green-claims-could-be-misleading>.

Finnish Competition and Consumer Authority, 2021: Lower climate impact – how come? The Consumer Ombudsman calls for accuracy in the environmental claims used in marketing. Press release 17 November 2021. Available in English at: <https://www.kkv.fi/en/current/press-releases/lower-climate-impact-how-come-the-consumer-ombudsman-calls-for-accuracy-in-the-environmental-claims-used-in-marketing/>.

KKV/78/14.08.01.05/2021: Ympäristövaihteiden harhaanjohtava käyttö markkinoinnissa (*Misleading use of environmental claims in marketing*). Finnish Competition and Consumer Authority. Available in Finnish at: <https://www.kkv.fi/paatokset/kuluttaja-asiat/ymparistovaihteiden-harhaanjohtava-kaytto-markkinoinnissa/>.

worth advertising. All the other products in the same product group should also be considered as part of assessment.

- The important environmentally friendly features of the product should be explained clearly and unambiguously. Generalisations and unspecified or ambiguous expressions should be avoided. Only terminology that consumers can understand should be used in marketing.
- The overall impression conveyed of the product should also be assessed. The overall impression given by the marketing should be based on the actual facts.
- ‘Environmentally friendly’ or similar expressions (‘green’, ‘eco-friendly’, ‘ecological product’) can only be used once a thorough study of the entire life cycle of the product has been made. According to the guideline, it is preferable to use established environmental labels (such as the Nordic or EU eco-label), rather than generalised statements regarding the product’s environmental friendliness.
- Comparisons of environmental benefits must not be misleading and should be made between products or services that satisfy the same needs or are used for the same purpose.¹⁵⁰

The Consumer Ombudsman’s recent decisions from 2021 and 2022 focus on claims about climate impacts and provide more specific guidance on the types of climate claims that are allowed or prohibited under the provisions of the Consumer Protection Act. In decisions issued in 2021, the Consumer Ombudsman focused attention on environmental claims made by companies called Arla and Atria. The Consumer Ombudsman considered a claim made by Arla, according to which “this carton cup has a 60% lower climate impact than an old plastic jar” was too generalised because the claim did not specify what was meant by ‘climate impact’. According to the Consumer Ombudsman, ‘climate impact’ can be interpreted in many ways and an average consumer does not necessarily understand that it is supposed to mean the quantity of CO₂ emissions, for example.¹⁵¹

150 Consumer Ombudsman’s guidelines: The use of environmentally oriented claims in marketing. Guidelines. Issued in 1995, last revised in 2019. Available in English at: <https://www.kkv.fi/en/consumer-affairs/facts-and-advice-for-businesses/the-consumer-ombudsmans-guidelines/the-use-of-environmentally-oriented-claims-in-marketing/>. Accessed on 16 December 2022.

151 KKV/76/14.08.01.05/2021: Pakkausten ympäristövaikutuksia koskevien väittämien käyttö markkinoinnissa (*Use of claims about the environmental impacts of packaging in marketing*). Finnish Competition and Consumer Authority. Available in Finnish at: <https://www.kkv.fi/paatokset/kuluttaja-asiat/pakkausten-ymparistovaikutuksia-koskevien-vaittamien-kaytto-markkinoinnissa-arla/>.

Atria, in turn, marketed minced meat in a print advertisement using claims “30% smaller carbon footprint” and “the carbon footprint of this packaging is 30% smaller compared with a packet”. The Consumer Ombudsman judged that the claims were truthful and did not mislead consumers. This judgement was based on the Consumer Ombudsman’s conclusion that, since the concrete substance of Atria’s claim was consistent with the typical and broadest definition of ‘carbon footprint’, the claim did not mislead consumers.¹⁵² Compared with the decision on Arla’s claims, the difference in the outcome in this case therefore seemed to have been created by the terms ‘climate impact’ and ‘carbon footprint’. In both cases, the companies had demonstrated to the Consumer Ombudsman using their own calculations that the claims were truthful as such. The different outcomes of the cases were due more to the way in which the claim was made.

In the 2022 decision, the Consumer Ombudsman assessed energy company Fortum’s ‘Mother Earth’ television commercials, which used expressions such as “towards a cleaner world” and “clean energy and recycling”. According to the decision, the commercial’s main message, “towards a cleaner world” and the impression of Fortum as an environmentally friendly company were very general and vague. The expressions presented in the commercial – “towards a cleaner world” and “clean energy and recycling” – can either describe changes already accomplished or future targets. The commercial ends with an invitation to consumers, “Fortum – join the change”. The decision maintains that this creates the impression that consumers can have a positive impact on the environment by choosing Fortum. Based on the commercial itself, it is not possible to find out or infer the concrete way in which Fortum is part of change. The commercial does not describe in further detail Fortum’s own ways of operating, any changes in them, or different ways of reducing the environmental burden. After watching the commercial, it still remains difficult for consumers to weigh the real effects and implications of their choice. Consequently, the Consumer Ombudsman considered that the commercial was misleading in contravention of section 6 of chapter 2 of the Consumer Protection Act.¹⁵³

152 Finnish Competition and Consumer Authority, 2021: Lower climate impact – *how come?* The Consumer Ombudsman calls for accuracy in the environmental claims used in marketing. Press release 17 November 2021. Available in English at: <https://www.kkv.fi/en/current/press-releases/lower-climate-impact-how-come-the-consumer-ombudsman-calls-for-accuracy-in-the-environmental-claims-used-in-marketing/>.

153 KKV/78/14.08.01.05/2021: Ympäristöväitteiden harhaanjohtava käyttö markkinoinnissa (*Misleading use of environmental claims in marketing*). Finnish Competition and Consumer Authority. Available in Finnish at: <https://www.kkv.fi/paatokset/kuluttaja-asiat/ymparistovaitteiden-harhaanjohtava-kaytto-markkinoinnissa/>.

The EU Commission has also contributed to steering marketing that involves environmental claims by its guidance on unfair business-to-consumer commercial practices updated in 2021¹⁵⁴. Section 4.1 of the Commission guidance discusses environmental claims and situations where they are allowed by Union law and where they are considered misleading. In the guidance, the expressions ‘environmental claims’ and ‘green claims’ refer to the practice of suggesting or otherwise creating the impression (in a commercial communication, marketing or advertising) that a good or a service has a positive or no impact on the environment or is less damaging to the environment than competing goods or services. This may be due to its composition, how it has been manufactured, how it can be disposed of and the reduction in energy or pollution expected from its use.¹⁵⁵

The Commission guidance notes that when environmental claims are not true or cannot be verified, this practice is called ‘greenwashing’. According to the Commission guidance, the following main principles are applicable to presenting environmental claims:

- Environmental claims must be **truthful**.
- Environmental claims **must not contain false information**.
- Environmental claims must be presented in a **clear**, specific, accurate and unambiguous manner.
- Traders must have the **evidence to support their claims** and be ready to provide it to competent enforcement authorities in an understandable way if the claim is challenged.
- Traders must **comply with a list of unfair practices** included in Annex I to the Unfair Commercial Practices Directive, which are prohibited in all cases.
- Commercial practices contrary to professional diligence are prohibited. The standard of professional diligence **in the area of environmental claims** may include **principles derived from national and international standards and codes of conduct**. For example, professional diligence may require that certification schemes that traders use to promote the environmental virtues

154 Commission Notice 2021/C 526/01: Guidance on the interpretation and application of Directive 2005/29/EC of the European Parliament and of the Council concerning unfair business-to-consumer commercial practices in the internal market, p. 77. Official Journal of the European Union 29.12.2021. Available in English at: [https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:52021XC1229\(05\)](https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:52021XC1229(05)). Accessed on 16 November 2022.

155 Commission Notice 2021/C 526/01: Guidance on the interpretation and application of Directive 2005/29/EC of the European Parliament and of the Council concerning unfair business-to-consumer commercial practices in the internal market, section 4.1.1. Official Journal of the European Union 29.12.2021. Available in English at: [https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:52021XC1229\(05\)](https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:52021XC1229(05)). Accessed on 16 November 2022.

of their products **adhere to such standards** and provide substantial benefits to consumers and that they are **independently controlled and audited**.¹⁵⁶

The Commission guidance notes that environmental claims are **likely to be misleading** if they consist of vague and general statements of environmental benefits without appropriate substantiation of the benefit and without indication of the relevant aspect of the product the claim refers to¹⁵⁷. Examples of such claims cited in the guidance include 'climate friendly', 'pollutant free', 'reduced CO2 emissions', 'carbon neutral', and 'climate neutral'¹⁵⁸. According to an example provided in the guidance, carbon removals claims should be authentic, robust, transparent, reported, monitorable, verifiable, credible, certified, should not undermine near-term emission reduction action in emitting sectors, should guarantee additionality and should ensure an appropriate accounting of carbon removals in national GHG inventories^{159, 160}

The guidance notes that, notwithstanding the above, the use of a general benefit claim may be justified in some cases. This could be the case if a product is covered by a license to use the eco-label of a publicly run eco-label scheme (such as the EU Ecolabel) or other robust and reputable labelling schemes subject to third party verification.¹⁶¹

156 Commission Notice 2021/C 526/01: Guidance on the interpretation and application of Directive 2005/29/EC of the European Parliament and of the Council concerning unfair business-to-consumer commercial practices in the internal market, section 4.1.1.2. Official Journal of the European Union 29.12.2021. Available in English at: [https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:52021XC1229\(05\)](https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:52021XC1229(05)). Accessed on 16 November 2022.

