

Regional Climate Week

Middle East and North Africa

Riyadh, Saudi Arabia – 8-12 October 2023



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Introduction to international voluntary carbon markets



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Voluntary carbon markets (VCM)

- Systems and associated schemes or standards, that enable the generation, buying and selling of carbon credits on a voluntary basis.
- Two elements: supply side & demand-side
- Demand side: voluntary climate action by stakeholders (mostly corporates but also institutions and individuals)
 - To make a climate claim (e.g., compensation of emissions)
- Supply side: Crediting standards - including independent crediting standards such as Gold Standard, Verra (which are not regulated by international/multilateral regulatory bodies).



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Recent **controversy on the nature of the claims**: What should the nature of claims by stakeholders be if these are contributions to the achievement of NDCs (overlap of claims of (i) NDC achievement and claim on (ii) the achievement of these units)



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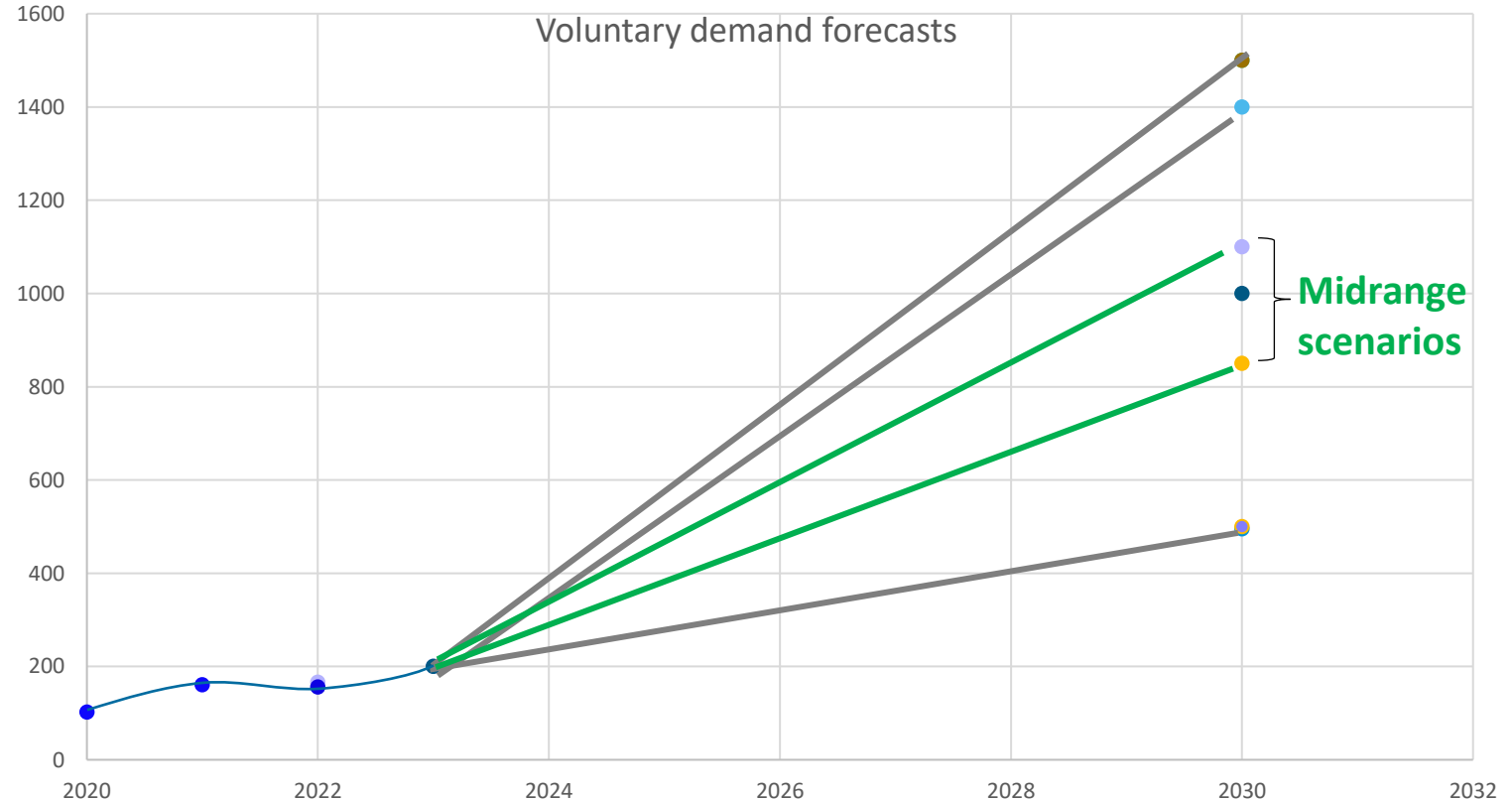
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Voluntary carbon markets (VCM)

