

# **Taskforce on Scaling Voluntary Carbon Markets: Approach to scaling a high-integrity carbon market**

**Update to FCGW**

November 3<sup>rd</sup> 2021

*This document does not constitute or imply a recommendation on the outcome of the process. It applies the guidelines set by the TSVCM, based solely on the information provided to the TSVCM in the submissions of interest forms.*

## Agenda for today

**A. Recap of voluntary carbon markets trends and pain points**

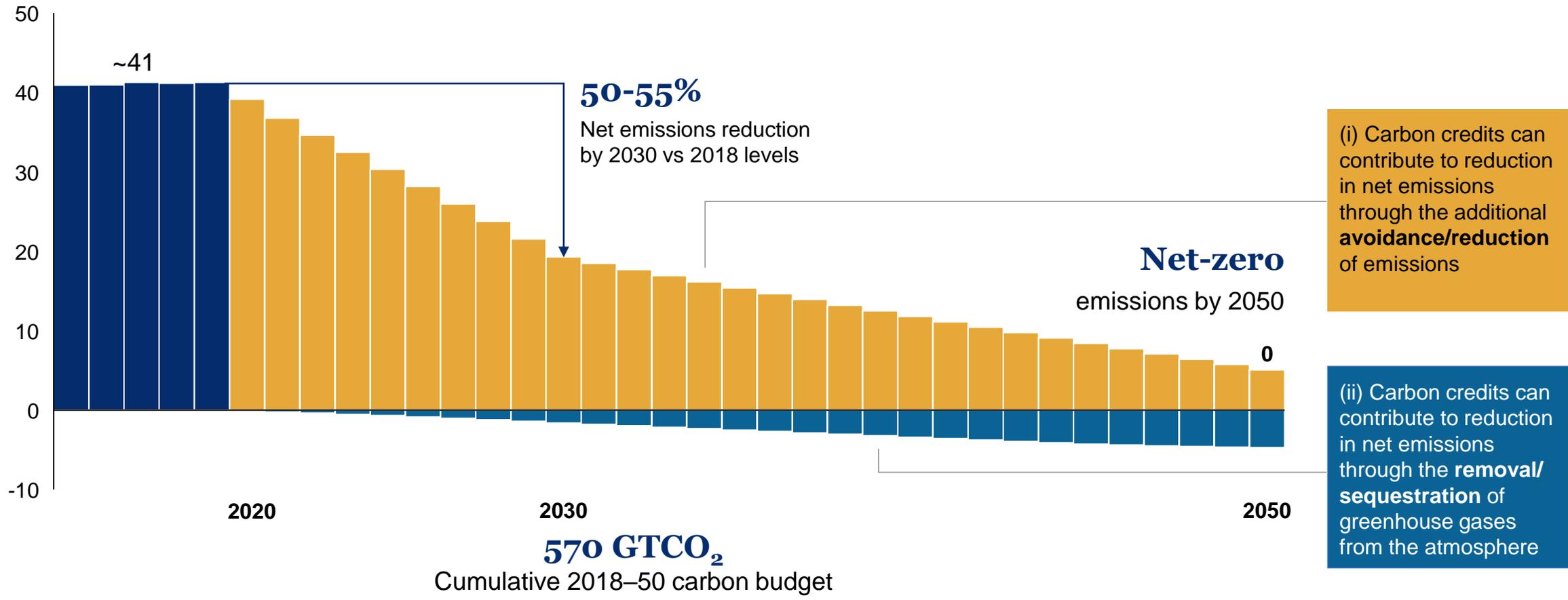
B. Introduction to the Taskforce on Scaling Voluntary Carbon Markets

C. Outlook on the next steps for scaling high-integrity voluntary carbon markets

# A. Carbon credits are an important tool that can help us get on a 1.5-degree pathway and achieve net-zero emissions by 2050

