Gold Standard

21 June 2021

Open letter – Feedback by the Gold Standard Foundation to the TSVCM's Phase II Public Consultation

Dear TSVCM Moderators,

We are pleased to submit and to publish this open response to the public consultation launched by the Taskforce for Scaling the Voluntary Carbon Market (TSVCM) on its Phase II deliverables. This response represents the opinions and observations of the Gold Standard Foundation only and not necessarily the views of all Gold Standard stakeholders.

We share our comments in three main sections:

1. Scaling a quality-driven market and current limitations in scope
2. Function and quality with regards to the Core Carbon Principles (CCPs)
3. Observations related to governance proposals

Gold Standard supports the overall aim of scaling a high-quality carbon market that can drive greater levels of investment into climate action, and we provide our comments with a view to helping achieve this aim. We consider there to be a number of good ideas and interesting starting points in the TSVCM's Phase II public consultation report. However, there are also significant gaps in scope that render the mission to scale the market incomplete and, in some areas, dangerously deficient if not addressed.

We request that you to take the points outlined in this response into account before the report is finalised and the proposals operationalised.

Yours sincerely,

Margaret Kim, CEO Gold Standard, Owen Hewlett, CTO Gold Standard[1]

[1] For transparency, we note that Owen Hewlett has been a member of the Taskforce in both Phases I and II.

1. SCALING THE MARKET AND CURRENT LIMITATIONS IN SCOPE

The core stated aim of the TSVCM is to 'scale an effective and efficient voluntary carbon market to help meet the goals of the Paris Agreement.' With the assumption that *effective* means 'with integrity and quality', as stated elsewhere in this and previous documents, we highlight the following key limitations and concerns and then make recommendations regarding how to address each of them, to make these efforts credible.

1. **The TSVCM must clarify the different potential uses of carbon credits that are intended to be scaled and how its recommendations relate to these**. It is disingenuous to call for the scaling of any instrument without a core understanding of its purpose and associated applications, i.e., for what purposes and towards what claims will buyers use carbon credits. While it is challenging to identify and target specific company claims, it is very possible to map out archetypal uses such as offsetting and results-based impact finance. The latter may have lower uptake now, but we - like others – anticipate it growing over the time that the TSVCM is seeking to scale the market.

   Historically, as interest in carbon markets has ebbed and flowed the tendency in each 'high interest period' is to defer challenging technical questions to future market participants. This rarely works because challenges become entrenched and because experts and experienced practitioners move on. Hence Gold Standard strongly urges the TSVCM to define its core use case applications – such as 'offsetting' and 'impact finance' as mentioned above - and ensure that elements such as governance and CCPs properly reflect them. We make suggestions for these definitions and next steps later in our feedback.

2. **While 'to help meet the goals of the Paris Agreement' is a worthy aim for the VCM, Gold Standard notes that core questions regarding the relationship between the VCM and the Paris Agreement have been left unanswered.** The TSVCM has to date declined to discuss its relationship to the Paris Agreement and how the mechanism that it has so far not defined clearly (see 1, above) will work with it. We understand there may be political reasons for this, but this position risks leaving troubling holes in the foundations of the TSVCM's work.

   While we are indeed waiting for outcomes on key Article 6 decisions, we are only waiting for clarification on the 'how' and not the 'what'. The delay to Article 6 guidance is a convenient excuse to defer important questions about alignment with international rules and corresponding adjustments. These will though inevitably need to be answered – as the report itself acknowledges – since they are material to decisions on the application of VCM and the specific CCPs needed to serve the use cases outlined above. Gold Standard has already commenced the process of aligning its standards with the Paris Agreement to ensure that we serve to meet its stated goals and drive higher ambition. Particularly critical is a need to ensure that voluntary offset claims are unique (see Section 2 for further detail).

3. **Efforts in the TSVCM to scale the market have focused on protecting demand-side interests.** This is of course important but leaves unanswered the critical question of who will supply the credits. The current capacity in the market and amongst project developers is good but remains small. To scale the market, it seems insufficient to focus only on demand and governance but not on building capacity in supply. This includes host country capacity building to help facilitate project development.

The TSVCM has also begun to make recommendations on the behaviours and appointments of Validation and Verification Bodies (VVBs), but without any real involvement of either that or the oversight community. As many such actors are private companies, this seems a major gap in the representation of stakeholders.

