FINAL ANALYSIS REPORT FOR PHASE 2 OF THE REVISION OF THE ECOSYSTEM SERVICES PROCEDURE (FSC-PRO-30-006)

Implementation of Motion 49/2021 ”FSC Ecosystem Services Procedure as a mitigation mechanism to meet global market demand for net-zero and net-positive targets”

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Title:	Final analysis report for Phase 2 of the revision of the Ecosystem Services Procedure (FSC-PRO-30-006)
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Responsible program:	**Climate & Ecosystem Services**
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Abbreviations

AF	Assessment Framework
ARR	Afforestation, Reforestation, and Restoration
A/R	Afforestation/Reforestation
ASI	Assurance Services International
BCA	Biodiversity Credit Alliance
BoD	Board of Directors
CB	Certification body
CCP	Core Carbon Principles
CDM	Clean Development Mechanism
CDR	Carbon Dioxide Removal
CES	Climate & Ecosystem Services
CH	Certificate Holder
CORSIA	Carbon Offsetting and Reduction Scheme for International Aviation
CRCF	Carbon Removal and Carbon Farming
ESG	Environmental, Social, and Governance
EU	European Union
FPIC	Free, Prior, and Informed Consent
FSC	Forest Stewardship Council
GBF	Global Biodiversity Framework
GHG	Greenhouse Gas
HCV	High Conservation Value
IAPB	International Advisory Panel on Biodiversity Credits
ICVCM	Integrity Council for the Voluntary Carbon Market
IEC	International Electrotechnical Commission
IFM	Improved Forest Management

IP	Indigenous People
IPCC	Intergovernmental Panel on Climate Change
IPLC	Indigenous Peoples and Local Communities
ISO	International Organization for Standardization
ISSB	International Sustainability Standards Board
MRA	Monitoring, Reporting & Assurance
MCU	Marketing and Commercial Unit
NP	Network Partner
PbN	Preferred by Nature
PSG	Policy Steering Group
PSU	Performance and Standards Unit
REDD	Reduced Emissions from Deforestation and Degradation
SBTi	Science Based Targets Initiative
SDG	Sustainable Development Goal
ToR	Terms of Reference
UK	United Kingdom
UNFCCC	United Nations Framework Convention on Climate Change
USA	United States of America
VCMI	Voluntary Carbon Markets Integrity Initiative
V/V	Validation and Verification
VVB	Validation and Verification Body
WG	Working Group
WRI	World Resources Institute
WWF	World Wide Fund for Nature

1. INTRODUCTION

This report presents the findings and recommendations resulting from the conceptual phase of implementing the **remaining aspects of Motion 49/2012.** The recommendations of this report are based on findings, risk analysis, mitigation measures, and benefits. They should serve as a basis for developing the Terms of Reference (ToRs) including the composition of the Working Group (WG) to implement the remaining aspects of the Motion 49/2021.

The Forest Stewardship Council (FSC) has been revising the <FSC-PRO-30-006 V1-2 Ecosystem Services Procedure: Impact Demonstration and Market Tools> (hereinafter referred to as Ecosystem Services Procedure V1-2) in two phases. Phase 1 has been completed with the publication of the Ecosystem Services Procedure <FSC-PRO-30-006 V2-0 Ecosystem Services Procedure: Impact Demonstration and Market Tools> in January 2025.

Following the approval of Motion 49/202 'FSC Ecosystem Service Procedure as a mitigation mechanism to meet global market demand for net-zero and net-positive targets' in December 2022, the Policy Steering Group (PSG), in September 2023, approved addressing the Motion in a second phase of the revision process.

The actions that have been asked by Motion 49/2021 and the progress against them can be found in Table 1. Some elements of Motion 49/2021 have already been addressed, either fully or partially, during phase 1. However, the most challenging aspect of this motion -compensation and neutralization claims, involving offsetting - was deferred to phase 2, as it required further analysis.

Table 1. Action Points of Motion 49/2021

Action Points of Motion 49/2021	Phase 1	Phase 2
1. **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.**	Phase 1 has addressed the avoidance and reduction.	Compensation and neutralization claims, water neutrality, net-positive or no-net-loss biodiversity, net-zero climate impacts, and integrated nature-positive strategies are to be addressed in phase 2.
2. **Prior to using FSC-verified claims to meet their mitigation targets, FSC shall require all CHs and sponsors to demonstrate their commitment to**	Fully addressed for avoidance, minimisation,	Needs further adjustment for offsetting

	Mitigation Hierarchy-aligned approaches before the use of FSC-verified claims through a clearly defined and publicly available Policy of Association. These requirements could be adapted according to the business size or risk posed by CHs and sponsors	restoration/ rehabilitation	(compensation/ neutralization)
3.	**FSC shall ensure the integrity of all claims and their use. This includes the development of an impact registry to increase traceability and transparency, avoid risks of double-counting, lack of additionality, inaccurately estimated baselines or impacts, or misuse of claim. FSC shall require that claims are non-transferable, of fixed duration, and immediately retired upon registration of sponsorship. FSC shall also establish clear guidelines for benefit-sharing from sponsorships among CHs, local communities, certification bodies (CBs), project developers, and FSC itself to ensure a fair distribution of impact investments.**	Partly addressed under phase 1.	Further adjustments may be needed in phase 2 to address requirements related to additionality, baseline estimation, registry, and benefit-sharing adaptation in the context of offsetting.
4.	**FSC shall allocate the appropriate resources to promote the FSC Ecosystem Services procedure among CHs and sponsors through training, locally adapted guidance, and outreach to FSC National Offices and stakeholders.**	Appropriate resources are already being allocated during phase 1. Training will be developed in between the phase 1 and 2.	Continuous process from phase 1.
5.	**FSC should develop stronger partnerships with leading institutions and networks to integrate FSC within a highly competitive and rapidly evolving market and take the necessary steps to position FSC as a globally recognized mitigation instrument for climate, water, and biodiversity systems.**	Partly addressed under phase 1.	Continuous process from phase 1.

The conceptual phase (of phase 2) was necessary for an in-depth analysis of the following aspects:

Carbon offsetting, biodiversity offsetting, water offsetting, net positive impacts (biodiversity credits), and the Application of Offsetting at the Residual Impact Stage.

During the conceptual phase, FSC has conducted extensive theoretical and market research, interviews, and stakeholder engagement to ensure the revision process and ToRs including the proposed composition of the WG for the next drafting phase of the revision are well-informed and substantiated.

The report presents the findings of the entire conceptual phase which lasted from Q1 2024 until Q1 2025. It has the following structure:

- **Section 2:** Summarizes the process followed during the conceptual phase and stakeholder engagement.
- **Section 3:** Summarizes the key findings of each stage of the conceptual phase including theoretical research, market research interviews, and public consultations. This section is structured around key requirements of Motion 49/2021 including carbon offsetting, biodiversity offsetting, water offsetting, and the application of offsetting at the residual impact stage.
- **Section 4:** Provides market opportunities associated with the voluntary carbon market, biodiversity credits, and biodiversity offsets.
- **Section 5:** Provides the benefits and risks associated with carbon offsetting, biodiversity offsetting, biodiversity credits, and water offsetting.
- **Section 6:** Highlights the resources for the recommended solutions.
- **Section 8:** Presents the final recommendations.
- **Annexures** including draft Terms of Reference

2. Process

2.1 Type of process and timeline

Phase 2 of the revision of the procedure follows a 'major' process type, as regulated in the <FSC-PRO-01-001 Development and Revision of FSC Requirements>.

Table 2 shows the key activities, milestones and decision-making bodies that are part of the revision process of Phase 2.

Table 2. Key tentative milestones of the Phase 2 revision of the Ecosystem Services Procedure

	Activity / Milestone / Decision-making body	Time (Tentative)	Status
1	Consultation in the conceptual phase	December 16, 2024 – February 14, 2025	Completed
2	Analysis of Conceptual Stage shared with FSC's Board of Directors (BoDs)	March 2025	Completed
3	ToRs approved (WG composition – tentative)	June 2025	
4	Kick-off meeting with WG – tentative	September 2025	
5	Discussion with members at the FSC General Assembly 2025 in Panama	October 2025	
6	At least two Public Consultations in the drafting phase - tentative	2026 -2027	
7	Testing – tentative	January 2027-July 2027	
8	Final Draft is submitted to FSC's Policy and Standards Committee to provide technical recommendations to FSC's BoDs - tentative	November 2027 – February 2028	
9	Final Draft is submitted to FSC's BoDs for decision-making - tentative.	March 2028	
10	Publication - tentative	April 2028	

Note: Timelines are tentative and will depend on the final scope of the proposed TORs as well as allocated resources.

2.2 Summary of the Conceptual Phase

To ensure an in-depth analysis of the outstanding requirements of the remaining items of Motion 49/2021, FSC initiated the process by conducting a Stakeholder Analysis (Annexure 1 includes the Stakeholders Engagement Plan) and hiring Preferred by Nature (PbN) as external consultant to support technical analysis and interviews/ stakeholder engagement.

FSC requires stakeholder engagement to ensure diversity of viewpoints in processes, receive quality feedback, and enhance knowledge throughout the process. A stakeholder engagement plan was developed, as also highlighted above, identifying various stakeholder groups based on their interests. The plan outlined the expectations from various stakeholders, potential conflicts of interest, and the communication channels for informing them about different stages of the process. In total, 15 stakeholder groups were identified (Please see Annexure 1).

The Technical Analysis Report (Final Technical Analysis: Operationalizing compensation or/and neutralization in the ES PRO 30-006 – attached as Annexure 2) was the first deliverable of this process. It provided the gap analysis of the Ecosystem Services Procedure if it would have to be used for offsetting. It also provided certain recommendations on how to close the identified gaps.

The technical analysis was followed by the interviews. In total, 41 interviews were conducted by the PbN between June and August 2024 (see Table 3 for stakeholders interviewed). Interviewees were representatives of the stakeholders identified in the stakeholder engagement plan. Out of the 41 interviews, 31 were done online, and 10 were conducted with Indigenous Peoples (IPs) and their representatives. These interviews substantiated the recommendations (the details can be found in Annexure 3 - the Interview Analysis Report).

FSC Team has also conducted a thorough market analysis to ensure there is a viable opportunity which would justify the investment.

