PROJECT DEVELOPER FORUM
Credible Climate Action.

Project Developer Forum Ltd.
First Floor, Waterside House
Waterside Drive, Wigan, England, WN3 5AZ
Europe: +49 171 279 8223
office@pd-forum.net
www.pd-forum.net

Science Based Target Initiative

CHAIRPERSON:
Sven Kolmetz
sven.kolmetz@pd-forum.net

CO VICE CHAIRPERSONS:
Philipp Hauser
Philipp.HAUSER@pd-forum.net
Christiaan Vrolijk
christiaanvrolijk@gmail.com

Director
Rachel Child
Rachel.child@pd-forum.net

To	info@sciencebasedtargets.org
From	sven.kolmetz@pd-forum.net
Date	03 Mar 2021
Page	1/6
Subject	**Public Comment on Net zero corporate standard**
Classification:	Not confidential – this letter will be distributed to interested parties and published online

Dear SBTI Staff,

We would like to thank you for the opportunity to provide feedback on the draft net zero corporate standard.

The Project Developer Forum (PD Forum) is a collaborative association and collective voice of companies and practitioners that are developing and financing greenhouse gas (GHG) mitigation activities worldwide. Our members work on a global scale and evaluate opportunities to deploy climate financing and carbon market instruments to accelerate investments for GHG mitigation, climate resilience and sustainable development. Our members have been major users and supporters of both voluntary and UNFCCC carbon standards for the last two decades. From the perspective of practitioners, the PD Forum offers workable, pragmatic and practical solutions developed by member companies and individuals who have the knowledge and experience to develop financially viable, replicable and transformative mitigation.

We would like to commend the SBTi on your efforts to consult and discuss the future of the net zero carbon market, and build momentum of increased ambition for the market. During these years, the understanding of all stakeholders in the voluntary carbon market (VCM), including PD Forum members, has evolved, naturally so, from the time of the COP in Paris to the start of the Paris Agreement era.

We would like to focus our comments on the newly proposed policies in your standard, as this is an area where your thinking is diverging from ours.

1) The target-setting entity must demonstrate that mechanisms are in place to ensure that a uniquely identified unit of carbon removal exclusively neutralises another unique source of emissions. For example, a carbon removal “credit” must only be retired once and corresponding adjustments (CA) are required for the credit seller’s own inventory (NZ-C27.3).

Flagging Corresponding Adjustments in the standard

- We believe that the corresponding adjustments as mentioned in NZ-C27.3 are referring to the project owner, who cannot claim carbon neutrality for their own premises when the emission reductions/removals are sold. This is a matter of course and agreed. If we understand correctly, the term “corresponding adjustments” in NZ-C27.3 does not refer to the same term in the Paris Agreement and we recommend changing the same to avoid misunderstandings. We suggest e.g. using a different term like a “declaration of the actual emissions” that shows the number of emission reductions sold externally.
- We agree that post-2020, any carbon standard (via a registry) should transparently indicate whether any emission reduction or removal includes a Corresponding Adjustment (CA), or not, as this is essential for any standards that hope to feed into CORSIA or the national compliance markets.
- We believe that the SBTi should allow for the user to elect whether to apply the CA, or not, upon retirement.
- However, as the Paris Rulebook is not yet agreed, we believe it is premature to fix any of the details, make it obligatory, or in fact expect it to be possible to make a corresponding adjustment for many years yet.

Project Developer Forum Ltd.
First Floor, Waterside House
Waterside Drive, Wigan, England, WN3 5AZ
Europe: +49 171 279 8223
office@pd-forum.net
www.pd-forum.net

- We are quite sure that it will be highly unlikely that many (host) countries are able to apply a CA long before 2030, if at all.

