December 1, 2020

American Carbon Registry
2451 Crystal Drive, Suite 700
Arlington, VA 22202
Submitted via e-mail

Re: American Carbon Registry Standard v7.0 Public Comment

Dear American Carbon Registry Staff:

Thank you for the opportunity to provide input on the draft ACR Standard v7.0 (“Standard”). With a reputation for promoting integrity in carbon markets, ACR no doubt seeks to advance sound policy on emission reduction claims. Sharing this objective, we offer comment on proposed revisions to the Standard, specifically those around voluntary claims in Section 10.B, “Policies to Prevent Double Claiming of Emissions Reductions.”

Natural Capital Partners has major concerns about the general direction of the proposed policy, as well as specific aspects. Since at least 2017, ACR has unequivocally expressed the view that voluntary carbon markets are fundamentally untouched by the Paris Agreement. Indeed, ACR’s advocacy was influential across the voluntary market. We concur with ACR’s prior stance that the Paris Agreement does not create a problem in double claiming voluntary emissions reductions and here briefly recapitulate the expansive rationale.

The key issue is whether voluntary emissions reductions would be counted twice under UNFCCC accounting. They would not be. National greenhouse gas inventories are based on physical emissions, and no government incorporates voluntary carbon credits into its NDC. For example, if a company outside a project’s host country buys and retires voluntary credits, it cannot use those credits in reporting emissions to its own government. The affected emissions inventory is solely that of the host country, where the reductions actually occur. As no double-counting occurs, a corresponding adjustment is unnecessary. It is important to recognize that concurrent claims can be perfectly valid: a host country can legitimately claim a declining emissions inventory while a corporate can claim to have offset its emissions.

In shifting its position, ACR has presumably found a more compelling argument. An articulation of the logical underpinnings of ACR’s new position would be a valuable contribution to the dialogue. Where was the previous error?

To facilitate consideration of our comments, we’ve attempted to tag them to specific text of the Standard. Some comments, however, may be cross-cutting.
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.

1) This framing is overly broad, particularly in its application to voluntary markets. We are in agreement with ACR’s previous position: the Paris Agreement effects no issue of double claiming voluntary emissions reductions. In truth, corresponding adjustments would corrupt UNFCCC accounting: double-entry bookkeeping is impossible without accounts in the same book.

2) ACR’s interpretation of the Paris Agreement to mean that “double claiming occurs when the same emission reduction / removal (ERR) is counted by two or more…entities (e.g. buyers and sellers…in voluntary…markets)” is not supported by any definitive UNFCCC directive. The UNFCCC has not established that an issue of double-counting or -claiming exists with respect to voluntary markets. Article 6 negotiations are in progress, and the Paris rulebook does not yet delineate the relevant accounting. Until and unless a Paris rulebook incorporates voluntary carbon units into UNFCCC accounting, ACR’s policy is premature. ACR’s front-running policy action risks destabilizing the market (to be further discussed herein) and may ultimately be inconsistent with UNFCCC decisions. Even if the UNFCCC adopts ACR’s proposed accounting treatments by geography of credit generation and usage, this would not be agreed until at least December 2021. Thereafter, a minimum of 12 months for implementation can reasonably be expected. ACR should seek to harmonize its policies with the Paris rulebook, thereby reflecting the seamlessness that fosters effective carbon markets.

3) In the absence of a UNFCCC directive, one may consider whether ACR’s policy is justified on the basis of market demand. Natural Capital Partners serves more than 300 clients across geographies and sectors. We interact every day with the individuals directly responsible for corporate purchases of voluntary carbon units. To date, none have asked that their offset purchases by adjusted against NDCs. None have expressed interest in trading offset claims for claims to have supported a country’s NDC. None have advocated reformulation of voluntary offset claims. A demand driver for ACR policy action is not evident.

4) Although, at present, ACR’s project footprint is in the U.S., ACR is creating a policy template that runs counter to the Copenhagen Accord (aside from dissuading project developers from registering future non-U.S. projects with ACR). The Copenhagen Accord set a goal of $100 billion in climate finance for developing countries, including funds from private sources. By impeding offset buyers’ emissions reduction claims, policy like that of ACR would disincentivize the climate investments recognized as necessary for effective and equitable GHG mitigation.