Finally, FSC conducted a public consultation which included 4 webinars explaining the material gathered so far i.e., the Conceptual Report for Phase II of the revision of the Ecosystem Services Procedure. The public consultation was concluded with the 'Public Consultation Analysis Report' (see Annexure 4), which provided the analysis of all the input that was received. It is followed by this Final Analysis Report which focuses on the overall recommendations of the process. The timeline for the various milestones and deliverables included in the conceptual phase of Motion 49/2021 is shown in Figure 1.

Figure 1: *Timelines for M49/2021 Conceptual Phase.*

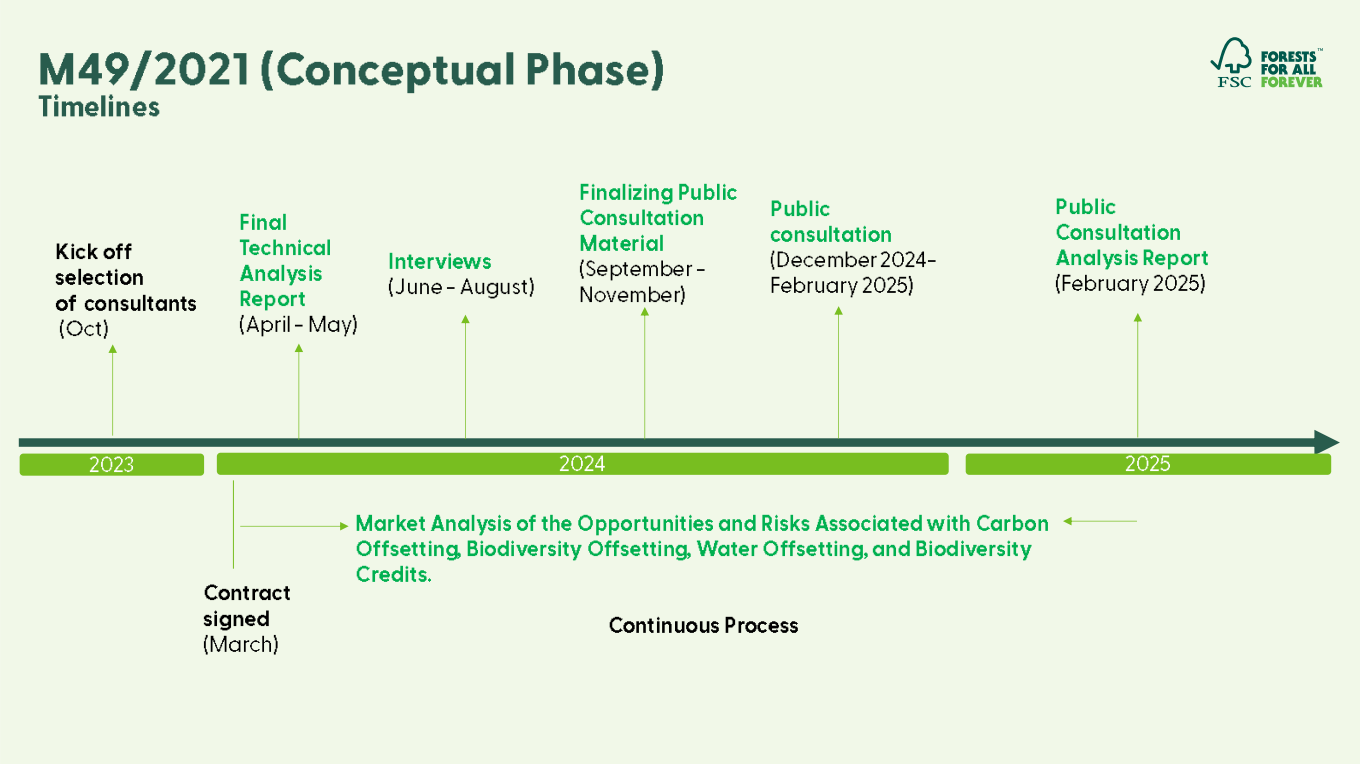

Table 3. Stakeholders that were interviewed.

Sr. No.	Stakeholder group	Organization and/or Name
1	Motion proposers/supporters/Technical WG	Representatives
2	FSC Members	Representatives
3	FSC BoDs	Representatives
4	FSC Network Partners (NPs)	FSC Sweden FSC France FSC Chile FSC USA FSC Indonesia
5	Assurance Services International (ASI)	Staff
6	FSC CHs i.e., Forest Management, SLIMF, CoCs.	Staff - Tetra Pak Staff - Schweizerische Industrie Gesellschaft
7	Non-government organizations	Staff - Plan Vivo Staff - Verra Staff - Gold Standard Staff - Insetting Platform

		Staff - World Resource Institute (WRI) Staff - Conservation International Staff - Voluntary Carbon Markets Initiative (VCMI) Staff - Science Based Targets Initiative (SBTi)
8	Business Sector	Staff - Asia Pulp and Paper
9	Indigenous Peoples	Indigenous People/Communities/Organizations' Representatives
10	FSC's Internal teams/key staff	Staff - Performance and Standards Unit (PSU) Staff - Marketing and Commercial Unit (MCU)
11	Technical Experts	Staff - International Woodland Company Asset Management

3. FINDINGS

This Section presents the findings and results of the Conceptual Phase including Technical Analysis, Interviews, Public Consultations. The findings are organized by topics: **Carbon offsetting, biodiversity offsetting, and water offsetting.**

You can find in-depth/additional information from each of the phases in annexures, as well as the proposed outline of the ToRs, as follows:

- Stakeholders Engagement Plan – Annexure 1
- Technical Analysis Report (Final Technical Analysis: "Operationalizing compensation or/and neutralization in the ES PRO 30-006) – Annexure 2
- Interviews Analysis Report – Annexure 3
- Public Consultations Analysis Report – Annexure 4
- Table summarizing findings – Annexure 5
- Terms of Reference Outline – Annexure 6.

3.1. CARBON OFFSETTING

A. Technical Analysis Report:

The main findings from the Technical Analysis Report were:

- The current market tools developed for offsetting and compensation primarily serve climate change mitigation or carbon markets. To incorporate these concepts into the Ecosystem Services Procedure, the FSC needs to adjust to meet the carbon market criteria i.e., the Integrity Council for Voluntary Carbon Market's (ICVCM) Core Carbon Principles (CCP).

- To become a source of offsets, based on the analysis of the carbon markets, the Ecosystem Services Procedure should perform the following changes:
  - Create an assurance program to handle the validation/verification (V/V) approach that complies with the accreditation process of a recognised international accreditation standard. Likewise, develop a process for managing Validation and Verification Body (VVB) performance to ensure good quality of the evaluations.
  - FSC needs to make important improvements in the Ecosystem Services Procedure following such as **additionality, permanence, quantification of emission reductions and removals, double counting, leakage and contribution to net zero transition**. For all these topics, it is recommended to include already existing tools i.e. Clean Development Mechanism's (CDM) tool for the demonstration and assessment of additionality, etc., instead of creating new ones. It is recommended that all future methodologies, tools, etc, should be aligned with the Intergovernmental Panel on Climate Change (IPCC) guidelines, United Nations Framework Convention on Climate Change (UNFCCC) requirements and those developed by the international standards especially those that comply with the ICVCM's CCPs.
  - Improve the transparency process by making all relevant documentation relating to the mitigation activity publicly available (subject to confidentiality and proprietary, privacy, and data protection restrictions) in the registry, including, but not limited to, the project document description, monitoring report, shapefile of the project area, and validation and verification reports.

- Ecosystem Services Procedure should ensure that the claim's final user complies with the VCMI Claims Code of Practice:
  - Comply with the Foundational Criteria:
    - Maintain and publicly disclose an annual greenhouse gas emissions inventory.
    - Set and publicly disclose science-aligned near-term emission reduction targets and publicly commit to reaching net-zero emissions no later than 2050.
    - Demonstrate that the company is making progress on financial allocation, governance and strategy towards meeting a near-term emission reduction target.
    - Demonstrate that the company's public policy advocacy supports the goals of the Paris Agreement and does not represent a barrier to ambitious climate regulation.
  - Select a VCMI Claim to make and demonstrate progress toward meeting near-term emission reduction targets.
  - Meet the required carbon credit use and quality thresholds.
  - Obtain third-party assurance following the VCMI Monitoring, Reporting and Assurance (MRA) Framework.

- The compensation claims need to be clearly defined.

B. <u>Interview Analysis Report:</u>

- The interviews highlighted that **contribution claims** carry less risk than compensation claims. Due to the growing risks associated with compensation claims, rules for high-quality carbon credits have evolved, as seen in initiatives like the ICVCM's CCPs.

- The interviews also emphasized the importance of carbon offsetting in attracting private financing to support forest-based initiatives.

- The interviews highlighted that additionality, permanence, and double counting are the most critical criteria for carbon offsetting. They also emphasized that if FSC decides to develop carbon offsetting requirements and criteria, ICVCM's CCPs should be used as a reference point. However, the interviews also underscored the challenges associated with establishing and implementing these criteria.

- The interviews highlighted reputational risks associated with FSC pursuing a compensation scheme. These risks were primarily linked to potential greenwashing claims, lack of transparency, and inadequate respect for IPLCs. To address these concerns, interviewees stressed the importance of developing a transparent and credible scheme based on high-quality criteria, such as the ICVCM's CCPs, and supported by strong and unified governance.

- The interviews emphasized that if FSC intends to establish carbon offsetting requirements, it must prioritize activity methodologies for carbon offsetting within the two categories of **Improved Forest Management (IFM) and Afforestation/Reforestation (A/R).**

- There was also clarity that the methodologies of Verra and Gold Standard can only be used as references, as they are embedded within their respective frameworks, including normative documents and requirements for the generation, verification, and validation of claims. However, if FSC develops its own carbon offsetting requirements, it will need to establish its own methodologies.

  If methodologies from carbon crediting schemes such as Verra or Gold Standard are used and recognized as part of an Ecosystem Services Claim (for carbon offsetting), they would need to undergo a verification by CBs (including rights of refusal) that are not accredited for such assessments.

  Additionally, this would need to be recorded in their registry to ensure uniqueness, among other considerations. Similarly, there are also business reasons for these schemes to restrict the use of their methodologies, as they charge fees at various stages of the project.

