



# CARBON CREDITS INTEGRITY

## NEW FORESTS' POSITION STATEMENT

This paper sets out New Forests' position on addressing quality and integrity in the development and use of carbon credits. This statement addresses our views on supply-side integrity, i.e. that carbon credits deliver the emissions reduction they claim to represent, and demand-side integrity, i.e. that the purchaser of the carbon credit is using it as part of a credible strategy in line with achieving the goals of achieving the Paris Agreement. Our position is based not only on our current understanding and assessment of global best practice and stakeholder expectations, but also our own beliefs around what comprises quality and leads to positive impact, given our many years of experience investing in sustainable forestry, land and carbon markets.



# The central role of Natural Climate Solutions

To meet the goals of the Paris Agreement and limit global warming to 1.5°C above the pre-industrial era, decarbonisation across the global economy is needed, including land use.

Significant emission reductions are required from agriculture, deforestation, and other degradation of land and nature, which currently contribute to about a quarter of global greenhouse gas emissions. However, it is estimated that the land use sector can help deliver around one-third of the net emission reductions, or approximately 10 billion tonnes of CO<sub>2</sub> emissions reductions and removals, required annually through 2030. In order to achieve this objective, hundreds of billions of dollars need to flow into sustainable land use and related sectors. Land-based climate change mitigation including conservation of nature, sustainable forestry and agriculture, and restoration of degraded land—collectively known as Natural Climate Solutions (NCS)—must become directly accessible to investors at scale.

New Forests invests to create sustainable, climate-positive landscapes that integrate conservation, restoration, and production while supporting rural livelihoods, economic development and biodiversity enhancement. We believe that a variety of NCS are critical to climate change mitigation and resilience—improved forest management activities; reforestation with commercial species as well as native species; forest conservation and protection; and enhancement of soil carbon. Our investment strategies and products seek to create value for institutional investors across these NCS assets at scale.

## The role of carbon credits in financing NCS at scale

Trillions of dollars of public and private sector investment are required to finance the climate transition in both the energy and land use sectors. Despite their considerable potential for cost effective climate mitigation and potential to generate biodiversity and sustainable development outcomes, public investment in NCS to date has been limited. As with the clean energy transition, private capital will be central to scaling NCS in alignment with Paris Agreement targets.

Carbon pricing is widely recognised as a critical mechanism to create value for sustainable land use. New Forests' investment experience with government regulated carbon credit markets in the US, Australia, and New Zealand shows that modest carbon pricing (for example, \$15 per tonne of CO<sub>2</sub>) creates meaningful incentives for incremental management changes to increase carbon sequestration like extended rotations, and slightly higher prices (such as \$30 per tonne) creates incentives for investment in ecosystem restoration and in new commercial plantation development. [Analysis](#) by McKinsey forecasts the voluntary carbon market to rise to \$50 billion per annum in 2030 in alignment with corporate net zero commitments—a functioning carbon market of this size



would lead to significant conservation and reforestation of tropical forests across landscapes in Asia, Latin America, and Africa. New Forests is therefore supportive of carbon markets as a mechanism to scale investment in NCS across developed and developing markets. We will continue to invest in a variety of government regulated and voluntary carbon markets.

Furthermore, companies that cannot yet reduce their emissions in alignment with Paris Agreement targets can make a real difference to climate change mitigation in the short term by supporting NCS and by prioritising both forest protection and reforestation. Protecting intact ecosystems locks away at-risk carbon, and reforestation removes carbon from the atmosphere. As it takes time for forests to grow and to scale NCS, it is critical to direct capital to NCS now to get the benefit of climate change mitigation for decades to come.

NCS also provide cost-effective emissions abatement and removals that will support more climate change mitigation in the near-term. While technology for capture and long-term storage of carbon is under development, it is not currently available at the scale required, whereas NCS are available now. There is a time value of reducing emissions today rather than letting emissions accumulate in the atmosphere. It is important to aim for significant emissions reductions and removals from the land sector now to keep to 1.5 degrees of warming while hard to abate sectors develop technological solutions to abate theirs.

