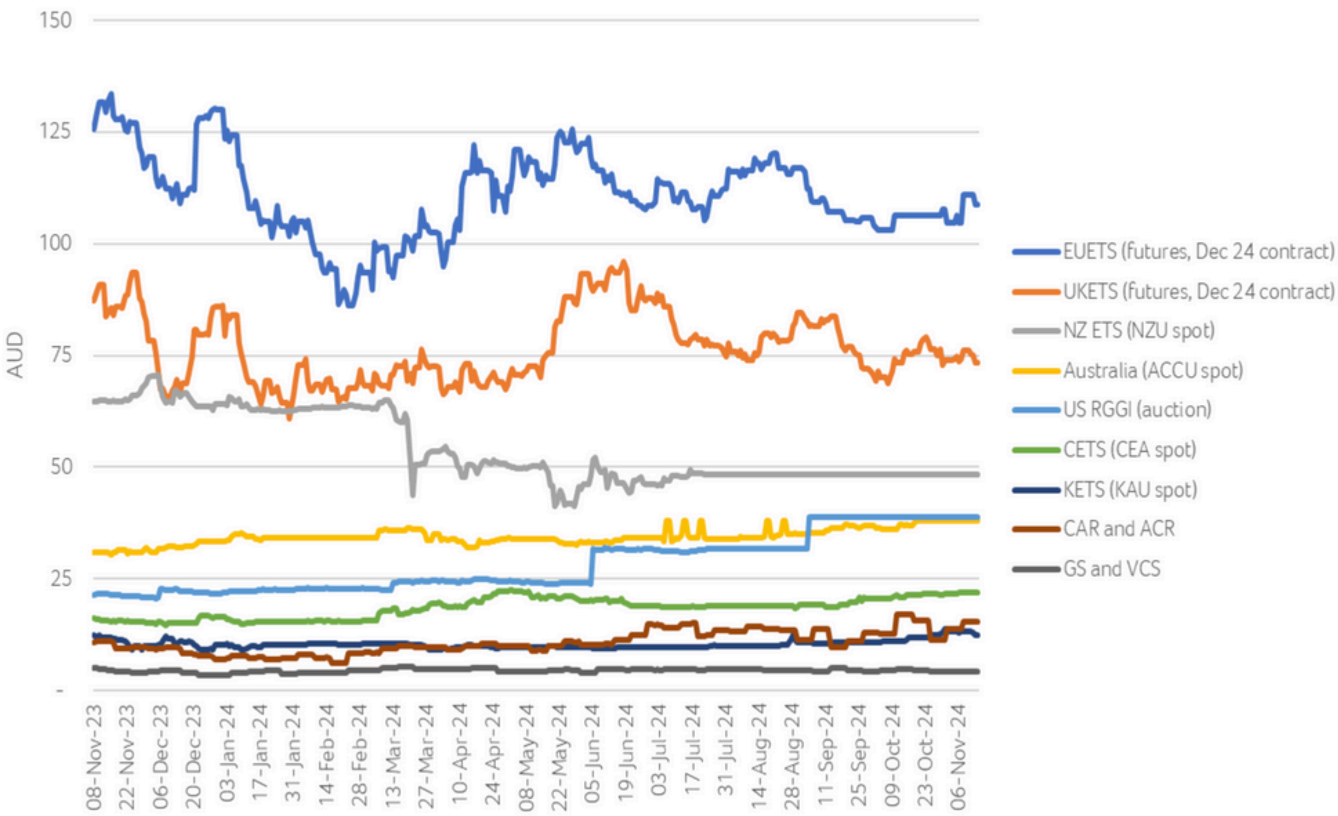
Carbon Market Institute

International Carbon Market Update

Market Brief

December 2024

Global Carbon Prices



Source: Sandbag, CarbonCredits.com, ICE, RGGI, AlliedOffsets.

Policy and Market Tracker

75
National and subnational carbon pricing mechanisms implemented

24%
Of global GHG Covered by carbon prices

$104 Billion Raised through carbon pricing mechanisms

91 bilateral agreements Between
56 countries under Article 6.2

141
Pilot projects recorded under Article 6.2

735
First proposed activities under Article 6.4

Global Climate Policy Update

Internationally

COP29 concluded in Baku with key outcomes noted in:

- New climate finance goal: Parties set a floor target of USD 300 billion per year by 2035 from developed to developing countries and launched the "Baku to Belém Roadmap to 1.3T", which aims to scale up climate finance to at least USD1.3 trillion annually by 2035. Contributions are expected from all public and private sources and be balanced between mitigation and adaptation, with multilateral climate funds and donors urged to simplify access procedures for recipient countries.

