

ACR Standard v7.0 Summary of Public Comments and Responses

An updated ACR Standard, Version 7.0 was revised by for approval by the American Carbon Registry (ACR). The ACR Standard and a summary of changes document were posted for public comment from October 2, 2020 through December 1, 2020. ACR held a number of meetings with interested stakeholders to discuss proposed updates.

ACR would like to thank all the organizations that submitted comments to the draft ACR Standard version 7.0. The comments were extremely thoughtful and informative and have directly guided our thinking on the issues and concerns that were raised. Please find a summary of key comments and the ACR response below. All comments that were received are also posted in their entirety at the end of this document.

Section 10.B: Policies to Prevent Double Claiming of Emissions Reductions		
Commenter	Comment	ACR Response
Blue Source ICROA GreenTrees Natural Capital Partners Project Developer Forum The Climate Trust	Numerous comments were received in response to section 10.B regarding policies to prevent double claiming of emission reductions in voluntary carbon markets, specifically requirements for host country letters of authorization and agreement to make corresponding adjustments for offset credits transferred for use outside of the host country for voluntary (scope 1 & 2) offsetting purposes. Stakeholders expressed concerns including that: <ul style="list-style-type: none"> • This proposed policy is premature because UNFCCC decisions related to Paris Agreement accounting under Article 6 are not finalized and are still subject to change; • Implementation of the proposed policy in 2021 could disrupt project development already in progress, commercial credit sale agreements in place and currently being negotiated; 	In light of the numerous comments received citing many valid concerns related to immediate enactment of the proposed policy, and in conformance with recommendations by the EDF- High Tide Foundation steering committee on “Mobilizing Voluntary Carbon Markets to Drive Climate Action,” ACR has decided to postpone consideration of this policy until a future date. ACR may reconsider the proposed policy in the future depending on the associated timing of decisions, processes and requirements under the UNFCCC,

<p>The Nature Conservancy Tradewater</p>	<ul style="list-style-type: none"> • The proposed policy could result in unintended price differentiation in the market; • A transition period is needed prior to implementing the proposed policy; • The proposed policy could lead to equity issues related to relative capacity to issue needed authorization letters and adjustments; • It is unclear if the proposed policy will be required by governments (and if so, which ones) for voluntary offsetting; and • The processes and infrastructure needed to obtain authorization letters and make accounting adjustments are not yet established within governments. 	<p>and how they are clarified, and the ability of market and host country participants to establish workable processes and systems for applicable requirements.</p>
<p>Section 6.F.2: Programmatic Development Approach</p>		
<p>Commenter</p>	<p>Comment</p>	<p>ACR Response</p>
<p>GreenTrees</p>	<p>The draft limits enrolling new sites to no longer than 5 years after the project start date. We see no reason for such a limit. This bullet point should be deleted. Keeping this bullet point as written would effectively prohibit afforestation programmatic projects.</p>	<p>This change was made to temporally align site implementation date (planting date for A/R) with project start date. A/R projects may enroll sites for up to 5 years from project start date. Sites with implementation dates beyond 5 years may be consolidated into a new PDA project.</p>

Appendix B: ACR Requirements for avoiding double counting in the ICAO's CORSIA

<p>Tradewater</p>	<p>The ACR Standard does not distinguish between emissions reductions that are covered by (or inside) a host country's NDC targets and those that fall outside of a host country's NDC targets. The failure to make this distinction – and to provide clear rules for how a project developer can establish what is covered by (or inside of) a host country's NDC and what is not, and tag credits accordingly – imposes unnecessary and unfair burdens on project developers. It also creates perverse incentives for host countries to “meet” their NDC targets by claiming as their own privately developed emissions reductions that were neither part of the host country's plan nor included in the baseline.</p>	<p>ACR recognizes that in some cases, there may be grey areas for whether activities are inside or outside of a host country NDC. In Appendix B, Section B.4 ACR Requirements, under Figure 1: Steps for Units to be Qualified by ACR for Use in CORSIA, step 1 in the graphic is to determine if the emission reductions are covered by the host country NDC. The explanation to step 1 details that <i>“If the nature, scope or applicable period of an NDC target is not clear, the Project Proponent and ACR may further evaluate information communicated by the Host Country to the UNFCCC and/or seek clarification from the Host Country government UNFCCC Focal Point.”</i></p>
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Date 24 November 2020

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Subject **Public Comment on ACR v7**

Classification: Not confidential – this letter will be distributed to interested parties and published online

Dear ACR Staff,

We would like to thank you for the opportunity to provide feedback on the draft ACR Standard v7.0.

The Project Developer Forum (PD Forum) is a collaborative association and collective voice of companies and practitioners that are developing and financing greenhouse gas (GHG) mitigation activities worldwide. Our members work on a global scale and evaluate opportunities to deploy climate financing and carbon market instruments to accelerate investments for GHG mitigation, climate resilience and sustainable development. Our members have been major users and supporters of both voluntary and UNFCCC carbon standards for the last two decades. From the perspective of practitioners, the PD Forum offers workable, pragmatic and practical solutions developed by member companies and individuals who have the knowledge and experience to develop financially viable, replicable and transformative mitigation.

We would like to commend ACR on your efforts to consult and discuss the future of the voluntary carbon market (VCM) over the last few years, and build a momentum of support for the market. During these years the understanding of all stakeholders in the VCM, including PD Forum members, has evolved, naturally so, from the time of the COP in Paris to the eve of the start Paris Agreement (PA) era. There are many areas where our thinking has evolved into broad agreement.

We would like to focus our comments on the newly proposed policies in Section 10.B, “Policies to Prevent Double Claiming of Emissions Reductions” and particularly to voluntary offset claims, as this is an area where your latest thinking is diverging from earlier agreement on the issue.

In the global carbon market context in which all signatories to the Paris Agreement (“Parties”) have emissions reduction target(s) / pledge(s) / contributions / commitments (collectively “targets”) as formulated in the nationally determined contributions (NDCs), and new global compliance markets such as ICAO’s CORSIA have been launched, double claiming occurs when the same emission reduction / removal (ERR) is counted by two or more Parties or entities (e.g. buyers and sellers, whether in voluntary or compliance markets) towards climate change mitigation obligations, targets, pledges, commitments or efforts.

Flagging Corresponding Adjustments in the registry

- We agree that post-2020 any carbon standard (registry) should transparently indicate whether any emission reduction or removal (ER) includes a Corresponding Adjustment (CA) or not. This is of course essential for any standards that hope to feed into CORSIA, but is of wider interest. We encourage ACR to enable the inclusion of this attribute in the registry as soon as possible.
- We believe the registry should allow for the attribute to be added on an ex-post basis, as issuance of ERs should not be held up by the international UNFCCC process or inevitable bureaucratic delays in host countries. We also believe that the registry should allow for the user to elect whether to apply the CA or not upon retirement.



- The efficient application of CA requires a direct registry link to UN/Party registries, which ACR should start to work on enabling. While adding the attribute in the registry should be fairly simple from a registry-management perspective, such external links to other registries will be much more difficult.
- However, as the Paris Rulebook is not yet agreed, we believe it is premature to fix any of the details, make it obligatory, or in fact expect it to be possible to make a corresponding adjustment for many years yet. For any markets that may need CA, a transitional period should be agreed, which will need to be at least 5 years, and likely much longer.
- While we are encouraged by ACR's confidence of the US' State Department interest in co-operation, we believe it will be highly unlikely that many (host) countries are able to apply a CA long before 2030, if at all.

