



Taskforce on Scaling Voluntary Carbon Markets

Summary pack

January 25th, 2021

What is the Taskforce on Scaling Voluntary Carbon Markets?

The Taskforce on Scaling Voluntary Carbon Markets is a private sector-led initiative

Our goal is to scale transparent, verifiable and robust voluntary carbon market to help meet the goals of the Paris Agreement

Sponsored by

Tim Adams,
President and CEO



Chaired by

Bill Winters, Group
Chief Executive



Led by

Annette L. Nazareth,
senior counsel of
Davis Polk and
former
Commissioner of the
SEC

Supported by

Mark Carney, UN
Special Envoy for
Climate Action

Composed of

50+

Market participants
across the value
chain

Consulted by

140+

Highly engaged
subject matter
experts and NGOs

Funded by



Knowledge and advisory support by

McKinsey
& Company

Offsetting – why does it matter?

The world needs climate action now...

Global warming is **our time's largest challenge**. The need for climate action, and tools to mobilize finance for the low-carbon and resilient transition, grows more urgent by the day

The private sector has a huge role to play if we are to reach the 1.5 degree ambition set out by the Paris agreement – **and thus requires action from corporates now!**

... offsets can play an important complimentary role...

In order of priority corporates need to: **i) Reduce, ii) Report and iii) Compensate**

While direct emissions reductions by corporates should be the priority, **offsetting can play an important complementary role to accelerate climate action**

A liquid voluntary carbon market at scale could allow billions of dollars of capital to flow from those making net-zero commitments into the hands of those with the ability to reduce and remove carbon, **significantly contributing in the transition to net zero**

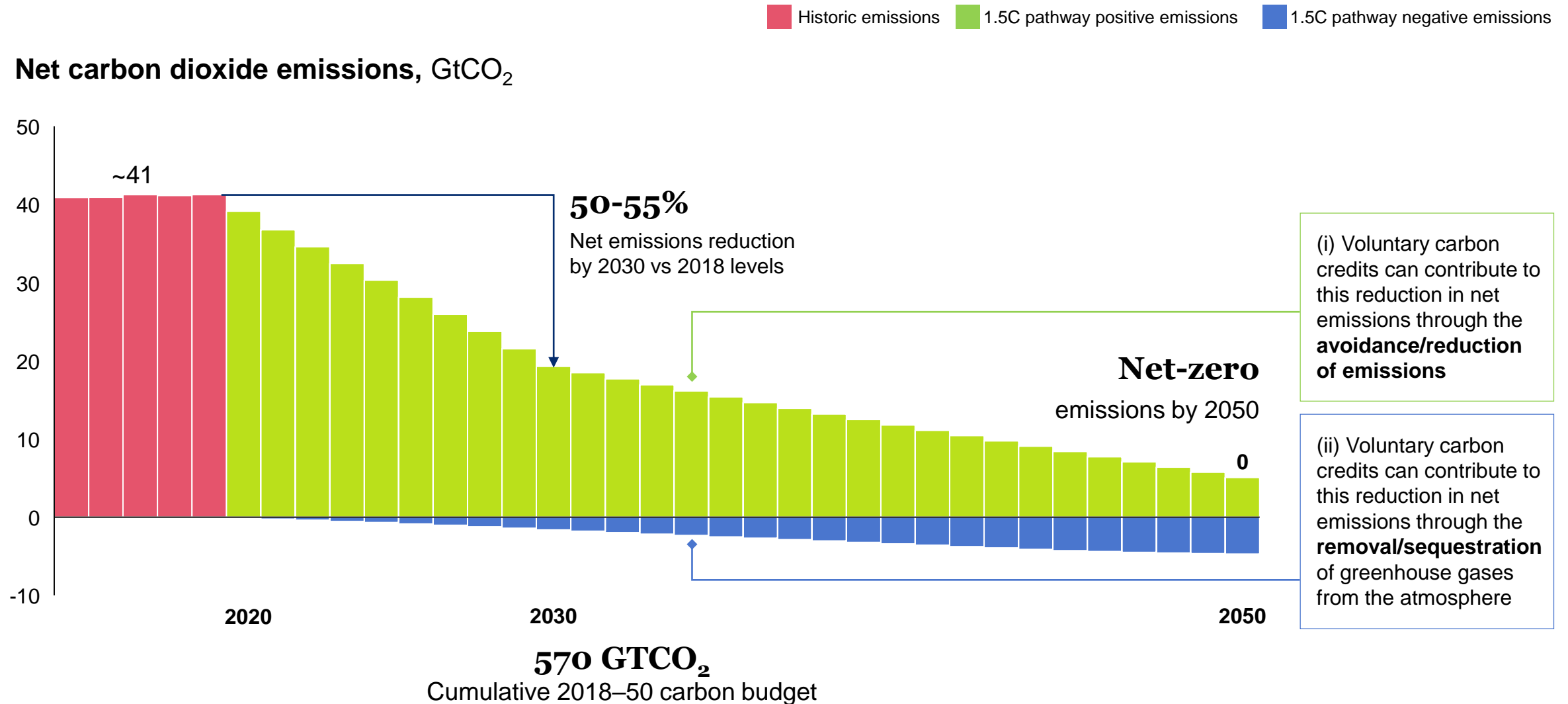
... and bring benefits beyond carbon!

