

Report on presentations to the business sector

ACTION E4

OCCC

FOREST OWNERSHIP CENTRE (CPF)



LIFE16 CCM/ES/000065

CLIMARK

Forest management pro-
motion for climate change
mitigation through the
design of a local market
of climatic credits

DELIVERABLE

41



Report on presentations to the business sector

The objective of Action E4 is to reach out to potential buyers of climate credits. To this end, meetings have been held both directly with companies and with mediating organisations that are in regular contact with them, within the framework of offsetting their environmental impacts.

Thanks to all these contacts and meetings, as indicated in Deliverable 42, a sufficient understanding has been obtained of potential buyers' views and interests concerning climate credits, to the extent that the session originally planned to present the concept to the business sector has been suppressed and the time and budget used for other unplanned matters that have arisen during the project.

This document details the various profiles of potential climate credit buyers and their interests and concerns, and barriers to purchasing. This knowledge is vital for designing a climate credit market and for decision-making when establishing a future legal framework.

CONTENTS

INTRODUCTION	4
POTENTIAL CLIMATE CREDIT BUYERS	4
TYPES OF BUYER. THEIR INTERESTS	5
FACTORS AFFECTING THE DESIGN OF CLIMATE CREDIT MARKETS ACCORDING TO TYPE OF BUYER	7
CONCLUSIONS	10

1. INTRODUCTION

The LIFE CLIMARK project aims to contribute to climate change mitigation and to increase the sink capacity of Mediterranean forests by creating a market for climate credits that encourages multifunctional forest management in these forests. The sale of credits must be used to finance the measures to be carried out within the forestry management project.

In the design of the climate credit and the market during the project, close attention has been paid to the views and concerns of potential buyers.

2. POTENTIAL CLIMATE CREDIT BUYERS

Throughout the project, via workshops, meetings of the CSR Group of Experts, bilateral meetings and discussions at conferences, potential climate credit buyers have given their views on the climate credit concept and the extent to which it could be of interest to them.

All these views have been collected and categorised according to the profile of the actors involved.

Local bodies

Some town councils, specifically those with pilot projects under way (Castellar de Vallès and Sant Cugat del Vallès), were already planning forestry measures in their municipalities, mainly aimed at preventing forest fires. However, once they became aware of the LIFE CLIMARK project and the climate credits concept, they changed to a multifunctional forest management approach rather than just focusing on fire prevention.

Both municipalities had focused on fire prevention, due to a lack of knowledge on how to go beyond that. However, projects that also enable carbon sequestration, reduced water consumption due to evapotranspiration and biodiversity enhancement are a perfect fit for their ecosystemic approach to forestry management. In addition, acting within the framework of a European project or a future climate credit market managed by the government gives them an image of official approval and scientific consensus that they find extremely useful when explaining forestry measures to the public.

Infrastructures

Major transport infrastructures, including roads and motorways, railways and logistics infrastructures and industrial estates, undoubtedly have an environmental impact.

Most are managed by large public or private sector operators, who are in general assuming their responsibilities towards the environments in which they operate. Some have also begun to implement decarbonisation and climate change adaptation plans. For those that wish to put their adaptation policies into practice, the purchase of climate credits generated in the areas where they operate is a practical and effective measure.

Local businesses

For the purposes of this report, local businesses are considered to be those that operate in a geographically limited market or which have a large production centre with a major impact on their local area in terms of generating wealth and employment as well as in terms of environmental damage due to pollution or the consumption of resources.

Their interest in multifunctional forest management stems from their sense of responsibility towards the area in which they operate.

Climate credits could be the right product for them, allowing them to offset their impacts through a “local offsetting” approach, i.e. contributing to the good management of the area that they affect.

Multinational companies

For the purposes of this report, multinational companies are large businesses that operate in various international markets, whose name is recognised by the general public, and who are under significant pressure to augment their social corporate responsibility policies, whether in response to the impacts of their operations or to public demands concerning their environmental behaviour.

Many now publish their environmental results alongside their financial and management reports, and need to demonstrate that these results are improving in the light of current pressures regarding sustainability. Their policies need to prioritise reassessing their activities in order to reduce greenhouse gas emissions and water consumption and to avoid actions that harm biodiversity. Offsetting mechanisms are, however, an ideal instrument if used in tandem with such policies and for those impacts that they have not been able to reduce.

3. TYPES OF BUYER. THEIR INTERESTS

The potential buyers identified during the LIFE CLIMARK project are classified under two headings according to their interests:

- The first group we refer to as "local buyers". These include local bodies, infrastructures and businesses.
- The remainder are classified as "global buyers", i.e. multinational companies.

Local buyers

Local buyers are mainly interested in the climate credit scheme for its level of **local acceptance**, among both institutions and residents.

