I4CE
INSTITUTE FOR CLIMATE ECONOMICS
Une initiative de la Caisse des Dépôts et de l'Agence Française de Développement

Recommendations for the European Carbon Certification Framework

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SUMMARY FOR DECISION-MAKERS

The European Commission wants to create a carbon certification framework to encourage carbon storage in the land sector

The European climate law (Regulation (EU) 2021/1119 [1]), published in July 2021, requires the EU to achieve a balance between greenhouse gas (GHG) emissions and removals by 2050 at the latest, and to achieve negative emissions (*i.e.* net absorption) thereafter.

Currently, the agricultural sector is a net emitter and European carbon sinks have been declining for several years. The land sector, however, is essential for achieving a carbon neutral economy, as it can capture CO_2 from the atmosphere and store it in soils and biomass. To encourage this sector to carry out climate action, financial incentives are needed to help land managers significantly increase carbon sinks. In order to ensure their effectiveness, such financing must be accompanied by tools to measure the real impact of the actions financed.

With this in mind, in December 2021 the European Commission (EC) adopted the Communication on `Sustainable Carbon Cycles' (European Commission, 2021), which includes plans to build a European certification for carbon removals to guarantee the impact of funded projects. A multitude of public and private frameworks already exist in Europe and internationally, but they do not have the same levels of requirements and the same rules for Monitoring, Reporting and Verification (MRV) of carbon gains. The challenge will be to develop a common and harmonised framework at the European level without reinventing the wheel, by better relying on the expertise acquired through existing certification frameworks. After a public consultation [2] opened in early 2022, the proposed regulation should be published by the end of the year.

7 recommendations from the French experience with the Label Bas-Carbone

We propose 7 recommendations, inspired by both our concrete experience with the French Label Bas-Carbone to which I4CE has contributed, and by 15 years of research on carbon certification. These 7 recommendations have been chosen based on the topics most debated at the European level (recommendations 1 to 5) and the innovations proposed and tested in the French Label Bas-Carbone (recommendations 1, 2, 5, 6 and 7).

Recommendation 1. Emissions reductions and emissions removals should not be split

Currently, the certification planned by the European Commission only concerns CO_2 removals, and not emission reductions which would be covered by other mechanisms. We believe however, it is necessary to include in the scope of the certification framework not only storage, but also emission reductions of N_2O and CH_4 from the agricultural sector as well as indirect emission reductions (emissions that are linked to the project but take place outside the project perimeter). Without this comprehensive view of a project's climate impact, there is a risk of favouring practices that have a net negative impact. An example would be a biomass production project, which relies heavily on nitrogen fertilizers. With the scope chosen today, only the carbon sequestration linked to the biomass would be counted and not the emissions linked to the fertilisers.

This point is the subject of considerable debate, as some stakeholders see the risk that an increase in absorptions will conceal a lack of ambition in achieving the emission reduction targets. Broadening the scope, however, does not mean merging the two distinct objectives.

Following the example of what is required under the French Label Bas-Carbone, a differentiated accounting of emissions reductions and removals makes it possible to monitor the evolution of the carbon sink on the one hand and agricultural emissions on the other. This avoids the risk of opacity between objectives.

Recommendation 2. Ensuring strong environmental integrity

Achieving climate objectives must not mean we forget the other sustainability issues, in order to guarantee the environmental integrity of projects but also their acceptability. Integrating these issues properly requires discussion with stakeholders and the scientific community.

Several options are being tested or discussed as part of the French Label Bas-Carbone:

- The establishment of safeguards such as a maximum density of livestock per hectare, a minimum number of tree species, or a ban on ploughing in the forest. They

1 https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=uriserv%3AOJ.L_.2021.243.01.0001.01.ENG&toc=OJ%3AL%3A2021%3A243%3ATOC
2 https://ec.europa.eu/info/law/better-regulation/have-your-say/initiatives/13172-Certification-of-carbon-removals-EU-rules_en

ensure that there are no major negative impacts on other sustainability issues without excessively increasing monitoring costs.

- The development of indicators for the specific monitoring of issues other than carbon (biodiversity, soil, socio-economic impacts, etc.). The advantage of this is that it allows the valuation of additional co-benefits, however it is more expensive to implement.
- For the agricultural sector, prioritising accounting for emissions on the basis of per-hectare emissions rather than quantity produced, in order to avoid discouraging expansion and to not encourage optimisation only.

Recommendation 3. Diversifying funding sources

Many stakeholders are now questioning the purpose of a tool such as carbon certification: voluntary carbon offsetting or voluntary contribution to the global climate effort, Emission trading system (ETS), tool in the framework of the Common Agricultural Policy (CAP) Eco-schemes, etc.

Given the current average price of a ton of CO_2 with the French Label, the future European framework should be considered more as a tool to channel different sources of financing more effectively towards low-carbon or carbon-positive projects than as a simple carbon offset tool. The question is therefore not `who should finance these projects' but `how to coordinate the different sources of financing'.

Recommendation 4. Moving from a carbon market to mitigation regulation

The future certification framework, which will be voluntary, is an opportunity to test different practices and thus produce data on the abatement costs of these practices. In a second phase, this data will allow us to propose, where relevant, binding climate policies, such as regulations that would allow us to reinforce our climate ambitions.

Recommendation 5. Governance: Creating a European Certification Framework that builds on the existing standards by enhancing them

The question of the future of the existing labels and certifications is of great importance to the shareholders already involved in the certification processes. It will probably be necessary to have a higher level of centralisation to ensure that certification has the same value throughout Europe. As a first step, the European Commission should define common general guidelines for Monitoring, Reporting and Verification (MRV), allowing frameworks and methods that respect these rules to continue to be used.