- From the perspective of Indigenous Peoples and Local Communities (IPLC), there have been cases where carbon projects have failed to comply with the free, prior, and informed consent (FPIC) process. There is an inequality in the distribution of benefits, as well as gaps in the relationship with IPLCs, often stemming from a lack of knowledge about these projects. As a result, they are forced to rely on third parties for decision-making, which is sometimes unclear. In many cases, only the community leader has knowledge of the dealings with project developers. At the same time, they view this as an opportunity to generate greater income but need the support of the FSC to better understand the processes and build confidence in these projects. It should not be an issue for FSC, as FPIC is mandatory under Principle 3 (Indigenous Peoples' Rights). Additionally, FSC can work on strengthening guidance on its application during the implementation of Motion 53/2021.

- The interviews highlighted that there is a significant difference between the assurance system of FSC and that of the carbon crediting schemes. In the case of developing any carbon offsetting requirements, the assurance system for carbon crediting schemes will need to be followed.

C. <u>Public Consultation Key Results:</u>

- Participants were asked about their preferences for either incorporating the carbon offsetting requirements including criteria within the Ecosystem Services Procedure or establishing them as a separate normative document:

    - **72%** of respondents, out of a **total of 25**, **opposed** the option of revising the Ecosystem Services Procedure by elevating the existing requirements to offsetting, resulting in a single claim type: Compensation Claim. They emphasized that this option should not be pursued due to its complexity and the strong existing preference for Verified Impacts. Additionally, it is considered restrictive for smallholders and communities.
    - **61%** of respondents **did not agree** with revising the Ecosystem Services Procedure by adding requirements for offsetting alongside the existing requirements for generating Verified Impacts, resulting in two types of claims: Ecosystem Services Claims and Compensation Claims, **out of a total of 23 respondents**.
    - **60%** of respondents **agreed** with creating separate normative requirements for offsetting, distinct from the Ecosystem Services Procedure, in a standalone normative document, **out of a total of 25 respondents**.

- **76%** of respondents, **out of a total of 17,** are in the high-end **agreement** range (75% and 100%) that the ICVCM CCPs will serve as a good reference for FSC if it decides to pursue carbon offsetting requirements.

- **57%** of respondents, **out of a total of 23**, stated that they were not aware of any **external methodologies from carbon crediting schemes that FSC could adopt.**

- **65%** of respondents, **out of a total of 20,** agreed that Improved Forest Management (IFM) should be a category for FSC to follow when developing a methodology, including normative requirements and criteria.

- **71%** of respondents, **out of a total of 14**, agree that ISO/IEC 17029:2019 and ISO/IEC 14065:2020 are the relevant accreditation requirements for CBs intending to conduct carbon offsetting activities under the FSC Forest Management Certification.

- **75%** of respondents, **out of a total of 12**, agree that FSC should accept accreditation to ISO/IEC 17029:2019 and ISO/IEC 14065:2020 from other accreditation programs. This would allow an FSC CB holding such accreditation to qualify for conducting verification activities for carbon offsetting.

- **50%** of respondents, **out of a total of eight**, agreed that CBs/VVBs' conformity to ISO/IEC 17029:2019 and ISO/IEC 14065:2020 alone would be insufficient and that FSC should adapt these standards to align with its normative framework by specifying additional requirements, such as process requirements for carbon projects, personnel competency, and other relevant criteria.

- **58%** of respondents, **out of a total of 19**, agreed that FSC should regulate claims made by sponsors and buyers, specifically by adhering to Step 4 of the VCMI Code of Practice. This step

requires third-party verification to confirm that all prior steps and respective requirements of the VCMI Code of Practice have been met before high-integrity claims can be made.

Summary: There is strong agreement on establishing carbon offsetting requirements as a separate normative document. Most respondents support using the ICVCM CCPs as a reference if FSC develops such requirements i.e. FSC shall also seek alignment with **relevant international regulations/frameworks and EU-specific regulations** on the topic, such as **Article 6 of the Paris Agreement**, Carbon Offsetting and Reduction Scheme for International Aviation **(CORSIA) emissions unit eligibility criteria**, and the **EU's Carbon Removals and Carbon Farming Regulation (CRCF).** Additionally, many were unaware of existing external methodologies from carbon crediting schemes that FSC could adopt. Improved Forest Management (IFM) is widely recognized as a key category for FSC to consider when developing its methodology, including normative requirements and criteria.

A majority of respondents support ISO/IEC 17029:2019 and ISO/IEC 14065:2020 as the relevant accreditation requirements for CBs conducting carbon offsetting under FSC Forest Management Certification. Many also agree that FSC should accept accreditation from other programs and regulate claims by sponsors and buyers through third-party verification under the VCMI Code of Practice. However, there was an equal split in views among respondents on whether these ISO standards alone would be insufficient and whether FSC should adapt them by specifying additional requirements, such as process requirements for carbon projects, personnel competency, and other relevant criteria.

3.2. BIODIVERSITY OFFSETS:

A. Technical Analysis Report:

- Biodiversity credits are used for a contribution approach, whereas biodiversity offsets are used for compensation. Offsets are highly complex, and often regulated, and implementing a credible approach for biodiversity offsetting may be beyond FSC's scope.

- Biodiversity offsets are mainly government-led schemes, as mentioned above, with very stringent requirements such as like-for-like. This means that the biodiversity components i.e., habitat, etc., lost as a result of a project intervention need to be brought back as offsets. This is very challenging and makes the biodiversity offsets highly local-specific.

- Biodiversity offsets also require strong governance mechanisms, including institutional and financial mechanisms, for ensuring long-term implementation of the biodiversity offsets, which makes them often a risky option.

B. Interview Analysis Report:

- Interviews highlighted that biodiversity offsets could pose **reputational risks for FSC**, as they are often viewed sceptically by stakeholders due to concerns about their effectiveness in truly restoring or protecting biodiversity.

- According to the interviews, ensuring that biodiversity offsets meet the criteria of additionality and permanence can be difficult, which could lead to doubts about the credibility and long-term impact of such offset projects.

- The interviews indicated that biodiversity offsets can be complex to implement, as they require detailed monitoring and verification to ensure the claimed environmental benefits, which may create additional administrative and operational burdens.

C. Public Consultation Key Result:

- **70%** of respondents, **out of a total of 20 respondents,** opposed FSC pursuing biodiversity offsets.
- No internationally recognized accreditation standard for biodiversity offsetting was identified during the public consultation.
- No framework similar to the VCMI Code of Practice was identified for biodiversity offsetting to ensure the integrity of claims.

3.3. BIODIVERSITY CREDITS:

A. Technical Analysis Report:

- Biodiversity credits were recommended over biodiversity offsets, as biodiversity offsets are complex, have strict requirements that must be met, and are often implemented as part of regulatory compliance.
- Biodiversity credit methodologies must include multiple metrics of different aspects of biodiversity that describe a habitat's condition, consisting of elements of structure, function, and composition (e.g., different, distinct dimensions of diversity in taxonomic groups, or habitat quality and structure).
- Although the biodiversity crediting system is not yet as developed as the carbon market, it needs to build on the lessons learned from stakeholders such as the Biodiversity Credit Alliance (BCA). (*FSC has been provisionally accepted into the BCA Forum of the BCA, which focuses on developing knowledge products i.e. high-level principles for biodiversity credits. The BCA is establishing a benchmark for a robust voluntary market for biodiversity credits. Additionally, FSC serves as a member of the Biodiversity Credit Action Group under the High Conservation Value (HCV) Network and is in discussions with the International Advisory Panel on Biodiversity Credits (IAPB) to explore potential partnership opportunities related to biodiversity credits. The IAPB works to facilitate the creation and growth of high-integrity biodiversity credit markets).*

B. Interview Analysis Report:

- For biodiversity credits, the interviews emphasized the importance of following criteria similar to ICVCM's CCPs to ensure proper benchmarking for high-quality biodiversity credits. The interviewees also agreed that additionality and permanence should be the most important criteria considered for the biodiversity credits.
- The interviews highlighted the alignment of the normative requirements for the biodiversity credits with the BCA, as they are developing a benchmark for a high-integrity market for biodiversity credits.

- The interviews highlighted that developing metrics for biodiversity credits will be the most challenging aspect of the biodiversity credits methodology, compared to other criteria and requirements. Robust metrics are crucial for nature-positive financiers, such as biodiversity credit buyers, to validate progress related to nature-positive outcomes.

C. Public Consultation Key Results:

- **63%** of respondents agreed, at the higher end (75% and 100% agreement), on the need for a separate normative document for biodiversity credits, **out of a total of 17 respondents**.

- **18%** of respondents, at the higher end (75% and 100% agreement), opposed incorporating biodiversity credit generation requirements into the Ecosystem Services Procedure as a separate biodiversity category, **out of a total of 17 respondents**.

- **79%** of respondents, at the higher end (75% and 100% agreement), endorsed the criteria identified in the technical analysis for generating robust biodiversity credits (additionality, accounting methodology, leakage, double counting and claiming, and traceability) **out of a total of 19 respondents.**

- No internationally recognized accreditation standard for biodiversity offsetting was identified during the public consultation.

- No framework similar to the VCMI Code of Practice was identified for biodiversity offsetting to ensure the integrity of claims.

Summary: The majority of respondents supported the need for a separate normative document for biodiversity credits rather than incorporating them into the Ecosystem Services Procedure. There was also a strong endorsement of the criteria identified in the "Conceptual Report for Phase II of the revision of the Ecosystem Services Procedure (FSC-PRO-30-006): Implementation of Motion 49/2021" for generating robust biodiversity credits, including additionality, accounting methodology, leakage, double counting and claiming, and traceability.

3.4. WATER OFFSETS:

A. Technical Analysis Report:

- There are no widely recognized water offsetting schemes, making it unclear which criteria or requirements should be followed when developing such mechanisms.

- There doesn't seem to be any standard-setting organization that has created a clear framework or benchmark for credible and robust water offsets, leading to uncertainty in aligning new initiatives with best practices.

- Because of the above-mentioned uncertainties, risks arise, including reputational risks, as the absence of established guidelines can lead to credibility challenges and inconsistencies in water offsetting efforts.

B. Interview Analysis Report:

- The interviews highlighted the lack of established water offsetting schemes, making it unclear whether there are specific criteria or requirements to follow.

- Additionally, the interviews pointed out the absence of a standard-setting organization that is creating a benchmark for credible and robust water offsets.

- Due to these uncertainties, the interviews noted that risks, including reputational risks, may emerge, as the lack of clear guidelines could lead to credibility challenges and inconsistencies in water offsetting efforts.

