



Overview of Forest Carbon Markets in the context of Nationally Determined Contributions Implementation in Asia-Pacific

Annual Market Discussion (58th Session of the ITTC)
8 November 2022

.....
UNDP
Climate and Forests
Programme



Outline

1

Forests in NDCs

2

Options to finance
NDC Implementation:
UNFCCC & Article 6

3

High integrity demand
for forest carbon markets

4

Challenges in Asia-Pacific
region

Key Messages

1) A country's **Nationally Determined Contributions** (NDC) states its contribution to the global goal of limiting global warming to 1.5 degrees Celsius which **includes the Forest and Land Use sector including REDD+ under the UNFCCC**.

2) Accessing carbon markets for the forest sector for a country's NDC requires **strategic and political considerations** that should **maximise investments** directed to **high-priority mitigation opportunities**.

3) Growing demand for **high integrity forest carbon markets**, but the price of carbon has not fully reflected the **true costs of maintaining natural forests and high integrity**.



Climate and Forests



Part 1:

Forests in NDC

Forests are critical to the climate emergency:

Climate and Forests



.....

Forests provide the dwelling and livelihood for over 1 billion people – including many indigenous peoples – host the largest share the world's biodiversity and provide essential ecosystem services, such as water and carbon storage.

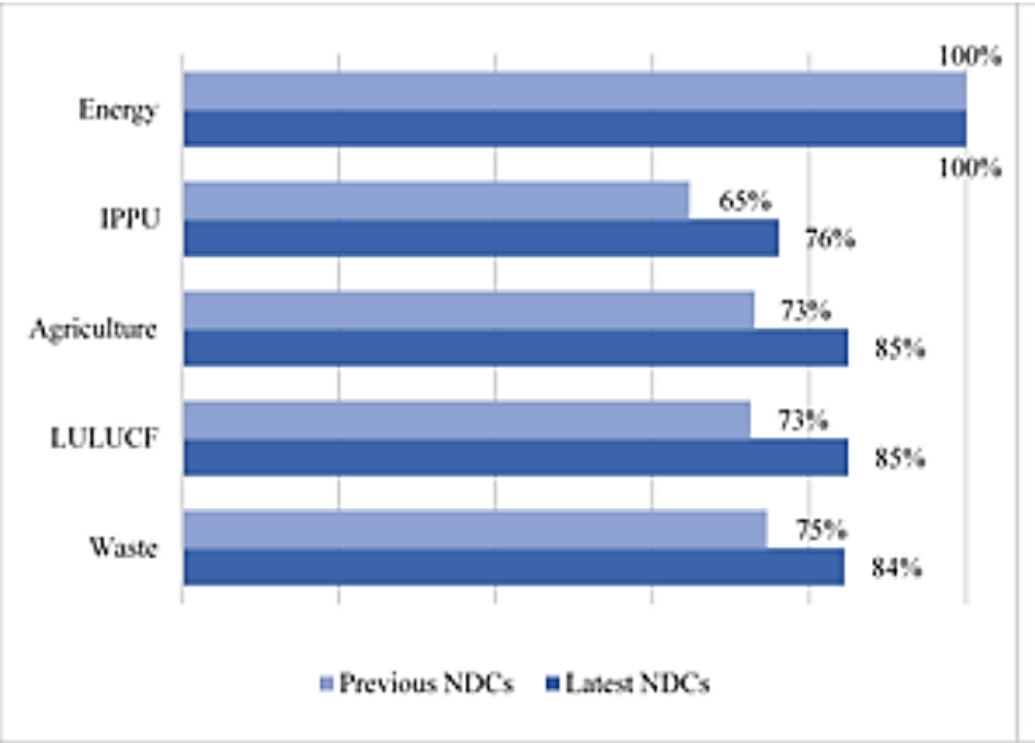
.....

The destruction of forests contributes ~ 10% of global greenhouse gas emissions.

