GOLD STANDARD POLICY BRIEF:
A New Paradigm for Voluntary Climate Action: 'Reduce Within, Finance Beyond'

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Executive Summary

The voluntary carbon market has made a significant contribution to climate mitigation through the delivery of greenhouse gas emissions reduction at scale. It has been instrumental to the success of the Paris Agreement by raising corporate climate ambition over 10+ years. As commitments under the Paris Agreement currently fall short of what is required to keep global temperature rises well below 2°C above pre-industrial levels, voluntary climate action – more than ever – can and must help bridge the ambition gap.

Despite its proven track record, the voluntary carbon market faces two life-threatening challenges. First, the failure of 'offsetting' as a call to action globally endorsed by a broad range of climate groups fundamentally challenges the legitimacy of existing climate commitments and poses a significant hurdle to new ones.[1] Second, while now an isolated issue, the risk of double counting will become a global challenge post-2020 – potentially undermining the promises of the voluntary carbon market.

Reframing offsetting and overcoming the challenge of double counting can be achieved simultaneously via a new paradigm for voluntary climate action. We argue that best practice corporate climate action is composed of two connected commitments: 1) reduce emissions in line with what is required by science to stay well below 2°C and 2) finance emission reductions elsewhere in an amount at least equivalent to residual emissions.[2]

Innovative thinking and new approaches are required to deliver on the ambitious Paris Agreement. This new paradigm – 'reduce within, finance beyond' – is designed to remove old barriers to civil society consensus on offsetting and to better reward corporates for climate action beyond their own boundaries.

1 Leugers 2016, 'Offsetting: Success in projects, failure of communications.' Available at: http://www.goldstandard.org/blog-item/offsetting-success-projects-failure-communication [Accessed March 2017]

2 For more information see: http://sciencebasedtargets.org [Accessed March 2017]

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> *"Gold Standard offsetting projects goes further than reducing emissions, ensuring that projects follow international best practice and contribute holistically to sustainable development"*

Photo: Safe Water Security Programme, Uganda

Introduction

With a cumulative transacted value of about $4.6bn and 329 million tonnes of carbon dioxide equivalent (mtCO2e) avoided[1] over the period 2005-2016, the voluntary carbon market has played a significant role in delivering climate action at scale.

Despite its proven track record, the voluntary carbon market faces two life-threatening challenges. First, because it lacks an intrinsic connection to commitments to reduce at home, 'offsetting' has failed to gain global endorsement by a broad range of climate groups. This fundamentally challenges the legitimacy of existing 'carbon neutral' commitments and poses a significant hurdle to gaining new ones. Second, now an isolated issue, the risk of double counting will become a global challenge post-2020 with the potential to undermine the promises of the voluntary carbon market.

Does this mean that the voluntary carbon market is in a terminal phase?

Voluntary climate action today

The promises of the voluntary carbon market

When Group La Poste[2] made the commitment to go carbon neutral in 2012, it planned to reduce its emissions by 15% by 2020 and to support the transition to low carbon development in developing countries. To meet this goal, La Poste planned ambitious emission reductions measures internally and purchased emission reductions[3] in an amount equivalent to its residual emissions – in 2015, this equalled 1.5mt CO2 equivalent.

Continuing this trend, today 89 global companies have set goals to operate on 100% renewable electricity under the RE100 initiative[4], while 224 have committed to ambitious emissions reductions targets as part of the Science Based Targets initiative.[5]

In 2015, a record 39.5 million tonnes of offsets were retired on the voluntary market. For every tonne of CO2 retired, a company or an individual expects that its funds will have contributed to a reduction that would not have otherwise happened and that this reduction makes a difference beyond what would have been achieved by the compliance framework set under the Kyoto Protocol.

Voluntary carbon standards ensure that this promise is kept. The Gold Standard goes further by providing additional assurance, including that projects are following international best practice and contribute holistically to sustainable development—more important than ever with the deepening integration of the climate and development agendas.