Compliance markets need CA, voluntary use does not

- We fundamentally disagree with the concept that CA is necessary – or even desirable – in the voluntary market. We believe it both muddies the water of inventory accounting under the UNFCCC and undermines one of the principle value drivers of voluntary action.
- All corporate emissions and reductions are "double counted" by the countries they operate in. Country inventories are made up of emissions from households and businesses in that country. Hence, corporates who participate in mandatory emissions trading schemes (ETS), implemented by a Party under its nationally determined contribution (NDC), are required to use CA for the purpose of that Party's reporting to the United Nations (UN). Accordingly, any emission reduction/removal eligible under such ETS would have to include a CA.
- Additionally, corporate GHG footprints and offsetting includes not just scope 1 (direct emissions) but also scopes 2 and 3, which are indirect emissions. In fact, scope 2 and 3 emissions are the scope 1 emissions of another entity entirely. Therefore, the concept of double counting, and therefore CA, needs to be addressed differently. CAs exist to ensure emissions (reductions) are reported once at the UN level, which includes Parties under the UNFCCC, aviation under CORSIA and international shipping which may be addressed by IMO in the future – these latter two sector emissions are explicitly excluded from national accounts under the UNFCCC rules. Therefore, CA are essential when used for reporting to the UN by another Party or aviation/shipping sector but should not be applied in other cases to avoid accounting errors.

Quality in the Paris Agreement regime

- It is important to acknowledge that the Paris Agreement is not a compliance regime. Parties pledge certain commitments on a voluntary basis. They submit their NDCs and update them as required. However, neither the commitments nor submissions, nor indeed the achievement of any commitments, is subject to compliance. Parties are encouraged to update their NDC to ratchet up their commitments, but they may equally change their commitments, alter the sectoral coverage etc. The structure of the Paris Agreement commitments for Parties is entirely different from the working of a compliance (carbon) market, such as the European Union's ETS, or the VCM. We caution against trying to equate a Party's commitment under the Paris Agreement with an ex-post, verified metric tonne of CO_2 reduced from a registered, additional emission reduction project.
- The quality of the global regime can be split into 4 almost-independent parts. The quality of each of these should be addressed in their own right: (1) the over-arching Paris Agreement/global framework; (2) each individual Party's commitments (NDCs and policies and regulations); (3) the individual (ex-post verified) emission reduction; and (4) action by individuals/organisations/corporates. We must aim to increase the quality of each of these elements in their own timelines, rather than wait until the perfect all-round system is designed. The UNFCCC negotiations are the place to address the global framework. Each country has a responsibility to address their own commitments. The VCM has focussed on – and delivered – real, additional emission reductions. And various reporting frameworks, such as for example, CDP, the GHG Protocol and the CarbonNeutral Protocol, have focussed on the quality of individual actions. No matter how good the quality of one part, it does not compensate for the lack of quality of the other three parts.
- The VCM in no way replaces or displaces action needed by Parties, nor threatens the Paris markets: the VCM is an order of magnitude smaller than the reductions required under Paris Agreement. The VCM should not be used to drive the changes needed for the Paris Agreement, or the Paris Mechanisms, and is not a pilot phase for Paris. Indeed, the VCM has thrived precisely because: (1) there is a very limited link – the VCM has not had to wait for the conclusion of Parties' slow and bureaucratic dealings; and (2) Parties have failed to take their responsibility to action, where VCM participants have done so instead.
- The voluntary actions taken by corporates and individuals in the VCM are not aggregated up to the levels of their domicile, or wherever they are headquartered. Rather, voluntary actions account for where the action takes place. Voluntary corporate action is often taken despite the fact that their country doesn't do nearly enough. Corporates report a global footprint, for all their operations, across borders, and global scope 3 emissions. Many corporates offset the footprint with an equally global portfolio of emission

Project Developer Forum Ltd.
First Floor, Waterside House
Waterside Drive, Wigan, England, WN3 5AZ
Europe: +49 171 279 8223
office@pd-forum.net
www.pd-forum.net

reductions (and/or removals). Indeed, many participants aim to spread their offset portfolio geographically in a similar way to their footprint.

