Voluntary Carbon Markets and Article 6 of the Paris Agreement

ERCST Article 6 Community Center

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Standards for a Sustainable Future

Verified Carbon Standard

Sustainable Development Verified Impact Standard

Climate, Community & Biodiversity Standards

Environmental Finance
Voluntary Carbon Market Rankings 2021
Winner

- Nonprofit, established 2007
- World-leading GHG crediting program through the VCS
- Measurement of environmental and social impacts
- 1733 projects globally
- 760 million credits

VCM climate action

- Drives private finance to climate action projects that would otherwise not get off the ground
- Supports innovation
- Fast-tracks mitigation action
- Builds capacity
- Mobilizes capital into countries that need it most
- VCM is booming with investment ready to flow

VCM issuances and retirements

Issuances have grown almost five-fold since Paris

Retirements have more than doubled

Source: Ecosystem Marketplace Insights Report, Markets in Motion: State of the Voluntary Carbon Markets 2021, Installment 1

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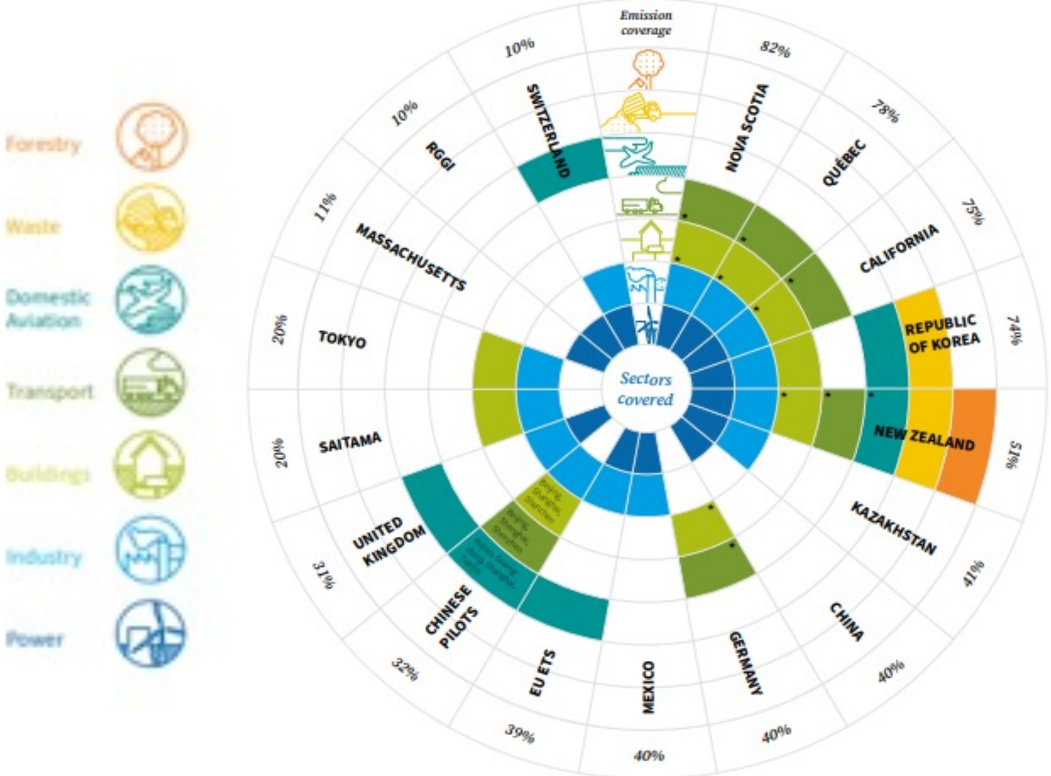
Ample scope for VCM investment



