



Setting the Scene: A Carbon Credit Journey

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Agenda

- Development of Carbon Markets
 - Kyoto Protocol and the Paris Agreement
 - Article 6 mechanisms
 - Domestic Emissions Trading Schemes
 - Voluntary Markets
- Interaction between Compliance and Voluntary Markets
- Methodologies and Eligibility
- Lifecycle of a Verified Carbon Credit
- Key Market Participants
- Market Places
- LOAs and Corresponding Adjustments



Development of Carbon Markets

Carbon markets have emerged as critical tools in the global effort to mitigate climate change, driven by the objectives set forth in the **Kyoto Protocol 1997** and the **Paris Agreement 2015**.

Concept – ONE ATMOSPHERE

Aspect	Kyoto Protocol	Paris Agreement
Adopted	1997	2015
Objective	Emissions reductions (Annex 1 only)	Limit warming below 2 degrees
Commitments	Top down - binding targets	Bottom up - universal NDC, binding on transparency



Kyoto Protocol

- **Kyoto Protocol** introduced **3** market-based mechanisms

International Emissions Trading (IET)

- **Parties** to the Kyoto Protocol allocated Assigned Amount Units (**AAUs**) representing their target cap
- **transfer and acquire** AAUs
- if such units were **supplemental** to their domestic actions

Clean Development Mechanism (CDM)

- enabled **industrialized countries** to **invest in projects** in **developing** countries
- earning certified emission reduction (**CERs**) credits
- used to meet their **own targets**

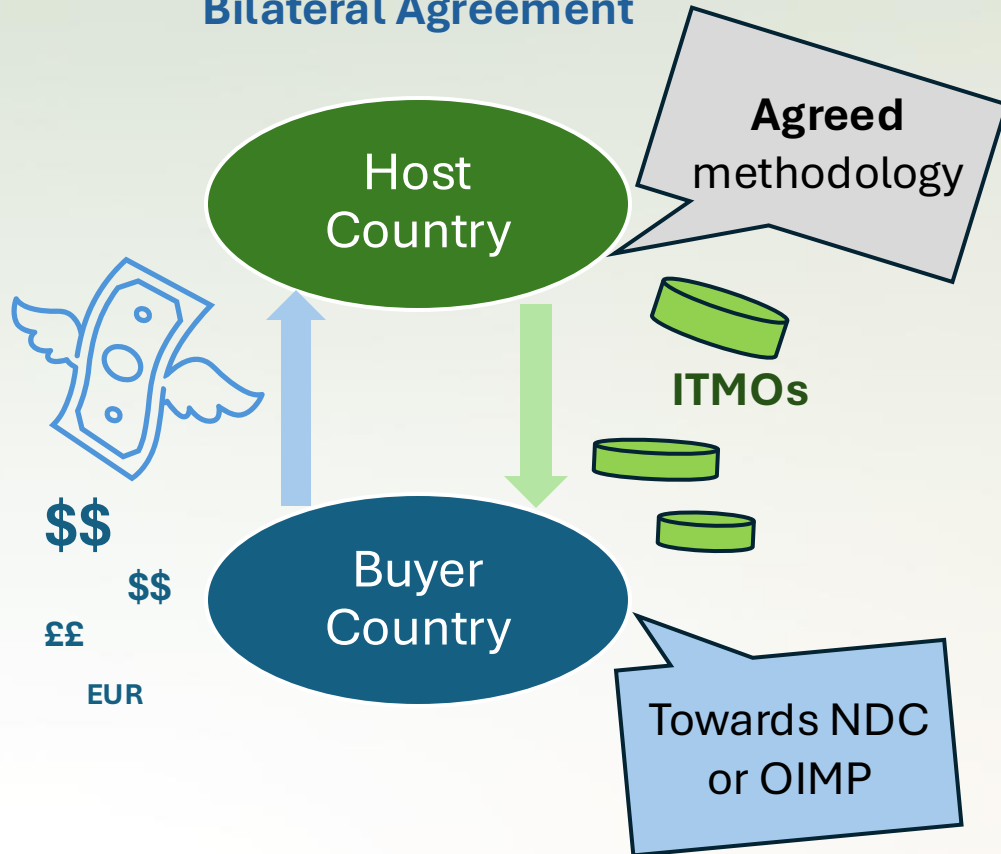
Joint Implementation (JI)

