Draft Consensus Statement on High Quality Tropical Forest Carbon Credits

Context: *Our organizations (see below) have been engaged in a collaborative process to address the surging corporate interest in high-quality tropical forest carbon emission reductions and removals credits. The effort, facilitated by Meridian Institute, has focused on developing guidance for companies interested in purchasing carbon credits in the voluntary carbon market with a view to improving the integrity, quality and impact of these purchases.*

We recognize that carbon credits are a complement, not a substitute for deep decarbonization by companies, and represent one of multiple avenues for companies to help protect and restore tropical forests. Nonetheless, in the face of increasing demand in voluntary markets, we agreed that guidance on high quality carbon credits is somewhat urgent, warranting this focus. We also strongly agree that programs and projects delivering tropical forest carbon credits must fully respect the rights of, support the full and effective participation of, and distribute an equitable share of the benefits to Indigenous Peoples and Local Communities.

After several months of exchanging our diverse experiences and perspectives, our organizations developed a draft consensus statement, noting that several critical issues such as claims and pricing are not within the current scope. We will launch an open consultation process no later than the end of November 2021 to solicit needed feedback on this draft statement to ensure this guidance for companies is actionable. We intend to provide further detailed guidance following that consultation.

Participating Organizations

The Coordinating Committee of Indigenous Organizations of the Amazon Basin (COICA)

The Amazon Environmental Research Institute (IPAM)

World Wildlife Fund-US

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BACKGROUND

The science is clear that halting and reversing tropical[1] forest loss is necessary for addressing climate change and achieving the Paris Agreement goals. [2] *Living ecosystems, notably tropical forests and peatlands, contain over 100 Gt of carbon stocks that, once lost, cannot be recovered in any time frame relevant to addressing the climate crisis.*[3] *However, more than 4 million hectares of primary tropical forest are lost per year, along with another 8 million hectares of secondary forest and significant forest degradation.*[4] *Losing these forests not only generates emissions, it also undermines the enormous potential for intact and recovering forests to continue to sequester carbon from the atmosphere.*

Nature is fundamental to human survival and economic prosperity, yet there remains an estimated $700 billion funding gap for nature and biodiversity. [5] **In particular, nature's mitigation potential has been overlooked: natural climate solutions[6], such as protecting forests, receive only 3% of global climate finance.** [7] *Achieving net-zero land-use emissions within the next decade is an indispensable step for realizing net-zero across all sectors by mid-century. This cannot be achieved without, first and foremost, a rapid elimination of tropical deforestation and degradation complemented by significant progress toward the restoration of tropical forests.*[8]

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[1] *"Tropical forests" is used throughout to refer to both tropical and subtropical forests as well as mangroves, peatlands, and other landscapes the protection and restoration of which is important to climate stability.*

[2] *Paris Agreement to the United Nations Framework Convention on Climate Change, Dec. 12, 2015, T.I.A.S. No. 16-1104, https://unfccc.int/sites/default/files/english_paris_agreement.pdf.*

[3] *Allie Goldstein et al., "Protecting irrecoverable carbon in Earth's ecosystems," Nature Climate Change 10 (2020): 287–295, https://doi.org/10.1038/s41558-020-0738-8.*

[4] *"Global Forest Review," World Resources Institute, accessed August 19, 2021, https://research.wri.org/gfr/global-forest-review.*

[5] *Deutz, A., et al, J. 2020. Financing Nature: Closing the global biodiversity financing gap. https://www.nature.org/en-us/what-we-do/our-insights/reports/financing-nature-biodiversity-report/*

[6] *Natural climate solutions are conservation, restoration and improved land management actions that increase carbon storage or avoid greenhouse gas emissions in landscapes and wetlands across the globe. See Natural Climate Solutions (nature.org)*

[7] *Rob Macquarie et al., "Updated View on the Global Landscape of Climate Finance 2019," Climate Policy Initiative, December 18, 2020, https://www.climatepolicyinitiative.org/publication/updated-view-on-the-global-landscape-of-climate-finance-2019/.*

[8] *IPCC, 2018: Global warming of 1.5°C. https://www.ipcc.ch/sr15/. An IPCC Special Report on the impacts of global warming of 1.5°C above pre-industrial levels. [V. Masson-Delmotte, P. Zhai, H. O. Pörtner, D. Roberts, J. Skea, P.R. Shukla, A. Pirani, W. Moufouma-Okia, C. Péan, R. Pidcock, S. Connors, J. B. R. Matthews, Y. Chen, X. Zhou, M. I. Gomis, E. Lonnoy, T. Maycock, M. Tignor, T. Waterfield (eds.)]. In Press.*

Many tropical forests are the home and heritage of Indigenous Peoples (IPs) and Local Communities (LCs) who have long been stewards of tropical forests, lands, territories, waters, and resources. *Yet, IPs and LC's rights, culture, and livelihoods are increasingly threatened by forest conversion and the impacts of climate change. IPs and LCs require additional capacity, support, and financial compensation to improve their land security and ensure sustainable livelihood opportunities through the ecosystem services they provide. IPs and LCs must have full and effective participation in decision-making processes, fair and equitable benefit-sharing from forest conservation, and Free Prior and Informed Consent (FPIC).*[9] *These principles are poorly represented in practice and need to be universally applied.*

The protection and restoration of tropical forests and the ecosystem services they provide for people and nature are foundational to sustainable business in every part of the world. *Many companies have extensive dependencies on functioning forests and other ecosystems, including for regulation of local climate stability and hydrology, maintenance of agricultural productivity and pollination services, and safeguarding of public health and safety. These dependencies, along with the urgent need for private sector leadership to tackle tropical forest loss, have become more apparent than ever in a post-2020 world,*[10] *fueling significantly enhanced ambition from companies to help take on the climate change emergency.*

Many companies have concluded that they can no longer afford the material or reputational risks of being associated with forest loss. Some are going beyond commitments to clean up their supply chains by supporting implementation of actions and initiatives in host countries to address drivers of deforestation and degradation, such as by providing up-front investments in aligned activities and technical capacity.