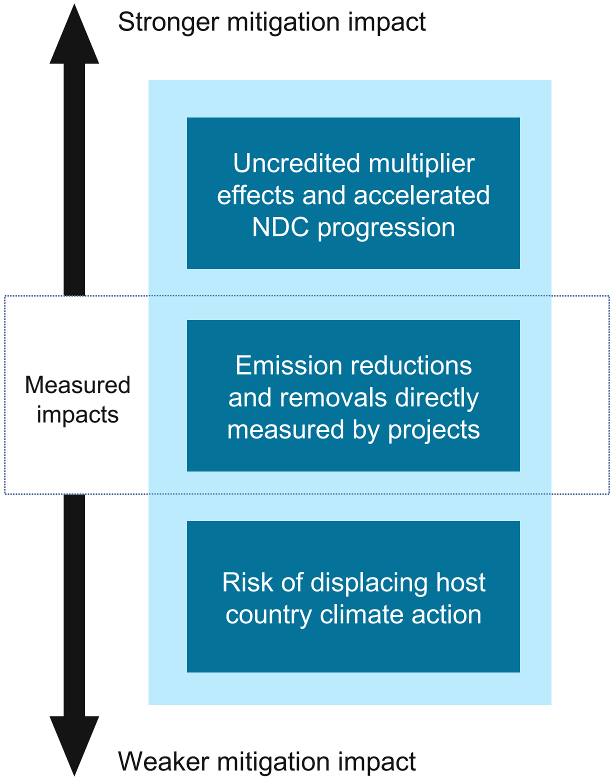
- Large point sources are likely first point of regulation
- Agriculture, forestry and other land use are likely to be last to be regulated
  - ✓ Natural climate solutions are the fastest growing sector in the VCM
- Developing country governments have hard time delivering resources to far off communities

Source: ICAP 2021. Emissions Trading Worldwide: Status Report. 2021 Berlin: International Carbon Action Partnership.

Voluntary ambition, growing ambition

- VCM incentivizes mitigation beyond levels set by government policy and expected under NDCs
- Mitigation hierarchy prioritizes emission reductions from companies’ own internal and value chain emissions
- VCM investment is essential to many conditional NDC pledges that will only be achieved with international support

Mitigation impacts of the VCM



VCM projects have impacts beyond the emission reductions and removals issued as credits

- Positive impacts help shift host onto long-term net zero path
- Risk of negative displacement has potential to at least partially undermine VCM results

Any attempt to account for other mitigation impacts should include positive impacts, not only negative

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Corporate versus national accounting

- Accounting frameworks for emissions by companies and countries are separate and run in parallel
  - ✓ Company and host country claims to mitigation benefits from VCM projects are recorded in different accounting frameworks
  - ✓ VCM cannot cause double counting between countries under Article 6, because there is no acquiring country
- Concern remains that lower national emissions (due to VCM projects) may reduce pressure exerted by NDCs and cause host countries to reduce their mitigation effort
  - ✓ Such ‘displacement’ could undermine some VCM mitigation
  - ✓ Drives calls for accounting adjustments by host countries for the VCM

Displacement is a risk, not a certainty

- Actual displacement requires key assumptions to be met
  - ✓ VCM projects are in sectors covered by the NDC (NDC scope)
  - ✓ NDCs did not request international support (NDC unconditionality)
  - ✓ NDCs are clear on how many tonnes will be reduced (quantification)
  - ✓ Hosts are able to implement their NDCs in full (capacity and finance)
  - ✓ Climate policy is sophisticated enough to react to fine differences in emission levels (modification)
- Unrealistic for many countries that need of VCM support
- Whether lower national emissions lead to less mitigation effort by host countries will depend on the NDC and country circumstances
- Meanwhile, requiring CAs assumes 100% displacement

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Adjustments are not benign (1)

- Mandatory adjustments for host countries with VCM projects can be expected to slow mitigation action
  - ✓ Countries remain reluctant to commit to adjustments
  - ✓ Developers do not have political capital to persuade them
  - ✓ Exposes developers to government and financial risk
  - ✓ Hindrances will especially impact small local participants in the VCM and divert attention from lesser developed countries
- Adjustments may drive projects away from developing countries