A new demand driven trend: projects closer to 'home'

Demand is now growing for offset projects with closer links to corporate activity – in developed countries where companies are headquartered ('domestic offset projects') or in their supply chains. Laure Mandaron, Director for Sustainable Development at La Poste (services-mail-parcels business unit), explains: "As our carbon neutral program became more mature, stakeholders voiced their expectation that a share of our investments be targeted at areas where we operate – that is France – as opposed to developing countries only."

This recent trend is important because it shows the potential for corporate climate strategies beyond carbon neutrality goals, provided that corporate climate investments make business sense and are fully recognised for the positive impacts they deliver.

The double counting conundrum

Double counting occurs when a single GHG Emission Reduction unit is used more than once. If a company purchases a carbon credit from a project in France, it expects that this

1 State of the Voluntary Carbon Markets 2016. Ecosystem Marketplace. Available from: www.forest-trends.org/documents/files/doc_5242.pdf

2 Specifically: the services-mail-parcels business unit, Géopost and digital services business unit representing 98% of total emissions

3 'Emission reductions' or 'carbon credits' are used throughout as a generic term covering all forms of tradeable assets corresponding to 1 t CO2 equivalent avoided.

4 RE100. Available here: http://there100.org/re100 [Accessed March 2017]

5 For more information see: http://sciencebasedtargets.org [Accessed March 2017]

project would not have happened otherwise and that it contributes to reducing emissions beyond what would have been achieved under the Kyoto Protocol. However, to use the La Poste example, France has a compliance target under the Kyoto Protocol and the emission reductions from the project would be included in France's national inventory.

Therefore, the same emission reduction would be included both in France's inventory against its Kyoto target and in La Poste's climate reporting – double counting.[6]

To safeguard against this risk, voluntary standards[7] including Gold Standard require projects to retire an equivalent amount of emission reductions from a project in a country without a Kyoto target. While sound from an environmental integrity perspective, this approach adds to the financial burden of the certification process and is often cited as a barrier to developing domestic offset projects.

Domestic offset projects pre-2020: an oxymoron?

Now mostly limited to domestic offset projects, this challenge will become a global issue in 2020, as every country will have a Nationally Determined Contribution (NDC) to the Paris Agreement. Solving the double counting conundrum in the context of domestic offset projects today can help us prepare for the post-2020 regime.

Double counting would undermine the integrity of the voluntary carbon markets, which are intended to raise ambition by going beyond what is required by regulations. In the absence of any mitigation measures – such as the Gold Standard requirement to purchase and retire a similar amount of units – emission reductions arising from projects located either in capped countries or in uncapped countries subject to a Kyoto target are included in the host country's national inventory and therefore contribute to their national Kyoto target as opposed to 'going beyond'.

6 For more detailed information on double counting see: **https://www.goldstandard.org/sites/default/files/documents/2015_12_double_counting_guideline_published_v1.pdf** [Accessed March 2017]

7 With the exception of the Woodland Carbon Code where units cannot be exported

A new paradigm for voluntary climate action

Post-2020, as a significant share of offset projects will be in countries and sectors subject to a target under the Paris Agreement, **it will become increasingly difficult to source double counting 'risk-free' credits to fulfil carbon neutrality or compliance commitments.[8]**

Does this spell the end of voluntary carbon markets? Absolutely not! The world needs more climate action, not less. Voluntary carbon markets post-2020 can help raise the level of ambition, which means moving from the roughly 3-degree NDC scenario to meet the Paris Agreement's 'well below 2 degree' ambition. Reframing offsetting, a concept challenged by civil society, can and will open new opportunities.

A new paradigm: 'reduce within, finance beyond'

Reframing offsetting and overcoming the challenge of double counting can be achieved simultaneously via a new paradigm for voluntary climate action. The good news is: progressive companies are already leading the way. "A share of our investments go to emission reductions projects in France because it makes business sense for us but also because this fully aligns with our corporate commitment to support local economic development," says Mandaron; adding: "We are happy with the fact that these projects contribute to France's national climate strategy."