- **industrialized** countries earn emission reduction units (**ERUs**)
- investing in projects in **other industrialized** countries

Paris Agreement Article 6

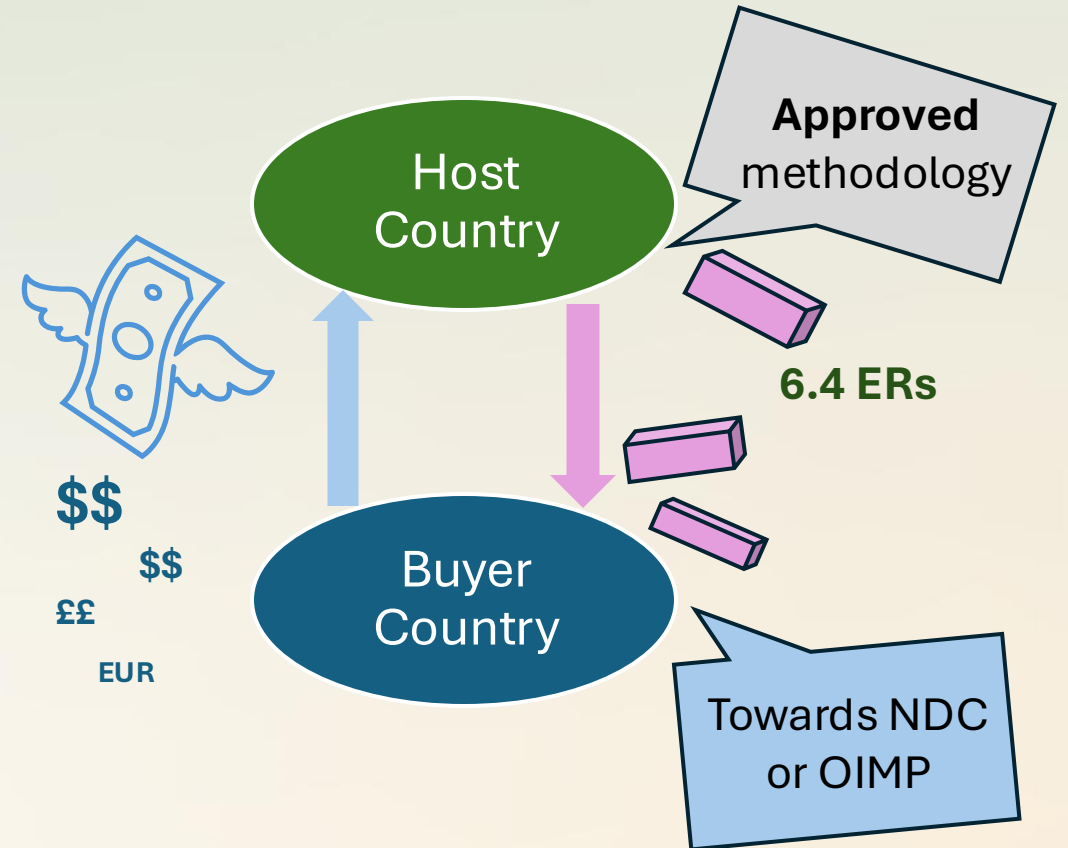
Article 6.2

