

ICROA's position on scaling private sector voluntary action post-2020

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Summary

Voluntary action on climate is growing strongly across the private sector. Corporates are demonstrating a clear appetite to contribute to the goals of the Paris Agreement by committing to carbon neutrality and net zero strategies. Globally, carbon reduction¹ projects financed by the private sector on a voluntary basis have already reduced over 500 million tons of CO₂e². These carbon reductions were achieved independently from any legal requirement. The voluntary carbon market (VCM) has the potential to grow significantly in the decade ahead and become even more impactful.

The role of voluntary purchases and retirements could therefore shift from an instrument to go beyond compliance targets to an instrument to accelerate the global transition towards net zero emissions by helping to close the emissions gap, the finance gap and the time gap.

The purpose of this paper is to articulate ICROA's position with respect to voluntary action and the functioning of the VCM post-2020. 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.

The period 2021-2025 will be a critical transition period for the VCM. During this period, we need to send the right signals to private sector voluntary actors to maintain and grow

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 <https://www.ecosystemmarketplace.com/carbon-markets/>

demand, use existing supply from pre-2021 vintages to serve this demand, and create the market mechanisms for the development of new supply³.

The private sector can play an important role in the greater context of global climate action under the Paris Agreement by maximizing mitigation immediately. This paper sets out how the contribution from voluntary action can be increased under the Paris Agreement - specifically, how the issues of additionality, reporting and claiming carbon reductions are addressed under a voluntary regime as opposed to national policies and regulations.

The critical importance of private sector voluntary action

Private sector finance through voluntary action has been generating credible mitigation for more than 10 years, in response to the IPCC's call for action and the need to reach net zero GHG emissions by 2050. These early investments prior to the adoption of the Paris Agreement demonstrated how mitigation can be done effectively. In fact, **corporates showing climate leadership by voluntarily achieving carbon neutrality are financing immediate carbon reductions in line with the recognized urgency of the global climate situation.** They will continue to do so and raise global ambition if we do not undermine their efforts.

At this time the sum of all Country GHG carbon reduction targets under the Paris Agreement is not sufficient to deliver a stable climate, and the timely implementation of Nationally Determined Contributions (NDCs) is uncertain⁴. Until adequate regulations are in place across all Countries to deliver the goals of the Paris Agreement, there is a real need for increased voluntary activity to fund mitigation that would not otherwise happen and to assist Countries to increase their mitigation efforts.

To encourage voluntary action from the private sector, **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.**

Driving additional mitigation and ensuring adequate reporting of carbon reductions under the Paris Agreement

Since the adoption of the Paris Agreement in 2015, ICROA has explored the impact of the Agreement's 'bottom-up' architecture on the environmental integrity of voluntary action to ensure that the ICROA Code of Best Practice continues to define the highest standards for voluntary action. Specifically, ICROA has examined the key aspects of additionality,

³ In doing so ICROA is aligned with ICAO's CORSIA offsetting requirements for the 2021-2023 cycle.

⁴ The implementation of NDCs by Parties can be underpinned by national policies and regulation. It is the global response to climate change delivered by sovereign governments within the UNFCCC framework. In contrast, private sector voluntary action is driven by the private sector's appetite to prepare for the introduction of such policies or to have a climate impact that exceeds the national contribution. It complements the Parties' action and can help them consider more ambitious targets, but it does not operate under policies and regulations of the sovereign system.

reporting and claiming within the context of the essential differences between voluntary and compliance action.

As set out below, the integrity of voluntary action and claims of carbon neutrality can be maintained under the Paris Agreement because:

- Corporate GHG accounts are not reported and aggregated to a Country level and therefore not reported to the UN.
- The Host Country where a mitigation activity delivers carbon reductions reports those reductions to the UN. The reductions are not exported to the national jurisdiction of the corporate providing the carbon finance. Hence, carbon reductions are counted once only at the UN level by the Host Country.
- Credible third-party Carbon Standards⁵ will continue to assure that additionality is maintained.

Ensuring the additionality of voluntary action

For private sector entities taking voluntary action, additionality is assured when mitigation initiatives are validated and verified by credible third-party Carbon Standards that ensure carbon reductions are over-and-above business-as-usual and regulatory requirements. The ICROA Code of Best Practice recognizes only third-party Carbon Standards that assure additionality.

Unlike the Kyoto Protocol that preceded the Paris Agreement, all Countries will now set emission reduction goals through their NDCs and report progress against these goals to the UN. Over time, this will result in more national regulations to limit GHG emissions until NDCs are effective on an economy-wide basis. As many Countries are still to develop economy-wide NDCs fully supported by policy and regulation that deliver reductions in line with the Paris Agreement's goals, there is scope for additional mitigation initiatives that require private sector finance.

