Dear ACR Staff,

We would like to thank you for the opportunity to provide feedback on the draft ACR Standard v7.0.

The Project Developer Forum (PD Forum) is a collaborative association and collective voice of companies and practitioners that are developing and financing greenhouse gas (GHG) mitigation activities worldwide. Our members work on a global scale and evaluate opportunities to deploy climate financing and carbon market instruments to accelerate investments for GHG mitigation, climate resilience and sustainable development. Our members have been major users and supporters of both voluntary and UNFCCC carbon standards for the last two decades. From the perspective of practitioners, the PD Forum offers workable, pragmatic and practical solutions developed by member companies and individuals who have the knowledge and experience to develop financially viable, replicable and transformative mitigation.

We would like to commend ACR on your efforts to consult and discuss the future of the voluntary carbon market (VCM) over the last few years, and build a momentum of support for the market. During these years the understanding of all stakeholders in the VCM, including PD Forum members, has evolved, naturally so, from the time of the COP in Paris to the eve of the start Paris Agreement (PA) era. There are many areas where our thinking has evolved into broad agreement.

We would like to focus our comments on the newly proposed policies in Section 10.B, “Policies to Prevent Double Claiming of Emissions Reductions” and particularly to voluntary offset claims, as this is an area where your latest thinking is diverging from earlier agreement on the issue.

In the global carbon market context in which all signatories to the Paris Agreement (“Parties”) have emissions reduction target(s) / pledge(s) / contributions / commitments (collectively “targets”) as formulated in the nationally determined contributions (NDCs), and new global compliance markets such as ICAO’s CORSIA have been launched, double claiming occurs when the same emission reduction / removal (ERR) is counted by two or more Parties or entities (e.g. buyers and sellers, whether in voluntary or compliance markets) towards climate change mitigation obligations, targets, pledges, commitments or efforts.

Flagging Corresponding Adjustments in the registry

- We agree that post-2020 any carbon standard (registry) should transparently indicate whether any emission reduction or removal (ER) includes a Corresponding Adjustment (CA) or not. This is of course essential for any standards that hope to feed into CORSIA, but is of wider interest. We encourage ACR to enable the inclusion of this attribute in the registry as soon as possible.
- We believe the registry should allow for the attribute to be added on an ex-post basis, as issuance of ERs should not be held up by the international UNFCCC process or inevitable bureaucratic delays in host countries. We also believe that the registry should allow for the user to elect whether to apply the CA or not upon retirement.
The efficient application of CA requires a direct registry link to UN/Party registries, which ACR should start to work on enabling. While adding the attribute in the registry should be fairly simple from a registry-management perspective, such external links to other registries will be much more difficult.

However, as the Paris Rulebook is not yet agreed, we believe it is premature to fix any of the details, make it obligatory, or in fact expect it to be possible to make a corresponding adjustment for many years yet. For any markets that may need CA, a transitional period should be agreed, which will need to be at least 5 years, and likely much longer.

While we are encouraged by ACR’s confidence of the US’ State Department interest in co-operation, we believe it will be highly unlikely that many (host) countries are able to apply a CA long before 2030, if at all.

Compliance markets need CA, voluntary use does not

- We fundamentally disagree with the concept that CA is necessary – or even desirable – in the voluntary market. We believe it both muddies the water of inventory accounting under the UNFCCC, and undermines one of the principle (value) drivers of voluntary action.

- All corporate emissions (and reductions made) are “double counted” by the countries they operate in. Country inventories are made up of emissions from households and businesses in that country. Which is exactly why any corporates under a mandatory ETS implemented by a Party under its NDC do so for the purpose of that Party’s reporting, and therefore any ER eligible under such ETS would have to include a CA.

- Additionally, corporate GHG footprints and offsetting includes not just scope 1, but also scopes 2 and 3, which are in fact the (scope 1) emissions of another entity entirely. Therefore, the concept of double counting (and CA) needs to be addressed differently. CA exist to ensure emissions (reductions) are reported once at the UN level, which includes Parties under the UNFCCC, aviation under CORSIA and international shipping which may be addressed by IMO in the future – these latter two sector emissions are explicitly excluded from national accounts under the UNFCCC rules. Therefore, CA are essential when used for reporting to the UN by another Party or aviation/shipping sector, but should not be applied in other cases to avoid accounting errors.