Compliance markets need CA, voluntary use does not

- We fundamentally disagree with the concept that CA is necessary – or even desirable – in the voluntary market. We believe it both muddies the water of inventory accounting under the UNFCCC, and undermines one of the principle (value) drivers of voluntary action.
- All corporate emissions (and reductions made) are “double counted” by the countries they operate in. Country inventories are made up of emissions from households and businesses in that country. Which is exactly why any corporates under a mandatory ETS implemented by a Party under its NDC do so for the purpose of that Party's reporting, and therefore any ER eligible under such ETS would have to include a CA.
- Additionally, corporate GHG footprints and offsetting includes not just scope 1, but also scopes 2 and 3, which are in fact the (scope 1) emissions of another entity entirely. Therefore, the concept of double counting (and CA) needs to be addressed differently. CA exist to ensure emissions (reductions) are reported once at the UN level, which includes Parties under the UNFCCC, aviation under CORSIA and international shipping which may be addressed by IMO in the future – these latter two sector emissions are explicitly excluded from national accounts under the UNFCCC rules. Therefore, CA are essential when used for reporting to the UN by another Party or aviation/shipping sector, but should not be applied in other cases to avoid accounting errors.
- We are happy to see that ACR acknowledges that any scope 3 does not require CA. The same logic must be applied to any voluntary scope 1 and 2 offsetting, which also do not require any CA. Any inconsistency between the scopes proves the error in the theory applied. However, we do disagree with the manner in which the proposal describes how such retirements for scope 3 should occur. The offsets should be retired by / for the entity itself, as is currently the case, and not by the host country of the offset project.

Quality in the Paris Agreement regime

- It is important to acknowledge that the Paris Agreement is not a compliance regime. Parties pledge certain commitments on a voluntary basis. They submit their NDCs, and update them. However, neither the commitments, nor submissions, nor indeed the achievement of any commitments is subject to compliance. Parties are encouraged to update their NDC to ratchet up their commitments, but they may equally change or weaken their commitments, alter the sectoral coverage etc. The structure of the Paris Agreement commitments for Parties is entirely different from the working of a compliance (carbon) market, such as the EU ETS, or the VCM. We caution against trying to equate a Party's commitment under the Paris Agreement and an ex-post verified metric tonne of CO₂ reduced from a registered additional emission reduction project.
- The quality of the global regime can be split into 4 almost-independent parts, the quality of each of these should be addressed in their own right: (1) the over-arching PA/global framework; (2) each individual Party's commitments (NDCs and policies and regulations); (3) the individual (ex-post verified) emission reduction; and (4) action by individuals/organisations/corporates. We must aim to increase the quality of each of these elements in their own timelines, rather than wait until the perfect all-round system is designed. The UNFCCC negotiations is the place to address the global framework. Each country has a responsibility to address their own commitments. The VCM has focussed on – and delivered – real, additional emission reductions. And various reporting frameworks, such as for example, CDP, the GHG Protocol and the CarbonNeutral Protocol, have focussed on the quality of individual actions. No matter how good the quality of one part, it does not compensate for the lack of quality of the other three parts.





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- The VCM in no way replaces or displaces action needed by Parties, nor threatens the Paris markets: the VCM is an order of magnitude smaller than the reductions required under PA. The VCM should not be used to drive the changes needed for the PA, or the Paris Mechanisms, and is not a pilot phase for Paris. Indeed, the VCM has thrived precisely because: (1) there is a very limited link – the VCM has not had to wait for Parties slow and bureaucratic dealings; and (2) Parties have failed to take their responsibility to action, and VCM participants have done so instead.
- The voluntary action taken by corporates and individuals in the VCM does not aggregate up to their domicile (or wherever they are headquartered), rather it counts where the action takes place: voluntary corporate action is taken despite the fact that their country doesn't do nearly enough. Corporates report a global footprint, for all their operations, across borders, and global scope 3 emissions; and offset the footprint with an equally global portfolio of reductions (and/or removals). Indeed, many participants aim to spread their offset portfolio geographically in a similar way to their footprint.
- The commitment from players in the VCM is an order of magnitude greater than that of the Parties: most commit to neutrality, not a small percentage reduction from BAU. Unlike UNFCCC Parties who only take responsibility only for their own "scope 1" emissions, VCM participants account for scope 2 and 3 too. Note that for many VCM participants, scope 1 is often only about 10% of their footprint! They account for the emissions of their utility provider, they account for emissions in their supply chain – no country does that.

Claims and value

- The PD Forum do not recognise the position of the practitioners in this market being very well presented, despite all the discussions over the last few years. The VCM industry has been delivering corporate action over more than 20 years, delivering carbon neutrality, far exceeding any action mandated by governments over that time (or as determined by any "science-based" trajectories); even the most ambitious formal targets don't deliver neutrality today but only by 2050. The VCM continued to deliver even when governments failed to act, when Kyoto was rejected, when negotiations failed, when the US pulled out. The VCM has been able to deliver without being mandated by government, but by corporate leaders taking responsibility for their (climate) impacts, and acting accordingly, filling the void that governments left. The VCM is not going to be helped by suddenly putting barriers in place that discourage taking responsibility, that allow laggards to hide. Research has shown that VCM participants outperform their peers in terms of sustainability, showing that reductions are made in house before offsets purchased.
- The VCM has relied on quality carbon standards that define additionality and baselines in complex and ever-changing regulatory settings for decades. The PA does not change this fundamentally – while we should see an increase in regulatory activity from all countries, they are still falling far short. The VCM will continue to rely on standards that are able to assess and certify projects in this manner, whatever host country (or UN) policies, and whether or not Parties comply with their commitments. A standard unable to determine additionality and baseline independently, without relying on the host country say-so (through a CA), is unlikely to be acceptable to the VCM.
- Now that we have a global framework(s), that is meant to capture all emissions globally, from all sectors, all gases, we can finally stop pretending that the VCM is somehow outside of all this. Global emissions should "add up", at all times. All emissions reported at the UN level (Parties and sectors that are excluded from national inventories/commitments, such as aviation and maritime) should add up to the global emission levels, and it must be ensured they are not double counted/reported at the global level. Emissions/reductions should not "disappear" from the equation, but reported.
- A CA is an accounting tool, determining which Party may report the underlying (ER) to the UNFCCC, allowing Parties (and sectors) to work together to achieve their commitments together, taking greater action here to make up for a shortfall there. Without CA no international co-operation could count towards Parties' commitments. Indeed, for compliance purposes, the CA is the only important measure as it is all about which Party can report them, with the underlying activity that created the reductions/removals, including its additionality, irrelevant; this is similar to AAU trading under Kyoto.
- However, for the VCM, the underlying activity is the only important measure, particularly the baseline and additionality, and whichever Party reports it is not relevant. At no point do emission reductions for the VCM need to be exported out of the host country. Indeed, in many cases, VCM participants will offset where much of their supply chain emissions are. The ER are not exported for UNFCCC reporting purposes, and therefore no CA is required; indeed a CA would muddy the international accounting. The



VCM explicitly needs the benefits (ERs) and co-benefits to fall to the local communities, and not the tax domicile of their headquarters. A CA would likely destroy value to VCM participants.

- Many VCM players have a strong desire for any additional benefits (co-benefits) from the offsets to be delivered to the communities where their projects happen, which are often in their supply chains or where their customer base is. Any negative effects on these communities, which could for example come from more restrictive NDCs that could be the result of CA, would therefore be counter-productive to buyers.

A simple example

If a US corporate reduces its footprint to zero by using only solar for electricity, biomass for heat, and planting trees for anything else, you don't ask whether the biomass came from its own forest, or the solar panels were manufactured by the company itself, or the trees planted on its own land, before accepting its footprint and the company's carbon neutrality. You accept that its choice to use solar power helps the utility provider to reduce emissions, as well as the country (even if the power might be imported from a neighbouring country). You accept that the biomass is a renewable fuel, even if supplied by another company or is imported. You also accept that the trees have removed the GHGs otherwise emitted, regardless of whether they have been planted in its own forest, someone else's forest, or even if it planted a forest in another country. You accept that the company has reduced its footprint and is carbon neutral. At no point would anyone ask the US to make a CA for this corporate's actions (voluntary, or regulated for that matter if each of the actions was eligible in line with the regulation), trying to unpick somehow the hundreds of corporates that do, trying to unpick whether these are scope 1, 2 or 3 emissions, and whether indeed two corporates may be offsetting the same emissions.

Technicalities

While we disagree fundamentally and theoretically with the demand of a CA for the VCM as explained above, there are also numerous barriers that cannot be overcome by the VCM itself, but must be addressed by each of the other "qualities" (above).

