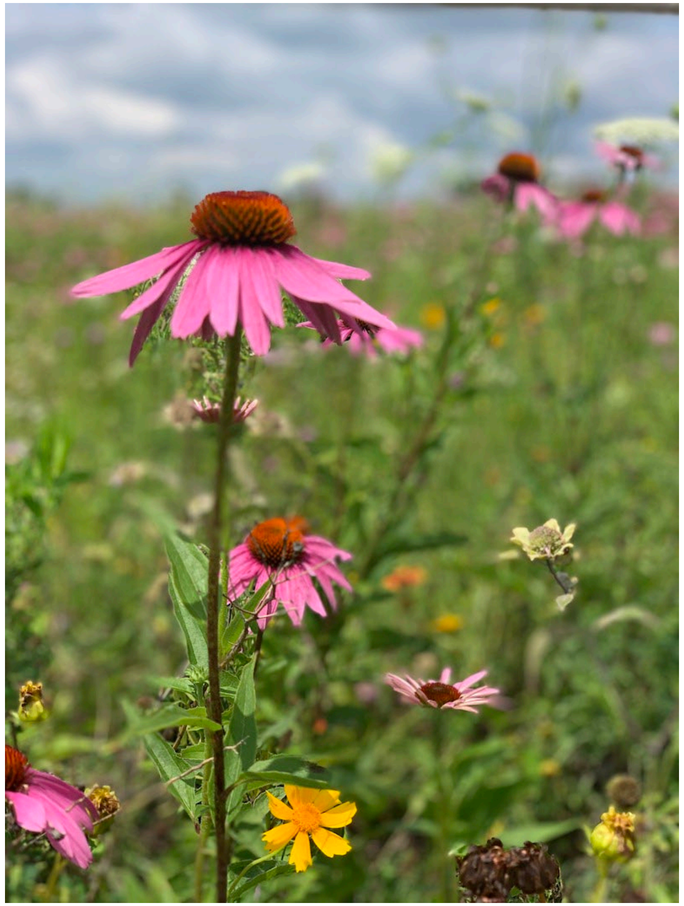
Stakeholder Working Group

March 14, 2023

BCarbon

Agenda

- Announcements and updates
- Carbon market ratings agencies – David Valerio
- Principles – final review + consensus
- Legislative updates – Growing Climate Solutions Act, SEC disclosures rule, and CFTC comments
- Carbon Credits and the Circular Economy – discussion



Upcoming Events

- ***SWG meetings every other month for the rest of the year***
  - May 9
  - July 11
  - September 12
- Upcoming Climate Smart Webinar: Carbon Market Updates – March 21 at 10 AM CT
- Insurance subcommittee – March 28 at 10 AM CT

RENOSTER

Rating Agency Overview

David Valerio, Customer Lead

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What do carbon credit rating agencies do?

Carbon credit rating agencies conduct due diligence on the quality of carbon projects on behalf of corporate offsetters and financial investors

Post-issuance reviews

- Reviews of the quality of carbon credits that have already been issued by registries and are being traded on the market

Pre-issuance services

- Due diligence on carbon projects before they are issued credits by registries on behalf of offtake buyers or project investors

Why do they exist?

Revealed: more than 90% of rainforest carbon offsets by biggest certifier are worthless, analysis shows

Investigation into Verra carbon standard finds most are 'phantom credits' and may worsen global heating

Cookstove carbon offsets overstate climate benefit by 1,000%, study finds

Cookstove projects are one of the fastest-growing carbon offset schemes but research finds carbon benefits are vastly overstated

Companies Are Dropping Carbon Offsets, But Still Buying the Worst Ones

Purchases of carbon offsets fell for the first time in at least a decade last year, according to an analysis of 260,000 publicly available transactions.

Who are the main companies in this industry?

BeZero

Calyx Global

RENOSTER

Sylvera

Who are their potential customers?

- Carbon credit buyers
  - Spot market
    - Post-issuance
  - Offtake agreements
    - Pre-issuance
- Carbon project investors
  - Pre-issuance
- Insurance providers
  - Pre-issuance
- Marketplaces
  - Post-issuance
  - Pre-issuance
- Traders
  - Post-issuance
- Brokers
  - Post-issuance

What makes Renoster different?

Deep transparency

Our science is open-access so you can check our work

Quantitative, not qualitative

We quantify how much carbon is removed or avoided for every credit issued to a project

NbS specialists

We have have an expert team of 5 forest carbon scientists conducting our due diligence

Our reviews become public

Our analyses become open to the public after a time window for paying customers to serve the common good

Thank you!

Shoot me an email at david@renoster.co or give me
a call at 713-478-9395 if you want to talk shop


Principles: final draft + consensus

Summary & timeline

- 2021: principles first published
- 2023: updates drafted by BCarbon staff
- 2024: presented to stakeholders (Jan) → feedback → re-presented (Feb)→ feedback
- ***Now: final version has taken stakeholder feedback from the past two months into account***

Principle 1

BCarbon is a nonprofit organization formed to address climate change and aid in the global energy transition, primarily through nature-based solutions. We work as an agent of change in the voluntary carbon market by issuing carbon credits and generating solutions to the persistent problems of accessibility, quality, and scale.

Principle 2

BCarbon is both a registry and a research hub. We work with landowners, project developers, buyers, and industry leaders to develop Protocols that are rigorous and practical, and we collaborate with corporate, academic, and government partners to explore innovative solutions to market challenges.

