

ANNETTE NAZARETH

Chair of the board Integrity Council for the Voluntary Carbon Credits (ICVCM)

Lucia Sinapi-Thomas, Executive Director of Capgemini Ventures

We will start with a video interview with Anna Nazareth, Chair of the board of the Integrity Council for the Voluntary Carbon Markets, actively working on the foundational principles of this market, which by nature is totally bottom-up and today, unregulated. Let us listen to Annette Nazareth.

It is my pleasure to open this panel about how carbon credits can contribute to net zero at the 2023 World Policy Conference today, with you Annette Nazareth. You chair the board of the Integrity Council for the Voluntary Carbon Market. What would you say are the main challenges of the voluntary carbon market right now and what is the role of the Integrity Council in that context?

Annette Nazareth, Chair of the board of the Integrity Council for the Voluntary Carbon Credits (ICVCM)

Firstly, thank you so much for inviting me to speak with you today. I will speak of the challenges first. I am very excited about the possibility, so I will get the challenges out of the way. I think it is very clear that we have an enormous challenge in fighting climate change. We have a shared goal that really transcends markets, sectors, portfolios and geographies. This is a critical moment in our history.

Therefore, the scale and urgency of the crisis really demands that we use very available tool. As you know, we have emissions reductions as a centerpiece of this, and that is entirely appropriate; decarbonization by corporates of their own operations and supply chains must be a priority. Unfortunately though, it is too late now just to rely solely on corporate internal emissions reductions, or even government action. That is where the Voluntary Carbon Market comes in. We have to accelerate our transition to net zero by using every tool in the toolbox. It is as you and Secretary General Guterres has said recently, we need everything, everywhere and all at once.

Therefore, the Voluntary Carbon Market can be a really important solution, but, and we are very, very focused on this, only if it is rooted in high integrity. It holds the power to unlock urgently-needed finance that would not otherwise occur, or otherwise be available for projects without voluntary carbon credits. To quantify the opportunity, the World Economic Forum has projected that the Voluntary Carbon Market could remove 2.6 gigatons of CO₂ by 2030. Morgan Stanley projects that it could reach almost 100 billion in volume by 2030.

Therefore, the Integrity Council for the Voluntary Carbon Market is an independent governance body committed to establishing high-integrity voluntary carbon markets that can deliver real impact at speed and scale.



As I said earlier, it has the power to unlock private capital for projects to reduce and remove billions of tons of emissions that would not otherwise be viable.

The other exciting thing is that it can channel funding to countries in the global south and help develop vibrant green economies. It will also support sustainable development goals by requiring all new projects to make a positive contribution to sustainable development as well as having robust measures to protect people and the environment.

We know that today, it is a relatively nascent market; it is unregulated. If it is to scale and to deliver on its climate goals, we need to address some of the critical issues that have arisen. Today, the quality of credits in the market is at best inconsistent, trading as fragmented and opaque. Not all carbon-crediting programs impose consistent high-quality standards.

Ultimately, it is fair to say that the Voluntary Carbon Market today does not consistently meet the expectations of purchasers or the urgent needs of our planet. This is a significant problem that limits the full potential to meet our climate goals.

We therefore think we need to address a number of things. One is certainly standardization. Carbon-crediting programs each have their own methodologies, they have differing rules of engagement and highly bespoke transactions that do not provide an environment for liquidity and transparency.

Indeed, they create challenging market impediments. Therefore, we have created a global benchmark for high-integrity carbon credits.

Lucia Sinapi-Thomas

The Integrity Council recently published the CCPs. Could you give us more color about the CCPs?

