Carbon Market Watch response to Verra's proposal for scaling voluntary carbon markets and avoiding double counting post-2020

Carbon Market Watch welcomes the opportunity to provide feedback on Verra's proposal. We echo Verra's recognition that there is a need to differentiate between credits which do or do not meet all the requirements set (or to be set) under the Paris Agreement's article 6 rules. However, we express concern that Verra's proposed "labelling" approach will not be sufficient to ensure environmental integrity. We note that transparently providing the information is not sufficient given the technical nature of the issue. Many buyers of carbon credits have a very limited understanding of the technical specificities of the offsets they purchase. It is likely that only a few buyers, most likely those with the most resources who can invest in order to research the quality of the offsets they purchase, will be able to clearly understand the implications of Verra's proposed labels. As the largest voluntary market standard by issuance volume, Verra has a responsibility to not offer products that could mislead buyers. Our recommendation is that Verra does not offer the possibility for buyers to acquire carbon offsets for "neutrality" claims if these offsets have not been subject to corresponding adjustments.

Verra should adopt the same level of environmental integrity as Gold Standard has on this topic, and which the American Carbon Registry is proposing to follow to a large extent in its recent public consultation document on this matter. Otherwise, this will not only pose a risk to the climate, as companies claim to have neutralised their climate impacts with credits backed by questionable accounting, but also to Verra's reputation, and that of the entire voluntary market. We urge Verra to be cautious as the proposed approach could result in the VCS being seen as a standard which tolerates double counting and prioritises issuance volume over integrity.

Finally, CMW expresses a major concern regarding Verra's proposed deletion of section 3.20.1 in the VCS standard, as this would overturn an essential prohibition in carbon markets: that of not issuing credits for reductions which are already counted in ETS or comparable mechanisms. Verra's proposed approach to rely on labelling would be far less stringent than the current rules on this. This is especially true given that Verra does not propose to have a label stating "this reduction has also been counted under an ETS", but rather would have no label at all for such credits, and would simply label the "better" credits as being article 6 compliant. This proposed change would allow the issuance of credits for reductions which are counted as part of established national ETS. For example, it would allow regulated entities under the California cap-and-trade to issue VCUs for an emission reduction which has also been counted towards their compliance obligations, and which has hence reduced the total

number of allowances the installation had to surrender to the regulator. In addition, a project could issue both a VCU and a Renewable Energy Certificate (REC) for MWh of clean energy produced. Both instances are clear cases of double counting. This rule change would seriously undermine the credibility of VCUs and overturn a fundamental restriction applied by all programmes.

Reply to Verra's consultation questions:

1) Do the label titles "Article 6-Compliant" and "Pending Article 6" make sense? Or, should these labels have different names?

Together with this labelling approach, Verra should also clearly identify which types of claims can be made with a given label. While the current proposal suggests that buyers would be free to choose, this places an excessive amount of responsibility on the buyers, and there is a significant risk that buyers will not be aware of the implications of a "non-article 6 compliant" unit - especially since there will be no such label. Hence, in addition to the proposed labels, Verra should introduce a label "not article 6 compliant". Otherwise, the labelling system creates a bias because labelled credits will be perceived as "extra high quality" compared to "normal" non-labelled credits, whereas in reality, the non-labelled credits do not meet minimum requirements set in the Paris Agreement, and should hence be labelled as such for full transparency. This is particularly true given Verra's proposed approach of letting buyers decide which claims will be appropriate to make.

2) Do you think carbon credits (VCUs) being used to meet corporate voluntary GHG commitments (e.g., "net-zero" or "carbon neutrality") should require a corresponding adjustment to be made by the project's host country? Please explain your rationale.

Yes, CAs are required if credits are used for compensation. Without CAs, the buyer de facto finances the host country's efforts towards meeting its NDC, and this should be labelled as such. There are several cases where not requiring a CA would lead to lower climate action. For example, if a buyer purchases an offset *instead* of reducing its own emissions, and the host country does not increase its own target as a result of the sale of the credit, then overall emissions increase, because no extra abatement has taken place (the host country had to meet its target anyway), but the credit allowed the company to emit one extra tonne of CO2e.