Principle 3

BCarbon adopts an inclusive, holistic view of ecosystem services. We see ecological health as foundational to the socioeconomic and cultural resilience of all communities. Credit issuances under BCarbon protocols are dedicated both to the removal and mitigation of greenhouse gas emissions and the enhancement of ecological and social integrity.

Principle 4

BCarbon aims to engage, support, and uplift diverse and marginalized communities, with particular attention to the rights of indigenous peoples and communities disproportionately impacted by climate change. BCarbon also acknowledges barriers that prevent participation in projects by certain landowners and interested parties and is engaged in the exploration and implementation of new ideas to overcome these obstacles.

Principle 5

BCarbon is committed to transparency via open-access collaboration and hosts a monthly stakeholder group that brings together voices from disparate disciplines and sectors to problem-solve, inform organizational direction, and share knowledge.

Principle 6

Highlighted portion = new

BCarbon views the legitimacy and defensibility of credit issuances as a responsibility owed to both the end user of the product and the public. We use direct measurement, field testing, and other science-based, best-practice metrics to balance Protocol practicality with rigorous and reliable quantification. We are committed to staying up to date with the most current technologies to support transparency and reliability of our Protocols and credits.

Principle 7

BCarbon sees the transition towards a circular economy that accounts for the value of natural ecosystems as fundamental to a sustainable future. We support the development of a thriving and accessible carbon market as a key step towards this goal.

Gauging consensus

Legislative updates

Growing Climate Solutions Act

SEC ruling

CFTC comments on additionality

Growing Climate Solutions ACT (GCSA)

- Authorized USDA to establish a voluntary Greenhouse Gas Technical Assistance Provider and Third-Party Verifier Certification Program (December 2022)
- Designed to reduce entry barriers into voluntary environmental credit markets for farmers, ranchers, and private forest landowners
- General Assessment of the Role of Agriculture and Forestry in the U.S. Carbon Markets released last October

GCSA

- On February 27, USDA announced intent to move forward with the program
- Expected to be established in 2024
- USDA will soon solicit information on protocols to be evaluated for inclusion
- USDA will concurrently establish the charter for the program's advisory council and seek membership nominations in Summer 2024

The Enhancement and Standardization of Climate-Related Disclosures for Investors

Required disclosures include:

- Gross scope 1 and 2 emissions (excludes small and "emerging" registrants)
- Governance and oversight of climate risk
- Impact of climate risks on company strategy, business plan, etc.
- Management processes for climate risk
- Material climate targets and goals
- ***Details about carbon offset (and REC) usage where material to a company's climate-related strategies***

  (Item 1504(d))

- Amount of CO_2e
- Nature of credits: avoidance, reduction, or removal
- Standard and registry
- Location and description of project
- Cost of credits (incl. related expenses or losses)
- Balance sheet & income statement

A major step towards corporate ESG transparency

- ***~2800*** US companies + ***540*** foreign companies with US business: # of companies expected to make disclosures
  - ***54 %*** of US-listed companies currently disclose scopes 1 & 2; Compare to 73% in other developed markets
- ***Projected challenges:*** streamlining data tracking, collection, reporting; bolstering governance around ESG; dealing with potential controversies re: greenwashing and anti-ESG rhetoric
- ***Potential roadblocks:*** impending legal challenges

Carbon market impacts: no direct impositions on registries, developers, or other actors, but increased corporate focus on ESG + *credit reporting transparency* could influence VCM engagement

CFTC VCM Public Commentary

- Key Takeaways:
  - 86 total comments.
  - Majority support financial additionality, and/or further tests to be included.
  - Most implicitly/explicitly support ICVCM and urged CFTC to follow suit.
  - Vocal minority argued for flexible additionality definitions based on market uptake
    - Many noted perverse incentives on agricultural and forest management practices.
- Next Steps:
  - Issuance of Final Rule inclusive of comments – Date TBD

89410 **Federal Register** / Vol. 88, No. 247 / Wednesday, December 27, 2023 / Notices

was accompanied by a *Presidential Memorandum* titled "Modernizing United States Spectrum Policy and Establishing a National Spectrum Strategy," which calls for the Secretary of Commerce, acting through NTIA, to publish an Implementation Plan for the Strategy. This will chart the course for federal agency actions, pursuant to the *Presidential Memorandum*, to further the policy objectives stated in the Strategy.

The strategic objectives in the Strategy are grouped under four "pillars" for further action:

- *Pillar One:* A spectrum pipeline to ensure U.S. leadership in advanced and emerging technologies;
- *Pillar Two:* Collaborative long-term planning to support the nation's evolving spectrum needs;
- *Pillar Three:* Unprecedented spectrum innovation, access, and management through technology development; and
- *Pillar Four:* Expanded spectrum expertise and elevated national awareness.

Speakers from the Department of Commerce, the Executive Office of the President, the Federal Communications Commission and Congress have been invited to provide keynote remarks. Panelists are expected to include participants from the FCC, Executive Branch agencies, and the private sector. Prior to the symposium event, NTIA will post detailed program information on its website: *www.ntia.gov*.

The symposium is open to the public and members of the press to attend or to view through a webcast available on the NTIA website. While it is not required, NTIA asks that online attendees provide registration information prior to the event. This information will include names, email addresses, and organizations (optional). Registration information, the agenda, meeting updates, if any, and other relevant documents will be available on NTIA's website.

The event webcast will be close-captioned. Individuals requiring special accommodations, such as sign language interpretation or other ancillary aids, should notify Mr. Alden at the contact information listed above at least ten (10) business days before the event.

Stephanie Weiner,

Chief Counsel, National Telecommunications and Information Administration.

