Task Force on Scaling Voluntary Carbon Markets (TSVCM)
c/o International Institute of Finance
Washington, D.C.

June 21, 2021

Submitted electronically

Request for comment on the TSVCM phase II public consultation document

Introduction

The Institute for Agriculture and Trade Policy (IATP) appreciates this opportunity to respond to some of the questions posed in the TSVCM consultation document. We are particularly grateful that the TSVCM offers the option of responding to the consultation document in a letter, rather than only responding to survey questions. IATP responded in December 2020 to the survey questions for the draft TSVCM report and found it difficult to fit our responses within the character count limits of the questions boxes. We summarized elsewhere some of our responses in the context of a market integrity concern noted, but not discussed in the draft report, nor, indeed, in this consultation document — excessive speculation (Exhibit 31).

Our responses to the consultation questions mostly concern the “Legal principles and contracts” section of the document, with some remarks on “credit level integrity.” The reason for our focus is that the TSVCM recommendations will be applied to contracts traded either on existing exchanges or in Over the Counter (OTC) trading, whether bilateral or on Swaps Execution Facilities. The “how” of trading is at least as important as what is traded. The TSVCM phase II consultation has little to say about the role of exchanges in emissions futures trading except “Exchanges are expected to set their own trading terms (see example in the Technical Appendix).” (slide 42) Given the possibility that different exchanges will trade offset futures on different terms, it is surprising that the Task Force’s Legal Principles and Contract Working Group does not have more to say about harmonizing exchange rules for trading emissions offset futures contracts, such as the CME Global Emissions Offset futures contract, and exchange traded offset swaps. Exchanges compete for business, so the likelihood of deregulatory arbitrage among exchanges to capture part of the anticipated boom in offset and avoidance credit trading should not be dismissed.
“We have to be open to the idea that the voluntary market might fail”

IATP is not privy to insider details about disagreements among the TVSCM’s 400 plus members. But to judge by a recent article in Bloomberg Green, among the disagreements are varying opinions about transparency of TVSCM decision making and about the environmental integrity of the offset credits: “If they [offset emissions project developers] generate a lower carbon benefit than they claim and the company [buying such offset credits] is still emitting, well then you end up with more emissions than you would have otherwise,’ said [Eli] Mitchell-Larson [a consulting environmental scientist]. ‘We have to be open to the idea that the voluntary market might fail.” The consequences of market failure would be much greater than economic damage to market participants and to exchanges. The consequences could include failure of market participants to prioritize making investments to directly reduce their emissions and adapt to climate change, while they imprudently and preponderantly invest in poor quality offset and/or avoidance credits.

If the emissions offset projects were found to be fraudulent or simply misrepresent the amount of emissions offset or misrepresent Economic Social and Governance (ESG) attributes described in the offset credit contract, the value of the contract could abruptly fall. If instances of fraud or misrepresentation were numerous and well–publicized, investors might not buy a disreputable contract even at the fallen price. If enough investors held large positions in an offset futures contract and the contract price fell rapidly in automated trading systems, exchanges would be forced to throw kill switches to stop the price fall and declare a market event to regulators, which likely would trigger an investigation of the contract. If such market events became frequent for several offset contracts, the voluntary carbon market could fail. And, as Mitchell-Larson suggests, the failure would not impact negatively just participants in the offset and avoidance credit value chain, but the climate itself and its inhabitants.