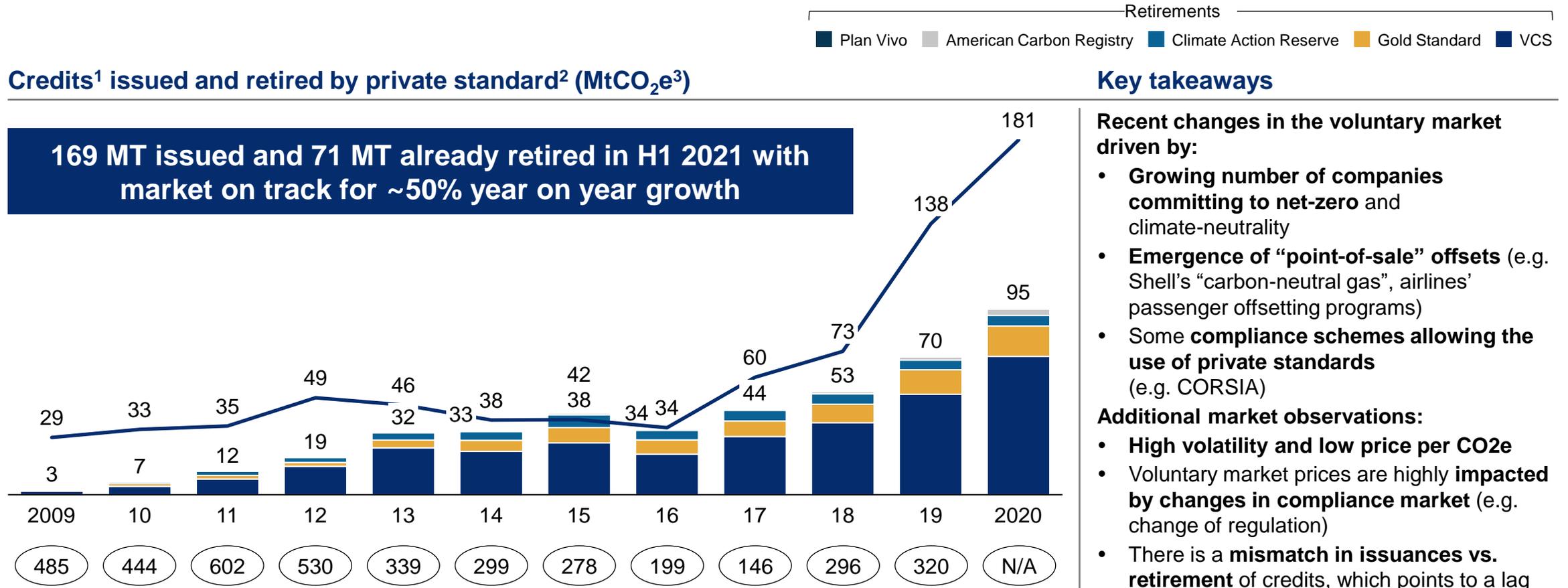
Net carbon dioxide emissions, GtCO<sub>2</sub>

■ Historic emissions    
 ■ 1.5-degree pathway positive emissions    
 ■ 1.5-degree pathway negative emissions



Source: McKinsey 1.5-degree scenario analysis; IPCC; Le Quéré et al. 2018

# A. Voluntary carbon markets have grown strongly in recent years, with higher supply than demand



## Key takeaways

**Recent changes in the voluntary market driven by:**

- **Growing number of companies committing to net-zero and climate-neutrality**
- **Emergence of “point-of-sale” offsets** (e.g. Shell’s “carbon-neutral gas”, airlines’ passenger offsetting programs)
- **Some compliance schemes allowing the use of private standards** (e.g. CORSIA)

**Additional market observations:**

- **High volatility and low price per CO<sub>2</sub>e**
- Voluntary market prices are highly **impacted by changes in compliance market** (e.g. change of regulation)
- There is a **mismatch in issuances vs. retirement** of credits, which points to a lag and an oversupply of credits
- **Prices have remained low** as a result of the oversupply

1. One carbon credit represents one ton of carbon dioxide equivalent (CO<sub>2</sub>e) avoided or sequestered.  
 2. Issuances and retirements based on registry data and McKinsey analysis; transaction value based on Ecosystem Marketplace 2019 report.  
 3. MtCO<sub>2</sub>e = metric tons of carbon dioxide equivalent.

# A. Voluntary carbon markets are undergoing rapid change across the value chain

NON-EXHAUSTIVE

**The demand signal is strengthening as companies commit to Net Zero on increasingly ambitious timelines**

- 2020**
- Sept 14**  The alliance's 13 member airlines plan to achieve their net-zero target by 2050
  - Dec 9**  Amazon and Global Optimism announce 13 new signatories to be net-zero carbon by 2040. 

- Jan 6**  China plans to launch a nationwide ETS in 2021 that will allow for 5% of emissions to be offset using China Certified Emissions Reductions (CCER) credits
- Jan 28**  Science Based Targets initiative launches a public consultation process to develop first science-based global standard for corporate net-zero targets

- 2021**
- Jan 16**  Microsoft announces it will be carbon negative by 2030, and by 2050 it will remove all the carbon it has ever emitted
  - Mar 23**  Oxford Net Zero finds that net zero pledges cover 68% of the global economy, up from 16% in 2019
  - Mar 31**  Netflix announces it will achieve net zero by the end of 2022, and every year thereafter

**Intermediaries are developing innovating solutions to facilitate trading of high quality credits at scale**

- Dec 16**  S&P Global Platts to start publishing daily assessments of carbon credit market
-  IHS Markit to launch a daily price report and a meta-registry pilot

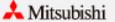
- Feb 1**  CME Group launches futures contract based on CORSIA , which includes globally accepted offset standards
- April 19**  Xpansiv's CBL marketplace begins trading the Nature GEO contract for nature-based GEO offsets

