Scaling Voluntary Action within the Framework of the Paris Agreement

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ICROA

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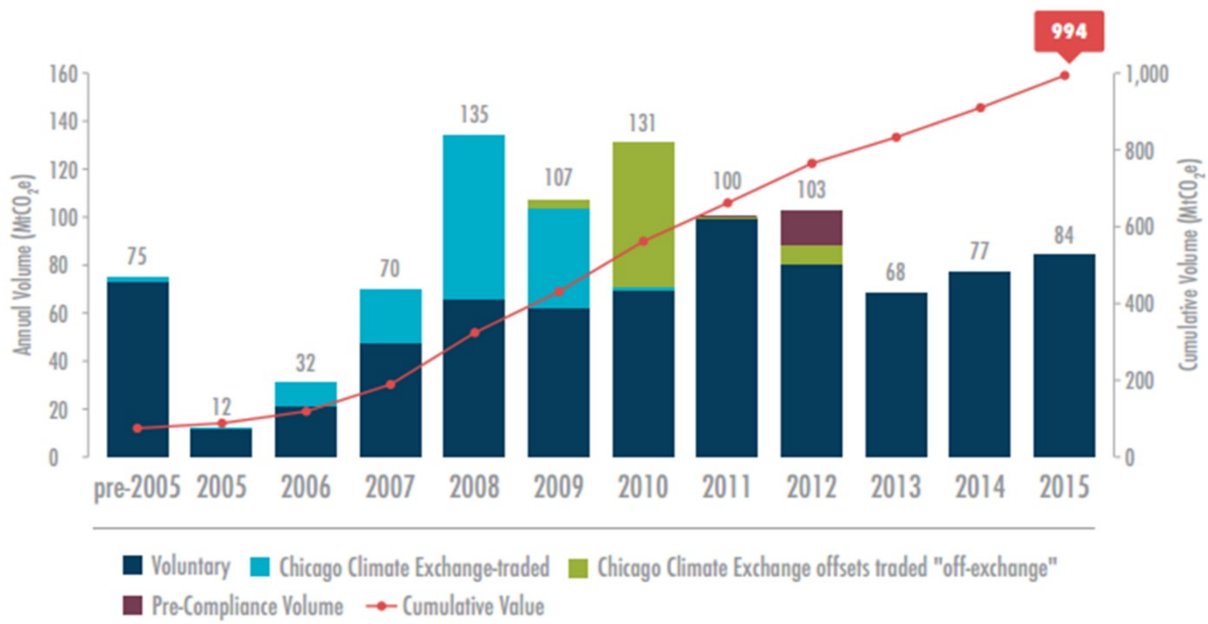
INTRODUCTION

ICROA welcomes the entry into force of the Paris Agreement. As a business association promoting proactive and ambitious action on climate stabilisation, we look forward to playing our part in its successful implementation. Over the past 15 years, the voluntary market has helped raise ambition levels, mobilise private sector finance and build momentum around emissions mitigation. Much of that ambitious action is delivered through offset-inclusive carbon management on the part of private sector organisations which fund mitigation projects that deliver quality carbon credits for offsetting.

Evidence of the growth in voluntary action can be seen in the Figure 1 which shows that since the market started, nearly a billion tonnes of credits have been traded, with a value of $4.6 billion.

Figure *1: Historical Market-Wide Voluntary Offset Transaction Volumes*[1]



The last three years have seen steady year-on-year growth in voluntary offsetting, showing increased action amongst organisations committed to reducing emissions on a pre- and beyond-compliance basis. ICROA looks forward to contributing our experience in supporting voluntary action towards delivering the objectives of the Paris Agreement.