Facilitates **cooperative approaches** between countries
Bilateral Agreement



Article 6.4

Establishes a **UN** centralized mechanism



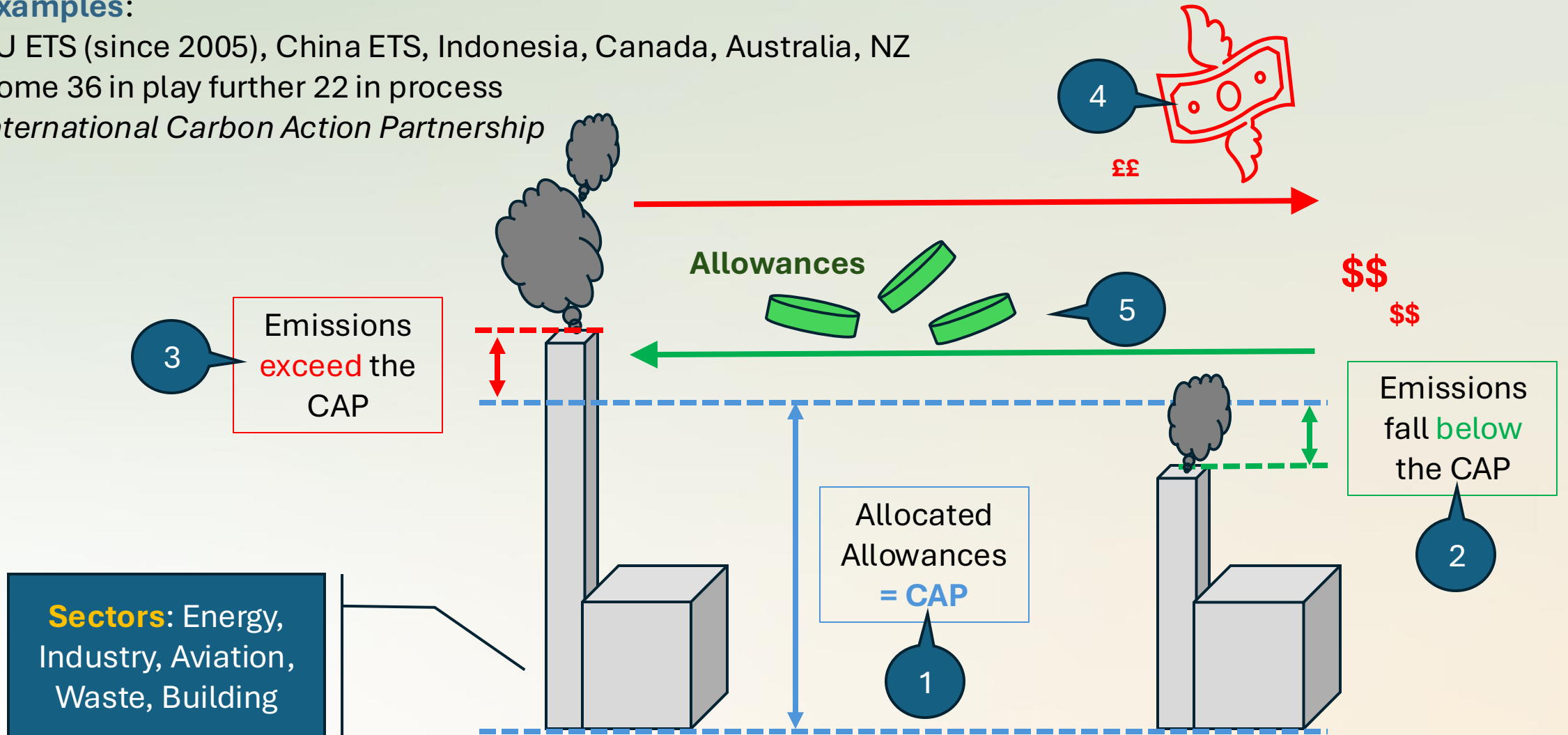
Domestic Emissions Trading Scheme

Examples:

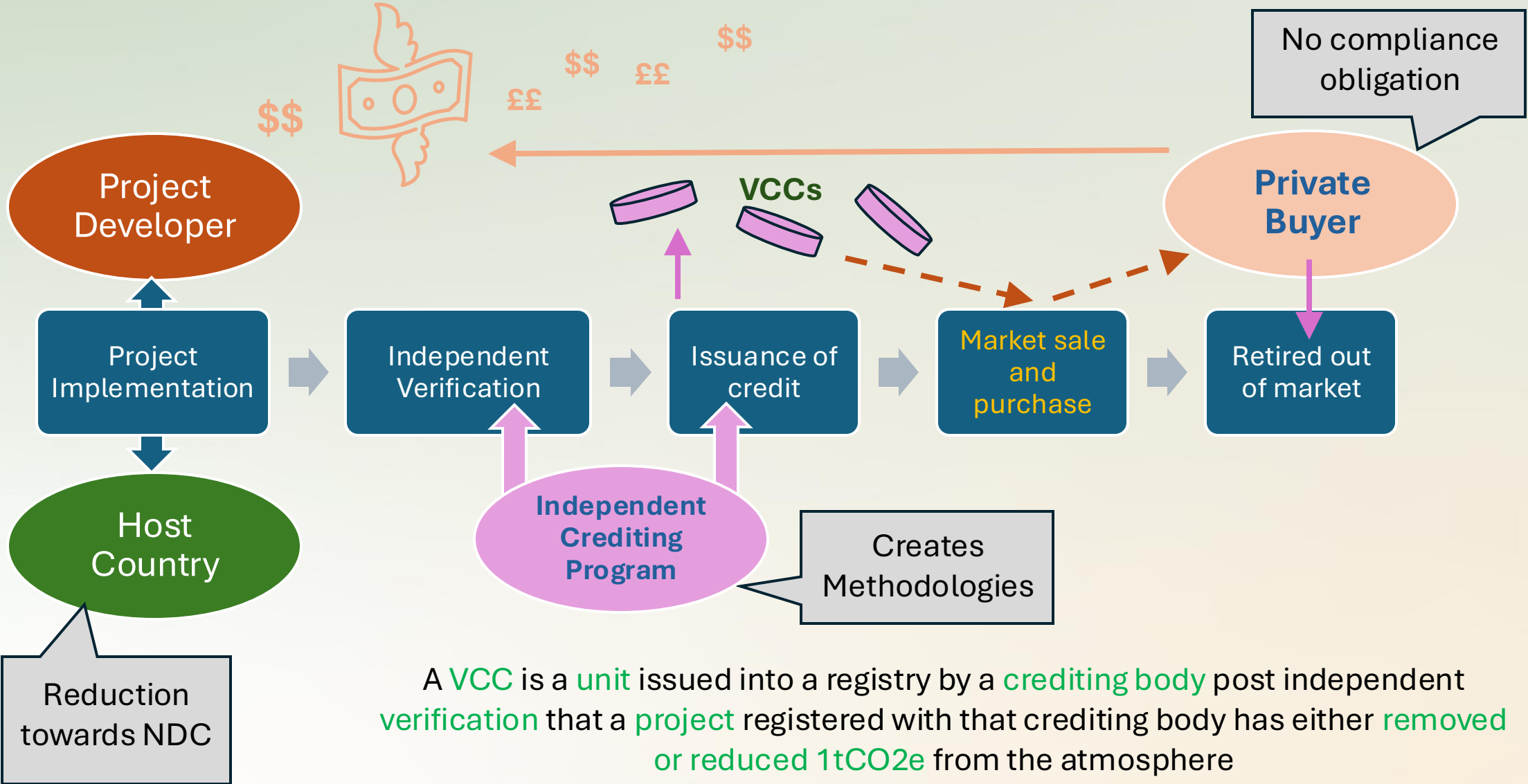
EU ETS (since 2005), China ETS, Indonesia, Canada, Australia, NZ

Some 36 in play further 22 in process

International Carbon Action Partnership



Voluntary Markets in Verified Carbon Credits





Carbon Market Instruments

Domestic Compliance Markets/Emissions Trading Scheme (ETS)

- Allowances – allocated or auctioned

Domestic Crediting Mechanisms

- Carbon credits issued through a government-controlled mechanism using local methodologies

International and Independent Crediting Mechanisms

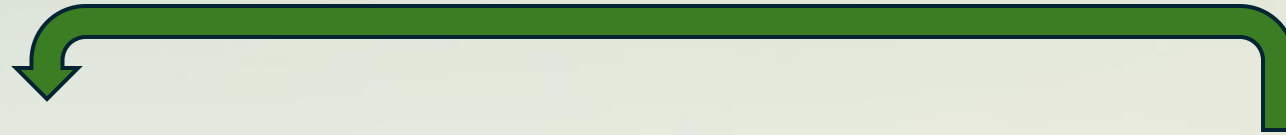
- Carbon credits issued through independent bodies e.g. Verra, Gold Standard or the United Nations under [Article 6.4](#) Paris Agreement Crediting Mechanism, (*PACM*)