- Article 6: Parties reached a long-awaited agreement on implementing Article 6 mechanisms. Key outcomes include the finalisation of authorisation, reporting, review, and tracking requirements for country-to-country emissions trading (refer to CMI's Article 6.2 factsheet). Additionally, criteria for methodologies and removal activities under the Paris Agreement Crediting Mechanism (see CMI's Article 6.4 factsheet) have been established, along with a work program for non-market approaches that will take place from 2025 to 2026 (see CMI's Article 6.8 factsheet). Notably, no further guidance on Article 6.2 is anticipated before 2028, providing a window for countries to focus on implementation and capacity building. For a more detailed analysis of these developments, please refer to the commentary section at the back.

- Follow-up on GST outcomes: In the two negotiation tracks related to the Global Stocktake (GST) outcomes – the UAE dialogue and the Mitigation Work Program – Parties were unable to reach a consensus on guidance for the next round of nationally determined contribution (NDC) submissions. Nevertheless, this should not delay countries' mitigation efforts to incorporate the findings of the first GST into their national climate plans, including the calls to transition away from fossil fuels and adopt economic-wide emissions reduction targets that align with the 1.5°C goal. During COP, the UAE and Brazil submitted their NDC targets for 2035, while the UK has committed to reducing emissions by 81% from 1990 levels by 2035, setting an ambitious benchmark for countries aiming to align their climate targets with the 1.5°C pathway.

- Loss and damage fund: The fund established for loss and damage was fully operationalised following key agreements between its Board, the World Bank (acting as the interim secretariat), and the Philippines (host country for the Board). Current pledges from Parties totalled USD759 million, including contributions of USD 19 million from Sweden and USD 32.5 million from Australia, announced by Minister Bowen in Baku. While the fund is set to begin disbursements in 2025, additional contributions are urgently needed to address the projected USD 580 billion losses that developing countries could face by 2030.

- Adaptation: Progress on adaptation remains limited, with only 60 countries having submitted their National Adaptation Plans (NAPs). The Adaptation Fund has secured pledged contributions of less than USD 133 million – well below the 2024 target of USD 300 million. Development of indicators under the UAE-Belém work program to track progress toward adaptation targets will continue into 2025. Notably, the "Baku Adaptation Roadmap" was launched at COP29 to embrace the Global Goal on Adaptation (GGA) and place it on the formal agendas for future meetings.

Global Climate Policy Update

In Europe

- In October, the European Securities and Markets Authority (ESMA) published its inaugural 2024 EU Carbon Markets Report, examining EU ETS performance over the past year. The report highlighted a softening of EU Allowance (EUA) prices from EUR 100/tCO2 to EUR 80/tCO2 throughout 2023. This decline was attributed to reduced industrial demand amid weak economic activity, increased coal-to-gas fuel switching, expanded renewable energy output, and an uptick in EUA supply due to front-loaded auctions supporting the REPowerEU plan. Following the revision of the EU ETS Directive in 2023, ESMA was tasked with monitoring the market integrity and transparency of the European carbon market.

- Ukraine has demonstrated its commitment to establishing a national carbon market amid wartime by passing the Law on the Basic Principles of Climate Policy, establishing a roadmap for a domestic ETS. The plan includes a two-year pilot phase by 2026, full implementation by 2029 and a future linkage to the EU ETS. Experts cautioned that Ukraine may face challenges, particularly in quantifying emissions since Russia's invasion, affecting data and infrastructure reliability. Despite these hurdles, Ukraine has signed MOUs with Switzerland and Japan under Article 6.2 to supply emissions reduction units from the country.

- Norway has launched the Norwegian Global Emission Reduction (NOGER) initiative to complement its domestic mitigation efforts with emission reductions achieved overseas. With a funding commitment of USD 740 million, NOGER will support renewable energy projects and the phasing out of fossil fuel subsidies in developing countries, leveraging the Article 6 frameworks. At COP29, Norway signed agreements with Benin, Jordan, Senegal, and Zambia, adding to its existing partnerships with Morocco and Indonesia. Additionally, it is establishing a USD 100 million fund with the Global Green Growth Institute (GGGI) to support project development and manage payments for Article 6 credits.

