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The EU as a Normative Power?

Fighting greenwashing and promoting the integrity of corporate climate action within and outside Article 6 of the Paris Agreement

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Abstract

This policy brief explores different options for the EU to promote the integrity of corporate climate action through activities within as well as outside the EU and partially making use of the Article 6 infrastructure. Taking into consideration the new framework conditions established with the adoption of the Paris Agreement, the paper outlines different options of how the EU could push towards more integrity and fight greenwashing.

Key recommendations

- The EU should continue excluding the use of carbon credits as offsets for achieving its own NDC. This step should be complemented by measures to promote the integrity of other actor's use of carbon credits, including non-state actors.
- In the area of corporate offset claims, the EU should work towards minimizing the most adverse effects of ongoing offsetting practices by strengthening the regulation of corporate claims. In case a generic ban on offset claims is not implemented, the requirements for the substantiation of claims and the provisions for offsetting should be further specified, by for instance prohibiting double counting of emission reductions.
- In addition to tightening the rules for corporate offset claims within Europe, the EU could support partner countries in making informed decisions about the authorization of mitigation activities and carbon credits. As the EU has no intention to acquire emission reductions, it could act as an honest broker and support countries in developing a strategy that best serves their interests.
- Finally, the EU could engage in the emerging field of the contribution claim model, which has been proposed as an alternative to conventional offsetting. To counter the risk of the contribution claim model being used for greenwashing purposes, the EU could develop a contribution claim label that is only granted to companies that meet minimum requirements as verified by accredited third-party verifiers. Companies meeting the requirements would be included in a public registry that would also serve as a tool to link investors with high-integrity mitigation activities. As a stepping stone towards establishing such label, the EU could develop an open database that allows to compare the different concepts that have been proposed as well as a generic contribution claim guidance. With these initiatives, the EU could support the uptake of this new model as a valuable alternative to conventional carbon offsetting.

1 Introduction and background

Humanity is facing a multiple crisis, with climate change being at the core of it. If we fail to address climate change, we will not succeed in achieving the other Sustainable Development Goals (SDGs). In its latest assessment report, the Intergovernmental Panel on Climate Change (IPCC) did not only confirm that the global mean temperature has already increased by 1,1 °C in comparison with pre-industrial levels. It also highlighted that human-caused climate change is already affecting many weather and climate extremes, which will become more widespread and pronounced with “every increment of climate change”(Mukherji et al., 2023). Despite the message and sense of urgency being unequivocal, the global community is still not on track: According to the Climate Action Tracker, current nationally determined contributions (NDCs) will only limit global warming to 2.4 °C, while current policies in place are projected to lead to a temperature increase of about 2.7 °C above pre-industrial levels (CAT, 2022). One part of this overall lack of ambition is a massive climate finance gap that must be bridged to enable climate action needed, in particular in developing countries.

With the adoption of the Paris Agreement in 2015, the Parties to the United Nations Framework Convention on Climate Change (UNFCCC) introduced Article 6, which is to contribute to these objectives by allowing Parties to “pursue voluntary cooperation in the implementation of their [NDCs] to allow for higher ambition in their mitigation and climate actions” (Art. 6.1 PA UNFCCC, 2016a). Article 6 envisages three different possibilities for voluntary cooperation: two market-based approaches and one non-market approach. This paper focuses on the two market-based approaches which are at the core of Article 6: Under Article 6.2, Parties may participate in so-called cooperative approaches to transfer emission reductions in the form of internationally transferred mitigation outcomes (ITMOs). Article 6.4 establishes an internationally governed market-based mechanism that issues emission reductions (A6.4ERs) from mitigation activities implemented according to internationally agreed rules. Both, the ITMOs and authorized A6.4ERs can be used for different offsetting purposes, including NDC attainment.

The EU has adopted a cautious stance towards the use of international offsets, which must be seen in the context of the experiences made with credits from the Kyoto Protocol’s Clean Development Mechanism (CDM) and Joint Implementation (JI) under the EU Emissions Trading System (EU ETS). While the EU had introduced its ETS in 2005 without an offsetting option, covered entities were allowed to use Certified Emission Reductions (CERs) and Emission Reduction Units (ERUs) to partially comply with their obligations under the scheme between 2008 and 2020, making the EU ETS the world’s largest source of demand of these credits. The offsetting option was introduced with the beginning of the second trading phase as a cost containment measure to potentially high allowance prices. However, the economic recession that started in 2008 as an aftermath of the global financial crisis led to a slowdown of the economic activity and a reduction of emissions across Europe. This resulted in a surplus of allowances in the EU ETS which was further exacerbated by the surrender of offsets from the Kyoto mechanisms, diluting the price signal of the system (Carvalho et al., 2022).

