PRÉSIDENCE DE LA RÉPUBLIQUE

SUMMIT FOR
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FINANCING PACT

Call to Action for Paris Aligned Carbon Markets

To allow domestic and international compliance markets and voluntary markets to further support the achievement of the Paris Agreement goals while providing much-needed financing for the joint climate and sustainable development challenge, the Call to Action for Paris Aligned Carbon Markets promotes the following ambitious actions:

1. Expansion and deepening of domestic carbon pricing and carbon market instruments

According to the World Bank, total revenue through emissions trading systems reached $56 billion in 2021[1]. However, less than 4 percent of global emissions are currently covered by a direct carbon price in the range needed by 2030 to meet the temperature goal of the Paris Agreement.

The Call for Action aims at **accelerating the development of domestic carbon pricing and effective carbon market instruments**, building on the experience from those markets that already implemented their own, **to cover at least 60% of global emissions** as aimed by the Global Carbon Pricing Challenge launched by Canada. As this is implemented at scale, major emitters could consider, where feasible, **allocating a proportion of the revenues** generated through their carbon markets to international climate finance.

This will be achieved through a combination of the following actions:

- Aligning existing carbon pricing and carbon market instruments with national targets and undertaking periodic reviews for increased ambition with the aim of ensuring alignment to net zero by mid-century.
- Requesting the OECD and the IMF to undertake work on measures to support increased price transparency and effectiveness, including through further analysis of effective carbon prices aiming to discover the most appropriate price to generate sustained emission reductions in line with the Paris goals.
- Providing capacity building and technical assistance for those jurisdictions wishing to implement and/or enhance a carbon market instrument.

1. When carbon taxes are accounted for, the total grows to $84 billion, covering around 23% of global emissions.

2. Support to host countries for full implementation of the agreed rulebook for international compliance markets

While the Paris rulebook on international market cooperation has been agreed, it needs to be implemented. Progress in this regard must be achieved by COP28. Countries are struggling with the implications of selling credits in respect of their own commitments and long-term strategies. There is a need to support countries in making considered choices with regard to the scope and level of their participation in these markets, balancing the benefits of investment with the implications or accounting of what is transferred.

This will be achieved through a combination of the following actions:

- Ensuring that international cooperation involving the transfer of mitigation outcomes that deliver ambitious emission reductions and removals enhancements between countries is consistent with overall pathways to net zero, avoids locking in unsustainable levels of emissions[2], fully addresses the risk of non-permanence and leakage and secures a share of mitigation and other benefits arising from mitigation activities for host parties.

- Enacting measures to support and deliver price transparency and effectiveness with respect to international trade in credits.

- Providing capacity building and technical assistance to those jurisdictions wishing to participate in international compliance markets, targeted at enabling host countries to undertake the economic, environmental and other assessments necessary to integrate use of markets with their domestic mitigation strategies.

3. Ensuring high integrity in voluntary carbon markets

Approximately one third of the world's largest corporates have committed to net zero. Such pledges can also translate into a potential source of international finance to support developing countries in their efforts to transition and to build resilience. However, according to Ecosystem Marketplace data, in 2021 the average price of carbon credits related to forestry and land-use projects was about $\$4/tCO_2e$.

The potential of voluntary markets depends on the integrity both on demand and supply sides: on the supply side, financed activities must drive genuine emissions savings aligned with the Paris temperature goal and reach the highest levels of

2. This would be particularly the case where crediting supports continuing emissions inconsistent with pathways to net zero; i.e. support to unabated fossil fuels that may deliver some short-term emission reductions but locks in unsustainable levels of emissions in the longer run.

social and environmental integrity, including in relation to biodiversity where relevant; on the demand side, the purchase and retirement of carbon credits must not displace substantive measures to meet targets within corporates' own value chains. Such enhanced integrity would reduce the potential volume of credit issuances, but result in credits being sold at a substantially higher price. Market participants should also cooperate to align standards to reduce carbon credit market fragmentation and promote a uniform shift to high integrity.

With the aim of boosting integrity, the Call to Action supports the elaboration and implementation of high standards aligned with the Paris goals that build on the G7 high integrity carbon markets principles, including by providing clear Paris aligned rules for transparent engagement and transactions in the VCM, and foster convergence between existing integrity initiatives. Those initiatives should support transformative pathways to net zero, ensure additionality and avoid lock-in to unsustainable levels of emissions, and ensure a sharing of mitigation benefits between participants.

This will be achieved through a combination of the following actions:

On the demand side:

- Ensuring a high standard of transparency[3] regarding corporate reporting by disclosing actual emission reductions separately from offsetting claims and by further clarifying standards applied for offset and climate related claims in respect of organizations, products, and services.

- Prioritising own emission reduction, including through investments in beyond value-chain mitigation, and purchasing high-quality credits linked to climate – and where possible nature-positive actions – across different geographies exclusively for offsetting residual emissions, particularly in inherently hard-to-abate economic activities.

- Publishing time-bound action plans for climate transition outlining how existing assets, operations, business models and governance will pivot towards the goal of being net-zero by 2050 in scopes 1 to 3.

- Considering allocating a share of the financial contribution for adaptation and/or loss and damage for the benefit of least-developed and vulnerable developing countries, including small island developing states (SIDS), that are unable to directly benefit from voluntary markets.

On the supply side:

- Progressively aligning voluntary market standards to those of compliance markets to ensure additionality and permanence of emissions reduction and removals enhancement and to avoid over-allocation and lock-in to unsustainable levels of emissions.

3. This could be achieved e.g. through registries enabling both users and the public to identify market eligibility, the status of authorization and corresponding adjustments, and the purpose of use.

- Ensuring that voluntary carbon credits meet the highest levels of social and environmental integrity, taking into account their full impact in nature and biodiversity, including the clarification of standards applied for offset and climate related claims in respect of organizations, products, and services.

- Providing capacity building and technical assistance to developing countries to help them ensure their participation is aligned with their own mitigation and nature-positive strategies, including through support to address issues related to price transparency and price discovery and to ensure a just remuneration of project holders in the host country.

Next steps

By the G20 Summit in Delhi and the SDG Summit:

explore possible global frameworks to ensure convergence between existing initiatives aimed at strengthening the integrity of voluntary carbon markets around common high-level standards.

By COP 28:

- OECD and IMF to present possible measures to support increased price transparency and effectiveness for domestic markets, including through further analysis of effective carbon prices.

- Ideally, first stocktake on results of the Call to Action across the three pillars.