Environmental Defense Fund

GLOBAL CLIMATE COOPERATION

Leveraging Carbon Markets for Equitable Climate Outcomes

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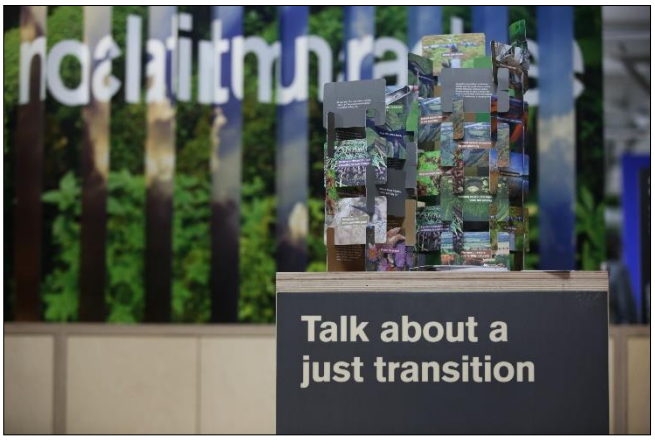

Seen around COP26 in Glasgow, a message on just transition. Source: UNclimatechange via Flickr.

Addressing the climate crisis requires crafting policies that can simultaneously enhance ambition, promote just and sustainable development, and support vulnerable communities. EDF believes that with careful design and an understanding of social and historical contexts, carbon markets are one tool that can advance lasting, equitable climate solutions. Carbon markets take a variety of forms across voluntary and compliance contexts but ensuring that markets are both environmentally and socially robust is universally essential.

Environmental justice groups have raised major and warranted concerns about the potential damaging and inequitable effects of carbon markets. Markets haven't done enough to address the pollution burden in vulnerable and historically marginalized communities, and many worry that markets could make pollution worse. This is closely linked to concerns about structural inequities in global systems. Countries in the Global South have relayed experiences with exploitatively low credit prices and human rights abuses under carbon trading and other market mechanisms, expressing apprehension about possible carbon colonialism. If we fail to hear and address these concerns, we all fail.

We see three key ways in which high-integrity carbon markets can promote equitable outcomes – by mobilizing climate investment, supporting adaptation and other co-benefits, and including a diverse array of stakeholders.

Unlocking resources for Indigenous communities and the Global South

As countries and companies work to achieve ambitious climate goals set under their nationally determined contributions (NDCs) or through voluntary commitments, some regions in the Global South have a wide range of emissions reductions opportunities and are willing to implement them. However, they face a lack of resources and access to investment to support those opportunities. Carbon markets can transfer resources from companies and high-income countries to low-income countries and communities. They attract much-needed public and private investment, supporting sustainable activities in under-resourced areas as well as global environmental benefits.[1]

Modeling from EDF shows the power of carbon markets to raise global climate ambition by reducing the total cost of achieving global goals. Compared to all countries meeting their Paris Agreement NDCs on their own, international trade has the potential to unlock around 40% more emissions reductions at this same global cost — or up to 90% more, if abatement from forest protection is traded as well.

[1] It is important to note that not all countries and communities are equally equipped to participate in carbon markets, and stakeholders should avoid replicating patterns of unequal access to finance and resources. Strategies could include an emphasis on supporting enabling environments, prioritizing development of standardized tools for carbon markets, and providing concessionary finance for capacity building.

In designing markets, stakeholders must acknowledge the global and historical context of structural inequity and seek to distribute resources in ways that will be transformative rather than extractive. For instance, a significant share of forest around the world is stewarded by Indigenous Peoples and local communities, yet they rarely benefit from official ownership of land or receive profit for conservation. Jurisdictional forestry programs participating in carbon markets can reward Indigenous and local communities for their stewardship and sustainability, channel critical investments, and carefully account for emissions to ensure that results are real.

Case study: the Yurok Tribe

One example of an Indigenous community benefiting from carbon markets comes from the Yurok Tribe in California, the largest federally recognized Tribe in the Golden State. The Yurok seek to reacquire 1.5 million acres of Yurok Ancestral Territory, using carbon markets as one financial tool within their Natural Resources Management Portfolio.

In recent years, the Yurok Tribe has managed three carbon sequestration projects on forested land purchased from a timber company, selling compliance-grade carbon credits under California's cap-and-trade program. As part of the Yurok's efforts to secure sustainable tribal economic ventures and advance nation-building, carbon credit revenues have been invested in forestry practices, reacquiring ancestral lands, and acquiring the largest known privately held Yurok basket collection.

Carbon markets are one of an array of mechanisms used by the Yurok and other Indigenous Peoples to generate needed finance while supporting inclusive decision-making, traditional stewardship of natural resources, and cultural diplomacy.

Crediting will look very different in different contexts, and communities in the Global South face unique and additional challenges. The Yurok's experience with carbon credits is not universally applicable but demonstrates the potential to use carbon markets in a collaborative and locally led manner.

