



“Paris-aligned Carbon Markets” as per the Paris Agreement¹

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The role of the voluntary carbon market

The German Federal Government is striving for a **uniform CO₂ price at global level**, in order to foster progress on international climate action. At the European and national levels, emissions are already subject to carbon pricing under the European Union Emissions Trading System (EU ETS) and the national emissions trading system. The German Federal Government has been actively campaigning for many years for the **expansion** of carbon pricing schemes to additional countries and sectors, and the **harmonisation** of these schemes. Germany supports countries as they develop and implement such instruments.

In addition to national carbon pricing systems, there are **complementary carbon markets** at international level that can contribute to **decarbonisation** and **green growth** efforts and help reduce the **investment gap** that exists for climate change mitigation. These notably include the international carbon market, which is being regulated under Article 6 of the Paris Agreement, and the voluntary carbon market that allows private stakeholders to obtain carbon credits on a voluntary basis.

For these markets it is highly important to ensure the environmental and social integrity, which requires solid standards. The robust implementation of the Article 6 rule book of the Paris Agreement will be essential for a positive impact and for harnessing the potential of international carbon markets. This needs to be complemented by high standards of integrity for voluntary carbon markets, to be developed and applied in a harmonised manner.

The German Federal Government’s position is that the use of international carbon markets must be based on an **interplay of market players focused on achieving the objectives of the Paris Agreement**. It should raise global ambitions and make progress on the necessary transformation required for net greenhouse gas neutrality. This requires that certain **qualitative requirements** are met on the demand and supply sides of the market. These include:

¹ This position paper was coordinated with the Federal Foreign Office, the Federal Ministry of Finance, the Federal Ministry for the Environment, Nature Conservation, Nuclear Safety and Consumer Protection, the Federal Ministry for Economic Cooperation and Development. Date: 28 November 2024

- **Supply side:** The generated mitigation credits must come from a high-quality certification system; emission reductions must be additional²; go beyond the host country's own committed mitigation contributions; and ensure correct accounting, permanence and environmental and social integrity.
- **Demand side:** The use of the voluntary carbon market should not replace or delay companies' efforts to reduce emissions. To ensure this, companies and organisations are advised to develop and implement science-based, robust climate action strategies to reduce their own emissions in the short- and long-term. Companies can use national or international carbon credits for compensation, mainly of emissions that are hard to avoid.

Within the European Union the EU ETS applies to emission reduction obligations of companies. This scheme currently rules out the use of carbon credits to offset emissions within the EU ETS thus preventing the voluntary carbon market in the EU from replacing or delaying emission reductions.

With the decisions on Art. 6 made at COP 29 in Baku the international crediting mechanism of Art. 6.4 enters the operational phase. The Federal Government strives to have all **international market activities** of the voluntary carbon market to be **registered under Art. 6.4** (international UN register) to ensure **transparency** and **quality** of the global carbon market. This will also contribute to strengthening the data base for national emissions inventories and build capacities in the host country by implementing the legal framework for Art. 6. This in turn, helps build the capacities necessary for the development of **national, compliance carbon pricing instruments**. These developments should also be subject to **further provision of support for developing countries**. The Federal Government's focus is supporting developing countries to build capacity to enhance high-quality supply of carbon credits and to raise ambition and transparency of both compliance and voluntary carbon markets. Furthermore, the Federal Government is developing a policy environment that will allow German companies to obtain credits under Article 6.4.

2 For a definition of "additional" cf.: <https://www.bmwk.de/Redaktion/DE/Dossier/kohlenstoffmarkt-effiziente-umsetzung-klimaschutz.html> (in German)