

Domestic Climate Contribution (DCC)

1 ABSTRACT

Emission reductions achieved by GHG projects may be at risk of being double counted where both the end user of a GHG credit and a host country government may claim the same emission reduction to meet their climate commitments. This specific type of double counting risk may become more prevalent in the near future, given that most countries have assumed Nationally Determined Contributions (NDCs) under the Paris Agreement, and a large majority are in the form of emission reduction commitments. To address this double counting risk, VCS projects may be required to secure a commitment from host governments to make corresponding adjustments, which would mean that in order to issue VCUs, host countries would need to commit to not claiming those emission reductions for their NDCs and thus permit VCS project proponents to issue and trade VCUs internationally.

Verra considers that securing corresponding adjustments for VCS project emission reductions will not always be possible, either because governments may be unwilling to make such adjustments, or may not have the capacity or ability to do so. This uncertainty is a source of concern for VCS project proponents who need clarity on the ability of their projects to issue and trade Verified Carbon Units (VCUs) internationally in the context of the implementation of the Paris Agreement and rules being developed with regards to corresponding adjustments.

To address these uncertainties, Verra is considering the creation of a new unit under the VCS Program: the Domestic Climate Contribution (DCC). Verra envisions that DCCs will act as a complement to VCUs, and would provide project proponents with an alternative pathway for supporting their projects when generating VCUs is not feasible or appropriate due to double counting risks. VCUs will continue to need to meet all requirements for international trading of emission reductions, including the need to secure corresponding adjustments, but the DCC will avoid the need for triggering double counting rules and securing corresponding adjustments. Therefore, like VCUs, DCCs could be a vehicle for bringing financing to carbon projects through the robust accounting and monetization of emissions reductions, and could act primarily as a specialized tool for circumstances where issuing VCUs could create a double counting risk that may be potentially unresolvable.

Notwithstanding the above, Verra understands and appreciates that the precise dynamics of addressing double counting under the context of Article 6 of the Paris Agreement are dependent on final resolution of the rules, which are currently under negotiation. Verra further understands that the final rules may not ultimately be consistent with the assumptions laid out above, which may then require reconsideration of the DCC concept. In the meantime, however, Verra wants to open a discussion around the DCC concept and the critical flexibility it may ultimately provide with respect to international trading of emission reductions as well as domestic markets, and is therefore currently considering the DCC concept.

2 BACKGROUND

Establishing robust rules and requirements for addressing double counting is a paramount responsibility of GHG programs. Where double counting is not adequately addressed, atmospheric integrity is compromised and the credibility of the system is undermined. Specifically, where two entities separately claim the same emission reduction or removal, the result is a mismatch between the volume of emissions *claimed* to have occurred, and those which have *actually* occurred. This is the reason the VCS Program requires projects to, for example, secure the cancellation of emission allowances where the emission reductions generated by a project are at risk of being double counted under an existing cap-and-trade program.

Experience suggests that securing cancellation of allowances is not easy. By way of example, voluntary GHG project development has been significantly restricted within Annex B countries due to the difficulty in securing cancellations of Assigned Amount Units (AAUs). Verra considers that it may be challenging for projects occurring in sectors covered by NDCs to secure corresponding adjustments post-2020 for VCS project emission reductions, thereby potentially restricting the issuance of Verified Carbon Units (VCUs).

Accordingly, Verra is considering the creation of a new unit, the DCC, the purpose and design of which would be to promote in-country mitigation to benefit a host country's NDC, without the need to secure corresponding adjustments for VCS project emission reductions, as further described in Section 3 below.

3 PROPOSAL

Verra is considering the creation of a new unit, the DCC, as a complement to VCUs (which will continue to meet all of the requirements relating to the international trade of carbon credits for offsetting purposes). Verra envisions that the process that leads to the issuance of a DCC (i.e., validation and verification) and attributes behind a DCC (i.e., real, additional, quantifiable, etc.) would be the same as for VCUs. The only difference between a DCC and a VCU would be the claim that an end-buyer could make through the retirement of the unit and the international transfer of the emissions benefit.

In the case of VCUs, end-buyers may claim an offset of their emissions through the retirement of the unit, which is implicitly transferred internationally. However, with DCCs, end-buyers would claim a contribution toward host country climate goals through the retirement of the unit. As a result, in the case of DCCs, the host country retains the ability to claim the project emission reductions/removals for itself, thereby helping achieve its NDC, while the end-buyer of the DCC can claim they have *contributed* toward the host country's ability to do so and does not retain the emission reduction/removal for use against a carbon footprint. In short, the risk of double claiming is addressed. Under this approach, no emissions benefits would be internationally transferred and there would be no creation of an "Internationally Transferred Mitigation Outcome" (ITMO) under Article 6 of the Paris Agreement. For a DCC, all emissions benefits would remain in-country.

A critical component to keep in mind with respect to the DCC concept is that end-buyers who have taken on commitments to reduce or neutralize their carbon footprints and purchase GHG credits to achieve these commitments, may need to redefine their objectives towards contributing to host country NDCs. This would of course require end-buyers to shift their messaging to their customers and other stakeholders.

The implication of developing this new unit is that VCS projects would proceed through the same certification process and would have the option of issuing VCUs or DCCs based on the host country's willingness and ability to make corresponding adjustments for VCS project emission reductions, as well as the buyer's preference. At the end of the process, if the buyer prefers, or if the project is unable to secure a corresponding adjustment from the host country, the project proponent could still issue DCCs. If the project were able to secure a corresponding adjustment, the project proponent could issue VCUs. Verra also envisions that DCCs could be converted into VCUs where the project secures a corresponding adjustment post-issuance. In addition, prior to retirement, VCUs could also be converted into DCCs if the buyer preferred, though this is likely not to happen very often. Verra believes that this optionality may provide critical flexibility to VCS projects being developed around the world and which may encounter varying levels of difficulty securing corresponding adjustments from host countries for their emission reductions. This is particularly important considering it is not clear when both the global rules to address double counting will be in place and when countries wanting to participate in the international trading of carbon credits will have implemented the necessary mechanisms to make or commit to making corresponding adjustments for VCS projects.

DCCs could also be used to meet the objectives of domestic policies to reduce GHG emissions, particularly where such policies rely on quantifiable reductions or removals of GHGs. For example, Colombia has already implemented, and South Africa is considering imposing, a carbon tax that can instead be paid through the submission of emission reductions that meet certain criteria or are generated under the requirements of approved GHG crediting programs. In these two cases, use of DCCs could serve as an efficient benefit-sharing mechanism that would finance activities that reduce GHG emissions. Because domestic policies are designed to reduce emissions at a national level and help the country meet its NDC, any benefit-sharing mechanism used to deliver results, such as a DCC, need not meet all of the requirements related to the international trade of carbon credits.

Verra seeks input on its consideration to develop and operationalize the DCC concept within the VCS Program.