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**Markets in Transition | Episode 3**
**Dirk Forrister, President & CEO, International Emissions Trading Association (IETA)**

**This week on *Markets in Transition*, we welcome Dirk Forrister back into the SmarterMarkets™ studio. Dirk is President & CEO of the International Emissions Trading Association (IETA). David Greely sits down with Dirk to discuss the transitions happening in the carbon markets – from analog to digital, voluntary to compliance, and OECD to global – as we head into IETA's North America Climate Summit 2024 this week in New York City.**

**Dirk Forrister (00s):**

We are transitioning our economies to a more sustainable path and markets are just a tool for doing that. But I think they are probably the most powerful tool that we have because it's the way that businesses invest.

**Announcer (16s):**

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 (59s):**

Welcome back to Markets in Transition on SmarterMarkets. I'm Dave Greely, Chief Economist at Abaxx Technologies. Our guest today is Dirk Forrister, President and CEO of IETA. We will be discussing the transitions happening in the carbon markets from analog to digital, voluntary to compliance and OECD to global as we head into IETA's North America Climate Summit 2024 this week in New York City. Hello Dirk. Welcome back to SmarterMarkets.

**Dirk Forrister (01m 27s):**

Thank you David. It's great to be back with you.

**David Greely (01m 29s):**

It's really good to have you here back on the eve of your annual IETA North America Climate Summit this week in New York City. It's a great time to catch up because you know last year when we talked the voluntary carbon markets were reeling from a number of attacks in the press, most notably the articles in The Guardian and thought it could be good to start off today just kind of getting your sense of how has the industry responded over the past year and how would you describe the state of the carbon markets this year?

**Dirk Forrister (01m 57s):**

There's been a lot of effort on the meta standards that are emerging that provide a threshold of quality and integrity for the existing carbon crediting standards and all of them are, are the major ones are participating in this effort to kind of make upgrades and improvements that will hopefully instill more public confidence and investor confidence and that's been really the name of the game, both on the claims side with the voluntary Carbon Market Integrity Initiative and on the credit quality side, which is the Integrity Council for the Voluntary Carbon Market. And I think we at IETA have also put forward our own vision that encourages companies to kind of get past some of the squabbles and science-based target initiative and things like that and our view is we care about the planet, we care about results and we care about getting on with it. And we believe that it's going to be important for keeping costs down and expanding the array of tools and techniques available. It's gonna be important for markets to work globally and so it's kind of getting time to get on with it, learn from past mistakes, be humble about, yes, we've always got room to improve but we shouldn't let that slow us down.

**David Greely** (03m 10s):

And how difficult do you find it to find that practical middle ground amongst people that want to, you know, improve and get on with it because a lot of course of what most people hear is in the press or social media and that tends to be a little bit more extreme than reality often is. So how challenging has it been?

**Dirk Forrister** (03m 29s):

I mean it definitely has been challenging in the purely voluntary space, but we are also in an era where there's a convergence of voluntary and compliance where some of the same crediting standards that are used in the voluntary market will be used in we think in aviation with the course program run by the International Civil Aviation Organization. Similarly, some of those are used in state programs like in California. So the tools and techniques that the voluntary market has developed and experimented with and learned lessons from will be available to countries to use in their own compliance regimes and I guess David, I probably said this last year, but to put it all in context, the voluntary market last year paused it was worth less than a billion dollars in value. Like so it wasn't even a billion, right, whereas the compliance markets, just the auctioning volumes were over a hundred.

**Dirk Forrister** (04m 25s):

And if you looked at the kind of trading value that's more like in the \$700-\$800 billion. So the real action and the real scale is happening in the compliance market. So you should throw everything under the bus for a few voluntary projects that had challenges. Let's step back and look at what's really important, which is getting the workhorse of carbon markets fully operational around the world. And we live an exciting time there where Europe is starting a whole second ETS that's bigger than the first one that's gonna cover transport emissions and emissions associated with the built environment. So a massive undertaking that's already adopted and in law and we are going to be starting to see the implementation of that move forward as the European commission's new leadership gets into place. Similarly, China has recently announced the expansion of TTS from just the power sector, which by the way is bigger than the entire EUETS, right, they are expanding from the power sector to add additional sectors in steel, aluminum, cement. That's some of the usual suspects and that's a really positive development that we are starting to see the coverage expand, which has been one of our goals in IETA and I think many of our friends in government share that desire to expand the coverage so that we get more companies in on the act of reducing emissions using markets.

**David Greely** (05m 51s):

And I know IETA has had a number of important initiatives on its own and with partners this year. So I wanted to ask you, how is IETA working with its members to continue to use carbon markets to drive that climate action forward?