4. **Quality is poorly defined and does not point to moving the needle as envisaged.** Gold Standard strongly supports the need for a high-quality supply of carbon credits to meet climate change and SDG commitments. This involves the targeting of 'high hanging fruit' project types, high quality MRV and sustainable development provisions and strong environmental integrity. The extensive literature concerning carbon markets suggests that double counting and additionality are the key problem areas that have limited the success of mechanisms. From feedback within the group to date, we feel it is important to add to this list the lack of high ambition scopes and supply. The current CCPs do not move the needle on any of these matters beyond what is already common practice. If we are to collectively move the needle in terms of quality and scale, we should not repeat the same mistakes and simply expand what we are already doing. We should instead be looking to much more ambitiously refocus the market to achieve the Paris and SDG goals it is designed to support. We make recommendations to this effect below.

In line with the four points outlined above we therefore make the following recommendations and ask that these are urgently reflected in the proposals of the TSVCM that is seeking to realise greater scale. Failure to address these issues puts the TSVCM at risk of only providing half of an answer to a question that itself is not fully framed, resulting in a failure of the VCM to deliver on its mission.

Recommendation 1: At an 'archetypal' level, the TSVCM should define the voluntary applications of the VCM that are included and excluded in its ambition for scale. This should then cascade throughout the documents in terms of what needs to be in place to serve each of these applications. This should be based on a flow from:

1. Behaviours: The behaviours the private sector should exhibit in order to credibly contribute to meeting and exceeding the goals of the Paris Agreement, to
2. Claims: What a credible actor can say about their efforts, and then finally
3. Mechanisms: What tools can be used to make those claims, ensuring that the attributes of those tools add up to the claim being made.

We acknowledge that the issue of 'claims' remains somewhat challenging but there is enough information available already to begin determining these matters, with more due very shortly from the Voluntary Carbon Market Integrity (VCMI) Initiative.

To demonstrate this, we propose the following high-level definitions for the two core claims associated with voluntary use of voluntary carbon markets:

- **Offsetting:** Offsetting is a mechanism whereby individuals, organisations and governments compensate for their residual emissions by purchasing and retiring an equivalent emission reduction or removal from elsewhere. The net effect of offsetting is that atmospheric emissions are lower than they would have been in the absence of the act of offsetting and the finance it provides to reducing or removing emissions.
- **Impact claim:** A mechanism whereby individuals, organisations and governments take responsibility for their residual emissions by setting a carbon price and re-investing this to finance mitigation and other action elsewhere.

We do not believe that acting on this recommendation need be a difficult exercise, and the components are already broadly in place within the TSVCM's proposals to date. It also seems a logical step as part of the TSVCM's relationship with the Voluntary Carbon Market Integrity (VCMI) Initiative.

What can quickly be seen from the above is that you do not require a definition of headline claims such as Carbon Neutrality, Climate Positive etc to be able to define the potential applications of the VCM. It can also, as will be seen later in our recommendations, mean that all subsequent decisions can be properly built and assessed using these definitions. In their absence, all decisions become arbitrary as it cannot be seen that quality provisions are being applied properly.

Recommendation 2: A full mapping of the interaction between the VCM and the Paris Agreement, including at the CCP level, should be urgently conducted. This should include consideration against the market applications outlined above. The TSVCM should also use its momentum to grow capacity and understanding amongst host countries where support for market action will be most needed. Gold Standard again considers the failure to address interaction with the Paris Agreement to be a choice, not an unavoidable consequence of current knowledge in advance of COP26. Key areas of consideration not currently included are:

- Re-defining baselines to ensure that they align with any Article 6 guidance
- An overhaul of current additionality to ensure they achieve additionality in light of the implementation of NDCs
- Double counting (which includes double issuance, double use and especially double claiming) must be addressed properly to ensure that the above use-cases can be realised, in light of all countries having NDCs

- Vintage and start date considerations should also be mapped against Paris Agreement provisions and dates and not set in an arbitrary way. It may be helpful to think of a use-by date rather than a latest start date or vintage restriction as these options will need constant update over time.

For Gold Standard, alignment does not necessarily mean mirroring; there may be areas – such as baseline-setting - where the VCM rightly chooses to adopt higher levels of rigour than those required at a minimum by international rules, provided these are consistent.

While Gold Standard welcomes the reference to Science Based Targets (SBT) as a pre-condition for making claims using the VCM, it is important to note that there will be an increasing risk of double claiming between the actions taken to achieve SBTs and within the VCM. Evidence for this is already visible in the US, where soil carbon efforts in markets are destabilising efforts in supply chains of companies reporting a plan to adhere to SBTs. Couple this with the US re-entering the Paris Agreement and what results is in effect a triple claim, which is untenable. This will be repeated elsewhere until and unless efforts to scale.

