

IETA Submission on "Baku to Belém Roadmap to 1.3T"

March 2025

We welcome this opportunity to provide IETA's feedback on "Baku to Belém Roadmap to 1.3T". As the trusted business voice on carbon markets, IETA represents more than 300 member companies around the world. Since 1999, we have contributed actively to the development and evolution of the Clean Development Mechanism (CDM), Article 6 of the Paris Agreement, Emissions Trading Systems and Voluntary Carbon Markets globally.

As highlighted in the recent <u>letter</u> by the COP30 President-Designate, Mr. André Aranha Corrêa do Lago, we recognize the critical need to increase decarbonization ambition and increase funding towards adaptation, as well as loss and damage. We agree that "change is inevitable – either by choice or by catastrophe" and that all actors need to work together to scale up financing. We emphasize the role of the private sector, with carbon markets as a key tool, to close the finance gap.

In below sections, we outline our expectations for the roadmap, the topics that need to be addressed, and the importance of market-based climate instruments in mobilizing finance. We look forward to continued dialogue on the topic.

(a) What are your overall expectations for the "Baku to Belém Roadmap to 1.3T"?

In the Paris Agreement, Article 2.1 C calls on "making finance flows consistent with a pathway towards low greenhouse gas emissions and climate-resilient development.", while Article 9 calls on developed country Parties to take the lead in mobilizing climate finance **from a wide variety of sources**, instruments and channels, taking into account the needs and priorities of developing country Parties.

While developed nations strengthened their commitment at COP29 through the New Collective Quantified Goal on Climate Finance (NCQG) to at least \$300 billion annually by 2035, this amount remains critically insufficient to meet the financing needs of developing countries. In the COP29 decision, the inclusion of the Baku to Belém roadmap to mobilize USD 1.3 trillion per year therefore calls on <u>all actors</u> to work together to enable the scaling up of financing to developing country Parties for climate action from both public and <u>private</u> sources.

The Sixth Biennial Assessment and Overview of Climate Finance Flows published by the UNFCCC Standing Committee on Finance in 2024 highlighted that global climate finance flows, whilst increasing,





are still insufficient relative to the overall needs for the climate transition and to respond to the needs of developing countries.¹ In this sense, the assessment made in NDR2 report outlined costed NDC needs between \$5 to 6.9 trillion.²

To close this gap, unlocking private sector financing will be crucial, and carbon markets in particular, play a critical role in providing the right incentives in place to channel resources to where they are most needed. For more than 30 years, market-based climate solutions have been proving their effectiveness in reducing emissions whilst supporting green growth and sustainable development.

In the past, the CDM has contributed to reducing or avoiding 2 billion tonnes of CO₂e and catalysed nearly **USD 304 billion** in investment, driving sustainable development and climate action worldwide.³ Currently, over 70 jurisdictions have implemented or are developing carbon taxes, emissions trading systems, and hybrid approaches, which in 2023 generated revenues exceeding **USD 100 billion**.⁴ International carbon markets under Article 6 of the Paris Agreement, have a potential of reducing NDC implementation costs by **USD 250 billion** annually by 2030, if all Parties utilize the power of markets and cooperative approaches to deliver their NDCs.⁵ In addition, voluntary carbon markets (VCM) including independent crediting programmes provide a third avenue for which countries and private sector companies can go beyond and support climate action in developing countries, advancing the development of new technologies needed for putting the world on track to achieve the Paris Agreement Goals.

It is clear, that leaning only on traditional financing sources and public funding will not be enough to deliver on our joint climate targets. Achieving global climate goals requires a balanced financing architecture that integrates both traditional and innovative measures, leveraging market and non-market instruments. We expect the roadmap to provide clear guidance on the role of each instrument in this process, as well as insights into international and voluntary carbon market opportunities to enhance private sector participation.

