

ICROA RESPONSE TO THE AMERICAN CARBON REGISTRY STANDARD v7.0 UPDATES

*REQUIREMENTS AND SPECIFICATIONS FOR THE QUANTIFICATION,
MONITORING, REPORTING, VERIFICATION, AND REGISTRATION OF
PROJECT-BASED GHG EMISSIONS REDUCTIONS AND REMOVALS*

1 DECEMBER 2020

This document is an OPEN LETTER in response to the updated version 7 of ACR's Standard

Dear American Registry Staff,

ICROA thanks ACR for the opportunity to provide feedback on the draft ACR Standard v7.0.

ICROA is appreciative of the American Carbon Registry's substantial role in building an environment of confidence and integrity with market stakeholders. We welcome ACR's role in continuing to catalyse transformational and effective voluntary climate action post-2020 in the wider civil society and government circles.

As established users of ACR, our members support many of ACR's projects, and appreciate the emphasis on environmental benefits beyond emissions reduction¹ as well as strong innovation in order to fight climate change with impact.

ICROA supports ACR's significant work to achieve ambitious mitigation goals, keeping high quality at the heart of action, and looks forward to continued engagement.

In this consultation, ACR is seeking inputs on the updated sections of the v7.0 ACR Standard. ICROA will address the following sections referenced in the Summary of Changes from ACR Standard v6.0 to 7.0 document:

1. Chapter 10: Avoiding double counting with other GHG programs and registries, emission trading systems, and national or sectoral GHG emissions reduction targets, more specifically Chapter 10.B. Policies to Prevent Double Claiming of Emissions Reductions (p. 59 – 60). We will particularly address voluntary offset claims.
2. Appendix B: ACR Requirements for Avoiding Double Counting in the International Civil Aviation Organization's (ICAO) Carbon Offsetting and Reduction Scheme for International Aviation (CORSA).

¹ 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.

1. Chapter 10.B: Policies to Prevent Double Claiming of Emissions Reductions

In version 7, ACR defines the terms double counting and double claiming. Then proceeds to outline that double claiming depends on geography of credit generation and usage (1a, 1b) as well as the nature of the claim (2) – that a corresponding adjustment (CA) is required once the ERT is exported from the host country to another Party's NDC or for voluntary offsetting of Scope 1 and 2 emissions, but not for Scope 3 emissions. The update states that CAs are not necessary when there is no transfer of ownership of the ERRs towards entities and therefore only a claim can be made a to contribution to an NCD achievement of the host country.

Firstly, regarding the definition of double counting and double claiming, as per the previous ACR stance, no double counting is occurring, as the emissions reductions are being counted only once under current UNFCCC accounting – if an entity outside of the host country finances and retires ERTs, it cannot use these voluntary offsets in reporting emissions to its own government. Only the emissions inventory of the host country is affected, where, in fact, the physical emissions reductions occur. Therefore, there are two valid claims: the host country's emissions are reduced and the corporate has offset its emissions.

Secondly, ICROA strongly believes that the VCM's role - and an important principle - is to enable climate leadership and immediate action, and the greatest risk we see is that of jeopardizing climate progress by potentially disincentivizing private sector investments under a new regime unfit for purpose. Voluntary action is not going to be incentivized if barriers are put in place that discourage taking responsibility and allow the least ambitious players to continue on a business-as-usual trajectory.

The following may create complexity and confusion:

- The differentiation of Scope 1, 2 and 3 emissions and their location, while also giving a lower importance to Scope 3 emissions
- The addition of "specific reason for retirement" notes that may include company information, associated location for Scope 1, 2, and 3 emissions, and recognition for scope 3 emissions offsets
- The tagging of "Paris-aligned" on offsets associated to various scenarios, without the Paris Rulebook negotiations finalized

This, therefore, may create barriers to investment and immediate action, in addition reluctance to use ERTs due to added administrative burden.

To compliment, ICROA does not think that a CA is needed for a valid voluntary action claim in the first place regardless of geography or scope. 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.

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.

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 ACR Standard 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.

ICROA's views on supporting the development of robust, credible claims

Regarding this key issue, 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 has clear limitations.

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: A. The carbon reduction itself, B. the buyer's decarbonization pathway, C. the NDC and D. 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 CAs² 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'.

A. Quality of the carbon reduction

ICROA only endorses standards that assure carbon reductions are aligned with fundamental principles. ACR has been endorsed by ICROA since the beginning as we know that ERTs 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 ACR 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, ACR 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.

B. 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.

² 'CA' is the abbreviation used throughout this document. However, ICROA sees a difference between corresponding adjustments applicable to Parties for PA compliance, and Host Country NDC adjustments for 'hot air' from a VCM perspective.

C. 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.

D. 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](#). 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:

- 1. 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.**
- 2. The VCM cannot 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.**
- 3. 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.**
- 4. 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.**

All in all, ICROA – just like ACR – firmly believes in leveraging the power of markets to drive ambitious climate action that reflects high quality, transparency and integrity.

For more information about ICROA's position on scaling private sector voluntary action post-2020, please refer to [this document](#).

- 2. Appendix B: ACR Requirements for Avoiding Double Counting in the International Civil Aviation Organization's (ICAO) Carbon Offsetting and Reduction Scheme for International Aviation (CORSA)**

As mentioned above, CAs neither relevant nor realistic for voluntary commitments but are a necessity for Parties under the PA and for airlines under CORSIA after the Pilot Phase as these

are compliance schemes – requiring carbon reductions to be exported from the Host Country to an Acquiring Country or sector.

ICROA would like to add emphasis on consistency and clarity of labels or tags across main voluntary market standards to avoid confusion for buyers and external stakeholders, especially for a potential transition period in the case it is decided that CAs are required.

Any carbon standard, including ACR, should transparently indicate whether any carbon reduction includes a CA or not, as this will help facilitate an eventual transition period.

We thank you for the opportunity to comment and contribute to the ACR Standard v.7 Update, and please feel free to get in touch if you would like to further discuss any of our comments.

This is, once again, an open letter, and we would appreciate if these comments to be posted on the ACR website.