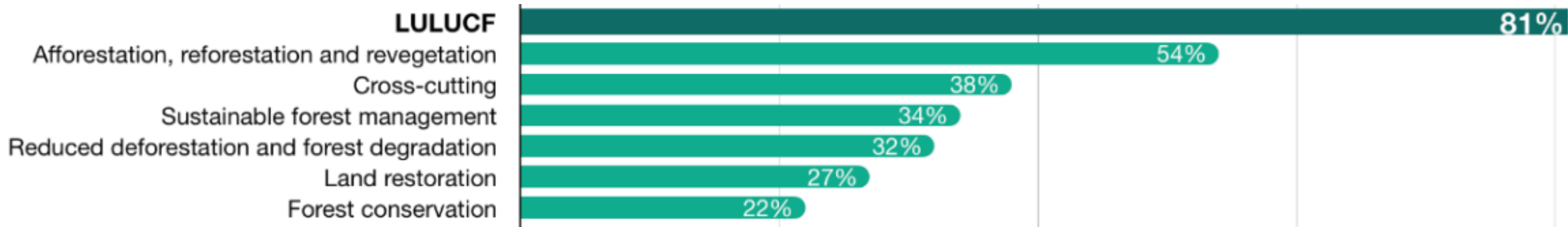
.....

At the same time, forests sequester up to a third of carbon emissions.

Sectors covered in NDCs (2022)

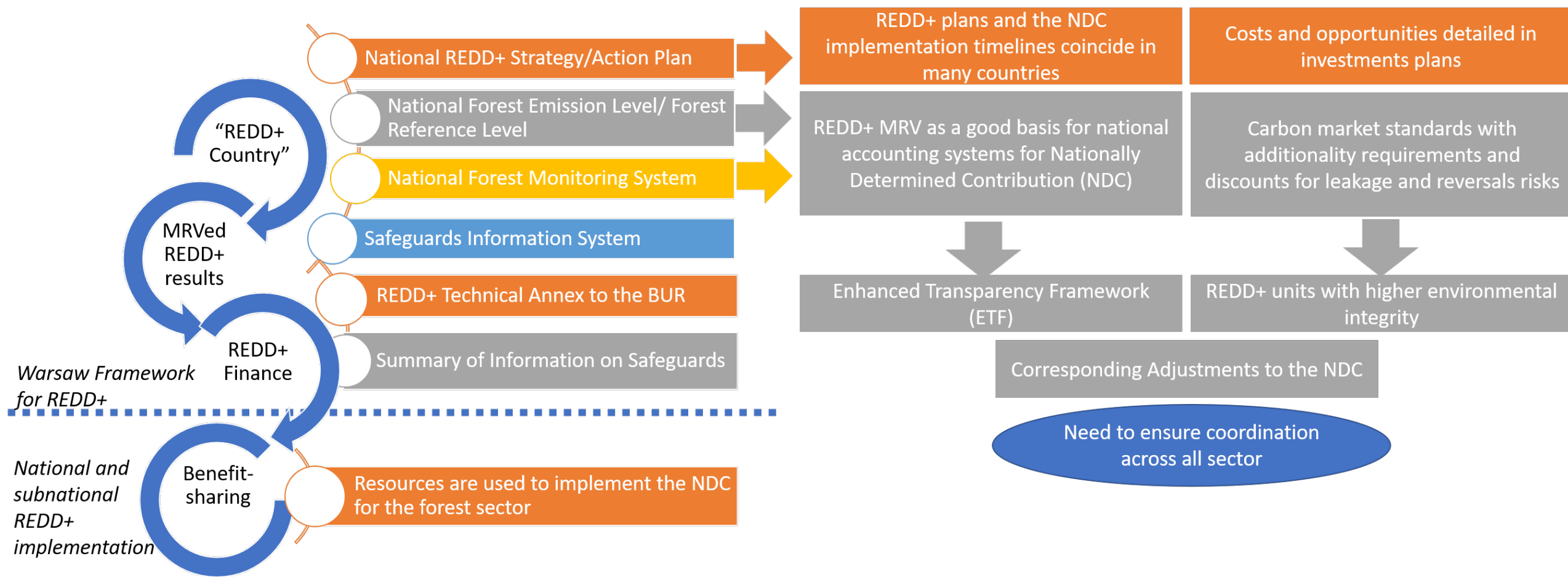


- 81% of NDCs refer to forests specifically as a domestic opportunity to reduce GHG emissions
- Most prevalent:
 - Afforestation, reforestation & revegetation – 54%
 - Sustainable forest management – 34%
 - Cross-cutting – 38% (expand national protection system for forest & wetlands; institutional capacity building for monitoring forest & land use change)



Source: UNFCCC Synthesis Report, 2022

REDD+ in NDCs



Source: UNDP

What we do

Climate and Forests



UNDP Climate & Forests assists countries to implement the Paris Agreement by reducing deforestation, forest degradation and sustainably managing their forests, meeting internationally recognized frameworks and standards



Support countries to implement policies for sustainability in the forest sector to advance the Paris Agreement,



Support countries to access and implement REDD+ performance finance and access international carbon markets for forests in line with their NDCs,



Promote partnerships and access to knowledge to accelerate forest solutions to the climate crisis.



