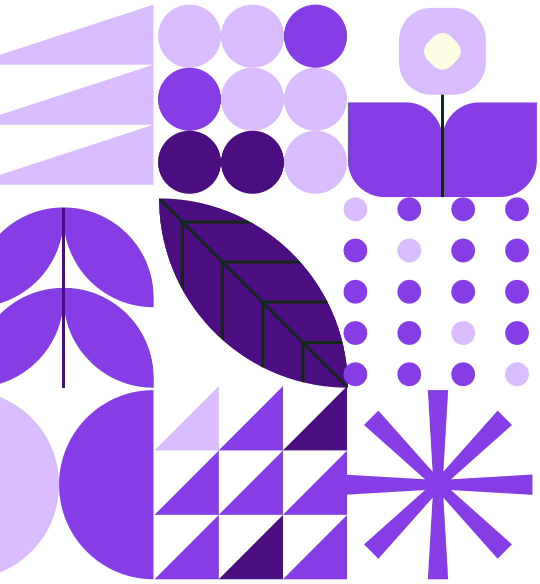
The role of voluntary carbon markets

in mobilising finance to accelerate climate action



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Introduction

The science is clear. The 2023 synthesis report of the Intergovernmental Panel on Climate Change (IPCC) provided a critical pulse check indicating that current country nationally determined contributions (NDCs) remain highly insufficient to meet the Paris Agreement goals to limit global warming to 1.5 °C.[1] In order to meet the collective goal of net-zero emissions by 2050, greater action is needed globally to advance on the path set before us.

The historic COP28 “UAE Consensus” sent an important signal of intent to the international community to increase the pace and scale of efforts to keep the Paris Agreement goals within reach. With a necessary shift to implement effective policies that provide a credible response to the climate crisis, carbon markets[2] are increasingly considered as an essential tool to achieve climate goals.

When considered as part of the emissions mitigation hierarchy, voluntary carbon markets (VCMs) are a key component within a portfolio of solutions for facilitating global emissions reductions and removals, by allowing companies, governments and individuals to purchase voluntary carbon credits in order to mitigate their own greenhouse gas (GHG) emissions, in accordance with individual targets. These markets not only help in achieving global emissions reductions, but, more importantly, also mobilise substantial financial resources towards sustainability projects, including for communities, sectors, countries and economies where climate adaptation, resilience building and finance needs are greatest.

Recently, VCMs have been subject to critical review. The integrity of generation, verification and overall quality of voluntary carbon credits as well as the credibility of mitigation claims by users of voluntary carbon credits in meeting their net emission reduction targets has been under the spotlight. While scrutiny can be a helpful force in driving necessary improvements in the market, an increase in negative perception and the lack of clarity for corporate users of voluntary carbon credits has hampered business engagement in VCMs and led to a dramatic decline in demand for voluntary carbon credits.

The Integrity Council for the Voluntary Carbon Market (ICVCM) and the Voluntary Carbon Markets Integrity Initiative (VCMI) play a key role in tackling the integrity gap. The ICVCM established standards of ethics, sustainability and transparency for VCMs globally (Core Carbon Principles), and the VCMI provided guidance for mitigation claims by companies and other non-state actors in terms of credible use of voluntary carbon credits in setting and meeting climate commitments, and how to communicate their use of those credits.

In this paper, the International Chamber of Commerce (ICC), as the institutional representative of more than 45 million companies in over 170 countries, highlights the importance of engaging in and scaling VCMs as a useful complement to achieve global net-zero emissions and mobilise critical financial resources to support climate action.

1 Sixth Assessment Report—IPCC (2023)

2 75 carbon taxes and emissions trading schemes, and 35 crediting mechanisms in operation worldwide: Carbon Pricing Dashboard | Up-to-date overview of carbon pricing initiatives

The paper discusses the opportunity for VCMs in

i) emissions reduction and removal and

ii) mobilising finance and resources, with a call for robust governance and trust-building measures to enhance their effectiveness and use in global efforts to achieve global net-zero emissions.[3]

The following sections will elaborate on how to mobilise finance and enhance governance and trust in VCMs, with a focus on key areas of relevance to the global business community.