In the questions below, we dive deeper into the various existing market instruments and how they can support the achievement of the goals of the Paris Agreement.

https://unfccc.int/sites/default/files/resource/UNFCCC CDM report 2018.pdf

¹ UNFCCC. Sixth Biennial Assessment and Overview of Climate Finance Flows. Summary and Recommendations: <u>https://unfccc.int/sites/default/files/resource/UNFCCC_BA6_Summary_Web_Final.pdf</u>

² UNFCCC. Second report on the determination of the needs of developing country Parties related to implementing the Convention and the Paris Agreement. Technical Report:

https://unfccc.int/sites/default/files/resource/UNFCCC_NDR2_Report_Web_Final.pdf

³ UNFCCC. Achievements of the Clean Development Mechanism. Harnessing Incentive for Climate Action:

⁴ World Bank. State and Trends of Carbon Pricing 2024:

https://openknowledge.worldbank.org/server/api/core/bitstreams/d14ff4b1-823f-4d70-927c-456449772089/content

⁵ Edmonds J.A., S. Yu, H.C. McJeon, D. Forrister, J. Aldy, N. Hultman, and R. Cui, et al. 2021. "How much could Article 6 enhance Nationally Determined Contribution ambition toward Paris Agreement goals through economic efficiency?." Climate Change Economics 12, no. 2, DOI: 10.1142/S201000782150007X2150007-1; IETA. Modeling the Economic Benefits of Article 6: <u>https://www.ieta.org/initiatives/modelling-the-economic-benefits-of-article-6/</u>



(b) Which topics and thematic issues should be explored to inform the Roadmap, within the scope of the mandate?

The measures outlined in the mandate represent a non-exhaustive list, highlighting the need for broader consideration of instruments beyond those mentioned in paragraph 27 of COP29 decision on NCQG — particularly those capable of mobilizing climate finance from a diverse range of actors at the pace and scale needed.

Considering this context and to ensure the Baku to Belém Roadmap to 1.3T effectively mobilizes climate finance and enhances global efforts, it is essential to explore key themes that address marketbased approaches. A central focus should be placed on the role of carbon pricing instruments, international carbon markets, especially Article 6, and innovative financial instruments in closing the financing gap and ensuring a just and efficient transition to a low-carbon economy.

1. The Opportunity of International Carbon Markets under Article 6

Since 2019, IETA has partnered with researchers from Pacific Northwest National Laboratory (PNNL) and the Center for Global Sustainability (CGS) of the University of Maryland to produce a number of studies about the potential of international carbon market approaches to mobilize climate financing.⁶ These reports have outlined that in the near-term, cooperative implementation of NDCs using Article 6 could substantially reduce the resources needed to achieve emissions reductions, compared to achieving the same global outcome with all parties implementing their NDCs independently – by leveraging differences in marginal abatement costs and mobilizing private sector financing.

The economic modelling has shown that carbon markets under Article 6 could facilitate cost reductions over \$250 billion annually by 2030. As countries' climate targets become more stringent moving towards net-zero and the cost of mitigation increase, the market value could exceed \$1 trillion per year in 2050 and reduce mitigation costs by \$21 trillion between 2020 and 2050 if fully utilised.⁷

By reinvesting the cost-savings from cooperative implementation using Article 6 into additional emission reduction activities, NDC ambition could be more than doubled for the same amount of finance deployed (increasing by ~5 GtCO2/year in 2030).

Article 6 cooperation is likely to shift capital investments from developed to developing regions where it can achieve more mitigation at a lower cost. This shift in financial flows will support the generation of ancillary environmental, economic and social benefits, ranging from improved air quality to conservation of natural resources and biodiversity, improved energy access, and poverty alleviation.

Within the context of the UNFCCC, Decision 18/CMA.1 para 121 outlines the need for underlying assumptions, definitions and methodologies to be reported regarding the information on financial,



⁶ Edmonds J.A., S. Yu, H.C. McJeon, D. Forrister, J. Aldy, N. Hultman, and R. Cui, et al. 2021. "How much could Article 6 enhance Nationally Determined Contribution ambition toward Paris Agreement goals through economic efficiency?." Climate Change Economics 12, no. 2, DOI: 10.1142/S201000782150007X2150007-1; IETA. Modeling the Economic Benefits of Article 6: <u>https://www.ieta.org/initiatives/modelling-the-economic-benefits-of-article-6/</u>

⁷ IETA & and University of Maryland. The Potential Role of Article 6 Compatible Carbon Markets in Reaching Net-Zero: <u>https://ieta.b-cdn.net/wp-content/uploads/2023/09/IETAA6_NetZeroWorkingPaper_2021.pdf</u>



technology development and transfer and capacity-building support provided and mobilized under Articles 9–11 of the Paris Agreement. Notably, this includes consideration of "the funding source (ODA, OOF, other); The financial instruments; How double counting was avoided between the resources reported as provided or mobilized, and **the resources used under Article 6 by the acquiring Party for use towards the achievement of its NDC**; The **definition of public and private finance**, in particular where entities or funds are mixed; as well as How it seeks to ensure that support provided and mobilized effectively **addresses the needs and priorities of developing country Parties**, and Ensures that support provided and mobilized is in line with the long-term goals of the Paris Agreement". **The roadmap should assess these provisions carefully and consider guidance for countries' reporting on the use of Article 6 as a complimentary instrument part of their climate finance mobilization strategies**.