Companies, in concert with governments, civil society, IPs, and LCs, have multiple avenues to help halt tropical forest loss resulting from both deforestation and degradation.[11] **The mitigation hierarchy should be a guidepost for prioritizing their actions.** [12] *Purchase of forest carbon credits, for example, cannot substitute for companies' own decarbonization. Companies must publicly commit to a science-based*

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[9] *On FPIC: "consent should be sought before any project, plan or action takes place (prior), it should be independently decided upon (free) and based on accurate, timely and sufficient information provided in a culturally appropriate way (informed) for it to be considered a valid result or outcome of a collective decision-making process." "Free Prior and Informed Consent. An Indigenous peoples' right and a good practice for local communities: Manual for Project Practitioners" Food and Agriculture Organization of the United Nations, 2016. http://www.fao.org/3/i6190e/i6190e.pdf*

[10] *Jong, Hans Nicholas. "Companies to miss 2020 zero-deforestation deadline, report says," Mongabay Environmental News, 21 March, 2019, https://news.mongabay.com/2019/03/companies-to-miss-2020-zero-deforestation-deadline-report-says/*

[11] *"Landscape Scale Action for Forests, People and Sustainable Production: A Practical Guide for Companies," Tropical Forest Alliance, World Wildlife Fund, and Proforest, September 2020, https://jaresourcehub.org/wp-content/uploads/2020/09/JA-Practical-Guide.pdf.*

[12] *Stevenson, Martha, and Chris Weber. "First Things First: Avoid, Reduce … and Only after That–Compensate." WWF, 27 Apr. 2020, wwf.panda.org/wwf_news/?362819%2FFirst-Things-First-Avoid-Reduce--and-only-after-thatCompensate.*

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target validated by the Science-Based Targets Initiative (SBTi) or equivalent.[13] *Companies with a land-intensive footprint must also be actively implementing a zero-deforestation target in line with the Accountability Framework, aligned with base year 2020 or earlier. Though not a substitute for such efforts, purchasing high-quality tropical forest carbon credits and/or other non-crediting support for tropical forests as well as other urgent, high-impact climate mitigation action outside of their immediate operations and supply chains is not only encouraged but is increasingly expected.*[14]

RATIONALE & APPROACH

We (see page 2) believe that voluntary markets for tropical forest carbon credits can play an important complementary role in helping to limit global warming to 1.5 degrees Celsius, when combined with other actions and investments by companies to halt tropical forest loss.

Through a collaborative process, we have developed consensus recommendations for how companies can acquire high-quality credits and direct their demand for future credits from tropical forest carbon emission reductions and removals. These recommendations should give companies confidence that these efforts will effectively contribute to climate stabilization and the delivery of necessary social and environmental co-benefits.

The scope of this Consensus Statement is purposefully limited to the role of the voluntary purchase of tropical forest carbon credits as part of a company's climate strategy *with a specific focus on differentiating among forest carbon credits and moving the market toward higher quality credits. The Statement does not substantively address many other fundamental needs, including the need for up-front finance to tackle drivers of deforestation and assurance of demand-side integrity and associated claims, nor does it take on the foundational issue of pricing.*[15] *We are motivated in part by the increased demand recently observed in voluntary markets and by the imperative that this demand be differentiated by impact, quality, and scale of crediting programs and projects.*

Our guidance seeks to clarify how companies can use their demand for credits to help stop and reverse the loss of tropical forests and accelerate the development of a high-quality pipeline of credits and outcomes at scale. *We recognize that the rapid*

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13 In accordance with the best available science, the Paris Agreement and Sustainable Development Goals, companies should transition towards net-zero in line with mitigation pathways that are consistent with limiting warming to 1.5°C with no or limited overshoot. Reference: "Foundations for Science-Based Net-Zero Target Setting in the Corporate Sector, Principle 2." https://sciencebasedtargets.org/resources/files/foundations-for-net-zero-full-paper.pdf