[FR Doc. 2023–28564 Filed 12–26–23; 8:45 am]

BILLING CODE 3510–60–P

COMMODITY FUTURES TRADING COMMISSION

RIN 3038–AF40

Commission Guidance Regarding the Listing of Voluntary Carbon Credit Derivative Contracts; Request for Comment

AGENCY: Commodity Futures Trading Commission

ACTION: Proposed guidance; request for comment.

SUMMARY: The Commodity Futures Trading Commission (the "Commission" or "CFTC") is issuing for public comment this proposed guidance regarding the listing for trading of voluntary carbon credit ("VCC") derivative contracts. Specifically, the Commission is proposing to issue guidance to outline factors that designated contract markets ("DCMs") should consider when addressing certain provisions of the Commodity Exchange Act ("CEA"), and CFTC regulations thereunder, that are relevant to the listing for trading of VCC derivative contracts. The Commission recognizes that VCC derivatives are a comparatively new and evolving class of products, and believes that guidance that outlines factors for a DCM to consider in connection with product design and listing may help to advance the standardization of such products in a manner that promotes transparency and liquidity. The Commission requests comment on this proposed guidance and further invites comment on specific questions related to the listing for trading of VCC derivative contracts.

DATES: Comments must be received on or before February 16, 2024.

ADDRESSES: You may submit comments, identified by "Commission Guidance Regarding the Listing of Voluntary Carbon Credit Derivative Contracts" and RIN 3038–AF40, by any of the following methods:

- *CFTC Comments Portal: https://comments.cftc.gov*. Select the "Submit Comments" link for this release and follow the instructions on the Public Comment Form.
- *Mail:* Send to Christopher Kirkpatrick, Secretary of the Commission, Commodity Futures Trading Commission, Three Lafayette Centre, 1155 21st Street NW, Washington, DC 20581.
- *Hand Delivery/Courier:* Follow the same instructions as for Mail, above.

Please submit your comments using only one of these methods. Submissions through the CFTC Comments Portal are encouraged.

All comments must be submitted in English, or if not, accompanied by an English translation. Comments will be posted as received to *https://comments.cftc.gov*. You should submit only information that you wish to make available publicly. If you wish the Commission to consider information that you believe is exempt from disclosure under the Freedom of Information Act ("FOIA"), a petition for confidential treatment of the exempt information may be submitted according to the procedures established in § 145.9 of the Commission's regulations.[1]

The Commission reserves the right, but shall have no obligation, to review, pre-screen, filter, redact, refuse, or remove any or all of your submission from *https://www.comments.cftc.gov* that it may deem to be inappropriate for publication, such as obscene language. All submissions that have been redacted or removed that contain comments on the merits of the guidance will be retained in the public comment file and will be considered as required under the Administrative Procedure Act and other applicable laws, and may be accessible under FOIA.

FOR FURTHER INFORMATION CONTACT: Lillian A. Cardona, Assistant Chief Counsel, (202) 418–5012, *lcardona@cftc.gov;* Steven Benton, Industry Economist, (202) 418–5617, *sbenton@cftc.gov;* Nora Flood, Chief Counsel, (202) 418–6059, *nflood@cftc.gov;* Division of Market Oversight, Commodity Futures Trading Commission, Three Lafayette Centre, 1155 21st Street NW, Washington, DC 20581.

SUPPLEMENTARY INFORMATION:

I. Background

A. The Regulatory Framework for DCMs

The CFTC's mission is to promote the integrity, resilience, and vibrancy of the U.S. derivatives markets through sound regulation.[2] An independent agency of the U.S. federal government, the CFTC exercises the authorities granted to it under the CEA to promote market integrity, prevent price manipulation and other market disruptions, protect customer funds, and avoid systemic risk, while fostering responsible innovation and fair competition in the derivatives markets.[3]

DCMs are CFTC-regulated exchanges that provide participants in the derivatives markets with the ability to execute or trade derivative contracts

[1] 17 CFR 145.9.

[2] CFTC Mission Statement, *available at: https://www.cftc.gov/About/AboutTheCommission*.

[3] *See* CEA section 3(b), 7 U.S.C. 5(b).

Comments:

- Nori:
  - *Additionality also has the effect of impeding the growth of the VCM by, for example, making the VCM unattractive to farmers who have already adopted regenerative agricultural practices…*
  - *Besides being unnecessary for removals, additionality can create troubling incentives and situations that are subject to manipulation…*
  - *The perverse incentive becomes clear: if the creditor wants to maximize the economic benefits of the carbon credit project they can manipulate the baseline by cutting down trees in the reference forest that would otherwise have remained standing (and benefiting the environment) to create an artificially high crediting volume for the "protected forest."*

Comments:

- Food and Ag Climate Alliance (FACA):
  - *The CFTC should be cognizant that influencing these definitions could negatively impact demand for carbon credits on the VCM.*
  - *To ensure standards do not create perverse incentives for early adopters at the expense of their existing climate mitigation activities, and that definitions for permanence and additionality do not exclude high-quality credit generation from land-based activities.*

Comments:

- Ecosystem Services Market Consortium (ESMC):
  - *Additionality projects in a marketplace should be characterized as implemented in response to market incentives…*
  - *…The way additionality applies to agriculture is very different than in other sectors such as energy. Each year, everything a producer does is new and is done in response to external market forces.*
  - *… in agriculture must (a) be measured in a nuanced manner, and (b) is an area under intense research and will take market innovation to appropriately address. This is why ESMC is concerned that over-prescriptive guidance or regulation at this early stage could inadvertently limit markets' ability to innovate a solution to this and other related challenges, and ultimately harm producers in the long run.*

- Xpansiv (Carbon Credit Digital Marketplace)
  - "..It is possible, however, that scenarios may emerge that call for flexibility. If a new class of VCCs was developed with less restrictive additionality criteria to support climate finance from well-maintained forests, in this example, it would be useful if the CFTC proposed guidance was sufficiently flexible…."

