ICROA International Carbon Reduction & Offset Alliance

Innovate4Climate
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Workshop:
Scaling Voluntary Action Within the Framework of the Paris Agreement

Workshop Report

IETA CLIMATE CHALLENGES MARKET SOLUTIONS

Introduction

On22May 2017, ICROA hosted an invitation-only workshop in Barcelona on 'Scaling voluntary action within the framework of the Paris Agreement'. The workshop participants represented a range of voluntary market stakeholders such as registries, Standards, project developers, credit retailers, development banks, national & sub-national governments, NGOs, consultancies and the UNFCCC A full list of workshop participants can be seen in Appendix A.

The aim of the workshop was to discuss both the opportunities and challenges facing the voluntary market under the Paris Agreement; acknowledging that voluntary action has an important role to play in supporting the Agreement. As an introduction to the discussions, the following panellists from the public and private sector shared their views on the challenges and opportunities for the future of the voluntary market:

- Glen Murray: Ontario Minister of the Environment and Climate Change
- Marion Verles: CEO, Gold Standard Foundation
- James Grabert: Director, Sustainable Development Mechanisms, UNFCCC
- Andrew Howard: Director, Koru Climate
- Malin Ahlberg: Senior Policy Advisor, German Ministry of the Environment

Panel moderated by Jonathan Shopley, Natural Capital Partners

The panel session was followed by roundtable discussions based on the 'World Café' format, allowing all participants to share their opinion on key questions regarding the future of voluntary action. A summary of the roundtable discussions is provided below. Going forward, ICROA is looking to build on this workshop by forming a broad coalition of stakeholders to help develop solutions to the challenges that lie ahead.

Summary of the roundtable discussions

The entry into force of the Paris Agreement raises important questions for the Voluntary Carbon Market (VCM). Some of these questions were discussed by the participants at five different roundtables during the workshop:

1. **Concept of offsetting**: Voluntary action has been largely facilitated through offsetting. Is the concept of offsetting still fit for purpose and practicable under the Paris Agreement?
2. **NDCs**: There is a wide variety of NDCs in the Paris Agreement. For example, reduction targets can be quantified or unquantified, single or multi-year, and conditional or unconditional. Does offsetting have different roles to play in different types of NDCs?
3. **Article 6 of the Paris Agreement**: Are specific provisions needed under Article 6 to support voluntary action? If so, what areas would these provisions need to focus on?
4. **Demand side**: What incentives would drive higher levels of voluntary action from the private sector, and what options are available to governments to encourage voluntary action?
5. **Governance and infrastructure**: What governance and infrastructure arrangements are needed to ensure that voluntary actions contribute to NDCs under the Paris Agreement, whilst maintaining environmental integrity?

This section below provides a summary of the main takeaways from each roundtable.

Table 1: Concept of offsetting

Voluntary action has been largely facilitated through offsetting. Is the concept of offsetting still fit for purpose and practicable under the Paris Agreement?

Table moderated by Ana Aires Carpinteiro, Nexus for Development

1. The reputation of offsetting needs to be addressed, moving away from the 'license to pollute' image. Instead, there should be clear communication that in high quality carbon management plans, offsetting is a complement to internal emissions reductions. This message would be strengthened if the approach was endorsed by the Science Based Targets Initiative. Going forward it will be important that the quality approach is understood by the general public and becomes mainstream by gathering support from civil society at large.

2. There was some discussion around how offsetting can continue post 2020, outlining two different options; a continuation of the current mechanism of carbon credit transactions, or a move towards financing emission reductions that contribute to a host country's NDC. This raises the question that if buyers can only make claims related to the financing, will it reduce demand compared to a trading market which allows buyers to make carbon neutrality claims? If it does, other incentives may be needed to stimulate and recognize the role and achievements of the private sector, such as government recognition and award schemes.

3. However, the financing emission reductions option would allow private-sector investment to play a direct role within the Paris Agreement. But clarity on the role of non-state actors will be a requirement.

4. Voluntary action over and above the NDCs should also be possible. Voluntary action independent of Government action is desirable to ensure that various stakeholders can create initiatives and leadership can come from various sectors. But it raises the question of whether it is best to channel voluntary action to areas above and beyond the Paris Agreement targets. This may restrict ambition levels compared to if voluntary action is appropriately incorporated within the Paris Agreement. There is a large ambition gap to bridge, so all contributions should be welcome and may become increasingly necessary when countries find it hard to deliver.

