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Verra's Reflections on Outcome of COP26

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We were privileged to participate in person at the COP26 summit in Glasgow this month. It was most enjoyable to see and exchange with many colleagues and partners after this extended period of pandemic-induced virtual calls.

Verra welcomes the commitments that countries have made to greater ambition and more extensive financing and facilitation of climate action. The world remains short of its goals, but a significant step forward has been achieved. Short of a revolution, this is what makes up progress, and we can only hope more and bigger steps will be made next year in Egypt.

We also welcome the adoption – finally – of international rules for the operation of Article 6 of the Paris Agreement. After the failure to reach consensus in Katowice and then Madrid, this was the third and probably final chance for the UN to clarify how countries implement and account for international carbon markets under Article 6. Those rules are now in place, and the gaps to be filled over the next year have been identified.

This is a major milestone in international climate policy, as we move on from the Clean Development Mechanism (CDM) with new rules to operationalize the new crediting mechanism under Article 6.4. The CDM was truly a pioneer that inspired other crediting programs and can be attributed with discovering many essential mitigation opportunities.

The finalization of Article 6 ushers in an exciting new era of government-to-government cooperation through markets that can further scale up investment in climate action. Some countries are already taking advantage of Verra's standards to underpin the quality of the mitigation that they incentivize through carbon market policies. "Cooperative approaches" implemented under the rules for Article 6.2 offer a unique opportunity for countries to use existing GHG crediting programs like the Verified Carbon Standard (VCS) to create high-quality carbon credits that can be counted toward countries' Nationally Determined Contributions (NDCs) under the Paris Agreement.

In addressing market activities and accounting among countries, the new rules also confirm that Article 6 does not regulate the voluntary market. Instead, the adopted rules for Article 6 are essential in marking the boundaries of government-led carbon markets and clarifying the space where the voluntary market can operate.

Clearly, there is space for greater integration in how host countries work with voluntary and Article-6-related compliance markets. The rules for both cooperative approaches and the new UNFCCC crediting mechanism contain provisions to allow host countries to

incorporate voluntary market transactions in their Article 6 accounting if they wish. To do so, they would first give their "authorization" in relation to using voluntary market credits for "other purposes", and would then include these transactions when calculating the "corresponding adjustments" that they communicate in their biennial transparency reports (BTRs) under the Paris Agreement. These BTRs are to commence at the latest in 2024.

This is fully aligned with our thinking at Verra. Some countries may want to leverage the private finance provided by voluntary carbon markets to further their own climate action, which is something many buyers will want to contribute to. Other countries may wish to make accounting adjustments for voluntary carbon market transactions that arise from projects in their territories, and some buyers may seek out credits that are backed by such adjustments to provide an extra assurance that the countries will not lighten the mitigation efforts set out in their NDCs as a result of successful voluntary market projects impacting on their emissions.

Leading up to Glasgow there were many debates about whether corresponding adjustments are necessary for voluntary market transactions. Verra always took a firm stand that such adjustments should not be mandated across the voluntary market by the Article 6 rules and we are grateful that countries have now confirmed this view.

Greater understanding is still needed, however, among voluntary market participants and stakeholders on where such adjustments may be appropriate. The fact that emissions – and emission reductions – are recorded at both company and country levels is both normal and widespread, and should not be considered double counting. However, under some circumstances, there may be an ambition issue if the lower emissions prompt companies or countries to lessen their climate action. We believe this should be the focus of our attention.

Beyond the accounting debate, there are other aspects of the new rules for the Article 6.4 crediting mechanism that we will consider further as we continue to refine and update our program requirements. For instance, the new rules on baselines, additionality, and crediting periods in the context of NDCs provide some useful ideas for how we can ensure projects under the VCS Program continue to drive finance to critical climate action while taking account of growing climate action by host countries. Over the coming months, we plan to work through these issues and consider whether we should be updating our program requirements.

Any updates should support countries in leveraging the voluntary carbon market to help fight climate change and meet their NDCs. This is something that many stakeholders are keen to assist with. Going forward, there is a great opportunity for governments to help define where and how the voluntary carbon market can help achieve greater mitigation and foster enhanced ambition. The work of the Voluntary Carbon Markets Global Dialogue provides a helpful blueprint for how to align government efforts with the voluntary carbon market.