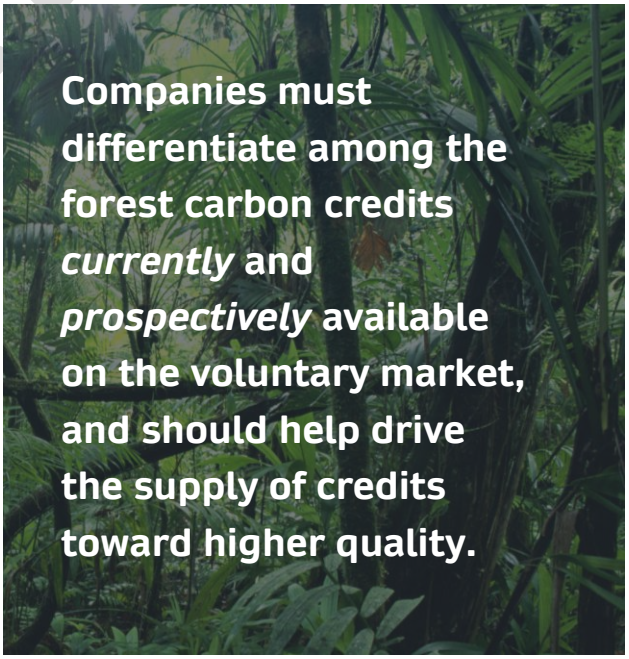
14 `See, for example, the TSVCM Leaders' Statement on High Ambition Path to Net Zero (2021) https://www.iif.com/Portals/1/Files/High_Ambition_Path_to_Net_Zero.pdf

15 Other types of investments can be made by companies to address threats to forests and other ecosystems in addition to or in combination with carbon credits (e.g., blended finance, green bonds, etc.)

increase in demand for credits carries a risk of lowering the quality of supply. However, if properly directed, the purchase of high-quality credits and signaling of future demand have considerable potential to benefit forests, IPs, and LCs as they help companies and society meet climate goals by stimulating market design, accelerating policy development, and generating financing for climate solutions.

Our guidance also seeks to convey the necessity of full and effective participation and equitable benefit sharing for IPs and LCs. Specifically, IP- and LC-led initiatives, aligned with the goals of transforming the marketplace, should be prioritized for consideration for support. *IPs and LCs can benefit through the recognition of rights and financing of self-determined pathways for Indigenous governance, Indigenous economy, and cultural and ecological integrity as framed within their organizational and territorial management instruments, such as life plans.*[16] *This support can generate the enabling conditions for implementation of IP- and LC-led initiatives, such as proposals for Indigenous jurisdictional REDD+, a method under development by COICA for full and effective participation of IPs and LCs in the process and benefit-sharing for on-the-ground actions against deforestation and degradation of tropical forests.*

Furthermore, our guidance seeks to convey that companies must differentiate among the forest carbon credits *currently* and *prospectively* available on the voluntary market, and should also help drive the supply of credits toward higher quality. *Companies have an important role to play in signaling demand for, and as they become available, increasingly sourcing credits associated with programs and interventions that can both deliver high quality results and rapidly scale up impact by driving change from subnational to national scales as envisioned in the Paris Agreement. Indeed, while companies currently confront the risks of a complex and dynamic marketplace in carbon credits, they also have by far the greatest leverage to influence this marketplace to deliver high-quality, high-impact credits.*



We have focused considerable attention on the needs and opportunities to shift the supply in the forest carbon credit market over time toward integrated jurisdictional-scale action and crediting, and how that might be accomplished. *Forest carbon credits currently available on the voluntary carbon market are almost exclusively*

[16] *"What is the Indigenous Life Plan?" Gaia Amazonas, n.d. https://www.gaiaamazonas.org/en/noticias/2020-08-06_what-is-the-indigenous-life-plan/*

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generated by project-scale activities to protect and restore forests and generate emissions reductions and removals. Many project-scale activities have resulted in important outcomes for climate, for biodiversity, and for local communities. The best projects also have contributed to the demonstration of REDD+ as a scalable finance mechanism for forest conservation and local livelihoods and have informed the development of national REDD+ systems.[17] Project-scale activities will continue to support many broader initiatives to protect and restore forests, particularly in cases where they: target especially valuable or vulnerable areas; engage directly with local stakeholders and ensure they have full information and the necessary technical capacity to participate effectively; and attract private investment.

However, experience has also illuminated some risks associated with project-scale forest carbon crediting. Projects may face limitations in their ability to address the drivers of forest-based emissions at scale. In addition, while certification standards, methodologies, and verification procedures continue to evolve and improve, there is evidence that they are uneven in their ability to manage risks such as leakage, non-additionality, and impermanence. For example, the baselines against which some certified projects have issued credits have been shown to exceed monitored deforestation that took place within the region, suggesting that some portion of credits issued by such projects may not have been additional.[18] Furthermore, some projects do not comply with safeguards and full and effective participation of IPs and LCs, including fair benefit-sharing.

Jurisdictional-scale programs could potentially mitigate some of these risks. Jurisdictional-scale crediting has the potential to incentivize governments to take the decisions and perform the actions that only they have the authority to implement. This includes actions such as policy reform; recognition of IPs and LCs' rights and full and effective participation; and enforcement of the law. All of these are necessary to end tropical deforestation at scale. Scale can be an important determinant of the environmental integrity of carbon credits regardless of sector, with larger-scale programs better positioned to mitigate risks of leakage, non-additionality, and impermanence compared to stand-alone projects.[19] For example, reference levels based on the recent historical deforestation rates of large areas are less likely to overestimate net emissions reductions, suggesting that forest carbon crediting based on performance measured at the scale of large jurisdictions can help ensure high quality credits. Furthermore, the inclusion of Indigenous territories and the full and effective participation of IPs and LCs

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[17] *Duchelle et al (2019) https://files.wri.org/d8/s3fs-public/forest-based-climate-mitigation_0.pdf*

[18] *See, for example, West, T. et al., "Overstated carbon emission reductions from voluntary REDD+ projects in the Brazilian Amazon". PNAS 117 (30) (2020).*

[19] *Stephan Schwartzman et al. (2021) "Environmental integrity of emissions reductions depends on scale and systemic changes, not sector of origin." Environ. Res. Lett. 16 091001.*

in jurisdictional programs have the potential to extend benefits to more communities, including for the conservation of carbon stocks.