5) Should ACR decide to proceed with application of Section 10.B to voluntary offsets, Natural Capital Partners strongly recommends a transition period. Binding requirements should enter
into force only in coordination with implementation of the Paris rulebook’s future Article 6 provisions. The following reasons support this approach:

a. ACR rules would be aligned with those of the Paris Agreement. If the output of UNFCCC negotiations is accepted as the basis for international climate policy, then ACR’s Standard should conform to the Paris rulebook. Further, uniform accounting practices underpin efficient and effective carbon markets.

b. UNFCCC Focal Points may lack the inclination or capacity to efficiently facilitate the ACR Standard. Unlike the Paris Agreement and CORSIA, international treaty does not compel governments to help operationalize ACR’s rules. As per discussion, ACR’s impression that the U.S. UNFCCC Focal Point (the State Department) will provide the necessary assistance is encouraging. However, a Standard revision that relies on an assumption of voluntary, efficient, and consistent government aid subjects market participants to inherent risk. A transition period would mitigate such risk, while systematizing State Department procedures that may be necessary under the Paris rulebook.

c. A transition period would test the market for corresponding adjustments and alternative claims (e.g. financing of progress towards NDC achievement). In the experience of Natural Capital Partners, a corporate derives value from claims that map directly to its GHG footprint. The market will need time to assimilate new value propositions. As voluntary buyers become familiar with these options, known demand data can inform the actions of project developers, market intermediaries, policy makers, and ACR.

d. Project developers and intermediaries are not organized to managed offset portfolios around geography of credit generation and usage. It would undoubtedly be better to illuminate unforeseen issues during a transition period. Problems could be communicated to ACR and UNFCCC Focal Points, enabling resolution prior to binding requirements under the Paris rulebook.

e. Well-functioning markets depend on predictable structures. We understand that ACR is proposing to apply the new policy to all offsets of vintage 2021 forward, regardless of the version of the Standard under which a project is otherwise operating. This abrupt change may impact existing long-term offtake agreements that were executed without contemplation of offset usage restrictions. The change may also hinder future long-term agreements, as value realization hinges on the facilitation of a government agency that is not a party to the contract. More broadly, the simple fact that ACR would consider applying new rules to existing projects undermines confidence: carbon project development is far riskier if ACR’s rules may change long after resources have been committed. By advancing requirements ahead of the UNFCCC, ACR would introduce a new layer of uncertainty.
1. Geography of Credit Generation and Usage

a. Inside host country:
If an ERT credit is issued within a host country and used by an entity to compensate for or offset emissions or use against an emission cap target in the same country where it is created or generated, the claim will be captured in the government’s emissions inventory and then claimed as an ERR towards NDC achievement. Therefore, both the country and the entity can claim the ERR, regardless of the type of target, compensation, or nature of the claim, and corresponding adjustments are not required.

Natural Capital Partners supports ACR’s proposed policy towards usage of voluntary offsets within the host country. ACR rightly recognizes the validity of concurrent offsetting claims and contributions to NDC achievement. Natural Capital Partners suggests that application of offsets against corporate emissions inside and outside the host country bear no difference. The affected NDC remains that of only the host country. Across all geographies of voluntary credit generation and usage, ACR should apply the rationale reflected here.

b. Export of unit outside of host country to meet targets and for voluntary offsetting:
If an ERT is transferred for use to compensate or offset emissions or for use against a target outside of the host country, double claiming must be addressed. In this case the host country UNFCCC Focal Point must provide a letter of authorization and assurance that it will make a corresponding adjustment in its UNFCCC reporting. This letter will be required for the use of exported ERTs towards Paris Agreement NDCs, for CORSIA obligations, or for voluntary compensation of / offsetting Scope 1 & 2 emissions outside of the host country.

For ERTs exported for use against emissions or a target outside the host country, the host country UNFCCC Focal Point must issue a letter to authorize the use of the ERRs by another Party or entity, and in that letter attest to report the transfer to the UNFCCC in the structured summary of its biennial transparency reports and make an accounting adjustment as required by the UNFCCC. This authorization letter will be posted publicly on the ACR Registry and the units will be tagged as Paris-aligned.

