KIRKLAND & ELLIS

Blog Post

Industry Efforts to Scale Voluntary Carbon Markets Advance

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Industry initiatives are underway to bring scale, standardization and transparency to voluntary carbon offset markets, which are increasingly used as a tool by corporations looking to achieve climate commitments.

Role of Emissions Offsets in Attaining Paris Agreement Goals

The Paris Agreement establishes a goal of limiting global warming to 2 degrees Celsius (preferably 1.5 degrees) relative to pre-industrial era levels. To attain this goal, the Paris Agreement signatories aim to reach global peak emissions as soon as possible to achieve net zero carbon emissions globally by 2050. In the U.S., a number of state and local governments and private stakeholders have also voluntarily committed to achieving the goals of the Paris Agreement.

One method for reducing emissions is purchasing credits that effectively finance the physical avoidance or reduction of emissions from a particular source or remove carbon dioxide from the atmosphere. Emissions credit markets consist of compliance markets (i.e., markets formed by regulators with legally binding compliance obligations for the regulated parties) and voluntary markets (i.e., private markets with their own standards and verification processes). Credits generated under these voluntary markets are expected to play a critical role in achieving net zero, especially in industries where physical emissions reductions are difficult to accomplish, including by driving early investment in emissions reduction technologies that would otherwise be difficult to commercialize. However, some stakeholders have hesitated to fully buy in to use of these voluntary markets due to their perception of insufficient standardization or verification.

Private Sector Initiative to Scale Voluntary Carbon Markets

The Taskforce on Scaling Voluntary Carbon Markets ("TSVCM") is a private sector-led initiative to standardize and scale the voluntary carbon credit market to help meet the goals of the Paris Agreement. Following a public consultation, on January 27, 2021, the TSVCM published its blueprint (the "Blueprint") that is intended to serve as a roadmap for creating this market. The Blueprint identifies six key topics for action for developing and scaling this market:

- Core Carbon Principles and Attribute Taxonomy (i.e., establishing the core principles of credits to ensure integrity and assigning a taxonomy of attributes to the credits)
- Core Carbon Reference Contracts (i.e., standardization of contracts and terms)
- Infrastructure: Trade, Post-Trade, Financing and Data (i.e., developing the infrastructure to allow the market to function, such as financing for the supply chain and a credit registry and clearinghouse for trading)
- Consensus on Legitimacy of Offsetting (i.e., defining the role of credits in achieving Paris Agreement goals)
- Market Integrity Assurance (i.e., establishing legal and financial processes for ensuring the integrity of the credits)
- Demand Signals (i.e., obtaining industry-wide commitments and developing simplified processes and messaging for use by investors)

The Blueprint also includes 20 recommendations for addressing these six key topics,[1] as well as a roadmap for implementation of the recommendations in 2021, focusing on (1) stakeholder engagement, (2) governance, (3) legal principles and contracts; (4) credit-level integrity; (5) participant-level integrity; (6) demand and supply engines; (7) traded volume and market infrastructure; and (8) adjustments needed to implement regulatory developments.[2] The TSVCM has established working groups to focus on (1)-(4) by:

- building support for the Blueprint and its recommendations amongst stakeholders;
- publishing a governance report identifying key governance needs for the market, and developing eligibility principles for market participants (suppliers, verifiers, brokers and buyers);
- creating standardized documentation for the primary and secondary credit markets and securitization; and
- defining the core credit principles and any other attributes necessary to ensure integrity.

(5)-(8) will be driven by independent efforts of individual market participants.

Beginning of the Scaling Process and Other Transparency Efforts

The impacts of the TSVCM's efforts to scale and standardize the voluntary market remain to be seen, and it is unclear how long the process outlined in the Blueprint will ultimately take. In fact, the TSVCM notes that the Blueprint is "the beginning of a longer process" and that the TSVCM "will continue to move with deliberation, at pace, and with inclusivity to drive real change in the market."[3] Other industry organizations have also initiated efforts to drive standardization and transparency in voluntary carbon markets. For example, in January 2021, S&P Global Platts ("Platts") began publishing daily carbon credit price assessments for "CORSIA-eligible" credits, which is a semi-regulatory carbon market for airlines. Platts stated this is the first of its planned suite of benchmark voluntary carbon prices covering the full range of projects including removal, reduction and avoidance of greenhouse gas emissions.

Demand for offsets generated in the voluntary market is expected to increase exponentially as stakeholders institute climate commitments and develop their individual strategies for fulfilling those commitments and achieving the goals of the Paris Agreement.[4] Given this anticipated uptick in demand, the existing voluntary market and individual market participants are expected to be receptive to the TSVCM's scaling and standardization efforts to enable supply to keep pace and encourage further buy-in from stakeholders.

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1. Blueprint, pp. 6-7.↩

2. Blueprint, p. 25.↩

3. Blueprint, Preface.↩

4. Demand for voluntary offsets exceeded 90 metric tonnes of CO2 equivalent in 2020. To achieve net zero by 2050, it is estimated that that at least two gigatonnes of CO2 equivalent per year in voluntary offsets will be needed by 2030. By 2050, seven to 13 gigatonnes of CO2 equivalent per year of carbon removal and/or sequestration are expected to be needed to achieve net zero although voluntary offsets are expected to account for only a piece of this demand as stakeholders shift towards implementing physical removal and/or sequestration projects. See Blueprint, pp. 50-55.↩

Authors

Alexandra N. Farmer

Partner / Houston / Washington, D.C.

James Dolphin, III

Associate / Houston

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