



OECD'S CONTRIBUTION TO G7: CLIMATE CHANGE AND ENVIRONMENT

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The importance of environmental integrity

- To create a **nature positive economy**
- To deliver ambitious climate goals with robust **carbon markets**





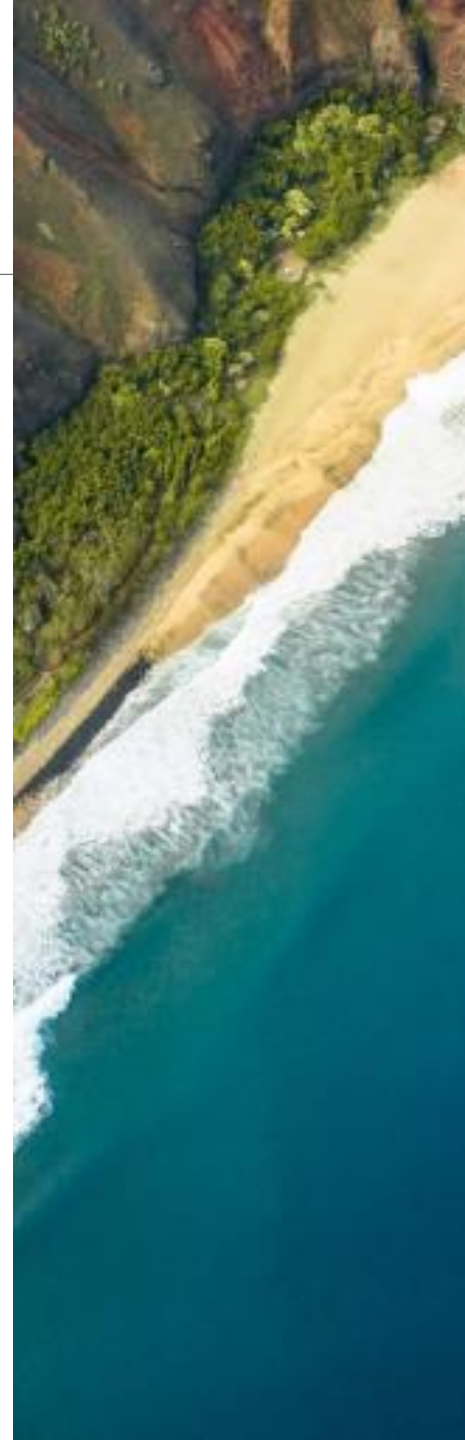
TRANSITIONING TO A NATURE POSITIVE ECONOMY

Contact: OECD Biodiversity Team Lead, Katia.Karousakis@oecd.org



Biodiversity loss – a global crisis demanding a rapid global response

- All economic activity depends on natural capital, but growing risk
- Political momentum rising
 - **G7 2030 Nature Compact:** *our world must become ... nature positive; commit to take actions that are nature positive.*
 - **Kunming-Montreal Global Biodiversity Framework** (CBD COP15) – to halt and *reverse* biodiversity loss





