

SM139 | 9.16.2023**The September Sessions | Episode 2****Dirk Forrister, President & CEO, International Emissions Trading Association (IETA)**

This week on The September Sessions, we welcome Dirk Forrister into the SmarterMarkets™ studio. Dirk is the President and CEO of the International Emissions Trading Association (IETA). SmarterMarkets™ host David Greely sits down with Dirk to discuss how IETA and its members are viewing the world's evolving carbon markets and net zero landscape on the eve of their North America Climate Summit this week in New York City.

Dirk Forrister (00m 00s):

The honest truth is when you look around the globe, especially in North America and the US, the odds of getting binding federal legislation anytime soon look pretty daunting. Therefore, you really need corporates to step up and fill the gap, and that's what I hope we are able to do with the voluntary carbon market, is turn it in a really positive direction so that it can scale up and perhaps operate at a scale equivalent to what some of the mandatory markets are doing.

Announcer (29s):

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David Greely (01m 09s):

Welcome back to the September sessions on SmarterMarkets. I'm Dave Greely, Chief Economist at Abaxx Technologies. Our guest today is Dirk Forrister, President and CEO at IETA, International Emissions Trading Association. We'll be discussing how IETA and its members are viewing the world's evolving carbon markets and net zero landscape on the eve of their North America Climate Summit this week in New York City. Hello, Dirk. Welcome to SmarterMarkets.

Dirk Forrister (01m 36s):

Thanks, David. Good to be with you.

David Greely (01m 39s):

Well, really glad you could join us, and I feel like it's perfect timing because IETA is hosting their North America Climate Summit 2023 this coming week in New York City, and you know, clearly a lot has happened in the carbon markets this year in particular, I'm thinking of the turmoil and the voluntary carbon markets. So I wanted to ask you, heading into your annual gathering, what are your members focused on this year and what are the important issues for them?

Dirk Forrister (02m 07s):

Well, I did think overall companies are remaining committed to the Paris goals of achieving net zero emissions as quickly as possible. Carbon markets are a vehicle for doing that because they allow you to cooperate across sectors and across international borders. So it really enables companies from the private sector to speed up their engagement in climate change and accomplish more just because the efficiencies are there. So right now, I think we're gonna focus this first and foremost on market developments across the Americas. A number of carbon market designs at a state level or provincial level, or in the Canadian example we've got examples of nature-based solutions being defined at a federal level. So we're gonna take stock of all of those developments in the, in the compliance markets, which are really the core of carbon markets. But you're right to point out that voluntary markets have been getting a lot of attention because of the potential of bringing additional private sector investment to the, the broader goals of the Paris Agreement.

Dirk Forrister (03m 11s):

And in that arena, lot of developments around setting a threshold standard, which the Integrity Council for the voluntary carbon market is doing. That threshold standard will help to define the best of the best of the credits available through the independent

crediting standards that have grown up to serve the voluntary carbon market. So we're gonna take stock of all of those developments and of the guidance from the voluntary Carbon Market Integrity Initiative, which is the one aimed at corporate uses and use cases, that kind of thing and I think there's a lot of enthusiasm because people are looking across the fall and they know we've got an important COP coming up in the Middle East in, in Dubai in late November. And it's gonna be an opportunity to really showcase what we hope is a turning of a page to a new chapter for voluntary carbon markets to offer even more than they have in the past to the, to the greater good.

David Greely (04m 06s):

And I wanted to ask you, because there are so many markets around the world, both compliance and voluntary, what markets are most important to your members and given the need to get financing and investment into carbon projects throughout the world, where do they find it most important that new markets emerge?