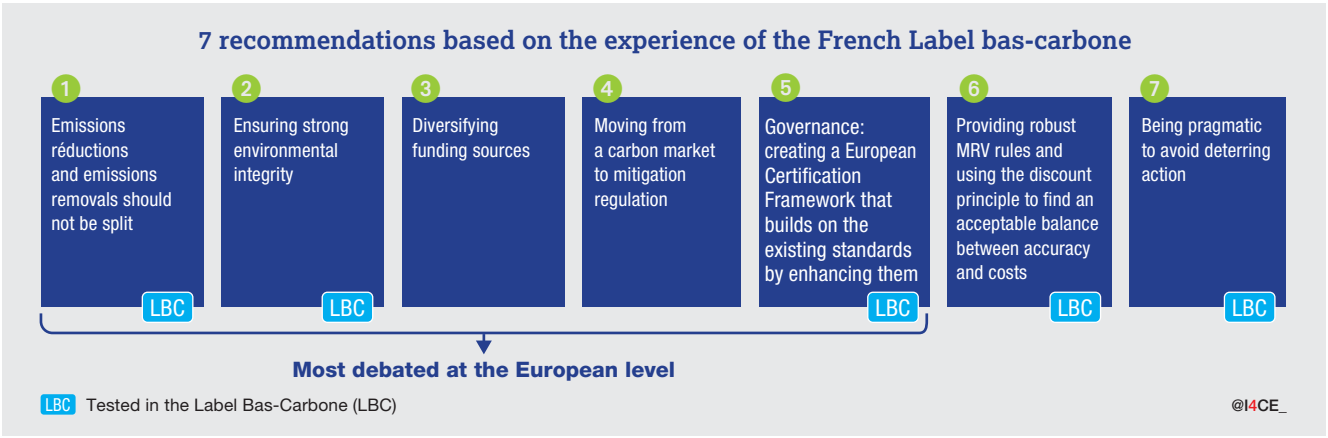
Recommendation 6. Providing robust MRV rules and using the discount principle to find an acceptable balance between accuracy and costs

The question of accessibility in terms of financial and administrative costs to certification is a point of concern for some stakeholders. The use of the rebate principle in the definition of MRV rules makes it possible to find an acceptable balance between the accuracy and robustness of the certification and the associated costs. A discount corresponds to a reduction in the emissions reductions allowed by the project, which accompanies less precise methodological choices. The discount principle thus makes it possible to guarantee the credibility of carbon credits while offering the possibility of using less stringent options to assess the carbon impact of a project.

Recommendation 7. Being pragmatic to avoid deterring action

Finally, a pragmatic approach is needed to avoid discouraging action or undermining the credibility of the system. Two examples to illustrate this.

1. Concerning the double claim: the French government considers that the same carbon gain can be accounted for twice at two different levels: once in a company's carbon balance sheet and once in the country's national inventory, as these are two distinct levels of accounting.
2. Concerning the risk of non-permanence: there are sometimes calls to extend the verification and control of forestry projects over several decades. This prospect is highly unlikely and not very credible. Perfectionism can be counter-productive, so we believe it is important to stick to clearly defined rules that can be verified in the field.



INTRODUCTION

Moving towards result-based payments is positive news

With this future certification framework, a new direction is being taken by the European Commission: it brings forward result-based approaches for climate action financing and this is positive news. Currently, very few incentives exist to reduce the carbon impact of the agriculture sector and the existing tools at the EU level (green payments of the 1st pillar of the Common Agricultural Policy (CAP), AECMs (agri-environment-climate measures), etc.) are all based on obligations of means, and have not demonstrated their effectiveness. This was noted in the European Court of Auditors report on the CAP and the climate (European Court of Auditors, 2021). Result-based payments, however, are a solution to ensure the environmental impact of climate projects and the environmental effectiveness of funding, although they are not widely used today. Essentially, they allow us to ensure that each euro spent in the name of the climate really contributes to climate change mitigation.

Results-based schemes are subject to regular opposition due to alleged high transaction costs compared to instruments with an obligation of means. An obligation to achieve a result means evaluating this result. This implies collecting a certain amount of data and verifying it, and this obviously has a cost. This shortcoming can however be discussed, as 'obligation of means' schemes also involves large transaction costs. As a matter of fact, when we try to optimise the practices to be implemented in a given pedo-climatic context, the costs associated with the multiplication of specifications to be included in the framework (for example AECMs) explode. In the end, the costs of developing these 'à la carte' specifications can offset the costs of MRV (Monitoring, Reporting, Verifying) of the environmental impact associated with the obligation of result (I4CE, 2020).

It is important to bear in mind that the obligation of result does not necessarily mean a direct measurement of the result, *i.e.*, a final verification of the carbon gain by flux tower in the forest or by sampling in the agricultural soils. Result-based tools can work with quantitative estimates through look-up tables for example. It is then up to the decision makers to find a trade-off between the cost of MRV and the expected precision in order to limit the margin of error while keeping the cost affordable for the project developers. The Label Bas-Carbone, the French national emissions reductions certification standard, has developed the discount principle for this purpose.

Result-based payments have existed for a long time through carbon certification frameworks

Carbon certification is nothing new. There is a lot of expertise internationally, especially with private standards which have been in operating for about 15 years. There is also expertise in Europe with the development of domestic standards, both in the wake of the Kyoto Protocol through Joint Implementation (CDC Climat Research, 2012) and more recently for the voluntary offset market (I4CE, 2019). In France, a domestic standard, the Label Bas-Carbone[3], has existed since 2018 and is led by the French Ministry of Ecology.