Therefore, we believe that a rapid transition to jurisdictional-scale crediting for forest-based emissions reductions and removals, including fully nested projects[20], can help to ensure there is a robust pipeline of high-quality tropical forest carbon credits. *Demand for such credits can effectively contribute to both climate stabilization and the delivery of necessary social co-benefits at the scale needed to help meet global climate targets and Sustainable Development Goals. At the same time, we recognize that the success of jurisdictional-scale crediting depends on the establishment of robust policy, monitoring, and enforcement frameworks and on the meaningful participation of local actors (including IPs and LCs) and equitable benefit-sharing, especially with respect to rights-holders such as IPs. As a result, the transition to jurisdictional-scale crediting will need to be accompanied by verification of adherence to high standards of procedural integrity.*

Further, we recognize that jurisdictional governments span a wide range in terms of their readiness to generate forest carbon credits, and that such credits are not yet available on the voluntary carbon market, except as advance purchase commitments. As a result, selective near-term corporate purchases of high-integrity project-scale credits may be appropriate in certain circumstances. Such circumstances are detailed in the guidance below, including in Table 1. The Group responsible for producing this Consensus Statement is committed to providing more detailed guidance regarding how corporate buyers can screen project-scale credits for consistency with the desired transition toward alignment with jurisdictional-scale programs.

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CORPORATE GUIDANCE: CONSENSUS RECOMMENDATIONS

Regarding high-quality tropical forest carbon credits, we agree companies should:

[20] *Definition available in section V.*

I. **CONSIDER INCLUDING TROPICAL FOREST CARBON CREDITS IN THEIR BEYOND-VALUE-CHAIN MITIGATION STRATEGIES:** *Companies seeking cost- and carbon-effective opportunities to mitigate climate change should, if desired, incorporate tropical forests in their climate strategies through purchase of high-quality tropical forest emissions reductions and removals credits to augment direct abatement efforts.*[21]

II. **PRIORITIZE SUPPORT TO PROGRAMS AND PROJECTS THAT REDUCE THREATS TO STANDING TROPICAL FORESTS INCLUDING THROUGH PURCHASE OF CREDITS:** *In places where deforestation continues, companies should prioritize purchase of high-quality emission reduction credits over removals credits (e.g., those generated through tree-planting efforts associated with reforestation and afforestation). Companies may prioritize investments to scale up restoration efforts within jurisdictions where jurisdictional programs are in place and emissions from deforestation and degradation are also declining, to support integrated land-use planning and avoid perverse incentives. Companies should consider including in their portfolios non-crediting finance and/or conservatively issued credits from "High Forest Low Deforestation" (HFLD) jurisdictions (many of which include Indigenous territories). This can provide near-term incentives to maintain remaining intact forests, ensure incentives are not limited to areas under immediate threat, and support recognition of the success of IPs and LCs in forest conservation.*

III. **ENSURE THAT ESSENTIAL COMPONENTS OF SOCIAL AND ENVIRONMENTAL INTEGRITY ARE MET FOR ALL CREDITS PURCHASED BY STARTING WITH CREDIBLE ACCREDITATION PROGRAMS AND STANDARDS AND SUPPLEMENTING WITH TARGETED DUE DILIGENCE TO ADDRESS KNOWN WEAKNESSES AND RISKS**. *Attributes of high-integrity accreditation standards include methods to ensure that emissions reduction and removals are real, additional, based on conservative baselines, monitored, reported and verified, and permanent. They also must address leakage, not be double issued or sold, and comply with the Cancun Safeguards.*[22] *Attributes of high-integrity accreditation programs include transparent program governance, public participation provisions,*[23]*clear and transparent protocols and methodologies, robust third-party*

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[21] *WWF and BCG (2020) https://wwfint.awsassets.panda.org/downloads/beyond_science_based_targets___a_blueprint_for_corporate_action_on_climate_and_nature.pdf*

[22] *"REDD + safeguards are also known as Cancun safeguards and aim to ensure that REDD + initiatives adequately address sensitive issues such as the rights of indigenous peoples and traditional communities, social participation, preservation of natural ecosystems, the permanence of achieved REDD+ results and the risk of displacement of the pressure from deforestation and forest degradation to other areas." http://www.amazonfund.gov.br/en/monitoring-evaluation/REDD-safeguards/*

validation and verification procedures, strong legal underpinnings, and tracking in a public registry.[23]

To ensure **social integrity:**

- *Interventions must ensure FPIC and the full and effective participation of IPs and LCs, women, and other underserved communities from the ideation stage forward, and that such stakeholders function as partners (and IPs as rightsholders)—and not just beneficiaries—in a genuinely collaborative and intercultural approach that values diverse cultural practices.*
- *Fair, transparent, and equitable distribution of benefits and revenues is required to recognize IP's and LC's vital role in forest conservation. Distribution of benefits should be directly to IPs and LCs rather than through third party intermediaries requiring administrative fees.*
- *Capacity building should be provided to IPs and LCs for their effective participation.*
- *Local consultation protocols should be respected.*
- *The rights of IPs and LCs to the free use of, and property rights for, the lands, territories, waters and resources according to their customary sustainable use and traditional knowledge should be fully respected*
- *Due consideration should be given to IP-proposed and led approaches to forest protection (e.g., Indigenous jurisdictional REDD+, a method under development by COICA*[24]*) by governments and non-state actors.*
- *IP's and LC's management systems and organizational structures as well as their concerns regarding measurement methodologies should also be fully respected.*

