

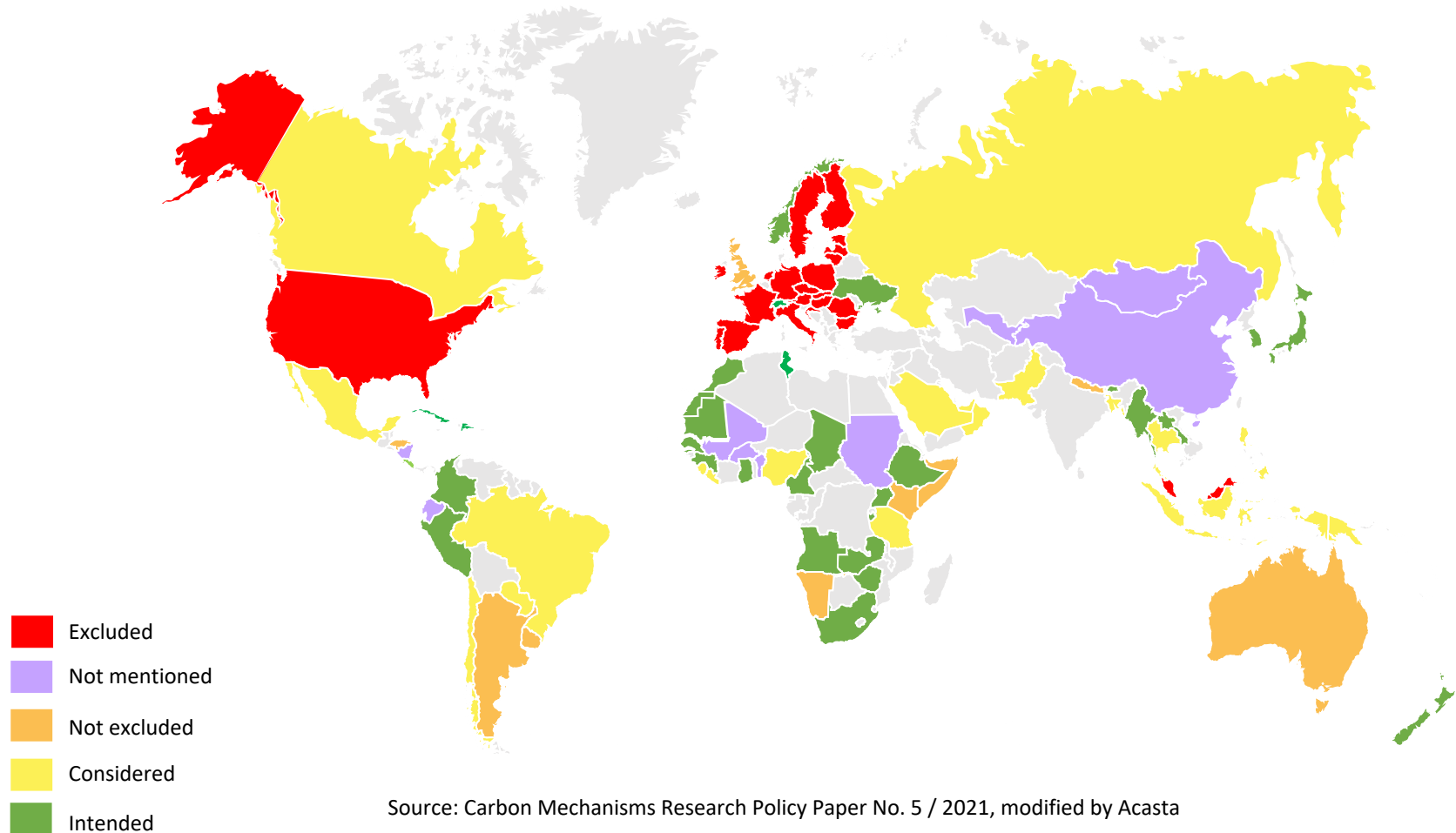
Carbon Markets

Article 6 of the Paris Agreement and the role of the private sector

Westminster Energy Forum

February 2022

Article 6.2 encourages bilateral co-operation

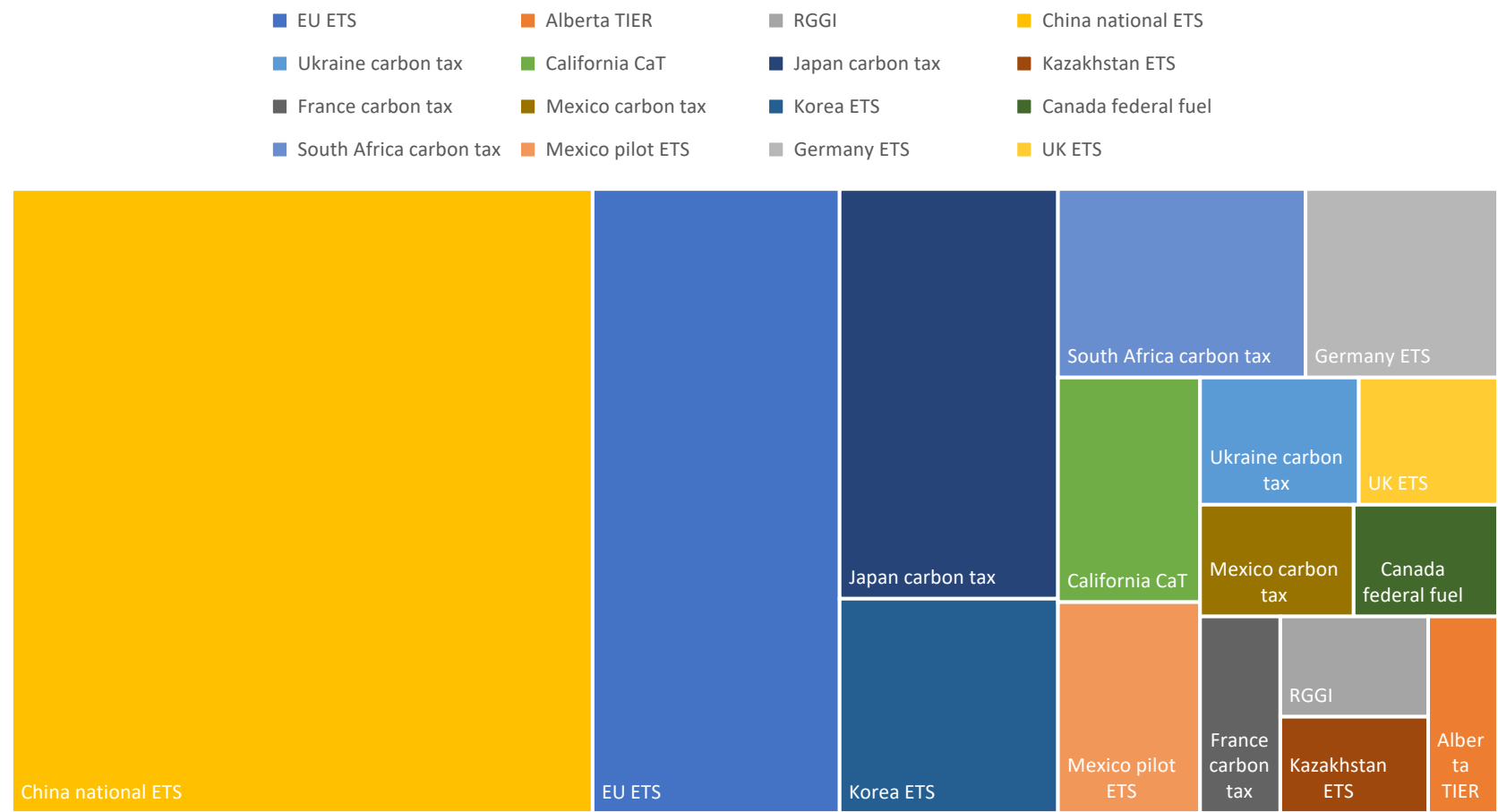


102 NDCs state openness to use market mechanisms in the future

The EU and the US will not buy carbon credits to achieve their NDCs

