

# Regional Climate Week

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# Asia-Pacific

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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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# 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>

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# Demand for voluntary carbon market credits

- **Demand side:** voluntary climate action by stakeholders (mostly corporates but also institutions and individuals)
  - To make a **climate claim** (e.g., compensation of emissions)

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  
(i) claim on the  
achievement of these  
units



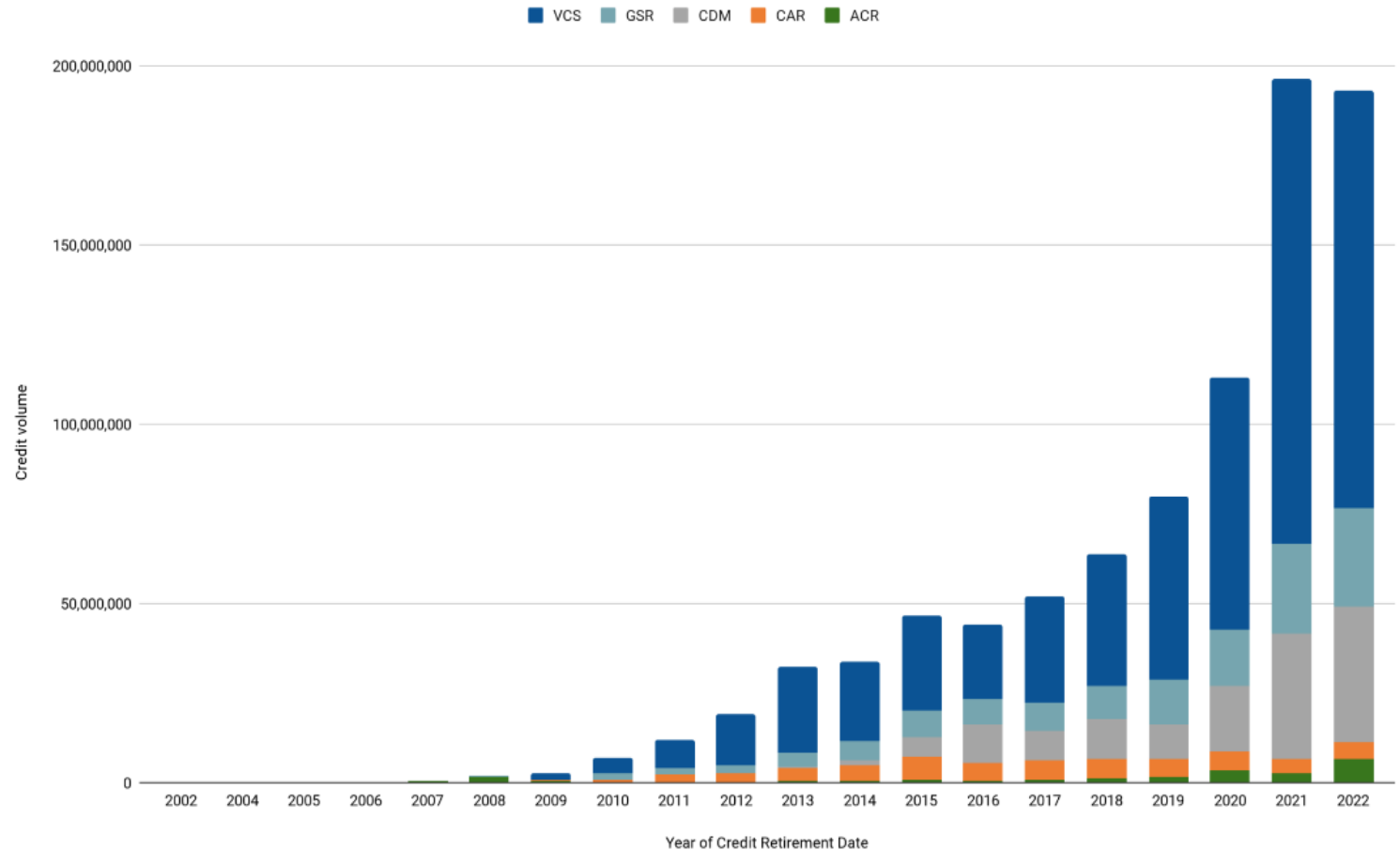
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# Supply for voluntary carbon market credits

## 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>

# Voluntary carbon markets (VCM): Key aspects

- VCMs have evolved and grown alongside the CDM e.g., many of the **methodologies 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.
- 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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# Voluntary carbon markets (VCM): Key aspects

- 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).
- 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.



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# ICVCM: 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.