157 Commission Notice 2021/C 526/01: Guidance on the interpretation and application of Directive 2005/29/EC of the European Parliament and of the Council concerning unfair business-to-consumer commercial practices in the internal market, section 4.1.1.3. Official Journal of the European Union 29.12.2021. Available in English at: [https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:52021XC1229\(05\)](https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:52021XC1229(05)). Accessed on 16 November 2022.

158 Ibid.

159 National GHG inventories are based on UNFCCC reporting guidelines and IPCC methodological guidelines. Each inventory covers the entire country, using applicable calculation methods consistent with these international guidelines. The baseline data sources for the inventories include administrative documentation, statistics, surveys or other samples. It is not methodologically possible to include in an inventory the impact of emission reductions or removal enhancements due to an individual operator's mitigation activity at the operator's request, although it is appropriate to indicate the activities yielding mitigation outcomes as extensively as possible in a nationwide inventory.

160 Ibid.

161 Commission Notice 2021/C 526/01: Guidance on the interpretation and application of Directive 2005/29/EC of the European Parliament and of the Council concerning unfair business-to-consumer commercial practices in the internal market, section 4.1.1.4. Official Journal of the European Union 29.12.2021. Available in English at: [https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:52021XC1229\(05\)](https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:52021XC1229(05)). Accessed on 16 November 2022.

It should also be noted that a trader who has announced to be bound but does not comply with voluntary commitments in relation to environmental protection, i.e. **codes of conduct**, may be considered to be misleading if the claimed adherence to the code is likely to affect the consumers' transactional decision¹⁶².

Under Article 12 of the Unfair Commercial Practices Directive (UCPD), traders have the burden of proof to produce evidence in civil proceedings to courts and authorities as to the accuracy of factual claims they have made. According to the Commission guidance, claims should be based on robust, independent, verifiable and generally recognised evidence which takes into account updated scientific findings and methods.¹⁶³

In March 2022, the Commission published a proposal for a Directive on empowering consumers¹⁶⁴. The proposed Directive aims to amend the UCPD. With regard to environmental claims about products, the proposed Directive aims to promote access to reliable information on the durability of certain products and to ban displaying sustainability labels on products which are not based on an independent third-party verification system or established by public authorities.¹⁶⁵ If adopted as currently proposed, the amending Directive will therefore strengthen the regulatory framework on environmental claims.

162 Commission Notice 2021/C 526/01: Guidance on the interpretation and application of Directive 2005/29/EC of the European Parliament and of the Council concerning unfair business-to-consumer commercial practices in the internal market, section 4.1.1.3. Official Journal of the European Union 29.12.2021. Available in English at: [https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:52021XC1229\(05\)](https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:52021XC1229(05)). Accessed on 16 November 2022.

163 Commission Notice 2021/C 526/01: Guidance on the interpretation and application of Directive 2005/29/EC of the European Parliament and of the Council concerning unfair business-to-consumer commercial practices in the internal market, section 4.1.1.5. Official Journal of the European Union 29.12.2021. Available in English at: [https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:52021XC1229\(05\)](https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:52021XC1229(05)). Accessed on 16 November 2022.

164 COM(2022) 143 final: Proposal for a Directive amending Directives 2005/29/EC and 2011/83/EU as regards empowering consumers for the green transition through better protection against unfair practices and better information. Available in English at: <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:52022PC0143>. Accessed on 3 December 2022.

165 European Commission, 2022: Empowering consumers for the green transition. Factsheet 30.3.2022. Available in English at: https://ec.europa.eu/commission/presscorner/detail/en/FS_22_2099.

From the perspective of claims based on the use of credits, the key amendments to UCPD provisions presented in the proposed Directive are as follows:

- The compliance of claims about the environmental impact of products is given a more pronounced role as the environmental impact is proposed to be added to the list of the main characteristics of the product in respect of which the trader's practices can be considered misleading if the information presented about the characteristic is false or likely to deceive the average consumer.
- Claims about future or achieved carbon neutrality targets are proposed to be prohibited when they are not supported by clear, objective and verifiable commitments and targets given by the trader and an independent monitoring system.
- Displaying a sustainability label should be based on a certification scheme or be established by a public authority in the future, whereas any other displaying of sustainability labels should be prohibited.
- Making generic environmental claims (such as 'carbon-neutral' or 'climate-neutral') should be prohibited, where such claims are not based on an eco-labelling scheme officially recognised in Union law or at the national level. It would still be possible to make specific environmental claims in the future as well, as long as any other principles of marketing, such as burden of proof, are also applicable to such specific claims. According to the Commission's guidelines, claiming that "the packaging is biodegradable through home composting in one month", for example, would be considered to constitute a specific claim. In contrast, generic claims such as 'biodegradable' would be prohibited in the absence of an eco-labelling scheme officially recognised in the Union or any of its Member States that would determine the criteria for biodegradability.¹⁶⁶ Based on the details presented above, the proposed Directive would mean for environmental claims that domestic companies would no longer be allowed to ambiguously claim to be 'carbon-neutral'. Instead, companies should either make more specific statements or base their claims on an eco-labelling scheme officially recognised in the Union or at the national level. It is currently unclear what kinds of eco-labelling schemes would be considered to meet the requirements potentially specified de lege ferenda. There are two relevant initiatives currently underway in the

166 COM(2022) 143 final: Proposal for a Directive amending Directives 2005/29/EC and 2011/83/EU as regards empowering consumers for the green transition through better protection against unfair practices and better information, Recital 9 of the Preamble. Available in English at: <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:52022PC0143>. Accessed on 3 December 12.

EU (see below), which should be taken into account when outlining a future legislative overview of climate claims.

- Making an environmental claim about the entire product when it actually concerns only a certain aspect of the product should be banned.

In addition to the above-mentioned proposed amendment to the UCPD, other initiatives that will influence voluntary mitigation action in legislative terms moving forward include the proposal issued by the Commission in November 2022 for a Regulation establishing a Union certification framework for carbon removals and a proposal that the Commission is likely to issue in 2023 for a Regulation on substantiating environmental claims made on products and by companies¹⁶⁷. The Commission Proposal for a Carbon Removal Certification Regulation, for example, proposes establishing an EU-level voluntary certification framework for carbon removals.

4.3 Existing guidance on the voluntary use of carbon credits and related claims

This section outlines existing guidance relevant to the voluntary use of carbon credits, excluding the guidance on claims discussed above in Section 4.2. Some of the guidance documents are international and others are national. Some cover all of the elements of good practices in general terms, including emissions quantification, organisational climate targets and prioritisation of organisational emissions reductions, minimum criteria for carbon credits, marketing practices and claims, as well as reporting, whereas others focus on certain elements in detail. Figure 5 provides a list of good practices for using carbon credits and selected key international guidance documents. International and national guidance documents are summarised in Tables 4 and 5, respectively, while Table 6 rounds up the minimum criteria for carbon credits¹⁶⁸.

167 COM(2022) 672 final: Proposal for a Regulation of the European Parliament and of the Council establishing a Union certification framework for carbon removals. Available in English at: <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:52022PC0672>. Accessed on 2 December 2022. Ares(2020)3820384 - 20/07/2020: Proposal for a Regulation on substantiating environmental claims using the Product/Organisation Environmental Footprint methods (green claims). Available in English at: [https://eur-lex.europa.eu/legal-content/EN/ALL/?uri=PI_COM:Ares\(2020\)3820384](https://eur-lex.europa.eu/legal-content/EN/ALL/?uri=PI_COM:Ares(2020)3820384). Accessed on 16 December 2022.

168 In the tables, a dot means that the guidance covers the area in question clearly and directly, whereas a dot in brackets means that the area is unclearly or indirectly covered.

Figure 5. Good practices and international guidance for the voluntary use of carbon credits

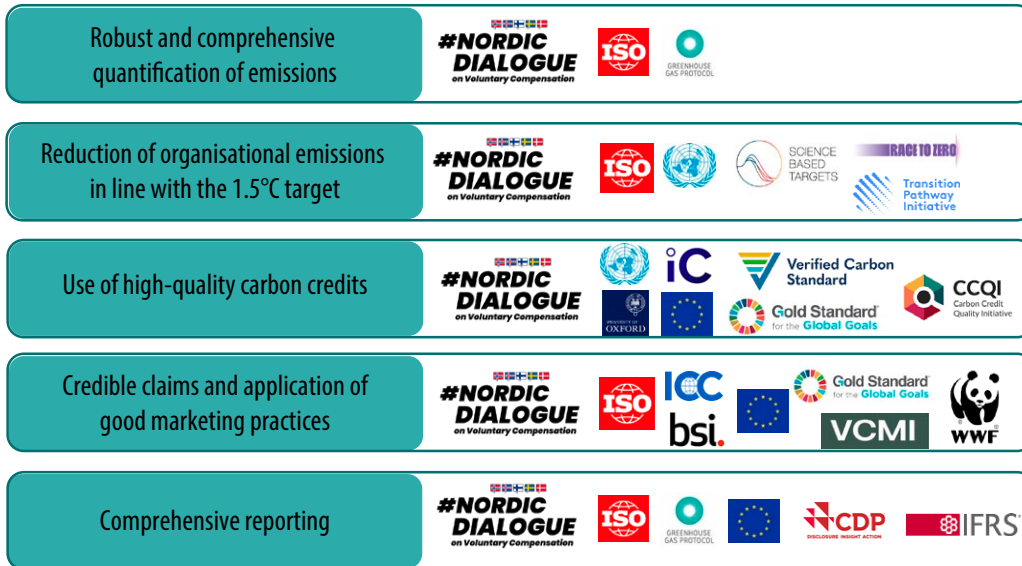


Table 4. Summary of existing international guidance documents on the minimum criteria for and voluntary use of carbon credits and related claims

