ICROA's position on scaling private sector voluntary action post-2020

Executive summary

When the Paris Agreement comes into force on the 1st January 2021, voluntary action across the private sector to reduce emissions through carbon finance needs to play a continuing role to ensure the rapid transition to a stable climate.

Compliance action is driven by national climate policies and regulation. Private sector voluntary action is driven by the appetite within entities for action ahead of and/or beyond compliance requirements.

This paper sets out how the important contribution of voluntary action can be maintained in the Paris Agreement era by ensuring its continued environmental integrity and positive impact -- **specifically, how the issues of additionality, reporting and claiming emission reductions are addressed under voluntary as opposed to compliance regimes**.

The critical importance of private sector voluntary action

The IPCC's report in October 2018 called for net zero emissions by 2050. However, the sum of all country greenhouse gas emission reduction targets under the Paris Agreement are not yet ambitious enough to reach that global goal, and the timely implementation of Nationally Determined Contributions (NDCs) is uncertain. Private sector finance through voluntary (as opposed to compliance) action can help close the gap. Specifically, **corporates showing climate leadership by voluntarily achieving carbon neutrality are financing immediate emission reductions in line with the recognized urgency of the global climate situation**.

Until adequate provisions are in place across all countries to deliver the goals of the Paris Agreement, there is a real need for this voluntary activity to fund mitigation that would not otherwise happen, and to assist countries to increase their mitigation efforts.

To encourage voluntary action from the private sector**, corporates must be able to demonstrate and communicate their commitment and impact to customers, investors and employees through claims of carbon neutrality; and, prepare themselves for effective economy wide regulation.**

Ensuring the integrity of voluntary action

Since the adoption of the Paris Agreement in 2015, ICROA has explored the impact of the Agreement's 'bottom-up' architecture on the environmental integrity of voluntary action to ensure that the ICROA Code of Best Practice continues to define the highest standards for voluntary action. Specifically, ICROA has examined the key aspects of additionality, reporting and claiming within the context of the essential differences between voluntary and compliance action.

As set out below, the integrity of voluntary action and claims of carbon neutrality can be maintained under the Paris Agreement because:

- Corporate GHG accounts are not reported and aggregated to a country level and therefore not reported to the UN.

- The Host Country where a mitigation activity delivers emission reductions reports those reductions to the UN. The reductions are not exported to the national jurisdiction of the corporate providing the carbon finance. Hence, emission reductions are counted once only at the UN level by the Host country.

- Credible third-party carbon standards will continue to assure that additionality is maintained.

Ensuring the additionality of voluntary action

> ***For private sector entities taking voluntary action, additionality is assured when mitigation initiatives are validated and verified by credible third-party Carbon Standards that ensure emission reductions are over-and-above business-as-usual and regulatory requirements. The ICROA Code of Best Practice recognizes only third-party Carbon Standards that assure additionality.***

Unlike the Kyoto Protocol that preceded the Paris Agreement, all countries will now set emission reductions goals through their NDCs and report progress against these goals to the UN. Over time, this will result in more national regulations to limit greenhouse gas emissions until NDCs are effective on an economy-wide basis. As many countries are still to develop economy-wide NDCs fully supported by policy and regulation that deliver reductions in line with the Paris Agreement's goals, there is scope for additional mitigation initiatives that require private sector finance.

However, as countries ratchet up their policies and regulations to meet national targets, business-as-usual will change. To reflect these changing circumstances, Carbon Standards will be required to ensure baselines and methodologies are updated and adapted over time to maintain additionality by ensuring emission reductions over-and-above business-as-usual.

Reporting voluntary action under the Paris Agreement

> ***When additionality is adequately addressed by Carbon Standards, voluntary action is additional to country commitments under the Paris Agreement, and does not undermine nor distort reporting of progress because emission reductions are recorded only once at the UN level by the country hosting the mitigation activity.***

Countries that host mitigation activities established under credible Carbon Standards will report lower actual emissions in their national inventory, and against their national reduction targets as reported to the UN.

Countries in which private sector entities have operations that give rise to emissions will fully capture that corporate's in-country emissions within its national inventory. However, national greenhouse gas accounts as reported to the UN do not count the voluntary use of emission reductions from other jurisdictions to compensate for a corporate's in-country emissions.

Therefore, emission reductions delivered through the voluntary purchase and retirement of carbon credits are counted just once at the UN level - by the country that hosts the mitigation activity that gave rise to the carbon credits. As private sector entities have no reporting requirements to the UN, their voluntary actions are not double counted in the UN's global inventory.

In contrast, Countries (and sectors such as Aviation) may choose to use national or international compliance carbon markets to finance rapid and cost-effective emission reductions. This requires that the acquired emission reductions are exported from the Host Country to the Acquiring Country (or sector). An international accounting adjustment, which must be agreed by the Host Country, is required to ensure emission reductions for compliance purposes are reported once only to the UN.

Making claims that communicate voluntary action

> ***Private sector entities can claim mitigation outcomes when Carbon Standard registries are used to record and transact uniquely identified emission reductions from validated and verified mitigation activities. Credible claims of carbon neutrality are supported when registries also are used to retire or cancel a sufficient number of emission reductions.***

The processes currently used by Carbon Standards to verify, register, transact and retire emission reductions will continue as they do now. Registries track transactions and retirements, providing private sector entities unencumbered legal title to claim the emission reductions in their corporate greenhouse gas accounts. Claims of carbon neutrality by an entity can be made when emission reductions equal to the reported emissions from the subject of the claims are retired or cancelled in registries.

For the purposes of this paper, carbon neutrality is the state achieved over a specified period of time when the greenhouse gas emissions within the defined boundary of an entity's operations, product or services are balanced by a combination of internal reduction activities and the retirement of verified emission reductions of the same amount outside that defined boundary.

Conclusion and next steps

The members of ICROA are dedicated to enabling private sector financing for the transformation implicit in the goals of the Paris Agreement. ICROA's work to realize the fullest potential for private sector voluntary action continues. We can only achieve our objective in partnership with market participants, civil society and Parties, from whom we invite feedback on this paper and suggestions for next steps. Please direct responses to Antoine Diemert at the IETA secretariat, diemert@ieta.org.