- The rulebook has not yet been agreed, which means that many of the technicalities of how to do a CA are not yet decided. Therefore, host countries simply cannot do a CA.
- What is a CA without an underlying NDC? The vast majority of Parties to the Paris Agreement have not yet defined the NDCs in much details, nor do they have policies and regulations in place to meet any such commitments. Even with a fully defined NDC, there is no guarantee a Party will meet the target.
- What is a CA "worth" if a Party misses their target? PA is not a compliance regime with agreed targets. NDCs are voluntary pledges by Parties, with no penalties for missing them. And a build-in system for changing those pledges on a regular basis (including afterwards); presumably ratcheting down, but nothing to stop the pledges becoming weaker. Therefore, at best a CA is an IUO against a moving target that may be missed without consequences.
- NDCs may be for single or multiple years, and almost none covers every year. What is a CA from a year without target/commitment?
- We understand that a CA may be done in [2-yearly] reports by Parties to the UNFCCC. However, such reports are only made in the (far) future, as no rules are agreed yet. What is a CA in the interim? What happens when a country fails to include the CA in their report? If an ER were only valid with a CA, then its validity must be dependent on that report and the Party's compliance.
- The reason – albeit unstated – for the need for the CA in the consultation document's view is that the host country is suspected of acting in bad faith and either relaxing its policies or selling the excess reductions. This thinking is flawed.
- Government policies and measures to reach their commitments in the NDCs cannot and will not be switched on and off instantly. If the host country was intending to meet its NDC, it will overachieve as a result of the VCM activities.
- If a government acts in bad faith and tries to sell the overachievement, the buyer (country) is complicit in such bad faith as the underlying ITMO must be the voluntary action. It is the same host country government that needs to be trusted to do a CA.
- An ER is an ex-post independently verified emission reduction achieved against a pre-agreed baseline that is additional compared to what would have happened, as determined following internationally agreed





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methodologies. The baselines and additionality used in project-based accounting under the carbon standards are based on the realities of the actual policies and regulations in place, not some lofty ambition in a report. As the baseline and additionality is checked before registration of any project or programme, carbon standards determine for each one of them that these reductions would not have happened otherwise – NDC or not. The reductions achieved are additional to any that would have been achieved by the host Party with any of the policies and regulations that are in place at the time, including any effort to reach the NDC.

- VCM has no control over the action by the Parties in the future. We appreciate there could be theoretical scenarios where, in the future, the host party takes certain decisions that may negate the actions of the VCM project.
- Even if Party were to sell the CA to someone else, it would still not be double counted to the UNFCCC, so still no actual problem.
- VCM cannot be held responsible today for potential future non-compliance of a Party, or changes in policy at a later date, or deliberate bad-faith actions.
- The VCM relies on the realities of a project-specific baseline and additionality assessment to show that the resulting ERs would not have happened
- The VCM must assume that host Parties that engage with the PA, and with projects, do so in good faith, fully intending to meet their NDCs and develop policies and regulations to do so.
- It is easy to demand that only international projects must make a CA, as ACR has almost none, while the other voluntary standards do.

Conclusion

In our opinion corresponding adjustments for the voluntary market are unnecessary as the emission reductions from voluntary action are only reported by the host country in its national inventory; whether the emission reductions and the footprint being offset are in the same country is not relevant. The voluntary market has different purposes compared to compliance markets and can supplement international ambition. If a company invests into a mitigation project in a host country it may claim this investment for the company inventory if appropriate additionality tests have been made and verified. It may claim the same if it invests in its own country: a domestic solar power plant should not be treated differently from an investment in an - additional - solar power plant in a host country. The domestic investment leads to a double claiming as the investor country and the company claim the emission reduction. The foreign investment leads to double claiming of the same company and the host country. As long as there is no double accounting of the same investment in both countries on country inventory level there is no damage to the environmental integrity of Article 6. Actually, the investment contributes to achieving national targets and may trigger further investments, ambition and/or technology penetration. To avoid double claiming each corporate investment would need a corresponding adjustment in the according national inventory: in the host country for foreign investment, in the investor country for the domestic investment. It is obvious that such adjustments would be a bureaucratic nightmare and politically impossible. Moreover, corresponding adjustments derived from voluntary action would suddenly lead to imbalances in the Paris accounting caused by voluntary, private climate action.

The PD Forum and its members are looking forward to your updated draft standard and opportunity to discuss this further.

Yours sincerely,

Dr. Sven Kolmetz
Chairman, Project Developer Forum





December 1, 2020

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2451 Crystal Drive, Suite 700
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Dear ACR Staff,

Thank you for the opportunity to comment on the proposed Version 7.0 of the ACR Standard. The following comments are limited to section 10.B: Policies to Prevent Double Claiming of Emissions Reductions.

The need to accurately account for emission reductions in relation to the Paris Accords is a key issue facing the voluntary market. The practices employed to address this, however, could either encourage continued climate investment in the space, or stall it severely. ACR has always been a leader in the support of voluntary markets, and it is therefore no surprise that it is seeking to tackle this important issue head on and provide a path forward. In addition to its leadership, ACR has also been a bastion of market efficiency and transparency, and while we believe the proposed changes are consistent in motivation, they may have the opposite effect in practicality, introducing obstacles to climate investment.

Chief among our concerns are:

1. Creating market demand for a certain type of instrument that cannot practically be produced, thereby reducing demand for available instruments.
 - **Demand will be influenced.** As of this moment, it is Bluesource's observation that very few buyers of ERTs are requesting evidence of corresponding adjustments, host country letters of approval, or other forms of perceived eligibility or "Paris-aligned" tagging. Nevertheless, if ACR puts such tagging or other eligibility designation into existence, it is our belief that buyers may immediately gravitate toward such instruments, regardless of whether they are available, devaluing other legitimate ERTs and other forms of voluntary climate investment. A fine example of this is the recent market emphasis on removals and the resulting confusion about their value relative to other important actions such as conservation.
 - **Chicken and egg #1.** ACR's draft guidance places great importance on the ultimate use of the ERTs – where an end user is located relative to the host country AND for what purpose (Scope 1, 2 or 3) the instruments are used. In reality, however, ERTs are tradable instruments and may change hands numerous times and across numerous geographies and buyer types prior to their end of life. At the time of most sales, it will be impossible to know the ultimate user's location and for which scope of emissions the



credit will be used, and therefore whether host country approval would be required in order to receive the Paris-aligned tag. Moreover, credits used by an entity in the same country as the project should be deemed Paris-aligned even though host country approval and a corresponding adjustment would not be necessary according to the draft guidance. In summary, buyers and sellers may desire a Paris-aligned tag or other eligibility determination, but the need or lack thereof for a host country approval and corresponding adjustment is indeterminable until the time of retirement.

- **Chicken and egg #2.** Getting host country approval when a seller doesn't even know if they will need it (because they don't know the location of the ultimate end user of their credits or the scope of emissions the credits will be used against) may prove impractical for the project operator – or impossible for the host country. To the latter point, host countries may not want to make a corresponding adjustment for a credit that has an equal chance of being used domestically as it does internationally.
 - **Timeliness and willingness of federal governments.** For US-based projects in particular, the host country will not even be able to rejoin the Paris Accords for several more months. It may also need substantial additional time to establish its key personnel and views on allowing corresponding adjustments and issuing letters of authorization. Even with the best of intentions, market participants should expect that things will happen at the “speed of government,” which may simply pose too much investment risk for project development.
2. Putting rules in place that are intended to be aligned with the Paris Accords prior to the details of Article 6 being fully established and operationalized.
- The scenarios proposed in the draft standard – and for which ACR proposes requiring a host country approval or not requiring such approval – may be inconsistent with the ultimate Article 6 requirements. This could lead to certain instruments being viewed by the market as “Paris-aligned” or eligible in some other way that don't end up being so. For example, “Scenario 2” in the draft standard indicates that a host country letter of approval would not be required for use of credits for Scope 3 emissions; however, this view may not be widely accepted in the future. The opposite scenario, where credits thought to be “ineligible” may be eligible in the future despite an approach inconsistent with the draft standard, is just as likely.