**Dirk Forrister** (06m 03s):

So we are organized geographically and in cross-cutting initiatives because some areas of work cut across all jurisdictions and I think some of the hot topics right now are these topics of expansion. Certainly the topics associated with trade restrictions that are coming into force, like the European carbon border adjustment mechanism that's raised the attention in many new jurisdictions. So we are much more active in India and in Indonesia and in Turkey because there are new compliance systems being built to reflect what's going on, how the import export market of regular goods are going to be impacted by the CBAN. Use examples mostly in Asia and Europe, but if you look to South America, same things are underway in Brazil and Columbia in Mexico. So I just think it's a vibrant period of change and we're trying to prioritize like everyone, but also recognize that at the same time that we're dealing with policy design and jurisdictions, that there are also market tools that need to be shaped up for a new era.

**Dirk Forrister** (07m 15s):

And those include like model contracts, those include research work with UNIDROIT on the legal nature of carbon credits because that's going to be important for scaling investment in the future and so we have been deeply involved in that one. We are involved in data infrastructure with the World Bank and the government of Singapore and the climate action data trust that's trying to bring common data standards forward so that the carbon registries of the future can all talk to each other and avoid double counting. So we are about to start a new dialogue series focused on insurance because there is some new insurance products needed in carbon markets to deal with some of the uncertainties that are emerging, including some of the sovereign risk associated with government policies that can affect carbon credit. So there is no shortage of things to work on. And I guess this is probably given you a little thumbnail of some of the things we are going to talk about in New York because we are trying to kind of embrace change in all of its different elements all in the space of about three days.

**David Greely** (08m 18s):

Well I do want to ask you about New York, but I wanted to go back on a couple things that you just brought up first, if that's okay with you. The geographic expansion of the countries you are working with I find really interesting. You know, I think often a lot of the carbon market conversation is too much centered in the US Europe. When you are talking with folks in India, in South America in Turkey, what sort of mindset are they bringing to the carbon markets and how does it maybe contrast or be similar to what we would see in the US or Europe?

**Dirk Forrister** (08m 48s):

First of all, I think they are serious about using the markets for their own purposes and reducing emissions and enabling more effective NDCs. The national targets that they submit under the Paris agreement nationally determined contribution. I think that's job number one. Second thing is that I find it generally pretty refreshing to see governments that are interested in learning from businesses, what is working in other jurisdictions, what's been the experience other places, how the business forms around the policy that is being developed and that's one advantage that we have in IETA that we have been around 25 years. So in a number of ways we've seen this movie before, right, of trying to sort of develop a market that's attuned to particular local concerns, local challenges, but can also feed into an international market. I would say that the third thing I would say about it is we are certainly urging them to think about and to build out frameworks for use of Article 6 so that they are intentional about how they may be able to increase ambition through use of Article 6 international markets, not just voluntary by the way.

**Dirk Forrister** (09m 59s):

Our vision is that we want compliance markets to embrace those same international trading tools. But right now I think a lot of the focus is on domestic frameworks at a national level in these new markets, be it India, be it Indonesia, Vietnam, I think it's framework time, Chile one that's been leading and I think has a very interesting framework that it's been working on. So I think for us and EITA, we want solid, reliable, and familiar frameworks so that it's not different everywhere you go, but I think they are starting to see some patterns emerge that will be conducive to inspiring more climate action in these places.

**David Greely** (10m 38s):

When you look at some of those patterns and the opportunities, I was curious, what do you see currently as the big challenges to the use of carbon markets by your members, whether they're in these growth areas or you know, US and Europe?

**Dirk Forrister** (10m 51s):

I think the lack of clarity on compliance markets, including in the OECD, on how countries are going to embrace international markets, that's really the biggest concern. So when you see the spotlight shift over to the voluntary market, that's because companies in those jurisdictions recognize that long term they are likely to need engagement in international markets. For reductions for removals, kind of all of the above. If we are serious about solving the climate challenge and sometimes I wonder if policy makers feel the urgency or are they that serious? I think they are generally serious. It's just that the politics around it can get so complicated. But really I think my members are, they are ready to get on with it. That honest truth is, or you have a compliance market design that's clear and stable, you will stimulate a lot more investment as a general rule than if you sort of hang back and wait to see what the voluntary market can accomplish for you. I think it's better to have the compliance market first and the voluntary market that supplements and broadens the level of activity rather than putting all the pressure on the little tiny voluntary market that really has been there for a long time for learning and for gaining experience and only recently that has kind of come into the spotlight of, I think some of the critics think maybe it is the compliance market of the future and I don't know, I still think we shouldn't give up on laws and regulations where they make sense.