Historically, private standards have not been very prevalent in Europe, which meant very few carbon projects were certified on the European soil despite an important domestic demand. **The double-claiming issue largely explains this absence**. As carbon projects are – in principle – visible in the host country's national inventory, they help achieve the national emissions reductions target. Therefore, an emission reduction financed by a private buyer for example, can be claimed by both the buyer and the host country. To avoid for the same emission reduction to be claimed twice, voluntary standards previously required host countries to exclude certified emission reductions bought by private companies from their inventory. Although the rationale behind this position is weak, as double claiming between a company and its host country does not undermine environmental integrity (I4CE, 2015), the debates regarding it over the last few years have resulted in very few voluntary carbon projects being certified by international standards in Europe until recently. As a result, several countries started designing their own carbon certification frameworks, so that local projects could benefit from a credible MRV framework and generate domestic emission reductions.

3 https://www.i4ce.org/go_project/label-bas-carbone/

In 2015, I4CE, the French Ministry of the Environment, and several stakeholders from the agricultural and forestry sectors decided to create the Label Bas-Carbone (LBC). It was an opportunity to develop a certification framework more adapted to the European context, taking into account current environmental regulations and relying on scientific tools and models adapted to the production systems and local pedoclimatic contexts (MTE, 2020).The Label Bas-Carbone is the result of 3 years of collaborative construction and has been operational since 2018.

In collaboration with numerous French stakeholders (project developers, intermediaries, buyers, etc.) and on the strength of real-life experience, I4CE proposes 7 recommendations to fuel the discussion around the creation of the European carbon certification framework for removals.

Building on this existing expertise and experience is important for scaling carbon payments in the agriculture and forestry sector, to save both time and money, and ensure the involvement of stakeholders already operating in the existing schemes. It is also important to show where the current version of the Label Bas-Carbone has limitations so that we can collectively discuss how to improve it.

1. EMISSIONS REDUCTIONS AND EMISSIONS REMOVALS SHOULD NOT BE SPLIT

The recent conclusions[4] of the Council of the EU on the December 2021 Communication on sustainable carbon cycles, invites *"the Commission to explore whether and how the Union certification framework could cover a wider range of practices including agricultural greenhouse gas (GHG) emissions".*

Currently, the scope of the carbon certification framework proposed by the European Commission, only focuses on carbon removals occurring within the project perimeter. Therefore, emission reductions (of N_2O, CH_4 especially), occurring within or outside the project perimeter are excluded. In our opinion, the exclusion is irrelevant and even problematic.

Accounting for all GHG emissions and removals at the project level, especially in the agriculture sector

Carbon removals and emissions reductions are the key to reaching global carbon neutrality and they are interconnected. The nitrogen cycle and carbon cycle are intertwined, and the same practices such as permanent soil cover or soil conservation can impact both carbon removals in soils as well as greenhouse gas emissions. Occasionally, one practice can also trigger opposite effects: for example, nitrogen fertilisation of grassland increases carbon sequestration, but also N_2O emissions. **To ensure the consistency of practices and avoid creating perverse effects in this sector, it is therefore essential to take into account all GHG emissions and removals.**

Accounting for all emissions and removals could be done in two ways. The first, continues to focus on removals as proposed by the European Commission, but only certifies projects that have no negative impact on N_2O and CH_4 emissions or, projects which provide a positive net sequestration (carbon sequestration minus any increase in N_2O and methane emissions). The second approach corresponds to broadening the scope in order to certify both emissions reductions and removals. I4CE favours a broad certification framework which certifies both emissions reductions and removals (I4CE, 2022). Farmers will otherwise face stronger incentives to increase removals than to reduce emissions, which is not economically efficient and could even be counterproductive.

This concern may become outdated when the Common Agricultural Policy (CAP), the Emission Trading System (EU ETS) or any other scheme channels strong incentives directly to farmers for reducing emissions, however this seems unlikely to occur within years of the creation of a European carbon removal certification framework.

Even then, it will remain easier for farmers to deal with a single tool for a given mitigation practice rather than two (one for removals and one for emissions). Currently, agricultural emissions are covered under the Effort Sharing Regulation (ESR) part of the European climate legislation, but the ESR only applies at a national level and has not yet been translated into direct incentives for farmers by national governments. If the focus on removals was retained however, I4CE would recommend only certifying net removals (removals minus net emissions) as this would be the lesser evil.

With regard to grassland fertilisation, its greenhouse gas budget is typically null, as increased emissions counterbalance removals. However, there may be a small net mitigation benefit[5] depending on the exact context. Rewarding all removals would then greatly overestimate the climate benefits of the mitigation action.

In conclusion, taking into consideration the need for strong incentives to reduce agricultural emissions, their current absence from the CAP or any other policies directly affecting farmers, the interconnectedness of the nitrogen and carbon cycles, and the risks implied by the multiplication of tools and incentives at the farm level, we recommend that all GHG emissions be included in the future carbon certification framework.

We also believe it is essential to include indirect emissions as long as project proponents have a clear lever on them. These are emissions that occur outside of the project scope and are indirectly related to the project. This includes emissions from the entire project value chain (I4CE, 2022). For example, emissions linked to

4 https://www.consilium.europa.eu/en/press/press-releases/2022/04/07/council-adopts-conclusions-on-carbon-farming/
5 https://www.inrae.fr/en/news/storing-4-1000-carbon-soils-potential-france

the import of soya for animal feed: a farm that produces its own vegetable proteins for animal feed (farm A) emits more within its own perimeter than the same farm that imports its proteins (farm B). Without taking into account the total carbon footprint (and therefore the emissions linked to soy imports, considered as a high-risk commodity of deforestation), farm B has a better carbon balance than farm A, which would not be the case if the total carbon footprint was taken into account.