- April 22**  Launch of LEAF Coalition, a public-private initiative to drive \$ 1Bn+ funding to government-run tropical forest protection programs that will issue ART TREES carbon credits

**Suppliers are funding technology to improve the reliability of offsets**

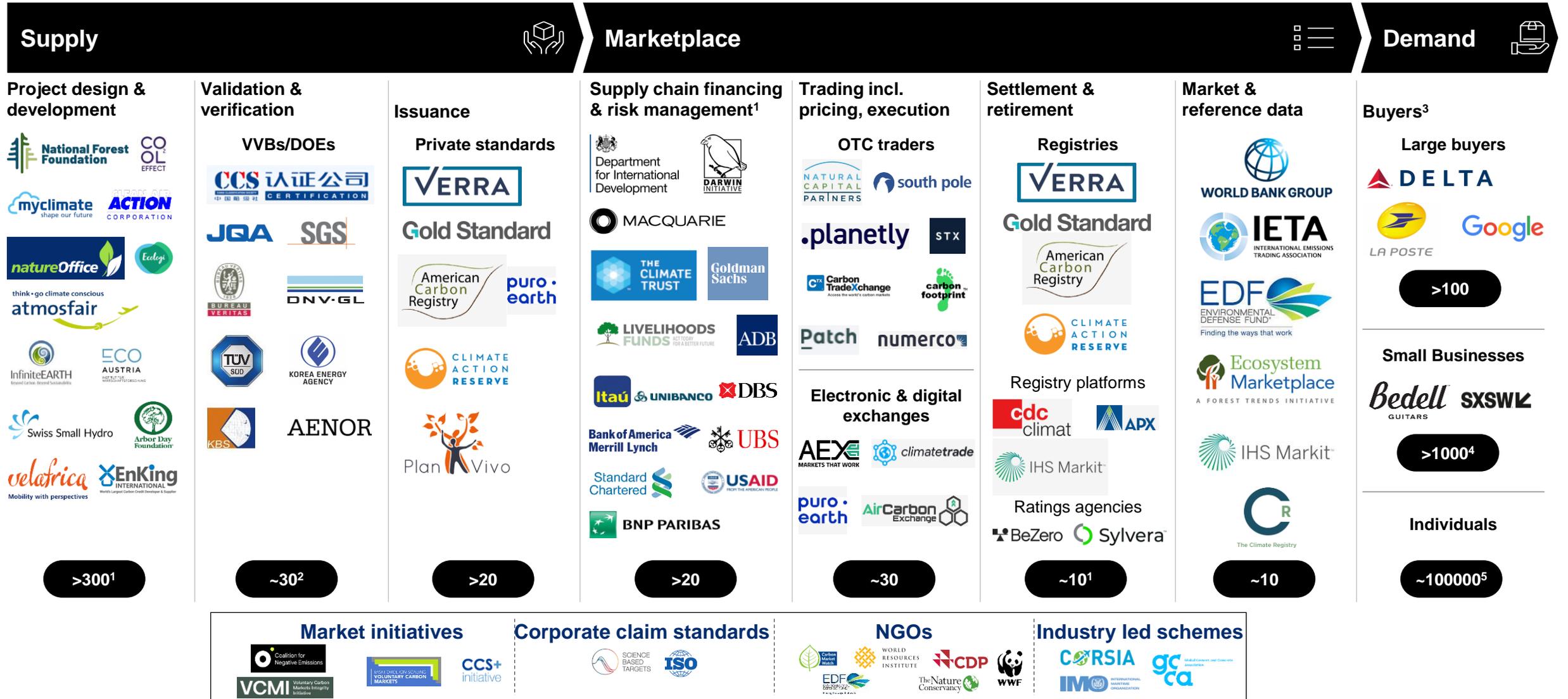
- Nov 30**  Nutrien starts facilitating sale of carbon credits from farmers to its value-chain partners
- Dec 16**  Sustaintech Xcelerator launches to improve monitoring and verification in nature-based carbon credits
- 

- Apr 26**   Trafigura has teamed up with Brazilian petrochemical producer Braskem in what they described as the first carbon-neutral sale of a naphtha cargo

- May 7**   South Pole, Mitsubishi eye up to \$800 million of carbon removal credits by 2030
- Jul 21**  Bayer starts an initiative to reward farmers to generate carbon credits

# A. However the value chain remains complex, and fragmented

## No. players



1. Source: Ecosystem Marketplace yearly report 2013 <https://www.forest-trends.org/wp-content/uploads/imported/sovcm-full-report-aug-13-version-pdf.pdf>