Oversight, transparency, and regulation will help to ensure that the profits from carbon markets reach vulnerable countries and communities, including through equitable benefit sharing arrangements and inclusive consultation processes.

The Brazilian state of Mato Grosso exemplifies how the benefits from receiving payments for reducing deforestation can be effectively shared with Indigenous and forest communities. The state went through a period where deforestation for soy and cattle production caused significant greenhouse gas emissions. Mato Grosso did not trade credits but received funding for jurisdictional forest protection under the German Development Bank's REDD Early Movers (REM) Program. About 13% of the proceeds were directed to the Indigenous territories component of the REM program, which was extensively co-designed with Indigenous communities and helped strengthen the Mato Grosso Federation of Indigenous Peoples and Organizations, FEPOIMT.

On the demand side, the purchasing of credits should be additional to direct emissions reductions. Markets must be used in concert with sound decarbonization strategies. Carbon markets can also be supplemented with legislation that prevents harmful impacts. While carbon pollution is a global externality and any local reduction of carbon emissions benefits the planet, carbon emissions reductions projects can come with negative side-effects, including local increases of other pollutants such as sulphur dioxide. Care must be taken to avoid and mitigate such impacts.

Moving beyond mitigation

While carbon markets primarily function as a mechanism to reduce greenhouse gas emissions, they can and should be designed to concurrently support adaptation, resilience, and other social and environmental co-benefits.

Illustration of key negotiation terms at COP26 in Glasgow. Source: UNclimatechange via Flickr.

As a first step, a "share of proceeds" (SOP) can be taken as a percentage levy from transactions in the voluntary carbon market to support adaptation in vulnerable countries, much like the SOP

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required under Article 6.4 of the Paris Agreement. This system already exists within the Kyoto Protocol's Clean Development Mechanism, generating nearly $200 million for the UNFCCC Adaptation Fund as of 2018.

The need for adaptation finance is urgent, and buyers in the voluntary carbon market can help address this need as an extension of their social and environmental responsibility. A share of proceeds for adaptation could also enhance the equitable distribution of benefits to countries that would otherwise not directly benefit from the voluntary market. The adaptation levy could be reduced or exempted for community-driven projects with significant co-benefits, helping to minimize the burden on smallholders and rebalance the market.

Beyond SOP, mitigation activities financed through carbon markets can also function as vehicles for delivering on climate adaptation in vulnerable communities.

Take, for instance, a program which sequesters carbon through conserving marine and coastal ecosystems. These preserved ecosystems help to buffer against increasingly frequent environmental disasters and protect watersheds which sustain local livelihoods. In rural areas, projects providing more efficient cookstoves can preserve biomass and combat climate change-induced desertification. Projects delivering decentralized energy can also create added resilience in case of extreme climate-related events.

Co-benefits not only serve to advance multiple climate and development goals but may also help to attract investment. According to Ecosystem Marketplace, 2021 credit prices in the voluntary carbon market rose particularly for sectors that offer co-benefits.

Ensuring that carbon markets support a variety of activities means improving the ways in which we track and categorize climate investments. Climate Policy Initiative found that only 2% of total global climate finance served dual mitigation and adaptation purposes in 2019/20, but multifunctional finance is not necessarily recorded as such. For example, several multilateral development banks in 2020 split dual-use finance into proportions benefiting mitigation and adaptation, with adaptation finance tending to exclude benefits that were non-quantitative or beyond the scope of the investment, according to ReliefWeb.

Activities funded through carbon markets can be designed and reviewed according to a variety of purposes, including co-benefits for adaptation, biodiversity, social and economic wellbeing, and gender responsiveness.

Making markets inclusive

Equitable market design requires that impacted stakeholders are included throughout the development and implementation of crediting. Investments can only support vulnerable communities when those communities are shaping and consensually participating in programs, and given adequate information and representation.

Too often, this is not the case. The Intergovernmental Panel on Climate Change stated that the few existing analyses suggest that less than 10% of climate finance supports decentralized, local actors, with reasons including "lack of consideration of procedural equity in programme design." Similarly, WRI found that only about 6% of 374 analyzed adaptation projects included strong locally led elements.

One model for designing crediting programs comes from the Coordinator of Indigenous Organizations of the Amazon River Basin (COICA), which created the Indigenous-led jurisdictional REDD+ approach. This proposed strategy prioritizes holistic management of forests and Indigenous territories and ensures not only respect for territorial and land rights and Free, Prior and Informed Consent (FPIC) for IPs, but also the effective participation of IPs in the process and a fair distribution of benefits.

Carbon markets require a stringent set of social safeguards and inclusive processes in order to promote equitable outcomes. Groups like the Integrity Council for the Voluntary Market and the Article 6.4 Supervisory Body are essential to getting markets right.

Conclusion

When designed properly and contextualized, carbon markets are one important part of tackling climate change in a just manner. Carbon markets can channel investments toward the Global South and toward communities, can support adaptation and other co-benefits, and can be built with and for impacted stakeholders. As the world works toward developing and implementing innovative and equitable climate solutions, carbon market integrity should be a key priority.

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