New Forests also believes that carbon credits are only one mechanism to finance NCS. New Forests will support and engage concurrently in other actions that will also strengthen NCS. These include stronger government climate policy, advocacy for deforestation-free commodities and nature-positive corporate value chains, and new products and markets that value nature and biodiversity. We need to pursue all these actions concurrently.

Given the significant impact of the land use sector to climate change mitigation, we believe commitments to net zero by 2050 by governments and companies implicitly means not only a commitment to reducing emissions related to fossil fuel use, but also a commitment to supporting the reduction of emissions from land use and enhancing carbon sequestration from forests and other natural systems. Credible net zero commitments are going to have to support action to reduce emissions and increase removals outside their value chain, in particular to NCS.



# The need for integrity in carbon markets

New Forests believes that quality and integrity in the development and use of carbon credits are vital to ensure they strengthen global action towards achieving the goals of the Paris Agreement and global net zero emissions by 2050.

We support the efforts of various initiatives and stakeholders—government, NGOs, business, and investors<sup>1</sup>—to develop guidelines to build credibility and trust in the carbon markets to ensure market-based approaches including carbon credits remain a component of credible action to achieving this time-critical ambition.

## Our principles regarding supply-side integrity

New Forests believes supply-side integrity is critical to ensuring that our carbon projects deliver real and credible climate change mitigation. Supply-side integrity is determined by the rules under which the carbon credits are developed. New Forests’ Social and Environmental Management System (SEMS) includes a policy that governs the kinds of carbon credits it will develop in government regulated and voluntary carbon markets. The protocols in which New Forests participates have been developed through public consultation processes that bring together relevant stakeholders (e.g. companies, financiers, NGOs, scientists, research organisations, etc) to develop systems with integrity, quality, and opportunities for continuous improvement.

<sup>1</sup> Including but not limited to the Science Based Targets, Race to Zero, Oxford Principles for Net Zero Aligned Carbon Offsetting, Voluntary Carbon Market Integrity Initiative, Integrity Council for Voluntary Carbon Markets, Natural Climate Solutions Alliance.



## New Forests’ SEMS policy on carbon credits

Investments managed by New Forests use carbon credit protocols that promote integrity of environmental outcomes while safeguarding against adverse impacts on the environment and society. In accordance with these principles, credits should be:



**Real** - that the offset represents a real emission reduction, avoided emission, or carbon removal.



**Additional** - that the offset would not otherwise have happened under the business-as-usual management approach and is the result of actions to deliver climate benefits.



**Independently Verified** - that the offset is verified by an independent third party using credible standards and methodologies.



**Addressing Permanence** - that the risk of reversal of an offset is mitigated through project level, standard level, and/or scheme/policy mechanisms that ensure offset integrity.



**Addressing Leakage** - that the risk of leakage of activities related to the offset is mitigated through project level, standard level, and/or scheme/policy mechanisms that ensure offset integrity.



**Do No Net Harm** - that the offset project appropriately identifies and mitigates risk of significant adverse environmental and social harms that may relate to the project and its activities.

For the purposes of demonstrating compliance with these criteria, New Forests considers the following protocols meet the above requirements:

- Gold Standard
- Verified Carbon Standard (VCS); projects can be dual VCS and Climate, Community, and Biodiversity Alliance (CCBA) certified
- Compliance Offset Program of the California Air Resources Board, including the US Forest Projects protocols
- Methods eligible within Carbon Farming Initiative and Emissions Reduction Fund of Australia
- Forestry activities of the New Zealand Emissions Trading Scheme.

New Forests may use other protocols, provided that the requirements described above are addressed within the protocol or through additional measures, where relevant. In these cases, the alternate protocol must be approved for use by New Forests’ Sustainability team and the relevant Management Committee within New Forests.