Mobilising finance for emissions reduction

Economic incentives for sustainability

VCMs allow businesses to invest in projects that reduce or remove (sequester) GHG emissions, where emissions are reduced against a business-as-usual baseline. As a complement to their broader efforts to decarbonise, by purchasing voluntary carbon credits, companies can contribute to sustainability goals whilst supporting initiatives in sustainability projects that need financial support, such as regenerative agriculture, environmental protection and restoration, renewable energy, and energy efficiency projects. The financial flows into these projects can catalyse innovation and the deployment of low-carbon technologies, ultimately contributing to broader global climate goals.[4]

The 2023 Emissions Gap report[5] by the United Nations Environment Programme (UNEP) finds that all least cost pathways to meeting the 1.5°C goal of the Paris Agreement require considerable increases both in conventional and novel carbon removal. According to the latest IPCC report scenarios, up to 10 billion tonnes of carbon dioxide (CO_2) removal is needed annually by 2050. It is essential to invest in scaling up existing CO_2 removals and develop new ones, alongside GHG reduction. VCMs offer a finance source for nature-based and technology-based removals in both the short and long term. It is important to scale durable carbon removal instruments to enable global efforts to reach net-zero as well as manage any overshooting of CO_2 budgets for historical emissions.

To drive necessary financial support to achieve longer-term global climate goals, there is an urgent need to scale near-term private investment in VCM projects. With the right demand incentives, VCMs could unlock voluntary near-term corporate investment in decarbonisation activities that extend beyond individual corporate actions directly to reduce an entity's own operational GHG emissions and those of its value/supply chains. Companies should be encouraged to take both direct and indirect decarbonisation actions in order to achieve global climate goals as well as individual net-zero targets.

Distinguishing between different types of voluntary carbon credits and mitigation claims will also help instil trust and credibility for VCMs. For example, there is a growing trend to expand project portfolios within VCMs that include initiatives focused on CO_2 removal, which often generate co-benefits, such as enhancing biodiversity, improving soil quality and fostering economic development in local communities.

Diversifying funding sources to meet global emission reductions

Traditional public and philanthropic funding for climate initiatives often falls short of what is required to achieve global emissions reduction targets.[6] VCMs provide a mechanism to unlock additional private sector investment, thereby diversifying the funding sources for climate action and mobilising necessary private investment.

This mobilisation is particularly vital in developing and emerging economies where public or philanthropic funding is limited but potential for impactful GHG emissions reduction projects is significant. The mobilisation of private funds will also be vital in developed countries to enable the necessary capacity building of durable carbon removals. VCMs can also contribute to climate targets in these economies, for example, through the Carbon Removals Certification Framework (CRCF) adopted in the European Union.

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3 This paper does not look at the role of compliance mechanisms (carbon tax or ETS). ICC work on compliance mechanisms is available at the following link: Principles and proposals for effective carbon pricing—ICC—International Chamber of Commerce

4 International Energy Agency (IEA). (2024, October). The Role of Carbon Credits in Scaling Up Innovative Clean Energy Technologies (pg 11-14)

5 https://www.unep.org/resources/emissions-gap-report-2023

6 International Energy Agency (IEA). (2024, October). The Role of Carbon Credits in Scaling Up Innovative Clean Energy Technologies (pg 11)

Leveraging corporate responsibility

In recent years, there has been a marked shift in corporate strategies recognising climate risk and incorporating sustainability metrics. Many corporations are committing to net-zero targets[7] and seeking ways to use voluntary carbon credits within their decarbonisation strategies, including beyond their value chains. In addition to reducing value chain emissions, VCMs allow these entities to take accountability for all their emissions by investing in credible carbon crediting projects beyond their value chain. This corporate engagement not only funds vital emissions reduction and carbon removal projects but also promotes a culture of sustainability, social responsibility and environmental stewardship.

