ICROA International Carbon Reduction & Offset Alliance

ICROA'S RESPONSE TO THE TASK FORCE ON SCALING VOLUNTARY CARBON MARKETS CONSULTATION DOCUMENT

10 DECEMBER 2020

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The International Carbon Reduction and Offset Alliance (ICROA) appreciates the opportunity to provide comments and feedback on the Taskforce on Scaling Voluntary Carbon Markets (TSVCM) consultation document.

We thank the Taskforce as well as all of the contributors, consultees and observers for their interest in the voluntary carbon market (VCM), and hard work and contribution to this exceptionally fast-paced process that has led to identifying infrastructure solutions that can go on to make considered decisions to support the VCM in delivering the right needs without compromising the integrity of decarbonisation. ICROA is highly aligned with the common goal of creating an ambitious and efficient pathway to scale the voluntary carbon market to achieve and even go beyond the Paris goals through funding real, additional Emissions Reductions[1] projects internationally and domestically.

We are pleased that the voluntary carbon market has been widely recognized by mainstream business, finance and investors as being paramount to meet the Paris trajectory of 1.5°C – ICROA and the Standards have been at the forefront of driving growth in the financing of innovative Emission Reduction projects while keeping transparency and high quality at the core for the last 15 year, and we welcome new interest to this area. We are enthusiastic to contribute our pragmatic approach and market expertise from years of experience in the market.

ICROA is strongly aligned with the four principles of the Taskforce of (1) driving private-sector solutions while (2) not undermining incentives for emissions mitigation within and outside companies value chains, (2) keeping high environmental integrity and minimizing any negative consequences and finally (4) amplifying and improving existing and ongoing work of initiatives and current market players, while being mindful not to duplicate efforts and generate additional layers that may create barriers to investment and paralyse action. We believe it is particularly important to recognise potential unintended outcomes that may indeed have the effect of creating barriers unwittingly. By strong collaboration and alignment between market participants and stakeholders, ICROA believes that we can continue to benefit the planet by facilitating global decarbonisation financed by a scaled up VCM – which is also completely in line with the TSVCM mandate.

About ICROA and Our Purpose

Established in 2008 as a non-profit membership organisation and later housed within the International Emissions Trading Association (IETA), ICROA represents its members through a commitment to promoting and advancing best practices in voluntary action on climate change. As the first movers on integrity in the VCM, ICROA unites businesses committed to the ongoing development of the highest standards of environmental integrity for climate solutions.

For individuals and organisations taking voluntary action on climate: ICROA maintains a Code of Best Practice that defines and promotes leading practice in the use of market-based instruments and climate finance to achieve and communicate voluntary climate action. We

[1] *Emissions 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.*

work to enable individuals and entities to, first, reduce their internal emissions, and second, compensate for their unabated greenhouse gas emissions within their operations and supply chains by financing emissions reduction and removal activities beyond their direct control enabled by the VCM.

For its members, who make up the majority of the market today, ICROA represents the voice of the voluntary carbon market. It promotes collaboration across key stakeholders and influencers to enhance confidence in and respect for the value and impact of voluntary climate action. It ensures that members are in compliance with the ICROA Code of Best Practice through an annual cycle of third-party audits.

We stand behind five main principles, and as mentioned above, are very much in line with the Taskforce mandate and principles:

- Immediate and meaningful climate **Action** to accelerate the transition of the global economy to a science-informed goal of net zero by 2050 or sooner
- Voluntary action that provides **Impact** that is additional to regulatory requirements
- Environmental **Integrity** practices and claims using verified, transparent emissions reductions adhering to third-party standards that set the bar high in terms of quality
- Actionable, understandable and pragmatic responses to climate that are **Inclusive** and can be widely adopted by organizations and individuals on their journey to net zero
- Approaches that establish a fair price of carbon and reflect the overall impact of climate change, **Reinforcing** the Sustainable Development Goals.

We are proud of the development in the VCM over the last fifteen years, and as stated in the report on Page 7, "the "voluntary carbon market has made significant strides in both market functioning and credit integrity since its early days." We welcome any further interest to help develop a step change that will bring additional investment and liquidity to support high quality and high impact projects, where that interest comes respectively from qualified experts in the financial or environmental sectors. Indeed, the blueprint creates infrastructure to trade, de-risk and attract capital to the VCM, yet we should keep in mind that the purchase and retirement of credits deliver the environmental impact, which is the focus of ICROA's purpose and work. We very much look forward to our continuing to lead the way to promote market integrity, transparency and quality in the most practical way possible to grow this impact.

