

ICROA RESPONSE TO GOLD STANDARD'S BRIEF ON 'OPERATIONALISING AND SCALING POST- 2020 VOLUNTARY CARBON MARKET'

AUGUST 2020

ICROA is appreciative of Gold Standard's culture of engagement and transparency with market stakeholders. We welcome Gold Standard's role in building momentum for the voluntary carbon market (VCM) post-2020 in the wider civil society and government circles.

Our members are long-standing users of the Gold Standard, support many of its projects, and appreciate the emphasis on sustainable development, stakeholder engagement and support for small and micro-scale projects.

The upcoming changes for the VCM will be decisive. The members of ICROA are committed to working with market participants, the private sector, civil society and governments to further the depth and scale of voluntary climate action.

ICROA supports Gold Standard's critical work towards achieving high goals on mitigation and the SDGs and looks forward to a continued engagement.

Consultation Response

In this consultation, Gold Standard is seeking inputs on the Brief's following sections:

1. Guiding principles and approach to carbon markets
2. Supporting the development of robust, credible claims
3. The role(s) Gold Standard will play in future markets
4. The potential changes to our standards and how these will be introduced
5. The types of activities Gold Standard will support

1. Guiding principles and approach to carbon markets

ICROA broadly supports the five guiding principles.

Voluntary action needs to be incentivized further to fill the current public policy gaps. Investments by the private sector are essential to accelerate meaningful climate action and drive finance where it is crucially needed in developing and least developed countries. We

need to support corporates in their effort to decarbonize internally in line with science and to finance carbon reductions¹ within and beyond their value chain.

We feel that the VCM's role - and an important principle - is to enable climate leadership 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 BAU trajectory.

Note on the VCM's achievements:

- The VCM industry has been delivering corporate action over the last 20 years, delivering carbon neutrality, exceeding any action mandated by governments over that time or as determined by 'science-based' trajectories. Even the most ambitious formal targets usually don't deliver neutrality today but several years or decades from now (e.g. 2050).
- The VCM continued to deliver when governments failed to act, when Kyoto was rejected, when negotiations failed, when the US pulled out of the Paris Agreement (PA). The VCM has been able to deliver without being mandated by public authorities but by corporate leaders taking responsibility for their negative climate impact.
- ICROA members have signed up to best practice (Code established in 2008) that demand the consideration of reductions to be made in-house, to calculate their footprint completely and accurately, procure green electricity for scope 2 reductions and offset residual emissions with units from approved, high integrity standards like Gold Standard.

2. Supporting the development of robust, credible claims

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 VCM's 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: 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 corresponding accounting adjustments (CA) to make sense in the VCM². 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 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.

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.

1. Quality of the carbon reduction

ICROA only endorses standards that assure carbon reductions are aligned with fundamental principles. The Gold Standard has been endorsed by ICROA since the beginning as we know that Gold Standard VERs 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 Gold Standard 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, Gold Standard 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. They can even leave the PA without sanctions. 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.

All emissions reported at the UN level should add up to the global emissions levels, and it must be ensured they are not double counted/reported. Emissions and reductions should not 'disappear' from the equation (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. 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.

For compliance under the PA, 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): this is comparable to AAU trading under Kyoto. For the VCM, the underlying activity is the only important measure and the baseline and additionality used in project-based accounting under Gold 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.

CAs may be done in a distant future, as no rules are agreed. They would also seem very difficult to obtain for the VCM from a bureaucratic and political point of view. 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 (reductions would leave the national inventory, effectively creating 'orphan' units, which would distort UN accounting). Some of the consequences are:

- If the carbon reduction is only valid with a CA, then it can only be valid after the CA is made, which will be a long time from now, further delaying action. ICROA does not think that the concept of CAs will be functional any time soon. 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.
- 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?
- Requiring a CA implies trusting the Party to make certain future actions and decide not to rely on the reductions achieved via the VCM.

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 PA³.

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. 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:

- We appreciate there could be theoretical scenarios where, in the future, the host party takes certain decisions that may negate the actions of a VCM project.
 - If a Party were to sell the CA to someone else, it would still not be double counted under the UNFCCC.
 - The VCM 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.
- **Double claiming 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.

- **Carbon neutrality creates a direct link to a corporate's footprint. This is an essential feature and driver for action. The main issue with alternative claims of 'contribution' is that they loosen this important link.**

Claims of neutrality⁴ enabled by offsetting create a direct link between a corporate's

³ Following the logic from the brief, 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.