However, companies urgently require clarity on what tools and mechanisms can help them contribute to global net-zero emissions, including the regulation of environmental claims and guidance for corporate net-zero transitions. It is essential that the focus remains on establishing a credible and robust path to net-zero, which includes setting interim goals and providing clear guidelines on what corporates should and could do to maintain credibility. A robust regulatory framework to bolster trust and provide incentives will be essential to support VCMs in helping to deliver global net-zero emissions.

For high-integrity VCMs, it is vital that voluntary carbon credit mechanisms do not shift attention away from emissions reductions. For organisations setting net-zero or other climate targets, the priority should be in mitigating: preventing emissions in their own activities and in the value chain. Voluntary carbon credits play an important secondary and complementary function in addressing residual GHG emissions.

Enhancing governance and trust in voluntary carbon markets

Standards and certification

The functionality of the VCM is dependent on robust standards and certification processes to define what constitutes a credible voluntary carbon credit and ensures that projects deliver real, additional, long-term GHG emissions reductions or removals. Well-recognised and governed carbon crediting programmes (including, but not limited to Verra, Gold Standard, Puro.earth and CAR) can help build trust in the integrity of the credits being traded, based on additional work by umbrella bodies like the ICVCM and their Core Carbon Principles.

Existing body-specific VCM standards and principles aim to enhance integrity, credibility and overall confidence in carbon markets, whilst also providing safeguards and ensuring environmental and social co-benefits. These apply to design, development and verification of voluntary carbon credit projects as well as to claims by purchasers. Standards applicable to claims seek to reduce the risk of greenwashing reductions through use of voluntary carbon credits. The ICVCM Core Carbon Principles aim to create a uniformly high standard across the existing bodies.

It is also important to have clear, effective and implementable rules for corporate mitigation targets and the use of voluntary carbon credits to meet those targets. This too is key to setting the foundation for a robust and credible path to net zero.

VCMs have expanded as new integrity initiatives for accreditation programmes emerge. There has been increased momentum to address issues that undermine the integrity of VCMs including ICVCM Core Carbon Principles,[8] which set in place guardrails to increase transparency and set a baseline for what constitutes high integrity VCMI Initiative guidance,[9] which assists corporates in making credible claims about their use of voluntary carbon credits, and other efforts focusing on principles to ensure integrity in the market such as the International Emissions Trading Association's (IETA) Guidelines for High Integrity Use of Carbon Credits.[10]

7 Science Based Targets initiative (SBTi). (2024, October). 500 companies set net-zero ambition. https://sciencebasedtargets.org/net-zero.

8 ICVCM, (2023), 'Core Carbon Principles, Assessment Framework and Assessment Procedure' https://icvcm.org/wp-content/uploads/2023/07/CCP-Book-R2-FINAL-26Jul23.pdf

9 VCMI, (2023), 'Claims Code of Practice' https://vcmintegrity.org/wp-content/uploads/2023/06/VCMI-Claims-Code-of-Practice.pdf

10 Guidelines for High Integrity Use of Carbon Credits—IETA

In addition, the ICC Advertising and Marketing Communications Code (2024)[11] and the ICC Framework for Responsible Environmental Marketing Communication (2021)[12] provide general guidance on the use of environmental and climate claims.

Transparency and reporting

Transparency is crucial for maintaining confidence in VCMs. Regular reporting on project impacts and emissions reductions can enhance accountability and facilitate informed decision-making for buyers and investors.

Digitalisation is transforming how the integrity of credits is verified, thereby enhancing trust in the market. The implementation of blockchain and other emerging technologies is viewed as a key tool to mitigate the risks of greenwashing and to ensure that voluntary carbon credits represent verifiable and effective reductions and removals. The integration of these technologies could provide new avenues to strengthen the transparency of VCMs, as blockchain can ensure immutable records of carbon credit transactions, minimising the risks of double-counting or fraudulent claims. In addition, increased alignment between crediting programmes, supra national registries (e.g. UNFCCC), national registries, market places, etc.) will also provide for enhanced transparency and efficiency. APIs and standardisation of protocols/taxonomies where blockchain could serve as a key tool could be considered in this regard.