To ensure **environmental integrity,** *crediting must be based on:*

- *Independently verified compliance with requirements for robust, evidence-based baselines to ensure additionality;*
- *Requirements for deductions based on conservative estimates of the risks of non-permanence and leakage;*
- *Continuous improvement of data specificity and a reduction in overall uncertainty over time determined through the use of the latest/best-available science;*

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[23] *For basic components of quality for projects or programs issuing credits, see, for example, ICAO's CORSIA Emissions Units Eligibility Criteria and the Carbon Credit Quality Initiative's "What Makes a High Quality Carbon Credit."*

[24] *COICA defines Indigenous jurisdictional REDD+ as: the implementation of a strategy to reduce emissions from land use and change at the level of a jurisdiction, in this case, the Indigenous Territories. It is based on the guidelines of Amazon Indigenous REDD+ (RIA, a proposal of its own by COICA that prioritizes the holistic management of forests and Indigenous Territories, and recognizes their governance structures), and ensures not only respect for territorial and land rights and the CPLI for Indigenous Peoples, but also the effective participation of Indigenous Peoples in the process, and a fair distribution of benefits. Specifically, the inclusion of areas with high vegetation cover and low deforestation (HFLD) is sought, since most of the Indigenous Territories, due to their achievements in forest conservation, are characterized by that*

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- *Alignment with jurisdictional strategies and accounting frameworks where developed; and*
- *Avoidance of double counting.*

IV. **ACTIVELY PUSH AND SUPPORT A RAPID TRANSITION TO JURISDICTIONAL CREDITING APPROACHES:** *Tropical forest carbon crediting needs to shift from stand-alone projects to jurisdictional-scale approaches (i.e., fully nested projects or jurisdictional scale programs)* **as soon as feasible** *to realize the potential of achieving greater magnitudes of cost-effective emissions reductions and eventually removals. Jurisdictional-scale REDD+ programs are now emerging and we anticipate that jurisdictional-scale credits will become available for purchase in the voluntary carbon market in the next few years. Companies' demand can play an important role in accelerating this development.*

Companies can drive change through forward purchase commitments and agreements: *In the near term, commitments to the forward purchase of high-quality jurisdictional-scale credits can contribute to inducing and accelerating the supply of such credits. Forward purchase agreements at fair prices will help provide the certainty and incentives to drive the needed change.*

V. **EVOLVE PORTFOLIOS OVER TIME TO INCLUDE MORE CREDITS FROM JURISDICTIONAL PROGRAMS AND FULLY NESTED PROJECTS:** *Credits from fully nested projects (see criteria below) are not yet available on the market. As such, for the time-being, selective purchase of high-quality project-scale credits is a viable option. However, in the near- to medium-term, purchase of project-scale credits should prioritize those from projects in the process of nesting into jurisdictional-scale crediting programs and accounting systems when they become available. Such purchases can provide continuity of support through a time-limited transition and provide incentives to accelerate that transition. The selective purchase of high-priority project-scale credits may be justifiable in the longer term in some places, especially in LDCs, when jurisdictional-scale crediting is not feasible.*

The relative balance of different kinds of tropical forest credits within a portfolio should evolve over time in the direction of being more heavily weighted toward jurisdictional-scale credits, including fully nested projects. These near-term, medium-term, and longer-term circumstances in jurisdictions at different stages of program development are described further below and summarized in Table 1. The evolution of a portfolio of forest carbon credits representing the recommended direction of the overall market is depicted in Figure 1.

Purchases of project-scale credits should prioritize those from projects that are actively taking steps to nest into jurisdictional-scale program strategies

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and accounting systems: *Eventually jurisdictional-scale crediting programs will be developed in most places to allow projects to become fully nested by design. In addition, these projects must comply with a full and effective participation of IPs and LCs and a fair distribution of benefits.*

Fully nested projects will be those that meet the following criteria:

A. Projects are situated within the scope of a jurisdictional program that is registered with and validated by a reputable accreditation standard.

B. The jurisdictional program has an independently validated crediting level and monitoring and reporting systems with monitoring and verification performed at regular intervals.

C. Project interventions are aligned with jurisdictional program strategies, and project-scale emissions reductions and removals are accounted for within jurisdictional-scale accounting and reporting.

D. Performance is measured at the jurisdictional scale.

E. Credits are then allocated to projects in a fair and transparent manner. Such allocations can utilize different possible approaches, including based on performance relative to jurisdictionally allocated baselines.

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Table 1. Options to ensure quality and to signal demand toward jurisdictional-scale credits to achieve higher volumes of cost-effective emissions reductions and removals. Companies should restrict purchases to credits listed in this table.

More detailed guidance will follow this Consensus Statement regarding milestones for jurisdictional progress, nesting, and additional due diligence requirements.

