HOW VOLUNTARY ACTION WILL DELIVER AMBITION UNDER THE PARIS AGREEMENT

THE VOLUNTARY CARBON MARKET HAS A VITAL ROLE TO PLAY IF WE ARE GOING TO ACHIEVE NET-ZERO EMISSIONS BY MID-CENTURY. JONATHAN SHOPLEY LAYS OUT ICROA'S LATEST THOUGHTS ON HOW THE VOLUNTARY MARKET CAN SCALE-UP FOR THE FUTURE

To date, over 1 billion offset credits have been bought and retired by people and organisations taking voluntary action to reduce GHG emissions[1]. Since the Kyoto Protocol's Clean Development Mechanism (CDM) breathed life into carbon trading, low- and medium-carbon intensity businesses have used voluntary offsetting to demonstrate leadership in mitigating unavoidable emissions. Although still niche and buffeted by the same turbulence found in compliance markets, the voluntary carbon market plays an invaluable role in delivering funding and innovation for climate mitigation, adaptation and sustainable development; in serving corporates taking action ahead of or beyond regulation; and, as a source of demand for credits from reducing emissions from deforestation and forest degradation (REDD+), which are currently excluded from compliance systems.

DRIVERS FOR INCREASED AMBITION AND MARKET SOLUTIONS

There is ample evidence of the need for more voluntary action. The main reasons are:

1. The material gap, according to the UN Environmental Programme's recent analysis, between the aggregated reductions expected from NDCs and what is needed for a stable climate[2].
2. The recognition by Parties to the UN Framework Convention on Climate Change (UNFCCC) that non-state actors (eg, the private sector, sub-nationals and cities) have a crucial role to play in scaling-up, and speeding-up, action to get to a net carbon zero global economy by mid-century.
3. The fact that an increasing number of corporates – examples being Aviva, Fetzer, Marks & Spencer and Microsoft – are using market-based instruments to price carbon and deliver cost-efficient reductions in their carbon neutral climate leadership programmes.

In addition, as we shift from the top-down Kyoto Protocol to the bottom-up Paris Agreement, the voluntary carbon market and voluntary action by multinational corporations provides a model foundation from which to build international carbon market linkages.

TAKING CARE OF ENVIRONMENTAL INTEGRITY

What is less apparent is how the voluntary carbon market can evolve and scale within the parameters of the Paris Agreement. This is because the concepts of additionality, double claiming are much more complex within the bottom-up, Nationally Determined Contribution (NDC) approach. Further, the requirements under carbon market provisions of Article 6 of the Paris Agreement that call for net mitigation and contributions to sustainable development layer on more demanding requirements than existed under the Kyoto Protocol and CDM.

To address these challenges IETA's affiliate, the International Carbon Reduction and Offset Alliance (ICROA), is in the middle of a two-year programme of research, consultation and engagement to define a place for voluntary action post 2020. Guidance on pathways to increased voluntary action by non-state actors has been discussed at a series of workshops: a side event at the UN climate talks in Marrakech in late 2016, followed by a workshop at Innovate4Climate in Barcelona in May 2017, and most recently with a further workshop at the UN talks this November in Bonn.

UNTANGLING THE ACCOUNTING

ICROA's guidance paper[3] describes three potential models for the voluntary carbon market which, if used in parallel, could accommodate the variability of NDCs and meet the provisions for environmental integrity as set out in the Paris Agreement:

1. **Non-NDC crediting model:** Credits are generated from sectors which are not currently part of a host country's NDC. This model is like the arrangements under the Kyoto Protocol's CDM when credits are generated in countries without carbon reduction targets. Except in this case, it's the sectors not covered by the NDC, rather than non-Annex 1 countries, in which qualifying mitigation projects or programmes can occur. Credits generated under this model will be additional to the NDC by definition, and mitigation claims made by non-state actors that purchase and retire these credits will not give rise to double counting complications.

(1) Unlocking Potential: State of the Voluntary Carbon Markets 2017. Ecosystem Marketplace, 2017. (2) The Emissions Gap Report 2017: A UN Environment Synthesis Report. UNEP, 2017. (3) Guidance Report: Pathways to increased voluntary action by non-state actors, ICROA, 2017.

2. **Financing Emission Reductions model:** Emission reductions within an NDC are financed by non-state actors and contribute to the host country's NDC. Under this model, there would be no international transfers of emissions reductions and, so long as non-state actors do not make mitigation claims related to their own GHG footprint, double counting and claiming is not an issue.
3. **NDC crediting model:** Emission reductions are generated within a host country's NDC and transferred internationally using the provisions to be established under Article 6.2 and 6.4 to make the corresponding adjustments to the host country's NDC account. The units may then be purchased and retired voluntarily by a non-state actor, which will be able to make mitigation claims against its GHG footprint.

At the ICROA workshop in November, the first model gave rise to debate about the potential for this model to act as a disincentive to Parties to make their NDCs economy-wide.

The second model gave rise to concerns that private sector participants receive little or no return for their investments in a country's mitigation efforts if they are not able to claim a reduction in their footprint or receive some related incentive to make voluntary investments at scale.

The third model depends crucially upon progress on the Paris Agreement's 'rulebook'. However, it was agreed that work by the UNFCCC, Parties (individually and in dedicated market supporting clubs) and the Carbon Offsetting and Reduction Scheme for International Aviation (CORSIA) should deliver the required modalities for Article 6.

MAINTAINING MOMENTUM BY REPORTING PROGRESS

Support was expressed for two ICROA proposals that could play a vital role in deepening supply and bringing more stability to voluntary carbon market dynamics than has been the case throughout the Kyoto era.

The first is for an 'open architecture' approach to article 6.4, to recognise independent standards under the mechanism. This would allow those that have driven innovation and a focus on sustainable development to continue to play a valuable role.

The second is for an 'international voluntary market' account to provide a central data repository, allowing the market to adjust to changing patterns of supply and demand, and giving participants the ability to evaluate the aggregated impact of non-state actor voluntary action. In a simple form, this account could be a central data source to track and report voluntary action by disclosing how much and what type of units are being retired. In a more comprehensive form, this account could link to the global accounting process under the Paris Agreement. Having a single source of information would help manage claims, bring transparency and draw attention to the activities of non-state actors who are making a direct contribution to closing the ambition gap.

NEXT STEPS TO SECURE SCALE AND IMPACT

ICROA will continue this work in 2018 by expanding its dialogue with Parties to explore how voluntary action can best be incorporated in NDCs in ways which encourage and reward voluntary action as a valued complement to regulation. It will also engage with stakeholders to explore how the unique structure of the Paris Agreement may require new thinking about double claiming, additionality and other core principles supporting the operation of resilient carbon markets.

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1 BILLION OFFSET CREDITS HAVE BEEN BOUGHT AND RETIRED BY PEOPLE AND ORGANISATIONS TAKING VOLUNTARY ACTION TO REDUCE GHG EMISSIONS

ICROA's Simon Henry presents the guidance on scaling-up voluntary action post-2020 at the recent UN climate talks