



IETA

Carbon Markets: A Global Overview

A6IP-ISAP Plenary, 23 July 2024



Part 1: Setting the Scene on Today's Compliance Markets



CARBON MARKETS – EXPECTED GROWTH (2030)

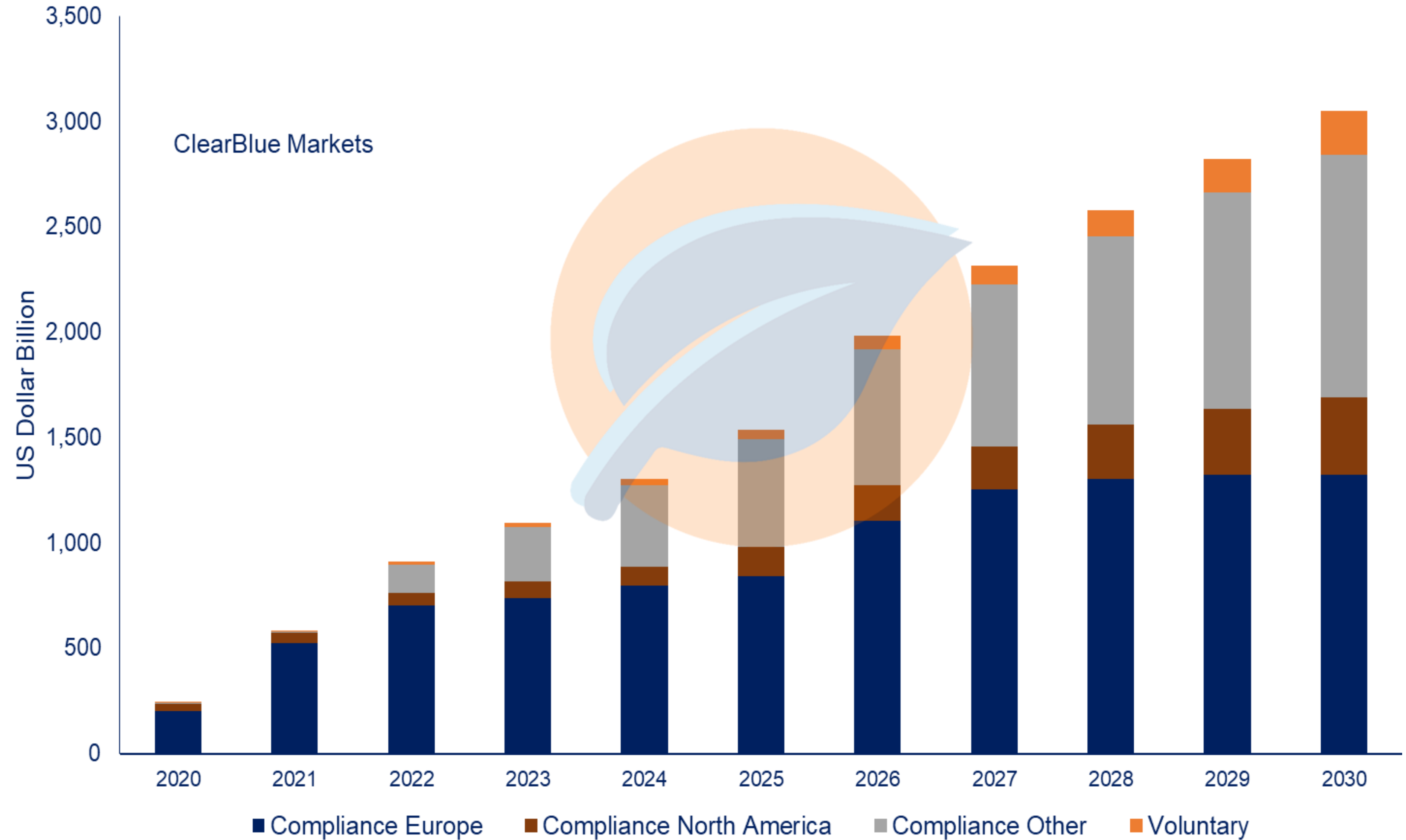
Carbon pricing covers over 23% of GHG emissions → **Push to reach 60% coverage by 2030**

25,000 companies now covered under compliance systems – growth expected:

- ✓ **More jurisdictions**
- ✓ **More emitters covered**
- ✓ **Higher price per tonne**

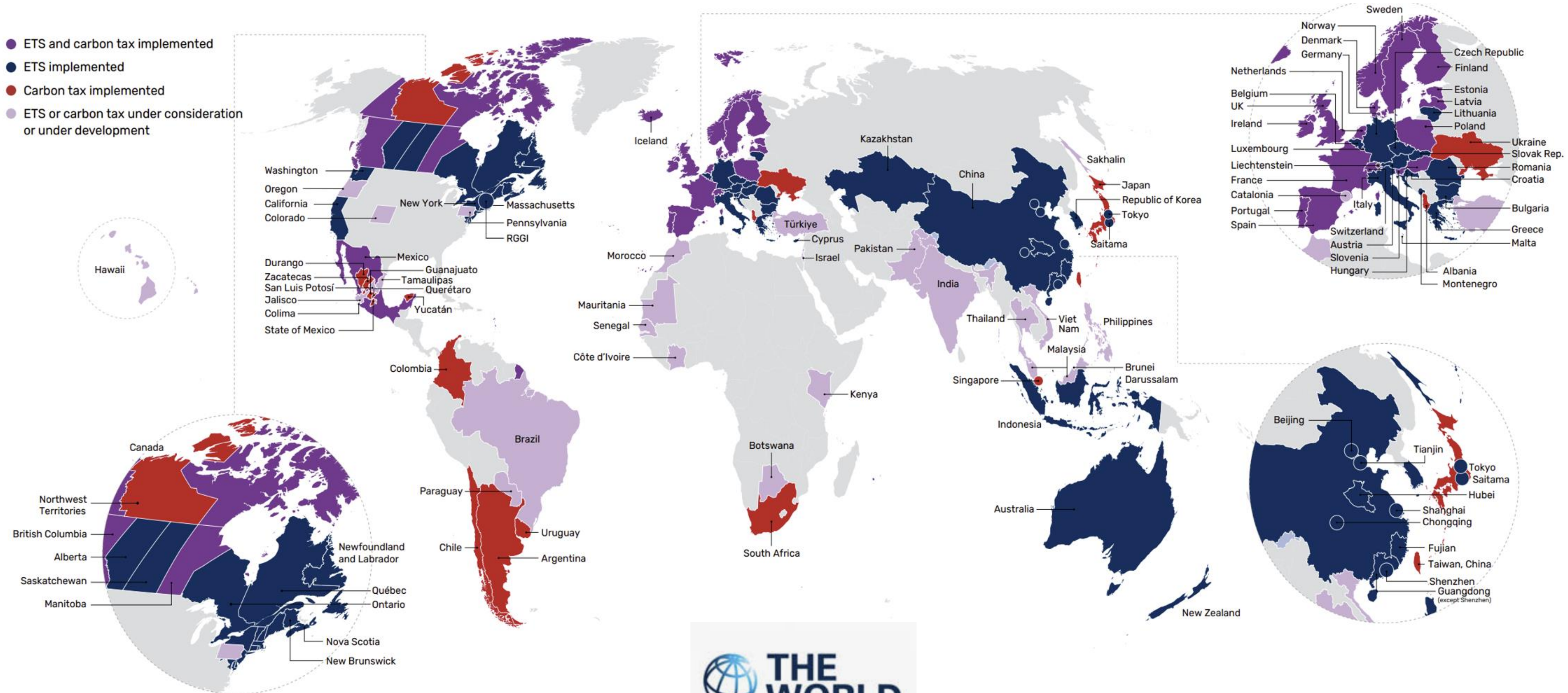
Over 20,000 publicly traded companies expected to have net zero commitments by 2030

Environmental Markets Size Outlook



GLOBAL COMPLIANCE CARBON PRICING (2024)

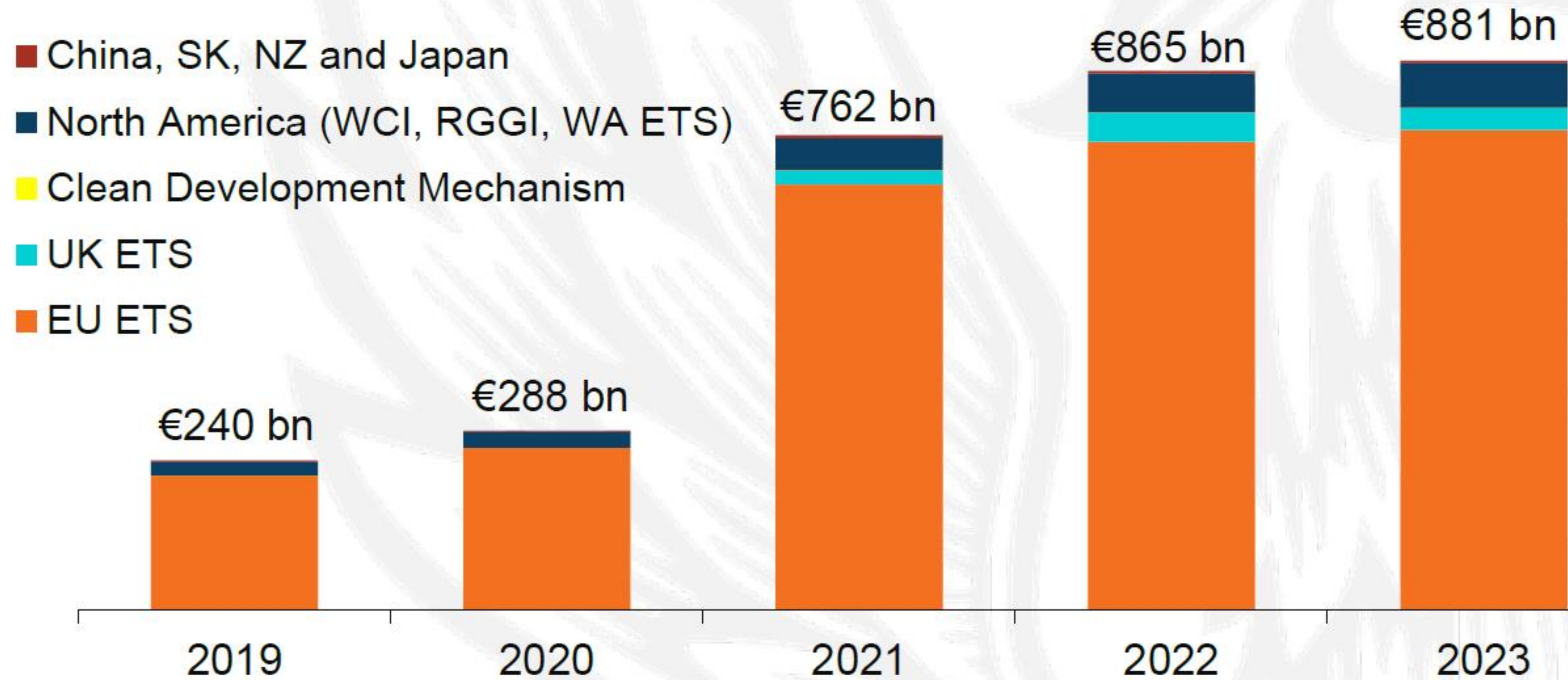
- ETS and carbon tax implemented
- ETS implemented
- Carbon tax implemented
- ETS or carbon tax under consideration or under development



