Consultation response

16 August 2023

Article 6.4 Mechanism Supervisory Body public consultation: Requirements for the development and assessment of mechanism methodologies.

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01 Executive summary

- BeZero Carbon welcomes the opportunity to comment on the A6.4 Supervisory Bodies call for input on the requirements for the development and assessment of mechanism methodologies.
- BeZero Carbon is a ratings agency for the voluntary carbon market (VCM). As the world's largest provider of ratings-based risk analysis, we use our technology, ratings, and research to help participants in the market channel capital into the solutions that will have the greatest impact on the path to net zero.
- We have rated and provided detailed risk analysis for over 340 projects, 26 of which are under the Clean Development Mechanism.
- Our team of remote sensing scientists, machine learning engineers, field ecologists, and financial analysts collect and analyse data and information from a wide range of sources to assess the effectiveness of carbon credit projects and monitor them on an ongoing basis.
- It is key for carbon markets to have stronger levels of project disclosure, increased rigour in the quantification and audit of carbon accounts, and greater standardisation and transparency.
- Carbon crediting activities should be required to have robust monitoring, data and reporting systems. BeZero Carbon has developed a carbon accounting template to standardise reporting across the market. Our standardised model consists of four key components to calculate issuance - baseline assumption, project net emissions, leakage and risk buffer allocation.

For more research, see our insights page

- Our advanced technology and rigorous assessment and analysis of carbon credit projects have informed our view on how to increase integrity in the market. Our database of rated projects give us a range of insights into the complexities of additionality, baseline dynamics, leakage and permanence.
- We have additionally responded to a previous call for input on 'Removal activities under Article 6.4 mechanism'.

02 Response to specific questions

Baseline Assessment

Our response below demonstrates BeZero Carbon's view on dynamic baselines and addresses the following questions:

- Should the downward adjustment be eligible/applicable for all the approaches to setting the baseline?
- Should the downward adjustment be eligible/applicable for all the approaches to setting the baseline indicated in paragraph 44 above?
- Would option 2 above fit under adjustment downwards? And is it linked to additionality demonstration? How can 'transformative' be defined?

A conservative and dynamic approach to determining a project's baseline is key to avoiding the risk of over-crediting. Assessing integrity around credit issuance requires transparency around how credit issuance is calculated through the identification of the most plausible baseline scenario, as well as estimates of the carbon stocks in both the baseline and project scenarios. At BeZero Carbon, for Avoided Deforestation activities, we have developed dynamic baselines to construct a counterfactual scenario for the project area using statistically matched control pixels, such as vegetation type and population density and distribution, in the wider landscapes. This enables the construction of a statistically appropriate baseline to judge a project's activities against on an ongoing basis.

Tracking and comparing carbon emissions through time is essential to assessing the risk of over-crediting. While we consider dynamic baselining as best-practice, it should be considered in the context of the cost of doing so and the implications for the viability of the given project type. Downward adjustment should therefore be eligible for all approaches but not a stringent requirement.

Additionality

Our response below demonstrates BeZero Carbon's view on additionality and addresses the following questions:

- Should there be a statement about the general additionality test before specifying how it may be simplified in certain cases, or be subject of a positive list? Could be a more nuanced approach, i.e. all projects need to demonstrate additionality, some can be excluded or included based on one sort of assessment while others require more detailed assessment:
    a) What are the general rules?
    b) Where may they be simplified, or deemed to have been satisfied?
- Are positive lists needed? If yes, is the above guidance on positive lists too specific and detailed, and may the guidance be shortened?

Additionality tests are fundamental to accrediting carbon credit projects. For BeZero Carbon, the public documentation of how a project gauges additionality is one of the three qualifying tests for a project to be eligible to be rated. Additionality ranks as the highest weighted risk factor in the BeZero Carbon Ratings framework. Our assessment of additionality takes into account variables beyond the project boundaries and what the project self-reports. Inputs include the presence of global or national barriers to project delivery, the role of carbon finance in the overall revenue stream, and the effectiveness of policy instruments and governance for either pre-existing conservation or decarbonisation practices.

Additionality can be determined through using a variety of different metrics - including common practice analysis, identification of alternatives to the proposed project, investment and barrier analysis. Our research shows that substantial differences exist in how additionality tests are applied across different types of projects, even those within the same sub-sector that appear outwardly similar. Therefore, the establishment of positive lists, while useful in theory, does not take into account the significant amount of variation between projects. Positive lists also risk leading to less disclosure and incentives to manipulate project designs to maximise chances of inclusion. They are often not updated with sufficient frequency to reflect underlying additionality conditions.

Additionality tests show that quality is binary. Yet, there is a range that exists in the market. Serious differences exist between how a project implements additionality tests and the context within which the project operates. Further, carbon credit quality cannot be judged by merely the quantity or type of test(s). Rather, additionality tests function like a benchmark for minimum quality. The more projects disclose the details on which additionality tests have been applied and the evidence to support them, the more the market can incentivise higher levels of quality and integrity. A nuanced approach is needed to test additionality across sections and project-types.

Leakage

Our response below demonstrates BeZero Carbon's view on leakage and addresses the following questions:

- Should pre-project activity emissions and upstream emissions be accounted as activity emissions or leakage emissions, or be identified by the Supervisory Body as being beyond the scope of activity accounting guidance? What further assessment is needed in this regard?

Leakage risks must be considered on a project by project basis, and take into account project safeguards. Only when such a holistic approach is employed can leakage risks be comprehensively evaluated and compared across different sectors, with the benefit of promoting fungibility within the market. BeZero Carbon assesses leakage by interrogating the extent of possible risks, including those associated with activity within and around a project area, as well as any safeguards put in place to mitigate such risks. The likelihood of emissions avoided or removed by a project being pushed outside its boundaries is an important factor when assessing a credit's level of carbon efficacy. Assessing both the top-down and project-specific leakage risk is essential.

We welcome further engagement on this topic. Should you wish to discuss further please email lily.ginsberg-keig@bezerocarbon.com.

Annex A: Consultation Questions

We have responded to questions 2, 4, 5, 7, 8 and 9 above.

1. Should paragraphs 46/46bis be split to improve clarity?
2. **Should the downward adjustment be eligible/applicable for all the approaches to setting the baseline?**
3. Should it be specified that only activities triggered by policies can be credited? Will there be complexities in relation to additionality assessment in this regard?
4. **Should the downward adjustment be eligible/applicable for all the approaches to setting the baseline indicated in paragraph 44 above?**
5. **Would option 2 above fit under adjustment downwards? And is it linked to additionality demonstration? How can 'transformative' be defined?**
6. How does this issue link to policy crediting where policies deliberately intended to generate credits? What considerations are needed in this regard?
7. **Should there be a statement about the general additionality test before specifying how it may be simplified in certain cases, or be subject of a positive list? Could be a more nuanced approach, i.e. all projects need to demonstrate additionality, some can be excluded or included based on one sort of assessment while others require more detailed assessment:**
    a) **What are the general rules?**
    b) **Where may they be simplified, or deemed to have been satisfied?**
8. **Are positive lists needed? If yes, is the above guidance on positive lists too specific and detailed, and may the guidance be shortened?**
9. **Should pre-project activity emissions and upstream emissions be accounted as activity emissions or leakage emissions, or be identified by the Supervisory Body as being beyond the scope of activity accounting guidance? What further assessment is needed in this regard?**