3. Top 3 buyers in 2018

5. Source: Google adwords market data

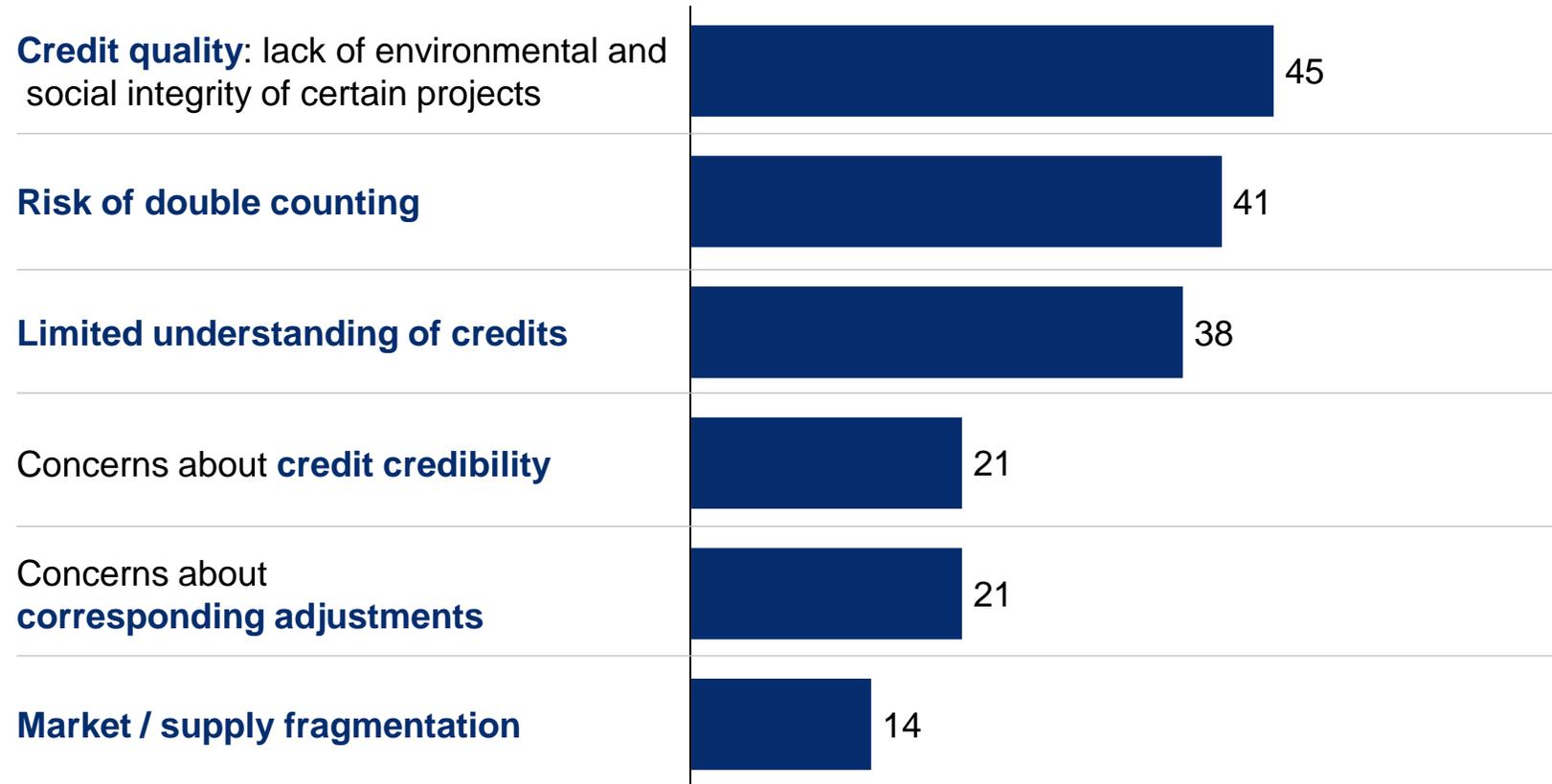
2. Active - Source: <https://cdm.unfccc.int/DOE/list/index.html>

4. Source: South Pole <https://www.southpole.com/clients>

# A. Credit quality is perceived as the most critical pain point by buyers

## Pain points expressed by current or future buyers<sup>1</sup>

*% of buyers who commented on the survey*



1. Based on buyers' comments expressed in TSVCM Phase I survey, with results as of October 2020. More buyers answered the survey but did not comment on the topics.
2. Replies to the question: should the "Core Carbon Principles" exclude certain project types, or only allow them with additional safeguards? (independent of project vintage)?
3. Replies to the question: should the "Core Carbon Principles" exclude projects of a certain vintage? 46% of respondents would exclude all projects from a certain vintage; 11% would exclude some projects of specific vintages

A majority of survey respondents back restrictions on vintage and methodology types

**58%**

of all respondents would **exclude** or impose **additional safeguards** on **methodology types**<sup>2</sup>

**57%**

of future participants in voluntary markets back **project exclusions of certain vintages**<sup>3</sup>

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A. Recap of voluntary carbon markets trends and pain points

**B. Introduction to the Taskforce on Scaling Voluntary Carbon Markets**

C. Outlook on the next steps for scaling high-integrity voluntary carbon markets

# B. The Taskforce on Scaling Voluntary Carbon Markets was created to unlock scaling of high-integrity voluntary carbon markets



## Ambition

Ambition of the Taskforce is to achieve a step-change in the integrity and scale of private, voluntary carbon markets (>15x growth) to help limit warming to 1.5 °C.