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ICROA will be responding to the following main action topics and associated recommendations put forward in the TSVCM draft report:

- Topic I: Core Carbon Principles and Attribute Taxonomy
- Topic II: Core Carbon Reference Contracts
- Topic IV: Consensus on Legitimacy of Offsetting
- Topic V: Market Integrity Assurance
- Topic VI: Demand Signals
- Vision of End-to-End Governance

Topic I: Core Carbon Principles and Attribute Taxonomy

Recommendation 1: Establish Core Carbon Principles and Taxonomy of Additional Attributes

ICROA supports the concept of Core Carbon Principles (CCPs). The principles listed by the Taskforce are already currently widely accepted by existing GHG programmes and Standards and in line with the existing ICROA Code of Best Practice, as shown on Exhibit 22 on page 58 – carbon credits are real, verified, permanent, additional, with credible baselines, etc. using standards or programs that are well-governed, transparent, with public participation and registries, etc.

The market alignment of the core carbon principles with these existing frameworks will be critical to shape the VCM in the future and should be built on the current work that has been done by ICROA and ICAO, as well as others. The curation and oversight of these CCPs will also be of utmost importance, and as any body, will need to be eminently qualified in terms of environmental integrity to do so – in essence setting the bar for high quality. ICROA believes this self-regulating body will offer clarity and guidance and should be composed of a combination of key market stakeholders, including ICROA itself, who have considerable experience and expertise, credibility and extensive knowledge of the VCM.

ICROA agrees that the CCPs should be revised on a regular basis to accommodate the fast-moving changes and innovations in the market, as shown by the example of renewable energy projects on page 56. This will ensure that credits remain of high quality and continue to adhere to principles such as additionality, permanence and leakage. This is a current practice undertaken by ICROA when reviewing the standards endorsed to our Code of Best Practice, as they may evolve over time and new innovative standards can be introduced.

ICROA supports a straightforward and binary approach of "threshold quality criteria to which carbon credit and supporting standards and methodologies should adhere." We believe that a rating system that judges levels of quality will be inherently subjective and will only create more confusion, possibly discourage investment, and add fragmentation that will potentially decrease liquidity. We believe that a binary threshold can and will ensure high quality and clarity for users, which is why this approached is currently used by both ICROA and ICAO. Again, as mentioned in the report, it is important to amplify the work currently done and build on this work for ease and simplicity of implementation. One consideration could be providing expedited approval for established independent standards that have already gained approval by both ICROA and ICAO.

The selection or curation of any expert that will in turn curate and host these CCPs will be crucial, as it will be the responsibility of this body to select well thought-out, environmentally sound criteria that can be assessed and updated in a straightforward manner with a streamlined and logical process (efficient, cost-effective, technically sound). Not only this, but any such body would have to represent the VCM as a whole and dispose of the adequate technical expertise to perform all reviews and assessments properly. As ICROA has many years of experience in the market, as well an established and widely recognised Code of Best Practice englobing core principles for credits and standards, we believe we are well-placed to contribute to such a governance structure to ensure guidance and clarity, however there are many other environmentally led organisations with the required levels of expertise who would also need to be included.

We believe that each of the underlying elements below would be a matter for any oversight body to make decisions on in a considered, non-accelerated manner, using the broad expertise of its qualified members. The considerations in each of the below elements are several and complex and should not be decided on an 'accelerated basis' in case they cause inadvertent issues.

Should the "Core Carbon Principles" exclude projects of a certain vintage (Exhibit 22, page 58)?

ICROA does not support the exclusion of a blanket ban of a certain vintage from the CCPs. There are many reasons for this and we will cover just a few of those here. This unfairly penalises early pioneers – both investors and entrepreneurs – in the VCM that undertook risks to innovate and generate high quality credits, and would cut off funding for these projects that have managed to stay functioning through the last ten years and just now becoming able to scale thanks to the resurgence of demand in the market, to reach their full potential to remove or reduce emissions at scale (i.e. many projects in the land sector). In addition, projects prior to 2016 are proportionally smaller in both scale and number, therefore excluding them will send a negative signal to pioneering investors and entrepreneurs instead of encouraging them to keep driving innovation and reinvention for the contributed growth of the VCM. Arbitrary 'cut-offs' always cast doubt for any forward investor.

ICROA does, however, encourage that vintages be included as an additional attribute, as has been proposed by the Taskforce.

Should the "Core Carbon Principles" exclude certain project types, or only allow them with additional safeguards? (independent of project vintage)? (page 56-57 and Exhibit 22, page 58)

ICROA does not believe that certain project types should be outright excluded from the CCPs, but supports allowing them with additional safeguards. Referring to the example shared in the draft report, if only jurisdictional or nested REDD+ projects were accepted, this would exclude high quality projects that would abide by the CCPs just because their governments have not developed jurisdictional programs. It is important to note that few governments actually have functioning jurisdictional REDD programs and that voluntary carbon market standards put guardrails in place (i.e. improved project design, full accounting of potential leakage, etc.) – we should use this knowledge moving forward. Outright exclusion of standalone REDD+ projects would, again, would not only send negative signals to pioneering entrepreneurs but also to potential buyers and investors who show an interest in these. A solution could be to add this criterion as additional attributes to inform buyers if REDD+ credits come from nested or standalone projects or jurisdictional programs.

