

**Keynote remarks for Day of Accelerating Climate Action: Delivering  
High Integrity Carbon Markets  
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*Climate Physics*

It is a pleasure to be here today at this important event on “Accelerating Climate Action: Delivering High Integrity Carbon Markets.

The brutal reality of climate physics is that the carbon budget to limit warming to 1.5 degrees Celsius will be exhausted this decade if the world remains on its current trajectory.

That makes emissions reductions today especially valuable because they create time for the enormous investments needed in proven clean

technologies such as wind, solar and grid, while extending the horizon to commercialise innovative climate solutions.

High-integrity carbon markets can play a crucial role in realising this *time value of carbon* [because they deliver and finance decarbonisation today].

In addition to carbon markets, policymakers have a range of levers to address the climate challenge - regulatory requirements, fiscal incentives, carbon pricing and carbon reduction policies - which need to be deployed in a complementary fashion.

### *Benefit of High-Integrity Carbon Markets*

At present, high-integrity [project based]<sup>1</sup> carbon markets are small, largely because these markets have lacked integrity. Over the years, serious, valid questions have been raised about the credibility of claims made by projects and buyers, the negative impacts to local and Indigenous communities, and whether an expansion of credits could disincentivise absolute emissions reductions.

These are important but solvable problems. But we have moved too slowly. We've spent more than two decades trying to operationalise carbon markets internationally. Over that period one hundred million hectares of forest has been lost,<sup>2</sup> equivalent to twice the size of France [and deforestation continues to account for over 10% of annual greenhouse gas emissions<sup>3</sup>]. Meanwhile coal consumption has increased 60%<sup>4</sup> [with 1,200GW of new coal power plants in China and India alone, locking in

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<sup>1</sup> Project-based carbon markets generate credits from emissions reductions and removals across . This relates to both the voluntary carbon markets (VCM) and official markets under Article 6 of the Paris Agreement.

<sup>2</sup> Calculated from [Food and Agriculture Organization of the United Nations](#), Global Forest Resources Assessment 2020. [Our World in Data](#)

<sup>3</sup> IPCC, 22% of emissions are from AFOLU and “About half of total net AFOLU emissions are from CO2-LULUCF, predominantly from deforestation (medium confidence).” (para B.2.2. In WGIII SPM)

<sup>4</sup> [IEA](#), Coal 2023, pg 40

around 150Gt, around three-quarters of the remaining carbon budget for 1.5C ]<sup>5</sup>.

It is beyond time to grasp the nettle to create a locally anchored, globally integrated, high-integrity carbon market.

There can be no more debating while the world literally burns. It is time for action.

A scaled, cross-border carbon market could deliver an additional 7GtCO<sub>2</sub>e in mitigation per year by 2030 by accelerating nature-based solutions, coal transition, and carbon removal technologies all of which need significant climate finance to become a reality.<sup>6</sup>

Carbon markets are essential for mobilising climate finance to three critical areas:

- 1) First, in **restoring and protecting the world's forests**. Initiatives such as the World Bank's Forest Carbon Partnership Facility are helping to rewrite the approach. I welcome President Banga's announcement last year that beneficiary countries will soon be able to sell and trade carbon credits generated from the programme, which can only be positive for developing this market. This initiative will transform the classical model of results-based finance and allow the custodians of critical carbon sinks to be remunerated for their protection.
- 2) Second, carbon markets can raise the capital needed to accelerate the transition from **coal to clean energy**. Coal plants in Asia alone will exhaust the remaining carbon budget if left to operate to the end of their 'economic' lives. For just \$15 a tonne, when combined with blended finance, carbon credits will pay for the retirement of these

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<sup>5</sup> [Global Energy Monitor](#), New Coal Power Plants 2004-2023. Global total over this period is 1,460GW. Total global power capacity is around 9,000GW.

<sup>6</sup> Based on McKinsey modelling on the sequestration and financing potential of NbS, coal transition and new technology credits. This modelling assumes have the practical potential of NbS could be activated by 2030, and that 30% of the CFFPs in APAC generate early retirement credits by 2030. Modelling is based on the following sources: [TSVCM report](#) (January 2021), [London School of Economics and Political Science](#) (February 2023), [GFANZ consultation paper: Financing the Managed Phaseout of Coal-Fired Power Plants in Asia Pacific](#) (June 2023), [IPCC AR6 WGIII - Chapter 12](#) (April 2022), [World Economic Forum](#), [MAS Working Paper on Accelerating the Early Retirement of Coal-Fired Power Plants through Carbon Credits](#) (September 2023),

plants; with higher priced credits able to also subsidise construction of replacement clean energy projects and support social programmes, such as worker retraining.