## Taskforce

Taskforce comprises over >250 institutions from across the carbon market value chain. The Taskforce is:

- Initiated by Mark Carney, UN Special Envoy for Climate Action and Finance
- Chaired by Bill Winters, Group CEO, Standard Chartered
- Sponsored by the Institute of International Finance (IIF) under the leadership of President & CEO, Tim Adams
- Supported by Annette Nazareth, a partner at Davis Polk and former Commissioner of the U.S. Securities and Exchange Commission, who serves as Operating Lead



## Outputs in 2021

**Jan 26: Phase I report** including blueprint and high-level implementation roadmap published

*Presented at the WEF's Davos dialogues by the Taskforce Principals and Bill Gates*



**July 8: Phase II report** with detailed recommendations and **set-up of a new governance body for high-quality core carbon credits**

*Presented ahead of 2021 G20*



**November 1:** Transition to permanent Governance Body and implementation of high-quality core carbon credits



# B. The TSVCM has been working across the below four dimensions in the past year

Detailed next



## 1 Stakeholder management



## 2 Governance



## 3 Legal principles & contracts



## 4 Credit-level integrity

### Ambition

Public awareness of the climate and co-benefits that Voluntary Carbon Markets can drive as an important complement to own-firm emissions reductions

A future umbrella body with a mandate to implement, host and curate a set of Core Carbon Principles, provide oversight over standard setters and coordinate interlinkages between individual bodies

Standardizing legal framework underpinning credit issuance and trading contracts with common language on liability, ownership, delivery etc.

Core Carbon Principle threshold standard that does not exclude credits from the market but marks out those that satisfy a high quality standard

### Taskforce contribution

Engagement with key stakeholders to drive demand and supply in VCMs

Blueprint for a future governance body specifying its mandate, organizational structure, sources of funding and a process for its setup

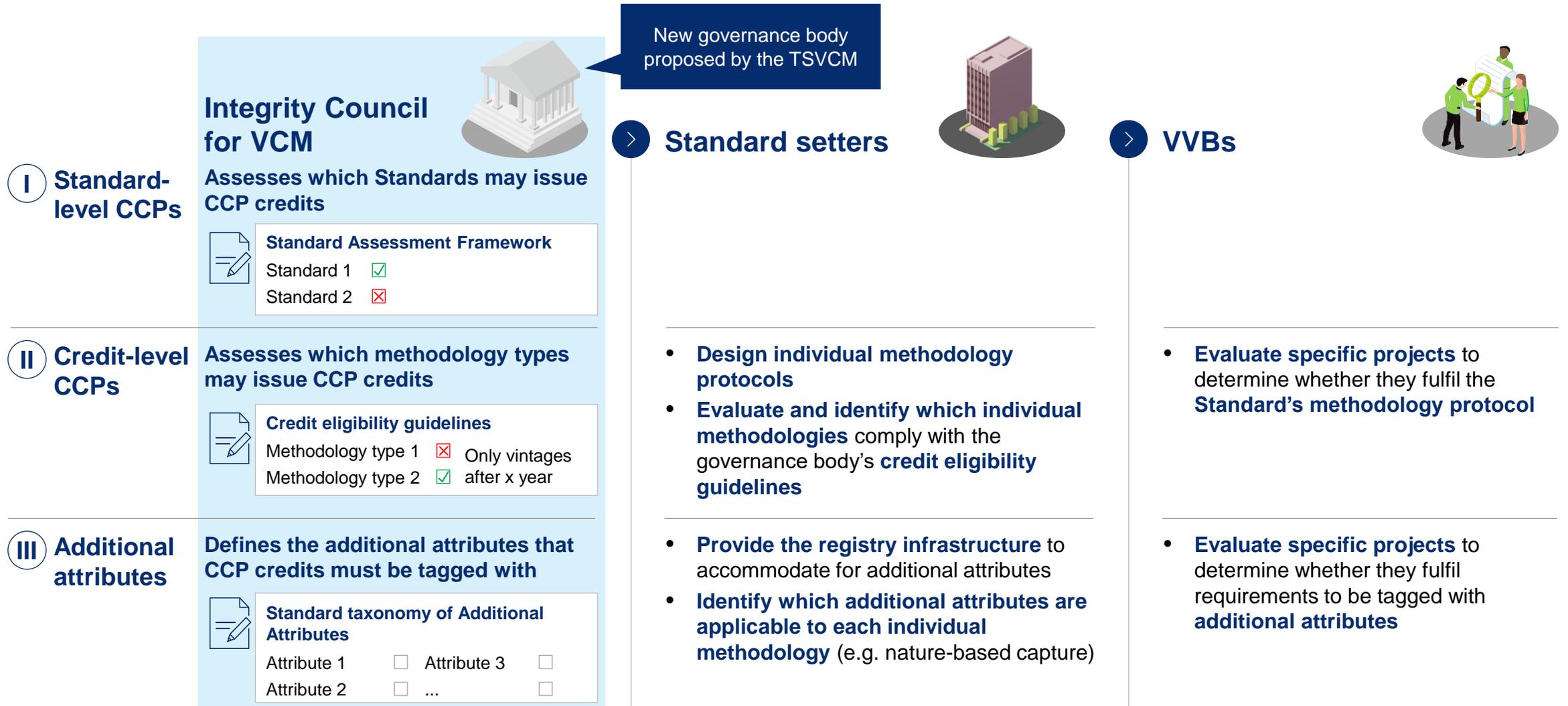
Defined use cases to drive awareness of potential ways to use the market  
 Developed operational requirements for Standards' Terms of Use  
 Developed general trading terms clauses