The ICVCM Core Carbon Principles also provide key learnings for building integrity and transparency in the voluntary carbon market.[13]

An agreement on the full operationalisation of Article 6 of the Paris Agreement on international emissions trading during the climate negotiations at COP29 in Baku will also be critical to develop further transparency and allow for a stronger and more coordinated approach on carbon pricing, as well as to unleash the potential of international carbon markets to accelerate the pace and scale of emissions reductions, including driving private sector investments in voluntary carbon reduction/removal projects. Resolution of outstanding operational issues, including on authorisations, the Article 6.2 international registry and the sequencing of reporting and review of information, must be prioritised to facilitate functioning, high-integrity cross-border carbon markets, capable of accelerating global emissions reductions and providing the right signals for the private sector to invest.

Increasing the credibility and integrity of these markets and greater alignment between voluntary and compliance markets can increase the adoption and the efficiency of these markets in achieving their goals. It will also pave the way for cooperative approaches that allow the financing of technologies needed to meet climate targets and raise climate ambitions of participating countries.[14]

Establishing clear regulatory frameworks and improving international cooperation

Although, the VCM is by its nature voluntary, governments play a pivotal role in ensuring the success and integrity of these markets. Establishing clear, supportive and enabling regulations can provide the necessary legal structure to support the scaling up of global carbon markets, ensuring transparency and credibility. This includes leveraging existing minimum standards for voluntary carbon credits and establishing guidelines for verification and reporting, as well as for the regulatory and accounting treatment of voluntary carbon credits which would be helpful in building trust and predictability for investors and ensure that voluntary carbon credits can be credibly and reliably traded and used. Clearly defining the legal nature of voluntary carbon credits is essential to boost market confidence and scale effectively. Host countries need to establish clear rules for developing carbon projects domestically and that establish clear legal title over the emissions reductions the projects are responsible for generating.

Greater international cooperation can help harmonise standards and practices across borders and avoid duplication, making it easier for companies to engage in global carbon markets. Developing robust and interoperable infrastructure will be essential for market integrity and scalability.[15]

11 The ICC Advertising and Marketing Communications Code—ICC—International Chamber of Commerce

12 ICC Framework for Responsible Environmental Marketing Communications—ICC—International Chamber of Commerce

13 The Core Carbon Principles | ICVCM

14 Article 6 and Voluntary Carbon Markets—Oxford Institute for Energy Studies

15 World Bank, State and Trends of Carbon Pricing, Sept 2024

Stakeholder engagement

We recognise that industry is an integral part of the solution. Market-based policies are only as good as the market and therefore business needs to be part of the discussion and the solution. High standards of governance and oversight over the companies responsible for developing and supplying voluntary carbon credits are essential. Engaging a diverse range of stakeholders—including the private sector—can enhance the effective functioning of VCMs. This inclusive approach helps ensure that the interests of all parties are considered, leading to more equitable and effective outcomes.