- 3) Third carbon markets can provide **catalytic capital** to provide crucial financing for catalytic climate technologies<sup>7</sup> necessary to deliver a third of emissions reductions, like direct air carbon capture.<sup>8</sup> It is welcome that the world's leading businesses, through bodies like Frontier<sup>9</sup>, an advanced market commitment mechanism, recognise the need to fund and scale these technologies.

### *The Need for End-to-End Integrity*

These gains will only be possible if carbon markets are built on solid foundations and with the right principles. Fortunately, these foundations and principles have been developed in recent years.

Authorities can now build on these voluntary initiatives to embed high standards for end-to-end integrity. That means integrity of supply, demand, and markets. And it means social integrity that ensures the benefits flow to local communities and Indigenous Peoples.

**Supply integrity** ensures projects deliver credible emissions reductions that would not have occurred otherwise, with benefits conservatively quantified. To that end, the voluntary carbon market is coalescing around the new supply-side standards developed by the Integrity Council for the Voluntary Carbon Market (ICVCM) to ensure credit developers have robust governance, transparent reporting, and provide compensation if projects don't deliver. These standards - the Core Carbon Principles - need to be put into practical effect, supported by third party monitoring, assurance, and risk mitigation.

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<sup>7</sup> These figures are modelled by Deloitte reported in WSJ, [How Financial Firms Can Help Bridge a \\$2 Trillion Climate Tech Funding Gap](#), 2023

<sup>8</sup> WEF, [Why climate tech desperately needs more backing](#), 2024, based on IEA, [Innovation Needs in the SDS](#), 2020

<sup>9</sup> Frontier is an advance market commitment to buy an initial \$925M of permanent carbon removal between 2022 and 2030. It's funded by Stripe, Alphabet, Shopify, Meta, McKinsey, and tens of thousands of businesses using Stripe Climate.

We all need to be confident that each credit supplied represents a genuine tonne of emissions reduced or removed, and that each credit meets minimum safeguards for additionality, permanence, and benefits local communities with adequate consultation. [In the voluntary markets, the process of assessing credit developers and methodologies against the CCPs is raising standards of governance and credit quality, while also helping to consolidate existing methodologies. It will be important for all supply-side standards for carbon credits to be reviewed regularly and be adapted for new crediting methodologies [for example, this will be necessary for applying credits to coal transition.]

**Demand integrity** means that companies that invest in carbon credits maintain ambitious decarbonisation consistent with net zero pathways. In practice, this should mean only firms disclosing and performing against ambitious targets and transition plans would earn the right to invest in credits.

The Voluntary Carbon Markets Integrity Initiative (VCMI) has taken up the challenge of determining how companies use credits as part of a high ambition net zero transition, without compromising their incentives to reduce operational emissions. These standards must be supported and built upon by policy makers, buttressed by an assurance ecosystem for transition plans and credit use analogous to auditors that verify the accuracy of financial accounts.

As high-integrity carbon markets are developed, it will be important that the target setting and transition planning frameworks of net zero alliances are adapted to incorporate use of credits in line with VCMI standards.

The use of carbon credits will need to be backed by clear reporting. This information should be made publicly available through the Net Zero Public Data Utility, an initiative overseen by multiple regulators, policymakers and international standard setters seeking to make key climate data a public good.

Alongside policy initiatives, such as those that embed carbon into trade policy, the potential for a high-integrity carbon market will add further impetus to the need for consistent and comparable [scope 3] emissions data across value chains.

**Market integrity** is fundamental to ensuring the fair and equitable treatment of participants and needs to be underpinned by developing the infrastructure that enables the VCMs to scale. The CFTC Principles and, internationally, the IOSCO principles underscore that market integrity is built through greater transparency on the creation, performance, pricing, and use, as well as appropriate legal and accounting treatments of high-quality credits.

Common infrastructure will be needed to trace credits from their point of issuance, through purchasing and potential trading on the secondary market, to their ultimate retirement against the climate objectives of governments and emitters.

This, in turn, requires an agreed set of data to be collected and accessible for each carbon credit. In other words, we need a common data taxonomy, and to link existing national and private sector registries, so that the critical information about each credit is recorded, and the use of the credit through its life cycle is transparent.