The consultation document reports that 45% of emissions offset buyers responding to a TSVCM phase I survey, as of October 2020, were concerned about a “lack of environmental and social integrity of certain projects” (slide 50) from which offset and avoidance credits would be derived. Forty-one percent of buyer respondents were concerned about the double-counting of emissions reductions, avoidance and/or removals by the projects’ home country (mostly a TVSCM identified dozen or so developing countries) and the buyers’ home country (mostly corporations and financial firms in North America and Europe) in reporting Nationally Determined Contributions (NDCs) to the U.N. Framework Convention on Climate Change (UNFCCC). (slide 50) Twenty-one percent of buyers were concerned that UNFCCC negotiations might not produce an agreement on “corresponding adjustments” to NDCs to avoid double–counting, which, if widespread among UNFCCC member governments, would vitiate any claim that emissions trading will result in absolute and overall emissions reductions consistent with the UNFCCC Paris Agreement of 2015. Underlying the concerns of the buyers is whether emissions reductions, avoidances and/or removals could be measured accurately from credible baselines.
The TSVCM’s Credit-Level Working Group proposes an elaborate standards and implementation architecture to ensure that reductions, avoidance and/or removals would be near permanent (save for emissions reduction and avoidance reversals due to forest fires and other Force Majeure events). However, the Working Group has just this to say about the technologies of measuring and reporting emissions: “Accuracy of measurement requires specifications on data collection methods. These may include: sampling approaches and inventory specifications, calibration of meters, calibration and validation of biogeochemical models, specifications for the use of remote sensing tools. The calculation of uncertainty for any method must be defined by the Standard.” (slide 61) Nor does the Technical Appendix have anything further to say about the accuracy of emissions and baseline measurement, crucial factors both for launching the TSVCM model Core Carbon Principle (CCP) contract and for the UNFCCC negotiations on double counting and corresponding adjustments.

A TSVCM leader, Annette Nazareth, has written that the use of Digital Ledger Technology (DLT) will enhance the accounting integrity of offsets in DLT enabled “smart contracts” to greatly reduce the possibility of fraud or misrepresentation of the quantity of emissions offset or avoided by the developers projects. IATP agrees that the use of DLT, with its immutable recordkeeping, can increase the accounting integrity of offset, avoidance and removal contracts. However, she then writes,

DLT alone, however, cannot resolve all issues relating to the integrity of carbon credits. Due to the complexities of carbon verification, there will likely always be some need for human control. For example, people will need to confirm that sensors are well placed, and that satellites monitoring forests do not reveal child labor violations. Unfortunately, human control also introduces risks. The step of transferring information from humans to the digital DLT may be susceptible to fraud.

Although Nazareth’s techno-optimism is tempered, it is not tempered enough. It is not just the placement of sensors to measure GHG sequestration that should concern the TSVCM, but the physical robustness and accuracy of sensors in different soil types, depths and topographies and the reliability of their digital signals transmitting GHG information to satellites for subsequent downloading and data aggregation.

This is less a critique of Nazareth’s article than a recommendation that the TSVCM should not rely on DLT to interface NDC registries and voluntary market registries, as she suggests: “DLT gives all involved parties the advantages of transparency, immutability, and avoiding the need for a central arbiter (or political negotiation and agreement).” Even if existing sensor and satellite technologies could accurately measure emissions avoidance, reductions and removals at project scale, the application of corresponding adjustments to avoid double counting would remain a fraught political negotiation, if only for this reason: “Carbon credits can have low environmental integrity, and they will become increasingly difficult to source as countries need to ‘keep’ their reductions to meet domestic targets.”
The developing countries supplying the vast majority of TSVCM envisioned offset and avoidance project credits need to retain at least some of those credits for their own NDC reporting. This diplomatic need is not considered in the phase II consultation analysis. The TSCVM is excessively circumspect about the relation between the scaling up of voluntary markets and the results of the UNFCCC Article 6 negotiation. The TSCVM Technical Annex should include a “deep dive” into Article 6 negotiations and recommend that TSVCM members read other “deep dives” to better understand the positions of all Parties to the negotiations and how the resulting compromises may affect hoped for TSVCM outcomes.¹⁰

TSVCM members may believe it is smart diplomacy to delay negotiating an agreement on Article 6.8 (“non-market mechanisms,” i.e., direct funding of climate action for developing countries) until the rest of Article 6 is first agreed on terms that would help enable and legitimize the scaling of voluntary carbon markets. All UNFCCC members will have to suffer the costs of the accelerating climate crisis, albeit inequitably, if Article 6.8 continues to remain un­negotiated pending agreement on the rest of the Article: “Parties have made good-faith submissions with constructive suggestions on enabling ambition, governance, and use of proceeds in Article 6.8, but for the most part these contributions have been sidelined in favor of a negotiating agenda fixed on the creation of carbon markets and ITMOs [Internationally Transferred Mitigation Outcomes].”¹¹ Smart climate diplomacy would be a scenario in which the TVSCM members who are also members of the International Emissions Trading Association would lobby their governments to allow Article 6.8 to be negotiated and agreed as a separate article so that more adequate and urgently required climate finance can be mobilized for mitigation and adaptation projects and planning programs in developing countries.