- The commitment from players in the VCM is an order of magnitude greater than that of the Parties: most commit to neutrality, not a small percentage reduction from the business as usual. Unlike UNFCCC Parties who only take responsibility only for their own "scope 1" emissions, VCM participants account for scope 2 and 3 too. Note that for many VCM participants, scope 1 is often only about 10% of their footprint! They account for the emissions of their utility provider meaning that they account for emissions in their supply chain – no country does that.

Claims and value

- The PD Forum is of the opinion that the position of the practitioners in this market has not been very well presented, despite all the discussions over the last few years. The VCM industry has been delivering corporate action over more than 20 years, delivering carbon neutrality, far exceeding any action mandated by governments over that time (or as determined by any "science-based" trajectories). Even the most ambitious formal targets do not deliver neutrality today but only by 2050. The VCM continued to deliver even when governments failed to act, for example when Kyoto was rejected, when negotiations failed, and when the US pulled out of the Paris Agreement. The VCM has been able to deliver without being mandated by government, but by corporate leaders taking responsibility for their climate impacts and acting accordingly, filling the void that governments left. The VCM will be hindered by putting barriers in place that discourage taking responsibility, that allow laggards to hide. Research has shown that VCM participants outperform their peers in terms of sustainability, showing that reductions are made in-house before offsets purchased.
- For decades now, the VCM has relied on quality carbon standards that define additionality and baselines in complex and ever-changing regulatory settings. The Paris Agreement does not change this fundamentally – while we should see an increase in regulatory activity from all countries, they are still falling far short. The VCM will continue to rely on standards that are able to assess and certify projects in this manner, whatever the host country or UN policies, and whether or not Parties comply with their commitments. The VCM is unlikely to accept a standard that is unable to determine additionality and baseline independently. Accordingly, the VCM is unlikely to rely on the host country 'say-so' of independently determined additionality and baselines through the use of CA.
- The VCM is key component of the global framework(s), meant to capture all emissions globally, from all sectors, all gases. Global emissions should "add up", at all times. All emissions reported at the UN level (Parties and sectors that are excluded from national inventories/commitments, such as aviation and maritime) should add up to the global emission levels, and it must be ensured they are not double counted/reported at the global level. Emissions/reductions should not "disappear" from the equation but should be reported.
- A CA is an accounting tool, determining which Party may report the underlying emission reduction/removal to the UNFCCC. CAs allow Parties and sectors to work together to achieve their commitments together, taking greater action here to make up for shortfalls. Without CA, no international co-operation could count towards Parties' commitments. Indeed, for compliance purposes, the CA is the most important measure as it determines which Party may report emission reductions/removals, and where the underlying activity that created the reductions/removals, including its additionality, are irrelevant. This is similar to AAU trading under Kyoto.
- However, for the VCM, the underlying activity is the most important measure, particularly the baseline and additionality. Further, the Party that reports emission reductions/removals in the VCM is not relevant. At no point do emission reductions for the VCM need to be exported out of the host country. Indeed, in many cases, VCM participants will offset where much of their supply chain emissions are. The emission reductions/removals are not exported for UNFCCC reporting purposes, and therefore no CA is required. Indeed, a CA would muddy the international accounting. The VCM explicitly needs the benefits (emission reductions/removals) and co-benefits to fall to the local communities, and not the tax domicile of their headquarters. A CA would likely destroy value to VCM participants.
- Many VCM players have a strong desire for additional benefits (co-benefits) from the offsets to be delivered to the communities where their projects happen, which are often in their supply chains or where their customer base is. Any negative effects on these communities, which could for example come from more restrictive NDCs that could be the result of CA, would therefore be counter-productive to buyers.

PROJECT DEVELOPER FORUM
Credible Climate Action.