Part 2:

Options to finance NDC implementation:



76%

of NDCs now say they
may use international market
mechanisms to reduce
greenhouse gas emissions

Source: UNFCCC, 2022

The Paris agreement and the NDCs



The Paris Agreement is a **legally binding international treaty** on climate change. It was adopted by 196 Parties at UNFCCC COP 21 in Paris in 2015. Its goal is to limit global warming to well below 2, preferably to 1.5 degrees Celsius, compared to pre-industrial levels.

The Nationally Determined Contributions communicate actions to cut emissions and adapt to climate impacts. Each Party to the Paris Agreement is required to **establish an NDC** and **update it every five years**.



The Paris Agreement → More ambition and new rules for carbon markets...





The Paris Agreement provides a robust and ambitious basis for the use of international markets. It provides new opportunities to promote a **cost-effective** implementation of mitigation actions, but with specific conditions.

Article 6 recognizes that countries can choose to cooperate in the implementation of their Nationally Determined Contribution (NDCs) to:

- allow for higher ambition
- promote sustainable development
- promote environmental integrity

A Snapshot of article 6



6.1 Recognizes all kinds of NDC cooperation

6.2 - 6.3

Any **internationally transferred mitigation outcome** (ITMO) must be consistent with central guidance

6.4 - 6.7

Central authority supervises **mechanism** to mitigate GHGs and support sustainable development (SDM)

6.8 - 6.9

Framework for **non-market** approaches

COP26 in Glasgow



During the 26th Conference of the Parties (COP) to the UNFCCC held in Glasgow in November 2021, the negotiations led to **more clarity** on the operationalization of Article 6 of the Paris Agreement.

Difficult political and technical issues were finally resolved.



What does this mean for developing countries?

At COP26, several details were defined for the processes and procedures that countries need to follow if they intend to access the carbon markets regulated by Article 6 of the Paris Agreement.

The opportunities are many and this regulated market has great potential, however countries must commit to meeting the guidance/rules of Article 6 and putting in place the necessary regulatory and institutional arrangements.

→ **Accessing carbon markets regulated by Article 6 requires both strategic/political and technical decisions.**



Progress on Article since COP26

Climate and Forests



Article 6.2. Further guidance to be developed to address remaining gaps.

Article 6.4. Supervisory Body established.

Article 6.8. Glasgow Committee for non-market approached to be established.



Two complementary approaches: Compliance market & Voluntary carbon market

Compliance markets under the UNFCCC consist of the Article 6.2 framework and Article 6.4 mechanism.

Voluntary carbon markets refer to the issuance, buying and selling of carbon credits certified by private standards.

Few developing countries have domestic GHG compliance markets

Compliance

These require NDC “corresponding adjustment”; such markets are currently small



China's ETS includes AR (CCERS)



Colombia carbon tax allows use of VCS

Article 6.2, Such as:



Joint Crediting Mechanism (JCM)

Nationally defined
Internationally defined

Article 6.4

Sustainable Development Mechanism



Domestic

International

Country specific standards:



Few countries have domestic standards

Independent (global) standards:



Gold Standard

Used by:



Voluntary

Source: Lee, D (April 2021), Forest Solutions Dialogue on Environmental Integrity of Forest Carbon Market Transactions Workshop



Part 3:

High integrity demand for forest carbon markets

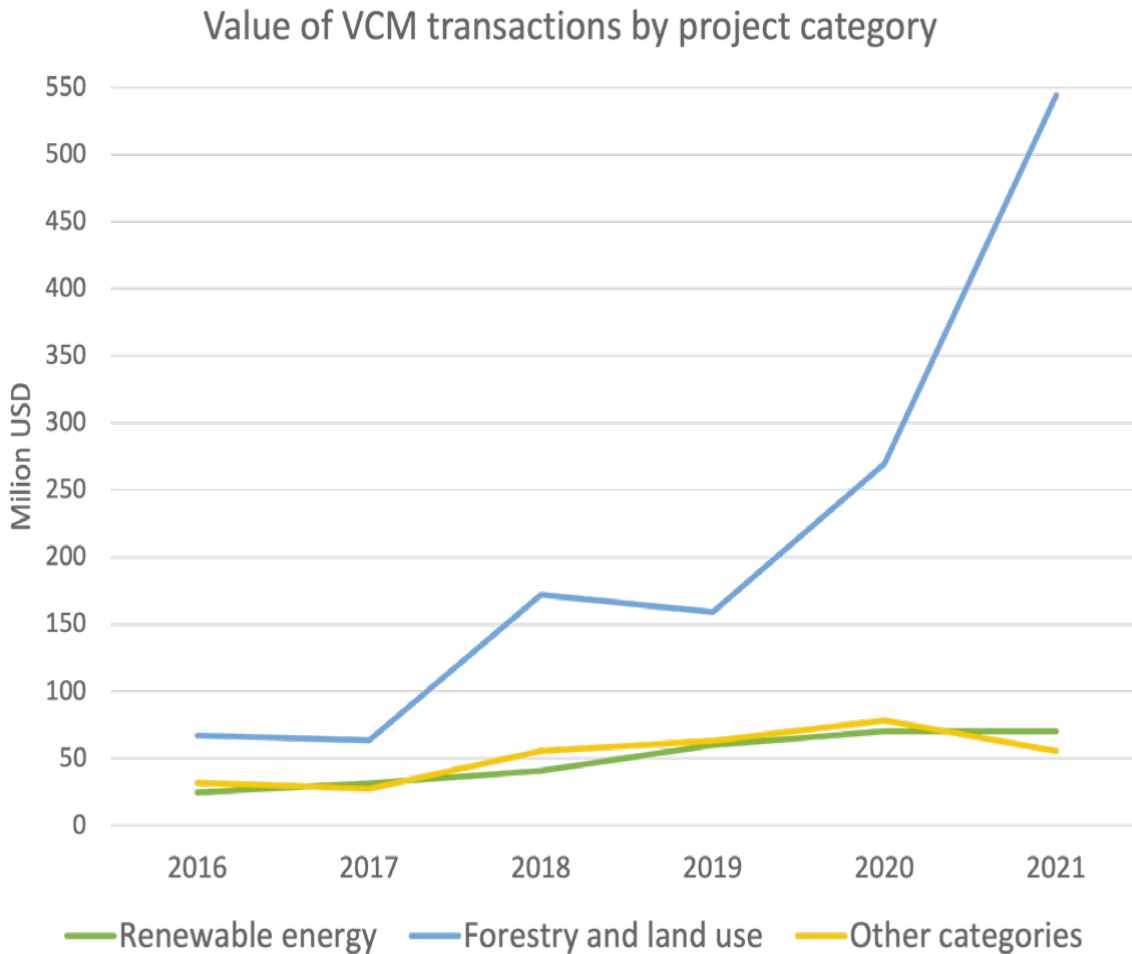
The voluntary markets are rapidly expanding...



