

RESPONSE TO THE TASKFORCE ON SCALING VOLUNTARY CARBON MARKETS (TSVCM) CONSULTATION DRAFT - PHASE II -

21 June 2021

This document forms the feedback from both the [International Emissions Trading Association \(IETA\)](#) and the [International Carbon Reduction and Offset Alliance \(ICROA\)](#) to the consultation documents of the Taskforce on Scaling Voluntary Carbon Markets (TSVCM) Phase II Work. We welcome the opportunity to share our comments on this important topic.

IETA represents a broad and diverse group of stakeholders, with over 160 members worldwide – including many multinational companies in a variety of sectors, offsets developers and standards, banks, assurance providers, and law firms. IETA members collectively have vast and broad experience in the carbon and climate space, and have a deep expertise across the many facets of carbon markets around the world from diverse perspectives.

Established in 2008 as a non-profit membership organisation and later housed within IETA, ICROA represents the voice of the voluntary carbon market (VCM) and promotes collaboration across key stakeholders and influencers to enhance confidence in and respect for the value and impact of voluntary climate action. Throughout the last 15 years, ICROA members have gained strong expertise and a vast experience in the VCM and are active in promoting and advancing best practices in voluntary action on climate change. As the first movers on integrity in the VCM, ICROA unites businesses committed to the ongoing development of the highest standards of environmental integrity for climate solutions. ICROA maintains a Code of Best Practice that defines and promotes leading practice in the use of market-based instruments and climate finance to achieve and communicate voluntary climate action. We work to enable individuals and entities to reduce their internal emissions and compensate for their unabated greenhouse gas emissions within their operations and supply chains by financing emissions reduction and removal activities beyond their direct control enabled by the VCM.

We thank the TSVCM and contributors for their hard work on completing the Phase II Work, which includes the three main consultation draft documents currently under consultation, and we look forward to continuing the dialogue with the TSVCM Operating Team.

Our comments are structured in this document as follows:

High-Level Feedback on the TSVCM Consultation Documents

- a. Objectives and Focus of the TSVCM
- b. Governance
- c. Legal Principles & Contracts
- d. Credit Level Integrity

High-Level Feedback on the Consultation Documents

a. Objectives and Focus of the TSVCM

IETA supports the need for immediate and collective action on a global level to reach net zero emissions by no later than 2050, and by using all the tools in the toolbox we will be able to achieve impact at scale to achieve the demands of Paris.

The voluntary carbon market has substantially grown and achieved great success over the last several years. The experience and expertise that currently exists in the market must be leveraged and built upon in order to scale with high integrity.

IETA supports the activities of the TSVCM and commends the high amount of focus and work over the last months to identify, expand and improve the key elements of the VCM to create an increasingly robust, transparent and liquid market without compromising quality and environmental integrity.

Regarding the TSVCM's position on Article 6: IETA strongly supports the effort to get robust accounting guidance at COP 26 in Glasgow. We are optimistic that governments will reach agreement, and then it will be possible for the private sector to conform to the agreed practices. Article 6 will hopefully clarify how and when governments will record, track and report on net transfers. When the guidance is completed, we encourage the TSVCM to consult with market participants on how the VCM should adapt its structures and recommended practices.

IETA looks forward to taking part in this historic effort, and we will continue our work and contributions to achieving net zero.

b. Governance

IETA generally supports the implementation of a new umbrella governance body to ensure and maintain integrity of the VCM. Providing adequate and adapted oversight and coordination, while using the current VCM as a building block to achieve this objective, will help support a high-integrity market at scale, where both supply and demand will systematically meet.

The umbrella governance body should be fit for purpose and deliberately avoid adding layers or duplicated elements to current practices in the VCM. We strongly encourage streamlining processes and ensuring pragmatic solutions that will help both integrity and scale simultaneously (e.g. *As suggested in the assessment framework, does selecting a third party for determining baselines add adequate and valuable assurance?*). This will directly lighten the governance body design, time commitment of involved parties, and ultimately reduce the cost of operation.

Organisational Design of the New Umbrella Governance Body

IETA believes that the new umbrella governance body should indeed be “independent, voluntary, stakeholder-led and self-regulating with the mission to advance ready solutions to the global climate crisis” (*Governance ToRs, Page 4*). This body should ideally represent the entire market, be highly collaborative and unite players across the value chain while considering **diversity** and balanced representation that will enable non-biased decisions and governance.

