

February 16, 2024

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

Re: Request for Comments on “Commission Guidance Regarding the Listing of Voluntary Carbon Credit Derivative Contracts” [RIN 3038-AF40]

The Carbon Removal Alliance welcomes the opportunity to comment on the proposed guidance regarding the listing for trading of voluntary carbon credit (“VCC”) derivative contracts. As developers and buyers of permanent carbon removals, we are committed to advancing high-quality projects that pursue the highest levels of transparency, accountability, safety, environmental stewardship, and societal benefits in carbon management.

CRA applauds the Commission’s efforts to develop thoughtful, comprehensive standards that ensure private sector actors are incentivized to supply and purchase high-quality carbon removals through the voluntary carbon market (VCM) and associated derivatives contracts. This will help prevent fraud while promoting robust and transparent mechanisms needed to enable private sector investment, enhance confidence in high quality carbon removal projects, and promote the scaling of the market.

About the Carbon Removal Alliance

The Carbon Removal Alliance (CRA) works to build a gigaton-scale carbon removal industry that is categorically good for the climate, economy, and people. Made up of more than 20 companies developing and deploying carbon removal technologies globally, we are the first industry-driven coalition committed to achieving scale with permanent, high quality solutions. Together, our members represent billions of dollars of investment in climate technologies and virtually all of the permanent carbon removal deployed to date. We focus on carbon removal projects that are permanent, additional, net-negative, verifiable, and center the needs of communities.

Climate experts, from the Intergovernmental Panel on Climate Change to the National Academy of Sciences, have solidified the need for carbon removal as a core pillar of our climate strategy, alongside steep emissions reductions. Carbon removal presents an opportunity for the U.S. to cement its climate leadership, as well as reap the benefits of a new industry that can create jobs, improve air quality, increase climate resilience, and deliver a host of other environmental and community benefits.

Responses to Questions Posed in the RFI

General

Q1) 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?

In general, the proposed VCC commodity characteristics reflect the high standards pursued by CRA's member organizations. These include:

1. **Support for an approach based on principles.** CRA strongly believes that developing a portfolio of permanent carbon removal solutions will increase our collective odds of success. We support science-based carbon removal policies that don't pick technology winners.
2. **Support for carbon removal solutions that are:**
 - a. **Permanent.** Carbon removal must be durable over timescales comparable to the atmospheric lifetime of carbon emissions. We focus on policies that promote carbon removal with permanence of 1,000 years or more.
 - b. **Net negative.** Carbon removal approaches must result in a net reduction in the amount of carbon dioxide in the atmosphere.
 - c. **Additional.** Carbon removal projects must demonstrably result in carbon removal that would not have otherwise occurred without the project.
 - d. **Verifiable.** Developing and adopting scientifically rigorous and transparent methods for monitoring, reporting, and verification is essential for permanent carbon removal.
3. **Commitment to maximizing the benefits of carbon removal.** Carbon removal can deliver a wide range of benefits to local communities and ecosystems. We support the development of practices, policies and programs that center community benefits and mitigate potential risks.

In line with these CRA core principles, we suggest the following potential additions to the Commission's VCC commodity characteristics:

- **Differentiate between emissions reductions and removals.** While the Commission's use of the term "GHG emissions reductions or removals" throughout the document implies differences between the two, the guidance does not explicitly ask DCMs to label and differentiate reduction or avoidance offsets from permanent carbon removals in the derivative contracts' terms and conditions. Emission reductions lower additional GHG emissions, while removals take existing GHG out of the atmosphere (i.e. negative emissions)¹. These two processes encompass distinct technologies and interventions, as well as fundamental differences in cost and climate attributes. This results in VCC characteristics that are inherently different between removals and reductions. One such example is the attribute of additionality. Additionality may be more difficult to determine for emission reduction activities (e.g. installing solar panels), which may have other economic drivers. In contrast, it is relatively easier to establish that carbon removal developed for the purpose of addressing legacy emissions (e.g. building a direct air capture facility) would not have otherwise occurred in the absence of a robust market for purchases of removals specifically.

¹ 1. Julio Friedmann and Matthew Potts, "Removal, Reduction, and Avoidance Credits Explained," Carbon Direct, October 13, 2023, <http://www.carbon-direct.com/insights/how-do-carbon-credits-actually-work-removal-reduction-and-avoidance-credits-explained>.

The need for delineation is further highlighted by companies that are increasingly adopting separate goals for GHG reduction and removal, and by a shift towards greater transparency and specificity in climate disclosure guidance. The Commission should therefore explicitly ask DCM's to consider whether the underlying VCCs represent GHG emission reductions or removals.

