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## Public Comments - Verra Public Consultation on Proposal for Scaling Voluntary Carbon Markets and Avoiding Double Counting Post-2020

Input from Climate Analytics, October 2020

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

- We **welcome** Verra's support for the requirement of corresponding adjustments in connection with the issuance of voluntary market credits. Corresponding adjustments are needed to avoid the simultaneous claiming of the same emission reductions by host Parties and corporate buyers. A failure to require corresponding adjustments would undermine any ability by corporate buyers to credibly use the reductions underlying issued credits to offset their own emissions. As a result, the absence of corresponding adjustments creates the **prospect of immediate reputational risks** for corporate buyers and reputational risks for the voluntary market as a whole.
- However, the term "**Article 6-compliant**" is problematic. If this label is linked solely to corresponding adjustments, it suggests or implies that the underlying project activities and reductions satisfy all Article 6 requirements (e.g., baselines, crediting periods, share of proceeds, overall mitigation in global emissions, etc.). Article 6 requirements are still evolving, and they will continue to evolve over time through decisions taken under the international climate change regime. Moreover, it is for the Article 6 rule set, its oversight bodies (e.g., the CMA), and Parties or national entities applying Article 6 rules in the domestic context, to determine whether particular credits are Article 6 compliant, rather than for external programmes to state this through their own labelling. Further, based on existing negotiating texts, the evolving Article 6.2 rule set may defer to national bodies to set key requirements for 6.2 cooperative approaches. This makes the label 'Article 6 compliant' problematic. For the same reasons, the label '**Pending Article 6**' is problematic.
- If Verra is considering the establishment of different asset classes, **a clear distinction might be made between (1) credits that are backed by corresponding adjustments on the one hand**, which may be used toward offsetting or carbon neutrality or net zero claims, and **(2) credits in contrast that reflect a quantum of financial contribution to the mitigation efforts of host countries, not denominated in tonnes**, where host countries do not undertake corresponding adjustments but benefit from financial support for mitigation projects that they can use toward their domestic mitigation efforts.

**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. Corresponding adjustments must underlie all VCUs or other credits that are promoted for use or used as offsets toward carbon-neutrality / net zero claims. Otherwise, any assertion that the associated reductions are real and additional, and not being double counted or double claimed elsewhere, cannot readily be sustained.
- Corporate purchasers need **confidence** that the credits they acquire to meet offsetting commitments represent actual emission reductions, reductions that would not have taken place in the absence of the project activity, and reductions that are not being simultaneously claimed by another entity -- including the host Party itself toward NDC achievement. This requires credits to be backed up by a corresponding adjustment - through which the host Party expressly releases its own claim to the same reductions - in effect adding an equivalent quantity of emission reductions to its own NDC challenge.
- Corporate entities making net zero or carbon neutrality claims also need to **minimize the risk of liability or reputational damage** from claiming reductions that might prove not to be additional or that are double counted by host countries.
- Where all credits are backed up by corresponding adjustments, credits will be **freely transferable for multiple uses, usable in multiple contexts and usable for a range of possible corporate claims** (climate neutrality, net-zero, offsetting a climate footprint), without further research needed on the part of the buyer.
- Corresponding adjustments should also be required in connection with credits generated in a host country for use in that host country. No different treatment is warranted. For example, in the case of **credits generated toward domestic regulatory requirements, requiring corresponding adjustments will not be problematic**. Host Parties can balance their books through the necessary accounting to reflect units generated and used.
- It would not be helpful to attempt to draw a line between reductions that fall inside and outside the scope of Parties’ NDCs. Because the Paris Agreement encourages all Parties that do not already have economy-wide NDCs to adopt economy-wide NDCs, and because NDCs can be adjusted at any time for greater ambition, it would not be helpful for the voluntary market to create a financial incentive that may perversely slow Parties down in their move toward economy-wide NDCs.