Already with the introduction of offsets into the EU ETS, regulators saw the need for additional eligibility requirements and excluded the use of forestry credits from the outset. In 2011, the EU further decided to ban industrial gas credits in response to concerns about the environmental integrity and cost effectiveness of this project type. More generally, the experiences made in the EU with international offsets were mixed, which made it much easier to agree on the exclusion CER/ERU use for the fourth trading phase (Carvalho et al., 2022). Since then, prices in the EU ETS have increased considerably, surpassing the 100 EUR benchmark for the first time ever in February 2023 (ICAP, 2023). Despite the spark of allowance prices, the inclusion of international offsets as a cost containment measure has not been part of the revision of the ETS directive adopted by the Council in April 2023 (European Council, 2023). The continued exclusion of international offsets from the EU ETS is also in line with the EU's Nationally Determined Contribution (NDC), an updated version of which was submitted to the UNFCCC in 2020. Here, the EU and its Member States commit to a "binding target of a net **domestic** reduction of at least 55% in greenhouse gas emissions by 2030 compared to 1990" (EU, 2020, emphasis added). This excludes the use of emission reductions (or removals) achieved abroad for the time being.

The exclusion of international offsets for compliance purposes must be considered a sound positioning which the EU should maintain for the future. Not only the mixed experiences made with offsets in the EU ETS speak in favour of their future exclusion. As will be shown in greater detail below, offsetting under the Paris Agreement is fraught with many challenges. Excluding the use of offsets for achieving its own NDC is an important step, which should be complemented by measures to promote the integrity of other actor's use of carbon credits, including non-state actors. This paper explores different options for the EU to live up to its role as a promoter of integrity, within as well as outside the EU and partially making use of the Article 6 infrastructure.

The paper is structured as follows: Section 2 first briefly describes the paradigm shift introduced with the Paris Agreement and its impacts on market-based cooperation. Building on these observations, section 3 outlines three different options of how the EU could push towards more integrity and fight greenwashing: restricting offset claims within the EU, supporting partner countries in making informed Article 6 decisions and promoting the contribution claim model as an alternative to carbon offsetting. The final section concludes by summarizing the findings and providing policy recommendations.

2 Carbon markets post-Paris: Article 6 and the voluntary carbon market

With the adoption of the Paris Agreement in 2015, the Parties to the United Nations Framework Convention on Climate Change (UNFCCC) induced a veritable paradigm shift to the international climate regime. The global agreement does not only establish ambitious long-term goals, such as limiting global temperature increase to well below 2 °C or even 1.5 °C (UNFCCC, 2016b, Annex, Art. 2.1 a) PA). It further requires all Parties to develop and adopt NDCs that reflect the highest level of ambition and are regularly updated to become more progressive over time (UNFCCC, 2016b, Annex, Art. 4.2 - 4.3 PA). Under the Kyoto Protocol, only the traditional industrialized countries were required to limit or reduce their emissions.

This double paradigm shift, the transformative ambition of the Paris Agreement and its universal scope, poses a major challenge for the functioning of global carbon markets: If all countries strive towards maximum ambition, identifying truly additional projects becomes even more challenging than in the past, where additionality was already considered highly questionable (see e.g. Cames et al., 2016; for the concept of additionality under Paris see: Michaelowa et al., 2019).

Furthermore, and given the global scope of the Paris Agreement, carbon credits will inevitably have to be generated in economic sectors that are covered by national mitigation targets. This is a fundamental change from the Kyoto Protocol, where the largest share of credits for the compliance and the voluntary carbon market was generated in the so-called '*uncapped environment*' in developing countries. These were the main so-called host countries of carbon market projects.

Agreeing on the basic rules for market-based cooperation under these new circumstances took the UNFCCC almost six years after the adoption of the Paris Agreement. While Parties adopted the major part of the Paris rulebook in 2018 at COP24 in Katowice, the Article 6 rulebook was only agreed in 2021 at COP26 in Glasgow. One key reason for the delay was the question of how to avoid emission reductions being counted more than once under the new regime: the avoidance of double counting.[1] The final decision adopted in Glasgow requires the application of so-called '*corresponding adjustments*' for all emission reductions authorized by the host country for one of the following three purposes: The emission reductions can be used for NDC attainment as well as for "international mitigation purposes" or for "other purposes" (UNFCCC, 2021, Annex, para 1f). "International mitigation purposes" is commonly understood to refer to the use of emission reductions under the international offsetting scheme for aviation CORSIA, while the latter is mainly associated with their use for the achievement of voluntary climate targets, including from non-state actors.

