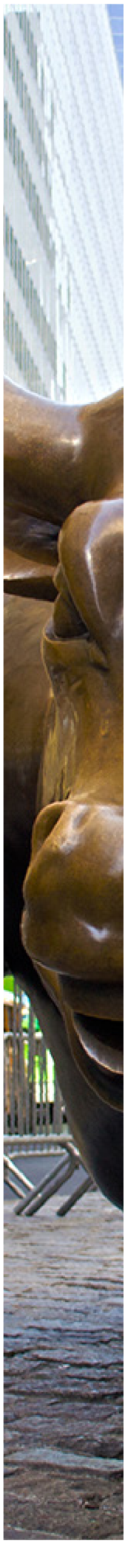

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Enablers: Task Force on Scaling Voluntary Carbon Markets and Net Zero

Who sets the rules for global carbon markets? Who gets to decide who sets the rules?

Ever since the Paris Agreement was concluded in 2015, countries have argued about the set of rules and procedures that would govern international trade in carbon offsets. Industry groups have fought requirements that proceeds from this trade be used for further climate action. By contrast, many developing countries want to ensure that carbon trading doesn't make it harder to reach their own nationally determined contribution [NDC] targets. Still, discussions on Article 6 continue [see 'Net Zero and Article 6'].

In 2020, the International Institute for Finance set up a task force to push for rules to govern carbon markets. The International Institute for Finance is a global lobby group of the finance industry. Its members include "commercial and investment banks, asset managers, insurance companies, sovereign wealth funds, hedge funds, central banks and development banks." It shouldn't surprise us, then, that the Task Force on Scaling Voluntary Carbon Markets [TSVCM] has generated recommendations that are very much in the interests of the big banks.

But surely the United Nations wouldn't give its blessing to rules designed by a corporate-dominated Task Force? Actually, the 'instigator' of the TSVCM is Mr. Mark Carney, the UN Secretary General's Special Envoy on Climate Action and Finance, who has promoted "net-zero solutions" as a great investment opportunity. He and his Task Force will likely play a prominent role at the UN Framework Convention on Climate Change (UNFCCC) negotiations in Glasgow later in 2021.

Two things important to note at the beginning. First, in the Summary of the TSVCM Phase II report, the Task Force acknowledges that "Companies' internal decarbonization and emissions reporting remain the priority with offset trading playing an important but complementary role." But there's no means for enforcing a prioritization on 'internal decarbonization', and the guidance from the TSVCM is all about how to make offsets work — with virtually no attention paid to the 'priority' of internal decarbonization.

Second, the TSVCM takes no position on contentious Article 6 issues, such as the double counting of emissions offsets in Nationally Determined Contributions meetings, or 'use of proceeds' for climate action. However, TSVCM members who are also members of the International Emissions Trading Association (IETA) will be lobbying on Article 6 to make sure it provides a way to expand the market envisioned by TSVCM [see 'Net Zero and the IETA']. The implied threat is that if Parties cannot agree to Article 6 rules, then the rules set by the Task Force should govern these global markets in future.

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So what does the Task Force envision? The TSVCM wants to see—by the end of 2021—"language on key general trading terms which can be adapted to Parties' needs and readily integrated into OTC [over the counter] and Exchange trading contracts". According to the TSVCM Phase II report, "To support the investment required to deliver the 1.5-degree pathway, the TSVCM estimates that voluntary carbon credit volume would need to grow by up to 15 times by 2030—while simultaneously increasing the integrity of the underlying carbon credits. This can drive billions of dollars from those emitting carbon to those removing carbon or preventing its emission over the next 30 years." The head of the Institute of International Finance predicts that the annual value of voluntary offset carbon trades could reach up to $100 billion by 2050. That is the Task Force's ultimate goal—whether Article 6 rules are agreed or not.

But in its recommendations, the TSVCM does not explain how the emissions futures trading will support the required investment to reduce corporate emissions. It takes as a given the importance, and useful-ness, of a 'secondary market' for trading carbon—through derivatives and futures contracts and other financial products—just as these same banks and insurances created fifteen years ago to make mortgage securities more tradeable.

CLARA member Carbon Market Watch noted that the TSCVM consultation paper fails to examine "why the existence of a secondary [futures] market, as well as financial products such as carbon index funds, would benefit the climate...Exchanging carbon credits between financial speculators does not benefit the climate, and can create price volatility which will in fact be detrimental to investments in mitigation action." If investors in direct climate action require a reliable carbon price signal to estimate the scale of investment and its rate of return on investment, they are very unlikely to find it in emissions futures trading. In the first draft TSVCM report, excessive speculation in futures was identified as a market integrity concern. But that very real concern disappeared in the second version of the report.

The Task Force also fails to ensure 'additionality'. If carbon trading is to create an actual mitigation benefit, then credits cannot just be traded—they must be retired. But retirement of credits reduces 'liquidity'—the total volume of credits from which traders can make money. So the Task Force doesn't recommend retirement—or any other approach to ensuring mitigation that would also limit the gains of traders. Instead, the Task Force seeks the creation of spot and futures markets, while also arguing for 'fungibility across all platforms'.

Translation: the TSVCM seeks to set up a single integrated global carbon market, with no limits on traders [that is, no position limits that would curb excessive speculation], and a daily 'spot' price for carbon credits. Those credits should be 'fungible'—so it doesn't matter whether the carbon comes from trees or geoengineering or even just from hypothetical 'avoided emissions'.

For CLARA, the most dangerous aspect of the TSVCM is how it seeks to impose a solution that was designed and governed by finance-sector interests, rather than through a set of rules designed and implemented by nation-states. The dangerous aspect is that supporters of the TSVCM in the rich countries are putting forward the message that if countries don't allow international offset credits, then they won't get access to other types of climate finance. The tail wagging the dog....

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