The same result can be seen with nitrogen fertiliser production: a farm that uses fertiliser on its crops will see a faster and potentially higher biomass production than a farm that does not use fertiliser. Without taking indirect emissions into account in the carbon balance, the farm that uses more fertiliser would be at an advantage over a farm that uses less or none.

Farmers who reduce their fertiliser use have a significant impact on the emissions from fertiliser production plants, which are more or less proportionately reduced. Although some of these emissions are covered by the EU ETS, the cap-and-trade has so far incentivised reductions in the carbon intensity of its sectors rather than feedstock changes (*e.g.*, wood instead of concrete, organic fertilisers instead of synthetic ones). Even if the end of free allowances and a carbon border adjustment conveyed an incentive to reduce fertiliser use through higher fertiliser prices, action at farm level would still be efficient.

If indirect emissions are excluded, projects that are the most beneficial for the environment may be penalised, and conversely, certain practices may be deemed more advantageous because their carbon balance is incomplete.

Offering a differentiated accounting

Even though it is relevant to deal with carbon sinks, emission reductions and indirect emissions within the same framework, it is also necessary to count them separately to manage the risk of non-permanence specific to carbon sequestration as well as the high level of uncertainty specific to indirect emissions (I4CE, 2022). The Label Bas-Carbone works this way. It includes all types of emissions reductions/removals but requires project proponents to account for them in three separate compartments (carbon sequestration, direct emission reductions and indirect emissions reductions). This allows specific rules to be applied (such as the application of a discount proportional to the risk of non-permanence for the carbon sequestration compartment). It also allows public authorities to assess the expected impacts of projects under the Land Use, Land Use Change and Forestry (LULUCF) pillar and under the ESR pillar separately.

Accounting for anticipated (ex-ante) carbon crediting up to 30 years, to avoid forestry projects being excluded

The anticipated carbon certification (ex-ante), means some removals of a project can be certified before they have actually occurred. There is an obvious trade-off between facilitating slow-yielding projects to emerge and the risk that certified anticipated removals end up not occurring.

Within the Label Bas-Carbone, the trade-off has been widely discussed with all stakeholders, including both project proponents and environmental NGOs. It has been settled in favour of ex-ante crediting (MTE, 2020), with four safeguards in existing approved methodologies:

- *Ex-ante* crediting is limited to 30 years after the start of the project. This period corresponds to the typical duration of forest management plans which largely commit forest owners to a given management strategy. In addition, the period is short enough to expect that most project funders would still be alive at the end of it. It also helps ensure climate benefits occur in a relatively short time frame.
- Crediting only occurs 5 years after the start of the project, based on the verification that largely irreversible management operations have been undertaken to engage the land on the project trajectory.
- A discount of at least 10% is applied to the certified amount of removals compared with the estimated amount.
- *Ex-ante* crediting is limited to removals (excluding emissions reductions).

2. ENSURING STRONG ENVIRONMENTAL INTEGRITY

While the need for strong environmental integrity seems uncontroversial and is even highlighted in the Commission's communication, the proper integration of sustainable issues is not so simple in practice.

Within the Label Bas-Carbone, several solutions are currently being or will be tested in France:

Imposing clear safeguards (maximum livestock density per hectare, minimum number of tree species for planting projects, exclusion of soil damaging practices, etc.) to avoid pushing towards unsustainable systems, with particular damage to biodiversity and water quality

Safeguards allow us to ensure that there are no major negative impacts on other sustainability issues without excessively increasing monitoring costs. This can be based on the operating principle of the European Taxonomy. While labelled practices and projects must have a positive effect on climate (absorbing carbon or reducing emissions), they must not lead to substantial negative effects on other environmental issues: the 'Do no significant harm' principle.

Examples:

- In the Carbon Agri method, to avoid certified projects that would increase the pressure on the environment despite a decrease in carbon intensity, it is required that the organic nitrogen pressure of farms remain below the threshold of 170 kg organic nitrogen/ha of the Nitrates Directive at the end of the project.
- In the method of restoring degraded forests, eligible projects require a clear cut of the forest stand to be replaced. Therefore, as such they could lead to a loss of biodiversity *in situ*. To ensure that projects linked to this method do not lead to a loss of biodiversity, project developers will have to carry out a biodiversity diagnosis (Potential Biodiversity Index). This preliminary diagnosis is mandatory for projects of more than 2 ha.

Supporting the development of indicators for monitoring issues other than carbon. This approach facilitates the valuation of the positive impacts

The Carbon Agri method of the Label Bas-Carbone for example, proposes a list of indicators which can be monitored to assess biodiversity and water quality in particular:

- reduction of the nitrogen balance surplus (water quality);
- increase in the contribution to biodiversity (inventories of agro-ecological infrastructures);
- Reduction of the irrigated area.

Another example is the list of co-benefits for the forestry methods of Label Bas-Carbone. Project developers can identify the co-benefits that they will implement and that will be verified during the audit, such as:

- the number of species planted or replanted;
- the absence of preparatory work on the soil;
- the maintenance of trees of ecological interest.

The difficulty with this process is to find indicators that are easily verifiable during the audit, backed by science and generally shared by all stakeholders. An additional problem with this solution is that the multiplication of indicators means more data to collect and therefore an increase in costs for the project developer. In light of this, not overburdening project developers is essential.

Safeguards are a priority to ensure that there is no negative impact on other sustainability issues. There is also a strong societal expectation to value positive impacts on issues other than climate, particularly on water and biodiversity. Indicators are a response to this expectation. However, there is a need to develop robust, shared, scientifically backed and verifiable indicators (see part **7.2. Proposing only verifiable rules**) to ensure that the carbon certification system is credible.

