



2010 Biannual ICROA Independent Advisory Board meeting, 15th July 2010

Attendees:

ICROA Independent Advisory Board	
Joel Levin	Climate Action Reserve
Iain Watt	Forum for the Future
Lisa Hodes	The Gold Standard Foundation
Michael Gillenwater	Greenhouse Gas Management Institute (GHGMI)
Guy Reinaud	Pro Natura
Anja Kollmuss	Stockholm Environment Institute (SEI)
David Antonioli	Voluntary Carbon Standard Association (VCSA)
Alexia Kelly (ICROA IAB Chair)	World Resource Institute (WRI)
ICROA Members	
Edward Hanrahan (ICROA Co-Chair)	ClimateCare
Sascha Lafeld (ICROA Co-Chair)	First Climate
Caroline Spencer	ICROA
Corin Wates	ICROA
Tom Stoddard	NativeEnergy
Jonathan Shopley	The CarbonNeutral Company

Meeting Report

Executive Summary: The third ICROA Independent Advisory Board (IAB) meeting took place on Thursday 15th July 2010. The IAB meeting was chaired by the ICROA IAB Chair: Alexia Kelly from WRI. The IAB was updated on ICROA's activities between November 2009 and July 2010, including the preliminary results from ICROA's first

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external audit period and the ICROA position on double counting. The IAB provided an update on its recommendation on the ICROA Reductions Sold In Advance of Verification (RSIV) model. The IAB also provided further recommendations for ICROA for 2010.

1. Report from 2nd ICROA IAB Meeting - November 2009.

The report from the 2nd ICROA IAB Meeting was agreed by the IAB members. No additional comments were made.

2. ICROA Update - 2010.

The IAB was advised about ICROA's activities, both external and internal, since the last IAB meeting. External activities included the appointment of the new ICROA Co-Chairs Edward Hanrahan from ClimateCare and Sascha Lafeld from First Climate, the addition of a new member (EcoAct), engagement with Governments on the benefits of the voluntary carbon market, and promotion of the benefits of the voluntary market to a variety of stakeholders including the media. The IAB was advised that the ICROA Audit Process has been finalised and is being implemented to ensure that the proposed processes work in practice. The IAB was updated on the review of the ICROA position on performance based additionality, since the previous ICROA policy has proved very difficult to implement in practice and ICROA has recognised that the carbon markets are beginning to embrace performance standards for additionality. An update on the review of alternative offset standards for potential inclusion in the ICROA Code of Best Practice was provided. The IAB was advised that a 10 year delivery term limit applies to all forestry Reductions Sold in Advance of Verification (RSIV) offset projects. It was noted that ICROA is considering alternative partner organisations for developing the Radiative Forcing Index (RFI) discussion forum as the Omega Partnership no longer has funding.

The IAB were particularly interested in the update relating to the ICROA position on performance based additionality, which confirmed that ICROA will develop criteria to review how the benchmarks for performance based additionality within the relevant standards have been set, to ensure that this process has been completed appropriately and transparently. Draft criteria (the Benchmark Review Criteria) have been developed but not yet signed off by the Executive Committee. The IAB advised that transparency does not always result in the setting of a robust benchmark. It was

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felt by some ICROA IAB members that the final ICROA decision should trust and rely on the processes developed by the relevant standards, and that ICROA should avoid getting involved in high level analysis of each benchmark methodology. It was suggested the ICROA benchmark review process may not add much value and could become quite cumbersome. It was noted that ICROA will endeavour to ensure that the benchmark review process is not cumbersome and is as high level as possible. It was noted that the VCS is creating a steering committee which will develop rules on benchmarking for performance based additionality methodologies for the VCS.

IAB Recommendation:

The IAB was particularly interested in the update relating to the ICROA position on performance based additionality. The IAB advised the ICROA review of how the benchmarks are established should be a high-level process and not become too cumbersome, while also ensuring that tests are effective in screening non-additional projects out.

a. Report from ICROA Audit Process - First External Audit Period.

The IAB was advised that the preliminary findings from the first external audit period of the ICROA Audit Process indicate that the process works well in practice. It was confirmed that all of the ICROA members who have submitted their ICROA Audit Process documentation are successfully adhering to the ICROA Code of Best Practice. The findings from the first external audit period have highlighted areas where minor amendments may need to be made to the ICROA Audit Process. It was noted that a summary of the responses and outcomes from ICROA's first external audit period will be made publically available on the ICROA website.