## Our principles regarding demand-side integrity

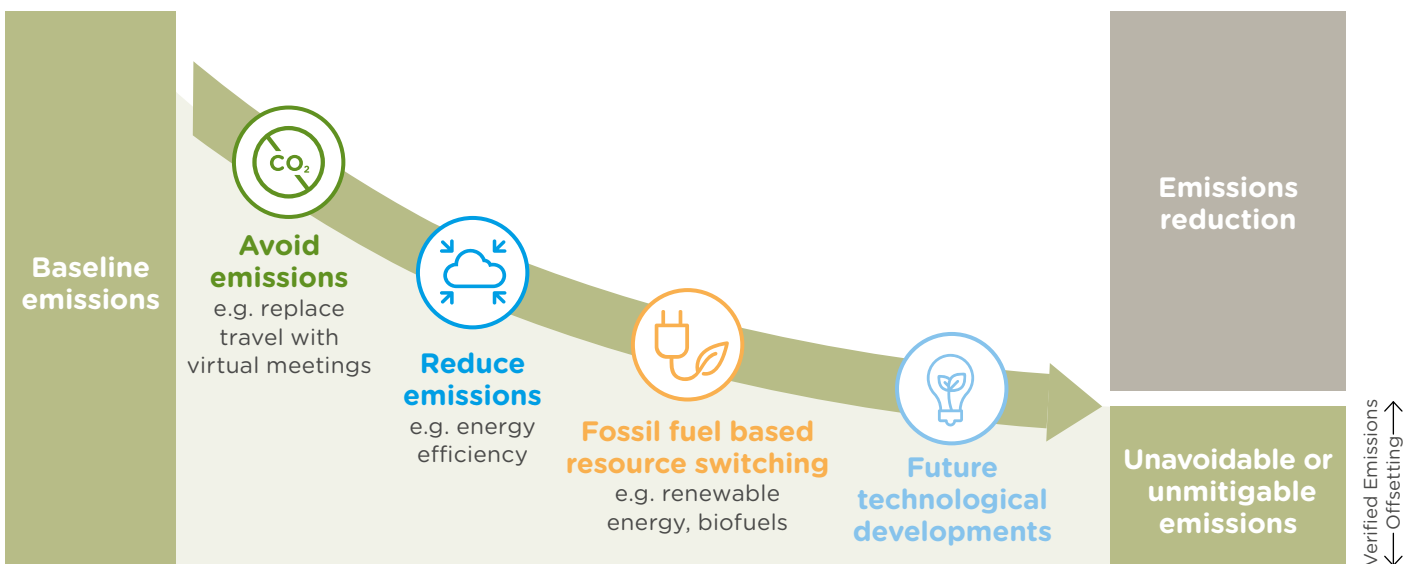
New Forests believes demand-side integrity is critical to ensuring that carbon credits are used in a way that supports genuine emissions reductions in line with achieving net zero emissions across the global economy by 2050.

New Forests believes that every company has a role and a responsibility to transition to net zero emissions by 2050. As such, our starting point is that no sector should be excluded from purchasing carbon credits to support voluntary emission reduction commitments.

Companies that use carbon credits for their voluntary commitments need to be taking credible climate action in line with best practice guidance<sup>2</sup> including:

- Committing to net zero by 2050 with nearer-term targets;
- Delivering on a plan to reduce emissions based on the mitigation hierarchy;
- Only using credits as an interim target for hard to abate emissions; and
- Advocating for robust policies to address climate change.

The key elements of the mitigation hierarchy are shown in the following diagram.



## Meeting voluntary climate commitments

New Forests supports the sale of carbon credits to companies for the purpose of meeting their voluntary climate commitments, where the company is taking credible climate action aligned to the goals of the Paris Agreement. Where New Forests plans to sell carbon credits to a company under a bilateral agreement, we will assess whether the company is taking credible climate action. In developing our assessment framework, we reviewed global best practice standards and guidance.<sup>3</sup> The New Forests Demand Side Integrity Assessment is a risk-based scoring methodology and includes key elements of the Climate Action 100+ Net Zero Company Benchmark.<sup>4</sup>

Addressing demand-side integrity in voluntary markets is challenging and without precedence. While various initiatives on demand-side integrity are emerging, at present these are still at the principles level and do not provide a definitive framework to allow New Forests to determine demand-side integrity of buyers of carbon credits. As such, New Forests has developed a framework to assist us in navigating demand-side integrity with buyers of carbon credits from projects managed by New Forests and to facilitate the following:

- An assessment of the credibility of a company or investor's climate action plan;
- Engagement with a company or investor on their climate action plan; and
- An assessment of the impact of selling carbon credits to our own reputation and that of our clients and stakeholders.