However, we recognise that the Paris Agreement's architecture is markedly different to the provisions of the Kyoto Protocol, and we will need to work together with Parties, carbon market participants and other key stakeholders to:

- Recognise and reward voluntary action as a valued element within the bottom-up compliance regimes that are the centre-piece of the Paris Agreement;
- Encourage Parties to develop mechanisms under Article 6 that enable voluntary action within and alongside their NDCs in ways which maintain the integrity of rigorous accounting;
- Incorporate the innovative, pioneering and standard setting work of the voluntary carbon market into domestic programmes in ways which support the development of a global price on carbon.

[1]Raising Ambition: State of the Voluntary Carbon Markets 2016. Forest Trends' Ecosystem Marketplace

OPPORTUNITIES FOR INCREASED VOLUNTARY ACTION UNDER THE PARIS AGREEMENT

The entry into force of the Paris Agreement presents opportunities for increased voluntary action, and it also raises important questions for the voluntary market, due to the very different nature of the Kyoto Protocol – under which the voluntary market developed. Under the Kyoto Protocol, only 37 developed countries adopted top down targets. This has created opportunities to generate voluntary credits in 'uncapped' countries without needing double counting mitigation actions.

In contrast, under the Paris Agreement 192 developed and developing countries have made their own pledges in the form of Nationally Determined Contributions (NDCs). Countries have autonomy over what emission reductions they offer to make under this 'pledge and review' approach which is expected over time to increase ambition and deliver the overall objectives of the Agreement. However, like the Kyoto Protocol, new market mechanisms will be established under Article 6. Further details on these new mechanisms are provided in IETA's paper on the market provisions of the Paris Agreement[2].

The transition from one agreement to the other therefore raises important questions that ICROA's work will address:

1. How can the voluntary market help deliver the Paris Agreement objectives?
2. What opportunities will there be for voluntary offsetting, if every country has an emission reduction target?
3. How can Article 6 provide the right framework to enable the voluntary market?

The sections below set out our initial thoughts on answering these questions.

HOW CAN THE VOLUNTARY MARKET HELP DELIVER THE PARIS AGREEMENT OBJECTIVES?

The voluntary market can help deliver the Paris Agreement in a number of ways:

- **Going beyond compliance:** The voluntary market provides the infrastructure and incentives for the private sector to reduce and offset emissions beyond their compliance requirements
- **Guaranteeing the robustness of emission reductions**: Whilst the voluntary market is small, it is robust and has delivered integrity and innovation. This integrity and innovation has been recognised by important stakeholders such as:
  - The UNFCCC, through initiatives such as Climate Neutral Now and the NAZCA platform
  - California, through recognition of CAR, ACR and VCS as approved offset project registries. Projects certified by these programs, and applying offset protocols approved by the California Air Resources Board (CARB), are eligible to operate in the California ETS
  - South Africa, through recognition of VCS and Gold Standard VERs as part of their proposed carbon tax
- **Building momentum**: Over the last 15 years the voluntary carbon market has been successful in attracting private sector capital to finance mitigation and sustainable development outcomes. Momentum building is a key theme in the Paris Agreement, manifested through the pledge and review nature of the NDCs. Lessons learned on building momentum from the voluntary market will help deliver credibility to the Agreement.
- **Raising ambition**: Analysis from organisations such as UNEP[3] and the UNFCCC[4] has shown that the emission reductions pledged in the NDCs fall far short of that needed to deliver the Agreement's core

[2] A Vision for the Market Provisions of the Paris Agreement. International Emissions Trading Association (IETA), May 2016
[3] The Emissions Gap Report 2016: A UNEP Synthesis Report
[4] Synthesis report on the aggregate effect of intended nationally determined contributions. United Nations Framework Convention on Climate Change, May 2016

objective of limiting warming to less than 2°C. Therefore all stakeholders, such as national governments, provinces and cities, and industrial sectors like aviation and shipping, will need to raise their levels of ambition. With the right mechanisms and incentives in place, voluntary action can play an important role here.

In summary, the voluntary market can help deliver the Paris Agreement by delivering real emission reductions and sustainable development benefits.

WHAT OPPORTUNITIES WILL THERE BE FOR VOLUNTARY OFFSETTING?