C. Public Consultation Key Result:

- **79%** of respondents, **out of a total of 19**, disagreed with FSC developing normative requirements for water offsets, given that no renowned voluntary water neutrality/offsetting scheme is available to follow.

- The public consultation responses indicated that no respondents were aware of any globally or locally recognized water neutrality/offsetting schemes.

- No internationally recognized accreditation standard for water offsetting was identified during the public consultation.

- No framework similar to the VCMI Code of Practice was identified for water offsetting to ensure the integrity of claims.

4. MARKET OPPORTUNITIES

4.1. VOLUNTARY CARBON MARKET

The voluntary carbon market has faced significant challenges in recent years, affecting its credibility and effectiveness. Issues such as fraud, double counting, and concerns over the actual impact of certain projects have raised doubts about the integrity of some carbon credits. As a result, the market has come under increased scrutiny, with growing calls for more stringent standards and changes in claims (moving from product carbon neutral and corporate net-zero to contribution claims).

These concerns have contributed to a sharp decline in market activity. Between 2022 and 2023, transaction volumes fell by 56%, primarily affecting Reducing Emissions from Deforestation and Forest Degradation (REDD+) and renewable energy projects. Additionally, the issuance of new credits has trended downward, with a decline of more than 20% between 2021 and 2024. This trend is particularly

evident in Verra carbon credits, which dropped from nearly 300 million credits issued in 2021 to approximately 100 million in 2024. In contrast, Gold Standard credits (second most commonly used scheme) more than doubled in volume over the same period, likely due to their relative insulation from major criticisms and potentially also stronger focus on contribution-based claims rather than offsetting.

Despite ongoing controversies, including concerns over overcrediting, total demand for carbon credits has remained steady. Many buyers now prioritize high-quality projects and recognize the role of carbon markets in climate action. This stability is reflected in the annual credit retirement volumes, which have consistently remained between 175 and 180 million credits per year from 2021 to 2024.

Another key trend is the significant increase in carbon credit prices. Between 2021 and 2022, average prices surged by 82%, indicating a shift toward buyers willing to pay a premium for high-quality credits. Nature-based projects with certified co-benefits, alignment with Sustainable Development Goals (SDGs) or credits coming from FSC forest management certified areas have particularly benefited from this trend. In 2020, FSC-certified IFM projects sold for an average price 45.5% higher than non-FSC projects (Table 4). In 2021, this price premium increased further, which was observed consistently across all regions where these certified transactions were reported. FSC certification is therefore generally seen as a marker of high-quality credits.

Table 4. Annual Average Prices of FSC- vs. non-FSC certified IFM Project Transactions in Voluntary Carbon Markets (VCM), 2020-2023

	2020	2021	2022	2023
Non-FSC	$7.92	$8.11	$13.46	$14.25
FSC-Certified	$11.53	$11.26	$17.96	$11.3
FSC-Premium	45.58%	38.84%	33.43%	-20.70%

Source: (Forest Trends' Ecosystem Marketplace, 2023)

Similarly, the FSC certification for REDD+ projects in Latin America were linked to higher prices from 2020 to 2023. In 2020 and 2021, REDD+ carbon credits from FSC-certified areas sold for 10%-11% more than carbon credits from non-FSC-certified areas. Between 2021 and 2022, the price differential nearly doubled, reaching 19% (Table 5). This again emphasizes the additional value that FSC certification can add to the carbon credits.

Table 5. Prices of REDD+ credits and FSC certification in Latin America (2020-2023)

	2020	2021	2022	2023
No FSC	$4.49	$5.13	$10.17	$10.33
FSC-Certified	$4.96	$5.68	$12.12	$10.93
FSC-Premium	10.5%	10.7%	19.2%	5.8%

Source: (Forest Trends' Ecosystem Marketplace, 2023)

The market is also witnessing a shift in project types, with a growing preference for nature-based solutions such as Afforestation, Reforestation, and Restoration (ARR), IFM, and sustainable agriculture, as well as durable Carbon Dioxide Removal (CDR) projects. However, scaling these alternatives to match the previous dominance of REDD+ and renewable energy credits will take time.

Both patterns, increased price related to co-benefits and diversification in nature-based projects is a beneficial trend for FSC Ecosystem services. First, FSC Ecosystem Services Verified Impact projects often deliver impact on more than one ecosystem service (most common is carbon and biodiversity or water) and is a great fit for buyers seeking low risk carbon credits blended with other impact. Secondly, the recommendation is not to get involved in REDD type of projects given that FSC Forest Management (FM) certification already ensures low deforestation and degradation risks, making

additionality claims challenging. Instead, FSC should use its strategic position and focus on IFM-type projects. Additionally, FSC's potential involvement in removal credits (currently a niche market, accounting for only 15% of total carbon credits but in high demand for neutralization purposes) could provide a competitive advantage.

Transparency in the carbon market remains a critical issue. In 2024, approximately 45% of retired carbon credits were retired anonymously, possibly due to reputational risks associated with problematic projects. However, upcoming regulations in the United States of America (USA) and the European Union (EU), along with new disclosure requirements from the International Sustainability Standards Board (ISSB), are expected to enhance transparency.

FSC-certified forest areas, therefore, present an opportunity for higher-value carbon credits, with IFM and REDD+ projects showing significant price premiums (see above). Implementing carbon offset projects in FSC-certified areas can lead to increased revenue for CHs due to the added market value of these credits.

4.2. BIODIVERSITY OFFSETS AND BIODIVERSITY CREDITS

While the voluntary carbon market and the market for biodiversity offsets are well-established, the market for biodiversity credits is still emerging. Unlike carbon credits, which can be used for both compensation and contribution claims, biodiversity-related instruments differentiate clearly between these two approaches.

4.3. BIODIVERSITY OFFSETS

Biodiversity offsets are regulatory mechanisms requiring developers to compensate for environmental damage by conserving or restoring biodiversity elsewhere. These offsets represent the largest source of private biodiversity finance, with annual spending estimated between $6.3 billion and $9.2 billion.

Biodiversity offset programs are already in place in several countries, though enforcement remains inconsistent. While 42 countries have adopted offset policies, fewer than 20% demonstrate strong enforcement mechanisms. For examples related to biodiversity offset initiatives/schemes, see Table 6.

Table 6. Countries with the biodiversity offset schemes

Countries	Status
Australia	Initiated its Biodiversity Offset Scheme in 2016, establishing a structured approach to offsetting biodiversity losses resulting from development activities.

United States and Canada	Both countries have long-standing biodiversity offset programs aimed at mitigating environmental impacts from various development projects.
Colombia	Implemented biodiversity offsets to address ecological impacts from housing, mining, and infrastructure developments.
India, China, Indonesia, Mongolia, and Azerbaijan	These nations have developed biodiversity offsetting schemes based on national legislation, integrating offset requirements into environmental impact assessments and licensing processes.
United Kingdom	The UK has taken initial steps to develop markets for biodiversity offsets, though some pilot programs have faced public pushback, However, a biodiversity offset scheme was established in 2024, it is still in its early stages, making it premature to draw any conclusions at this time.

Despite the potential for biodiversity offsets to reach an estimated $162–168 billion annually, several challenges hinder their effectiveness. These include governance and enforcement gaps, difficulties in measuring biodiversity losses and gains, and technical barriers to designing long-term ecologically sound offsets. Additionally, current reporting frameworks lack the transparency needed to assess whether projects follow the mitigation hierarchy and adequately compensate for residual impacts.

Additionally, there is emerging strong opposition against making biodiversity offsetting claims from organization such as World Wide Fund for Nature (WWF) or Global Forest Coalition. Critics argue that a global offsetting system in biodiversity can't work and the local like-for-like approaches are difficult to deliver, they provide only limited options. As a result, the trend is to explore alternative solutions to finance biodiversity conservation and restoration activities, which could use similar drivers as biodiversity offsets (meaning regulatory/voluntary corporate policies and financial performance standards) but provide a wider range of opportunities – biodiversity credits.

4.4. BIODIVERSITY CREDITS

Biodiversity credits are voluntary financial instruments designed to support proactive conservation efforts. Unlike biodiversity offsets, which focus on compensating for damage, biodiversity credits fund positive conservation outcomes. However, the market is still in its infancy, with an estimated total value of just $8 million.

The supply of biodiversity credits currently far exceeds demand. More than 50 different biodiversity credit schemes have been developed, but most have yet to secure buyers, and many have been used only once. Market projections vary widely, with estimates suggesting a growth potential of $2–6 billion by 2030 and $6-180 billion under highly favourable conditions.

The future of biodiversity credits will depend on the development of robust verification methodologies, regulatory support, and corporate engagement. Key drivers include increasing environmental, social, and governance (ESG) commitments, implementation of the Global Biodiversity Framework (GBF), and growing investor interest in nature-based solutions. However, challenges such as credibility, greenwashing risks, and the establishment of transparent pricing mechanisms must be addressed to scale the market effectively. If these barriers are overcome, biodiversity credits could become a crucial financial tool for conservation, helping integrate biodiversity into mainstream investment strategies.

In summary, while biodiversity offsets currently represent a more established market driven by regulatory requirements, biodiversity credits are emerging as a promising avenue for voluntary conservation finance, with substantial growth potential in the coming decades.

5. BENEFITS AND RISKS

The benefits and risks associated with the main requirements of Motion 49/2021 are outlined in Table 7.

Table 7. Benefits and risks of the main Motion 49/2021 requirements

Main Motion 49/2021 Requirements	Risk	Risk Minimization	Benefits/Opportunities
Carbon Offsetting	1. **Robust requirements and criteria i.e.,** additionality, permanence, leakage, etc., shall be needed. 2. **Reputational Risk**. 3. **Resource intensiveness for FSC**	Aligning with the requirements and criteria of **ICVCM** (for high-quality carbon credits) and **VCMI** (for high integrity claims) will ensure that **robust standards** are adhered to, minimizing the reputational risks associated with weak or inconsistent criteria. This alignment strengthens the integrity of the carbon offsetting process and helps maintain trust in **FSC's** efforts to address climate change responsibly. However, compliance with the VCMI Claims Code of Practice may significantly reduce the pool of potential sponsors, thereby limiting market uptake. This could pose a risk that FSC would need to consider moving forward. Nonetheless, it would ensure high-integrity claims, which are crucial in the fight against climate change. **FSC** focuses on **one** **methodology** (including multiple activities such as ARR or IFM) at a time, whereas organizations like **Verra** offer a broader range of approaches. For instance, **Verra** has 17 **activity methodologies** specifically for **nature-based solutions** alone, in addition to a diverse portfolio that spans across various other sectors.	The higher premium price for **CHs** presents a valuable opportunity, driven by the added value of **FSC-certified areas**. This premium creates the potential for CHs to capitalize on the enhanced credibility and market demand for credits from responsibly managed forests, offering increased profitability and a competitive advantage in the market. Another tool at the disposal of **CHs** for attracting funding. This can support **responsible forest management** initiatives, ultimately enhancing their **climate mitigation impact** and contributing to long-term environmental sustainability. Greater visibility for FSC in climate mitigation role. The carbon offsetting tools developed by **FSC** will support companies in meeting their global climate commitments by leveraging the trusted **FSC** brand. This will also provide an opportunity for an increase in **FSC certification** and the expansion of forest areas under **responsible forest management**, contributing to the betterment of global forests.