Guidance	Minimum criteria	Use and claims	Avoidance of double claiming	Further information
Rules for implementing Article 6 of the Paris Agreement (2021): Cooperation under Article 6.2 and Article 6.4 Mechanism (in development)	●	(●)	Included in criteria; process included	General rules for mitigation outcomes and carbon credits under Article 6, which can also be used for voluntary purposes; includes a process for the host country's authorisation and corresponding adjustments; international minimum criteria being developed within the framework of the Article 6.4 Mechanism
Carbon Offsetting and Reduction Scheme for International Aviation (CORSIA) Emissions Unit Eligibility Criteria (2019)	●	(●)	Included in criteria (CORSIA Emissions Unit Eligibility Criteria)	A process for approval of crediting programmes that meet the minimum criteria; criteria for avoiding double claiming with the nationally determined contributions to the Paris Agreement
Nordic Code of Best Practice for the Voluntary Use of Carbon Credits (2022)	●	●	Included in criteria	General guidelines for best practice for all elements of good practices
WWF position and guidance on voluntary purchases of carbon credits (2019)	●	●	Included in criteria	General guidelines for several elements of good practices; the Carbon Credit Quality Initiative (CCQI) referenced for minimum criteria; cautions about making carbon neutrality and offsetting claims
Oxford Principles for Net Zero Aligned Carbon Offsetting (2020)	●	(●)	Included in criteria	General guidelines for several elements of good practices (excl. claims); focus on emissions
International Carbon Reduction and Offset Alliance (ICROA) Code of Best Practice (2022) & Voluntary Carbon Market Standard Review Criteria (2022)	●	(●)	No reference	General guidelines for emissions calculations, climate targets and roadmaps, and production and use of carbon credits; references to existing standards and ICROA-accredited credit programmes; focus on offsetting claims
Integrity Council for the Voluntary Carbon Market (ICVCM) Core Carbon Principles and Assessment Framework (Draft dated 27 July 2022)	●	(●)	Included in criteria as an option	Detailed criteria and process for assessing compliance with minimum criteria for carbon credits at the levels of mitigation activity types and carbon crediting programmes (rather than individual activities)

Guidance	Minimum criteria	Use and claims	Avoidance of double claiming	Further information
Carbon Credit Quality Initiative (CCQI, 2022)	●		Included in criteria; scope of application unspecified	Detailed criteria, methodologies and tool for assessing compliance with minimum criteria for carbon credits at the levels of mitigation activity types and carbon crediting programmes (rather than individual activities)
Voluntary Carbon Market Integrity Initiative (VCMI) Provisional Claims Code of Practice (Draft dated 7 June 2022)	(●)	●	Reviewed in 2023	General criteria for VCMI climate claims; CCQI and ICVCM referenced for minimum criteria for carbon credits
Gold Standard for Global Goals (GS4GG) Principles & Requirements (2019) & Claims Guidelines (2022)	●	●	Included in criteria	Carbon crediting programme for assessing compliance with minimum criteria for carbon credits, incl. general guidelines for using carbon credits and making related claims
PAS 2060 Specification for the demonstration of carbon neutrality		●	No reference	Standard for making carbon neutrality claims
ISO 14068 (draft; not public)	●	●	No public information	Draft not public at the time of writing this report
UNFCCC Race to Zero Minimum Criteria (2022) & Lexicon (2022)		●	Indirectly included in criteria	Guidelines for setting climate targets for nonstate actors, incl. use of carbon credits
EU carbon removal certification (in development; Commission Proposal of 30 November 2022)	●		No direct reference (mentioned in preparatory study)	Focus on certification of carbon removal units; use of certified credits or related claims not covered; avoidance of double claiming mentioned in the new LULUCF Directive

Table 5. Summary of existing national guidance documents on the minimum criteria for and voluntary use of carbon credits and related claims

Country	Minimum criteria	Use and claims	Avoidance of double claiming	Further information
Australia: Climate Active	●	●	No reference	Government-certified carbon neutrality trade mark
New Zealand	●	●	Included in guidelines up until 2021; national process for domestic credits up until 2021	Up until 2021: Guidelines for voluntary offsetting claims and national process to avoid double claiming of domestic credits 2021: Guidelines for environmental claims 2022: Interim guidance for voluntary mitigation action
Peru: Huella de Carbono	(●)	●	No reference	Government-certified carbon footprint and climate label
Thailand: Thailand Voluntary Emission Reduction Program (T-VER)	●	●	No reference	Government-certified climate label
Germany: Development and Climate Alliance	●	●	Included in criteria	Criteria for the quality and use of carbon credits, voluntary commitment by over 1,300 operators ¹⁶⁹
Iceland	●	●	Indirectly included in criteria	National standard on minimum criteria for, voluntary use of and claims about carbon credits
France	●	●	No direct reference	National carbon crediting programme and criteria for carbon neutrality claims in the national Climate and Resilience Act

169 The Development and Climate Alliance Foundation, 2023. Available in English at: <https://allianz-entwicklung-klima.de/en/#>.

Table 6. Minimum criteria for carbon credits included in key international guidance documents

Guidance ¹⁷⁰	Additionality	Baseline scenario	Quantification methodology	Monitoring and reporting	Permanence	Avoidance of carbon leakage	Independent verification	Avoidance of double counting	No significant harm
Article 6.4	●	●	●	●	●	●	●	●	●
CORSIA	●	●	●	●	●	●	●	●	●
Nordic Code	●	●	●	●	●	●	●	●	●
WWF	●	●	●	●	●	●	●	●	●
Oxford Principles	●	●	●	●	●		●	●	●
ICROA	●	●	●	●	●	(●)	●	(●)	(●)
ICVCM	●	●	●	●	●	(●)	●	●	●
CCQI	●	●	●	●	●	(●)	●	●	●
GS4GG	●	●	●	●	●	●	●	●	●
EU carbon removal certification	●	●	●	●	●	●	●	(●)	●

170 This table uses abbreviated versions of the guidance names. Full names are included in Table 4.

4.3.1 International guidance

4.3.1.1 Rules for implementing Article 6 of the Paris Agreement

Article 6 of the Paris Agreement and its implementing rules guide international climate cooperation and include minimum criteria (see Table 6) for ensuring the environmental integrity of mitigation outcomes, avoiding double counting and promoting sustainable development. While Article 6 does not directly regulate the voluntary use of carbon credits, the carbon credits certified and/or authorised under Article 6 can also be used for voluntary purposes and its minimum criteria provide an international benchmark for other carbon crediting programmes.

In addition to established criteria, the minimum criteria cover stricter requirements, including more stringent baselines than ‘business-as-usual’ trends; minimising negative economic, social and environmental impact; compatibility with the Sustainable Development Goals and the long-term climate targets under the Paris Agreement; and respecting and promoting human rights, local communities and the rights of indigenous peoples, migrants, children, people with disabilities and vulnerable groups, as well as gender equality, among other things. Compliance with minimum criteria is assessed at either the national (Article 6.2) or the international (Article 6.4) level.

Article 6.2 includes rules for cooperation based on internationally transferred mitigation outcomes (ITMOs). ITMOs are mitigation outcomes that meet the minimum criteria and have been authorised by the host country for use towards other countries’ nationally determined contributions (NDCs), international mitigation purposes (e.g. CORSIA, see below) and/or for other (e.g. voluntary) purposes. The host country does not count any ITMOs transferred as part of tracking progress towards its own NDC. Compliance with the minimum criteria is ensured by countries participating in ITMO cooperation, who report on this to the Paris Agreement. In the future, the participants may also choose to make use of the international mechanism (A6.4M) established under Article 6.4. The mechanism is still being developed and will cover developing international minimum criteria and quantification methodologies, assessing mitigation outcomes and issuing carbon credits that meet the minimum criteria, known as Article 6.4 Emission Reductions (A6.4ERs). A6.4ERs authorised under Article 6.2 become ITMOs, while unauthorised A6.4ERs may be used to support the host country’s climate targets.

4.3.1.2 Carbon Offsetting and Reduction Scheme for International Aviation (CORSIA)

Established in 2016, the Carbon Offsetting and Reduction Scheme for International Aviation (CORSIA) aims at carbon-neutral growth of aviation starting 2020 by covering any emissions in excess of the 2019 emissions levels with carbon credits that meet the CORSIA

criteria. The scheme is managed by the International Civil Aviation Organization (ICAO). While CORSIA does not directly regulate the voluntary use of carbon credits, CORSIA-eligible credits (termed 'emissions units') can also be used for voluntary purposes and the CORSIA criteria influence many carbon crediting programmes.

CORSIA approves carbon crediting programmes that fulfil the minimum criteria set for programmes, registries and carbon credits (see Table 6). CORSIA allows the use of carbon credits certified by approved programmes and not counted towards any country's climate targets.¹⁷¹ For mitigation outcomes produced as of 2021, this requires the carbon credits to be authorised by the host country for CORSIA use under Article 6.2.