**David Greely** (12m 18s):

Yeah, and I think often the critics tend to see markets as part of the problem rather than part of the solution and I am curious if you were able to talk to people with that perspective, what would you like them to understand about your member strategy on climate action and how carbon markets fit into it?

**Dirk Forrister** (12m 34s):

There is going to be a recognition it's a hard job. This is not something that's just going to be simple and easy and that actually you need corporates on side to actually deliver net zero. It's not going to happen just by government efforts. I think it depends on which critic you talk to. Like I think some are well-meaning and intentional about looking for better ways, but some of them, if you look back at the research they have done or the stories that they have written, they have never done anything positive on any topic. They are just

cranks. Every market has its cranks, we have ours. But I hope that more shift into the legitimate category of we truly want the same thing in the end, right. We want to see results that actually help to solve the problem. That's what we want. I think as long as we have sort of like a, a shared understanding about what the ultimate goal is, we ought to be able to find a way to work together going forward. But I am not always sure when I'm talking to somebody from the other side if they share that goal.

**David Greely** (13m 30s):

And I know, you know, mentioned a little bit earlier EITA's vision and last year we talked about it a little bit when you were on the podcast, but I wanted to ask you, you know, if you could talk to us a moment about EITA's vision for the carbon markets in particular. How has that changed or evolved over the past year, if at all?

**Dirk Forrister** (13m 48s):

Our vision starts with the science of IPCC science, which is about achieving a balance of the concept of net zero kind of comes out of IPCC science and with Paris alignment, which also it's like we don't pick and choose articles in the Paris agreement that we like or don't like. We take it as a whole. I think the principle embedded in it is that we will get further faster together by working cross borders, cross sectors and stimulating business and engagement, which is the kind of thing, I mean let's face it, businesses cooperate through markets, that's what markets are and so turning all of that to the benefit of the climate is what our vision is and our vision is that we don't have money to waste, we don't have time to waste that. We really do feel the urgency of getting on with the job of delivering net zero goals that are safe for our planet. So there is a lot of sub elements to that, right, but I would say the broad vision is meaningful targets that decline to net zero. I am a business, you know, business group saying that we support binding legal targets that decline to net zero that are in line with the Paris agreement and in line with IPCC science and that's saying something because in the time that I have been working on this issue, I have heard much skepticism from economic actors on whether they really want that. But that is what we want

**David Greely** (15m 16s):

And that's a big statement. So I am going to gonna repeat it because there is not many business groups that would say we want binding legal targets on us. Usually it's the opposite. So I think it's a really, it's something people need to take in, which I think is probably a good point to turn to the conference itself. So IETA's annual North America Climate Summit this year, 2024 in New York City. I am looking forward to it. So I wanted to ask you if maybe give us a little preview, you know, what's on the agenda this year and what will your members be talking about?

**Dirk Forrister** (15m 44s):

It's a really impressive agenda because it's trying to, certainly some inspirational leaders there with us. Like John Podesta, President Biden's top climate advisor at the White House and an old friend is coming to address us along with the winters, the CEO of Standard Chartered who has been a, a real visionary and the financial community and then we are taking stock of all of the compliance markets in North America, some throughout the Americas. So you will get the latest and greatest on how carbon pricing systems are evolving from California to New England and across Canada and Mexico. We are also devoting a fair amount of attention to some of those building blocks that I talked about earlier that are, you know, kind of the next wave of activities, be it in insurance products or the legal nature topic, carbon credits, some of the work on infrastructure associated with registries and kind of the tracking of credits.

**Dirk Forrister** (16m 40s):

Certainly the voluntary market topics that cut across many countries because where we don't have those binding targets that decline to net zero, companies are stepping forward and doing their own through voluntary markets. So we are going to take stock again of developments in that sphere, including efforts to digitize some of the carbon crediting standards and to move more toward digitized registry solutions. So it's a really phenomenal kind of end-to-end agenda that I think has something for everybody. Whether you're a compliance entity that has a big emissions problem to solve, whether you're a financier that's looking to get involved in helping finance the transition, whether you're NGOs that care about a just transition or certainly the service provider industry that is there to support activities wherever they may assist around the world with project development or deal structuring or financial structures. So I think it's got something for everybody.

**David Greely** (17m 40s):

Certainly sounds like it and I want to come back to the one point you made about discussing the legal nature of credits because when I think about that in the context of this continued global expansion, right? There is lots of legal systems, many countries, is that part of the conversation? Like trying to get a common legal framework for the credits?