In addition to immediate climate impact, some projects can also generate broader environmental, social, and economic benefits, ranging from:

- Protecting **biodiversity**
- Supporting local communities and **job creation**
- Improving **health outcomes** from avoided pollution
- Moving private **capital to the Global South** where the bulk of nature potential is located
- Scaling **emerging climate technologies down cost curves**, eventually enabling their cost-effective use in direct emissions reductions

How does it fit into the overall picture?

A 1.5C pathway requires a 50-55% reduction in net emissions by 2030. Voluntary carbon credits can help.



Voluntary carbon markets can make a difference through various mechanisms

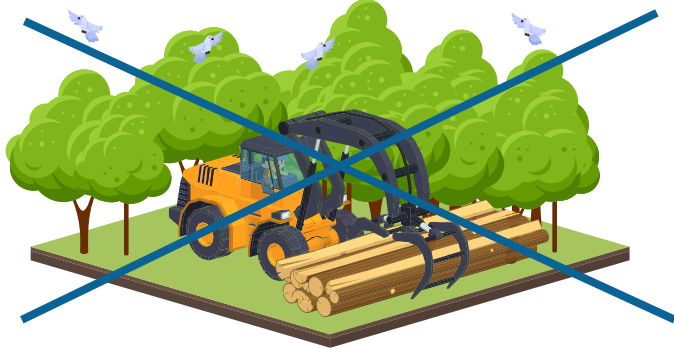
Avoidance/reduction – example carbon credit types:

Avoided nature loss: Limits the loss of nature such as forests and peatland, which currently sequester large amounts of carbon

‘Additional’ emissions avoidance/reduction: Reduces emissions from current sources, which do not have the financial incentive or regulatory requirement to decarbonize

Example for avoided nature loss: avoided deforestation

Avoiding deforestation means protecting large areas of land from logging/other destructive activities. CO₂ that has been stored and sequestered by biomass on this land is therefore not released to the atmosphere.

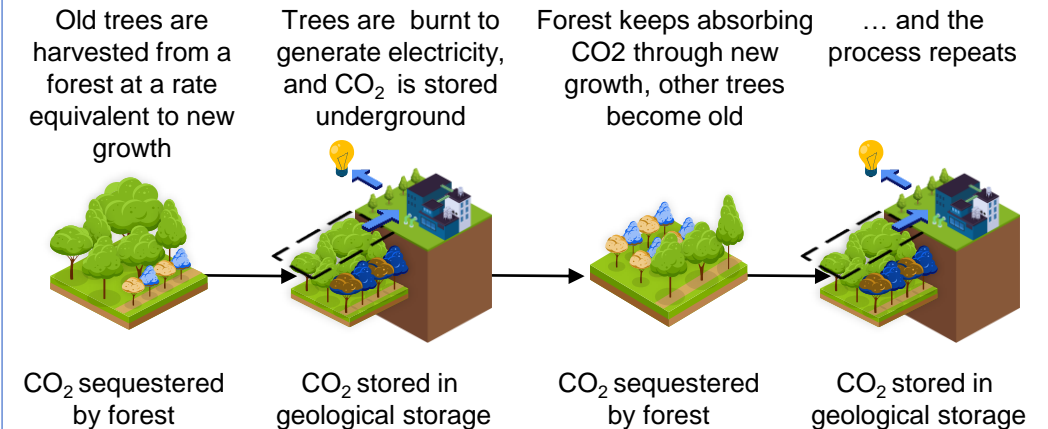


Removal/sequestration – example carbon credit types:

Nature-based sequestration: Uses nature to sequester more carbon in the biosphere, including reforestation and restoring soil, mangroves, seagrass and peatlands

Technology-based removal: Removes CO₂ from the atmosphere with the help of modern technology and stores it in the geosphere or through other secure methods


Example for technology-based removal: bio-energy with carbon capture and storage (BECCS)



