**Response to TSVCM’s public consultation**

To: Task Force for Scaling Voluntary Carbon Markets (TSVCM) – the ‘Task Force’

From: UN Convened Net Zero Asset Owner Alliance (NZAOA) – the ‘Alliance’

*[Potentially add the GISD as co-author]*

Subject: NZAOA *[OR: Joint NZAOA & GISD]* position with respect to the TSVCM’s public consultation

**NZAOA – the Alliance – warmly welcomes the TSVCM’s efforts to create a global standard for high-quality carbon credits**. Putting a ‘fair’ price on carbon, ie a price that accurately reflects the tight remaining global carbon budget, is one key instrument to limit global warming. At the same time the Alliance shares concerns voiced during the Task Force’s phase 1 survey with regards to credits traded in voluntary carbon markets today being partially of inferior quality as well as sometimes lacking integrity incl. risks with regard to double-counting of one credit. The Alliance stresses that “greenwashing” though use of sub-quality carbon credits must be avoided.

**The Alliance strongly supports the TSVCM’s “Reduce-Report-Offset” sequence** by which corporates are encouraged to i) put highest priority on reducing own emissions, ii) transparently report about remaining emissions, and iii) offset remaining emissions. Alliance members are fully committed to reduce emissions in line with science to achieve a net zero state by 2050. As such, the Alliance – in line with recommendations issued by SBTi[[1]](#footnote-1) - believes that immediate efforts must prioritize cutting greenhouse gas emissions rapidly and deeply. To the extent that residual emissions can’t be reduced further, removing a corresponding amount of emissions within or outside a company’s value chain is a valid secondary option (‘neutralization’). *In transitioning to* a net zero state, although not in an end-state, also compensation strategies, ie avoiding or reducing emissions outside of a company’s own value chain, are valid means to support climate action, subject to meeting high quality standards as those defined by the Taskforce.

**Therefore, the Taskforce’s proposal to establish “Core Carbon Principles” as a global standard to define high-quality credits is very much supported by the Alliance,** incl. setting-up of a governance body that hosts the CCPs. The Alliance especially welcomes the transparent set of “additional attributes” that will help buyers in this market to clearly distinguish ‘avoidance & reduction’ credits from ‘removal’ credits and ‘nature-based’ from ‘technical’ solutions, next to various other relevant distinguishing features.

**Rightfully, the current draft Core Carbon Principles include strict requirements with regards to financial additionality**, ie the profitability of projects issuing credits – before selling these credits – must be either negative or at least substantially below commensurate return-on-equity measures for projects of similar risks. The Alliance believes that financial additionality shall be demonstrated at project-level, while key parameters of this test shall be disclosed. It is acknowledged that certain – especially removal – credits today have no possibility of being financially viable stand-alone. As technologies will evolve, the profitability of such projects may rise in the future up to a point where, potentially, further support through selling credits becomes irrelevant. Therefore, the Alliance opines against excluding certain technologies or methodologies from having to pass financial additionality tests.

**In order to achieve a net zero state, carbon removal technologies will likely have to play a decisive role, be it to neutralize unabated emissions by then or to enlarge the scarce remaining global carbon credit.** The Alliance believes that more should be done to foster financial viability of relevant projects. Similar considerations have led to defining and creating so-called Paris-aligned benchmarks, which are efforts by the European Union Commission to create market standards for investments in listed instruments, taking both a net-zero end state, as well as a trajectory to achieving this end-state into account. For this reason, the Alliance recommends to the Task Force or to the future governance body to consider taking a position with regards to the appropriate percentage share of removal credits in the global CCP-aligned credit market at any future point in time, and to consider defining ex-ante trajectories as to how the percentage share of removal credits within the global CCP-aligned credit market shall be evolving over time. This would contribute to setting incentives for project developers to consider developing removal projects.

**When it comes to defining principles how to compose the governance body’s board, the Alliance recommends a significant representation of active market representatives on the board**, to ensure that valid interests of both buying and selling parties in voluntary carbon markets are being heard. The Alliance acknowledges the Task Force’s attempt to uphold highest standards of integrity by avoiding actual or perceived conflicts of interest. Balancing between both the legitimate goal to avoid these conflicts while still having market participants playing an active role in shaping the market place in which they interact, the Alliance recommends extensive transparency on voting behaviors by single board members.

**Next to credit suppliers and parties wanting to offset own emissions, the Alliance stresses the importance of financial intermediaries and investors as potential participants in a voluntary carbon market.** Interest from these ‘financial players’ to engage might be driven by the desire to offset emissions that these parties finance, or because of an investment motive. Having the historical ambiguity in compliance carbon markets in mind, the Alliance recommends that the Task Force or the future governance body liaise early on with legislators and regulators to clarify and define regulatory aspects of voluntary carbon credits. This includes questions including whether credits qualify as financial instruments, eligibility for investment by mutual funds and risk capital charges.

1. Science Based Targets Initiatives: Foundations for Science-Based Net Zero Target Setting in the Corporate Sector, September 2020l [↑](#footnote-ref-1)