

ICVCM

# Core Carbon Principles and Assessment Framework submission

September 2022





# ICVCM – CCPs and Assessment Framework submission

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## Introduction

The [Carbon Market Institute](#) (CMI) welcomes the opportunity to respond to the Integrity Council for the Voluntary Carbon Market's (ICVCM) open public consultation on the draft Core Carbon Principles (CCPs), Assessment Framework (AF) and Assessment Procedure (AP).

CMI is an independent, non-partisan industry association based in Australia that brings business, policy makers and thought leaders together to evolve the carbon markets and drive the economic transition required to mitigate climate change. CMI's 140+ strong membership encompasses organisations from across the entire carbon value chain – including primary producers, carbon service providers, legal and financial institutions, technology, and emissions intensive companies. We develop advocacy positions in consultation with, but independent of, our members. These positions are aligned with the Paris Agreement's goal of capping average global temperature rise well-below 2°C in pursuit of 1.5°C.

CMI is committed to promoting best practice in the voluntary carbon market, including through its [Carbon Industry Code of Conduct](#) as well as its Integrity Taskforce. CMI's members are committed to responsible and ambitious climate action. We therefore welcome the work of the ICVCM in its efforts to increase transparency and standardisation through the universally applicable set of CCPs, particularly as new carbon markets emerge globally, governed by a patchwork of different regulations and standards.

This document sets out the CMI's response to the ICVCM's draft consultation paper, incorporating insights and observations from an Australian carbon market perspective. The Submission does not comment on all issues raised in the Consultation Paper, but rather comments on those matters that pertain most to the Australian carbon market. CMI engaged across its member-led Integrity Taskforce in preparing this submission. The recommendations proposed in this submission are not representative of any one CMI member company, individual, or industry sector.

## Summary positions

CMI advocates that robust integrity underpins carbon crediting and the growth of the voluntary market. A consistent benchmark for credible, high-integrity credits is thus welcomed. We note that the ICVCM Code will also be complemented by emerging guidance to foster claims side integrity, advanced through the Voluntary Carbon Markets Integrity Initiative's (VCMI) Claims Code of Practice.<sup>1</sup>

It is critical to clarify how a globally-recognised threshold standard for high-integrity credits might interact with already existing voluntary carbon registry certification bodies and standards as well as where there is convergence between voluntary and compliance markets, such as the Australian Carbon Credit Unit (ACCU) crediting framework in Australia. The AF outlines requirements for carbon-crediting programs but should endeavour to neither replicate, nor replace the role of crediting programs. Rather than assessing project types and methodologies, the CCPs and AF should focus at the level of assessing programs/schemes, allowing the

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<sup>1</sup> CMI recently responded to the VCMI's Provisional Claims Code of Practice. See further CMI Submission to the VCMI Provisional Claims Code of Practice (August 2022), Available at [https://carbonmarketinstitute.org/app/uploads/2022/09/FINAL-submitted\\_CMI-submission\\_VCMI-Provisional-Claims-Code-of-Practice.pdf](https://carbonmarketinstitute.org/app/uploads/2022/09/FINAL-submitted_CMI-submission_VCMI-Provisional-Claims-Code-of-Practice.pdf).



schemes themselves to assess permitted activities within their program as most of the requirements are already applied. For example, CMI notes that most of the CCPs are already enshrined in the Australian carbon market and there is potential for duplication and increased cost of compliance.

CMI also questions the practicality of the criteria in the AF, particularly for nature-based activities which are the primary source of credits in the Australian carbon market (around 80% of carbon credits issued).

Lastly, CMI notes that representation on the ICVCM is heavily weighted towards the Northern Hemisphere and developed countries. We recommend that the ICVCM explore ways to increase representation generally and that of Australia so that the initiative can leverage experiences from its domestic carbon market. This submission should also be read in conjunction with 'Integrity in the Australian Carbon Market Explainer' (April 2022) attached as an Appendix to this submission.

CMI has carefully considered the draft documents and issues put forward and recommends the ICVCM:

1. Have more sufficient representation from the Southern Hemisphere, including Australia, given the experience it has to share from its domestic carbon market and nature-based activities. Representation should broaden to include more developing country members.
2. Consider alternative methods of assessing additionality for nature-based carbon credits where demonstrating financial attractiveness is not practical. For smaller scale projects, where the cost of demonstrating additionality can be cost prohibitive, the CMI suggests expanding the application of positive lists.
3. Separate the permanence criteria for nature-based carbon credits and technology-based carbon credits. For nature-based credits, robust buffer pools to cover the risk of reversal could provide an alternative to the permanence criteria currently set out in the AF.
4. Consider reviewing the process by which a scheme assesses and addresses permanence, rather than making specific decisions about permanence. Guidance in the form of an overall risk framework, and not a predetermined risk profile would be more useful and inclusive.
5. Provide more detail on the governance of the CCPs and how the future body that will oversee them will monitor compliance.
6. Standardise methodologies, tools and guidance to measure and report SDGs to allow for comparison within and across different standards and geographies. The ICVCM could consider the LRF Co-Benefits Standard used in Australia, when developing these standardised methodologies, tools and guidance.
7. Provide more detail on how the CCPs and AF consider the convergence between compliance & voluntary markets.

