PROPOSED NEW VERRA UNIT LABELS

30 June 2022

1 INTRODUCTION

Verra has seen increased interest from project developers, methodology developers, investors and other stakeholders to differentiate Verra units (Verified Carbon Units, Plastic Credits, and SD VISta assets) by specific attributes. In particular, the Taskforce on Scaling Voluntary Carbon Markets (TSVCM) Phase 2 Report Summary proposed several "additional attributes" for the Integrity Council for Voluntary Carbon Markets (IC-VCM) to refine that require demarcation of eligible units.

A label is a marker on a unit representing that the unit has met specific requirements. This consultation concerns labels that could be used to meet the forthcoming requirements of the IC-VCM.

We invite feedback from stakeholders to ensure that the proposed labels achieve their intended impact and do not have unintended consequences.

1.1 Consultation Process and Timeline

Verra has vetted these potential labels against our market label criteria. The planned timeline for implementing the consultation and label approval process is set out in Table 1 below.

Table 1. Timeline

Date(s)	Activity
30 Jun	Public consultation begins
13 Jul	Consultation webinar
31 Jul	Public consultation ends
Sep-Dec	Review comments and finalize label definitions (pending future IC-VCM decisions)
Q2 2023	Earliest that new VCS Program and Plastic Program labels ready for use

Please provide comments on any part of this document. We especially appreciate responses to questions in the 'Requested Feedback' sections. Comments may be submitted to programupdates@verra.org by 31 July 2022. After the consultation, we will use the input provided on these proposals to provide input to the IC-VCM process and prepare to implement any of the below labels that earn strong support.

We look forward to your feedback. Please let us know if you have any questions as you engage in this consultation.

2 TYPE OF MITIGATION OUTCOME

Emission reductions represent a relative decrease in emissions when comparing a project activity to a baseline scenario. Emission removals represent a decrease in carbon stock in the atmosphere against a baseline scenario due to a project activity.

Verra has seen increased interest from project developers, methodology developers, and other stakeholders for the differentiation of reduction and removal benefits represented by VCUs issued under the VCS Program.

Verra currently does not have instruments, labels, or search fields in the Verra Registry that enable quick identification of, or differentiation between, emission reductions and emission removals. Verra is currently looking into quantifying and differentiating emission reductions from emission removals in projects that can generate both.[1]

Verra seeks feedback on using labels to differentiate VCUs that represent emission removals from those that represent emission reductions.

2.1 Proposal

Verra proposes to implement labels for VCUs that can be determined to be *reductions* and those that are *removals*. Where a methodology only quantifies reductions or removals, a label would be applied to all VCUs resulting from that methodology upon issuance. Where a methodology has the potential to quantify both reductions and removals, labels will be applied to VCUs according to the total reported for the total number of removals and reductions. Over time, all well-used VCS Program methodologies would be revised to differentiate between reductions and removals.

The introduction of the reduction and removal labels would require the following changes to VCS Program documentation:

1) Additions to the *VCS Program Definitions* for "emission reduction" and "emission removal":

   Emission Reduction
   A permanent atmospheric benefit, measured in tonnes of carbon dioxide equivalent, quantified as the difference between the emissions of a baseline scenario and the emissions of an activity.

[1] Examples of VCS methodologies that generate a mix of emission reductions and removals and could be modified to report these separately are the following:

- Carbon Capture and Storage Methodology Framework (under development)
- VM0042 Methodology for Improved Agricultural Land Management (under revision with separation of reductions and removals as one objective)
- Methodology for Biochar Utilization in Soil and Non-Soil Applications (under development)
- Methodology for Afforestation, Reforestation and Revegetation Projects (under development).

Emission Removal
A permanent atmospheric benefit, measured in tonnes of carbon dioxide equivalent, quantified as the net increase in greenhouse gas sinks less greenhouse gas sources, resulting from an activity.

2) Clarification that projects and methodologies shall differentiate between emission reduction benefits from emission removal benefits in project documentation.
    - *VCS Standard*, Section 3.14.2: The net GHG emissions reductions and removals generated by the project shall be quantified (where both reductions and removals are generated, they should be quantified and reported separately).
    - *VCS Standard,* Section 4.1.18: The verification statement shall state the volume of GHG emission reductions or removals generated during the monitoring period that have been verified. For AFOLU projects, the verification statement shall also include the non-permanence risk rating, leakage emissions and number of GHG emission reductions or removals eligible to be issued as VCUs. GHG emission reductions and removals shall be stated separately (i.e., total GHG emission reductions and total GHG emission removals).
    - *Methodology Requirements,* new Section 3.8.2: Methodologies shall state that the methodology results in either only emission removals, only emission reductions or, where a methodology could be used to quantify both emission reductions and removals, include different calculations and a separate assertion for each.
3) Amendments to the *Project Description, Monitoring Report, Joint Project Description & Monitoring Report,* among other templates, to allow differentiation between emission reductions and removals.

