18 June 2015

Call for Public Input

Projects with long planning periods, negative impacts

1 INTRODUCTION

VCS strives to ensure that projects registered with the VCS Program meet the highest standards of quality and environmental integrity. To that end, VCS is considering revising its rules to address concerns related to:

1) Projects with long planning periods: The VCS rules currently exclude projects which have been *operating* for periods of time without the benefit of carbon finance (on the premise that such projects are viable without it, and thus not additional). However, it is not clear whether it is appropriate to introduce additional rules for projects which have been in their *planning* stages for extended periods.

2) Projects with negative environmental, social and/or economic impacts: The VCS rules currently require all projects to summarize any environmental impact assessments or stakeholder consultations undertaken, and AFOLU projects must mitigate identified potential negative environmental and socio-economic impacts. However, it is not clear whether it is appropriate to introduce more prescriptive rules for all project types with respect to the assessment or mitigation of these impacts.

VCS is issuing this call for public input to receive feedback on the specific questions set out in Sections 2 and 3 below, and to receive any other comments or suggestions stakeholders may have. Section 4 includes instructions for submitting comments and other details about the consultation process.

2 PROJECTS WITH LONG PLANNING PERIODS

Background

Section 3.7 of the *VCS Standard, v3.5* requires projects to complete validation within specific timeframes of their project start date (*project start date* being defined as "the date on which the project began generating GHG emission reductions or removals" – typically the commissioning date for many project types). This rule serves to exclude projects which have been operating for several years without carbon finance, on the premise that such projects are viable without it, and thus not additional. However, this rule does not serve to exclude projects that were *conceived* many years (even decades) ago which have not yet begun operation (ie, such projects could register with the VCS Program today).

For example, assume a large infrastructure project (such as a hydroelectric project, which would typically have a long planning cycle) was conceived in the 1970s, remained in its planning phase since then (or was shelved), and only moved forward with construction and commissioning in the past few years while also pursuing VCS validation. Such a project could complete VCS validation within required timeframes and be eligible for registration. The same scenario could apply to a REDD project, for example, where a large conservation effort had been in its planning stages for many years, but only recently moved forward with implementation.

On the one hand, it may strain credulity that such projects were developed with carbon finance in mind, which may bring their additionality[1] into question. On the other hand, one may argue that such projects only came to fruition because of the (recent) availability of carbon finance, and would not have been implemented otherwise.

Questions

VCS is soliciting feedback on the specific questions below, and also welcomes any other comments or suggestions stakeholders may have on the topic of projects with long planning periods:

1) In general, should VCS introduce rules for scrutinizing projects with long planning periods?
2) Would requiring an assessment of prior consideration of carbon finance (*prior consideration*) for *all* projects, along the lines of that required for CDM projects,[2] be appropriate to address concerns with respect to projects with long planning periods?
3) Would requiring an assessment of *prior consideration* only where projects are conceived prior

[1] *Additionality* can be conceptualized as a demonstration that the project was developed as a result of the intervention of the carbon market. See, for example, https://ghginstitute.org/wp-content/uploads/content/GHGMI/AdditionalityPaper_Part-1%28ver3%29FINAL.pdf (Page 21, section 7).

[2] See https://cdm.unfccc.int/Reference/Guidclarif/reg/reg_guid04.pdf for background and guidelines on the CDM *prior consideration* approach

to some point in time be appropriate to address concerns with respect to projects with long planning periods? For example, 1 January 2002 may be an appropriate date given the timing of the Marrakesh Accords, and any projects conceived before this date would be required to perform an assessment of *prior consideration*.

4) Would introducing a cut-off date in respect of the project conception date be appropriate to address concerns with respect to projects with long planning periods? For example, any projects conceived before 1 January 2002 could be automatically ineligible for registration.

5) Are there other approaches that would be appropriate to address concerns with respect to projects with long planning periods?

Discussion

Although this may not be an exhaustive list, the options above reflect approaches that have been used by other GHG programs to address concerns with respect to projects with long planning periods. Each option has benefits and drawbacks.

With respect to (2) above, this approach has the benefit of subjecting all projects to the same rules equally, and removes the need to "draw a line in the sand" by selecting a date before which *prior consideration* is a concern. However, it is important to note that the existing VCS rules are meant to simplify the *prior consideration* approach taken by the CDM. That is, the experience of the CDM has shown that it can be difficult to concretely and objectively demonstrate *prior consideration* in all cases; the current VCS rules are meant to objectively demarcate project eligibility. As such, the *prior consideration* approach may serve to overly-complicate the assessment of additionality, given that most projects are recently-conceived.