CHARACTERISTICS OF JURISDICTION FROM WHICH CREDITS ARE BEING SOURCED	GUIDANCE TO BUYERS	NECESSARY ADDITIONAL ITEMS FOR CONSIDERATION / DUE DILIGENCE
Jurisdictional REDD+ program is already or expected to be registered and validated by an internationally recognized standard and offering credits in the near-term	• *Enter into advance purchase agreements for jurisdictional-scale credits.* • *Purchase independently certified[25] jurisdictional-scale credits issued by jurisdictions or fully nested projects when available on the market. These credits should constitute a rapidly growing share of companies' portfolios.* • *Be prepared to pay a price premium.*	• *Become familiar with how the accreditation standard ensures essential components of social and environmental integrity (described in recommendation III), and conduct supplemental due diligence to address known risks, e.g., monitor verification of full and effective participation and equitable benefit-sharing with Indigenous and local communities.*

CHARACTERISTICS OF JURISDICTION FROM WHICH CREDITS ARE BEING SOURCED	GUIDANCE TO BUYERS	NECESSARY ADDITIONAL ITEMS FOR CONSIDERATION / DUE DILIGENCE

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[25] *As in all carbon markets, accreditation programs play an essential role in the viability and integrity of the forest carbon credit market. Currently in place are several standards (e.g., Verra, Gold Standard, ART: Architecture for REDD+ Transactions, The REDD+ Environmental Excellence Standards-TREES, TFS: California Tropical Forest Standard) as well as frameworks (FCPF Carbon Fund's Methodological Framework, ICAO's CORSIA) and norms-setting processes (Natural Climate Solutions Alliance-NCSA, The Taskforce on Scaling Voluntary Carbon Markets-TSVCM, Voluntary Carbon Markets Integrity Initiative-VCMI). Many of these programs, standards, and norm-setting processes are relatively new and/or in the process of undertaking revisions and limited in terms of participation.*

Jurisdictional REDD+ program is progressing (has at least a forest reference emission level, forest monitoring system, and preliminary benefit sharing plan) and is expected to offer credits under an internationally recognized standard in the medium term	• *Purchase independently certified project-scale credits where:*
	  • *If projects are already existing and within scope of jurisdictional program, they are in the process of nesting[26] into jurisdictional-scale crediting programs and accounting systems*
	  • *If projects are new and within scope of jurisdictional program, they are already nested within the reference level and any other existing jurisdictional program elements*
		• *Become familiar with how the accreditation standard ensures essential components of social and environmental integrity (described in Recommendation III), and conduct supplemental due diligence to address known risks, e.g., monitor verification of full and effective participation and equitable benefit-sharing with Indigenous and local communities; require evidence that the baseline reflects a conservative share of jurisdictional performance; require evidence of progress toward nesting project baselines into jurisdictional reference levels.*

CHARACTERISTICS OF JURISDICTION FROM WHICH CREDITS ARE BEING SOURCED	GUIDANCE TO BUYERS	NECESSARY ADDITIONAL ITEMS FOR CONSIDERATION / DUE DILIGENCE

[26] *Some indicators that projects are making transparent, good-faith efforts to transition to full nesting include things such as: aligning with the jurisdictional-scale reference level of a jurisdiction (meaning the reference level was by definition independently certified); aligning with any jurisdictional strategies to address drivers of deforestation and degradation (e.g., national REDD+ strategy or low emissions development plan); contributing finance or other resources to the development of the jurisdictional REDD+ system; iterative engagement with government and civil society focal points to achieve this alignment; full transparency in methodologies; indications of multistakeholder support.*

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Jurisdictional REDD+ program not in place and not anticipated in the near-to medium-term	• *Purchase independently-certified project-scale credits from projects with exceptional qualities (e.g., FPIC and exceptional benefits for IPs and LCs and/or biodiversity); and that*
	  • *If projects are already existing, they are working in a transparent manner to adopt a conservative project baseline aligned with regional activity data and methodologies (e.g., a UNFCCC reference level submission or relevant independently certified reference level, if available) and that is estimated in consultation with relevant rights holders and other stakeholders; or*
	  • *If projects are new, they have a transparent, conservative and adequately consulted project baseline, as described in previous bullet.*
		• *Become familiar with how the accreditation standard ensures essential components of social and environmental integrity (described in Recommendation III), and conduct supplemental due diligence to address known risks, e.g., monitor verification of full and effective participation and equitable benefit-sharing with Indigenous and local communities; require and review evidence that the baseline reflects a conservative share of jurisdictional performance and was estimated in consultation with relevant rights holders, and other stakeholders.*

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Figure 1.