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[1] Usually, three different forms of double counting are differentiated: Double issuance is when one emission reduction leads to the issuance of more than one credit that are used to comply with climate targets. Double use is when one credit is used twice to achieve a mitigation target. Double claiming is when two entities claim the same emission reduction for achieving a mitigation target (see: Hood et al., 2014; Schneider & La Hoz Theuer, 2018). This paper uses the term double counting to refer to double claiming as the particularly challenging form of double counting.

The principle on which corresponding adjustments are based, is simple: When reporting to the UNFCCC, the host country submits an emissions balance that is adapted upwards by adding an amount of emission that corresponds to the amount of the emission reductions authorized. With this, the emission reductions authorized do no longer contribute to the host country's NDC and double counting is avoided (see Figure 1 below for an illustration of how corresponding adjustments are applied). While the concept of corresponding adjustments has been agreed on, some details of its operationalization are still subject to ongoing discussions. These and other technical questions will have to be addressed to make Article 6 fully operational.

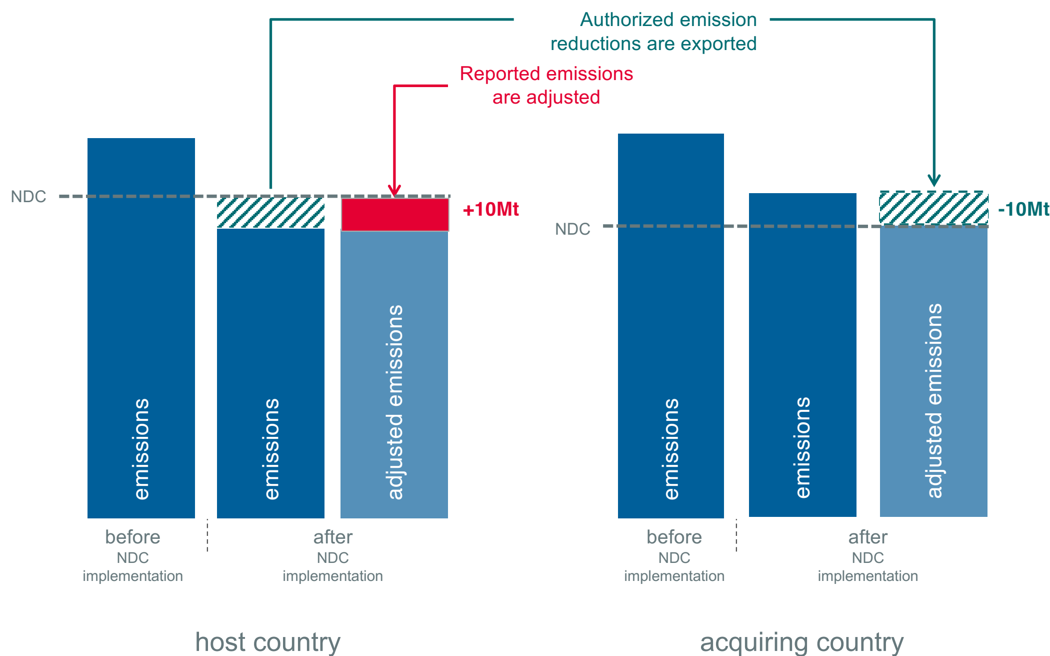

Fig. 1 **Avoiding emission reductions through the application of corresponding adjustments. Source: Own illustration**

Note: The host country (left) has reduced its emissions below its NDC target, allowing it to authorize and export the surplus of emission reductions (green striped) to the acquiring country. The acquiring country uses these emission reductions to achieve its NDC, which it would otherwise miss. Both countries adjust their reported emissions: While the acquiring country adjusts its reported emissions downwards by the amount corresponding to the emission reductions acquired (-10Mt), the host country adjusts its emissions upwards by the same amount (+10Mt).

In parallel to the negotiations about the functioning of international market-based cooperation, the voluntary carbon market (VCM) has been searching for its future role under the Paris Agreement - with limited success. For years, key VCM actors could not agree on the need to avoid double counting through the application of corresponding adjustments in the context of non-compliance use of carbon credits (for an overview of the debate see: Kreibich & Hermwille, 2021). After years of intense discussions with opposing views and no solution in sight, a signal from the international level could now lead the debate out of the impasse.

At the climate conference in Glasgow in 2021, Parties to the UNFCCC had already agreed that the Article 6.4 mechanisms will issue two types of units: credits with corresponding adjustments and units that do not carry such adjustments. The possible

use of these non-adjusted units became a key issue in the negotiations on the Article 6.4 mechanism at the climate conference in Sharm-el-Sheik in 2022. In the final decision, these units are referred to as “mitigation contribution A6.4ERs”. The text includes different possible uses for these units without mentioning the use of these non-adjusted units for voluntary offsetting. This omission is a clear indication from the international level that double counting should also be avoided if carbon credits are used for voluntary purposes, such as the achievement of carbon neutrality targets. What the decision makes clear, is that these units can be used for results-based climate finance. This is the core idea of the contribution claim model, a reference to which has been established by giving the units the name “mitigation contribution A6.4ERs”. The contribution claim model is currently being discussed within the VCM as an alternative to carbon offsetting. While several concepts have been put forward, a common understanding of the new model is still missing, as discussed further below.

