

IOSCO Consultation Report on Voluntary Carbon Markets



EFET consultation response - 10 February 2023

The European Federation of Energy Traders (EFET) appreciates the opportunity to comment on the IOSCO consultation on Voluntary Carbon Markets (VCMs).

VCMs have the potential to make a helpful contribution to climate change mitigation and thanks to progress on Article 6 of the Paris Agreement and the growth in sustainability commitments, the last few years have seen considerable interest in these markets. However, a number of vulnerabilities – incl. lack of transparency, harmonisation of certification methodologies, standardisation of documentation, interoperability and coordination - continue to undermine the credibility and limit the potential of those markets.

We welcome the initiative to foster sound and well-functioning VCMs through addressing key vulnerabilities and ensuring international cooperation among public and private actors, and we believe IOSCO has an important role to play in facilitating this cooperation.

Consultation questions

Question 1: Is the description of the issuance of carbon credits accurate? Are all key market participants properly reflected?

Yes, to our knowledge, the description of the issuance of carbon credits is accurate and all key market participants are properly reflected.

Question 2: Has the consultation identified the relevant vulnerabilities? Are there any others that should be considered? Please explain.

Yes, in our view the consultation offers a comprehensive list of the relevant vulnerabilities.

Question 3: What kind of role could IOSCO play in coordinating the actions of industry specific organizations and public authorities?

IOSCO has considerable experience with coordinating in the financial sector and we think that this experience could be helpful in coordinating the actions of regulatory authorities when it comes to regulatory frameworks for improving the integrity and transparency of VCMs. Designing principles and recommendations for sound VCMs is an important way towards greater harmonisation and improved trust in VCMs.

Question 4: How do you think IOSCO should achieve these objectives?

As a start, through the design of principles and recommendations for sound VCMs.

Question 5: Should IOSCO seek to collaborate more closely with these private initiatives? How might such a collaboration function?

Yes, collaboration with private initiatives would be helpful, as those initiatives could feed into the design of principles and recommendations through their experience and at the same time also help to disseminate those principles and recommendations among VCM participants and infrastructures, thereby enhancing the transparency and integrity of the system.

Question 6: What, in your view, is the legal nature of an offset credit? Should IOSCO recommend a specific approach to relevant authorities?

As VCMs are expected to grow further, a harmonised treatment of offset credits would help to enhance the transparency and oversight of VCMs and we think that it would benefit the system in terms of enhanced trust.

Question 7: What is the role of blockchain and distributed ledger technology in voluntary carbon markets?

Distributed ledger technology (DLT), such as blockchain, could be helpful in addressing some of the described vulnerabilities. It is a versatile technology and some of its key benefits include:

- The distributed nature of the technology (no intermediary, which could enhance trust)
- Data immutability, availability and authenticity
- Lower transaction costs and higher speed of transactions
- Facilitating P2P transactions

These features could help to increase transparency, reduce costs, minimise fraud and enhance trust in the system. There are successful examples of DLT being used in areas where transparency was an issue, e.g. land registries.

Having said that, it is only a technology and its efficiency in addressing the identified vulnerabilities would depend on the design of the specific applications. It is also not the only technology that can offer efficiencies. More efficiency and transparency could potentially also be achieved with improved interoperability among systems and registries, greater coordination, as well as development of harmonised methodologies and greater standardisation.

Question 8: What are the benefits and vulnerabilities of using tokenization over relying on more traditional market infrastructure? Do these benefits outweigh how energy-intensive the use of blockchain is?

DLT could offer some notable benefits and to our knowledge there may be ways to reduce the energy-intensity of applications. However, it may also be possible to address many of those vulnerabilities through greater coordination and cooperation among the various parties comprising the VCM ecosystem, design of harmonised regulatory frameworks, standardisation of documentation and interoperability among different systems.

Question 9: Should IOSCO recommend good practices regarding transparency on the use and impact of carbon credits by market players?

Yes, we think that it would be helpful for IOSCO to recommend good practices regarding transparency on the use and impact of carbon credits by market participants. As stated in the Paris Agreement, there is a difference between GHG reductions and compensation for emissions in terms of climate impact. Priority should be given to the GHG reductions and there should be clear communication about the true impact and limitations of compensation for emissions via carbon credits.

Question 10: Are these the key considerations appropriate for the sound functioning of voluntary carbon markets?

Yes, they are appropriate for the sound functioning of VCMs.

Question 11: What other key considerations may be necessary in order to scale up carbon markets?

In our view, the consultation document offers a comprehensive list of key considerations.