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Voluntary Carbon Markets

With Annette Nazareth, Chair of the Board at The Integrity Council for the Voluntary Carbon Market (ICVCM); Adrian Rimmer, Director of Sustainable Finance at the London Stock Exchange Group; Alice Carr, Executive Director of Public Policy at Glasgow Financial Alliance for Net Zero (GFANZ).

Introduction

Voluntary Carbon Markets (VCMs) are recognised as a "powerful climate finance tool" with notable secondary benefits - e.g. raising biodiversity and supporting local communities economically, particularly in the global south. However, the market suffers from a lack of trust, stymying growth, and potential buyers of carbon credits are often wary of greenwashing accusations.

Key takeaways

Market growth

- The global value of VCMs is $1.9bn (Trove), with future growth estimated to be as high as $50bn (McKinsey). Achieving scale will enable carbon credits to play a recognised role in meeting net zero. Factors include:
- The continued progress of the ICVCM, which focuses on supply, and the demand-focused Voluntary Carbon Markets Integrity Initiative (VCMI) in creating guidance and frameworks to create a functioning and growing global market.
- For the global market to move out of bilateral arrangements towards seamless multilateral transactions.
- A more positive narrative showcasing market integrity and the wider social and environmental benefits - "increasing the volume of trade to meaningfully contribute to net zero".
- To align VCMs with Government-sponsored initiatives together with regulators and public institutions.
- "The ecosystem is bigger than the market", the global VCM market is a fraction the size of the global compliance market (AKA cap and trade emissions trading), converging the two will not only generate growth but integrity too.

- "Liquidity begets liquidity" - the market needs more liquidity for open trading to occur, which is essential to deepen liquidity further - otherwise the $50bn estimate will be out of reach.
- Nurture the right skills and qualifications at scale.

ICVCM - "We now have the standards to raise integrity"
- In July, the Council published its Core Carbon Principles, made up of 27 criteria defining what constitutes a carbon credit.
- The Council now essentially functions as an international standards setter for the supply of carbon credits within the private sector.
- The principles are set up in a way to be consistent with existing regulated markets to pave the way for carbon credits to be standardised and regulated by public bodies.

Risk and need for narrative shift
Corporates see the purchase of carbon credits as "buying risk" due to widespread reporting of fraudulent credits and not enough of the profits being shared with communities at project level, often in the developing world. Solutions:
- Shift the reputational risk from the buyer of credits to the market infrastructure - i.e. policymakers are advised to introduce regulation - "if we're regulating crypto, we can regulate this".
- "There's a lot of negativity, impacting prices and confidence", calling for a change of narrative. We need to show projects on the ground and their secondary benefits - e.g. home energy efficiency programmes that help to alleviate poverty - both in the UK and the developing world.
- Trust can be brought about through more robust verification driven by technology - e.g. satellite surveillance.

UK opportunity to lead
As a dominant financial centre, the City of London is well placed to access the necessary liquidity needed, and to host the "huge" industries sitting behind VCMs - e.g. ratings, consultancy, data, project financing - should the market meet its potential.

Issues raised

Converging markets
Article 6 of the Paris Agreement on linking different carbon markets is "fine", the real issue is the uncertainty over whether VCMs have a role to play in meeting net zero. They will if trust and integrity are addressed, meanwhile, the UK Government can provide momentum by helping to converge voluntary projects with compliance markets. Bilateral agreements with the Global South would be a good starting point.

Stacking credits and BNG units

Where a project meets the criteria to qualify for both carbon credits and Biodiversity Net Gain (BNG) units, in principle, both could be traded on different markets. This is not currently permitted in the UK.

- Optimism: As well as increasing supply, “stacked” credits would serve as visible examples of carbon offsetting and biodiversity gain and “help overcome some of the scepticism around carbon markets”.
- Hesitancy: We need to be aware that it’s “very easy to stick a badge on something” and ultimately, this market is about climate change, a “tonne of carbon is sacrosanct”.
- Consequently, there needs to be discussion on whether stacking mitigates trust, and if so, what future principles and rules could generate the necessary confidence.

Additionality

Wariness around stacking plays into the complexity of creating a valid carbon credit. Projects must be able to prove “additionality” - i.e. carbon is offset without being “business as usual”. A good project will provide “co-benefits” - e.g. social and biodiversity - and must be baselined so that it can be proven what has changed vs. what would have happened otherwise.

Supply

Under the Science-based Targets Initiative (SBTI) businesses need to demonstrate how they will decarbonise by a factor of 90% before they can offset, preventing the purchase of carbon credits.

To get involved, please contact

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