5. Along with having incentives, it will also be important for the private sector to take responsibility for their emissions, and for accountability to be monitored and supervised to ensure consistent engagement and investment.

6. A realistic carbon price reflecting the costs of reductions is required to ensure more projects are implemented and activity does not stagnate. In addition, projects may become costlier as Governments take up the cheaper abatement options. As a result, the project developer role may become more of a pathfinder for the best opportunities to reduce emissions.

7. An answer to many of the questions raised was that current success formulas should not be discarded, but rather should be incorporated in the new Paris Architecture.

Table 2: NDCs

There is a wide variety of NDCs in the Paris Agreement. For example, reduction targets can be quantified or unquantified, single or multi-year, and conditional or unconditional. Does offsetting have different roles to play in different types of NDCs?

Table moderated by Jochen Gassner, First Climate

1. NDCs vary according to scope, conditionality and ambition. The VCM will have to operate in a complex environment where regulatory conditions vary between countries. The initial NDCs will limit the scope for voluntary offsets to certain projects/sectors in certain host countries. However, the situation will become more complicated as NDCs (and accounting) evolve over time, with the objective of increasing scope and ambition. This will further limit the scope for the VCM to certain sectors, or shift the scope from one sector/project type to another.

2. Opportunities for the generation of voluntary offsets are in emission reductions that occur outside the scope of the NDC. In addition, the VCM could finance the conditional part of an NDC, or could be used to go beyond the ambition of the NDC in certain sectors. In practice however, it will be difficult to decide which activities fall within the scope of the ambition of the NDC and which go beyond. A lot of NDCs lack the necessary detail and granularity.

3. One option could be for the VCM to work in conjunction with the regulated market as a "Voluntary regulated market". In this concept, Governments would be responsible for delivering the emission reductions under their (unconditional) NDC (and own the corresponding emission reductions). Governments could then define sectors/activities where voluntary action is used to generate emission reductions outside of/beyond the NDC. Emission reductions in these sectors would be owned by the project financiers for the time of the crediting period. When NDCs are adjusted in scope and ambition, certain sectors/projects will transition into the NDC whereas others remain available for the VCM.

4. A limitation of this concept is that activities in a "voluntary regulated market" will require host country approval, which may significantly increase transaction costs. Moreover, there would be a risk that if the host country underperforms against its NDC, it could lead to host country government claims on emission reductions from "voluntary regulated market" activities.

5. Implementation of the Paris Agreement will restrict the supply of projects for the VCM. Project types that are likely to remain available for voluntary action are: land use/afforestation/reforestation, waste management, household energy efficiency, REDD (depending on the country). A country-by-country analysis of NDCs (and their development over time) will be required to determine opportunities for voluntary projects.

6. Varying host country conditions for voluntary offsets and the generally limited scope raises the question of whether a (somewhat) liquid secondary market for carbon offsets can develop/survive post 2020. Alternatively, voluntary buyers may finance bespoke primary offset projects.

Table 3: Article 6 of the Paris Agreement

Are specific provisions needed under Article 6 to support voluntary action? If so, what areas would these provisions need to focus on?

Table moderated by Olivier Levallois, Carbon Clear

1. There are three mechanisms to be defined under Article 6; Internationally Transferred Mitigation Outcomes (ITMOs) under Article 6.2, an Emissions Mitigation Mechanism (EMM) under Article 6.4 and a framework for non-market approaches under Article 6.8. To provide the necessary confidence for the involvement of non-state actors, these mechanisms should feature the following characteristics: accountability, transparency, robust governance, clarity and visibility.

2. Some participants thought that Article 6 mechanisms should be designed as broad frameworks that enable Parties flexibility and freedom to be adaptable to their own context. There is a fear that too many rules may push companies away and increase transaction costs. However, some participants also said they would like to see mechanisms that have some degree of standardization to offer efficiency gains and ease of use.

3. Some participants thought the results-based characteristics of existing mechanisms should be kept as they offer more robust accountability and financial efficiency. These characteristics provide value back to the contributing entities, which may provide further incentives for action.