However, as Countries ratchet up their policies and regulations to meet national targets, business-as-usual will change. To reflect these changing circumstances, 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.

Reporting voluntary action under the Paris Agreement

When additionality is adequately addressed by Carbon Standards, voluntary action is additional to Country commitments under the Paris Agreement, and does not undermine nor distort reporting of progress because carbon reductions are recorded only once at the UN level by the Country hosting the mitigation activity.

⁵ For more information on the Standards approved by ICROA, visit our [website](#).

Countries that host mitigation activities established under credible Carbon Standards will report lower actual emissions in their national inventory, and against their national reduction targets as reported to the UN.

Countries in which private sector entities have operations that give rise to emissions will fully capture that corporate's in-Country emissions within its national inventory. However, national GHG accounts as reported to the UN do not count the voluntary use of carbon reductions from other jurisdictions to compensate for a corporate's in-Country emissions.

Therefore, carbon reductions delivered through the voluntary purchase and retirement of carbon credits are counted just once at the UN level - by the Country that hosts the mitigation activity that gave rise to the carbon credits. As private sector entities have no reporting requirements to the UN, their voluntary actions are not double counted in the UN's global inventory (This point is further illustrated and detailed in the Appendix).

In contrast, Countries (and sectors such as Aviation with CORSIA) may choose to use national or international compliance carbon markets to finance rapid and cost-effective carbon reductions. This requires that the acquired carbon reductions are exported from the Host Country to the Acquiring Country (or sector). An international accounting adjustment, which must be agreed by the Host Country, is required to ensure carbon reductions for compliance purposes are reported once only to the UN⁶.

Making claims that communicate voluntary action

Private sector entities can claim mitigation outcomes when Carbon Standard registries are used to record and transact uniquely identified carbon reductions from validated and verified mitigation activities. Credible claims of carbon neutrality are supported when registries also are used to retire or cancel a sufficient number of carbon reductions.

The processes currently used by Carbon Standards to verify, register, transact and retire carbon reductions will continue as they do now. Registries track transactions and retirements, providing private sector entities unencumbered legal title to claim the carbon reductions in their corporate GHG accounts. Claims of carbon neutrality by an entity can be made when carbon reductions equal to the reported emissions from the subject of the claims are retired or cancelled in registries.

For the purposes of this paper, carbon neutrality is the state achieved over a specified period of time when the GHG emissions within the defined boundary of an entity's operations, product or services are balanced by a combination of internal reduction activities and the retirement of verified carbon reductions of the same amount outside that defined boundary.

⁶ In the context of CORSIA, the eligible carbon reductions for the 2021-2023 cycle will be Kyoto units and therefore won't require this adjustment.

Conclusion and next steps

The members of ICROA are dedicated to enabling private sector financing for the transformation implicit in the goals of the Paris Agreement. ICROA's work to realize the fullest potential for private sector voluntary action continues. We can only achieve our objective in partnership with market participants, civil society and Parties, from whom we invite feedback on this paper. Please direct questions and comments to Antoine Diemert at the ICROA secretariat: diemert@ieta.org.

In the coming months, ICROA intends to focus its work on:

- Ensuring the transparency of voluntary action which ought to follow rigorous protocols and continue to be tracked in independent registries.
- Framing a transition for the VCM towards greater impact on the ground, where governments can accommodate voluntary action in their improved NDCs.
- Ensuring that the claims available add value to corporates so we can grow the global volume of private sector finance to mitigation.

Appendix

Accounting for carbon reductions under the Paris Agreement

Discussions about double claiming tend to be rather abstract and there continues to be a significant amount of confusion about this. The diagrams below illustrate the process that a corporate without an obligation to reduce its emissions would undertake to engage with the VCM.

Figure 1 below sets out a starting point where there are two Countries with different GHG inventories. The Host Country emits a total of 150 tCO₂e, and the Country of Buyer (where the corporate in question is based/headquartered) emits a total of 850 tCO₂e, making the total equal to 1,000 tCO₂e. In this case, the Actual tCO₂e as reported under the Paris Agreement is the same as the Reported tCO₂e. For the purposes of these diagrams, we assume the NDC is the same as the indicated inventory of each Country.

In the Country of Buyer we also find a corporate with a GHG footprint that equals 50 tCO₂e but which is not regulated under its Country's NDC (i.e., the corporate does not have an obligation to reduce its GHG emissions). This corporate could be, for example, a large product delivery company with a number of warehouses and a large fleet of vehicles. Even though the electricity and gasoline the company consumes contribute to the Country's GHG emissions, the company itself is not regulated under the Country's NDC.

