

## **Carbon Market Watch response to Verra consultation on a new methodology for harvest deferral**

### **Introduction**

Verra has launched a [public consultation](#) on a new methodology, developed by NCX, which proposes methods for the generation of carbon credits from activities aimed at deferring timber harvest by as little as one year.

This response covers Carbon Market Watch's (CMW) main comments on the methodology. It does not provide detailed advice on specific elements of the methodology, as we believe that the proposed document is deeply flawed and that the proposed logic is unfit for the generation of carbon credits. **This methodology does not meet the basic VCS Quality Assurance Principles<sup>1</sup> and should therefore be rejected.**

### **Lack of additionality**

The methodology does not require any additionality testing, and simply demands proof of regulatory surplus, i.e. proving that the activity is not already legally required. It assumes that all reductions below the baseline are additional, i.e. that any deferral of timber harvest is necessarily due to the possibility of issuing carbon credits. This is an unrealistic assumption which goes against one of the most fundamental principles underpinning carbon markets: proving additionality.

Harvesting of timber could fall below the baseline for numerous reasons, and the incentives provided by carbon markets is only one of them. Owners could change their management strategy and decide to let trees grow wider before harvesting them (independently of carbon credit revenues). There could be exogenous market forces such as a sudden and major drop in timber prices that make it temporarily uneconomical to harvest the timber. There could be shortages in skilled workers or functioning equipment, thus reducing harvest possibilities. The list goes on. Assuming that all harvest deferrals are a result of carbon market forces, and that activities are therefore additional, is completely inappropriate and could lead to the creation of vast amounts of non-additional carbon credits.

### **Artificial build-up of non-additional credits**

The methodology includes a specific feature which is designed in a way that will increase issuance of non-additional credits as time passes, for specific types of projects. This is because landowners sometimes face constraints with respect to the maximum timber they can harvest in a given year, e.g. regulatory or technical or economic constraints. This means that, if they defer harvest in one year, they will not be able to 'make up for it' through increased harvesting in the following year. In this situation, the methodology foresees that, in years subsequent to the year in which harvest was actually deferred, carbon credits can continue to be issued for the extra carbon that is stored in the timber that was initially not harvested. The baseline would be raised

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<sup>1</sup> <https://verra.org/vcs-quality-assurance-principles/>

to include not only the timber at real risk of being harvested, but also the timber that was not harvested in the past, and which still cannot be harvested in the present.

This is incompatible with basic additionality rules. If landowners face constraints in the amount of timber they can harvest, then the 'extra' timber is by definition not at risk of being harvested. Including this timber in the baseline is an obvious case of artificial baseline inflation which will result in over-crediting.

In addition, the methodology foresees that this can be done for as long as the owner remains active in the programme. This means that, a landowner who defers 10% of their harvest each year, and faces a harvesting constraint which means that they are never able to harvest more to make up for past deferrals, will, in year 10, receive credits as if he had deferred 100% of harvest, despite only deferring 10%<sup>2</sup>. In year 11 and beyond, the owner will receive credits equivalent to *more than 100%* of deferral, which is nonsensical. This is simply driven by the methodology which allows an artificial baseline increase that builds up over time.

### **Adverse selection from baseline setting**

The proposed method for baseline setting is likely to result in adverse selection, with the option for some landowners to get credits for no action. The proposed method bases the risk of timber harvest in a given year on an econometric model that estimates the risk based on various factors (like timber product prices, distance to mills, etc.). This means that any landowner can run the model using the parameters specific to their land, and decide to enter the scheme if the model creates a baseline that is higher than their actual harvesting plan.

This obvious adverse selection impact does not seem to be addressed, nor mentioned, in the methodology, and yet creates a large loophole with the risk of creating hot air credits generated against inaccurate baselines.

As a side note, the method also proposes that all lands where an exercisable option for timber harvest exists, can assume a harvesting rate of 100%. This does not seem adequate. For example, what would prevent a landowner and a timber buyer to agree on an option for timber harvest, with the clear understanding that the option will not be exercised, and simply cash in all the carbon credits from a forest that was in reality not at all threatened? This is an open door to abusive behaviour.

### **Inappropriate tonne-year accounting**

The methodology makes use of tonne-year accounting, aiming to generate permanent credits for temporary storage, which could be as short as one year. This is inappropriate. From a carbon budget perspective, temporary storage does not contribute in any significant way to

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<sup>2</sup> Because in year 1, the owner gets credits for having deferred 10% of their harvest. In year 2, it gets credits for having deferred 10% in year 2 + the 10% deferred from year 1. In year 3, it gets 10% from year 3 + 10% from year 2 + 10% from year 1... and so on. In year 10, it will receive the equivalent of 10 times a 10% deferral, i.e. 100%, even though there is really only 10% that is at risk of being harvested.

meeting climate targets. Such short term storage is by no means comparable to the long-term impacts of carbon which is released to the atmosphere. Please see CMW's more detailed response on tonne-year accounting [here](#).

### **High leakage uncertainty**

Finally, provisions to assess leakage lack a credible scientific basis. While they mostly rely on the VCS standard v.4.2 provisions on leakage, it is unclear what the scientific basis for these is. The proposed leakage default factors of 10%, 20%, 40% and 70% are not justified anywhere. Nor is there a justification for the thresholds in the comparison of ratios of merchantable to total biomass in the activity and project areas, which are used to select the default leakage factor.