- Various groups of analysts have attempted to assess the future scale of the voluntary carbon market

- KEY DRIVER: The large increase in corporates adopting and implementing climate targets with compensation claims
- Large growth expected
- Midrange scenarios of $\approx 1\text{GtCO}_2\text{e/yr}$ in 2030 (and up to 2-5 $\text{GtCO}_2\text{e/yr}$ by 2050)
- ...but still large accumulated buffer of units



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Voluntary carbon markets (VCM)

- Efforts by regulatory bodies and verification agencies such as the Integrity Council for the Voluntary Carbon Markets (ICVCM), are accelerating their efforts to continuously improve the integrity and liquidity of this market.
- Generation of emission reductions under the VCM is governed by GHG protocols, programs, and methodologies that are administered by independent or national standards.



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VCM con't....

- VCMs have evolved and grown alongside the CDM e.g., many of the methods to assess additionality and set baselines used in the VCM have been adopted or adapted from the CDM.
- The PA with its governing bodies has no jurisdiction over the VCM, but from 2021, the VCM continues to operate in the context of the PA e.g., considering domestic policies and measures when assessing the additionality of activities and setting baselines.
- Current debate within the VCM is about whether voluntary credits could be counted toward the host country NDC, while also claimed as an offset by companies' net-zero targets (thus being counted once towards the NDC and once towards a company's GHG emissions).



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Views on quality in the voluntary market

- Controversy around REDD+ baseline validity
 - Claims that real climate benefits = 6% to 30% of units issued for certain projects
 - Rebuttal by issuing standard
- Overall concern from VCM buyers over credit quality
 - Buyers fearing negative publicity / turning away from forestry credits (which previously fetched much higher price)
 - Drop in price for REDD+ credits to less than \$5/t
- Emergence of new class of carbon market actors: rating agencies (assessing the quality of project, including under aspects of baseline and additionality, MRV, no-harm, etc.)



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Article 6 and the voluntary market

- Factors expecting to affect credit purchase decisions in the future:

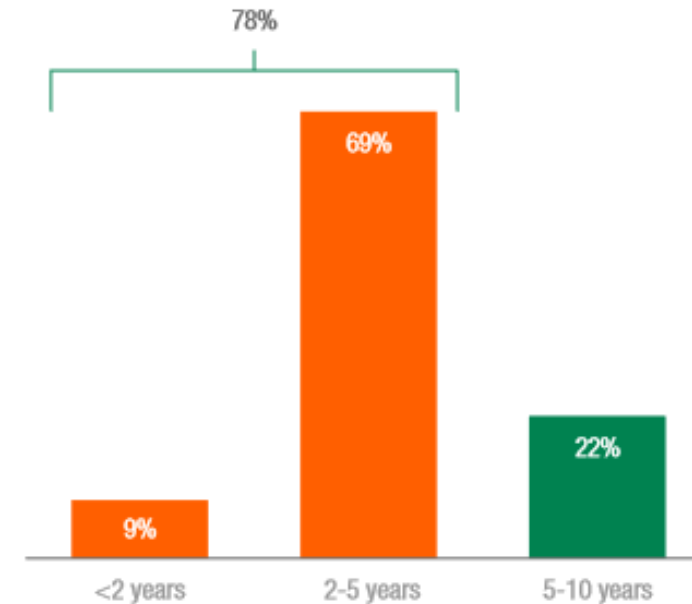
#1 Impact of corresponding adjustments

#2 Avoidance vs. removal debate

#3 Quality criteria

- Most (78%) of market participants expect corresponding adjustments to be active within five years
- Market participants expect the mechanism under 6.4 to be operational within 1-3 years

~80% of participants believe corresponding adjustments will be active within 5 years



Source: Shell/BCG



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Voluntary market: guidance and regulation

- A wealth of international initiatives and countries are attempting at setting frameworks on how the voluntary market should operate

- Key issues in the voluntary carbon market:

- Supply side: what is a good quality carbon credit?
- Demand side: which claim can be made on carbon credits?