1. tCO₂e (Baseline): 1,000 Actual; 1,000 Reported

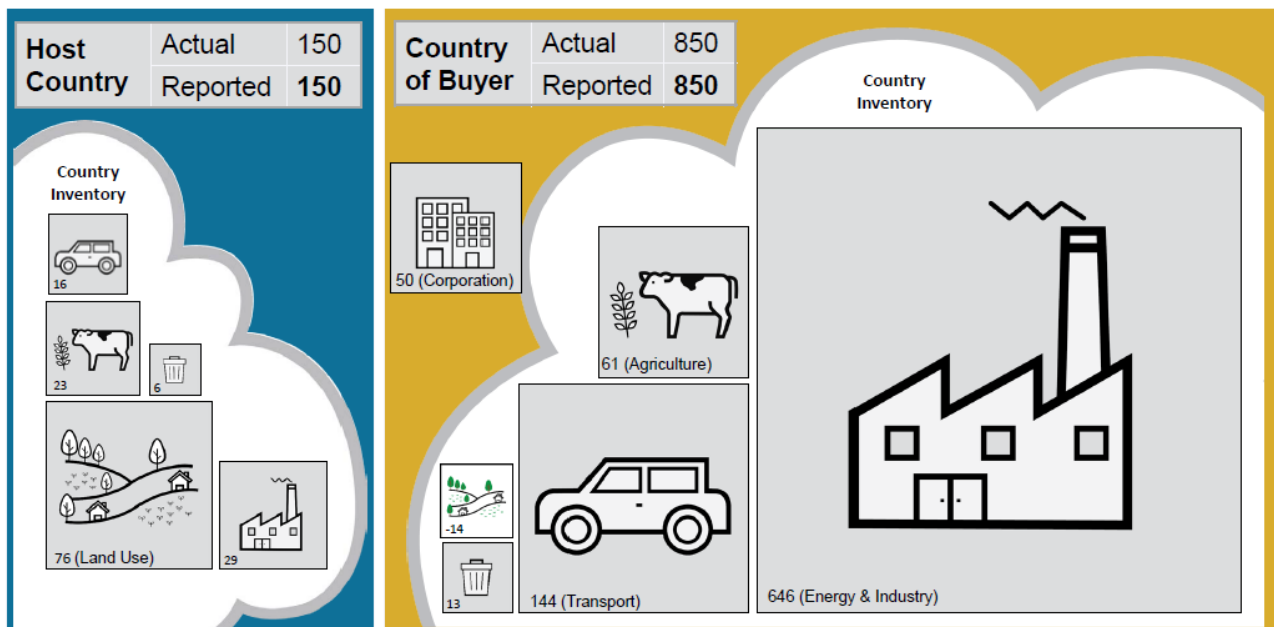


Figure 2 below illustrates that the corporate has undertaken activities to reduce its Scope 1 and Scope 2 emissions by 40 tons to meet a science-based target (SBT). Specifically, it has reduced its footprint by 30 tCO₂e through investments in upgraded boilers, efficient lighting, and purchasing renewable energy, and reduced another 10 tCO₂e through its investment in a fleet of electric vehicles. This means that the corporate's (residual) footprint equals 10 tCO₂e, and the Country of Buyer's Actual and Reported tCO₂e under the Paris Agreement now equal 810tCO₂e.

