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Carbon Frontiers 2024 | Episode 7
Alexia Kelly, Managing Director of Carbon Policy and Markets Initiative, High Tide Foundation

This week on Carbon Frontiers 2024, we welcome Alexia Kelly into the SmarterMarkets™ studio. Alexia is Managing Director of Carbon Policy and Markets Initiative at the High Tide Foundation. David Greely sits down with Alexia to discuss how we can bridge the divide on ideas for what is the right theory of change that too often turns the carbon markets into a circular firing squad – and how we can find a way forward together with the required urgency for climate action.

Alexia Kelly (00s):
The unfortunate byproduct of a lot of this kind of theory of change in fighting that we have been seeing over the course of the last two years has resulted in less action and more paralysis, not more action and we need the opposite of that like we really need everyone doing what they can at whatever scale they can today, because the increments matter. As we're thinking about the temperature rise and how we shave, you know, tenths of degrees off this curve, that is really moving quite rapidly as we start to see some of these feedback loops.

Announcer (32s):
Welcome to SmarterMarkets, a weekly podcast featuring the icons and entrepreneurs of technology, commodities, and finance ranting on the inadequacies of our systems and riffing on ideas for how to solve them. Together we examine the questions: are we facing a crisis of information or a crisis of trust, and will building Smarter Markets be the antidote?
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David Greely (01m 12s):
Welcome back to Carbon Frontiers 2024 on Smarter Markets. I'm Dave Greely, Chief Economist at Abaxx Technologies. Our guest today is Alexia Kelly, Managing Director of Carbon Policy and Markets Initiative at High Tide Foundation. We will be discussing how we can bridge the divide on ideas on what is the right theory of change that too often turn the carbon markets into a circular firing squad, and how do we find a way forward together with the required urgency for climate action. Hello, Alexia. Welcome to SmarterMarkets.

Alexia Kelly (01m 46s):
Thanks for having me. Great to be here today.

David Greely (01m 48s):
Well, it's great to have you here. You know, I am just back from the Annual Financial Times Commodities Global Summit and Anne, and when it comes to carbon markets, the quality of carbon offsets remains at the center of the conversation, and in particular, what claims one can make when using a particular carbon offset as part of meeting one's carbon goals. And so I have been looking forward to discussing these issues with you as you've been deeply engaged on these issues and I was hoping to start us off for our audience. Could you share a little bit on your background and the areas where you are engaged in these issues?

Alexia Kelly (02m 25s):
Absolutely. Thanks for the invitation to join you here today. For those of you who haven't met me, I am Alex Kelly. I am the managing Director of the Carbon Policy and Markets Initiative at the High Tide Foundation. The High Tide Foundation is a private family office philanthropy focused exclusively on the climate crisis and we stood up the Carbon Policy and Markets Initiative a little over a year ago to really address what we saw as a widening divide between the urgency of action and what the science and civil society is telling us we need to do to address the climate crisis and where actors in the real economy actually are on both starting to think about changing business models to respond to the climate crisis and how we can start building bridges between those two viewpoints and perspectives and realities and so the work that we do is really focused on designing high quality rules of the road for corporate climate action, both through voluntary and regulatory means that deliver the highest standards of environmental integrity and work in the real world.

Alexia Kelly (03m 29s):
So that work is informed by my nearly two decades of experience working across the carbon accounting, carbon pricing and climate regulation space, including as the first regulator of greenhouse gases in the United States. A small program in Oregon that was administered by an independent qualified nonprofit called the Climate Trust. So these were the very early days of carbon markets and we were really just getting to the point where we were starting to mobilize resources, invest them in projects that mitigate carbon emissions. So everything from energy efficiency, improving renewable energy deployment, replanting forests, mitigating methane, there's a lot of different things we can do to mitigate climate change and the carbon market has really been the thing that has enabled us to start to develop methodology systems and approaches for quantifying and valuing the mitigation impacts these projects deliver. So spent a stint working on federal policy, worked for a number of years at the State Department as our lead negotiator on Article 6 or what became Article 6 at the United Nations, and then moved into the private sector as a buyer at Netflix where I oversaw our carbon markets portfolio as well as our internal decarbonization strategy.