IAB Recommendation:

The IAB noted and appreciated that the ICROA Audit Process works well in practice. The summary report and analysis from ICROA's first external audit period will be distributed to the ICROA IAB directly.

b. ICROA Report on Double Counting.

The IAB were presented with a review of the ICROA Position on Double Counting. This report affirmed that the ICROA Code of Best Practice places great importance on the avoidance of double counting, both in terms of the uniqueness of offsets and excluding emission reductions from VER offset projects from Annexe I Government



reduction targets under the Kyoto Protocol. The discussion focused on the latter of these issues which proposed that ICROA could consider recommending to Governments that policies be adopted to facilitate domestic projects in European Annexe I countries. Potential policies include: the cancellation of AAUs to facilitate domestic VER projects, specific domestic VER programmes [e.g. such as the J-VER Programme in Japan] and situations of exceptional circumstances, e.g. the VCS Board ruling on VCS offset projects in Canada. Many ICROA members located in European Annexe I countries have expressed an interest in developing domestic projects, but felt that it would not be feasible until it can be clearly demonstrated that offsets from these projects are not being double counted. Concerns have also raised regarding the additionality of offset projects in European Annexe I countries. Another ICROA member advised the IAB of a practice, which currently takes place in Germany, of bundling credits from domestic projects, which are not certified as offsets, with generic VCUs to offer an offset product that provides domestic benefits. It was suggested that some large companies may start purchasing offsets generated in European Annexe I countries (i.e. UK) regardless. It was noted that under the future US cap and trade system, the cancellation of pollution permits to facilitate domestic projects may also not be possible, as there may not be enough available pollution permits in the system to facilitate this process. It was agreed that ICROA needs to consider what the future international system might look like and what sort of accounting systems Governments would recognise rather than only trying to engage with policy makers on the rules of the current Kyoto system.

IAB Recommendation:

The IAB advised that it was unlikely that many European Governments would permit the cancelling of AAUs to account for domestic offset projects in Annexe I countries in the imminent future. However, it was agreed that the ICROA IAB and Executive Committee need to further consider how policy on domestic projects in European Annexe I countries could be facilitated and what mechanisms and methods ICROA should consider recommending and promoting to Governments. The IAB noted that the opportunity to think differently about the role of the voluntary carbon market in the post-2012 international framework may present itself and that ICROA should develop a position that can be shared with relevant stakeholders. It was noted that the facilitation and implementation of domestic offset projects could help convince Governments of their inherent value. The IAB advised that ICROA should promote the facilitation of domestic offset projects in Annexe I countries, as long the

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environmental integrity of the offsets could be demonstrated. This should formally be added to the IAB list of recommendations for ICROA for 2010.

3. ICROA IAB Recommendation on the Reductions Sold in Advance of Verification (RSIV) model for the ICROA Executive Committee.

The IAB were presented with a review of the ICROA IAB recommendation on the Reductions Sold in Advance of Verification (RSIV) model. The replacement mechanisms were outlined and the proposed option of correlating the various options for the replacement mechanism with the different delivery term limits was explained. It was noted that this is not the final recommendation from the IAB on the RSIV model, as there will be one further ICROA IAB meeting to develop the final recommendation. It was noted that ICROA is not required to accept the IAB's recommendation. It was noted by the IAB that an ideal solution may not exist and that the objective of the IAB is to develop a viable recommendation that ensures that ICROA has environmental integrity and promotes best practice.