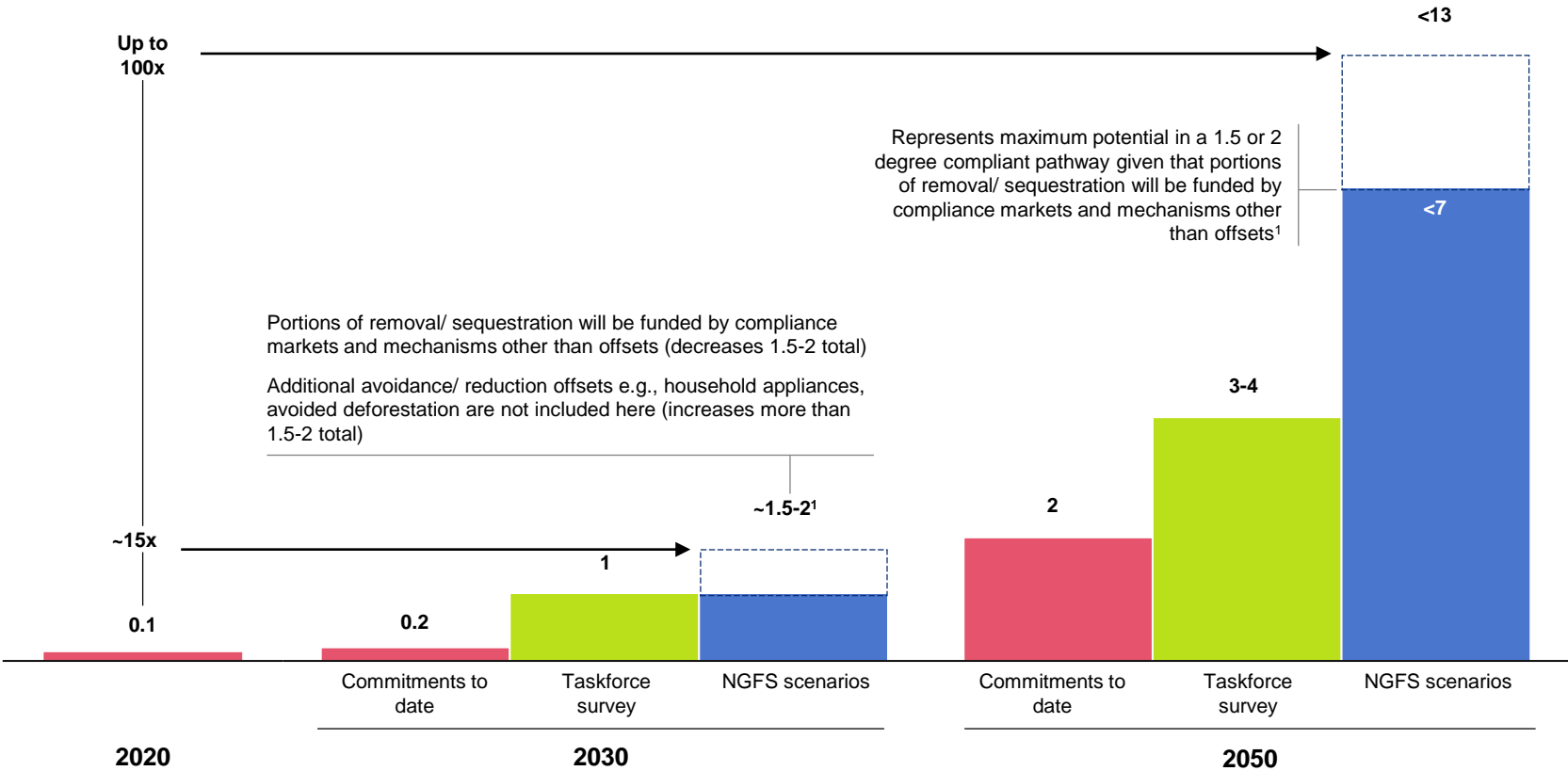
The Taskforce recommends that all project types need financing now in order to meet the carbon budget associated with 1.5°C warming. In the longer term, flows will have to shift towards removals including technology based removal with highly permanent storage, while a significant amount of avoided nature loss projects will still be required

To meaningfully support a 1.5C pathway, voluntary carbon markets need to grow by >15x by 2030

Taskforce survey projects 1 Gt in 2030 and 3-4 Gt in 2050

 Represents NGFS Immediate action 1.5C pathway with CDR

Voluntary demand scenarios in 2030 and 2050, GtCO2 per year



Commitments to date:

Demand that has been established by climate commitments of more than 700 large companies. This is a lower bound as it does not account for likely growth in commitments

Taskforce survey:

Projected offset demand envisioned by subject matter experts within the Taskforce on Scaling Voluntary Carbon markets (i.e., sits between upper and lower bound)

NGFS scenarios:

Removal/ sequestration required in 1.5-degree and 2-degree NGFS climate scenarios in 2030 and 2050.