4. For Article 6 mechanisms to reach scale, the following incentive-related recommendations were suggested:
    a. Recognition for non-state actors through international platforms such as NAZCA, CDP, Science Based Targets etc.;
    b. Moral and liability recognition could act as both a carrot and stick (e.g. natural capital accounting);
    c. Financial incentives such as tax breaks or simply de-risking climate friendly investments.

5. Most voluntary action during the Kyoto Protocol period has occurred through mechanisms specifically designed for the voluntary market. However, that does not have to be the case under the Paris Agreement. Whilst mechanisms designed under Article 6 will primarily be aimed at helping countries meet their NDCs, they should also be designed to facilitate voluntary action.

6. One of the major issues raised was that awareness needs to be built for non-state actors to recognize opportunities. It has taken a while for existing mechanisms to be known, understood and used. It was suggested that this awareness raising could be built into the centrally-governed mechanism of Article 6.

Table 4: Demand side

What incentives would drive higher levels of voluntary action from the private sector, and what options are available to governments to encourage voluntary action?

Table moderated by Marco Magini, the South Pole Group

The conversations were organized around three topics: (1) the public sector's degree of intervention, (2) the private sector's perception of offsetting, and (3) how to get people to care about environmental issues.

1. Participants "agreed to disagree" on the role the public sector could have post 2020, and how much public intervention is needed or acceptable. Some thought that market stakeholders would be much better off if governments stayed away from their business, advocating for as little regulation as possible. Others took an opposite viewpoint and thought that more public intervention would be beneficial as it could lead, for instance, to Governments being active offset buyers. It could also lead to more transparency with recognition given to companies that voluntarily take responsibility for their environmental impact. Governments could also create incentives, such as tax breaks, for companies that voluntarily decide to buy offsets.

2. Participants had mixed views on the role that offsetting could have as a mechanism post 2020. Some thought that the concept of offsetting will remain very relevant and should be preserved and reinforced as a mechanism. This is because of a wider recognition of the concept of "carbon neutrality" and because companies will want to maintain their carbon neutral status. Others thought that the concept of offsetting will become outdated and that voluntary action should go beyond this mechanism. For instance, offsetting could be a potential constituent of the future market design but new ways to incentivize and reward voluntary action will likely emerge. New actions beyond offsetting could involve "tailor made projects" and actions within the "supply chain". However, if these new actions do not include an element of carbon pricing, stakeholders will become less visible and their actions are more likely to be compared to e.g. to the added value that development NGOs provide. Some voluntary standards such as the Gold Standard seem to be paving the way for these new types of action, as well as national governments which are currently positioning themselves in this space.

3. The final topic of how to get people to care about environmental issues proved quite divisive. Participants expressed different views as to where these motivations come from (stick vs. carrot vs. conviction/belief). As a result, there was a broad range of opinions on what would stimulate demand for voluntary mitigation.

Table 5: Governance and infrastructure

What governance and infrastructure arrangements are needed to ensure that voluntary actions contribute to NDCs under the Paris Agreement, whilst maintaining environmental integrity?

Table moderated by Andrea Abrahams, BP Target Neutral

1. Environmental integrity is critical for private sector participation as corporate reputations and brands are at stake. Clear rules will be required which are endorsed by the appropriate authorities.

2. There is much to acknowledge in the voluntary carbon market in terms of infrastructure and governance. The Standards have developed over time and the view was that having a range of Standards – rather than creating confusion – has helped build competition and therefore quality. There were some concerns expressed that methodology inconsistencies across Standards can be counterproductive for project developers; it would be useful for Standards to iron these out. The Registries play an essential role and industry associations like ICROA have helped to set high standards such as through their "Code of Best Practice". All this infrastructure should continue, and for compliance purposes, there will need to be an open architecture such as the ICROA model. This sets minimum quality levels that all Standards need to comply with to be endorsed by ICROA and permissible for members to use. That said, the voluntary market should take the opportunity to assess how it works in the future and what changes may be required.

3. The development of the carbon market and Article 6 was much debated with the consensus view being that the outcome was more likely to resemble a series of "carbon clubs" formed by groups of like-minded countries converging on similar rules of market participation. The role of sub-nationals like Ontario and the linkage with California and possibly Quebec, maybe even Mexico, was held up as an example of how this could work. The advantage post-2020 of such clubs is that they will gain momentum more quickly and make it easier for non-participants to join these already functioning markets.