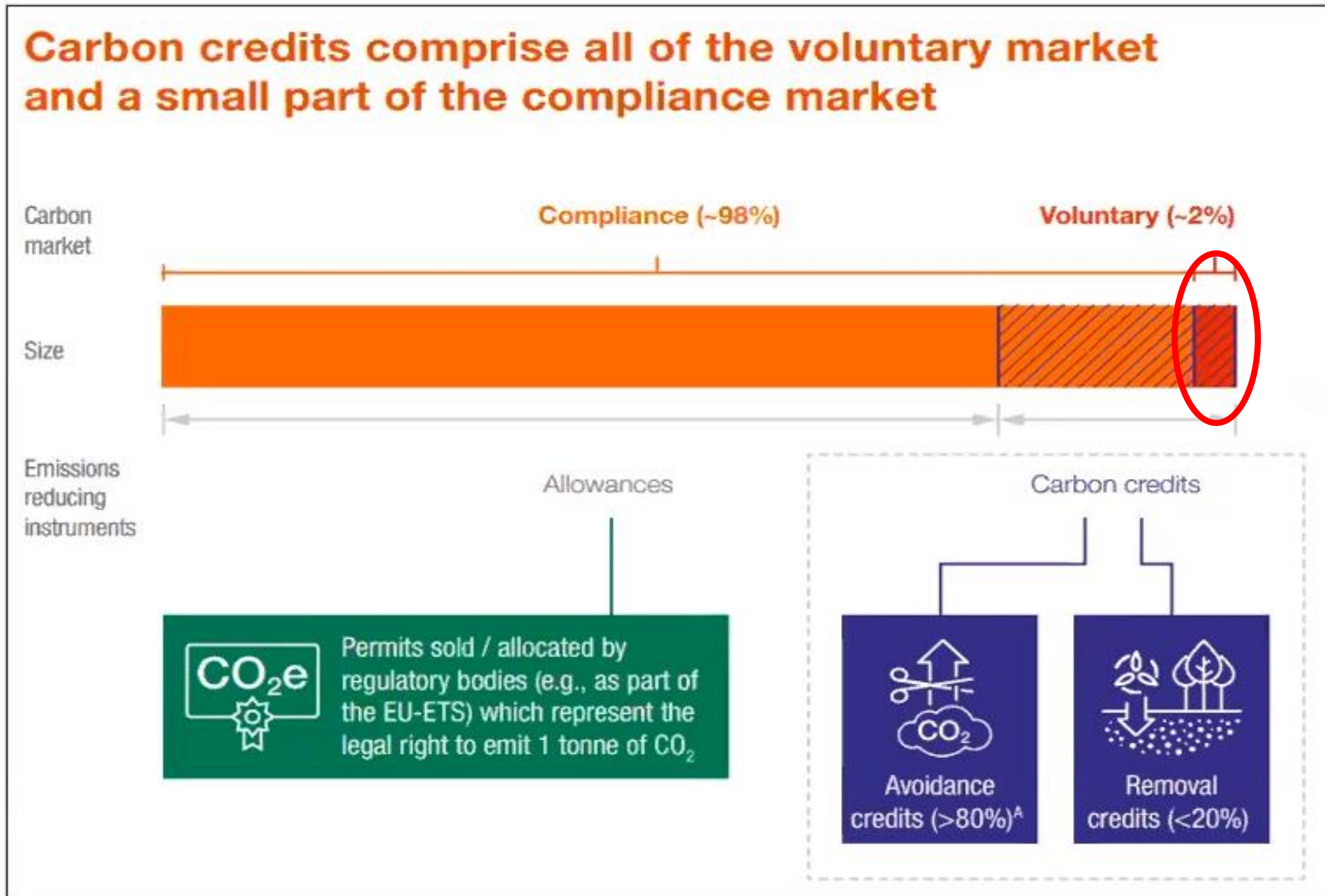
Source: [World Bank](https://www.worldbank.org/) (May 2024)

GLOBAL CARBON MARKETS – GROWTH IN VALUE (in billions of Euros)

World Carbon Markets - Total value by segment



COMPLIANCE AND VOLUNTARY CARBON MARKETS



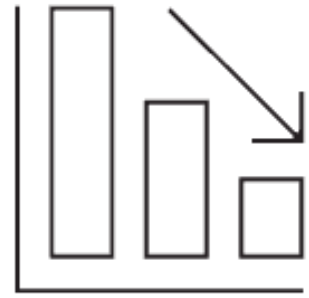
Source: [Shell, BCG \(2022\)](#)

Part 2: The Voluntary Carbon Market (VCM)

MAKING NET ZERO POSSIBLE



ROLE OF THE VOLUNTARY CARBON MARKET (VCM)



To provide a robust mechanism for corporates to reduce or remove emissions beyond their value chain in support of science-aligned net zero pathways



To channel finance to where it is desperately needed, including to the global south, to removals, forest conservation, and delivery of the UN SDGs



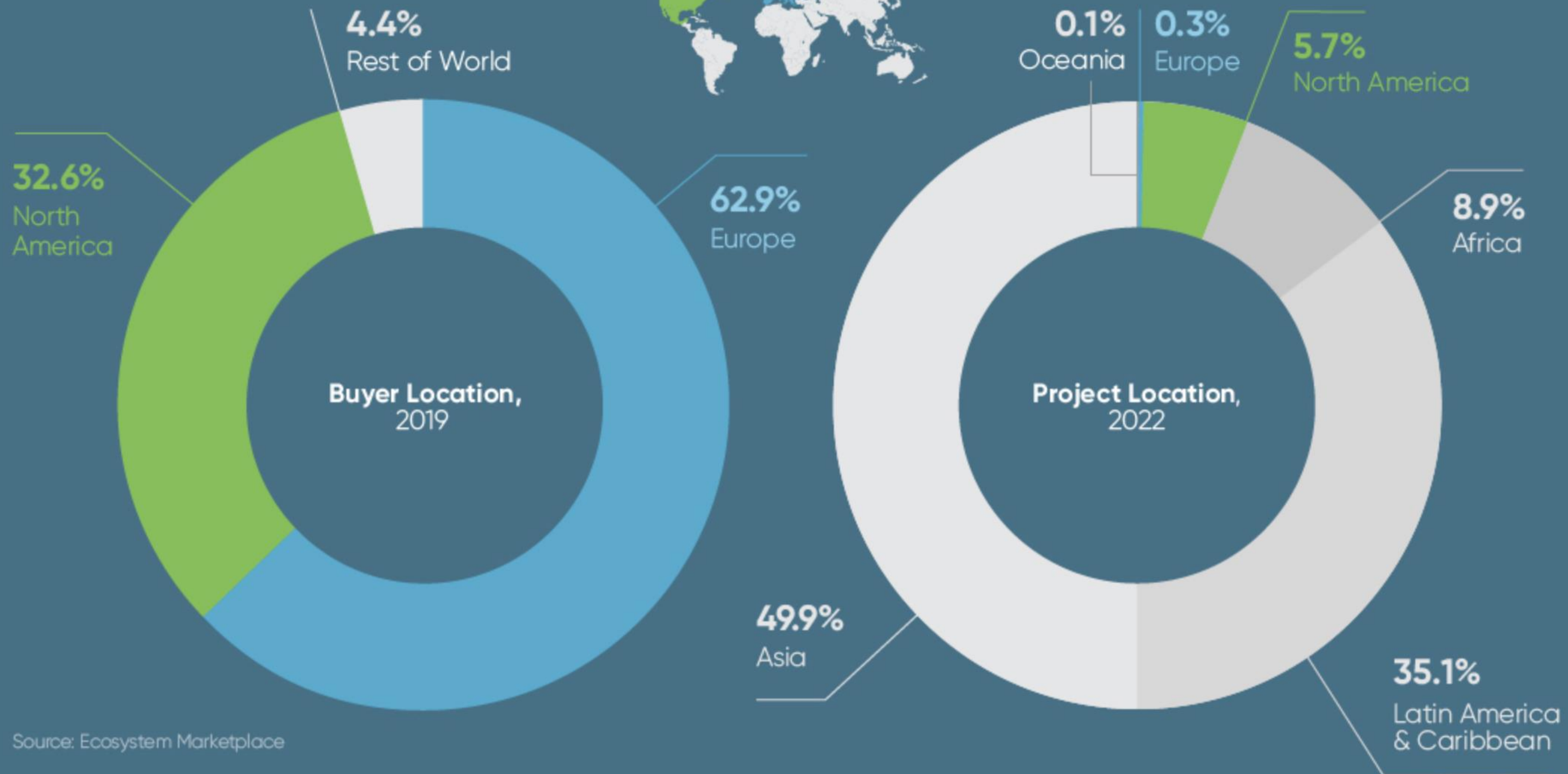
To pave the way for compliance markets

Mobilizing Carbon Finance to the Developing World

Carbon credits help move capital from developed countries to where funds are needed in the developing world.