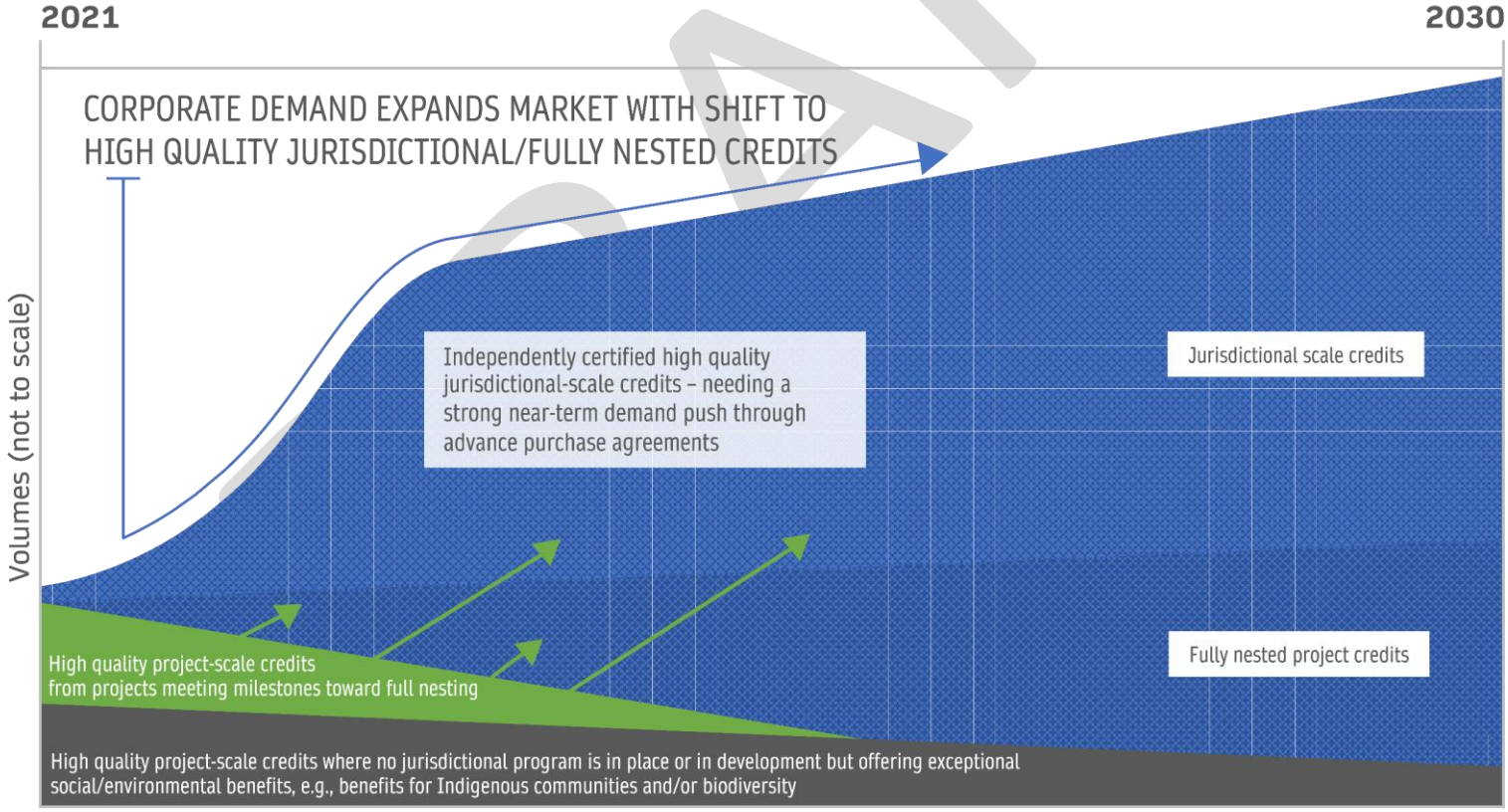
DESIRED MARKET TRAJECTORY

IN THE NEAR TERM, COMPANIES SHOULD:

- Prioritize purchase of credits for emissions reductions
- Use advance purchase agreements to scale supply of jurisdictional-scale credits
- For project-scale credits, prioritize projects that are moving toward full nesting
- Include credits from high forest low deforestation areas (HFLD) and least developed countries (LDCs), and/or non-crediting support, where both social / environmental benefits and integrity are high as part of a diversified portfolio approach

OVER TIME, COMPANIES SHOULD:

- Continue to prioritize purchase of credits for emissions reductions (in preference to credits for removals) except in jurisdictions where deforestation and degradation are declining
- Ramp up purchase of jurisdictional-scale credits as they become available
- Continue to include credits from high forest low deforestation areas (HFLD) and least developed countries (LDCs), and/or non-crediting support, where both social / environmental benefits and integrity are high as part of a diversified portfolio approach