We elaborate our recommendations in the following **Attachment**.



## Attachment

### Alignment of the Core Carbon Principles with the Australian carbon market

The CCPs largely align with Australia's existing regulatory framework (an overview of the ACCU crediting framework can be found in this [CMI fact sheet](#)). The Offsets Integrity Standards, including principles of additionality, permanence, conservative estimates and no double counting, for example, are enshrined in the Carbon Credits (Carbon Farming Initiative) Act 2011 (Sections 15A, 27 & 133). Independent third-party validation and verification is currently mandatory under the National Greenhouse and Energy Reporting Act 2008 (Subdivision 6.5.6). The Emissions Reduction Fund (ERF) Project Register constitutes a publicly accessible registry that can help 'identify, record and track' mitigation activities. These principles are already regarded as best practice across the Australian carbon industry. Voluntary initiatives like the CMI-administered, world-first Carbon Industry Code of Conduct further encourage project developers to follow principles of transparency, accountability and ethics. The voluntary Code of Conduct calls for transparent communication to clients, proper and fair stakeholder consultation processes, disclosure to clients of how their projects fulfil permanence requirements, and disclosure of how obligations and timelines will be met.

At the same time, the CCPs depart from Australia's regulatory framework in some key respects. 'Quantified Sustainable Development Goal (SDG) impacts' and 'transition towards net-zero emissions', in particular, are usually treated as distinct policy issues in Australia, separate to the carbon market. They do not currently form part of Australia's Offsets Integrity Standards. Although the majority of land-sector projects are delivering considerable co-benefits that are attracting a premium in the voluntary market, there is no current integration nor agreed standard. CMI recognises that there is a spectrum of sustainable development action and requirements in the market and that quantification of SDG impacts adds an additional layer of complexity and administrative burden to developing and issuing carbon credits. Any additional requirements should consider market participation and growth implications, explored further below.

### Perspectives on the Core Carbon Principles Assessment Framework

Overall, while CMI supports the intention and concept of the CCPs, it has concerns about the practicality and administrative burden of complying with some of the criteria and requirements laid out in the AF, as outlined in further detail below.

- **Additionality** (Section 8)  
CMI recognises the importance of additionality for ensuring high integrity carbon credits but also recognises that there are many ways that it can be assessed. The criteria currently set out in the AF rely on the demonstration of financial additionality. Often, there are constraints to demonstrating financial additionality for many types of activities, such as those that are nature-based. This is not because these project types lack additionality necessarily, but because there are data and capacity constraints for even the highest quality nature-based activities that would not be able to satisfy the CCP requirements. There is also the further challenge of project developers' willingness or legal rights to disclose internal financials due to competition risk.

This is a key issue for the Australian market given its current regulatory framework. In Australia, the Clean Energy Regulator assesses whether activities - including nature-based activities - meet additionality requirements, through the following criteria:

- Newness requirement: this requires that the project has not yet begun to be implemented;
- Regulatory additionality requirement: the project is not required to be carried out by or under a law of the Commonwealth, a State or Territory; and



- Government program additionality requirement: the project would be unlikely to be carried out under another Commonwealth, State or Territory government programs (with the exception of the Carbon Farming Initiative Act central to Australia’s carbon market).

Further detail about additionality assessment in the Australian carbon market can be found [here](#). The ICVCM could consider proposing these same criteria for nature-based carbon credits, given the challenges associated with applying the financial additionality test to these activities.

The CMI also notes the challenges associated with the Expert Panel accurately assessing additionality across entire mitigation activity types, as is also currently proposed by the ICVCM. This is because there is considerable variability across projects including variation in finances, Internal Rate of Return (IRR), and implementation practices. Assessing a market-wide IRR would be challenging in and of itself, since IRRs vary from project to project and are both financing and geography-dependent.

In addition to nature-based projects, the CMI notes that financial additionality tests can be prohibitive for smaller scale projects. CMI supports the ICVCM’s proposed application of positive lists to those activities that have a ‘very high’ likelihood of additionality, necessitating expert validation and peer review. The CMI is also supportive of updating the positive lists every three years to ensure that they reflect changed circumstances.