As of January 2023, the following carbon crediting programmes have been approved for CORSIA (some under restrictive conditions only): American Carbon Registry, Architecture for REDD+ Transactions, China GHG Voluntary Emission Reduction Program, Clean Development Mechanism, Climate Action Reserve, Forest Carbon Partnership Facility, Global Carbon Council, Gold Standard, and Verified Carbon Standard.¹⁷²

4.3.1.3 Nordic Code of Best Practice for the Voluntary Use of Carbon Credits

The Nordic Code of Best Practice for the Voluntary Use of Carbon Credits was published in November 2022¹⁷³. The Code summarises international best practices and it was co-created with Nordic stakeholders within the framework of the Nordic Dialogue on Voluntary Compensation.

The Code covers the following five elements of best practices: comprehensively quantifying emissions, reducing organisational emissions in line with the 1.5°C target, using high-integrity carbon credits (minimum criteria for mitigation outcomes, carbon crediting programmes and emissions registries), comprehensive reporting, and ensuring the credibility of claims.

171 International Civil Aviation Organization, 2019: CORSIA Emissions Unit Eligibility Criteria. Available in English at: https://www.icao.int/environmental-protection/CORSIA/Documents/ICAO_Document_09.pdf. Accessed on 9 January 2023.

172 International Civil Aviation Organization, 2022: CORSIA Eligible Emissions Units. Available in English at: https://www.icao.int/environmental-protection/CORSIA/Documents/TAB/ICAO%20Document%2008_Eligible%20Emissions%20Units_November%202022.pdf. Accessed on 9 January 2023.

173 Ahonen et al., 2022: Harnessing voluntary carbon markets for climate ambition. An action plan for Nordic cooperation. Available in English at: <https://www.norden.org/en/publication/harnessing-voluntary-carbon-markets-climate-ambition>.

The Code differentiates claims about the voluntary use of credits according to their impact on global net emissions. According to the Code, credible offsetting claims should be based on mitigation outcomes not counted towards achieving any country's climate target. Credible contribution claims, in turn, should be based on mitigation outcomes counted towards achieving a country's climate target.

4.3.1.4 Oxford Principles for Net Zero Aligned Carbon Offsetting

The University of Oxford published its Oxford Principles for Net Zero Aligned Carbon Offsetting in 2020¹⁷⁴. According to the Principles, organisations should prioritise their own emissions reductions and minimise their carbon footprints, use high-quality carbon credits (termed 'offsets'), comprehensively report on emissions, targets and carbon credits, and regularly revise their offsetting strategies as best practice evolves.

The Principles emphasise emissions-based carbon credits such that their portion will achieve 100% by 2050. The Principles also encourage shifting from emissions based on short-lived carbon storage to long-term storage and starting investment in scaling and improving long-lived storage now, by entering into long-term agreements with mitigation activity developers, for example.

The Principles also call for supporting the restoration and protection of ecosystems mainly for the benefits they create, not purely for the purpose of carbon offsetting, although offsetting emissions can help to fund this work.

4.3.1.5 WWF

The World Wildlife Fund (WWF) published a guidance on voluntary purchases of carbon credits in 2019¹⁷⁵, covering organisational emissions reduction targets and activities, minimum criteria for carbon credits, reporting, claims and publicity efforts. The guidance emphasises prioritising reduction of organisational direct and indirect (scope 1, 2 and 3) emissions in keeping with a science-based strategy and only using carbon credits in addition to the strategy, rather than in lieu of the organisation's own actions. The guidance notes that, for businesses where limited technologically viable direct abatement opportunities presently exist, carbon credit purchases could serve as a temporary bridging

174 University of Oxford, 2020: The Oxford Principles for Net Zero Aligned Carbon Offsetting. Available in English at: <https://www.smithschool.ox.ac.uk/sites/default/files/2022-01/Oxford-Offsetting-Principles-2020.pdf>.

175 World Wildlife Fund, 2020: WWF position and guidance on voluntary purchases of carbon credits. Available in English at: <https://www.worldwildlife.org/publications/wwf-position-and-guidance-on-voluntary-purchases-of-carbon-credits>

step towards long-term decarbonisation. Businesses can purchase carbon credits as part of a commitment to finance mitigation outcomes outside of the company's value chain. Purchased carbon credits should meet the minimum criteria (see Table 6) and buyers should favour projects with new start dates and those that demonstrate co-benefits, including those related to enhanced human livelihoods, ecosystem services, and biodiversity. Businesses purchasing carbon credits should not subtract those purchases from their own reported (scope 1, 2 and 3) emissions.

With regard to claims, the guidance cautions businesses on claiming 'carbon neutrality' for their operations or products, because it could signal that a company's work on climate is done when the entire carbon footprint of the source in question has not actually been reduced to zero. For the same reason, WWF cautions businesses on using the term 'offsetting' (used in this report to refer to counterbalancing climate harm) in public communications about carbon credit purchases. WWF supports companies which commit to achieve net zero through the Business Ambition for 1.5°C campaign but cautions businesses on using net-zero claims, at this time.

In 2022, WWF Finland published a guidance on the voluntary use of carbon credits and related claims¹⁷⁶. The guidance notes that purchasing carbon credits without efforts to reduce emissions does not automatically justify the use of carbon neutrality claims in marketing communications. If a business wishes to use carbon neutrality claims substantiated by carbon credits, the company should apply robust quality criteria when purchasing credits. A good example of such criteria is the Carbon Credit Quality Initiative (CCQI; see Section 4.3.1.7). The guidance also highlights transparency as the foundation for credibility.

4.3.1.6 Integrity Council for the Voluntary Carbon Market (ICVCM)

The Integrity Council for the Voluntary Carbon Market (ICVCM) is an international, business-driven initiative aiming to create global quality criteria and an assessment framework for carbon credits traded on voluntary markets. In July 2022, the ICVCM published a draft version of its Core Carbon Principles (CCPs) and Assessment Framework (AF) for public consultation. Rather than aiming to ban other carbon credits, they aim to contribute to improving the quality of carbon credits and to facilitate identifying high-quality credits. The final guidance will likely be published during 2023.

176 Julkunen, Helka, 2022: Hiilineutraali nyt, tai ainakin joskus tulevaisuudessa (*Carbon-neutral now, or at least some time in the future*). Publication of WWF Finland. Available in Finnish at: <https://wwf.fi/app/uploads/9/w/k/jbgipnixad6i0cto8596g8/wwf-selvitys-hiilineutraaliusvaittamista.pdf>

The ICVCM puts forward the following CCPs for carbon credits: additionality, mitigation activity information, robust quantification of mitigation outcomes, permanence of mitigation outcomes, sustainable development impacts and safeguards, robust independent third-party validation and verification, no double counting, good carbon crediting programme governance, and emissions registry.

For the purpose of assessing fulfilment of CCPs, the ICVCM has proposed an assessment framework containing detailed criteria for CCP-eligible carbon crediting programmes and mitigation activity types and their quantification methods. The draft also includes potential criteria related to the Paris Agreement. Carbon credits are CCP-eligible if they are based on CCP-eligible carbon crediting programmes and mitigation activity types and fulfil the potential¹⁷⁷ criteria related to the Paris Agreement. In other words, CCP-eligibility is not assessed at the level of individual mitigation activities.

The ICVCM draft includes criteria for avoiding double claiming with mandatory domestic policies (e.g. an emissions trading system) and other environmental credit or certification schemes, and an option to also avoid double counting with country NDCs. The ICVCM draft also contains an option for financial contributions under the Paris Agreement to support adaptation and reduce global net emissions.

4.3.1.7 Carbon Credit Quality Initiative (CCQI)

The Carbon Credit Quality Initiative (CCQI) established by the World Wildlife Fund (WWF-US), the Environmental Defense Fund (EDF) and the Öko-Institute focuses on quality criteria for carbon credits¹⁷⁸. In addition to the established minimum criteria (see Table 6), the quality criteria also cover facilitating transition towards net zero emissions and host country ambition for mitigation action.

The Initiative has developed a tool to score carbon credits based on the carbon crediting programme and mitigation activity type.

177 The ICVCM draft presents criteria related to the Paris Agreement as one option, while the alternative is to omit them from the framework.

178 Carbon Credit Quality Initiative, 2023. Available in English at: <https://carboncreditquality.org/>.

4.3.1.8 ICROA

The International Carbon Reduction & Offset Alliance (ICROA) accredits service providers committed to its principles. ICROA has published a Code of Best Practice¹⁷⁹ for service providers, covering services related to quantifying emissions, purchasing and cancelling carbon credits, reporting, communications and claims, as well as criteria for carbon crediting programmes¹⁸⁰.

Accredited service providers commit to using carbon credits which are real, measurable, permanent, additional, independently verified and unique. They commit to only using credits which are validated, verified and registered within the framework of ICROA-endorsed standards or government schemes. For the latter, carbon credits may only be used within the context of the scheme and must not be sold internationally without specific ICROA approval. Mitigation outcomes only expected to materialise in the future do not meet the ICROA criteria. ICROA also encourages accredited organisations to promote sustainable development.

4.3.1.9 Gold Standard for the Global Goals (GS4GG)

Like other carbon crediting programmes, the Gold Standard for the Global Goals (GS4GG), managed by the Gold Standard Foundation established by NGOs, includes minimum criteria for the carbon credits that it has certified. Unlike other carbon crediting programmes, however, the GS4GG has also provided guidelines for using certified carbon credits and making related claims.

