

Application of the Oeko-Institut/WWF-US/ EDF methodology for assessing the quality of carbon credits

This document presents results from the application of version 3.0 of a methodology, developed by Oeko-Institut, World Wildlife Fund (WWF-US) and Environmental Defense Fund (EDF), for assessing the quality of carbon credits. The methodology is applied by Oeko-Institut with support by Carbon Limits, Greenhouse Gas Management Institute (GHGMI), INFRAS, Stockholm Environment Institute, and individual carbon market experts. This document evaluates one specific criterion or sub-criterion with respect to a specific carbon crediting program, project type, quantification methodology and/or host country, as specified in the below table. Please note that the CCQI website [Site terms and Privacy Policy](#) apply with respect to any use of the information provided in this document. Further information on the project and the methodology can be found here: www.carboncreditquality.org

Criterion:	1.2 Vulnerability
Project type:	Establishment of Natural Forest
Assessment based on carbon crediting program documents valid as of:	30 June 2021
Date of final assessment:	20 May 2022
Score:	<p>Assessment of market functioning: The CDM market for establishment of natural forests projects is deemed to be collapsed. For the CAR, GS and VCS it is deemed to be functioning.</p> <p>Vulnerability score for the CDM: 3</p>

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Assessment

Relevant scoring methodology provisions

In market situations where the supply of carbon credits from already registered and implemented projects considerably exceeds the current and expected future demand for carbon credits, the purchase of carbon credits does not necessarily trigger further emission reductions. The methodology therefore evaluates for carbon credits in collapsed markets whether the projects would continue to reduce GHG emissions even without carbon credit revenues, or whether they are at risk of discontinuing GHG abatement without these revenues. In the latter case, they are classified as vulnerable projects. The methodology employs a stepwise approach for assessing the vulnerability of the respective project type or individual project:

- Step 1: Evaluate whether the relevant market of the carbon credit can be characterized as collapsed (see methodology for further details). Note that currently, this situation only applies the CDM.
- Step 2: Identify potential continuation and discontinuation scenarios. If applied on the project type level a representative sample of projects can be assessed.
- Step 3: Evaluate how applicable legal requirements affect the feasibility of the scenarios identified in step 2. Apply this step to both continuation and discontinuation scenarios. Remove scenarios that could not be pursued due to applicable laws and regulations. This step may be applied at project or project type level in the context of a specific host country or at the level of the carbon crediting program (see methodology for further details).
- Step 4: Assess financial benefits and costs and rank the remaining scenarios in order of their financial attractiveness by performing a cost-benefit analysis of each scenario. The financial attractiveness of a project depends on whether its income exceeds the operational expenditure in the absence of carbon credits. Only OPEX and benefits are therefore considered in the analysis. Exclude costs and benefits that occur under all scenarios in a uniform manner.
- Step 5: Assess whether any of the scenarios faces non-financial barriers that exclude it from being the course of action. For conducting the barrier assessment, the same approach described in section 1.1.4 is applied using an expert judgement. Remove all scenarios that face non-financial barriers and are scored at 5 or 4 from further consideration.
- Step 6: Determine the most likely project scenario. The highest ranked remaining scenario is the likely course of action. If this is a continuation scenario, the project is deemed to have a low vulnerability to discontinue GHG abatement (score of 1). If the scenario is a discontinuation scenario, and it is either the only remaining scenario or any other scenarios are financially significantly less attractive, then the vulnerability is deemed to be high (score of 5). In other instances, e.g. where a continuation and discontinuation scenario may be equally plausible, no clear conclusion can be drawn on vulnerability (score of 3).

Degree of Vulnerability	Score
High Vulnerability	5
Vulnerability not conclusive	3
Low Vulnerability	1

Information sources considered

- 1 Cames, M., Harthan, R. O., Fussler, J., Lazarus, M., Lee, C. M., Erickson, P. and Spalding-Fecher, R. (2016). *How Additional Is the Clean Development Mechanism? Analysis of the Application of Current Tools and Proposed Alternatives*. CLIMA.B.3/SERI2013/0026r. Prepared for DG Clima by Oeko-Institut, INFRAS, Stockholm Environment Institute (SEI), Berlin. https://ec.europa.eu/clima/sites/clima/files/ets/docs/clean_dev_mechanism_en.pdf
- 2 Warnecke et al. (2019) Robust eligibility criteria essential for new global scheme to offset aviation emissions – Supplementary information https://static-content.springer.com/esm/art%3A10.1038%2Fs41558-019-0415-y/MediaObjects/41558_2019_415_MOESM1_ESM.pdf

Assessment outcome

The project type is assigned a score of 3.

Justification of assessment

Step 1: Per the guidance in the methodology the CDM market is collapsed. All other markets relevant for this demo-application are considered functioning.

Step 2: The following continuation or discontinuation scenarios are identified:

- Scenario 1: Removal activity continues as originally designed and implemented, and at the same scale as the forest continues to grow naturally without further stewardship and protection through the project owners.
- Scenario 2: Removal activity continues but at a smaller scale as project owners will transfer the forest into a silviculture and engage in regular harvesting of wood products to generate revenues while continuing to maintain and protect the remaining forest.
- Scenario 3: Removal activity discontinues as project owners will harvest the full forest to monetize the wood products before abandoning or selling the land.
- Scenario 4: Removal activity discontinues as project owners will clear (harvest or slash and burn) the forest to use the land for different revenue generating purposes (e.g., agriculture or livestock farming).

Step 3: Some jurisdictions have legal requirements that require the establishment of natural forests (e.g., as part of natural parks or protected areas) or that forests have to be retained once established. For this reason, there is a possibility that new legal requirements are introduced or that existing legal requirements are enforced during the course of the crediting periods. In this case, the removal activity might continue. It is difficult to assess, however, how often such a situation could occur. As there is no conclusive outcome on this step, the following steps are applied.

Step 4: Establishment of natural forest projects typically do not accrue any other revenues besides income from carbon credits. Operational expenditures of these projects typically include forest maintenance activities and the protection of the forest area from logging and other activities that interfere with its growth and permanence.

It can be assumed that scenario 1 is the least financially attractive scenario as, while there are no costs, there are also no revenues associated with this course of action. Scenarios 2-4 all provide revenues to the project owners. The financial attractiveness of each scenario highly depends on the project owner's investment horizon and market conditions at the forest's location. Scenario 2 which would transfer the forest into a silviculture might establish a stream of stable revenues for project owners over the long-term while scenarios 3 and 4 would provide income to project owners in the short-term. Scenario 4 might have a higher likelihood in locations where land is scarce and demand for agricultural land is high. A ranking of scenarios 2-4 is therefore not possible without knowing the project context.

Step 5: It is assumed that non-financial barriers would be an immaterial factor affecting whether these kinds of projects will continue or discontinue in the event of a market collapse.

Step 6: As it is not possible to rank scenarios 2-4 under step 4 and they include continuation (scenario 2) and discontinuation (scenarios 3 and 4) scenarios the vulnerability of the project type is inconclusive. The project type is therefore assigned a score of 3 under the CDM.