This is an upper bound in 2050 as it assumes that all removal/ sequestration is supported by voluntary offsets whereas in reality it will be made up by a mix of voluntary and compliance markets as well as mechanisms other than offsets

Note:

This analysis (i) does not take into account the split of credits that will be traded in compliance vs. voluntary markets;
(ii) is built on a starting assumption that the world is compliant with a 1.5 or 2 degree pathway

1. We note that compliance markets will likely grow over time as regulatory requirements (national and sectoral) increase

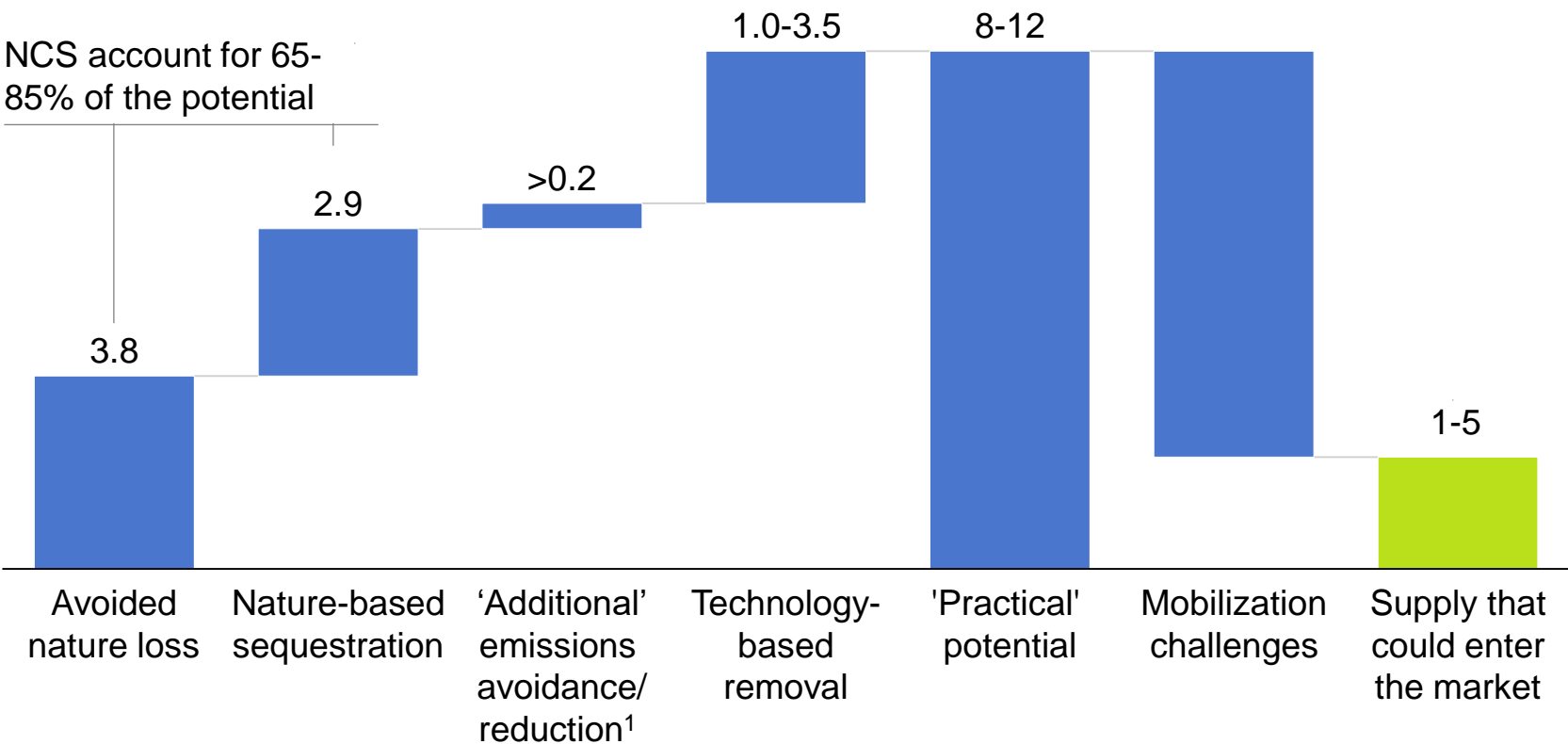
The 'practical' potential of carbon credits is 8-10 GtCO2 per year in 2030

Supply that could enter the market is more likely between 1-5 Gt per year

■ 'Practical' potential ■ Supply that could enter the market

Snapshot of 'practical' potential of carbon credits per year in 2030

GtCO2 per year



1. 0.2GtCO2/yr represents a highly conservative lower bound given it represents existing inventory and excludes pipeline projects and/or forecasts for new projects

To reach 8-12 Gt by 2030, you would need to believe that 100% of the potential would enter the market.