There is ample confusion in the market right now, ranging from new entrants and new instruments to new methodologies and new standards of far lesser quality than ACR. Great care should be taken to preserve confidence in this long-established program *and* its existing projects, sellers and buyers, even with the need to adapt to necessary changes in the global landscape. Uncertainty and hesitation from buyers will not only affect investment in new projects and support of existing projects that made their bet on the voluntary market, but also ACR's program itself. What more might ACR be able to do to



provide buyers with confidence that the instruments they purchase are sound and have accounting credibility, both now and in the future? What can it do to support its projects in gaining host country approval for international transfers?

We are grateful both for the work the ACR team has clearly put into this challenging topic and for the opportunity to comment.

Sincerely,

A handwritten signature in black ink, appearing to read "Kevin Townsend", with a long, sweeping flourish extending to the right.

Kevin Townsend
Chief Commercial Officer
Bluesource

ICROA RESPONSE TO THE AMERICAN CARBON REGISTRY STANDARD v7.0 UPDATES

*REQUIREMENTS AND SPECIFICATIONS FOR THE QUANTIFICATION,
MONITORING, REPORTING, VERIFICATION, AND REGISTRATION OF
PROJECT-BASED GHG EMISSIONS REDUCTIONS AND REMOVALS*

1 DECEMBER 2020

This document is an OPEN LETTER in response to the updated version 7 of ACR's Standard

Dear American Registry Staff,

ICROA thanks ACR for the opportunity to provide feedback on the draft ACR Standard v7.0.

ICROA is appreciative of the American Carbon Registry's substantial role in building an environment of confidence and integrity with market stakeholders. We welcome ACR's role in continuing to catalyse transformational and effective voluntary climate action post-2020 in the wider civil society and government circles.

As established users of ACR, our members support many of ACR's projects, and appreciate the emphasis on environmental benefits beyond emissions reduction¹ as well as strong innovation in order to fight climate change with impact.

ICROA supports ACR's significant work to achieve ambitious mitigation goals, keeping high quality at the heart of action, and looks forward to continued engagement.

In this consultation, ACR is seeking inputs on the updated sections of the v7.0 ACR Standard. ICROA will address the following sections referenced in the Summary of Changes from ACR Standard v6.0 to 7.0 document:

1. Chapter 10: Avoiding double counting with other GHG programs and registries, emission trading systems, and national or sectoral GHG emissions reduction targets, more specifically Chapter 10.B. Policies to Prevent Double Claiming of Emissions Reductions (p. 59 – 60). We will particularly address voluntary offset claims.
2. Appendix B: ACR Requirements for Avoiding Double Counting in the International Civil Aviation Organization's (ICAO) Carbon Offsetting and Reduction Scheme for International Aviation (CORSA).

¹ Carbon reduction is an umbrella term used to refer to the avoidance and reduction of GHG emissions at their source, and the removal of carbon from the atmosphere through biological or technological sequestration.

1. Chapter 10.B: Policies to Prevent Double Claiming of Emissions Reductions

In version 7, ACR defines the terms double counting and double claiming. Then proceeds to outline that double claiming depends on geography of credit generation and usage (1a, 1b) as well as the nature of the claim (2) – that a corresponding adjustment (CA) is required once the ERT is exported from the host country to another Party's NDC or for voluntary offsetting of Scope 1 and 2 emissions, but not for Scope 3 emissions. The update states that CAs are not necessary when there is no transfer of ownership of the ERRs towards entities and therefore only a claim can be made a to contribution to an NCD achievement of the host country.

Firstly, regarding the definition of double counting and double claiming, as per the previous ACR stance, no double counting is occurring, as the emissions reductions are being counted only once under current UNFCCC accounting – if an entity outside of the host country finances and retires ERTs, it cannot use these voluntary offsets in reporting emissions to its own government. Only the emissions inventory of the host country is affected, where, in fact, the physical emissions reductions occur. Therefore, there are two valid claims: the host country's emissions are reduced and the corporate has offset its emissions.

Secondly, ICROA strongly believes that the VCM's role - and an important principle - is to enable climate leadership and immediate action, and the greatest risk we see is that of jeopardizing climate progress by potentially disincentivizing private sector investments under a new regime unfit for purpose. Voluntary action is not going to be incentivized if barriers are put in place that discourage taking responsibility and allow the least ambitious players to continue on a business-as-usual trajectory.

The following may create complexity and confusion:

- The differentiation of Scope 1, 2 and 3 emissions and their location, while also giving a lower importance to Scope 3 emissions
- The addition of "specific reason for retirement" notes that may include company information, associated location for Scope 1, 2, and 3 emissions, and recognition for scope 3 emissions offsets
- The tagging of "Paris-aligned" on offsets associated to various scenarios, without the Paris Rulebook negotiations finalized

This, therefore, may create barriers to investment and immediate action, in addition reluctance to use ERTs due to added administrative burden.

To compliment, ICROA does not think that a CA is needed for a valid voluntary action claim in the first place regardless of geography or scope. If a carbon reduction is only valid with a CA, then it can only be valid after the CA is made (a long time from now), further delaying action. The concept works on paper but has limited chances of applicability on the ground particularly in developing countries. Therefore, insisting on CAs could threaten ambitious climate action for the years to come as the unavailability of CAs could be used as an excuse to postpone investments in carbon reductions. This could mean that critical climate investments simply do not flow although we are in an all-out battle to reduce emissions as fast as possible.

From a bureaucratic and political point of view, it would seem very difficult to obtain CAs for the VCM. It is hard to imagine the incentive to transfer a carbon reduction to a VCM user through a CA: the country will need it to achieve its NDC target. Parties need to submit new NDCs every 5 years under the PA, with a new round in 2020. Very few [new NDCs](#) have been submitted so far and several of them simply reiterated commitments made 5 years ago, highlighting that their objectives are hard to achieve. This shows that exporting carbon reductions for voluntary purposes would present a significant challenge.

From a technical point of view, host countries are far from ready to give CAs and there are no 'receiving' accounts for corporates to ensure sound double entry bookkeeping. Emissions and reductions should not 'disappear' from the equation and distort UN accounting - and that is what CA to a VCM credit would lead to. At no point do carbon reductions for the VCM (offsetting) need to be exported from of the host country. They will be captured in the national inventory. If they are not exported, no CA is required.

We also need to consider the incentive question from the corporates' point of view. In many cases, VCM participants will offset where much of their supply chain emissions are. The VCM wants the carbon and socio-economic benefits to fall to the local communities, and not the tax domicile of their headquarters. Any negative effects on these communities, which could for example come from more restrictive NDCs that could be the result of CAs, would be counter-productive to buyers.

Again, we need to distinguish voluntary from compliance action through markets. For compliance under the PA or CORSIA, the CA is the only important measure as it is what Parties report - with the underlying activity, including additionality, that created the carbon reductions being irrelevant. For the VCM, the underlying activity is the only important measure and the baseline and additionality used in project-based accounting under the ACR Standard are based on the realities of concrete policies and regulations in place. Baseline and additionality are checked before the registration of any project or programme and carbon standards determine for each one of them that the reductions would not have happened otherwise. The reductions achieved are additional to what would have been achieved by the host Party with any of the policies and regulations that are in place at the time, including any effort to achieve the NDC target.

This has implication in terms of double claiming which in itself does not represent a threat to integrity as long as projects can be additional, i.e. so long as NDC regulations do not put us on track for net-zero by mid-century:

- The voluntary market has a different purpose compared to compliance markets and can supplement international ambition. If a corporate invests into a mitigation project in a host country, it may claim this investment for the company's inventory if appropriate additionality tests have been made and verified. It may claim the same if it invests in its own country: a domestic solar power plant should not be treated differently from an investment in an additional solar power plant in a host country.
- The domestic investment leads to double claiming as the investor country and the company claim the emission reduction. The foreign investment leads to double claiming of the same company and the host country. As long as there is additionality and no double accounting of the same investment in both countries on country inventory level, there is no environmental integrity risk. In fact, the investment contributes to achieving national targets and may trigger further investments, ambition and/or technology penetration.