The public often do not understand the reasons behind forestry measures or why part of the landscape is being modified. People who are not sufficiently informed may feel that the area has suffered environmental damage for weeks or months after work has been done, and often complain to landowners or the authorities responsible.

For companies of this type, who will finance the work, it is vital, therefore, that there is good communication about the project and that the public are made aware of the ecosystem benefits of the measures. The climate credit scheme is part of a European project, based on

a methodology that is widely accepted by the scientific community, and is supported by the government. These are powerful arguments that help it to gain public acceptance.

To meet this need for local acceptance, a **dedicated communication** policy must be developed, based on the ecosystem benefits generated locally from the measures implemented under the climate credit scheme. This means getting all the agents in the area actively involved. It is the only way companies that buy climate credits will gain recognition and enhance their local reputations, thanks to their funding of the measures.

A climate credit market that focuses more on local buyers will enable projects to develop stronger roots, but it must be borne in mind that **local buyers' funding capacity is limited**, given the high cost of these projects. The cost per hectare is around 3,000 euros and a typical project could cover an area of 50 hectares, so we are talking about 150,000 euros per project.

Global buyers

Global buyers acquire climate credits in order to **offset their environmental impact**. Companies report their environmental results, and must be seen to be reducing impacts as well as offsetting them. They are interested in how many tonnes of carbon are absorbed, when they want to offset their greenhouse gas (GHG) emissions, or the number of cubic metres of blue water generated, when they want to offset their water footprint.

The purpose of the climate credit scheme is to bundle together a range of ecosystem, carbon, water and biodiversity services, while incorporating other aspects such as communication, improving forestry workers' conditions and in-company training. This means that, when a company wishes to offset just one of its environmental impacts, such as its GHG emissions, the cost of a tonne of carbon will be higher than other tonnes of carbon it can buy on the market for offsetting. The climate credit quantifies and monetises a range of combined ecosystem services, and may not be the ideal product in every case in terms of price competitiveness. When a company only wants to offset one impact, the unit-for-unit price is higher.

Despite the limitation of the individual unit cost per impact, global companies have expressed interest in climate credits as a means of helping them **to comply with corporate sustainability goals**, which they may see as an opportunity or a necessity.

Many of these companies have subscribed to the Sustainable Development Goals (SDG) and are studying how to comply with their commitments. The environmental and social features of the climate credit could make it an ideal instrument.

Solutions addressing the natural world have formed part of companies' strategies at various levels in recent years and the climate credit could complement these.

Finally, there has been considerable development in recent years on accounting and financial reporting standards with regard to sustainability, with increasingly stringent requirements. When large companies publish annual financial reports, they must include non-financial information, and the climate credit could be a way of demonstrating an improved sustainability policy. The EU Taxonomy that is being rolled out following the publication of Regulation (EU) 2020/852 will determine the price at which external funding can be obtained, while introducing a regulatory framework in which large companies will have to augment their sustainability policies in a reliable and demonstrable way.

This new framework of environmental compliance and reporting requirements for large companies is in the very early stages and some European and Spanish legislation is yet to

be implemented. Nevertheless, it could represent an opportunity to make the climate credit more useful to multinational companies.

Large companies work on a large scale, which could allow them to acquire more climate credits, while working with **standardised projects** that are easy to replicate. It must be borne in mind that this could be a limitation: while the types of project financed through climate credits are based on a standard methodology, they also require individualised study in each location in order to build on the specific features of their ecosystems.

Local buyers	Global buyers
Local acceptance	Offsetting environmental impacts <ul style="list-style-type: none"> • The price is not competitive when offsetting a single impact
Dedicated communication	Compliance with corporate sustainability goals: <ul style="list-style-type: none"> • SDG • Solutions addressing the natural world • Non-financial information and taxonomy
Reduced funding capacity	Standardised projects

4. FACTORS AFFECTING THE DESIGN OF CLIMATE CREDIT MARKETS ACCORDING TO TYPE OF BUYER

The development and conceptualisation of the climate credit market must take into account the interests of the different types of potential buyers, as it requires the definition of operating rules that will support the ecosystemic role of forests, produce the greatest number of projects and be attractive to buyers in order to capture all the funding needed.

The aspects to be taken into account for the development of a climate credit market are detailed below, indicating whether they are a priority for each type of buyer.

Metrics

Metrics refers to the quantification, certification and publication of the ecosystemic impacts associated with the climate credits, i.e., the quantity of carbon absorbed (or avoided thanks to preventing fires), the cubic metres of blue water generated or the % of biodiversity generated.

All buyers are concerned that these metrics are clearly visualised, as this is the essence of the climate credit and allows the ecosystemic benefits achieved to be objectively demonstrated. Global buyers, however, who are interested in offsetting impacts against their environmental accounting statements, need greater focus on this aspect.

