



February 13, 2024

Submitted electronically via comments.cftc.gov

Mr. Christopher Kirkpatrick
Secretary of the Commission
Commodity Futures Trading Commission
Three Lafayette Centre, 1155 21st Street NW
Washington, DC 20581

RE: Commission Guidance Regarding the Listing of Voluntary Carbon Credit Derivative Contracts, RIN 3038–AF40

Dear Mr. Kirkpatrick:

On behalf of Climeworks Corporation, thank you for the opportunity to provide comments to the Commodity Futures Trading Commission regarding the listing of voluntary carbon credit derivative contracts.

Climeworks is at the forefront of the nascent carbon dioxide removal (CDR) industry as a leading technology and project developer delivering independently-verified CDR via direct air capture and storage (DAC+S). We commend the Commission for issuing this guidance, which we believe will support transparency and confidence in the voluntary carbon markets (VCM) and associated derivative contracts. The integrity of the VCM and related carbon credit derivatives are vital to the CDR industry as it begins to scale to meet national and global climate targets.

Importantly, the Commission’s guidance implicitly recognizes that greenhouse gas (GHG) emissions reductions are inherently distinct from GHG removals: reductions lower additional GHG emissions while removals take existing GHG out of the air to produce negative emissions.¹ Voluntary carbon credits (VCCs) generated by reductions are therefore fundamentally different assets from VCCs generated by removals. This distinction should accordingly be explicitly delineated for carbon derivative contracts. Further, Climeworks supports the Commission’s preliminary guidance that independent third-party verification should be required in carbon crediting programs. We also support the Commission’s recognition that standards must be designed to evolve over time to reflect the best practices and latest scientific understanding in the burgeoning VCM.

We respectfully submit the enclosed comments and would welcome the opportunity for continued engagement with the Commission on these important matters.

Sincerely,
Andrew Fishbein
Lead Government Affairs North America
Climeworks Corporation

¹ Carbon Direct, “Removal, reduction, and avoidance credits explained,” October 13, 2023 (<https://www.carbon-direct.com/insights/how-do-carbon-credits-actually-work-removal-reduction-and-avoidance-credits-explained>)

Comments on Commission Guidance Regarding the Listing of Voluntary Carbon Credit Derivative Contracts, RIN 3038–AF40

General

1. In addition to the VCC commodity characteristics identified in this proposed guidance, are there other characteristics informing the integrity of carbon credits that are relevant to the listing of VCC derivative contracts? Are there VCC commodity characteristics identified in this proposed guidance that are not relevant to the listing of VCC derivative contracts, and if so, why not?

Climeworks believes that there should be a clearly articulated distinction between VCC derivatives that originate from GHG *removals* and those that originate from GHG *reductions*. Emissions reductions are inherently distinct from removals: reductions lower additional GHG emissions, while removals take existing GHG out of the air to produce negative emissions. This distinction is recognized by leading scientific experts, research institutes, industry groups and companies, and environmental organizations.² VCC commodities representing emissions reductions and VCC commodities representing GHG emission removals are therefore unique and non-fungible assets with differing economically significant characteristics.

In the guidance, the Commission rightly observes that "it can be difficult to discern the extent to which the price of any particular VCC reflects the price of one metric ton of carbon dioxide equivalent reduced or removed from the atmosphere, and the extent to which the price reflects understandings or concerns relating to the mitigation project or activity for which the VCC was issued."³ Combining or conflating removals VCCs with reductions VCCs in carbon derivatives contracts would undermine the functioning of the market by exacerbating existing difficulties in discovering meaningful price signals.

To mitigate risk and ensure transparency, VCC derivatives contracts should require clearly delineating whether the underlying VCCs in question are reduction *or* removal credits.

2. Are there standards for VCCs recognized by private sector or multilateral initiatives that a DCM should incorporate into the terms and conditions of a VCC derivative contract, to ensure the underlying VCCs meet or exceed certain attributes expected for a high-integrity carbon credit?

The Commission's guidance is largely consistent with the Core Carbon Principles (CCPs) of the Integrity Council for the Voluntary Carbon Market (ICVCM), a globally recognized initiative that identifies a mechanism for identifying high-integrity carbon credits based on the latest science and best practices.⁴ Once the ICVCM CCPs have been fully implemented (2024 marks

² Carbon Market Watch, "Open letter on separate targets in 2040 climate framework," January 8, 2024 (<https://carbonmarketwatch.org/publications/open-letter-on-separate-targets-in-2040-climate-framework/>)

³ 88 FR 89410 (<https://www.cftc.gov/sites/default/files/2023/12/2023-28532a.pdf>)

⁴ Integrity Council for the Voluntary Carbon Market, "The Core Carbon Principles" (<https://icvcm.org/the-core-carbon-principles/>)

the first year where credits are being assessed under the principles), DCMs should incorporate the ICVCM CCPs into the terms and conditions of VCC derivative contracts to ensure that the underlying VCCs meet certain attributes expected for a high-integrity carbon credit. These attributes include effective governance mechanisms, including transparency and third-party verification, as well as clearly articulated emissions impacts demonstrating additionality, permanence, and robust quantification.