In the UK

- The UK ETS Authority is consulting on expanding the scheme to include the maritime sector and recognise non-pipeline transportation (NPT) of carbon emissions. The consultations, which close on 23 January 2025, will explore how the maritime sector can be incorporated by 2026 and the possibility for ETS participants to subtract emissions stored permanently via NPT from their emissions report. In parallel, the UK government has confirmed it will introduce a CBAM starting 1 January 2025, covering sectors like aluminium, cement, fertiliser, hydrogen, iron and steel while excluding less carbon-intensive products such as glass and ceramics.

- The UK government has introduced six principles to uphold integrity in voluntary carbon and nature markets. The practical implementation of these principles is slated for consultation in 2025, emphasising the role of high integrity carbon credits in bolstering companies' climate and nature strategies and the importance for national governments to lean into voluntary markets as a compliment to compliance activities. This initiative aligns with global efforts by regulators such as the International Organisation of Securities Commissions, International Swaps and Derivatives Association, Commodity Futures Trading Commission, and the National Environment Agency of Singapore.

Global Climate Policy Update

In the Asia Pacific

- At COP29, Australia launched the Climate Catalyst Window, an AUD 126 million initiative under Australian Development Investments (ADIs) to mobilise private capital for climate action through blended finance. Announced by Foreign Minister Penny Wong, the program is designed to de-risk investments for small and medium enterprises across the Indo-Pacific region by leveraging concessional finance. Australia also joined the US, UK, Japan, and Denmark in supporting the Innovative Finance Facility for Climate in Asia and Pacific (IF-CAP). Backed by USD 2.5 billion in government guarantees, IF-CAP will enable the Asian Development Bank to provide up to USD 11 billion in climate-related loans to Pacific and Southeast Asian countries. Furthermore, Australia announced the repurposing of the Indo-Pacific Carbon Offset Scheme (IPCOS), reallocating AUD 50 million to support the Australia-Pacific Partnership for Energy Transition (APPET) program.

- A mutual recognition arrangement (MRA) between Indonesia and Japan will enable both countries to recognise each other's carbon project methodologies, MRV systems, and certification standards. JCM projects in Indonesia must now be registered in the Indonesian National Registry System and adhere to national regulations, including the Indonesian Certification Standard (SPE-GRK). The carbon credits for overseas distribution will be jointly determined and overseen by the Indonesian and Japanese governments. Previously, Indonesia imposed a moratorium on issuing post-2020 carbon credits in Sumatra and Kalimantan due to regulatory and governance concerns.

- India has released a draft regulation for public consultation to establish a Carbon Credit Trading Scheme (CCTS), transitioning its existing Perform, Achieve, and Trade (PAT) scheme – a mandatory energy efficiency program covering 13 sectors – into a baseline and credit system. The proposed system would enable both obligated and non-obligated entities to trade carbon credit certificates via a power exchange. Meanwhile, Pakistan, with support from USAID, the World Bank, and other partners, unveiled its carbon market policy guidelines at COP29. The country is also developing regulations and building a project pipeline to support mitigation in the energy, agriculture, waste management, and forestry sectors.

- Malaysia has signed its first MOU with South Korea to advance Article 6 cooperation, focusing on a project to capture landfill gas and biomethane for energy usage. This partnership aligns with South Korea's plan to use 37.5 million ITMOs to help meet its 2030 NDC target. Malaysia also announced plans to establish an ASEAN Common Carbon Framework during its chairmanship in 2025. As part of this effort, carbon market associations from Malaysia, Indonesia, Thailand, and Singapore have signed Memorandums of Collaboration (MOCs) to enhance regional collaboration on carbon markets.

- Singapore has introduced a grant program to support local companies in developing Article 6 projects. Administered by the Economic Development Board (EDB), the initiative focuses on projects aligned with Singapore's International Carbon Credit (ICC) Framework and conducted in partner countries with Article 6 agreements. Earlier this year, the island nation also launched the Singapore Carbon Market Alliance (SCMA) to connect international developers with local companies interested in purchasing Article 6 credits to meet their corporate climate targets or comply with carbon tax requirements.

Global Climate Policy Update

In the Americas

- The US state of Washington has successfully defended its cap-and-invest program against a repeal attempt through Initiative 2117, with 62% of voters rejecting the proposal. This decision secures the continuation of the program, which began in January 2023 and raised approximately USD 1.8 billion in its inaugural year to fund clean energy and emission reduction initiatives. Following this endorsement, the Washington Department of Ecology is expected to advance discussions on linking its system with California and Québec under the Western Climate Initiative, which recently celebrated a decade of collaboration on joint carbon allowance auctions and market integration.