**CMI recommendation:** that the ICVCM consider alternative methods of assessing additionality for nature-based carbon credits where demonstrating financial attractiveness is not practical. For smaller scale projects, where the cost of demonstrating additionality can be cost prohibitive, the CMI suggests expanding the application of positive lists.

- **Permanence** (Section 9)

The permanence criteria set out in the AF would also not be attainable for many types of nature-based projects. For example, it would be challenging and impractical to comply with the ICVCM’s 100-year monitoring commitment, which forms the basis of all of the ICVCM’s requirements for monitoring and compensating for reversals (criterion 9.2a). Furthermore, CMI is concerned that the full threshold requirement for the treatment of avoidable reversals, demanding that the carbon-crediting program require “proponents to sign legal agreements obligating them to monitor, report and compensate for avoidable reversals for the full commitment period”, will be too difficult to enforce, as it will be impossible to legally chase many entities to compensate over such a long period of time. If the carbon crediting program assures proper management of permanence, there is no reason for the ICVCM to implement such specific requirements. ICVCM could provide guidance to certification bodies on the regularity of audits, and/or spot-check investigations.

Temporary crediting has been identified by the ICVCM as one alternative to allow credits into the market that do not meet permanence requirements. The CMI notes that historic approaches to temporary CERs (e.g., under the Clean Development Mechanism) have proven impractical given the lack of demand for credits that are valid for only a fixed period.

Under the Australian CFI legislation, sequestration activities have the option of selecting a 25-year or 100-year permanence period. If a disturbance occurs in the project area during the permanence period that causes a decrease in the carbon stored, land management practices must enable the carbon stock to return to previously reported levels, or alternatively ACCUs are relinquished to the Regulator.



In addition, a risk of reversal buffer applies to all sequestration projects, which means that the total number of ACCUs issued to these activities is discounted. Projects with a permanence period of 25 years have a discount of 25%, and projects with a permanence period of 100 years have a discount of 5%. These ACCUs are held in a buffer account by the Regulator as a form of insurance to cover any potential loss of sequestration caused by a natural disturbance or circumstances beyond the project proponent's control. The Australian Government's approach is intended to balance flexibility with environmental integrity.

**CMI recommendation:** the ICVCM separates the permanence criteria for nature-based carbon credits and technology-based carbon credits. For nature-based credits, robust buffer pools to cover the risk of reversal could provide an alternative to the permanence criteria currently set out in the AF.

In addition, the ICVCM could consider reviewing the process by which a scheme assesses and addresses permanence, rather than making specific decisions about permanence. Guidance in the form of an overall risk framework, and not a predetermined risk profile, would be more useful and inclusive.

- **Sustainable Development Impact and Safeguards (Section 7)**

Whilst supportive of the inclusion of the SDGs as a CCP, methodologies, tools and guidance to measure and report them should be standardised to ensure there can be like-for-like comparisons with projects developed under different standards. Currently, it is challenging to compare the SDG performance of activities across different standards and geographies, because approaches to measuring outcomes are so variable. Ensuring SDG net positive impact is also a challenge, especially as the SDG framework was not designed to quantitatively measure net impacts.

In Australia, the Queensland State Government has established its own '[Co-benefits Standard](#)' to enable measuring, reporting and verification of co-benefits under the Land Restoration Fund (LRF). LRF activities may seek to claim co-benefits from one or more of the following co-benefit categories:

- Environmental – Co-benefits for the environment, such as improved biodiversity and habitat for threatened species, as well as healthier soils, wetlands, and water systems.
- Socio-economic – Co-benefits that improve the resilience and strength of regional communities by supporting direct and indirect employment and skills and increasing economic opportunities.
- First Nations – Co-benefits that provide on-Country business opportunities and new service delivery businesses for First Nations people, as well as supporting cultural and customary connections.

The Queensland Government also invests in Queensland carbon farming projects that generate ACCUs and co-benefits in accordance with its Standard. The LRF is willing to pay a premium price for ACCUs from projects that deliver LRF co-benefits. The LRF's Investment Panel considers the value for money of each project proposal with respect to the co-benefits it will deliver, when making investment decisions. The Investment Panel uses a range of information sources when determining value for money, including reasonable project and opportunity costs, ecosystem services value, and the known cost of delivering outcomes via other traditional funding mechanisms.

**CMI recommendation:** ICVCM should develop standardised methodologies, tools and guidance to measure and report SDGs in consultation with the UN Development Programme should be to allow for comparison within and across different standards and geographies Application and quantification of co-benefits should not be prescriptive. The ICVCM could consider the LRF Co-Benefits Standard



when developing these standardised methodologies, tools and guidance. ICVCM should consult with certification/ standard bodies in the practical application of this guidance.