With the Article 6.4 Paris Agreement Crediting Mechanism (PACM) building on the learnings from the CDM and introducing more stringent requirements for additionality, leakage, permanence, social- and environmental safeguards to ensure quality and integrity, this provides another new avenue for mobilizing private sector finance through international carbon markets.

PACM opens up for two key routes of financing:

- 1. Authorised Article 6.4 Emission Reductions (A6.4ERs), which require a "corresponding adjustment"; and
- 2. Article 6.4 Mitigation Contribution Units (MCUs), which do not require a "corresponding adjustment".

Whilst A6.4ERs can be used towards NDCs or Other International Mitigation Purposes (OIMP) such as the Carbon Offsetting and Reduction Scheme for International Aviation (CORSIA); MCUs can be used for voluntary corporate offsetting, as well as results-based climate financing. As MCUs do not require corresponding adjustments, the resulting emission reduction can be accounted for by the Host Party (in most cases, a developing country) towards its NDC, and as such it does not constitute a transaction in the same way as for an authorised unit.

It is important to note that under Article 6.4, Parties have also agreed to a mandatory Share of Proceeds of 5% towards the UNFCCC Adaptation Fund (AF). As this is a direct contribution towards the AF, it would be important to track these proceeds as support to the NCQG towards the \$1.3T target under innovative financing channels. For cooperative approaches under Article 6.2, the application of share of proceeds towards the AF is voluntary, but we are already seeing several Parties applying it in their bilaterally negotiated agreements, for which their contributions should also be recognised.

Based on this understanding, we believe it will be of high importance for the Baku to Belém roadmap to shape a constructive dialogue around the accounting of Article 6 ITMOs and 6.4 MCUs, as well as the related Share of Proceeds, with regards to the NCQG as well as mobilisation target of \$1.3T. It will



also be critical to discuss how Article 6 can be scaled up effectively to support the needs of developing country Parties, including through targeted capacity building interventions for LDCs and SIDS.

2. The Role of the Voluntary Carbon Market in Mobilizing Private Sector Financing

The Voluntary Carbon Market (VCM) has emerged as a significant complementary tool to compliance carbon markets in mobilizing private sector finance for climate action. While compliance markets remain the foundation of regulated carbon pricing by setting legally binding emissions caps and driving large-scale decarbonisation, the VCM serve a distinct yet vital function by enabling corporations, investors, and financial institutions to voluntarily purchase carbon credits. This flexibility allows private entities to surpass compliance requirements, fulfil net-zero commitments, and finance mitigation projects in countries and sectors not yet included in compliance frameworks.

Notably, independent crediting programmes serving the VCM, similarly to Article 6.4 PACM, put in place stringent standards each project must comply with – including key requirements around **additionality, leakage, permanence, social and environmental safeguards**. To strengthen the quality of the VCM, numerous initiatives have been established in recent years. Among others, the Integrity Council for the Voluntary Carbon Market (ICVCM) have launched ten Core Carbon Principles (CCPs), which are described at a high-level below:

1. Effective governance: The carbon crediting programme shall have effective programme governance to ensure transparency, accountability, continuous improvement and the overall quality of carbon credits.

2. Tracking: The carbon crediting programme shall operate or make use of a registry to uniquely identify, record and track mitigation activities and carbon credits issued to ensure credits can be identified securely and unambiguously.

3. Transparency: The carbon crediting programme shall provide comprehensive and transparent information on all credited mitigation activities. The information shall be publicly available in electronic format and shall be accessible to non-specialized audiences, to enable scrutiny of mitigation activities.

4. Robust independent third-party validation and verification: The carbon crediting programme shall have program-level requirements for robust independent third-party validation and verification of mitigation activities.