2.2 Requested Feedback

Verra is requesting feedback on the following:

1) What do you think about the proposal to using labels (instead of different units) to differentiate VCUs that represent emission removals from those that represent reductions?
2) Verra is proposing two labels, one for reductions and one for removals.
    a. Do you agree that both reductions and removals are worth distinguishing? Why or why not?
    b. Should we add a 'mixed' label, or is it enough to leave units that cannot be attributed as reductions or removals unlabeled?
3) Should labeling such units as reductions or removals be optional, or should it be mandatory? Why or why not?
4) What sources should Verra look to for definitions of emission reductions and removals?
5) Should climate-driven emissions/avoided ecosystem loss (e.g., thinning forests due to over-densification and climatic changes; methane capture from thawing peatlands) due to climate change be classified as removals or reductions?
6) What additional guidance would be required for validation/verification bodies (VVBs) to assure reduction and removal assertions?

7) Do you expect a significant increase in costs associated with VVB assurance for projects with both reduction and removal assertions? To what extent?
8) If implemented, why should these labels be able to be added retroactively, or why should they not be?
9) Verra ensures all issued VCUs are permanent representations of atmospheric benefits through the buffer account. Should the non-permanence risk tolerance be different for removals, reductions and mixed projects? Why and to what extent?

3 ACTIVITY TYPE

The TSVCM and others have suggested that carbon units be differentiated by broad activity categories. Some investors prefer to invest only in natural climate solutions or technological and/or industrial climate solutions. We see potential value in creating a label for this simple distinction of VCUs.

3.1 Proposal

Verra proposes to categorize all our VCS methodologies and the methodologies of approved GHG programs eligible for use with the VCS Program into two basic categories for labeling as VCUs generated by *nature-based* or *technological/industrial* activities.

This distinction would be done by scope category and would not require changes to VCS Program documents.

3.2 Requested Feedback

1) Is the possibility to distinguish between VCUs generated by different activity types vital to you or to the market in general? Do you think activity type can already be sufficiently identified based on the methodology used by a given project?
2) If you think the distinction is essential at the VCU level, how do you think it would best be achieved:
    a. A label that would combine the type of mitigation outcome with the activity type (e.g., nature-based reduction, technological/industrial reduction, nature-based removal, technological/industrial removal)
    b. A separate label in addition to a removal or reduction label for nature-based and technological and industrial VCUs
    c. Other (please explain).
3) Verra proposes using a binary categorization for activity type. Do you consider that all activities and methodologies can be unambiguously split into either nature-based or technologically-based categories? If not, what other categories would you propose?
4) If implemented, why should these labels be able to be added retroactively, or why should they not be?

4 AUTHORIZATION FOR ARTICLE 6 PURPOSES

The signing of the Paris Agreement (PA) ushered in a new era of international cooperation on climate change, much different from its predecessor, the Kyoto Protocol. Perhaps the most distinguishing feature of the PA is that all countries are required to establish climate change targets, known as nationally determined contributions (NDCs). Through Article 6 of the PA, countries can participate in international cooperation that results in internationally transferred mitigation outcomes (ITMOs). When accounted under Article 6, ITMOs no longer count toward meeting the transferring country's NDC targets but count instead toward the NDC of the acquiring country.

Article 6 introduced "corresponding adjustments" (CAs), a double-entry bookkeeping tool to operationalize the accounting of these transfers and avoid mitigation outcomes being double-counted toward multiple NDCs. To ensure that countries maintain control over the accounting implications of carbon market trades, only transfers with the expressed authorization of the countries involved may be used toward NDCs. The rules for Article 6 – decided at COP 26 in Glasgow at the end of 2021 – extended the scope of this accounting to the use of such mitigation outcomes toward other international agreements, such as the Carbon Offsetting and Reduction Scheme for International Aviation (CORSIA), and optionally also to uses under voluntary carbon markets (see this post on Verra's website for more).

In the case of voluntary market uses, the host country may decide whether to take account of transfers within its Article 6 accounting, and therefore to give its authorization under Article 6. However, once a host country has given this authorization, it is obliged under the PA rules for Article 6 and NDC accounting to undertake the relevant corresponding adjustments.