Recommendation 3: A supply working group should be convened for developers, either combined or separately with the assurance community (VVBs and oversight bodies). With respect to governance proposals, Gold Standard also recommends that the ISEAL Alliance and Transparency International are urgently engaged to assess proposed approaches. Many of the matters discussed are already captured in existing good practices and need not be duplicated in the process of assessing standards.

Recommendation 4: Equitable access for vulnerable communities, including Least Developed Countries (LDCs), conflict zones, women and girls, and ethnic minorities should become a focus area of the TSVCM. Markets, particularly carbon markets, are a technocratic construct. This is somewhat unavoidable to protect credibility, but such constructs inevitable create and promote power discrepancies and can leave behind communities as more privileged actors take advantage. This has been a major lesson of the last 20 years, where besides Gold Standard, the vast majority of projects do not, for example, support efforts in LDCs or include any provision for gender sensitivity. We recommend a sub-group be formed with a mandate to review and ensure the accessibility and inclusivity of the planned outputs of the TSVCM.

2. FUNCTION AND QUALITY REGARDING THE CORE CARBON PRINCIPLES

Gold Standard generally welcomes the idea of creating definitional consistency for the attributes of carbon credits, provided these are sufficiently robust on the one hand, and on the other, do not stifle innovation or limit access. Gold Standard also supports many of the ideas put forward in the consultation report. However, we note, as explained above, that the summation of a credit's attributes must add up to the applications of the market and ultimately the behaviours being driven. As things stand, the current CCPs are not able to articulate their purpose as clearly as they should, because the application of the credits themselves is not made clear (see section 1, above).

In many cases the CCPs are 'obvious' and reflect common practices, hence their conclusion is seen as natural. In other cases, their articulation is less obvious and in some cases the attributes necessary to support applications is not there at all.

In this section Gold Standard outlines what quality and integrity means in each of the CCPs and notes **<u>those that must be resolved</u>** in order for efforts to scale the market to be credible. We take two examples, double counting and additionality, to demonstrate this point. These demonstrate that while the CCPs themselves may be right, their purpose for the assurance of quality has not yet been clearly articulated.

Taking each in turn:

- **Additionality:** Additionality serves two main purposes in current carbon market mechanisms. The first is that the main applications of the VCM (which are compensatory in nature) cannot be said to have efficacy if the mitigation outcomes would have happened in the absence of the finance driven. The second is that, as markets are speculative, they protect the buyer from misrepresentation. In all the discussion and outputs of the TSVCM so far, the focus on additionality has centred on ambition and quality. These are of course important roles that additionality can play, but this is on top of its core, mechanical function, which should be recognised. This error stems from a lack of clarity and understanding on the applications that are in scope. Gold Standard considers additionality to be essential to both applications described and defined above, i.e. offsetting and impact claims.

- **Double counting:** There are three main forms of double counting: double use (two entities use the same carbon credit for one of the applications described in recommendation 1), double issuance (two credits for one mitigation outcome) and double claim (two claimants apply the same mitigation outcome against their own respective targets). Double use and double issuance are well dealt with by robust registries, but it is essential that double claiming is properly addressed in light of the Paris Agreement and Science Based Targets. Taking each application in turn:

    - **Offsetting:** The definition of offsetting provided above speaks to atmospheric emissions being lower than they would have been in the absence of offsetting. This promise is broken by double claiming, because for each additional claimant you cannot now control their subsequent behaviour having claimed that benefit.

Offsetting is an 'absolute' term, i.e. an entity either did or did not successfully offset. Gold Standard of course understands arguments that are made with respect to fairness, complexity, barrier to entry etc, but these do not alter this absolute question. If the TSVCM is serious about building a robust market supplying high-integrity credits that buyers can trust towards offsetting claims, it seems untenable not to provide clear instruction on this issue. We note the inclusion of a CCP to the effect of one claimant to a carbon credit, and also reference to buyers being able to make claims such as carbon neutrality by using CCP credits with additional attributes, which include corresponding adjustments. We hope these are signs that this has been recognised.