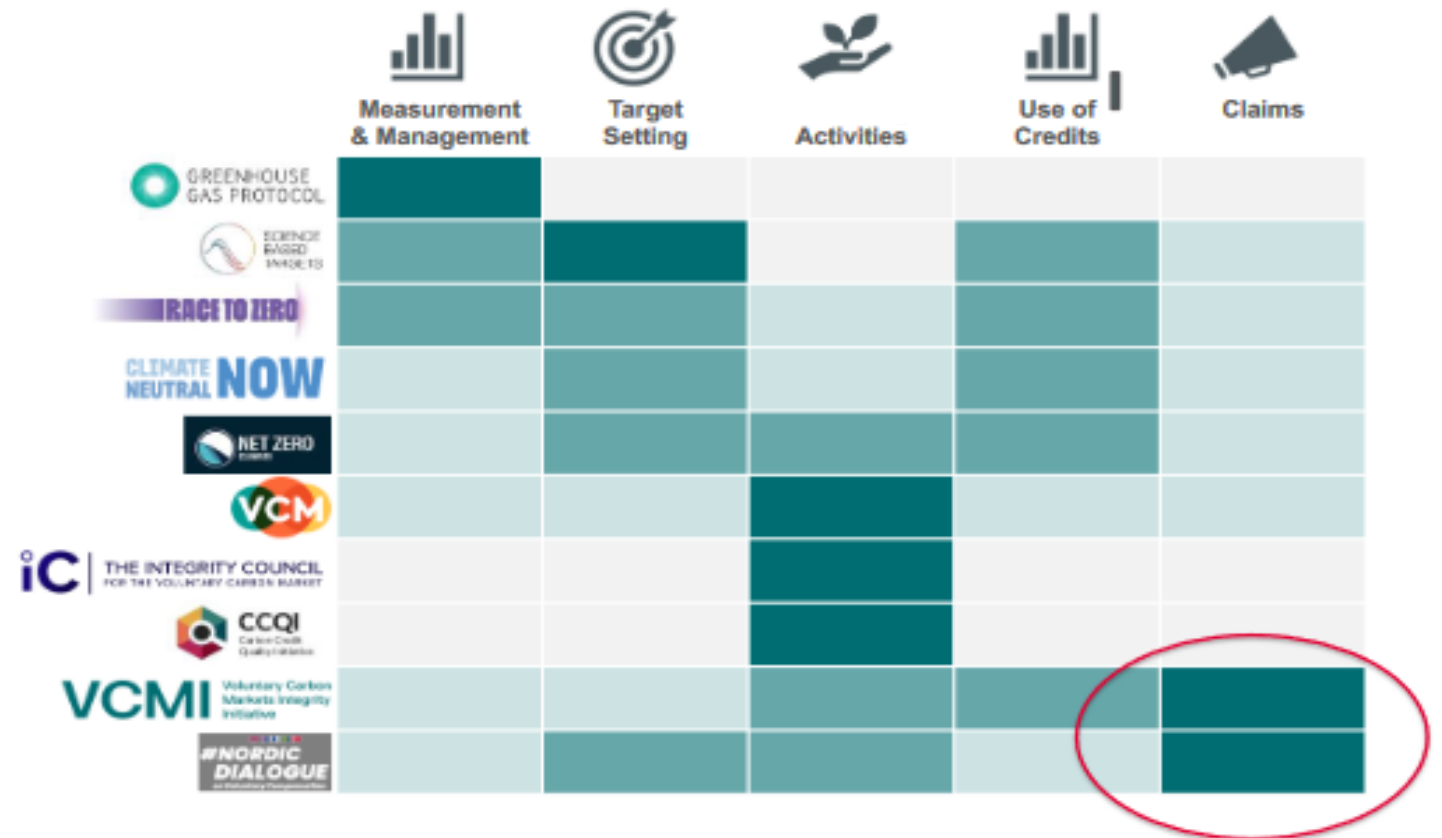


Figure 1: Overview on initiatives and their focus areas (Source: Wuppertal Institute)



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Article 6 Mitigation Contribution Units (MCUs)

- A new concept under Art.6.4 - credits that are not authorized for use towards NDCs or OIMP but contribute to the reduction of emission levels in the host party.
- Units for which the host country will not apply a CA but may be used for various purposes e.g., results-based climate finance, domestic mitigation pricing schemes, or domestic price-based measures.
- Could legitimately be an avenue for companies to provide climate finance to support mitigation in developing countries, but not to claim ownership of those reductions and/or use them to advertise “net zero” claims.
- *However, if such credits were to be issued, it would amount to greenwashing for private companies to make offsetting claims from these “non-authorized” units.*



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Exercise:

(at break out table of each 6-8 participants; brainstorming on the below and report to the plenary) – 30 min

