Sent on:	Thursday, April 15, 2021 7:31:28 PM
To:	Standards team <standards@goldstandard.org>
Subject:	Contribution to GS Paris Accord consultative process from Climate Neutral Business Network and colleagues
Attachments:	Climate Neutral Business Network Input to VCS on Paris Accord Oct 14 2020 FINAL GS April 15 submission.pdf (399.95 KB)

Thanks to everyone at Gold Standard (GS) for your discussion of credible pathways forward for the voluntary carbon credit markets under the Paris Accord.

On behalf of the business, academic, non-profit and other leaders (noted below) who helped develop the enclosed paper, we're glad to share some perspectives. While not focused "question by question" on the topics GS raises, the paper responds to many of the challenges associated with sustaining a viable financial capital market for carbon (with the requisite integrity for sustained property rights that all capital markets are founded upon) while seeking to structure such a market in ways that ensure its continued integrity in a Paris Accord context.

Please excuse us for sharing a paper originally directed towards VERRA (during its Paris Accord consultation process); you'll therefore see references to VERRA from time to time. There's a focus on double counting (which was the VERRA frame) much of which also applies to double claiming so please read the paper in that context. So, even with all such qualifications, given the scope of the paper, we hope it might nonetheless be informative to your deliberations.

There are a few broader points which GS raises in its discussion papers which I'll just touch upon here briefly because they're not addressed specifically in the enclosed paper:

1. Whilst it would be true that requiring Corresponding Adjustments for all credits sold to buyers making an "offsetting" claim would maintain pressure (due to transparency) on host governments NDC attainment -- and avoid potential secondary impacts (in which governments would not then invest in further GHG reduction measures to supplement any offset credits' reductions in their inventory -- several considerations arise:

    a. Host governments can be informed of the volume of credits sold (domestic or internationally) from projects located in their geography from GS/VCS/ACR/meta registries which can readily track this data. Thus such transparency can therefore be achieved in ways that would be far less corrosive to the financial market foundations which CAs otherwise risk undermining (see main paper)

    b. Host governments might bear in mind that net zero companies now comprise 25% of global GHG emissions and 50% of global GDP (Forest Trends, 2020). The main vehicles for investment in GHG reductions (whether business as usual reductions or additional carbon credits) arise not as a result of government direct investment (especially post COVID as sovereign debt levels have risen so dramatically) but as a result of private actors' investments, commitments and actions. So if the overall impact of requiring CAs would be to undermine net zero *private* actors' commitments/investments and submarine the property rights foundations essential to the creation of a carbon credit financial market, such CA requirements could jeopardize the very private actions upon which host governments' Paris Accord NDC goal attainments rely

2. Carbon credits are certainly vehicles through which to successfully mitigate climate change and deliver sustainable development benefits in innovative and powerful ways. However, credits only exist to deliver such benefits if the financial market foundations (upon which any tradeable instrument relies) remain intact. Sadly, the sudden imposition of CA requirements (when Annex 1 governments historically have not issued such adjustments under Kyoto) removes secure property rights from carbon credit project developers – particularly if CAs are to be applied to both domestic and international purchases. Obviously, CAs are required for government and airline credit purchases but extending this requirement to private actors' purchases in the context of offsetting claims is we believe not necessary (see #1). However, requiring CAs for such private actors' purchases creates a contingency limiting the property rights of credit generators, suddenly, placing their carbon ownership subject to a host government awarding a CA which history suggests has not been common. Unfortunately, when financial markets have faced similar discontinuities in their property right foundations, they have failed. As the enclosed paper details, the serious restructuring risks (many perhaps unanticipated) that would arise due to new CA requirements on these private actors pose existential market risks across many dimensions of the carbon capital markets. So alongside the attention that needs to be paid to sustaining the integrity and sustainable development benefits associated with carbon credits, serious attention must also be paid to the implications that any policy changes hold for the sustainability of credits as *financial instruments in capital markets. The current CA proposals put this market sustainability unnecessarily in serious jeopardy for almost all actors, from credit generators to net zero credit purchasers (see main paper).*

3. GS's proposed new "vulnerability" criteria, designed to add a new layer of additionality testing for existing carbon credit projects, may be a reasonable metric to apply to for projects (say in the forestry arena) where project stewardship relies primarily on year-on-year carbon funding to continue to function -- without significant incremental capital costs incurred upfront. However, the impact of this requirement on any capital intensive credit projects would likely be to take capital out of the market at a time when it is most needed. Unless you consider servicing capital debt to be part of your vulnerability assessment, this criteria will discriminate against projects with high upfront capital investment (including for example new geo-sequestration projects). Such capital intensive projects might not "cease to operate" absent carbon credit funding (year by year) but the capital losses sustained by investors (due to lack of debt/capital repayment and negative return on investment results) would likely freeze capital markets which would not then take the risk of becoming an "existing" project if it were to be subject to a test that only assessed on basic year-on-year operating cost coverage relative to carbon revenues. So how one defines such new "vulnerability" criteria is therefore full of potential unintended consequences for the sustained

commitment of private investment capital into credit markets. For example, the very "neutralizing" innovative credits that SBTI seeks to foster beyond the forestry sector (in geo-sequestration etc) would be among those investment sectors most at risk here.