Main Motion 49/2021 Requirements	Risk	Risk Minimization	Benefits/Opportunities
	4. **Extra cost for CHs** 5. **Market saturation**	**CBs** accredited for **carbon offsetting** shall be permitted to operate under FSC's assurance system, rather than developing additional **normative requirements**. This approach streamlines the process while ensuring adherence to established standards. It is anticipated that the cost, compared to other carbon crediting schemes, will be lower. Moreover, utilizing the carbon offsetting normative requirements remains a voluntary option for CHs. Yes, market saturation is a challenge, but FSC is not aiming to compete with Verra or other carbon crediting schemes, which cover multiple sectoral approaches and a broad portfolio of nature-based solution methodologies. Instead, FSC will focus on a single methodology tailored to support its CHs and enhance its contribution to climate impact. By aligning with its core mission, FSC will differentiate itself through high-integrity credits linked to responsible forest management, rather than positioning itself as a competitor in the broader carbon crediting market.	The cost, compared to other carbon crediting schemes, will be lower. **CHs** will only be paying a fee to cover the administration costs for FSC, including running the system, maintaining the registry, validating reports, and other related activities. This ensures the operational expenses of the system are met without imposing excessive costs on CHs. Additionally, they could benefit from higher premiums, enabling them to generate profits rather than incur higher costs. This could ultimately enhance the opportunity for increased **FSC certifications** and promote **responsible forest management** globally
Biodiversity Credits	1. **Robust requirements and criteria i.e.,** additionality, leakage, measurement etc., shall be needed.	FSC shall follow the requirements and criteria from already available voluntary biodiversity credit standards, and moving forward shall align with the requirements of the BCA.	The **biodiversity credit market** is emerging, and FSC can establish itself as a **key player** early on. Biodiversity credits could incentivize more forest managers to pursue **FSC certification**, expanding the area under **responsible forest management**. Creation of a normative document for the generation of robust biodiversity credits will open **new funding opportunities** for FSC CHs.

Main Motion 49/2021 Requirements	Risk	Risk Minimization	Benefits/Opportunities
	2. **Reputational Risk.**	Biodiversity credits are mainly meant for contribution i.e., additional positive biodiversity impacts. Reputational risks associated with contribution claims are limited**.**	Robust biodiversity credits generated from FSC-certified areas and through the FSC certification system will attract corporate buyers seeking to meet **nature-positive** and **ESG commitments**, thereby increasing demand for FSC-certified areas. Robust biodiversity credits generated from FSC-certified areas will provide a **high-quality**, **science-backed** alternative in a fragmented and unregulated market, giving FSC a **competitive edge**. FSC will ultimately create a positive impact on biodiversity through these biodiversity credit projects.
	3. **Resource intensiveness for FSC.**	FSC is already engaged with BCA, IAPB, and the HCV Network. Additionally, FSC will explore partnerships with any of these organizations to jointly develop normative requirements for biodiversity credit generation, helping to offset associated costs.	
	4. **Extra cost for CHs**	The revenue from biodiversity credits can help cover additional evaluation costs, if any, as these credits are expected to command higher prices due to their association with FSC-certified areas—a trusted brand for responsible forest management. Moreover, using the normative requirements for generating biodiversity credits will remain a voluntary option for CHs.	
	5. **Market saturation.**	There may be around 50 biodiversity crediting schemes available, but **FSC** holds a significant advantage as one of the most recognized and trusted brands. Any solution developed by **FSC** is likely to be well received by the market.	
Biodiversity Offsets	1. **Stringent requirements such as, like-for-like, permanence etc., shall be needed.**	The "like-for-like" requirements present a challenge, as biodiversity components lost cannot be effectively restored or replicated in another location. Studies have demonstrated the ineffectiveness of biodiversity offsets, showing that they often fail to achieve their intended goals. Rather than compensating for the adverse impacts, they may ultimately exacerbate them (Mancini et al., 2024).	**No benefit/opportunity is envisaged for FSC, or CHs in case of pursuing biodiversity offsets.**

Main Motion 49/2021 Requirements	Risk	Risk Minimization	Benefits/Opportunities
	2. **Reputational Risk.**	Since the intended outcomes are not fully achieved, this constitutes a reputational risk for FSC.	
	3. **Resource intensiveness for FSC.**	FSC will need to develop detailed requirements and criteria tailored to local ecosystems, which will be a cumbersome process. Additionally, methodologies will need to be created to suit individual ecosystems, further complicating the development. Since biodiversity offsets operate mainly within a regulatory market, obtaining necessary endorsements and recognition may require significant local resources. The FSC assurance system may also need to incorporate additional normative requirements to support the evaluation of these projects. As a result, the overall process of developing and implementing biodiversity offsets will be resource-intensive for FSC.	
	4. **Extra cost for CHs**	It might involve costs for evaluations and long-term implementation, with uncertainty about how the funding gap will be addressed. Additionally, long-term monitoring will be required. Regulatory costs and transaction costs could also be involved, as most biodiversity offset schemes ultimately fall under mandatory government-led initiatives.	
	5. **Market saturation**.	These are mostly government-led biodiversity offset schemes, with approximately 33 countries having concrete policies related to biodiversity offsetting (Koh et al., 2019). There are also other countries that have legal	

Main Motion 49/2021 Requirements	Risk	Risk Minimization	Benefits/Opportunities
		requirements in place, but the implementation is not evident due to lack of data.	
Water Offsetting	**1. Requirements and criteria**	No voluntary water offsetting scheme could be identified through the technical analysis, interview analysis and public consultation analysis.	Water is an essential resource, with 1.2 billion people living in water-stressed countries in 2020 (United Nations, 2023). Additionally, the global urban population facing water scarcity is projected to double, from 930 million in 2016 to 1.7–2.4 billion people by 2050 (UNESCO, 2023). Given this, it is crucial to explore avenues for developing sustainable solutions to address water-related challenges.
	2. Reputation risk	It may offer reputational risk for FSC if FSC develops its own requirements and criteria.	
	3. Resource intensiveness for FSC	Developing the normative requirements from scratch could also be resource-intensive for FSC, as there are no real-world experiences to align with. In contrast, ICVCM, which is establishing benchmarks for a high-integrity voluntary carbon market, benefits from the support of 250 organizations, and the voluntary carbon market generally has decades of experience to draw upon (Ziegler, 2023).	
	4. Extra cost for CHs	Without any established requirements, criteria, or assurance systems for verifying environmental claims, it is difficult to envisage what the costs for the CHs would entail.	
	5. Market saturation	No voluntary water offsetting schemes were found to provide any indication of market saturation.	

6. RESOURCES FOR RECOMMENDED SOLUTIONS

The estimated resources required for **the recommended actions related to Motion 49/2021** are outlined in Table 8.

Table 8. Resources needed, estimate.

Items	Methodology (normative requirements including criteria)	Time Resources	WG	Additional Internal Resources	Registry	Capacity Development Plan	Accreditation	FSC certification system	Marketing strategy
Carbon Offsetting (Resources required)	- Budget for developing a methodology approximately ---------- - Approximately --------- for implementing pilots for testing the methodology. Total: between $180,000 – $200,000	2-3 years for finalization (highlighted through interviews)	One separate WG will be needed.	One person on the CES team of the FSC.	Additional Registry updates	FSC will need a capacity development plan for the NPs, CHs, and CBs to help them understand and implement the normative requirements for carbon offsetting. This will be carried out using the existing capacities within the CES team, with no additional hiring required.	The V/V assurance system for carbon offsetting requires accreditation based on the International Organization for Standardization (ISO)/International Electrotechnical Commission (IEC) 17029:2019 (Conformity assessment - General principles and requirements for validation and verification bodies) and ISO/IEC 14065:2020 (General principles and requirements for bodies validating and verifying	FSC holds an independent third-party assurance system in which independent organizations (certification body) conduct forest management and chain of custody evaluations that lead to FSC certification.	A marketing strategy will be required to raise awareness and drive the adoption of carbon offsetting projects implemented through the FSC assurance system.

Items	Methodology (normative requirements including criteria)	Time Resources	WG	Additional Internal Resources	Registry	Capacity Development Plan	Accreditation	FSC certification system	Marketing strategy
							environmental information).		
Remarks	A consultant or consulting organization with expertise in developing carbon offsetting methodologies—particularly the one selected by FSC for pursuit—will need to be engaged to develop the methodology. Moving forward, it will be determined whether testing is required or essential for the development of the methodology.			An additional person in the CES team of FSC will be needed to support the development of normative requirements. After the carbon offsetting normative requirements are finalized for implementation, the role will include reviewing submitted documents related to project registration, and verification and validation, etc. This person will also review the implementation of methodologies to ensure everything is in order and assess whether updates are needed for alignment with future international legislation. Additionally, this person will evaluate	FSC shall need to update the registry to include carbon offsetting information. While this may require some additional budget for adjustments, strengthening the registry is already part of the plan, so it may not require substantial additional funding for its implementation. FSC, through the support of its Investment & Partnerships unit, will also explore funding avenues to cover any additional costs.	FSC will need a capacity development plan for the NPs, CHs, and CBs to help them understand and implement the normative requirements for carbon offsetting. This will be carried out using the existing capacities within the CES team, with no additional hiring required.	There are CBs with already accreditation for V/V assurance system for carbon offsetting. However, if new CBs gain interest in verifying carbon offsetting projects, then they will need accreditation for it.	FSC shall need to update its requirements i.e., i) allowing the CBs with the required accreditation to also verify the carbon offsetting projects, ii) developing its own requirements related to carbon offsetting going into the future.	