**Dirk Forrister** (17m 59s):

First of all I should say we are participating in that unit draw process is one of the international institutions that supports private markets and private market frameworks and they are doing some sort of cutting edge work on this. Although a Senate could look at it and say 30 years on and we haven't figured out the legal nature, but it's partly because in compliance systems it's treated a little different, you know, under different types of law. There's been a long history in the United States that environmental assets are kind of an intangible property, right, but they are not a full on property. The reason for that is that we have a constitutional challenge related to takings, well I am a lawyer but if the takings topic is one where if the government takes something from you, they have to compensate for it, right, so if you look at an initial allowance allocation like we did in SO2, that's going to decline.

**Dirk Forrister** (18m 54s):

It's going to get less and less every year. We don't want to have to face challenges about whether the government's taking something and has to pay you. Instead you are the one that has to clean up and pay right. So that's an esoteric legal concept that in the US has some constitutional implications. Whereas I think in other fields governments have defined it as a financial instrument. I think that intangible property right is one of the leading approaches that is used. These frameworks will matter, particularly when we do more cross-border trade and when we're looking to collateralize loans and things like that, using carbon credits to kind of know what you're actually holding. So stay tuned. That report we think will be only added you Toro and for all of the lawyers on the line, I am sure it will be enjoyable beach reading that helps to ground the growth of markets in solid legal understandings.

**David Greely** (19m 47s):

I hope there's an executive summary for all of us non-lawyers. You had also brought up some of the interesting developments that are happening or coming in compliance markets, particularly in the US California, the Northeast and the US New York state. What developments have you been following most closely?

**Dirk Forrister** (20m 04s):

Well, I think the extension of the programs and how deep the cuts go, how fast, that's one fundamental piece of it. Also in particular in California they have utilized carbon credits as a way of expanding the action zone to sectors that aren't covered and largely that's been for agriculture forests, things like that but some cost mitigation. I always think about it as broaden the political support for it because everybody can get into the act whether you're covered by the program or not. What that looks like in the future is an area that's being retooled. There's also been some legislation on green claims that's both in California and in Europe where frankly some of the provisions that were floated were unworkable and would chill investment where you don't really want to chill, you want to provide clarity and encourage more. Those will continue to work on as they evolve.

**Dirk Forrister** (20m 58s):

Those topics tend to cut across compliance and voluntary markets, but they do matter for the kind of future health of carbon markets. I should also mention that we are also watching very closely to see what the commodity Future Trading Commission does in its final issuance. I think they have got a meeting, a public meeting this week on it. So I'm sure that'll be talked about a bit next week. But their approach I think has been pretty constructive in terms of what they proposed. But everybody's interested to see what the final guidance would look like because that tends to influence how a trading desk in a big company would approach transactions in the carbon market. You want to make sure you are in compliance. As a general rule, I think the CFTC has recognized that this is likely to be a lot of the players in carbon markets will be players that are already under CFTC oversight for other energy commodities for example. So having parallel structure on the environment side can be useful.

**David Greely** (22m 00s):

One other thing I wanted to ask you about was, I saw IETA has done some work on nature-based solutions and of course the debate rages on between technology based removals and nature-based reductions. And I was just curious, what's IETA's perspective on that debate and how are you thinking about it?

**Dirk Forrister** (22m 17s):

Well you know, we've done a lot of research on Article 6 in particular and how it can enable greater ambition. And one of the things that taught us is you need both. If you ignore the nature side and you don't invest in it and you just go to technology, first of all you will be entering the market at the high end of the cost but also the mitigation potential in nature. It's not just going to happen anyway. It needs financial support and so those emissions go up and you are like pushing the balloon at one side, but it's coming out in another spot. So you need both. I think we try not to be dogmatic about either, although it's another area where we think that the compliance systems



that have recognized nature-based credits have stimulated the greatest amounts of investment because of the policy certainty around and California be a great example, Alberta be a great example. We're seeing more action in Australia. We're hoping that other compliance markets recognize that power, that it's important to include nature, but you have also going to have a vision for how technology removals are going to come in and help you along the way as well. It's gonna be a long journey. We are going to need all of this.

**Dirk Forrister** (23m 30s):

When you take a step back and look at all the different debates and points of contention are there certain issues that you're like, I'd really like to get our members aligned on this. I would like to find common ground on this or that? Are there any that stick out to you?

