# PUBLIC CONSULTATION SUMMARY OF COMMENTS: PROPOSAL FOR SCALING VOLUNTARY CARBON MARKETS AND AVOIDING DOUBLE COUNTING POST-2020

## 1 INTRODUCTION

This document summarizes the feedback received during the public consultation on Verra's "Proposal for Scaling Voluntary Carbon Markets and Avoiding Double Counting Post-2020." The evolving voluntary carbon markets can play an integral role in driving climate action, alongside countries' nationally determined contributions (NDCs) under the Paris Agreement and other international mechanisms. Considering market growth and the complexity of interaction between voluntary markets and other mechanisms, Verra ran a 60-day public consultation on a proposal to scale the voluntary carbon markets and avoid double counting post-2020 between voluntary markets and Article 6 of the Paris Agreement.

In addition to the public consultation, Verra has actively participated in and led a number of discussions to ensure the accounting integrity of emission reduction/removal units within different markets, both in the context of the Paris Agreement (PA) and voluntary markets. This includes discussions under ICROA, a working group convened by the ClimateWorks Foundation that developed a guidance document for avoiding double counting under CORSIA, and a working group led by the Gold Standard Foundation that set out options for avoiding double counting within the voluntary carbon markets post-2020. Most recently, Verra has also participated in a number of relevant discussions within the Task Force for Scaling Voluntary Carbon Markets, the EDF Recommendations for Mobilizing Voluntary Carbon Markets to Drive Climate Action and several other forums.

Between May and July 2018, Verra conducted a public consultation on the creation of a Domestic Climate Contribution (DCC) to address early concerns around double counting. These consultations and working group discussions have informed the outcome of this consultation.

During the consultation, Verra sought input on three overarching topics:

1. **VCU labels.** Would VCU labels be a useful approach for distinguishing between credits where a corresponding adjustment has been made, and those where no adjustment has been made?
2. **Necessity and readiness for making corresponding adjustments.** Should corresponding adjustments be mandatory for all VCUs, and to what extent will country governments be ready to make these adjustments?
3. **Impact on climate mitigation efforts.** Would requiring corresponding adjustments help or hinder climate mitigation efforts, including investment in mitigation activities?

Verra received feedback from over 30 stakeholders, including project developers, NGOs, governments, industry associations, corporate buyers, consulting firms and other market participants. Verra would like to extend its sincere thanks to all who submitted comments.

Verra analyzed consultation comments concerning each of the questions asked. The comments received provided a range of useful yet divergent perspectives on double counting and informative feedback on strategies to effectively scale up climate action. These comments affirm the common understanding that market stakeholders remain divided about whether corresponding adjustments (CAs) for voluntary market projects are necessary. In summary:

- Out of 30 respondents who commented on the first question, about **83% of respondents support the idea of using labels**, whereas 10% of the respondents remain indifferent to the use of labels, and 7% are against any labels.
- Out of those who did support the idea of having labels, only **9 respondents favored Verra's proposal on the names of the labels**, and the rest had different views on the names of the labels, which is further elaborated in the table below.
- On the second question concerning **whether CAs are required for voluntary markets or not**, we saw an uneven divide among the responses. Out of the 31 respondents, **58% mentioned CAs should not be required for voluntary carbon markets**, whereas 38% mentioned that CAs should be mandatory for use in the voluntary carbon markets. The remaining 4% did not clearly express if they were in favor or see that as not required.
- To the question on country readiness to implement CAs, about **54% of respondents thought that the countries would be willing to make the necessary adjustments** in the near term, while the remaining 46% were not so sure if the countries will be willing to make these adjustments or when the countries would be ready.
- About **74% of respondents agreed that corporates should be allowed to use non-adjusted VCUs in voluntary markets** as a response to the fourth question. The remaining 26% of the respondents were against the use of non-adjusted VCUs by corporates, acknowledging that there may be no adjustments in the near short term.

- The last question garnered mixed reactions, where about **54% of respondents believed that implementing CAs would hinder climate action and bring more bureaucracy** while the remaining respondents were in favor, expressing that CA may increase the credibility of VCUs in the market. Respondents also noted that many details remain to be agreed upon in the ongoing Article 6 negotiations, which need to be resolved before Verra can launch any labels for VCUs for projects, that could be used in the compliance markets related to Article 6.

# 2 CONCLUSIONS

As described in the public consultation, there are a number of different markets and the kinds of claims are continually evolving. Where buyers require units that meet all Paris Agreement rules, such as the trading of internationally transferred mitigation options (ITMOs) or units within CORSIA, Verra will proceed with developing and implementing "labels" that can be attached to VCUs that meet all relevant requirements of such markets.