Items	Methodology (normative requirements including criteria)	Time Resources	WG	Additional Internal Resources	Registry	Capacity Development Plan	Accreditation	FSC certification system	Marketing strategy
				the need for any modules or tools to further strengthen the methodologies.					
Biodiversity Credits (Resources required)	- Budget for developing a methodology of approximately --------- - Approximately ---------- for implementing pilots for testing the methodology. - (partially covered already in CES 2025 budget)	2-3 years for finalization (highlighted through interviews)	One separate WG will be needed.	It will be seen going forward if an extra person is needed.	Registry updates		The CBs may not need separate accreditation for this, as the same accreditation for FSC certification is also allowed for the biodiversity credits' certification.	FSC shall need to update its requirements i.e., i) allowing the CBs for the evaluation of biodiversity credits' projects ii) developing its own normative requirements for biodiversity credits moving forward.	A marketing strategy will be required to raise awareness and drive the adoption of biodiversity credits' projects implemented through the FSC assurance system.
Remarks	FSC is already engaged with BCA, IAPB, and the HCV Network. FSC will explore partnerships with any of these organizations to jointly develop normative requirements for biodiversity credit generation, helping				FSC shall need to update the registry to include the information from the biodiversity credits' projects. FSC, through the support of its Investment & Partnerships unit, will also explore funding avenues	FSC shall need a capacity development plan for the NPs, CHs, and CBs to help them understand and implement the normative requirements for biodiversity credits. This will be carried out using the existing capacities within the CES team, with no			

Items	Methodology (normative requirements including criteria)	Time Resources	WG	Additional Internal Resources	Registry	Capacity Development Plan	Accreditation	FSC certification system	Marketing strategy
	to offset associated costs				to cover any additional costs.	additional hiring required.			

Summary of additional resources envisaged:

- **One FSC staff member** will be needed to support the process, including the development of normative requirements for carbon offsetting and biodiversity credits, their implementation through projects, and the maintenance and updating of any related requirements.
- **Approximately ---------** is required for carbon offsetting methodology (normative requirements including criteria).
- **Approximately ---------** is needed for running pilot projects to test the carbon offsetting methodology.
- Partnering for biodiversity crediting methodology, with FSC contributing an approximate budget of -------- for a jointly developed methodology.
- **Approximately ---------** for running pilot projects to test the biodiversity credits methodology.
- **Two WGs** will be needed—one for developing the normative requirements for carbon offsetting and one for biodiversity credits.
- **2 to 3 years** required to finalize both carbon offsetting and biodiversity crediting methodologies.
- Development of normative requirements for CBs for carbon offsetting and biodiversity credits (*not an immediate action; first, the normative requirements for carbon offsetting and biodiversity credits must be drafted/developed, as they principally will guide the normative requirements for CBs*).
- Investment in the registry (Phase 2) will be essential for carbon offsetting and biodiversity credits, but action will depend on the availability of draft or finalized normative requirements for the carbon offsetting and biodiversity credits.

The CES Team at FSC is seeking a grant to support the development of methodologies for carbon and biodiversity and is collaborating with FSC's Investment & Partnerships unit to explore grants and donations for Phase 2 of the registry.

7. RECOMMENDATIONS

7.1. CARBON OFFSETTING:

- To mitigate the risks associated with carbon offsetting, FSC should adhere to the requirements and criteria of ICVCM's CCPs through its Assessment Framework (AF) on the supply side and the VCMI Code of Practice on the demand side. While the requirement on sponsors to be VCMI compliant might be burdensome and limit the market update of the claim, considering the fact that we don't have internal capacity to evaluate reduction targets of each sponsor, this option seems the most appropriate solution.

  ICVCM's CCPs serve as a key solution to the challenges of assessing carbon credit quality, setting a bar and ensuring consistency in the voluntary carbon market. There is a endorsement system for voluntary carbon schemes as well as any methodologies used by these schemes. On the demand-side, the VCMI Claims Code of Practice provides guidance on how companies can make voluntary use of carbon credits as part of credible, science-aligned net-zero pathways. ICVCM's CCPs and VCMI's **Code of Practice** have already been referenced in the **United Kingdom (UK) government's Voluntary Carbon and Nature Market consultations** (in support of) and the **USA's Voluntary Carbon Markets Joint Policy Statement and Principles** announced in May 2024. VCMI's Claims Code of Practice is also aligned with the **EU Council's Green Claims Directive draft regulation**.

  These standards guide organizations in integrating high-quality carbon credits into their net-zero transitions and in making verified environmental claims about their use.

- FSC should also seek alignment with **relevant international regulations/frameworks and EU-specific regulations** on the topic, such as **Article 6 of the Paris Agreement**, Carbon Offsetting and Reduction Scheme for International Aviation **(CORSIA) emissions unit eligibility criteria**, and the **EU's Carbon Removals and Carbon Farming Regulation (CRCF)**, among others.

- For risks related to specific project categories or types, FSC will focus only on **IFM** and **A/R**. FSC should not consider **REDD-type projects**, which have faced the most criticism in the voluntary carbon market, primarily due to the overestimation of greenhouse gas (GHG) emission reductions (West et al., 2023).

- FSC should allow initially the CBs with both accreditation, ISO/IEC 17065 and ISO/IEC 14065 for the validation and verification of the claims from carbon offsetting projects at FSC-certified lands.

7.2. BIODIVERSITY OFFSETS:

- Biodiversity offsets involve strict requirements, such as 'like-for-like' conservation (conserving a similar mix of species and assemblages as those found in the area affected by the project) (BBOP, 2009), which is often difficult to achieve. They also require strong governance mechanisms, including institutional and financial frameworks, to ensure the long-term implementation of offset plans—an aspect that remains highly challenging.

Additionally, biodiversity offsets are criticized for legitimizing habitat destruction rather than preventing it, as economic concepts applied in offsetting can justify environmental harm instead of prioritizing conservation (Spash, 2015). They also lead to the **commodification of biodiversity**, reducing ecosystems to tradable assets and ignoring their intrinsic ecological value. Additionally, many environmental resources are **irreplaceable**, making offsetting an inadequate solution for genuine biodiversity loss. These challenges are further compounded by **ethical concerns**, including the long-term viability of offset projects, as already mentioned, and the potential exploitation of vulnerable ecosystems and communities (Grimm and Köppel, 2019).

Therefore, it is recommended that FSC not pursue biodiversity offsets, as they often fail to deliver their intended conservation outcomes and pose significant **integrity and reputational risks** (Lindenmayer et al., 2017).

7.3. BIODIVERSITY CREDITS:

- Major conservation organizations, such as **WWF** and **Conservation International**, support **biodiversity credits** as an emerging mechanism designed primarily for a **contribution-based approach** rather than offsetting biodiversity loss. **WWF** has specifically highlighted the clear distinction between **biodiversity credits** and **biodiversity offsets**, emphasizing that they operate under different requirements. Unlike offsets, which aim to compensate for environmental harm, **biodiversity credits** provide a way to **finance and incentivize proactive conservation efforts**, ensuring measurable gains in biodiversity without legitimizing habitat destruction.

  It is therefore recommended that FSC prioritizes biodiversity credits over biodiversity offsets, as they provide a more transparent and effective mechanism for supporting conservation efforts without legitimizing habitat destruction. Biodiversity credits align with a contribution-based approach, ensuring measurable biodiversity gains while attracting sustainable funding for ecosystem restoration and protection. By focusing on biodiversity credits, FSC can promote a positive impact model that enhances biodiversity rather than merely compensating for its loss.

- **It is recommended to develop a biodiversity credit methodology** (normative requirements, including criteria) initially aligned with the integrity criteria of existing voluntary biodiversity credit standards and, ultimately, with the high-level principles of the BCA and its assessment framework. This will ensure high standards of integrity and robust biodiversity credit generation. **FSC is already engaged** with BCA, IAPB, and the HCV Network and will explore these partnerships further to jointly develop normative requirements for biodiversity credit generation, helping to offset associated costs.

- The **CBs** accredited under **FSC's independent third-party assurance system** will not require additional accreditation. However, a few **normative requirements** may be introduced, necessitating the inclusion of **experienced professionals** in the team to conduct such audits. Nonetheless, this will not require a significant overhaul of the existing system.

7.4. WATER OFFSETTING:

- Water is a vital resource, and the growing issue of water scarcity, further intensified by climate change, demands urgent attention (Wang et al., 2024). It is crucial to explore various potential solutions to address this challenge Water offsetting could be one such solution. While it is true that there are

currently no established requirements or frameworks to align with, this should not deter FSC from considering it as a viable option in the future. Although it may not be an immediate priority, FSC should continue to explore and monitor developments in this area, seeking opportunities to build on this initiative. Therefore, it is recommended that FSC keep this option open and remain proactive in evaluating how to advance this concept in the long term.

7.5. RESIDUAL IMPACT STAGE:

- For carbon offsetting, confirmation from **SBTi** should be obtained to verify progress toward both **near-term** and **long-term** science-based targets, ultimately indicating when the **residual emissions stage** has been reached. Additionally, VCMI requires companies to demonstrate their validated targets set with SBTi in order to make high-integrity claims, which would further substantiate the credibility of these targets and strengthen the overall claims.

GENERAL RECOMMENDATION

The CES Team at FSC will seek grants to support the development and testing of the carbon and biodiversity credit methodologies (normative requirements including criteria) through collaborating with FSC's Investment & Partnerships unit.

GLOSSARY OF TERMS

Additionality: The GHG emission reductions or removals from the mitigation activity shall be additional, i.e., they would not have occurred in the absence of the incentive created by carbon credit revenues. ***Source:*** (ICVCM, 2024)

Afforestation: Afforestation involves the establishment of forests through planting or seeding, and/or the human-induced promotion of natural seed sources on land that was historically not a forest.

Biodiversity Credit: 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. ***Source:*** (WEF, 2022)

Biodiversity Offset: Biodiversity offsets, therefore, are intended to compensate for any significant residual impacts on biodiversity after efforts to prevent and mitigate harm have been implemented. ***Source:*** (WEF, 2022).