2. tCO₂e (Corporate SBT): 960 Actual; 960 Reported

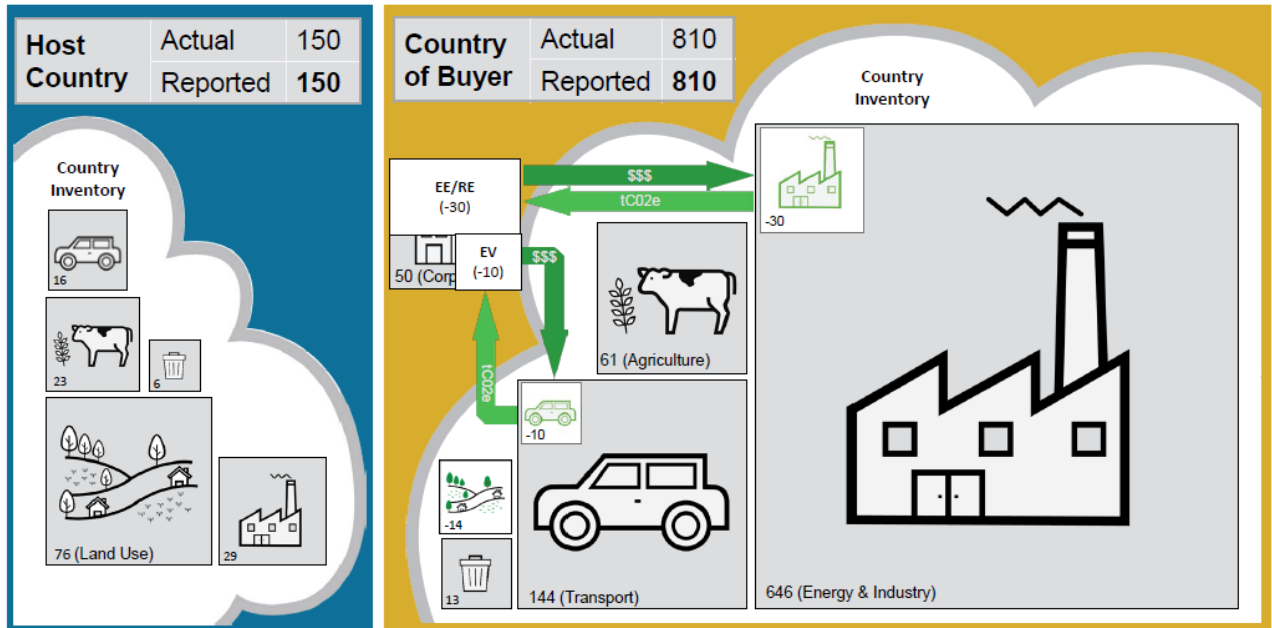


Figure 2 illustrates that in the context of meeting SBTs, double claiming is (already) happening. The reductions achieved by the corporate to meet its SBT are claimed by the corporate, but also accrue to the benefit of the Country where the corporate is based.

Figure 3 below introduces the concept of carbon credits traded across borders, whereby the corporate with a residual footprint of 10 tCO₂e invests in a project that restores or conserves forest in the Host Country and reduces 10 tCO₂e. In this example, no corresponding adjustments are made. As illustrated in the figure, the project reduces the emissions from the land use sector in the Host Country, helping that Country reduce its footprint and thus meet its NDC, while the corporate uses those same carbon reductions to compensate for its residual footprint. While in this case there is double claiming, the integrity of the accounting under the Paris Agreement is not undermined because the 10 tCO₂e reduced in the Host Country and claimed by the corporate never show up in the Country of Buyer's NDC (no double counting). In other words, these are different accounting systems, and the Actual and Reported tCO₂e across both Countries are the same.