Annette Nazareth

I would be happy to talk about the CCPs and importantly, how they underpin integrity. There are 10 core carbon principles and they fall into three categories, those that relate to emissions impact, to governance and to sustainability. You know, it is really important that buyers have confidence that carbon credits are making genuine impacts on emissions. Carbon credits must fund reductions or removals that are additional, meaning that they would not have occurred in the absence of the incentive created by the carbon credit revenues. They have to be permanent, they have to be measured robustly and conservatively and they can only be claimed by one party, which means there is no double counting of the credit. Programs that issue the credits must also meet high standards of governance and to ensure that the overall quality of carbon credits is high. They have to provide comprehensive and transparent information on the projects, issuing the credits so that people understand their impact on emissions, society and the environment. They have to use a registry that uniquely identifies and tracks each credit from issuance to retirement or cancellation. They also have emissions reductions or removals verified by independent third-party experts. Importantly, the CCPs also break new ground by requiring programs to ensure that high integrity credits come from projects with robust social and environmental safeguards that also deliver positive sustainable development impacts. That is they make sustainable development a central part of the mitigation activity not just a co-benefit. They must also support the transition to net zero and not lock in fossil fuel emissions or technologies.

In July, we published our CCP rulebook, which sets out the rigorous criteria we use to assess whether programs and categories of credit meet our high integrity threshold. Programs that we



approve will be able to use the CCP label on credits, provided they have come from categories that we have also approved.

Lucia Sinapi-Thomas

What do you also see on the corporate side, on the demand side, on the critical path to improve the voluntary carbon market?

Annette Nazareth

On the corporate side, it is important not only that we offer a supply of very high integrity carbon credits, but that corporates are using carbon credits appropriately, so the demand side of the equation is also critically important. We are working very closely with what we call our sister organization, the Voluntary Carbon Markets Integrity Initiative and VCMI is focused on the appropriate use of credits. Basically, at the Integrity Council we are focused on the supply of credits and on ensuring that the markets on which they trade are high integrity and of course, we are looking at market mechanisms such as transparency, trade reporting and settlement issues. VCMI is then focused on the demand side so we like to say that together we are creating end-to-end integrity in the voluntary carbon market.

Lucia Sinapi-Thomas

That is important because that is working from supply to demand. Looking forward, what would success look like for the Integrity Council and how will you measure it?

Annette Nazareth

Of course, we are very interested in seeing the markets scale-up. As I said, we do not want to scale the market unless it is rooted in high integrity but we believe that there is enormous potential and in fact, we know that there is demand for high integrity products and thus we expect them to trade at a premium. Trading at a premium would of course create powerful incentives for project developers to enhance their practices to come in line with our core carbon principles. We expect the CCPs to drive continual improvement in the quality and impact of carbon reduction projects, ensuring that the market's contribution to emissions reduction aligns with the urgency of the climate crisis. I think the CCPs will also establish standardized criteria that will drive a shift towards increased transparency but also exchange-based trading. When we have greater standardization, I believe a larger proportion of carbon credit trading will transition from what we have today, which is uniformly bilateral agreements, to transactions conducted through exchanges and this transition would not only enhance market efficiency but will also provide a platform for buyers and sellers to engage in transparent and fair pricing, which would drive broader market participation and liquidity. I should note that when we talk about standardization, I have often be asked what the CCPs are to some extent, what analogies to that I understand. I like to say that the CCPs are akin to listing standards, it is as if we have imposed traditional regulatory principles on to the voluntary carbon market.

If you think of these CCPs as listing standards, the other element of them is that they also require not just a focus essentially on self-regulation of the product by the listings' standards, but also self-regulation of the programs that issue the credits. I believe bringing those principles to the market will create greater confidence in the market, just as we have confidence in other high integrity, robust capital markets, and that is what we are seeking. We are seeking justifiable confidence based on high integrity. Frankly, we also expect robust trading of futures on voluntary carbon markets as the markets become more standardized, and I think that will create very important price signals because it will improve hedging



mechanisms for market participants. It will provide important price signals and also give project developers better ability to manage their exposure to price risk and I think this will make it less risky to launch new projects, again particularly in the Global South. By implementing the core carbon principles and encouraging market participants to embrace these high integrity credits, we are creating an ecosystem where the value of emissions reductions are appropriately recognized and rewarded and I believe this will unlock greater capital flows and drive innovation and catalyze the development and deployment of truly impactful climate solutions.

Lucia Sinapi-Thomas

Thank you, Annette, this is really very insightful and we are certainly looking forward to the success of this entire ecosystem effort, because that is what we are talking about. Of course, that will be for the benefit of climate change and mankind in general. Thank you very much for your participation.

Annette Nazareth

It has been a pleasure, thank you.