# 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?

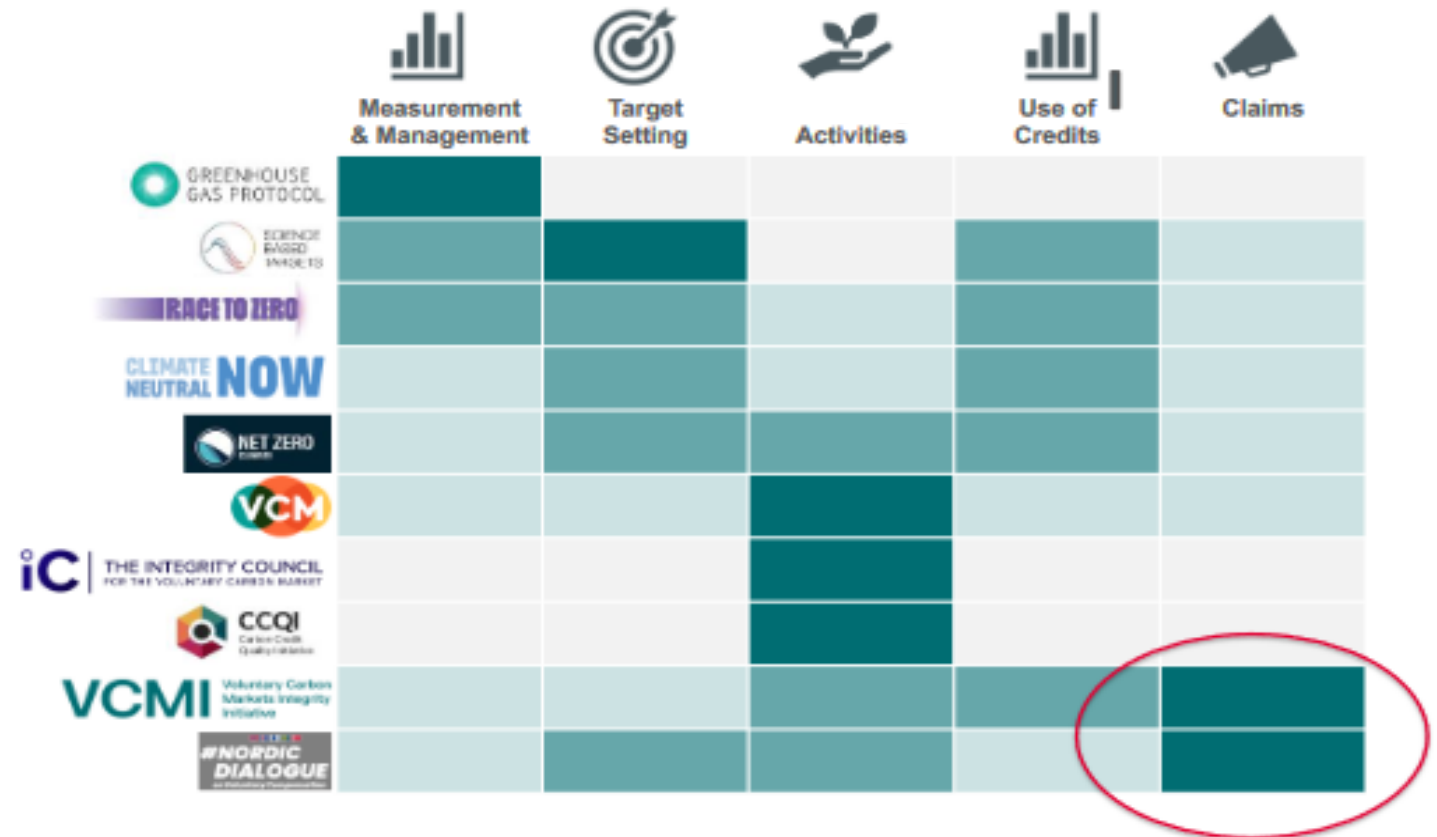


Figure 1: Overview on initiatives and their focus areas (Source: Wuppertal Institute)