4. The evolution of the voluntary market and the role of the private sector within carbon markets requires NGO support. It will encourage private sector participation having NGO endorsement, hold the voluntary market to account and provide additional governance.

5. Finally, there was some confusion on the definition of the voluntary carbon market. NDCs are all voluntary and the use of this word has now become part of the Paris vocabulary. Further, voluntary offsetting can now be done with compliance credits as encouraged by the UN Climate Neutral Now Programme whereas 'voluntary credits' are acceptable in some compliance schemes (such as VCS and Gold Standard credits in the proposed South African Carbon tax). Clarification should also be made between voluntary action vs. voluntary offsetting.

Next steps

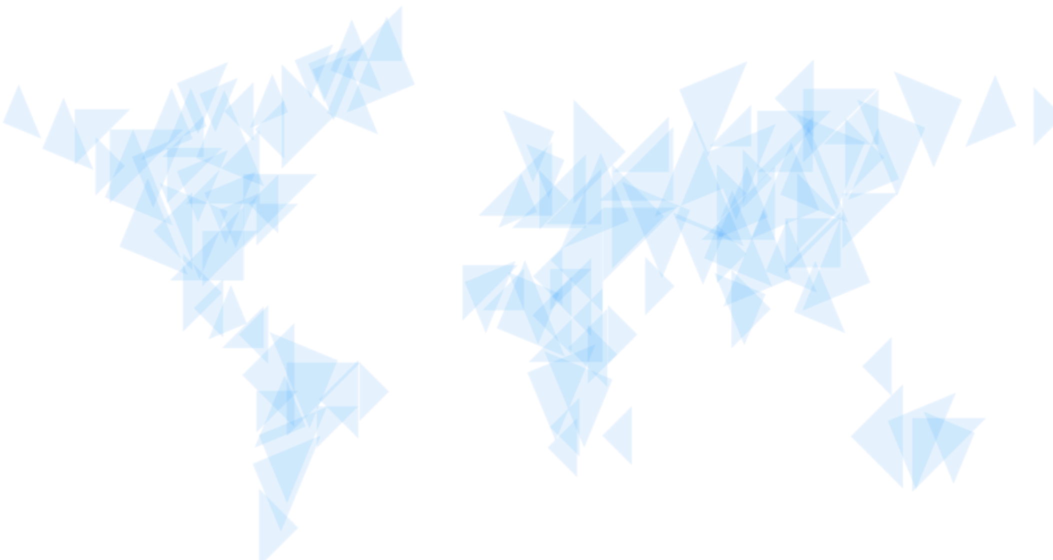
This workshop was the first of a bi-annual series of workshops designed to build a broad coalition of stakeholders to address the forthcoming market challenges, and to help secure a role for voluntary action in a post-Paris world.

ICROA will build on this first workshop by developing guidance on pathways to increased voluntary action by non-state actors. This will set out our views on how the market can grow after 2020, and how it can help contribute to delivering the objectives of the Paris Agreement. To refine this guidance, ICROA will be seeking targeted consultation over the course of summer 2017.

The second workshop of the series will be held in Bonn at COP 23 in November 2017 where we will look to build on the outcomes from the Barcelona workshop and focus the discussion on pathways to increased voluntary action by non-state actors. Our longer-term ambition is to develop guidance that is widely supported and actioned by Parties and the private sector.