Key questions

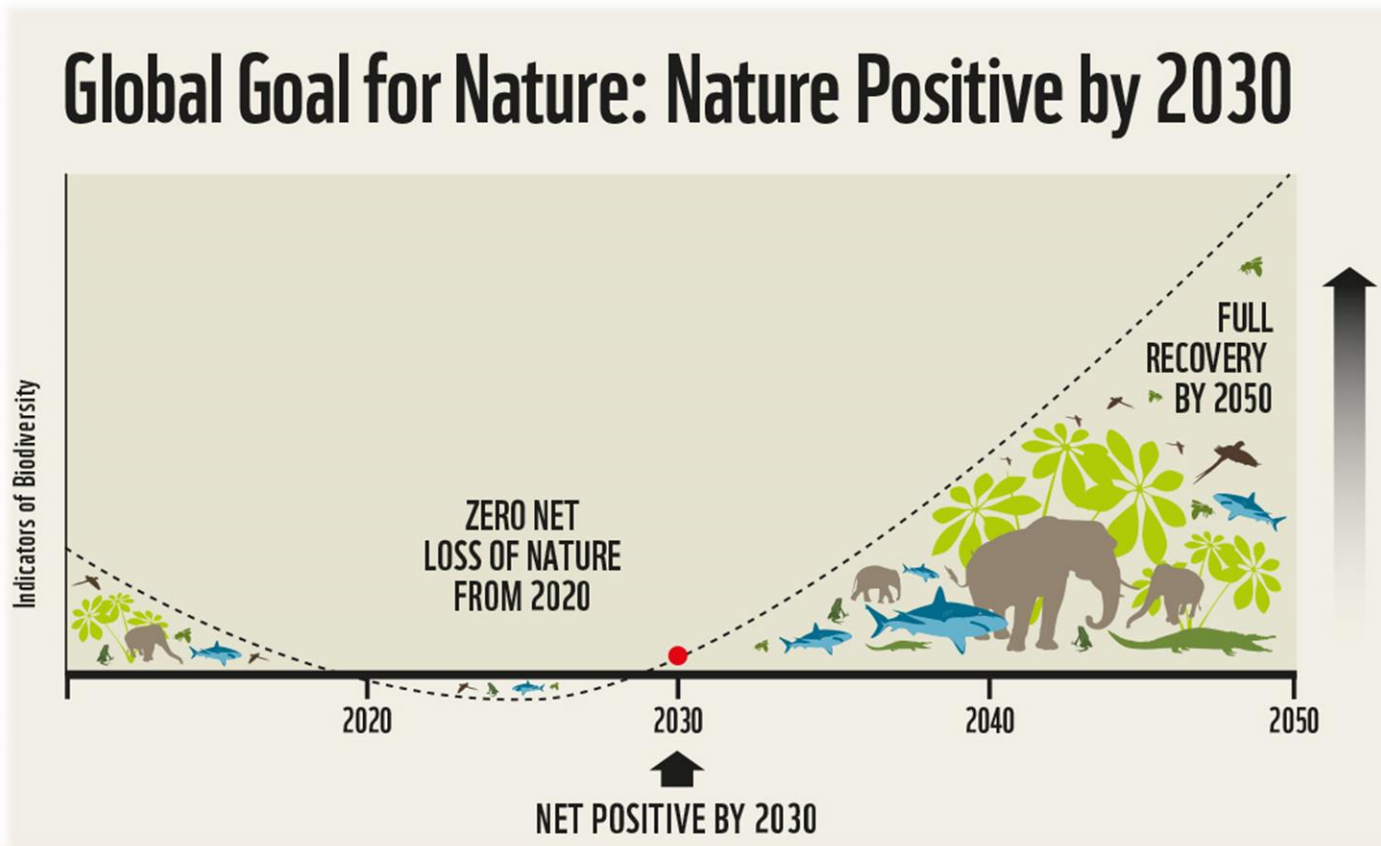


- What does a *nature-positive economy* **mean**, conceptually and in practice – including for the private sector?
- What are the **key obstacles** to transitioning to a nature-positive economy?
- What are **key actions** government can take to address obstacles and foster nature positive outcomes?



What is a Nature-Positive Economy?

- Various definitions of nature-positive emerging
- Broadly, a nature-positive economy is one that realises a nature-positive outcome



Environmental integrity requires:

- Clear common goal
- Timebound
- Baseline
- Consensus on scope
- Alignment at global, national, sector, company and project level



Obstacles to achieving a nature positive economy

Economic incentives

- Negative externalities unpriced
- Governments support harmful activities

Data / information Metrics/measurement

- Gaps (e.g. on location of assets and supply-chain sources)
- Challenges understanding and identifying appropriate data
- Lack of transparency and integrity of reporting

Competitiveness and distributional issues

- Concerns regarding a level playing field
- Leakage across companies or countries
- Just transition