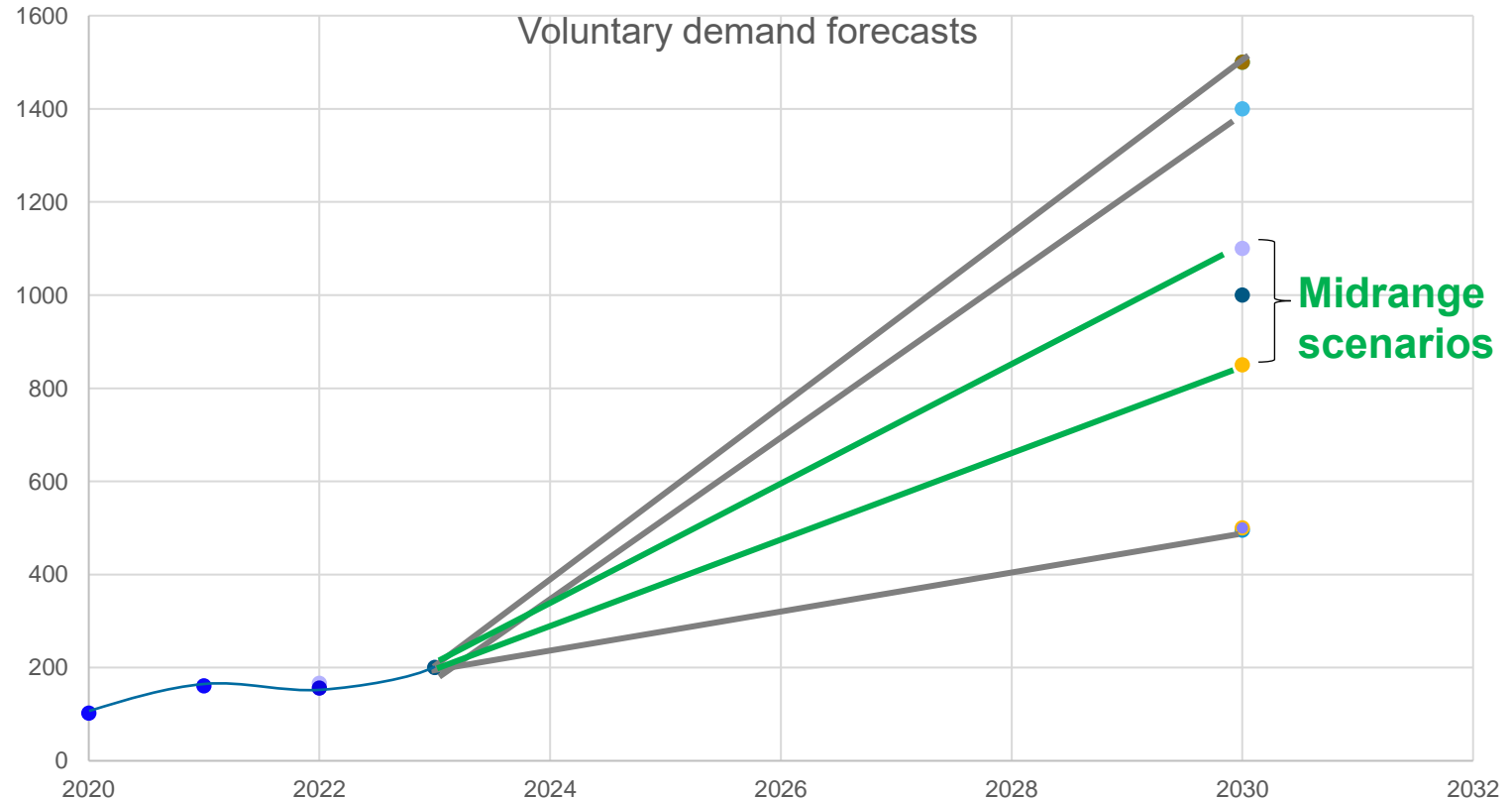


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# Voluntary carbon markets (VCM)

- 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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# Article 6 and the voluntary market

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

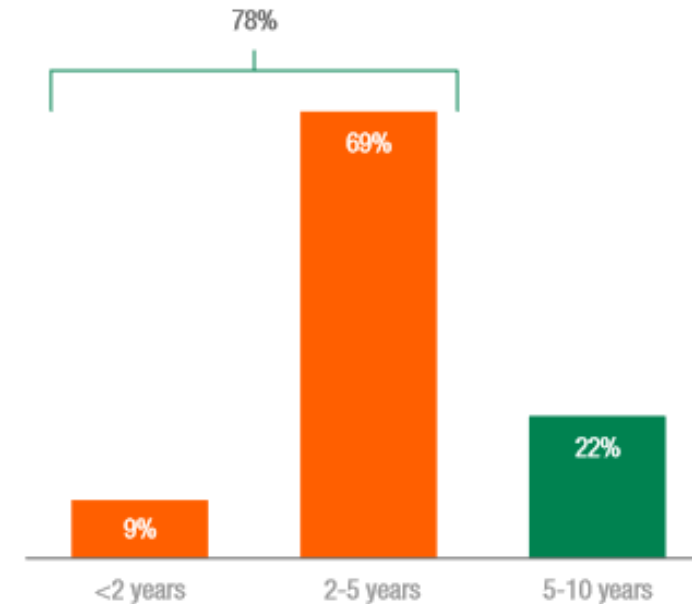
#1 Impact of corresponding adjustments

#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 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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# 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.



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# THANK YOU FOR ATTENDING!



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