Appendix A: Workshop participants

Name	Title	Organisation
Andrea Abrahams	Global Director	BP Target Neutral
William Acworth	Senior Project Manager	Adelphi
Malin Ahlberg	Senior Policy Advisor	BMUB
David Antonioli	CEO	VCS
James Atkins	Chairman of the Board	Vertis Environmental Finance
Sonia Battikh	Senior Originator / Trader	Shell
Kathy Benini	Managing Director	IHS Markit
Renaud Bettin	Project Manager	GERES /Info Compensation Carbone
Rodrigo Bezerra	Marketing Supply Manager	BP Target Neutral
Serdar Bolat	Low Carbon Policies Analyst	Enel
Ana Aires Carpinteiro	Director Partnerships and Communications	Nexus for Development
Teresa Cervera	Programme Manager	Centre de la Propietat forestal (CPF)
Paul Chiplen	Director	CO2 Balance
Maria Claudelin	Carbon Finance Project Officer	Hivos
Manish Dabkara	CEO	EKI Energy Services
Stefano De Clara	International Policy Director	IETA
Kathrin Dellantonio	Head Sales, Marketing, Communication	Foundation Myclimate
Federico Di Credico	Manager, Certificates	ACT Commodities
Antoine Diemert	Project Assistant	ICROA
Marc Falguera	Managing Director	Vertis Environmental Finance
Patrick Fancott	Project Manager	Ontario Ministry of the Environment and Climate Change
Mike Fernandez	Assistant Deputy Minister	Alberta Environment and Parks
Hilda Galt	Senior Consultant	Climate Focus
Jochen Gassner	Executive Board Member	First Climate Markets AG
Iñaki Gili Jauregui	Mitigation responsible	Catalan Office for Climate Change
James Grabert	Director	UNFCCC
Mary Grady	Deputy Director	American Carbon Registry
Sophy Greenhalgh	Director	IETA
Kelley Hamrick	Senior Associate	Forest Trends' Ecosystem Marketplace
Ben Henneke	President	Clean Air Action Corporation
Simon Henry	Programme Director	ICROA
Sam Hoffer	VCS Program Manager	VCS
Takashi Hongo	Senior Fellow	Mitsui Global Strategic Studies Institute
Max Horstink	CEO	Mindshift Matters
Andrew Howard	Director	Koru Climate
Lene Keerberg	Carbon Portfolio Manager	Climate Neutral Group
Katerina Kolaciova	Corporate Trader	Vertis Environmental Finance
Sven Kolmetz	Chairman	Project Developer Forum
Suryanarayana Murthy Kondreddi	Managing Director	EPIC Sustainability Services
Martin Lajoie	Senior Policy Analyst	Environment and Climate Change Canada
Fabrice Le Saché	Chairman	AERA GROUP
Sarah Leugers	Director of Communications	Gold Standard
Olivier Levallois	Climate Finance Lead	Carbon Clear
Mandy Maghera	Chief of Staff	Ontario Ministry of the Environment and Climate Change
Marco Magini	Head of Portfolio	South Pole Group
Andrew Mitchell	Founder, Director	Global Canopy Programme
Glen Murray	Minister	Ontario Ministry of the Environment and Climate Change
Jessica Orrego	Director of Forestry	American Carbon Registry
Nandagopal Paramesh	Senior Consultant and Head of Sales	KMS Group
Ignasi Puig	Project manager	ENT Environment and Management
Adrian Rimmer	President	Climate Markets & Investment Association
Sandeep Roy Choudhury	Head - Organization	VNV Advisory Services LLP
Miquel Rubio	Head of Climate Change Department	Lavola 1981, SA
Salvador Samitier	Head of the Catalan Office for Climate Change	Government of Catalonia
Naveen Sharma	Director	EKI Energy Services
Jonathan Shopley	Managing Director	Natural Capital Partners
Mark Simpson	Managing Director	CO2 Balance
Matt Spannagle	Director	Climate and Development Solutions
Jacob Stein	Senior CO2 Policy Advisor	Shell
Christopher Stephenson	Head of Operations	Plan Vivo Foundation
Niclas Svenningsen	Manager - strategy and relations	UNFCCC
Jeff Swartz	Managing Director	IETA
Bianca Sylvester	General Manager	Carbon Market Institute
Gareth Turner	Co Founder and Director	Numerco
Jan-Willem Van De Ven	Senior Consultant	EBRD
Jessica Verhagen	VP, Business Development & Strategy	Ecosphere+
Marion Verles	CEO	Gold Standard
Lisa Walker	CEO	Ecosphere+
Ralph Westermann	Senior Consultant	UPM Umwelt-Projekt-Management
Stephan Wolters	Senior Project Manager	Adelphi



International Carbon Reduction & Offset Alliance (ICROA)
24, rue Merle d'Aubigné – 1207 Geneva – Switzerland
+41 (0) 2273 70500
www.icroa.org | www.ieta.org

About ICROA:
ICROA is a programme within the International Emissions Trading Association (IETA). It is a non-profit organisation made up of the leading carbon reduction and offset providers in the voluntary carbon market. Its primary aim is to deliver quality assurance in carbon management and offsetting, through adherence to the ICROA Code of Best Practice. Further details can be found at: www.icroa.org.