<sup>2</sup> Ibid.

<sup>3</sup> Including but not limited to the Climate Action 100+ Net Zero Company Benchmark, The Net Zero Standard for Oil and Gas, the Transition Pathway Initiative framework, and the Science Based Targets Initiative.

<sup>4</sup> All indicator a) level indicators and b) level indicators where the publicly disclosed response rate was > 40%.

## Compliance with government regulated obligations

New Forests supports the sale of carbon credits developed under government regulated schemes to companies regulated under these schemes for the purpose of meeting their emission reduction obligations. Where emissions reductions associated with these schemes are not yet aligned with objectives of the Paris Agreement, New Forests will continue to participate in these schemes, while advocating for alignment of government policy with Paris Agreement targets.

## Trading

New Forests recognises that trading of carbon credits may be important for liquidity and price discovery in carbon markets and overall growth and viability of carbon projects. However, until there is a broad industry standard to ensure demand side integrity in trading activities, New Forests will seek to engage with buyers who are interested in purchasing carbon credits for the purposes of retiring those credits to meet their voluntary commitments. Where a buyer seeks to on-sell the credits to third parties, New Forests will require the buyer to apply a demand side integrity assessment to these sales.

There may be situations where it may be in New Forests' fiduciary duty to sell carbon credits through an exchange or via a broker. In these situations, we will engage with the relevant organisations in the carbon credits trading sector to ensure they address issues of demand-side integrity, for example, through their buyer pre-qualification process.

## Transparency

Through engagement with buyers, exchanges and brokers, New Forests will encourage these actors to provide public transparency in relation to the usage, claims, and retirement of carbon credits for voluntary purposes in line with evolving industry and stakeholder guidance.

## Summary

New Forests believes it can make a significant contribution to addressing climate change by:



Selling high-quality carbon credits to companies and investors that have a genuine commitment to achieve net zero by 2050; and



Using our influence to encourage genuine commitment and greater clarity and disclosure on credible climate action by companies and investors.

We believe that this position statement will support New Forests' investments in NCS by:



Supporting our fiduciary duty to investors;



Strengthening our engagement with long-term carbon credit buyers;



Putting forward an approach that may help to support the integrity and credibility of the use of carbon credits for voluntary climate commitments; and



Communicating our approach to stakeholders.

# Advocacy

New Forests will advocate to support improvements in the quality and integrity of government regulated and voluntary carbon credit markets. We will support initiatives that seek this outcome. We believe internationally consistent, government regulated carbon credit markets and/or carbon pricing supported by robust climate change policies are critical for long-term investment in NCS. We will strongly advocate for these outcomes.

# Continuous Improvement

New Forests recognises that integrity of carbon markets is a rapidly evolving issue, and we will continue to monitor and review our position over time based on changes in government policy, market perceptions and standards, our experience and the views and expectations of our clients and other stakeholders.

We will look to adopt a globally accepted framework developed by the industry that reflects best practice, when one becomes available.



As global demand for resources grows, there is a need to increase productivity while ensuring the conservation of the world's remaining natural forests. New Forests seeks to create investment strategies that provide lasting solutions to this challenge. Through responsible management of forests and other real assets, we create shared benefit for investors and local communities alike. We believe that meeting the needs of a broad range of stakeholder will provide better returns over the long term.

New Forests has international reach, with offices and assets in Australia, New Zealand, Southeast Asia, and the United States. This gives us a global perspective combined with local expertise that allows us to understand and manage our assets more effectively. Wherever we operate in the world, our strength lies in our people and their drive to make investments that create the best possible outcomes. By investing with integrity and transparency we aim to generate strong returns while helping tackle some of the world's great sustainability challenges.

To learn more, visit us at [www.newforests.com.au](http://www.newforests.com.au) or contact us at [info@newforests.com.au](mailto:info@newforests.com.au).

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