David Greely (04m 53s):
And so let's get started. We can start talking about where we need to build some of these bridges. I think many people understand that there's a range of quality when it comes to carbon offsets and carbon reduction in removal projects that these aren't all the same. But with your background and your experience looking at us from so many different angles, where do you see as like the big issues in being able to assess and differentiate the quality of various carbon offsets and the claims that can be made when using them?

Alexia Kelly (05m 25s):
Yeah, it's a complicated set of issues that we are trying to tackle. As I mentioned before, there's a really wide variety of things that we do to mitigate climate change and we are still really in the early days of learning how to quantify and measure the impact of those mitigation actions that we're implementing across all sorts of different parts of the economy. This is still an evolving work in practice, but we have learned a lot over the last 20 years in implementing carbon pricing and carbon measurement systems through carbon markets, both in a voluntary context and in a regulatory context but what's emerged is that you need to be sure that the carbon credit represents the core environmental attributes that you need it to and these are what we call the core carbon principles in the Integrity Council for Voluntary Carbon Markets which we are deeply involved in and I will talk about in just a minute.

Alexia Kelly (06m 17s):
Those core carbon principles represent the basic attributes of the carbon credit that they need to have. So they need to be additional, they need to be, the project needs to be happening because of the incentive that the carbon market is providing or else there is no additional mitigation benefit to the atmosphere that we're seeing. They need to be permanent, which means that the emission reduction needs to be quantified and it needs to last in the atmosphere for a period of time that is meaningful for mitigating climate change. It needs to be measured, it needs to be independently verified. And so what we have done through the work of the Integrity Council for Voluntary Carbon Markets or the ICVCM is start to codify across the entire market what those core quality attributes look like, both from an offset quality perspective and also from a systems governance perspective and I can talk a little bit more about that momentarily, but really what's important to understand is that the work that's been done in the carbon markets to quantify the mitigation outcomes that are being implemented is not, I like to say they're not the worst. They just went first. So they are, they are the place where we have been really building the blueprint for mitigation measurement globally over the course of the last two decades. And we have learned a lot, but we still have a lot to learn because we are not very good yet at measuring data as precisely as we need it to be in order to really be sure that this whole market is delivering the impact that we need it to over time.

David Greely (07m 52s):
Yeah and I want to come back to you to talk more about the work at the ICVCM, but before that, I wanted to turn, 'cause there was a big disagreement in recent weeks over at SBTI, over the board of Trustees announcement that it plans to revise its corporate net zero standard to allow companies to use, you know, among other things carbon offsets to abate more of their scope three emissions and, you know, hearing you talk about it's very measured and what we are learning and quantitative and balancing. and it seems from my reading of the, at least the, the articles over what happened at SBTI, it's a little bit more absolute, like there's a big disagreement on whether they should be allowed at all. How are, how are you seeing that disagreement?

Alexia Kelly (08m 36s):
Yeah, it's a great question and obviously one that's top of mind for a lot of folks right now. I think the challenge that we are seeing play out in the environmental community more broadly are different theories of change and, and the tension that we hold in trying to allocate the mitigation money pie equally or equitably among all of the different competing needs for mitigating climate change. So

the IPCC could not be clearer that there is five things we need to do between now and 2030 to avert the worst impacts of climate change. We need to massively scale renewable energy. We need to address what we call high global warming potential gases. So things like methane and HFCs. We need to improve and stop forest management and stop for a deforestation in tropical forests. And we need to improve the way in which we produce food and manage our food systems.

Alexia Kelly (09m 31s):
Those are pretty tall orders. Many of those touch supply chains, company supply chains, but many of them don't and so the fight that's been playing out in the environmental community is due companies who have taken on voluntary science-based targets need to deliver all of the emission reductions to make progress towards that target from inside of their supply chains or can they be allowed to use a certain portion of credits from outside their supply chains and one camp says, no, no you know, if we don't get companies to spend the money and do the hard work to decarbonize it, their supply chains and the expensive work to decarbonize their supply chains, like we are not going to solve this problem, right because we have to transition away from this fossil fuel based economy as quickly as we possibly can. The other camp says we hang on from the perspective of the atmosphere and mitigating climate change, it doesn't actually matter where the emission reduction comes from as long as it's real and valid, right.