As described in the sections above, the voluntary market has developed under the framework of the Kyoto Protocol, meaning there have been plenty of opportunities to generate credits in 'uncapped' countries, therefore avoiding issues such as double counting. This picture will change significantly under the Paris Agreement when 192 countries start implementing their NDCs.

However, Article 6 of the Paris Agreement will establish mechanisms to facilitate offsetting between countries with emissions targets whilst avoiding double counting. This is likely to take the form of an emissions mitigation mechanism administered through the UNFCCC under Article 6.4, and a bilateral approach directly between countries who voluntarily choose to cooperate under Article 6.2. Formal international oversight, such as common rules and procedures, will not be established under this bilateral approach (though UNFCCC guidance is likely to be provided, along with a system to track units moving between countries). It may therefore create opportunities for projects from voluntary standards, such as the VCS and Gold Standard, to play a role.

Key aspects of the Article, which are particularly relevant to the voluntary market, are provided in Box 1 below:

Box 1: Article 6 of the Paris Agreement

6.1, 2 & 3: Cooperative Approaches

- Cooperative approaches through "internationally transferred mitigation outcomes" to allow for higher ambition and sustainable development
- The use of internationally transferred mitigation outcomes shall be voluntary and authorised by Parties

6.2 & 5: Robust Accounting

- Rules for carbon market accounting, particularly avoidance of double-counting

6.4: Emissions Mitigation Mechanism

- Establishment of a mechanism to mitigate emissions and support sustainable development

6.8: Non-market approaches

- Non-market approaches to….. enhance public and private sector participation in the implementation of NDCs

Another important part of Article 6 is sustainable development, which is referred to in five of the nine paragraphs. The voluntary market has considerable experience in delivering sustainable development benefits alongside emission reductions. Therefore, the experiences and lessons learned, from the voluntary market will be important in delivering this aspect of the Paris Agreement.

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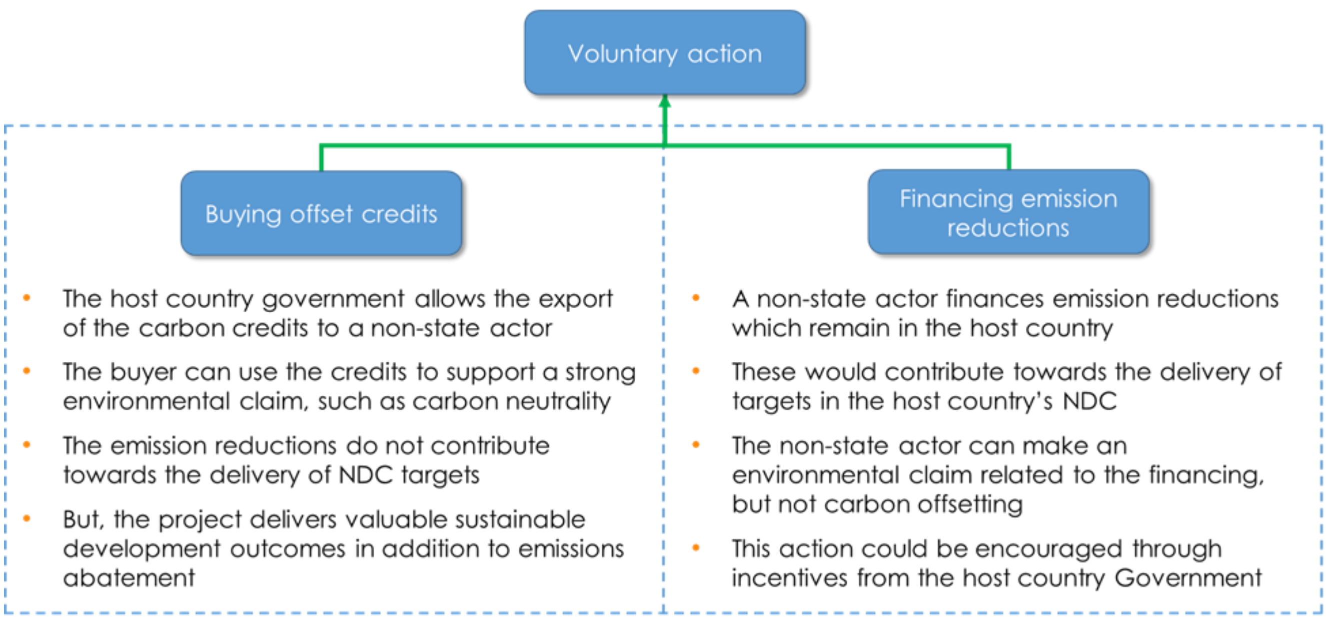
HOW CAN ARTICLE 6 PROVIDE THE RIGHT FRAMEWORK TO ENABLE VOLUNTARY ACTION?

