Consultation response to VCMI's provisional claim code of practice – Reclaim Finance

VCMI code: https://vcmintegrity.org/wp-content/uploads/2022/06/VCMI-Provisional-Claims-Code-of-Practice.pdf

Consultation form: https://airtable.com/shrIAZTAMYWWMo9q9

This document is the consultation response wrote by Reclaim Finance. If it agrees with Reclaim Finance's opinion, any third party is authorized to use this consultation to respond or to build on it to provide its own response. The consultation response can be provided by filling out this form.

The questions where Reclaim Finance does not wish to respond are not mentioned in this document. Questions require respondents to give a grade (1-5 stars) and – if they disagree or agree – to provide more information.

General (7 Questions)

To what extent do you agree with the statements below? (Please score from 1 to 5 stars, with 5 being totally agree and 1 being totally disagree).

3. The Claims Code provides aspirational goals and incentives for companies that are on the journey to becoming climate leaders.

1 star

Offsetting is not about trapping past emissions but about enabling current and future emissions, at best it simply displaces – and not reduces – emissions. The whole point of an offset is that one entity gets to keep emitting. For this reason, offsetting is not about mitigating climate change, but about providing the social license for high emitting activities to continue and about minimizing the cost of compliance to new climate regulation and voluntary pledges.

The VCMI framework does not solve this problem. On the contrary, it gives credibility to companies that would want to greenwash their activities without requiring sufficient information and ensuring that they are truly transitioning.

The VCMI Bronze claim, the use of VCMI carbon neutral claims for brands, products and services, and the link between VCMI Gold and carbon neutrality are especially worrying when it comes to greenwashing. However, the VCMI guidance also fails to set strong enough requirements at the company level to ensure that offsets are used in addition to strong emission reduction measures.

4. Use of the Claims Code would provide confidence to consumers, investors, and broader stakeholders that a company making the claim is a responsible climate actor.

1 star

As it is, the Claims Code would not provide confidence to stakeholders and could lead to significant greenwashing. See our answer to question 3 and to the questions of step 1 and 2.

Step 1: Prerequisites (7 Questions)

To what extent do you agree with the statements below?(Please score from 1 to 5 stars, with 5 being totally agree and 1 being totally disagree).

1. The prerequisites are clear, comprehensive, and represent a reasonable expectation of good corporate climate practice.

1 star

The prerequisites are unprecise and uncomplete. See our answer to question 4.

3. SBTi 1.5°C pathways are an appropriate guide for setting corporate targets.

4 stars

4. There is sufficient guidance for establishing and verifying companies' decarbonization pathways.

1 star

Several key elements are missing to verify that companies' targets are in line with limiting global warming to 1.5°C:

1) Long term net-zero target: the guidance should specify that any such target should include the reduction of GHG emissions by at least 90% by 2050 and aim at a 100% reduction.

2) Interim targets: a mandatory 2030 target should be added and reach at least - 50% of emissions to reflect the need for swift and drastic action on GHG emissions as required per climate science.

3) "Science-based" nature of targets: the guidance requires that companies set science-based targets but does not disclose how their "science-based" nature will be ensured. Requiring validation through the SBTi would offer more guarantees and establish a common quality baseline. Furthermore, any climate scenario used to determine company targets should be a 1.5°C low/no overshot scenario that relies on limited levels of negative emissions.

Furthermore, the code focuses on companies' targets but does not ensure that companies will actually follow and meet them. It only asks for "detailed information" on plans and strategies, without specifying key information to include. Therefore:

- The code should include a verification and sanction mechanism to ensure that companies are on track to meet their objective and publicly identify those that are not.

- The information on plans and strategies should notably include: (i) the repartition of their capex, with the share and amount of capex devoted to high carbon projects and activities; (ii) key milestones to be reached to reduce GHG emissions; (iii) specific requirements for companies involved in the fossil fuel sector regarding the evolution of their fossil fuel production and for the financial institutions that finance them.

5. SBTi requirements for accounting for Scope 3 emissions are appropriate.

2 stars

The SBTi requirement for scope 3 are insufficient:

- The 40% threshold enables companies with significant scope 3 emissions to establish climate targets without taking them into account. It is especially true for large companies whose scope 3 absolute emissions can be significant even if the bulk of their emissions comes from scope 1 and 2.

- The 67% coverage leaves out a significant share of scope 3 emissions. This is especially problematic for companies with high scope 3 emissions - in both relative and absolute terms - such as financial institutions and fossil fuel companies.

We suggest:

- To lower the 40% threshold to 10% and to set an alternative absolute threshold;

- To raise the 67% threshold to at least 80% for all companies and 90% for companies in sectors where scope 3 accounts for more than 50% of all emissions.