Carbon Credit: Carbon credit is a tradable unit that represents one metric ton of GHG emission reductions or removals. Carbon credits are uniquely serialized, issued, tracked, and retired by means of an electronic registry. Carbon credits in the voluntary carbon market are generated by the activities of projects and programs that are certified by carbon standards. Credited GHG reductions or removal enhancements are quantified using project or intervention accounting methods, which quantify system-wide GHG impacts relative to a counterfactual baseline scenario or performance benchmark that represent the conditions most likely to occur in the absence of the mitigation project or program that generates the credit. ***Source:*** (SBTi, 2024)

Carbon Crediting Scheme: A carbon crediting scheme is a structured program that issues and manages carbon credits, which represent a reduction, removal, or avoidance of GHG emissions. Typically, these schemes operate through either compliance or voluntary frameworks. Examples of well-known voluntary carbon crediting schemes include those administered by Verra and the Gold Standard.

Compensation Claims: The claims that convey to audiences that avoiding, reducing or removing GHG emissions beyond the value chain of a company counterbalances or “nets out” emissions released within the operations or value chain of a company. ***Source:*** (SBTi, 2024)

Contribution Claims: The claims that convey to audiences that the organization has provided support or finance to actions beyond the company’s value chain (including through collective action) with an expected climate mitigation outcome (where the actions are relevant to the expected performance outcome). ***Source:*** (SBTi, 2024)

Improved Forest Management: Activities that modify forest management practices and enhance carbon storage on forest lands used for wood products, including saw timber, pulpwood, and fuelwood.

Leakage: Net changes of anthropogenic emissions by GHG sources that occur outside the project or program boundary but are attributable to the project or program. ***Source:*** (VCS, 2023)

Methodology: A defined set of criteria and procedures applicable to specific project activities for determining the project boundary, establishing the baseline scenario, demonstrating additionality, calculating net GHG emission reductions and/or removals, and outlining the monitoring procedures. ***Source:*** (VCS, 2023).

Module: A component of a methodology that can be applied to carry out a specific methodological task. ***Source:*** (VCS, 2023)

Permanence: The GHG emission reductions or removals from the mitigation activity shall be permanent or, where there is a risk of reversal, there shall be measures in place to address those risks and compensate for reversals. ***Source:*** (ICVCM, 2024)

Reforestation: Planting forests on lands that were previously forested but have been converted to other uses. This includes the reestablishment of forest cover either naturally (through natural seeding, coppicing, or root suckers) or artificially (via direct seeding or planting.

Tool: A type of module that outlines a procedure for conducting a specific analysis. ***Source:*** (VCS, 2023)

Water Offsetting: Water neutrality refers to the practice of minimizing the water footprint of an activity as much as possible and using offsets to compensate for the negative externalities associated with the remaining water usage.

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ANNEXURES

ANNEXURE 1: STAKEHOLDERS ENGAGEMENT PLAN

Stakeholder	Stakeholder key contact/s	Level of interest (low>medium>high)	Ability to impact (low>medium>high)	What we want from stakeholder	What stakeholder wants from us	Conflicts of interest	Relationship owner(s)	Communication Channels	Collection of Responses
Motion proposers/supporters/ Technical Working Group	Proposers/ Supporters	High	High	Opinions about their expectations. Risks and barriers. Opportunities for SLIMF	The analysis on the suitability of ESP for compensation mechanisms i.e., carbon offsets, etc.	No	CSE	Emails	Group Interview/Call
FSC Environmental Members	General engagement. (One member each from chamber and sub-chamber)	High	High	Opinions about their expectations. Risks and barriers.	The analysis on the suitability of ESP for compensation mechanisms i.e., carbon offsets, etc.	No	CSE	FSC Channel: Membership Newsletter Items FSC Units.xlsx Emails	One-on-One Interview/Call
FSC Social Members	General engagement. (One member each from chamber and sub-chamber)	High	High	Opinions about their expectations. Risks and barriers.	The analysis on the suitability of ESP for compensation mechanisms i.e., carbon offsets, etc.	No	CSE	FSC Channel: Membership Newsletter Items FSC Units.xlsx Emails	One-on-One Interview/Call
FSC Economic Members	General engagement.	High	High	Opinions about their expectations.	The analysis on the suitability of ESP for compensation	No	CSE	FSC Channel: Membership	One-on-One Interview/Call

Stakeholder	Stakeholder key contact/s	Level of interest (low>medium>high)	Ability to impact (low>medium>high)	What we want from stakeholder	What stakeholder wants from us	Conflicts of interest	Relationship owner(s)	Communication Channels	Collection of Responses
	(One member each from chamber and sub-chamber)			Risks and barriers.	mechanisms i.e., carbon offsets, etc.			Newsletter Items FSC Units.xlsx Emails	
FSC BoD	Engagement through the member's channel.	High	High	Opinions about their expectations. Risks and barriers.	The analysis on the suitability of ESP for compensation mechanisms i.e., carbon offsets, etc.	No	CSE	FSC Channel: Membership Newsletter Items FSC Units.xlsx Emails	One-on-One Interview/Call
FSC Network Partners	General engagement.	High	High	Opinions about their expectations. Risks and barriers. Technical Feasibility	The analysis on the suitability of ESP for compensation mechanisms i.e., carbon offsets, etc.	No	CSE	MS Teams Groups: OneFSC Global, Climate & Ecosystem Services at FSC	One-on-One Interview/Call Webinars
FSC Regional Office	General engagement.	High	High	Opinions about their expectations. Risks and barriers. Technical Feasibility	The analysis on the suitability of ESP for compensation mechanisms i.e., carbon offsets, etc.	No	CSE	FSC Channel. OneFSC	One-on-One Interview/Call Webinars
FSC Certificate Holders i.e., Forest Management, SLIMF, CoCs.	General engagement.	High	High	Opinions about their expectations. Risks and barriers. Technical Feasibility	The analysis on the suitability of ESP for compensation mechanisms i.e., carbon offsets, etc.	No	CSE	FSC Channel.	One-on-One Interview/Call Webinars
Certification Bodies	General engagement	High	High	Opinions about their expectations.	The analysis on the suitability of ESP for compensation	No	CSE	FSC Channel: CB Forum Weekly Comms.xlsx	One-on-One Interview/Call

Stakeholder	Stakeholder key contact/s	Level of interest (low>medium>high)	Ability to impact (low>medium>high)	What we want from stakeholder	What stakeholder wants from us	Conflicts of interest	Relationship owner(s)	Communication Channels	Collection of Responses
				Risks and barriers. Technical Feasibility	mechanisms i.e., carbon offsets, etc.			PBN	Webinars
Assurance Service International	Staff	High	High	Opinions about their expectations. Risks and barriers.	The analysis on the suitability of ESP for compensation mechanisms i.e., carbon offsets, etc.	No	CSE	Email	One-on-One Interview/Call
Non-government organizations	Acorn representatives Verra representatives Gold Standard representatives Insetting platform representatives Solidaridad Network's Executive Director One Tree Planted's Executive Director Eden Reforestation Projects' Executive Director	High	High	Opinions about their expectations. Risks and barriers. Technical requirements.	The analysis on the suitability of ESP for compensation mechanisms i.e., carbon offsets, etc.	No	CSE	Emails	One-on-One Interview/Call

Stakeholder	Stakeholder key contact/s	Level of interest (low>medium>high)	Ability to impact (low>medium>high)	What we want from stakeholder	What stakeholder wants from us	Conflicts of interest	Relationship owner(s)	Communication Channels	Collection of Responses
	Earthworm Foundation's Executive Director WRI representatives WWF representatives Conservation International representatives Forest of the World representatives Society for Ecological Restoration representatives Greenpeace representatives Staff – Etifor Staff – MIRLO Staff – ICVCM Staff – VCMI Staff – International Civil Aviation Organization								

Stakeholder	Stakeholder key contact/s	Level of interest (low>medium>high)	Ability to impact (low>medium>high)	What we want from stakeholder	What stakeholder wants from us	Conflicts of interest	Relationship owner(s)	Communication Channels	Collection of Responses
Business Sector	IKEA representatives Asia Pulp and Paper - representatives Nestlé representatives Tetra Pak representatives Ferrero representatives Schweizerische Industrie Gesellschaft- SIG representatives Cargil representatives APRIL Group's representatives Chiquita representatives	Low	Low	Opinions about their expectations. Risks and barriers.	The analysis on the suitability of ESP for compensation mechanisms i.e., carbon offsets, etc.	No	CSE	Emails	One-on-One Interview/Call
Indigenous People	Indigenous People/Communities	High	High	Opinions about their expectations. Risks and barriers.	The analysis on the suitability of ESP for compensation mechanisms i.e., carbon offsets, etc.	No	CSE	Email	One-on-One Interview/Call

Stakeholder	Stakeholder key contact/s	Level of interest (low>medium>high)	Ability to impact (low>medium>high)	What we want from stakeholder	What stakeholder wants from us	Conflicts of interest	Relationship owner(s)	Communication Channels	Collection of Responses
FSC's Internal teams/key staff	Staff – PSU Staff - MCU	High	High	Opinions about their expectations. Risks and barriers. Technical feasibility.	The analysis on the suitability of ESP for compensation mechanisms i.e., carbon offsets, etc.	No	CSE	Emails	One-on-One Interview/Call
Technical Experts	Staff - International Woodland Company Asset Management) Independent researchers			Opinions about their expectations. Risks and barriers. Technical requirements.	The analysis on the suitability of ESP for compensation mechanisms i.e., carbon offsets, etc.	No	CSE	Emails	One-on-One Interview/Call

ANNEXURE 2: TECHNICAL ANALYSIS REPORT (FINAL TECHNICAL ANALYSIS: "OPERATIONALIZING COMPENSATION OR/AND NEUTRALIZATION IN THE ES PRO 30-006) *(WILL BE PROVIDED SEPARATELY)*

ANNEXURE 3: INTERVIEWS ANALYSIS REPORT *(WILL BE PROVIDED SEPARATELY)*

ANNEXURE 4: PUBLIC CONSULTATIONS ANALYSIS REPORT (*WILL BE PROVIDED SEPARATELY*)

