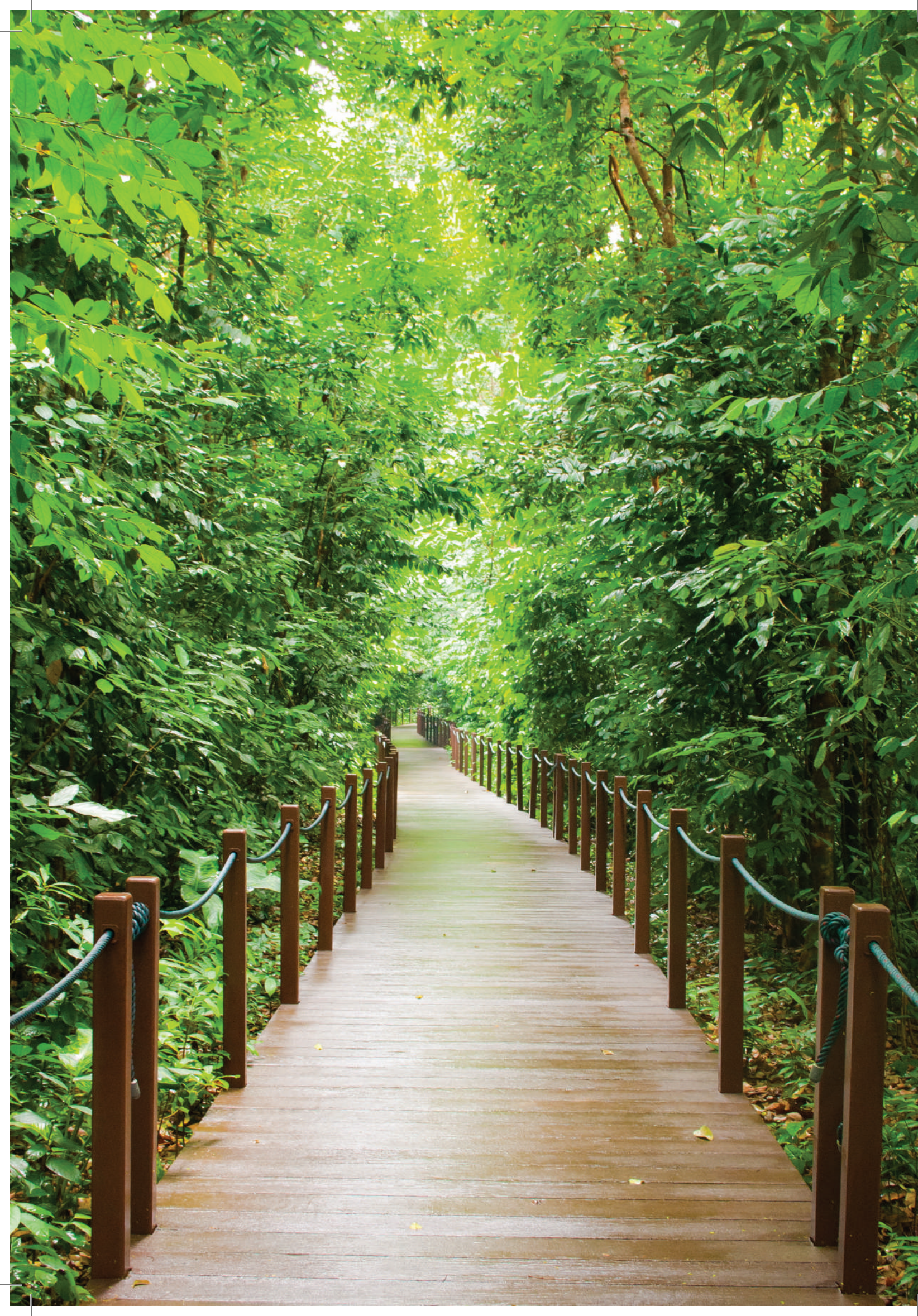




# FIJI NATIONAL CARBON MARKET STRATEGY ROADMAP



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# FOREWORD



The Fiji Government is committed to ensuring that carbon market engagement in Fiji is facilitated in a context-sensitive manner, ensuring outcomes and approaches are well suited to Fiji's circumstances, cultures and contexts.

Due to Fiji's high sensitivity and vulnerability to climate change and negligible current and historical emissions, Fiji will prioritise emissions reductions in activities that increase national resilience and help leverage co-benefits that support the achievement of our sustainable development objectives.

Fiji has significant potential to benefit from additional investments derived from international carbon markets. Reducing emissions and increasing carbon sequestration capacity through investments can help support our adaptation, resilience building, energy access and security, livelihood diversification, and food and water security objectives.