4.1 Proposal

Verra proposes to introduce labels to differentiate credits that have been authorized for the different uses that need to be captured in Article 6 accounting. These labels will assure buyers that the credits they acquire will be accounted for appropriately by the host country.[2]

We propose the following labels:

- "Authorized by the host government for use toward an NDC"
- "Authorized by the host government for use toward a CORSIA offsetting requirement"
- "Authorized by the host government for use toward a VCM target"

To receive a label, project, or jurisdictional proponents would need to obtain a Letter of Authorization from the responsible host country authority and provide this to Verra. Such letters would need to set out, at minimum, approval of the use of the credit toward one of the above purposes and a commitment to undertake a corresponding adjustment that incorporates the transfer of the credits.

[2] Acquiring countries wishing to count credits toward their NDCs will also need to undertake corresponding adjustments, but this is not generally a concern for credit buyers. When credits are acquired for CORSIA and VCM purposes, there is no acquiring country that would need to give authorizations or undertake adjustments.

Some host countries may wish to further elaborate on the authorized use of the credits, such as specific programs they may be used in, or limitations on the amount, timeframe, acquiring country, or other factors. Any such additional qualifications would need to be transparently associated with the relevant credits. Some information could potentially be incorporated into the labels, such as to distinguish the period against which the credits may be used (e.g., NDC period, CORSIA compliance period, or voluntary purpose timeframe). Alternatively, the label could be kept simple, and other means for associating the information would be needed.

To implement this change, Verra would develop criteria to post on the website (along with other market label criteria, such as those for CORSIA eligibility), and the appropriate registry infrastructure would be put in place. Implementing this label would not require changes to VCS Program documents.

Verra envisages that monitoring will be needed to verify the host country performs the corresponding adjustments for which it has provided Letters of Authorization. There may be challenges in attributing credits to corresponding adjustments, which must be overcome through monitoring countries' reports under the PA, transparency of calculations of corresponding adjustments, and close cooperation with host countries. There may be a need to remove the authorization label in the event that relevant corresponding adjustments are not demonstrated after a period of time.

Verra's current CORSIA label denotes the eligibility of VCUs to be used in the CORSIA market against the criteria set under CORSIA for the VCS Program, but does not speak to whether the host country authorizes these VCUs for use towards CORSIA. For a VCU to be retired in the Verra Registry against a CORSIA obligation, it would be necessary for the credit to have both the CORSIA label and the label signaling authorization for use toward CORSIA.

4.2 Requested Feedback

1) Are the proposed label statements clear? If not, how could the language be improved?
2) What information should host countries include in their Letters of Authorization to be accepted for these authorization labels?
3) How should any additional qualifications specified by host countries in their Letters of Authorization be reflected in the labels? Should more labels be developed to convey such qualifications, or should they be kept simpler through other means to associate the additional qualification with the relevant credits?

5 SUSTAINABLE DEVELOPMENT BENEFITS

Sustainable development benefits beyond climate change mitigation are crucial to successful carbon projects. The price premium commanded by VCUs labeled with the Climate, Community & Biodiversity Standards label demonstrates the value of third-party verification of such benefits.

The TSVCM suggests that labels be applied for the attributes of "co-benefits associated" or "none". The IC-VCM may propose more specific "co-benefit" categories. Currently, Verra programs enable project-level activities to demonstrate sustainable development benefits in the following ways:

- Section 3.16 of the *VCS Standard* requires that projects demonstrate how the project activities, or additional activities implemented by the project proponent, contribute to at least three of the United Nations Sustainable Development Goals (SDGs) or are verified to the Climate, Community & Biodiversity Standards (CCBS) or the Sustainable Development Verified Impact Standard (SD VISta).
- The CCBS and SD VISta can be used independently (without the VCS) to demonstrate that a project-level activity has net positive benefits.
- A VCS project certified to the VCS and the CCBS and/or SD VISta can label their VCUs with CCBS and/or SD VISta. Similarly, a project that verifies under the Plastic Waste Reduction Standard and SD VISta can apply SD VISta labels to Plastic Credits.

5.1 Proposal

Verra proposes to map the SDGs and the potential benefits demonstrated under CCBS and SD VISta to the sustainable development attributes when they are published in the IC-VCM's forthcoming Core Carbon Principles. We would create whatever labels the IC-VCM settles on and apply those labels per the mapping.

This approach enables units from VCS projects to be recognized by the categories set out by the global VCM governance body without adding to their certification burden. Projects verified to the CCBS or SD VISta would still be able to use those respective labels to demonstrate achievement over and above whichever of the IC-VCM co-benefit labels they merit.

We do not anticipate that this approach would require changes to program documents.

5.2 Requested Feedback

1) How do you think that the market will value these proposed additional sustainable development labels?
2) What do you think about Verra's proposed approach of applying such labels based on our existing methods of documenting sustainable development contributions?
3) Do you have other recommendations on sustainable development labeling?