Feedback of atmosfair responding to the Gold Standard public consultation on the

"Working Group Statement on the future role and design of the voluntary carbon market to support the goals of the Paris Agreement"

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atmosfair gGmbH, Berlin, 28/6/2019

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1 Executive Summary

The proposal of the Working group does not consider the possibility of sound international regimes, providing the rules for voluntary use of emission reduction units, handling crucial issues at stake like

- double counting/ double claiming
- additionality

in a way that safeguards environmental and social integrity.

Double counting/ claiming

The "financial claim" proposed by the working group to counter double counting is in-effective. A host country should reach its NDC targets without foreign finance, or it should reinforce its emissions reduction objectives when foreign finance is available. Hence, a plus in finance should always translate in a plus of carbon reductions, which is not the case with the above proposed finance claim of the working group. Hence, the proposal of the working group still leads to some form of double counting.

Additionality

This issue is missed in the entire paper of the working group but is needed both in the case of hot air in the host country and on a general level in order to transparently inform the public and enable objections against unwanted un-additional project activities.

atmosfair sees three potential levels, on which these issues can be solved, of which the working group only addresses some convenient aspects on level III. Therefore, altogether, the proposals of the working group fall short of the environmental integrity needed when implementing the PA.

Level I: Integration into international regime under the PA

The best option for a well-functioning voluntary carbon market after 2020 would be an integration into the international rules for Art. 6 PA, which allow actors to contribute voluntarily to a global emission reduction without double counting (e.g. by corresponding adjustments). However, the working group ignores this option completely. The working statement does not even take into account the current state of negotiations, potentially leading to a new international regime which allows the generation and transfer of emission reduction units that might be used as CO_2-offsets. The draft negotiation text of SBSTA 50, agenda item 11a on Article 6.2. of the PA[1], e.g. even considers explicitly the voluntary cancelation of units.

[1] DRAFT TEXT on SBSTA 50 agenda item 11(a) Matters relating to Article 6 of the Paris Agreement: Guidance on cooperative approaches referred to in Article 6, paragraph 2, of the Paris Agreement Version 2of 26 June 16:45:00 hrs

Level II: Bilateral agreements between Members to the PA

Even if an international set of rules might prove to be too difficult to be achieved swiftly, bilateral agreements between investing countries and project activity host countries can be adopted, which would set the formal frame, accounting for double counting, in which private actors could then implement voluntary projects. This option is also ignored entirely by the working group statement. Bilateral agreements represent the second-best solution for the implementation of voluntary emission reduction projects after 2020 in case no solutions can be reached on level I above.

Level III: Financial support claims

Whereas level I and II allow for carbon offsets to take place in an environmental sound way (by means of corresponding adjustments and additionality checks), level III is only the third-best option for the voluntary market after 2020. Evidently, level III and the financial support claims can be done without approval of host countries and any decision within the PA framework. This appears to be one of the driving motivations of the working group. However, this comes at a cost: Too many projects of the voluntary carbon market have, in the past, been carried out without the consent of the host country, and proven detrimental to the climate and local population. Furthermore, it cannot be ruled out, that buyers of financial support claims label them in their communication as carbon offset, which danger the working group does not even identify. Any potential financial claim must therefore include a clear negative statement that the achieved emission reductions do not amount to carbon offsets and cannot be used to compensate emissions. All projects shall undergo a transparent validation and verification process by an independent and UN-accredited entity which is liable for their statements. A negative list for non-additional projects should be established. The working group statement falls short in including these relevant safeguarding principles for a voluntary carbon market after 2020.

2 Main Comments

Double counting under the PA, linkage between voluntary and compliance markets

The voluntary carbon market has been closely related to the compliance market ever since. Voluntary climate action and regulation interact with each other. Core concepts are the same in both markets, e.g. the concept of additionality. These concepts develop over time and are integrated into both markets, sometimes at different speeds and to a different extent. Arrangements like the CDM methodologies are used in both markets and are yet another example of this prevalent linkage. Units like CERs are traded and used for compliance and voluntary purposes. CORSIA is another highly relevant system that connects the compliance and the voluntary market. How the design of CORSIA will look like and which offsets could be eligible for a new international compliance system for the aviation sector is currently under discussion. The discussion includes the possibility of using offsets generated under voluntary standards for CORSIA.