  - **Impact claim:** The definition of an 'impact claim' provided above speaks to financing mitigation outcomes but does not suggest a lower atmospheric emission level. This means there is greater flexibility with regards to double claiming, though some care still needs to be taken. For example, an investment represents a category of Scope 3 accounting and hence could result in a double claim between a Science Based Target and impact claim, resulting in lower overall ambition due to duplication. Conversely this could be a major opportunity to use that investment to unlock hard to reach areas of supply chain action.

Two further proposals included in the Phase II consultation report concern the setting of baselines independently of project developers and the independent selection of Verification and Validation Bodies (VVBs). On these issues, Gold Standard notes as follows:

- **Baseline-setting:** Baselines are likely to be increasingly standardised as we move into alignment with the Paris Agreement.

This is however a challenging area from a technical perspective. As such, we recommend that further detail is provided on how this would be managed as it could exclude vulnerable communities, for example in LDCs. We therefore recommend a thorough mapping of this requirement against activity types and development contexts to ensure that no accidental exclusion is made. Overall we note that the literature on VCM does not point to the independent setting of baselines to be a key issue (as noted above, criticism is mainly focused on additionality and double counting). The main exception to this is REDD+, where Gold Standard's position remains that REDD+ credits should not be used for offsetting due to their unprovable counterfactual which leads to insufficient integrity for per-tonne claims, in addition to other challenges like leakage and permanence.

- **Independently selected VVBs**: Setting aside again that there is no real identification of this as an issue in the market literature to date, Gold Standard strongly recommends that an assurance working group is created. The experts concerning this matter have simply not been in the room to date. Gold Standard recommends both Assurance Providers and Oversight Bodies be convened and recommends ISEAL as a point of good practice for Assurance. Their Assurance code can be found here and has many parallels with what is needed in markets, to the extent that Gold Standard recommends that ISEAL membership should be seen as an automatic CCP compliance regarding all matters of standards governance. Duplication of work is not sensible given the limited time we have left to avert the climate emergency.

  While this solution is interesting to explore, Gold Standard notes that the breadth and depth of the current VVB community could not serve the market as envisaged. No doubt it would grow as demand increases, but we recommend that a group explores this issue in more detail and to map out how the risk of market limitation in this regard can be avoided. Further discussion should include for what to do for vulnerable and remote projects where necessary expertise and availability may mean only a subset of VVBs or even only one VVB can serve that purpose.

A final issue concerning quality is that demand-side stakeholders have repeatedly raised a lack of high-quality supply in the market. Markets have a tendency to pull towards repeating a success over and over such that it becomes efficient and practical. This is the nature of a standardised, transactional approach and leverages many benefits. However it does not incentivise and reward innovation and thus does not go far enough in raising ambition.

Accordingly, Gold Standard recommends a deep reconsideration of scopes of activities, move away from last generation CDM activity-style definitions and towards a focus on more holistic thinking that starts with an evaluation of human needs. Examples include as follows:

- In agriculture, the main focus today is on generating soil carbon credits (i.e do activity, get soil carbon). The more fundamental question should be how to address the need to feed a growing population, protect and enhance biodiversity and ensure farmer livelihoods. The latter especially will be the best guarantee of permanence. Hence 'agriculture' or 'soil carbon' are weak scope definitions that should be greatly enhanced if the push for quality is to be realised.
- In clean cooking, the main focus today is on generating energy efficiency credits. The more fundamental question is how to fully

transition the one billion people still cooking on open fires towards a safer, healthier, more efficient, more gender responsive approach.

It is possible that the TSVCM does not see it as within its mandate to consider supply-side issues such as this. We would at the very least encourage an approach that does not stifle, and where possible encourages, innovation that moves the market towards more holistic scopes and projects which could ultimately serve to deliver greater impact.

Finally, Gold Standard applauds the inclusion of a CCP for safeguards and the encouragement towards wider sustainable development benefits. However we ask that these are considered not as an additional attribute, but in fact what defines the eligible scopes by driving a discussion on what the market should pursue in order to support the realisation of Paris and SDG goals, not just how to get the most credits.

3. OBSERVATIONS RELATED TO GOVERNANCE PROPOSALS

As above, Gold Standard welcomes the idea of definitional consistency for the attributes of carbon credits and is as motivated as other market actors to raise the level of quality and integrity in the voluntary carbon market, while weeding out low-quality credits and mis-practice by a minority of 'bad actors'. We therefore understand the motivation for establishing a governance body, provided it is delivered by a body with no financial interest, high levels of expertise and an appropriate mandate.

