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USING MARKETS TO DELIVER CLIMATE AND DEVELOPMENT TARGETS

The achievements of the Voluntary Carbon Market

In 2015, the cumulative value from all years of trading in the voluntary carbon market topped $4.6 billion[1]. This investment has generated nearly 330 million carbon credits, each representing a tonne of CO2 savings. Carbon offset projects from standards with sustainable development requirements have also brought enormous benefits to the host communities of carbon offset projects, which include:

- Social benefits: poverty alleviation, female empowerment and improved public health
- Economic benefits: job creation, technology transfer and market development
- Environmental benefits: improved air quality, conservation and biodiversity protection

Imperial College research, commissioned by ICROA (the International Carbon Reduction and Offset Alliance) in 2014, found that for every 1 tonne of CO2 emission removed from the atmosphere through a carbon offset programme – a further value of US$664 dollars is delivered in economic, social and environmental benefits for local communities around the world[2]. Carbon offsets are therefore an efficient tool to deliver both carbon emission reductions and sustainable development targets at least cost.

THE PARIS AGREEMENT AND THE SUSTAINABLE DEVELOPMENT GOALS

2015 was a significant year for both climate and sustainable development policy, with the adoption of the Paris Agreement and the UN Sustainable Development Goals (SDGs). The interlinked nature of these two issues has been recognised in both documents. For instance, the Paris Agreement makes specific reference to sustainable development and efforts to eradicate poverty, and the SDGs have a strong climate change narrative throughout and include a specific climate change goal.

But despite the ambition of the Paris Agreement and the SDGs, there's a way to go. Analysis carried out by the UNFCCC[3] states that "global aggregate emission levels in 2025 and 2030 resulting from the implementation of the communicated Nationally Determined Contributions (NDCs) do not fall within the scope of 2°C or 1.5°C scenarios". In the meantime, the planet has continued to warm at an increasing speed, with 15 of the 16 warmest years on record occurring since 2000[4]. Government policies alone are not expected to deliver the goals and targets set under the global agreements, there is also a critical role for business.

LOOKING TO THE FUTURE

Given the current situation, there is clearly an increasing urgency to do more. But how can we use the experience of carbon markets to make them work even more effectively and equitably post-2020? And can we leverage markets for not only climate security, but also for sustainable development?

INCREASE AMBITION: SCIENCE BASED TARGET SETTING

Science Based Targets provide guidance for companies to align their GHG emission

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reduction targets with climate science to keep global warming well below 2 degrees. The initiative is important in setting the bar for the minimum a business should do in order to demonstrate it is taking responsible action on climate change. But going beyond a science-based target can provide even greater reputational, supply chain and operational benefits. By setting a carbon neutral target companies give a clear, straightforward statement of climate leadership, and carbon finance programmes aligned with supply chain regions can deliver a range of benefits to reduce risk and build resilience. For business to contribute to the global climate change goals a 'reduce within, finance beyond' approach must become best practice for corporate climate action and a license to operate for a responsible business.

With such a framework and increased participation, the voluntary market can serve as a powerful tool to finance the global emissions reductions needed according to science to ensure climate security while helping countries develop on a sustainable, low-carbon pathway.

IMPROVE TRUST: INFORMATION AND SAFEGUARDS

As the voluntary carbon market develops to match this new ambition, a key success factor will be improved market information – to build confidence, trust, and therefore liquidity. A number of initiatives are underway to provide regular market data such as the supply-demand balance, and information on how voluntary carbon credits are valued. These initiatives are working towards building more trust in market mechanisms for buyers looking to enter the market.

For some project developers, the market prices do not reflect the value of the benefits that their projects are delivering, or the true social cost of carbon. This is why organisations like Gold Standard are advocating on behalf of project developers for more sustainable pricing.

DRIVE FINANCE TO SUSTAINABLE DEVELOPMENT

Evidence from the IPCC shows that every one of the 17 UN Sustainable Development Goals (SDGs) can be affected by climate change—directly or indirectly. Standards such as Gold Standard, Plan Vivo, and CCB, who work with the Verified Carbon Standard (VCS), report on how their projects contribute to sustainable development. Gold Standard is also launching a new version of its standard that aligns with the SDG targets and will set the foundation for results-based payments for a broad set of SDG outcomes. Funders will be able to support gender equality, poverty alleviation, better health, biodiversity conservation, or other impacts depending on their priorities – with the same confidence as the climate impacts quantified today in carbon credits.

As the voluntary market continues to evolve, these new developments ensure it is perfectly placed to enable business to bridge the gap between globally agreed targets and national climate and development commitments. The power of markets can therefore deliver the transformational impacts that are needed in the most effective way to help the world meet its most ambitious agenda.

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(3) Synthesis report on the aggregate effect of intended nationally determined contributions. UNFCC, May 2016
(4) NOAA National Centers for Environmental Information, State of the Climate: Global Analysis for Annual 2015, published online January 2016, retrieved on August 10, 2016 from www.ncdc.noaa.gov/sotc/global/201513