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**Q&A:**

# **ANNETTE NAZARETH AND WILLIAM MCDONNELL**

PERSPECTIVE FROM THE INTEGRITY COUNCIL  
FOR THE VOLUNTARY CARBON MARKET

*The Role of Carbon Offsets in  
Corporate Decarbonization –  
ADDENDUM*

**THE CLIMATE BOARD**  
CORPORATE SUSTAINABILITY MADE REAL.





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*The Climate Board works with companies to generate financial returns from meaningful climate action. We provide actionable insights and recommendations drawn from the experiences of those who are leading the way in today's climate-conscious market.*

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RECAP: INSIGHT NOTE, AUGUST 2022

# THE ROLE OF CARBON OFFSETS IN CORPORATE DECARBONIZATION

Why should businesses care about carbon offsets? Pressure from market forces—customers, supply chain partners, investors, etc.—and the possibility of regulatory changes such as the recent SEC proposal are driving companies to make net-zero carbon commitments they'll need offsets to complete. When added to a solid foundational sustainability plan, the reputational benefits of offset projects and growing investment opportunities encourage early engagement.

The role of carbon offsets in corporate decarbonization strategies is far from settled; among the companies receiving an 'A' rating from the CDP, not all purchase carbon offsets. Overall, 40% of companies in the Forbes 2000 with net-zero targets include offsets in their climate strategy, and among companies with targets for 2030 or earlier, the figure reaches 60%. In a world where both the finances and the human capital needed to navigate decarbonization are limited, it is crucial to understand what offsets are, how the voluntary market works, and what businesses stand to gain from getting involved sooner rather than later.

*Our August report contains nearly 50 pages of detail on carbon offsets, the possible trajectories for incorporating offsets in a company's sustainability strategy, and a look at the future of the voluntary carbon markets. For the full report, contact us at [www.theclimateboard.com/contact](http://www.theclimateboard.com/contact)*

In this addendum, we explore the challenges and changes in the voluntary market.

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## **Q&A: Annette Nazareth and William McDonnell of ICVCM**

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*The Integrity Council for the Voluntary Carbon Market (ICVCM) recently closed the public consultation period for its draft Core Carbon Principles (CCPs) and Assessment Framework, which aim to set new thresholds for high-quality carbon credits, offer guidance on how to apply the CCPs, and define which carbon-crediting programs and methodology types are CCP-eligible.*

*The Climate Board sat down with Annette Nazareth and William McDonnell, the Chair and COO of the Integrity Council, to discuss the challenges of purchasing carbon credits and how the market is changing.*

## Q&A:

### Annette Nazareth and William McDonnell of ICVCM (cont.)

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*Hi to you both, and thanks for setting aside some time to chat. We've heard from several of our members that carbon credits and the voluntary market are of increasing interest, so it's great to hear the latest from people working so closely with the supply side.*

**Annette**

It's great to be here. We're always happy to talk about our work and shed some light on how the voluntary carbon market is progressing.

**William**

Definitely. The market is growing quickly and though there are still significant challenges to purchasing credits, we're optimistic that it will become easier with time.



*Could you elaborate on the challenges? What's difficult about participating in the voluntary carbon market right now?*

**William**

Simply put, it's confusing. I was a potential buyer of carbon credits in my previous role as head of ESG at a big insurance company. I found multiple standards alongside questions about quality. So, we're trying to bring a single trusted, independent, global quality standard to give buyers confidence in their credits.

**Annette**

I'll add that while there is some good quality in the market, it's not consistent because we don't yet have transparency, liquidity, and uniform standards. It's very difficult, particularly for corporates with fiduciary duties to their shareholders, to be sure that they are using corporate assets appropriately.

## Q&A:

### Annette Nazareth and William McDonnell of ICVCM (cont.)

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*How are companies dealing with this uncertainty?*

**Annette**

For now, companies feel that they have to conduct their own due diligence, and it's time consuming, creates friction on trading, and requires expertise. If we scale up the market, there won't be enough climate scientists in the world to check every project, and that's not how an efficient market would function anyway. Imagine that every time you wanted to buy shares in a company, you had to call the company, ask for the financials, and talk to their auditors. Can you imagine what our capital markets would look like?

If we borrow from the principles of highly developed, highly respected capital markets, then we'll be able to scale up the benefits of the voluntary carbon market. There are some very good credits available. We want that quality and integrity to be consistent across the board so we can exponentially increase the amount of additional capital going into genuine additional, verifiable emissions reductions and removals.

**William**

When I was in a purchasing role, I found my peers at other companies were doing exactly what Annette said. They had to hire and build a team of 10 to 20 specialists if they were buying credits at any significant scale.

