BRACEWELL

Biden Administration Announces Voluntary Carbon Market Principles

Update

June 11, 2024 | 4 minute read

The recent Joint Policy Statement and Principles (Principles) released by the Biden Administration, and related remarks by Secretary of the Treasury Janet L. Yellen, mark a significant milestone in the development of the voluntary carbon market (VCM).

Our views on this announcement and a brief summary of these Principles are set out below.

This is a very encouraging, and intriguing, governmental announcement in respect of an unregulated, international market.

One of the critical aspects of this announcement is the US government's approach to balancing market promotion with non-regulation. The VCM is notably unregulated, and the intention is for it to remain so. As such, the announcement appears to be striving to foster integrity and growth within the market whilst avoiding the imposition of rigid regulatory frameworks that could stifle growth. There is a clear nod from the government to the market's voluntary nature, thereby allowing for flexibility and the opportunity for diverse, creative solutions to emerge. However, the VCM has faced challenges that are not unusual for a nascent, evolving market and the government clearly wants to stimulate the market by providing clear guidance that enhances trust and integrity. This delicate equilibrium is essential for the long-term success and scalability of the VCM.

These Principles therefore serve as voluntary (but government-endorsed) guidelines, moving towards establishing a structure that market participants can follow to ensure the credibility and reliability of carbon credits.

The Principles do not reshape the current market. They are based instead, in large part, on existing best practice advocated by private sector and non-governmental organisations and initiatives. We have considered in some detail

Related People

Nicholas
Partner
LONDON
+44 (0) 20 7448 4249
nicholas.neuberger@bracewell.com

Adam
Partner
LONDON
+44 (0) 20 7448 4231
adam.waszkiewicz@bracewell.com

Related Industries

Energy
Finance

Related Practices

Carbon Capture Utilization and Storage
Renewable Energy

in a prior article these existing quasi-regulatory bodies and their functions – much of which is echoed in the Principles.

The Principles seek to bolster integrity in three main areas: on the supply side, demand side and the actual market itself.

Supply-side

- Principle 1 – "Integrity & Standards": Carbon credits must meet strict integrity standards and be certified through robust, transparent verification processes to ensure additionality, quantifiability and permanence.
- Principle 2 – "Avoid Harm": Generating credits should cause no environmental or social harm and promote co-benefits including sustainable development and increased biodiversity, involving relevant stakeholders in the process.

Demand-side

- Principle 3 – "Buyer Responsibility": Companies offsetting credits should set net-zero strategies, maintain an inventory of emissions (detailing Scope 1, 2, and 3 emissions) and regularly report.
- Principle 4 – "Transparency": Companies offsetting credits should publicly disclose details of purchased and retired credits annually, ensuring information is accessible and comparable.
- Principle 5 – "Accurate Claims": Public offsetting claims must accurately reflect the climate impact of credits and only use those meeting high integrity standards, prioritising internal emissions reductions.

Market-side

- Principle 6 – "Market Integrity": Stakeholders should seek to improve market functionality, transparency and equity to enhance the market's overall health and high-integrity.
- Principle 7 – "Facilitate Participation": Policymakers and market participants should lower transaction costs and barriers for credit providers, ensuring market certainty and bankability of VCM projects, especially from developing regions.

On the supply side (Principles 1 and 2), inspiration has been drawn from, amongst other sources, the Core Carbon Principles and other standards of the Integrity Council for the Voluntary Carbon Market. On the demand side (Principles 3, 4 and 5), inspiration has been drawn from, amongst other sources, the Claims Code of Practice and other standards of the Voluntary Carbon Market Initiative. On the market side (Principles 6 and 7) the message is more general and is aimed at promoting the integrity of the standards/registries and their participants and focussing on the policymakers. The Principles conclude with a rallying cry for policymakers and buyers to consider ways to enhance market certainty for lenders undertaking long term investments. The current financing landscape of the VCM is an area which we have also considered in some detail in a prior article.

The Principles and comments from Treasury acknowledge that the VCM, in its current state, suffers from some key challenges that inhibit growth at the scale needed to achieve national and international climate goals. The seven Principles outlined above are the government's initial efforts at assisting to overcome those challenges. They reflect the importance of a functioning carbon reduction infrastructure (both physical and financial) to the government, and a high level of understanding of the carbon abatement ecosystem. And, perhaps most importantly, these statements recognise and encourage the involvement and initiative of all participating stakeholders to take demonstrative steps to establish a market-based approach to carbon reduction. As Secretary Yellen's statement says, "*harnessing the power of markets and private capital is critical.*"

While the VCM principles announcement reflects an attempt to improve confidence in voluntary carbon offsets, at the same time the US Department of Agriculture (USDA) signalled its interest in establishing public protocols specifically for third-party verification of offsets deriving from forestry and farming. This action reflects a keen interest on both sides of the political aisle in Congress. Sen. Debbie Stabenow (D-MI), chair of the Senate Agriculture Committee noted that both the VCM principles and the USDA announcement established that, "*Voluntary carbon credit markets generate new revenue streams for farmers, foresters, and rural communities, and there is clear enthusiasm across private industry and the public sector to tap into that potential.*" Sen. Stabenow further notes that these actions "*will strengthen the integrity of these markets and build a foundation for the future.*"

The VCM principles and USDA statement can be seen as part of an effort to implement the Growing Climate Solutions Act which was designed to break down barriers for farmers, ranchers, and foresters interested in participating in carbon markets and in embracing so-called climate-smart agricultural practices. The Act was passed by Congress on a bipartisan basis and signed into law by President Biden on December 29, 2022. As the House and Senate consider "farm bills" in the near future, we can expect more action on agricultural offsets.

These announcements clearly underscore the government's commitment to promoting the VCM without the enforcement of laws or regulations. It is a firm message of support for the VCM, and explicit recognition that development of the VCM is critical to unlocking carbon abatement projects globally. It clarifies that the current administration recognises the VCM as another component of the energy transition required to achieve national and international climate goals, as well as sustainable environmental practices. In particular, these seven Principles provide a framework that can guide the VCM's growth. Whilst the Principles goldplate (rather than reinvent) existing best practice, this achieves the sensitive balancing act required from a government seeking to promote an unregulated market.