3 Fighting greenwashing and promoting the integrity of corporate climate action

As can be seen, the role of market-based cooperation under the Paris Agreement is still highly contentious while at the same time the VCM is evolving very dynamically. Given continued uncertainties regarding Article 6, considering the use of international offsets for compliance purposes and an active engagement in Article 6 piloting activities is not advisable for the EU. Instead, the EU should build on its current role and continue engaging in the UNFCCC negotiations to push for robust international rules. At the same time, the increased momentum in the VCM could be used to increase integrity and credibility of corporate climate action. Against this background, this section presents different options for the EU to engage.

3.1 Restricting offset claims within the EU

Claims such as '*carbon neutral*', '*climate neutral*', '*GHG neutral*' or '*GHG positive*' have become omnipresent in marketing and corporate communication. One key commonality of these claims is that they are based on offsetting, netting-out or neutralizing emissions. These '*offset claims*' are being used by companies in their self-representation and when advertising their products and services.

However, the concepts and the role offsetting is playing therein is often not fully understood by consumers. A study among German consumers of food products for instance showed that only a small share of consumers (around eight per cent) know that carbon neutral is not equivalent to zero GHG emissions (Zühlsdorf et al., 2023). Other surveys and studies come to similar conclusions (see: Le Gallou & Martellucci, 2023; sinus, 2021). Offsetting claims are not only problematic when being used to advertise products but can also be misleading if applied to the organizational level: The Corporate Climate Responsibility Monitor 2023 finds the transparency and integrity of carbon neutrality claims of the companies assessed to be "critically low". Key issues identified include the scope of coverage of these claims and the quality of carbon credits used (NewClimate Institute & Carbon Market Watch, 2023).

As can be seen, offset claims are problematic for a variety of reasons. They make it harder to clearly distinguish ambitious climate action from mere greenwashing activities. Offset claims are particularly questionable if used at product level, as they can adversely impact consumer decisions, for instance if a carbon neutral flight is considered to be more climate friendly than a train trip. There are several ongoing initiatives working towards more scrutiny and integrity of corporate climate action and their communication (for an overview see: Kreibich, 2021), but the intrinsic problems of offset claims remain unsolved. Therefore, a generic ban on offset claims can be considered the most effective step. At the same time, new claims and labels should be established that allow the private sector to transparently communicate the climate action taken, including actions supported outside its value chain.

In order to deal with this situation, the EU should first and foremost push for a restriction of the wide range and misleading nature of offset claim use. Two older EU directives which serve consumer protection and already address environmental concerns can be a basis for this: The Unfair Commercial Practices Directive (2005) and the Consumer Rights Directive (2011). In March 2022 the European Commission

proposed two new directives. The EU Directive on Empowering Consumers for the Green Transition (‘*Empowering Consumers Directive*’ – ECD) shall “contribute to a circular, clean and green EU economy by enabling consumers to take informed purchasing decisions and therefore contribute to more sustainable consumption” (European Commission, 2022, p. 1). Another planned directive, the Directive on Substantiation and Communication of Explicit Environmental Claims (‘*Green Claims Directive*’ – GCD) was proposed by the Commission in March 2023. It shall flank the ECD, which is a general instrument, while functioning as a safety net, targeting the most problematic practices (European Commission, 2023a). Both directives target voluntary action claims.

While the first reading in the European Parliament of the GCD is still pending, the first reading of the ECD took place in May 2023. The parliament voted in favour of the proposal, supporting new rules to ban misleading claims such as carbon neutrality at product level. This is interpreted as a clear sign for consumer protection and to fight greenwashing (Diab, 2023). With the parliaments acceptance, the ECD will proceed in the interinstitutional negotiations within the EU (European Parliament, n.d.). Details on the two ongoing processes are included in the Box below.

