# EU Green Claims Directive

This document is a response by Stockholm Exergi to the invitation to provide comments on the draft EU Green Claims Directive (COM(2023) 166 final, 2023/0085 (COD)).

## Introduction and Summary

The question of Green Claims is very broad. This may explain why the Commission proposal is quite general in its nature. For instance, key concepts such as “Net-zero”, “double counting” or “double claiming” are not mentioned in the legal proposal. It has, however, emerged in the on-going discussions and negotiations on the draft CRC-F Regulation that it is crucially important to clarify what these notions mean in order to make the CRC-F a success.

Against this background, Stockholm Exergi wishes to contribute its perspective on these concepts. Thus, in this paper, the focus is set on Net-zero claims and the relation between claims by nations and claims by corporations. While the document is written from the perspective of Permanent Negative Emissions (PNE), the principles suggested for claiming and accounting of PNEs can also be applied to other mitigation outcomes. It is assumed here that verified PNEs are always manifested in the shape of a carbon removal certificate.

Following the Summary and Recommendations in the text box below, the background and reasons for each item is presented.

**Summary and Recommendation: Ten Principles for Claiming and Accounting of Net-zero and Permanent Negative Emissions (PNEs)**

1. For a corporation to be able to claim to be Net-zero, only PNEs can be used to neutralize hard-to-abate emissions in its Scopes 1 to 3.

2. In case a corporation wishes to claim to be Net-zero before all unabated emissions in its value chain have reached the residual level, the corporation must, in addition to neutralizing the emissions with PNEs, be committed to and deliver on an emission reduction trajectory in line with the *Paris Agreement*. Only as long as the corporation stays on the trajectory can it maintain its Net-zero claim.

3. In case a corporation wishes to offer Net-zero products, it must use PNEs to neutralize all emissions in the product’s value chain, including down-stream Scope 3 emissions from the usage of the product (notably emissions resulting from end-user’s consumption of the product and the product’s end-of-life treatment). In addition, the corporation as such must be committed to and deliver on an emission reduction trajectory in line with the *Paris Agreement*. Only as long as the corporation stays on the trajectory can it continue to sell products branded as Net-zero.

4. Any claim and accounting of a PNE must be accompanied by an audited confirmation that the corresponding certificate has been retired.

5. PNEs used for a claim of being Net-zero must be net of value chain emissions resulting from the project, which need to be further defined by certification methodologies. Consequently, while all PNEs should receive a certificate, to sell PNEs for Net-zero purposes, a portion of the issued certificates will have to be retired as defined by the methodology.

6. PNEs that have been exposed to reversals (*i.e.*, release of CO2 from storage sites) shall be addressed by a compensation mechanism, like the ETS’ requirement to acquire EUAs for CO2 emitted from geological storage sites.

7. Just as is the case for an emission reduction, a claim and accounting of a PNE in the corporate system naturally also appears in the national claiming and accounting system. Accounting and claiming of a PNE within the two respective systems must only take place once per system.

8. Upon confirmation of permanent storage of 1 tonne of removed CO2, two certificates should be issued as "twins", one for the corporate system (to the project owner) and one for the system of nations (to the host nation).

9. The certificates of the two systems should be stored in a common registry structure such that the twin certificates can be traced and tracked within the respective systems as well as between the two systems, for avoidance of double counting between nations or between corporations, and for maximum transparency.

10. Trade in the certificates should only be allowed to take place within the two respective systems, but not between the systems. In other words, corporates trade in the certificates issued for the corporate system and nations trade in the certificates issued for the system of nations. If a nation seeks to acquire PNEs directly from a project owner, it would, in addition to reaching a commercial agreement with the project owner, have to reach an agreement with the host nation to transfer the host nation certificate to the acquiring nation (in effect, this is a transfer of an ITMO from the host country to the purchasing country, and an associated Corresponding Adjustment by the host country would take place).

# Claiming Net-zero, items 1-6 in the Summary section

The credibility of corporate climate claims has been undermined by the absence of a strict and compulsory legislative framework for such claims. Lax use of concepts such as "climate neutrality" has resulted in reputational damage for the voluntary market, and multiple organizations, like the VCMI and ICVCM, are working to rectify the situation.