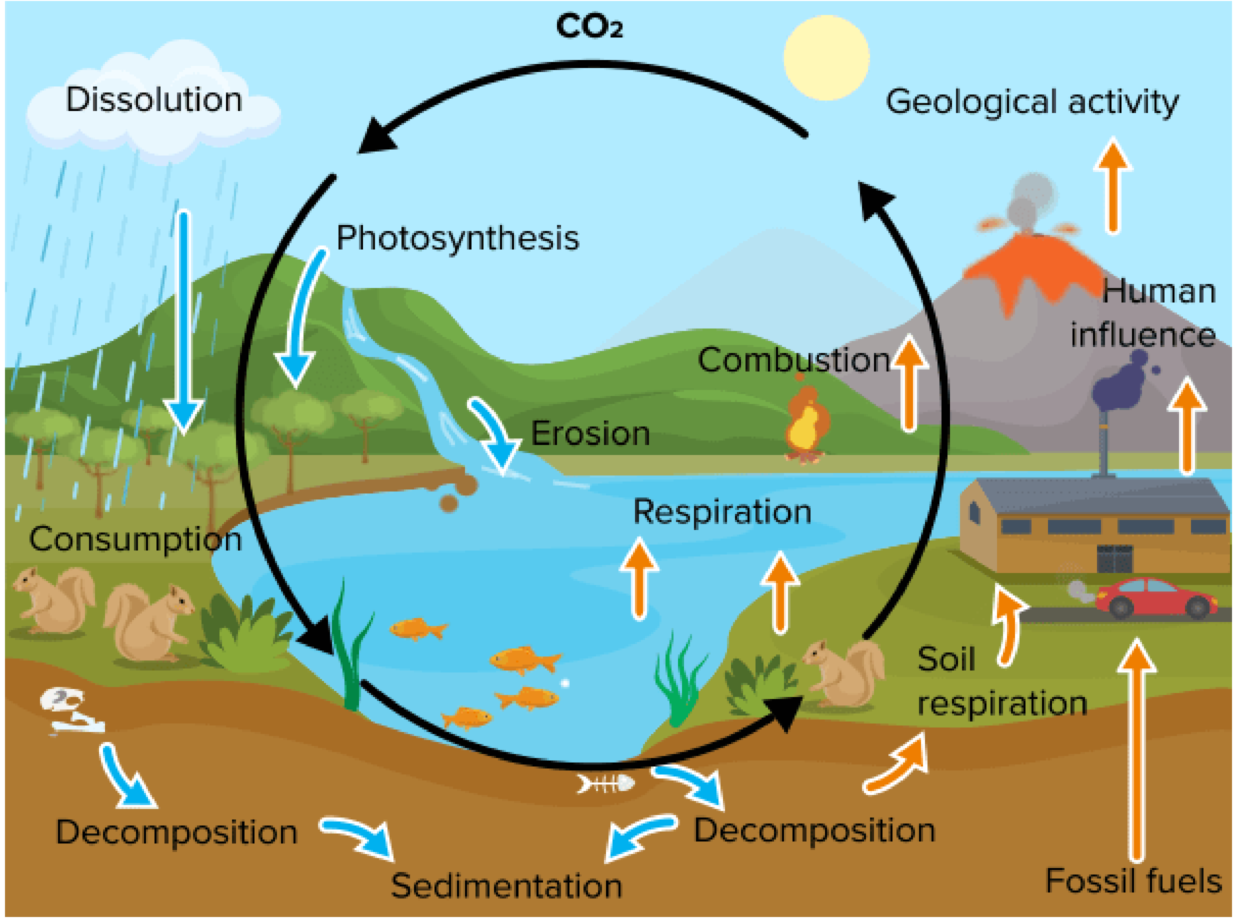
- Manhattan Institute (Urban Studies Policy Think Tank)
  - High quality" reflects a normative judgment about the credits that appeal to certain market participants ... The CFTC concedes this point, reasoning only that some undefined "many" companies value these characteristics and does not dispute that nonconforming credits are nonetheless voluntary carbon credits to which market participants prescribe value.