This is not likely due to key mobilization challenges:

Rate and complexity of scale-up

Geographic concentration

Risks

Lack of financial attractiveness

Market size in 2030 will ultimately depend on demand signals and buyer preferences

Scenarios are illustrative rather than forecasts to show need for substantial market growth; market size \$300m in 2019

Scenario	Demand GtCO2/yr		Weighted average price, Per tCO2	Market size
	Weak signal	Strong signal		
A Start with historical supply surplus	1	2	\$5-15	\$5-30 B
B Prioritization of low cost supply			\$10-20	\$10-40 B
C Early investment in technology-based solutions			\$25-35	\$25-70 B
D Preference for local supply			\$50-90 ²	\$50-180 B
E NGFS price of carbon ¹	N/A [triangulation point only]		\$15-100	N/A [triangulation point only]

Note: This analysis (i) does not take into account the split of credits that will be traded in compliance vs. voluntary markets; (ii) is built on a starting assumption that the world is compliant with a 1.5 or 2 degree pathway

Note: We include NCS that have been costed in our cost curve and exclude NCS that have not been costed (~2.5 Gt)

1. Uses the same NGFS scenarios as demand scenarios: Delayed 2C with CDR; Immediate 2C with CDR; Immediate 1.5C with CDR

2. Although credits are available at low costs locally today e.g., agriculture, weighted average price is driven up due to need for technology-based solutions to plug gap between demand and supply

However there are multiple pain-points in today's market that need to be addressed

 Addressed by other initiatives

Market concerns

Tough to navigate for new buyers (e.g. purchasing carbon credits requires technical and market know-how, understanding of independent standards, trusted references for pricing)

Buyers cannot always trust that the project is free of quality or reputational risks (e.g. some large corporates have teams conducting independent checks on projects to ensure quality)

Limited risk management tools exist (e.g. limited use of forward contracts in secondary markets to manage price risk)

Limited financing and resources available for suppliers (e.g. lack of structured finance, burdensome administrative and project development costs, limited capacity in local auditors/VVBs)

Integrity and quality concerns

Low prices leads to worry over quality or create the perception that there is a lack of confidence in the market

Certain methodologies require updating (e.g. some projects may no longer be additional, have flaws in the way baselines were calculated, or do not include adequate guardrails)

Overhang of old credits (e.g. CDM) clogs up the market and depresses overall carbon credit prices

Double counting and double claiming concerns arise out of having multiple, unconnected registries and out of the uncertainty surrounding the Article 6 negotiations

Worry use of offset leads to greenwashing or indicate a lack of real or ambitious climate action (e.g. limited alignment on what constitutes a valid corporate claim)

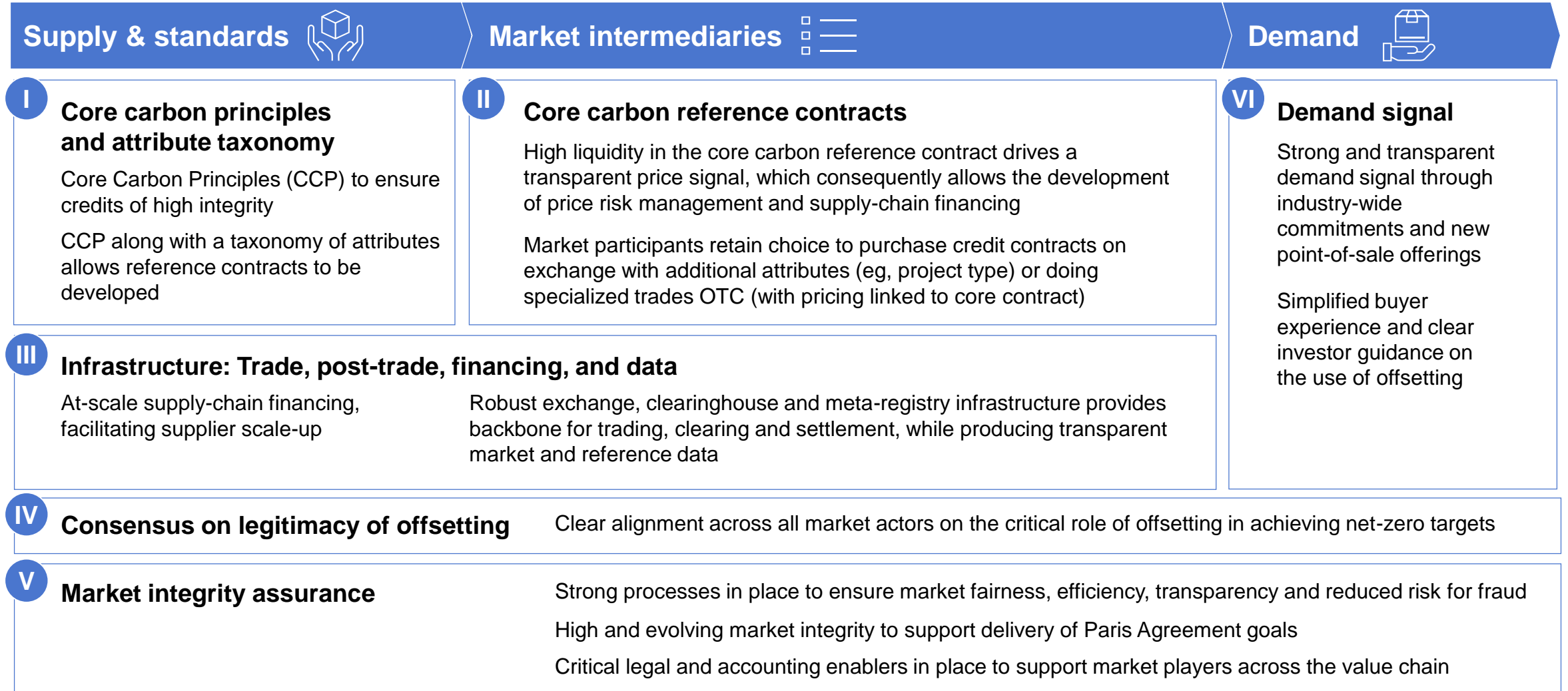
Lack of transparency and thus credibility concerns in corporate use of offsetting and in point-of-sale products