Project Developer Forum Ltd.
First Floor, Waterside House
Waterside Drive, Wigan, England, WN3 5AZ
Europe: +49 171 279 8223
office@pd-forum.net
www.pd-forum.net

A simple example

If a US corporate reduces its footprint to zero by using only solar for electricity, biomass for heat, and planting trees for anything else, you don't ask whether the biomass came from its own forest, or the solar panels were manufactured by the company itself, or the trees planted on its own land, before accepting its footprint and the company's carbon neutrality. You accept that the corporate's choice to use solar power helps the utility provider to reduce emissions, as well as the country (even if the power might be imported from a neighbouring country). You accept that the biomass is a renewable fuel, even if supplied by another company or is imported. You also accept that the trees have removed the GHGs otherwise emitted, regardless of whether they have been planted in the corporate's own forest, someone else's forest, or even if the forest were planted in another country. You accept that the US company has reduced its footprint and is carbon neutral. At no point would anyone ask the US to make a CA for this corporate's offsetting actions, regardless of whether these actions are voluntary or regulated. In such a case, the US would need to identify the corporates that do apply CAs and would need to determine which emission scopes (i.e. scopes 1, 2 or 3) the CAs were applied to. Furthermore, the US would need to identify whether two corporates may be offsetting the same emissions.

Technicalities

Further to our position that indicating that we fundamentally disagree with the demand of a CA for the VCM as explained above, there are also numerous barriers that cannot be overcome by the VCM itself. These barriers but must be addressed by each of the other "qualities" discussed above. For example:

- The Paris rulebook has not yet been agreed, which means that many of the technicalities of how to apply a CA are not yet decided. Therefore, host countries simply cannot apply CAs yet.
- What is a CA without an underlying NDC? The vast majority of Parties to the Paris Agreement have not yet defined the NDCs in much details, nor do they have policies and regulations in place to meet any such commitments. Even with a fully defined NDC, there is no guarantee a Party will meet the target.
- What is a CA "worth" if a Party misses their target? The Paris Agreement is not a compliance regime with agreed targets. NDCs are voluntary pledges by Parties, with no penalties for missing them. Further, NDC pledges may be changed on a regular basis, presumably with the intention of increasing ambition, however there is nothing to stop the pledges becoming weaker. Therefore at best, a CA is an 'IOU' against a moving target that may be missed without consequences.
- NDCs may be for single or multiple years, and almost none covers every year. What is a CA from a year without target/commitment?
- We understand that a CA may be applied in [2-yearly] reports by Parties to the UNFCCC. However, such reports are only made in the (far) future, as no rules are agreed yet. What is a CA in the interim? What happens when a country fails to include the CA in their report? If an emission reduction/removal were only valid with a CA, then it's validity must be dependent on that report and the Party's compliance.
- The reason – albeit unstated – for the need for the CA, in the consultation document, is that the host country is may act in bad faith and either relax its policies or sell the excess reductions. This thinking is flawed.
- Government policies and measures to reach their commitments in the NDCs cannot and will not be switched on and off instantly. If the host country was intending to meet it's NDC, it will overachieve as a result of the VCM activities.
- If a government acts in bad faith and tries to sell the overachievement, the buyer (country) is complicit in such bad faith as the underlying international transferred mitigation outcome (ITMO) must be the voluntary action. It is the same purchasing country government that needs to be trusted to do a CA.
- An emission reduction/removal credit is an ex-post, independently verified emission reduction achieved against a pre-agreed baseline. An emission reduction/removal credit must be proved to be additional, compared to what would have happened in the business as usual scenario, and determined following internationally agreed methodologies. The baselines and additionality used in project-based accounting under the carbon standards are based on the realities of the actual policies and regulations in place, not lofty ambitions in a report. As the baseline and additionality are checked before registration of any project or programme, carbon standards determine that each emission reduction/removal would not have happened without the incentive provided by registration with the standard, regardless of whether an NDC

Project Developer Forum Ltd.
First Floor, Waterside House
Waterside Drive, Wigan, England, WN3 5AZ
Europe: +49 171 279 8223
office@pd-forum.net
www.pd-forum.net

pledge is articulated or not. The reductions achieved in the VCM are therefore additional to any that 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 reach the NDC.