Alexia Kelly (10m 33s):
And it's measured and so a ton reduced, you know, by a forest or removed by a forest is actually no better from the atmosphere's perspective than a ton that you avoid by using a lower carbon fuel source, for example and so what we're seeing, it's turned into almost a Holy war at this point of sort of warring ideologies around what the right theory of change is to address the climate crisis and so the, the board, I think announcement and then the subsequent fur at SBTI and around this announcement really points to the tension in the environmental community right now about which theory of change is best or right. And from my perspective, they are both right like we need to do all of these things and we need to do them simultaneously, but we also need to recognize that there are gonna be limits to both the level and degree of decarbonization that companies are gonna be able to drive with it in their supply chains.

Alexia Kelly (11m 34s):
And the fact that we have urgent mitigation priorities per the science outside of value chains and in nature that need financing. And so since we are trying in the United States to shove all climate action into the voluntary action construct, you know, we are just gonna have to find a compromised solution hopefully that enables us to keep companies delivering those deep supply chain decarbonization systems and approaches and, and technologies while also mobilizing the, frankly, you know, billions and trillions of dollars that are required in order to save nature and restore nature and stabilize life on the planet. So it's a real conundrum and it's a real and honest and legitimate debate that we are having that doesn't necessarily have a right answer at the end of the day. It's just going to be where can we get the most folks aligned around a common landing zone.

David Greely (12n 25s):
Yeah, and I would love to ask you a little bit more about the nature of that disagreement. I mean, I am an economist by training, so I am like, if it takes a ton out of the atmosphere, it takes a ton outta the atmosphere. You got to make sure it does it, but otherwise just do it in the most cost effective way. I found your, your, your phrase, you know, holy war. Interesting because I think for people who do have a little bit more of that markets perspective, you know, when they hear, oh you have to do it in inside your own emissions first, it has a certain like moralizing tone, like you almost need to suffer a little bit or it's not really making progress but I don't know if that's fair. So I wanted to ask you know, you talk to people on both sides, is it because I could understand people saying, well we need to keep the pressure on because the nature of the, the action we have to make is so big that we just need people focusing on their own supply chains. Is that what's happening or if someone was really on the side of we can't allow any offsets, what would their argument to a more market minded person be, do you think?

Alexia Kelly (13m 26s):
Well, I think the argument that I hear from folks who are really focused on within value chain decarbonization strategies is that there is a cost benefit to getting these technologies going now and we really found that to be true actually at Netflix. We know when we were doing our decarbonization work there, we use a lot of diesel vehicles in productions and a lot of generators and it was really difficult to find alternatives to those that were not fossil based and so what, what I was finding is that we were needing to do a lot of, you know, first run technology testing. We had to do a lot of investment in what I call enabling infrastructure. So getting EV charging stations deployed, which by the way doesn't deliver direct emission reductions that I could count in any visible way, but was absolutely essential to getting the technology scaled.

Alexia Kelly (14m 16s):
That was expensive, it was time consuming, it was slow and it was really necessary. Like we need companies to be engaging, especially the climate leaders because they tend to be the richer companies who are more dedicated and are gonna be willing to build that. You know, I don't know how many people work on sustainability at Microsoft, but it's hundreds, right and like it's an enormous investment, but it's critically important because if we don't have anyone to buy those first of a kind very technology forward or newer technology technologies, we are not going to get there. So, you know, we need the Microsofts of the world who are gonna be willing to pay the 250 or $800 a ton for sustainable aviation fuels and the only reason they are doing that, to be honest, is because they want to be able to reflect that investment towards their scope three mitigation targets.

Alexia Kelly (15m 05s):
So that's the one hand, on the other hand, if you care about, and you know, if we want to think about an orderly and cost-effective transition that also delivers our biggest climate, you know, bang for buck as quickly as possible, then you want to look at forest conservation in developing countries because our marginal cost of abatement in those places is exceedingly low right like methane is another example where our marginal cost of abatement for a ton of emissions from methane, which by the way helps also buy us time and avert climate catastrophe is incredibly low as low as a dollar or two per ton in many instances and so my hope is that we can come up with a framework that enables us to balance both of those that you have to deliver, you know, a proportion or a sign, a significant proportion of your reductions from within value chain reductions. But you can also and are encouraged to meet the rest of your target with high quality carbon credits that meet a rigorous set of safeguards and criteria.

David Greely (16m 08s):
Well thank you for sharing that perspective. I shouldn't have asked you to be a spokesperson for an entire group of people, but it is helpful to kind of see how other people are looking at it when in you are in so many of these conversations, maybe I will turn to where you're more directly involved, which is the ICVCM and they also hit a big milestone recently with the release of the first program approvals and core carbon principle labels for carbon offsets. I was hoping you might be able to take us into, you know, exactly what's happened and why is it important for the carbon markets.