Regulatory linkages

Compliance markets are interdependent with the voluntary market. Changes in compliance markets can have large impacts on voluntary market demand

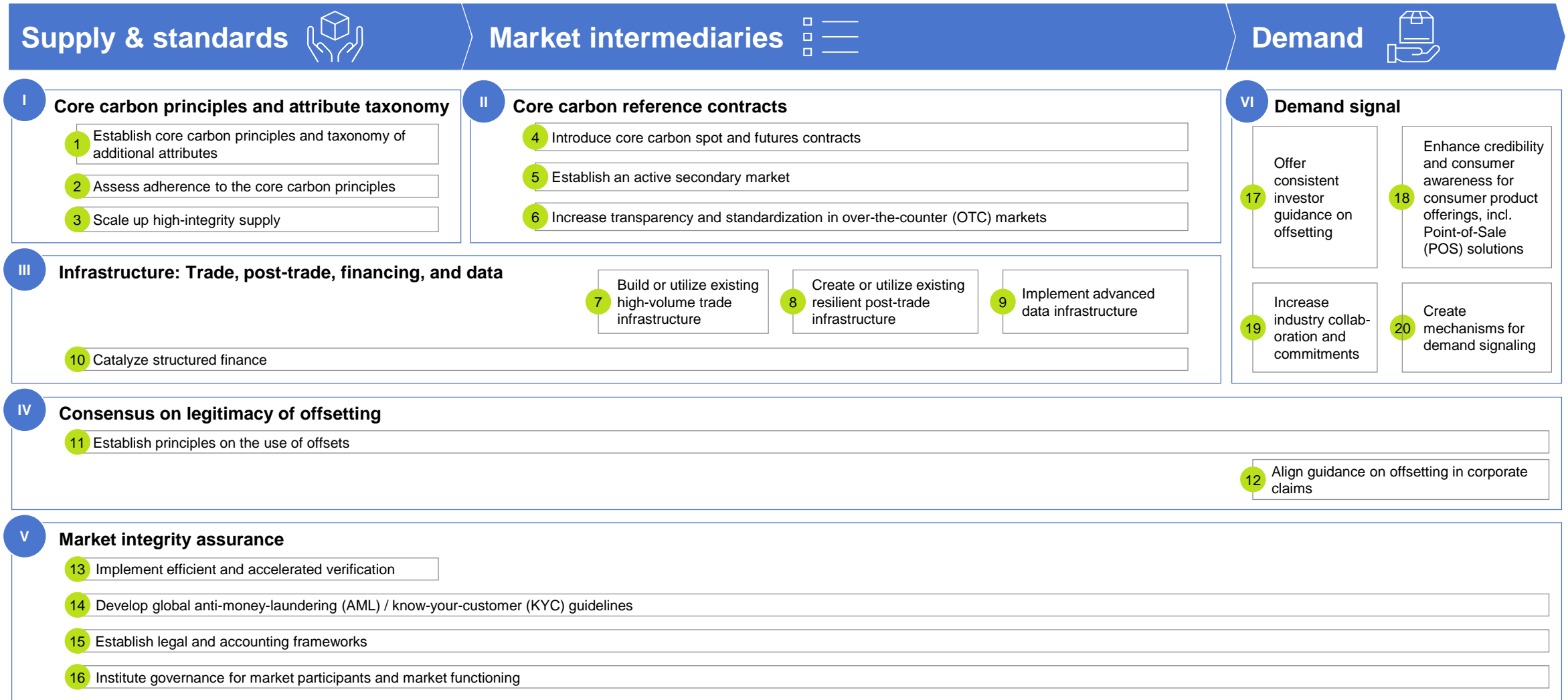
Negotiations over Article 6 of the Paris Agreement create uncertainty. Until the interaction between the voluntary market and countries' Nationally Determined Contributions (NDCs) are clarified, some market participants hesitate to increase their stake

To address these and scale the market the Taskforce outlined 6 topics for action...



