

# ICROA RESPONSE TO VERRA'S PROPOSAL FOR SCALING VOLUNTARY CARBON MARKETS AND AVOIDING DOUBLE COUNTING POST-2020

OCTOBER 2020

\*\*\*

**Verra requests input on the following considerations:**

**1. Do the label titles “Article 6-Compliant” and “Pending Article 6” make sense? Or, should these labels have different names?**

ICROA understands the rationale behind this proposal; Verra needs to be ready to serve both compliance and voluntary markets. Units will need to be distinguishable in the registry and these labels are an appropriate response. However, ICROA thinks that the “Pending Article 6” label raises several important issues. It implies risks and uncertainties around future political developments in the country that hosts the mitigation activity. It could create a grey area for how these units would be traded compared to “Article 6-compliant” units and to VCUs without a label. What if the host country changes its mind? How would the uncertainty be addressed in practice in future contracts?

It would be useful to get further clarity on the standard characteristics of “Pending Article 6” units: provisions if the corresponding adjustment (CA) does not materialize, review process, content of the evidence letter, etc.

Finally, ICROA also believes that consistency on these new labels across the main voluntary market standards would help avoid confusion for buyers and external stakeholders.

**2. Do you think carbon credits (VCUs) being used to meet corporate voluntary GHG commitments (e.g., “net-zero” or “carbon neutrality”) should require a corresponding adjustment to be made by the project’s host country? Please explain your rationale.**

To respond to this key question, ICROA thinks that the quality and credibility of voluntary action needs to be considered in a broad context. Without this approach to the issue of the voluntary carbon market's (VCM) future role and framework, we risk creating rules that disincentivize action and/or cut off finance to projects without the environmental outcomes that they aim to deliver. In fact, looking only at the quality and attributes of carbon reductions<sup>1</sup> has clear limitations.

---

<sup>1</sup> Carbon reduction is an umbrella term used to refer to the avoidance and reduction of GHG emissions at their source, and the removal of carbon from the atmosphere through biological or technological sequestration.

To determine how ambitious and how impactful voluntary carbon finance can be post-2020, ICROA thinks it is essential to consider quality and credibility at four levels: the carbon reduction itself, the buyer's decarbonization pathway, the NDC and the PA.

Ultimately, these interlinked levels of action go hand in hand and represent the high ground on which impactful voluntary action ought to be based. Quality across all levels is needed to ensure that the rules governing the VCM effectively translate into greater integrity and greater action.

ICROA and VCM stakeholders work to ensure the quality of corporate action and quality of carbon reductions. Yet quality is also necessary at the NDC and PA level in order for CAs to make sense in the VCM. As long as these conditions are not met – and this is a long way off – the risks associated with double claiming will be theoretical and so will the proposed solutions that could result in transacting 'hot air'.

### **1. Quality of the carbon reduction**

ICROA only endorses standards that assure carbon reductions are aligned with fundamental principles. Verra has been endorsed by ICROA since the beginning as we know that VCU's represent reductions which are real, measurable, permanent, unique and independently verified. Another essential criterion is additionality which will continue to be key post-2020. ICROA will continue to rely on Verra 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.

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. While we should see an increase in regulatory activity from all countries, they are still falling far short. In a context of delays (Rulebook, COP26, new NDCs) and economic difficulties globally due to Covid-19, Verra will continue to play a key role in ensuring that the carbon finance channelled to projects continues to deliver certified mitigation above and beyond existing regulations, addressing in part the current shortcomings of governmental action.

### **2. Quality of the buyer's decarbonization pathway**

Corporate strategies that rely on offsetting as a stand-alone response are not credible, irrespective of any carbon credit attribute. Corporates need to align their decarbonization pathway with the best available science on climate change (IPCC). The VCM's role is to be a tool that complements action by corporates already engaged on a science-informed trajectory to avoid green washing and a potential increase in emissions. The power of the VCM lies in its capacity to enable immediate further action that addresses residual emissions, through offsetting.

### **3. Quality of the host country's NDC**

NDCs are not defined in great detail and do not follow homogenous rules that ensure comparability. Instead, most NDCs are loosely defined on many levels: sectors covered, target setting, conditionality or unconditionality, etc.