- We are happy to see that ACR acknowledges that any scope 3 does not require CA. The same logic must be applied to any voluntary scope 1 and 2 offsetting, which also do not require any CA. Any inconsistency between the scopes proves the error in the theory applied. However, we do disagree with the manner in which the proposal describes how such retirements for scope 3 should occur. The offsets should be retired by / for the entity itself, as is currently the case, and not by the host country of the offset project.

Quality in the Paris Agreement regime

- It is important to acknowledge that the Paris Agreement is not a compliance regime. Parties pledge certain commitments on a voluntary basis. They submit their NDCs, and update them. However, neither the commitments, nor submissions, nor indeed the achievement of any commitments is subject to compliance. Parties are encouraged to update their NDC to ratchet up their commitments, but they may equally change or weaken their commitments, alter the sectoral coverage etc. The structure of the Paris Agreement commitments for Parties is entirely different from the working of a compliance (carbon) market, such as the EU ETS, or the VCM. We caution against trying to equate a Party’s commitment under the Paris Agreement and an ex-post verified metric tonne of CO2 reduced from a registered additional emission reduction project.

- The quality of the global regime can be split into 4 almost-independent parts, the quality of each of these should be addressed in their own right: (1) the over-arching PA/global framework; (2) each individual Party’s commitments (NDCs and policies and regulations); (3) the individual (ex-post verified) emission reduction; and (4) action by individuals/organisations/corporates. We must aim to increase the quality of each of these elements in their own timelines, rather than wait until the perfect all-round system is designed. The UNFCCC negotiations is the place to address the global framework. Each country has a responsibility to address their own commitments. The VCM has focussed on – and delivered – real, additional emission reductions. And various reporting frameworks, such as for example, CDP, the GHG Protocol and the CarbonNeutral Protocol, have focussed on the quality of individual actions. No matter how good the quality of one part, it does not compensate for the lack of quality of the other three parts.
The VCM in no way replaces or displaces action needed by Parties, nor threatens the Paris markets: the VCM is an order of magnitude smaller than the reductions required under PA. The VCM should not be used to drive the changes needed for the PA, or the Paris Mechanisms, and is not a pilot phase for Paris. Indeed, the VCM has thrived precisely because: (1) there is a very limited link – the VCM has not had to wait for Parties slow and bureaucratic dealings; and (2) Parties have failed to take their responsibility to action, and VCM participants have done so instead.

The voluntary action taken by corporates and individuals in the VCM does not aggregate up to their domicile (or wherever they are headquartered), rather it counts where the action takes place: voluntary corporate action is taken despite the fact that their country doesn’t do nearly enough. Corporates report a global footprint, for all their operations, across borders, and global scope 3 emissions; and offset the footprint with an equally global portfolio of reductions (and/or removals). Indeed, many participants aim to spread their offset portfolio geographically in a similar way to their footprint.

The commitment from players in the VCM is an order of magnitude greater than that of the Parties: most commit to neutrality, not a small percentage reduction from BAU. Unlike UNFCCC Parties who only take responsibility only for their own “scope 1” emissions, VCM participants account for scope 2 and 3 too. Note that for many VCM participants, scope 1 is often only about 10% of their footprint! They account for the emissions of their utility provider, they account for emissions in their supply chain – no country does that.

Claims and value

The PD Forum do not recognise the position of the practitioners in this market being very well presented, despite all the discussions over the last few years. The VCM industry has been delivering corporate action over more than 20 years, delivering carbon neutrality, far exceeding any action mandated by governments over that time (or as determined by any “science-based” trajectories); even the most ambitious formal targets don’t deliver neutrality today but only by 2050. The VCM continued to deliver even when governments failed to act, when Kyoto was rejected, when negotiations failed, when the US pulled out. The VCM has been able to deliver without being mandated by government, but by corporate leaders taking responsibility for their (climate) impacts, and acting accordingly, filling the void that governments left. The VCM is not going to be helped by suddenly putting barriers in place that discourage taking responsibility, that allow laggards to hide. Research has shown that VCM participants outperform their peers in terms of sustainability, showing that reductions are made in house before offsets purchased.

