

The Integrity Council for the Voluntary Carbon Market

Response to Climate Change Authority consultation paper: Review of international offsets

[This submission is not confidential]

Response on behalf of: The Integrity Council for the Voluntary Carbon Market

Email: william.mcdonnell@icvcm.org

Brief description organisation and role within this organisation: The Integrity Council for the Voluntary Carbon Market (Integrity Council) is the new, independent governance body for the voluntary carbon market. Our purpose is to ensure the voluntary carbon market accelerates a just transition to Net Zero. We are doing this by setting and enforcing definitive global framework standards that will provide appropriate thresholds for high-quality carbon credits, drawing on the best science and expertise available, so that finance can be channelled into projects and programs that genuinely reduce or remove greenhouse gas emissions and are genuinely additional. We will be consulting on these standards during Q2 2022. I am the Chief Operating Officer of the Integrity Council.

General - Opportunity

- The voluntary carbon market (VCM) has a critical role to play in accelerating a just transition to Net Zero, channelling billions of dollars from emitters to solution providers with the ability to reduce and remove GHG emissions at the speed and scale necessary to keep 1.5°C alive.
- The climate crisis demands action on a speed and scale that governments alone cannot provide. Mobilizing private capital is critical – and the voluntary carbon market is an important complementary and low-cost tool to achieve that goal.
- A high-integrity VCM would
 - Complement internal decarbonization efforts by companies
 - Reduce emissions and increase ambition through Article 6, which could reduce emissions by 40% by 2030¹
 - Channel capital from developed to developing nations
 - Deliver sustainable development co-benefits
 - Protect and promote nature and biodiversity
 - It would also give confidence and provide a powerful price signal to scale up the deployment—and bring down the costs—of innovative technologies like sustainable fuels and carbon removal technologies, reducing green premiums

Adverse impacts

But without a guarantee of high integrity, carbon credits could be traded that don't serve that purpose. This may also perpetuate hesitancy about the market. And without a clear standard for the use of credits, they might be used as a substitute for climate action rather than to accelerate it.

- Over the past 20 years, the VCM grew, then shrank to a low level for a number of years, and has recently started growing again, but it is not yet fully transparent, deep, liquid, standardized or scalable, and lacks a definitive threshold standard for high-quality credits or how those credits should be used as part of a credible net-zero pathway. The lack of an independent standard has been a material constraint (see Q9 below).

¹ By 2030, international cooperation through Article 6 of the Paris Agreement could reduce emissions by ~40%. Source: Emissions Gap Report 2021, adapted from Edmonds et al. 2021.

- With demand for carbon credits predicted to increase ten- to twenty-fold this decade, the need to create a high-integrity voluntary carbon market is an urgent imperative. The Integrity Council is developing a definitive quality standard for the supply of high-integrity credits in a market based on rigorous standards and market infrastructure, while the Voluntary Carbon Markets Integrity initiative (VCMI) is developing guidance for how the buyers of credits use them as part of a credible net-zero pathway.

In the survey by the Taskforce for Scaling the Voluntary Carbon Market², conducted in late 2020, the largest concern, raised by almost half of buyers, was credit quality. There is a clear need in the market for a definitive quality standard, to allay doubts and hesitancy and improve confidence. The majority of market participants surveyed supported restrictions on vintage and methodology types in order to promote credit quality.

Use of offsets by Australian companies

There is growing customer and investor pressure for climate action. We believe that when guided by appropriate standards, oversight and regulation, market forces will provide effective price signals and be able to allocate private sector capital efficiently to the most effective carbon reduction and removal projects. The Integrity Council will shortly be bringing forward a threshold quality standard (CCPs) and, alongside that, proposals for several attributes applicable to credits, which can help to define categories of high-quality credits that may suit particular buyers and portfolios, e.g., those looking for nature-based reductions with additional environmental co-benefits, or technology-based reductions that help to accelerate transition.

Criteria and standards

The Integrity Council is working with BSI, the UK national standards body, and includes some comments here from BSI:

BSI is working to provide advice and guidance on the wider rules based eco-system of consumer protection standards and regulations. This is a complex area where different approaches to market intervention can lead to dramatically different outcomes. Risk based regulation supported by voluntary standards is a pro-innovation approach that has been used very successfully in other sectors. Prescriptive regulation switches the burden of responsibility from business to government. Consumer representation is vital for the development of any standards affecting consumer protection and this is delivered through BSI's Consumer and Public Interest Network (CPIN) for the development of national and international standards that are adopted for use and may be used in conjunction with government guidance or to support the delivery of regulatory policy.

Experience from other sectors shows that the most effective approach to address issues such as labelling, business incentives and consumer protection is to convene the appropriate stakeholder community to work together on the desired outcome, recognising that the combination of legislation, regulation, departmental guidance, national standards, and private verification schemes forms a system. BSI has extensive experience of convening stakeholder communities to work with government, academic and industry experts on the overall system and how this will accelerate the desired outcome through a combination of standards, regulation, and guidance.

There is a range of approaches by which standards may be used alongside or to support regulation (co-regulation, earned recognition, nudge) and these must be modelled as a whole system. There is great opportunity here for Australia to collaborate on the development of a holistic approach to the use of standards, including regulation, to build an offset system that encourages businesses to prioritise the reduction of emissions over use of offsets in part through increased consumer understanding of product offerings.

The Integrity Council and BSI would welcome the opportunity to discuss these options further with the Australian Climate Change Authority.

² Source: TSVCN Phase 1 Report

Governance arrangements

A high-integrity VCM rests on embedding integrity three key pillars, the supply of credits, the market in which they trade, and how they are used:

- Pillar 1: A definitive global threshold standard for high-quality carbon credits
- Pillar 2: A market based on rigorous standards and market infrastructure
- Pillar 3: Accepted standards for using credits as part of a credible net-zero pathway

The Integrity Council will focus on the first and second pillars.