Alexia Kelly (16m 40s):
Yeah, thanks and the Integrity Council for Voluntary Carbon Markets came out of something called the task force for scaling voluntary carbon markets and just the name change is a good indicator of kind of where we are in this moment in time with this market. But Mark Carney and Bill Gates and Bill Winters got together about three or four years ago and we are looking at, you know, we were at the beginning of net zero transition. A bunch of companies were getting ready to mobilize resources and they said, huh, you know, this pricing carbon thing, interesting idea, clearly we are going to need a market-based solution to help scale that and deliver it more quickly. They started looking around the carbon market and said, oh boy, this is not structured in any way. Like what we would need a capital market to be structured. Like there is no standardized contracts everything is over the counter, you know, all of the trading is very opaque.

Alexia Kelly (17m 26s):
There is no transparency, the regulators, there is no regulation, it's all very fragmented there is a trust deficit. There is bad news stories coming every week. Like we should probably try and figure out how we organize this a little bit better. So they stood up the task force in I want to say 2000 and was it 2021? 2020? I think it was 2020 and since then we have been, it's now morphed into a standalone independent entity and what we have done is brought together kind of the leading experts from around the world on carbon markets who have been working in these markets for the last 20 years to write a new rule book and that new rule book sets a threshold benchmark standard for carbon crediting programs to ensure that if I purchase an emission reduction credit or a carbon credit I can be sure if it has that what we call the core carbon principle label, that it's a high integrity unit and it's following the best available kind of science that we have and the best methodologies.

Alexia Kelly (18m 29s):
And so what we are doing is systematically working through all of the independent registries that exist in the market today, looking at their governance systems and so there is a two-step approval process. First a program has to apply as a CCP eligible program, which means they come to us and they say, here is our governance, here is our transparency systems, here is how we manage our validation and verification bodies and systems. Here is our ongoing MRV, here is how our registries work and we look at all that and we say, does it meet our requirements in the rule book yes or no? If so, then you get the CCP eligible label. We just announced the first three programs a couple of weeks ago. That's the gold standard, the American Carbon Registry and the Climate Action Reserve and then we will be

announcing the next set of programs shortly and after that and concurrently we are also evaluating 98% of the methodologies in the credits in the market for conformance with are those, those quality requirements that are more individually specific.

Alexia Kelly (19m 31s):
So the core carbon principles is the permanent additional reel. We have a whole set of rules in the rule book about what you need to do to deliver on those and so we are actually going methodology by methodology across the market and making sure that those conform, so what'll happen is CCP eligible programs will be allowed to issue the CCP credit label and so you will know that if there is a CCP labeled credit on any of these registries that they meet that high threshold benchmark. Hopefully that made sense. There is a lot there and we are doing a really comprehensive sweep of kind of everything all of the methodologies in the legacy market and then do also doing a bunch of work to really start looking forward in terms of what work needs to happen across the market through what we're calling our continuous improvement work programs, which I am happy to tell you more about.

David Greely (20m 22s):
Yeah, and I think continuous improvements an interesting piece that I want to dig into with you a little bit but first, you know, when thinking about that high threshold, I mean clearly I am sure in the methodologies that will receive the label, some will exceed that threshold by more than others. How do you think about where to set that threshold?

Alexia Kelly (20m 43s):
Well we have been thinking about it a lot and it turns out that it's not straightforward, as I mentioned and sort of going back to the beginning of our conversation, there is a lot of different ways that you can mitigate climate change and what we do in the carbon market is we take those activities and we develop ways to measure them and quantify them and then package them so that the end result is one ton of carbon that's been mitigated, right? Typically metric tons and those metric tons represent a metric ton of emission reductions or removals that are represented in the atmosphere and have an impact on the atmosphere and so ideally it's fungible, right? If I buy a one ton of credits from a forest mitigation project, the impact on the atmosphere is the same as if I'm buying one ton of mitigation from a methane destruction project.