IETA believes that it is paramount to ensure that the governance body has the adequate and diverse representation of individuals with both direct market experience and those without, provided they possess the technical expertise and governance skills to successfully carry out the mission. It should also reflect diverse perspectives and geographies. This diversity can be the TSVC’s greatest strength, because it can guard against regulatory capture while ensuring that technical and market expertise is represented. In addition, the board members should be qualified professionals, ideally with experience in climate regulation and independent, fair and unbiased decision-making.

We would highly recommend a presence of individuals with market and regulatory experience within the governance body, given the technical nature of the work it must undertake. We would strongly recommend removing the 2 year-ban on experts for the Expert Panel and the Board of Directors (BoD), which would help attract the experts in the market today and bring the adequate balance and diversity to the governance body that will help overcome challenges and provide insights to a well-functioning market. Examples of these models have existed in the past, such as in the Montreal Protocol¹. We understand the perceived risks related to potential conflict of interest, but there are existing practices that can address these risks (outlined immediately below). Furthermore, all potential future participants of the governance body will bring their own bias and conflicts of interest, whether or not they are considered to be a market participant (*note that it would be beneficial to lay out a clear definition of what is considered to be a market participant, since ultimately any organisation with interest in the market may be considered one*).

¹ <https://www.unep.org/ozonaction/who-we-are/about-montreal-protocol>

Incorporating adherence to a ‘Code of Conduct’ and fully and transparently disclosing information about any conflicts of interest with recusal from votes where there are conflicts for any participant could be an alternative option. This will allow the inclusion of experts and individuals with relevant and valuable experience in the deliberations, while managing conflicts that can apply to both market and non-market players (*to be clearly defined*) constructively by making sure people do not vote on items where they do have a conflict.

In addition, the concept of “founding sponsors” should clarify that it does not require financial contributions, which would create the public impression that it is a “pay to play” organisation. It is sufficient that Board members from supportive organisations would devote their time to the role.

The Executive Secretariat Role Should Be Enhanced

The description of the Secretariat role is focused on administrative tasks, yet the coordination between governance bodies and other stakeholders within the market is critical and will grow in importance moving forward. IETA believes that the Secretariat should be given a mandate to develop the assessment frameworks, convene expert panels to get input on specific topics, and make recommendations to the Board of Directors about whether GHG credit programs are eligible or not.

The Secretariat should be represented with a seat on the BoD to assure quality, continuity and efficiency in decision-making, particularly should the Executive Secretariat be “spun off” at a future date. As an example, the VCS Programme was originally incubated within IETA and later spun off as an independent organisation, with IETA retaining a seat on Verra’s Board to assure continuity.

Funding Model

The funding model of the TSVCM should be further elaborated. For the start-up phase and first 3 – 5 years of operation, the initiative will likely require philanthropic or governmental financing. As it becomes operational, a user-fee model should be applied and the entity should be self-sufficient within 5 years. Additional work should be undertaken to clarify who would collect user fees and when they would be paid.

Terms of Reference and Submission of Interest

IETA supports the participant rights and operating principles of “highly collaborative, building on current momentum, obtaining buy-in from private sector, transparent decision-making and high integrity in managing conflicts” (*Governance ToR, Pages 27-28*) as well as robust transparency and grievance mechanisms (*we suggest that this be renamed ‘appeals mechanisms’ or ‘arbitration mechanisms’*).

IETA supports the timeline and process for selecting interested parties to form part of the new umbrella governance body, and would recommend that more clarity on the roll out of the governance body be provided (*e.g. what are the concrete and expected outcomes of each phase, how operationalisation is envisaged for each phase or step...*).

c. Legal Principles & Contracts

IETA supports the work and outputs to create harmonization and liquidity in the VCM through standardisation through the initial work of establishing use cases for CCPs and potential Standards' Terms of Use and general trading terms.

IETA, together with ISDA and EFET, has a track record of developing model contracts and Master Trade Agreements for domestic and international carbon markets and encouraging their broad utilisation, and has extensively contributed knowledge and expertise throughout TSVCM Phase II.

IETA looks forward to being an instrumental part in developing and formalising a legal framework that will lead to a tradeable and fungible product, a truly historic effort within the VCM. In this context, IETA and ISDA would be interested in moving forward the process initiated by TSVCM in its first two phases, building on the recommendations and guidelines developed by TSVCM, and jointly work on the development of legal documents to facilitate trading in the VCM.

d. Credit Level Integrity

IETA and ICROA support high-quality practices in the VCM and the use of robust and transparent frameworks to evaluate Standards. This is in line with the ICROA Code of Best Practice for carbon management services and CORSIA, that have largely been used to develop the Core Carbon Principles (CCPs). We recognise the need to continuously improve practices and ensure that we maintain a strong focus on innovation and raising ambition, as it has previously been done in the VCM.