The VCM has relied on quality carbon standards that define additionality and baselines in complex and ever-changing regulatory settings for decades. The PA does not change this fundamentally – while we should see an increase in regulatory activity from all countries, they are still falling far short. The VCM will continue to rely on standards that are able to assess and certify projects in this manner, whatever host country (or UN) policies, and whether or not Parties comply with their commitments. A standard unable to determine additionality and baseline independently, without relying on the host country say-so (through a CA), is unlikely to be acceptable to the VCM.

Now that we have a global framework(s), that is meant to capture all emissions globally, from all sectors, all gases, we can finally stop pretending that the VCM is somehow outside of all this. Global emissions should “add up”, at all times. All emissions reported at the UN level (Parties and sectors that are excluded from national inventories/commitments, such as aviation and maritime) should add up to the global emission levels, and it must be ensured they are not double counted/reported at the global level. Emissions/reductions should not “disappear” from the equation, but reported.

A CA is an accounting tool, determining which Party may report the underlying (ER) to the UNFCCC, allowing Parties (and sectors) to work together to achieve their commitments together, taking greater action here to make up for a shortfall there. Without CA no international co-operation could count towards Parties’ commitments. Indeed, for compliance purposes, the CA is the only important measure as it is all about which Party can report them, with the underlying activity that created the reductions/removals, including its additionality, irrelevant; this is similar to AAU trading under Kyoto.

However, for the VCM, the underlying activity is the only important measure, particularly the baseline and additionality, and whichever Party reports it is not relevant. At no point do emission reductions for the VCM need to be exported out of the host country. Indeed, in many cases, VCM participants will offset where much of their supply chain emissions are. The ER are not exported for UNFCCC reporting purposes, and therefore no CA is required; instead a CA would muddy the international accounting. The
VCM explicitly needs the benefits (ERs) and co-benefits to fall to the local communities, and not the tax domicile of their headquarters. A CA would likely destroy value to VCM participants.

- Many VCM players have a strong desire for any additional benefits (co-benefits) from the offsets to be delivered to the communities where their projects happen, which are often in their supply chains or where their customer base is. Any negative effects on these communities, which could for example come from more restrictive NDCs that could be the result of CA, would therefore be counter-productive to buyers.

A simple example

If a US corporate reduces its footprint to zero by using only solar for electricity, biomass for heat, and planting trees for anything else, you don’t ask whether the biomass came from its own forest, or the solar panels were manufactured by the company itself, or the trees planted on its own land, before accepting its footprint and the company’s carbon neutrality. You accept that its choice to use solar power helps the utility provider to reduce emissions, as well as the country (even if the power might be imported from a neighbouring country). You accept that the biomass is a renewable fuel, even if supplied by another company or is imported. You also accept that the trees have removed the GHGs otherwise emitted, regardless of whether they have been planted in its own forest, someone else’s forest, or even if it planted a forest in another country. You accept that the company has reduced its footprint and is carbon neutral. At no point would anyone ask the US to make a CA for this corporate’s actions (voluntary, or regulated for that matter if each of the actions was eligible in line with the regulation), trying to unpick somehow the hundreds of corporates that do, trying to unpick whether these are scope 1, 2 or 3 emissions, and whether indeed two corporates may be offsetting the same emissions.

Technicalities

While we disagree fundamentally and theoretically with the demand of a CA for the VCM as explained above, there are also numerous barriers that cannot be overcome by the VCM itself, but must be addressed by each of the other “qualities” (above).