For the agricultural sector, prioritise accounting for emissions on the basis of per-hectare emissions rather than quantity produced, in order to avoid discouraging expansion and to do not encourage optimisation only (IDDRI, 2022)

In contrast to the second metric, the first can value emission reductions associated with reductions in production and therefore encourage a shift from intensive to less intensive farming. More importantly, the second metric is closer to the absolute territorial emissions reductions and removals targeted by the European climate legislation: emissions reductions per ton of produce may not help reaching our climate targets if quantities increase correspondingly.

These approaches are being tested in the Label Bas-Carbone, mostly in combination, and their respective effectiveness still need to be discussed. There is no shortage of ways to integrate these issues into a carbon certification framework, however the way they are integrated can drastically change the type of practices and transformations that are pushed on the ground. It is up to the regulator to set the course.

While it is essential to integrate all sustainability issues (not just carbon) into the European certification framework, it is not easy to do so without overburdening project developers. Some issues (such as biodiversity) are more difficult to measure than others, which is why the integration of sustainability issues should be discussed with stakeholders and the scientific community.

3. DIVERSIFYING FUNDING SOURCES FOR MAXIMUM IMPACT

Farmers and forest managers will face various costs in order to meet sustainability objectives:

- the need for investments, especially in the climate change context (*i.e.*, tree planting, new equipment);
- the need to manage stranded assets (*i.e.*, oversized livestock buildings);
- additional costs due to change of practices (*i.e.*, lower yields, increased tillage requirements);
- the need for training, project engineering time, networking to share expertise, etc.;
- risk-taking linked to changes in practices or climate change (*i.e.*, uncertainty about new markets, yields).

Additionally, transition costs extend beyond the farm or forest gate, as the entire value chain, all the way up to the consumer, must be transformed (IDDRI, 2022).

From this perspective, one source of funding taken in isolation will not be enough. The question is not whether to diversify funding sources but how to align funding with sustainability objectives and ensure their complementarity.

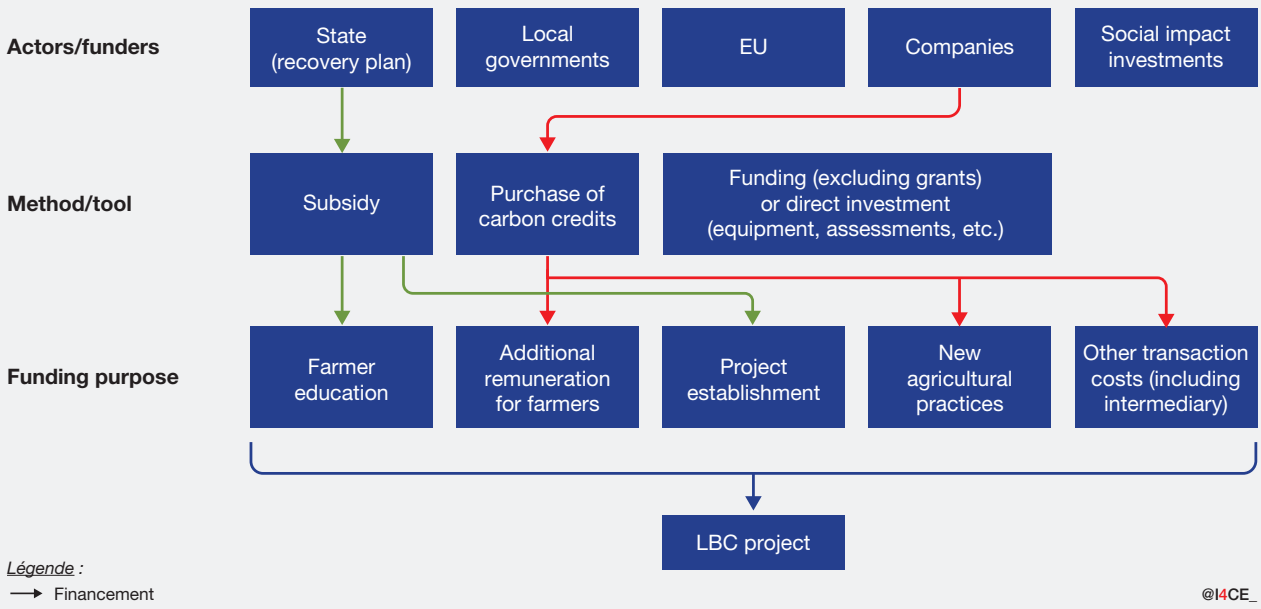
Limiting carbon certification to a simple tool dedicated to carbon offsetting would be reductive

We often hear that carbon certification is a tool dedicated to carbon offsetting. In reality, this would be very simplistic. A carbon certification framework is a tool with an obligation of result which guarantees the environmental impact of a project. Such a tool can be used to target any type of financing, private or public, seeking to have an environmental impact (I4CE, 2020).

Moreover, the voluntary carbon market is marginal for the moment, even more so for credits worth several dozen euros, which is far more than the average price on international markets. It would be illusory to only bet on voluntary carbon markets development to finance climate action within the agricultural and forestry sectors. It is necessary to note, public funds can obviously not cover the costs of the whole ecological transition, and we will have to also rely on private funding. However, considering the amounts involved today, both in voluntary carbon markets and public tools like the CAP, offsetting can be seen as a complement to public action, but not as the main tool of action, especially for the agriculture sector. If the objective of this scheme is to target exclusively voluntary carbon markets, the result might not be up to the task, as it will most probably not be enough to provide all the necessary funding. Alternatively, if the challenge is to provide a tool to channel funding, of any kind, more effectively to low-carbon projects, the future European framework could be a structuring tool in achieving the objectives set by the Green Deal.