Draft assessment Framework for Standards  
 Analysis of credit eligibility criteria  
 Proposal for a taxonomy of additional attributes

# B. Suggested implementation mechanics for the Core Carbon Principles

Role of each body in the certification / assurance value chain

Detailed next



# B. At the highest-level the CCPs address both credit-level and operational issues



Core Carbon Principles (CCPs) are **high level principles of credit integrity** that become tangible through an Assessment Framework for Standards and a set of credit-eligibility criteria

They were defined to be comparable to ICROA and CORSIA dimensions

	Credit-level principles <sup>1</sup>	Operational principles
<b>Principles</b>	Real	Program governance
	Based on realistic and credible baselines	Program transparency and public participation provisions
	Monitored, reported and verified	Clear and transparent requirements for independent third-party verification
	Permanent	Legal underpinning
	Additional	Publicly accessible registry
	Leakage accounted for and minimized	Registry operation
	Only counted once	Inclusion of Clean Development Mechanism
	Do no net harm	
<b>Specific rules</b>	Earliest project start date 2016 <sup>2</sup>	
	Only jurisdictional or nested REDD	

1. The Taskforce also recognizes that there are other initiatives ongoing (eg, World Bank, WWF/EDF/Oeko-Institut, etc.)  
 2. Under CORSIA, current vintage rules refer to credits issued due to activities that started their first crediting period from 1 January 2016 and in respect of emissions reductions that occurred through 31 December 2020

# B. Each CCP breaks down into a more detailed set of operational considerations

■ Detailed next

Phase I CCPs	Operational considerations
<b>Real</b>	No ex ante crediting
<b>Additional</b>	Financial additionality Jurisdictional additionality
<b>Monitored, reported and verified</b>	Accuracy of measurement Conservative measurements Accredited VVBs Oversight of VVBs MRV frequency and reporting content
<b>Permanent</b>	Long term permanence Buffer requirement and reversal compensation Risk assessment and mitigation measures Notification of loss event Safeguards after crediting period
<b>Leakage accounted for an minimized</b>	Leakage assessment and mitigation measures Leakage deduction Leakage monitoring
<b>Do no net harm</b>	Prior and ongoing impact assessment Ongoing stakeholder consultation Safeguards Grievance mechanisms
<b>Based on realistic &amp; credible baselines</b>	Baseline-setting approach Revision frequency and adjustments



## Example detail for an operational consideration

### Financial additionality

[For Project-based approaches]

Defined as ensuring the CO<sub>2eq</sub> avoidance/reduction/removal for which credits have been issued would not have taken place without revenue from carbon credits.

Financial additionality may be demonstrated by passing either of the following tests.

- Negative profitability without credit revenue
- Sufficiently low return on capital without credit revenue compared to equivalent investments available to the developer so as to preclude the investment decision or otherwise constitute a barrier to funding. This may be demonstrated in a variety of ways (e.g. business case).

And, for avoidance/reduction credits:

- Activity penetration of project activity below an appropriate threshold to demonstrate low availability

**The following proposal is a first draft that the future governance body will refine and take to the next level of detail**



## B. Realistic and credible baselines for forestry credits key debates (1/3)



### Context

For many VCM-methodologies, baselines can be calculated based on a measurable status quo. Some methodology types, however, require an **estimate of the emissions under a baseline scenario that evolves over time**. For certain **forestry methodologies**, this calculation is particularly fraught because extrapolation of deforestation rates across time and regions is required. Some actors within the TSVCM therefore argue that forestry baselines have a **higher degree of subjectivity** and are **harder to scrutinize**.