When NDCs will be economy-wide, clearly defined with ambitious absolute targets and fully supported by regulations, the VCM/voluntary offsetting will theoretically play a much smaller role and could need CAs to continue (Politically speaking, CAs may still be very difficult to obtain). Until that point, critical carbon finance through the VCM should continue to rely on additionality and the VCM can help identify the reduction potential in each host country and

implement and increase the ambition of NDCs.

#### 4. Quality of the Paris Agreement

The Paris Agreement is the result of compromises negotiated by 197 Parties over many years. Consequently, it is an agreement with great 'elasticity'. Countries can weaken their NDC at any time without sanctions, with the example of [Vietnam's NDC](#) lately. They can even leave the PA without sanctions (USA). This again speaks in favour of more private sector voluntary action while this elasticity diminishes over time.

**A few implications can be derived:**

- **CAs for the VCM will (1) not realistically be available in the near future (neither technically nor politically) and (2) do not ensure more integrity as long as NDC and PA quality issues are not resolved. In fact, the requirement for CAs may well indirectly cut off critical finance to mitigation projects.**
- **The VCM can't be held responsible for delays and lack of ambition at UN/Government level. The voluntary nature of NDCs/PA and absence of sanctions represent a considerable risk to ambition. Focusing on the attributes of carbon reductions in the VCM does not solve it. A CA is given against a moving target that may be missed without consequences.**
- **For the VCM, a transition period logically aligned with the implementation of NDC regulations is essential. At the end of that period, CAs could become applicable to the VCM.**
- **If CAs become available for the VCM, the members of ICROA can propose Article-6 compliant units to their clients when and where there is demand for these units.**

#### 3. How readily do you anticipate host countries will be willing and able to make such adjustments and by when? What incentives are there (could there be) for countries to make such adjustments, given they will have to then find and finance other reductions to meet the NDC?

- ICROA does not think that the concept of CAs will be functional in host countries any time soon. They may be done in a distant future.
- From a bureaucratic and political point of view, it would seem very difficult to obtain CAs for the VCM. It is hard to imagine the incentive to transfer a carbon reduction to a VCM user through a CA: the country will need it to achieve its NDC target. Parties need to submit new NDCs every 5 years under the PA, with a new round in 2020. Very few [new NDCs](#) have been submitted so far and several of them simply reiterated commitments made 5 years ago, highlighting that their objectives are hard to achieve. This shows that exporting carbon reductions for voluntary purposes would present a significant challenge.
- From a technical point of view, host countries are far from ready to give CAs and there are no 'receiving' accounts for corporates to ensure sound double entry bookkeeping. Emissions and reductions should not 'disappear' from the equation and distort UN accounting - and that is what CA to a VCM credit would lead to. At no point do carbon reductions for the VCM (offsetting) need to be exported from of the host country. They will be captured in the national inventory. If they are not exported, no CA is required.
- We also need to consider the incentive question from the corporates' point of view. In many cases, VCM participants will offset where much of their supply chain emissions are. The VCM wants the carbon and socio-economic benefits to fall to the local communities, and not the tax domicile of their headquarters. Any negative effects on these

communities, which could for example come from more restrictive NDCs that could be the result of CAs, would be counter-productive to buyers.

**4. If countries may be unwilling or unable to make such adjustments, at least in the near term, would you support allowing corporates to continue to use such (non-adjusted) credits for a period of time if that is needed to maintain and grow voluntary climate action and finance? How could that be designed in a way that also incentivizes and supports country readiness to provide adjustments?**