6. There should be a step before meeting the Claims Code prerequisites (an "on ramp") to encourage companies who do not yet meet the prerequisites to begin the VCMI journey.

1 star

7. Further guidance is required to substantiate that a company's policy engagement is aligned with its Net Zero commitment.

5 stars

The guidance only requires a public commitment regarding policy engagement. This is vastly insufficient and does not offer any sound guarantee.

Companies should at the very least:

- Publish detailed information on their policy engagement objectives;

-Publish detailed information on the trade and representative bodies they belong to, on how they ensure that they are not engaging in lobbying to delay climate action, and on how their positions are coherent with the ones of the company.

- Publish detailed information on its meeting with officials and contribution to regulation and legislation at various level.

Furthermore, the commitment made by the company should include a commitment to exit any trade or representative organization that would conduct lobbying to delay climate action.

Prerequisites Section General Comments

Please provide any additional comments on the questions above.

As it is, the VCMI guidance does not ensure that companies will decarbonize in line with a 1.5°C trajectory and the Paris Agreement.

Beyond the various recommendations made in response to the above questions, we want to underline that the guidance fail to account for the high climate impact of certain activities and sectors. In some, sectors – notably fossil fuel extraction and utilities – reaching key "real life" milestones is essential. For example, exiting coal by 2030 in the OECD and EU and 2040 worldwide and ending new fossil fuel supply projects and coal plants. Such criteria can be set based on the work of the IPCC, IEA and scientists and are needed to ensure that a company is credibly transitioning.

Step 2: Claims (10 Questions)

To what extent do you agree with the statements below?(Please score from 1 to 5 stars, with 5 being totally agree and 1 being totally disagree).

1. The schedule of claims respects the accepted mitigation hierarchy.

1 star

The flexibility enabled under the VCMI Bronze claim is a clear breach of the mitigation hierarchy. Indeed, it enables companies that would not meet their emission reduction targets to use offsets to replace carbon emission reduction.

The use of the "Net-Zero" qualification for VCMI Gold can also breach the mitigation hierarchy by altering the meaning of carbon neutrality, driving people to believe it could be reach by "compensating" through offset beyond a limited volume of residual emissions.

2. Thresholds for use of carbon credits in VCMI Gold, Silver and Bronze are appropriate.

1 star

The 20% threshold for VCMI Silver and Gold is especially low.

3. For each of the VCMI Claims (Gold, Silver and Bronze):

Please indicate whether you think it is too ambitious, strikes the right balance between ambition and accessibility, or is vulnerable to misuse and additional guardrails are needed to prevent greenwashing.

VCMI Gold: the use of the terminology "net-zero" for VCMI Gold is especially misleading and dangerous. "Net-zero" would suggest the company already reduced its emissions by at least 90% and only compensate for residual emissions. VCMI Gold should not be linked to carbon neutrality but should rather be framed as a significant environmental contribution.

VCMI Silver: the 20% threshold is low and could be risen to incentivize significant environmental contribution.

VCMI Bronze: as mentioned in our answer to questions 1 and 5, the VCMI Bronze is especially dangerous and could lead to significant greenwashing.

5. Further criteria are needed to ensure companies make significant improvements on Scope 3 interim reduction targets through time in the VCMI Bronze claim.

5 stars

As mentioned in our response to question 1, VCMI Bronze breaches the mitigation hierarchy. No VCMI credential should be awarded to companies that do not reach its GHG reduction objectives.

10. Additional guidance is needed on the Brand, Product and Service claims.

5 stars

The use of VCMI to grant a carbon neutral credential to a brand, product or service could lead to massive greenwashing. Carbon neutrality is a global concept that cannot be applied at the level of a brand, product or service. A product or service always emits emissions and has environmental impacts, claiming that it could be carbon neutral is misleading and could contribute to hide emissions from

consumers and clients. It is effectively impossible to meet the requirement to "avoid creating a false impression, hiding trade-offs, and/or overstating the beneficial environmental impacts of activities" set by the VCMI while claiming that a brand, product or service is neutral.

Claims Section Comments

Please provide any additional comments on the questions above.

The VCMI standard opens the door to massive greenwashing by: 1) Allowing companies that do not even meet their climate targets to claim VCMI Bronze; 2) Linking VCMI Gold to Carbon neutrality; 3) Allowing companies to make carbon neutral claims on products, brands and services.

Step 3: Credits (2 Questions)

To what extent do you agree with the statements below?(Please score from 1 to 5 stars, with 5 being totally agree and 1 being totally disagree).

Credits Section Comments

Please provide any additional comments on the questions above.

The issue of the permanence of offsets is only marginally taken into account. Similarly, the guidance offers little elements on the need to ensure that any offsets is not only compatible with human rights and environmental preservations but also contributes to them.