The TVSCM should re-engage with the problem of excessive speculation as a market integrity concern

As noted above, in the draft phase I consultation document, excessive speculation in futures contracts was characterized as a market integrity concern. In the phase II consultation, this concern has disappeared. The TVSCM should dedicate at least as much analysis to the possibility of excessive speculation in emissions offset futures contracts as it has to the possibility of fraud, money laundering or lack of environmental integrity in offset credit trading in spot markets. IATP illustrates this recommendation with a short analysis of the role of exchanges in determining whether contract positions are counted or not towards position limits whose violation is an indicator of excessive speculation.

In the United States, commodity futures exchanges are largely self-regulated. Commodity Futures Trading Commission (CFTC) Commissioner Dan Berkovitz described exchange self-regulation colloquially as applied to the CFTC’s 2020 final position limit rule: “the proposed rule demoted the Commission from head coach to Monday–morning quarterback. The Final Rule declares that the players on the field are
the referees. In this arena, the public interest loses.” In market terms, a “Monday morning quarterback” is a regulator who can investigate and comment on market disruptive events only after they’ve occurred, rather than as a head coach who can direct the implementation of an effective position limit rule to prevent and diminish excessive speculation in exchange managed contracts. The final position limit rule grants exchanges under CFTC jurisdiction near complete discretion to determine whether a market participant’s contract position counts or doesn’t count towards the federal position limit. (Granted that the CFTC oversees commodity futures exchanges in just one jurisdiction, but it is globally influential in regulatory matters.)

Regarding climate change, in Commissioner Berkovitz’s terms, the public interest that loses would be a trading of emissions offset credits and futures contracts without any limit, inviting excessive speculation. Reliance on the exchanges’ own position accountability systems to detect and prevent excessive speculation, and even market manipulation, is far from fail proof, e.g., in the case of the Chicago Board of Trade wheat futures contract or more recently, the NYMEX’s West Texas Intermediate crude oil futures contract. Particularly for jurisdictions without emissions caps, excessive speculation in emissions offset, avoidance or removal contracts allowed by failed exchange position accountability systems could further drive capital flows into carbon futures trading away from direct action to reduce corporate emissions and adapt to climate change.

Even proponents of emissions offset trading have warned the TSVCM about the poor quality of the emissions offset credits, the underlying asset of emissions futures contracts, and that “The trading of carbon offsets as a commodity [on the futures markets] too soon will weaken the market, leading to less, not more, climate change mitigation.” To judge by presentations by three exchange representatives (all anticipating a carbon futures market boom) at a June 3 meeting of the CFTC’s Energy and Environmental Markets Committee, market participants are very interested in trading offset futures “too soon”.

The work of the Legal Principles and Contracts Working Group (LWG)

The LWG provides an impressive, succinct and clear legal architecture for market participants. It is nothing if not very ambitious: by November 2021, “External bodies (e.g. IETA, ISDA, EFET etc.) will be able to integrate key general trading terms recommended by the Taskforce into their contract templates.” (slide 29) Once the trading terms are integrated in contract templates for these large trading associations, trading of contracts designed according to the TSVCM agreed Core Carbon Principles and their agreed ESG attributes should grow exponentially. What might go wrong?

The LWG anticipates what could go wrong by proposing to hold harmless both Standards and the Registries where the Standards live. In the event of Force Majeure events, “Standards will not be held liable for losses incurred under Force Majeure. The Taskforce recommends that Standards’ certification and registration contracts include
provisions that specify the nature of events covered under Force Majeure, contract termination under Force Majeure and reimbursement processes.” (Technical Appendix, slide 42) This proviso seems eminently reasonable and fair, applying Force Majeure to climate change as it would in any commercial contract. For example, why should, e.g., emissions offset standards of the eight registries accepted by the International Civil Aviation Organization for its CORSIA credits be held liable by users of those registries, if the users incur losses due to Force Majeure events?