Involving local actors

Local buyers are interested in gaining local acceptance and improving their reputation. These aspects must be taken into account from the start of the project, getting all local actors involved and listening to their ideas and opinions. The better the project is known about and accepted in the area, the more buyers will appreciate putting money into climate credits.

Social aspects

We understand the social aspects of the climate credit to be those features that are not normally considered part of traditional forestry management. Companies that carry out forestry work for projects that generate climate credits will be required to guarantee minimum working conditions for their employees in terms of safety, training and remuneration. It is also planned to provide training to these companies in order to improve the quality of the work done on the projects.

Global buyers have an interest in this aspect as it contributes to their compliance with SDGs linked to social issues, but in general it will be local buyers who are particularly sensitive to such matters, as projects with local roots will take more care to ensure that the companies used are local, have an understanding of the specific nature of the project and will commit to treating workers decently.

Independent verification

For this type of project, verification refers to checks by an independent third party to ensure that the forestry work has been carried out as planned, but not that the expected ecosystemic benefits have been achieved, as these are based on the modelling provided by LIFE CLIMARK.

The cost of this independent verification could be a conditioning factor. A buyer would prefer this verification to be performed in order to have greater certainty that the project has been executed correctly, but it does increase the cost, bearing in mind that the cost of implementing a project is already high.

Local buyers do not prioritise it, as it is not necessary in order to obtain the recognition of local stakeholders. Their target audience is the local authority, residents and other local bodies, who already know about the project and may even have access to the areas where the work has been done, which is the best way to understand and appreciate it.

For global buyers such verification may be indispensable. The mechanism used to perform and report must be able to demonstrate they have offset their environmental impacts within a reliable legal framework.

International recognition

Multinational companies report their environmental behaviour via global initiatives such as sustainability indices, international reporting mechanisms or voluntary sector agreements. The recognition of certain offsetting projects is often not done on a case by case basis. Instead, offsets can sometimes only be accepted if they form part of previously recognised international standards, such as the VCS, CCB or Gold Standard.

Based on meetings held with potential global buyers who have expressed an interest in acquiring climate credits, but who have asked that these credits be recognised under one of these international standards, a specific study has been started, outside the timeline of the LIFE CLIMARK programme, to determine whether the climate credits could be compatible with these standards. The study is assessing the extent to which the current design of the climate credit would have to be modified to bring it in line with one of these standards and

what the additional cost would be. The results of the study would give us a better informed opinion on whether the current climate credits could be traded on an international market or whether in the short and medium term they must be restricted to a local market.

Funding gaps and the assumption of risk

The execution period for the projects that generate climate credits is long, as forestry work may take two or three years to complete. Under the current design, the buyers of climate credits will pay the funds on account in proportion to the work carried out.

This produces two challenges:

Funding gap: it may take two to three years from when the climate credit buyer begins funding the measures until the final product is received.

The assumption of risk: even if the project is carried out according to plan and all the parties meet their commitments, over a two- to three-year period unforeseen events may occur such as a fire, plague or other circumstances beyond the control of the parties, which could mean the project will have to be changed or even abandoned.

For local buyers this approach does not seem to be particularly limiting, as we are talking about projects with strong local roots, where most of the actors (owners, buyer, forestry managers, public authorities) know each other and there is a greater degree of trust, so such issues are considered to be manageable.

For global buyers, who are used to accessing international markets where the practice is to pay for an offsetting instrument and obtain a certificate accrediting said offset, the funding gap and assumption of risk could represent barriers that may be difficult to overcome without developing complementary mechanisms to create an operating framework that is different to the current one.

The table below summarises the priorities we have identified according to type of buyer, with the darker colours indicating in each case what type of buyer is more interested in each aspect of the climate credit.

COMPARISON OF PRIORITIES BY CLIMATE CREDIT BUYER TYPE	
Local buyers	Global buyers
Metrics	Metrics
Involving local actors	Involving local actors
Social aspects	Social aspects
Independent verification	Independent verification

International recognition	International recognition
Funding gaps and the assumption of risk	Funding gaps and the assumption of risk

5. CONCLUSIONS

- Two very different types of potential buyer have been identified with different interests that will push the future design of the market in one direction or another.
- More specific, individualised projects are targeted at local buyers, where they work in a climate of greater trust and mutual understanding. But these buyers have a more limited funding capacity.
- Targeting global buyers could, potentially, attract greater amounts of funding but would require the processes to be standardised, reducing the potential for tailoring specific projects.
- During the project we have looked in parallel at both market designs, without ruling out one or the other from the beginning.
- The decision on how to target the future climate credit market in Catalonia will have to be taken at a political level, based on the knowledge and technical expertise developed during the project.