Carbon Credit Volume

● North America ● Europe ● Rest of World

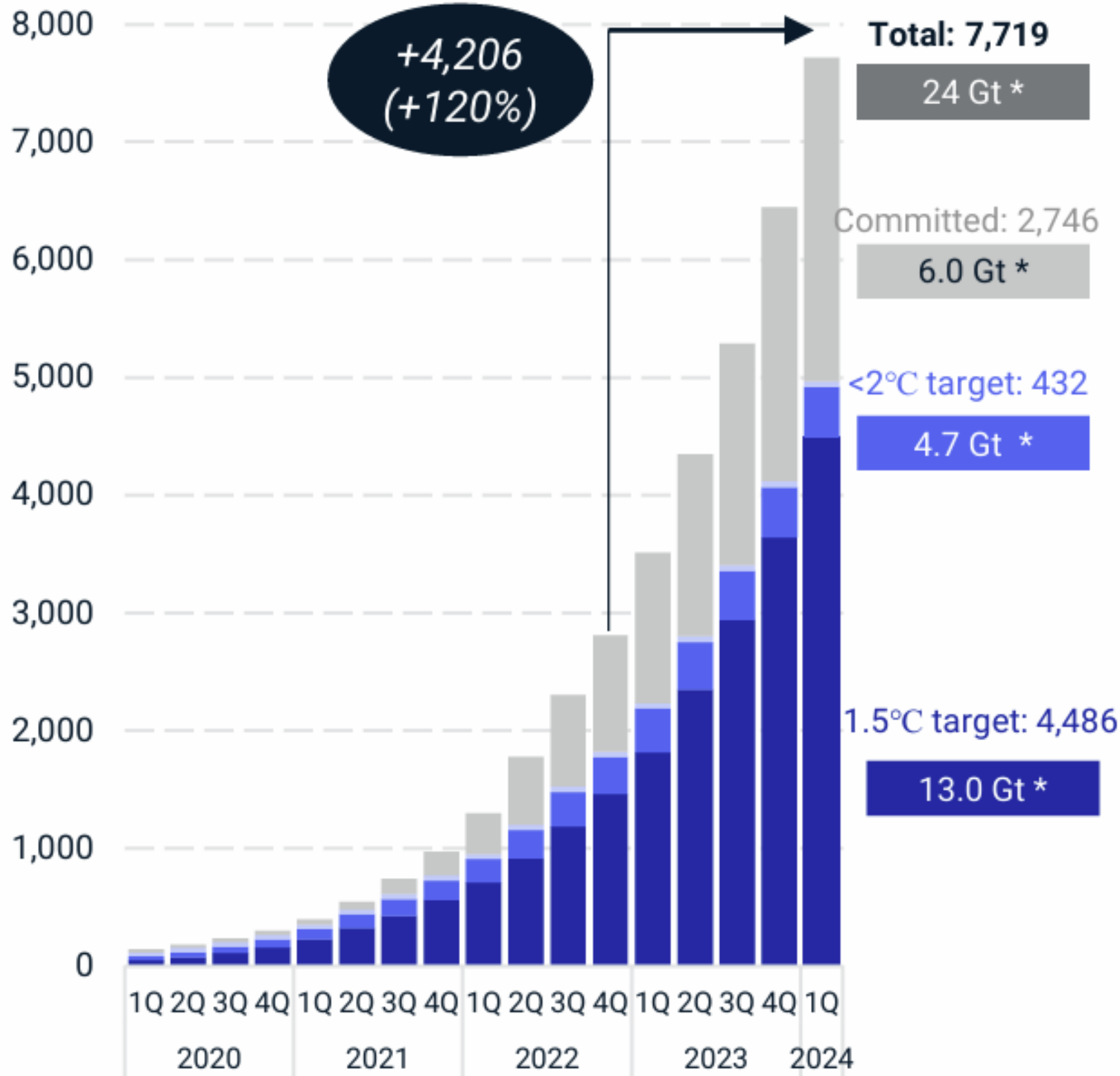


Source: Ecosystem Marketplace

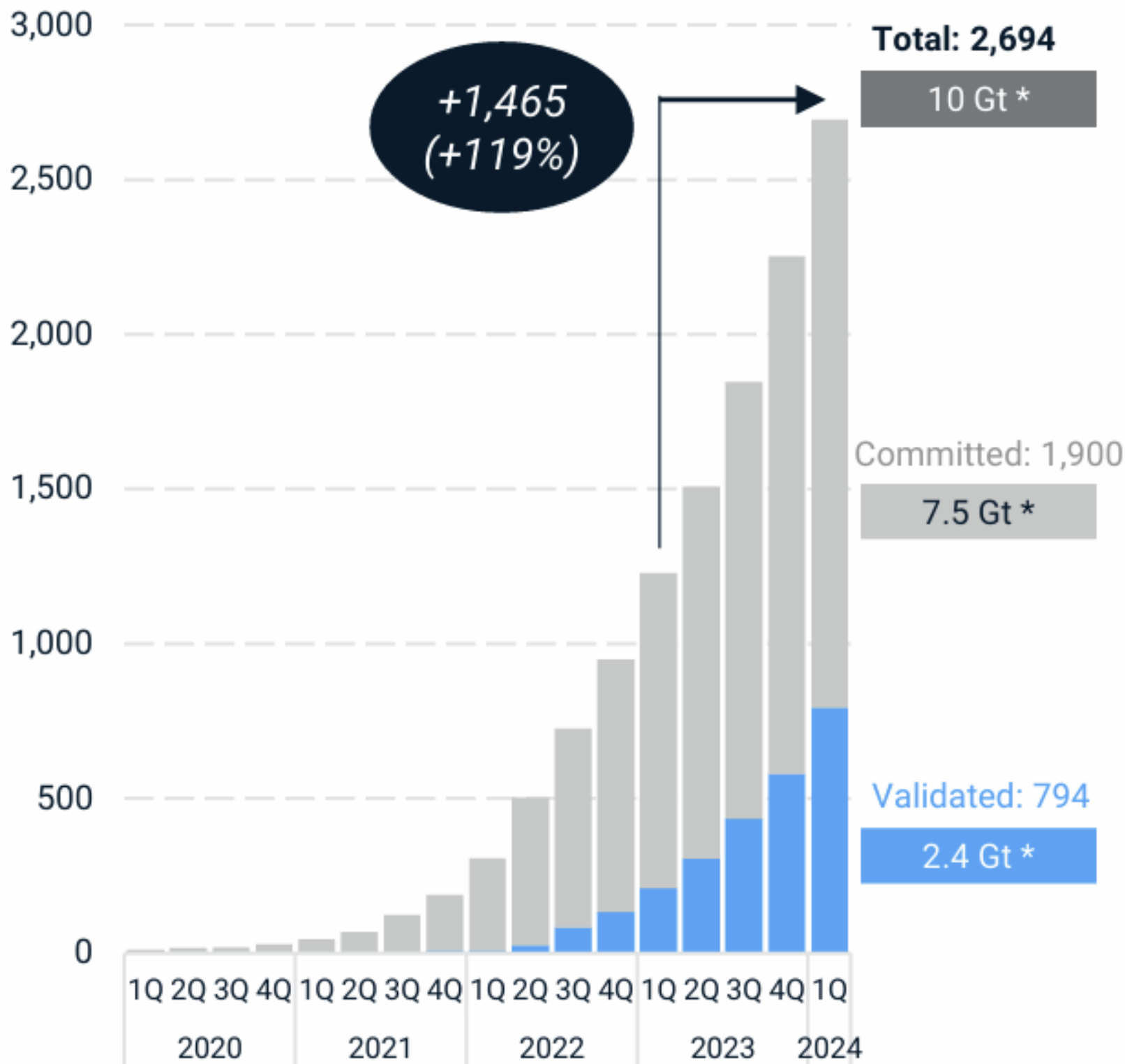
Carbon credits are already helping the developing world meet their needs, but how do they fit in the wider push to decarbonize the economy?

Number of Corporate Climate Commitments Continue to Grow

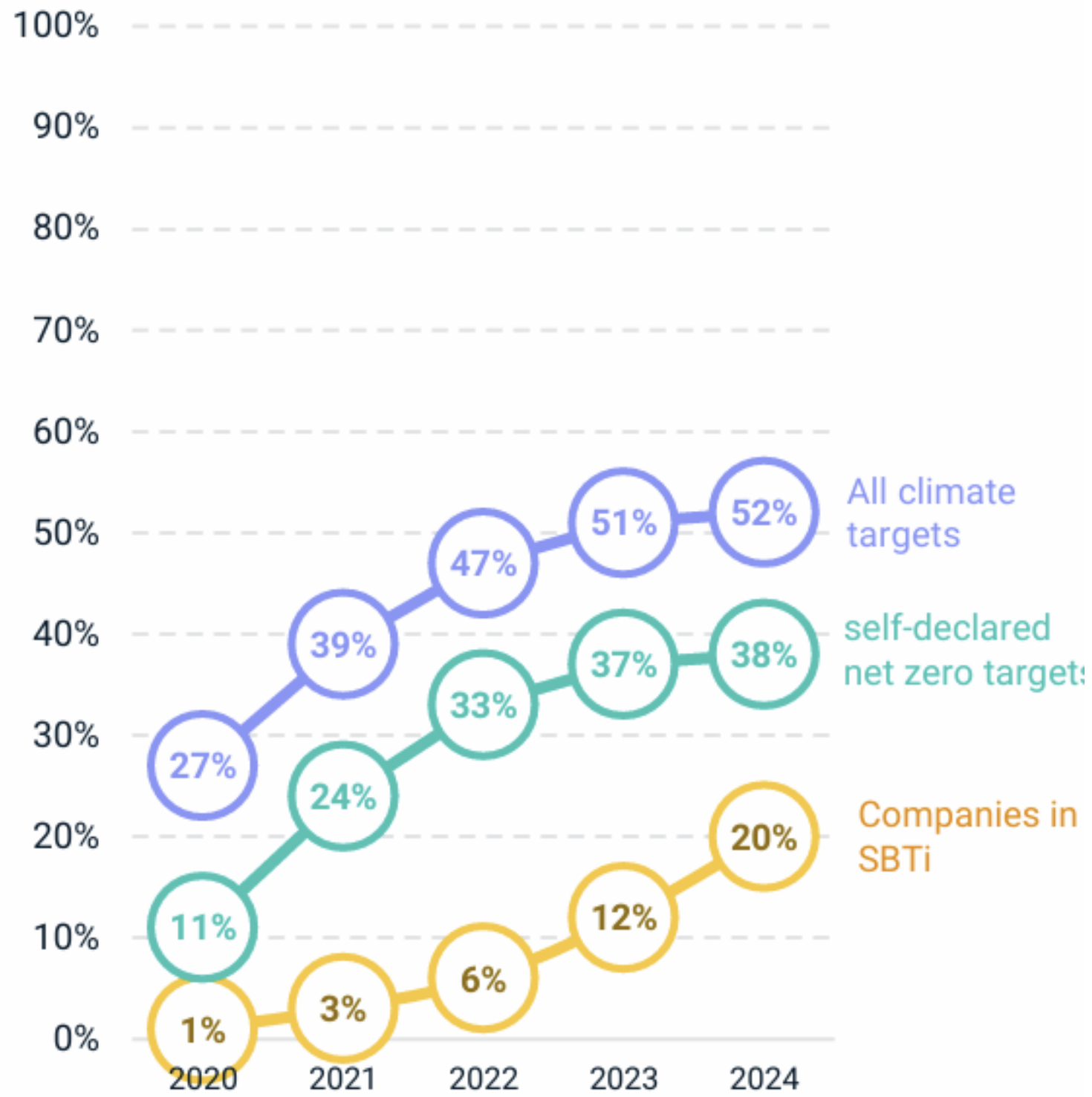
Number of companies with a SBTi emissions reduction target



