



## **Call for input 2023 - structured public consultation: Further input - Removal activities under the Article 6.4 mechanism**

STX Group welcomes the opportunity to provide additional input regarding removal activities under the Article 6.4 Mechanism. Please refer to our inputs below.

### **1.1. Monitoring and reporting**

#### **5. Should the activity proponent be required to periodically update its monitoring plan every five years and/or at the end of the crediting period?**

With each monitoring period, the project proponent is encouraged to re-evaluate whether the current monitoring approach is still in line with best practices. However, changes to the monitoring plan should only be required if best practices significantly change and as a result also require methodology updates.

To ensure monitoring reports maintain comparability it should be ensured that proponents select, compile and report information consistently to enable an analysis of changes in the projects' impacts over time. Hence, if monitoring plans are updated affecting the consistency in methods used to measure and/or present project impact it should be required that the project proponent clearly explains changes in methods and assumptions used and ensures data is comparable (e.g. by restating previous figures under updated method or by presenting new figures under both new and previous method to ensure comparability and impact of method changes is transparently disclosed).

Thus, while re-evaluating the appropriateness of the monitoring plan is encouraged, updating the plan should not be required unless changes in best practices are significant and also trigger methodology changes. However, if monitoring plans are updated it is recommended to require the project proponent to ensure outputs remain comparable by at least transparently disclosing changes made as well as impact on the results.

#### **6. Should monitoring reports be submitted within the first [2] [5] [X] years of activity implementation? After the first report, at least once every [2] [5] [X] years?**

To determine the appropriate interval at which monitoring reports should be submitted, the differences between types of removal activities (e.g. nature-based versus engineered) should be taken into account.

To illustrate, in case of an afforestation/reforestation activity the actual activity does not immediately result in removals at implementation. However, over time, once the trees start to grow, the carbon is removed from the atmosphere. Thus, submitting the monitoring report five years after activity implementation is often more suitable to be able to assess the project impact.

On the other hand, when looking at biochar production and application the timeframe between activity implementation and generation of carbon removals is much shorter. In this case, the submission of the monitoring report within the first 2 years of activity implementation can be more suitable.



Therefore, to be able to determine the appropriate timeframe from activity implementation till the first monitoring report as well as for monitoring report intervals the characteristics of different project types need to be considered. These characteristics should include the timeframe between activity implementation and significant removal generation as well as risks affecting project performance. Setting a maximum timeframe ensures the project timely reports on its impacts generated, however still gives the project developer flexibility to optimize its cost and revenue structure.

**7. Do the “reversal notification” reports referred to in SB 003 recommendations involve, e.g. digital notification of an observed event that could lead to a possible reversal of removals; submission of notification within [90] [120] [X] days of the observation; follow-up submission of a full monitoring report within [6 months] [1 year] [X timeframe]?**

Once an event is observed that could lead to a possible reversal of removals it is recommended that the ‘reversal notification’ report involves two parts:

- 1) The notification of the observed event should be submitted as soon as possible but no later than 90 days since the observation. The notification should at least include the date of the event, the location and a short description of the event itself. However, to ensure the feasibility of notifying within 90 days no impact assessment should be required at the notification stage.
- 2) The submission of a reversal report should be submitted as soon as possible but no later than 6 months after the notification of the observed event. The reversal report should at least include a conservative estimate of previously verified reversals lost based on the entire area affected by the event, a clear explanation of the cause of the event and evidence of follow-up actions taken to prevent further losses from occurring.

The impact of the forecasted ex ante credits would not need to be disclosed as this would be covered in the next monitoring report hence would unnecessarily increase the administrative burden on the proponent.

In case the proponent can clearly define a reason for why the report cannot be prepared within the default time frame of 6 months, an extension of another 6 months on the initial deadline could be granted. An example of such a cause could be that an afforestation/reforestation project area is affected by floods which makes collecting the required data within the default timeframe unfeasible due to safety or accessibility reasons therefore additional time would be required.

**8. To ensure and demonstrate the continued existence of removals, are activity proponents required to undertake monitoring and address reversals:**

**(a) Only during active crediting period(s) or**

**(b) Also [15] [X] years after the last active crediting period?**

**(c) The longer of [9(a)] [9(b)] or a timeframe specified by the host Party (e.g. communicated in LoA or earlier)**

To ensure and demonstrate continued existence of removals it is recommended that the addressing of reversals and monitoring is extended beyond the crediting period. The amount of time it should be extended should depend on the type of removal activity and the non-permanence risk associated with it over time.