- VCM has no control over the action by the 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 the VCM project. However, even if Party were to sell the CA to someone else, it would still not be double counted to the UNFCCC, therefore posing no actual problem.
- VCM cannot be held responsible today for potential future non-compliance 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 remission reductions/removals would not have happened
- The VCM must assume that host Parties that engage with the Paris Agreement, and with projects, do so in good faith, fully intending to meet their NDCs and develop policies and regulations to do so.

Conclusion

The voluntary market has different purposes compared to compliance markets and can supplement international ambition. In our opinion, CAs for the VCM are unnecessary as the emission reductions from voluntary action are only reported by the host country in its national inventory. It is not relevant whether the emission reductions/removals and the footprint being offset are in the same country.

For example, if a company invests in a mitigation project in a host country, the company may claim this investment for the company inventory, assuming appropriate additionality tests have been made and verified. The company may claim the same if it invests in its own country: an investment in a domestic solar power plant in a different country should not be treated differently from an investment in an additional solar power plant in a host country. The domestic investment leads to a 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 no double accounting of the same investment in both countries, on country inventory level, there is no damage to the environmental integrity of Article 6. Furthermore, the investment contributes to achieving national targets and may trigger further investments, ambition and/or technology penetration. To avoid double claiming, each corporate investment would need a CA in the respective national inventory: in the host country for foreign investment and in the investor country for the domestic investment. It is obvious that such adjustments would be a bureaucratic nightmare and politically impossible. Moreover, CAs derived from voluntary action would suddenly lead to imbalances in the Paris accounting caused by voluntary, private climate action.

2) Neutralisation of direct emissions: Companies shall neutralise unabated direct emissions (scope 1) with direct **removals** (scope 1) or **removals** that have been acquired using contractual instruments. In both cases, removals shall fulfill the eligibility, quality and sustainability criteria specified in this section (NZ-C24).

While we don't disagree that - if Paris is a success - there will be no 'easy' avoidance/reduction available by 2050 and emission removals may then be necessary. However, emission reductions/avoidance remain critical as the underlying activities often have greater co-benefits, do not suffer from permanence issues and are equivalent from a climate perspective. In our opinion, we need immediate action: reductions today, not lofty removal targets for 2050.

Furthermore, emission removals still suffer from lots of unknowns and uncertainties. While we may need them, some underlying actions are highly experimental and bound to have many failures. The side effects of some of the removal activities are as yet unknown. There are very few - if any - co-benefits of removals beyond forestry, soil and peat projects. We will create much better cost-effectiveness, and thus increased positive climate impact, if we focus on market-ready solutions.

We think maybe there is also a practical point about the use of emission removal credits. There is likely to be a demand for them in the short term, as technical CO_2 removal projects are rarely implemented and biological

Project Developer Forum Ltd.
First Floor, Waterside House
Waterside Drive, Wigan, England, WN3 5AZ
Europe: +49 171 279 8223
office@pd-forum.net
www.pd-forum.net

removal projects take some time to develop. Project developers may be reluctant to start developing these projects until there is more certainty around price and demand. Hence, there is a role for mitigation, i.e. removal, credits in the short term with a gradual shift to removal emissions in the longer term, as supply ramps up and issues around permanence are resolved.

Furthermore, we disagree with NZ-C27.1, which requires companies to ensure that the storage duration of their carbon removal activities are commensurate with the atmospheric lifetime(s) of the gas(es) being compensated. This does not match with current carbon accounting, which is based on 100-year Global Warming Potentials (GWPs) and therefore 100-year permanence requirements. This will inevitably require technological removals, instead of biological removals, which are more critical and where long term permanence has yet to be ascertained.

Conclusion

Additional mitigation projects and emission reductions are still needed and can have material, positive climate impacts. The resulting emission reductions can materially drive ambition by facilitating the outlays of interim carbon finance, that will allow vulnerable developing countries to build up new mitigation strategies while new technologies penetrate in immature markets.

The PD Forum and its members are looking forward to your updated draft standard and opportunity to discuss this further.

Yours sincerely,

Dr. Sven Kolmetz
Chairman, Project Developer Forum