

Forest Stewardship Council (FSC) International is revising the [<FSC-PRO-30-006 V1-2 - Ecosystem Services Procedure: Impact Demonstration and Market Tools>](#) (hereinafter referred to as Ecosystem Services Procedure). The revision of the Ecosystem Services Procedure is being carried out in two phases. Phase 1 of the revision is guided by Motion 48/2021 titled 'Streamline the Ecosystem Services procedure, include more services and maximize its potential'. Phase 2 is running parallel to Phase 1 and is guided by Motion 49/2021 titled "FSC Ecosystem Service Procedure as a mitigation mechanism to meet global market demand for net-zero and net-positive targets". Motion 49/2021 is partially addressed in Phase 1 and is to be fully addressed in Phase 2. Action point of Motion 49/2021, "**FSC shall revise the Ecosystem Services Procedure to approve the use of FSC certification and verified positive ecosystem service impacts for making claims towards achieving certificate holders (CHs) and sponsors' science-based targets at all stages of the mitigation hierarchy, including water neutrality, net-positive or no-net-loss biodiversity, net-zero climate impacts, and integrated nature-positive strategies. FSC-verified positive ecosystem service impacts can be applied to avoidance or reduction targets, and compensation or neutralization claims shall only be applied to residual impacts**", was further unraveled (particularly in Phase 2). The action point was further delineated in the following elements;

- Water neutrality/offsetting.
- Net-positive (Biodiversity Offsets) or no-net-loss biodiversity/integrated nature-positive strategies (Biodiversity Credits).
- Net zero climate impacts/compensation or neutralization (Carbon Offsetting).
- Compensation or neutralization claims should be applied only to residual impacts (Offsetting).

An analysis was conducted to determine whether the Ecosystem Services Procedure is suitable for offsetting (carbon, biodiversity, and water) and for the generation of biodiversity credits (i.e., biodiversity credits not being used for offsetting). As part of the Conceptual Phase, FSC hired Preferred by Nature (PbN) to assist in conducting the assignment including the assessment. PbN used Ecosystem Services Procedure [<FSC-PRO-30-006 V2-0 D2-0 Ecosystem Services Procedure: Impact Demonstration and Market Tools>](#) (hereinafter referred to as Ecosystem Services Procedure V2-0 D2-0) for its analysis in the "Final Technical Analysis: Operationalizing Compensation and/or Neutralization in the ES PRO 30-006." For carbon offsetting, the analysis highlighted several shortcomings/or further strengthening of the essential criteria that included i.e., additionality, robust quantification of emission reductions and removals, no double counting and robust independent third-party validation and verification require further strengthening; and the permanence, leakage and claiming requirements were missing. In terms of the generation of biodiversity credits, it was revealed that certain criteria are lacking or require further strengthening i.e., methodology/biodiversity credit accounting, additionality, and double counting and claiming require further strengthening; and leakage and traceability were missing. And for the biodiversity offsets i.e., additionality, permanence and governance (arrangements) are missing; uncertainty requires further strengthening. The biodiversity credits are different from biodiversity offsets. The biodiversity credits are "*an economic instrument that can be used to finance actions that result in measurable positive outcomes for biodiversity (e.g. species, ecosystems, natural habitats) through the creation and sale of biodiversity units*¹". Biodiversity offsets on the other hand are "*Biodiversity offsets are intended to compensate for any significant residual impacts on biodiversity after efforts to prevent and mitigate harm have been implemented*²". For water neutrality/offsetting, it was revealed that no scheme exists globally that matches the scale of established carbon offsetting schemes like those operated by VERRA and Gold Standard.

PBN also supported FSC in engaging various relevant stakeholders in this process by conducting a number of interviews and incorporating diverse viewpoints in their analysis. Interviews were conducted based on a stakeholder management plan. This plan identified 12 key stakeholder groups, including Motion Proposers, the FSC Board of Directors (BOD), organizations

¹ World Economic Forum (2023). Biodiversity Credits: Demand Analysis and Market Outlook. Insight Report. World Economic Forum, Cologny/Geneva.

²World Economic Forum (2022). High-Level Governance and Integrity Principles for Emerging Voluntary Biodiversity Credit Markets.

active in the Voluntary Carbon Market (such as Verra, Gold Standard, and the Science Based Targets Initiative), Indigenous Peoples (IPs), among others. The interview phase took place from June 6, 2024, to July 19, 2024, during which 29 interviews were conducted, representing all stakeholder groups except for the IPs. Each stakeholder group had 1 to 2 representatives included in these interviews. The interviews, which lasted one hour each, were conducted online, and prior consent was obtained via email by both PBN and FSC. FSC also participated in some of the interviews as an observer. As part of the stakeholder management plan Indigenous People were identified as a key stakeholder group. Interviews with IPs related to the Motion 49/2021 were conducted by a consultant handling the consultancy related to Motion 53/2021³, directly in Mexico. As a result, input was collected from 8 IPs in the Oaxaca region of Mexico. Additionally, inputs were gathered from a member of the Permanent Indigenous Peoples Committee (PIPC) in Mexico. Two phone interviews were also conducted - one with a PIPC member from Kenya and another with a government representative from FUNAI (National Indigenous Foundation) in Brazil. FUNAI is responsible for protecting IPs who have little or no contact with society or other tribes. In total, 10 IPs and one governmental official were interviewed (representing the IPs/Indigenous Organizations' stakeholder group from the stakeholder management plan), bringing the overall number of **interviews to 41**. Some of the main findings from the interviews were as follows, which, along with the technical analysis, also served as a basis for developing the respective proposals/questions for the public consultation;

- The interviewees strongly emphasized that if FSC decides to develop normative requirements for carbon offsetting, it is crucial to align with the Integrity Council for the Voluntary Carbon Market (ICVCM) Core Carbon Principles (CCPs) and the respective assessment framework.
- The interviewees stressed that FSC should prioritize the improved forest management category for carbon offsetting if it decides to develop such normative requirements.
- Interviewees highlighted that for generating robust biodiversity credits, criteria such as additionality, accounting framework, permanence, and others are important. If the FSC decides to develop normative requirements for generating biodiversity credits, these criteria must be followed at a minimum.
- The interviewees stressed that the FSC may need to develop normative requirements for aligning with the independent third-party validation and verification assurance system for carbon offsetting.
- The interviewees underscored that if FSC decides to develop normative requirements for carbon offsetting for compensation or neutralization of impacts beyond value chains, the claims from these high-integrity carbon credits shall follow the Voluntary Carbon Markets Integrity Initiative (VCMI) Claims Code of Practice.

For the next step of the conceptual phase, FSC will collect the responses from wider stakeholders through public consultation. The public consultation material includes a detailed report on the proposals and options for the implementation of different elements and the respective questions. This report along with the Technical Analysis Report will be shared through the consultation platform. This public consultation period will run from mid-December 2024 to mid-February 2025 for at least 60 days. FSC will organize four webinars during this period. Subsequently, FSC will utilize the analyses from the public consultation, Technical Analysis Report, and White Paper to develop Terms of Reference (TOR) which will inform the work of the Technical Working Group. The TOR will be presented for approval to the FSC BOD.

³ Motion 53/2021 is titled 'Policy Motion to incorporate to ecosystem services the recognition of cultural services and practices to strengthen and endure over time the interconnection of Indigenous Peoples'. This also entails the Phase 2 revision of the Ecosystem Services Procedure.