... with 20 underlying recommended actions

I Topics for action x Recommended actions



Solutions out of scope

Clarify link to Nationally Determined Contributions

Further detail on the 20 Taskforce recommended actions (1/2)

Topic for action	Recommended action	Description
i Core carbon principles and attribute taxonomy	1. Establish core carbon principles and taxonomy of attributes	CCPs define threshold quality criteria for a carbon credit and additional attributes is a framework for accommodating diverse buyer preferences
	2. Assess adherence to the core carbon principles	Standards and underlying methodologies should be assessed against the CCPs to ensure high integrity
	3. Scale up high-integrity supply	Supply needs to increase by more than 15-fold by 2030, by encouraging entrants, ensuring methodologies are in place and providing financing
ii Core carbon reference contracts	4. Introduce core carbon spot and futures contracts	Standardized spot and future contracts allows trading at scale and provision of clear pricing signals
	5. Establish an active secondary market	The secondary market for carbon credits can help buyers manage price risks, increase liquidity and retain flexibility
	6. Increase transparency and standardization in over-the-counter (OTC) markets	OTC markets can build bespoke contracts off of the core carbon reference contract and its price
iii Infrastructure: Trade, post-trade, financing, and data	7. Build or utilize existing high-volume trade infrastructure	Exchanges listing CCP-aligned credits would allow for increased liquidity and ease of purchase
	8. Create or utilize existing resilient post-trade infrastructure	Post-trade infrastructure, including the design of a meta-registry, should bolster market integrity and market functioning
	9. Implement advanced data infrastructure	Advanced data infrastructure, with common or shared data fields/protocols that are widely accessible, will increase market transparency
	10. Catalyze structured finance	Financing for carbon credit projects should increase, especially as the market becomes more liquid; interim blended finance is required to support some supply scale up

Further detail on the 20 Taskforce recommended actions (2/2)

Topic for action	Recommended action	Description
iv Consensus on legitimacy of offsetting	11. Establish principles on the use of offsets	Use of offsetting principles (reduce; report; offset) & the use of offsetting at point-of-sale principles provide guidance on how corporates should use carbon credits
	12. Align guidance on offsetting in corporate claims	Overview of the types of corporate claims that companies are allowed to make with offsetting today, and a call for future alignment
v Market integrity assurance	13. Implement efficient and accelerated verification	Data protocol for a digital project cycle can help the verification process become more efficient, effective, and secure
	14. Develop global anti-money-laundering (AML) / know-your-customer (KYC) guidelines	AML/KYC guidelines should take best-practices from the financial services industry and tailor to the VCM context
	15. Establish legal and accounting frameworks	Key enablers (e.g. standardized documentation, financial accounting frameworks, carbon disclosures/reporting mechanisms) are necessary for the market to scale
	16. Institute governance for market participants and market functioning	Both credit-level governance (CCPs) and market-level governance are needed going forward
vi Demand signal	17. Offer consistent investor guidance on offsetting	Investors should provide clear, ambitious guidance on climate action and the use of offsetting to companies
	18. Enhance credibility and consumer awareness for consumer produce offerings, incl. Point-of-Sale (POS) solutions	Clear and credible consumer product labelling, PoS infrastructure, and consumer carbon literacy can help expand PoS offerings
	19. Increase industry collaboration and commitments	Industry consortium and commitments can be highly effective in generating demand
	20. Create mechanisms for demand signaling	Demand signaling is crucial to help suppliers scale up supply and support structured finance

The Taskforce has taken these positions on key issues (1/2)

Key report elements



Governance

What level of centralized governance is required?



Position in the report

Umbrella governance body needed to fulfil governance roles not addressed by existing bodies, incl. definition of CCPs and additional attributes, participant eligibility and oversight, and market functioning. This is in addition to leveraging existing bodies for other governance roles (e.g. IAF for verification oversight, financial regulators for financial instruments). Working group will examine practicalities entailed with establishing umbrella organization



Core Carbon Principles (CCPs)

Should adherence to CCPs be assessed at the level of a standard or a methodology?

The future governance body will need to have the ability to impose guardrails or make exclusions (e.g. at methodological level) to ensure sufficient quality. Operationalization of reviews will need to be further developed by a working group on Governance and on CCPs in phase 2, in particular regarding granularity of assessment framework. Mechanisms to be adopted to ensure CCP oversight does not stifle innovation at standards level

Should project based REDD+ be allowed under the CCPs?

Project based REDD+ is critical to finance deforestation avoidance and reforestation and should be allowed under the CCPs. However, to ensure full integrity of project-based REDD+, safeguards will be put in place, incl. requiring nesting where jurisdictional programs are available, requirements on buffers and leakage, and ability to select jurisdictional REDD+ if desired as additional attribute. Safeguards subject to regular review for need of further strengthening by future governance body

How should avoidance / reduction and removal / sequestration credits be included?

All project types need financing now, both avoidance / reduction and removal / sequestration (including scaling down cost curves and bringing emerging technologies earlier to market). In the longer term, flows will have to shift towards removals incl. technology based removal with highly permanent geologic storage, while a significant amount of avoided nature loss projects will still be required

Should certain vintages / project start dates be excluded¹?