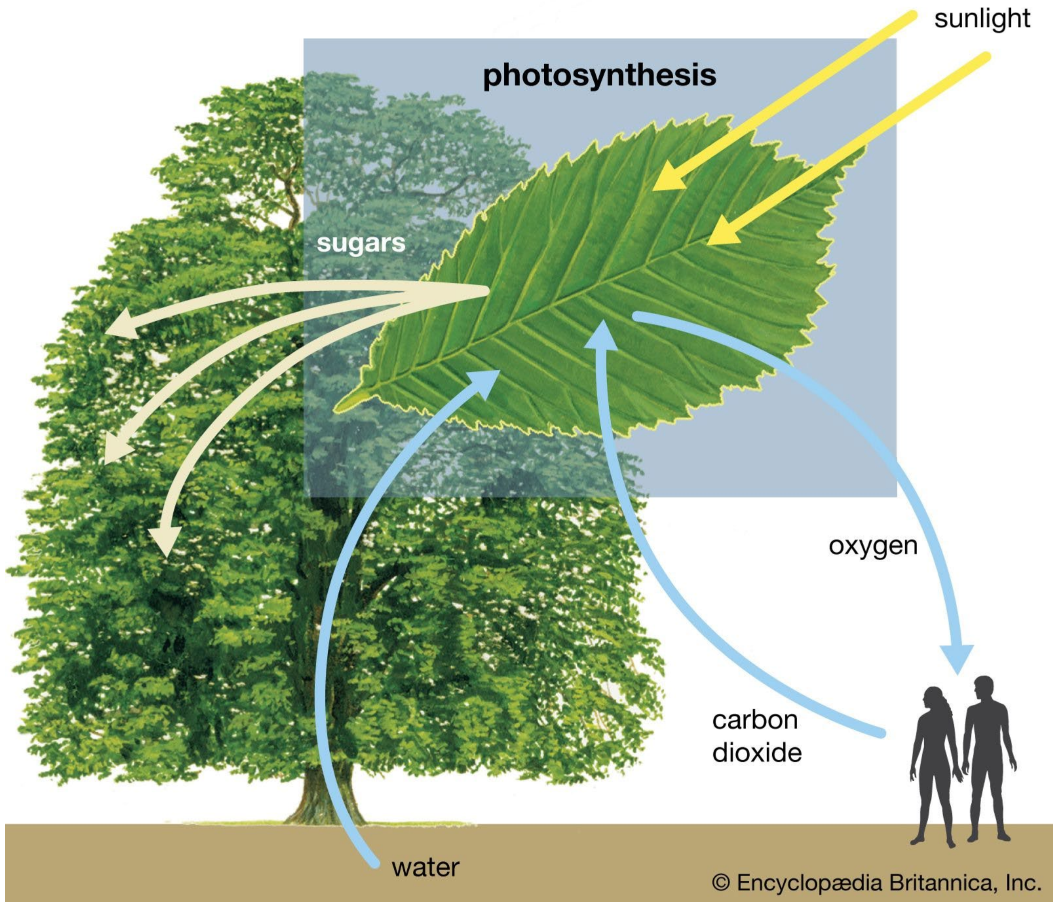
- IECA (International Energy Credit Association):
  - *The CFTC is not an environmental regulator and should not be defining terms like "additionality" or "permanence."*