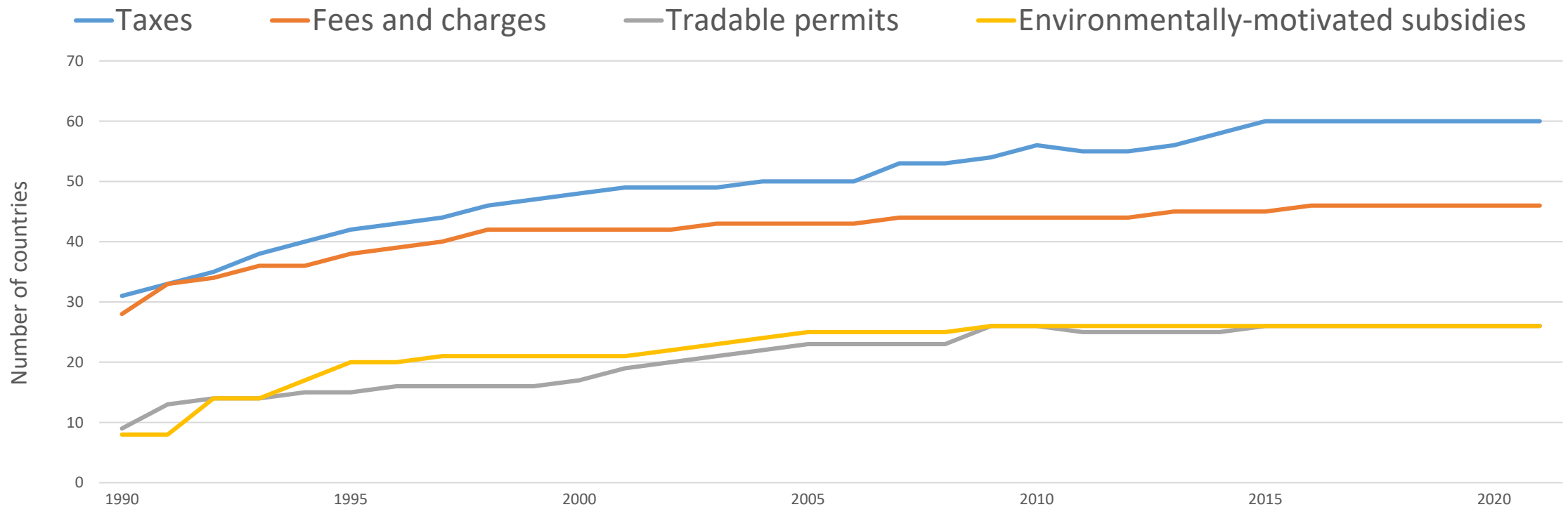
Other enabling conditions

- Lack of sufficient public and private finance
- Underinvestment in nature-positive technologies
- Siloed approaches to nature, climate change, circular economy



Key actions: Scale up positive incentives & reform subsidies and other incentives harmful to biodiversity

Adoption of policy incentives to protect biodiversity have plateaued





Key actions:

Data, information, metrics, measurement

- Support work to address data and information **gaps**, and metrics and measurement **challenges**
 - Science-Based Targets Network; IUCN; Task Force on Nature-related Financial Disclosure
- Encourage business and financial institutions to:
 - Set SMART targets
 - Assess, disclose and address biodiversity- and nature-related impacts, dependencies, risks and opportunities
- Share outcomes/evidence and lessons learned





Key actions:

Competitiveness and distributional issues

- Take multilateral commitments and coordinate (G7 leadership and beyond) to foster a level playing field
- Promote dialogue across government, business, workers and local communities
- Devise targeted policies to address distributional issues
 - Identify winners and losers of policy reform
 - Consider pros and cons of different compensation policies





Key actions: Foster other enabling conditions

- Scale up public and private finance for nature
 - Foster enabling conditions to mobilise private investment in nature-positive activities and technologies
 - Create pipelines of projects (e.g., ecosystem restoration)
 - Partner with IFIs, investors and businesses
 - Tailor financial instruments, vehicles and funds
- Harness synergies and mitigate trade-offs across biodiversity, climate change, circular economy