Japan, Canada, South Korea and the UK may potentially be buyers

Article 6.2 potentially to allow linkages



Source: Carbon Pricing Dashboard, World Bank, modified by Acasta

21.5% of global GHG emissions are covered by carbon pricing instruments

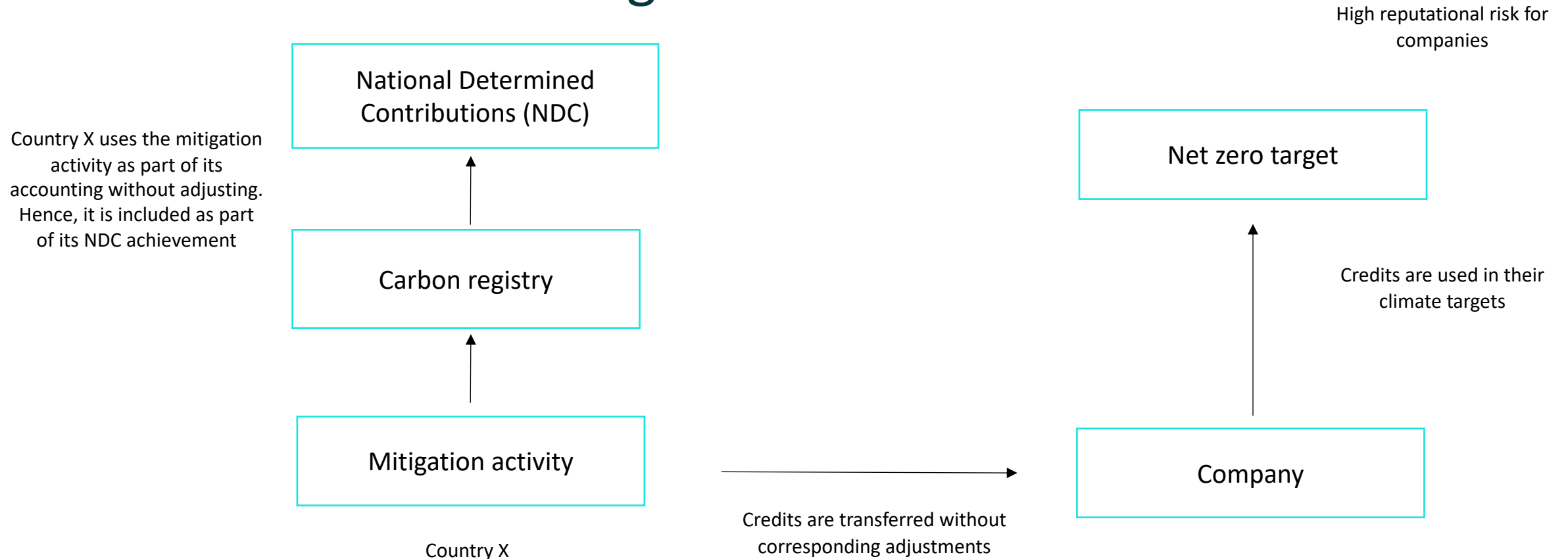
Potentially linking the different mechanism can be complicated

China’s national ETS launched in February 2021

Article 6.4: COP 26 outcomes

- Establishment of a “supervisory body” which will supervise the mechanism
- The methodologies and administrative requirements for the market may take up to 3 years to be finalized
- Linked with CORSIA
- “Zombie credits”: agreed to carry carbon credits generated under the Kyoto Protocol since 2013
- **Possible double counting** as private sector voluntary transactions may not be included

