



Carbon finance in the context of achieving Paris Agreement goals

5 May 2022

Outline

1 An overview of carbon markets

2 The main components of Article 6 and compliance markets

3 Key decisions taken in Glasgow (COP 26)

4 Voluntary carbon markets

5 Integrity in carbon markets

What are carbon markets?

Carbon markets = trading systems where units of carbon dioxide (or other greenhouse gases) emissions can be sold and bought.

1 carbon credit/unit = one tonne of carbon dioxide or the equivalent amount of a different greenhouse gas.

Types of Carbon Markets

Compliance markets are used by companies and governments that must reduce their emissions (legally) and where purchase of carbon credits is an option to partially meet those requirements. The countries adhering to these markets are those that accepted and adopted emission limits .

Voluntary carbon markets work separately from the compliance markets but in parallel and allow the private sector and/or individuals to buy carbon offsets to achieve carbon neutrality voluntarily.

Why are they important?

Carbon markets create an economic incentive to reduce carbon emissions and accelerate the transition to low carbon and climate-resilient development cost-effectively.

They allow governments, international organizations, corporations, and people to participate and contribute to climate action.

But there are diverse views on carbon markets –including concerns such as greenwashing, “hot air”

The potential for positive impacts of carbon markets are dependent on robust design and governance

The Paris Agreement → Increased ambition and new rules for carbon markets...



The Paris Agreement and the NDCs

- The Nationally Determined Contributions are climate action plans to cut emissions and adapt to climate impacts.
- Each Party to the Paris Agreement is required to establish an NDC and update it every five years.
- NDCs are the “backbone” of the Paris Agreement



85%

of NDCs now say they may use international market mechanisms to reduce greenhouse gas emissions

Article 6

Main Components

Article 6 recognizes that some Parties choose to pursue voluntary cooperation in the implementation of their nationally determined contribution (NDCs) to the Paris Agreement to allow for *higher ambition* and to promote *sustainable development* and *environmental integrity*.

6.1

Recognizes all kinds of NDC cooperation

6.2-6.3

Any **internationally transferred mitigation outcome** (ITMO) must be consistent with central *guidance*

6.4-6.7

Central *authority* supervises **mechanism** to mitigate GHGs and support sustainable development (SDM)

6.8-6.9

Framework for **non-market** approaches

COP26 in Glasgow



During the 26th Conference of the Parties (COP) to the UNFCCC held in Glasgow in November 2021, the negotiations led to decisions to move forward with the operationalization of Article 6 of the Paris Agreement.

Difficult political and technical issues were finally resolved.

Elements of COP26 Progress

- Provisions to enable **Overall Mitigation of Global Emissions (OMGE)**
- Article 6 market transactions will enable support to **climate change adaptation**
- Avoidance of double counting- through a tool referred to as a **Corresponding Adjustment**
- **Rules on treatment of the Clean Development Mechanism**



What does Article 6 mean for developing countries?

At COP26, several details were defined for the processes and procedures that countries need to follow if they intend to access the carbon markets regulated by Article 6 of the Paris Agreement.

The opportunities are many and this regulated market has great potential, however countries must commit to meeting the guidance/rules of Article 6 and putting in place the necessary regulatory and institutional arrangements.

→ **Accessing carbon markets regulated by Article 6 requires both strategic/political and technical decisions.**

What does Article 6 mean for Indigenous Peoples and local communities: *Specific Entry Points*

Parties will comprehensively report on how Article 6.2 cooperative approaches will:

respect, promote and consider their respective obligations on human rights, the right to health, the rights of indigenous peoples, local communities, migrants, children, persons with disabilities and people in vulnerable situations and the right to development, as well as gender equality, empowerment of women and intergenerational equity

Article 6.4

- Activity design: Local and, where appropriate, subnational stakeholder consultation consistent with applicable domestic arrangements is required
- Supervisory Body is requested to engage with the **Local Communities and Indigenous Peoples Platform and its Facilitative Working Group**
- Establish requirements and processes for the application of ***robust social and environmental safeguards***
- Stakeholders, activity participants and participating Parties may appeal decisions of the Supervisory Body or request that a grievance be addressed by an **independent grievance process**

Looking ahead:

Next steps for Article 6 on the road to COP27

Article 6.2. Further guidance to be developed to address remaining gaps

Article 6.4. Supervisory Body to be established.

- This SB has important work to undertake, including establishment of requirements and processes for the **application of robust social and environmental safeguards**

Article 6.8. Glasgow Committee for non-market approached to be established.