ANNEXURE 5: TABLE SUMMARIZING FINDINGS

Sr. No.	Motion 49/2021 Requirements	Market analysis	Technical Analysis Report	Interview Analysis Report	Public Consultation Analysis Report	Recommendation
1	Carbon Offsetting	The carbon credits from **IFM** projects generated in **FSC-certified** areas resulted in a **30-45% premium** compared to those from non-FSC certified areas. Similarly, carbon credits from **REDD+** projects generated in **FSC-certified** areas resulted in a **5-20% increase in price** compared to non-certified areas.	• Carbon offsetting requirements and criteria need to be aligned with ICVCM's CCPs. • Validation and verification (V/V) assurance system needs to be adopted. • Compensation claims need to be aligned with the VCMI Code of Practice. • FSC shall develop its own activity methodology.	• Interviews emphasized the need for alignment of the carbon offsetting requirements and criteria with the ICVCM's CCPs. • Interviews highlighted the need for V/V assurance approach for carbon offsetting. • Interviews recommended two of these activity methodologies for FSC i.e., Improved Forest Management (IFM) and Afforestation/Reforestation. • Interviews emphasized the alignment with the VCMI's Code of Practice for the compensation claims.	• **72%** of respondents, out of a **total of 25**, **opposed** the option of revising the Ecosystem Services Procedure by elevating the existing requirements to offsetting, resulting in a single claim type: Compensation Claim. They emphasized that this option should not be pursued due to its complexity and the strong existing preference for Verified Impacts. Additionally, it is considered restrictive for smallholders and communities. • **61%** of respondents **did not agree** with revising the Ecosystem Services Procedure by adding requirements for offsetting alongside the existing requirements for generating Verified Impacts, resulting in two types of claims: Ecosystem Services Claims and Compensation Claims, **out of a total of 23 respondents**. • **60%** of respondents **agreed** with creating separate normative requirements for offsetting, distinct from the Ecosystem Services Procedure, in a standalone normative document, **out of a total of 25 respondents**.	• To mitigate the risks associated with carbon offsetting, FSC should adhere to the requirements and criteria of ICVCM's Core Carbon Principles (CCPs) through its Assessment Framework (AF) on the supply side and the VCMI Code of Practice on the demand side. ICVCM's CCPs serve as a key solution to the challenges of assessing carbon credit quality and ensuring consistency in the voluntary carbon market. Similarly, VCMI's Claims Code of Practice addresses potential risks by establishing rigorous, science-based standards. These standards guide organizations in integrating high-quality carbon credits into their net-zero transitions and in making verified environmental claims about their use. • FSC should also seek alignment with **relevant international regulations/frameworks and EU-specific regulations** on the topic, such as **Article 6 of the Paris Agreement**, **CORSIA emissions unit eligibility criteria**, and the **EU's Carbon Removals and Carbon Farming Regulation**, among others. • For risks related to specific project categories or types, FSC shall

Sr. No.	Motion 49/2021 Requirements	Market analysis	Technical Analysis Report	Interview Analysis Report	Public Consultation Analysis Report	Recommendation
					• **76%** of respondents, **out of a total of 17,** are in the high-end **agreement** range (75% and 100%) that the ICVCM CCPs will serve as a good reference for FSC if it decides to pursue carbon offsetting requirements. • **57%** of respondents, **out of a total of 23**, stated that they were not aware of any **external methodologies from carbon crediting schemes that FSC could adopt.** • **65%** of respondents, **out of a total of 20,** agreed that Improved Forest Management (IFM) should be a category for FSC to follow when developing a methodology, including normative requirements and criteria. • **71% of** respondents, **out of a total of 14**, agree that ISO/IEC 17029:2019 and ISO/IEC 14065:2020 are the relevant accreditation requirements for CBs intending to conduct carbon offsetting activities under the FSC Forest Management Certification. • **75%** of respondents, **out of a total of 12**, agree that FSC should accept accreditation to ISO/IEC 17029:2019 and ISO/IEC 14065:2020 from other accreditation programs. This would allow an FSC	focus only on **Improved Forest Management** and **Afforestation/Reforestation**. FSC should not consider **REDD-type projects**, which have faced the most criticism in the voluntary carbon market, primarily due to the overestimation of GHG emission reductions (West et al., 2023). • FSC should allow initially the CBs with both accreditation, ISO 17065 and ISO 14065 for the validation and verification of the claims from carbon offsetting projects at FSC certified lands.

Sr. No.	Motion 49/2021 Requirements	Market analysis	Technical Analysis Report	Interview Analysis Report	Public Consultation Analysis Report	Recommendation
					CB holding such accreditation to qualify for conducting verification activities for carbon offsetting. • **50%** of respondents, **out of a total of eight**, agreed that CBs/VVBs' conformity to ISO/IEC 17029:2019 and ISO/IEC 14065:2020 alone would be insufficient and that FSC should adapt these standards to align with its normative framework by specifying additional requirements, such as process requirements for carbon projects, personnel competency, and other relevant criteria. • **58%** of respondents, **out of a total of 19**, agreed that FSC should regulate claims made by sponsors and buyers, specifically by adhering to Step 4 of the VCMI Code of Practice. This step requires third-party verification to confirm that all prior steps and respective requirements of the VCMI Code of Practice have been met before high-integrity claims can be made.	
2	Biodiversity Offsetting		• Biodiversity offsets are proven to be ethically and technically	Interviews highlighted the biodiversity offsets may bring integrity risks due to the stringent requirements associated.	• **70%** of respondents, **out of a total of 20 respondents,** opposed FSC pursuing biodiversity offsets.	It is recommended that FSC should not pursue biodiversity offsets, as they often fail to achieve their intended outcomes, increasing integrity and

Sr. No.	Motion 49/2021 Requirements	Market analysis	Technical Analysis Report	Interview Analysis Report	Public Consultation Analysis Report	Recommendation
			challenging and controversial. • Biodiversity offsets are highly local specific.		• No internationally recognized accreditation standard for biodiversity offsetting was identified during the public consultation. • No framework similar to the VCMI Code of Practice was identified for biodiversity offsetting to ensure the integrity of claims.	reputational risks (Lindenmayer et al., 2017).
3	Biodiversity Credits	The **biodiversity credit market** is an emerging sector with significant potential for growth. At this stage, unfortunately, there are no projects that can demonstrate the specific economic value that **FSC-certified areas** can bring in terms of pricing for **biodiversity credits**. However, the increase in the price of **carbon credits** in **FSC-certified areas** provides encouraging signs, and we are optimistic that a similar trend could be seen in the biodiversity credit market. While various emerging schemes are being developed, **FSC** already has a strong	Biodiversity credits support actions that generate additional positive biodiversity outcomes. These are not used for offsetting.	• Interviews highlighted that the biodiversity credits provide a flexible and customizable approach to conservation finance, allowing for tailored solutions that address specific priorities and objectives. • Interviews further emphasized that since biodiversity credits are not intended for offsetting, they do not pose significant reputational risks.	• 63% of respondents agreed, at the higher end (75% and 100% agreement), on the need for a separate normative document for biodiversity credits, out of a total of 17 respondents. • 18% of respondents, at the higher end (75% and 100% agreement), favored incorporating biodiversity credit generation requirements into the Ecosystem Services Procedure as a separate biodiversity category, out of a total of 17 respondents. • 79% of respondents, at the higher end (75% and 100% agreement), endorsed the criteria identified in the technical analysis for generating robust biodiversity credits (additionality, accounting methodology, leakage, double counting and	• It is recommended that FSC prioritize biodiversity credits over biodiversity offsets, as they provide a more transparent and effective mechanism for supporting conservation efforts without legitimizing habitat destruction. Biodiversity credits align with a contribution-based approach, ensuring measurable biodiversity gains while attracting sustainable funding for ecosystem restoration and protection. By focusing on biodiversity credits, FSC can promote a positive impact model that enhances biodiversity rather than merely compensating for its loss. • It is recommended to develop a biodiversity credit methodology (normative requirements, including criteria) initially aligned with the integrity criteria of existing voluntary biodiversity credit standards and, ultimately, with the high-level principles of the BCA

Sr. No.	Motion 49/2021 Requirements	Market analysis	Technical Analysis Report	Interview Analysis Report	Public Consultation Analysis Report	Recommendation
		system in place and is a trusted brand for **responsible forest management**. This robust foundation will help drive higher prices for **FSC certificate holders**, while simultaneously attracting buyers to FSC-certified areas, confident in the credibility and reliability of the system, which will be further enhanced by the introduction of robust **biodiversity credit generation** requirements. Buyers place greater trust in the FSC system, which will be instrumental in securing higher value for these credits (FSC, 2023).			claiming, and traceability) out of a total of 19 respondents. • No internationally recognized accreditation standard for biodiversity offsetting was identified during the public consultation. • No framework similar to the VCMI Code of Practice was identified for biodiversity offsetting to ensure the integrity of claims.	and its assessment framework. This will ensure high standards of integrity and robust biodiversity credit generation. FSC is already engaged with BCA, IAPB, and the HCV Network and will explore these partnerships further to jointly develop normative requirements for biodiversity credit generation, helping to offset associated costs. • The **CBs** accredited under **FSC's independent third-party assurance system** will not require additional accreditation. However, a few **normative requirements** may be introduced, necessitating the inclusion of **experienced professionals** in the team to conduct such audits. Nonetheless, this will not require a significant overhaul of the existing system.
3	Water Offsetting		There does not exist any voluntary water offsetting scheme.	Interviews also highlighted that there does not exist any voluntary water offsetting scheme.	• **79%** of respondents, **out of a total of 19**, disagreed with FSC developing normative requirements for water offsets, given that no renowned voluntary water neutrality/offsetting scheme is available to follow. • The public consultation responses indicated that no respondents were aware of any globally or locally recognized water	Due to water being an important resource, it is recommended that FSC keep this option open and remain proactive in evaluating how to advance this concept in the long term.

Sr. No.	Motion 49/2021 Requirements	Market analysis	Technical Analysis Report	Interview Analysis Report	Public Consultation Analysis Report	Recommendation
					neutrality/offsetting schemes. • No internationally recognized accreditation standard for water offsetting was identified during the public consultation. • No framework similar to the VCMI Code of Practice was identified for water offsetting to ensure the integrity of claims.	
4	Application of offsetting at the residual impact stage.					For carbon offsetting, confirmation from **SBTi** should be obtained to verify progress toward both **near-term** and **long-term** science-based targets, ultimately indicating when the **residual emissions stage** has been reached.

ANNEXURE 6: TERMS OF REFERENCE OUTLINE (WILL BE PROVIDED SEPARATELY)

- Introduction
- Background of the project
- Organizational setup of the project
- Objective
- Tasks and responsibilities
- Selection of Technical Working Group members
- Structure and Accountabilities
- Expected outputs
- Workplan and time commitment
- Expenses and remuneration
- Confidentiality and conflict of interest
- Language
- Operating Rules

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