Hence, even after an activity is no longer eligible to earn new credits, obligations remain to monitor and address any reversals that affect previously issued credits. However, to both mitigate this non-permanence risk as well as reduce unnecessary administrative burden on the project proponent it is recommended that a simplified version of a monitoring report is accepted instead while maintaining the reversal notification requirement, as described above, in place.

The simplified version of a monitoring report could, for example for an afforestation/reforestation activity consist of a pure GIS analysis to demonstrate permanence of removals is maintained. For engineered solutions, such as Direct Air Capture and Storage, evidence to support that the reservoir in which removals are stored is stable could be sufficient.

**9. Is simplified annual reporting required to ensure and demonstrate the continued existence of removals? In what cases and how long?**

With both full monitoring reports with appropriate intervals and risk reversal notifications and reports in place the non-permanence risk should be sufficiently addressed. Therefore, simplified reporting would only be recommended for monitoring after the crediting period has ended while maintaining the regular monitoring intervals. Annual reporting, albeit simplified, would add costs to the project without a significant decrease in the non-permanence risk.

**10. Are measures required to address the residual risk of reversals beyond the monitoring timeframe? If so, for how long, and what are the options for, e.g. the mechanism(s), responsible entity(ies), oversight?**

By requiring reversal notification reports and simplified reporting beyond the crediting period the risk of not accounting for occurred reversals is already greatly mitigated until the end of the monitoring timeframe. The cancellation of the ERs deposited in the buffer pool should then be sufficient to address the residual risk of reversals beyond the monitoring timeframe.

**1.2. Addressing reversals**

**1.2.1. General**

**11. What type of risk rating is used to calculate an activity’s buffer contributions?**

- (a) The results of an individual activity’s risk assessment;
- (b) A standard rate determined by the 6.4SB;
- (c) Either measure could be appropriate, depending on the circumstances (in this case, what factors should determine the use of an activity-specific or standard risk rating)?

To calculate an activity’s buffer contributions the results of an individual activity’s risk assessment should be used. Nevertheless it should be conducted in the same manner for all project types, following a risk assessment tool/methodology to be developed by 6.4SB to ensure consistency.



**12. What are the options for circumstances/triggers and/or periodic milestones for reviewing and possibly updating activity baselines, risk assessments (so, risk ratings), and monitoring plans, including in relation to:**

**(a) Verified reversals of removals; and**

(a) The reviews mentioned would depend on the project activity type and what makes sense for it. For example, regarding baseline updates, they make sense for project types that base the monitoring ERs on them. However, updating the baseline for example for plantation project, doesn't seem to be necessary once the project has been implemented. Unless some trigger significantly changes the baseline for subsequent inclusions of project instances, the baseline doesn't need to be updated.

In regards with engineered removals, it should be evaluated per project type, for example, when talking about a biochar project, if the type of use application changes during the project lifetime, a project design update is needed, that could be a trigger to review the baseline.

The risk assessments should be updated at every monitoring event to include possible new risks or exclude/reduce risks that are no longer to be considered.

**(b) The stages of activity cycle implementation?**

(b) Some triggers that should be considered to review project design, performance, risk rating...are loss events (planned or unplanned), updates on the methodology applied, innovation or updates in the technology applied to the project (if applicable). The project owner should pay extra attention to loss events that occurred during monitoring periods notifying and following the procedures set by the 6.4SB.

**14. Should procedures take the same or different approaches to instances of reversals that are (a) intentional/planned versus (b) unintentional / unplanned?**

A risk assessment should be carried out to highlight possible planned/intentional and unplanned/unintentional risks (external to the project, management risks, natural risks...) and measures should be taken to minimize those identified risks. A buffer pool should be created to ensure the maintenance of the carbon benefits.

However, intentional and unintentional reversals shouldn't be treated in the same manner. A different procedure should be taken to facilitate the project progress in those cases where the reversal is unplanned. A natural disaster can happen that is completely out of the project owner's control, like a forest pest/disease, twister, fire...that affects a given plantation project, for example.

Different procedures should be taken for planned and unplanned, for example, updating the project information and numbers for the affected part if a catastrophic natural disaster happens, but updating the whole project if a planned reversal occurs. Another example is giving the option to compensate for the loss by taking the same number of ERs reversed from the buffer pool or from other project owned by the same entity if an unintentional reversal occurs.



Regarding planned and/or intentional reversals, they should be analyzed case by case to plan accordingly and apply the appropriate management, it could happen that some of these planned/intentional situations are out of the project owner's control.