Part of the difficulty in answering this question is that climate change is changing the definitional parameters of Force Majeure. According to two lawyers that have struggled with this question, “These changing weather patterns challenge one of the most basic contractual assumptions: that past weather data is a reliable predictor of future weather patterns. When past weather data is no longer a reliable predictor of future weather patterns, a new approach is necessary.” 8 If climate tipping points occur, as forecast, by 2030,9 the abrupt and irreversible changes to the climate may make specifying “the nature of events covered under Force Majeure” into a very long, rapidly changing and disputed list.

The LWG likewise proposes to hold the registries and the Standard harmless from all liability for use of the registry: “Registry Users will assume full responsibility and risk of loss resulting from their use of the registry and will have no claim against the Standard or any of its contractors.” (“Technical Appendix,” slide 43) IATP does not understand how this exemption from liability would work in practice. Who are the users? Offset project developers that incur losses due to registry rejection of their application for verification of XXX number of offset credits derived from their projects? Traders of offset credits that incur losses, due to invalidation of registry approved credits, e.g., due to lack of environmental integrity? The LGW should illustrate its proposals on Force Majeure and limited liability with User cases.

Regarding “Prohibited practices and suspension of service,” IATP was more than a little startled to read “Standards may [IATP emphasis] suspend services and/or close the User’s account with immediate effect if they reasonably suspect that the User has engaged in fraudulent, unethical or illegal activity, including but not limited to corruption, bribery, slavery, or child labor. Standards commit to making all reasonable efforts to ensure that neither developers nor their subcontractors engage in such practices.” (Technical Appendix, slide 43) “May suspend services and/or close the User’s account with immediate effect?” Shouldn’t the LWG replace “may” with “will”? Under what conditions would a standard setting body or registry that monitors offset and avoidance project developers and verifies whether the developers have offset or avoided the quantity of emissions they claim not suspend services and immediately close the user’s account, e.g., if it was proven that developers used slavery or child labor to plant trees to help create emissions avoidance credits?

The Standard’s Terms of Use should stipulate that the registries consult with human rights and labor lawyers who know the developers and subcontractors’ business
practices in the location of the emissions avoidance or reduction project. It is part of the registries’ “reasonable efforts” due diligence to investigate whether developers and/or subcontractors engage in prohibited practices that will lead to the contractually specified suspensions of services and closure of the developer’s account with the registry. The Terms of Use should also stipulate that private parties may bring to the registries affidavits of evidence of prohibited practices, which if proven, would result in the suspension of services and immediate closure of the developers. The LWG should provide a couple of use cases to make explicit how developers would be subject to suspension of service for engaging in practices prohibited by the Standard.

IATP responses to TVSCM survey questions

Use cases and underlying contract mechanics

1) Do the use cases reflect how you would like to trade CCPs in the future?

The Institute for Agriculture and Trade Policy is a not-for-profit organization and so will not be trading CCP based contracts in the future. However, because the global consumer food corporation, the subject of the first use case (C1), are among major emitting sectors, we take a professional interest in this case. The LWG slide 31 describes a three-part “buyers’ journey.” This use case presents the first step for the global consumer food company to meet Net Zero goals of 2035 as following “Science Based Targets,” which we assume are the terms of or at least analogous to a contract with the Science Based Targets Initiative (SBTi) to reduce Scope 1, 2, and 3 emissions. This first step summarizes direct investments and sourcing practices to reduce emissions.

We are surprised that part two of the food company’s Net Zero pathway by 2035 would require it to buy, starting in 2025, carbon credits based on CO₂ emissions removal by start-up technologies, such as Direct Air Capture (DAC). The first DAC facility at commercial scale is scheduled to go online in 2024, but it is so expensive that the private sector is seeking large government subsidies to make the technology commercially feasible.20 According to the LWG, the food company will be investing in DAC-based carbon credits on the tacit assumption that governments (fiscally depleted by corporate tax avoidance and evasion21) will come to the rescue of the private sector and that the technology will work as publicized. Simultaneously, however, the LWG assumes that the food company will “Use avoidance and reduction credits to compensate all emissions on trajectory.”

The global food company would have the option to financially settle the removal credits and not take delivery of the removal credits to retire them. As high risk as removal credits are, to allow them to be financially settled increases climate financial risk to the global consumer food company by delaying retirement of removal credits with ever more “innovative” financial rolling and netting strategies. If IATP were trading CCP
contracts to temporarily reduce balance sheet climate risk, we would do so by retiring
the credits.