Dirk Forrister (04m 25s):

Well, I think the markets that get the most attention are the bigger ones, right. Like China, just because of its sheer size and its early days still in the China ETS, but it's so big that people pay attention to it but more importantly, the European carbon market, because it has the highest pricing for most of this year, it's been between \$80 and a \$100 US. So it's material for European energy companies and heavy industry that are covered by the program. It's getting more serious because the parliament has agreed to tighten the caps down even more to be aligned better to Paris goals, but they've also adopted a second e t s that doubles the coverage and that second one is covering all of the emissions from buildings and road transport. So the European markets definitely get their share of focus and then if I scope back, you know, it's it has to be said that the new ones are, the new kids on the block always get some attention, whether it's Washington, Oregon or whether it's new markets that are in development to serve the South African market or markets in development in Indonesia and India. So there's a lot of really interesting policy work underway all around the world and as frankly as countries get more serious about their Paris goals and as they think about what kind of contributions they wanna elicit from private sector.

David Greely (05m 50s):

And I'm curious, clearly the European system is the most advanced compliance market that we see around the world. Do you see other countries looking to copy or emulate that model or are they taking a different path?

Dirk Forrister (06m 05s):

Actually, we do see that. What I find is having worked on carbon markets for around 20 years that each one builds on the last one, right. So each time a new market design comes forward, it builds on the experience of the existing market. So yeah, Europe was kind of the first out, but it learned from the UK that was out a little bit earlier than the EU and then California learned from the EU and South Korea has learned from the EU. So I think they all kind of learn from each other as they evolve because they have to fit the local business culture, the local political structure, you know, fit in a in a local legal regime. All of those things are, involve some slight variations, but at their core, most of them have this kind these pretty common simple elements of what a cap and trade is of regulatory cap and a bit of compliance flexibility on how, how you deliver your commitment.

David Greely (07m 07s):

And I wanted to turn from a few minutes to the conference itself. What is on the agenda this year and what will your members be talking about this week?

Dirk Forrister (07m 16s):

Well, there's a little bit for everybody. I think we are I think gonna be hearing from the leadership of the, the commodity future trading commission on how regulators are looking at voluntary carbon markets. That'll be one extremely interesting thing. I think the US federal government is trying to make progress on a new type of crediting standard for energy transition. So for moving off of fossil fuels and toward cleaner burning fuels we're hoping to get some updates on that and then we'll just survey what's going on all across the, the, the Americas in terms of market developments and a, a strong component of voluntary carbon markets and how they can add potential investment to what governments are bringing to the table. So that's, it's only two days and it's part of a week long active set of activities of climate week in New York, but we just think it's so important to get some focus and to get some of the key players together so that the magic can start to happen of, of the creative sparks that people get off of working together.

David Greely (08m 18s):

Yeah and I realize a lot of this will come out of people working together and having those conversations, but I wanted to get maybe your early take, if you could put some of what we're seeing in the voluntary carbon markets this year into context are your members seeing it as an existential thing a evolutionary thing. Where do you think we go from here on the voluntary side?

Dirk Forrister (08m 38s):

Well, I think, I think in terms of perspective, if you look back at last year's numbers, I think the mandatory markets or the compliance markets were something on the order of 90 billion in size and the voluntary was just right around 2 billion. So it gets this outside focus, and I'm not really sure why, because it is all to the good you know, mobilizing additional resources for climate mitigation but, you know, I think the public wants to hold the voluntary carbon market to high standards, and I think people are up for that and we're gonna go through a, a bit of a transformation, but at the end of the day, it still seems to be the strongest policy approach for mobilizing private capital. The other approach is like the US is using you know, federal incentives, but not many governments can replicate that level of spend in their economies, especially poor countries.

Dirk Forrister (09m 34s):

So the likelihood is that they're gonna turn to corporates for what they're able to do, either in a regulatory system, a compliance system for carbon using a carbon market maybe, or through voluntary commitments. Some countries are looking at whether they can get their corporate big corporate emitters just to sign up to get on with it, as opposed to, you know, trying to get legislation passed. For my members, we will always prefer legal systems that are set in stone that are clear and reliable, and that are aimed at net zero because of the certainty they provide, right, but the honest truth is when you look around the globe, especially in North America and the US, the odds of getting binding federal legislation anytime soon, look pretty daunting. Therefore, you really need corporates to step up and fill the gap and that's what I hope we're able to do with the voluntary carbon market, is turn it in in a really positive direction so that it can scale up and perhaps operate at a scale equivalent to what some of the mandatory markets are doing.