With the Label Bas-Carbone, projects must demonstrate additionality to be eligible for certification, but this does not prevent different sources and forms of funding from co-existing. The diagram below, although not exhaustive, shows the diverse possibilities for financing an LBC project with different financial stakeholders, private or public, and their various means of action.

In most cases, the funding of low-carbon projects is supplementary to a diversity of other financial streams (private and/or public). This additional funding must therefore be carefully considered and sized at the early stages of a project, to ensure that a project is not over-financed, which would question projects' additionality and therefore make them ineligible for the certification.



Note: The French State already partly finances LBC projects via the recovery plan's measure « bon diagnostic carbone[6]" (subsidy for carbon assessment), certain regions also contribute to the financing of LBC projects through similar methods to those of the recovery plan, and companies are also already being mobilised, mainly via the voluntary purchase of Emissions Reductions. At present, no European funding has been earmarked for LBC projects, but this could be the case if LBC were to be used to designate aid from the CAP. All this funding is intended to cover the costs of projects of various kinds and provide an additional incentive income. Two main cost types can be identified: project-specific costs (training and support for farmers, risk-taking incurred through changes in practices, investment in new equipment required for the project, etc.) and costs related to low-carbon certification (data collection, auditor verification, etc.).

Red and **green** arrows illustrate a hypothetical example of a co-financed LBC project with initial GHG assessments (the results of these assessments are used to determine the reference scenario required to set up a project) and the action plan for each operation being financed by the State via the recovery plan (green arrows), while the purchase of carbon credits by companies completes the financing requirements.

Clarifying who funds what

It is imperative to avoid a situation where, farmers will have to choose between private and public funding. From this perspective, it would be useful to clarify how to ensure public and private funding compliments each other (I4CE, 2022). Should public funding (*i.e.*, from the CAP) cover the transaction and training costs, including diagnosis and audit costs for example? This is what was done in the case of one of the measures of the French recovery plan and could be replicated (see **Box 1**). Would a 50-50 distribution of total costs between public and private funding be more appropriate? When discussing agriculture, could public funding help secure a minimum carbon income for farmers or more generally provide coverage for the risk taken by farmers who engage in the implementation of low carbon projects? Setting up such a system is not simple and raises a number of technical and legal questions that should be discussed.

6 https://www.economie.gouv.fr/plan-de-relance/profils/entreprises/bon-bilan-carbone

BOX 1. THE EXAMPLE OF THE RECOVERY PLAN IN FRANCE

As part of the French recovery plan, a €10 million measure will support the low-carbon transition of farms. It is intended for farmers who have been established for less than 5 years by offering them:

- a diagnosis of greenhouse gas emissions and the farm's carbon storage potential;
- the creation of an action plan and support to encourage the commitment of the farmer and remove the obstacles to the effective implementation of the project. The selected actions will be evaluated in terms of GHG emissions reduction and carbon storage using Label Bas-Carbone methods, when available.

These are the first steps of a project certified by the Label Bas-Carbone. In fact, they are often the most expensive steps and are often the ones that slow down the development of low-carbon projects, especially when the companies that offset their emissions do not want to finance the projects at the beginning but rather wait until the credits are certified before buying them and thus not take any risk.

From the point of view of the Government, there is an interest in coupling these funding with carbon certification. Carbon certification creates an incentive for farmers to implement the low carbon practices. If they do not implement them, they will not reduce their emissions and will not be able to access private funding through the sale of carbon credits. Funding from the recovery plan makes therefore possible to prime the project pump. In this way, the government ensures that public funding will not only be used to carry out carbon diagnostics but will also help to disseminate low-carbon practices.

That is why I4CE recommends that the future carbon certification framework be seen more as a tool to channel funding more effectively to low-carbon projects than as a simple carbon offset tool. Carbon certification could, for example, be used as a criterion to receive Common Agricultural Policy money under its Eco-Schemes. More generally, I4CE recommends launching a discussion on the respective roles of private and public financing to cover the costs of the low-carbon transition of the agricultural and forestry sectors.

4. MOVING FROM A CARBON MARKET TO MITIGATION REGULATION

Using project information to document mitigation ideas and costs across the EU

Carbon certification can be costlier at project level than other mitigation policies due to high transaction costs, but it is a good search engine, thanks to its bottom-up structure. This advantage should be fully tapped: **I4CE recommends that the future carbon certification framework be used to document mitigation options and their costs**.

Switching to other policy tools when relevant

The disadvantage of carbon certification in terms of transaction costs, however, should not be ignored. First, a reasonable trade-off between accuracy and cost should be struck regarding monitoring rules (see below). In addition, carbon certification should not be the only element of a mitigation policy for the agricultural and forestry sectors. **Accordingly, I4CE recommends that when more than a certain percentage of the European potential for a given option is achieved (*e.g.*, X% of peatlands restored), the European Commission should assess the costs and benefits of regulating the option under a more efficient instrument** (*e.g.*, mandatory good agricultural and environmental practices of the Common Agricultural Policy, EU ETS).

5. GOVERNANCE: CREATING A EUROPEAN CERTIFICATION FRAMEWORK THAT BUILDS ON THE EXISTING STANDARDS BY ENHANCING THEM

Carbon certification frameworks generally rely on practice-based or sector-based methodologies which provide a concrete and detailed way of monitoring a subset of project while complying with the generic MRV guidelines.