Targeted discussions with countries interested in a greater private sector involvement to finance carbon reductions locally should be encouraged to accelerate and enhance ambition but ICROA does not think that the focus should be on enabling CAs.

ICROA's views on supporting the development of robust, credible claims

Regarding this key issue, ICROA thinks that the quality and credibility of voluntary action needs to be considered in a broad context. Without this approach to the issue of the voluntary carbon

market's (VCM) future role and framework, we risk creating rules that disincentivize action and/or cut off finance to projects without the environmental outcomes that they aim to deliver. In fact, looking only at the quality and attributes of carbon reductions has clear limitations.

To determine how ambitious and how impactful voluntary carbon finance can be post-2020, ICROA thinks it is essential to consider quality and credibility at four levels: A. The carbon reduction itself, B. the buyer's decarbonization pathway, C. the NDC and D. the PA.

Ultimately, these interlinked levels of action go hand in hand and represent the high ground on which impactful voluntary action ought to be based. Quality across all levels is needed to ensure that the rules governing the VCM effectively translate into greater integrity and greater action.

ICROA and VCM stakeholders work to ensure the quality of corporate action and quality of carbon reductions. Yet quality is also necessary at the NDC and PA level in order for CAs² to make sense in the VCM. As long as these conditions are not met – and this is a long way off – the risks associated with double claiming will be theoretical and so will the proposed solutions that could result in transacting 'hot air'.

A. Quality of the carbon reduction

ICROA only endorses standards that assure carbon reductions are aligned with fundamental principles. ACR has been endorsed by ICROA since the beginning as we know that ERTs represent reductions which are real, measurable, permanent, unique and independently verified. Another essential criterion is additionality which will continue to be key post-2020. ICROA will continue to rely on ACR to ensure that carbon reductions are over and above regulatory requirements which are expected to evolve as Parties implement their NDC and ratchet up ambition.

The VCM has relied on quality carbon standards that define additionality and baselines in complex and ever-changing regulatory settings. The PA does not change this fundamentally. While we should see an increase in regulatory activity from all countries, they are still falling far short. In a context of delays (Rulebook, COP26, new NDCs) and economic difficulties globally due to Covid-19, ACR will continue to play a key role in ensuring that the carbon finance channelled to projects continues to deliver certified mitigation above and beyond existing regulations, addressing in part the current shortcomings of governmental action.

B. Quality of the Buyer's Decarbonization Pathway

Corporate strategies that rely on offsetting as a stand-alone response are not credible, irrespective of any carbon credit attribute. Corporates need to align their decarbonization pathway with the best available science on climate change (IPCC). The VCM's role is to be a tool that complements action by corporates already engaged on a science-informed trajectory to avoid green washing and a potential increase in emissions. The power of the VCM lies in its capacity to enable immediate further action that addresses residual emissions, through offsetting.

² 'CA' is the abbreviation used throughout this document. However, ICROA sees a difference between corresponding adjustments applicable to Parties for PA compliance, and Host Country NDC adjustments for 'hot air' from a VCM perspective.

C. Quality of the Host Country's NDC

NDCs are not defined in great detail and do not follow homogenous rules that ensure comparability. Instead, most NDCs are loosely defined on many levels: sectors covered, target setting, conditionality or unconditionality, etc.

When NDCs will be economy-wide, clearly defined with ambitious absolute targets and fully supported by regulations, the VCM/voluntary offsetting will theoretically play a much smaller role and could need CAs to continue (Politically speaking, CAs may still be very difficult to obtain). Until that point, critical carbon finance through the VCM should continue to rely on additionality and the VCM can help identify the reduction potential in each host country and implement and increase the ambition of NDCs.

D. Quality of the Paris Agreement

The Paris Agreement is the result of compromises negotiated by 197 Parties over many years. Consequently, it is an agreement with great 'elasticity'. Countries can weaken their NDC at any time without sanctions, with the example of [Vietnam's NDC](#). They can even leave the PA without sanctions (USA). This again speaks in favour of more private sector voluntary action while this elasticity diminishes over time.

A few implications can be derived:

- 1. CAs for the VCM will (1) not realistically be available in the near future (neither technically nor politically) and (2) do not ensure more integrity as long as NDC and PA quality issues are not resolved. In fact, the requirement for CAs may well indirectly cut off critical finance to mitigation projects.**
- 2. The VCM cannot be held responsible for delays and lack of ambition at UN/Government level. The voluntary nature of NDCs/PA and absence of sanctions represent a considerable risk to ambition. Focusing on the attributes of carbon reductions in the VCM does not solve it. A CA is given against a moving target that may be missed without consequences.**
- 3. For the VCM, a transition period logically aligned with the implementation of NDC regulations is essential. At the end of that period, CAs could become applicable to the VCM.**
- 4. If CAs become available for the VCM, the members of ICROA can propose Article-6 compliant units to their clients when and where there is demand for these units.**

All in all, ICROA – just like ACR – firmly believes in leveraging the power of markets to drive ambitious climate action that reflects high quality, transparency and integrity.

For more information about ICROA's position on scaling private sector voluntary action post-2020, please refer to [this document](#).

- 2. Appendix B: ACR Requirements for Avoiding Double Counting in the International Civil Aviation Organization's (ICAO) Carbon Offsetting and Reduction Scheme for International Aviation (CORSA)**

As mentioned above, CAs neither relevant nor realistic for voluntary commitments but are a necessity for Parties under the PA and for airlines under CORSIA after the Pilot Phase as these

are compliance schemes – requiring carbon reductions to be exported from the Host Country to an Acquiring Country or sector.

ICROA would like to add emphasis on consistency and clarity of labels or tags across main voluntary market standards to avoid confusion for buyers and external stakeholders, especially for a potential transition period in the case it is decided that CAs are required.

Any carbon standard, including ACR, should transparently indicate whether any carbon reduction includes a CA or not, as this will help facilitate an eventual transition period.

We thank you for the opportunity to comment and contribute to the ACR Standard v.7 Update, and please feel free to get in touch if you would like to further discuss any of our comments.

This is, once again, an open letter, and we would appreciate if these comments to be posted on the ACR website.



December 1, 2020

American Carbon Registry
2451 Crystal Drive, Suite 700
Arlington, VA 22202
Submitted via e-mail

Re: American Carbon Registry Standard v7.0 Public Comment

Dear American Carbon Registry Staff:

Thank you for the opportunity to provide input on the draft ACR Standard v7.0 ("Standard"). With a reputation for promoting integrity in carbon markets, ACR no doubt seeks to advance sound policy on emission reduction claims. Sharing this objective, we offer comment on proposed revisions to the Standard, specifically those around voluntary claims in Section 10.B, "Policies to Prevent Double Claiming of Emissions Reductions."

Natural Capital Partners has major concerns about the general direction of the proposed policy, as well as specific aspects. Since at least 2017, ACR has unequivocally expressed the view that voluntary carbon markets are fundamentally untouched by the Paris Agreement. Indeed, ACR's advocacy was influential across the voluntary market. We concur with ACR's prior stance that the Paris Agreement does not create a problem in double claiming voluntary emissions reductions and here briefly recapitulate the expansive rationale.

The key issue is whether voluntary emissions reductions would be *counted* twice under UNFCCC accounting. They would not be. National greenhouse gas inventories are based on physical emissions, and no government incorporates voluntary carbon credits into its NDC. For example, if a company outside a project's host country buys and retires voluntary credits, it cannot use those credits in reporting emissions to its own government. The affected emissions inventory is solely that of the host country, where the reductions actually occur. As no double-counting occurs, a corresponding adjustment is unnecessary. It is important to recognize that concurrent *claims* can be perfectly valid: a host country can legitimately claim a declining emissions inventory while a corporate can claim to have offset its emissions.

In shifting its position, ACR has presumably found a more compelling argument. An articulation of the logical underpinnings of ACR's new position would be a valuable contribution to the dialogue. Where was the previous error?

To facilitate consideration of our comments, we've attempted to tag them to specific text of the Standard. Some comments, however, may be cross-cutting.