Consistent with the forthcoming ICVCM CCPs, a leading recognized and already active standard that DCMs could incorporate into the terms and conditions specifically for removals VCC derivative contracts is the Puro Standard.⁵ The Puro Standard is the leading standard for engineered carbon dioxide removal (CDR) solutions, considering specific system boundaries for carbon removal methods and providing for independent third-party verification ahead of credit certification.

Transparency

6. Is there particular information that DCMs should take into account when considering, and/or addressing in a VCC derivative contract's terms and conditions, whether a crediting program is providing sufficient access to information about the projects or activities that it credits? Are there particular criteria or factors that a DCM should take into account when considering, and/or addressing in a contract's terms and conditions, whether there is sufficient transparency about credited projects or activities?

Demonstration of credible, independent third-party verification of the underlying VCCs should be a standard requirement in a VCC derivative contract's terms and conditions, including whether a crediting program has sufficient access to information about the project or activities that it credits. Climeworks concurs with the Commission's preliminary belief that "a DCM should consider whether the crediting program has up-to-date, robust transparent validation and verification procedures, including whether those procedures contemplate validation and verification by a reputable, disinterested party or body."⁶

Climeworks is actively working with Puro.earth to advance robust third-party certification for DAC+S under the Puro Standard and promote high quality requirements in the removals VCM.⁷ These efforts demonstrate an industry-leading approach to transparency and accountability while providing a template for DCMs to follow when considering VCC derivatives contracts. Furthermore, because both ICVCM CCP and the Puro Standard enshrine extensive disclosure obligations from projects, aligning VCC contract terms and conditions with these standards could reduce overall administrative burdens by streamlining reporting requirements.

⁵ Puro.earth, "Puro Standard" (<https://puro.earth/puro-standard-carbon-removal-credits/>)

⁶ 88 FR 89410 (<https://www.cftc.gov/sites/default/files/2023/12/2023-28532a.pdf>)

⁷ Carbon Herald, "Climeworks Partners With Puro.earth To Work Toward CDR Certification" (<https://carbonherald.com/climeworks-partners-with-puro-earth-to-work-toward-cdr-certification/>)

Additionality

7. Are there particular criteria or factors that DCMs should take into account when considering, and/or addressing in a VCC derivative contract's terms and conditions, whether the procedures that a crediting program has in place to assess or test for additionality provide a reasonable assurance that GHG emission reductions or removals will be credited only if they are additional?

Climeworks strongly supports the Commission's preliminary belief that DCMs should consider additionality when addressing quality standards in VCC derivatives contract terms and conditions. Additionality is recognized as a necessary element of a high quality VCC, as reflected in the requirements of leading VCM standards bodies,⁸ VCC buyers,⁹ as well as the US Department of Energy's CDR Purchase Pilot Prize.¹⁰

The Puro Standard, referenced above, includes comprehensive criteria that DCMs should take into account when assessing for additionality. The Standard's additionality provision requires the carbon removal supplier to demonstrate both financial and regulatory additionality by providing project financials; counterfactual analysis based on scientifically-rigorous and project-specific, conservative, and current baselines; and proof that the project is not required by law, regulation, or other binding obligations.¹¹

8. In this proposed guidance, the Commission recognizes VCCs as additional where they are credited for projects or activities that would not have been developed and implemented in the absence of the added monetary incentive created by the revenue from carbon credits. Is this the appropriate way to characterize additionality for purposes of this guidance, or would another characterization be more appropriate? For example, should additionality be recognized as the reduction or removal of GHG emissions resulting from projects or activities that are not already required by law, regulation, or any other legally binding mandate applicable in the project's or activity's jurisdiction?

A robust definition of additionality should require *both* the monetary incentive criteria (i.e. financial additionality) *and* exclusivity with compliance mandates (i.e. regulatory additionality) in order to ensure that the carbon credit caused the removal or reduction beyond a counterfactual baseline, and to ensure that there is no double-counting of credits that were incentivized under a compliance regime.

⁸ Integrity Council for the Voluntary Carbon Market, "The Core Carbon Principles" (<https://icvcm.org/the-core-carbon-principles/>)

⁹ Microsoft, Carbon Direct, "Criteria for High-Quality Carbon Dioxide Removal," 2023 Edition (<https://query.prod.cms.rt.microsoft.com/cms/api/am/binary/RWGG6f>)

¹⁰ U.S. Department of Energy, "Direct Air Capture Commercial Prize Official Rules," (<https://www.heriox.com/DAC-commercial/resource/1538>)

¹¹ Puro.earth, "Puro Standard" (<https://puro.earth/puro-standard-carbon-removal-credits/>)

Inclusion of both of these criteria is consistent with the Puro Standard,¹² as well as the provisional rules for carbon credit transfers between countries under Article 6 of the Paris Agreement.¹³ Rules for VCC derivative contracts and the underlying VCM should be consistent with the development of Article 6 rules because Article 6 forms the basis of the international carbon crediting system.

¹² Ibid

¹³ UNFCCC. Conference of the Parties serving as the meeting of the Parties to the Paris Agreement (CMA), “FCCC/PA/CMA/2021/10/Add.1,” (<https://unfccc.int/documents/460950>)