The working group falls short of taking account of the Article 6 PA provisions and their potential implementation in international rules. It appears that the working group sets its agenda in a way to avoid any interference of the voluntary market with the compliance mechanisms of the PA. As desirable as such a disconnection of the voluntary market with the future rulebook of the PA may appear to the working group and voluntary market players such as carbon standards, certification bodies, project developers etc., this would come at a cost of environmental integrity, both in terms of double counting and additionality, and is therefore not acceptable from an environmental perspective. Only under the PA rules can be defined to avoid double counting, because double counting goes with entries in national inventories, which are subject to national regulation under the NDCs.

Any climate projects implemented, financed or otherwise fostered by the voluntary market therefore need to be fully aligned with the provisions on double counting to be developed under the PA, otherwise they will inevitably lead to on ore another form of double counting, non-ambition raising or non-additionality.

To pursue its ends, the working group starts with shifting the focus away from compliance targets towards a “finance, emissions and time gap”. This arbitrary distinction, however, in the following leads to a questionable definition of financial claims as new units (see below).

Questionable definition of financial claims as new unit

The financial claim definition as presented on page 4 and 5 of the working group statement goes as follows:

> *“The voluntary purchase and retirement of a carbon credit post- 2020 may therefore represent the financing of an emission reduction rather than the ownership of it.”*

This would effectively bring about double claiming or lowering of ambitions. Take e.g. a company like Siemens, which may finance and build e.g. a wind park e.g. in India. Then, who would be eligible to claim the attached carbon reductions?

- ✓ If they were claimed by both parties (Siemens and India), it would be double claiming.
- ✓ If they were claimed by India as part of its NDC, and Siemens would only claim the finance of the NDC reductions, as proposed by the working group, then this may lead to less financing by India on carbon mitigation in the actual or subsequent NDC periods, hence an overall loss for CO_2-reduction and ambition.

Neither outcome is desirable from an environmental perspective. No further carbon emissions will be reduced. No extra money will flow into the mitigation of emissions. Without a proof of additionality of financing, no ambition raising can be achieved.

Corresponding adjustments needed

The objective must be corresponding adjustments of the carbon units. Only if the carbon units achieved by Siemens financing in the above example are reflected in the Indian inventory, and when corresponding adjustments are applied, the overall stringency of the Indian NDC remains unchanged. Even if a NDC makes its emissions reduction objectives contingent on foreign direct investments, as it is the case today in many instances, only corresponding adjustments bring about the transparency needed to assess the ambition of current and future NDC-commitments of a country. Only this creates a basis for the ambition raising required by the PA.

Additionality proofs needed for transparency and public participation

The concept of additionality must be revisited in light of the Paris Agreement. Experiences from the CDM and the VCM can be helpful to design additionality rules under the Paris Agreement. But also, an independent check of NDC´s ambition is necessary to avoid the transfer of "hot-air" under future international carbon markets.[2] If there is likely hot air, then an additionality check for voluntary market projects become an environmental safeguard. But even without hot air, mandatory additionality checks for voluntary projects provide the host country with crucial information, which could e.g. be taken up by the general public of the host country to voice concerns over questionable project proposals.

Insufficient financial support claims

At page 4 the working group statement suggests how a company claim could look like. This suggested claim looks similar to claims which companies use today to show that they compensate emissions. The suggested financial claim is hover missing a clear statement that Company X cannot use the carbon units financed for offsetting and that this financial claim does not amount to the compensation of emissions. Without these additions, the claim may be communicated misleadingly.

Other observations

Retaining the existing business and infrastructure of the voluntary carbon market appears to be the agenda of this paper. It is understandable that players of the voluntary carbon market would like to see with more certainty a "*way that is possible to retain much of the infrastructure*" as the working group statement concludes on page 4, but it is too early to set the rules for the VCM without knowing the results of the negotiations of Article 6 of the Paris Agreement. The delay in these negotiations and the "several contentious issues in this field"[3] cannot be an excuse to circumnavigate the rules of the international climate regime by proclaiming hypothetical rules for the VCM. The VCM should get engaged in the discussion around Article 6 and support the negotiation of a sound and ambitious set for rules leading to the objective of the Paris Agreement.