Which of the following additional attributes would you want to see available, distinct from core carbon?

ICROA agrees with a number of the proposed attributes (Exhibit 22, page 58), however we would re-iterate that this would be a matter for any oversight body to make decisions on in a considered, non-accelerated manner.

1) Free of leakage

Free of leakage is not possible in either jurisdictional programs or project-based activities. Current best practice is to minimise leakage where possible.

2) Project start date restriction

Project start date restrictions would exclude many existing high-quality projects, especially those in the land sector, that, without the continued VCM funding, would not reach their full potential to reduce or remove emissions. The methodologies for land sector carbon offsets have been explicitly established to require and monitor activities on the ground over decades. In addition, an avoided deforestation project needs funding from day one to build governance systems and income alternatives that can confront the growing pressure on standing high-value forests. An afforestation or reforestation project that started in 2015 would take about 5 years before sufficient verified removals are available to justify transaction costs of verification and usually 10 more years until reaching full potential and financial viability. Excluding projects that already have demonstrated real and verifiable emissions reductions or removals and which require ongoing funding to reach full climate potential - simply because it started prior to 2016 - would be counter to the goal of scaling the voluntary market and would send the wrong message to market participants.

As per vintage restrictions we do not believe that a project start date restriction is helpful or required. The VCM works well now to effectively exclude much earlier vintages of lower quality projects already.

3) Proposed time horizon for the use of offsets from different attribute activities

The text on page 56 gives the impression that emissions only need to be avoided on the short-term and then can be deprioritized once removals start playing a larger role to deliver on net-zero targets. We urge this Taskforce to delve deeper into the different avoided emissions technologies and their respective removal risks and corresponding funding needs. Unlike avoided emissions in the energy, waste or the farming sector[2], financing avoided emissions from standing forests will not become cheaper or less important in the future. The opposite will happen, opportunity costs to keep precious forests standing will go up[3].

Our opinion is that avoided deforestation credits need buyers at scale now, and through 2050 and beyond. Forests will remain under immense pressure for the foreseeable future, as nothing suggests the opposite. Already today, several countries (i.e. Cambodia) are asking REDD+ project developers for 20+ year commitments to the projects they propose. Long-term, scaled, credible off-take agreements of corporates have the potential to change the trajectory of exploitation and destruction of high-value ecosystems and we need them to do that right now and for the future to come.

4) Project and Jurisdictional REDD

Again, we would strongly contend that it is not the role of the Taskforce to make these decisions but to defer them to a qualified oversight body who can conduct proper investigation and deliberation in an adequate timescale.

The draft report has some helpful suggestions about whether REDD+ activities need to be nested within jurisdictional frameworks or whether they can function as standalone activities (see pages 55-56). We think the guardrails presented are useful and would help clarify how REDD+ can move forward. At the same time, it is important that the taskforce steer clear of policy considerations that reflect sovereign decisions. For example, currently only a few governments have functioning jurisdictional REDD programs, and for most of them it is still unclear if their methodological frameworks are fit for purpose. Building on the experience of the last 10 years[4] and bearing in mind that many national and even more so, sub-national governments still need continued technical support to operate land-based mitigation programs with credible accounting of results, jurisdictional programs are likely to see further

[2] *Once structural barriers are overcome in the energy, waste and farming sectors, methane avoidance and use of renewable energy will be the new status quo, abatement costs will have come down and no further carbon finance will be needed.*

[3] *Financing avoided deforestation emissions is fundamentally different in that structural changes are much harder to achieve and need to be constantly maintained to not be overthrown. Forest conservation investments are much lower on capex but require a continuous flow of operational funding for the soft measures that bring about the transformation at local level that keep the forests standing: creation of non-extractive income alternatives for rural communities, training, capacity building, environmental education, development and management of local, inclusive, and agile governance systems that help communities deal with disputes coming from the inside and respond to deforestation pressures coming from the outside. These tasks will not become less or cheaper as we move towards 2050. Population growth, migration trends and growing global resource scarcity presents ever growing pressures on standing forests, whose future (black) market value will keep going up.*

[4] *Jurisdictional programs could be very effective but are often caught in politicized processes and methodologically speaking still in a learning phase. Currently, there is no jurisdictional program that is performing. I.e. the FCPF has been going on for over a decade but has not produced a single verifiable emission reduction, instead it is now being asked to change its methodological framework as it is found not to be fit for purpose in all locations it aims to operate in.*

years of learning and revisions. Thus, buyers and investors should not wait for those to be in place before supporting credible REDD+ projects certified to standards that follow the CCPs.

