PROJECT DEVELOPER FORUM

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From	office@pd-forum.net
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Subject	**Operationalising and Scaling Post-2020 Voluntary Carbon Market**

Dear Gold Standard Team,

PD Forum Response to the Gold Standard Consultation
Operationalising and Scaling Post-2020 Voluntary Carbon Market
August 2020

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 the Gold Standard since its inception in 2003, appreciating its emphasis on sustainable development, stakeholder involvement and support for small and micro-scale activities. 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 Gold Standard team on your efforts to consult and discuss the future of the voluntary carbon market (VCM) over the last few years, and build a momentum of support for the market. During these years the understanding of all stakeholders in the VCM, including PD Forum members, has evolved, naturally so, from the time of the COP in Paris to the eve of the start Paris Agreement era. There are many areas where our thinking has evolved into broad agreement, but there are also areas where opinions are still diverging.

Conclusion and Summary

In this response, the PD Forum would like to reiterate the areas of broad agreement, discuss areas we believe deserve greater emphasis or clarity, or that were not dealt with (sufficiently) in the consultation document, and finally highlight a number of areas we feel the vision you have set out would not be conducive to – or in some cases even harm – the VCM.

We agree to add the existence of Corresponding Adjustments (CA) as a potential new attribute to a project in the GS registry, but we disagree to make this a requirement for all projects or value the existence of CA to be superior. CA's are a requirement from the programs using the credits and should not be a requirement from the standard!

In our opinion corresponding adjustments for the voluntary market are unnecessary as long as no country claims the emission reductions from voluntary action in a host country for its national inventory. The voluntary market has different purposes compared to compliance markets and can supplement international ambition. If a company invests into a mitigation project in a host country it may claim this

investment for the company inventory if appropriate additionality tests have been made and verified. It may claim the same if it invests in its own country: a domestic solar power plant 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. Actually, 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 corresponding adjustment in the according national inventory: in the host country for foreign investment, in the investor country for the domestic investment. It is obvious that according adjustments would be a bureaucratic nightmare and politically impossible. Moreover, corresponding adjustments derived from voluntary action would suddenly lead to imbalances in the Paris accounting caused by voluntary, private climate action.

We agree that some concepts like additionality and baselines may need to be updated with the implementation of the Paris Agreement. As the modalities and procedures for the future Paris mechanism are still missing, we think the existing and well-established definitions should be kept for the time being and adapted carefully when the global framework is finally visible.

Broad Agreement

We agree that post-2020 any carbon standard (registry) should transparently indicate whether any emission reduction or removal (ER) includes a Corresponding Adjustment (CA) or not. This is of course essential for any standards that hope to feed into CORSIA, but is of wider interest.
We encourage the GS to enable the inclusion of this attribute in the registry as soon as possible;
We believe the registry should allow for the attribute to be added on an ex-post basis, as issuance of ERs should not be held up by the international UNFCCC process or inevitable bureaucratic delays in host countries;
We also believe that the registry should allow for the user to elect whether to apply the CA or not upon retirement;
The efficient application of CA would almost certainly need a direct registry link to UN/Party registries, which GS should start to work on enabling. While adding the attribute in the registry should be fairly simple from a registry-management perspective, such external links to other registries will be much more difficult;
However, we do not believe that GS activities are by their very nature the most likely candidates for CA, with many small activities, and activities focussing on small scale, distributed projects (such as improved cookstoves).