Furthermore, it is important to include the host country governments in the discussion and in the development process of emission reduction projects now and in the future. Projects must be announced in and coordinated within the host countries. The host countries must have the right to reject projects

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[2] Axel Michaelowa, Lukas Hermwille, Wolfgang Obergassel & Sonja Butzengeiger (2019) Additionality revisited: guarding the integrity of market mechanisms under the Paris Agreement, Climate Policy, DOI: 10.1080/14693062.2019.1628695

[3] Page 36: https://www.perspectives.cc/fileadmin/user_upload/Transition_pathways_for_the_CDM_2019.pdf

that can be dangerous for the country and its people. It is not acceptable that projects are implemented through the VCM without obtaining a letter of approval by the host country, as the working group statement suggests.

3 Detailed Comments on the Consultation Document

The working group document is cited in this chapter. The commented text sections are marked in yellow. Textboxes with comments and answeres from atmosfair are added.

ENVISIONINGTHE VOLUNTARYCARBON MARKETPOST-2020

A Working Group Statement for consultation on the future role and design of the voluntary carbon market to support the goals of the Paris Agreement

Introduction and background

The advent of the Paris Agreement prompted reflection on the role and design of the voluntary carbon market (VCM), specifically:

- How can the VCM optimally contribute to the net zero emissions goals of the Paris Agreement?
- How does the VCM interface with accounting under Articles 4 and 6 of the Paris Agreement and other compliance systems?
- How can organisations be incentivised to finance enhanced levels of climate action, including those beyond their corporate boundaries[4], and claim these contributions credibly?

With support from the German government, a Working Group[5] of civil society organisations, carbon market private sector actors, and standards bodies begins to answer these questions. The group puts forward a Statement herein for consultation. The Statement describes:

- A proposed role and design of the VCM from 1 January 2021 onwards, when the country

[4] I.e. outside an organisation's Scope 1, 2 and credible Scope 3 inventories, as defined by the Greenhouse Gas Protocol

[5] Gold Standard convened this group. Experts from the Gold Standard, Verra, ICROA, WWF, CDP, WRI, The Nature Conservancy, Carbon Market Watchcontributed, but we stress that this statementisfor consultationanddoes not represent the formal positions of the individual members of this group.The developmentof the statement was observed by World Bank.

commitments under the Paris Agreement (i.e., Nationally Determined Contributions or NDCs) officially go into effect;

- An updated characterisation of what a voluntary carbon credit represents;

- Foundational claims that can be made about the purchase and retirement of voluntary carbon credits to finance climate action beyond an organization's ownboundaries--the basis for additional guidance on other claims related to use of the credits that buyers could make, to be defined in future work by this Working Group);

- A position on double counting in context of the VCM, reflecting how this differs from the Kyoto era; and

- Further proposed work to create a more robust and clearer framework through which organisational-level claims can be incentivised and recognised. This will include a review of what could be appropriate and credible claims associated with the use of voluntary carbon credits, including "carbon neutrality" and "net zero" claims.

The Working Group seeks feedback on this position, per "Consultation feedback sought" section below. All feedback should be sent to owen.hewlett@goldstandard.org **by 03 July 2019;** feedback will be reviewed and published thereafter. The feedback will be used to refine the formal position of the Working Group and to inform Phase 2 of this work, focused on further guidance on target setting and claims related to the VCM.

Phase 1 deliverables

- ***A proposed role and design of the VCM from 1 January 2021 onwards***, when the country commitments under the Paris Agreement (i.e., Nationally Determined Contributions or NDCs) officially go into effect;
- ***An updated characterisation of what a voluntary carbon credit represents***;
- ***Foundational claims*** that can be made about the purchase and retirement of voluntary carbon credits ***to finance climate action beyond their own boundaries***;
- ***A position on double counting*** in context of the VCM, reflecting how this differs from the Kyoto era.

