ENVISIONING THE VOLUNTARY CARBON MARKET POST-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[1], and claim these contributions credibly?

With support from the German government, a Working Group[2] 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 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 own

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

[2] Gold Standard convened this group. Experts from the Gold Standard, Verra, ICROA, WWF, CDP, WRI, The Nature Conservancy, Carbon Market Watch contributed, but we stress that this statement is for consultation and does not represent the formal positions of the individual members of this group. The development of the statement was observed by World Bank.

boundaries--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 (likely)

- ***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.

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'[3].

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** (the estimated 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.

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.

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

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

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.

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.

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.

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.

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.

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.[4]

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 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).

[4] 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 an LOA and CA.

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?

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?

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

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)?

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 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?

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?

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?

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.?