To clarify further, the recommendations only refer to 'jurisdictional programs' but that term can mean national programs, provincial (state level) programs and/or donor programs. In some countries' donor program methodologies and baselines are not aligned with national methodologies and baselines. Hence, speaking of nesting, in those cases it is not clear whether the environmentally integer and future looking choice for projects would be to nest into the national program or to nest into politically negotiated, temporary donor programs.

From our observation, it is a misleading and false generalization to state that REDD+ projects "generally support private forest owners". REDD+ projects happen on land owned by indigenous peoples and forest dependent communities, on public land and private land alike. Barring evidence to the contrary, the statement in footnote 53 on page 56 should be deleted or corrected.

ICROA also agrees, once established by any oversight body, that the CCPs and taxonomy of attributes should be adopted across Standard setters such as VCS, GS, ACR, CAR, Plan Vivo and ART, as stated on the report on page 58.

Do you have a perspective on the Consultation Documents positioning of avoidance / reduction vs. removal / sequestration?

ICROA agrees with the re-stated views of the Taskforce on avoidance/reductions vs. removal/sequestration, that all project types have an important role to play in the decarbonisation pathway to net zero. The report notes that "removal/ sequestration cannot replace the need for immediate emissions avoidance/reduction, and will be required even in the most ambitious decarbonization scenarios."

We support the need to maximise climate action now, as the emissions mitigation remains the first priority. In the short term, "avoidance/reduction activities and offsets will make the most difference." Both project types are a necessity, with a shift toward removal/sequestration in the medium to long term as "avoidance/reduction opportunities are exhausted, the pursuit of removal and sequestration options will support progress toward global net zero emissions."

While ICROA acknowledges that removals will be a critical element of efforts to meet the challenge of net zero, we also believe that all sound solutions currently available should be deployed as we continue to tackle the climate crisis. Focusing solely on removals – to the exclusion of all other remedies – risks unintended negative consequences. A prominent example of such unintended consequences is prioritizing reforestation of old forest areas, rather than carbon financing that can be used to avoid deforestation in the first place.

In the short-term, an approach that advocates for both removals and reductions is the most pragmatic guidance.

Emissions reductions through the VCM:

- deliver an immediate and verified climate impact,
- allow business to take action now, which is especially important for hard-to-abate sectors and Scope 3 carbon footprints,
- are cost-effective,
- put a price on carbon in the absence of regulation, and
- deliver on other Sustainable Development Goals.

The World Wildlife Fund (WWF) and the Science-Based Targets initiative (SBTi) describe the 2020s as "a decade of action for emission reductions; a decade of readiness for removals."

We agree with this approach. We need this decade to prime the pump of innovation and financing to enable scaling up of technological and biological removals.

In addition, if we focus only on removal projects alone, we may well end up having to remove emissions we could have avoided in the first place – and would also create an imbalance with an extremely high demand and unmatched supply, high volatility and dampened private sector climate action. A balance between investment in both project types is critical to not only sequester carbon but also provide strong co-benefits, as shown by the example of projects to protect existing forests (biodiversity, socio-economic benefits) and reforestation/afforestation projects (carbon sequestration).

All in all, ICROA fully supports the view of the Taskforce on this issue, that it is an "and" conversation – both project types are required until 2050 and beyond. ICROA agrees "that a wide portfolio of offsets is needed, from avoidance/reduction to removal/sequestration, and that "large-scale emissions avoidance reduction should be a priority and should begin start now, with offsets playing a vital yet complementary role."

Recommendation 2: Assess Adherence to the Core Carbon Principles

ICROA supports an independent and self-governing body to host and curate the CCPs and set of additional attributes. The voluntary market, by definition, does not have regulator or government oversight, and therefore the majority of the market knowledge and experience lies with its implementers. ICROA should have a prominent role in this body along with a healthy and expert mix of other key market stakeholders and participants. As stated previously, ICROA has extensive experience with the establishment of best practices and high-quality threshold criteria for carbon credits and standards, in addition to ensuring adherence of members to a Code of Best Practice on a voluntary basis.

ICROA does not, however, support the recommendation to establish of a separate third-party verification agency or process accredited by the host organisation to assess adherence to the CCPs. While we understand the value, it will only add another layer of bureaucracy that the market does not need, would indeed slow down decision-making and even disincentivise investment and immediate climate action. This assessment could be done within the same governing body mentioned above (Recommendation 1), by pulling in additional help of external experts when needed, which would streamline the process, eliminate the need for new infrastructure and improve overall efficiency and impact.