- The rulebook has not yet been agreed, which means that many of the technicalities of how to do a CA are not yet decided. Therefore, host countries simply cannot do a CA.
- What is a CA without an underlying NDC? The vast majority of Parties to the Paris Agreement have not yet defined the NDCs in much details, nor do they have policies and regulations in place to meet any such commitments. Even with a fully defined NDC, there is no guarantee a Party will meet the target.
- What is a CA “worth” if a Party misses their target? PA is not a compliance regime with agreed targets. NDCs are voluntary pledges by Parties, with no penalties for missing them. And a build-in system for changing those pledges on a regular basis (including afterwards); presumably ratcheting down, but nothing to stop the pledges becoming weaker. Therefore, at best a CA is an IUO against a moving target that may be missed without consequences.
- NDCs may be for single or multiple years, and almost none covers every year. What is a CA from a year without target/commitment?
- We understand that a CA may be done in [2-yearly] reports by Parties to the UNFCCC. However, such reports are only made in the (far) future, as no rules are agreed yet. What is a CA in the interim? What happens when a country fails to include the CA in their report? If an ER were only valid with a CA, then it’s validity must be dependent on that report and the Party’s compliance.
- The reason – albeit unstated – for the need for the CA in the consultation document’s view is that the host country is suspected of acting in bad faith and either relaxing its policies or selling the excess reductions. This thinking is flawed.
- Government policies and measures to reach their commitments in the NDCs cannot and will not be switched on and off instantly. If the host country was intending to meet it's NDC, it will overachieve as a result of the VCM activities.
- If a government acts in bad faith and tries to sell the overachievement, the buyer (country) is complicit in such bad faith as the underlying ITMO must be the voluntary action. It is the same host country government that needs to be trusted to do a CA.
- An ER is an ex-post independently verified emission reduction achieved against a pre-agreed baseline that is additional compared to what would have happened, as determined following internationally agreed
methodologies. The baselines and additionality used in project-based accounting under the carbon standards are based on the realities of the actual policies and regulations in place, not some lofty ambition in a report. As the baseline and additionality is checked before registration of any project or programme, carbon standards determine for each one of them that these reductions would not have happened otherwise – NDC or not. The reductions achieved are additional to any that would have been achieved by the host Party with any of the policies and regulations that are in place at the time, including any effort to reach the NDC.

- VCM has no control over the action by the Parties in the future. We appreciate there could be theoretical scenarios where, in the future, the host party takes certain decisions that may negate the actions of the VCM project.
- Even if Party were to sell the CA to someone else, it would still not be double counted to the UNFCCC, so still no actual problem.
- VCM cannot be held responsible today for potential future non-compliance of a Party, or changes in policy at a later date, or deliberate bad-faith actions.
- The VCM relies on the realities of a project-specific baseline and additionality assessment to show that the resulting ERs would not have happened.
- The VCM must assume that host Parties that engage with the PA, and with projects, do so in good faith, fully intending to meet their NDCs and develop policies and regulations to do so.
- It is easy to demand that only international projects must make a CA, as ACR has almost none, while the other voluntary standards do.

**Conclusion**

In our opinion corresponding adjustments for the voluntary market are unnecessary as the emission reductions from voluntary action are only reported by the host country in its national inventory; whether the emission reductions and the footprint being offset are in the same country is not relevant. The voluntary market has different purposes compared to compliance markets and can supplement international ambition. If a company invests into a mitigation project in a host country it may claim this investment for the company inventory if appropriate additionality tests have been made and verified. It may claim the same if it invests in its own country: a domestic solar power plant should not be treated differently from an investment in an additional solar power plant in a host country. The domestic investment leads to a double claiming as the investor country and the company claim the emission reduction. The foreign investment leads to double claiming of the same company and the host country. As long as there is no double accounting of the same investment in both countries on country inventory level there is no damage to the environmental integrity of Article 6. Actually, the investment contributes to achieving national targets and may trigger further investments, ambition and/or technology penetration. To avoid double claiming each corporate investment would need a corresponding adjustment in the according national inventory: in the host country for foreign investment, in the investor country for the domestic investment. It is obvious that such adjustments would be a bureaucratic nightmare and politically impossible. Moreover, corresponding adjustments derived from voluntary action would suddenly lead to imbalances in the Paris accounting caused by voluntary, private climate action.

The PD Forum and its members are looking forward to your updated draft standard and opportunity to discuss this further.

Yours sincerely,

Dr. Sven Kolmetz
Chairman, Project Developer Forum