Box: The ‘*Empowering Consumers Directive*’ (ECD) and the ‘*Green Claims Directive*’ (GCD)

*The **‘Empowering Consumers Directive’ (ECD)** is meant to target greenwashing practices and “the use of unreliable and non-transparent sustainability labels and information tools” (European Commission, 2022, p. 1). Thus, the aim is to ban generic environmental claims that are not supported by any evidence. The directive specifically states that claims like ‘carbon neutral’ and ‘climate positive’ shall be prohibited without the companies having an “excellent environmental performance relevant to the claim” (European Commission, 2022, p. 14). This performance can be based on the EU Ecolabel, a recognized member state scheme or any other EU legislation which have not been further specified.*

*Building on the ECD as a more generic instrument, the **‘Green Claims Directive’ (GCD)** is to consist of a set of rules on how to report environmental impacts if a company intends to label its products as environmentally friendly. When a company makes such a claim, the claim must be substantiated and this substantiation must be verified ex-ante (European Commission, 2023b). The Commission’s proposal does not contain a specific assessment method that must be used for the substantiation of an environmental claim but the proposal outlines what needs to be considered for the substantiation. With regards to offsetting, the document states that offsets need to be separated from GHG emissions as additional environmental information. Companies*

must further "specify whether those offsets relate to emission reductions or removals, and describe how the offsets relied upon are of high integrity and accounted for correctly to reflect the claimed impact on climate" (European Commission, 2023a, p. 44). Overall, the environmental labels must be verified by a third party to comply with the requirements of the directive. Furthermore, the proposal includes requirements that organizations must meet when communicating the claim (European Commission, 2023a, p. 47).

Both proposals leave room for improvement. The ECD introduces a ban on generic claims that are not substantiated and introduces the concept of "excellent environmental performance" to substantiate claims (see Box above). While the ban is a step in the right direction, the proposal still allows offset claims to be made as long as some substantiation has been provided (Le Gallou & Martellucci, 2023). The limited possibilities to appeal against claims have also raised criticism: Once the claim got acknowledged, it can only be declared as misleading by a consumer authority "which needs to prove that the claim may deceive the average consumer" (Le Gallou & Martellucci, 2023).

Furthermore, the ECD proposal does not target future environmental performance as a whole, but allows companies to make environmental claims related to future environmental performance based on "clear commitments" (European Commission, 2022, p. 2). Here, no further clarification is given and the proposal does not set up a system on how achievement of the commitment can be monitored. Thus, the proposal does not provide a solution on how to handle the potential gap between the announced future environmental performance and the actual performance. As the proposal is still to be discussed in the Parliament and the Council, further improvements should be aimed for.

Similarly, the GCD could be improved by setting up an ambitious methodology for the substantiation of the environmental claims. With this, the directive could go beyond the current version with the overarching criteria and limit the leeway provided to third-party verifiers. The current proposal does not exclude carbon neutrality claims at product level but requires disclosing the share of offsets used. However, it is questionable whether this information will effectively reach consumers and actually influence their consumption decision.

If a generic ban on offset claims is not adopted, the provisions for offsetting should be further specified. In particular, a requirement should be included to only allow carbon credits that are backed by corresponding adjustments to be used for offsetting. This would align the directive with the new circumstances of the Paris Agreement and the signal sent by COP28, which indicates that double counting should also be avoided in the context of voluntary mitigation targets.

Given that the Article 6.4 mechanism is by many expected to be the best practice standard (Ahonen et al., 2022), eligibility could even be limited to A6.4ERs that were authorized by the host Party for other uses.

3.2 Supporting partner countries in making informed Article 6 decisions

In the Kyoto world, the approval of CDM activities was often considered a no-regret option for host countries as the credit generation from local projects could not adversely impact the national climate strategy. Under the VCM, some activities were even being implemented without the knowledge of the government (Howard, 2021). This situation is fundamentally different under the Paris Agreement. Host countries will have to adopt a much more active role in deciding if and under which circumstances they want to host carbon market activities.

This relates in particular to project activities that generate emission reductions to be authorized under Article 6 and transferred. On the one hand, countries can generate revenues from the sale of emission reductions and benefit from accessing mitigation technologies that are beyond the countries' own reach. On the other, the host country will have to implement corresponding adjustments for all reductions authorized. Emission reductions backed by corresponding adjustments can no longer contribute to the national mitigation target. This can lead to a situation in which the host country authorizes too many credits or sells these at a price that is too low. This situation called overselling should be avoided, as it puts NDC achievement at risk or increases the costs for the host country (Spalding-Fecher et al., 2020). Figure 2 illustrates how the Article 6 activity can impact the achievement of a host country's NDC.