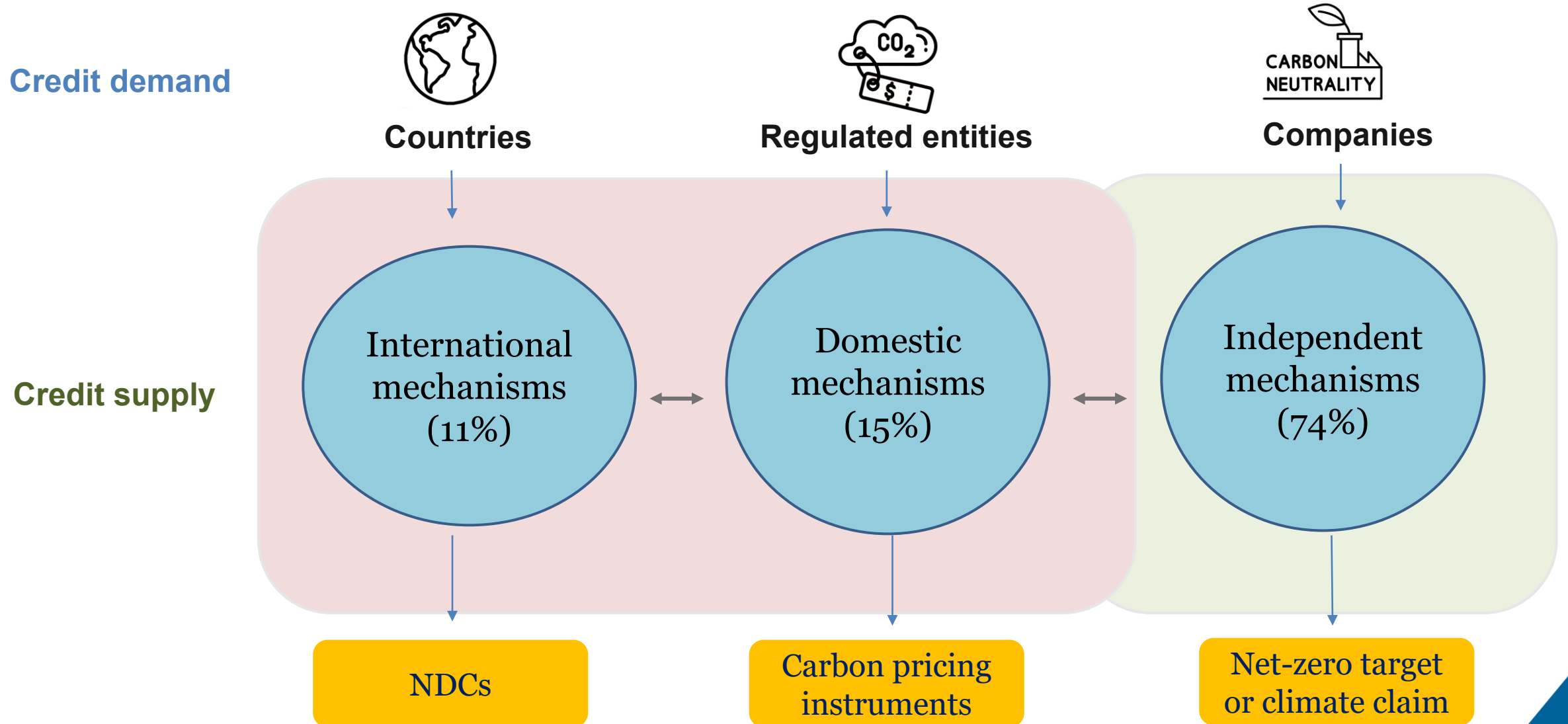
CARBON CREDIT MARKETS

OECD's work through the Carbon Market Platform:
www.oecd.org/environment/cc/carbon-market-platform

