

IETA AND ICROA RESPONSE TO GOLD STANDARD'S CONSULTATION ON 'INTEGRITY FOR SCALE: ALIGNING GOLD STANDARD PROJECTS WITH THE PARIS AGREEMENT'

April 2021

Dear Gold Standard Team,

IETA and ICROA commend the Gold Standard for its culture of engagement and transparency with market stakeholders. We welcome your role and critical work towards a best-in-class approach to voluntary climate and SDG action.

IETA and ICROA are pleased to provide feedback on some of the proposals open for consultation.

We look forward to a continued engagement to find ways to scale support for critical projects.

On behalf of the membership,

Kind regards,
The IETA and ICROA Secretariats

Integrity for Scale: Aligning Gold Standard-Certified Projects with the Paris Agreement.

USING VOLUNTARY CARBON CREDITS IN THE POST-2020 PERIOD

1. Preserving the Promise of Carbon Offsetting

Do you agree with the proposed staggered approach to the implementation of corresponding adjustments rather than introducing a requirement for all Countries at the same time?

- We believe that the proposed timeline for Letters of Authorization and Assurance (LoAAs) is at odds with on-the-ground realities. Corresponding Adjustments (CAs) are theoretically possible, but the practical reality is a long way off. The consultation paper recognizes this, but we are concerned that the reality is a lot further off than 2023-2025, even in progressive Countries which are fairly advanced.
- Unless UNFCCC Bodies make decisions that change our interpretation of where CAs need to be applied, we believe that CAs are not necessary or desirable for the VCM.
- IETA and ICROA seek to ensure that private sector action fully complements the Paris Agreement (PA) by delivering immediate action aligned with, but not constrained by the delayed progress in implementing the PA. CAs do not yet exist and depend on an agreement in the UNFCCC process. As the majority of host Countries do not have clear targets or a clear road map until 2030, and as negotiations on accounting under the UNFCCC are running 2-3 years behind, ICROA believes that CAs could only start to be granted in the VCM from the next decade onwards in the best case scenario.
- ICROA's [position](#) on CAs in the VCM is unchanged. Yet a hypothetical transition to CAs based on essential prerequisites would be a more realistic and sensible approach than one based on dates – given the many uncertainties and challenges.
- ICROA is currently working on a summary of these key challenges for the implementation of CAs in the VCM, and analyzing which conditions need to be met for CAs to be viable – but not at the expense of climate action. The political and technical hurdles are diverse, as summarized in this high-level table:

Category	Challenges
Global Climate Goals - the VCM and the PA	<ul style="list-style-type: none"> • Article 6 delays and uncertainties • Climate justice, impact on communities
NDC Ambition and Enforcement ¹	<ul style="list-style-type: none"> • NDCs and ambition are non-binding and can be modified • NDCs are not formulated in a consistent, comparable way • CA = environmental integrity?

¹ See ICROA's [response](#) to Gold Standard's August 2020 consultation on 'Operationalising and Scaling Post2020 Voluntary Carbon Market'.

Country Capacity and Planning Realities

- The misconception that the VCM undermines NDC ambition and action
- Risks for project developers
- Government engagement/ willingness
- Capacity building needs
- Absence of clear mitigation strategies
- Administrative issues with LoAs

Data Reporting and Transparency

- Lack of registries
- Lack of interoperability

- ICROA seeks to respond to the scientific evidence that supports immediate action on an international level. Developing the regulatory capacity and authorization procedures to execute CAs is complex and could disincentivize or delay urgent investments in climate mitigation. If certain voluntary carbon credits are required to have a CA as early as 2023-2025, it may risk the critical deployment of private capital. If forward investments in projects become contingent upon having a CA, this will be an important issue. Developers need pre-financing on the back of estimated, future carbon reductions. Uncertainty on CA feasibility is perceived as a risk for offtakers, who may become reluctant to commit for the long term, while we are at a pivotal point to catalyze finance for future supply. The flow of forward investment that started again in 2020 would be in danger of being stemmed. Many NDCs are contingent on international financial support and the VCM is one of the critical channels that allow that finance to flow. Making the process too challenging in practice (the principle is simple!) may discourage investment in mitigation.
- It is suggested that VCM investments in a Country without CAs may disincentivize host Governments to take action themselves, but the outcome of the previous point is the flip side of this argument and is probably more likely (experience shows that Governments are actually more likely to increase their own ambition when they see VCM projects). The main reason that Governments do not increase ambition is because they desperately need funds to finance mitigation. In this regard, requiring a CA may lead to less action. The less ambitious the target, the more reductions the host Government has to sell. Countries may not want to commit to both an ambitious target AND to doing CAs for projects. The VCM is a driver to raise ambition but CAs may offer a perverse incentive for weak ambition. Baseline and additionality are the measures of quality for the VCM, and they can only be assessed on a project and program level. Each carbon standard should continue to ensure these qualities, instead of relying on CAs (the recent news on Australia's inflated NDC highlights the fallacy of a market reliant on CA). ICROA will continue to rely on Gold Standard to ensure that carbon reductions are over and above regulatory requirements which are expected to evolve as Parties implement their NDC and ratchet up ambition.
- Other questions arise from the proposal, where policy decisions have to be made: Will the Country meet the NDC? When should a CA be provided? Which projects should be allowed to do a CA? What if the Country does not meet its NDC? The accounting is not done until 2 or 3 years after the period in question. The Paper recognizes this, but it does

not look at who carries the risk in the 2-3 years that a Country may not ultimately do a CA. There is an asymmetry between the accuracy of inventory accounting and the Gold Standard approach to project accounting. Ultimately, Gold Standard reductions in a Country may only be a rounding error on the standard emission factors published by the UNFCCC that are often used in inventory accounting.

