

VCS REVISION TO STANDARDIZE COMPONENTS OF AVOIDING UNPLANNED DEFORESTATION METHODOLOGIES

ICROA Response - April 2022

The International Carbon Reduction and Offset Alliance (ICROA) appreciates the opportunity to provide comments on the proposed VCS [updates](#). ICROA's Technical Working Group is submitting feedback mainly on issues related to baseline setting and baseline validity periods in the context of VCS JNR requirements being the result of the methodological consolidation for all projects. Please contact the ICROA Secretariat (diemert@ieta.org) for any questions. Thank you.

Problem statement

Verra embarked on a mission to establish a system of high-quality baselines at all scales. While this is certainly the right ambition, the way Verra goes about this complex task is potentially jeopardizing country sovereignty and putting project viability and market growth at risk.

It is widely accepted that one desirable future for REDD+ will involve national REDD+ programs integrated into National AFOLU commitments under the Paris Agreement, with all current and future REDD+ project activity within each country “nested” into the national program. This will ensure the environmental integrity of performance claims at different scales within the country. Some years ago - to address the transition to nested REDD+ - Verra, whose VCS project standard has been used for the great majority of REDD+ projects active in the VCM today, initially developed the VCS Jurisdictional & Nested REDD+ (JNR) Standard as a way to support countries (or sub-national areas such as states) interested in having an independent standard verify performance and create market assets at both jurisdictional and project scales. After several years (in which there have been no implementations of VCS/JNR Programs that we are aware of) and possibly in the face of increasing press criticism of the variety of project approaches allowed under the VCS Standard, Verra has chosen to undergo a process of consolidating project-level methodologies under the VCS Standard (introduction of new modules and adaptation of current methodologies for unplanned deforestation and degradation). We have several concerns about the proposed methodological adaptation process, detailed as follows, along with suggested solutions:

Concern 1

Verra has proposed that the **methodological adaptation process** will apply the principles of VCS JNR to determine nested reference levels for all VCS Projects, even in countries that are not implementing VCS/JNR, and even if a national government has their own established approach for that process. While we accept the premise of moving to a nested system, and believe that methodological consolidation would lead to higher consistency in project baselines (baselines are the most often contested element of project “quality”), we believe the way Verra is proposing to go about this creates a number of issues that could harm the REDD+ market.

1. **This is potentially putting Verra at odds with sovereign national REDD+ nesting systems, especially the more advanced of those systems that have their own nesting approach, sometimes in law.** To date, Verra has shown an unwillingness to allow VCS projects to

follow sovereign rules/laws for their national nesting systems and instead has decided Verra will calculate their own proprietary default nested reference levels for all VCS projects¹, regardless of whether the country implements a VCS JNR program or not. Verra has indicated their reasoning for this decision is:

- a) To ensure jurisdictional baselines – and by extension nested project baselines - are of sufficient “quality”.
- b) To provide a default nested baseline for projects in countries that do not have a national nesting approach or lack a national baseline that meets Verra’s credibility requirements.

Jurisdictional baseline allocation is a 2-part process, involving a risk map and FREL allocation. Verra had initially indicated that they might allow countries to develop their own deforestation risk maps, but only if the countries could prove they were of higher quality than Verra’s default. Verra has not, however, provided clear, actionable comparison criteria that allows for meaningful comparison of alternatives to Verra’s default risk mapping methodology. For example, Verra requires that all alternative risk maps contain an insignificant Risk Class (“0” Risk Class), which would render any country’s Risk Map that did not support this design philosophy ineligible for comparison. We suggest that by not providing objective, universally applicable comparison criteria, Verra has for all intents and purposes made it impossible to propose an alternative to their default, unless the alternative shares Verra’s design approach.

Additionally, in all cases, countries must use Verra’s JNR baseline calculation / allocation tool to allocate nested project baselines. This applies even if a national REDD+ program has a high-quality allocation tool of their own. This guarantees that Verra’s VCS JNR allocation approach, which includes discounting for uncertainty and bias, will always be out of sync with national REDD+ results.

While we agree with the importance of applying the highest quality jurisdictional baseline to nested REDD+ projects, Verra has to date been unable to successfully demonstrate a quality comparison of any alternative jurisdictional / national baseline to its VCS JNR-defined default, essentially leading to a situation where the Verra-calculated baseline is assumed to be the most accurate option, without validating this assumption.

We feel that denying the use of National REDD+ program data in VCM nested projects is sending the wrong message to host countries and not encouraging them to improve the quality of their data in order to be able to participate in the VCM. We therefore request that Verra include the option to allocate national / jurisdictional FRELS should they meet a specifically defined quality threshold. We further suggest that universally applicable, objective comparison criteria are used to compare alternative Risk Maps to Verra’s default.

¹ Verra could accept the national FRELS approved by UNFCCC (or suggest data quality analysis on top of the current FREL data). Some countries have not disclosed the underlying data used to calculate their FREL – which means that it is not possible for a third party to calculate and get to the same results. In these situations, Verra tools could be applied to calculate (or adjust) the FREL and allocated baselines.