We agree that many of the rule updates foreseen are likely to be necessary or at least clarified due to the differences between the Kyoto and Paris eras. Even if rules would not need to be changed, it would still be necessary to clarify that the rules continue to be applicable without change.
We agree that the concept of additionality may change in the Paris world, and the GS rules – as those of any other carbon standard – need to keep up to date with such change. However, we need to caution against change for change's sake: the current concept is the result of more than two decades of evolution in thinking and learning by doing in real-life situations. We believe a further evolutionary development of the concept of additionality is most likely to serve the carbon markets, compliance and voluntary alike; a completely new concept of additionality may not be able to deliver any improvement.
We agree that baselines will be affected if Parties to the Paris Agreement make ambitious commitments and implement the policies and regulations to achieve them. All baselines take the most recent policies and regulations into account in a conservative manner under the current standards; few are determined on the basis of business as usual (BAU) or historical levels. While fixing the baseline for a longer period (eg the duration of the crediting period) is attractive for the efficient running of the (offset project) market, we accept that baselines may need to become more dynamic if the Paris framework really does create a rapidly changing and growing / strengthening climate policy framework in host countries. We note, however, that this has not happened yet: NDCs developed by most countries are not ambitious enough to deliver on the Paris goals of limiting warming, nor do many NDCs have defined and enforceable policies

and regulations that would actually change a baseline. It will remain essential to weigh both conservativeness of the baseline and investability of any projects of course.
As for baselines, crediting periods may also have to be reviewed if Parties take ambitious action post-2020. However, we believe this may be better resolved by a more dynamic or more frequent renewal of the baseline than a shortening of the crediting periods of activities. We have to bear in mind how investment decisions are made, and the impact of carbon on such decisions. With the first commitment of many countries being for the year 2030, we would question the concept of a 5-year cycle of the Paris Agreement, and also question whether an activity-specific crediting period can credibly be asked to be aligned with a political process that has constantly changed its commitment period lengths.
We fully agree that microscale activities continue to need support, to be able to be deliver under a carbon standard. The GS has a successful programme to support small projects, and we hope this will continue. However, the support needed, often through simplification, may lead to friction with other proposals of updating rules. A balance needs to be found.
A differentiation between emission reductions and removals has existed ever since the start of the Kyoto regime, and in many cases project type or sectoral scope is indicated within the serial number of the ER; or alternatively easily found through the methodology. While a clearer differentiation may be beneficial with the current emphasis on removals in some corners of the VCM, we would like to caution this development somewhat. It is our opinion that both reductions and removals are equally necessary, and have an equivalent atmospheric impact. The implied preference of removals over reductions is not always valid, for example in terms of the many benefits of avoided deforestation of an ancient forest compared to a new monoculture plantation.
We fully agree that a way forward for project transition is urgently needed, and the delays in the international process are damaging the market.

More background

It is our opinion that the consultation document, and therefore the resulting discussions, would be much improved by addressing a number of topics that were not (or barely) referenced in the document, but are important to set the scene.

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. 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 or weaken 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 EU ETS, or the VCM. We caution against trying to equate a Party's commitment under the Paris Agreement and an ex-post verified metric tonne of CO2 reduced from an improved cookstove.

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 PA/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 is 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 PA. The VCM should not be used to drive the changes needed for the PA, 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 Parties slow and bureaucratic dealings; and (2) Parties have failed to take their responsibility to action, and VCM participants have done so instead.

The voluntary action taken by corporates and individuals in the VCM does not aggregate up to their domicile (or wherever they are headquartered): the action is 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; and offset the footprint with an equally global portfolio of 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 BAU. 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, they account for emissions in their supply chain – no country does that.

Many VCM players have a strong desire for any 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.

Finally, the GS has over the years primarily – almost exclusively – served the VCM. Even where CDM projects were GS labelled, these deliveries have largely been to the VCM. GS focusses squarely on projects and programmes with high co-benefits, which are attractive to the VCM but price themselves out of the compliance markets.

Disagreement

The PD Forum do not recognise the position of the practitioners in this market being very well presented, despite our many discussions. 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 don't deliver neutrality today but only by 2050. The VCM continued to deliver even when governments failed to act, when Kyoto was rejected, when negotiations failed, when America pulled out. 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 is not going to be helped by suddenly 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. Most of what's described in box 2 of the consultation document has long been part of the industry practices.

The VCM has relied on quality carbon standards that define additionality and baselines in complex and ever-changing regulatory settings for decades. The PA 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 host country (or UN) policies, and whether or not Parties comply with their commitments. A standard unable to determine additionality and baseline independently, without relying on the host country say-so, is unlikely to be acceptable to the VCM.