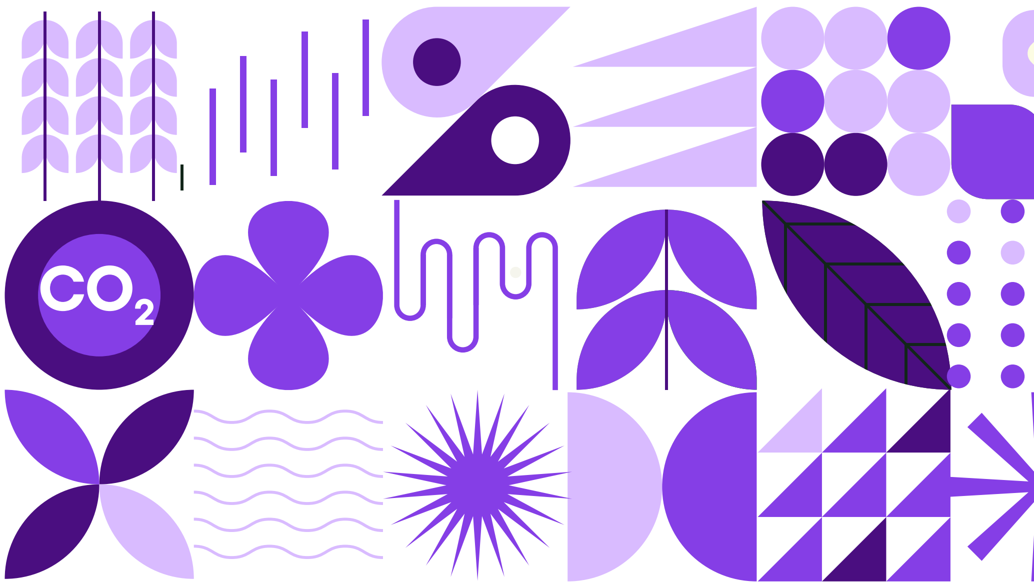
Over the past three years, ICC delivered reports on carbon pricing providing insights on what works well in principle and practice.[16] The reports pinpoint core frictions which typically limit the effectiveness of carbon pricing systems, highlighting that the funds delivered by high-quality voluntary carbon markets operating at scale could significantly boost mitigation efforts, particularly in jurisdictions that do not have the administrative capacity to implement compliance systems.

Risk mitigation

Perceived risks—such as the failure of projects to deliver promised emissions reductions—can undermine trust in VCMs. More regulation is needed to allow the market to grow with certainty and to support the development of risk management instruments found in other markets. Implementing insurance mechanisms or guarantees can also help mitigate the risk of failure, offering buyers greater confidence that their investments are contributing to genuine climate benefits. It is also important to consider the type of credits, how they are used and which targets they are applied to. They are complementary tools for real emissions reduction in companies' own value chains. Differentiation of types of voluntary carbon credits and how they are utilised would further enhance trust and acceptance and support broader scaling of VCMs.

Additionally, adhering to the principle of the mitigation hierarchy is an important factor in decreasing risks related to failure of projects.

Greenwashing risks affect corporate demand for voluntary carbon credits. Government regulations, legal guidance, engagement with advertising standards bodies, and other forms of code of conduct on the use of voluntary carbon credits towards meeting corporate net-zero or decarbonisation claims are needed in order for greenwashing risks to be reduced.



16 Principles and proposals for effective carbon pricing—ICC—International Chamber of Commerce (iccwbo.org)

Conclusion

The global business community stands resolutely in support of the Paris Agreement and the need to achieve net-zero emissions by 2050. It is abundantly clear that without urgent and concerted global action—across all sectors and systems—we will miss a rapidly closing window to deliver on the Paris Agreement, avoid climatic tipping points and prevent the most dramatic negative impacts on people, the planet, and our economies. We have a responsibility and imperative to harness all the tools and mechanisms available to achieve this objective.

From an economic and climate perspective, VCMs hold considerable potential to mobilise finance and resources to achieve global net-zero emissions and play a critical role in bridging financing gaps for climate action, particularly in the most vulnerable countries. There is a clear need for near-term investment in order to reach longer-term global climate goals.