- Identify private carbon market projects that are already under implementation or planned in the country (e.g., projects developed under VCS standards) – how much are you aware and able to map those?
- Which are mitigation opportunities in the country where private investments should be aligned with national climate priorities, e.g., by providing incentives or remove barriers for VCM projects to be developed?
- To what extent do you think the voluntary carbon market can complement or be linked to regulated carbon markets (e.g., existing or carbon pricing instruments in planning; discuss in the group)



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THANK YOU FOR ATTENDING



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Additional Slides – check if and where they fit

(some overlaps though)

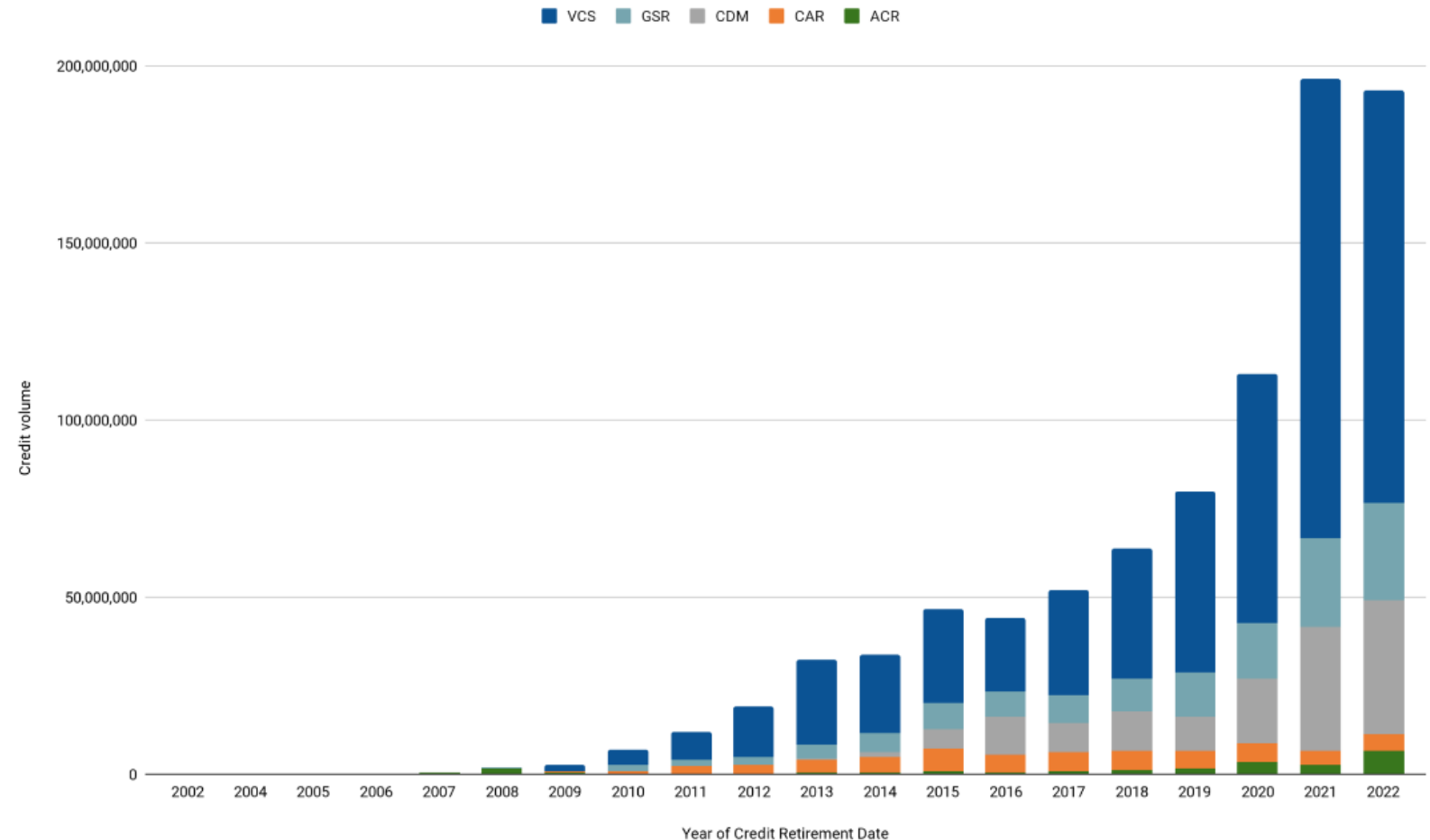


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Credit retirements by registry over time

Analysis of
Voluntary
Carbon Market
Stakeholders
and
Intermediaries;
AlliedOffsets,
Feb. 2023