Number of companies with a SBTi net zero target



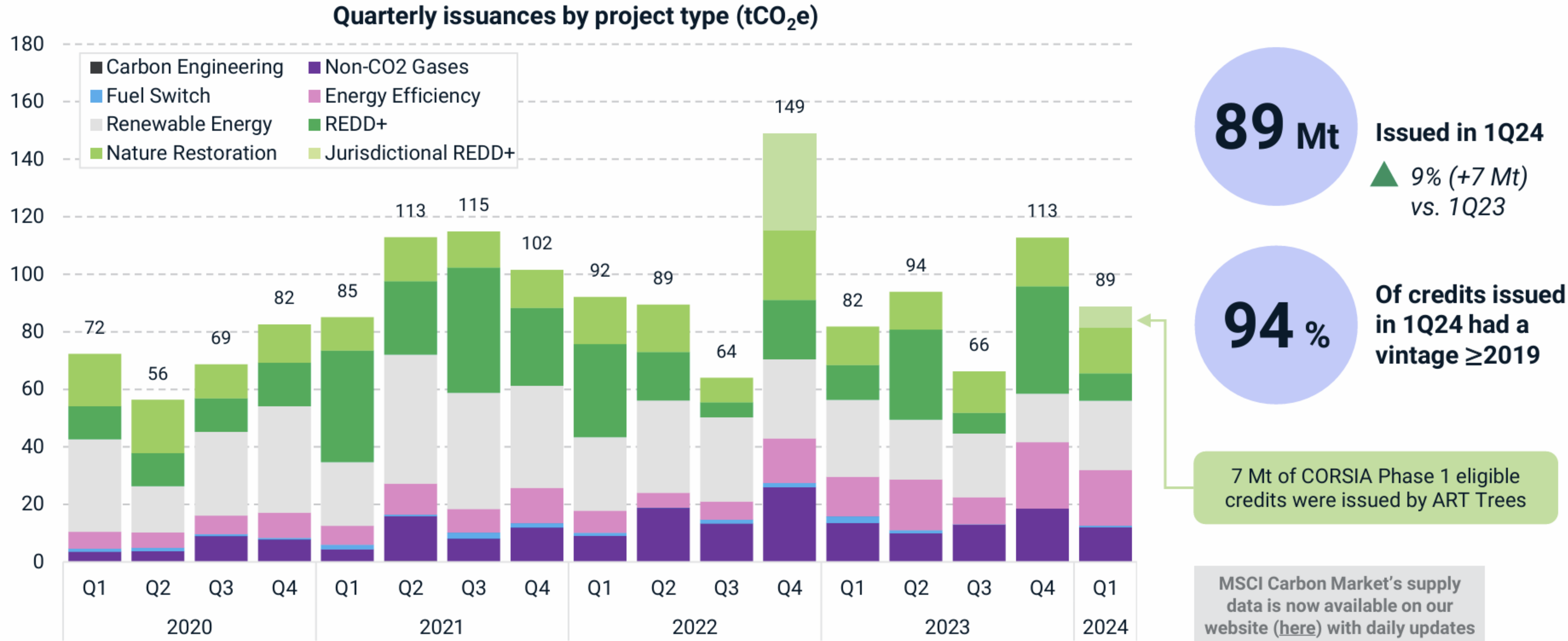
Percentage of listed companies that have set a climate target (~9.5k firms)¹



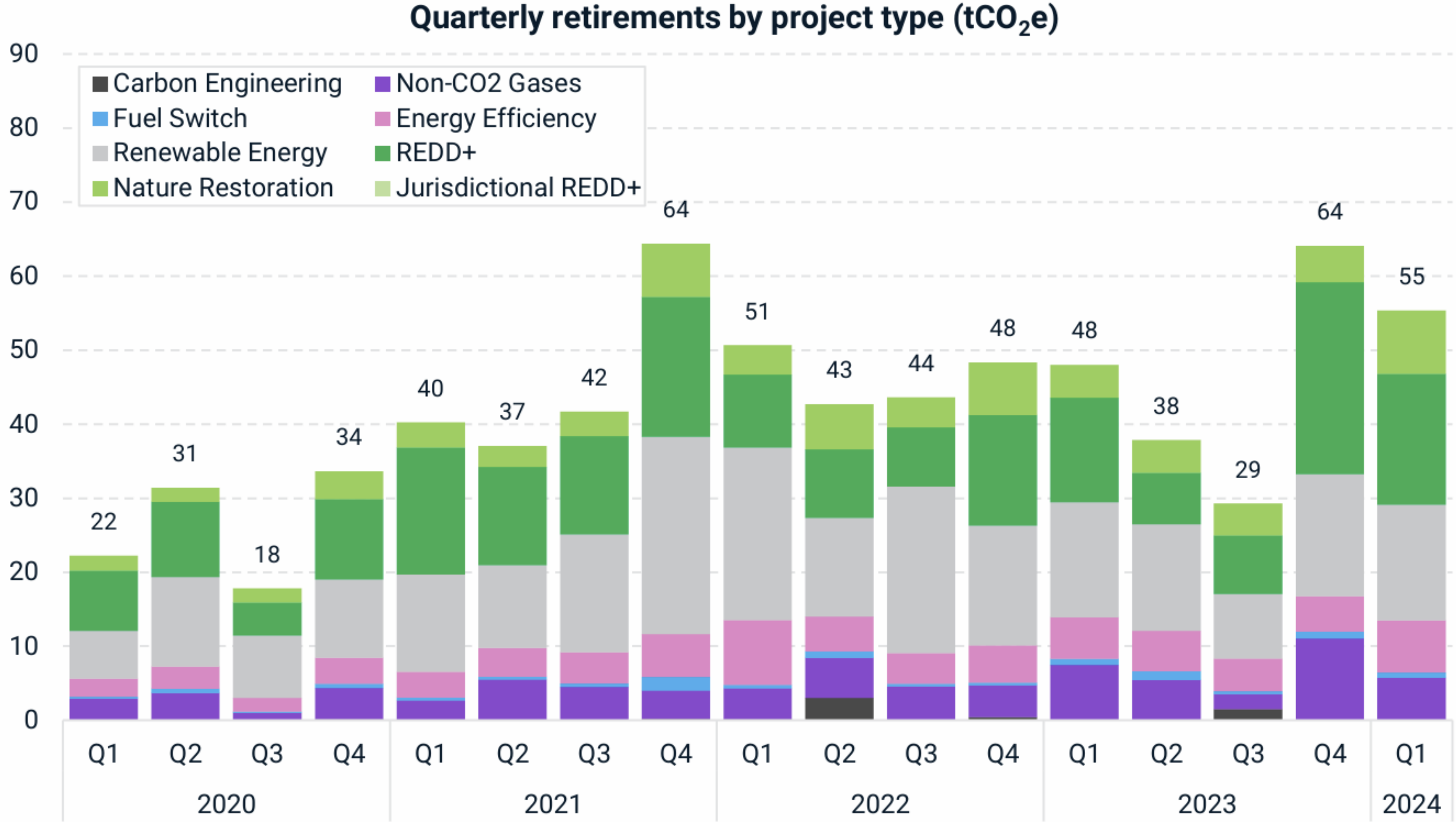
* Scope 1, 2 and 3 emissions as reported by companies

1. MSCI's April-2024 Net Zero Tracker compiled by MSCI ESG Research, Includes Committed and Validated Net Zero Target. Overs firms based on companies in the MSCI ACWI IMI. Source: SBTi, MSCI