Gold Standard updated its claims guidelines¹⁸¹ in early June 2022. The guidelines require avoidance of double claiming and determine carbon credit applications and claims based on whether they are counted towards the host country's target. Offsetting claims require that the carbon credit and related mitigation outcome are exclusively used to offset the emissions referred to in the claim. Contribution claims (termed 'impact claims') may be based on carbon credits contributing to country targets. Compliance claims are related to the use of carbon credits to comply with a regulation or policy, such as for national emissions trading or carbon taxation.

179 International Carbon Reduction & Offset Alliance, 2022: ICROA Code of Best Practice. Available in English at: https://www.icroa.org/_files/ugd/653476_d76cf631001143069f0d64a075d90efd.pdf.

180 International Carbon Reduction & Offset Alliance: Voluntary Carbon Market Standards: Review Criteria. Available in English at: https://www.icroa.org/_files/ugd/653476_2e5379c215b64a609503b063e4de2e9f.pdf.

181 Gold Standard, 2022: Claims guidelines. Available in English at: https://globalgoals.goldstandard.org/standards/105_V2.0_PAR_Claims-Guidelines.pdf.

4.3.1.10 Voluntary Carbon Market Integrity Initiative (VCMI)

The Voluntary Carbon Market Integrity Initiative (VCMI) published its Provisional Claims Code of Practice¹⁸² on claims related to the voluntary use of carbon credits in June 2022.

The Code requires companies making claims to have 1.5°C-aligned near- and long-term targets in place, covering their direct and indirect (scope 1, 2 and 3) emissions. In addition, it requires a detailed plan adopted to achieve the targets and annual reporting on emissions. These should comply with recognised standards (e.g. Science Based Targets initiative, GHG Protocol) and be verified by a third party. High-quality carbon credits should be used to offset any residual emissions. With regard to the quality of credits, VCMI draws on other guidance (e.g. ICVCM, see Section 4.3.1.6).

VCMI covers three levels of 'Enterprise-Wide Claims': VCMI Gold, VCMI Silver and VCMI Bronze claims. To achieve VCMI Gold, a company must be on track to achieve all of its targets for scopes 1, 2, and 3 and have covered 100% of remaining unabated emissions through carbon credits. VCMI Silver differs from Gold in that the required proportion of remaining emissions covered through carbon credits is less than 100% but at least 20%. VCMI Bronze claims are available until 2030 for companies that have yet to be on track to achieve their targets for scope 3 emissions. Carbon credits can be used to cover a maximum of 50% of the scope 3 gap while at least 20% of remaining emissions must also be covered with carbon credits.

The draft VCMI Code also defines a carbon-neutral claim for brands, products and services. Companies making such claims must meet the prerequisites at the company level. VCMI also requires public reporting on emissions, ongoing emissions reductions, covering remaining emissions with carbon credits and third-party verification for the subject of the claim.

While the draft VCMI Code does not currently take a position on avoiding double claiming with host country targets, it requires that reporting on the use of carbon credits indicate whether the emissions reductions or removals underlying the credits are counted as part of tracking progress towards host country targets. VCMI continues studying aspects such as double claiming and may include related recommendations in the final Code, which will likely be published during 2023.

182 Voluntary Carbon Market Integrity Initiative, 2022: Provisional Claims Code of Practice. Available in English at: <https://vcmintegrity.org/wp-content/uploads/2022/06/VCMI-Provisional-Claims-Code-of-Practice.pdf>.

4.3.1.11 PAS 2060 Specification for the demonstration of carbon neutrality

The PAS 2060 Standard¹⁸³ of the British Standard Association (BSI) focuses on demonstrating carbon neutrality. The standard requires organisations to have reduced their own GHG emissions prior to covering any residual emissions with carbon credits. Carbon neutrality claims should be clear and focus on a specific, clearly defined subject (business, product, etc.); the organisation making the claim should be clearly identified; and the date and validity of the claim should be clearly indicated.

The subject is carbon-neutral if its GHG emissions have not resulted in net growth in global emissions into the atmosphere within a specific period of time. Otherwise, any climate impact of the possible emissions from the subject should be offset with an equivalent number of carbon credits that meet the minimum criteria (see Table 6) and are based on mitigation outcomes not produced by the subject. For permanence and double counting, for example, PAS 2060 refers to the definitions of the GHG Protocol standards.

4.3.1.12 ISO 14068 Greenhouse gas management and climate change management and related activities – Carbon neutrality

The International Organization for Standardization (ISO) is currently developing a standard for organisations' claims about carbon neutrality, entitled 'ISO 14068 Greenhouse gas management and climate change management and related activities – Carbon neutrality'¹⁸⁴.

The current draft is not public. Public consultation will likely be organised during 2023.

4.3.1.13 European Union

Released in November 2022, the European Commission's proposal for a Regulation establishing a Union certification framework for carbon removals¹⁸⁵ includes four key minimum criteria for carbon removals eligible for certification: quantification of removals, determination of additionality and baselines, long-term storage relating to

183 The British Standards Institution, 2023: PAS 2060 - Carbon Neutrality Standard and Certification. Available in English at: <https://www.bsigroup.com/en-GB/pas-2060-carbon-neutrality/>.

184 International Organization for Standardization, 2023: ISO/DIS 14068: Greenhouse gas management and climate change management and related activities — Carbon neutrality. Available in English at: <https://www.iso.org/standard/43279.html>.

185 COM(2022) 672 final: Proposal for a Regulation of the European Parliament and of the Council establishing a Union certification framework for carbon removals. Available in English at: <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:52022PC0672>. Accessed on 2 December 2022.

the permanence of removals, and sustainability of removals. The Commission's proposal refers to these as the 'QU.A.L.I.T.Y criteria'. According to the proposal, organisations would only be able to use credits that meet the minimum criteria and have been certified by an independent body within the framework of a certification scheme recognised by the EU. The non-binding guidance on the interpretation and application of Unfair Commercial Practices Directive 2005/29/EC¹⁸⁶ also discusses the general minimum criteria for carbon credits.

The European Commission has also proposed that the Unfair Commercial Practices Directive be updated¹⁸⁷ to provide that making general environmental claims, such as claims about carbon neutrality, would require demonstrating 'recognised excellent environmental performance' relevant to the claim.

Other EU legislation may also be relevant to the minimum criteria for and voluntary use of carbon credits, claims and related reporting, including the taxonomy of sustainable investment¹⁸⁸ and the regulatory framework for corporate sustainability reporting¹⁸⁹ and corporate sustainability due diligence¹⁹⁰.

186 Commission Notice 2021/C 526/01: Guidance on the interpretation and application of Directive 2005/29/EC of the European Parliament and of the Council concerning unfair business-to-consumer commercial practices in the internal market, p. 77. Official Journal of the European Union 29.12.2021. Available in English at: [https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:52021XC1229\(05\)](https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:52021XC1229(05)). Accessed on 16 November 2022.

187 COM(2022) 143 final: Proposal for a Directive amending Directives 2005/29/EC and 2011/83/EU as regards empowering consumers for the green transition through better protection against unfair practices and better information. Available in English at: <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:52022PC0143>. Accessed on 3 December 2022.

188 PE/20/2020/INIT: Regulation (EU) 2020/852 of the European Parliament and of the Council of 18 June 2020 on the establishment of a framework to facilitate sustainable investment, and amending Regulation (EU) 2019/2088. Available in English at: https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=consil:PE_20_2020_INIT. Accessed on 3 December 2022.

189 PE/35/2022/REV/1: Directive (EU) 2022/2464 of the European Parliament and of the Council of 14 December 2022 amending Regulation (EU) No 537/2014, Directive 2004/109/EC, Directive 2006/43/EC and Directive 2013/34/EU, as regards corporate sustainability reporting. Available in English at: <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:32022L2464>.

190 COM(2022) 71 final: Proposal for a Directive on Corporate Sustainability Due Diligence and amending Directive (EU) 2019/1937. Available in English at: <https://eur-lex.europa.eu/legal-content/EN/ALL/?uri=CELEX:52022PC0071>.

4.3.1.14 Guidance on corporate net-zero targets

Four mutually compatible key international guidance documents are available for the net-zero targets of businesses and other organisations: the Starting Line and Leadership Practices of the Race to Zero campaign under the UN Framework Convention on Climate Change (UNFCCC)¹⁹¹, the Science Based Targets initiative (SBTi) Net-Zero Standard¹⁹², the UN High-Level Expert Group's Net Zero Commitments¹⁹³, and the ISO Net Zero Guidelines¹⁹⁴. While they focus on setting and achieving net-zero targets without the use of carbon credits, they also include guidelines for using carbon credits.

All of these guidance documents cover organisations' direct and indirect (scope 1, 2 and 3) emissions and require organisations to have taken steps to reduce these emissions in line with a science-based 1.5°C pathway without using carbon credits. If an organisation reduces its emissions in line with a 1.5°C pathway through its own action and neutralises any emissions remaining in the target year with removals, it will be allowed to make a net-zero claim in the target year.