**Dirk Forrister** (23m 47s):

I think the challenge right now is the voluntary markets softening has been troublesome because I mean we have got some members that are like, don't lose focus, it's compliance markets that are the future, right, but there is another set of players that are like, I'll say, especially in the US right. Where we don't have enough policy around it doesn't look like we are going to have a federal market anytime soon. I mean we would like to see that change, but right now the politics, you're not hearing much discussion of it in the election debates that are focused on cats and dogs, right? It's like we are somehow the US is losing the plot on some of the things that really matter, like climate change. Ultimately I think the voluntary market in the US it can help make up for the shortcomings of what the federal government's able to do right now.

**Dirk Forrister** (24m 39s):

But more importantly, maybe it can help pave the way so that there is more experience gained and policy makers can lean on that experience in the future in designing a federal program. That's what we would like to see. But I would say that in terms of the divisions inside our membership, we disagree every day to be frank. People in carbon markets are not of one mind. That's part of the beauty of it is there's a diversity of views we learn from each other and when we can find agreement, it's super powerful, right, so we strive to do that, but I sometimes describe it that to layman as why would we agree on everything. It's impossible for carbon traders to agree on everything because on any given day, one guy thinks it's a good time to sell and another guy thinks it's a good time to buy fundamentally different they both support the deal, right at the end of the day and so we got room for diversity of views and learning and hopefully the goal is to deliver at the end of the day to help it help make it possible for companies to deliver net zero.

**David Greely** (25m 45s):

And I know sometimes it can feel like in the carbon markets we're discussing the same things that we discussed many times in the past. But I was curious, are there some new things happening in the carbon markets today that you think are really worth noting, worth people being aware of?

**Dirk Forrister** (25m 59s):

I think the news on digitization are important because I think that we are poised for kind of a revolution in how it's the skunk works in a way, right, the plumbing of a mixing metaphor, it's the infrastructure that undergirds that, that a lot of the registry systems that we benefit from for the last 20 years are all going through their own metamorphosis toward digitization and I think those kind of tools I would point to the climate action data trust, which we've been involved in with the World Bank and the government of Singapore. Just getting all of the registry systems to use the same kind of template on how reports or how carbon credits are registered, what fields of information are included in a Blockchain environment. You have got the ability to include a lot more and for those that are doing deals to have a lot more clarity as they're doing due diligence on exactly what's in this credit, what am I buying, what methodologies being used and upstream of that.

**Dirk Forrister** (27m 03s):

I know that some of the registry standards are working on their own plans for how you upload your data so that you are not emailing a PDF, you are online entering the data directly in digital format. So I think we have got such efficiencies to be gained and you know, the ability to in flow coming to our markets maybe, but it's gonna, I think, really improve public confidence and investor confidence because of the ease in accessing the information. So I am excited about some of those trends, but I think my members would probably say, yeah, yeah, that's important. But what's really cool is that India is planning to adopt a national carbon trading program or that China is expanding its program that Brazil has legislation pending, and there will be a regulatory process evolving hopefully over the next year on exactly how that program is gonna work at a national level and will it connect internationally and turkey has got one, you know, under development because of their trade ties with the EU that they are really serious about. These are jurisdictions that I

have been knocking on these doors for 10 years, 12 years, some of them I was knocking on their door when I was in government in the Clinton administration and now they're, they're not asking the delay questions, they are asking the let's get on with it questions, which I just think is phenomenal that we kind of reach this point.

**David Greely** (28m 31s):

This is phenomenal and I am really looking forward to the North America Climate Summit this week. Hearing all these things being discussed amongst all your members, hearing who disagrees with who and who agrees. Before I let you go, I had one last question for you though. You know, we are calling this podcast series Markets in Transition and I was curious, do you see the carbon markets as being in transition? And if so, where do you think they need to transition to? You know, what do they need to become?

**Dirk Forrister** (28m 57s):

I think they are transitioning from analog to digital as I was describing, from voluntary to compliance from OECD only to a global market. I think there is a transition underway, but I also think that what's undergirding all of that is a bigger transition, right? It's the transition of whole energy sector, the whole agriculture sector. We are transitioning our economies to a more sustainable path and markets are just a tool for doing that. But I think they're probably the most powerful tool that we have because it's the way that businesses invest. So I think we're poised for really great things as long as the political will is there for actually solving the climate problem. Because I think when politicians get really serious about it, they're gonna turn to what works for business so that they can really engage and really invest at scale and deliver the transition, and that's where markets will come in.

**David Greely** (29m 58s):

Thanks again to Dirk Forrister, President and CEO of IETA. We hope you enjoyed the episode. We will be back next week with another episode of Markets in Transition. We hope you'll join us.

**Announcer** (30:11):

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