In the global carbon market context in which all signatories to the Paris Agreement (“Parties”) have emissions reduction target(s) / pledge(s) / contributions / commitments (collectively “targets”) as formulated in the nationally determined contributions (NDCs), and new global compliance markets such as ICAO’s CORSIA have been launched, double claiming occurs when the same emission reduction / removal (ERR) is counted by two or more Parties or entities (e.g. buyers and sellers, whether in voluntary or compliance markets) towards climate change mitigation obligations, targets, pledges, commitments or efforts.

- 1) This framing is overly broad, particularly in its application to voluntary markets. We are in agreement with ACR’s previous position: the Paris Agreement effects no issue of double claiming voluntary emissions reductions. In truth, corresponding adjustments would corrupt UNFCCC accounting: double-entry bookkeeping is impossible without accounts in the same book.
- 2) ACR’s interpretation of the Paris Agreement to mean that “double claiming occurs when the same emission reduction / removal (ERR) is counted by two or more...entities (e.g. buyers and sellers...in voluntary...markets)” is not supported by any definitive UNFCCC directive. The UNFCCC has not established that an issue of double-counting or -claiming exists with respect to voluntary markets. Article 6 negotiations are in progress, and the Paris rulebook does not yet delineate the relevant accounting. Until and unless a Paris rulebook incorporates voluntary carbon units into UNFCCC accounting, ACR’s policy is premature. ACR’s front-running policy action risks destabilizing the market (to be further discussed herein) and may ultimately be inconsistent with UNFCCC decisions. Even if the UNFCCC adopts ACR’s proposed accounting treatments by geography of credit generation and usage, this would not be agreed until at least December 2021. Thereafter, a minimum of 12 months for implementation can reasonably be expected. ACR should seek to harmonize its policies with the Paris rulebook, thereby reflecting the seamlessness that fosters effective carbon markets.
- 3) In the absence of a UNFCCC directive, one may consider whether ACR’s policy is justified on the basis of market demand. Natural Capital Partners serves more than 300 clients across geographies and sectors. We interact every day with the individuals directly responsible for corporate purchases of voluntary carbon units. To date, none have asked that their offset purchases be adjusted against NDCs. None have expressed interest in trading offset claims for claims to have supported a country’s NDC. None have advocated reformulation of voluntary offset claims. A demand driver for ACR policy action is not evident.
- 4) Although, at present, ACR’s project footprint is in the U.S., ACR is creating a policy template that runs counter to the Copenhagen Accord (aside from dissuading project developers from registering future non-U.S. projects with ACR). The Copenhagen Accord set a goal of \$100 billion in climate finance for developing countries, including funds from private sources. By impeding offset buyers’ emissions reduction claims, policy like that of ACR would disincentivize the climate investments recognized as necessary for effective and equitable GHG mitigation.
- 5) Should ACR decide to proceed with application of Section 10.B to voluntary offsets, Natural Capital Partners strongly recommends a transition period. Binding requirements should enter

into force only in coordination with implementation of the Paris rulebook's future Article 6 provisions. The following reasons support this approach:

- a. ACR rules would be aligned with those of the Paris Agreement. If the output of UNFCCC negotiations is accepted as the basis for international climate policy, then ACR's Standard should conform to the Paris rulebook. Further, uniform accounting practices underpin efficient and effective carbon markets.
- b. UNFCCC Focal Points may lack the inclination or capacity to efficiently facilitate the ACR Standard. Unlike the Paris Agreement and CORSIA, international treaty does not compel governments to help operationalize ACR's rules. As per discussion, ACR's impression that the U.S. UNFCCC Focal Point (the State Department) will provide the necessary assistance is encouraging. However, a Standard revision that relies on an assumption of voluntary, efficient, and consistent government aid subjects market participants to inherent risk. A transition period would mitigate such risk, while systematizing State Department procedures that may be necessary under the Paris rulebook.
- c. A transition period would test the market for corresponding adjustments and alternative claims (e.g. financing of progress towards NDC achievement). In the experience of Natural Capital Partners, a corporate derives value from claims that map directly to its GHG footprint. The market will need time to assimilate new value propositions. As voluntary buyers become familiar with these options, known demand data can inform the actions of project developers, market intermediaries, policy makers, and ACR.
- d. Project developers and intermediaries are not organized to managed offset portfolios around geography of credit generation and usage. It would undoubtedly be better to illuminate unforeseen issues during a transition period. Problems could be communicated to ACR and UNFCCC Focal Points, enabling resolution prior to binding requirements under the Paris rulebook.
- e. Well-functioning markets depend on predictable structures. We understand that ACR is proposing to apply the new policy to all offsets of vintage 2021 forward, regardless of the version of the Standard under which a project is otherwise operating. This abrupt change may impact existing long-term offtake agreements that were executed without contemplation of offset usage restrictions. The change may also hinder future long-term agreements, as value realization hinges on the facilitation of a government agency that is not a party to the contract. More broadly, the simple fact that ACR would consider applying new rules to existing projects undermines confidence: carbon project development is far riskier if ACR's rules may change long after resources have been committed. By advancing requirements ahead of the UNFCCC, ACR would introduce a new layer of uncertainty.

1. Geography of Credit Generation and Usage

a. Inside host country:

If an ERT credit is issued within a host country and used by an entity to compensate for or offset emissions or use against an emission cap target in the same country where it is created or generated, the claim will be captured in the government's emissions inventory and then claimed as an ERR towards NDC achievement. Therefore, both the country and the entity can claim the ERR, regardless of the type of target, compensation, or nature of the claim, and corresponding adjustments are not required.

Natural Capital Partners supports ACR's proposed policy towards usage of voluntary offsets within the host country. ACR rightly recognizes the validity of concurrent offsetting claims and contributions to NDC achievement. Natural Capital Partners suggests that application of offsets against corporate emissions inside and outside the host country bear no difference. The affected NDC remains that of only the host country. Across all geographies of voluntary credit generation and usage, ACR should apply the rationale reflected here.

1. Geography of Credit Generation and Usage

b. Export of unit outside of host country to meet targets and for voluntary offsetting:

If an ERT is transferred for use to compensate or offset emissions or for use against a target outside of the host country, double claiming must be addressed. In this case the host country UNFCCC Focal Point must provide a letter of authorization and assurance that it will make a corresponding adjustment in its UNFCCC reporting. This letter will be required for the use of exported ERTs towards Paris Agreement NDCs, for CORSIA obligations, or for voluntary compensation of / offsetting Scope 1 & 2 emissions outside of the host country.

For ERTs exported for use against emissions or a target outside the host country, the host country UNFCCC Focal Point must issue a letter to authorize the use of the ERRs by another Party or entity, and in that letter attest to report the transfer to the UNFCCC in the structured summary of its biennial transparency reports and make an accounting adjustment as required by the UNFCCC. This authorization letter will be posted publicly on the ACR Registry and the units will be tagged as Paris-aligned

When the retirement of ERTs occurs (for use towards an NDC, towards CORSIA targets or for corporate scope 1 and 2 emissions), the specific reason for the retirement will be noted on the registry.

- 1) As stated previously, ACR's requirements are premature. The stipulation that, for voluntary offsets, a UNFCCC Focal Point must commit to "make an accounting adjustment as required by the UNFCCC" implies that the UNFCCC has such a requirement. We have identified none. In a footnote, ACR references paragraph 77, subparagraph (d) of the Annex to decision 18/CMA.1 of the Conference of the Parties serving as the Meeting of the Parties to the Paris Agreement; the precise connection to ACR's proposal is unclear. Natural Capital Partners does not interpret the cited clause to be applicable to voluntary carbon units. In any case, the brief text defers four times to "decisions adopted by the CMA on Article 6." We suggest it immensely prudent to wait for these decisions before formulating ACR policy.
- 2) As noted in the discussion about the need for a transition period, UNFCCC Focal Points may lack the inclination or capacity to efficiently facilitate the ACR Standard. Unlike the Paris Agreement

and CORSIA, international treaty does not compel governments to help operationalize ACR's rules. As per discussion, ACR's impression that the State Department will provide the necessary assistance is encouraging. However, a Standard revision that relies on an assumption of voluntary, efficient, and consistent government aid subjects market participants to inherent risk.