**(a) How/would other tools to address reversals involving direct credit replacement (including use of insurance / guarantees) be used in combination with a buffer pool?**

An insurance scheme could be developed to allow the recovery of reversals, the credits for the insurance could be allocated from the buffer pool account. The insurance scheme could be mandatory depending on the project type and optional for all project types.

**1.2.2. Reversal risk tools—General: Buffer pools, direct credit replacement, insurance / guarantees**

**15. Regarding reversal risk buffer pools, direct credit replacement, and insurance / guarantees:**

**(a) What is the current practice with these reversal risk tools, including the extent and nature of their use (respectively and in combination), transaction costs and how these are financed, and potential roles of the Host Party in multi-decadal compensation requirements;**

The current practice is the creation of a buffer pool account that is common for all the projects and is integrated by all the discounted credits due to risk management. The removals percentage to be discounted for each project could be a fixed value or could be dependent on a risk assessment. A normal value is around 20% of removals deposited within the buffer account, and these removals cannot be used to be sold in the market.

Another tool is an insurance scheme, that allows the project owner to recover some reversals according to specific requirements and criteria.

**(b) The circumstances under which the use of a given tool may be required or supplemental—for example, for intentional versus unintentional reversals, or during versus beyond the last active crediting period—and rationales.**

A risk assessment should be performed for all project types, including a minimum risk assessment for all project types, and some specific extra risks assessment for Nb projects. A related/fixed removals percentage should be discounted and deposited in a buffer pool.

Intentional and unintentional reversal can be different categories to be assessed in the risk assessment, depending on determined thresholds, an insurance scheme could be applied, and an extra number of removals should be deposited within the buffer pool. This extra deposit could be recovered if an assessed risk took place, and if nothing happens during the project lifetime, these removals could be recovered at the end of the project lifetime.

The risk assessment should be mandatory for all project types, and the insurance scheme could be mandatory depending on project type and threshold given and could be optional for all project types.





### 1.2.3. Reversal risk tools: Specific

#### **16. What are options for robust buffer pool design, including conditions and procedures for its use, ER composition, replenishment, and administration.**

A standardized risk assessment tool should be developed to be applied in the same manner for all the projects. It should consider, but not limited to, the following:

- Internal risks (financials, management, longevity...)
- External risks (stakeholders' engagement and some other stakeholders related risks, land ownership, country specific political risks, legal risks)
- Natural risks (if applicable/only for Nature based)
- Planned/intentional reversal risks

The project owners should calculate the amount to be deposited in the buffer pool by using the tool, so it is necessary to develop thresholds and values for all considered risks in the assessment. As a reference, Nature based project risk ratings range between 10-20%.

The risk assessment should be updated periodically, depending on what makes sense for the project type, and it should be verified by a third party.

#### **17. The need for additional procedures and guidance for the 6.4SB, PPs, insurers/ guarantors to implement options for direct ER replacement, including for insurance or guarantees.**

Depending on the risk assessment results, an extra insurance procedure could be applied to guarantee the project carbon benefits in case reversal events occur.

### 1.2.4. Treatment of uncanceled/unused buffer ERs

#### **18. Are uncanceled ERs in the buffer pool returned to the activity proponent to incentivize performance and/or automatically cancelled, and is this done periodically throughout activity cycle or only after the end of the activity lifecycle or the host Party NDC timeframe?**

The ERs deposited in the buffer pool could be recovered at the end of the project lifetime if no reversal event occurred. Nevertheless, a minimum percentage of ERs should remain within the buffer pool to offset reversals that may occur in the future.

To incentivize performance, it could be considered to recover a determined percentage of the deposited ERs if no reversal event happened. The ERs recovered are to be discounted from the buffer pool and there should be a cap to maintain the minimum percentage of ER in the buffer pool.

It should have a positive impact on the insurance scheme (if applied), since it is being demonstrated that the performance is complying with the requirements.

**19. Whether the options for treatment and timing are mutually exclusive or could be applied in combination (e.g. returning some but not all ERs to proponent).**

The project owners should decide according to their preferences what option to apply for the ER recovery (during project lifetime or at the end of the project cycle).

**20. Possible basis for periodically returning ERs to proponents (e.g. metrics for activity performance, activity cycle milestones).**

It could be based on the risk assessment updates and the demonstration that no events occurred. It could also be based on activity cycle milestones, but these milestones should be determined by 6.4SB considering the differences among the different project types.

**21. Procedures for the SB's periodic review and ongoing management of buffer contributions (e.g. buffer composition, stress-testing the sufficiency of risk coverage).**

Risk assessment updates should be performed by the proponent at every verification event to evaluate the impact of possible events that occurred and to evaluate if a certain risk is no longer present within the project and/or new risks must be considered.