Towards this end, we strongly encourage the TSVCM to take on board the following considerations:

1. **The TSVCM must ensure stringent provisions are adopted to avoid the various parts of the governance body – whether that is the Board of Directors, Executive Secretariat or Expert Panel – being captured by interests may not be in line with the pursuit of high-integrity credits**. As above, efforts in the TSVCM

have to date focused on protecting demand-side interests, which is an inevitable consequence of the taskforce's membership and risks being repeated through membership of the governance bodies. The requirement that former market participants must have been out of the market for a minimum of two years in order to become an Independent Board Member is therefore welcome. Yet this feels undermined by the inclusion of founding sponsor representatives with no such requirements, where a primary consideration instead appears to be their ability to fund the high costs of the governance arrangements. We would suggest that all applications for the Board of Directors, Expert Panel or the organisation that will run the Executive Secretariat should be open to public consultation for a period before appointments are made, with a mechanism through which conflicts of interest or other serious concerns can be raised. This feels reasonable given that, as is stated, the authority of the body rests on transparency of procedures and buy-in by market participants.

2. **The governance body should not act to stifle positive innovation in the market or equitable market access by under-served actors or communities through its mandate.** We strongly encourage the TSVCM to consider the mandate of the governance body carefully, specifically the granularity of the requirements it makes and the extent to which these may act to stifle innovation that could support positive developments within the market, or access to carbon finance by traditionally under-served communities. More detail on both of these is provided earlier in our response.

In addition, we have provided answers to some of the consultation questions related to governance on the following pages.

4. FINAL REMARKS

The TSVCM has taken upon itself a responsibility to scale the voluntary carbon market. Gold Standard stands in support of this intention and effort if it genuinely acts to build a higher-volume high-integrity market that can shift the dial in global efforts to tackle the climate crisis. We have faith that the intentions of the operating team are in the right place. We therefore ask that you consider carefully the recommendations and observations outlined above, which we consider critical to building a high-integrity market with responsibility and genuinely contributing to getting the world to net zero.

ANNEX: RESPONSES TO CONSULTATION QUESTIONS RELATED TO GOVERNANCE

B.1) Do you agree with the recommendations for improved governance of existing bodies to address pain points in the voluntary carbon market?

Improved governance and regulation of VCM is welcomed, provided it is delivered by a body with no financial interest and with high levels of expertise. We do not consider that the current proposals address the core pain points of additionality, double counting or high quality supply, however. See recommendations.

B.2) Do you agree that the mandate of the body is suited to address the governance needs of the VCM?

Unless the market properly recognises and defines its applications and how they relate to the Paris Agreement and to Science Based Targets then unfortunately the mandate is not sufficient. This is not the same as defining claims, which we agree is with others.

B.3) Do you agree with the phased approach for the roll-out of the governance body (i.e., focusing first on establishment of CCPs, incl. initial assessment of standards and development of credit eligibility guidelines)?

A phased roll out is sensible, though it is unclear against what applications the body would be assessing standards. For example, the question of a unique claim is relevant to offsetting but not to impact claims. Standards that are not proactively dealing with this major integrity problem cannot be assessed against the former, for example. Hence the CCPs will only make sense once they are set against the applications they are looking to be the principles for.

B.4) Which specific linkages should the governance body have to financial regulators, expert bodies, standard setters for corporate claims, legal and accounting firms, governments and regulators of compliance markets, and other bodies?

The body should have no financial interest in the carbon market. It should include neutral expertise and have observer groups for those with interests, including standards bodies, buyers/financiers, assurance and oversight providers etc. We strongly recommend that TSVCM engage with both the ISEAL Alliance (who have 20+ years of history of robust standards governance) and Transparency International.

For Board of Directors, Expert Panel, Executive Secretariat and member consultation group:

B.6) Do you agree with the target mix of stakeholders in each group?

Gold Standard does not consider the current proposals to be secure from the financial interests of the sponsors and is thus inappropriate.

B.7) Do you agree with the steady state nomination process?

Gold Standard strongly recommends formal observer groups representing key stakeholders. The nomination process and voting should be made fully public.

The governance body needs to balance the need to capture the expertise and ensure sufficient engagement from market participants with the need to avoid real and perceived conflicts of interest. Input from market participants is particularly valuable to inform decisions on the CCPs. However, final decisions should be taken by individuals with minimal conflicts of interest to ensure the integrity and authority of the governance body. Hence, the body needs to find a balance to ensure that market participants and their interests are overall adequately represented in the Expert Panel and on the Board of Directors.