Alexia Kelly (21m 36s):
That fungibility is really what underpins the basis of the carbon market and in our mind is the value of, you know, creating the system. Because if you think about capital market mobilization, right? They don't want to have to think about, oh this credit over here is worth three of this other credit and how do we sort of put that all together and make it make it work and so the goal is really to have that uniform threshold standard that enables us to say with confidence that this ton over here as is as good as this ton over there and it all sort of comes out in the wash from an environmental perspective regardless of the underlying project type but this is an evolving space. We do not have all the data that we need. We don't necessarily always have the science as mature as we would like it to be in terms of like, this is the right oxidation factor for methane in soil.

Alexia Kelly (22m 30s):
For example, you know, if you're accrediting in a methane like you get into and like this is the uptake of soil carbon in Kenya grasslands versus the American grasslands and like, you know, what are the differences there and how do tropical and temperate forests differ in their carbon sequestration rates like it's an enormously complex set of data and information we are trying to integrate into, you know, methodologies that we then write and direct the flows of, you know, what we hope will eventually be trillions of dollars into mitigation globally. So it's never gonna be perfect and we don't need it to be perfect, but we do need it to be as good as it can possibly be given the science of the day and kind of the methodologies that we've collectively agreed to.

David Greely (23m 13s):
Yeah, and you have brought up that notion of time a few times that we are learning that this was the beginning, that it's the best available science as of the time. I am curious, when you look across methodologies, whether it's for ones that meet the threshold, those who fall below the threshold, is there an element of time to it that some methodologies that might have been fine in their time, we have just learned more and now they wouldn't make it.

Alexia Kelly (23m 37s):
Totally and you know, it's interesting because what we are finding, you know, we have a lot of experts whose job it is full-time to look at the carbon market and the existing methodologies and sort of opine on how well they think they are doing in reflecting the science and what we have been finding is that actually the market is working the way you would want it to work, which is that you issue a

methodology, you execute the methodology, you know, it gets implemented out in the world. People find the loopholes, they exploit the loopholes, which is what, you know, where a lot of this bad press that we have been seeing comes and then the standards make updates to the methodologies and so just like the IRS and the tax code we know that there is always going to be people who cheat on their taxes, right .Like that's just not something that you can avoid in the world..

Alexia Kelly (24m 26s):
As a regulator your job is not to make sure that no one ever cheats on the taxes. Your job is to make sure that you have adequate enforcement capacity in place and that when loopholes are identified, you are closing them and the cover market has actually been doing a good job of that over time. Whereas the methodologist, you know, we will have as many as like 16 different versions of a methodology now that's been updated and implemented over the course of the last few years. You have to balance that though with the needs of the capital markets, right. You can't be updating and changing all of the rules of the road every year because that's too hard for the capital to keep up with. and so what we want is a systematic, orderly and organized approach to updating and integrating science that is changing very rapidly, especially in the natural sciences space on, on a regular basis so that you are representing the best of the scientific information that we have available, but recognizing that that's always gonna be changing and evolving and improving.

David Greely (25m 24s):
Yeah, that's great and I wanted to ask you one more question, not on time, but probably on the time and the debates that it took to get to the core carbon principles and the labels, which is when you look at what's needed for what it comes to assessing the quality of carbon offsets and the claims made with them, what issues do you think have been sorted out and there is reasonable consensus on and what do you see as some of the big issues that still remain?

Alexia Kelly (25m 49s):
The ICVCM deal specifically with supply and the goal you know, the goal of the ICVCM is to really make sure that any credit that carries the label represents that best current scientific understanding and kind of rigorous approaches to market governance and oversight in a space that is still largely governed by, you know, under-resourced nonprofits in US. We certainly have not seen regulators step into the degree that we would like them to. I worked on, you know, the US's last attempt to pass comprehensive climate legislation in 2010 when I was at the World Resources Institute. None of us thought that that would be our last bite at the Apple but you know, the Biden administration's approach with the inflation reduction act I think is a pretty good illustration of just how far we are in the US politically from having a uniform price on carbon or any kind of real cap and trade program or system where we are imposing regulatory reductions through compliance instruments.

Alexia Kelly (26m 48s):
And so we really are, I think for the foreseeable future, still in a world where we need to use voluntary programs underpinned by these new disclosure regulations, which we will talk about in a minute, you know, to drive the decarbonization of our economy. So that set of work I think is very much ongoing. The claim side, you know, is where the fight is right now still and that is, you know, we talked about that a little bit with the science-based targets initiative, new announcement. There is a number of other places where kind of the issue of claims is playing out. Some of that is actually in the emerging disclosure regulations that are underway in both the EU and in the US. So what does it mean to make a credible net zero claim and can you say you are carbon neutral or not and if you do say those things, you know what are you pointing to that says, I followed the rules when I am making this claim out there.

