PROJECT DEVELOPER FORUM

Credible Climate Action.

COP 28 Briefing and Perspectives

brought to you by The Project Developer Forum

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1. Introduction

Carbon Market stakeholders such as project developers, corporate buyers, governments, policy experts, and research organisations looked at COP28 with much hope for progress. Topics on the table for discussion and decision included among others; the Global Stocktake, Loss and Damage Fund, Just Energy Transition, and Article 6 (both 6.2 and 6.4).

The Project Developer Forum (PD Forum or PDF) primarily works in the carbon market mechanism (compliance and voluntary) and the supply side, focusing its role on unlocking results-based climate finance to enable the design and implementation of projects achieving GHG emissions reductions and/or removals, this briefing paper will highlight the progress of the carbon market during COP (and around that timeframe) and opine key elements.

2. Article 6 Negotiations

Expectations were high leading up to COP28, with many awaiting progressive outcomes on the implementation of policies and new market mechanisms as emphasised in the Paris Agreement's Article 6 Rule book. However, these negotiations faced significant challenges with major disagreements among the parties on the market, non-market-based market mechanisms, and their transparencies. Despite some setbacks, the COP28 members showed keen interest in addressing the credibility and quality issues identified in the voluntary carbon markets.

The Project Development Forum was optimistic about the Article 6 negotiations and looking forward to the operationalisation of both Article 6.2 and 6.4 mechanisms. The outcomes were deemed critical for both compliance and voluntary markets as they would help progress the future carbon markets.

a. Article 6.2

These negotiations primarily focused on establishing transparent accounting measures through the implementation of a centralised registry. This registry would facilitate a clear sequence of authorisations, utilising Bilateral Agreements to fulfil country-to-country level mitigation outcomes. However, the existing guidance provided by COP28 regarding credits generated through this collaborative approach, also known as Internationally Traded Mitigation Outcomes (ITMO), was limited. The negotiations did not agree on the governance and control of the implementation process, leaving countries to establish their own methods. Consequently, countries could keep their targets and transactions confidential with minimal oversight from the UN Body.

Other disagreements emerged regarding if, when and how the authorisation of the credits could be revoked, unclear reporting requirements on human rights, labour laws, and negative environmental impacts.

A centralised market registry and transparent Article 6.2 mechanism would mean countries could implement projects under the international market to fulfil their targets as established in their Nationally Determined Contributions. However, countries backed by the US claimed that Article 6.2 should be a party-driven approach, which leaves more rulemaking to participating countries. This was a decision many could not agree with.

This means that now the progress on framework policies and ITMO transactions mainly falls into the hands of participating countries to establish their agreements. This will drive the market more than the UN negotiations on Article 6.

b. Article 6.4

The negotiations, aimed at transitioning from the Clean Development Mechanism (CDM) to operationalising a new centralised mechanism, began with strong support from participating parties. Major disagreements arose with the inclusion of recommendations proposed by the Supervisory Body (SB) on methodological elements including those on activities involving removals and subsequently risk-assessment tools for the same.

Additionally, countries could not reach an agreement on definitions, such as baselines, and the distinction between removals and reductions. Unresolved measures included the reversal risk tool, buffer pool measures, SDG tool, and uncertainty surrounding the timeline for projects to claim permanent removals.

While the draft guidance documents developed by the SB initially received strong support, disagreements arose due to the absence of strong grievance procedures for resolving disputes, ultimately leading to a failure to reach a decision. Consequently, this resulted in a pause in the current registration and implementation of projects under Article 6.4. The focus now shifts to COP29 in Baku to provide further clarification on these matters and to enable the operationalization of the market.

3. Voluntary Carbon Market

The COP28 saw much progress when it came to the voluntary market mechanisms. The world's largest carbon crediting programs such as Verra, Gold Standard, Climate Action Reserve, ACR at Winrock International, ART, and Global Carbon Council announced their collaboration to improve upon the principles of robustness, benefit sharing, safeguards, etc. This is in addition to these standards ensuring that their rules, requirements, and methodologies within the voluntary carbon programs adhere to common rules known as Core Carbon Principles as established by the Integrity Council for Voluntary Carbon Market (ICVCM). This is to enhance the quality, integrity, credibility, and transparency, in the voluntary market.

Also, several corporate reporting initiatives such as VCMI, ICVCM, We Mean Business Coalition, SBTI, and GHG Protocol collaborated to unveil an end-to-end integrity framework guidance. This guidance aims to assist companies in their corporate decarbonisation efforts by utilising carbon credits to offset emissions. Additionally, it seeks to elevate the role of high-integrity credits in the process.

4. PDF opinion and Moving forward

Despite COP28 failing to reach an agreement on Article 6, there was significant potential in the realm of Voluntary Carbon Markets. For PD Forum members, this provides an opportunity to ensure the quality and scale of net zero claims or decarbonisation commitments can still be met using voluntary market mechanisms. Countries such as Switzerland, Sweden, Thailand, and Ghana are in the process of implementing the first transactions of Internationally Transferred Mitigation Outcomes (ITMOs), setting an example for others to utilise ITMOs with their emission reduction plans. Additionally, many projects are in the pipeline, with countries actively engaged in building bilateral agreements to support their implementation. It can be envisaged that until 6.4 is fully operationalised, VCM standards with Letter of Authorisation can supply credible 6.2 credits.

The voluntary carbon markets are also taking centre stage while implementing these ITMO transactions and developing guidance on Article 6 authorisation labels. Rwanda has issued its first Letter of Authorisation where projects are expected to issue credits from initiatives like energy-efficient biomass-fired cookstoves from both Verra and Gold Standard, showcasing their commitment towards the corresponding adjustments and nationally determined contribution targets. Standards like GCC also gave out guidance on the Article 6 authorisation labels wherein pilot projects are still underway and have secured letters of authorization for two projects.

Additionally, the UN is developing transparency reporting and review tools for use by Parties, which were showcased and tested at COP28. The final versions of these reporting tools should be made available to Parties by June 2024, likely to be operationalised by the next COP.

It was evident that this was a 'Carbon Market' COP. While the PD Forum and its members look forward and contribute to discussions around critical topics under the 6.4 mechanism, the members are hopeful that with an increased focus on integrity in the VCM standards and governments moving LoA to projects in VCM standards, the market for both voluntary and compliance actions would not only survive but thrive in 2024 and beyond.

It was particularly noteworthy to witness discussions on transitioning away from fossil fuels and the signing of phase-out agreements, promoting the adoption of renewable energy mixes in countries. COP28 marked the first time talks on the inclusion of carbon removal technologies and methodologies in projects, further fostering innovation and finance in new technologies.

About the PD Forum

The Project Developer Forum (PD Forum) is a collaborative association and collective voice of companies and practitioners that are developing and financing Greenhouse Gas (GHG) emissions reduction and removal projects in all regions of the globe. PD Forum members are comprised of organizations and individuals who bring valuable experience and expertise in this domain and, have always been vocal advocates of new and innovative approaches to reduce GHG emissions and increase GHG removals, both natural and technological.

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