- 3) The "Paris-aligned" descriptor is overly broad and is embedded with interpretation. Until Article 6 rules are agreed, it is impossible to establish whether any particular accounting treatment of voluntary offsets is consistent with the Paris Agreement. Should ACR opt to move ahead with a tag associated with corresponding adjustments, the label should be narrowly worded, simply reflecting that a UNFCCC Focal Point has agreed to apply a corresponding adjustment.
- 4) Any label holds the potential to create value differentiation (as is typically the purpose). An optional label can, in fact, increase an offset's price by recognizing an attractive attribute. However, ACR goes further, proposing new usage restrictions for credits lacking the label. No longer could an offset be freely applied against non-host-country Scope 1 or 2 emissions. With this step, ACR's proposal would actively impair value of untagged offsets.¹ Should ACR choose to move forward with a tag, ACR should not impose restrictions on usage of untagged offsets.

2. Nature of the Claim

If an entity pays for ERT credits or finances the generation of ERT credits in the host country and the title to the ERR is not transferred to the entity, the host country can claim the ERRs towards its NDC achievement, and the entity can make a climate finance or NDC achievement claim. This does not require a corresponding adjustment.

This type of claim includes voluntary compensation for Scope 3 emissions (geography of the emissions is not considered). Since there is no transfer of ownership or use towards a target outside the country (NDC, CORSIA, voluntary scope 1 and 2), there is no double counting. The Party or entity can claim they supported the NDC achievement of the host country, and the host country shall retire the credits before reporting the use of the ERs toward its NDC, noting the reason for retirement as towards NDC achievement and further recognizing the climate finance contribution or scope 3 emissions offset.

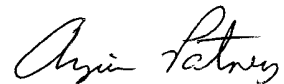
Natural Capital Partners reads this as allowing Scope 3 offsetting by a company outside the host country only in concert with the host country government's retirement of the offsets, application of the emissions reductions to the host country NDC, and host country recognition of the entity that paid for the offsets. We suggest that the rationale is unclear, and the practicality is questionable (e.g. UNFCCC Focal Points operating ACR accounts and companies relying on government acknowledgement after having paid for the emissions reductions). However, based on discussion with ACR, we understand that the intent is that Scope 3 emissions offsetting will be allowed to continue as it is today: voluntary buyers will be able to buy and retire offsets against Scope 3, irrespective of geography. Natural Capital Partners supports such continuation of the current approach.

Please understand our input as supportive of the quality and integrity for which ACR is known. Feel free to get in touch if you would like to further discuss any of our comments. In addition, please know that we

¹ One is reminded of the purportedly deliberate slowing of older models of phones. The older phones became less useful (and lost value) simply because they could not do what they did before.

consider this an open letter, and we request that this and all comments be posted on ACR's website. Thank you again for this opportunity to contribute to ACR's Standard revision.

Kind regards,



Arjun Patney
Vice President, Global Markets

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**THE
CLIMATE
TRUST**

Date: December 1, 2020

Re: American Carbon Registry Standard v7.0 Public Comment

To the ACR Staff:

Thanks for the opportunity to review and provide feedback on the proposed draft of the ACR Standard v7.0. Voluntary markets are poised to play a substantial role in the coming years through the onset of the CORSIA global aviation emissions offset market and growing number of corporate net zero commitments. Therefore, it is important that project standards continue to evolve to ensure offsets are viewed as an environmentally credible option for mitigating GHG emissions. At the same time, it is imperative to ensure any updates don't result in unintended consequences that could impede the ability of carbon markets to flourish. As the Taskforce on Scaling Voluntary Carbon Markets notes, offsets need to grow fifteenfold during the 2020s to contribute to the Paris Climate Accord goal of staving off a two-degree Celsius increase in global temperatures.

It is with the above in mind that The Climate Trust's comments focus on Section 10.B of the Standard, which are intended to address the prevention of double claiming emissions reductions.

- **Paris-aligned tags** - TCT is concerned that designating certain ERTs as Paris-aligned will artificially skew the value of ERTs and impede growth of the domestic supply and demand for ERTs in the United States. Under a system with a Paris-aligned tag option, many companies would place a premium on Paris-aligned ERTs or simply not purchase non-Paris-aligned ERTs; especially if they've publicly committed to voluntarily abide by the Paris Agreement. However, this designation is essentially based on host country approval and not on the environmental integrity of the ERTs themselves. Domestically originated, sold, and retired ERTs could also be Paris-aligned, but would not receive the Paris-aligned tag solely because there is no need to export the ERT. This could severely upend the domestic ERT market by suppressing pricing or even discouraging the adoption of ACR projects. As such it is advisable to not create a Paris-aligned tag or come up with a system that ensures a bias isn't created against domestically generated and claimed ERTs.
- **Title and nature of claims** - Enabling host countries to claim ERRs towards its NDC achievement where an entity finances the generation of ERT credits could impede the implementation of projects. Historically and to this day, most project owners are reluctant to take on the risk associated with developing a project. This is because it takes a highly specialized set of expertise to design a project, the costs of doing so can be substantial, and the outcomes uncertain. As a

result, a turn-key approach, where a carbon offset project developer funds the development of the project has proven to be the most successful approach because it largely shields the project owner from the financial risk of developing a project. There are instances where project developers pay to develop the project (i.e. finance the generation of ERT credits), but do not necessarily take title to the offsets. Therefore, it seems plausible that a project developer could say, finance the generation of the ERTs from a forestry project and because title stayed with the forest landowner, the host country can claim the ERR to its NDC achievement. This action prevents the ability to export the ERTs to buyers based in different countries. This provision creates more uncertainty and risk that project developers will not want to assume because it impedes their ability to sell ERTs globally, which could result in less projects being implemented.

- **Use of ERTs for Scope 3 emissions.** Similar to the above concern, preventing entities from retiring ERTs for scope 3 emissions and requiring it of host countries to count towards its NDC could impede the implementation of ACR projects. Presently, offsets are an important and effective tool in addressing scope 3 emissions for voluntary buyers. This is because these emissions are outside a company's control and often times they have limited influence to encourage direct emission reduction measures. Preventing entities from claiming ERTs towards scope 3 emissions will impede the development of projects because it will lower demand for ACR ERTs. To preserve this demand segment, its necessary to enable entities to make public claims on the use of ERTs to offset the climate impact of their scope 3 emission irrespective of geography.

Once again, we appreciate the opportunity to engage with ACR on proposed changes to the Standard. Double claiming is a complex topic, and it is made more complicated by the prospect of a growing international market for voluntary offsets. We appreciate the challenge ACR faces in addressing this issue, as it is imperative to do so to ensure all stakeholders have confidence in the underlying integrity of the Standard. We are supportive of meeting this challenge and offer the above comments to ensure double claims are prevented, but not done in a manner that could distort the market for ERTs or impede the implementation of offset projects using the ACR Standard.

Sincerely,

Sheldon Zakreski

Sheldon Zakreski
Executive Director
The Climate Trust

TNC Public Comments for the American Carbon Registry

December 1, 2020

TNC welcomes the American Carbon Registry's foray into defining the necessity of a corresponding adjustment (CA) in a post-Paris world. While the exact requirements for a corresponding adjustment remain tied into the Article 6 negotiations, it is encouraging to see Verra, the Gold Standard, and now the American Carbon Registry take a proactive stance in figuring out methods to avoid double counting in the meantime.

While TNC encourages all corporations and voluntary projects to seek corresponding adjustments, we realize that this might not be possible until countries set up clear pathways for approving CAs. Additionally, corresponding adjustments might not be required in all cases, such as (potentially) for any voluntary domestic purchases. We need to do more research to further understand the risk of double counting in such cases.

TNC would like to highlight a few specific questions and comments about ACR's proposed approach:

1. Geography of credit generation and usage

a. Inside host country: If an ERT credit is issued within a host country and used by an entity to compensate for or offset emissions or use against an emission cap target in the same country where it is created or generated, the claim will be captured in the government's emissions inventory and then claimed as an ERR towards NDC achievement. Therefore, both the country and the entity can claim the ERR, regardless of the type of target, compensation, or nature of the claim, and corresponding adjustments are not required.