- To deliver on the first pillar, the Integrity Council will establish, host, and curate a set of Core Carbon Principles (CCPs), which provide a definitive global threshold standard determining what high-quality carbon credits are and what standard-setting organizations and methodology types may issue them.
- To deliver on the second pillar, the Integrity Council will provide governance and oversight over standard-setting organizations on adherence to CCPs as well as on market infrastructure and participant eligibility.

In carrying out its work, the Integrity Council will collaborate closely with the constellation of other initiatives across the ecosystem working on different aspects of carbon market integrity, including the VCMI, which is focused on developing guidance for companies on how credits can be used as part of a credible net-zero pathway; the Science-Based Targets initiative (SBTi) and other efforts to define corporate pathways to net-zero emissions; and the Glasgow Financial Alliance for Net Zero (GFANZ). Through the support of BSI, the Integrity Council can bring knowledge of activity across the international standards landscape in adjacent areas such as the development and dissemination of international assessment, measurement and testing standards and monitoring technologies.

As set out in the Integrity Council's statement on Article 6, the Integrity Council welcomed the COP26 decision, which included giving a welcome, historic boost to the international carbon markets, including the VCM.

- The initiative for high-emitting countries to ratchet up their ambition from 2022, as well as new bilateral initiatives to accelerate action, mean that demand could significantly increase.
- This highlights the Integrity Council's task to ensure that the VCM delivers quality credits.
- Within Article 6, the Integrity Council wholeheartedly supported the developments that can help mobilize significant financial flows for climate action, and improve the environmental and social integrity of credits, in accordance with the Integrity Council's mission and CCPs.
- There is now a pathway for the VCM, for example, to offer units that can be counted towards countries' commitments under the Paris climate agreement, and new reporting requirements that will increase transparency. The Integrity Council plans to ensure that those VCM credits that are authorised under Article 6 are clearly labelled.
- It is important to recognize at the same time that Article 6 is just a framework, and the Integrity Council needs to work with others to help address remaining gaps to ensure the voluntary carbon markets contribute effectively to the 1.5°C goal.
- To that end, the Integrity Council also looks forward to the contribution of the new Supervisory Body for the mechanism established by Article 6.4, and initiatives on Net Zero claims by corporations, including by the UN Secretary-General.

The current plethora of national standards and international verification standards such as Gold Standard and Verified Carbon Standard (that offer certification against their own standards) has created an 'apples and oranges' market environment that can be confusing to navigate. What is needed here is an overarching international consensus standard, setting out a framework including common terminology and agreed core carbon principles. The ICVCM CCP standard is aiming to deliver this for global application in 2022, to be accompanied by assessment methodology standards that will be open for use by any of the international or national certification standards that choose to follow the global framework.

To avoid disadvantaging Australian producers (avoiding a race to the bottom on price & quality) and given the significant role of multinational buyers, there is a need for a level playing field – via a globally recognised standard.

To achieve scale with integrity requires an overarching framework standard or standards managed through a formal governance process that is visibly independent of the verification (certification) standards being offered at international or national level. ICVCM is working with BSI, the UK national standards body, to develop the overarching standards and assessment methodologies and to advise on the governance process for them, to ensure that the standard will provide a robust framework to ensure integrity as the basis for the scale-up of carbon credit programmes globally to accelerate climate action.

We also consider that being grounded in science and academic rigor is critical for integrity. At the core of the Integrity Council is an Expert Panel made up of 12 of the world's top experts, working in turn with a network of subject-matter experts.

- The Expert Panel are leading the drafting of the Integrity Council's definitive quality standard, the Core Carbon Principles (CCPs) and associated assessment frameworks containing detailed guidance. These address the central questions in the integrity of carbon crediting methodologies, including permanence, additionality, baselines, and social and environmental co-benefits.
- The CCPs and assessment frameworks will undergo a comprehensive and inclusive public consultation process, expected to launch in May 2022 (following a pre-consultation with groups of stakeholders in early April), overseen by the British Standards Institute (BSI) drawing on over a century of experience.
- Once the Integrity Council has published the CCPs and Assessment Framework, it will be performing an independent assessment of standard-setting programs and credit types against these, starting in the second half of 2022. The CCPs and Assessment Framework may be of use to the ACCA in performing such a quality assessment.

Co-benefits

According to UNEP, Nature-based solutions can reduce and remove at least 5 GtCO₂ p.a. by 2030, and at least 10 GtCO₂ by 2050, and deliver adaptation and biodiversity conservation benefits³.

Projects can often have high positive impact on water quality, soil quality, livelihoods (including job creation), support for local communities, and health benefits from avoided pollution.

The Integrity Council believes that it is important not only that carbon projects do no harm socially or environmentally but also that wherever possible, they go beyond this to generate significant positive co-benefits. CCP-compliant credits will be labelled with additional attributes where appropriate to indicate where such co-benefits are achieved.

Our purpose is to ensure that carbon credits accelerate a just transition to Net Zero. This involves fostering the right market forces and addressing market failures such that capital is allocated in the most efficient way to deliver climate action and the outcomes that are so desperately needed.

VCM can be a powerful source of finance for both nature-based and technology-based reductions: carbon credits can preserve vital ecosystems as the most efficient way to reduce and even reverse land-use emissions (including forests, mangroves, and tidal marches, of particular importance to Australia), and can also help facilitate reductions in industrial emission (including high warming-potential GHGs) and the scaling up of cleaner technologies.

³ Source: Nature-based solutions for climate change mitigation, UNEP 2021