The generic MRV guidelines answers questions such as:

- **How to define the baseline scenario?** Should it be specific to the project, or can the project developer use a regional baseline scenario? Can an increasing baseline scenario be allowed? Is the maintenance of current practices eligible?
- **How to demonstrate additionality?** The demonstration can be economic, technical, based on past trends, etc.
- **Which level of precision is required and how to manage uncertainty?** What is the right trade-off between MRV costs and precision? Is it always necessary to use the more precise model or even to do on-site measurements and soil sampling? Should a minimum level of accuracy be fixed by the regulator, or should a discount rate proportional to the uncertainty level be applied on the emissions reduction delivered?
- **How to manage non-permanence risk?** Using a discount or a buffer? Requiring project audits every 5 or 10 years?
- **What audit rules?** What type of stakeholder is accredited to audit projects? Systematic or sampling audit?

There is already a wealth of expertise available, both on MRV rules from private and public carbon standards and on GHG emission and carbon sequestration assessment from the scientific community. It seems important to build from those existing frameworks and tools to help scaling carbon payments in the land sector, in order to save collective time and money, but also to ensure the commitment of the stakeholder already involved in these approaches (I4CE, 2021a).

Furthermore, the profusion of standards, tools and approaches that exist do not all have the same rigor and robustness of process. This can create confusion, a lack of visibility on the market for buyers especially, but even for potential project developers themselves and from civil society. Therefore, we feel a European carbon certification framework can be a great opportunity to bring more clarity, transparency, and robustness to the whole market (I4CE, 2021a).

I4CE recommends that, as a first step, the European Commission define common general MRV guidelines that allow for the use of different methods, models, and tools, provided they have been validated both by a scientific committee to ensure scientific robustness as well as by competent auditors/authorities to ensure compliance with MRV rules.

In the medium term however, having methods valid in some countries and not in others will become inacceptable and inefficient. If projects have different MRV rules, with different robustness and transparency requirements, there would be a risk of competitive distortion or a reduction in the quality of some labels, which will discredit the whole mechanism. Prices would vary and buyers would not be able to distinguish between ambitious and robust projects and less credible ones.

We noticed that some certification frameworks, for example, reward low-tillage practices, whereas others do not. The most recent scientific evidence points out that limited tillage has little to no impact on removals, at least in the temperate realm. This results in a rather important distortion between standards, as 'no tillage' account for a large part of the total credits delivered by some standards.

There are many existing and under development models to quantify project emissions. Some of them are specific to a pedo-climatic context and a production system. Others are based on data that do not exist everywhere. More generally, to promote ongoing innovations due to remote sensing, connected objects or new direct measurements technics, we recommend not to limit carbon certification to a single model. A counterpart to this is the requirement to scientifically assess them and make sure the models used are robust and continuously adapted to the latest scientific knowledge. A scientific committee at the European level could therefore be in charge to validate every method, model and tool used with a carbon certification purpose.

For these reasons I4CE recommends, as for the Clean Development Mechanism and for organic farming among various other examples, that in a second step the European Commission centralises, with the support of relevant authorities, the approval of methods and projects so that certification has the same meaning across the EU.

6. PROVIDING ROBUST MRV RULES AND USING THE DISCOUNT PRINCIPLE TO FIND AN ACCEPTABLE BALANCE BETWEEN ACCURACY AND COSTS

In one respect, it is essential for funders, and for the stakeholders in general, that the certification framework provides important guarantees on the quality of the projects and their climate impact. On the other hand, the more precise we want to be (in terms of tons of CO_2 measurement, demonstration of project rigor, etc.), the higher the cost of implementation for the project developer (I4CE, 2018).

It is important to note that economic research provides useful insights on how to preserve environmental integrity at the lowest cost:

- as long as a method is unbiased, precision mainly matters if the project proponent has more information than the regulator. For example, precision on the amount of fertilisers used matters, because farmers know more about its use than the regulator. However, precise measurement of a given fertiliser's emission factor is of little importance because farmers do not know the actual value better than regulators;
- aiming at 100% of additional projects is illusory: stringent rules can limit the risk of certifying non-additional projects, but they cannot eliminate it;
- larger projects, with perimeters comparable to the baseline, are more additional;
- a stringent baseline is more efficient than a discount or a credit cap.

Beyond this generic advice, the discount principle introduced in the Label Bas-Carbone allows for the best balance between accuracy and cost to be found. It aims to guarantee the credibility of the scheme while simultaneously leaving the possibility of using easier solutions to assess the carbon impact of a project.

At certain stages of the certification process, the standard offers two options to the project developer:

1. Choose the most rigorous option, such as an individual additionality demonstration.
2. Choose a less restrictive solution, such as using a regional average value to demonstrate additionality and apply a discount to the amount of certified emissions reductions.

A discount therefore corresponds to certifying fewer emissions reductions or removals than the amount estimated in project documents. The use of the discounts allows you to implement the less complex or less expensive option, while ensuring that you do not overestimate emissions reductions. This helps the emergence of projects and avoids imposing disproportionate requirements on certain types of projects, especially small ones (I4CE, 2021a).

Discounts can be applied at different stages: establishing the baseline, demonstrating additionality or during the project audit (MTE, 2020).

Taking the example of the baseline scenario. The project proponent can choose between a generic or specific baseline scenario:

- **Individual baseline:** the baseline can be established specifically for a project. In this case, it is not necessary to apply a discount on the project's emission reductions.
- **Generic baseline:** the baseline can be established generically for a project type, depending on the local, regional, or national averages or trends. The assessment of additionality presents a risk to overestimate emission reductions, since it is possible that most performant projects are the first one to enter the scheme. Therefore, it is necessary to apply a discount on emission reductions to correct this overestimation. The project proponent must justify the choice of the discount amount according to the risk of windfall effect associated with the projects. The larger the size of the project with respect to the size of the baseline, the more representative the baseline and the lower the discount can be. For example, for any agricultural project, if the baseline scenario is based on national averages and the project has about ten farms, the reference is not representative, the risk of windfall effect is very high and the discount will therefore also be very high.