When the retirement of ERTs occurs (for use towards an NDC, towards CORSIA targets or for corporate scope 1 and 2 emissions), the specific reason for the retirement will be noted on the registry.

1) As stated previously, ACR’s requirements are premature. The stipulation that, for voluntary offsets, a UNFCCC Focal Point must commit to “make an accounting adjustment as required by the UNFCCC” implies that the UNFCCC has such a requirement. We have identified none. In a footnote, ACR references paragraph 77, subparagraph (d) of the Annex to decision 18/CMA.1 of the Conference of the Parties serving as the Meeting of the Parties to the Paris Agreement; the precise connection to ACR’s proposal is unclear. Natural Capital Partners does not interpret the cited clause to be applicable to voluntary carbon units. In any case, the brief text defers four times to “decisions adopted by the CMA on Article 6.” We suggest it immensely prudent to wait for these decisions before formulating ACR policy.

2) As noted in the discussion about the need for a transition period, UNFCCC Focal Points may lack the inclination or capacity to efficiently facilitate the ACR Standard. Unlike the Paris Agreement
and CORSIA, international treaty does not compel governments to help operationalize ACR’s rules. As per discussion, ACR’s impression that the State Department will provide the necessary assistance is encouraging. However, a Standard revision that relies on an assumption of voluntary, efficient, and consistent government aid subjects market participants to inherent risk.

3) The “Paris-aligned” descriptor is overly broad and is embedded with interpretation. Until Article 6 rules are agreed, it is impossible to establish whether any particular accounting treatment of voluntary offsets is consistent with the Paris Agreement. Should ACR opt to move ahead with a tag associated with corresponding adjustments, the label should be narrowly worded, simply reflecting that a UNFCCC Focal Point has agreed to apply a corresponding adjustment.

4) Any label holds the potential to create value differentiation (as is typically the purpose). An optional label can, in fact, increase an offset’s price by recognizing an attractive attribute. However, ACR goes further, proposing new usage restrictions for credits lacking the label. No longer could an offset be freely applied against non-host-country Scope 1 or 2 emissions. With this step, ACR’s proposal would actively impair value of untagged offsets. Should ACR choose to move forward with a tag, ACR should not impose restrictions on usage of untagged offsets.

2. Nature of the Claim
If an entity pays for ERT credits or finances the generation of ERT credits in the host country and the title to the ERR is not transferred to the entity, the host country can claim the ERRs towards its NDC achievement, and the entity can make a climate finance or NDC achievement claim. This does not require a corresponding adjustment.

This type of claim includes voluntary compensation for Scope 3 emissions (geography of the emissions is not considered). Since there is no transfer of ownership or use towards a target outside the country (NDC, CORSIA, voluntary scope 1 and 2), there is no double counting. The Party or entity can claim they supported the NDC achievement of the host country, and the host country shall retire the credits before reporting the use of the ERs toward its NDC, noting the reason for retirement as towards NDC achievement and further recognizing the climate finance contribution or scope 3 emissions offset.

Natural Capital Partners reads this as allowing Scope 3 offsetting by a company outside the host country only in concert with the host country government’s retirement of the offsets, application of the emissions reductions to the host country NDC, and host country recognition of the entity that paid for the offsets. We suggest that the rationale is unclear, and the practicality is questionable (e.g. UNFCCC Focal Points operating ACR accounts and companies relying on government acknowledgement after having paid for the emissions reductions). However, based on discussion with ACR, we understand that the intent is that Scope 3 emissions offsetting will be allowed to continue as it is today: voluntary buyers will be able to buy and retire offsets against Scope 3, irrespective of geography. Natural Capital Partners supports such continuation of the current approach.

Please understand our input as supportive of the quality and integrity for which ACR is known. Feel free to get in touch if you would like to further discuss any of our comments. In addition, please know that we

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1 One is reminded of the purportedly deliberate slowing of older models of phones. The older phones became less useful (and lost value) simply because they could not do what they did before.
consider this an open letter, and we request that this and all comments be posted on ACR’s website. Thank you again for this opportunity to contribute to ACR’s Standard revision.

Kind regards,

Arjun Patney
Vice President, Global Markets