David Greely (10m 42s):

Yeah, and I'd love to dig into that with you a little bit more because as you said, you've been doing this 20 years, IETA been around since I believe 1999, working to establish a, a functional international framework for trading greenhouse gas emissions reductions and, you know, it's so easy in these markets to get lost in the details, in the nuances of different approaches. I was hoping you might be able to kind of give us that 35,000 foot perspective of what is IETA's vision for that type of functional international framework you know, what's the vision for the carbon markets that you would put forward?

Dirk Forrister (11m 18s):

Well, I think in as many places as possible, we would like to see legal regimes in place that set declining caps to net zero, but that acknowledge the role of removals gradually over time but at the beginning, a lot of, there's a lot of emission reductions that or the potential emission reductions that are not happening because they don't have investments. So in the early stage, there still needs to be quite a role for bringing in the extra reductions that are needed, but I think our vision is that this is at the beginning of IETA there was a thought that you get disparate systems that eventually converge over time in a single global market but I think what we learned in, in the course of the Kyoto protocol is that maybe what ties things together are these carbon credits that can be recognized from jurisdiction to jurisdiction as opposed to how many direct linkages you have. But our preference, the direct linkage is the most efficient and it'll stimulate the best investment. That's still the, the route we'd like to pursue and we'd definitely like to see the nature-based side of things mature more because of the enormous potential for balancing out the remaining sources with nature-based credits, but I think also the technology side's gonna come along really quickly because the need is there and the corporate investment is going to be there. I think because I think it's growing rapidly.

David Greely (12m 48s):

It's interesting that you, you know, said back in the Kyoto days, there was the, the view that we would converge to kind of a global cap and trade, because like many things in the carbon markets, I think there's probably a view now that people think that that's the path we'll take and kind of some hope that by aligning with the Paris agreement and the carbon markets created by Article 6.2 and 6.4, that might be a path. I was curious, you know, your thoughts on the markets created by six two and six four and how they fit or you think maybe might not fit with the vision you have?

Dirk Forrister (13m 23s):

Well, I think they fit because the, sort of the gist of Article 6.2 is that countries that want to cooperate together on getting to their net zero goals are free to do so as long as they account for the emissions mitigation and the trades properly. So for private sector people, that's music to our ears. We don't want any funny business, we don't want counterfeit entering the system. We don't want double counting. So we've been extremely supportive of that and I think the great thing about Article 6.2 is that it leaves the countries the sovereign right to decide for themselves whether they want to link up with others or not, whether they want to pursue a joint approach or whether they want to go it alone. The economic modeling work that we've done with the University of Maryland says that if you do cooperate with others, if everybody worked together on this most important problem that we're facing on the planet today, that you could cut the cost in half or achieve twice as much another way of thinking about it for a given level of investment.

Dirk Forrister (14m 31s):

So who wouldn't want that, you want these systems to work well so that they can really accelerate the investment. You ask about 6.4, and I think 6.4 is gonna be an important part of the fabric. Now, for the uninitiated, this is a part of Article 6 of the Paris Agreement, and Article 6 is all about how cooperation works between countries as they achieve their goals. But 6.4 gives countries an option of going to through a UN program to get credits approved and issued. So they'll have a UN seal of approval on them, and they can be used through 6.2 honestly reported, right, as one of the supply lines you could say for, for those that really want to accelerate their efforts to, to reach net zero. So 6.4 I think is potentially hugely valuable because of that reach, because any country can access it and because it's got a strong amount of buy-in behind it, the problem it has is like a lot of UN efforts, it's kind of slow and methodical, right. So right now under 6.2, you can use the voluntary crediting programs, you can use the Gold Standard Vera, ACR car, you can use these in your international program as some countries are doing and get on with it while you wait for the UN to catch up and I think that's really part of the design of Article 6 was to make sure that countries had every choice available to them in terms of how they utilize markets as long as they're honest in the reporting of it.

