PROJECT DEVELOPER FORUM

Credible Climate Action.

Position for the Voluntary Market under the Paris Agreement

What needs to be kept – what needs to be changed

A position paper brought to you by The Project Developer Forum

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Executive Summary

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) emissions reduction and removals projects in all regions of the globe. PD Forum members are comprised of organizations and individuals who bring valuable experience and expertise in this domain and have always been vocal advocates of new and innovative approaches to reduce GHG emissions and increase GHG removals, both natural and technological.

In this paper we elaborate our position regarding the future of voluntary markets as new rules and regulations are appearing in the compliance market (Paris Agreement and the modalities and procedures for the Article 6.4 mechanism), as well as the voluntary standards and markets (e.g. Verra and Gold Standard) and other compliance schemes such as CORSIA[1].

The conclusions of the paper are:

- Voluntary and compliance markets should be kept separate and not mixed. As long as there are no governments involved in the exchange/trade of carbon credits, no double counting occurs, and no corresponding adjustments are required. We suggest a distinction between an organisational and a territorial approach.
- There should be no contradiction between GHG emissions reduction and removals enhancement projects. While we understand that long term removal projects may dominate the market, we see an urgent need for short term GHG emissions reduction and avoidance to prevent a lock-in of heavily polluting fossil fuels to cover the rising energy demand of rapidly developing countries.
- High quality is key for the acceptance of carbon credits as offsets. The PD Forum advocates for high level standards and criteria that need to be applied to guarantee real, measurable and additional offsetting.
- Nationally Determined Contributions (NDCs)[2] should not be seen as a barrier to voluntary projects. The principles of baseline and additionality should help to determine if voluntary projects are eligible under an NDC.

Our Approach

This paper is the result of collaborative work by members of the PD Forum. We collected ideas and concepts from inside and outside our community to find a common position regarding the future of the carbon market. We think this paper is comprehensive and sheds light on all aspects of a functioning voluntary market.

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[1] Carbon Offsetting and Reduction Scheme for International Aviation. https://www.icao.int/environmental-protection/CORSIA/Pages/default.aspx

[2] https://unfccc.int/process-and-meetings/the-paris-agreement/nationally-determined-contributions-ndcs/nationally-determined-contributions-ndcs

Introduction

Interest in the voluntary carbon markets is growing as corporates and other non-governmental entities look to purchase carbon credits to offset their residual emissions in order to meet their net zero targets. Concerns about quality, price transparency and overlap with action included in NDCs have led to accusations of a 'wild west' frontier marketplace – and a plethora of initiatives, standards, methodologies and guidance (including the Oxford Principles, SBTi Net Zero guidance and the TSVCM[3]) to support corporate entities and other non-governmental organisations seeking to put in place a credible offset strategy.

The PD Forum does not wish to add to these – but rather present the view of developers of carbon projects – as further frameworks and principles are put in place to formalise the market. The PD Forum has a membership of over 40 developers of projects in emerging and developed markets. We have collectively decades of experience of developing and delivering carbon credits to meet a spectrum of standards from compliance (e.g., Clean Development Mechanism, CORSIA, South African Carbon tax) to voluntary (e.g. Verra, Gold Standard, Plan Vivo) markets. We bring a credible, 'from the coal face' perspective on some of the practical, on the ground issues that the market faces – and our suggestions on how these can be resolved.

We welcome the interest and dialogue on the evolvement of the Voluntary Carbon Market (VCM) in the run up to Glasgow – and look forward to ongoing discussions with stakeholders on how best to continue to achieve additional, real and permanent reductions in GHGs as the market scales – as well as additional sustainable development benefits to communities and countries across the globe.

Key Issue 1: GHG Removals verses Emissions Reduction / Avoidance

The PD Forum believes that there is a role for both emission reduction and emission removal offsetting. We understand that GHG removals have a crucial role in stabilising atmospheric carbon dioxide levels – and that, if emissions fall on Paris Agreement aligned trajectories, then there will be no 'easy' avoidance/reduction credits available in the future. Emission removals may then be the only form of carbon credit available.