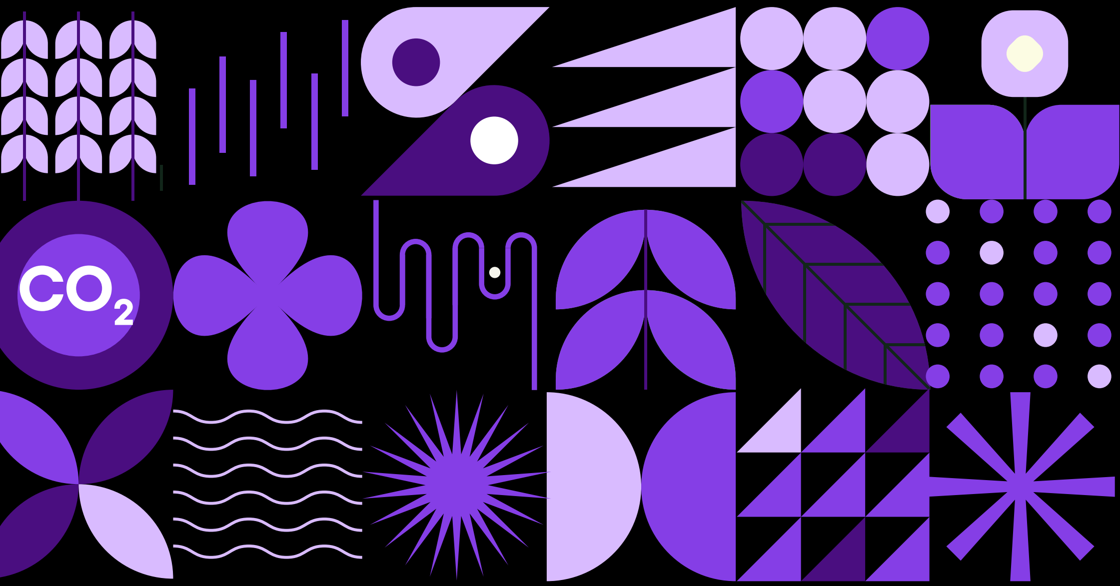
Whilst 24% of emissions are globally priced,[17] there is an urgent need to increase coverage from compliance, voluntary and Article 6 markets. This paper highlights the clear opportunity and benefits of VCMs and underscores the fundamental governance and trust-building measures needed to fully harness their potential. In order to scale private sector investment in VCM projects, companies require clarity on what tools and mechanisms can help them contribute to global net-zero emissions.

In this regard, ICC calls for:

- **Robust governance frameworks** to bolster trust and create the economic incentives needed to support uptake of VCMs to help deliver global net-zero emissions and mobilise the much-needed financing for climate action;
- **Clear, effective and implementable rules** for corporate mitigation targets and consistent guidance on the use of voluntary carbon credits to meet those, which will be key for a robust and credible path to net-zero.
- **Standards and certification processes** to ensure VCMs function effectively. Leveraging existing standards and principles will be key to enhance integrity, credibility and overall confidence in carbon markets.
- **Greater international cooperation** to harmonise standards and practices across borders and avoid duplication, including developing interoperable infrastructure for market integrity and scalability;
- **Clear articulation on the role of international carbon markets** in the upcoming revisions to countries' NDCs, which will be helpful for sovereign and private buyers and sellers of voluntary carbon credits to better understand how to leverage carbon markets to advance their climate goals.

Ensuring that the right governance and trust-building measures are in place will be key to building the confidence needed to drive broader private sector engagement in VCMs. They will be equally crucial to provide the clarity and certainty businesses need on the credible tools and mechanisms they can use to help them contribute to the global effort to combat climate change and achieve a sustainable, net-zero future.

17 World Bank. 2024. State and Trends of Carbon Pricing 2024, p. 57. Washington, DC: World Bank. DOI: 10.1596/978-1-4648-2127-1.



ICC (2024), Making the NCQG a real catalyst of private sector climate finance,
https://iccwbo.org/news-publications/policies-reports/principles-and-proposals-for-effective-carbon-pricing/

About the International Chamber of Commerce

The International Chamber of Commerce (ICC) is the institutional representative of more than 45 million companies in over 170 countries. ICC's core mission is to make business work for everyone, every day, everywhere. Through a unique mix of advocacy, solutions and standard setting, we promote international trade, responsible business conduct and a global approach to regulation, in addition to providing market-leading dispute resolution services. Our members include many of the world's leading companies, SMEs, business associations and local chambers of commerce.

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