It is vital that the rule book for Article 6, which will be developed by the end of 2018, takes into account the needs of the voluntary market from the outset. This was not considered when the CDM was designed, and voluntary cancellation of CERs only became possible in 2012. ICROA's initial thoughts on how Article 6 could incorporate voluntary action are presented in Figure 2.

Figure 2: Options for enabling voluntary action within Article 6



An important aspect of both options is who the owner of the emission reductions would be. In the example on the left, the owner would be a non-state actor, such as a corporate, which could use the emission reductions to support a strong environmental claim like carbon neutrality. Given that all project host countries will be working towards achieving their own NDC, they will need to be compensated for allowing the export of emission reductions from their country. In this example, that compensation would be in the form of sustainable development benefits delivered by the project that would remain in the country. This example is therefore similar to a corporate voluntarily buying and retiring CERs or ERUs today.

The example on the right is different in that the owner of the emission reductions would be the project host country, which could use them towards meeting its NDC target. As a result, the non-state actor which funds these emission reductions could only make claims related to the project's wider environmental impact but not its mitigation impact. As it would not be owner of the emissions reductions, its project funding activity could not be considered carbon offsetting. In this example, the non-state actor's mitigation contributions could be encouraged by incentives from the host country. For example, this could be in the form of an exemption from a carbon tax, and could fall under the scope of Article 6.8. This creates a framework for non-market approaches and aims to enhance private sector participation in the implementation of NDCs.

CONCLUSIONS

The Paris agreement is an exciting opportunity for ICROA and its members. We think the experience gained and lessons learned from the voluntary market over the past 15 years will prove valuable in helping to deliver the objectives of the Paris Agreement. This includes helping to build momentum, raise ambition and attracting private sector capital to finance mitigation and sustainable development outcomes.

However, a lot of the necessary detail is still lacking at this stage and as we begin the process of securing a vital role for voluntary action in a post Paris world, it will be useful to start with an exploration of these framing questions:

1. Voluntary action has been largely actioned through offsetting. Is the concept of offsetting still fit for purpose and practicable under the Paris Agreement?
2. There is a wide variety of NDCs in the Paris Agreement, ranging from absolute, economy wide targets, to a collection of actions assumed to take place across the economy. Does offsetting have different roles to play in different types of NDCs?
3. If host countries are willing to allow the export of mitigation outcomes to non-state financiers, how can Article 6 provisions be developed to support that?
4. If host countries wish to promote climate finance, but do not wish to export mitigation outcomes, what options do they have to encourage and reward funding contributions to their NDCs?
5. Are there viable alternatives for voluntary action that are less dependent on the Kyoto requirement for additionality?

At COP 22 in Marrakesh, Parties indicatively agreed that the work to operationalise Article 6 needs to be completed by 2018. This will be in time for the first CMA "facilitative dialogue" at which nations will present updated NDCs. Over this timeframe, IETA and ICROA will be working to address the framing questions set out above, amongst others, as we begin the process of securing a role for voluntary action in a post Paris world.

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