I4CE recommends the use of the discount principle in the definition of MRV rules. The discount principle ensures the credibility of recognised emissions reductions while allowing for the possibility of using less stringent options for assessing the carbon impact of a project. A discount therefore corresponds to a lower valuation of the emission reductions achieved by the project, which ensures that overall, the emission reductions have not been overestimated.

7. BEING PRAGMATIC TO AVOID DETERRING ACTION

7.1. Legitimating double-counting when it is a 'non-issue'

Double counting between a company and a country

The objective of such a carbon certification framework is to facilitate the financing of low-carbon projects in order to achieve the climate objectives set at the European level. It is therefore desirable that emission reductions be visible in the national GHG inventories of the different member states (I4CE, 2021b).

Since the creation of the Label Bas-Carbone, the French government has considered that the problem of double counting is not an issue from an environmental integrity perspective, provided that the double counting is not applied to the same objective (MTE, 2020). The same emission reduction can indeed be counted twice at two different levels: once in a company's carbon assessment and once in the government's inventory, because these are two distinct levels of accounting. It is not an issue because the intention is not to add them together.

Of course it is important however, that an emission reduction is not claimed by two different countries (a common occurrence is where the financing country, as well as the country where the emission reduction is achieved, both want to account for the reduction) or by two different companies.

It is worth noting, however, that despite seeming to be a fundamental principle, at the moment it remains rather theoretical, as the emission reductions certified by the Label Bas-Carbone are not systematically captured by the national inventory. This is due to the fact that Label Bas-Carbone methods are often far more accurate than the national inventory method as previously mentioned.

Double-counting between upstream emissions reductions and a company's Scope 3 carbon budget

Here we consider cases where an emission reduction can generate both a carbon credit and reduce a company's Scope 3 emissions. Although these cases are more complex than double counting between a country and a company, we also recommend to disregarding them for pragmatic reasons (I4CE, 2021c).

These two indicators do not however express the same thing:

- Scope 3 is a snapshot of a company's emissions and its value chain. It is therefore a net physical flow of GHGs between time t and time t+1 within a given scope. Scope 3 emissions can therefore be reduced without a company having to take any specific climate action (*e.g.*, one of its suppliers could independently improve its own carbon footprint).
- Carbon credits represent a reduction in emissions or an additional storage of carbon in relation to a previously calculated reference. They symbolise a funder's climate action and constitute a 'right to be valued'.

Furthermore, considering that there would be a problem of double counting in this case raises a question: is compliance with such an approach technically feasible given that value chains are deeply intertwined, and stakeholders are required to have carbon targets for their entire value chain? Indeed, Scope 3 is in the realm of double counting since an emission reduction by an upstream player in the value chain must appear in the Scope 3 of all its downstream partners. In practice, it also seems impossible to verify that double counting has not occurred between the sale of carbon credits for offsetting purposes and the reduction in emissions presented in corporate carbon balance sheets. It would mean setting an unverifiable rule (see 'only propose verifiable rules' below).

In general, as discussed in recommendation 3, neither the private sector nor the State alone has the capability of financing all the projects required to achieve climate objectives. Partnerships between value chains, industrial sectors, territories, and the private and public sectors, should be facilitated and encouraged to finance as many projects as possible. Presenting oneself as the sole beneficiary of a financed project in terms of carbon accounting is often misleading and can be detrimental to project development. In the carbon field, everyone benefits from the actions of others and double counting is not necessary problematic (I4CE, 2021c). However, only funders can claim responsibility for an emission reduction.

I4CE recommends that carbon offsetting should contribute to climate targets in order to fast forward the ecological transition and make the most of the complementarities between public and privates funding. More generally, I4CE recommends that the Commission clearly states that double counting does not pose a problem of environmental integrity at when the same removal is claimed by a company and a country, nor possibly when a removal occurring in a company's value chain reduces its Scope 3 emissions.

7.2. Proposing only verifiable rules

In order to guarantee the credibility of the future certification framework, it is necessary to be able to verify the criteria and rules to be respected. Requesting very ambitious criteria which you are not able to verify is tempting but undermines the scheme's credibility.

When it comes to the risk of non-permanence, for example, it can sometimes be requested to extend the verification and controls over several decades. This prospect is highly unlikely: can we make sure we will conduct an in 100 years?

Considering another modality, such as environmental integrity, it is necessary to verify the environmental impacts of projects undergoing carbon certification. If it is important to ensure that environmental issues are taken into consideration in the expectations of the certification, not verifying them during the audit would make little sense and would jeopardise the environmental integrity of the system.

However, proposing only verifiable rules could suggest that the scheme is not enough ambitious.

The Label Bas-Carbone in France has chosen not to include rules or indicators that are not verifiable. Thus, some sustainability issues were not integrated in the first versions of the Label's methods and are added in later versions once a scientific consensus has been established and recognised, which may have generated criticism about the lack of environmental ambition.

In general, this recommendation applies particularly to environmental integrity, the risk of non-permanence and the governance of the scheme. **I4CE therefore recommends that only verifiable rules be included in the certification framework, for example during the audit, to ensure its credibility and integrity.**

7.3. Disregarding the requirement that certified removals be visible in the national inventory

National GHG inventories should be accurate at national level, possibly based on statistical sampling. If the removals of a project or a type of project are missed by the national inventory, it may be a sign that the inventory should be improved but it should not prevent the certification of the project. **I4CE therefore recommends disregarding the issue of visibility in national GHG inventories when reflecting on whether a given method should be accepted: this question has historically hampered valuable projects under Joint Implementation without reason. As long as the validated method under the carbon certification framework is reliable, then environmental integrity is preserved.**

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