But currently, we would highlight the importance that emission reduction/ avoidance projects have in the context of the Paris Agreement, which emphasised the importance of "*the specific needs and special situations of the least developed countries with regard to funding and transfer of technology*" and of "*making finance flows consistent with a pathway towards low greenhouse gas emissions and climate-resilient development*".

Carbon offsets based on reduced emissions (e.g. providing renewable energy based power generation rather than fossil fuel based energy) are one of the most established routes to providing finance for low carbon, climate resilient development in some of the most impoverished communities in the world – providing a direct route to support millions of people out of poverty.

[3] https://www.iif.com/tsvcm

The IEA recently reported that "*annual clean energy investment in emerging and developing economies needs to increase by more than seven times – from less than USD 150 billion last year to over $1 trillion by 2030 to put the world on track to reach net-zero emissions by 2050*"[4]. Carbon credit projects are an established, efficient route to channel private sector finance to emerging markets to support clean energy investment. And of course, it is much more efficient to avoid emissions now rather than have to remove them in the future.

Moving forward, a shift towards removal credits over time will enable corporates to further support Paris Agreement goals. But the market will need some time to meet this demand – removals projects take time to develop and clear price signals together with pricing mechanisms (such as forward contracts) will be needed to enable carbon credit project developers to start developing these projects to meet anticipated future demand. Further,

- In our experience, corporate offset purchasers are often seeking emissions reduction projects which also have clear co-benefits, such as poverty alleviation and/ or contribution to other SDGs. Geological storage projects will be unlikely to offer any contribution to sustainable development, beyond GHG removal. Further, supply of these credits is likely to be limited in the short term until legal, technical and environmental hurdles have been overcome.
- Biological storage projects (forestry, soil and peat projects) do potentially offer co-benefits but take time to develop – and need to be considered in the context of biodiversity protection, water stress and other competing issues for land – to avoid any unintended negative impacts.

Finally on a technical point, we note that some standards require 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 prioritise technological removals, rather than biological removals, where long term permanence has yet to be ascertained.

Conclusion

The PD Forum believes that reduction projects and emissions reduction carbon credits still have a role, at least in the short term, and can have material, positive climate impacts. The resulting emissions reduction can drive ambition by facilitating the deployment of carbon finance from the private sector, that will allow vulnerable developing and emerging markets to build up new mitigation strategies using new technologies, avoiding 'lock in' to carbon intensive infrastructure.

Alongside this, clear policy and price signals will enable the carbon credit project developer community to build up a portfolio of emission removal projects now to allow a shift from emissions avoided to emissions removals credits as the market evolves.

[4] https://www.iea.org/reports/financing-clean-energy-transitions-in-emerging-and-developing-economies

Key Issue 2: Corresponding Adjustments

Corresponding Adjustments (CA) are introduced by the Paris Agreement in Article 6.2. CAs are used to show the amount of emissions reduction that have been sold by one country to another country to make sure no tonne of carbon is counted twice. This means, if one country sells 1000 tCO_2e of carbon credits to another country for achieving its national targets, the donor country needs to account for this 1000 tCO_2e in his national inventory and reduce the same by increased action. The rules when CA apply are currently under negotiation. For voluntary markets no CA was foreseen, but due to the eligibility of voluntary carbon credits for some compliance markets (like CORSIA), some voluntary standards are mandating that CAs are attributed to their credits.

The PD Forum disagrees with the concept that CA are necessary – or even desirable – in the voluntary market and summarises its views as follows:

1) We believe it muddies the water of inventory accounting under the UNFCCC. All corporate emissions are counted by the countries they operate in. Country inventories are made up of emissions from cumulative emissions in each sector in that country. Hence, only corporates who participate in mandatory emissions trading schemes (ETS) or whose emissions (part or complete) come under that of a regulation (i.e., a compliance market), 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 often 3, which are indirect emissions. Therefore, the concept of double counting, and therefore CA, needs to be addressed differently. CAs exist to ensure net emissions (reduction) 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.