Alexia Kelly (27m 43s):
The Voluntary Carbon Markets Integrity initiative or VCMI was also stood up to help regulate on a voluntary basis the claims that companies might be making related to the use of their of carbon credits. So I sit on the expert advisory group for VCMI and it's been really interesting to kind of work through, okay, you know, if we want companies to be delivering these deep internal supply chain reductions as we just discussed, what else can we do to incentivize them to do more and to purchase offsets and so that whole alphabet soup of kind of claims guidance that's emerging still has some work and some road to travel. I think until we have a really clear like, yep, this is the thing, we all agree it's the right thing and it is striking the right balance between conservativeness and attention on supply chain decarbonization and mobilization of resources for those broader IPCC identified mitigation priorities between now and 2030, 2040, 2050.

David Greely (28m 45s):
In addition to the work being done by the ICVCMI and the VCMI and standards organizations and governments, what do you think carbon market participants, you know, whether it's the corporations or the project developers, the financiers or the traders, what can they do to help contribute to resolving some of these issues?

Alexia Kelly (29m 05s):
Yeah, there's a few different, I think places where folks can helpfully lend their voices, representatives of capital. So whether that's institutional capital, venture capital, impact capital, speaking more vocally about what they need to see in order to mobilize their resources into these markets you know, strong demand signals, clear rules of the road for engagement, you know, transparent and liquid kind of trading platforms and infrastructure like those pieces, having those voices come into the conversation in a more organized and consistent fashion I think will be really helpful and then also I think just engaging anything you do in the carbon markets, be very transparent about it. If you are a buyer, you know, disclose what you are buying and the new disclosure regulations that have just been announced really change the game, the rules of the game significantly for what disclosure is going to look like with respect to both voluntary carbon market activity and your sort of emissions profile more broadly. So lots to come on that front here in the next little bit and how we connect this all into a coherent architecture that mobilizes corporate climate action I think is still very much a work in progress.

David Greely (30m 18s):
And you, you mentioned earlier, you know, going back to the task force on scaling the voluntary carbon markets that came out of the idea that, you know, when people looked at carbon markets and the capital markets around them, they didn't have what was needed to get them to scale and I am curious, when you look at them today, what do you see as what do we need to get investment in carbon reductions and removals at the scale we need, with the speed we need like where do you see the gaps?

Alexia Kelly (30m 45s):
I think there's a lot of gaps ideally, and the thing we need the most, I think is comprehensive regulation and carbon pricing and as many places as quickly as we possibly can we are not going to be able to meet the day in terms of rapid system decarbonization globally absent a really strong price on carbon and we are seeing more places put carbon pricing policies in place. I see the voluntary carbon market as a carbon pricing kind of gap filler to be honest it enables us to start putting a price on the externality that is mostly just ignored kind of in everyone's business models today. So that's the first thing that needs to change. We need countries to be delivering on the emissions cuts that they have pledged under the Paris Agreement through implementation of their international commitments called nationally determined contributions and in the US where we are heavily reliant on voluntary action as we have been discussing, we really need strong guidance and frameworks that get companies committed and moving as quickly as humanly possible.

Alexia Kelly (31m 47s):
So un the unfortunate byproduct of a lot of this kind of theory of change in fighting that we've been seeing over the course of the last two years has resulted in less action and more paralysis, not more action and we need the opposite of that. Like we really need everyone doing what they can at whatever scale they can today because the increments matter as we are thinking about the temperature rise and how we shave, you know, tens of degrees off this curve, that is really moving quite rapidly as we start to see some of these feedback loops. So getting those systems in place is enormously important and making it simple and beneficial both financially and socially for companies to take action is absolutely necessary. We need to give them carrots and not just sticks.

David Greely (32m 37s):
Yeah, you are making me think with, with this idea of learning and the fact that we need to go through this process of actually doing things before we learn what works and what doesn't and we can improve and we can drive down costs. It's interesting because it sounds like on one side of the conversation with the folks that don't want to use carbon markets, there is the notion of well you going to be doing the hard decarbonization because that's the only way we are really going to learn how to do it. We will put the money into it and we will drive down the costs, we will get better and we will get scale but then on the market side, as you said, like most of the methodologies we use today kind of came out of voluntary carbon markets and that's kind of been an incubator. So there's also like the how do we learn how to do different things, maybe the voluntary carbon markets where we start to do those and we learn how and we figure out what works and we improve. Maybe there's room on both sides to push that forward.