Stockholm Exergi believes that two fundamental underlying ideas should govern Net-zero claims, which should underpin items 1-6 in the summary. The first is that in order to make a Net-zero claim, the remaining emissions must be permanently neutralized by permanent removals (*i.e.*, PNEs). Non-permanent removals can simply not counterbalance the full climate impact of the unabated emissions.

The second idea is that an "isolated" Net-zero claim without an underlying long-term climate strategy does little to address the broader problem. The implication is that, again, in order to make a Net-zero claim for a particular year or for a product, the corporation making such a claim must also demonstrate that it has, and take measures to fulfill, a plan in line with the *Paris Agreement* for reductions of unabated emissions that cannot be considered hard-to-abate.

Measuring the full value chain emissions of a corporation is difficult, in particular so-called Scope 3 emissions. Yet, this is essential since it determines the amount of PNEs required to reach Net-zero and to make the corresponding claim. Fortunately, the SBTi Net-zero standard provides guidance on this question. Stockholm Exergi would however like to see that the requirement is strengthened with regard to down-stream Scope 3 emissions: in order to make a Net-zero claim, as a corporation or for a product, all down-stream emissions caused by the corporation, or the product, must be neutralized (notably emissions resulting from end-user's consumption of the product and the product's end-of-life treatment).

Furthermore, the current accounting system of so-called Scope 2 emissions allows for allocation of energy consumption emissions, using guarantees of origins (GOs), without creating any additional renewable energy production. In effect, through the purchase of GOs, corporations are allowed to claim zero emissions from energy consumption simply by shifting the emissions to other corporations. Stockholm

Exergi advocates that this system should be phased out and replaced with a system where a claim of zero emissions in Scope 2 should only be allowed if the corporation has contributed to additional fossil free energy production corresponding to its full consumption volume, for instance through Power Purchase Agreements (PPAs).

Items 2 and 3 may deviate from the current Net-zero standard proposed by SBTi. In the SBTi standard, it is not entirely clear that a company which is committed to a 1.5 °C reduction path and has undertaken all reasonable efforts to reduce emissions in its value chain could declare that it has reached Net-zero by neutralizing all unabated emissions with permanent negative emissions. Since such a company would be executing among the most ambitious climate strategies conceivable, at every instance representing physical Net-zero and continuing to reduce emissions in the value chain wherever feasible, items 2 and 3 make clear that such a company must be entitled to claim Net-zero.

Items 4-6 in the summary are basic integrity principles. Item 4 is required to ensure that no fraud or double counting of PNEs occur.

Item 5 ensures that the Net-zero claim indeed results in a net sum of zero and that emissions required to produce the PNEs are considered. The further definition of this principle is one of the main tasks of the CRC-F, in addition to defining how baselines are set, how sustainability is ensured and how additionality should be measured. More information on Stockholm Exergi's position on these questions can be found at https://beccs.se/about-beccs-stockholm/documents in the document with the title Opinion on referral of the EU Commission's proposal for a Carbon Removal Certification Framework (CRCF).

For item 6, all removals, including permanent removals, need to have a mechanism to handle reversals. In the case of permanent removals, there will be a transfer of responsibility to the host nation at the end of the monitoring period, in line with the CCS Directive. After that point, any reversal will entirely be the responsibility of the nation hosting the storage.

Regarding suitable reversal compensation mechanisms, the ETS directive prescribes that any CO2 emitted from a storage site should be compensated by the purchase of an EU ETS EUA (Annex I activity). This is a logical approach for CO2 stored in the geosphere, which represents a potential point source. Since the scientific consensus is that geologically stored CO2, including removals based on BECCS or DACCS, are in effect permanent, and since they upon insertion into the bedrock, as it were, exit the system boundary of the atmosphere/biosphere and enter the geosphere, it follows that any reversal of CO2 from the geological storage should be addressed within the already established ETS framework.

Even under pessimistic assumptions, a recent study showed that more than 99.9% of the CO2 injected for geological storage will remain after a total of 125 years including well closure after 25 years of injection (https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1134212/ukcs-co2-containment-certainty-report.pdf).