In other words, the use of carbon credits in the context of achieving the net-zero target is limited to the target year – and to credits based on removals. Carbon credits may also play a role in surpassing the net-zero target (before, during and/or after the target year): the guidance documents encourage organisations to not only support their own emissions reductions to achieve net zero, but also mitigation activities outside of their own value chain, known as 'beyond value chain mitigation' (BCVM), by means such as carbon credit purchases. The Race to Zero campaign defines 'compensation' to mean beyond value chain mitigation activities that meet certain criteria, covering offsetting the climate impact of emissions as well as other types of support for mitigation activities. The campaign also encourages organisations to pursue carbon neutrality in keeping with its definitions¹⁹⁵ on their path towards net zero, noting that carbon neutrality claims are also suitable on the

191 United Nations Framework Convention on Climate Change, 2021: Starting Line and Leadership Practices 2.0. Available in English at: <https://racetozero.unfccc.int/wp-content/uploads/2021/04/Race-to-Zero-Criteria-2.0.pdf>

192 Science Based Targets Initiative, 2022: The Net Zero Standard. Available in English at: <https://sciencebasedtargets.org/net-zero>.

193 United Nations' High-Level Expert Group on the Net Zero Emissions Commitments of Non-State Entities, 2022: Integrity Matters: Net Zero Commitments by Businesses, Financial Institutions, Cities and Regions. Available in English at: <https://www.un.org/sites/un2.un.org/files/high-level-expert-group-update7.pdf>

194 International Organization for Standardization, 2022: Net Zero Guidelines. Available in English at: <https://www.iso.org/netzero>.

195 United Nations Framework Convention on Climate Change: Race to Zero Lexicon. Available in English at: <https://racetozero.unfccc.int/wp-content/uploads/2021/04/Race-to-Zero-Lexicon.pdf>.

path towards net zero, whereas net-zero claims are not applicable until the target year. Other net-zero guidance documents do not take a position on claims made before the target year (see VCMI, Section 4.3.1.10).

4.3.2 National guidance

4.3.2.1 Australia

Australia's national Climate Active Programme¹⁹⁶ certifies organisations, products, services, buildings, events and precincts that have calculated and reduced their carbon footprint and cancelled an equivalent number of carbon credits in line with the Climate Active Carbon Neutral Standard¹⁹⁷. Certification entitles eligible entities to claim carbon neutrality. As the standard does not require avoiding double claiming with host country targets, the programme's carbon neutrality certification represents, despite its name, a contribution claim as referred to in this report. The standard has been in place since 2010. The programme is managed by the Australian Government's Department of Industry, Science, Energy and Resources.

Carbon credits approved under the programme include the Australian Carbon Credit Unit (ACCU), the Kyoto Protocol Certified Emission Reduction (CER) and Removal Unit (RMU), as well as the GS4GG Gold Standard Verified Emission Reduction (GS-VER) and the VCS Verified Carbon Unit (VCU). The list of approved carbon credits will be updated as required. In August 2022, the Australian Climate Change Authority published an independent review of international carbon offsets. The Australian Department of Climate Change, Energy, the Environment and Water has commissioned an independent review of Australian Carbon Credit Units (ACCUs) by the end of 2023.

4.3.2.2 New Zealand

New Zealand's national guidance for voluntary carbon offsetting was in force up until the end of 2021. The guidance covered the voluntary use of both international and national credits.

196 Climate Active, 2019. Available in English at: <https://www.climateactive.org.au/>.

197 Climate Active, 2019: Tools and resources. Available in English at: <https://www.climateactive.org.au/be-climate-active/tools-and-resources>. Accessed on 3 January 2023.

Up until the end of 2021, New Zealand had a national mechanism to prevent double claiming between domestic voluntary compensation and the national target under the Kyoto Protocol¹⁹⁸. Permanent removals of domestic afforestation activities were granted emissions allowances known as 'New Zealand Units' (NZUs) within the framework of the national emissions trading scheme. NZU holders were able to cancel these emissions allowances for voluntary offsetting purposes and the Crown committed to cancel an equivalent number of Assigned Amount Units (AAUs) under the Kyoto Protocol. As a result, the buyer acquired an exclusive right to use the mitigation outcome while New Zealand did not count it towards meeting its Kyoto target. This enabled the buyer to use the mitigation outcome to credibly offset its net emissions impact. Since the process was based on cancelling Kyoto units, it expired at the end of the Kyoto Protocol commitment periods.

An updated interim guidance was published in 2022¹⁹⁹. The interim guidance differs from the previous version in that, instead of offsetting, it deals with voluntary climate change mitigation in more general terms and does not require avoidance of double claiming with host country targets. According to the guidance, organisations making use of voluntary climate change mitigation should disclose whether the action taken contributes towards a national level target or goes further. The guidance notes that double claiming could be avoided up until 2021 and that, during the Paris Agreement era, carbon neutrality is increasingly associated with mitigation outcomes that go beyond national climate targets, while recommending caution, in particular with regard to claims about 'carbon neutrality' or 'net zero'. The guidance also notes that double claiming can be avoided by supporting mitigation outcomes from sectors outside of New Zealand's emissions accounting and climate target. The guidance does not recommend voluntary cancellation of NZUs because it does not necessarily guarantee prevention of one tonne of emissions due to market stability processes. The guidance recommends supporting activities with positive environmental and social co-benefits. Claims about co-benefits should be substantiated by transparent and robust evidence.

The guidance will be updated to reflect evolving international best practices and the rules of international carbon markets under the Paris Agreement.

198 Ministry for the Environment, 2020: Guidance for voluntary carbon offsetting – updated and extended until 31 December 2021. Wellington: Ministry for the Environment.

199 Ministry for the Environment, 2022: Interim guidance for voluntary climate change mitigation. Wellington: Ministry for the Environment.

A report commissioned by the New Zealand Energy Efficiency and Conservation Authority (EECA) proposes a two-track system for voluntary mitigation, with Track 1 focused on supporting the national target and Track 2 dealing with mitigation outcomes beyond the national target. Each track would have its own specific carbon neutrality claim, which would indicate whether the mitigation outcome is counted towards the national target or goes further. The report divides the two tracks into a domestic carbon neutrality claim ('Carbon Horizon') counted towards national climate and carbon neutrality targets, representing a contribution claim in the context of this report, and an international carbon neutrality claim ('Carbon Frontier') based on mitigation outcomes that go beyond national targets, representing offsetting climate harm caused by emissions and a carbon neutrality claim in terms of this report.²⁰⁰

New Zealand's Environmental Claims Guidelines²⁰¹ also provide guidance for making offsetting and carbon neutrality claims.

4.3.2.3 Japan

Japan encourages domestic companies to reduce and offset their emissions on a voluntary basis. There is no mandatory emissions trading.

Over the years, Japan has developed several national schemes for both producing (international and national) carbon credits and granting carbon neutrality labels. The first national guidance on voluntary offsetting was published in 2008 while also launching two domestic carbon crediting programmes (Domestic Offset Credit Scheme and Japan Offset Credit Scheme, J-VER) to produce domestic carbon credits. That same year, Japan's Minister of the Environment also established a voluntary offsetting forum to increase knowledge and expertise. The forum has reportedly since been discontinued.

In 2012, the Japanese Ministry of the Environment established a Japan Carbon Offsetting Scheme, which was used by a certification committee to grant carbon neutrality labels to companies that had offset their carbon footprints in full. The following year, Japan launched a bilateral Joint Crediting Mechanism (JCM) to produce carbon credits from mitigation activities carried out in partner countries. The country also replaced its previous domestic carbon crediting programmes with the J-Credit Scheme. In addition to voluntary carbon offsetting, businesses can also use domestic credits to fulfil the

200 Leining – White, 2021: Boosting voluntary climate action in Aotearoa New Zealand. Motu Economic and Public Policy Research, EECA 2021.

201 Commerce Commission New Zealand, 2020: Environmental Claims Guidelines, a guide for traders. Available in English at: https://comcom.govt.nz/__data/assets/pdf_file/0017/220247/Environmental-claims-guidance-July-2020.pdf.

low-carbon commitments of the Japan Business Federation (Keidanren) and obligations related to energy efficiency, etc. Carbon neutrality certification has reportedly since been discontinued.

As a general rule, both international and domestic carbon credits are counted towards the climate targets of Japan or its partner countries.

4.3.2.4 Peru

Peru has a national carbon footprint label (Huella de Carbono Perú), which is granted by the Peruvian Ministry of the Environment to parties that have calculated their own footprint (one star), verified it (two stars), reduced it (three stars) and covered it with certified mitigation outcomes (four stars) counted towards Peru's national target²⁰². There is also a national public registry that lists details of operators' emissions and use of carbon credits.

4.3.2.5 Thailand

Thailand has a domestic voluntary offsetting scheme entitled 'Thailand Voluntary Emission Reduction Program' (T-VER)²⁰³. The scheme includes both a standard of domestic action for producers, used for certifying mitigation outcomes, and an environmental label for buyers for covering their carbon footprints with partially (carbon offset) or fully (carbon neutral) certified mitigation outcomes. As mitigation outcomes are, as a general rule, counted towards the national target, the scheme's carbon neutrality label represents, despite its name, a contribution claim as referred to in this report. The scheme is managed by a public organisation called the Thailand Greenhouse Gas Management Organization (TGO).

In 2019, T-VER applied for eligibility within the framework of the Carbon Offsetting and Reduction Scheme for International Aviation (CORSIA)²⁰⁴. However, the International Civil Aviation Organization (ICAO) deemed that T-VER did not fulfil all of the eligibility requirements concerning social and environmental safeguards to the extent that would

202 Huella De Carbono Perú (Peru Carbon Footprint), 2018. Available in Spanish at: <https://huellacarbonoperu.minam.gob.pe/huellaperu/#/inicio>.