This self-governing body will not only host the CCPs but, in our opinion, also review of standards' adherence to the CCPs, continuously adapting to market changes and innovations. This review could be built on the model currently used by ICROA, with an assessment focused on the GHG program level, and not necessarily on a methodology or project level. The rules and governance at the program level are sufficient to assess if the resulting credits are credible and adhere to the CCPs, otherwise the amount of work and detailed sector expertise will be monumental and could create a duplicative, complex, costly and time-consuming process – again slowing down decision-making, creatine barriers to investment and impactful climate action.

Topic II: Core Carbon Contracts

For reference contracts, should we move towards more standardized or more customized contracts versus the Taskforce recommendation?

ICROA understands the value in establishing Core Carbon Contracts on the basis of the CCPs to increase liquidity as well as data and price transparency through standardisation (i.e. daily price signal). This will help match the global supply and demand for everyone to benefit, potentially for high volume buyers and new entrants in the market. ICROA welcomes the facilitation for these buyers and suppliers, who will bring additional finance and investment to quality emissions reduction projects.

ICROA believes that there is a particular need for customisation through additional attributes, as no two projects are the same. Though each tonne may be considered "equivalent" from a carbon quantification point of view, every tonne is generated from a project with a unique set of attributes associated with it in terms of location as well as other impacts – environmental and social and also, critically, a different cost structure. As stated in the report, customisation better satisfies current buyer demand, and we agree. Buyers will want to purchase from a specific project location, type, vintage, technology, and associated with certain co-benefits. In our experience, buyers want to have a close relationship with the specific projects that deliver the carbon reduction that they buy. They want to understand the broader benefits that this finance delivers for people, ecosystems and economies. In addition, buyers have specific requirements regarding the purchasing carbon credits. Some buyers invest up front in projects, some have offtake agreements, others might purchase all the credits from a specific project or region over time – to deliver the multiple positive outcomes they require.

To cater to these buyer needs, as the report states, we believe the over-the-counter (OTC) markets will continue to exist and scale even after the development of reference contracts. Buyers will but only have the choice to purchase credit contracts on exchanges with additional attributes or but also specialised trades on OTC perhaps with pricing linked to the core contract, albeit this creates a barrier to investment in higher quality, most additional project types in Least Developed jurisdictions. The consultation document recognises that after these reference contracts are developed, there will still be a significant number of parties that prefer and continue to make trades over the counter (OTC), and we fully agree with this affirmation.

Regarding price transparency and a single price on carbon – the VCM has always existed to drive finance to the projects on the ground and create new additional emission reductions. As such it has always operated based on the cost of running the specific project. The cost of running a clean water project in West Africa, where carbon is the only finance source is very different to the role carbon finance provides in subsidising say, solar lighting in India. As such the prices of 'emission reductions' reflect all of the varying elements of cost in the projects.

As a result, ICROA does believe that there is a considerable risk in commoditisation to the highest quality, most additional project types in the least developed jurisdictions: standardised contracts and spot prices could create a risk for quality – depressing prices and favouring the financing of projects that may be eligible for CCP, but that have the lowest possible cost of abatement. This would in turn penalise higher quality, most additional projects and even disincentivise high-impact activities. Let's not forget our objective: driving high quality projects that decarbonise globally, delivering additional and positive co-benefits and maximising the flow of funds "to the ground" and communities hosting climate projects. Scaling without compromising high quality, forward-thinking approaches as well as significant emissions reduction impact is our priority, and we should be mindful to not lose sight of it.

Topic IV: Consensus for the Legitimacy of Offsetting

Recommended action 9. Establish principles on the use of carbon credits

ICROA supports clear principles for offsetting that will not disincentivise other climate action, as stated on page 15. These will provide added clarity and guidance to support growth in the VCM and should be followed on a voluntary basis by corporates using offsets, as is the case today. We agree that a "shared vision of the role of offsetting to support the achievement of net zero goals and the legitimacy of carbon offsetting as a corporate practice" in conjunction with efforts to reduce a company's own emissions. We also recognise the need for broadening consensus and acceptance of the legitimacy of offsetting to society as a whole to promote the scalability of the voluntary carbon market.

We are aligned with the proposed set of principles brought forward by the Taskforce on page 67, as they are in accordance with current best practices in the market, including the ICROA Code of Best Practice. Our Code provides the best practices in carbon management services for our members, with information and guidance publicly available to all. ICROA has a unique experience and position in the VCM, as we focus much of our work on the retirement of credits and therefore the demand side. These high-level principles have been central to our members and partners, and as they continue to be, we look forward to contributing to this future independent body.