Reducing carbon emissions from transport and electricity generation in Fiji requires not only additional funding but also deeper partnerships to enable technology transfer and capacity building. The transfer of mitigation outcomes in exchange for investment is a potential basis for increasing cooperation and unlocking additional financial flows.

Fiji's approach to the management of climate change will maintain a focus on ecosystem protection, carbon reservoir and sink management as well as the direct reduction of fossil fuel use in our energy sector. This National Carbon Market Strategy Roadmap perceives potential for both energy sector-based mitigation projects and nature-based enhancement activities to unlock financing, drive unique employment opportunities and facilitate further investment in critical co-benefits to support our sustainable development objectives.

Fiji's Climate Change Act 2021 enshrines our commitment to achieving net zero national emissions by 2050 (conditional on international support and financing) and provides the legal framework for transparent, accountable, and equitable engagement with international carbon markets.

This Strategy Roadmap provides an important overview of carbon market options, opportunities, risks, and priority actions which will help guide further policy development in Fiji and provides a basis for our interactions with new market-based opportunities. Carbon markets are an additional rather than primary means to increase investment in sustainable development and must be carefully navigated by our national stakeholders.

Government oversight and regulation are required to ensure Fiji can derive equitable benefits from the evolving carbon market ecosystem.

This Strategy Roadmap recognises that carbon market activities involve risks that must be considered and evaluated against potential benefits. Its action plan identifies nationally-led and context-appropriate strategic approaches to minimise carbon market engagement risks and maximise the benefits derived from carbon markets.

A handwritten signature in black ink, appearing to read 'S. Rabuka', written over a horizontal line.

Honourable Sitiveni Ligamamada Rabuka CF, OBE, MSD  
Prime Minister & Minister for Foreign Affairs, Climate Change, Environment, Civil Service, Information, Public Enterprises and Veteran Affairs



#### **ACKNOWLEDGEMENTS**

The preparation of this Strategy Roadmap was led by the Fiji Government through the Climate Change Division under the Ministry Environment and Climate Change. The development of the Strategy Roadmap was enabled and supported through funding from the Australian Government and technical assistance and facilitation support provided by the Carbon Market Institute (CMI).

The Climate Change Division would like to acknowledge the active participation and contributions of all participants in this process, as well as the contributions of the Carbon Market Advisory Group. The Fiji Government is appreciative of all inputs from national and international stakeholders that have supported the information gathering and consultations required to develop Fiji's first National Carbon Market Strategy Roadmap.

# 1/ EXECUTIVE SUMMARY

**Fiji's updated 2020 Nationally Determined Contribution (NDC) reaffirms an ambitious national target to reduce the projected greenhouse gas emissions derived from the energy sector, based on a business-as-usual scenario, by 30% by 2030.**

This target comprises an unconditional commitment to reduce energy sector emissions by 10%, utilising existing resources, and a conditional commitment, based on the availability of external finance, to reduce energy sector emissions by a further 20%. To achieve these targets and accelerate the emissions reductions required to reach Fiji's long-term objective to achieve net zero emissions by 2050, the Fiji Government has recognised the potential for international market-based cooperation as a means to support long term

decarbonisation. Through the NDC, the Fiji Government expresses its intention to explore and utilise market-based solutions as a means to support emissions reduction activities, expedite technology development and transfer, increase financial flows, and support capacity building. Fiji's intention to use market mechanisms is further articulated within Fiji's NDC Implementation Roadmap, which views voluntary international cooperation under Article 6 of the Paris Agreement as a means to support Fiji's NDC while also providing the additional mitigation outcomes required to support NDC attainment in partner countries.

## **POTENTIAL ROLES FOR THE CARBON MARKET IN FIJI**

Through the process of updating Fiji's NDC, it was estimated that approximately US\$ 2.97 billion would be required in investment between 2017 and 2030





(Fiji NDC Implementation Roadmap 2017-2030) to achieve the revised targets and objectives detailed in Fiji's enhanced 2020 NDC. The significance of this financial requirement is compounded by the range of competing climate change adaptation needs, development priorities, and disaster risk management challenges the country faces, all of which have been exacerbated by the global COVID-19 pandemic and its severe consequences on Fiji's economy. As a small island developing state (SIDS), Fiji's ability to access the resources required to implement national climate change policies, targets, and transformative development objectives remains limited.

International carbon markets can offer a means to scale up investment in developing countries needed to support mitigation and adaptation activities and complement existing activities enabled through more traditional forms of climate finance. High-integrity carbon market mechanisms offer significant additional advantages by delivering carbon abatement outcomes while also contributing to the sustainable development priorities of developing countries. In voluntary and compliance-based markets, numerous emissions reduction activities and nature-based projects can be leveraged to help meet NDC commitments while also targeting specific national sustainable development objectives.