Alexia Kelly (33m 26s):
Yeah, just one quick point on that I think one of the things that we have seen is actually this really interesting sort of synergy between compliance and voluntary markets. So a lot of the voluntary carbon market standards actually pulled methodologies from the clean development mechanism, which was the offsetting program that was set up under the Kyoto Protocol, the first go in having an international regime for climate change, which the US ultimately pulled out of but we did stand up a whole international architecture around a carbon market and an offsetting program through the clean development mechanism. Those have fed into the voluntary market and now are sort of starting to feed back into the UN six four process article six process as well California, likewise, California's program started out mostly as voluntary and has actually emerged into regulatory. So they set up their disclosure registry and their first offset standards in the early two thousands that then informed and became the basis for what is now kind of the leading cap and trade and carbon regulation system in the world that covers almost all of the economy within California. So really nice opportunity for synergy if we design the systems and feedback loops correctly.

David Greely (34m 3s9):
Yeah, and when you think about that, you know, going forward, how do you think about the voluntary carbon markets and say the Article 6 markets that will emerge under the Paris agreement, do you expect that they will converge at some point or is there gonna be a, an ongoing role for both?

Alexia Kelly (34m 57s):
I see a future where they act in really highly complimentary ways. So it's important to remember that everything under the Paris Agreement is voluntary. It is an internationally legally binding treaty, but countries really have the full sort of right to design and implement their mitigation plans and policies in whatever way works best for them. That's why they are called nationally determined contributions because they are determined by each of the nation states and then just the UN is really informed of what those plans and programs look like. Certainly not an ideal system, but it's the one that we were able to negotiate and bring kind of the whole world along. So China and India and the United States and Europe have all taken different approaches to how they are planning to contribute to Paris, but we will see kind of over time how that actually rolls out. There is no enforcement mechanism in the Paris agreement like there was under Kyoto unfortunately.

Alexia Kelly (35m 57s):
That said Article 6 is really important piece of all of that and Article 6 is the article in the Paris Agreement that enables and sort of recognizes that countries may wish to engage in international emissions trading to help them deliver their nationally determined contributions. Countries can use markets as much or as little as they want. Some countries have said, yes, we are very interested in this and it actually comes back to the kind of marginal cost of abatement that we talked about before. So a country like Japan, which has an incredibly efficient economy and has invested heavily in decarbonizing lots of parts of its economy, right, their marginal cost of abatement now to deliver those extra reductions is quite high and so they say actually we think economically it makes more sense for us to invest in markets to help drive deep decarbonization in markets where there's a shortage of finance and our marginal cost of abatement is lower.

Alexia Kelly (36m 52s):
It's a very economically rational way to approach it. Europe has decided to go another direction, which is that they really want to focus a lot of their reductions internally and has really been the world leader forever in establishing strong regulatory frameworks to sort of navigate this decarbonization glide path and their carbon price hit I think over a hundred euro a ton recently through their cap and trade program, which has been in effect now for the better part of 20 years and is working very effectively to decrease. But they finally just implemented a carbon border adjustment mechanism, which is basically a tax on imported goods because the rest of the world is not doing enough and the carbon price is not getting increased, it's not increasing quickly enough and so they finally said, look guys, this is starting to hurt our domestic economy, like we're gonna have to level the playing field somehow. Definitely not an optimal or orderly way to go about this problem but it's going to be really interesting geopolitically to see how all of this kind of voluntary quasi regulatory infrastructure starts to play out. So Article 6 is gonna be really central to that because it helps set the rules for how you trade emissions internationally and how you are counting those towards your reduction targets.

David Greely (38m 08s):
And I wanted to ask you about the regulatory piece because between the policymakers and you know, the markets, you have the regulators and they are increasingly weighing in on these issues as well, including both the SEC and the United States with more disclosure rules and the CFTC and I am curious, like where do you see the regulators in all this and where do they need to be?