SUPPLY – Quarterly Issuances by Project Type



DEMAND – Quarterly Retirements by Project Type



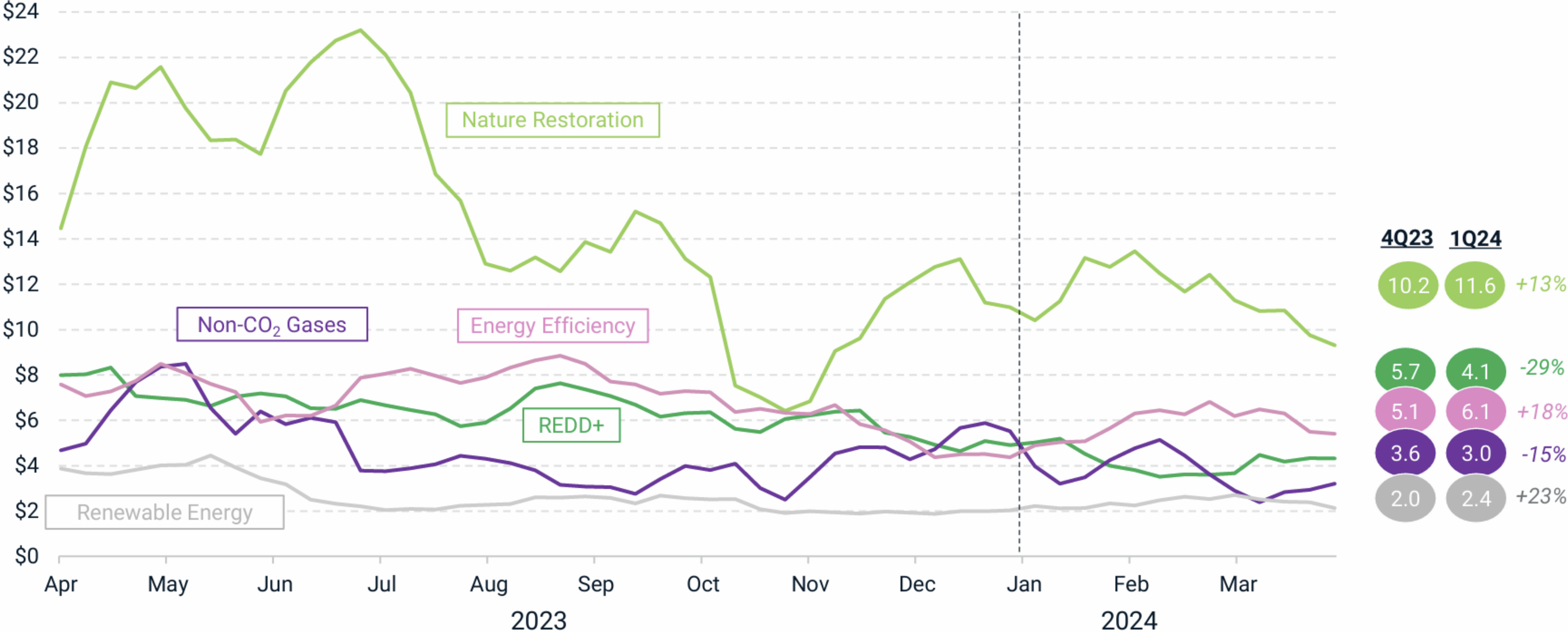
55 Mt Retired in 1Q24
 ▲ 10% (+7 Mt) vs. 1Q23

62% Of credits retired in 1Q24 were ≤5 years old
 ▲ +7pp vs. 1Q23

MSCI Carbon Market's supply data is now available on our website ([here](#)) with daily updates






Price Trends by Project Type

4-week moving average of weekly weighted average carbon credit prices (USD/tCO₂e)¹



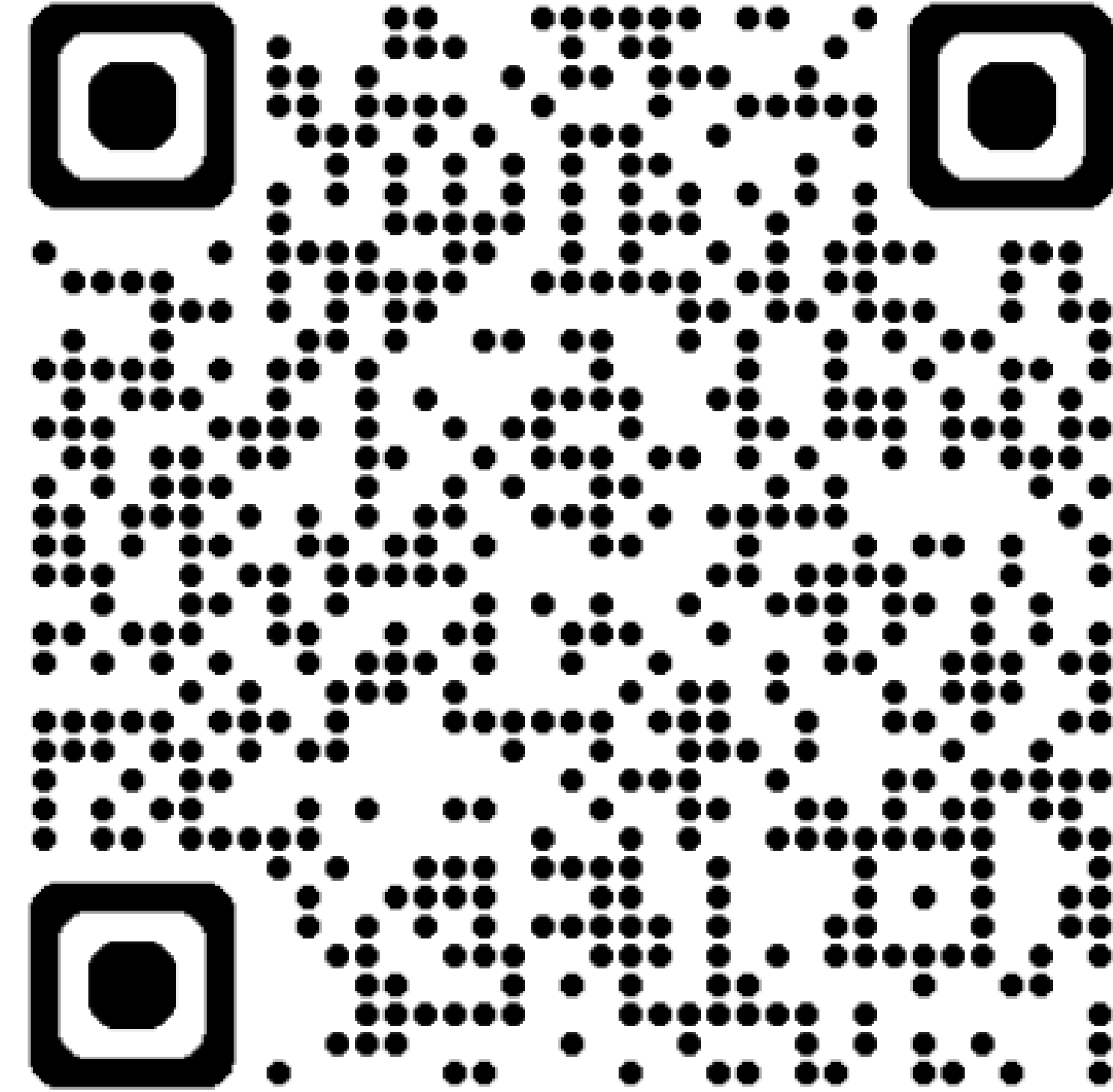
1. Includes both exchange and OTC trades and asks. Averages are weighted by observed volumes of asks and transactions with asks given a lower weighting based on various factors. Source: MSCI Carbon Markets.

VCM GUIDANCE BODIES – “Meta-Standards”

Guidance Body	Positions	Next Steps
 <p>iC THE INTEGRITY COUNCIL FOR THE VOLUNTARY CARBON MARKET</p>	<p>SUPPLY SIDE</p> <ul style="list-style-type: none"> Released their finalized Core Carbon Principles (CCPs) in March and Assessment Framework in July 2023 Will require heavy lift on the part of registries 	<ul style="list-style-type: none"> Q1 '24 release of Program and Category level approvals
 <p>VCMII Voluntary Carbon Markets Integrity Initiative</p>	<p>DEMAND SIDE</p> <ul style="list-style-type: none"> Released additional guidance for its Claims Code of Practice, enabling companies to make claims about their use of high-quality carbon credits This guidance includes a Monitoring, Reporting and Assurance (MRA) Framework, a brand and associated mark for making 'Carbon Integrity' Claims, and the 'Scope 3 Flexibility Claim' 	<ul style="list-style-type: none"> Companies can now make VCMI aligned claims
 <p>SCIENCE BASED TARGETS</p>	<p>DEMAND SIDE</p> <ul style="list-style-type: none"> Since 2020, SBTi has been the Net Zero north star for many large corporates  Negative general view to offsets – removals only stance for offsetting purposes 	<ul style="list-style-type: none"> 2024 (Beyond Value Chain Mitigation & further guidance on removals)
 <p>ISO</p>	<p>DEMAND SIDE</p> <ul style="list-style-type: none"> ISO released their draft standard in late 2022, which pairs guidance on 'carbon neutral' and 'net zero' Completed a public review of the standard in April 2023, which will be used inform the final standard 	<ul style="list-style-type: none"> Q2/Q3 '24 release of final standard