5. Additionality: The greenhouse gas (GHG) emission reductions or removals from the mitigation activity shall be additional, i.e., they would not have occurred in the absence of the incentive created by carbon credit revenues.



6. Permanence: The GHG emission reductions or removals from the mitigation activity shall be permanent or, where there is a risk of reversal, there shall be measures in place to address those risks and compensate reversals.

7. Robust quantification of emission reductions and removals: The GHG emission reductions or removals from the mitigation activity shall be robustly quantified, based on conservative approaches, completeness and scientific methods.

8. No double-counting: The GHG emission reductions or removals from the mitigation activity shall not be double counted, i.e., they shall only be counted once towards achieving mitigation targets or goals. Double counting covers double issuance, double claiming, and double use.

9. Sustainable development benefits and safeguards: The carbon-crediting program shall have clear guidance, tools and compliance procedures to ensure mitigation activities conform with or go beyond widely established industry best practices on social and environmental safeguards while delivering positive sustainable development impacts.

10. Contribution toward net zero transition: The mitigation activity shall avoid locking-in levels of GHG emissions, technologies or carbon-intensive practices that are incompatible with the objective of achieving net zero GHG emissions by mid-century.

So far, six crediting programme representing the vast majority of carbon credits issued have been assessed as compliant with the ten principles outlined above and therefore defined as "CCP eligible". For seven additional crediting programmes, the assessment is in progress.⁸

Compared to traditional climate financing instruments, these criteria put in place additional rules and safeguards which enhance the quality of the interventions delivered and aim to ensure that each dollar invested is used in the most effective manner. They also aim to promote market convergence aligning with integrity requirements from other international market-based instruments (i.e., CORSIA, Article 6.4). Whilst the VCM remains a relatively niche financing instrument, with a total reported transaction volume of 110.8 million tons of CO₂-eq. and value of about \$723 million USD in 2024 according to the Ecosystem Marketplace⁹, it is a crucial tool for mobilizing private capital, financing innovative carbon removal technologies, and neutralising emissions from hard-to-abate sectors.

The VCM can also play a crucial role in helping countries achieve and increase the ambition of their NDCs under the Paris Agreement. By generating high-quality emission reductions that align with national climate strategies, the VCM can provide an additional source of finance to accelerate mitigation efforts, without the necessity for Host Countries to apply corresponding adjustments. This is particularly relevant for developing countries, where VCM revenues can support projects that might otherwise lack funding, such as renewable energy deployment, forest conservation, and adaptation initiatives.

⁸ ICVCM. Assessment status <u>https://icvcm.org/assessment-status/</u> (accessed on 20 March 2025) ⁹ Ecosystem Marketplace. 2024 State of the Voluntary Carbon Market (SOVCM).

https://www.ecosystemmarketplace.com/publications/2024-state-of-the-voluntary-carbon-markets-sovcm/



3. Carbon Pricing Mechanisms

Carbon pricing, including carbon taxes, cap-and-trading systems, and baseline-and-credit mechanisms, are key tools to incentivize businesses and individuals to adopt more sustainable practices and mobilize financial flows for climate action. However, despite covering approximately 24% of global emissions, current price levels remain insufficient to meet the Paris Agreement goals. In the 6th Biennial Assessment Report by the SCF, it is highlighted that carbon pricing instruments generated around \$95 billion in revenues in 2022 and that, where implemented, they have been effective in incentivising low-cost emission reduction measures.¹⁰ To enhance coverage and increase ambition, governments are increasingly adopting a combination of pricing mechanisms, expanding their reach to new sectors, and allowing the use of carbon credits to offset liabilities.

This integrated approach not only improves the liquidity of carbon credit markets and reduces compliance costs, but also extends the carbon price signal to sectors not directly covered by traditional instruments. Notably, middle-income countries are incorporating crediting frameworks into their policy mix, fostering participation in both compliance and voluntary markets while leveraging carbon pricing as a fiscal tool to drive sustainable development. Currently, 40% of global carbon pricing instruments—including seven carbon taxes and 23 ETSs—permit the use of carbon credits for compliance.¹¹

The interaction between different pricing mechanisms and international carbon markets, particularly under Article 6 of the Paris Agreement, is gaining prominence. For some countries, the development of domestic crediting mechanisms serves as a gateway to international carbon markets, unlocking new sources of climate finance. Others prioritize domestic use to strengthen internal mitigation strategies.