The third step on the buyer’s journey mentions only avoidance credits and avoidance
credit-based futures contracts. As the TSVCM well knows, according to the SBTi, “Avoided emissions fall under a separate accounting system from corporate inventories
and do not count toward science-based targets.” Under this third step, the global
consumer food corporation would rely preponderantly on avoidance credits and
avoidance futures to meet Net Zero commitments by 2035. Given the unscientific and
subjective basis of scenarios to estimate avoided emissions, the global food consumer
company would face, at a minimum, reputational risk, if not legal risk, for making Net
Zero claims reliant on avoidance. Here is a scenario under which Net Zero claim
avoidance reliance might subject a corporation to at least reputational risk.

In 2018, IATP co-authored a report estimating global meat and dairy processing
corporation emissions, using the United National Food and Agriculture’s GLEAM
methodology. A topline conclusion of the report was: “Together, the world’s top five
meat and dairy corporations are now responsible for more annual greenhouse gas
emissions than ExxonMobil, Shell or BP.” But perhaps more important than what
could be estimated using the GLEAM methodology was the vast underreporting or non-
reporting of meat and dairy processing Scope 3 emissions: “Fourteen of the 35
companies have announced some form of emission reduction targets. Of these, only six
have targets that include supply chain emissions, yet these emissions can account for up
to 90 percent of total emissions. The six companies that do pledge cuts in supply chain
emissions are simultaneously pushing for growth in production and exports, driving
their overall emissions up regardless of their intention to reduce emissions per kilo of
milk or meat produced.”

The transnational meat and dairy companies’ strategy of pledging emissions cuts while
increasing production and exports relies partly on technology improvements in step one
and on the step two use of emissions offset and/or avoidance credits towards achieving
the accounting goal of Net Zero emissions by 2050. But if most meat and dairy
processing companies exclude their supply chain emissions from their reduction targets,
whatever they may achieve by following steps two and three of the use case will be
insignificant, relative to their total emissions.

For corporations seeking to reduce their emissions to Net Zero by 2035, per slide 32 of
the TSVCM report, a major challenge is to have a credible baseline of reported Scope 3
emissions from which to reduce. To this section of use cases, IATP recommends that
TSCVCM include a use case for a global financial corporation that is likely to be a
counterparty to emissions reduction or avoidance contracts. Evidently, global financial
firms finance corporate emissions, which should be reported to regulators and reduced.
For the purpose of reducing Scope 3 emissions, global financial firms have the most
advanced consolidated audit trails that could incorporate their corporate clients’
emissions data, emissions trading data and data on corporate direct climate investment to reduce their emissions and adapt to climate change. In sum, a use case for financial firms could be applied beyond their financed emissions to using their consolidated audit trails to aggregate data about their clients’ climate financial risks.

Finally, we recommend that TSVCM move slide 40 from the Technical Appendix to the main report because that slide gives an excellent overview of the CCP credit development and trading process.

Operational requirements for Standards Terms of Use

2. Do you support a greater degree of standardization of Standards’ Terms of Use?

IATP agrees with the phase II consultation analysis that “the legal nature of carbon credits is highly fragmented across methodology types, Standards and jurisdictions.” (slide 38) We doubt that standardization of Standards’ Terms of Use will by itself reduce the fragmentation. For example, the consultation document notes one source of fragmentation: “Land use: weak or unclear land titles, statutory and customary rights relating to land ownership, and indigenous rights can create an uncertain and risky ground for the allocation of clear rights over mitigation outcomes.” (slide 38) The possible resolution of disputes over land rights for land-based offset or avoidance projects requires agreement between governments and sometimes more than one indigenous group. However, governments that do not recognize customary land use rights have not advocated for protection of indigenous rights, particularly if structured finance was promised, beyond the upfront costs of emissions reduction or avoidance project development.