Out of the 4 qualities mentioned above, GS needs to focus on the quality of the ER achieved, irrespective of how or by whom it is used or what they communicate about it. Any use within CORSIA, for example, is very different from that by a company wanting to go carbon neutral. Claims made will always vary by sector, by country, by year, and realistically will follow fashions. But claims are essential for corporates to take responsibility.

Claims are determined by the protocols used for that purpose, such as the CarbonNeutral Protocol, the GHG Protocol, CDP, or ISO standards. Any necessary claims are dependent on (1) the quality of the ER and (2) the footprint. Contributions can not be separated from the footprint, there should always be a link to the impact of the user (i.e. footprint, i.e. the responsibility), or it becomes a meaningless "voluntary contribution", a donation. If we lose that link, commitments weaken.

Now that we have a global framework(s), that is meant to capture all emissions globally, from all sectors, all gases, we can finally stop pretending that the VCM is somehow outside of all this. 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 reported.

A CA is an accounting tool, determining which Party may report the underlying (ER) to the UNFCCC, allowing Parties (and sectors) to work together to achieve their commitments together, taking greater action here to make up for a shortfall there. Without CA no international co-operation could count towards Parties' commitments. Indeed, for compliance purposes, the CA is the only important measure as it is all about which Party can report them, with the underlying activity that created the reductions/removals, including its additionality, irrelevant; this is similar to AAU trading under Kyoto.

However, for the VCM, the underlying activity is the only important measure, particularly the baseline and additionality, and whichever Party reports it 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 ER 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 (ERs) 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.

A simple example

If a UK corporate voluntarily 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 its 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 its own forest, someone else's forest, or even if it planted a forest in another country. You accept that the company has reduced its footprint and is carbon neutral. At no point would anyone ask the UK to make a CA for this corporate's voluntary actions, trying to unpick somehow the hundreds of corporates that do, trying to unpick whether these are scope 1, 2 or 3 emissions, and whether indeed two corporates may be offsetting the same emissions.

Technicalities

While we disagree fundamentally and theoretically 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, but must be addressed by each of the other "qualities" (above).

The rulebook has not yet been agreed, which means that many of the technicalities of how to do a CA are not yet decided. Therefore, host countries simply cannot do a CA.
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?
PA is not a compliance regime with agreed targets. NDCs are voluntary pledges by Parties, with no penalties for missing them. And a build-in system for changing those pledges on a regular basis (including afterwards); presumably ratcheting down, but nothing to stop the pledges becoming weaker. Therefore, at best a CA is an IUO 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 done 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 ER 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's view is that the host country is suspected of acting in bad faith and either relaxing its policies or selling 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 ITMO must be the voluntary action.
Also the NDCs are not defined or policed sufficiently to avoid effectively the same bad faith.
It is the same host country government that needs to be trusted to do a CA.
An ER is an ex-post independently verified emission reduction achieved against a pre-agreed baseline that is additional compared to what would have happened, as 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 some lofty ambition in a report. As the baseline and additionality is checked before registration of any project or programme, carbon standards determine for each one of them that these reductions would not have happened otherwise – NDC or not. The reductions achieved are 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.
Even if Party were to sell the CA to someone else, it would still not be double counted to the UNFCCC, so still 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 ERs would not have happened
The VCM must assume that host Parties that engage with the PA, and with projects, do so in good faith, fully intending to meet their NDCs and develop policies and regulations to do so.
Many of the (most attractive) GS projects are unlikely to work with CA at all.
First and foremost because most GS projects and activities are of a small scale, which is not sufficient for the host country to get involved with, or make a CA for.
Many project are based on informal household fuelwood use (eg stoves), where the host party is likely to be ignoring in its inventories or NDCs the forest degradation occurring, and which represent the reductions of the project.
Many projects are also based to a lesser or greater extend on suppressed demand, which are emissions that did not actually occur in the first place, and were unlikely to have been part of any NDC.

PROJECT DEVELOPER FORUM

The PD Forum and its members are looking forward to your proposals for the Post2020 VCM or opportunity to discuss this further.

Yours sincerely,

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