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HOW CAN GOVERNMENTS REGULATE THE VCM?

Governments can engage with carbon markets in a variety of ways for example as regulators, activity proponents, or facilitators. Their responsibilities include designing appropriate regulations that ensure that carbon projects align with national strategies and adhere to environmental and social safeguards. Public agencies can also directly implement or finance programmes, projects and activities and create incentives that attract carbon investments for priority sectors.

Since the beginning of the Paris Agreement era, voluntary carbon markets (VCM) are increasingly intersecting with Article 6[1]. Some carbon crediting programmes including in the VCM are striving to issue carbon credits that can be authorised as ITMOs under Article 6, alongside carbon credits that do not seek authorisation. Emerging guidance on the responsible use of carbon credits is often calling for the alignment between the VCM and Article 6, specifically regarding the rules for avoiding double counting. To be able to get a host country authorisation, VCM standards are aligning their requirements with those of Article 6. Nevertheless, host countries that are authorising ITMOs from VCM activities need to carefully check that activities are compliant with international and national Article 6 rules. In addition, host countries may wish to address VCM activities that do not seek authorisation when developing a carbon market framework, e.g. by requiring registration. There are different ways in which VCM activities can be addressed in the context of Article 6 readiness.

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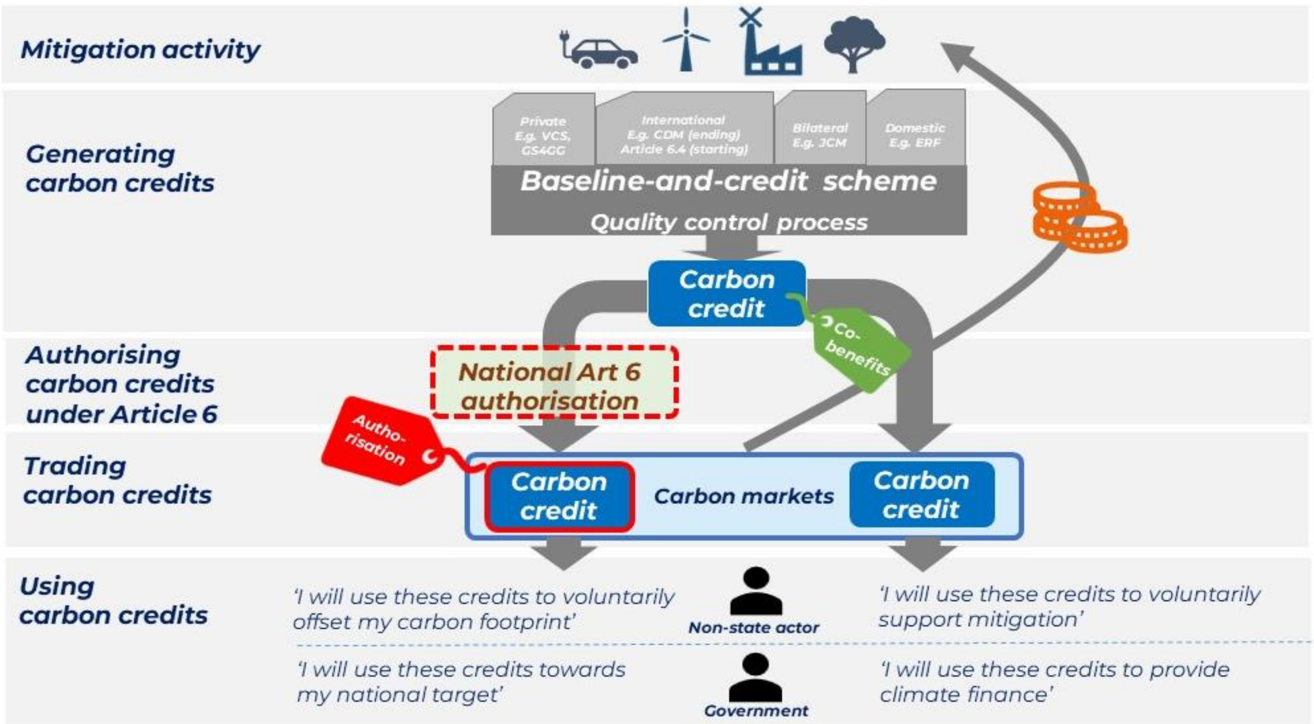
[1] Ahonen, Hanna-Mari; Inclan, Carolina; Kessler, Juliana; Singh, Aayushi (2023): Raising climate ambition with carbon credits

Overview of carbon credit use cases

As the VCM increasingly interacts with Article 6, the distinction between compliance and voluntary carbon markets becomes less clear. Depending on whether or not they are authorised under Article 6, carbon credits become eligible for various use cases, as depicted in the Figure below.

Figure 1: Carbon credit generation and use



Source: Ahonen et al. (2023)

The figure illustrates that carbon credits generated within the VCM by carbon crediting standards or within the Article 6.4 Mechanism without authorisation can be used to support host countries in reaching their NDC target. Authorised credits (i.e., ITMOs), on the other hand, are suitable for (international) compliance purposes or a voluntary use for ambition-raising and overall mitigation in global emissions. Consequently, only authorised credits associated with corresponding adjustments to prevent double claiming, can raise ambition and are eligible for offsetting claims.

In both the VCM and Article 6, continuous efforts are underway to uphold the integrity of carbon credits and their responsible usage. Nevertheless, some form of convergence between voluntary carbon markets and the requirements of Article 6 does not automatically lead to an improvement in the quality and integrity of carbon credits. However, host countries can actively participate and establish requirements to increase the quality and integrity of the use of voluntary carbon credits use. Given the absence of a singular authority overseeing the VCM and the potential variation in quality criteria among different carbon crediting programmes, host countries should prioritise the establishment of requirements that foster high quality and integrity, while buyers can insist on acquiring high-quality credits only. Article 6 can thus provide international frameworks and benchmarks also for the VCM.