Article 6 can provide the basis for a more cohesive framework for international cooperation and reduce the market fragmentation, providing standards and transparency to help linking markets and facilitate the interoperability between instruments, enhancing liquidity and efficiency of carbon pricing. The potential for Article 6 to increase interoperability between carbon pricing systems and crediting markets, thereby driving climate financing towards developing country Parties, should be explored as a key instrument to inform the development of the Baku to Belém Roadmap.

 ¹⁰ UNFCCC. Sixth Biennial Assessment and Overview of Climate Finance Flows. Summary and Recommendations: <u>https://unfccc.int/sites/default/files/resource/UNFCCC_BA6_Summary_Web_Final.pdf</u>
¹¹ World Bank. State and Trends of Carbon Pricing 2024: <u>https://openknowledge.worldbank.org/server/api/core/bitstreams/253e6cdd-9631-4db2-8cc5-1d013956de15/content</u>





(c) What country experiences, best practices and lessons learned can be shared related to barriers and enabling environments; innovative sources of finance; grants, concessional and non-debt creating instruments, and measures to create fiscal space?

The implementation of Article 6 mechanisms, compliance carbon markets and emissions trading systems, and voluntary carbon markets has provided valuable insights and tools on how different policy approaches can incentivize private sector climate action, including through low-carbon innovation and supporting green growth, scaling up carbon finance and ensuring environmental integrity.

Notably, by leveraging the power of markets and differences in marginal abatement costs across different sectors and geographies, emissions trading systems and carbon markets are designed to reduce emissions where it is most cost-effective, minimizing the financial burden and allowing for increased ambition.

There are numerous examples globally, with key best practices and lessons learned with regards to effective market policies, for which IETA is happy to provide further input in dialogue on the development of the Baku to Belém Roadmap. We look forward to engaging closely with the COP29 and COP30 presidencies to share detailed learnings and examples.





(d) Which multilateral initiatives do you see as most relevant to take into account in the Roadmap and why?

A key multilateral initiative is the Carbon Offsetting and Reduction Scheme for International Aviation (CORSIA), established by the International Civil Aviation Organization (ICAO). CORSIA plays a significant role in mobilizing international climate finance by channelling private-sector funding from the aviation industry into high-quality emissions reduction projects worldwide. This mechanism creates a direct link between compliance-driven demand and voluntary carbon finance, unlocking additional capital flows for climate action.

Globally, several existing initiatives may serve as important avenues for engagement. Among others, we would like to highlight the G7 Carbon Market Platform (CMP), the G7 Principles of High Integrity Carbon Markets, the Global Carbon Pricing Challenge (GCPC), the World Bank's Partnership for Market Implementation, the International Carbon Reduction and Offset Alliance (ICROA), the Integrity Council for the Voluntary Carbon Market (ICVCM), the Voluntary Carbon Markets Integrity Initiative (VCMI), and the Article 6 Implementation Partnership (A6IP).

To make sure carbon finance benefits those countries with the highest needs and most negatively impacted by climate change, including LDCs and SIDS, it will be critical for the roadmap to streamline capacity building support to governments and the private sector, notably around setting up robust carbon market frameworks, Article 6 authorisation processes, reporting and tracking infrastructure (carbon registries), and enabling environments. It may also prove important to discuss broader opportunities and challenges relating to carbon financing and mitigation projects, such as blended financing, pooling of supply and demand, carbon funds, guarantees, debt-for-nature swaps, carbon contracts for difference, energy transition credits, green claims regulations, the legal nature of carbon credits, support for feasibility studies and development of project pipelines.

We expect the Baku to Belém roadmap to bring these topics to the forefront and look forward to contributing to the same.



ABOUT IETA

IETA is a non-profit organization representing more 300 businesses committed to smart, well-designed and effective carbon markets to help achieve the goals of the Paris Agreement and reach net-zero emissions by 2050.

At IETA, we believe in a collaborative approach to addressing climate change through the power of carbon markets. Since 1999, IETA has been the leading voice of business on ambitious, market-based climate change solutions and driving net zero. We advocate for trading systems for emissions reduction and removals that are environmentally robust, fair, open, efficient, accountable, and consistent across national boundaries. We pride ourselves to be involved in and influence policy design, thought leadership, global capacity building, best practice and knowledge transfer.

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