4. Staggered introductions of changes are useful for market transitions in any capital market but developed country credits needs transitions too if confidence is to be sustained, not just those meriting GS's longer transition periods in its current proposals.

5. Provided it is well structured, providing references for the potential use applications of credits as they are certified seems a promising idea. Our paper outlines some approaches for this at its conclusion, based upon our earlier market analysis.

Thanks for taking the time to review these inputs. It would be a pleasure to dialogue further with you on this critically important topic. We do appreciate your dedicated investment of time and energy to this vital crossroads.

Sincerely,

Sue Hall

Enclosed paper submitted by Sue Hall, CEO, Climate Neutral Business Network

----

With thanks for the generous creative contributions in developing this input, including from:

Buddy Hay, Assistant Vice President, Sustainable Strategies, Interface Inc

"This paper lays out so clearly the potential implications that would arise from our decisions as to how CAs will or won't be applied. It's vital we understand these details in order to make well informed, final framing decisions carefully so that we can sustain the kind of private entities' carbon investments/commitments that Interface originally pioneered back in 2000. I commend this paper for serious consideration."

Matt Macunas, Connecticut Green Bank

"Connecticut Green Bank was an early innovator as a public organization in renewable energy credit (REC) markets; now, with $2 billion in economic activity catalyzed, we are turning attention to the role of private capital in carbon offset credit markets supporting faster deployment of electric vehicle charging. Private capital markets can bring momentum to tackle climate change. This paper asks vital questions – examining them now can curb unintended consequences later as VCS contemplates the accounting integrity procedures of the Paris Accord."

Brett Sitter, Product Development Engineer, 3M

“When 3M’s Display Materials & Systems Division wanted to buy carbon credits we wanted to purchase credits from worldwide sources since our division does business on a global scale. Had the VCU-CA requirements then been in place and the price of global credits increased substantially, it might have prevented us from supporting global efforts to reduce carbon.”

Mark Moores ACA, CEO Founder Carbon Reduction Initiative Ltd

“There is no reason why private entities’ CN claims based upon international VCU purchases double count with governments’ Paris Accord reporting. There are ample mechanisms as described in this paper demonstrating this to be the case. What’s really at stake here is the future of the private carbon capital markets and private entities’ CN commitment and investments. So the crux question is whether Paris signatories (governments) want to sustain private funding to help them attain their GHG goals. If this is the case, assuring property rights for VCUs without “asset stripping” their value by requiring Corresponding Adjustments for international sales is essential. Property rights are the fundamental requirements for any capital market: without them, as detailed in this paper, all other market implications flow – and represent a disaster for sustaining private investment to help secure our climate future.”

Professor Robert J Koester, Ball State University

“We need to extend every effort to develop and secure carbon capital commitments from private entities without policy or accounting procedures that would unintentionally set back by decades the opportunities for achieving planetary health.”

Angus Duncan, Pacific Northwest Consultant, Natural Resources Defense Council

I regret not having the band width to plunge into the deep end of this pool, so am happy you continue able to do so.

Of course I concur in the primary premise: that the party that causes the emissions reduction should own that reduction, to retire or resell it as she/he sees fit. Absent that, or in the presence of a state that (double) claims the same credit, the private incentive to reduce dries up.

The difficulty arises in the distinguishing between the state “claiming” the reduction and the state “reporting” the reduction. States that are party to the Paris Accord will report their emissions levels of their respective nations, which will by definition include total emissions reflecting regulatory and market reductions both(including reductions sold as offsets inside or outside the state.

Those reductions that result from the state either regulating emisssions (and so driving reductions) or incenting them with government purchases are reductions the state has an ownership claim to (although the state then selling these is a separate question).

Private sales, within or outside the state, fall into the difference between the reported emissions level and the emissions level (from a baseline) that the state can reasonably be seen to “own.” Other emissions reductions that may occur as a result of direct action but are retired (e.g., on behalf of the planet per GM) also reside in this delta slice.

If this distinction is respected, I see no need for a state-by-state CA adjustment that captures and tracks all such reductions, sales and reselling. But then I was always put off by the green eyeshade types who would rather be precisely right, the numbers all lining up in their columns and adding up, than accept a measurable margin of error in the interests of driving emissions reductions further and faster.

The qualifier to this conclusion is that if the Paris Accord nation is seeking to establish compliance with its voluntary obligations under the Accord, and private offsets result in either a significant reduction in its emissions (helping it to compliance) or a significant decrement from its reported emissions reductions (handicapping its compliance), a CA adjustment factor may be required to give credit where credit is due.

Not sure this is helpful to you, or even that it fairly reflects the issues you are addressing since it's awhile since I attended to the intricacies of carbon markets. But your paper, and its logical train (if I followed it accurately) certainly seems to me to hold together.

Climate Neutral
BUSINESS NETWORK
A Project of Strategic Environmental Associates