While it is not always true that a credit with no CA will *increase* emissions, it is clear that a credit with CA will virtually always drive more reductions than without a CA.

Arguing that no CA is needed because the company's emissions are not reported to the UNFCCC, and that this is therefore not a double counting problem, is equivalent to treating the climate crisis as an accounting problem rather than a physical phenomenon. If the voluntary market aims to drive climate action, then it should focus on driving finance towards new reductions, not towards reductions which countries have committed to achieve already.

Applying the precautionary principle, Verra should hence not issue offsets for compensation if the underlying reductions are not subject to a corresponding adjustment by the host country.

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3) How readily do you anticipate host countries will be willing and able to make such adjustments and by when? What incentives are there (could there be) for countries to make such adjustments, given they will have to then find and finance other reductions to meet the NDC?

Host countries could still benefit from projects if these projects target high-hanging fruits and deliver co-benefits, including clear contributions to sustainable development.

The ability and willingness of host countries to apply CAs, however, has potential to be informed and guided by Verra's rulemaking and decision on possible claims. The fact that host countries might be reluctant to apply CAs because this would require them to finance new reductions clearly shows that 1) if no CA is applied, then the company will finance what the host country had already committed to, but the host country will not engage in extra abatement; and 2) in the long-term offsetting is unsustainable because it assumes that there will always be "extra abatement" to be sold. Clearly, it will become increasingly difficult for host countries to issue offsets and apply corresponding adjustments because they will need to keep the reductions to meet their own targets. But this shows the limited future scope for relying on offsets, and it is not a reason for weakening accounting rules. Voluntary carbon market actors can play a crucial role here to lead by example.

This is why encouraging the market to transition towards "contribution" claims is more representative in the short term, and more viable in the long term. Companies can finance domestic climate action, but this does not "cancel out" their own impact.

4) If countries may be unwilling or unable to make such adjustments, at least in the near term, would you support allowing corporates to continue to use such (non-adjusted) credits for a period of time if that is needed to maintain and grow voluntary climate action and finance? How could that be designed in a way that also incentivizes and supports country readiness to provide adjustments?

See comment above. The voluntary carbon market should never deviate from true and accurate representation of its impacts, and the claims associated with the purchased credits should not be allowed to diverge from reality simply for the sake of continuing to sell offsets. Carbon markets have already suffered from reputational challenges, and further weakening the claims in order to continue selling credits will only worsen the situation. Agreeing to soften the accounting rules or the claims would mean going down a slippery slope. At what point is it no longer acceptable to reduce integrity for the sake of generating more projects and more credits? Is there a climate and social benefit in significantly weakening standards, if the result is the implementation of projects which have little benefit for the climate, or the use of claims which misrepresent the reality of the efforts achieved?

If countries are not ready or willing to apply CAs, then buyers should claim to have contributed to the host country's climate action, i.e. not claim carbon neutrality. Because this will be the reality: the money will finance projects that contribute to the host country's climate target. Without the money, the country would arguably have had to meet its target anyway. Hence the real impact is a financial contribution, not the creation of a new additional reduction that can be used for compensation.

5) Do you feel requiring corresponding adjustments for such voluntary commitments will help or hinder climate change mitigation efforts and why?

It will help mitigation efforts. Not requiring CAs would hinder mitigation efforts because it would allow companies to claim to have no impact on climate change, by financing reductions which the host country had to deliver anyway.

While double counting and additionality are separate concepts, they are interconnected when it comes to the voluntary market. It could be argued that credits without CAs are not additional at a country level (or at an emission reduction level) even if the project itself is additional. This is because the reductions achieved will help the host country meet its target, and this will perhaps mean that the host country *will not* pass a policy, or *will not* start a new project, because its target has been achieved already. Hence the company is purchasing a reduction which had to happen anyway, and can use this reduction to claim neutrality, and perhaps even increase demand and production - with associated climate impacts - or lobby against additional climate measures on the basis that “it is already carbon neutral” (which is already happening as an adverse side-effect of voluntary carbon markets).