- **Define permanence as 1,000 years or more.** The proposed guidance addresses permanence purely through measures that address risk of reversal, but does not provide a definition for permanence. Such definition is needed to differentiate permanent (1,000+ year) carbon removals from shorter-lived removals that are less expensive to develop and less certain to guarantee long-term carbon storage. Shorter-lived removals can have a range of environmental benefits, but do not fundamentally address the impact of legacy fossil fuel emissions, which stay in the environment for 1,000 years or more. The Commission should clarify guidance on how to specify VCCs that result in permanent removals for upwards of 1,000 years.
- **Maximize co-benefits:** The Commission should consider an addition to the VCC commodity characteristics centered around maximizing co-benefits, such as “a DCM should consider whether the underlying VCCs have measures in place to mitigate environmental and social risks, and maximize co-benefits”. Purchasers of carbon removal credits are not only interested in the durability of carbon removal; they also wish to distinguish between projects that engage in the communities around them and those that do not. While this community co-benefit isn't a statutory requirement, CFTC should make every effort to assist purchasers in seeking that distinction.

All of the above characteristics constitute economically significant attributes of the underlying VCC that should be described or defined in the terms and conditions of the VCC derivative contract in order to accurately ascertain VCC quality and market price.

Additionality

Q8) 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?

CRA strongly agrees that additionality, which is one of our principles, should be assessed at the project-level. The Commission's characterization of additionality in terms of “projects that would not have been developed or implemented in the absence of the added monetary incentive created by the revenue from carbon credits” refers to financial additionality, whereas the alternative characterization posed in this question (“projects that are not already required by law, regulation, or any other legally binding mandate”) references legal additionality. Consistent with

robust standards and international rules, both financial and legal additionality should be required in order to ensure that there is no double counting or misrepresentation of climate impacts.

Risk of Reversal

Q9) 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, a crediting program's measures to avoid or mitigate the risk of reversal?

DCMs should specifically link quality to permanence: The CFTC's proposal addresses risk of reversal through the use of buffer pools. However, the proposal does not specifically offer guidance on how DCMs should account for removals with varying levels of permanence. In addition to defining permanence as 1,000+ years, the CFTC should specify that in the event of a reversal, VCCs underlying the derivative contract must be replaced by VCCs of, at the minimum, the originally specified level of permanence. This is in line with the Commission's proposed guidance requiring reversals to be addressed with "VCCs of comparable high quality that meet the contemplated specifications of the contract". While buffer pools are an appropriate insurance mechanism to address risk of reversal, the rules should be more explicit in distinguishing between permanence of various removal pathways for the reasons outlined in our response for Q1.

Tracking and No Double Counting

Q14) Are there particular criteria or factors that a DCM should take into account when considering, and/or addressing in a VCC derivative contract's terms and conditions, whether it can be demonstrated that the registry operated or utilized by a crediting program has in place measures that provide reasonable assurance that credited emission reductions or removals are not double-counted?

CRA supports the Commission's guidance that DCMs should take into account whether a crediting program can demonstrate effective measures to ensure VCCs are not double-counted. To that end, the CFTC should track and update guidance in accordance with international standards and rules (such as Article 6 of the Paris Agreement²) as best practices for carbon accounting that prevent double counting are developed and codified. We note that there may be some instances where private purchases and national and subnational commitments counted against separate emissions ledgers do not classify as double counting. Projects that count towards a national emissions ledger should be able to list on the voluntary carbon market provided that these international standards are met and the rules governing double counting are followed.

Furthermore, private market actors that receive national or subnational support for CDR projects (e.g. in the form of a tax credit) should be allowed to participate in the voluntary market, so long as they disclose such information and abide by carbon accounting standards.

Sustainable Development Benefits and Safeguards

² https://unfccc.int/files/meetings/paris_nov_2015/application/pdf/paris_agreement_english_.pdf

Q16) Certain private sector and multilateral initiatives recognize the implementation by a crediting program of measures to help ensure that credited mitigation projects or activities meet or exceed best practices on social and environmental safeguards, as a characteristic that helps to inform the integrity of VCCs issued by the crediting program. When designing a VCC derivative contract, should a DCM consider whether a crediting program has implemented such measures?

CRA believes that projects and activities must mitigate environmental and social risks. It is imperative that a crediting program **ensures that projects adhere to all applicable regulations and legal requirements within the United States' robust regulatory framework**. In instances where the existing regimes or standards are not sufficient, industry should engage with the relevant platforms to refine the current environmental safeguards.

Finally, as noted by the Commission, we stress the importance of revisiting the guidance in the future as voluntary carbon markets continue to mature, and as more CDR technologies are developed and deployed. As the carbon removal industry scales, the CFTC should ensure that these VCC commodity characteristics reflect best practices and provide updated guidance that is appropriate for the state of the industry and aligns with latest scientific research.

CRA appreciates the opportunity to comment.

Sincerely,



Giana Amador
Executive Director
Carbon Removal Alliance