2) Uncertainties in the Paris Rulebook lead to practical issues. 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.
   - What is a CA without an underlying NDC? The vast majority of Parties to the Paris Agreement have not yet defined their NDCs in detail, nor do all 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 will be reported in biennial [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.

3) Equity Issues: perhaps most fundamentally, we are also concerned that many (host) countries will not be able to apply a CA long before 2030, if at all, without significant capacity building. If CAs were mandatory, this could have the impact of removing access to a significant stream of international climate finance to some of the countries most in need of it; reducing the number of GHG reduction projects implemented and overall reduce the volume of emission reductions achieved.

Conclusion & Proposed Solution

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.

But we disagree that CAs should be obligatory in the VCM. Rather, we believe that standards should allow for the user to elect whether to apply the CA, or not, upon retirement. Further, 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. We are also concerned that many (host) countries will not be able to apply a CA long before 2030, if at all, without significant capacity building.

We propose the introduction of the concepts of ***territorial climate neutrality*** (CN) and ***organisational climate neutrality***. Territorial CN refers to a country, covered by the Paris Agreement including ICAO and IMO and any subnational organisations that report their inventory to the according supernational level. Organisational CN refers to a corporate, product, service or event including direct and indirect emissions in the value chain where no reporting to a national or international organisations occur. Using this terminology, territorial CN needs CA, while organisational CN does not need CA.[5]

Key Issue 3: Quality of Credits and Ensuring Overall Mitigation

Questions are currently being raised about how overall mitigation can be ensured and, in particular, whether current methodologies are sufficiently conservative to guarantee an overall mitigation outcome or whether we also need to set aside a percentage of the generated credits.

[5] https://csr-news.net/news/2021/03/01/basiseintrag-klimaneutralitaet/

Alongside this, there has been much discussion around the quality of carbon credits available in the marketplace currently and the perceived lack of transparency around quality with a variety of Standards available.

As a first step, the PD Forum believes that maintaining the accuracy and conservativeness of the current methodologies in the existing standards should be ensured through, for example:

- ***Recognised Standards:*** PD Forum members have been developing projects under long-established, recognised and independent standards (such as Verra, Gold Standard, CDM, …) where additionality, permanence and volume are assessed (audited) by independent third parties, and where methodologies have been developed through a process of expert review and are regularly updated in light of changing baselines. We work on projects where the principles of ISO 14064:2 are followed in terms of, for example, accuracy, measurability, conservativeness, and using an evidence-based approach. In our view, purchasers of carbon credits that are verified to a recognised Standard (such as those endorsed by ICROA and approved by CORSIA[6]) that includes third party validation & verification can be confident that the credit they are purchasing is real, additional and permanent. Of course, we support further "Do no harm" principles such as SDVista or the SDG to make sure there are no adverse effects of GHG projects.
- ***Co-benefits:*** Many Standards also require monitoring and verification of associated co-benefits, in particular Sustainable Development Benefits (SD Benefits), either through provision within the Standard (e.g. Gold Standard) or using third party standards such as CCBS and SD VISta. Buyers wanting extra reassurance of the SD benefits of the credit they are purchasing can look out for projects that meet these additional standards. PD Forum promotes holistic development through carbon projects.
- ***New Standards:*** There are several new standards under development, sometimes driven for specific national or regional needs, or based on sectoral or technological expertise; however, while the PD Forum encourages, and is itself deeply committed to innovation, we would always recommend a careful consideration of the reputation and recognition of each standard and promote that the standards adhere to best practices and requirements for critical components such as baseline, additionality, safeguarding, etc. Many of the standards also verify the claimed co-benefits of projects.
- ***Vintages****:* Principally, early movers should not be punished as projects have been development and tested against additionality as per the rules applying at the time of registration. As carbon credits e.g. CERs are stored as a block chain buyers often cannot chose the vintage as the eldest unsold block needs to be sold first at least for the same monitoring period. Hence, if there is no registry that allows the buyer to choose the vintage deliberately a restriction of vintages is not appropriate and would discriminate projects with long monitoring periods. Especially, PoA or small-scale projects have specifically long monitoring periods to accumulate sufficient credits for the first issuance. This is a cost saving measure that many large-scale projects don't need as they can issue more volume in a shorter frequency. These technical restrictions should be kept in mind by standards / GHG programs before determining vintage restrictions.
- ***Baselines:*** The PD Forum supports initiatives to update baselines for the Paris era. For example, the PD Forum is aware of ongoing work in the determination of 'dynamic