Internationally Transferred Mitigation Outcomes (ITMOs)

- Carbon credits issued through independent bodies or domestic crediting mechanisms and authorised for use under [Article 6.2](#) towards other countries NDCs or Other International Mitigation Purposes (OIMP) such CORSIA

Interaction of Voluntary Market and Compliance Markets

Some **Verified Carbon Credits** are **eligible** for use in certain **Compliance Schemes**. Eligibility is set by the **rules of the scheme** and usually specifies certain **crediting standards** and certain **methodologies** and certain **jurisdiction** of projects.

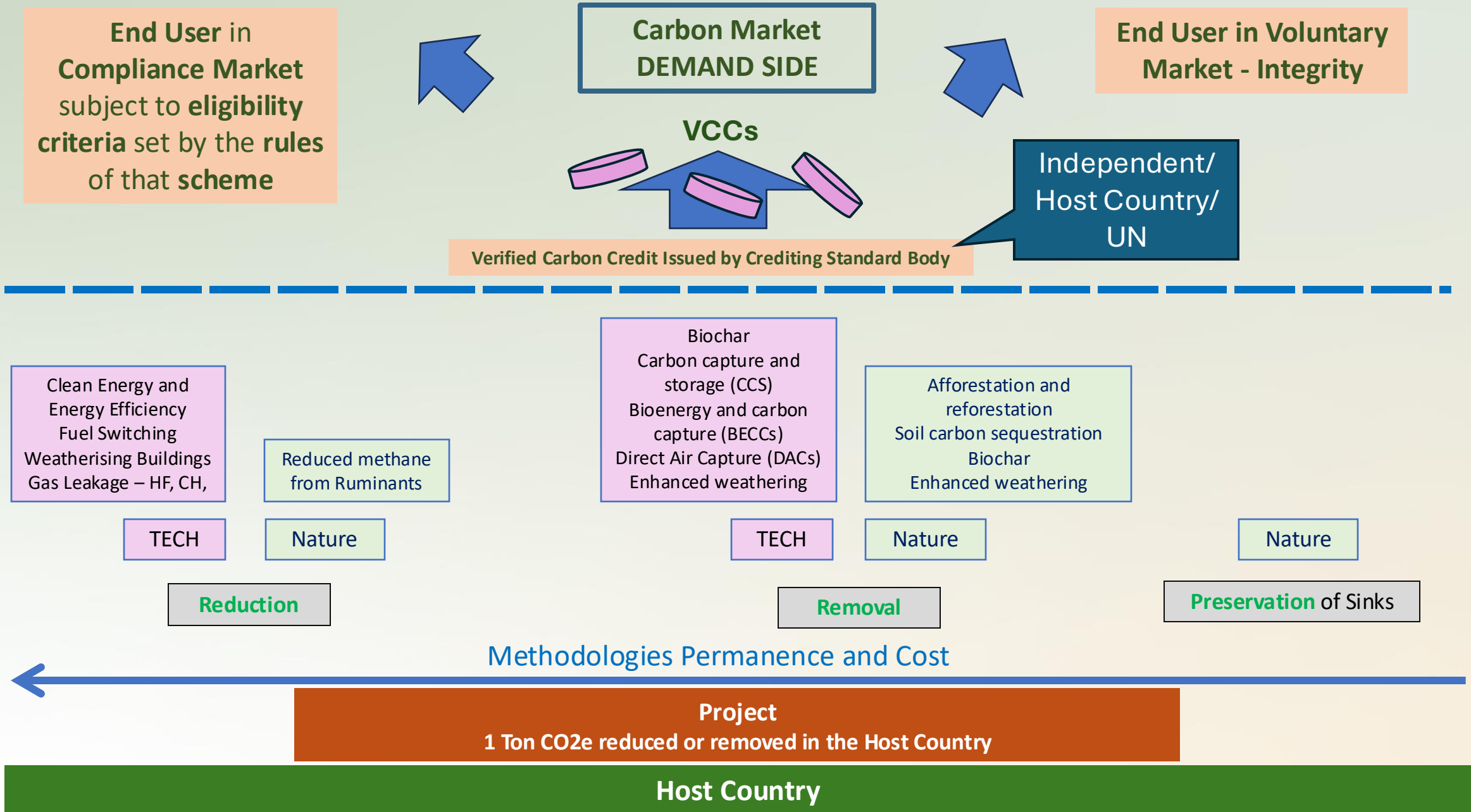


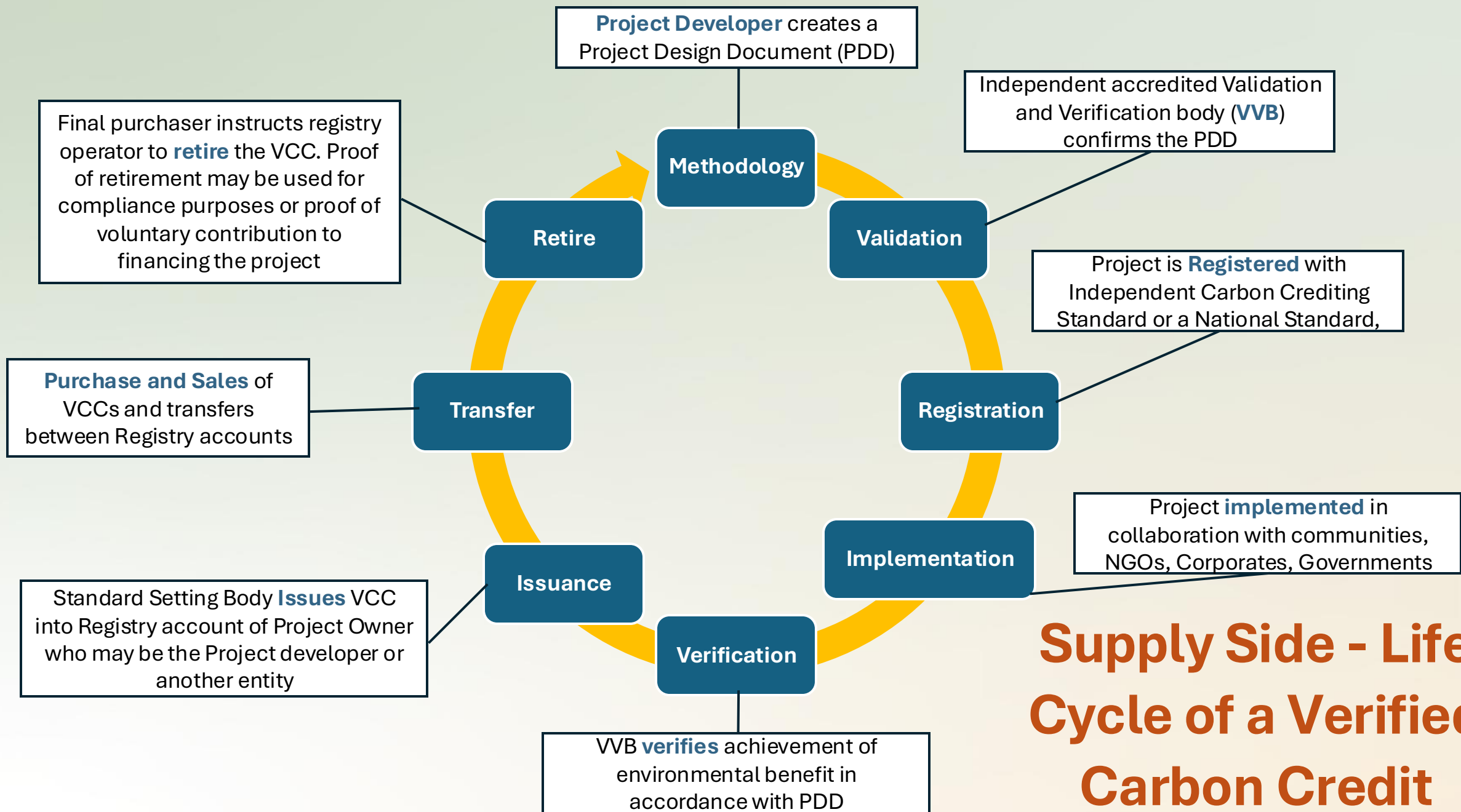
Compliance Market

- **Obligation** imposed by law to measure and account for emissions
- **National** or **regional** schemes
- **CORSIA** for airlines
- **Sector** specific – primary emitters
- **Allowance** (EU ETS) Singapore, **Tax** (Singapore), **Incentive** (IRA USA), **Hybrid**
- **Price** range \$1.22 Kazakhstan \$90 EU ETS
- Proof of **compliance** submitted to relevant Government body

Verified Carbon Credits

- **Project Based**
- **Methodology** carbon **Reduction** or **Removal**
- Measure, Report, Verify (**MRV** Process)
- **Issued** by:
 - **Independent** Standard e.g. VERRA, Art Trees, Climate Action Reserve, PURO. OR
 - **Host** Country under own scheme e.g. UK Woodland Code, or 6.2 OR
 - **UN 6.4**