2. **Verra’s ability to obtain national scale activity data (e.g. forest loss) and to run their default VCS JNR deforestation risk map and allocation / baseline calculation tool is a possible bottleneck to progress in the VCM:**
 - a) It is no secret Verra has neither the capacity, nor the expertise to undertake such a task today, and we are concerned that Verra has underestimated both the cost and time required to conduct this work to meet current and future market demand for credit supply. Verra has estimated a cost of approximately \$50K for a consultancy to calculate activity data for each Jurisdiction, and that they plan to pass this cost to the project development community.
 - b) Considering the importance of activity data in the construction of jurisdictional and project baselines, projects will only have inputs to assess their feasibility at a very late development stage, only after Verra is able to employ a consultancy to calculate and provide this information triggered by the request of a project.
 - c) We are also concerned that Verra is overestimating the availability of national scale data that meets their JNR requirements today, and if that is true, it may not be possible for Verra to produce default jurisdictional baseline results for many countries.

3. **Verra has put the validation and verification of ALL VCS nested projects on hold until they formally release their methodological consolidation guidelines. This is holding up the development of projects right now, and the uncertainty about nested project baselines in the future is already impacting investment in the sector. This also impacts local communities and stakeholders. Verra has recently indicated that the consolidation process will not be complete until October, 2022. Verra could create a “transition period” until the updated methodologies are ready to be implemented.**

Project reference levels establish the maximum possible performance of any project and have been widely used as the most important metric in establishing project financing in the VCM. Therefore, after a long period of discussing with Verra these significant changes for the construction of the baselines, existing and new proponents have been navigating with high uncertainty regarding the financing feasibility of their projects.

4. **Verra has not road tested the impact of their VCS JNR default risk map and allocation tool on existing VCS projects, and therefore are unaware of the economic impact the VCS JNR methodological consolidation decision could have on the existing VCS REDD+ projects or the financial viability of future projects.**

This requires project developers to conduct a comparison of the default approach to other project baselines or nesting approaches themselves and at their own cost. To date, we know of very few project developers who have the technical capacity, time or funding to test the VCS JNR risk map and allocation tools. Verra’s response has been to tell project developers that they are welcome to hire a consultancy to perform the testing. **Verra is a market actor.** We are not aware of any other market actors that propose to publish essential tools, that the market is expected to use by default, without first testing them for practicality, viability, and fitness for purpose. We feel it is inappropriate to push the responsibility for testing Verra’s tools on to the project development community, at their own expense.

Suggested Solutions:

We recommend the following as potential solutions:

1. Verra maintains the VCS JNR allocation tool as a default, but Verra establishes an **absolute level of accuracy measured using traditional remote sensing methods common to most National REDD+ programs** that is acceptable for alternative approaches. If the accuracy of the alternative baseline allocation model is shown to be equal to or exceed the Verra accuracy threshold, it should be authorized by Verra to be used to allocate nested baselines to VCS nested projects, in accordance with the relevant host country's regulations. We further suggest that countries should be able to use their own allocation tools if the above-mentioned accuracy criteria are met.
2. If, on the other hand, the alternative method yields a lower accuracy than the Verra-established threshold, and results in a less conservative baseline for a project than that calculated using the Verra default VCS JNR approach, Verra could either require the project baseline be established using their default approach or that the baseline calculated using their default approach be the "maximum mitigation potential (MMP)" for VCS nested projects, above which the projects would be ineligible for VCS crediting. Decisions would have to be made as to how Verra would address the host country authorizing any residual performance of the project above the Verra MMP to be sold under a different standard.
3. Verra conducts additional testing of their tool, so they are in a position to understand the consequences to the existing market and to their reputation, in the event the tool and new mandatory approach bring substantial changes to existing projects, before requiring the entire market switch to the tool as a default. Verra provides an updated calendar with the expected dates for starting to apply the VCS JNR allocation model and **firmly commits with the stakeholders** that that calendar will not be modified during the current year. In the meantime, the projects can continue using the current versions of methodologies and developing their reference levels using the methods established at validation.

Concern 2

Verra currently allows project baselines to be valid for 10 years before they need to be reassessed. Verra has indicated that it will now require both jurisdictional baselines and nested project baselines to be updated every 4-6 years, after which the current baseline becomes invalid. As such, if a project start date coincides with the beginning of a new baseline period, they would have between 4 and 6 years of baseline certainty with which to establish the economic viability of their project to attract investment. However, if projects have start dates within a given 4-6 year validity period, they could have as little as 1 year of baseline certainty before having to adopt a new baseline. There are a significant number of stakeholders in the developer and investor communities that believe this additional uncertainty in performance potential will significantly dampen investor enthusiasm and slow growth, just when projects require accelerated investment for climate, biodiversity and social reasons alike.

Verra's reasoning for the proposed new baseline validity period rule is that:

1. baselines must be updated often to accurately represent rapidly changing emissions trends and
2. baselines become "meaningless" after their defined validity period of 6 years.

Suggested Solutions:

We recommend the following as potential solutions:

Verra could maintain the 4-6-year baseline update requirement, but allow a longer baseline validity period for new projects calculating their first baseline. This would allow new projects to maintain their first baseline for enough time to support investor needs. We further recommend that Verra consults with major investors and project developers in the space to determine an appropriate duration for the first baseline validity period for new projects.