Recommended Action 10: Align guidance on the use of carbon credits in corporate claims

ICROA supports aligning guidance on offsetting in corporate claims as an increasing number of companies are "making commitments to align business models with decarbonization goals." We support the ongoing initiatives, as an example Science-Based Targets Initiative (SBTi) – and specifically adhere to the most ambitious Strategy 5 – that defines key terms, definitions as well as the role of using carbon credits toward net zero claims and ambitious pathways to reach climate positivity for certain sectors. In line with the Taskforce, we also recommend the adoption of "a common narrative on the role of offsetting in corporate claims that balances the need to offset with the urgency in reducing a company's own emissions." We also recognise that clear and timely guidance is crucial for not only the legitimacy of offsetting but also to enable the scaling of the VCM.

ICROA provides clear guidance in its Code of Best Practice for our members to demonstrate their commitment to the very best practices in carbon management and offsetting services in accordance with the SBTi hierarchy, as an example, and the most ambitious strategy approaches. On one hand, we work closely with companies that need guidance to build their climate strategies, make clear and impactful claims, support them in purchasing and retiring credits, while keeping in mind their business objectives. On the other hand, we also engage with external partners and civil society to have these open dialogues to reach a consensus and clarity on the important issue of claims. We commit to continue this work collaboratively in the future and will continuously communicate the importance of high-quality offsetting to achieve net zero goals.

Topic V: Market Integrity Assurance

Recommended action 13: Institute governance for market participants and market functioning

ICROA supports governance for participant eligibility, which includes principles that buyers, suppliers and intermediaries must adhere to in order to participate in the VCM. This is in line with the ICROA Code of Best Practice for our members, also curating principles for the use of offsetting as mentioned in Topic IV (see above) as it is important to uphold best practices in the market.

Regarding the governance of participant oversight, ICROA does see the value in minimising conflicts of interest in the MRV process. We would, however, like to underline that this would be duplicating what standards already do through credible accreditation bodies, such as the International Accreditation Forum (IAF). The IAF hosts members that accredit and audit VVBs for carbon markets on a national level. The use of a more distributed model not only allows to keep and improve the quality of auditing services, but also maintains costs reasonable for project developers and allow for swift availability and corrective action. A centralised auditor accreditation will only undermine quality, as learned from past experience, since fewer auditors may cause disruption to the broader market.

Instead of duplicating existing work and adding another layer of centralized bureaucracy, this could be included in the CCPs and form part of the function of the host organisation that both curates and ensures adherence to CCPs. This would indeed confirm that standards are working with appropriate accreditation entities and that spot checks are conducted. This recommendation would fully address the issue of conflict of interest, provide a more cost-effective validation and verification process for smaller projects, and allow for a move towards standardised and digitalised project cycles in the future, as mentioned in the report.

For the third dimension of market functioning, we support developing principles to prevent fraud and ensure good AML practices – which could be facilitated by the development of a well-protocolised meta registry. These market functioning principles could be done within the same organisation as the governing body hosting and curating the CCPs as mentioned on page 75, in order to reduce the number of governing bodies and take advantage of the expertise of one single governing body.

Once again. ICROA believes that it is important keep in mind already existing work and build on what has been done in the market, which will not only accelerate the implementation but also enable strong collaboration and sharing of expertise. We should focus our efforts to train auditors and create a credible network that is already in place and growing. In order to remove barriers and additional complexity, ICROA does not recommend setting up a new system of auditing VVBs or any new centralised infrastructure for participant oversight.

Topic VI: Demand Signals

Recommended action 14: Offer consistent investor guidance on offsetting

ICROA supports the notion of offering consistent investor guidance on offsetting can be a powerful lever to help grow demand, in line with actions in Recommendation 9 (Establish principles on the use of offsets) and Recommendation 10 (Align guidance on offsetting in corporate claims), or more broadly the "Consensus on Legitimacy of Offsetting" section.

The market has experienced a period of low prices, due to an excess of supply in the market, and therefore a lack of a forward curve, makes it difficult to scale finance into new projects. Therefore, a mechanism for demand signalling could help address these issues. The current initiatives, such as SBTi, and ongoing work in the VCM, including ICROA's work, can be used in a coordinated and streamlined way to support this – in conjunction with reporting protocols and standard setters to align investor alliances to provide "clear and consistent guidance on the role and use of offsets."

Vision of End-to-End Market Governance

ICROA supports a comprehensive and streamlined market governance to ensure high integrity in the VCM at the carbon credit level, market participation and functioning level. We believe that an expert self-governing body representing the VCM in its entirety should oversee these aspects and provide guidance and clarity that will help bring additional confidence to the market. Building on the work already existing or emerging, this will enable fast implementation and in parallel continuous improvement to adapt to the market evolutions and support cost-effective solutions. Models of these types of organisations exist, such as ICAO and ICROA, and we can build on their knowledge and experience to ensure that we are not creating barriers and delaying voluntary climate action. This does not undermine an ambitious vision, yet only amplifies what could be.