## STRATEGIC ADVANTAGES IN FIJI

Fiji has significant potential to derive strategic benefits from carbon markets, particularly through the bilateral cooperation enabled by Article 6.2 of the Paris Agreement and the array of opportunities within voluntary carbon markets. Fiji also holds specific advantages as an 'early mover' given recent examples of carbon market engagement, including its involvement with the Clean Development Mechanism of the Kyoto Protocol, long term

engagement in REDD+ programming, and existing community-driven voluntary carbon market projects. Furthermore, the Fiji Government's efforts to establish a robust national legal framework for carbon market engagement through the Climate Change Act (CCA) create the basis for the necessary regulation and oversight required to expand national involvement in various carbon market mechanisms. Part 10 of the CCA creates the legal recognition of 'carbon sequestration property rights' and establishes systems and mechanisms to govern carbon market activities in Fiji.

Fiji's approach to and priorities in relation to carbon markets are defined and underwritten by Fiji's climate change adaptation and mitigation priorities, robust climate change policy suite, and strong political leadership and advocacy on climate change issues.

At the international level, carbon markets are evolving quickly due to the increasing recognition of cooperative market-based approaches as an important tool within the broader decarbonisation toolbox. The growth of the global carbon market has been driven by the Paris Agreement and its core objectives to reduce global emissions and limit global warming to below 1.5 degrees Celsius. These objectives continue to influence international trade policies and priorities – increasing consideration of the carbon emissions profile associated with goods and services; driving carbon pricing compliance mechanisms and economic incentives; stimulating corporate demand for carbon credits to help meet climate commitments; accelerating sectoral carbon reduction compliance schemes; and increasing the overall demand for high-integrity carbon abatement projects associated with sustainable development co-benefits.

There are many strategic considerations for Fiji to account for when considering carbon market



Image by Sarah Liversidge via Nakau

engagement options. Paramount is the need to ensure carbon market activities and outcomes align with and support national development objectives and help to enable progress against Fiji's NDC and national 2050 net zero targets.

## KEY CONSIDERATIONS WHEN ENGAGING IN CARBON MARKETS

Some of the specific and key considerations outlined in the Strategy Roadmap include the need to ensure that:

- all interactions with international carbon markets support Fiji's ability to achieve its NDC and long-term net zero targets;
- environmental integrity and demand-side integrity are prioritised and ensured to enable the production of genuine and verifiable emissions reductions;
- Fiji's carbon market engagement is inclusive and transparent;
- benefits and co-benefits are equitably shared and support local communities and the economy; and

- collaborative market engagement is built on trust and mutual priorities.

This Strategy Roadmap recognises that carbon market activities involve risks that should be considered and evaluated against potential benefits. In all instances, it is important to recognise specific constraints that exist in Fiji, such as limited institutional capacity, complexities associated with land tenure, free, prior and informed consent (FPIC) and benefit sharing, and the limited abatement potential within specific sectors. However, these challenges can be mitigated through a nationally-led and context-appropriate approach to carbon market engagement and a strategic approach as outlined in the action plan set out within the Strategy Roadmap.

In addition to the aforementioned strategic considerations, there are various approaches and options for engaging in carbon markets. An evidence-based assessment of different options against Fiji's NDC objectives will be vital for determining the most effective and relevant approach or combination of approaches to carbon markets moving forward.

### This Strategy Roadmap serves as a foundational guide for Fiji's informed and effective engagement with carbon markets.

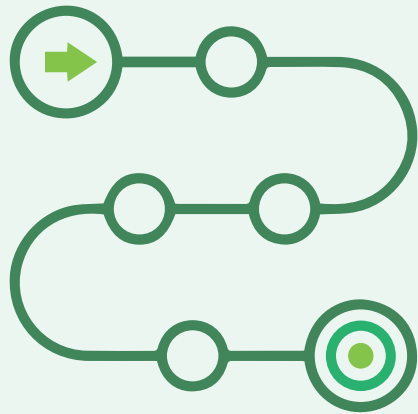
It is designed for use by policymakers, project developers, investors, land and resource owners, credit buyers, local communities, and other relevant stakeholders to shape their potential interaction with carbon market mechanisms. To provide guidance relevant to the multi-stakeholder readership described, the Strategy Roadmap is articulated across five chapters:

- **Chapter 1:** A market vision, priorities and principles co-designed with multi-stakeholders.
- **Chapter 2:** Fiji's NDC targets, existing financing options, potential roles for high-integrity carbon markets, and the current state of play of carbon projects.
- **Chapter 3:** Opportunities and risks, both general and specific to Fiji's local contexts.