Tying up removal certificates ex ante in a buffer pool is simply not a rational reflection of the risk of reversal and would only be an additional financial burden for the climate to carry. At any rate, double compensation must be avoided, once in the ETS framework and once in a voluntary framework.

# Double counting, double claiming and co-claiming, item 7 in the Summary section

***On double claiming and co-claiming***

There is no agreed definition of "double claiming". Sometimes, "double claiming" is viewed as a part of double counting, together with double issuance and double use. The core concept, and the concept enshrined in in the *Paris Agreement*, is double counting. The definition of the core concept in this context is well understood: no two nations must count the same mitigation outcome towards their respective NDCs. The same definition of the core concept also applies to the corporate sector: no two corporations must count the same PNE towards their respective Net-zero targets.

From the above definition of double counting, it is not clear what value the concept of "double claiming" brings. In current climate debates, it has often come to represent the situation when a corporation and a nation rely on the same underlying climate mitigation outcome, as if that would somehow be a problem. In reality, that is how all climate accounting is done today. An emission reduction accomplished by a corporation will be counted in the corporate climate accounting as well as in the host nation's climate accounting. And this is true irrespective of whether the measure was voluntary, supported by government aid or compulsory under law. This is not problematic, it is simply proper and logical accounting in the two separate accounting systems for, on the one hand, nations and, on the other hand, corporations.

In short, a nation always aggregates the activities of the economic agents on its territory. This is also how PNEs should be accounted for. To get away from the negative connotation of "double claiming", it is suggested that the term co-claiming is used. Co-claiming reflects the positive fact that corporations contribute to the achievement of the climate targets of nations by co-funding them. In this context, please note that the VCM Integrity Initiative recently clarified that: "Double claiming by a country and by a corporate is not prohibited by the *Paris Agreement's* accounting rules." (page 34, VCM Access Strategy Toolkit).

Considering the enormous task ahead of nations and the EU (1) to secure a just and equitable decarbonization, (2) to invest in adaptation measures in vulnerable areas, and (3) to continue to support the developing countries in their transition, an important benefit of co-claiming is that it ensures co-funding by corporations. This is particularly critical right now, since the PNE industry is in an early build-up phase where no compliance measures have yet been introduced. With co-funding, the PNEs will receive grants and state subsidies which can reduce the asking price on the voluntary market, increasing the total volumes demanded[1]. With co-claiming, there will be more tonnes of PNEs produced, which is beneficial both for the climate and for the ability to meet the gigatonne scaling challenge facing the industry based on IPCC projections.

In this context, it is also noted that the voluntary market's desire to acquire PNEs to become Net-zero is in line with the polluters pay principle, thus shifting a significant part of the burden from the general tax-payer to the actors wishing to take responsibility for their hard-to-abate emissions. In addition to being a fiscally responsible accounting principle, co-claiming also avoids the economic risks of the opposite idea – that nations should not count and claim what is counted and claimed on the corporate level. With that

[1] A PNE fully funded by government aid cannot be traded on the voluntary market since the additionality criteria is not met (and the question of "double claiming" does not arise).

idea, mitigation measures will become more expensive for nations to finance, potentially hitting developing countries extra hard.

In short, co-claiming based on co-funding is an equitable accounting principle for increased ambitions. This notwithstanding, one argument introduced by other parties for prohibiting “double claiming” has been that it would result in lowered ambitions. How should that be understood?. The background of this view is the concern that some nations would lower their ambitions and instead point to the outcome of actions on the VCM to reach their NDCs. Since the *Paris Agreement* does not have mandatory reduction trajectories, this concern could possibly be justified.

To the extent that such a risk of lowered ambitions exists for VCM trade in traditional, low-cost and/or non-permanent carbon credits, it would be wrong to conclude that such a risk exists generally and, in particular, in relation to permanent negative emissions. PNEs, irrespective of whether they are part of NDCs or not, represent one of the most ambitious climate policies that a country can implement.