A. Governance bodies to ensure integrity of carbon credits

As already addressed in the various sections above (Topic I, Recommendation 1 and Recommendation 2), ICROA supports a streamlined and pragmatic governance structure to ensure the integrity of carbon credits, based on known and existing practices in the market. ICROA has extensive experience in this area, and we believe that ICROA should play a prominent role in the curation of the CCPs.

Once again, ICROA believes that the assessment of Standards to these CCPs should not be done by a third-party auditing agency or assessor. We believe that the CCPs should be well-thought and easily updated and assessed, allowing for a straightforward assessment of adherence, and based on existing work. This will reduce the complexity of the governance structure and process, allowing for a streamlining and efficiency that will boost the market and avoid additional barriers, bureaucracy and inaction.

To reiterate our main points again:

The report discusses the possible need for an independent third-party organization to evaluate and audit the VCM Standards bodies (e.g. the Verified Carbon Standard, Gold Standard), along with each and every methodology to assess adherence with the CCPs. This is overreach, not to mention that independent accreditation systems exist for this purpose. We welcome added scrutiny and recognize that some form of benchmarking or assessing of VCM programs and standards could be helpful and add confidence. However, the task force should not create unnecessary burdens or barriers to the marketplace, especially given that the CCPs are well thought-out and could be assessed in a straightforward fashion.

We have significant concerns about creating a new entity with an entirely new infrastructure that could undermine and duplicate work that is already being done, even if not well-understood by the task force. There is the long-standing independent and widely recognized accreditation systems and standards of the International Organization of Standards (ISO) for which most product certification, testing, and verification are governed. National accreditation bodies, under the auspices of the International Accreditation Forum, operate in most countries. Governments and companies recognize the role of these accreditation systems, whether it be for electronics, chemicals, manufacturing equipment – or carbon credits. Furthermore, the GHG programs themselves, i.e., Verra, Gold Standard, CAR, ACR, have time-tested processes to evaluate auditors, methodologies, and verification findings. A new layer of 'certifying the certifiers', as proposed, would increase already high transaction costs that inevitably would take money away from the mitigation work itself. Our experience in the VCM for the past 15 years has taught us a lot about the balance between rigorous standards and verification processes while also ensuring that processes are practical and do not layer on complexity that simply drives up transaction costs for developers.

No need to create an accreditation system for auditors to review standards

The independent third-party entity that would assess conformance standards against the CCPs is a specialized and limited review, which means there will not be much rationale for establishing a whole new accreditation system for various auditors. It could be quite counterproductive to create a whole new additional (accreditation) bureaucracy that would complicate the process of curating standards without adding much value. Instead, we would recommend that the taskforce focus on being diligent about selecting an organization that has the expertise and the ability to draw from outside experts to do these assessments properly.

Do not focus on individual methodologies

Throughout the report there are several references to needing to evaluate individual methodologies, beyond the assessment of GHG programs or standards, against the CCPs. This is misguided because methodology-level review is not necessary given that the development of methodologies should follow the rules and procedures of each GHG program. In other words, methodology review would duplicate the assessment and not add much value. In addition, properly reviewing individual methodologies, which is something already overseen by GHG programs, like Verra for example, requires a highly specialized expertise, and it is very complex, costly and time-consuming.

B. Governance bodies to ensure integrity of market participants and market functioning

As mentioned previously (Topic V, Recommendation 13), ICROA supports high-level principles that buyers, suppliers and intermediaries must adhere to in order to participate in the VCM, keeping in mind not to create strict and unnecessary barriers. We also support the oversight of market functioning to prevent fraud and money laundering.

Due to our experience and knowledge of the market, ICROA could be instrumental in this independent organisation curating offset principles and support in providing clarity and guidance on offsetting in corporate claims. This is embedded in the work ICROA currently does and we will look forward to contributing to this organisation in the future.

ICROA does not, however, support a new process of accrediting for participant oversight for the reasons stated above (Topic V). This, in our experience, is not necessary and duplicates efforts already undertaken by Standards (with the IAF and ISO). This centralised approach will drive up costs for project developers (especially small projects, if the same organisation cannot perform validation and verification) due to a lack of resources and training, create delays and potentially degrade audit quality. We support a practical and distributed model that will help train and qualify more auditors, maintain and improve the quality of audits and still ensure integrity. This can be incorporated into the CCPs to ensure that audits and spot checks are still be conducted.