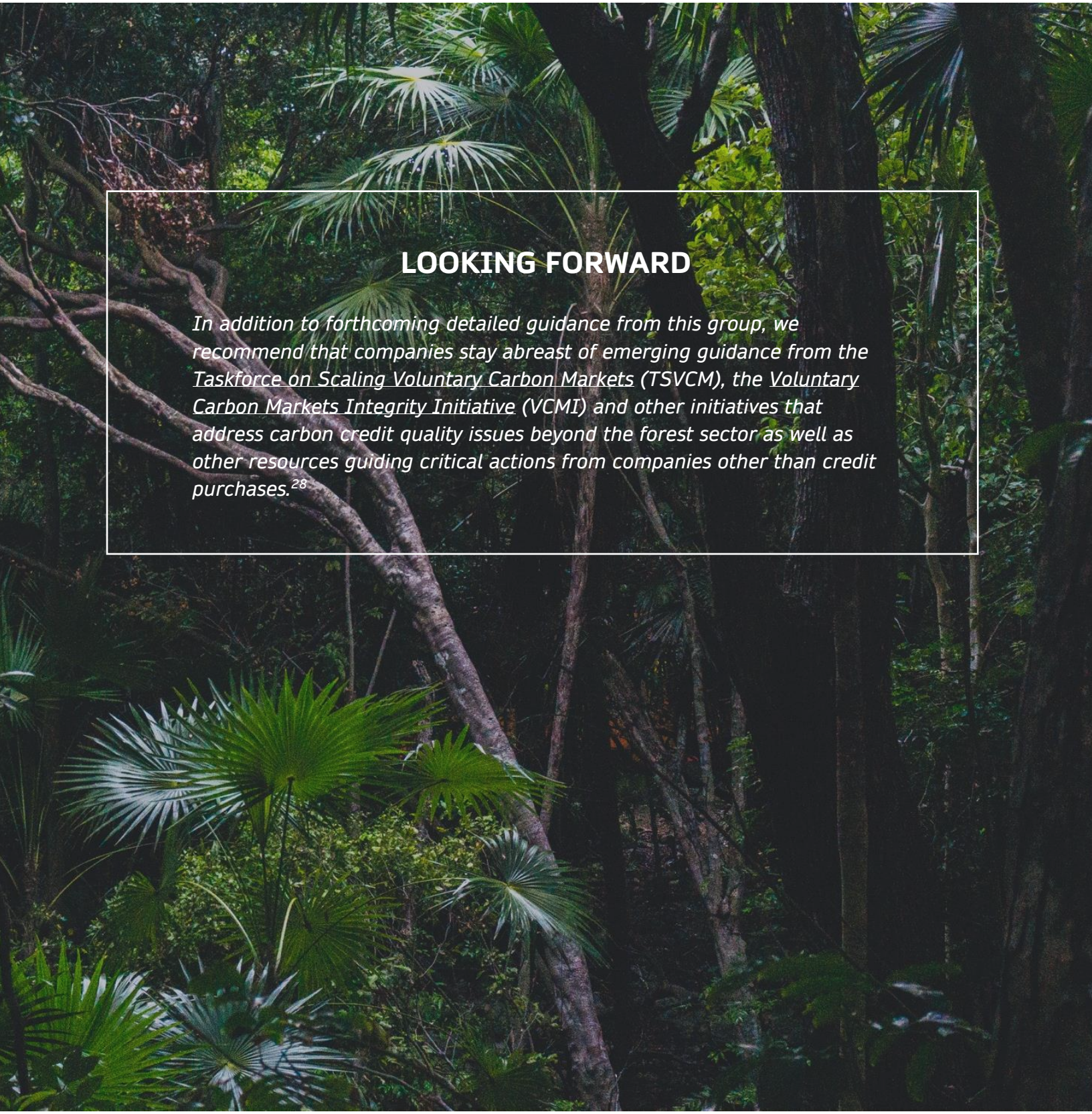
VI. INCENTIVIZE ALIGNMENT WITH PARIS AGREEMENT AND ENHANCEMENT AND ACHIEVEMENT OF NATIONALLY DETERMINED CONTRIBUTIONS (NDCS): *Forest carbon credit purchases should incentivize the implementation and achievement of NDCs and their progression and enhanced ambition over time. Companies and standard-setting organizations should incentivize alignment of forest carbon crediting activities with the Paris Agreement's accounting and transparency obligations. Where a host country authorizes carbon credits for use toward an NDC or for other international mitigation purposes, including for CORSIA, corresponding adjustments must be applied according to international rules. Where a company purchases carbon credits for voluntary purposes, the underlying emission reduction or removal can be counted towards the host country's NDC as long as it is not counted towards any other country's NDC or authorized by the host country for "other international mitigation purposes."[27] If the forest carbon crediting activities will be counted towards the host country's NDC, the company must publicly communicate that the underlying reductions or removals will also contribute to the host country's NDC.*

To achieve transparency, companies should report on their use of carbon credits *specifying the host country, vintage, project or program, standard-setting body, and whether the credits are associated with a corresponding adjustment. They also should work with governments, standard-setting bodies, IPs, LCs, and civil society to create the rules, administrative systems and infrastructure needed for the transparency and robust accounting of carbon credits transactions, including through issuance of corresponding adjustments, as appropriate, and provisions in forward purchase contracts.*

VII. **STRONGLY ENCOURAGE FOREST CARBON CREDIT STANDARD-SETTING ORGANIZATIONS TO DRIVE MOVEMENT TOWARDS HIGH-INTEGRITY, JURISDICTIONAL AND FULLY NESTED CREDITS.** *Standard setting organizations should develop and improve standards that achieve high social and environmental quality through evolution and integration of all crediting into jurisdictional approaches and programs, as those programs develop. Companies should conduct additional due diligence to address known weaknesses in standards and verification processes (e.g., to ensure that baselines are sufficiently robust).*

DRAFT

[27] *See para 1(f) of the Annex to draft Decision --/CMA.3, in FCCC/PA/CMA/2021/L.18, available at https://unfccc.int/sites/default/files/resource/cma2021_L18_adv.pdf*



LOOKING FORWARD

In addition to forthcoming detailed guidance from this group, we recommend that companies stay abreast of emerging guidance from the Taskforce on Scaling Voluntary Carbon Markets (TSVCM), the Voluntary Carbon Markets Integrity Initiative (VCMI) and other initiatives that address carbon credit quality issues beyond the forest sector as well as other resources guiding critical actions from companies other than credit purchases.[28]

[28] *See, for example, the Jurisdictional Approaches Resources Hub managed by Tropical Forest Alliance, available at http://jaresourcehub.org/.*