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<https://carbonmarketwatch.org/wp-content/uploads/2023/02/Stakeholder-Analysis-for-the-Voluntary-Carbon-Market.pdf>

Volume of retired credits by country

Country	Retired credits
India	176,790,595
China	108,304,546
United States	97,581,476
Brazil	65,233,088
Turkey	47,813,232
South Korea	43,835,140
Indonesia	43,713,585
Colombia	35,069,872
Peru	33,770,202
Kenya	25,123,397
Zimbabwe	20,047,856
Cambodia	15,179,119
South Africa	11,801,158
Uganda	11,468,073
Thailand	11,431,038



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(source: AlliedOffsets, 2022)

Demand for voluntary carbon market credits

- Private organizations (Corporate climate commitments)
- individuals to voluntarily offset emissions;
- In cases where entities covered by carbon pricing instruments, such as carbon taxes or emissions trading instruments, are permitted to use carbon credits to meet their obligations (Colombia's Carbon Tax, South Africa's Carbon Tax, China's regional and national emissions trading systems, Korea's emissions trading systems, and Mexico's Carbon Tax and pilot emissions trading systems)*



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* The World Bank (2021) States and Trends of Carbon Markets 2021, accessible: <https://openknowledge.worldbank.org/handle/10986/35620>

VOLUNTARY CARBON MARKETS – role of host countries



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Governments engagement with carbon markets

- Governments can engage with carbon markets in a variety of ways: **as regulators, activity proponents, or facilitators.**
- Responsibilities include:
 - Designing regulations that ensure that projects align with national priorities and observe appropriate safeguards.
 - Possibly directly implement or finance programs or project activities (e.g., through Public agencies)
 - put in place incentives that attract carbon investments, thereby also focusing on directing investments into priority sectors.

--> there will be a Special Technical Discussion on "Harnessing the Voluntary Carbon Market for NDC Implementation" on Day 4



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Voluntary carbon market and corresponding adjustments ?

- Emission reductions or removals generated by a voluntary carbon market project or program are included/reflected in the **GHG inventory of the host country (not in the country where the carbon credits are used)**
 - If used to meet corporate climate targets, there is a risk of double-claiming of emission reductions and removals
 - Therefore, there is an argument that voluntary carbon market transactions should be backed by corresponding adjustments (CA) to enhance the quality of corporate claims
- the discussion is ongoing and future developments remain to be seen
- Providing CA for voluntary carbon market emission reductions, means the host country of the project cannot count the emission reductions against its NDC any longer



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Carbon Market Integrity



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Carbon Credit Criticism & Media Coverage

The media has been critical of some carbon credit projects such as the Verra and South Pole forest conservation projects in Africa. These projects have been accused of overestimating their carbon impact, for instance by double selling the credits to more than one party. Moreover, some carbon projects have been found to cause harm to local communities and their environment.

Source: South pole. Kariba REDD+ forest carbon project

Forest Projects in Africa

► One particular instance of project failure was the REDD+ forest conservation project in Mai Ndombe, DRC Congo, which was audited by the Verra standard. The project was unable to demonstrate its carbon impact and the report found several deficiencies in its design and implementation, putting the local communities at risk.





Root Causes of Project Failure

- Why do some carbon credit projects fail? It could be a result of several factors such as lack of transparency, poor governance, and inadequate monitoring mechanisms. But most importantly, a lack of community involvement and benefits can lead to the failure of carbon credit projects.

Solutions to the Challenges of Carbon Credits

► Carbon credit projects must have a clear and transparent method of accounting for carbon sequestration, sustainable benefits to local communities, and rigorous monitoring and evaluations. Only with these mechanisms in place can carbon credits lead to meaningful benefits and advance the fight against climate change.



The Core Carbon Principles

On March 30, the Integrity Council for Voluntary Carbon Markets (ICVCM), an independent governance body that aims to set and maintain a global standard for quality in the voluntary carbon market, announced the launch of its Core Carbon Principles, together with a Program-level Assessment Framework

The CCPs are a set of interlinked principles to define a threshold standard to ensure integrity in the voluntary carbon market.

EMISSION IMPACT

1. Additionality
2. Permanence
3. Robust quantification of emission reductions and removals
4. No double counting

GOVERNANCE

5. Effective governance
6. Tracking
7. Transparency
8. Robust independent third-party validation and verification

SUSTAINABLE DEVELOPMENT

9. Sustainable development benefits and safeguards
10. Contribution to net zero transition



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Source: The Integrity Council for Voluntary Carbon Market. The Core Carbon Principles.