Taskforce will not exclude projects based on vintage / project start date. Doing so could disincentivize suppliers/ investors from early investment²

Interim approach to assess adherence to CCPs prior to new governance body?

Taskforce recommends to move asap towards robust CCP framework and governance body in place, to avoid quality issues that could arise from interim solution which would damage long term credibility of quality of CCP credits. As part of phase 2, dedicated working groups will be set up on governance and CCPs with concrete deliveries by June 2021, to ensure both are put in place asap

1. E.g., CORSIA does not allow project activities that started their first crediting period before 1 January 2016
2. However, methodologies of vintage credits must be assessed against the CCPs to ensure quality and integrity

The Taskforce has taken these positions on key issues (2/2)

Key report elements

Position in the report



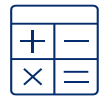
Market integrity principles

How should carbon credits be reflected in corporate claims?

Decarbonization as clear priority, with offsetting an important complement to reach net zero (e.g., in line with SBTI's/ CDP's "strategy 5" as published¹ in Sep 2020). More concrete guidance on e.g. the use of specific removal offsets towards net zero left for future work

What participant eligibility rules are needed?

Taskforce does not make any recommendation on participant exclusion. Governance body should re-evaluate on an on-going basis, adopting appropriate measures to ensure that participants across the value chain are fulfilling fundamental market integrity principles and that their conduct does not put into question the robustness of any credit sold on the market



Legal & accounting

Is there a need for standardized contracts?

Yes, standardized contracts help to scale up markets. Additional attributes in such contracts will ensure meeting buyer preferences without fragmenting liquidity too much. In addition to such standardized contracts, highly specialized credits can continue to trade OTC, using the price signal of the standardized contracts as a starting basis for negotiation and contracting



Market infrastructure

What is the role of fully digital real time verification?

Periodic in-person verification will still be required, but a digital verification data protocol and process can help reduce costs and form the basis of future end-to-end value chain digital tracking. Advanced technologies such as AI and DLT will support such efforts.



Regulatory linkages

What is the taskforce's position on Corresponding Adjustments?

Taskforce does not take a view, but simply lays out various positions and points to other initiatives

Position on compliance market interaction?

Taskforce lays out potential benefits (e.g., liquidity) from fungibility with compliance schemes (e.g. California Cap and Trade or EU ETS) driven by compliance schemes opening up to a certain percentage of private standard carbon credits

1. See page 30 in: <https://sciencebasedtargets.org/resources/files/foundations-for-net-zero-full-paper.pdf>

What is next for 2021?

	Objectives		Who (Subject to change)
Fully Taskforce driven	A Stakeholder engagement	Builds support for the Taskforce blueprint and recommendations , provides critical feedback from stakeholders (e.g. CEOs) to the other Working Groups, and drives the narrative on offsets, in particular through a CEO letter	Taskforce Working Group
	B Governance	Publishes a governance report detailing key needs for governance in the voluntary carbon market, roles and responsibilities, governance structure, etc. and identifies potential ways this governance body could be established Develops eligibility principles for suppliers, auditors/VVBs, intermediaries and buyers. ¹ Establishes blueprint for high-level digital project cycle	Taskforce Working Group
	C Legal principles & contracts	Creates standardized documentation for OTC and exchange on both the primary and secondary markets and for securitization	Taskforce Working Group
	D Credit level integrity	Defines the CCPs and Additional Attributes , and develops the necessary assessment frameworks	Taskforce Working Group
Independent effort, with input from the Taskforce	E Participant level integrity	Aligns guidance on corporate claims , including reporting/disclosure requirements. Close coordination with ongoing initiatives required (e.g. SBTi, Oxford principles, GHG protocol, ISO). This includes guidance on what types of offsets (e.g. CCP approved, with removal attributes and specific vintage) that are required for making specific claims.	HADA-VCM ² (independent effort)
Information sharing with Taskforce	F Demand & supply engines	Scale up demand for offsetting and commitments to develop high-quality credits	WBCSD, NCSA, Coalition for Negative Emissions, SMI
	G Traded volume & market infrastructure	Market players to develop the infrastructure and services required to scale up trading	Private market players
	H Corresponding Adjustments	Evaluates the implications of Article 6 negotiations on the voluntary carbon market	Trove research

1. AML / KYC principles form part of these, but would not be covered in Phase 2

2. Working Title: High Ambition Demand Accelerator for the Voluntary Carbon Market

Thank you for your contributions...

Taskforce members

Buyers



Market Intermediaries (and buyers)



Standards & Integrity



Origination/ Supply



Observers



... and for your expert advice!

Consultation Group members

Buyers



Industry associations



Market Intermediaries



NGOs



Research organizations



Standards & Integrity players



Suppliers