Phase 2 deliverables

- ***Review of what could be appropriate and credible claims associated with the use of voluntary carbon credits***, including “carbon neutrality” and “net zero” claims.
- ***Other recommendations as needed*** to create a clearer framework for organizational-leve claims to be incentivised and recognized.

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Working Group Statement on the future role and design of the voluntary carbon market to support the goals of the Paris Agreement [for consultation]

The role and value of the voluntary carbon market in the Paris Agreement

The Working Group stresses that organisations should first reduce internal emissions in line with science (i.e. a Science Based Targets Initiative 1.5C degree trajectory or in line with further guidance from the initiative), which is reflected in the net zero ambition of the Paris Agreement. The Working Group also recognises that the voluntary carbon market (VCM) has the potential to provide a complimentary contribution towards the net zero goals of the Paris Agreement by being a vehicle for organisations to finance emissions reductions outside their organisational boundaries. Yet it must be designed to reflect relevant structural differences between Paris Agreement and the Kyoto Protocol.

First, the Kyoto Protocol had limited coverage, introducing commitments for only 37 countries emissions in the second period. Secondly, the Kyoto Protocol had a far lesser ambition—aiming only for an 18% reduction compared to 1990 levels. Thus, the VCM in the Kyoto era operated as a mechanism to unlock voluntary climate action beyond countries' commitments. This therefore required rules to avoid voluntary carbon credits counting toward compliance commitments, or 'double counting'[6].

In contrast, coverage of the Paris Agreement is global and its ambition introduces global net zero targets (i.e., the balancing of emissions with sinks, in line with science, by 2050 at the latest). However, NDCs currently fall short of this net zero ambition, and even commitments made through the NDCs are not fully financed. Furthermore, there is an urgent need for near-term action to begin bending the emissions curve quickly and avoid locking in carbon-intensive technologies, particularly in developing countries.

Achieving net zero by 2050 therefore requires filling 1) the **emissions gap** (theestimated amount of emissions that the current NDCs are deviating from what climate science requires), 2) the **finance gap** (the amount of financial capital required to meet and exceed the current NDCs), and 3) the **time gap** that prioritises climate action taken sooner versus later.

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

Comment atmosfair: An artificial distinction between "going beyond compliance targets" and "emission, finance and time gap" is built up here.

Practically, this includes:

- Financing actions beyond organisational boundaries that lead to a reduction in the concentration of greenhouse gases in the atmosphere in a way that is real, additional, verifiable, and permanent.

- Targeting actions (such as emerging technologies) that raise ambition and accelerate the transition towards the goal of net zero emissions.

[6] For example, through cancellation of allowances prior to issuance of voluntary credits.

What voluntary purchases and retirements of carbon credits represent post-2020

Comment atmosfair: Negotiations about the rules regarding Article 6 are ongoing. It is still possible to achieve full alignment between future voluntary and compliance markets, which would be the best solution from an environmental perspective.

Post-2020, organisations and individuals may make voluntary contributions to the net zero goals of the Paris Agreement by financing emission reductions through the purchase and retirement of carbon credits. This will not necessarily imply the ownership of the emission reductions as those will likely be included in the host country inventory and owned by the host country government. The voluntary purchase and retirement of a carbon credit post- 2020 may therefore represent the **financing** of an emission reduction rather than the **ownership** of it.

Comment atmosfair: The financial claim as presented here leads potentially to lowering of ambitions and/or double claiming. This definition of "voluntary purchase" tilts the agenda from emissions reductions to finance but does not solve the problem of double counting and additionality. See general comments for more elaboration and a concrete example.

Thus, the financial claim is not the best option as presented here by the working group.

Foundational, best practice claims about carbon credits post-2020

As best practice, an organisation or individual could make the following foundational claims about the voluntary purchase and retirement of carbon credits. (The sections in parentheses are relevant only to organisations):

Company X has purchased and retired YY carbon credits through the voluntary carbon market and has thus financed the reduction of YY tons of CO2e [outside its organisational boundaries], thereby reducing the concentration of greenhouse gases in the atmosphere in a way that is real, additional, verifiable, and permanent. This represents a tangible contribution to the goals of the Paris Agreement.