- Used up by being **retired** from the relevant registry





Supply Side - Life Cycle of a Verified Carbon Credit



Key Market Participants

Investment	Project developers	Many
	Financers	Banks, funds, private investors, Gov, IBRD and other supranational funds
Standard setters	Independent Crediting Programs	Verra, GS, Art, Puro etc
	Rating Agencies	BeZero, Sylvera, Calyx, Trove, CCQI
	Claims integrity setters	SBTI, ICROA, Regulators (Eu Green Claims Directive, Code, US [?])
	Accreditation bodies and principles	ICROA, ICVCM, Integrity Council, ACMI, IOSCO, UNIDROIT
	VVBs	TUV Nord, Earthhood get from Verra
Operations	Registries	Host Country, UN, Independent
Risk management	Insurers	Kita, Oka, Howden, MarshMcLenan
	Private Law	Contract and transactions, legal nature of a VCC
	Price and delivery risk management	Banks and traders
Sales	Exchanges	Xpansiv, CME, ACX, Climate ImpactX, Carbon Trade Xchange
	BI-LATERAL Market	
	Brokers	Respira, Southpole, STX, Vertree, Carbonaires
	Traders	Trafigura, Gunvor, Vitol, Shell, EDF, Mercuria, Banks, BP
	Retailers and consultants	EcoSecurities, Forest Carbon, Carbon direct, Rubicon, Abateable, cloverly, CEEZER, NCX, Klimate.co
	Tokenised credits	Toucan, Flowcarbon, Single Earth



Markets and Transactions

Primary Market

- **Project developer and first off-taker** or investor
- **Bespoke** project finance style agreement
- **Participation Agreement** or **Benefit Sharing Agreement**
- HC **LOA** for project and export of VCC

