Carbon Markets Remain Poised to Fill the Pre-2020 Climate Action Gap

More demand needed to stimulate innovative low-carbon projects

25 May 2017 | Barcelona, Spain | As of 2016, offsets equivalent to 1.1 billion metric tonnes of carbon dioxide emissions ($BtCO_2e$) have been transacted voluntarily – through sales to governments, companies, and individuals as well as intermediary brokers – according to the latest annual *State of Voluntary Carbon Markets* report from Forest Trends' Ecosystem Marketplace, released today at the Innovate4Climate conference in Barcelona.

Entitled "Unlocking Potential," the new report finds that voluntary buyers in 2016 paid $191.3 million (M) to offset 63.4 million metric tonnes of CO_2 ($MtCO_2e$) – about as much greenhouse gases as Massachusetts emits in a year. Concerned citizens, corporations, and sub-national governments moved ahead with their battle against climate change by purchasing voluntary carbon offsets from projects that reduce emissions through forest protection, renewable energy, and other means. Still, transaction volumes on the voluntary markets shrank 24% from 2015 to 2016, and demand did not meet supply of these offsets, as 56.2 $MtCO_2e$ were left unsold in project developer's portfolios – some from previous years.

Other key findings include:

- **Prices for voluntary carbon offsets in 2016 were affordable overall (averaging $3.0/tCO_2e$) but also highly variable.** Factors influencing the price included aspects such as project type and location, among others. For example, offsets from wind projects in Asia transacted at an average price of $0.7/$tCO_2e$, while the price for offsets from afforestation/reforestation projects in Africa was $6.7/$tCO_2e$.

- **Overall, the majority of offsets sold came from wind, REDD+ (Reduced Emissions from Deforestation and Forest Degradation), or landfill methane projects.** Wind and REDD+ projects have been competing for the first place for the past few years now, and landfill methane projects have always been a close runner-up, so this ranking confirms existing tendencies from the previous years.

    - REDD+, community-focused energy efficiency, and "clean cookstove" projects produced most of the 18.5 $MtCO_2e$ offsets sold directly by project developers. In contrast, most of the 44.8 $MtCO_2e$ offsets sold by brokers, retailers, and other intermediaries were from REDD+, wind, and landfill methane projects.

- **Close to half of all offsets (21.5 $MtCO_2e$, or 46%) transacted worldwide originated in Asia, and accounted for a third (30%) of the total market value** due to their lower-than-average prices ($1.6/$tCO_2e$). North America (primarily the United States) generated the second-largest number of offsets: 10.1 $MtCO_2e$ for a total value of $29M. Meanwhile, offsets from Latin America (5.8 $MtCO_2e$) and Africa (5.8 $MtCO_2e$) represented total values of $22M and $24M, respectively.

Looking ahead, there are a number of unanswered questions around the issue of regulatory support for carbon markets. While Paris Agreement negotiators greenlighted carbon markets in December 2015, it is not yet clear how and to what extent markets will be utilized to achieve the climate pledges of individual countries. Also, recent political developments in the United States have created uncertainty around the country's commitment to reducing emissions. A potential silver lining on the horizon is the International Civil

Aviation Organization, or ICAO, which has started to develop its own offsetting scheme, but which has not yet decided which type(s) of offsets will be allowed in this context.

"While any level of voluntary support for low-carbon projects worldwide is commendable, the reality is that we urgently need to ramp up ambition in the coming years. As national governments debate how to implement their climate commitments, businesses can – and should – act now to ratchet up their existing voluntary commitments and adopt new ones," said report author and **Ecosystem Marketplace Senior Associate Kelley Hamrick**. "Lagging demand continues to be the bottleneck that prevents project developers from expanding innovative activities to support both the climate and a host of other sustainable development benefits."

"The Paris Agreement set into motion unprecedented climate action at a critical moment," said **Forest Trends Founding President and CEO Michael Jenkins**. "The voluntary carbon markets have an important role to play in this context; they can be the force that keeps the ball rolling." Jenkins added.

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To learn more, download the full report and visit www.forest-trends.org.

Ecosystem Marketplace*, an initiative of the non-profit organization Forest Trends, is a leading global source of information on environmental finance, markets and payments for ecosystem services. As a web-based service, Ecosystem Marketplace publishes newsletters, breaking news, original feature articles and annual reports about market-based approaches to valuing and financing ecosystem services. We believe that transparency is a hallmark of robust markets and that by providing accessible and trustworthy information on prices, regulation, science, and other market-relevant issues, we can contribute to market growth, catalyze new thinking, and spur the development of new markets and the policies and infrastructure needed to support them.*

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