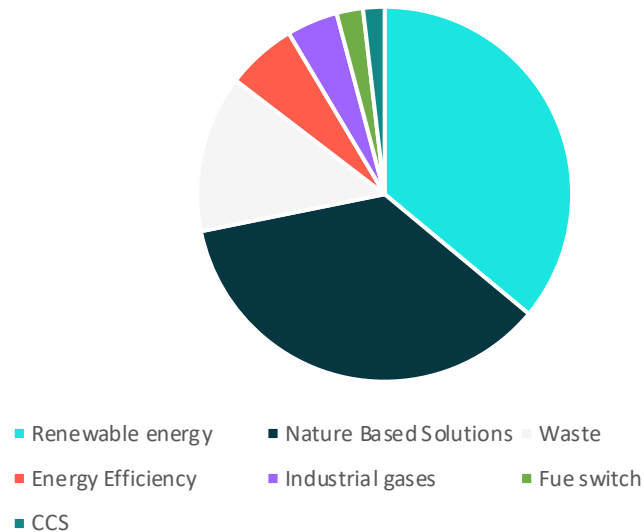
What is double counting?



Despite this, Gold Standard, Verra and San Jose Principles Coalition countries have announced that they will support corresponding adjustments

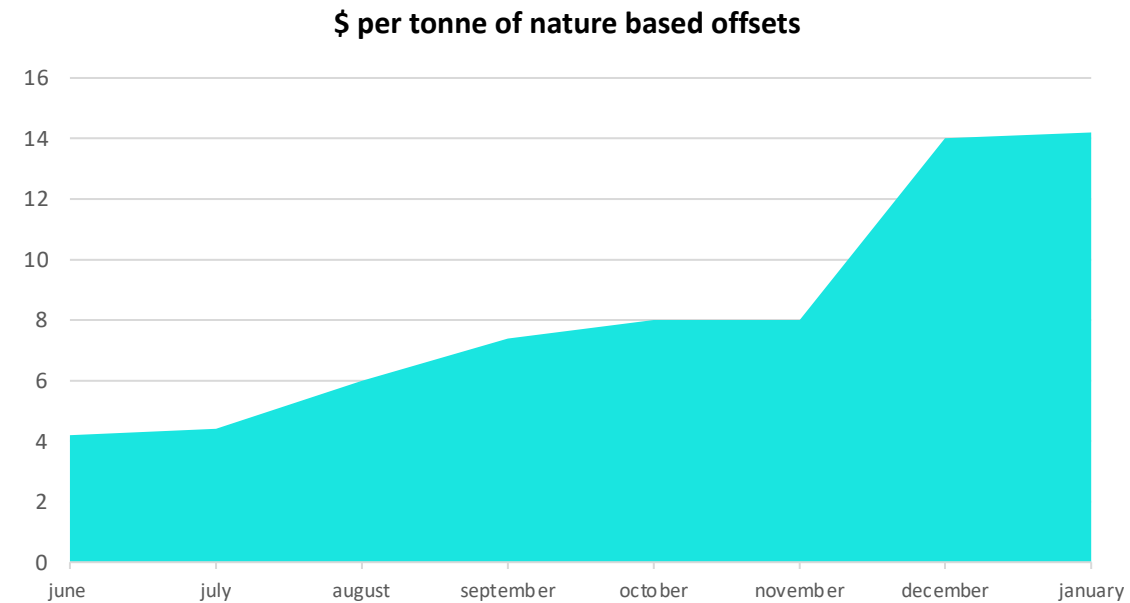
Increasing price on Voluntary carbon markets

Credits issued are dominated by Renewable energy and Nature Based Solutions on Verra and Gold Standard