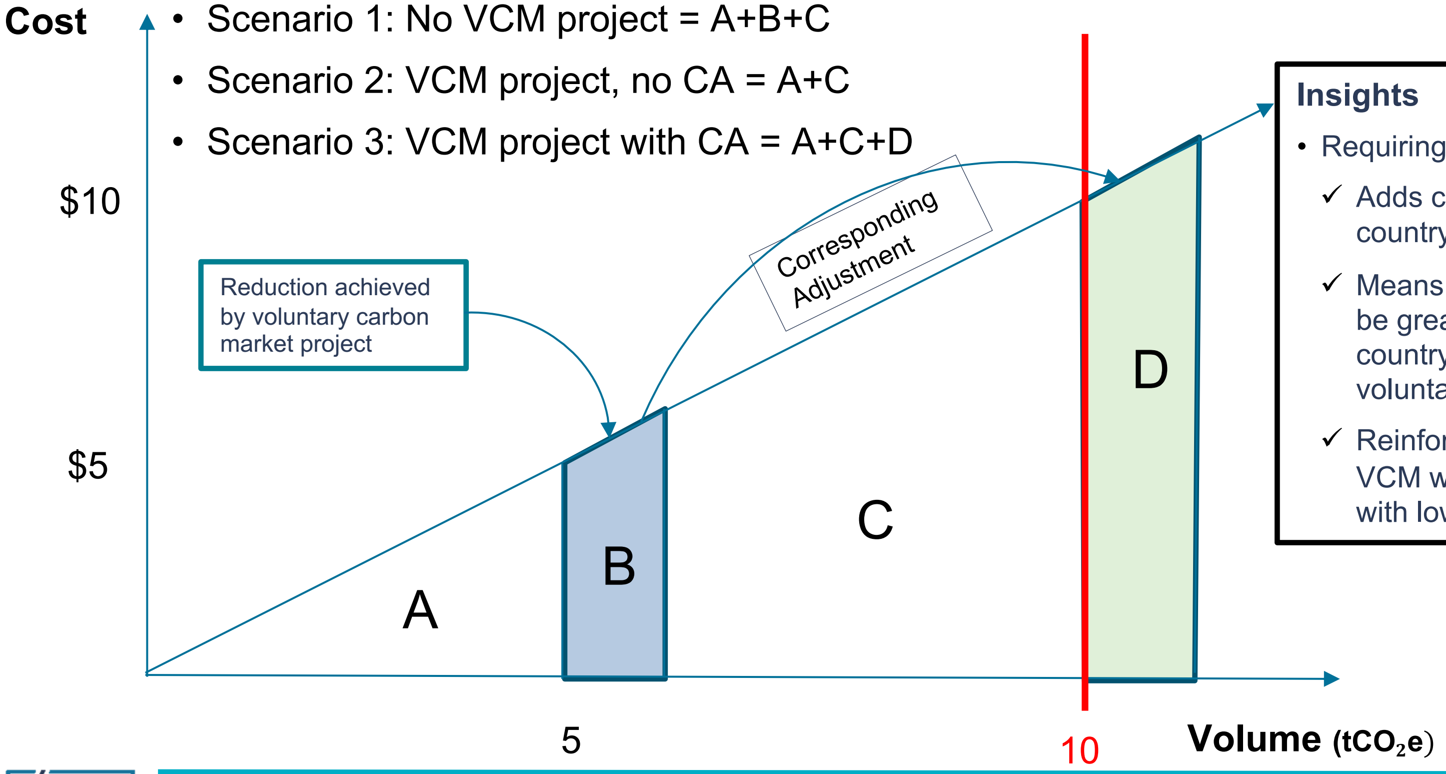
Adjustments are not benign (2)

- Mandatory adjustments would encourage ‘contribution claims’ through which companies contribute to host country NDCs
  - ✓ May undermine corporate ambition by delinking action from its carbon footprint (liability) and making claims less tangible
  - ✓ May undermine market dynamics and undo recent and continuing advances (TSVCM)
  - ✓ May return the VCM to a world of purely corporate philanthropy

Adjustments are not benign (3)

Cost to host country:

- Scenario 1: No VCM project = A+B+C
- Scenario 2: VCM project, no CA = A+C
- Scenario 3: VCM project with CA = A+C+D



Insights

- Requiring CAs. . .
  - ✓ Adds costs to host country
  - ✓ Means per unit cost could be greater for Host country than the cost of voluntary reduction
  - ✓ Reinforces concern that VCM would walk away with lowest hanging fruit

Build on positive impacts

- Risks of displacing host's mitigation action may increase over time as NDCs, capacity, systems and climate policy improve
- Alternative methods for addressing risk are available
    - ✓ Prioritize transformative projects
    - ✓ Include projects in next NDC cycle
    - ✓ Raise resources from projects to feed into more activities
    - ✓ Host countries provide guidance to VCM participants
- Multiple long-term solutions can be sought that accentuate positive mitigation impacts and don't only focus on risks

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Key takeaways

- Verra supports an ambitious and comprehensive Article 6
- But also wishes a robust, vibrant and inclusive VCM
- Mandatory accounting adjustments for the VCM are unnecessary and based on unrealistic assumptions
  - ✓ Would harm mitigation efforts more than they would help
  - ✓ Longer-term measures to address possible displacement risks should recognize different country circumstances
- Accounting can include measures to accentuate positive mitigation drivers that consider NDC and country circumstances

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