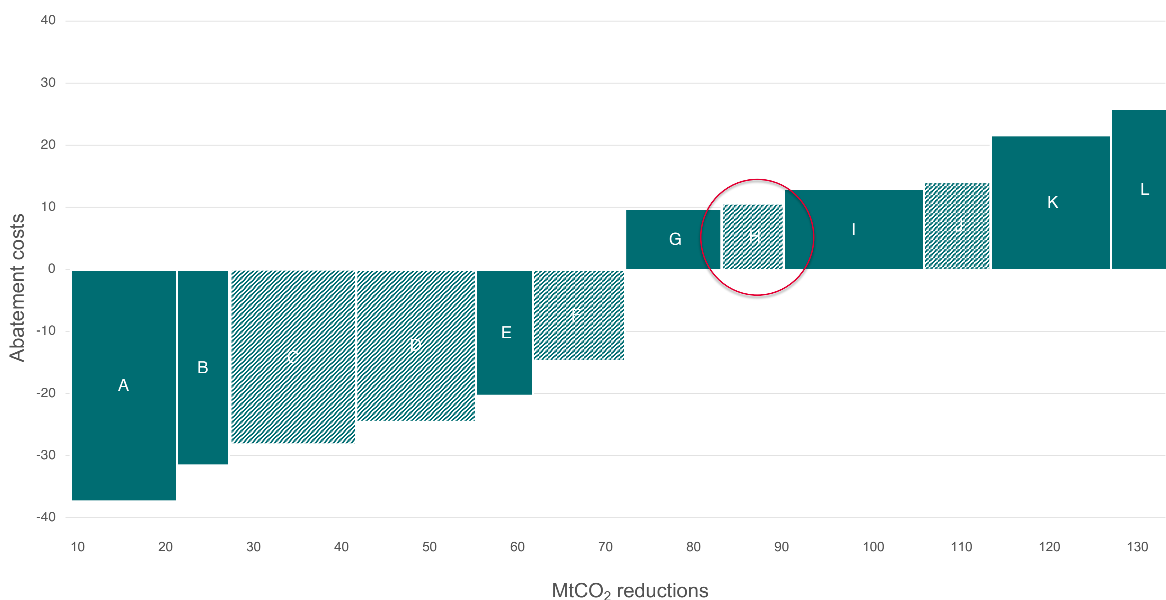

Fig. 2 **The overselling risk. Source: Own illustration based on Spalding-Fecher et al (2020).**

Note: The figure shows the marginal abatement cost curve of a hypothetical host country with the costs of the mitigation activities displayed on the Y axis and their mitigation impact in MtCO2 reductions on the X axis. To achieve its NDC, the country would have to implement activities C, D, F, H and J. If the country decides to authorize and export the emission reductions of one of these activities (e.g., activity H), another mitigation activity will have to be implemented to make up for the emission reductions exported. If it can be substituted with A, B, E or G, the costs will be lower. If it has to be replaced by activity I, K or L costs will be higher. Hence, the price of the credits from activity H must be sufficiently high to ensure that the costs associated with the implementation of the activity replacing the emission reductions are covered. Otherwise, there is a risk that the overall costs for the host country will increase, putting NDC achievement at risk. It should be noted that not all countries

have a detailed marginal abatement cost curve and that there are also (non-financial) barriers preventing the country from implementing a specific mitigation activity. Hence, finding a suitable substitute for the Article 6 activity and defining the price at an adequate level can be very challenging.

Host country governments must therefore make informed decisions about the approval of projects and the authorization of emission reductions. A clear understanding of the benefits of a proposed project is needed and how these benefits relate to the impacts resulting from the corresponding adjustments. In order to make a sound judgement, host countries must have a clear understanding of their NDC and have developed a strategy on how to use Article 6 and carbon markets more generally. Capacities of host countries, however, differ significantly and some will need external assistance in order to be ready for Article 6.

There are several initiatives aimed at establishing capacities for Article 6. These include multilateral initiatives such as the '*Paris Agreement Article 6 Implementation Partnership*' initiated by Japan, the '*Supporting Preparedness for Article 6 Cooperation (SPAR6C)*' by Germany as well as international initiatives such as the UNFCCC's '*Capacity building work programme towards implementation of Article 6.2 and 6.4*'. However, "readiness is not built overnight" as stressed by Michaelowa et al. (2021) and additional support is needed to assist countries in developing the capacities needed to make sound decisions on how to use carbon markets.

In such a situation, the EU could engage in existing initiatives and push for integrity. In addition, the EU could start its own initiative and build on its unique position as an independent partner. As the EU has clearly indicated that it does not intend to use emission reductions for the achievement of its NDC, conflicts of interest are minimized. The EU could therefore act as an honest broker that supports potential host countries in developing a strategy that best serves their interests. Such a capacity building initiative should aim at closing existing gaps and focus on areas that are until now receiving limited attention, such as strategies for dealing with the voluntary carbon market. Here as well, the focus should be put on ensuring market integrity and not on scaling the market.