203 Greenhouse Gas Mitigation Mechanism, 2016: What is T-VER? Available in English at: <https://ghgreduction.tgo.or.th/en/what-is-t-ver/what-is-t-ver.html>. Accessed on 9 January 2023.

204 International Civil Aviation Organization: International Civil Aviation Organization (ICAO) Carbon Offsetting and Reduction Scheme for International Aviation (CORSIA). Available in English at: https://www.icao.int/environmental-protection/CORSIA/Documents/TAB/TGO_Programme_Application.pdf.

make it possible to ensure that the mitigation activities producing carbon credits do not cause net harm²⁰⁵. In September 2022, TGO and Verra agreed on cooperation to align the T-VER standard with international best practice.

4.3.2.6 Germany

The German Development and Climate Alliance has developed criteria for the voluntary use of carbon credits²⁰⁶. For minimum criteria, they refer to the ICROA criteria. In addition to the established minimum criteria (see Table 6), the mitigation activity underlying the carbon credits is required to make certified sustainable development contributions to at least two Sustainable Development Goals (SDGs). Compliance with the minimum criteria should be demonstrated making use of a carbon crediting programme approved by the Alliance. While the Alliance encourages supporting both already achieved (ex-post) mitigation outcomes and those expected to materialise in the future (ex-ante), the latter cannot be used as proof of climate claims. All forms of double counting should be avoided, including double claiming with any country's national climate targets.

As of January 2023, more than 1,300 organisations had already committed to the Alliance's criteria.

4.3.2.7 Iceland

Iceland's national standardisation organisation, Icelandic Standards, published a national carbon offsetting standard in September 2022 (ÍST TS 92:2022 Carbon offsetting: Specification with guidance)²⁰⁷. The standard is based on ISO standards with regard to quantification and independent verification of emissions at organisational, mitigation activity and product life-cycle levels.

205 International Civil Aviation Organization, 2020: Technical Advisory Body (TAB) Recommendations on CORSIA Eligible Emissions Units. Available in English at: https://www.icao.int/environmental-protection/CORSIA/Documents/TAB/Excerpt_TAB_Report_Jan_2020_final.pdf.

206 The Development and Climate Alliance, 2020: Development and Climate Alliance Approved Standards and Processes. Available in English at: https://allianz-entwicklung-klima.de/wp-content/uploads/2020/11/AllianzEntwicklungKlima_Anforderungskatalog_Standards_EN.pdf.

207 ÍST/Staðlaráð, 2022: ÍST TS 92:2022: Carbon offsetting: Specification with guidance. Available in English at: <https://stadlar.is/stadlabudin/vara/?ProductName=IST-TS-92-2022>. Accessed on 3 January 2023.

In order for an organisation to be able to make credible climate claims, it is required to develop and implement a climate strategy and target prioritising its own emissions reductions; quantify its direct and indirect emissions; cover any remaining emissions with carbon credits; verify its climate claims; and report on its mitigation action and use of carbon credits. The standard includes guidance on the use of both ex-ante and verified ex-post mitigation outcomes. Ex-ante mitigation outcomes can be included in an organisation's climate strategy to cover future emissions, but they cannot be used as proof of offsetting claims until implemented and verified.

The standard is in line with the criteria of the Article 6.4 Mechanism of the Paris Agreement with regard to quantification methodologies. For additionality, a barrier analysis is also accepted in lieu of financial additionality. The requirement for emissions is to pursue permanence for at least 50 years and to transfer to a buffer account the number of credits indicated by a risk analysis. Carbon credits should be verified within the framework of a carbon crediting programme that meets the criteria. Credits should be cancelled in the electronic registry, clearly indicating the claim involved and the organisation making the claim.

Claims should be distinguished according to whether a claim supports: (1) the host country climate ambition (non-ITMOs); (2) the climate ambition of the organisation's country of domicile (ITMOs); (3) no country's climate ambition (voluntarily cancelled ITMOs); or (4) mitigation outcomes outside of climate targets (non-ITMOs). Some of such claims would be considered contribution claims referred to in this report, even though the standard uses 'offsetting' and 'compensation' to refer to all claims.

4.3.2.8 France

The Label Bas Carbone (Low Carbon Standard) programme, managed by the French Ministry of Ecology, certifies mitigation outcomes from domestic mitigation activities²⁰⁸. Mitigation outcomes are counted towards France's targets. The programme grants climate labels to national activities that meet the criteria, but it does not directly address claims relating to voluntary contributions to these activities.

208 Ministère de la Transition écologique et de la Cohésion des territoires, Ministère de la Transition énergétique (*Ministry of Ecological Transition and Territorial Cohesion, Ministry of Energy Transition*), 2022: Label bas-carbone: récompenser les acteurs de la lutte contre le changement climatique (Low-carbon label: *rewarding actors in the fight against climate change*). Press release 29 December 2022. Available in French at: <https://www.ecologie.gouv.fr/label-bas-carbone>.

The French Climate and Resilience Act²⁰⁹, in force since August 2021, only allows carbon neutrality claims for companies that have publicly reported, among other things, their organisation's GHG emissions and a description of how the emissions from a product or service have primarily been avoided, then minimised, and only thereafter covered with carbon credits, and how the carbon credits meet the minimum criteria. A supplementary decree²¹⁰ to the Act, adopted in April 2022, requires an organisation to withdraw its carbon neutrality claim if the emissions associated with a product or service grow for two consecutive years. The decree also requires organisations to set an annual target pathway for a minimum period of ten years and report on the use of carbon credits, incl. underlying mitigation activities and categories of credit prices (below EUR 10 per tonne, EUR 10–40 per tonne, or over EUR 40 per tonne).

The French Agency for Ecological Transition (ADEME) published a recommendation²¹¹ on the use of the carbon neutrality claim in communications in July 2022. The recommendation encourages avoidance of the arithmetic approach to carbon neutrality and, consequently, carbon neutrality claims as well. The recommendation cautions that a carbon neutrality claim may convey to consumers an illusion that the operator, product or service claimed to be carbon-neutral has reached a state of net zero, making consumption compatible with the 1.5°C target. As an alternative to carbon neutrality, organisations are recommended to communicate about their performance in terms of emissions reductions and how they have supported mitigation activities for collective carbon neutrality. Consequently, the recommendation does not address the risk of double claiming involved in carbon neutrality claims nor how to avoid it.

209 LOI n° 2021-1104 du 22 août 2021 portant lutte contre le dérèglement climatique et renforcement de la résilience face à ses effets, 2021 (*Act No. 2021-1104 of 22 August 2021 on the fight against climate change and strengthening resilience to its effects, 2021*). Available in French at: https://www.legifrance.gouv.fr/jorf/article_jo/JORFARTI000043956989.

210 Décret n° 2022-539 du 13 avril 2022 relatif à la compensation carbone et aux allégations de neutralité carbone dans la publicité (*Decree No. 2022-539 of 13 April 2022 relating to carbon offsetting and claims of carbon neutrality in advertising*). Available in French at: <https://www.legifrance.gouv.fr/jorf/id/JORFTEXT000045570611>.

211 La librairie ADEME, 2023: Use of the “carbon neutrality” argument in communications. Available in English at: <https://librairie.ademe.fr/developpement-durable/5609-use-of-the-carbon-neutrality-argument-in-communications.html>.

5 Recommendations for developing and supervising voluntary mitigation action and related claims in the future

5.1 Opportunities for enhancing supervision of climate-related marketing claims

The Finnish Competition and Consumer Authority (FCCA) is tasked with providing information about consumer protection legislation and supervising compliance with consumer protection legislation to support compliance and prevent infringements. The FCCA has two main ways of ensuring compliance with consumer protection provisions: preventive provision of information and guidance and ex-post supervision. Preventive information and guidance aim to provide entrepreneurs operating in the sector with better opportunities to comply proactively with legislation.²¹² Supervision, in turn, focuses on individual operators and is based on actual practices, which are reviewed for appropriateness on a case-by-case basis.

Supervising claims related to support for voluntary mitigation action has been challenging in Finland due to the absence of a clear and uniform basis for evaluating such claims in support of supervision²¹³. This report on good practices for voluntary mitigation action will likely contribute to improving the situation. It is probably also possible to make use of this report as a guiding, non-binding reference, at least in preventive advisory work. Should operators comply with good practices on their own initiative, this may increase

212 Anja Peltonen, Senior Principal Adviser, Consumer Affairs, Finnish Competition and Consumer Authority. Interview on 7 June 2022.

213 Anja Peltonen, Senior Principal Adviser, Consumer Affairs, Finnish Competition and Consumer Authority. Interview on 7 June 2022.

Finnish Competition and Consumer Authority, 2021: KKV pitää päästökompensaatiopalveluiden rajaamista rahankeräyslain ulkopuolelle perusteltuna – sääntelyä on kuitenkin täsmennettävä alan kehittyessä (*The FCCA considers exclusion of emissions compensation services from the Money Collection Act to be justified – regulation still needs to be specified as the sector develops*). Newsletter 23 April 2021. Available in Finnish at: <https://www.kkv.fi/ajankohtaista/kkv- uutiskirje/kkv-pitaa-paastokompensaatiopalveluiden-rajaamista-rahankerayslain-ulkopuolelle-perusteltuna-saantelya-on-kuitenkin-tasmennettava-alan-kehittyessa/>.

the clarity of climate claims in itself. However, enhancing the legally binding force of good practices requires, among other things, that the Consumer Ombudsman issues a guideline on compliance with the good practices identified in this report.