- Brazil's National Congress passed legislation outlining a pathway to establish Latin America's largest cap-and-trade system within five to six years. Brazil also updated its NDC, committing to a 59-67% reduction in net greenhouse gas emissions by 2035 from 2005 levels. The program will cover approximately 4,000 companies emitting over 25,000 tCO_2e annually, permitting the use of domestic carbon credits for partial compliance. Concurrently, Brazil's National Bank for Economic and Social Development (BNDES) called for proposals under the Restore Amazon initiative to support afforestation, reforestation, and restoration (ARR) projects, which require completion within 48 months.

- Peru launched its national carbon registry (Renami) at COP29, with plans to publish eligible standards and methodologies by December 2024 and commence operations in early 2025. The registry will host Article 6.2 projects and voluntary initiatives seeking inclusion while contributing to Peru's NDC targets. Peru is collaborating with Switzerland on Article 6 projects and recently signed a bilateral agreement with Singapore. Additionally, the country has issued a supreme decree prioritising REDD+ and forest conservation activities as one of its strategic objectives.

In China

- China's national ETS (CETS) will require the steel, cement and aluminium sectors to meet their first compliance period starting in 2025. This expansion will increase the scheme's coverage from 40% to 60% of China's carbon emissions, reinforcing its position as the world's largest ETS. Meanwhile, coal power generators will face stricter allocations under the 2023-2024 Allocation Plan, with reductions ranging from 2% to 11% based on plant size and type. China Emission Allowance (CEA) prices have surged to a record high of nearly USD15/tCO_2 as the December compliance deadline approaches. Entities may use China Certified Emission Reductions (CCERs) to fulfil up to 5% of their obligations.

- China is exploring options under Article 6.4 Rules to allow projects outside its borders to generate CCERs. According to Quantum Commodity Intelligence, this move seeks to address the current shortage of CCERs to meet compliance demand under the CETS. The initiative could enable China to collaborate with 150 nations that are participating in the Belt and Road Initiative on carbon project opportunities. In October, the BRICs countries – Brazil, Russia, India, China, and South Africa – issued the Kazan declaration, announcing the adoption of an MOU for the bloc to explore market cooperation under Article 6 of the Paris Agreement.

Market Commentary

"The decisions on Article 6 at COP29 will provide the necessary confidence in carbon markets to facilitate the trading of high quality carbon credits. This will be critical to mobilise private capital toward global mitigation action, and to ensure we keep global temperature rise below 1.5 degrees"

– Simon Watts and Grace Fu, ministerial pair on Article 6 negotiations

COP29 in Baku: Outcomes on Climate Finance and International Carbon Markets

COP 29 concluded in Baku with two not-to-be-missed outcomes – first, a new global climate finance goal that represents "a glass less than half full" outcome, leaving many in the developing world disappointed; and second, a comprehensive legal framework to fully operationalise UN-governed international carbon markets under Article 6 of the Paris Agreement.

The New Collective Quantified Goal: "A glass less than half full"

The New Collective Quantified Goal (NCQG) on Climate finance was one of the most anticipated outcomes of COP29. It was intended to replace the $100 billion annual climate finance target set in 2009 to address the evolving needs and priorities of developing countries grappling with escalating climate challenges.

While the decision to triple the original finance target by 2035 was viewed by some as a necessary step to safeguard multilateralism, it fell significantly short of the expectations of many developing countries, which require trillions of dollars to effectively mitigate and adapt to the growing impacts of climate change.

The "Baku to Belém Roadmap to $1.3 Trillion" was introduced with the aim of bridging the shortfall by COP30. However, realising this ambition will require resolving the entrenched deadlock in negotiations between the Global North and Global South. This will involve understanding each other's positions and finding common ground to identify entry points for future collaboration.

Market Commentary

The common ground between the North and South

Amid geopolitical tensions and economic uncertainties, developed nations such as the US and the EU have advocated for an expanded donor base to meet the increasing demands of developing countries. Emerging economies like China, Saudi Arabia, and Russia are seen as potential contributors due to their "high greenhouse gas emissions and economic capabilities" to support global efforts.

On the other hand, the G77 and China have persistently emphasised that blurring the line between developed and developing countries would undermine the principle of common but differentiated responsibilities. Many in the Global South consider this a red line that should not be compromised in future negotiations. On a positive note, some, including China, have signalled their willingness to do more voluntarily.

Carbon markets are emerging as a critical tool in enabling North-South and South-South cooperation. Non-traditional contributors, such as Singapore and South Korea, have taken on leadership roles in advancing Article 6 implementation to promote public-private partnerships and regional collaboration. Speaking at a side event at COP29, China's Deputy Director General Lu Shize informed that Beijing is considering options under Article 6 to support its Belt and Road Initiative.