David Greely (16m 04s):

And you had mentioned earlier that we need that corporate money to continue to flow into the, the carbon projects for reductions and removals around the world. And I was curious in your vision for the carbon markets, how do you see the role of corporates and the role of countries and how do you see that differentiated and how do you see them working together?

Dirk Forrister (16m 25s):

Well, I think as we move forward in time and more legal regimes get put into place that there'll be more requirements on corporates than there are today. Like I think that will be a steady march of sort of regulatory coverage from corporates. But when you're talking about how to get to net zero, zero is a really hard number a lot of countries know how they're gonna get to 90, minus 50 or minus 55 or 60, but getting all the way to zero, that is difficult. That is hugely expensive and that's where we're really gonna have to have the cooperation. So I think my thesis is that governments are gonna devolve responsibility to corporates for their, at least for their direct emissions and maybe for other scopes, but at least for their direct emissions but they're gonna end up needing to allow them to cooperate across borders to keep the costs in check. So that would be the vision that you've got a kind of an amalgam of programs, voluntary and compliance, but maybe they recognize the same pool of high quality credits produced by either independent standards or the six two standard. But that pretty those standards are all using kind of common metrics. So it's really about who's efficient and being able to into kind of routine, and kind of clarity and simplicity. I think this market can really take off and will need to in order to achieve the net zero goals.

David Greely (17m 57s):

And you know, we said that IETA been working on this for, I guess it's going on about 24 years, almost a quarter of a century through the ups and downs of the, the carbon markets and I was curious if you could kind of take a bit of a step back with the historical lens and talk us through where do you see the successes over the time and what were some of the challenges?

Dirk Forrister (18m 18s):

Right. Well, I think as I look back over time, one thing that's important to keep in mind is the attention on voluntary. Right now it's partly important because all of the carbon markets started as voluntary experiments, really in every jurisdiction there were some pioneering companies that went out and tried things and when I think back when I first started in the market, which was more like 25 years ago, back then we didn't have independent standards. We didn't have independent verification companies that had been authorized to do independent verification. We didn't have a private registry that could register a project and issue credits. This was all sort of developed on the back of companies that were willing to step forward and kind of experiment with it and put out, you know,

best case scenarios of how they thought the crediting should work, drawing on academic experience or NGO partnerships or whatever, and to look at where it's gone over 25 years.

Dirk Forrister (19m 21s):

So that it is the dominant approach around the planet for mobilizing private capital into climate action is carbon market. Now, that's a combination of voluntary and compliance, but it's been a huge success. The first big success was getting the EU to agree to legislative program, and the next was having the Kyoto protocol actually inter force and be able to produce credits. We learned so much in that era that it's now put us in a really advantageous position for the hard part, which still lies ahead of us. Like it's really gonna get interesting in the next decade as we're seeing what, how close to net zero we can get and how fast we can get there.

David Greely (20m 04s):

And I really appreciate that approach you know, experiment, learn and evolve, which seems to be the way of markets and when I look at the, the carbon markets and over the past couple of years, it seems like there's, you know, many people with that attitude pushing ahead and then there are some who are kind of expecting that the answer will somehow be handed down and it'll be the perfect answer as opposed to, you know, we just to got to move forward, we to learn, we got to adapt in the spirit of learning and adapting. I'm curious, where do you see the focus needing to be next?