While this approach makes sense from an accounting perspective, TNC would also encourage ACR to consider an equity perspective. Currently, the majority of voluntary carbon offset buyers to date are based in North America or Europe; as such, this ruling may disproportionately drive purchases from domestic projects based in the Global North and make it more difficult for the countries in most need of climate finance to receive this funding. This impact on developing countries may be lessened by continued purchases from large multi-national companies with operations in many countries around the world; nevertheless, this is an issue that TNC urges ACR to consider.

1. Geography of credit generation and usage

b. Export of unit outside of host country to meet targets and for voluntary offsetting:

If an ERT is transferred for use to compensate or offset emissions or for use against a target outside of the host country, double claiming must be addressed. In this case the host country UNFCCC Focal Point must provide a letter of authorization and assurance that it will make a corresponding adjustment in its UNFCCC reporting. This letter will be required for the use of exported ERTs towards Paris Agreement NDCs, for CORSIA obligations, or for voluntary compensation of / offsetting Scope 1 & 2 emissions outside of the host country.

For ERTs exported for use against emissions or a target outside the host country, the host country UNFCCC Focal Point must issue a letter to authorize the use of the ERRs by another Party or entity, and in that letter attest to report the transfer to the UNFCCC in the structured summary of its biennial transparency reports and make an accounting adjustment as required by the UNFCCC. This authorization letter will be posted publicly on the ACR Registry and the units will be tagged as Paris-aligned.

When the retirement of ERTs occurs (for use towards an NDC, towards CORSIA targets or for corporate scope 1 and 2 emissions), the specific reason for the retirement will be noted on the registry.

TNC has a few comments about this section, broadly defined under the following categories:

Timing

TNC encourages all corporations and voluntary projects to seek corresponding adjustments. However, we realize that this might not be possible until countries set up clear pathways for approving CAs. Additionally, corresponding adjustments might not be required in all cases, such as (potentially) for any voluntary domestic purchases. We suggest that further work is needed to more fully understand the risk of double counting in such cases.

It also seems likely that host countries will wait for a few developments before making any corresponding adjustments. These include:

- The development of clear rules around corresponding adjustments via the Article 6 negotiations. Expected date: late next year.
- A comprehensive understanding of potential mitigation options to meet NDCs and to track any and all transfers, via a registry. Expected date: will likely differ by country capacity and existing resources and data.

Until these developments are finalized, we would caution against requiring a corresponding adjustment for voluntary offsets in the interim period; especially as this may disproportionately impact carbon finance investment in lower capacity countries.. Instead, we recommend revisiting and/or installing regulations around corresponding adjustments at such a time when this is viable for all countries. Additionally, there should be guidance around what projects should do in the event that countries are unwilling to make any corresponding adjustments (such as Brazil, which has publicly stated that it does not consider corresponding adjustments necessary for any voluntary offsets within its borders).

Non-Compliance by Host Countries

It is unclear in this section what should happen if a project obtains a Letter of Attestation but then the host country does not make a corresponding adjustment. It is perhaps better to tag offsets as “pending” Paris-alignment until confirmed.

Purpose

It is not clear what reasoning would make corporates distinguish offsetting for Scopes 1, 2 and 3. Additionally, it is unclear how ACR proposes to monitor whether corporates use this new system. Before ACR proceeds with this adjustment, we would encourage more clarity and transparency on what objective this serves, and the infrastructure ACR has put in place to facilitate it.

2. Nature of the Claim

If an entity pays for ERT credits or finances the generation of ERT credits in the host country and the title to the ERR is not transferred to the entity, the host country can claim the ERRs towards its NDC achievement, and the entity can make a climate finance or NDC achievement claim. This does not require a corresponding adjustment. This type of claim includes voluntary compensation for Scope 3 emissions (geography of the emissions is not considered). Since there is no transfer of ownership or use towards a target outside the country (NDC, CORSIA, voluntary scope 1 and 2), there is no double counting. The Party or entity can claim they supported the NDC achievement of the host country, and the host country shall retire the credits before reporting the use of the ERs toward its NDC, noting the reason for retirement as towards NDC achievement and further recognizing the climate finance contribution or scope 3 emissions offset.

The need for ACR to grow demand for non-compensation/offsetting claims cannot be overstated. Most discussions to date around CAs have typically involved nonprofits and governments but have not had as much participation from buyers. We would recommend a market study conducted with businesses to best understand and identify potential demand for new language around claims.

Regardless of the final wording of any claim a business makes, we need transparency to fully understand what buyers are purchasing, from where those tonnes come, and how these purchases aggregate to meet the Paris Agreement targets.

Thank you again for the opportunity to provide public comment. For any clarifications, please contact Kelley Hamrick (Kelley.hamrick@tnc.org).



TRADEWATER COMMENTS ON ACR STANDARD v7.0

December 1, 2020

Tradewater, LLC is a carbon offset project developer based in Chicago and working on projects around the world. We have successfully developed 45 unique projects with the American Carbon Registry with two more in development. Tradewater's work with ACR has resulted in the issuance of approximately 4.5 million carbon offset credits.

As a project developer, Tradewater is deeply concerned about the proposed changes to the *American Carbon Registry Standard v7.0* ("ACR Standard") regarding requirements to avoid double claiming between NDCs targets and voluntary offsetting. It is difficult to develop carbon offset projects. It is even more difficult to sell the resulting offset credits at an economically viable price point outside of regulated compliance markets. The proposed changes to the ACR Standard will only add to these burdens and restrict project development – at a time when the world needs the exact opposite. Moreover, imposing these changes on such short notice, effective January 1, 2021, will unnecessarily upset projects already in development – at a time when global leaders are still negotiating the Paris Playbook and establishing international rules and standards.

Tradewater offers the following specific concerns, questions, and recommendations:

1. The ACR Standard does not distinguish between emissions reductions that are covered by (or inside) a host country's NDC targets and those that fall outside of a host country's NDC targets. The failure to make this distinction – and to provide clear rules for how a project developer can establish what is covered by (or inside of) a host country's NDC and what is not, and tag credits accordingly – imposes unnecessary and unfair burdens on project developers. It also creates perverse incentives for host countries to "meet" their NDC targets by claiming as their own privately developed emissions reductions that were neither part of the host country's plan nor included in the baseline.
2. The ACR Standard does not establish a process for a project developer to obtain written authorization from a UNFCCC Focal Point in a given host country, let alone provide any indication or confidence that UNFCCC Focal Points are aware of this proposed process and will entertain such a request from project developers in a timely manner. This uncertainty will cause project developers to halt projects in process and expend valuable resources to engage government officials in foreign countries to try to understand their position on requests like this, and whether such a letter will be possible. Any uncertainty on the part of a host country UNFCCC Focal Point will jeopardize an entire project.
3. The ACR Standard will chill efforts to build and supply the voluntary carbon market at a time when project developers should be encouraged to invest in new project development. Tradewater is experiencing a surge of interest in carbon offsetting. Corporations and



individuals are eager to fight climate change, and offsets present an accessible and viable path for engagement. But it is a confusing one. Project developers and market makers spend an inordinate amount of time educating private market actors about carbon offsets and how they work and the underlying project types. If the ACR Standard is adopted now, and vague requirements for government action are imposed into the sale process without certain rules and reporting tools, that educational process will be even harder, and the private sector will be scared away. In this way, the ACR Standard will slow the fight against climate change, not accelerate it.

4. Tradewater makes the following additional comments and recommendations:
 - a. Delay the requirement for UNFCCC Focal Point authorization until after COP 26 when there is hopefully more clarity on the relevant Article 6 provisions. This will insure that any changes to the ACR Standard are consistent with Article 6 requirements.
 - b. Ensure that changes to the ACR Standard reference similar requirements of other registries so that the system is harmonized.
 - c. Provide guidance on how project developers are to obtain UNFCCC Focal Point authorization, and advocate for a consistent process with the UNFCCC.
 - d. Provide guidance on how a project that does not require UNFCCC Focal Point authorization would be so designated – especially in situations in which no authorization is necessary because the project type falls outside of the host country's NDC.