Not even for the traditional carbon credits where the risk may exist, should the ambition be to generally prohibit co-claiming, since it could be counter-productive for the climate and, in particular, developing countries. For instance, in the case where the VCM would help fund a new solar power plant in a nation where the NDC looks to increase renewable sources, this should be welcomed, and could from a financial perspective be considered equivalent with another country providing climate aid to the nation to achieve its NDC.

A better way would be to require in every NDC-report a clear description of how the VCM has impacted the measures taken by the nation to fulfill its NDC and that, in emerging integrity principles, it is included that the VCM should refrain from purchases in countries that fail to deliver on planned measures because of VCM purchases that are used by governments to depart from their own NDC’s intentions to bring down emissions.

Please note that within the EU, this is not a problem today, and need not to become a problem in the future if the introduction of PNEs is done properly. With the Fit for 55, the EU has a committed to a reduction path. In view of 2040, PNEs are expected to be introduced in the EU climate objectives. In Stockholm Exergi’s response on the EU consultation for EU 2040 (https://beccs.se/about-beccs-stockholm/documents) it is underscored that there needs to be a proper assessment of the expected hard-to-abate levels of emissions in the Union to set proper targets for PNEs, and that these targets should reside in a “pillar” of its own, in addition to the ETS, ESR and LULUCF/AFOLU. Adopting this approach, the existing reduction trajectories can be protected and the production of PNEs can be co-funded by nations and corporations with co-claiming in parallel, only to be introduced in the ETS when hard-to-abate levels are reached (allowing for some sort of transition mechanism).

To generally prohibit co-claiming would be a major mistake and a way to significantly reduce the amount of PNEs that will be produced over the coming decades. It would severely limit the possibilities to reach the gigatonne levels deemed necessary by the IPCC.

***On mitigation contribution claims***

At COP27, a concept of "mitigation contribution" was introduced, which some want to interpret as meaning that only altruistic certificate purchases on the VCM can take place if the climate measure is simultaneously invoked for a country's NDC. This interpretation is not generally accepted, which is also a reason why the COP27 negotiations introduced the words "inter alia" in a section of the text (FCCC/PA/CMA/2022/L.14, IV.A.29(b)) to bridge the differences of opinion in this regard.

It might be the case that some corporations want to purchase certificates and make “contribution claims” in developing countries for what is typically non-permanent instruments at a fraction of the cost of PNEs. This type of spending does, strictly speaking, not belong to the climate mitigation budget of corporations, but to the budget of corporate responsibility. The idea that corporations would invest multi-million euros in PNEs and at the same time refrain from accounting the climate benefit towards their Net-zero objectives in order to help some of the world's richest countries to attain their climate objectives, is detached from commercial reality and also rather provocative from the developing countries’ perspective.

## Certificates, Registers and more on double counting, items 8-10 in the Summary section

The recommendations made in items 8-10 are based on the objective to establish a transparent system for trade in mitigation outcomes, both between nations and between corporations, with the ultimate purpose of generating as much climate benefits as possible at the lowest possible cost.

By applying twin-certificates, as outlined in item 8, a clear separation of the trade between, on the one hand, nations and, on the other, businesses, can be maintained. By having a common registry structure, as proposed in item 9, where the “twins” can be traced through a number identity scheme, the risk for double counting in either of the systems can be minimized.

In Stockholm Exergi’s response to the CRC-F consultation, we endorsed the proposal to register certified negative emission units in a common register structure. However, in order to ensure full transparency for how these units are traded on the voluntary market and how they are managed at national level, we stressed the point that the EU should embrace the idea of twin-certificates in a common registry. The below figure serves to illustrate the proposal.