Once in force, the currently ongoing EU initiatives on amending the UCPD, substantiating environmental claims made on products and by companies, and establishing a certification framework for carbon removals will also likely clarify the criteria for supervision of climate claims.

From the perspective of consumer protection, the first priority would be to reach consensus on the current good practices to be set out for the criteria for claims based on the voluntary use of carbon credits in a form to which entrepreneurs would be able to commit on a voluntary basis. Combined with the FCCA guidelines on the presentation of environmental marketing, such a model would also give entrepreneurs a chance to ensure in advance that their marketing is lawful.²¹⁴ Considering that businesses operating in the voluntary mitigation action sector have themselves asked for clear ground rules for the sector²¹⁵, it is likely that there is a high level of willingness among sector companies to commit to good practices to enhance the transparency and reliability of their actions.

5.2 Assessment of minimum criteria and claims, registries and climate labelling

According to good practices, credible offsetting and contribution claims should be based on mitigation outcomes that meet the internationally established minimum criteria. Compliance with the minimum criteria should be assessed by a qualified independent third party within the framework of a reliable carbon crediting programme. A mitigation outcome deemed to meet the minimum criteria is granted a carbon credit by the carbon crediting programme, which records it in a registry.

214 Heinonen, Tero – Nissinen Ari, 2022: Ympäristöväittämät Suomen markkinoilla (*Environmental Claims in the Finnish Market*). Publications of the Ministry of Economic Affairs and Employment 2022:48. Available in Finnish (English abstract) at: https://julkaisut.valtioneuvosto.fi/bitstream/handle/10024/164261/TEM_2022_48.pdf?sequence=4. Accessed on 20 September 2022.

215 See e.g. Finnish Environment Institute SYKE, 2021: Vapaaehtoisen päästökompensoinnin toimijat haluavat alalle selkeät pelisäännöt (*Operators in the voluntary emissions compensation sector want clear ground rules for the sector*). Press release 6 April 2021. Available in Finnish at: [https://www.syke.fi/fi-FI/Ajankohtaista/Vapaaehtoisen_paastokompensoinnin_toimij\(60282\)](https://www.syke.fi/fi-FI/Ajankohtaista/Vapaaehtoisen_paastokompensoinnin_toimij(60282)).

A public registry consisting (exclusively) of carbon credits that meet the minimum criteria helps operators identify credits suitable for offsetting or contribution claims. Such a registry also includes information on whether a mitigation outcome is counted towards achieving a country's national climate targets, helping operators to make credible claims while avoiding double counting and controlling claim credibility.

Under the Commission Proposal for a Carbon Removal Certification Regulation, EU carbon removals should only be certified by certification schemes recognised by the Commission. The proposal includes criteria for schemes relating to good governance, independent verification, etc. Schemes are required to maintain a public registry that contains information on the certification process, including the quantity and serial numbers of certified credits. The proposal also refers to the potential intentions of Member States to establish and operate national certification schemes, including the supervision of independent certification bodies and the establishment and operation of a national registry.

Independent carbon crediting programmes are currently the only option available to Finnish developers of mitigation activities to produce carbon credits. Furthermore, there are ongoing initiatives to develop an international carbon crediting programme under the Paris Agreement and an EU certification framework for carbon removals, in the context of which the Commission would recognise international and national schemes for certifying EU-eligible carbon removals. However, their implementation will probably still take several years.

Some countries, such as France, Australia and Peru, have a national carbon crediting programme and a registry for domestic mitigation activities. Some programmes also involve a climate label granted by a national authority to users of approved carbon credits for marketing purposes. National climate labels are typically based on mitigation outcomes counted towards national targets. This means that they can also serve as a basis for contribution claims.

When considering a potential national carbon crediting programme, registry, climate labelling or similar arrangements, it would be advisable to conduct a separate study on their legal effects, such as whether their implementation requires a new act or other legislation and how national supervision and approval could be organised. EU Member States' national programmes should comply with the criteria of the EU certification framework for carbon removals. However, as the framework is still at the proposal stage, the criteria will only be specified and adopted in the future.

5.3 Organisational commitment to adopting good practices

The good practices and international guidance documents presented in this report are based on the situation at the time of writing. International and national good practices, guidance and regulation are nevertheless evolving constantly and rapidly. Organisations aiming to make climate claims based on carbon credits in keeping with good practices should therefore keep a keen eye on developments and adjust their activities accordingly. In the next few years, the EU is expected to introduce new regulation and stricter requirements for substantiating environmental claims, certification of carbon removals, corporate sustainability reporting and corporate sustainability due diligence, for example.

Organisations have many ways to demonstrate that they are committed to and take responsibility for mitigation action. However, the commitments and claims made by organisations are not necessarily familiar to Finnish consumers and other stakeholders. Organisations' broad commitment to good practices and active communications about this can ideally raise awareness of international good practices among Finns while increasing their understanding, trust, appreciation and interest towards organisations' voluntary climate efforts. A national climate label might also build up trust among stakeholders and, consequently, organisations' interest in making contribution claims.

Stricter guidelines and requirements provide opportunities to promote aspects such as quality assurance of carbon credits and credibility of climate claims. Commitment to good practices helps organisations to prepare for and even influence tightening requirements and to distinguish themselves more clearly and credibly as trailblazers taking responsibility for climate protection. They may commit to participating in development of and active communications about good practices, testing new regulation and sharing experiences.

To secure organisations' engagement in a rapidly evolving sector, it would be important to promote dialogue and cooperation between key parties, including organisations making claims and public authorities supervising them. Joint forums, workshops, working groups and other forms of cooperation would help organisations to work together to develop and update coordinated and commensurate operating methods aligned with good practices. It would also be important to engage national experts in the sector in this cooperation, if and when domestic guidelines are developed at the practical level.

During the transition period, organisations could commit to stepping up communications and reporting on the voluntary use of carbon credits, including what efforts they have made to take good practices presented in this report into account, what barriers they have encountered while working towards good practices, and how they aim to

develop their activities as good practices evolve. Organisations could develop claims aligned with good practices in cooperation with supervisory authorities and other stakeholder representatives while also agreeing on nationally uniform wordings and shared procedures for disclosing essential information in connection with a claim (and the product concerned), for example. Operators could work with authorities to assess the prerequisites for developing a 'product declaration', or even a national or regional climate label to attach to claims.

Organisations could commit to good practices in Finland through a third-party website, for example, which would include a list of businesses committed to the working group. The website would present good practices as a whole (for producers of mitigation outcomes, claimants and consumers). Commitment could be made with a letter signed by the management or as part of reporting, for example. A company commitment statement should indicate that it is committed to developing joint practices and, in compliance with good practices, to 1) quantifying its direct and indirect (scope 1, 2 and 3) emissions; 2) designing and implementing a roadmap to reduce these emissions while aiming to align it with the 1.5°C target; 3) supporting voluntary mitigation action by purchasing carbon credits that meet the minimum criteria and applying good practices in any claims being made; and 4) publicly reporting on its targets, emissions, credit use, claims and other information according to good practices. As part of its commitment, the organisation could also disclose any other measures taken in relation to its climate strategy, such as contributions to voluntary mitigation action without the use of carbon credits, and its commitments to international guidance and/or standards. The organisation's commitment should also indicate how it reports on its commitment and where the reported information can be found. The website would enable anyone to check organisations' commitments and reports.

6 Summary

Climate claims based on the voluntary use of carbon credits are used in Finland for marketing by companies and on products and services. However, there has been much uncertainty among companies and consumers alike about the production of these credits and claims made about their use. Legislation governing environmental claims requires climate claims to be clear, unambiguous, truthful and verifiable. Otherwise, such claims can be considered misleading and, in the context of environmental claims, to constitute 'greenwashing'. This guide aims to synthesise and clarify international good practices for the Finnish context to improve the trustworthiness of domestic carbon markets and ward off uncertainty and greenwashing involved in climate claims and the production of the underlying carbon credits.

The report covers good practices available for carbon credit producers, credit users and private consumers. Supporting background is presented on the current status of climate claims in Finland and current legislation on voluntary mitigation action and climate claims. The report also gives recommendations for future development and supervision of voluntary mitigation action and related claims.

According to good practices, credible offsetting and contribution claims should be based on mitigation outcomes that meet the internationally established minimum criteria. This report describes the EU regulatory framework relevant to the minimum criteria, international good practices and related guidance on their interpretation. The established minimum criteria require mitigation outcomes to:

1. be additional;
2. apply robust baselines;
3. apply robust quantification methodologies;
4. apply monitoring and reporting;
5. be permanent;
6. avoid carbon leakage;
7. be real, independently verified and certified;
8. avoid double counting;
9. 'do no significant harm' (DNSH).

The good practices and international guidance documents presented in this report are based on the situation at the time of writing. International and national good practices, guidance and regulation are nevertheless evolving constantly and rapidly. In the next few years, the EU is expected to introduce new regulation and stricter requirements for substantiating environmental claims, certification of carbon removals, corporate sustainability reporting and corporate sustainability due diligence, for example. The contents of this guide may also be updated on the basis of these new guidelines in the future.

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