- **Chapter 4:** Strategic considerations and options for engagement with carbon markets.
- **Chapter 5:** Key pillar action items to enhance market readiness in Fiji, encompassing legal, governance, community benefits and landowner rights, partnerships, and finance.

The Fiji National Carbon Market Strategy Roadmap has been developed by the Climate Change Division of the Ministry of Environment and Climate Change through an 18-month consultative process involving multi-stakeholder workshops, webinars, small group consultations, and research-based assessments. This process to develop a precursor to future national strategy and policy has been informed by national stakeholders with responsibilities and expertise relevant to carbon market mechanisms, including a range of stakeholders with direct experience with carbon market projects. This process has been supported by a dedicated Advisory Group, which was convened and attended on a voluntary basis to provide additional perspectives and technical advice.





## 1.1. STRATEGY ROADMAP VISION

To facilitate a strategic national and locally led approach to carbon market engagement aimed at mobilising resources to support the attainment of Fiji's sustainable development objectives through high-integrity emissions removal and abatement activities in alignment with the goals and targets of Fiji's Nationally Determined Contributions.

## 1.2. STRATEGY ROADMAP PURPOSE

This Roadmap aims to identify key considerations, engagement options and primary actions required to enhance Fiji's ability to access and utilise appropriate carbon market mechanism(s) to support national mitigation and adaptation priorities, increase investment in sustainable development, and enhance environmental and social integrity.<sup>1</sup>

### STRATEGY ROADMAP OBJECTIVES

- 1) To present carbon market options and key considerations central to Fiji's current and future engagement with carbon markets.
- 2) To support the development of institutional arrangements, policy frameworks, and capacity required to inform and shape current efforts to use innovative financing solutions and market mechanisms to build climate resilience and make bold strides towards Fiji's 2050 net zero emissions target.
- 3) To guide specific efforts to develop adequate safeguards, systems, and strategies for engaging in cooperative carbon mitigation approaches (i.e. Article 6 markets).
- 4) To help enable locally led activities<sup>2</sup> that deliver a range of equitably realised benefits<sup>3</sup> for traditional owners and the broader Fijian environment, economy, and society.

<sup>1</sup> Social integrity refers to ensuring that the implementation of carbon market mechanisms takes into account and addresses social considerations, impacts, and benefits, thus contributing positively to local communities and avoiding adverse effects.

<sup>2</sup> This includes ensuring engagement with carbon markets supports Fijian businesses, creates job opportunities, empowers local communities, and draws on domestic expertise wherever possible. Efforts should also be made to retain carbon revenues within the Fijian economy and to reduce reliance on foreign third-party entities wherever possible.

<sup>3</sup> This recognises the need to derive multiple co-benefits from carbon projects and distribute them in an equitable and fair manner.



### 1.3. STRATEGY ROADMAP ACTION PLAN

Carbon market engagement needs clear and defined actions for all stakeholders. Action across the five pillars will be required to establish a shared national perception and approach to carbon markets to maximise the values derived from the sale of carbon credits. The actions have been sequenced across short, medium, and long-term categories to indicate a staged approach to implementation.