The roles of carbon markets under the Paris Agreement

With development aid cuts looming in the backdrop, the concept of "layering" climate finance – also called the "onion structure" – was discussed during the NCQG meetings. This approach seeks to mobilise the necessary funds by aggregating a wide range of finance sources. At one point, carbon pricing was featured in an input paper proposing its scale-up by 2035 to leverage innovative funding sources. While this option was not included in the final decision, it is expected to be revisited and considered at COP30 to bridge the enormous USD 1 trillion finance gap.

At a strategic level, carbon markets could also play a role in advancing the broader objectives of the Paris Agreement, including:

- Scaling up the Adaptation Fund: The 5% Share of Proceeds (SOP) from Article 6.4 credits holds substantial potential to enhance adaptation finance. For context, a much lower 2% levy under the Clean Development Mechanism has generated USD 215 million as of June 2024.

- Contributing to mitigation efforts: Article 6 markets are designed with the intention to channel technology and financial resources toward "high-hanging fruit" projects – those are harder to implement but yield significant emission reductions. Many countries are now publishing positive lists of eligible carbon projects to ensure alignment with national priorities and sustainable development goals.

- Ratcheting ambition in NDCs 3.0: As countries prepare for the next iteration of NDCs, integrating domestic mitigation efforts with international voluntary cooperation could help drive "overall mitigation in global emissions" (OMGE). This could be effectively achieved through the strategic use of cooperative approaches (Article 6.2), the Paris Agreement Crediting Mechanism (Article 6.4), and non-market approaches (Article 6.8).

Market Commentary

Can international carbon markets finally take off after COP29?

The implementation of Article 6 international cooperation is starting to take shape across three areas.

First, integrity and independent carbon standards are increasingly aligning their programs with Article 6 guidance. For example, the Integrity Council for the Voluntary Carbon Market (ICVCM) has initiated efforts to support countries preparing for Article 6 cooperation, including aligning its Core Carbon Principles (CCPs) and Assessment Framework with Article 6 guidelines. Simultaneously, collaborations between Gold Standard, Verra, and Singapore have developed a protocol to help governments leverage existing crediting schemes in Article 6 implementation. This growing alignment underscores how voluntary standards are evolving to meet the integrity benchmarks established by the Paris Agreement.

Second, multilateral development banks (MDBs) and intergovernmental organisations are playing a pivotal role in scaling Article 6 markets by offering technical expertise, financial support, and risk mitigation tools to foster international cooperation. The Asian Development Bank's Climate Action Catalyst Fund, for example, provides upfront finance to attract additional capital for carbon projects across the Asia Pacific region. Meanwhile, the World Bank Group's Guarantee Platform, through the Multilateral Investment Guarantee Agency, helps de-risk carbon market ventures and build investor confidence by introducing a Letter of Authorisation (LoA) template to secure legal rights over mitigation outcomes from Article 6.2 projects. The GGGI has also launched the Carbon Transaction Facility to develop Article 6 projects in partnership with member countries.

Third, national governments are gradually integrating Article 6 into their compliance schemes and decarbonisation strategies. On the supply side, many developing countries, including Brazil, Kenya, Pakistan, and the Philippines, are taking steps to establish regulatory frameworks and infrastructure that will facilitate the trading of ITMOs. On the demand side, however, only a few developed nations, such as Japan, Singapore, Switzerland, Sweden, and Norway, have currently signalled their intention to use international credits to meet NDC targets. Nevertheless, countries like the UK and Canada are actively supporting capacity building efforts even though they are unlikely to purchase overseas credits in the short term. This growing imbalance between credit supply and limited demand presents a potential challenge for Article 6 in the coming years, as formal negotiations are expected to resume in 2028 to prioritise implementation efforts and pilot projects in the interim. It is therefore critical that other developed countries, including Australia, thoroughly analyse and consider the potential role of Article 6 cooperation in supporting emission reductions beyond their own NDC targets to uplift multilaterism and keep the 1.5°C goal within reach.

For more information, please contact

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The Carbon Market Institute (CMI) is a member-based institute accelerating the transition towards a negative emission, nature positive world. It champions best practice in carbon markets and climate policy, and its 150+ members include primary producers, carbon project developers, Indigenous organisations, legal, technology and advisory services, insurers, banks, investors, corporate entities and emission intensive industries. The positions put forward constitute CMI's independent view and do not purport to represent any CMI individual, member company, or industry sector.