Clean Development Mechanism credits have no provisions for protection of indigenous land rights, nor, indeed human rights. Nonetheless, the International Civil Aviation Organization has accepted CDM as a registry for CORSIA eligible credits. A greater degree of standardization of the Standards’ Terms of Use would not resolve disputes about the CDM, or for that matter, about the Sustainable Development Mechanism (the Article 6 “new market mechanism”) that is scheduled to succeed the CDM. These disputes are not simply terminological but are bound up in disagreements over how developing counties are to finance their climate action if Article 6.8 framed finance is denied to them. Frédéric Haché has warned, “Allowing participating countries to use their stockpiles of unused CDM credits in the Sustainable Development Mechanism would mean ensuring the failure of the SDM right from the start: CDM credits have indeed been implicitly acknowledged by the market to have no additionality, judging by their price. In addition, allowing them would flood the market with credits and the carbon price would probably crash once more.” If CDM credits are grandfathered into
the SDM, their use by CORSIA and other registries might soften the price fall, but retroactive inclusion of CDM credits would not disguise their lack of additionality to reduce GHGs.

C.3 Do you agree on the specific recommendations proposed? Why / why not?

The jurisdictional impediments to providing consistent legal treatment of carbon credits to scale voluntary markets are considerable. The TSVCM makes two recommendations to overcome these impediments. First, “The Taskforce calls on international legal bodies (e.g., ISDA) to issue positive legal opinions on the legal nature of carbon credits, and on intergovernmental bodies (e.g., UNFCCC, UNCITRAL, UNDROIT et al.) to provide respective recommendations, ideally in collaboration with market participants and regulators.” (slide 39) IATP does not consider the International Swaps and Derivatives Association (ISDA) to be an international legal body, even though it produces a Master Agreement according to which its members trade swaps. Rather, ISDA is a public policy advocate and standards organization for its member institutions. Since some TSVCM members are also ISDA members, any resulting legal opinion from ISDA adopted by the TSVCM might be regarded as self-dealing. From a diplomatic viewpoint, it is unlikely that intergovernmental bodies are going to provide recommendations to a private initiative such as the TSCVM.

Secondly, “The Taskforce invites jurisdictional regulators to review their treatment of voluntary carbon credits with the aim of providing further guidance on their legal nature, aligned across jurisdictions” (slide 39). IATP believe this is the proper pathway to providing more consistent treatment in the cross-border trading of voluntary market carbon credits. But it is not an easy pathway, even if jurisdictional regulators provide comparability determinations about which jurisdictions have sufficiently robust and comprehensive regulatory regimes to accept credits for trading from foreign jurisdictions in the home country exchanges. The CFTC’s controversial 2020 rule on cross-border trading capped a decade of controversy about how to prevent trading losses by a subsidiary of a U.S. parent trading on a trading platform in a foreign jurisdiction to achieve such a scale of loss as to require a U.S. taxpayer funded rescue.29

Any jurisdictional regulator’s review of the “legal nature of voluntary carbon credits” will first analyze whether the terms of the futures contracts and/or the underlying cash market in the exchanges of the home jurisdiction suggest that the contract would be susceptible to market manipulation or excessive speculation. But “legal nature” will get an additional level of regulatory scrutiny to determine whether the regulatory regime of the jurisdictions in which carbon credits are traded provide comparable safeguards both in regulatory terms and data monitoring capacity to prevent market disruptive events. Because the TSVCM intends to scale voluntary markets 15 times to a notional value of $100 billion by 2030, it would be a negligent regulator who would ignore the cross-border issues entailed in voluntary carbon markets.
C.4 Would you like to give comments on any specific operational requirements? [Possibility to comment on each one]

We have already commented on some operational requirements, such as liability, above. But there is one more requirement that needs clarification for anyone outside of TSVCM to understand it: “Both Parties may terminate the Terms of Use by giving 30 days’ notice to the respective other.” (slide 37) Who are the Parties? How does this requirement “enforce legal quality”? Is the Governing Body one of the Parties?

C.6 Do you agree on the specific elements and language proposed (including for compliance linkages)? Why / why not?

