December 7, 2018

COP24 Side Event Report
4th ICROA Workshop on Increased Voluntary Action Under the Paris Agreement

Overseas Environmental Cooperation Center, Japan

Prepared by Jun Watanabe

This is a report of a side event held at 24th Session of the e Conference of the Parties to the UNFCCC (COP24) from December 2nd to 14th 2016, in Katowice, Poland.

- Title: 4th ICROA Workshop on Increased Voluntary Action Under the Paris Agreement
- Date: 7 December 2018, Friday, 10:30–12:00
- Organizers: International Carbon Reduction & Offset Alliance (ICROA)
- Panels: Jonathan Shopley (Managing Director at Natural Capital Partners), Jeff Swartz (Director for Climate Policy & Carbon Markets at South Pole), Owen Hewlett (Chief Technical Officer, Gold Standard), David Antonioli (CEO, Verra), Wolfgang Obergassel (Project Coordinator, Wuppertal Institut), Nancy Meyer (Director of Corporate Engagement at C2ES)
- Moderator: Ana Aires Carpinteiro (ICROA co-Chair and Business Development Director at Nexus for Development)

Abstract

Update on ICROA's the Guidance Report on pathways to increased voluntary action by non-state actors (Oct, 2017) was shared at the beginning and voluntary market players and researchers took closer look at options and challenges to operationalize voluntary action under the Paris Agreement and discussed the notion of a transition period for the voluntary market.

Session summary

- Jonathan Shopley (Managing Director at Natural Capital Partners): Opening remarks by ICROA

[Accounting treatment for voluntary action by non-state actors to avoid double counting]

✓ Non-state actors accelerate climate ambition under the PA when; 1) they fund additional emission reductions that are not required by regulation, and 2) The country in which the emission reductions are generated benefits from the emissions reductions funded by non-state actors.

- ✓ This is the case in all instances where; 1) Action by non-state actors is voluntary and free of any regulatory requirement, 2) Emission reductions are accounted for only once, in the host country, 3) Credible standards establish the emission reductions using accurate baselines that reflect changing regulatory requirements in the host country.
- ✓ ICROA proposed three potential models for the future framework of the voluntary carbon market in the Guidance Report on pathways to increased voluntary action by non-state actors (Oct, 2017).
  - Non-NDC crediting model: Credits are generated from sectors which are not currently part of a host country's NDC
  - Financing Emission Reductions model: Emission reductions are financed by non-state actors (without claiming carbon neutral) and contribute to the host country's NDC
  - NDC crediting model: Emission mitigation units generated under the Paris Agreement's article 6.4 mechanism are voluntarily purchased and retired by non-state actors
- ✓ ICROA's thinking was evolved when we looked at NDCs, non-NDCs and different state of NDCs at the moment. For example, there are NDC targets not backed up by regulations. We propose three options to navigate through that grey zone post-2020.

[Contribution claim]

  - Emission reductions financed by non-sate actors contribute to the host country's NDC
  - End-buyers claim a contribution toward the host country's climate goals. Change from ownership of an emission reduction to the attribution of an emission reduction.
  - Examples are Gold Standard's Alternative VER Claims solution / Verra's DCC unit.

[Net-zero claim in regulated sectors]

  - Emission reductions financed by non-state actors in regulated sectors inside an NDC can be used for net-zero claims if an adjustment is applied to the host country's NDC to avoid 'hot air'.
  - If reductions originate from regulated sectors outside the NDC, appropriate baseline adjustments are required.

[Net-zero claim in unregulated sectors]

  - Emission reductions financed by non-state actors can be used for net-zero claims when they are additional. i.e. go beyond a credible baseline.
  - These emissions reductions may originate from sectors inside or outside the NDC.
- ✓ Key considerations in ICROA's evolving position
  - The IPCC SR15 brings new emphasis to the goal of net-zero, and we must ensure

that alternatives do not undermine or detract from maintaining that option for no-state entities.

- Until the NDC accounting processes under the PA are clarified and implemented, alternative claims may not always result in raised ambition in host countries.
- Breaking the link between a non-state actor's carbon footprint and its compensating actions may not lead to raised ambition across the private sector.

✓ Further work is needed to; 1) unpack each of the 3 options, 2) simulate how each options would work in host countries with different types of inventories, 3) understand how a (bottom-up) transition would look like, 4) understand how to design and implement GHG registries than can account for both compliance and voluntary actions, 5) explore how a voluntary market account could work in the broader Art. 6 framework, 6) Credible standards need to establish emission reductions using baselines that reflect changing regulatory requirements in the host countries.