3.3 Fostering the contribution claim model to bridge the climate finance gap

Back in 2017, the Gold Standard proposed the development of "certified emission reduction statements" as a new product that would certify a contribution to the host country's climate target, but could not be used to support carbon neutrality claims (Gold Standard, 2017). However, the basic idea of the model did not enjoy majority support for a long time.

More recently, however, key players within the voluntary carbon market, including large carbon credits suppliers, are starting to move. At the end of 2022, the supplier myclimate introduced the impact label "Engaged for Impact" to align its labelling with the Paris Agreement (myclimate, 2023), while South Pole introduced its "Funding Climate Action Label" in February 2023 (south pole, 2023). Others are following suit. A clear differentiation from conventional offsetting is sometimes difficult: at South Pole, companies "must compensate for [their] emissions by purchasing climate action credits" (South Pole, 2023), while myclimate states that companies will continue to support mitigation measures to the extent of their own emissions, whereby these are

the same measures that previously enabled the use of the climate neutrality label (myclimate, 2023).

This contrasts with concepts developed by others, such as the NewClimate Institute and WWF (NewClimate Institute, 2020; WWF Deutschland, 2022): the concepts of both organizations place much higher demands on companies and also break new ground in terms of the measures to be supported. Both require companies to set an internal price on carbon that is used as a basis to determine the investments into mitigation action outside their value chain. With this, the focus shifts from activities with a short-term impact to long-term transformative mitigation actions. The latter is the focus of initiatives such as milkywire's Climate Transformation Fund (Milkywire, 2022), which enables the support of a very broad spectrum of mitigation measures.

Hence, there are very different interpretations of the contribution claim model, and the various forms show some fundamental differences. While the openness towards alternatives to carbon offsetting must be seen as a step in the right direction, the mushrooming of alternative concepts with respective labels and claims also carries the risk of fragmentation. Such fragmentation could lead to a lack of transparency and limit market acceptance. More importantly: if standards are too low, there is even a risk that the contribution claim model could be used to make misleading claims and become the next greenwashing machine.

In such a situation characterized by a growing dynamic, orientation is deeply needed. Investors and consumers should be able to understand the contribution claim concepts that are being put forward and what differentiates one from the other.

In this context, a first step towards more transparency would consist in an in-depth analysis of the existing concepts that highlights their key differences and commonalities. By assessing the strengths and weaknesses of the concepts the analysis could provide orientation to companies, investors and consumers. On this basis, a meta-platform could be developed that monitors the use of existing concepts and emergence of new concepts.

The EU could also go one step further and develop a guidance on how to use the contribution claim model. Minimum criteria and best practice examples could guide companies and consumers towards using those concepts that are characterized by high integrity and credibility.

The most far-reaching option, potentially building on the two previous steps, is the introduction of a Contribution Claim label by the EU. In its structure, this label could be similar to other schemes, such as the voluntary environmental management instrument EMAS. As a first step, minimum requirements should be defined that all companies intending to apply for the label must adhere to. Requirements may be derived from existing proposals such as WWF's Fit for Paris Model (WWF Deutschland, 2022) and could further build on international initiatives such as the High-Level Expert Group on the Net Zero Emissions Commitments of Non-State Entities (HLEG, 2022) and the ISO Net Zero Guidelines (ISO, 2022). The list of minimum criteria may include the following:

- Robust quantification of climate impacts

- Ambitious emission reduction targets set in line with the targets of the Paris Agreement
- Implementation of mitigation measures within the value chain
- Pricing of remaining emissions with a carbon price that aligns with the social cost of carbon
- Investment into beyond value chain mitigation activities
- Transparent communication

Compliance with these minimum requirements could be checked by verifiers accredited by the EU. Companies that comply with the requirements would be included in a public registry. The registry could serve as a key information hub granting access to all the information collated from companies, such as the GHG footprint, the emission reduction targets as well as coverage and level of the internal carbon price applied to residual emissions. The registry would further contain information about the level of external support granted and the mitigation activities that companies have supported outside their value chain. Only companies included in the registry would be allowed to make use of the EU's contribution claim label in their advertising and corporate communication.

As such, the registry would not only serve as an information hub but also as a matchmaking tool, by linking companies to climate finance investment opportunities outside their value chain. Here, three possible links could be differentiated.