For the purpose of the voluntary carbon market (VCM), Verra will continue to issue VCUs as the basic unit that represents one tonne of additional emission reductions. Most voluntary market transactions (such as those purchased for carbon neutrality claims as well as those intended to "finance reductions" in the host country may not require a corresponding adjustment, and thus will not require a label. Buyers will be able to select a non-adjusted unit or purchase those with an adjustment, as needed. It will be up to the buyer to determine which unit is needed, and what claims can be made as a result, based on emerging and evolving norms and guidance on the use of such units.

In Verra's view, it is a legitimate option for a voluntary unit to be purchased and claimed by a corporate for the purpose of carbon neutrality or meeting a net-zero commitment while also contributing to the NDC of a host country. Corporate accounting is separate and parallel to national accounting. In order for such units to be counted in the global stock-take, they must show up in the host country inventory, as they will not be adjusted by any buyer country. It is critical that these units are additional to government regulations and further program updates on additionality are likely forthcoming.

Verra further articulates its position on how to appropriately structure these markets in a way that avoids double counting while also ensuring that carbon finance is equitable, fair and flows to those countries who most need carbon finance.

The following updates have been made and integrated into the latest version of the *VCS Standard*, Version 4.1:

- Updates and clarifications to the double counting provisions in Sections 3.19 and 3.20
- Updates to the 100-year global warming potential (GWP) values to align with common metrics under the Paris Agreement

In addition, Verra will create VCU labels and associated guidance for their use (and will revisit the names of such labels) as market rules emerge and when Article 6 of the Paris Agreement is finalized. As noted above, further updates with respect to additionality may also be forthcoming.

# 3 SUMMARY OF COMMENTS

The summary of comments below highlights some of the main views shared as part of the consultation.

| Question | Summary of Comments | Example statements |
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| 1) Do the label titles "Article 6-Compliant" and "Pending Article 6" make sense? Or, should these labels have different names? | Out of the 30+ responses received; the majority of respondents agreed that creating labels related to specific compliance markets will be helpful for the market. Those who did not support the idea of labels mainly converged on the belief that creating labels could bifurcate the market and undermine the value of non-labeled VCUs.<br><br>Among the 83% respondents who agreed with the idea of labels, only 9 respondents supported the names that Verra proposed, the remaining respondents were in favor of either renaming the labels entirely or simply using "Article 6 Compliant." Many state that using "Pending Article 6" as a type of label could potentially lead to confusion in the markets, due to a lack of clear usage. Some respondents also suggested alternate labels names, such as- "Article 6 Authorized," "Host Country Verified" and "Article 6 accounted." | *1. "Yes, I think these label titles make sense. Although I do worry that entities purchasing offsets bearing the "Pending Article 6" label may think they're purchasing something that will ultimately be compliant when there is no guarantee the host country will follow through on their commitment to make a CA."*<br><br>2 *"No, we believe using the labels "Host Country Verified" and "NetZero Eligible" would make the voluntary market more aligned with the Paris Agreements".*<br><br>*3. "Yes, we believe that it is a good tactic to have a separated label for Article 6 eligible projects separating those that are compliant and pending based on the many uncertainties and good potential for delays in the initiation of CAs. This makes sense for when a country has performance against their Article 6 target, and the credits that are recognized by the government as having been part of this performance should be tagged accordingly. But there may be many instances where article 6 may not be in full operation or the country may not have completed their accounting yet. Having a Pending label would enable the market to get clear signals on which projects are most likely to have compliant credits. We do not believe that the actual names matter that much, as long as they are clear and the definitions and process for determination are clear and transparent.* |