The approach presented in (3) aims to moderate option (2) by focusing only on those projects for which *prior consideration* may be a legitimate concern. However, an appropriate date before which *prior consideration* is a concern would still need to be determined, which may be a somewhat arbitrary date. In addition, those projects subject to an assessment of *prior consideration* will still face the same challenges of subjectivity inherent in the *prior consideration* approach.

Option (4) is therefore perhaps the most straightforward, in that it assumes any project conceived prior to a particular date could not have been developed with carbon finance in mind, and avoids an assessment of *prior consideration* altogether. This approach would be analogous to the approach taken by the American Carbon Registry (ACR), which excludes projects with a start date prior to 1 January 2000.[3] However, this approach may unnecessarily exclude projects that can legitimately demonstrate that it is only the recent consideration of carbon finance which has allowed the project to take real action with respect to its implementation.

[3] See ACR Standard (Page 15, Chapter 3, Table 2, *Start Date*)

3 PROJECTS WITH NEGATIVE ENVIRONMENTAL, SOCIAL AND/OR ECONOMIC IMPACTS

Background

The VCS rules require all project types to summarize the outcomes of any environmental impact assessments and stakeholder consultations undertaken (ie, where required to do so by law or where the project proponent voluntarily does so). Also, Section 3.1.5 of the *AFOLU Requirements, v3.4* requires AFOLU projects to identify potential negative environmental and socio-economic impacts and take steps to mitigate them. These rules are intended to provide transparency with respect to steps taken to mitigate negative environmental, social and economic impacts, and to provide project proponents flexibility in identifying and undertaking appropriate mitigation measures.

However, it is recognized that there may be a need for more prescriptive rules with respect to negative environmental, social and economic impacts, noting that the current rules do not require all projects to take steps to identify and address such negative impacts. For example, assume significant negative impacts were identified through an environmental impact assessment performed by a project, but no steps to address those impacts were required by local law. If the project were to seek VCS validation, it may be difficult to push back on the project in the absence of more prescriptive VCS rules on negative impacts.

Questions

VCS is soliciting feedback on the specific questions below, and also welcomes any other comments or suggestions stakeholders may have on the topic of projects with negative environmental, social and economic impacts:

1) In general, should VCS introduce more prescriptive rules with respect to assessment of negative environmental, social and economic impacts?
2) Should project proponents be required (for all projects) to solicit comments on the environmental, social and economic impacts of their project? If so:
    a) Which mechanism would be most effective for soliciting comments? For example, projects could undergo a 30-day comment period hosted on the VCS project database. Alternatively, VCS could require more proactive stakeholder outreach, ensuring those stakeholders most impacted by the project have a meaningful opportunity to participate in the consultation.
    b) If proactive stakeholder consultation is considered an appropriate mechanism for soliciting comments, should VCS set out a procedure for conducting such consultations? For example, the CCB Standards set out detailed rules for conducting stakeholder

consultations.[4] Alternatively, it could be left to the project proponent to demonstrate how stakeholders have been given a meaningful opportunity to participate.

c) What should be done with the comments received? For example, the project proponent could be required to demonstrate how they have taken due account of each comment, similar to how VCS methodology developers must demonstrate how they have taken due account of comments received during the public comment period.[5]

d) Is soliciting comments useful for *all* project types? For example, cookstove projects may have minimal negative environmental, social and economic impacts, whereas stakeholder consultation will likely be far more important for project types such as large hydroelectric projects.

3) Should project proponents be required to assess the negative environmental, social and economic impacts of their projects? If so:

   a) Would a rule that requires VCS projects to demonstrate "net positive" environmental, social and economic impacts be appropriate?

   b) Would a rule that requires VCS projects to demonstrate that they "do no net harm" be appropriate?

   c) Would a rule that requires all VCS projects to identify negative impacts, and demonstrate what steps have been taken to mitigate them, be appropriate? This rule would be analogous to what is already required for VCS AFOLU projects.

   d) Is requiring such an assessment useful for *all* project types?

4) Are there other approaches that could address concerns with respect to negative impacts?

Discussion

Although this may not be an exhaustive list, the options above reflect approaches that have been used by other GHG programs to address concerns with respect to negative environmental, social and economic impacts. Each option has benefits and drawbacks.