GUIDELINES FOR
HIGH INTEGRITY USE OF
CARBON CREDITS



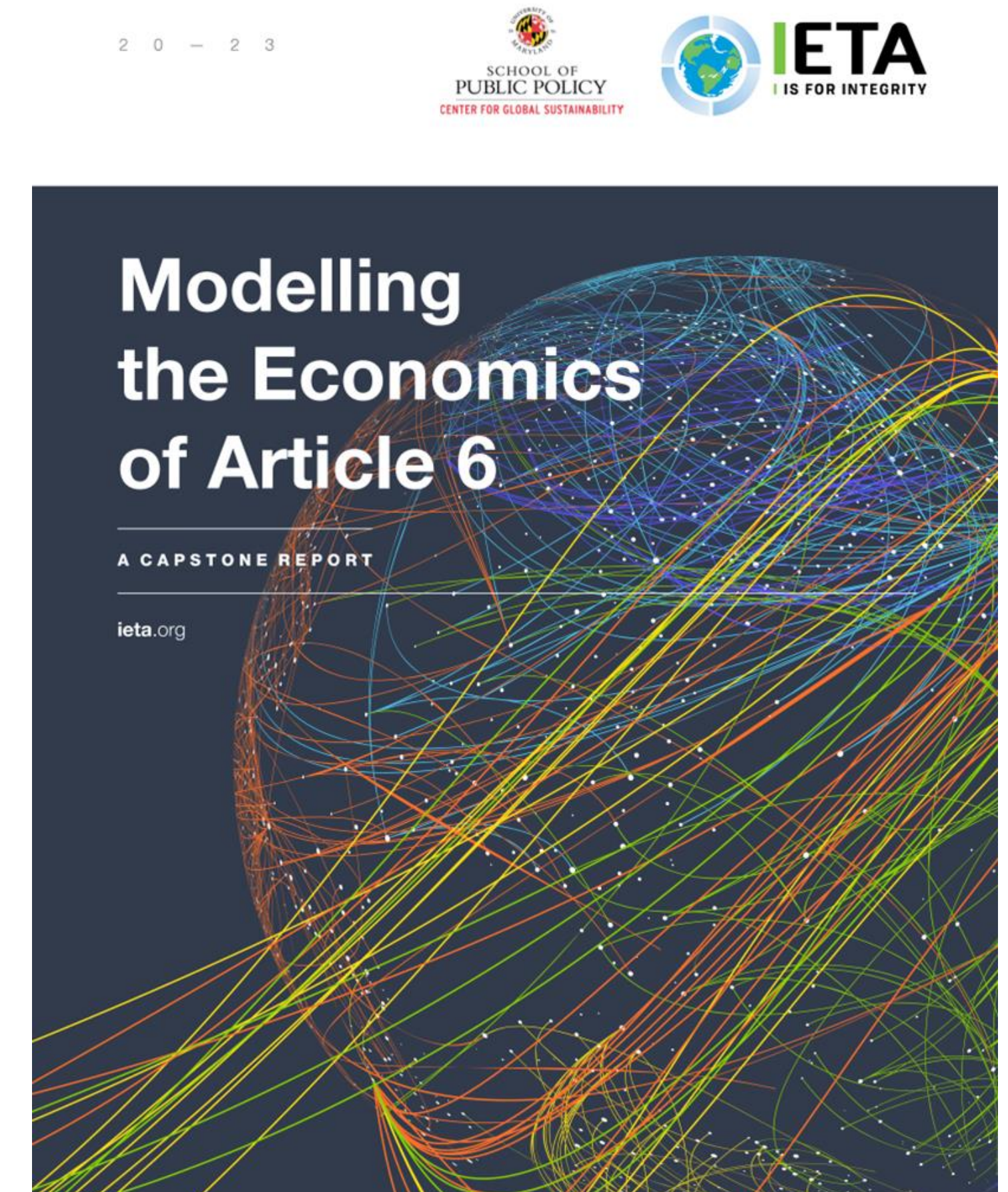
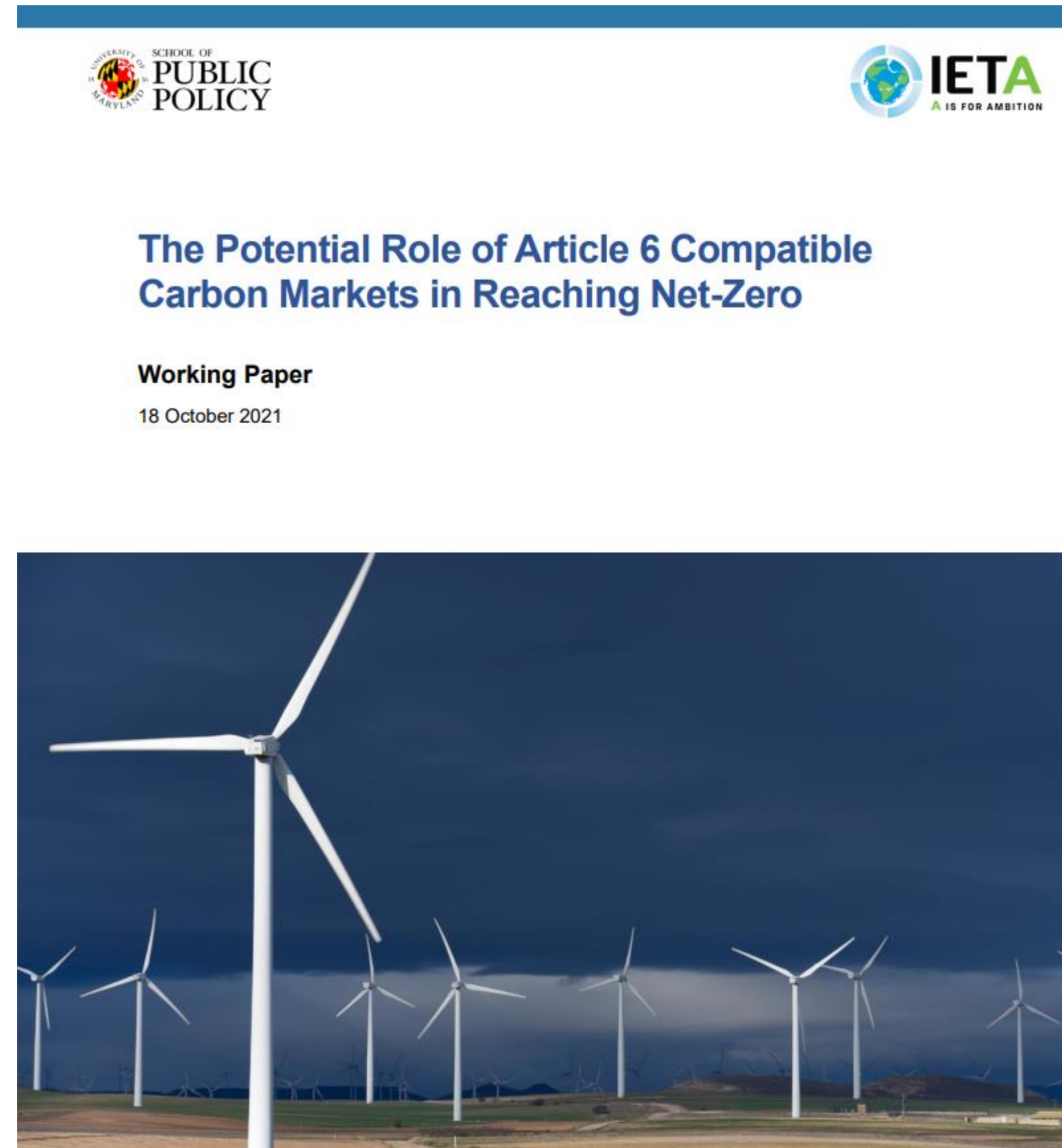
Part 3: Future Potential of Article 6 Trading

MAKING NET ZERO POSSIBLE



IETA ARTICLE 6 ECONOMIC MODELING

Power of International Market Cooperation



Source: [IETA, UMD Website](#)

THE ECONOMICS OF ARTICLE 6 (I)

\$250 billion a year in savings by 2030

when implementing NDC using Article 6 vs. independent implementation.



SCHOOL OF PUBLIC POLICY
CENTER FOR GLOBAL SUSTAINABILITY



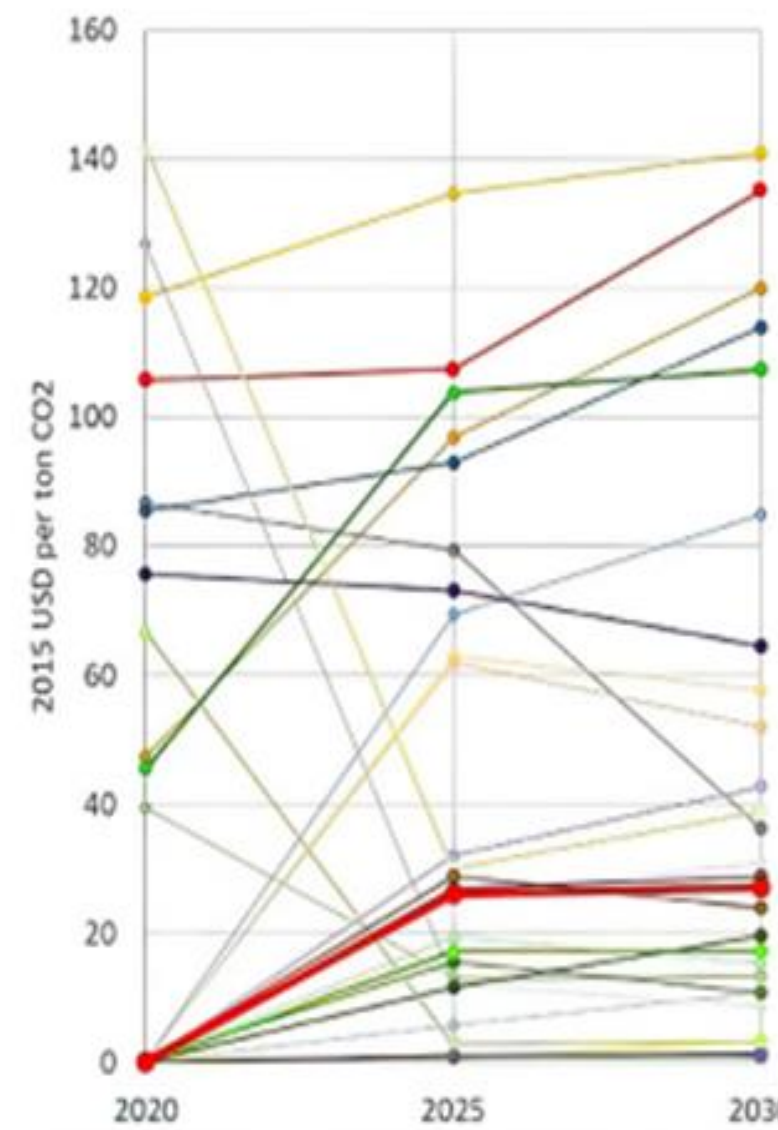
Additional reduction of 5Gt CO₂eq. per year by 2030

if savings are invested in additional mitigation activities.

Mobilizes up to \$1 trillion a year by 2050

in international financial flows towards emission reduction and removal activities.