Again. to reiterate our main points:

No new accreditation framework for Validation and Verification Bodies (VVBs)

The draft report (on pages 12, 18 and 75) proposes a new centralized approach for accrediting auditors, which runs counter to the insights developed over the last two decades by both the compliance and voluntary market. As mentioned, GHG Programs and Standards that are under the purview of ISO and IAF and feature a range of independent evaluation and oversight of VVBs, as well as auditor training and certification requirements, should meet thresholds for quality under the CCP. This recommendation largely ignores the extensive oversight at play in the VCM. Further, it fails to recognize efforts to expand the number of accreditation and training programs around the world and increase the number of qualified auditors available for project validation and verification. For example, Verra is currently working with national accreditation entities that are members of the International Accreditation Forum (e.g., Organismo Nacional de Acreditación de Colombia, ONAC; Entidad Mexicana de Acreditación, EMA, and South African National Accreditation System, SANAS) to develop national/domestic auditing capacity following best practices under ISO. ACR and CAR also have similar arrangements and requirements for IAF member accreditation. These initiatives rightly focus on the need for more well-trained local auditors, bringing transaction costs down to bearable amounts for developers. It takes years to build auditor capacities. With the collapse of the global compliance carbon market, most international verifiers closed their regional carbon businesses, and much auditor capacity was lost. To scale supply to the 15+GT needed for net-zero, local auditing capacities are paramount.

We strongly disagree with the idea of centralizing auditor accreditation as the taskforce proposes. This would likely create obstacles for the market by limited auditing capacity and raising auditing costs. Another important knock-on effect of centralizing auditor accreditation is that it could undermine quality because fewer auditors means it is difficult to restrict or bar any one of them due to worries about causing too much disruption in the broader market. A more distributed model, which the VCM currently experiences, mitigates the consequences of penalizing individual VVBs, which means that corrective actions can be taken swiftly, thereby improving the quality of auditing.

In conclusion. ICROA stands behind using the existing work and building on the experience of knowledgeable entities to create streamlined, effective and impactful governance bodies that will enable the market to flourish and unlock the potential of the VCM.

Is there anything else in the report you would like to comment on?

We would like to comment on Corresponding Adjustments (CAs) and the importance of this topic. We understand that the Taskforce did not set out to resolve this issue, but would like to point out how critical it will be for scaling the voluntary carbon market. As there is currently no clear guidance on this topic, this creates confusion and in turn may well disincentivise private voluntary action and create a barrier for investment.

ICROA has a strong position with respect to voluntary action and the functioning of the VCM post-2020 – specifically that no CAs are needed. In summary:

- **No export:** Carbon reductions financed by the VCM post-2020 will not be exported from the Host Country. They are accounted for by the Host Country and can contribute to or go beyond that Country's efforts.
- **Additionality:** Carbon Standards will be required to ensure baselines and methodologies are updated and adapted over time to maintain additionality by ensuring carbon reductions over-and-above business-as-usual and regulatory requirements.
- **No corresponding adjustments:** As carbon reductions are not exported from the Host Country, no corresponding adjustments are needed. Carbon finance through the VCM does not undermine ambition, it simply becomes one of a number of sources of finance to increase ambition.
- **No double counting:** Voluntary activity does not lead to double counting at the UN level because carbon reductions are recorded only once by the Country hosting the mitigation activity.
- **Claiming carbon reductions:** When emissions are balanced by a combination of internal abatement and verified carbon reductions outside the boundary of an organization, carbon neutrality can be claimed.

We believe that ambitious voluntary action should not be subject to delays and lack of ambition at UN/Government level nor to the availability of CAs – which will technically and politically not be possible in the near future. CAs do not ensure more integrity as long as NDC[5] and PA[6] quality issues are not resolved, and standards ensure all quality requirements, specifically additionality, to show reductions that are above regulatory requirements in the host countries.

Subjecting the voluntary carbon market to undertaking CAs when this system is not in place will unnecessarily delay private investments into scaling the voluntary carbon market by creating market uncertainty. Consequently, the requirement for CAs may well indirectly cut off critical finance to mitigation projects and undermine efforts to reduce the emissions gap in meeting Paris targets through private sector finance. We believe that 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. If a transition period, aligned with the implementation of NDC regulation, is put into place and requires CAs at the end of that period, it will be important to provide clear guidance – similar to what is suggested in Topic V (Recommendation 9 and 10). This clear guidance could be given by the body that sets the CCPs as a way to align principles in raising climate ambition that adheres to the environmental integrity of national and international climate targets, but may lie within another body. If CAs become available and there is demand, then ICROA will propose Article-6 compliant units.

[5] *Nationally Determined Contributions*

[6] *Paris Agreement*

In conclusion, we did want to point out that this is a critical issue that can strongly affect the vision of the TSVCM, and as ICROA, we support a clear and simple position that will push for ambitious voluntary action while still respecting accounting requirements. This, we believe, is also in line with the TSVCM mandate.

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Once again, we thank the Taskforce for giving ICROA the opportunity to comment on this blueprint, and we very much look forward to contributing to the vision of the TSVCM in a collaborative way to stand for quality, transparency, and drive forward-thinking, cost-effective and impactful climate action at scale.