IATP does not agree that the TSVCM should attempt to scale up voluntary markets by linking them to compliance markets through provisions derived from Article 6 negotiations. Compliance markets do not need voluntary market liquidity to carry out their legislated objectives. Tightening emissions caps, expanding the number of sectors covered by the caps, and eliminating allowance credits allocated for free may motivate covered facilities to improve their reductions performance under the current review of the European Emissions Trading System. The TSVCM should not adopt in its phase II final report the “Optional provision for CCP credits with a letter of authorization and/or corresponding adjustment to outline associated risks and dependencies.” (slide 42) There is no letter of authorization or corresponding adjustment that can protect compliance market integrity against the risks and dependencies that a CCP based contract would allow, e.g., in OTC trading and excessive speculation.

It is tragic that many jurisdictions lack progressively more stringent emissions caps applied to a greater number of the most emitting industries. These environmental regulations may be supplemented by compliance market price signals to expedite corporate climate investments, but price signals cannot substitute for environmental regulation. It would be doubly tragic if voluntary market trading practices and price signals were linked by law to compliance markets so that compliance markets had to accept CCP credits from registries that have failed to provide the markets with credits of high environmental and accounting quality.

C.7 Would you like to give comments on any specific general trading terms? [Possibility to comment on each one]

The consultation document states, “Access to financing is a key supplier pain-point and there can be a significant lag between a project receiving financing and credits being produced.” (slide 41) But the general trading terms then ignore this pain-point, since the trading terms focus almost exclusively on the buyers and sellers of the credits supplied from the mostly developing country projects. Similarly, the document states, “High volume of small suppliers make it costly and complex to interface with an
exchange.” But then the TSVCM proposes no trading terms to reduce the cost or complexity for small suppliers to provide credits to an exchange. The neglect of carbon credit suppliers in the proposed trading process may give the impression, particularly to developing country suppliers, that the TSVCM is concerned with scaling the market for buyers, sellers and exchanges, while taking the suppliers’ needs as, at best, an ancillary consideration. TSVCM should survey suppliers about their concerns, just as they have surveyed buyers as a first step to developing supplier relevant trading terms. (slide 50)

Conclusion

IATP thanks TSCVM for its consideration of our comments. IATP is impressed by the research and deliberative process that have produced this consultation document. We are critical of many of the TSCVM’s proposed recommendations and embedded assumptions. However, we have no doubt about your seriousness of purpose nor about your belief in the capacity of voluntary markets to make an important contribution to reducing profound disruptions to the climate, to the economy and to the lives of the current generation and future generations.

Respectfully submitted,

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1 https://www.iif.com/Portals/1/Files/TSVCM_Public_Consultation.pdf
2 The Institute for Agriculture and Trade Policy is a 501 c) not-for-profit organization headquartered in Minneapolis, MN, with offices in Washington, DC, Halliday, ME and Berlin, Germany. IATP has participated in the United Nations Framework Convention on Climate Change negotiations since 2008. We have commented on dozens of Commodity Futures Trading Commission rulemakings since 2010. IATP is a member of Americans for Financial Reform (AFR), the (U.S.) Climate finreg Working Group and the (international) Climate Land Ambition and Rights Alliance (CLARA).
5 This hypothetical but not impossible sequence is illustrated in greater detail in Suppan, “What underlies the underlying (asset) of CO₂ emissions offset contracts?” Institute for Agriculture and Trade Policy, March 31, 2021.
8 For example, the authors of the following remote sensing study report “significant uncertainty” in aggregating data on agricultural land use/land cover at a national scale. Tyler J. Lark, Ian H. Schelly and Holly K. Gibbs, “Accuracy, Bias and Improvement in Mapping Crops and Cropland across the United States Using USDA Cropland Layer Data,” Remote Sensing, March 4, 2021. https://www.mdpi.com/2072-4292/13/5/968
13 U.S. style football games are often played on Sundays. The quarterback directs the offense of these teams. Fans often comment on Monday morning what the quarterback should have done to win the game.
17 https://www.cftc.gov/PressRoom/Events/opaeventemac060321 This link will take you to the archived webcast, and slide decks from presenters, including from the Chicago Mercantile Exchange Group, the International Exchange (London subsidiary) and the Nodal Exchange.
20 Valerie Volcovica, “Canada’s buys contract to suck CO₂ out of the air to cut emissions,” Reuters, March 9, 2021.


Ibid.

https://www.iif.com/Portals/1/Files/TSVCM_Technical_Appendix.pdf