■ Jeff Swartz (Director for Climate Policy & Carbon Markets at South Pole): Opening remarks by ICROA

✓ ICROA now tries to not go too far away from UNFCCC negotiations on Art. 6 with recognizing double counting issues are intensely discussed there and our pace has to mirror their pace of negotiations. However, our objectives are slightly different and need to come up with our own solutions.

✓ Types of GHG inventories varies from countries and our three options work differently and solutions can be different depending on specific circumstances (e.g. type of inventory).

✓ What we call 'grey area' is defined as an area included by NDC but without policies or regulations. This is very important issue. How a transition period might work in the area? How could voluntary actions take place in the specific sector before a regulation will be taken place?

✓ Another key component is a role of registry. There are many registries; VCS, Gold Standard and each countries registries. Registries need to be designed to clarify attribution of emission reductions.

✓ We also propose the development of an international voluntary market account, as a central data repository of voluntary actions across the private sector.

✓ Concept of additionality and setting of credible baselines are also very important issues.

Q: Any plan for consultation with clients?

A: Jeff

At this stage, we are a bit hesitant to have consultation with clients because things are not in order yet. But soon or later we will have some consultation in informal way.

■ Owen Hewlett (Chief Technical Officer, Gold Standard)

✓ There was a big uptake in the voluntary market in 2017. I believe this is because more companies want to participate in voluntary actions to contribute to the PA and consumers are demanding that.

✓ We know there is a line of separation between voluntary offsetting and corporate reporting. GHG Protocol, CDP and SBT doesn't accept offsetting. Some large companies reducing GHG within the boundary of GHG Protocol are saying that they want to show more. We have a solution here and they have a problem there, but there is no connectivity between the two.

✓ We've been surfing for solutions for this with ICROA, Verra and civil society partners. The start was how we can connect carbon units to contribution in the PA.

✓ But, there is another model that says a corporate makes contribution to the PA. A contribution to the PA can be combination of a corporate inventory and its investment. Is it not OK that a company has its inventory and country has its inventory and I contribute to that, so my inventory is contribution to national and international accounting?

✓ In addition, Gold Standard is particularly focusing on small community targeted projects in LDCs, so if we encourage companies to do the corresponding adjustment, it would take away opportunities of those countries.

■ David Antonioli (CEO, Verra)

✓ When the PA came out a few years ago, people thought that voluntary market would be game-over after 2020. But the reality is there are increasing investments on voluntary actions. Now people recognize that offsetting is legitimate and concrete action you can address climate change.

✓ Additionality is always the key consideration and we are working on that.

✓ Verra (VCS) started a transition from project based activity to jurisdictional level in REDD.

■ Nancy Meyer (Director of Corporate Engagement at C2ES)

✓ One of C2ES's key element of work is 'Business environmental leadership council'. There are 33 members and facilitating stakeholder discussion among businesses, governments and local governments.

✓ A stakeholder dialogue earlier this year included discussions about carbon neutrality.

✓ More and more companies try to set CN goal and figure out strategy. Adding to energy efficiency or renewable energy measures, they need offsets.

- ✓ We also facilitated a dialogue with cities this year. Mahindra groups

- ■ Wolfgang Obergassel (Project Coordinator, Wuppertal Institut)
- ✓ There are three potential roles of the voluntary market as an investor:
- ✓ Role 1: Buyer of carbon neutrality credits. The PA puts this role at risk by reducing "uncapped environment". Future potential will depend on:
  - The requirements for and willingness of host Parties to account for MOs
  - Domestic capacities to implement corresponding adjustments
  - Transparency and access to the corresponding adjustment framework.
- ✓ Role 2: Supporter of NDC implementation
  - No need for corresponding adjustment
  - New commodity (investor will acquire 'NDC support unit'.)
  - Potentially interesting for large companies with global reach
  - Possible risks: delinking investments from own emissions could lead to window-dressing and weakening of MRV standards
- ✓ Role 3: Driver of ambition (Interest from the voluntary market to contribute to ambition raising)
  - New commodity
  - Double claiming if reductions are used for carbon neutrality and for claiming ambition raising?
  - Link to buyer's emissions?

Q&A session

Q1: Does quality of NDCs become problem?

A1 Jeff Swartz: South pole will not develop any projects in NDCs without ambition. That means we ourselves need to judge whether it is ambitious. Project developers should be experts on NDCs and avoid risks of double counting.

Q2: How standards facilitate transition (e.g. change of sector coverage by NDC)?

A2: Jeff Swartz: I think voluntary actions can be implemented within sectors covered by NDC but not addressed by actual policies. NDC itself is just a paper if there is no actual implementation.

————————————————————

To access the Side Event Reports, please refer to the following link:

English:

https://www.carbon-markets.go.jp/en_info-2/en_info_event/y_2018/cop24-reports/