Innovations such as the Net Zero Data Public Utility and Global Carbon Market Utility can make these imperatives realities. They will help ensure the markets have strong data transparency and management supporting standardised contracts, robust audits and verification processes, and effective dispute resolution mechanisms. As a result, buyers can be confident that a tonne of carbon purchased will be a tonne of carbon not in the atmosphere.

The official sector is beginning to act. The US Principles for Responsible Participation in Voluntary Carbon Markets released earlier this year, address each aspect of integrity, and recognise the importance of **social integrity** through the avoidance of environmental and social harms, and

the support of transparent and inclusive benefits sharing. Further, a number of emerging markets and developing countries have advanced domestic policy frameworks to deliver these markets.

Official sector action within countries needs to be joined up internationally to avoid fragmentation and ensure a truly global market that supports the flow of climate finance to emerging market and developing economies that are home to important decarbonisation opportunities that they cannot finance.

*Roadmap for Locally Anchored, Globally Connected, and High-integrity Carbon Markets*

Building a comprehensive carbon credit market is possible. I know from long experience of global financial markets and regulation, the development of markets needs to respect local differences and respect national sovereignty while being grounded in sufficient consistency to enable global interconnectivity.

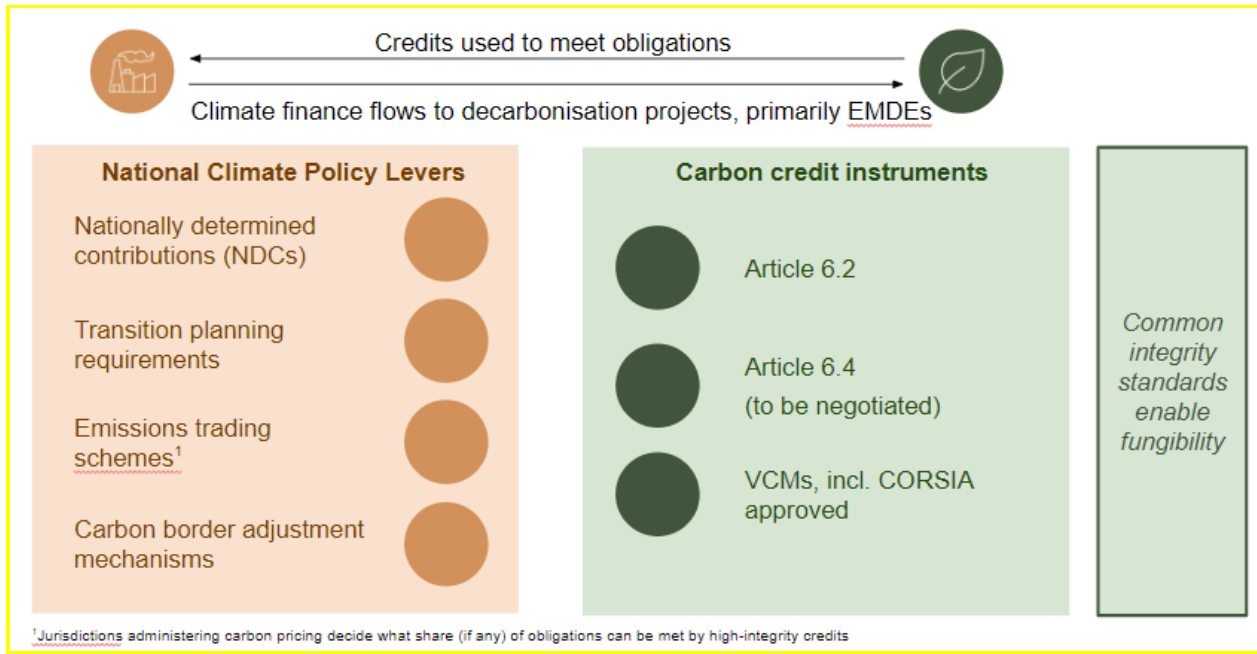
This was the basis of the G20 Financial Stability Board established in the white heat of the global financial crisis. The FSB promotes international financial stability by coordinating national financial authorities and international standard-setting bodies as they develop regulatory, supervisory and other financial sector policies.

In this way, the FSB combines a common objective, with the shared development of solutions by national authorities, and peer pressure to support implementation.

A similar combination of shared objectives, formal authority, an informal iterative process and transparency can similarly support global governance of carbon markets and their interaction with key areas of national climate policy, including:

- domestic emissions trading schemes
- carbon border adjustment mechanisms
- voluntary (and mandatory) transition plans of companies

- countries plans to meet their nationally determined contributions (NDCs)]



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We have no time to waste. We need a new roadmap for **locally anchored, globally connected and high integrity carbon markets** - that serves global policy objectives, unlocks billions of dollars in investment, and catalyses climate finance for emerging market and developing economies to transform their transition challenges into opportunities.