⁴ Or a different terminology, e.g. net zero.

footprint (its GHG inventory i.e. its climate responsibility) and its contribution. Therefore, ICROA believes that claims of neutrality are an essential driver of action through the VCM that effectively differentiate the market from charity donations and deliver commercial sense for buyers. Recent [research](#) shows that corporates that are carbon neutral are also more likely to be on a consistent decarbonization pathway compared to corporates that do not use the VCM.

Gold Standard is serving the VCM primarily and we think that it ought to continue focusing on the quality of the reductions achieved, irrespective of who is using them and of how they are communicated about:

- Any use within CORSIA, for example, is very different from that of a corporate wanting to go carbon neutral.
- Claims made will vary by sector, by country, by year, and realistically will follow fashions. But they are essential for corporates to take responsibility. Policing claims made by end-users is unworkable especially as they are made in different languages.
- Claims are determined by the protocols used for that purpose, such as the GHG Protocol, or ISO standards.

Claims are dependent on (1) the quality of the carbon reduction and on (2) the quality of the footprint assessment. We do not want to see contributions effectively separating actions from the footprint. We feel strongly that there should always be a link to the user's impact or it becomes a simple 'voluntary contribution'. Losing that link will lead to weaker commitments in our view. A 'contribution' claim could have a role to play in the future alongside neutrality but we see its potential being somewhat limited.

- **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.

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.

- **Technological and biological removals need to be scaled up. This will take time. Today and tomorrow, reduced emissions need to continue to play a key role. Here as well, sensible guidance for a transition is needed to ensure integrity and maximize ambition.**

Emission reductions will continue to have a critical role to play and often deliver socio-economic benefits. Technological and biological removals need to be scaled up as well bearing in mind important issues that need to be overcome:

- Development costs.
- Low supply in a context of rising demand which increases price volatility.

- For biological removals, the ex-ante crediting issue for neutrality pledges to come with integrity and not under-perform.
- The issue of cutting flows of finance to critical emission reduction projects in developing and least developed countries.

Conclusions:

- **We see limitations to the approach suggested in the consultation's brief.**
- **So long as quality is not achieved on all levels, CAs for voluntary offsetting are not a suitable instrument to guarantee environmental integrity.**
- **It is only when quality flaws in the global PA framework are resolved that a regulation of voluntary action through CAs could be sensible.**
- **In addition, CAs will be nearly impossible to obtain for the VCM for the time to come. Asking for CAs would disincentivize voluntary action whereas we need to do everything to encourage action on all fronts, using all available tools, now.**
- **ICROA thinks that carbon neutrality has a strong role to play in the future, relying on additionality assessments by Gold Standard and other VCM standards whose core responsibility is to certify the integrity of carbon reductions and not to determine rules on usage claims. Double claiming does not represent a threat to integrity so 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.**
- **Alternative claims of contribution to an NDC remove the important link a corporate's footprint. We think that this is a big issue.**
- **ICROA is keen to engage further with Gold Standard on these topics to find ways to increase voluntary action through the VCM.**

3. The role(s) Gold Standard will play in future markets

ICROA supports the proposals.

4. The potential changes to our standards and how these will be introduced

- **We agree that** any carbon standard should transparently indicate whether any carbon reduction includes a CA or not:
 - We encourage the Gold Standard to enable the inclusion of this attribute in the registry as soon as possible.
 - We believe the registry should allow for the attribute to be added on an ex-post basis, as issuance of carbon reductions should neither be held up by the international UNFCCC process nor inevitable bureaucratic delays in host countries.
 - We also believe that the registry should make it easy for the user to select whether to apply the CA or not upon retirement.
 - The efficient application of a CA would almost certainly need a direct registry link to UN/Party registries, which we encourage Gold Standard to start enabling as soon as possible.
- **We agree that** the various rule updates foreseen are likely to be necessary:
 - The concept of additionality may change in a PA world, and rules will need to be updated. However, the current concept is the result of more than 2 decades of evolution in thinking, learning by doing, and caution against change for change's sake.
 - While fixing the baseline for the duration of the crediting period is attractive for the efficient running of the project market, we accept that it may have to become more dynamic to account for the changing policy framework under the PA.

- Crediting periods may indeed have to be adjusted, although this is more likely to be about a renewal of the baseline than the crediting period itself.
- A differentiation between emission reductions and removals has existed ever since the start of the Kyoto regime, and in most cases project type or sectoral scope is indicated within the serial number. While a clearer differentiation may be beneficial with the current emphasis on removals, we would like to caution the development somewhat as it is our opinion that both emission reductions and removals are equally necessary, while implied preference of removals over reductions is not always valid, for example in terms of the many benefits of avoided deforestation of an ancient forest compared to a new monoculture plantation.
- A way forward for project transition is urgently needed.

5. The types of activities Gold Standard will support

ICROA supports the proposals.