Climate and Forests

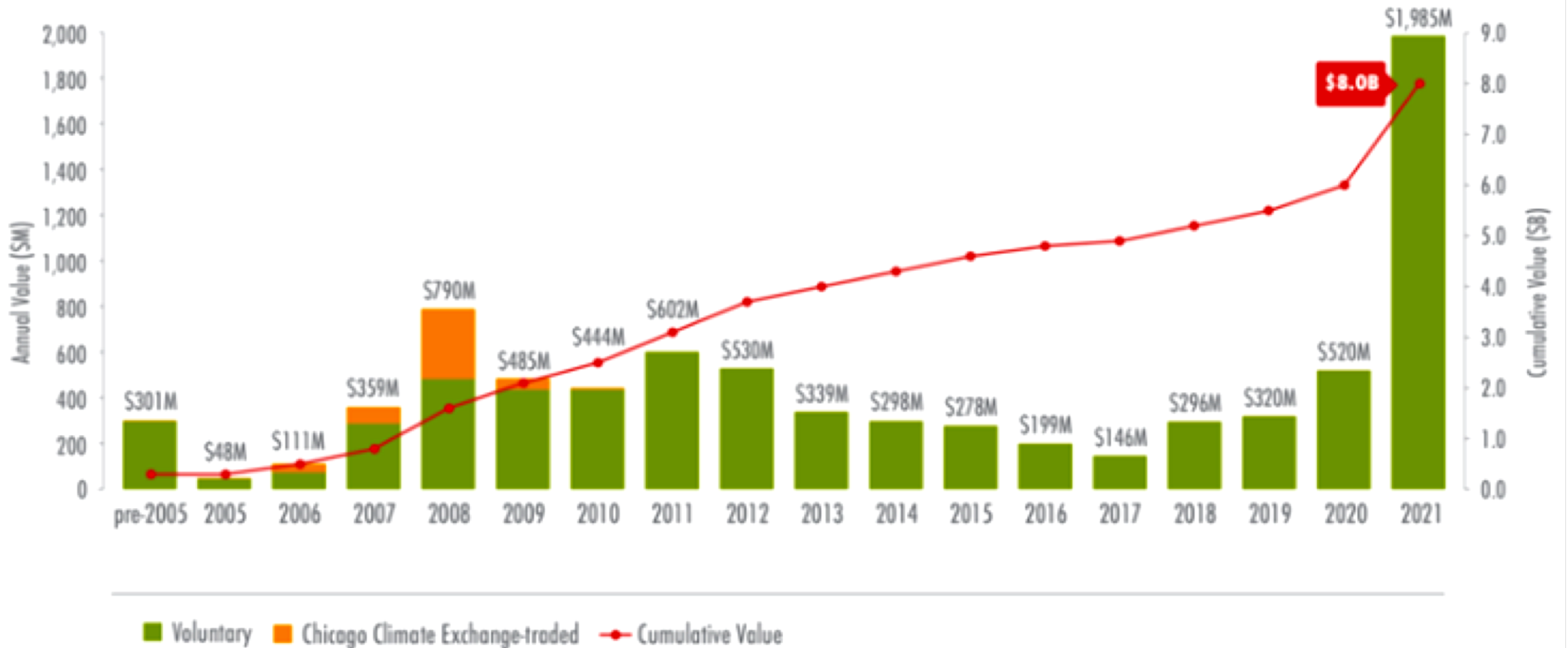


VCM transactions have been increasing, especially in the forestry and land use sector (e.g., REDD+)



- **Growing private sector interest to engage in forest carbon market transactions and expected to continue ramping up** → potential risk for greenwashing
- **Carbon markets can play a key role in the transition process**
- **High potential to attract private sector finance to support climate change mitigation efforts from forest countries**
- **How VCM will potentially interact with cooperative approaches under the UNFCCC remains unclear**

VCM Size (Value of Traded Carbon Credits)



VCM Transaction 2020 - 2021

Climate and Forests



	2020			2021		
	VOLUME (MtCO ₂ e)	PRICE (USD)	VALUE (USD)	VOLUME (MtCO ₂ e)	PRICE (USD)	VALUE (USD)
FORESTRY AND LAND USE	57.8M	\$5.40	\$315.4M	227.7M	\$5.80	\$1,327.5M
RENEWABLE ENERGY	93.8M	\$1.08	\$101.5M	211.4M	\$2.26	\$479.1M
CHEMICAL PROCESSES / INDUSTRIAL MANUFACTURING	1.8M	\$2.15	\$3.9M	17.3M	\$3.12	\$53.9M
WASTE DISPOSAL	8.5M	\$2.69	\$22.8M	11.4M	\$3.62	\$41.2M
ENERGY EFFICIENCY / FUEL SWITCHING	30.9M	\$0.98	\$30.4M	10.9M	\$1.99	\$21.9M
HOUSEHOLD / COMMUNITY DEVICES	8.3M	\$4.34	\$36.2M	8.0M	\$5.36	\$43.3M
TRANSPORTATION	1.1M	\$0.64	\$0.7M	5.4M	\$1.16	\$6.3M
AGRICULTURE	0.5M	\$10.38	\$4.7M	1.0M	\$8.81	\$8.7M

What are companies saying?