Secondary Market

- **Bi lateral B2B** (Business to Business) transactions
- Between **market intermediaries** which may include final purchasers
- Bespoke/Standard SPAs
- **Settled** in relevant Registry
- **SPOT** or **Forward**

On-exchange or other trading platform

- **“Tertiary”** market
- **Listed Standard Contracts** for SPOT or Futures delivery usually cleared
- **“OTC”** transactions are **SPOT** or forward agreements **uncleared** settled on exchange
- Purpose, **hedging, liquidity, price transparency** to support Secondary Market



LOA and Corresponding Adjustments

- Project implemented **in Host Country** reducing or removing carbon **within** that country
- **Reduction or removal** is **counted** by the Host Country towards its **NDC**
- Must **avoid Double Counting** i.e. counting the reduction or removal across more than one NDC
- Where the credit is **exported** for use by **another country** that will **count** the **reduction** or **removal towards its NDC** the Host Country must make a **Corresponding Adjustment** to its own NDC to avoid such reduction or removal being Double Counted
 - use towards **NDC or Other International Mitigation Purpose** (OIMP) e/g/ CORSIA **must be Correspondingly Adjusted**
 - use in the **Voluntary Market do not need to be Correspondingly Adjusted** as not being used for another NDC

Letter of Authorisation

- Authorising activity
- Authorising Use Case