<u>Stakeholder consultation</u>

The main consideration presented in (2) above is the extent to which VCS should set out explicit rules for how consultations must be undertaken versus the extent to which the form and substance of consultations should be left to project proponents. To date, the VCS rules have taken the latter approach,

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[4] See the CCB Standards (Page 19, *G3. Stakeholder Engagement*)

[5] See VCS Methodology Approval Process (section 4.3.5)

as have other programs like ACR,[6] the Climate Action Reserve[7] and (in large part) the CDM.[8] This approach streamlines the project development process and recognizes that project proponents will likely have a good sense of the project-specific conditions which may dictate the structure of the consultation.

On the other hand, setting out more explicit rules for stakeholder consultation, as do the CCB Standards[9] and the Gold Standard,[10] has the benefit of ensuring that all projects conduct their stakeholder consultations in a consistent and structured manner. Such detailed rules may also lead to a more robust consultation, as project proponents will be required to exert appropriate levels of effort to ensure that program rules have been met.

Environmental, social and economic impacts

Options 3(a) and 3(b) would be analogous to the approaches taken by the CCB Standards[11] and the Gold Standard,[12] respectively. The benefit of these options is that they require projects to demonstrate how they have maximized their positive impacts and minimized their negative impacts in a consistent and structured manner.

It is important to recognize that it would be difficult to assess whether impacts are *net positive* or that projects *do no net harm* without an assessment of detailed, pre-defined criteria as are set out in the CCB Standards and the Gold Standard. Absent this, a single requirement that projects must have a *net positive impact* or *do no net harm*, as is the case under other programs, leads to challenges in quantifying degrees of positive and negative impacts. In particular, the terms *net positive* and *no net* by definition require an assessment of whether the benefits of mitigation measures outweigh or neutralize the harm of negative impacts. Such a quantification-oriented approach may only be workable insofar as the program is able to set out detailed rules to guide this quantification, and is likely scoped more appropriately for multiple-benefit standards such as CCB Standards.

Alternatively, option 3(c) is a process-oriented approach which would provide flexibility with respect to the measures taken to minimize negative impacts, and fits well within the existing scope of the VCS Program. Importantly, it would likely lead to a strengthened assessment of negative environmental, social and

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[6] See ACR Standard (Page 33, chapter 6(D), bullet 11)

[7] No explicit rules for projects to perform stakeholder consultation set out in the Reserve Program Manual

[8] See CDM Project Standard (Page 20, section 7.5)

[9] See the CCB Standards (Page 19, *G3. Stakeholder Engagement*)

[10] See Gold Standard Toolkit (Page 45, section 2.6)

[11] *The CCB Standards identify land management projects that deliver net positive benefits for climate change mitigation, for local communities and for biodiversity* (CCB Standards, page 8, *Role of the CCB Standards*)

[12] See Gold Standard Toolkit (Page 35, section 2.4.1)

economic impacts (for non-AFOLU projects not already required to undertake such an assessment), and would mandate that project proponents take steps to mitigate these without them needing to arbitrarily assign degrees to impacts and mitigation measures. This process-oriented approach is analogous, for example, to the approach CCB Standards takes with respect to assessing climate change adaptation benefits. Specifically, CCB Standards require project proponents to identify potential impacts of climate change on communities and the environment, and to then describe the measures taken to assist communities and the environment in adapting to these impacts, which removes the need to assign degrees to positive and negative impacts.[13]

[13] See the CCB Standards (Page 32, *GL1. Climate Change Adaptation Benefits*)

4 PROCESS FOR CALL FOR PUBLIC INPUT

The call for public input is open from 18 June to 17 August 2015. VCS will host a webinar to introduce the call for public input on 1 July 2015, and a recording of the webinar will be posted on the VCS website afterwards. Please register for the webinar at your earliest convenience.

Please send all comments and feedback to VCS Program Development Manager, Sam Hoffer, at shoffer@v-c-s.org. When submitting comments, please include your name, organization and contact information. VCS may follow up with you to discuss comments in further detail.

Following the closure of the call for public input, VCS will publish a synopsis of comments received, but will not publish individual comments for the sake of confidentiality. VCS will take due account of all comments received, and may subsequently draft revisions to the VCS rules. Any new rules related to this call for public input will likely be subject to stakeholder consultation prior to their release.