**Treatment of forestry credits varies between Standards:** some outright **exclude project-based REDD+ credits** alleging that it leads to insufficient integrity of corporate per-ton claims. Others require that developers use **standardized baselines** (baselines set at protocol-level that are hence not “gameable” by the developer, for example set by the Standard or the host country government). Some allow the developer to set the baseline but have **safeguards in place** to ensure its integrity (e.g. baselines sitting within approved FREL’s)

One further option to encourage independently-set baselines is requiring REDD+ projects to **nest within jurisdictional programs** (i.e. to adopt nationally-set baselines at regional or country level). The type of baselines eligible for CCP status has an impact on the methodology types eligible: excluding projects without independently-set baselines could result in the **de-facto exclusion of project-based REDD+**.

**Two separate debates must therefore be considered:** first, whether to **allow project-based REDD+** methodologies as opposed to only jurisdictional programs. Secondly, the governance body must decide whether, if **REDD+ and related methodology types are eligible for CCP status**, they should have a **specific requirement to have baselines drawn-up by independent third parties with no financial or commercial interests in the project**.

## B. Realistic and credible baselines for forestry credits key debates (2/3)

### Key Debate #1: Should project-based REDD+ methodologies be eligible for CCP credits?

#### Arguments in favor of project-based REDD+<sup>1</sup>:

- **There aren't enough governments with functioning jurisdictional programs** and these programs are likely to still see years of learning and revisions. **Buyers and investors should therefore not wait** for jurisdictional programs to be in place before supporting **credible REDD+ projects** certified by Standards that follow the CCPs
- REDD+ projects that are transitioning to using jurisdictional accounting frameworks should be allowed and provided **workable grace periods**
- Jurisdictional programs may reduce **benefit to local communities** given that benefit distribution at the jurisdictional level is likely to be less efficient and fluid, considering bureaucratic barriers and potential corruption risks

#### Arguments in favor of only jurisdictional REDD+<sup>1</sup>:

- **REDD+ at the national level is a crucial step to eliminating global double-counting**, ensuring the net effects of conservation and deforestation are **accounted for in national inventories** (and NDCs), and ultimately the global carbon budget
- **Baselines set at country level are easier to measure and track**, and to a larger degree would take leakage and permanence into account by having greater reference areas
- **Only national REDD+ programs have sufficient integrity to be CCP eligible** but countries may be able to create **programs for credits** to nest within jurisdictional programs

1. (both by members of TSVCM and consultation respondents)

## B. Realistic and credible baselines for forestry credits key debates (3/3)



### Key Debate #2: If eligible for CCP credits, should project-based REDD+ be subject to a third-party set baselines requirement?

#### Arguments in favor of third-party set baselines<sup>1</sup>:

- Third-party set baselines **prevent baseline inflation** by project developers and, together with other safeguards such as public disclosure of baseline calculations, can bring transparency to forestry credits
- There is a **trade-off** between ensuring forestry baselines are not gamed by developers and excluding worthy projects which do not have access to qualified third parties that can calculate the baseline. This trade-off would, in any case, be limited in duration: as **REDD+ projects transition to nesting within jurisdictional programs** the relevance of this requirement will wane.

#### Arguments against third-party set baselines<sup>1</sup>:

- Baseline-setting requires **complex, specialist and expensive processes** including the need for significant field work that an independent party cannot carry out
- It is possible to impose **safeguards on forestry baselines** (e.g. requirement to use historical data and conservative trends) so that baselines have sufficient accuracy and objectivity **without the need for third parties**
- Imposing a separate requirement on forestry baselines undermines the **credibility of forestry methodology types** when in fact there are no significant differences between forestry and other types of baselines
- **If calculated at a country-level, baselines can lead to over-simplification** and inflated estimates because they do not correspond to deforestation drivers in a specific project area

1. (both by members of TSVCM and consultation respondents)

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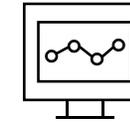
## C. To finalize and institutionalize the CCPs – a new permanent governance body was set up – the Integrity Council for Voluntary Carbon Markets



### High-integrity carbon credits<sup>1</sup>...

Develop **Core Carbon Principles threshold standard** for what constitutes a high-integrity credit and ensure robust governance for overseeing it

**Allowing companies to pursue corporate claims** that require specific credit types e.g., removals



### ...Traded in robust, transparent and liquid markets

Catalyze market players to develop **infrastructure** and solutions that **promote data transparency, funding availability, ease of access** and price transparency

**Reach scale to allow significant financial flows** from those emitting carbon to those reducing, avoiding, sequestering, and removing carbon<sup>2</sup>

**Companies' internal decarbonization and emissions reporting remain the priority with high-integrity credits playing an important but complementary role**

1. NB: The Taskforce will not exclude any credits from the market and simply label high-quality CCP credits. | 2. | Including indigenous peoples, local communities, etc.