Avoided deforestation generates large volumes... but I am not sure they are “real” and believe some have inflated baselines

Jurisdictional REDD+ programs have not generated “market-ready” credits and may have high reversal risk

I want removal credits (such as reforestation) but these are more expensive and smaller volumes



What are the reputational risks I may face due to treatment of indigenous peoples and local communities? Is the benefit-sharing fair? Are their rights being respected?

What might a journalist uncover in a “smear” against my company?

Reforestation issuances

Source: Lee, D (April 2021), Forest Solutions Dialogue on Environmental Integrity of Forest Carbon Market Transactions Workshop



Demand for more “integrity” of carbon credits

Ensuring high integrity is a critical issue for all carbon markets – this was incorporated into the **rulebook for Article 6** in several ways – avoidance of double-counting, OMGE as examples.

In the case of **VCMs** particular concerns regarding the **environmental integrity of the credits** and the **use of carbon markets by companies** are raised mainly because of a concern over greenwashing, which refers to companies double counting for mitigation outcomes or purchasing carbon credits from projects that are not actually achieving their emission reduction goals, as well as companies being overly dependent on VCMs, i.e not decarbonizing internally.

→ Increased interest in VCMs should be accompanied by efforts to **promote high integrity** and complementarity with decarbonization efforts under the Paris Agreement.

What does 'integrity' mean?

Climate and Forests



1

Avoid double counting.

2

Ensure that emission reductions are real.

3

Transparent institutional and financial infrastructure for carbon market transactions.

4

Adequate social and environmental safeguards to mitigate potential adverse impacts and promote positive ones.

5

Respect for human rights (including indigenous peoples' rights); and clarity over corporate 'net zero' and 'carbon neutral' claims.



Part 4:

Challenges in Asia-Pacific



Where we
work in Asia-
Pacific

Climate and Forests



Challenges:

Climate and Forests



Government decision makers in developing countries overwhelmed by carbon markets.

- **Limited knowledge:** Different types & requirements of carbon markets (domestic, compliance, voluntary); available opportunities; required regulatory & institutional frameworks
- **Limited skills:** Lack of available robust data to make informed decisions about Art. 6 and beyond; implications on what is needed domestically to achieve NDCs

Limited
Capacity

→ How to use these markets strategically?

Challenges:

Climate and Forests



Most existing support initiatives are prepackaged and predefined

- **Tailor-made guidance to maximise carbon market investments:** how forest carbon markets can benefit local climate and development priorities

Holistic
support
initiatives

Challenges:

Climate and Forests



Increasing demand for high integrity forest carbon credits

- Different corporates are engaging in a variety of “due diligence” processes to manage risks
- Currently, market is still nascent and prices are low, e.g., between US\$ 5 to 7 per tCO₂e (est.)
- But, these **prices do not reflect the true costs of maintaining forests and high integrity requirements**
 - Price differentiation as the market learns to better assess credit quality?

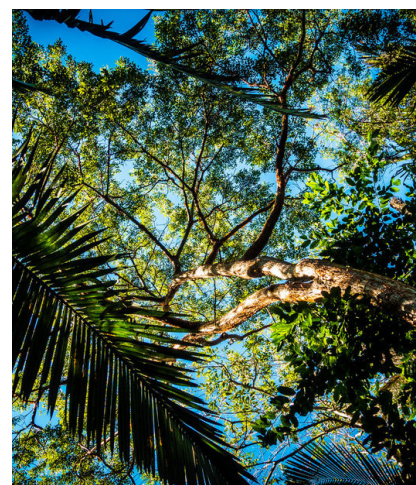
Conflicting
market
signals

Key Messages

1) A country's **Nationally Determined Contributions** (NDC) states its contribution to the global goal of limiting global warming to 1.5 degrees Celsius which **includes the Forest and Land Use sector including REDD+ under the UNFCCC**.

2) Accessing carbon markets for the forest sector for a country's NDC requires **strategic and political considerations** that should **maximise investments** directed to **high-priority mitigation opportunities**.

3) Growing demand for **high integrity forest carbon markets**, but the price of carbon has not fully reflected the **true costs of maintaining natural forests and high integrity**.





Thank you!

Website climateandforests-undp.org

Email Address kin.yii.yong@undp.org

Twitter [@UNDP_CF](https://twitter.com/UNDP_CF)