Alexia Kelly (38m 28s):
Yeah, it's really, it's an important question. They are increasingly paying more attention, I think to the voluntary carbon market in particular. So I don't know if you saw that the, the CFTC issued guidance around the derivatives markets and how that might work and what best practice there is. They actually did point to the work of the Integrity Council for voluntary carbon markets in that document. IOSCO similarly just released kind of good practice financial market guidance. So these are voluntary kind of guidance documents that the regulators are starting to put out there but I think there is increasing regulatory interest in this set of issues as we seek to put a price on carbon and really start to scale that more broadly and integrate it into mainstream economy, economic decision making processes. The thing that I am really quite excited about actually is the SEC Disclosure Regulations because those will mainstream climate change impact assessment.

Alexia Kelly (39m 26s):
So thinking about adaptation and resilience as well as provides much more robust disclosure requirements around greenhouse gas emissions and the things that companies are doing to address their emissions if they are. So there is now new regulation requiring that companies disclose targets if you have them report annually on progress towards those targets, which companies mostly do now through what they call their ESG reports and those reports, you know, every company does them a little differently. They're not standardized like there really is no uniform way in which the private sector is reporting their climate action and progress and so I think the SEC is gonna drive both a much higher level of attention from the c-suite on these issues within companies, while also helping us to start to build out that kind of scaffolding of systematic and aligned and harmonized reporting infrastructure that's going to enable this market to start to behave more like an organized market and less like the very kind of haphazard you know, market that it's been to date.

Alexia Kelly (40m 32s):
So there is a lot of work that needs to happen between now and the next, you know, say two years to align the alphabet soup of voluntary oversight mechanisms that have sort of stepped into the breach of regulation and start to think about, okay, how does that then relate to the SEC requirements, the European Union just passed comprehensive corporate disclosure reporting rules in the UK just issued new net zero transition guidance. So what does that look like? So there is a lot of moving pieces globally that will want to be keeping attention on and working to connect the dots across so that we can make it easier for companies to take action, not harder.

David Greely (41m 14s):
Well first I want to thank you so much for all your perspectives on all these moving pieces and how they connect, but before I let you go, you know, I want to come back to this idea of continuous improvement and kind of perpetual improvement because I think in, in criticism of the voluntary carbon markets, it often feels like the example of the perfect being the enemy of the good, but we can't wait for the perfect, we don't have time and we won't get better without getting to work now, but how do we define what's, you know, good enough for now with a process in place to get better so we don't stay stuck where we are and maybe even more importantly, how do we get agreement on that so we can move forward and make meaningful progress?

Alexia Kelly (41m 59s):
Yeah, thanks so much Dave. So from our perspective, the work of the ICVCM is actually really important for understanding what that good enough looks like, right It's that threshold criteria and benchmark for core quality across the market and we have also launched something under the ICVCM called the continuous improvement work programs. Those continuous improvement work programs are those places where that continuous improvement really happens. It's the place where we bring the market together to have a conversation around how do we build aligned and harmonized systems and approaches to both inform the next iteration of our rule book called the assessment framework and also to align on what are the things the market needs to do broadly. So we are looking at issues like permanence, like Paris alignment, like increasing social safeguards requirements, which the I-C-B-C-M has significantly raised the bar on, and really making sure that we have a clear and predictable process for integrating these learnings and improving the market over time.

Alexia Kelly (42m 58s):
The other big thing that I hope happens very soon is that we need to call off the circular firing squad in the environmental community and align around a path forward that enables us to get companies moving as quickly as possible. We are making progress on bending the emissions curves so it's not all gloom and doom. The energy transition is well underway and it's happening rapidly and the economics are definitely trending in the right direction on that and decarbonizing the energy sector is one of the most fundamentally important things we need to do to address the climate crisis. And it underpins most of the rest of the net zero economy but we really

need to come together around a good enough framework that gets companies moving and get us a point of directionally in the right direction because emissions are still rising on a global basis and so we really need to get everyone working to bend that emissions curve downward as quickly and as efficiently as we possibly can in a complimentary fashion, while also holding companies accountable and making sure that they are contributing in meaningful ways to delivering the climate change impacts and outcomes that we know are so essential to solving this crisis.

David Greely (44m 10s):
Thanks again to Alexia Kelly, Managing Director Carbon Policy and Markets Initiative at High Tide Foundation. We hope you enjoyed the episode. We will be back next week with another episode of Carbon Frontiers 2024. We hope you will join us.

Announcer (44m 25s):
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