- Yes, voluntary carbon finance - as well as any source of finance - is critical for immediate climate action and should be encouraged for the reasons presented in the responses above. ICROA does not think that a CA is needed for a valid voluntary action claim in the first place. If a carbon reduction is only valid with a CA, then it can only be valid after the CA is made (a long time from now), further delaying action. The concept works on paper but has limited chances of applicability on the ground particularly in developing countries. Therefore, insisting on CAs could threaten ambitious climate action for the years to come as the unavailability of CAs could be used as an excuse to postpone investments in carbon reductions. This could mean that critical climate investments simply do not flow although we are in an all-out battle to reduce emissions as fast as possible.
- Again, we need to distinguish voluntary from compliance action through markets. For compliance under the PA or CORSIA, the CA is the only important measure as it is what Parties report - with the underlying activity, including additionality, that created the carbon reductions being irrelevant. For the VCM, the underlying activity is the only important measure and the baseline and additionality used in project-based accounting under the VCS are based on the realities of concrete policies and regulations in place. Baseline and additionality are checked before the registration of any project or programme and carbon standards determine for each one of them that the reductions would not have happened otherwise. The reductions achieved are additional to what would have been achieved by the host Party with any of the policies and regulations that are in place at the time, including any effort to achieve the NDC target.
- This has implication in terms of double claiming which in itself does not represent a threat to integrity as long as projects can be additional, i.e. so long as NDC regulations do not put us on track for net-zero by mid-century:
  - The voluntary market has a different purpose compared to compliance markets and can supplement international ambition. If a corporate invests into a mitigation project in a host country, it may claim this investment for the company's inventory if appropriate additionality tests have been made and verified. It may claim the same if it invests in its own country: a domestic solar power plant should not be treated differently from an investment in an additional solar power plant in a host country.
  - The domestic investment leads to double claiming as the investor country and the company claim the emission reduction. The foreign investment leads to double claiming of the same company and the host country. As long as there is additionality and no double accounting of the same investment in both countries on country inventory level, there is no environmental integrity risk. In fact, the investment contributes to achieving national targets and may trigger further investments, ambition and/or technology penetration.

- Targeted discussions with countries interested in a greater private sector involvement to finance carbon reductions locally should be encouraged to accelerate and enhance ambition but ICROA does not think that the focus should be on enabling CAs.

**5. Do you feel requiring corresponding adjustments for such voluntary commitments will help or hinder climate change mitigation efforts and why?**

- CAs are a necessity for Parties under the PA and for airlines under CORSIA because these are compliance schemes. As highlighted previously - ICROA thinks that CAs are neither relevant nor realistic for voluntary commitments.
- Requiring a CA implies trusting the Party to make certain future actions and decide not to rely on the reductions achieved via the VCM. What happens if the Party does not meet its NDC? i.e. if is in 'non-compliance'? Are the carbon reductions that rely on the CA valid? Probably not? A fundamental issue with CAs for the VCM is the risk of transacting 'hot air'. The VCM can't logically be held responsible as long as NDC and PA ambition issues are not addressed. ICROA and market stakeholders can ensure the high integrity of carbon reductions and the ambition of corporate action but we can't fix what is the responsibility of governments and UN. The VCM should not be used to drive the changes needed for the PA, or the PA Mechanisms, and is not a pilot phase for the PA<sup>2</sup>.
- The vast majority of Parties to the PA have not yet defined their NDCs in much detail. They do not yet have policies and regulations in place to guarantee that they will meet any such commitments - which currently fall short of what we collectively need. Even with a fully defined, economy-wide NDC, there is no guarantee that a Party will meet the target, until those policies and measures have been agreed and legislation is in place. As highlighted above, NDCs are voluntary pledges by Parties, with no penalties for not achieving them. The built-in system for changing NDC pledges on a regular basis does not prevent the pledges from becoming weaker than the previous version. The VCM has no control over the degree of action by Parties in the future and cannot be held responsible today for potential future non-compliances of a Party, or changes in policy at a later date, or deliberate bad-faith actions. The VCM relies on the realities of a project-specific baseline and additionality assessment to show that the resulting carbon reductions would not have happened. The VCM assumes that host Parties that engage with the PA, and with projects, do so in good faith, fully intending to meet their NDCs and develop policies and regulations to do so.
- In addition, the VCM does not replace or displace action needed by Parties, nor threatens future compliance markets under the PA. The risk is purely theoretical.
  - NDCs will not be met without private investments (The VCM is currently an order of magnitude smaller than the reductions required under the PA). Governments can readily set targets and then try and attract, enable and facilitate both domestic and foreign direct investment into various sectors, as they always have done. We continue to see steady growth in voluntary demand for carbon reductions from project-based activities. The suggestion that this activity may diminish host country ambition seems both short sighted and counterfactual. In fact, there is empirical evidence to suggest that where large projects exist, governments are more engaged.

<sup>2</sup> All domestic investments including the implementation of a SBT for example would have to be subject to a CA as well as they lead to double claiming just like a cross-border action.

- We would welcome further transparency on the role played by voluntary projects in host countries. To catalyse increased ambition in NDCs, national inventories of all emission sources and emission reduction activities, whether for voluntary or compliance purposes is a necessity. This improved transparency would show the aggregated impact of voluntary action and help promote the collegial nature of the PA but it will take years to implement it across host countries.

\*\*\*