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| | | *However, see above about the need for multiple tags, as Article 6 will not likely supersede all other compliance market requirements.* |
| 2) Do you think carbon credits (VCUs) being used to meet corporate voluntary GHG commitments (e.g., "net-zero" or "carbon neutrality") should require a corresponding adjustment to be made by the project's host country? Please explain your rationale. | Most respondents agreed that CAs should not be required for voluntary markets. The respondents converged on five basic arguments:<br>• National and corporate accounting can co-exist, as it is not yet confirmed on what kind of mechanisms each country would use to monitor its NDC. The CA is only a merit if the corporate emissions fall under a target,<br>• Applying blanket CA approach could hinder climate actions,<br>• The concepts of additionality and baseline determination are enough to ensure regulatory surplus and therefore, only truly additional projects would through the VCM,<br>• Making CAs mandatory may lead to a perverse incentive for companies to source only domestic units (i.e., in developed countries), which likely would be a disadvantage for LDC countries, where mandating CAs could set back project development and potentially lead to reduced carbon capital investment for local projects<br>• Making CAs necessary could potentially increase VCU prices and thereby only a subset of corporations would be able to purchase these adjusted VCUs, which would be a major setback to the scale and ambition of the VCM and climate action. | *1. "CAs only need to be made in two circumstances: (1) a country buys credits from another country, or (2) a company purchases credits to be used in a regulated market in another country – i.e., a carbon tax or ETS allowing the use of international credits. In the latter scenario, the country hosting the regulated market will require an international transfer to its national registry (and it may retire the credit against its own target). ITMOs will cost more because than MOs because their supply will be limited. The main incentive to make CAs will be price per tonne of CO2e. Companies that buy ITMOs for voluntary purposes should be able to transfer them to cancellation accounts in order to claim that they contributed to ERs beyond the framework of PA."*<br><br>*2. "No, VCUs being used to meet voluntary commitments shouldn't require a CA. Companies are not parties to the Paris Agreement (PA), therefore voluntary commitments will take place outside of the framework for reporting under PA."*<br><br>*3. "Yes. If VCU credits do not apply relevant IPCC guidance they cannot be included in National GHG accounting and reporting. If they do meet these requirements, then such credits cannot legitimately be "Net-Zero". To be "Net Zero" a company must ensure adjustments are reflected in all relevant GHG accounting and reporting by both host and purchaser governments.* |

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| | Those who suggested that CAs are needed for voluntary market projects put forth various rationale:<br>• That CAs are needed to avoid double claiming,<br>• That national governments would account a voluntary project's emission reductions within their NDCs without CAs, and<br>• That buyers may lose confidence in carbon credits without CAs and that credits cannot be used for demonstrating carbon neutrality without CAs. | |
| *3)* How readily do you anticipate host countries will be willing and able to make such adjustments and by when? What incentives are there (could there be) for countries to make such adjustments, given they will have to then find and finance other reductions to meet the NDC? | Feedback received on this question diverged between those who believed that the countries are somewhat ready and willing to make a CAs and those who believe there are still barriers to implementing the CAs from a country's perspective.<br><br>Of the comments received, nearly half say that countries would be willing to move ahead with CAs given other benefits such as employment or local environmental impacts like clean air and water. However, the other half of respondents firmly consider that countries to be either unwilling or unprepared to issue CAs. These respondents converged on the below arguments:<br>• Many details remain to be agreed upon in the ongoing Article 6 negotiations.<br>• *Capacity needs to be developed and accounting frameworks to track NDC progress and mitigation outcomes need to be implemented before corresponding adjustments could be made.* | *1) "It seems likely that host countries will wait for a few developments before making any corresponding adjustments. These include: 1. The development of clear rules around corresponding adjustments via the Article 6 negotiations. Expected date: late next year. 2. A comprehensive understanding of potential mitigation options to meet NDCs and to track any and all transfers, via a registry. Expected date: will likely differ by country capacity and existing resources and data. Regarding incentives, perhaps private sector buyers could incentivize the use of corresponding adjustments by sharing the mitigation with the host country. For example, a private buyer might commit to give 20% of its investment back to the host country for use towards its NDC. In this way, there might be potential to incentivize both private investment in offsets and host country approval of CAs."*<br><br>*2. "The timeline for the development of national carbon accounting systems as part of the Paris Agreement is likely to be different and will depend on the level of installed in-country capacity and available resources. Developed countries have a wealth of experience after years of implementation of the Kyoto Protocol and will likely have their systems established before developing countries do. As countries are expected to submit their first Biennial Transparency Reports (BTRs) by 2024, it is likely they will either be ready to make such adjustments by then or will at least have a plan in place to set* |

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| | • *There remains a disconnect between the understanding between different countries on what a CA should comprise of.* | *up such accounting systems to allow for corresponding adjustments to be made. We assume that price will be a key determinant for the willingness to transfer units that require corresponding adjustments. Countries will more likely be willing to adjust for units that can be sold above their marginal cost. The largest incentive for countries to make adjustments is the price that will be paid to them for the unit, this is one more reason why it is important to differentiate between the VCUs that will require an adjustment versus those that are strictly voluntary, considered as climate finance."*<br><br>*3.Given the uncertainty and delays in the implementation of Article 6, and the need for countries to set aggressive targets to meet the Paris Agreement, we do not expect that most countries will be willing and able to make corresponding adjustments (CAs) soon. However, once frameworks are in place, there will likely be at least some incentives for countries to provide CAs. The creation of the mechanism itself indicates that countries see a value in trading units. Once there is functioning market, it seems unlikely that voluntary actors would be at a disadvantage from actors with a compliance obligation due to any potential challenges on the part of the seller with executing a CA. Voluntary market actors' expanding interest in projects with different "impact" characteristics may also lead them to favor projects that may be harder for countries to implement directly, or opportunities may exist in sectors outside of the scope of a country's Nationally Determined Contribution (NDC). Finally, some financing strategies prevalent in voluntary markets already may be attractive to countries in the nearer term. Specifically, we have seen companies developing projects with the intention of selling relevant units until investments in the projects have been reimbursed. Once costs are recovered, the company can retire units and incorporate a project's impact in their accounting towards their goal."* |
| *4)* If countries may be unwilling or unable to make such adjustments, at least in the near term, would you support allowing | The majority of respondents support the use of non-adjusted VCUs citing the same rationale for why a CA should not be a required in the VCM as stated in Question 2 above. Many of these comments return to the perspective that voluntary action is distinct | *1. "Yes, it seems likely that it will take time for countries to make corresponding adjustments. In this case, it is important provide a pathway for projects to obtain corresponding adjustments while continuing to benefit from existing voluntary action in the meantime."* |