While we understand the rationale behind assessing methodology types and appreciate the research provided by the Credit Level Integrity Working Group, it is important to keep in mind that a Program Level assessment is paramount prior to diving into more detailed reviews. We would like to underline the benefits of streamlining processes to avoid duplicating existing efforts in the market by focusing on reinforcing and improving current practices in the market in collaboration with all involved stakeholders and experts.

Assessment Framework and Credit Eligibility Guidelines

IETA believes the suggested questions for the governance body expert panel bring value and much needed discussions on key market integrity issues - though some have been brought forward prematurely before sufficiently developing analysis and discussion with market experts (*e.g. financial additionality, credit developers' requirement of carbon neutrality, selection of auditors, third parties to develop forestry project baselines, etc*). We believe these questions need thorough review and may not be resolved with a simple Yes/No answer, which yet again emphasises the importance of attracting the most competent and knowledgeable experts for the governance body Expert Panel and Board of Directors.

IETA is generally supportive of a pragmatic approach that will benefit the VCM in terms of scale and quality through an Assessment Framework and Credit Eligibility Guidelines that should be operationalised with the support and expertise of key market stakeholders, such as the Independent Standard Bodies. However, we would like to point out elements of concern regarding specific operational considerations and credit eligibility guidelines, such as financial additionality and monitoring, reporting and verification (MRV) requirements.

IETA has concerns with the inclusion of financial additionality as a requirement for CPP methodology types, and believes that it should not be the sole approach to assessing additionality. While we understand the perceived benefits of financial additionality, we believe that the negatives outweigh the positives, and strongly discourage the TSVCM from using UN Clean Development Mechanism (CDM) type assessments for financial additionality, as they have resulted in unreplicable, non-technical and arbitrary decisions² at times and within specific geographies.

Specifically, the requirement of financial additionality could risk adding complexity and confusion to the market for the following reasons: 1) it may generate debate about appropriate numbers and values that are considered appropriate and used for evaluation, which has led to questionable results in the past (e.g. in the history of the CDM) and could also lead to unintended consequences depending on the selection of sensitivity analyses 2) it may exclude perfectly additional projects, for example energy efficiency projects that require behavioural change and 3) it would undermine the VCM's ability to foster innovation and provide early finance and access to capital to new technologies that face barriers but that can be profitable and highly impactful in reaching international climate goals. IETA believes that anything beyond legal or regulatory (including carbon pricing coverage) additionality criteria should be avoided or minimised.

Regarding MRV requirements, a rotation requirement for the VVBs in adjacent verification periods (*definition to be clarified and better defined, and could take a more nuanced approach*) can prove to be impractical and inefficient, and extremely challenging in certain geographies. The quality of the work should be the focus, not necessarily the quantity of checks, quantity of VVBs involved or the party selecting the VVB – this can alternatively be done through robust oversight of VVBs through accreditation (e.g. ISO), conflict of interest procedures and selective spot checks. Should these additional MRV requirements be implemented, this could result in additional administrative burden, delays, and increased costs and would preclude scalable adoption for specific methodologies and solutions that have emissions reductions impact, such as soil sequestration.

Additional Attributes

IETA supports the proposal of additional attributes to ensure harmonisation and liquidity in the market (e.g. standard contracts), and supports the initial proposal of attribute types.

Additional clarification would be beneficial regarding the value of the storage attributes – all of which should ultimately ensure permanence that is assessed by robust carbon standards.

² <https://www.ieta.org/resources/Canada/Federal/2020/OFFSETS/IETA%20Comments-ECCC%20Federal%20Offset%20Discussion%20Paper-4Sep2020.pdf>

We would like to emphasize that the attributes should not be a way to favour any credit over another (e.g. removals over avoidance/reductions or tech-based over nature-based), but is only a means to identify the 'nature' of the credit. We are concerned that the current emphasis on removals will undermine demand for reductions/avoidance credits, that could translate into losing precious forests and corresponding biodiversity, making it an increasingly more difficult job to address climate change.

Conclusion

IETA and ICROA appreciate this important opportunity to record our response to the TSVCM's draft consultation on Phase II work. We look forward to further engagement with TSVCM – and further opportunities to provide feedback on behalf of our members. We welcome the TSVCM to reach-out directly with any questions or follow-up requests related to the recommendations shared above by contacting Claire Mizutani at mizutani@ieta.org.