INDEPENDENT AND COOPERATIVE SHADOW PRICES OF CO₂



THE ECONOMICS OF ARTICLE 6 (II)

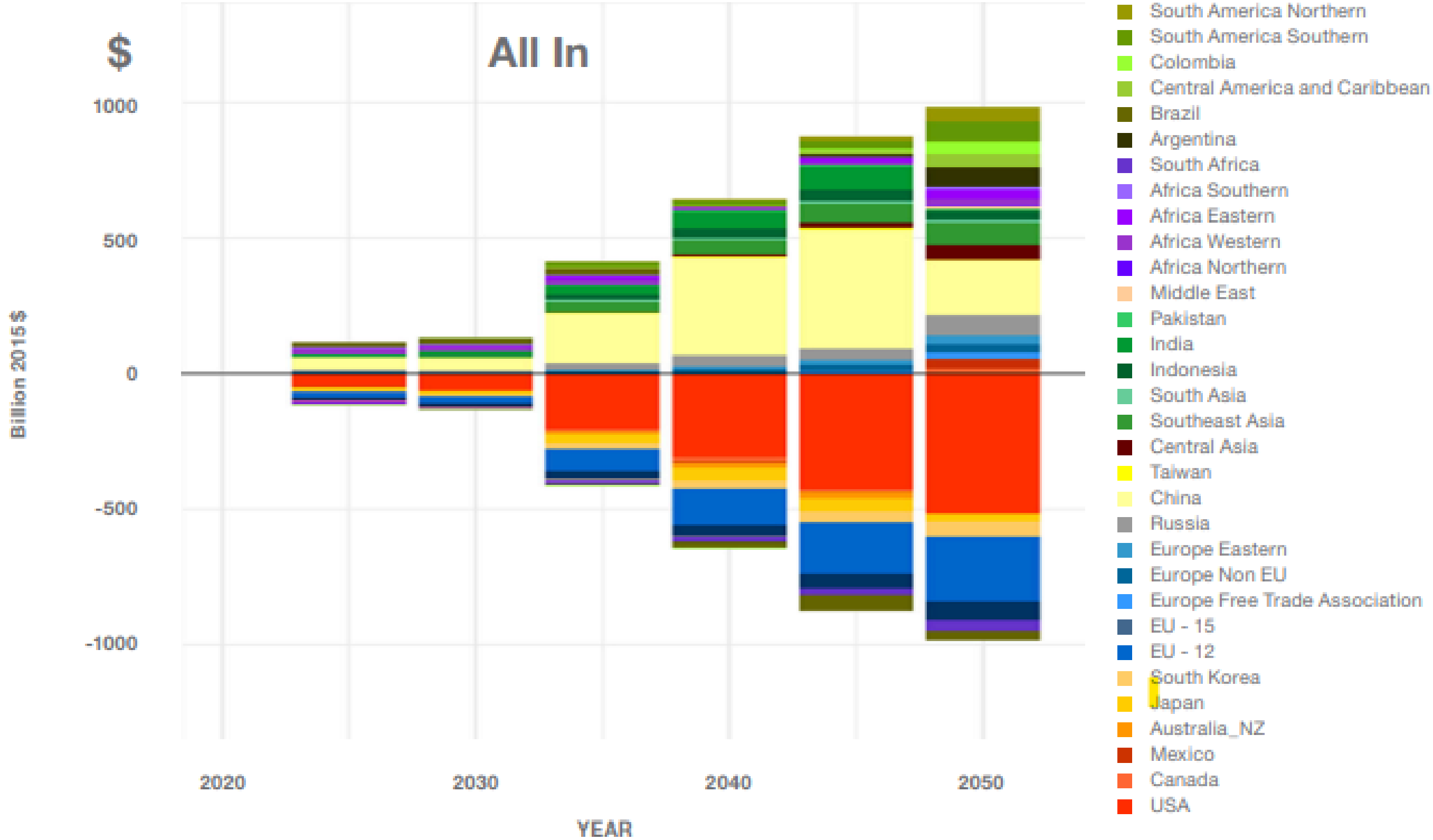
Large buyers include the United States, Europe, Japan and Canada.

Large sellers include Russia, China, India and Brazil.

Role and degree of benefits depend on club membership

it is more beneficial to cooperate early and with diverse economies.

Large players non-participation has limited impact – domestic carbon price of country not trading is significantly impacted, while international prices see limited change.



ARTICLE 6 OVERVIEW

International framework between countries, but private sector to play a key role

Cooperative implementation of NDCs, to unlock climate finance, increase climate ambition and sustainable development.

Market-based for Art. 6.2 cooperative approaches and Art. 6.4 mechanism (Art. 6.8 covers non-market approaches).

Article 6.2

- Accounting and reporting framework for international transfer of emission reductions and removals
- Party-led policy design:
 - Bilateral or Multilateral (climate club)
 - Sectoral (CORSA)
 - Unilateral

Article 6.4

- Crediting mechanism run at UNFCCC level
- Operational rules and processes to be developed by Supervisory Body (SBM)
- It will issue A6.4ERs that may be used for NDC achievement



Article 6.2

- Rulebook largely completed, but negotiations are complex
- Some Parties want to introduce tighter oversight and controls over Party-to-Party arrangements (definitions, approvals, etc.), others disagree
- **Current rulebook does not prevent full implementation**
- **Disagreement on registry architecture** slowing down operationalization of the UNFCCC “international registry”
 - but this is not a requirement, Parties can use national or independent registries
- Reporting templates not yet approved
- Capacity building required

Article 6.4

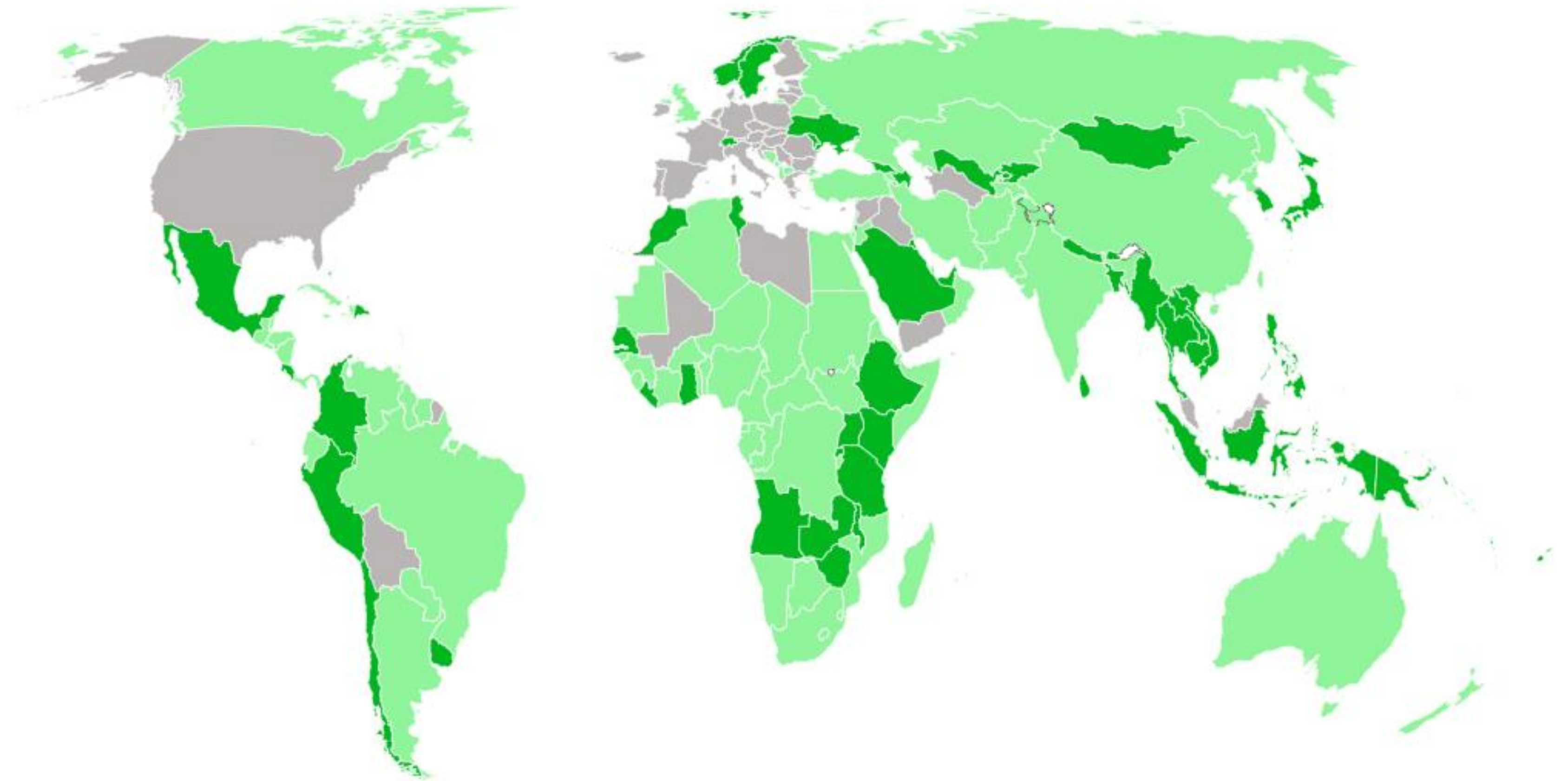
- Supervisory Body (SB) and Secretariat faced with overwhelming amount of work
- **Without consensus, mechanism cannot operate**
- **Methodologies and removals requirements are contentious**
- Methodologies Expert Panel (MEP) established in 2024
 - MEP updates CDM meths and consider new ones
- Transition of CDM projects ongoing
- Mechanism registry to be operational in 2025 (?)



