INTERNATIONAL
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LAW RESEARCH CENTER

Input to the structured public consultation: Further input - Removal activities under the Article 6.4 mechanism

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The International and Comparative Law Research Center (ICLRC) thanks the Article 6.4 Supervisory Body for the continued work on the operationalization of the Article 6.4 mechanism and for the consideration of stakeholder inputs. This input document contains views of ICLRC experts on the questions in sections 2.2.2. and 2.2.3. of the Guidance and questions for structured consultation and regard **reversal risk tools for activities involving removals and the use of insurance schemes**.

We are of the view that the removals guidance should create robust guardrails for project participants to ensure environmental integrity and high certainty of achieved removals, while at the same time providing a flexible framework for a broad set of activity types implemented in a wide range of economic, geographical and technological context, current and future.

To deliver ambition under the Paris Agreement, the Article 6.4. mechanism should enable supply of mitigation outcomes from activities involving removals, while addressing the risks and uncertainties associated with such projects. The two primary risks, which require special consideration, are as follows:

(i) The risk of non-fulfillment, meaning the possibility that a project may not reach the phase where sequestration/removal activities can achieve the planned goal. This risk is particularly relevant to nature-based sequestration projects, for instance, if a forest does not grow sufficiently to achieve the necessary levels of sequestration. Another example of this risk is an increase in emissions above the level of initial absorption, for instance, if dead biomass is destroyed in anaerobic conditions, if a soil carbon depo is disturbed, or in case of unforeseen increase in fossil fuel use to achieve the absorption goals (intensive forest management, fire protection, forest monitoring, etc.)

(ii) The risk of reversal, referring to the potential of the removed greenhouse gases being reintroduced into the atmosphere. This could occur due to various factors such as forest fires, drought, equipment malfunctions, and other unforeseen events.

The guiding questions for this call for inputs, as well as the presentation summing up A6.4SB Members' views on risk reversal tools suggest a set of three 'Features': (A) reversal risk pool (buffers); (B) insurance or other guaranteed replacement mechanism; (C) direct replacement. We support the Members' consideration of the three tools as a menu and suggest that project participants are given the freedom to choose a tool or combination thereof, subject to justification and any additional requirements set by the host party.

We note the significant potential and applicability of insurance instruments both as a standalone option and in combination with other tools. In many contexts insurance instruments used for removals appear to be devoid of many limitations of other instruments used to guarantee the delivery of carbon sequestration projects, such as buffer pools or temporary carbon credits. For example, unlike buffer pools, insurance instruments do not require freezing a significant amount of carbon credits generated by a project and thus incentivize project activities, nor do they lead to major disputes about the nature or longevity of temporary carbon credits, as may happen when structuring a project based on temporary carbon credits. Insurance instruments, differentiated by project location and other specific conditions, provide the most flexibility and risk orientation to address reversal risk – and may be used to address other risks in removals beyond reversal.

Additionally, with insurance instruments involved, the financial burden connected with the use of any guaranteeing instrument, be it a buffer pool or temporary carbon credits, may be distributed among the project participants more fairly. Lastly, neither buffer pools nor temporary carbon credits provide a solid solution for cases where a project ceases to exist entirely for any unforeseen reason, something which would not affect an insurance-based approach.

To implement insurance instruments as a tool for activities involving removals under Article 6.4, several considerations need to be addressed by the Supervisory Body. Among those are, inter alia:

a) the risks covered by insurance policy;

b) duration of an insurance contract (policy) between an insurance provider and a project participant;

c) possible recipients of the insurance award;

d) possible uses of the insurance award;

e) eligibility criteria for insurance providers.

Parties could also consider establishing a special fund overseen by the Supervisory Body (or an independent third party appointed under the UNFCCC). This fund would collect insurance awards paid for applicable projects under relevant circumstances, and allocate the resources received following the approved guidelines.

To ensure that insurance serves as an efficient instrument for increasing the quality of activities involving removals, the following aspects may, for example, be considered:

a) insurance policies must be customized to address the unique risks associated with different activity types;

b) given the long-term nature of many removals projects, insurance coverage should extend over the project's entire lifecycle, including the monitoring and verification phases, as well as the sequestration phase itself (for a certain amount of time), to ensure the mitigation of the risks mentioned above;

c) insurance providers, project participants, and scientific communities should collaborate to share data and knowledge regarding the risks, challenges, and successes activities involving removals, which could lead to more accurate risk assessment and premium pricing;

d) regulators and host countries can play a vital role by providing incentives and regulatory support (e.g., in the form of tax breaks, grants, or favorable policy frameworks) for insurance providers and project participants engaged in greenhouse gas sequestration initiatives.

In conclusion, insurance may play a crucial role in mitigating risks and enhancing the overall quality and success of activities involving removals. Apart from the benefits it provides for removal activities, insurance providers can drive innovation by offering preferential rates or coverage terms to projects that utilize cutting-edge technologies and show potential for significant greenhouse gas sequestration. This incentivization of innovation would lead to the development of more efficient methods for removal activities. By establishing a well-structured insurance framework in tandem with supportive policies, progress can be accelerated towards mitigating climate change and achieving a more sustainable future.

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