Dirk Forrister (20m 34s):

Well, I think all of this focus on voluntary has in a sense, taken the camera off of the guys that really ought to be on the hot seat, and that's government officials that have obligations for how their country is gonna meet its contribution level and that's where I think the action is. It's gonna be really exciting to learn how different countries want to use Article 6 for achieving greater ambitions and if nobody uses it, if it's just gonna sit there, then it's gonna turn into a pretty boring story. The excitement is gonna be as a country, like whether it's South Africa or Chile or Columbia or Senegal or Ghana as they come forward and say, this is how we're gonna approach it, these are the things that we're gonna use for our NDC, these are the credits that we think we've got surplus that we would be willing to give authorization for export and trading. We're gonna start seeing a lot of that come to life in the next five years and I think that's gonna take a lot of the mystery off of it and put the attention back where it belongs on the governmental programs. It's the governments that have the commitments to Paris, right. We need those structures. So I'm really excited about seeing how all that comes together.

David Greely (21m 47s):

And I find that such a unique conversation and such a, such an unexpected point in a way, right. Where you could step back and look at a e a and say, okay, it's a corporate group, but now you typically don't expect those to be looking for governments to create regulation, and in a sense, moving to cap and trade, it creates that So it, I'm just curious, like how, how do your members see this?

Dirk Forrister (22m 10s):

Well, I mean, we have specialists across our membership in virtually every niche you can imagine in carbon markets or clean energy. So there are innovators and risk takers and people that have big balance sheets and people that have tiny balance sheets, but they're all committed to this common purpose of making markets work for climate change you know, when you really step back from it, what a notion this is, that you could turn the ability to reduce an emission into something you could get paid for, that's a good thing that's turns it into an asset that makes the corporate official think this is valuable, right. This is a valuable thing that we can do and I think that is how, that's how markets need to transform, is so that they can recognize that emission reductions are a good thing that's worthy of investment as opposed to, well, the, the dirty little secret is, without the caps, without the regulation, you can omit as much as you want for free. That's the way markets shouldn't work. You ought to be paying for an encouraging investment in emission reductions and removals. And that's the potential that these, these markets as quirky and technical as they can get at the end of the day. That's the holy grail is are they actually working to drive emission reductions faster than what happened otherwise.

David Greely (23m 35s):

And you know, as we wrap up, you had brought up, of course we've got COP 28 coming at the end of the year. You had mentioned the focus needing to be on the government and government officials kind of get them in the hot seat. So I wanted to ask you, what work do you see needing to get done at COP 28 if we're gonna continue to make that meaningful progress that we need to make?

Dirk Forrister (23m 57s):

So the main event is gonna be around the global stock take and that's the negotiator's efforts to look across what all the commitments are and how big is the gap, what more can we do together, right and so in a sense, the market element is subservient to that broader goal, right. So I think that's gonna be the headlines of the COP is around the global stock taking, what are we gonna do about it and carbon markets are an enabler of additional action and so what we'll be looking at is there's always a negotiating agenda for Article 6, for continuing the work program for how it's gonna get implemented this time. I know that they asked the supervisory body to get its systems up and running and to come back with guidance on how they want to approach removals and so there are some market elements that we're eager to learn where the negotiations land on.

Dirk Forrister (24m 51s):

But to your point in, in your question, that's only half of the story. Maybe it's less than half the real story at COP is what all of the countries are saying in their opening statements or in their pavilions and then the various side events that occur on how they're intending to use Article 6 and what are they, what is their national approach gonna be last year, I wasn't expecting to see as much as we got on that because Glasgow was, you know, still less than a year old that we got the breakthroughs on Article six in Glasgow and yet as you walked around the, the zone where all the national pavilions were country after country has events on what they're thinking on Article 6. So that's really the exciting part, I think, is about how countries want to use the flexibilities and the honest reporting and good accounting provisions that they've got in Article 6 to accelerate their work on climate change.

David Greely (25m 51s):

Thanks again to Dirk Forrister, President and CEO at IETA, International Emissions Trading Association. We hope you enjoyed the episode. Please join us next week when our guest will be Erik Townsend, host of Macro Voices. We'll be discussing his new documentary series *Energy Transition Crisis*. We hope you'll join us.

Announcer (26m 11s):

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