Some of the ICROA members expressed the view that it is not appropriate to apply a replacement mechanism for the RSIV model on a project-by-project basis and that instead the entire portfolio of projects should be considered. Some of the larger ICROA members stated that they would prefer not to offer any form of escrow. This is because they believe that the level of assurance offered by the Contractual Financial Guarantee depends on the financial stability of the company and could therefore be applied as the replacement mechanism for larger companies. It was suggested by the ICROA members that the RSIV issue should be applied differently for different ICROA member, to address the range of risk factors (country, project type etc) the member and the project is subject to. It was noted that it would be difficult for ICROA to develop an effective buffer model that covers all members. It was argued that the concept of a buffer is not problematic, although it is difficult to apply it using a consistent "blanket approach" across a different set of scenarios, e.g. companies that have different risk levels, with different numbers and types of projects in different countries. Another ICROA member made the point that companies of any size will be subject to balance sheet risks and suggested that once the market scales up, the members of ICROA could form a joint buffer, to mitigate risk and scale up efficiency. It was suggested that ICROA could have lead on creating and managing such a buffer. It was noted that the VCS uses risk-profiling to manage

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the industry wide AFOLU buffer. The IAB advised that the current rules for the ICROA buffer are not robust enough and that if the buffer option is retained then the ICROA rules on the management of the buffer need to be made clearer.

One IAB member who has worked for a project developer in the past argued that projects often under-perform as much as they over-perform and that the likely outcome of the project is often unknown while it is being developed. One ICROA member felt that, in terms of estimating the output of a project, it could be calculated relatively accurately within a 10% tolerance. It was noted by a number of IAB members that a delivery term of 2-3 years is acceptable but for the current delivery term of 7-10 years, the current political climate (i.e. deadline of the Kyoto Protocol in 2012) is too uncertain and the international system could be very different in 2020-10 years time. One member of the IAB felt that a scientifically defensible discount rate should be applied to account for the differing effect of a tonne of CO₂ released today with a tonne of CO₂ released in 10 years time.

It was noted that a key tenet of the voluntary carbon market is innovation and that the RSIV model is helping to facilitate innovative projects whilst the current conditions for project origination are challenging. It was noted that the key issue with the RSIV model is often one of perception, particularly with crediting periods, rather than proven concerns with the replacement mechanisms. The ICROA members emphasised that the riskiest and most compelling projects may not be possible without the RSIV model. If the RSIV model is no longer included in the ICROA Code of Best Practice, the voluntary market would again further focus on low risk technologies such as wind power and hydro, and fewer small scale, community focused projects would be developed. It was noted that many project developers cannot afford to fund voluntary market projects without receiving advance streams of funding from the RSIV model. The RSIV model is contributing to the expansion of the voluntary carbon market's scope.

IAB Recommendation:

The IAB advised that the current RSIV model that ICROA has developed needs to be further developed. The IAB advised that it is important to develop a more robust RSIV model, particularly with the current uncertainties in the voluntary carbon market and the international system. The IAB will convene again to provide a formal recommendation for ICROA on the RSIV model. It was noted that ICROA will produce a formal response to the recommendation submitted by the IAB. The ICROA

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members expressed their appreciation for the time and effort contributed by the IAB in providing the recommendation on the RSIV model.

4. ICROA IAB Recommendations for ICROA: 2009- Responses. 2010-New Recommendations.

The IAB was presented with a review of the ICROA responses to the 2009 IAB recommendations for ICROA. In terms of EU engagement it was noted that ICROA has been focusing on bilateral engagement with the EU member states, particularly the UK and France. ICROA has also considered US engagement, with a briefing considered with Senator Stabenow's office. ICROA is now drafting a white paper, with input from the ICROA permitted offset standards, on US climate legislation and the voluntary carbon market, for US senate staff and other key audiences. In terms of the discussion forum on RFI it was noted that ICROA will identify a new partner organisation.

The IAB was presented with the proposed list of ICROA IAB recommendations for 2010. The list of recommendations included: i. Continued engagement with EU, US and other governments on the benefits of the voluntary carbon market; ii. Establishment of an RFI discussion forum; iii. Development of the RSIV section in the ICROA Code of Best Practice; iv. Expansion of ICROA membership.

IAB Recommendation:

The IAB agreed that the proposed recommendations for 2010 were appropriate. These recommendations were then formally made to ICROA for 2010. The IAB agreed that the recommendation regarding facilitating domestic offset projects in (particularly European) Annexe I countries, would be added to the IAB list of recommendations for ICROA for 2010. It was noted that the double counting issue may also tie into ICROA's federal engagement in the US. On the subject of the ICROA position on RFI, the IAB advised that it may be more important to ensure that the same RFI is consistently applied across ICROA members rather than engaging in further discussion on the topic, as consumer confusion about flight calculations continues to be highly problematic.

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