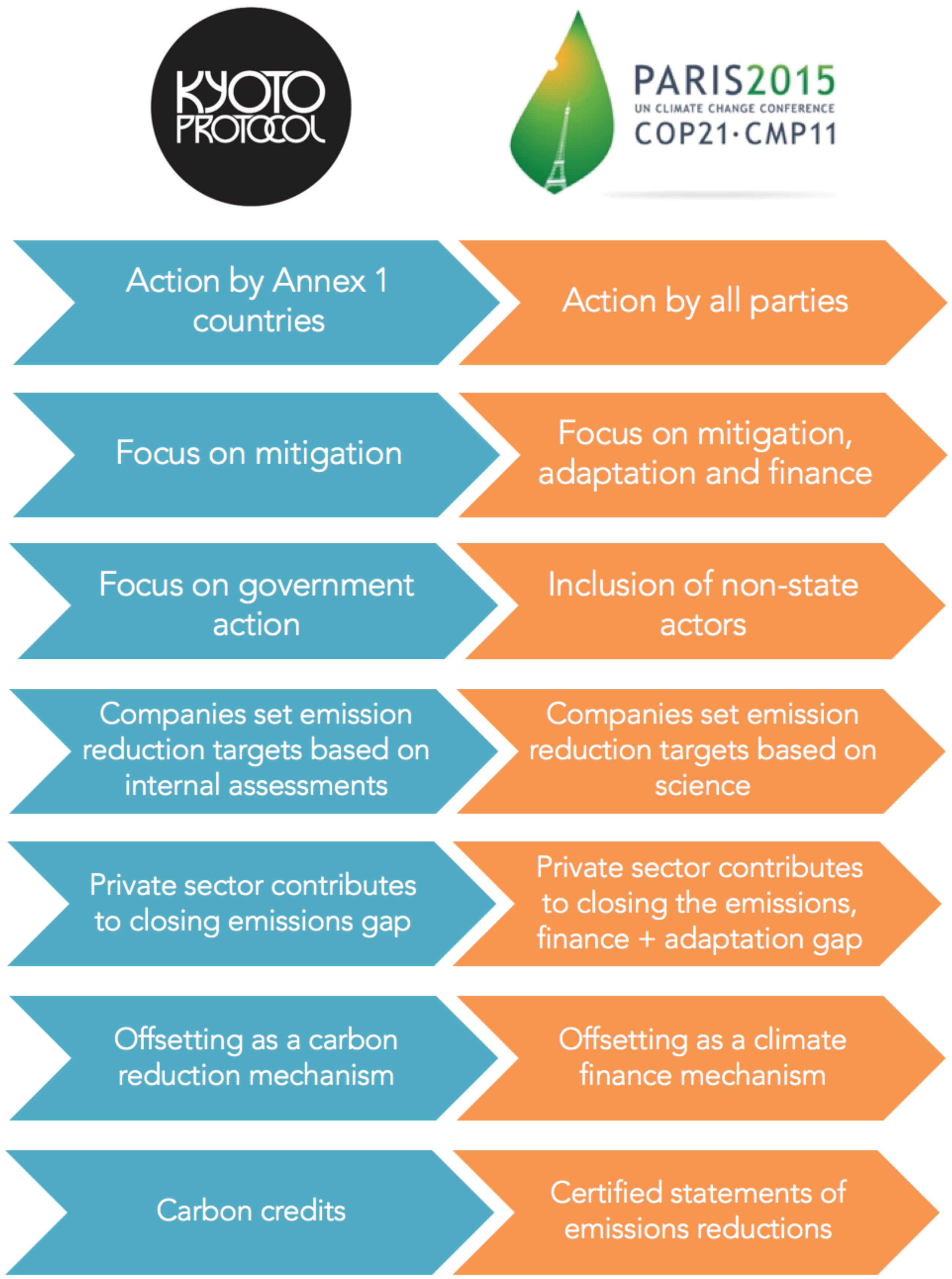
The climate only cares about GHG emissions being reduced, not where that happens. But because at Gold Standard we prioritise not just climate security but also 'sustainable development for all', it's critical that existing climate and development projects carry on, and that new investments delivering a wide range of benefits are fostered – making best use of what voluntary carbon markets have proven to deliver but fit-for-purpose in a new climate regime.