Source: Voluntary Carbon Markets Dashboard, Climate Focus, modified by Acasta

Prices are increasing driven by net zero commitments

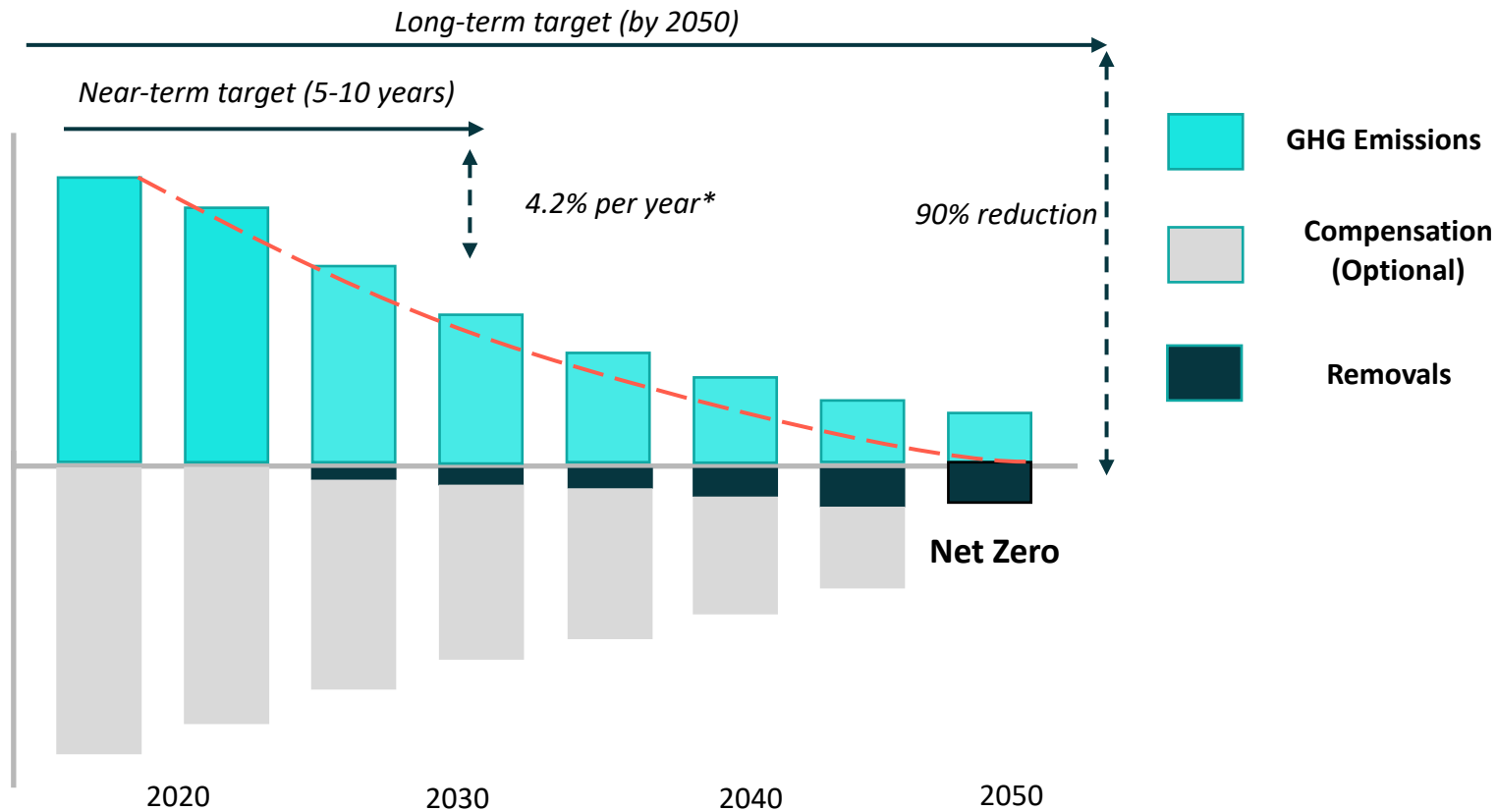


Source: FT, modified by Acasta

This situation is increasing the interest of financial institutions on voluntary and compliance markets.

Net zero: is there a role of offsets?

Corporate net zero pathways (example of SBTi net zero pathway)



*4.2% every year from a baseline year (not earlier than 2015) or alternatively use the Sectoral decarbonisation approach (SDA) for sectors with 1.5°C aligned reductions.

Source: SBTi, modified by Acasta

Offsetting emissions plays a residual role in a net zero emissions trajectory

Companies must focus on reducing emissions first

Removals should move towards longer term storage. Although, economic and technical barriers remain

Key messages

1. Voluntary carbon markets can play a role, if concerns over credibility and double counting are addressed.
2. Reputational risks could be higher if companies do not use high quality credits.
3. Offsetting must move towards longer term storage.
4. Emissions reductions should be the priority for countries as well as companies.

Thank you

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