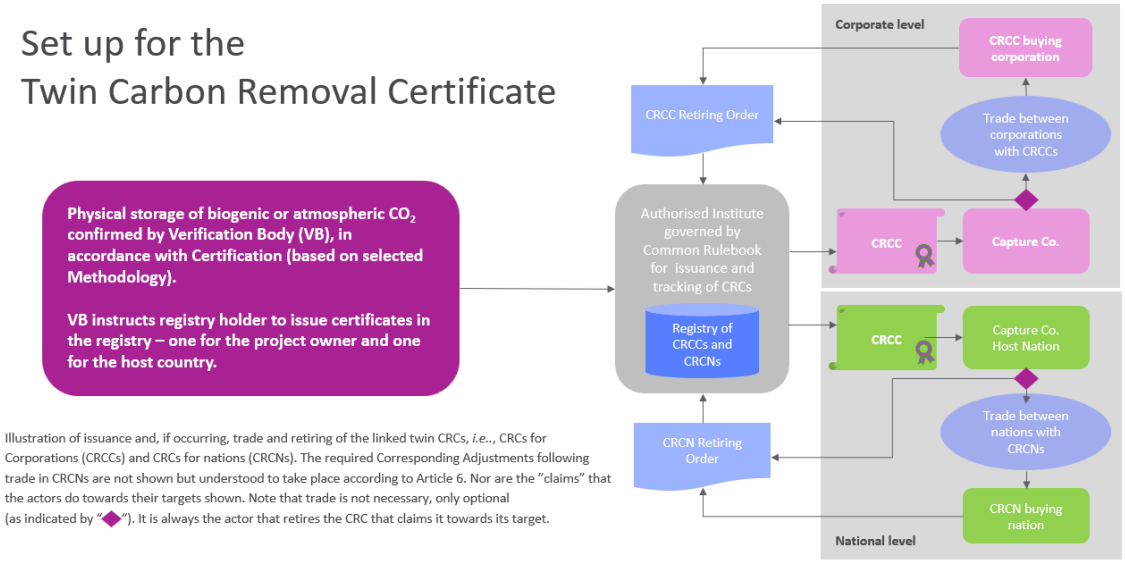


Illustration of issuance and, if occurring, trade and retiring of the linked twin CRCs, *i.e.*., CRCs for Corporations (CRCCs) and CRCs for nations (CRCNs). The required Corresponding Adjustments following trade in CRCNs are not shown but understood to take place according to Article 6. Nor are the ”claims” that the actors do towards their targets shown. Note that trade is not necessary, only optional (as indicated by “◆“). It is always the actor that retires the CRC that claims it towards its target.

The mechanism to manage double counting in the *Paris Agreement* is called Corresponding Adjustments (CA). If, for instance, a host nation of a mitigation outcome transfers such outcome to another nation, a CA will be made. In practice, this implies that the host nation in its National Inventory Reporting to the

UNFCCC makes a memo note that it will not account some of the reported outcomes towards its NDC. Here the distinction between reporting and accounting is essential.

CA in this example is straightforward. However, a failure to uphold the separation of voluntary and compliance based trade between corporations could result in double counting between nations, unless the system for keeping track of trade is implemented properly. The notion of compliance is here used only to indicate what corporations must do, not what nations have committed to do under any national or international agreements.

To address this problem, corporate certificates should be labeled whether they are for voluntary or compliance purposes. A voluntary corporate certificate can be traded between corporations within a country or across borders independently of how the corresponding nation-level twin-certificate is possibly traded between the host nation and any other nation.[2] However, a compliance-labeled corporate certificate must always be traded in sync with its nation-level twin-certificate. Consequently, if there is a request to re-label a voluntary certificate, the re-labeled certificate can now only be traded across borders if the nation-level twin-certificate is also traded at the same time. Otherwise, there is a risk that the same mitigation outcome would end up being counted by two nations.

Finally, in the case a nation would want to purchase a PNEs directly from a project in another country, the corporate level certificate would be cancelled due to the lack of additionality for the voluntary market and the absence of a corporate compliance dimension.

By having introduced a twin-certificate structure in a common registry with a number identity scheme to allow for full traceability of the two classes of certificates (with labels for the corporate certificates to distinguish between voluntary and compliance certificates), double counting between nations as well as between corporation can be completely avoided, at the same time as co-claiming and co-funding is endorsed and encouraged in order for the emerging permanent removals industry to deliver PNEs in accordance with the need projected by the IPCC.

Stockholm, 2023-07-19

[2] At COP26, a rule was introduced that says that mitigation outcomes for ”other international purposes” must be subject to a CA. In case this implies that a certificate traded on the VCM by a corporation (for non-compliance purposes) forces the host nation to make a CA, this is an unfortunate limitation and will hamper the generation of mitigation outcomes and should, in that case, be changed.