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| corporates to continue to use such (non-adjusted) credits for a period of time if that is needed to maintain and grow voluntary climate action and finance? How could that be designed in a way that also incentivizes and supports country readiness to provide adjustments? | from that required under the Paris Agreement and international Paris-related programs such as CORSIA, and that double claiming does not pose an environmental integrity issue with respect to the goals of the Paris Agreement. Those against the use of VCUs without CAs put forward the argument that CAs are needed to ensure appropriate accounting and government climate action and country ambition. | *2. "We do not support allowing corporate entities to continue to use credits that are not linked to corresponding adjustments by host Parties to support their offsetting claims. Post-2020, credible offsets will require corresponding adjustments. In the absence of corresponding adjustments, the emission reductions underlying issued credits would still be usable by the host Party toward its NDC, and reflected in the host Party's emissions inventory, creating a situation of double counting or claiming that is inconsistent with offsetting or carbon neutrality claims."*<br><br>*3. "Yes, we support corporates being able to use non adjusted credits for the foreseeable future. To encourage climate action and investment, we need to reduce barriers to financial flows. Requiring a CA will increase barriers, because, as stated above, a contract will not be able to "close out" until the CA is done. This is likely to be some considerable time after the vintage of the emission reductions – unless the Host underwrites the delivery of the CA, whether or not its targets are reached."* |
| *5) Do you feel requiring corresponding adjustments for such voluntary commitments will help or hinder climate change mitigation efforts and why?* | We received a range of reactions to this question, including optimistic, pessimistic and neutral outlooks. A majority of respondents indicated negative outlooks for climate action under a mandated CA scenario for voluntary markets. These respondents expect that requiring CAs would prove burdensome and disincentivize action in the private sector without providing any true benefit. Those with positive outlooks for climate action under the CA scenario consider CAs as necessary to underpin credibility and trust in the voluntary carbon markets. And the respondents who were neutral indicated that it is too early to know the impact of CAs, and they would first like to see the efficacy of mechanisms such as Article 6. | *1. "We do not think that the VCM should require an adjustment, and it is not the VCM's role to provide formal technical assistance to countries to develop readiness and provide adjustments (although many VCM participants do provide such assistance). We think that getting a worldwide functioning infrastructure may take until at least the middle of the current commitment period, at which point the issue in relation to the VCM can be reviewed.*<br>*2."It will help mitigation efforts. Not requiring CAs would hinder mitigation efforts because it would allow companies to claim to have no impact on climate change, by financing reductions which the host country had to deliver anyway. While double counting and additionality are separate concepts, they are interconnected when it comes to the voluntary market. It could be argued that credits without CAs are not additional at a country level (or at an emission reduction level) even if the project itself is additional. This is because the reductions achieved will help the host country meet its target, and this will perhaps mean that the host country will not pass a policy, or will not start a new project, because its target has been achieved already. Hence the company is purchasing a reduction* |

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| | | *which had to happen anyway, and can use this reduction to claim neutrality, and perhaps even increase demand and production - with associated climate impacts - or lobby against additional climate measures on the basis that "it is already carbon neutral" (which is already happening as an adverse side-effect of voluntary carbon markets)."*<br><br>*3. "Voluntary carbon projects are currently one of the primary means through which international private sector companies contribute to on the ground climate change mitigation, oftentimes in contexts that are not very conductive for private sector investments.*<br>*Requiring corresponding adjustments for voluntary commitments may hinder climate change mitigation efforts as it will force countries to regulate such transactions more stringently. If countries need to discount from their national account the units issued by voluntary carbon projects, they are likely to set stricter rules for the recognition of such transactions, as they could incur in a debt of their own national account due to an increase in voluntary transactions. At the same time, it is very important to provide clarity to all actors about the different assets to ensure that there is no double reward for the same results and that there is environmental integrity. It is therefore important to ensure that these units are not further traded, by cancelling them."* |