Voluntary Carbon Markets (VCM)

Voluntary Carbon Markets

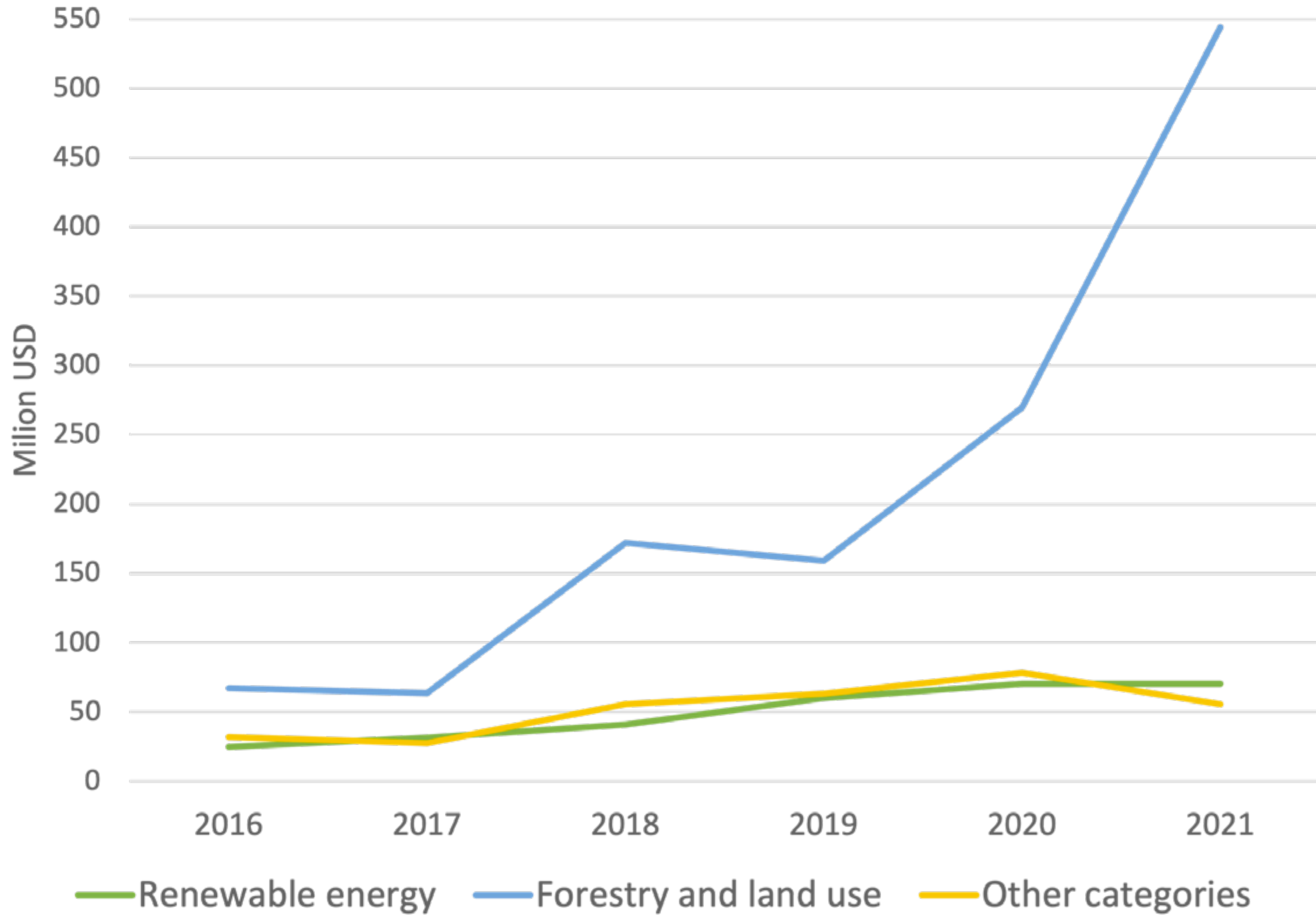
- Transactions of carbon credits that are not purchased to meet mandatory GHG reduction obligations or targets under regulated/compliance markets
- Private investors, governments, non-governmental organizations, and businesses can voluntarily purchase
- VCM transactions are aligned to various international standards.

The voluntary markets are rapidly expanding...



VCM transactions have been increasing, especially in the forestry and land use sector (e.g., REDD+)

Value of VCM transactions by project category



What is the relationship between compliance and voluntary carbon markets?



Note: *Voluntary carbon credits can only be used as Internationally Transferred Mitigation Outcomes (ITMOs) if in compliance with all the requirements established by Article 6 decisions under the Paris Agreement, including corresponding adjustments (CA).

Integrity of Carbon Market Transactions

No double counting

Permanence

Buffer pools

Conservativeness

Nesting

Insurance

Fungibility

Scope and scale of activities

Real results

Temporary credits

Safeguards

Sustainable finance

Traceability

Transparency

Ambition

Corresponding adjustments to the NDC

Overall Mitigation in Global Emissions (OMGE)

Additionality

Accuracy

Comparability

Consistency

Accounting

Fully Measured, Reported, Verified (MRV'd)

What does 'integrity' mean?

Avoid
double
counting

Ensure that emission
reductions are real

Transparent
institutional and
financial infrastructure
for carbon market
transactions

Robust social and
environmental safeguards
to mitigate potential adverse
impacts and promote
positive impacts

Respect for human rights, including Indigenous Peoples' rights

Clarity over corporate 'net zero' and 'carbon neutral' claims.

Thank you!