Carbon Crediting and the Economy of the Future

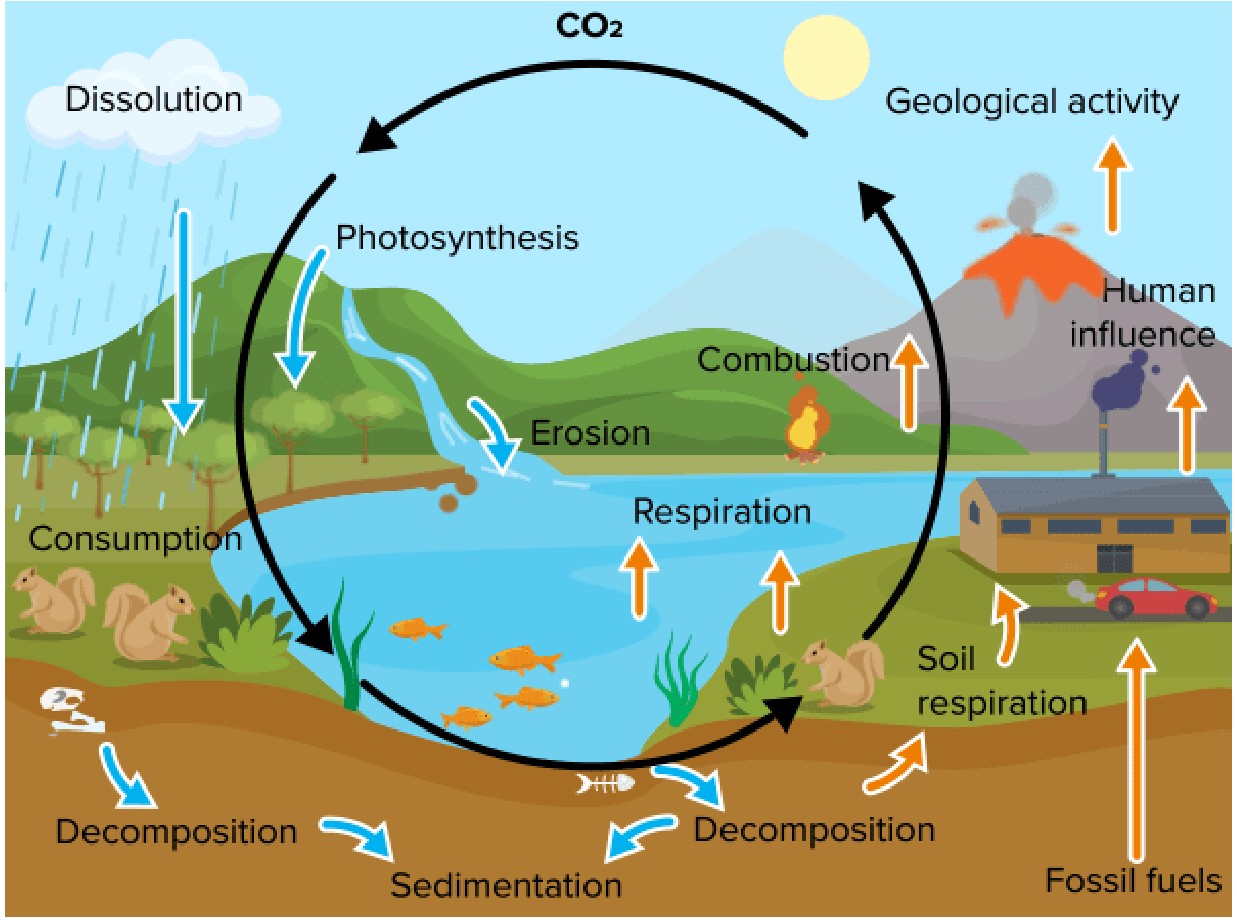
Jim Blackburn

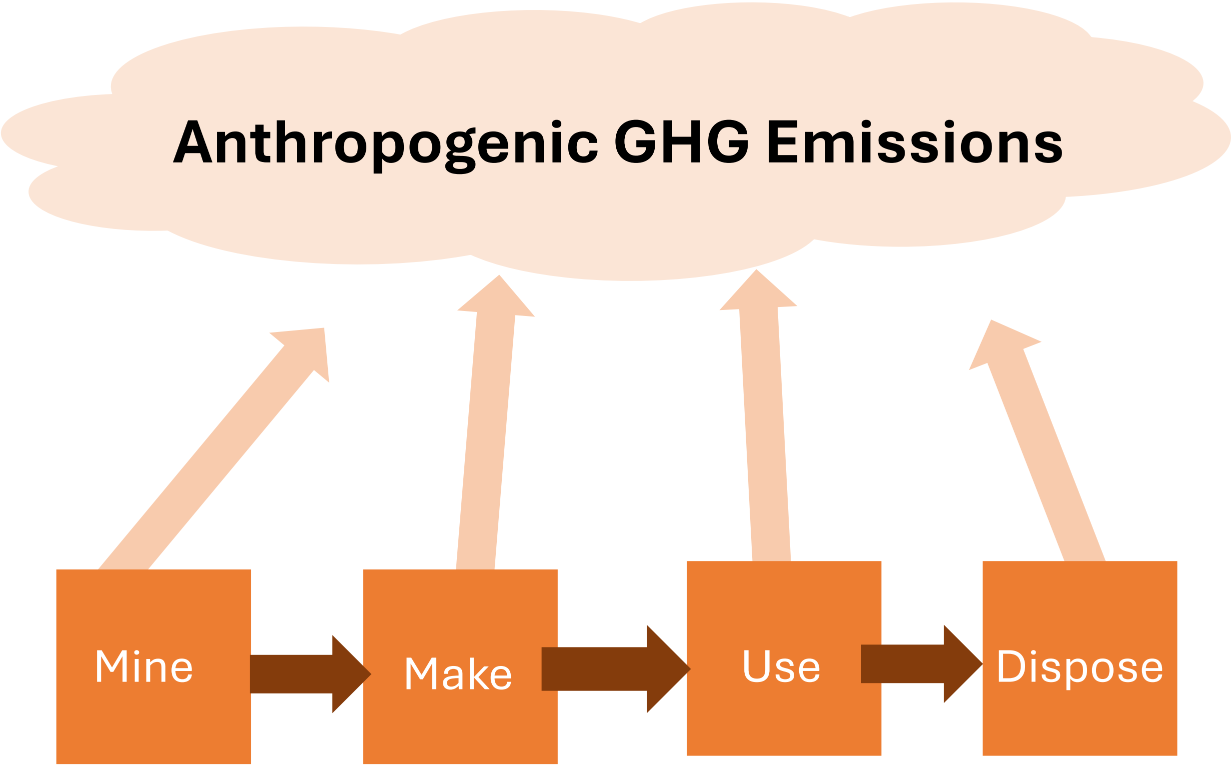
CEO, BCarbon





Nature’s Carbon Cycle



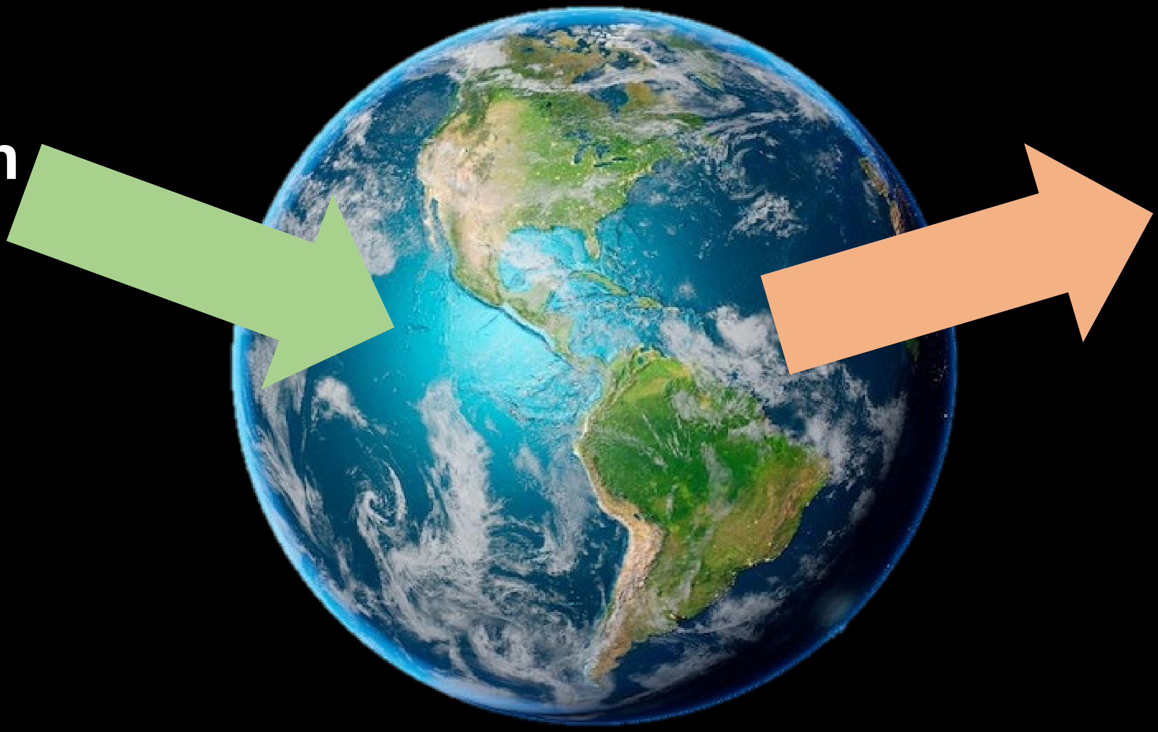


Nature's Carbon Cycle
vs. Human emissions

Current Situation is Unbalanced

CO_2 in atmosphere has gone from 325 to 425 ppm in last 200 hundred years

Natural Carbon Dioxide Drawdown



Linear Economy

Emissions + Decay + Respiration

Future Situation – a closed loop ?

More Drawdown than Emissions?