NDCs AND ARTICLE 6

80% of countries signaled their intention to use international market mechanisms or broad international support to meet their NDCs or increase ambition

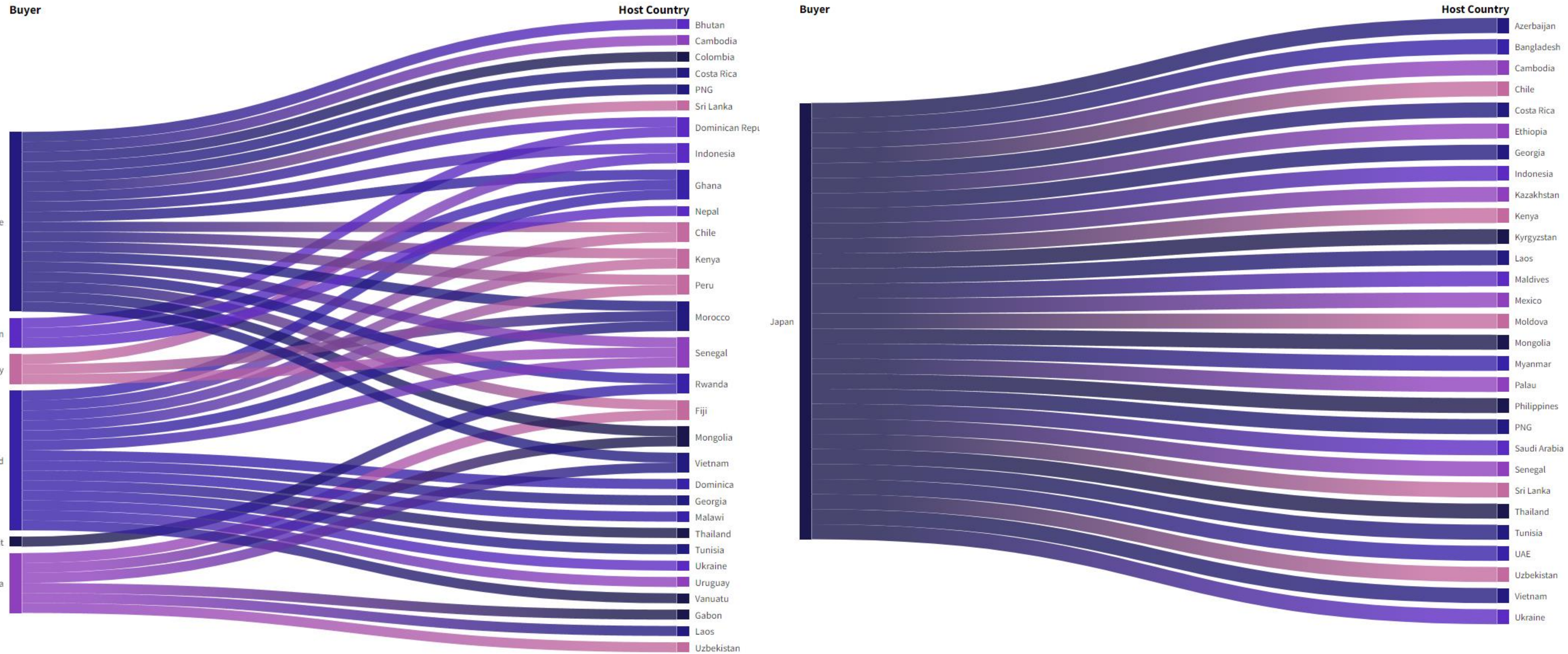
Over 20% of countries actively engaged in at least one cooperative approach through bilateral agreements, MOUs or participation in pilot projects.



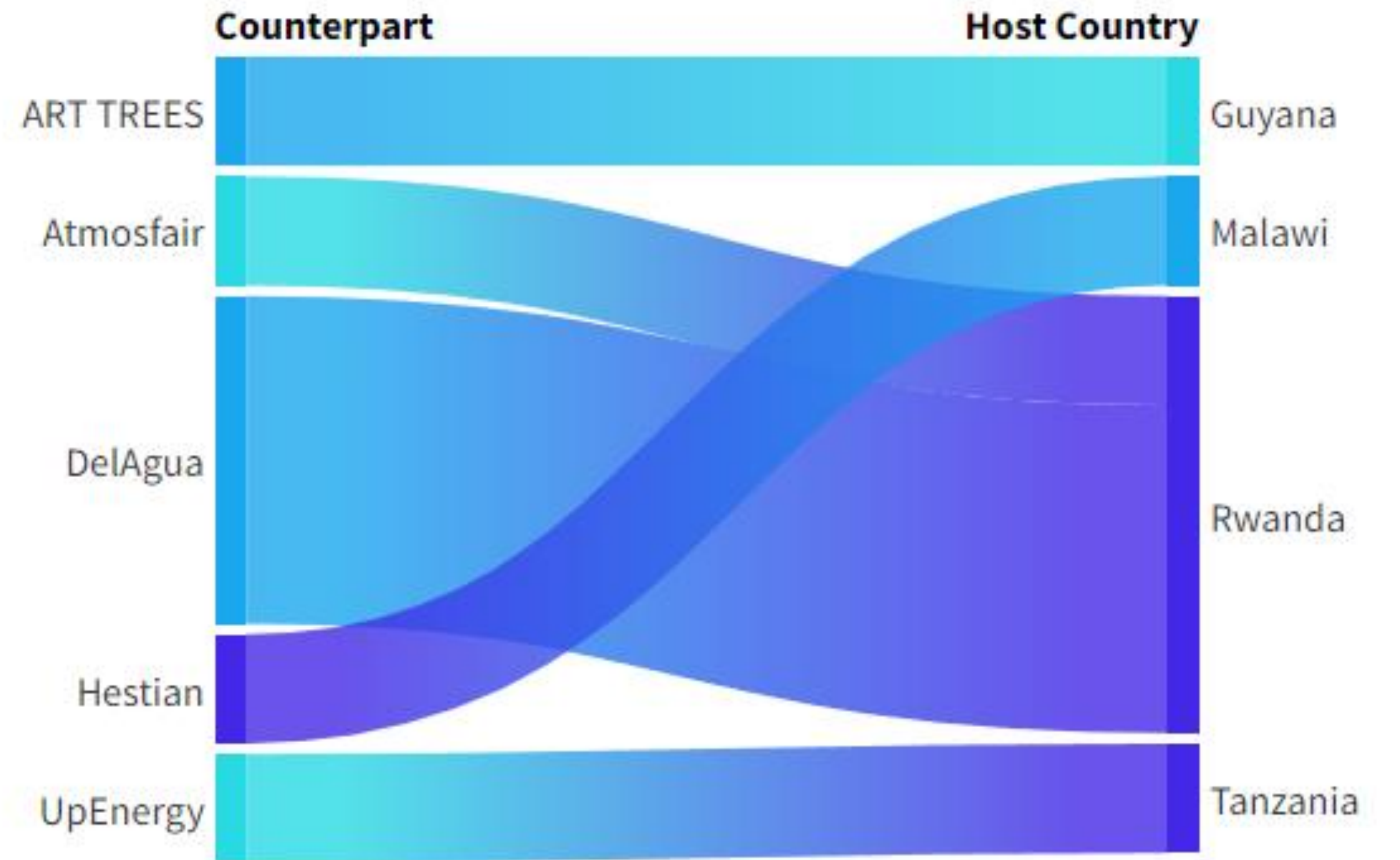
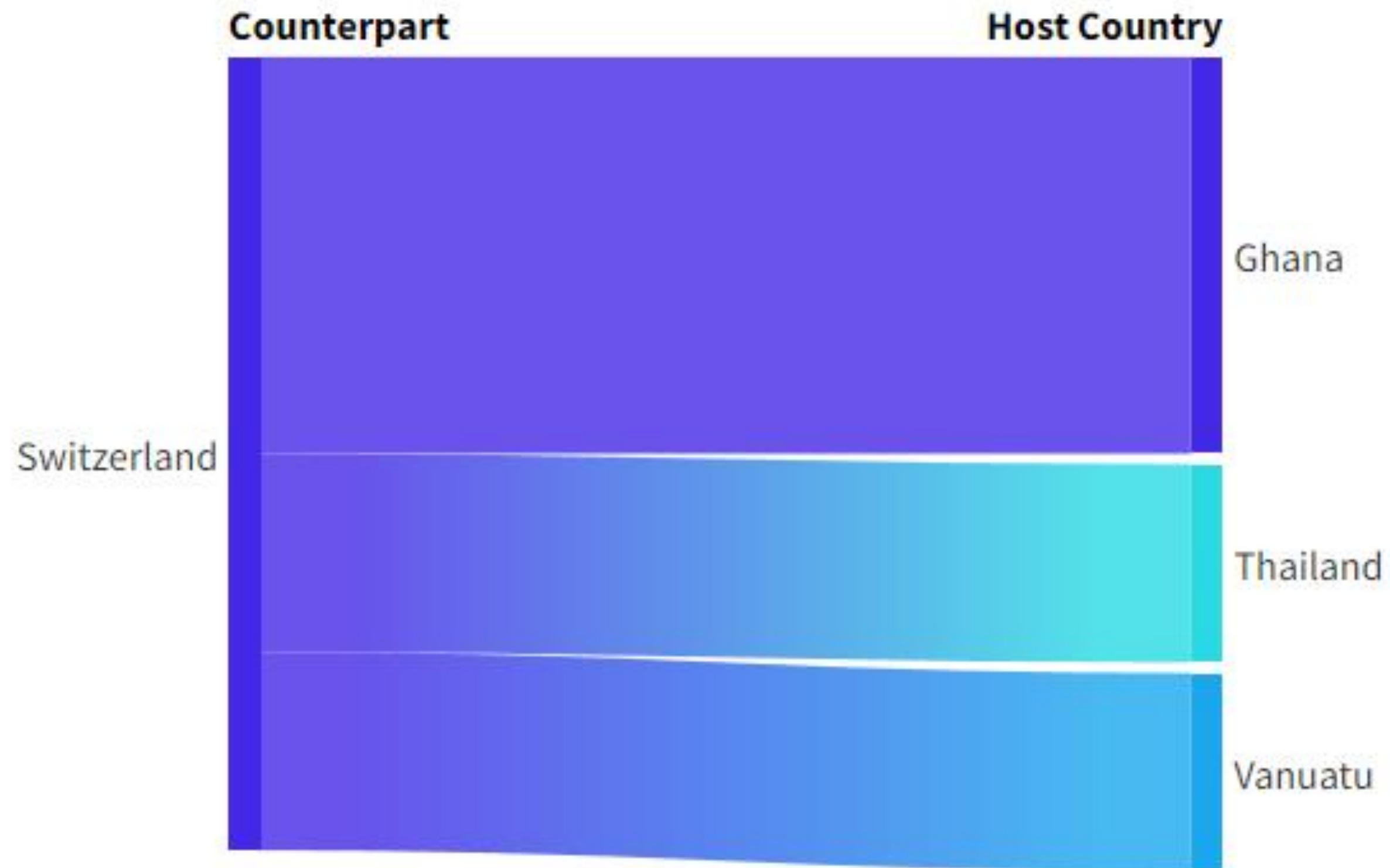
- Countries that signalled their intention to use international market mechanisms or broad international support to meet their NDCs or increase ambition.
- Countries actively engaged in at least one cooperative approach through bilateral agreements, MOUs or participation in pilot projects.
- Does not mention or without information



BILATERAL (G2G) AGREEMENTS – TRACKER



LETTERS OF AUTHORISATION (LOAs) – TRACKER



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