**Locally anchored** markets respect sovereignty in how countries choose to deploy and combine carbon reduction policies and market levers. Ambition on carbon reduction policy will be important for major economies - both advanced and emerging - that need to incentivise domestic decarbonisation. But the more pressing policy need for low-income countries with low emissions is to raise finance from project-based credits in international voluntary or Article 6 markets. Without the finance this raises, these countries will have no choice but to fall back on models of development that are high emitting.

<sup>10</sup> Diagrams



**Globally connected** markets will allow countries that need to protect and restore forests, and or face a significant coal to clean energy transition, raise the climate finance needed. They will only be able to do this if we complete the necessary underpinning standards, principles and infrastructure for carbon markets. We must achieve this task to keep 1.5 degrees alive.

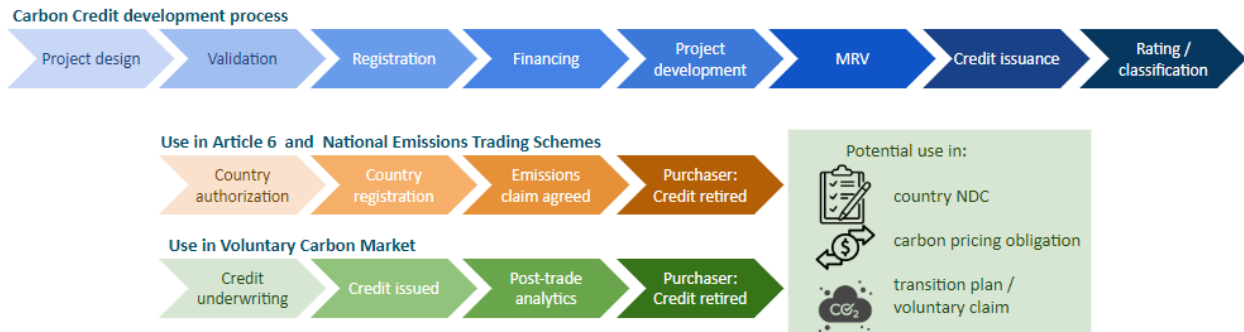
### *Call to Action*

To make this vision a reality, there are three things we urgently need to achieve over the next year.

First, we need to move towards high-level, official-sector consensus on the core policy principles governing carbon reduction policies and carbon market mechanisms, all of which are complementary and important. [There is encouraging progress on finalising the Article 6.4 carbon crediting mechanism that provides a basis for how carbon markets might come together over time to raise climate ambition and enable national action plans.].

Second, as policymakers seek to regulate markets for carbon credits, we must welcome formal recognition of these emerging voluntary standards, so that key principles of integrity are mainstreamed and regulatory fragmentation is avoided.

Finally, we need to work collaboratively to build effective underpinning market infrastructure for carbon crediting markets, such that trade across borders and between different markets - like VCMs and Article 6 - is smooth and underpinned by agreed principles for market integrity. Next year's G20, in South Africa, has a unique opportunity to convene experts in this field to tease out the key features of this infrastructure, and deliver an actionable plan for building it.



## Conclusion

The prize is huge if we get this right.

Emerging market and developing economies need additional investment of nearly \$2 trillion in climate action across adaptation, resilience, and mitigation, with around a third raised from external sources.<sup>11</sup>

Carbon markets can provide hundreds of billions of dollars of annual cross-border capital flows to emerging markets.

They can play important roles in retiring high-emitting assets and preventing new coal generation in Asia.

And they can create significant financing for biodiversity and indigenous peoples, including the essential reforestation of the Amazon.

[Far from being a distraction to decarbonisation, there is growing evidence these markets incentivise companies to commit to ambitious net zero goals and decarbonise faster.]

We have been here before - we know how to build effective and resilient markets, leveraging voluntary and official-sector action. The carbon market is complex, but we have all the ingredients to hand today, for these markets to reach the scale and integrity we need.

But we must stop fiddling while the world burns, and instead build on the foundations developed in the voluntary markets for supply, demand, market

<sup>11</sup> G20, The Triple Agenda, 2023, consistent with UN IHLEG, Finance for Climate Action 2022

and social integrity, and deliver on locally anchored, globally connected, high-integrity carbon markets.

Thank you.