- **Program Governance** (Section 1)

The process for assessing compliance against the CCPs, and the way in which decisions are made, will be a vital aspect of the ICVCM's work program. More detail is required about the governance of the CCPs and how the future body that will oversee them will monitor compliance. For instance, it should be clarified what constitutes 'relevant project documentation' that 'shall require public disclosure'. The 'procedures and requirements' used in the 'development, approval and regular updating of all normative program documents' will similarly have to be elaborated. Moreover, the institutional arrangement of the grievance mechanism should be explained, including whether it will be represented by a committee or an ombudsman and whether it will be staffed by ICVCM staff or contracted out to a private consultant.

**CMI recommendation:** that the ICVCM provide more detail on the governance of the CCPs and how the future body that will oversee them will monitor compliance.

- **Transition towards Net Zero Emissions** (Section 11)

More clarity is needed on the criteria that the Expert Panel will use to assess whether an activity is net-zero aligned. Without further objective detail, it will be challenging for project proponents to implement or demonstrate compliance with this criteria. CMI also notes the potential overlap of this criterion with the VCM Claims Code and the implications this raises if/when it is out of alignment.

We also note the important work of the UN's High-Level Expert Group on the Net-Zero Emissions Commitments of Non-State Entities that is currently seeking to clarify current standards and definitions for setting net-zero targets by non-state actors, credibility criteria used to assess stated objectives, measurement and reporting, processes for the international community to verify and account in a transparent manner, as well as a roadmap to translate these standards and criteria into international and jurisdictional regulations, in the context of a just transition<sup>2</sup>. We consider that this process could potentially inform the ICVCM's approach.

- **Alignment with the Paris Agreement** (Section 13)

CMI recognises the inherent difficulty of drafting best practice guidance in the still-evolving voluntary carbon market, where there remain unavoidable uncertainties – not least how the VCMs and various global compliance markets may begin converging and interacting under the Paris Agreement. Nevertheless, we consider that there is enough guidance in the Glasgow Paris Rulebook to provide appropriate clarity and flexibility, voluntary markets can continue to play an important role in advancing market integrity in the intervening period.

While it may not be possible to provide full clarity and guidance at the present time, the ICVCM should take a clearer position on the convergence between compliance and voluntary markets. CMI notes that most countries, including Australia, do not yet have the accounting frameworks to be able to assign corresponding adjustments. If the voluntary use of carbon credits were to require host country authorisation for the purposes of corresponding adjustments, this could put critical mitigation activities at risk. It could also serve to disadvantage less developed countries that are less likely to have the appropriate legislative and regulatory infrastructure in place necessary to facilitate corresponding

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<sup>2</sup> CMI recently engaged with the UN High-Level Group consultation. See further CMI Submission to the UN High Level Group on the Net-Zero Emissions Commitments of Non-State Entities (August 2022), Available at [https://carbonmarketinstitute.org/app/uploads/2022/09/FINAL\\_CMI-sub\\_UNHG-Net-Zero-Emissions-Commitments-of-Non-State-Entities.pdf](https://carbonmarketinstitute.org/app/uploads/2022/09/FINAL_CMI-sub_UNHG-Net-Zero-Emissions-Commitments-of-Non-State-Entities.pdf).



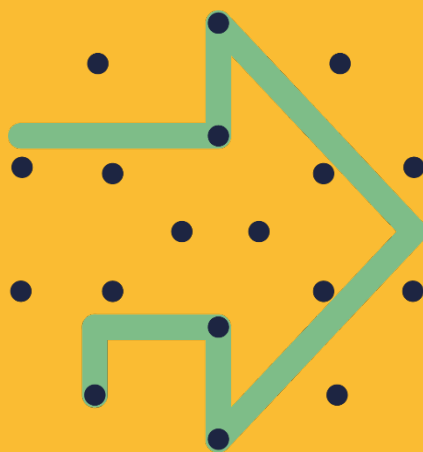
adjustments. CMI recognises that there is benefit in the future convergence of accounting frameworks between compliance and voluntary markets as, and when, all parties have developed the appropriate Article 6 accounting infrastructure.

**CMI recommendation:** More detail is required on how the CCPs consider the convergence between compliance & voluntary markets.

## **Additional resources**

[Explainer: Integrity in the Australian Carbon Market](#)





for more information please contact

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The Carbon Market Institute is at the centre of climate change policy and business in Australia. Independent and non-partisan, we bring business, policy makers and thought leaders together to drive the evolution of carbon markets towards a significant and positive impact on climate change.

Engaging leaders, shaping policy and driving action, we're helping business to seize opportunities in the transition to a low carbon economy.