**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 fully expect to be making corresponding adjustments for emission reductions that may be transferred internationally or that may be used for other international mitigation purposes, such as CORSIA. Corresponding adjustments are recognized as a tool to avoid double counting in decisions already adopted by the Parties to the Paris Agreement, which contemplate corresponding adjustments to Parties’ NDC-related emission balances (1/CP.21; 18/CMA.1).
- Based on the current negotiating texts, corresponding adjustments will be required in

connection with transfers from cooperative approaches under Article 6.2, including the international transfer of 6.4 units, to ensure that the emission reductions underlying 6.4 units are not double counted by both the host Party and acquiring Party.

- Based on the current negotiating texts, corresponding adjustments will also be required by host Parties in connection with the issuance of 6.4 units, to enable the delivery of a share of proceeds (SOP) to the Adaptation Fund and enable the cancellation of a share of units toward the delivery of an overall mitigation in global emissions (OMGE) without double counting.
- In short, there is already **an expectation** among countries that are Parties to the Paris Agreement that corresponding adjustments will be required in connection with the issuance of project-based reductions and in connection with transfers of emission reductions among Parties that may be used toward NDCs.
- Host countries should be willing to make corresponding adjustments because **responsible accounting and credible reductions will incentivize investment and create a more liquid and stronger market**. Where ambitious targets are in place, the strongest assurance a host country can give that emission reductions are real and additional, and not needed for its NDC, is its willingness to **expressly give up its right to claim those reductions toward its own NDC**, through a corresponding adjustment linked to issuance.
- The incentive for a host country to make corresponding adjustments **continues to be the opportunity to access finance** for projects on the ground that might otherwise have been out of reach without external assistance (e.g., mitigation projects in harder-to-abate sectors, or infrastructure projects requiring high capital expenditures), and that will ultimately help them over the long run achieve their long term emission reduction goals by preventing lock-in and accelerating the necessary sector transitions.

**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?**

- We do not support allowing corporate entities to continue to use credits that are not linked to corresponding adjustments by host Parties to support their offsetting claims. Post-2020, credible offsets will require corresponding adjustments. In the absence of corresponding adjustments, the emission reductions underlying issued credits would still be usable by the host Party toward its NDC, and reflected in the host Party's emissions inventory, creating a situation of double counting or claiming that is inconsistent with offsetting or carbon neutrality claims.
- If in the near term some countries **lack capacity to make corresponding adjustments** or have concerns about the implications of corresponding adjustments for their NDC achievement, VCS could support these countries through the issuance of credits that represent a **quantified financial contribution to the host country's domestic mitigation efforts**, not denominated in tonnes, which do not require a corresponding adjustment and which **explicitly cannot be claimed** by purchasers or corporate entities as offsets of carbon

footprints, or toward carbon neutrality claims. However, the challenge with this approach would be the need to police such claims.

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

- Requiring corresponding adjustments will help climate change mitigation efforts. The IPCC's latest reports show that the scale of emission reductions needed is such that there is no room for double counting. A market that does not manage the risk of double counting will ultimately not be credible and will fail to draw investment to support mitigation projects.
- **To compete favorably against A6.4ERs in the market**, voluntary credits will need to reflect corresponding adjustments. They will also need to **deliver similar or greater benefits for adaptation finance and for global mitigation**. Under the current negotiating texts, Article 6.4 projects will deliver benefits that go beyond mere offsetting - through the requirement that a share of the proceeds (SOP) of project activities be used to fund adaptation in particularly vulnerable developing countries, and the requirement that a percentage of issued units be set aside to deliver an overall mitigation in global emissions (OMGE), following a corresponding adjustment by the host Party. These two elements move Article 6.4 beyond the zero sum game of offsetting, and tangibly contribute to the goals of the Paris Agreement.
- **VCS could offer additional reputational benefits to corporate buyers** by incorporating these SOP and OMGE elements, at the same or at higher levels than those applied under Article 6.4. In this way, in addition to claims that they are offsetting their own emissions, corporate buyers could also claim a contribution to global emission reductions and a contribution to addressing the adaptation needs of particularly vulnerable developing countries. This would address the parallel element in the current negotiating texts under Article 6.2 and position VCS for the compliance market.