- First, the registry could allow companies to purchase mitigation contribution A6.4ERs from Article 6.4 mitigation activities. While these units are not equipped with corresponding adjustments, the underlying projects must meet all requirements established under the Article 6.4 mechanism, which means that they must have an immediate climate change mitigation impact, support the ambition of host countries' climate targets and provide sustainable development benefits.
- Second, the registry could also serve as a tool for companies to identify climate finance opportunities outside Article 6. This may also include mitigation activities that have until now not been able to benefit from the global carbon markets. This for instance relates to interventions that focus on climate mitigation impacts that accrue in the future, such as infrastructure development processes. Similarly, interventions whose mitigation impact is difficult to quantify but who are beneficial to the climate and the broader environmental and social development could benefit from obtaining private climate finance.
- Third, to also give smaller organizations with limited capacities the possibility to support such activities, the registry could further be linked to a fund. In contrast to directly financing mitigation activities, companies would engage in beyond value chain mitigation through the fund, which limits the financial and technical means required. The fund would collate financial means from companies with very different profiles, allowing also small and medium-sized enterprises to engage in beyond value chain mitigation activities.

4 Conclusions

With humanity heading towards a world with a mean temperature increase that is well above 1.5 °C compared to pre-industrial levels, increasing climate ambition and plugging the implementation gap is urgently needed. Article 6 was introduced as a tool to spur climate action through market- and non-market based cooperation, allowing Parties to transfer and use emission reductions for NDC attainment. The EU, historically the largest source of demand for carbon credits under the Kyoto Protocol, has until now been cautious to reintroduce an offsetting component into its ETS and more generally excluded the use of international offsets in the context of its NDC, which is domestic in nature.

Against the backdrop of the experiences made in the past and in light of the changed circumstances introduced with the Paris paradigm shift, this policy brief argued that the EU should maintain its opposition of the use of Article 6 for compliance purposes. While the EU should continue pushing for robust rules under the Article 6 negotiations, a focus should be put on supporting host countries to make informed decisions about participating in Article 6 and promoting robust and credible corporate climate action.

We identified three areas with different entry points for the EU to push towards more integrity: The first is the area of corporate offset claims, which we consider will continue being part of corporate climate strategies for the time being. In light of this, the EU should work towards minimizing the most adverse effects of ongoing offsetting practices by strengthening the regulation of corporate claims. With the EU currently working towards aligning its directives with the European Green Deal, there is a window of opportunity for introducing such improvements. A major step forward would consist in the exclusion of offset claims at product level, which tend to mislead consumers even if substantiated with additional information. In case a generic ban on offset claims is not implemented, the requirements for the substantiation of claims and the provisions for offsetting should be further specified. To avoid double counting of emission reductions, only carbon credits that are backed by corresponding adjustments should be allowed for offsetting. This would align the rules with the Paris Agreement. To further support the intergovernmental process under the UNFCCC and increase integrity, the EU could limit eligibility of offsets to authorized units issued under the Article 6.4 mechanism.

In addition to tightening the rules for corporate offset claims within Europe, the EU could support partner countries in making informed decisions about the authorization of mitigation activities and carbon credits. By supporting the development of capacities in host countries, the risk of overselling could be minimized while carbon finance be channeled towards activities with particularly strong impacts. As the EU has no intention to acquire emission reductions, it could act as an honest broker and support countries in developing a strategy that best serves their interests.

The third area where the EU could engage is the emerging field of the contribution claim model. While this model is gaining increased traction, there are various interpretations of the model displaying fundamental differences. To avoid a fragmentation of the model and to counter the risk of the contribution claim model

being used for greenwashing purposes, three possible avenues for the EU to engage have been identified:

- In order to provide orientation to companies and consumers, the EU could develop a contribution claim database that allows to compare the concepts that have been proposed.
- Building on this, the EU could develop a contribution claim guidance by providing minimum criteria and best practice examples on how to use the model.
- The most far-reaching approach identified is the development of the contribution claim label by the EU that is granted to companies that meet minimum requirements as verified by accredited third-party verifiers. Companies meeting the requirements would be included in a public registry. The registry could further serve as a matchmaking tool by linking companies to climate finance investment opportunities outside their value chain, including the purchase of mitigation contribution A6.4ERs and access to climate finance activities outside the global carbon markets. By linking the registry to a fund, also smaller organizations with limited capacities would be given the possibility to support such activities and make use of the contribution claim model.

As can be seen, there are multiple opportunities for the EU to fight greenwashing and push towards more robust market-based climate action – within as well as outside Article 6. While the offsetting of emissions is currently still a prominent feature of many corporate climate strategies, the prospects of this model born under the Kyoto Protocol are bleak given the changed circumstances of the Paris Agreement. Acquiring high-quality credits can be expected to be difficult and costly. With this, there is an increased risk of companies reverting to credits that have limited quality. The EU should therefore push for limiting the use of offsets, while focusing on the contribution claim model. This new model can serve as a vehicle to channel deeply needed climate finance to mitigation activities in the global south and help bridging the climate finance gap. In order to avoid this new model from being misused for making misleading claims, orientation and guidance is deeply needed. In this situation, the EU could become a normative power and write the next chapter of corporate climate action that goes beyond offsetting.

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