[6] https://www.icao.int/environmental-protection/CORSIA/Pages/CORSIA-Emissions-Units.aspx

baselines' where baselines are updated on a regular basis through the crediting period to ensure that only emissions reduction / removals below a net zero aligned baseline are eligible. Considering the current technological advances and financial feasibility, such a system may be utilised for specific non-AFOLU projects such as those of Renewable Energy, energy efficiency, etc., where the parameters such as grid emission factor can be periodically updated based on credible data and/or evidence (although we are less sure such a scenario is possible in case of AFOLU projects such as those of Afforestation/Reforestation, improved forest management, soil organic carbon). Alongside this, we support updating of baseline requirements to include policies and international commitments. For example, where countries have commitments under the Bonn Challenge[7], then this commitment needs to be taken into account when establishing an appropriate baseline scenario.

- ***Additionality:*** PD Forum believes that consideration of NDC (unconditional and, where feasible, conditional) targets in the additionality assessment should be undertaken, as well as an assessment of additionality at the time of Renewal of Crediting Period (RCP). For projects that are outside of the scope of the NDC, PD Forum believes that credits can be issued with no CAs, subject to passing an additionality test and meeting other requirements of the relevant Standard. For a project that is inside the scope of an NDC, we believe that there is still scope for credits to be issued – for example, where NDC targets are trajectories to a long-term target but with no milestones or clear policies to get there. In this case, additionality needs to be tested using the existing tools to understand if the project qualifies.

While we understand the reasoning for retaining a certain percentage of generated carbon credits (such as the 2% proposed by Gold Standard), we would suggest that additional measures could also be promoted to provide further re-assurance that overall mitigation goals are achieved, such as:

- Voluntary cancellation of carbon credits i.e. carbon credits are used for purposes other than offsetting
- Development and verification of carbon projects but not issuing or selling credits
- Promotion of use of carbon offsets by members of the public (e.g., individuals and other members of the civil society)

Conclusion

We support the development of projects to credible and endorsed standards for generation of carbon credits, such as those endorsed by ICROA and approved by CORSIA so that buyers can feel confident that the credit they are purchasing is real, additional and permanent. We encourage innovation and development of new methodologies and Standards, as well as updating existing methodologies (e.g. for baseline determination) but avoid standards/guidelines where the concept of additionality and baseline determination is not robust. We support monitoring and verification of associated co-benefits to ensure that claims made are valid. We think, early movers should not be punished and there is no reason to do so as we see no oversupply of the markets. If

[7] https://www.bonnchallenge.org/pledges

vintages are introduced these vintages should be technically feasible and not discriminating.

About the PD Forum

The Project Developer Forum (PD Forum) is a collaborative association and collective voice of companies and practitioners that are developing and financing greenhouse gas emission reduction projects worldwide. With over 30 full and affiliate members, we work on a global scale and evaluate opportunities to deploy climate financing and carbon market instruments to accelerate investments for greenhouse gas mitigation and sustainable development, under both compliance and voluntary carbon standards.

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