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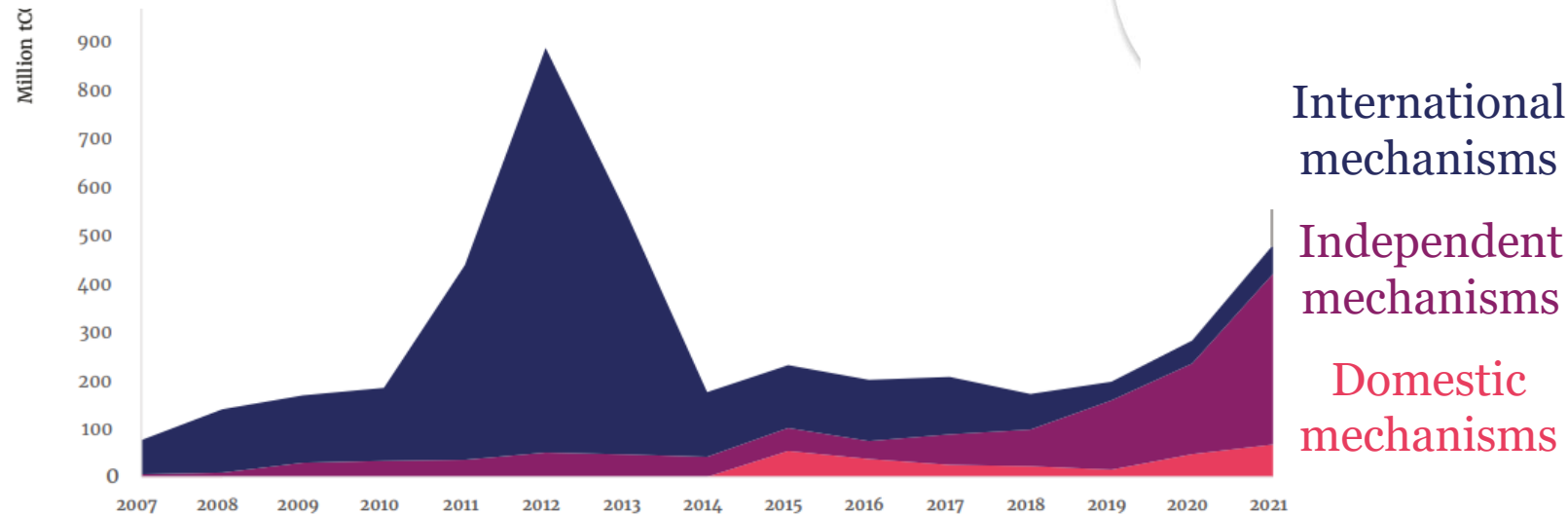
Both countries and companies can use carbon credits to deliver additional climate mitigation





Carbon credit markets have been a bumpy road

Global volume of issuances by crediting mechanisms category (MtCO₂e)



Early carbon markets

Clean Development Mechanism (CDM) led to a wave of compliance carbon market activity.

Continuity with Voluntary carbon markets

After CDM demand collapsed, voluntary carbon market (often modelled on CDM) grew

Towards a new carbon boom?

Following COP26 breakthrough on Article 6 and thousands of corporate net zero targets, many expect growth for both voluntary and compliance markets

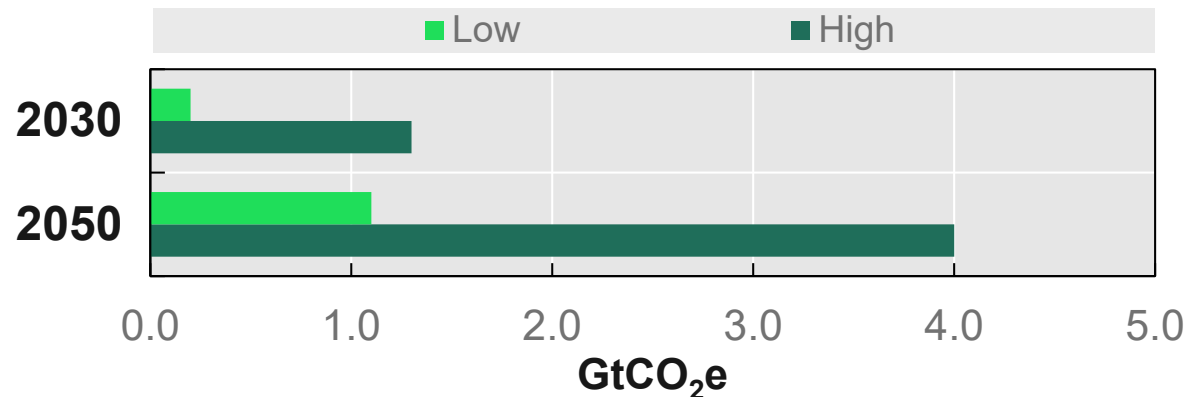


What's at stake for carbon credit markets?

Opportunities

- Huge potential growth in demand (corporate Net Zero commitments)
- Potential to mobilise finance for mitigation
- Could accelerate scalable mitigation actions where policy is insufficient

Forecasted corporate demand for carbon credits



Source: [Energy Transitions Commission, 2022](#)

Risks

Carbon credit markets also present risks:

- Lacking carbon credit quality
- Fragmented markets with limited governance
- Greenwashing concerns

Credit markets need to shift to removals over time to be compatible with net-zero.