Moreover, when developing a national carbon market or Article 6 framework, countries have the opportunity to stipulate for stringent, specific or more comprehensive requirements for VCM activities to ensure a high quality of credits. An integrated national carbon market strategy should outline the prerequisites for obtaining authorisation, including for VCM activities. Additionally, the national framework should define attributes for all carbon credits, distinguish between different eligible use cases, and specify the attributes for each use cases. It is advisable for countries, when establishing a national framework, not to grant "blanket" authorisation for issuing ITMOs for specific crediting standards. Instead, they are encouraged to make case-by-case decisions aligned with the national interests of the host country.

Tablet 1: Various ways governments can orient voluntary carbon market activities

Options for host countries for engaging with the VCM	Status
Establish Legal Frameworks: Develop comprehensive legislation or regulations specifically addressing the operation, transparency, and integrity of the voluntary carbon market.	
Define Standards and Requirements: Set clear standards, guidelines, and requirements for voluntary carbon projects, including criteria for additionality, emissions measurement, verification, and reporting that project developers have to comply with.	
Accreditation and Certification: Emphasise the role accreditation bodies or certification schemes to verify the legitimacy and quality of carbon projects, ensuring they meet predefined standards and requirements.	
Transparency and Disclosure: Mandate transparency and disclosure of information related to voluntary carbon projects, including project methodologies, emission reductions achieved, and the use of funds generated.	
Monitoring and Enforcement: Implement monitoring mechanisms to oversee compliance with regulatory requirements and enforce penalties or sanctions for non-compliance or fraudulent activities.	
Stakeholder Engagement: Engage with stakeholders, including government agencies, industry representatives, environmental	

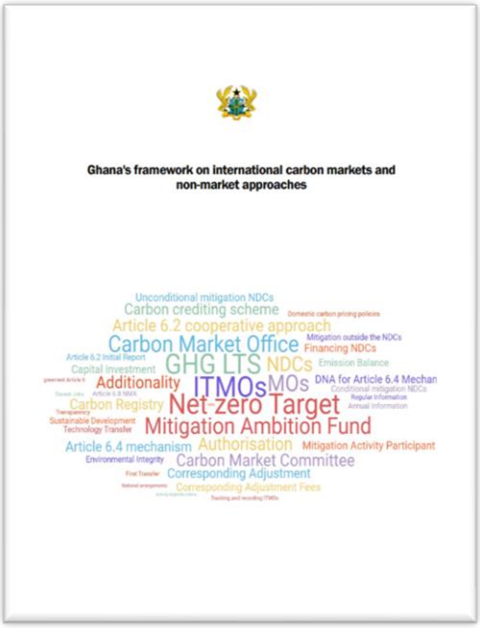
organisations, and local communities, to gather input, address concerns, and ensure regulatory measures are effective and inclusive.	
Promote Market Integrity: Safeguard market integrity by preventing double counting of emission reductions, ensuring the permanence of carbon credits, and addressing issues related to leakage and additionality.	
Encourage Innovation and Best Practices: Foster innovation and promote the adoption of best practices for VCM project development, monitoring, and verification through incentives, support mechanisms, and capacity-building initiatives.	
Address Social and Environmental Impacts: Consider social and environmental co-benefits and risks associated with VCM carbon projects, and develop safeguards to protect local communities, ecosystems, and biodiversity.	
International Cooperation: Collaborate with international organisations, other governments, and stakeholders to harmonise standards, share best practices, and address cross-border issues related to the voluntary carbon market.	
Continuous Review and Improvement: Conduct regular reviews and evaluations of regulatory frameworks and market performance to identify areas for improvement and adapt regulations to evolving market dynamics and emerging challenges.	

Safeguarding the integrity of carbon credits and their use requires continuous improvements, and continued interplay between VCM good practices, regulation and the operationalisation of Article 6 cooperation. Beyond governments, carbon market regulators, activity developers, carbon credit buyers and other stakeholders all have a role in promoting a race to the top and innovating solutions that foster high integrity.

Case study: How does Ghana seek to regulate VCM activities?

In the Ghana Carbon Market Framework, VCM activities are considered and require approval and registration, regardless of whether activity developers seek authorisation or not. All entities, including activity developers, must register with the Ghana Carbon Market Office and obtain a letter of identification upon application approval. While the framework mandates formal recognition for generating carbon offset credits for domestic voluntary uses, it does not impose authorisation and tracking requirements. For other mitigation purposes, VCM projects do need corresponding adjustments, as agreed by the participating Parties (GCMF 2022, p. 58). Consequently, the framework does not differentiate between compliance and voluntary use of the credits, but rather sets requirements under the different market segments, such as VCM or Article 6.

Ghana's Framework incorporates a ***white list*** of mitigation activities automatically deemed additional and approving many of the existing VCM standards without defining further requirements. Additionally, the framework features a red list of activities that are not considered eligible, namely those included in Ghana's the unconditional mitigation action programmes as outlined in NDC. To authorise and issue ITMOs, Ghana is required to the environmental integrity of the ITMO through a review of the verification report issued by an auditing body accredited by the voluntary market scheme used by the project proponent. The approval and registration of VCM activities necessitates payment of various fees, including these for approving methodologies, standards and guidelines, for administrative processes and corresponding adjustments, an entry application and listing.



Source: CMO (2022)

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