Interplay of voluntary markets and Article 6 - options for India

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Role of carbon markets in raising ambition

Carbon markets can contribute to:

- Implementing existing policies (to achieve existing targets)
- Addressing action gap (to achieve existing targets)
- Addressing ambition gap (to raise ambition beyond existing targets)

Source: Nordic Dialogue on Voluntary Compensation, final report launch event 29.11.2022
Role of carbon markets in raising ambition II

Article 6 and voluntary carbon markets can contribute to:

"Mitigation contribution"
Support host country NDC

"Offsetting"
Support ambition-raising beyond host country conditional NDC

Source: Nordic Dialogue on Voluntary Compensation, final report launch event 29.11.2022
Article 6 interplay with the voluntary market

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Mitigation activity

Crediting scheme

Type of mitigation outcome

Host country authorisation & corresponding adjustment (CA)

Use case

Article 6.4 Mechanism

Independent standard

Bi/multilateral

Joint Crediting Mechanism

A6.4ER

Certified carbon credit

Mitigation outcome

Yes

Corresponding Adjustment

ITMO

No

OMGE, Foreign NDCs, CORSIA, Voluntary, Results-based finance, Domestic NDC
Key principles for a good carbon credit

• 20 years of lessons of international carbon markets show clearly which principles are crucial

• Art. 6.4 principles are excellent and should guide the discussion on the principles to apply on the voluntary market

• Additionality of the activity: demonstration that activity is mobilized by the incentives from credit sales
  • Taking into account all existing national mitigation targets and related policies / practices
  • Barrier tests do not work; common practice tests mostly do not work
  • Investment tests do work if auditors properly check evidence for parameters
  • Positive lists are sticky and thus become more problematic over time

• Conservativeness of emissions baselines
  • Baseline below business-as-usual (BAU), and aligned with the long-term goal of Paris Agreement -> “ambition coefficient”
  • Baseline addresses uncertainties in quantification: conservative end of confidence interval
  • Avoided deforestation/REDD+ baselines are particularly tricky!
Possible futures for carbon markets

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• Two possible futures:
  • Voluntary markets **wither away** as compliance markets are seen as the only serious approach
  • **Robust and credible private market programmes** serve both compliance and voluntary markets

• Serious voluntary market operators should have an interest in **high integrity credits**
  • Better to have **low volume – high price market** compared to medium volume – low price market
  • **Race to the bottom will lead to destruction of all carbon markets** (see CDM precedent)

• Governments or international institutions will regulate voluntary carbon markets if they perceive them to be a **source of structural risk**
  • IOSCO, financial regulators in the US, ....
**Recommendations for Indian actors**

- **Focus on high-quality supply** for both voluntary and sovereign carbon market
  - Currently, Indian voluntary credit providers are mostly seen as serving the low-quality end of the international market
  - Ideally: Strong Article 6 engagement of Indian government as well as corporates, building on the historical precedent of engaging with the CDM from 2003 onwards
  - Offer ITMOs with corresponding adjustment
  - Indian Article 6.2 eligibility list is highly credible and a good start!

- Ensure that **domestic carbon market design is in line with requirements of Article 6**
  - Credible additionality test of activities and conservative baseline setting

- Indian input into Article 6.4 negotiations should focus on **highly credible, yet robust and low transaction cost approaches**
  - Fighting “rearguard battles” to keep everything like the CDM does not work