# C. The IC-VCM is composed of the following organizations and individuals

○ Founding Sponsor representative



## 5 Senior Advisory Council

The Senior Advisory Council will be made up of **distinguished leaders from a broad range of backgrounds** and affiliations (e.g. corporate claims and integrity, indigenous peoples groups, asset owners/managers, Founding Sponsors, philanthropy, academia)

They will provide guidance to the Board of Directors on critical strategic decisions and utilize their extensive network to engage key stakeholders.

Example members include Mark Carney, Bill Winters, Tim Adams, Michael Jenkins, Leonardo Lacerda, Catherine McGuinness, and Cynthia Cummis

## 2 Board of Directors

Giulia Carbone	Rod Taylor	Sonja Gibbs	Jonah Goldman	Doris Honold	Michael Hugman	MA Jun	Mark Kenber
Farrukh Khan	Kelley Kizzier	Dee Lawrence	Annette Nazareth	Kavita Prakash-Mani	Hugh Sealy	Agustin Silvani	Carl Wesselink

<h3>Indigenous Peoples and Local Communities (IPLCs)</h3> <p>Placeholder for 3 new voting Board members from traditionally underrepresented stakeholder communities (e.g. peoples from IPLCs, Rainforest Nations, etc.)</p>	<h3>Elected market representatives</h3> <table border="0"> <tr> <td></td> <td></td> <td></td> </tr> <tr> <td>David Antonioli</td> <td>Chris Leeds</td> <td>Jeff Swartz</td> </tr> </table> <p><i>Chosen via vote by the Member Consultation Group, acting in their personal capacity</i></p>				David Antonioli	Chris Leeds	Jeff Swartz
David Antonioli	Chris Leeds	Jeff Swartz					

## 3 Executive Secretariat

Led by Secretary General and Deputies, approved by the Board of Directors

## 4 Expert Panel Co-Chairs<sup>2</sup>

Pedro Barata
Daniel Ortega-Pacheco
Lambert Schneider
Lian Pin Koh

Panel members to be decided by Co-Chairs

**Member consultation group comprised of ~250 organizations, including country engagement group and is primarily formed by TSVCM members**

1. Founding Sponsors will serve on the Board of Directors, on the Expert Panel or be represented on the Senior Advisory Council; 2. Expert Panel Co-Chairs will be non-voting participants of the Board  
 NB: As per the [Terms of Reference](#), the Board needs to ensure a majority of independent Directors overall. Some Founding Sponsor representatives may also be classified as independent by the Advisory Board in the recommendation process if they do not have material conflicts of interest.



## C. The mandate of the IC-VCM is fourfold

1



Ensure that the VCM serves its primary purpose of **reducing and removing greenhouse gas emissions** and accelerating the transition to net zero to mitigate climate change

2



Establish, host, and curate a set of **Core Carbon Principles (CCPs)**, which delineate a threshold Standard determining **what high quality and integrity carbon credits are and what Standards and methodology types may issue them**<sup>1</sup>

3



**Provide oversight over standard setting organizations on adherence to CCPs** as well as on participant eligibility and oversight

4



Coordinate and manage **interlinkages between individual bodies**; define a roadmap for the **responsible growth** of the Voluntary Carbon Market

1. See page 9 for more detail on the specific deliverables through which the CCPs will be operationalized

# C. Overview of the upcoming key priorities

Jan 2022

**Governance Body Startup phase**

**Establishment phase**

**Steady state**

<b>Overall objective</b>	<b>Finalize key governance and deliver against Day 1 priorities</b>	<b>Transition to stable independent functioning</b>
<b>Board of Directors</b>	Work with <b>Indigenous Peoples Groups and Local Communities</b> to solicit Eols for 3 placeholder Board Members Decide on a <b>name</b> for the new Governance Body Appoint <b>Chair of the Board</b> Appoint <b>Secretary-General and Deputy</b> Approve the <b>Charter</b>	Take <b>key decisions on CCPs</b> Take <b>key decisions on the strategic roadmap</b> of the Governance Body
<b>Expert Panel</b>	Define <b>key priorities</b> <b>Compose working groups</b> <b>Initiate work</b> on developing the Assessment Framework for Standards and Credit Eligibility Guidelines	Develop and agree on <b>Core Carbon Principles (CCPs)</b> Manage and foster <b>market interlinkages</b>
<b>Executive Secretariat</b>	Establish a <b>workplan and operating model</b> Establish an <b>HR model</b> Prepare <b>public communications</b> Develop a <b>fundraising plan</b> Recommend <b>Secretary-General and Deputy</b> Prepare initial <b>BoD and Expert Panel meetings</b>	Establish <b>legal independence</b> of the Executive Secretariat Manage <b>CCP trademarking</b> Support and ensure <b>regular working schedules for all Bodies</b>

21 September

Merging of the TSVCM into the **IC-VCM**

1-12 November

**COP26: Public announcement** by the new Governance Body

**Many thanks for your  
attention so far...**

**...any questions or comments  
to get the debate started**