-OR (more simply)-

Company X has purchased and retired YY carbon credits through the voluntary carbon market and has thus financed the reduction of YY tons of CO2e [outside its organisational boundaries], representing a tangible contribution to the goals of the Paris Agreement.

Comment atmosfair: A clear negative statement is missing here that Company X cannot use the retired carbon units for offsetting and that this purchase or finance does not amount to offsetting

In this way it is possible to retain much of the infrastructure of the VCM (unit issuance and serialisation, registry of units, transfers and retirements) and leverage its strengths as a way to channel finance to projects that reduce emissions, while adjusting the claim of the retiring organisation to reflect the new era of the Paris Agreement.

Comment atmosfair: Retaining the existing business and infrastructure appears to be one of the main drivers of this paper.

Implications for double counting

During the Kyoto era, the VCM addressed emissions reductions that were beyond compliance targets. Practically, this meant that units could only be issued from countries without a compliance target or with a corresponding cancellation/retirement of allowances in countries with a target.

National greenhouse gas inventories as reported to the UN do not account for the voluntary use of market-based instruments to compensate for national emissions. Countries that host emission reduction projects will be able to report lower actual emissions in their national inventory that is reported to the UN. Therefore, assuming no further agreement between countries, emission reduction activities delivered through the voluntary purchase and retirement of carbon credits should be counted only once—by the country that hosts the emission reduction project that gave rise to the carbon credits.

Comment atmosfair: Why then are there carbon credits needed? If reductions are only counted once and not traded, there is no need to issue or otherwise distinct "emissions credits" from other emissions reductions captured in the inventory.

Because the proposed statement represents a claim to have financed a contribution towards the Paris Agreement (not one that is beyond compliance targets as in the Kyoto era), this is not considered to represent double counting of emission reductions. Rather, the emissions reduction impact is reported by the host country in the national inventory, and the retiring organisation can claim to have financed the reduction and to have contributed to goals of the Paris Agreement.

Comment atmosfair: No. The financial statement amounts to double counting if financial additionality is not proven. Instead of double counting emissions we have double counting of financial efforts. The mechanism remains however the same: A host country should reach its NDC targets without foreign finance, or it should reinforce its emissions reduction objectives when foreign finance is available. Hence, a plus in finance should always translate in a plus of carbon reductions, which is not the case with the above proposed finance claim of the working group. Hence, the proposal of the working group still leads to some form of double counting.

It is, therefore, not proposed to require VCM projects to seek letters of approval (LOAs) or corresponding adjustments (CAs), as no redress is required in this scenario.[7]

Comment atmosfair: It is important that projects are reported, approved by and coordinated with the host country. The host country must have the right to reject projects that can be detrimental for the country and its development.

In all cases, however, international independent standards must safeguard against double counting (including double issuance or double use, which are not discussed in this document).

Summary & Conclusions

The global coverage and net zero ambition of the Paris Agreement prompt changes to the role and design of the VCM, positioning it as a tool to address the emissions gap, the finance gap and the time gap.

Key implications of this Statement include:

- A shift from an instrument to go beyond compliance commitments to an instrument allowing voluntary carbon credit buyers to finance climate action beyond their boundaries to accelerate the global transition to net zero emissions. Because of this difference, projects would not require Letters of Approval or Corresponding Adjustments for purely voluntary action.

- A need for development of further guidance on target setting and claims, endorsed by key civil society actors and integrated with other relevant initiatives or protocols.

In this context and leading into further developments, the Working Group acknowledges that that while the financing claim is available for any organisation or individual to use, for the position outlined in this Statement to be valid, organisations should reduce internal emissions in line with science (i.e. a Science Based Targets Initiative 1.5C degree trajectory or in line with further guidance from the initiative), which is reflected in the net zero ambition of the Paris Agreement. Without this, the retiring/purchasing organisation could not credibly

[7] Any claims associated with compliance targets, for example airlines seeking to use the VCM towards ICAO CORSIA offsetting obligations would require LOA and CA. Similarly, a voluntary actor that opts to follow a compliance target pathway under Article 6, which should not be prevented by voluntary standards bodies nor the Parties to the Paris Agreement, would also require a LOA and CA

claim to be on a "net zero pathway". Financing beyond boundaries without reducing sufficiently within boundaries will not lead to a global balance of emissions and sinks, ie, achieve the goals of the Paris Agreement. Rather, this requires all organisations to balance internal emissions and sinks in line with science within the required timeframe.