Gold Standard therefore proposes a new call to action. Best practice climate strategies should

8 Hermville Kreibich 2016, Identity Crisis? Voluntary Carbon Crediting and the Paris Agreement

Carbon credits vs certified statement of emission reductions
Gold Standard proposes to adapt its rules to meet the requirements of the Paris climate regime and create a new certification product: 'Certified statement of emission reductions'. Statements of emission reductions would be issued by Gold Standard at the end of the certification process, following the same process that currently leads to issuing carbon credits. These statements would be issued when the project is contributing to the host country's target – either when the project is in a sector included in the NDC or when the host country is not willing to enable the transfer of emission reductions outside its national inventory. Funders could claim to have funded emission reductions that contribute to the host country achieving its target rather than to have reduced their own footprints.

	Carbon Credits	Statements of emissions reductions
Nature of the project:		
Additionality	Yes	Yes
Host country	Does not have a target OR project is deemed going beyond national target	Project contributes to achieving host country target
Host country inventory	If there is a national target, then project shall be excluded from host country inventory	Project is included in host country inventory
Nature of the claims:		
Carbon neutrality	Can be used for carbon neutrality purposes	Cannot be used for carbon neutrality purposes
Climate finance	Can be used to claim contribution to climate finance and national sustainable development priorities	Can be used to claim contribution to climate finance and national sustainable development priorities



be composed of two connected commitments: 1) reduce emissions in line with what is required by science to stay well below 2°C and 2) finance emission reductions elsewhere in an amount at least equivalent to residual emissions. This new paradigm is designed to remove old barriers to civil society consensus on offsetting and to better reward corporates for climate action beyond their own boundaries.

Carbon credits vs certified statements of emission reductions for climate finance

The purchase and retirement of carbon credits remains a valid mechanism to achieve carbon neutrality objectives wherever there is no risk of double counting. Prior to 2020, this includes Annex B countries. Post-2020, this includes all sectors outside of NDCs in addition to sectors included in NDCs that are covered by a cap-and-trade system (in this latter case these would be categorised as 'Internally Transferred Mitigation Outcomes').

As we move closer to 2020, we expect to see a shift to the new paradigm. Gold Standard is committed to support a smooth transition from the Kyoto regime to the Paris regime through innovative approaches and updates to our rules.

Specifically, as we prepare to launch Gold Standard for the Global Goals, we are investigating the possibility to allow projects facing a double counting risk to issue 'certified statements of emission reductions' in lieu of carbon credits. These statements will not lead to the issuance of tradeable assets. Rather they will be assignable to funders willing to contribute the climate finance needed to help host countries meet their targets. All relevant information related to these projects – their emission reductions, the associated certified statements including their contributions to sustainable development, and their funders – will be made publicly available on the Gold Standard registry.

The nature of the Paris Agreement will likely lead to the trading and accounting of emission reductions becoming so complex that every country will be required to keep track of its emissions, and of the emission reductions it may have sold or purchased. These accounts and reports would need to be centrally consolidated via a global registry to mitigate the risk of double counting.

The paradigm shift proposed here offers a complementary option to carbon trading as certified statements of GHG reductions would not lead to the transfer of units. This new option provides the flexibility to either issue tradeable carbon credits or certified statements of emission reductions. The latter may be of interest to entities seeking to contribute climate finance and to support a country achieving its national target.

An important implication is that emission reductions funded through certified statements would remain in the national inventory of the host country. The funding entity will be able to claim to have funded these emission reductions in line with its target to 'finance beyond' but would not own them or retire them as is the case with carbon credits.

Carbon credit trading remains an option and could be most suited to foster private sector investments in sectors outside NDCs or in the context of market based instruments designed to deliver on a sectoral target. Yet, trading could also be avoided, if deemed not suited to the host country's priorities.

This flexibility provides not only a clear transition for the voluntary market into the post-2020 climate regime, but also introduces tremendous potential for scaling up. It sets the stage for voluntary climate action to maximise what it has done best for more than a decade – raise ambition. For climate security, and also sustainable development for all.