## Q&A:

### Annette Nazareth and William McDonnell of ICVCM (cont.)

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*Following the release of the draft Core Carbon Principles for comment, we've seen analysis arguing that the CCPs either don't do enough to solve these problems or that they'll raise the bar too high and choke off the supply of credits. How do you respond to these seemingly opposing critiques?*

**William**

The intention of the public consultation period was to gather insight from everyone the VCM affects, and we welcome and embrace diverse points of view. As you say, there are very different views out there and it's critical that we listen to and learn from all areas of the market in order to strike the right balance between ambition and pragmatism.

**Annette**

The draft CCPs and Assessment Framework were intended to serve as a robust, independent starting point for dialogue and feedback from all corners of the market. We have been delighted with the level of engagement. Our task now is to go through all those comments in a thorough manner and carefully consider how to arrive at the balance William alluded to. Some things will be easy to resolve, some will be more difficult. It's important we keep the lines of communication open and ensure this is a process of co-creation with the whole market.



*What are the next steps?*

**William**

It's important to recognize that the market has actually been improving over time. Existing programs are already taking steps to refine their standards. We hope to bring consistency to how current good practices are applied, then get the very best practices rolled out across the market. Of course, that won't be the end of the story because there will always be new developments. For example, how might remote sensing technology be applied to improve both the rigor and the efficiency of verifying nature-based carbon storage? In terms of the CCPs and Assessment Framework, we will be reviewing the feedback collected and revising the proposals accordingly.

## Q&A:

### Annette Nazareth and William McDonnell of ICVCM (cont.)

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*What do you think the voluntary carbon market will look like in 2050?*

**William**

In the short term, removal projects need to start developing and growing, though we also need a lot of action on reduction; both are important, but the balance will change over time. In the near term, reductions are 90% of the task at hand and we need to scale-up removals. In 2050, if we've been successful with climate action, new projects should be focused mainly on removals. If you've got multi-year, multi-decade projects to preserve rainforests or mangroves, those will of course still be active in the carbon markets.



*How do you expect the popularity of nature-based vs. tech-based projects to change?*

**Annette**

I would think over time you'll see more resources going to the technology-based solutions, though in the early days you'll see more focus on nature-based solutions. But again, it's critical that we channel capital into both nature-based and tech-based solutions. We can't afford 'either-or'. It has to be 'both, and'.

**William**

I agree. There are more shovel-ready nature-based projects right now— things that could move forward immediately, and importantly also provide social co-benefits. We're also very interested in opportunities for the voluntary carbon market to be part of blended finance to support uptake of cleaner technology solutions, which are urgently needed.



## Q&A:

### Annette Nazareth and William McDonnell of ICVCM (cont.)



*What would you say to someone who argues that rather than raising the quality of credits in the market, governance should focus on accurate, robust quality assessment while offering a range of project quality, like financial debt markets do?*

Annette

I would be taken aback. We are not creating a high yield market with junk underlying it, where people invest because high risk equals high return. It's about achieving net-zero by ensuring high quality projects that provide real and verifiable climate mitigation, not investment opportunities. In fact, that would perpetuate the problems that we have now, where some credits that are low quality are unfortunately not clearly labeled. It encourages greenwashing and would actually set us back quite a bit. The market and the scaling of the market can only occur if we start with the integrity of the credit.



*What about credits that are purchased for the social and environmental benefits of the project rather than the carbon removal or avoidance? Do those need to be of the same quality?*

William

Of course, we think that most buyers will want to buy high quality credits - this is important for the price mechanisms to drive more capital into the most impactful mitigation activities, therefore increasing supply of high-quality credits. And indeed, we also hope that some of the requirements—local and international regulatory requirements, disclosure requirements, and investor pressure—will push buyers to make sure they are buying high quality credits. Now, there may be some organizations who want to buy credits for other purposes as well as offsetting. We would like to see the market move towards consistent high integrity and for the purposes of the CCPs, that's why we are assuming the credits will be used for offsetting—because it's the strictest use-case for establishing a threshold standard.

## Q&A:

### Annette Nazareth and William McDonnell of ICVCM (cont.)

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*From the perspective of a buyer on the market, what should companies do to navigate the VCM as smoothly as possible while the market is rapidly transforming?*

Annette

I would encourage companies to engage with VCMI, our sister organization focused on guiding buyers in the voluntary market. And equally, we'd love them to engage with our Core Carbon Principles when they are released. We believe there are buyers eagerly awaiting the output of our assessment process so they can start to purchase carbon credits with confidence that they meet a robust, recognized standard for consistently high integrity.



*Would it be better to simply wait to begin buying credits for a decade or two and hope these big questions about quality and transparency are sorted out in the meantime?*

Annette

No. We can't afford to wait given the urgency of the climate crisis. I would recommend getting into the market now rather than waiting until the last minute relative to any net-zero target date. We need every tool working at full speed if we are going to keep global warming within 1.5°C. The voluntary carbon market is one of those tools.



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