3. tCO₂e (Trade, Voluntary, No CA): 950 Actual; 950 Reported

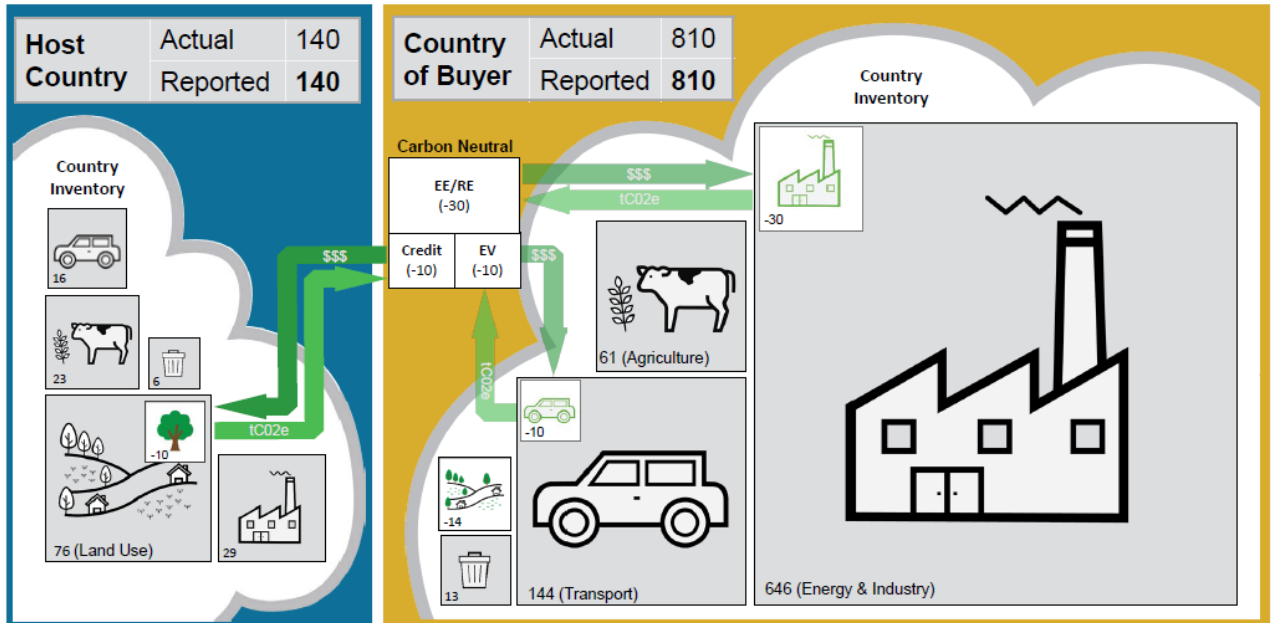
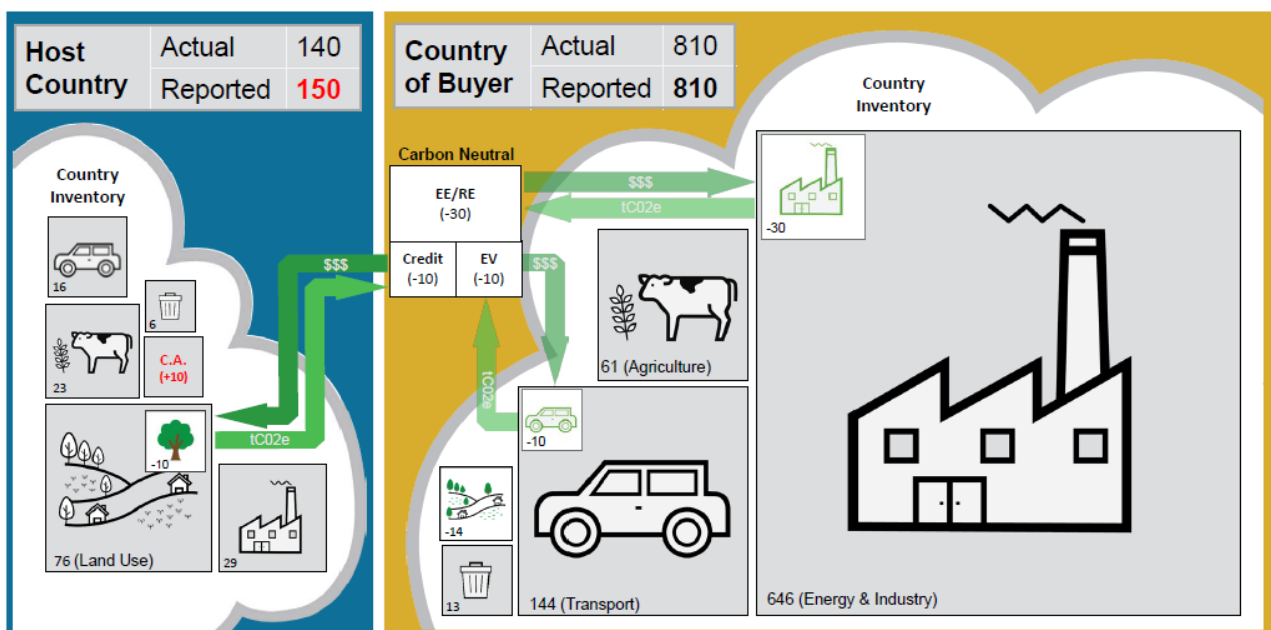


Figure 4 below takes the analysis a step further, by illustrating what would happen if the Host Country were to make a corresponding adjustment on the back of the 10 tCO₂e reduced by the project that received the investment from the corporate. Interestingly, the corresponding adjustment throws the accounting under the Paris Agreement out of balance. In this example, Actual and Reported tCO₂e are no longer the same.

4. tCO₂e (Trade, Voluntary + CA): 950 Actual; **960** Reported



This analysis suggests key insights to how the VCM can operate post-2020:

- The accounting systems used by corporates operating outside of compliance systems are separate from those used by Countries;
- Requiring corresponding adjustments for VCM transactions would undermine the accounting under the Paris Agreement. Specifically, corresponding adjustments would distort the reporting of carbon reductions; and
- While double claiming does occur in respect of projects that reduce their Host Country's GHG inventory and whose reductions also enable a corporate to compensate for its unabated footprint, it does not undermine the integrity of the accounting under the Paris Agreement. It is worth noting that double claiming already happens in the context of corporates meeting their SBTs.