Offsets and their integrity are getting public attention

Revealed: more than 90% of rainforest carbon offsets by biggest certifier are worthless, analysis shows

Investigation into Verra carbon standard finds most are 'phantom credits' and may worsen global heating

- 'Nowhere else to go': Alto Mayo, Peru, at centre of conservation row
- Greenwashing or a net zero necessity? Scientists on carbon offsetting
- Carbon offsets flawed but we are in a climate emergency



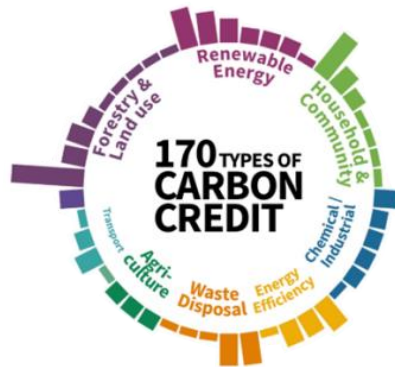
Concerns about voluntary carbon market integrity can damage confidence in global carbon credit markets overall.



A fragmented carbon credit market complicates efforts to improve environmental integrity

Project developers

Deliver emissions reductions by designing projects & selling credits



Crediting standards

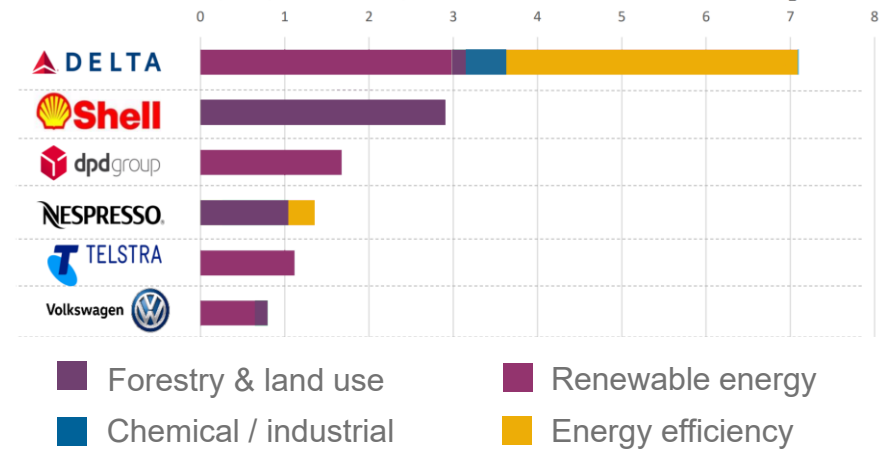
Set standards for carbon credit quality, host registries, issue and retire credits



Credit users

Credits are retired to meet an obligation or support a voluntary commitment / climate claim.

Credits retired by corporates in September 2022 (millions of tonnes CO₂e)



Source: [Trove Research, 2022](#)

Source: [Ecosystem Marketplace, 2022](#)

Credit supply

Credit demand



Multiple stakeholders are trying to improve environmental integrity in carbon markets



Governments

Market regulation & initiative orchestration



Credit supply

Credit demand



What are some possible core principles across carbon market environmental integrity initiatives?

Supply-side integrity

- **1 credit \leq 1 real tCO₂e** avoided / removed / reduced
- **Effective use** and **no double counting of CO₂ and \$**
- **Do no harm** to social and environmental objectives

Market integrity

- Reduce **information asymmetries**
- **Interoperable, liquid** and **standardised** markets
- Importance of **governance**

Demand-side integrity

- **Prioritise mitigation** over offset use
- **High-quality, uniquely claimed** credits
- **Claims** should be **credible**
- **Transparent reporting**

Credit supply

Credit demand



Considerations for G7 government engagement on carbon market integrity



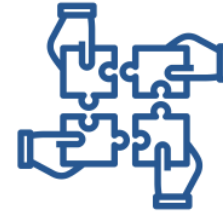
Carbon markets can **operate internationally** and are intertwined with both national and international policies → implications for public efforts to improve markets



Shared vision for carbon market integrity - spanning supply, demand and market integrity.



Clear pathway and timeline for how carbon markets can contribute to net-zero transitions.



Working together to limit further fragmentation of markets.



Targeted and proportionate government engagement.

→ *Forthcoming 2023 OECD / Carbon Market Platform analysis on the interplay between voluntary and compliance carbon markets*



Contact details

Thank you for your attention!

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