It is recognised that other uses of the claims may be applicable--for example, for individual users addressing their personal climate footprint, for events and products; and for small and medium size enterprises (SMEs).

Further work

This paper sets out the overarching position of the Working Group towards aligning the VCM with the goals of the Paris Agreement and increasing the incentives for organisations and individuals to finance change. In Phase 2, this work this will be further developed to provide a framework of guidance that further defines preconditions for legitimacy like target setting, credible claims, and best practices for financing beyond boundaries.

It is noted that this may have implications on the use of claims commonly made by buyers in the VCM, including but not limited to "carbon neutrality" and "net zero" claims. Phase 2 work may include recommendations for a "dual target" – one for reducing emissions within organisational boundaries in line with science; the second for financing beyond boundaries. (See 'Consultation feedback sought' for more details.)

The Working Group will focus on these issues in greater detail in Phase 2, setting out a framework through which the VCM can be an instrument that organisations and individuals can use to be recognised for their contribution to the goals of the Paris Agreement. This may ultimately take the form of guidance or a reporting protocol that works within or alongside other industry reporting protocols, with the endorsement of key civil society partners.

Consultation feedback sought

While general comments are welcomed, feedback on the following areas is specifically sought to inform the Working Group. Submissions should be made via email to owen.hewlett@goldstandard.org, no later than 03 July 2019:

1. Do you agree that the introduction of the Paris Agreement and global net zero goals changes the role of the VCM?

Answer: No. See comments above.

2. Does the description of 'financing beyond' boundaries to accelerate the transition to net zero emissions as opposed to going beyond compliance adequately deal with this shift?

Answer: No. It is important to look first for international solutions to purchase and retire carbon units safeguarding environmental and social integrity. Financial claims are only the third-best solution. See comments above.

3. Do you agree with how this statement addresses double counting issues? What other issues do you foresee with this approach?

Answer: No. See comments above.

4. Do you agree that organisations should focus on reductions within boundaries and financing beyond boundaries to accelerate the global transition to net zero emissions? Does having two separate targets make sense (reducing within boundaries / financing beyond boundaries)?

Answer: No. Question is put forward with an inappropriate spin.

5. In support the development of a new guidance/framework in Phase 2:

a) What should best practice guidance be for beginning to finance emission

Comment: Financial claims are not the first best option.

reductions beyond boundaries? For example:
   a. Having committed to develop a Science Based Target?
   b. Having adopted a Science Based Target?
   c. Meeting Science Based Targets obligations on a milestone/journey basis?

b) Are there other ways to design the new guidance/framework to ensure that organisations follow a "mitigation hierarchy"—i.e. are appropriately prioritising internal reductions first?

Yes. If international rules account for double counting e.g. by corresponding adjustments, internal reductions will automatically be prioritised.

c) What targets for financing climate action beyond boundaries should a company have – for example an equivalence to residual emissions (full Scope 1-3 footprint) or another metric?

Answer: See above. Financial claims are not the best option.

d) What claims are appropriate for when the target is achieved – for example "carbon neutrality," or "net zero"? Or is it better to simply demonstrate clear accounting for emissions vs financed emission reductions/removals and to avoid a high-level claim?

Answer: No. High-level claim is the adequate solution.

e) What instruments (for example VCM) should be used and what types of actions should be encouraged and targeted (i.e., additionality, targeting ‘high hanging fruit’ project-types)?

f) How should non-organisational use of the VCM be dealt with? For example, events, one person’s climate footprint, etc.?

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4 Literature

https://www.goldstandard.org/sites/default/files/documents/2019_06_envisioning_the_vcm_statement_consultation_0.pdf

Axel Michaelowa, Lukas Hermwille, Wolfgang Obergassel & Sonja Butzengeiger (2019) Additionality revisited: guarding the integrity of market mechanisms under the Paris Agreement, Climate Policy, DOI: 10.1080/14693062.2019.1628695

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