Are there particular cases where you think exemptions should be made to the application of corresponding adjustments, for instance for micro-scale projects or those in areas of extreme poverty?

- See previous response for ICROA's broader opinion on CA applicability.

Do you agree that domestic offsetting, as described above, should be treated in the same way as offsetting using international credits? If not, are there alternative safeguards that could be applied?

- The situation with domestic offsetting is comparable to international offsetting. ICROA does not think that a differentiated treatment should apply. The host Country will account for the reduction in its inventory and the corporate can make a claim, independently from its location. See ICROA's [response](#) to Gold Standard's August 2020 consultation for more details.

Do you agree that the requirement for a corresponding adjustment should be applied to projects outside the scope of the host Country's NDC as well as inside? Are there alternative approaches that should be considered for mitigation outcomes outside the NDC?

- As mentioned above, the VCM has relied on quality carbon standards that define additionality and baselines in complex and ever-changing regulatory settings. The PA does not change this fundamentally. We expect that Gold Standard will continue to play a key role in ensuring that the carbon finance channeled to projects continues to deliver certified mitigation above and beyond existing regulations, addressing in part the current shortcomings of governmental action.

General comment on NDCs and CA applicability:

- NDCs do not follow homogenous construction rules that ensure comparability. Instead, most of them are loosely defined in terms of sectors covered, target setting, conditionality or unconditionality – aspects which are often not easily distinguishable.
- Many NDCs do not provide enough information for CAs, they need to be streamlined to allow compatibility between methodologies, baselines. Right now, it is not clear that the concept of CAs would enhance environmental integrity, if the accounting systems of certain seller Countries were not robust enough to uphold the requirements of the Enhanced Transparency Framework (ETF) which is the standardized framework we need to be able to compare NDCs.
- For CAs to enhance integrity, it is essential to have quality at the NDC and the PA levels, not just for the carbon credits and the buyer's credible decarbonization pathway. These all go hand in hand - quality is needed at ALL levels, otherwise, the risk of 'hot air' CAs would be significant.

- The PA is the result of compromises negotiated by 197 Parties over many years. Consequently, it is an agreement with great 'elasticity'. NDCs are neither legally binding nor enforceable. Countries can strengthen their NDC but also (unfortunately) weaken it (e.g. Mexico, Brazil, Vietnam, Australia) at any time, without sanctions. This potentially makes CAs meaningless. Countries can even leave the PA without sanctions. This strengthens the argument more private sector voluntary action now, while this elasticity diminishes over time.
- CAs may give a false sense of control. A CA is given against a moving target that may be missed without consequences: there is not a clear link between the application of CAs and ambition. Anything that removes incentives for action to make sure the accounting is correct, is problematic. In particular if that 'correct' accounting may be a convenient illusion.
- In terms of NDC implementation, capacity building needs will have to be resolved. Many Governments lack knowledge, technical expertise, internal coordination, and processes. Many host Countries have yet to build their mitigation strategy: they do not yet know how activities or sectors will contribute to this strategy, which activities are conditional or unconditional, and the funding required. For those involved in Article 6 pilots, it is the first time they discuss these issues. Most Countries are waiting for a finalized Article 6 to learn more.
- A related issue is the impact on communities: the requirement for CAs puts the onus on communities to convince their Governments to adjust every carbon reduction achieved in their NDC accounting while these administrations themselves hardly understand this concept.
- Finally - technological aspects: there is a lack of data tracking & reporting infrastructures within host Countries. If there is no central data repository to ensure data transparency and availability with respect to the PA, the architecture to undertake CAs for the VCM is a pipe dream. The lack of interoperability between registries, including VCM registries, also needs to be solved, before CAs can be contemplated.

2. *New context, new claims*

Comment on double claiming and introducing new claims (financing model):

- The role of the VCM is to push ambition, to bridge the time gap. We haven't got time to wait for compliance market policies to be brought in.
- We had a decade of almost total inaction on climate change in the 2010s. For the last 10 years, we have spent a lot of time getting corporates comfortable with the concept of full responsibility: what you can't reduce internally you take responsibility for by offsetting these emissions. By removing the focus from accounting for every ton of CO₂ a corporate emits, corporates could be under less pressure to fund as many emissions reductions as they would have otherwise. The main issue with alternative financing claims is that they loosen this important link to the footprint. ICROA believes that claims of neutrality are an essential driver of action through the VCM that effectively differentiate the market from charity donations and deliver commercial sense for buyers.
- As long as Government targets and action are not on track to limit warming to 1.5/2 degrees, the VCM is an instrument that needs to be leveraged. Corporates are willing

to spend money on projects through the VCM, delivering much needed impact (and to benefit the host Country's inventory). We should and must make the most of that while Governments ramp up their action – accessing finance is a key issue for many Countries. In this context, ICROA thinks that double claiming is an issue of secondary order. The priority has to be financing emissions cuts in developing nations – a role the VCM is playing.
