IETA Council Task Group on Integrity in Digital Climate Markets

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Opening Remarks

President & CEO

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State of the Market

• Since 2017, the IETA has tracked numerous aspects of digital innovation that could improve the performance of future carbon markets from new digital MRV approaches, “smart” contracts, and blockchain technologies for registry services and tokenisation of carbon credits.

• There is potential for these innovations to expand market access, facilitate green investment, and accelerate market linkages if done with security, integrity and transparency but if used poorly, they could erode public confidence in carbon markets – threatening their ability to help deliver the ambitions of the Paris Agreement.

• In recent months, the market has seen the rapid emergence of digital carbon assets. These initiatives injected new momentum into the voluntary carbon market (VCM) and brought along new stakeholders and market participants.

• Carbon credits tied to digital tokens were a significant amount of traded volume in the voluntary carbon market (VCM) last year, and the market for such tokens saw strong price action, resembling the volatility of other digital currency markets.

• These market developments raised pressure on the independent VCM standards and business groups to clarify the terms of use for tokenised carbon instruments.
Agenda

- Presentation of key learnings and initial recommendations
- Poll reactions from participants
- IETA’s future work
The IETA Council Task Group on Integrity in Digital Climate Markets

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Key Questions

1. What are the opportunities for digital tools to improve market efficiency and effectiveness and broaden market access to new and developing parties?

2. What project, consumer and other risks should digital offerings address in providing new market services?

3. How do digital offerings in the carbon market relate to guidelines agreed on Article 6 at COP 26 in Glasgow – and how can they be used to deliver the goals and objectives of the Paris Climate Agreement?

4. What market integrity guardrails and regulatory requirements should IETA recommend for digital market participants and service providers?
## Use Cases

### Digital MRV
- Use of digital tools in data collection, reporting, and verification

### Data Repositories
- Use of blockchain technologies to create data repositories of carbon credits and their status, linking issuing authorities and registries with national registries

### Tokenization
- Digitising carbon credits into tokens
Key Findings

Digital MRV
- Efficiency, accuracy, and transparency
- Lower transaction costs, removing barriers to entry, enabling smaller, non-contiguous projects
  - Not a panacea, needs data standardization and minimum requirements to ensure integrity
  - Should enhance not replace independent standards and robust methods for carbon credits

Data Repositories
- Can help to identify discrepancies and avoid double counting, data errors, and fraud
- Can enable national registries and inventory systems cost-effectively with minimal resource requirements
  - Need data standardization and parameters for minimum system requirements

Tokenization
- Reduce market friction, increase market access, reduce intermediary fees, and scale capital flows
- Fractionalizing carbon credits allows for new use cases
  - Substantial legal and regulatory issues - treatment under securities law, seemingly speculative nature if schemes
  - Potential loss of environmental integrity, non-transparency of DAOs, large blockchain carbon footprints
We have arrived at an initial, non-exhaustive, high-level set of recommendations for the use of digital tools to the carbon market.

1. Carbon tokens from credible standards
2. Registry authority & control over tokenisation
3. Tokens from issued carbon credits
4. Transparent KYC / AML
5. Investor safeguards
6. Low carbon footprints
7. IT Security
8. Registry transparency
9. Claims - only for burned tokens and retired credits
10. Digital MRV Integrity

These require additional development and refinement
IETA Task Force on Digital Climate Markets

Member-led initiative to carry forward the work started by the IETA Council:

• Further develop and refine the initial recommendations
• Broader IETA’s understanding of the opportunities, concerns, and solutions
• Conduct public forums for dialogue and learning with the market stakeholders
• Report periodically to the IETA Council on its learnings and progress

If you are interested in following the work of the Task Force please sign up on the IETA website:

www.ieta.org