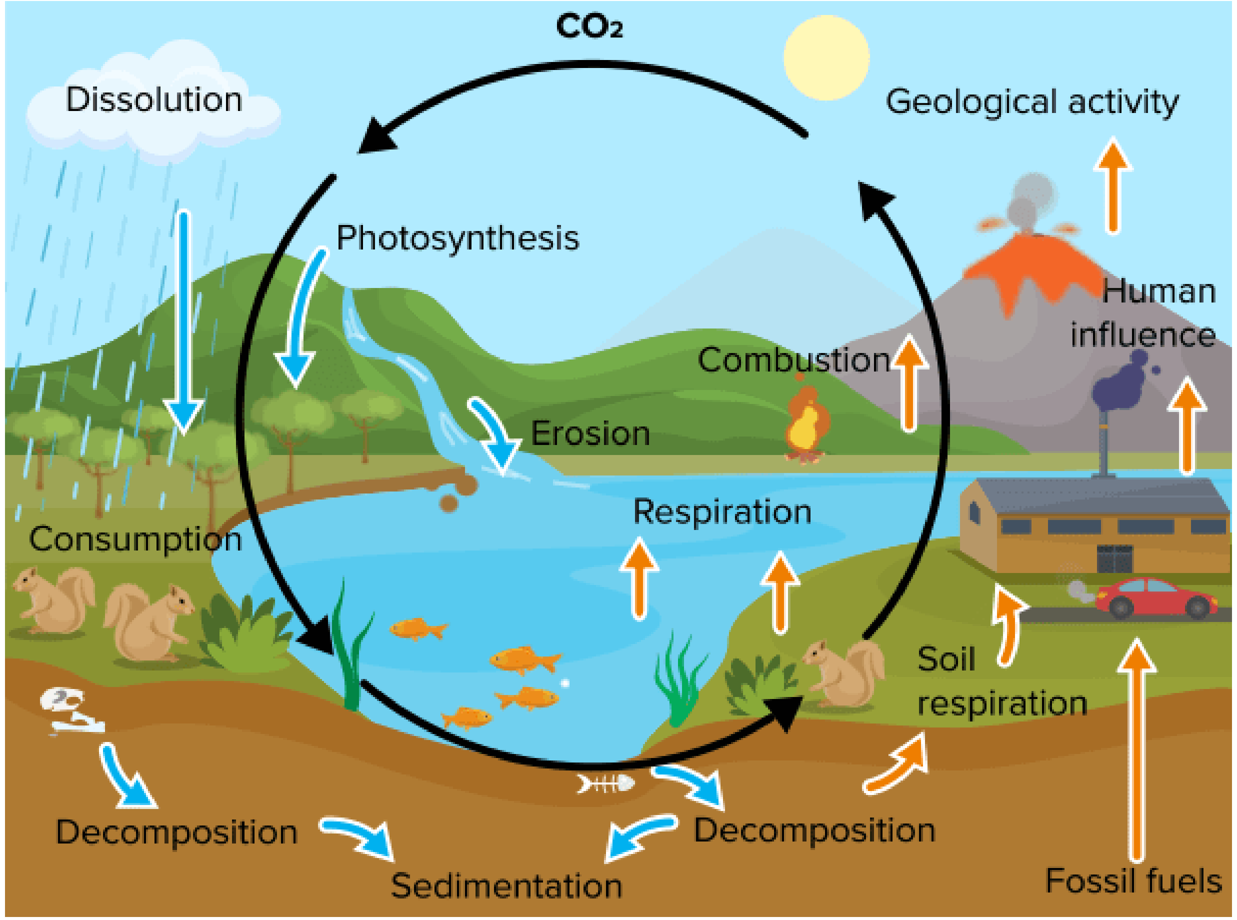
Natural Carbon Dioxide Drawdown

Must Protect Existing Sinks – but this is not currently a focus

Linear Economy

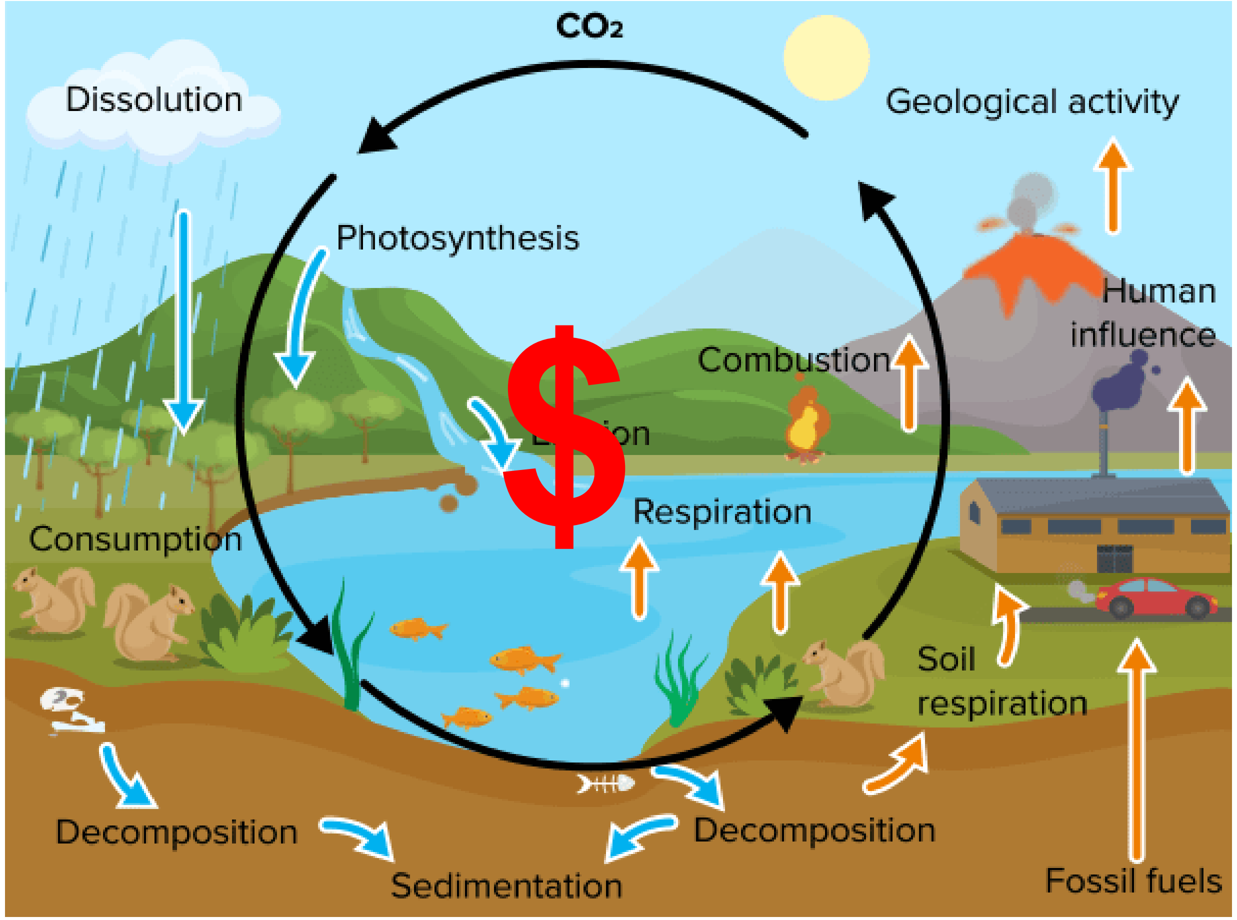
Emissions + Decay + Respiration

Must Reduce Emissions Wherever Possible: Avoid, Minimize, Mitigate



Current carbon market focuses on ***increasing natural capacity***

But where is our guarantee that the status quo “baseline” will continue?



Current carbon market focuses on ***increasing natural capacity***

We have to close the loop by reinvesting in natural sinks

Future Situation –
Earth Must Be The Central Policy Focus

The avoided conversion challenge

- It is extremely difficult to reliably prove that an area ***would convert*** without action – leading to real issues with traditional additionality of offsets
- However, avoided conversion of sinks is still critical to our climate strategy

The Guardian

The age of extinction

Revealed: more than 90% of rainforest carbon offsets by biggest provider are worthless, analysis shows

Is there a way to deal with this? A different way of assessing the “worth” of a credit?

Filling the Gap in the Current Carbon Market

The Current System

- Focused primarily on expansion of sinks plus avoided conversion where danger of conversion imminent
- Takes limited view of protection of sinks

What is missing

- Credits can be issued to protect sinks regardless of threat
- Sinks can be measured and monitored for drawdown efficiency
- Expansion of sinks will come with market

Circular Economy and Carbon Credits as Compensation for Maintenance of Sinks

- Carbon credits can and should support circular economic thinking
- Protecting and expanding sinks consistent with maintenance of Earth Cycles

But protecting ***ALL sinks*** has not so far been part of the carbon market conversation.

Instead of Carbon Offsets, We Need 'Contributions' to Forests

Because of problems created by the incentive structure for carbon offsets as a mode of climate mitigation, companies should switch to a "contributions" framing to preserve a crucial flow of climate investment.

CITE SHARE COMMENT PRINT ORDER REPRINTS

By Libby Blanchard, William R.L. Anderegg & Barbara K. Haya | Jan. 31, 2024

What is the value of a non-offset "carbon credit" that protects existing sinks and furthers circular economic thinking + practice?

What other credit options besides "carbon credits" are there that model this?

Are there others advocating for this in the space?

Is there an appetite among buyers?

Evolution
Out of Chaos

A Better
System Will
Emerge