SHORT TERM	MEDIUM TERM	LONG TERM
<b>Pillar 1: Enhancing market readiness through strategic actions</b>		
<ol style="list-style-type: none"> <li>1. Establish the institutional arrangements and processes for project proponents to register carbon sequestration property rights (CSPR) and emissions reduction projects.</li> <li>2. Expedite the development of regulations under Part 10 of the CCA to operationalise the processes and mandates for initiating carbon projects in Fiji.</li> <li>3. Evaluate Fiji's NDC performance, implementation plans, and financial sources to identify gaps, target activities and potential allowable credit volumes for trade in voluntary and Article 6-related markets.</li> <li>4. Incorporate strategic considerations for carbon market opportunities into existing NDC implementation and investment plans, as well as Fiji's upcoming 2025 NDC.</li> <li>5. Accelerate the development of national capacity to monitor, report, verify, and compile emissions and emissions reduction data.</li> <li>6. Examine the potential trade-offs involved with long-term land-based projects, development needs, and community benefits to avoid future competing land uses.</li> </ol>	<ol style="list-style-type: none"> <li>1. Develop general criteria to ensure the alignment of voluntary carbon projects with national priorities and policy objectives.</li> <li>2. Ensure the synchronised implementation of Article 6 activities with the priorities and objectives outlined in the National Energy Policy 2023-2030 and the National Development Plan.</li> <li>3. Improve the national greenhouse gas inventory and align it with the reporting and accounting requirements of Article 6 of the Paris Agreement.</li> <li>4. Establish interim measures to document emissions reduction projects undertaken in Fiji, track the achieved emissions reductions or removals, and record the generation of carbon credits.</li> <li>5. Support the piloting of new projects and expanding on existing successful activities to enable 'learning by doing' and the testing of nascent project types or methodologies.</li> <li>6. Scale up efforts to integrate carbon market mechanisms, national forest protection and agroforestry programs as well as broader landscape restoration efforts, leveraging lessons learned and building on existing institutional capacities and partnerships.</li> <li>7. Assess the potential to develop demand-side integrity assessment criteria for evaluating carbon market interactions and cooperation agreements.</li> </ol>	<ol style="list-style-type: none"> <li>1. Explore the feasibility of developing domestic carbon crediting programs and methodologies tailored to Fiji's priorities in partnership with relevant institutions and local universities.</li> <li>2. Consider, and if necessary, establish a Fijian registry to record and track Fijian Mitigation Outcome Units, emissions reduction units under approved voluntary standards, and ITMOs.</li> <li>3. Scale up advocacy on the co-benefits and high integrity of Fijian Mitigation Outcome Units through a focus on impactful case studies and best practices.</li> <li>4. Scale up local demand for Fijian Mitigation Outcome Units through suitable incentive mechanisms and policy updates (e.g., by promoting low-carbon tourism and delineating the roles and targets of carbon markets in the 2025 NDC).</li> <li>5. Develop demand-side integrity assessment criteria for evaluating carbon market interactions and cooperation agreements.</li> </ol>
<b>Pillar 2: Strengthening the legal framework and governance structure</b>		
<ol style="list-style-type: none"> <li>1. Enhance the coordination across government ministries and departments by establishing clear mandates and responsibilities through regulations under Part 10 of the CCA.</li> <li>2. Develop collaboration between the Climate Change Division and the relevant line ministries through a joint work plan focused on expediting the development of regulations required under Part 10 of the CCA.</li> <li>3. Assess and, if necessary, establish a designated land-use category for nature-based projects.</li> <li>4. Develop and publish a list of approved voluntary carbon standards prioritising standards that ensure environmental integrity, equitable community benefits and enabling SDG achievement.</li> <li>5. Develop and publish a list of eligible voluntary and Article 6 activities.</li> <li>6. Build up national legal capacity to support the negotiation of carbon trading agreements and contracts.</li> </ol>	<ol style="list-style-type: none"> <li>1. Strengthen the capacity and oversight roles of the Climate Change Division and relevant line ministries to approve and monitor voluntary carbon projects and to assess and implement Article 6 agreements.</li> <li>2. Execute the agreed joint work plan to develop and enforce regulations for Part 10 of the CCA and improve the overall legal framework for voluntary and Article 6 markets.</li> <li>3. Develop and implement the necessary processes for approving Article 6 activities, authorising ITMO transfers, and making corresponding adjustments.</li> <li>4. Further develop Fiji's approach to nature-based activities with the potential to produce tradable mitigation outcomes through the revision and enhancement of the necessary policies and procedures.</li> <li>5. Secure additional capacity building support for forest carbon monitoring activities.</li> </ol>	<ol style="list-style-type: none"> <li>1. Consider, and if necessary, establish a separate government authority to administer carbon markets in Fiji, including meeting the reporting requirements of Article 6 participation.</li> <li>2. Review and revise the legal framework and governance structure of Fiji's approach to carbon markets through public consultations.</li> <li>3. Review and improve Article 6 authorisation and corresponding adjustment processes.</li> <li>4. Improve institutional capacity and internal procedures to support Article 6 requirements, including project approval, registration, authorisation, accounting, and reporting.</li> </ol>

SHORT TERM	MEDIUM TERM	LONG TERM
<b>Pillar 3: Safeguarding community benefits and landowner rights</b>		
<ol style="list-style-type: none"> <li>1. Develop policy protocols and oversight mechanisms to provide safeguards for community-based projects.</li> <li>2. Develop and enforce national benefit-sharing arrangements to guide and monitor voluntary carbon projects.</li> <li>3. Develop a mechanism for equitable and transparent distribution of carbon revenue, safeguarding local communities and asset owners.</li> <li>4. Implement national outreach and education programs through cross-collaboration among the Ministry of iTaukei Affairs, Provincial Councils, the iTaukei Land Trust Board, and other relevant ministries.</li> </ol>	<ol style="list-style-type: none"> <li>1. Consider options for managing pricing uncertainties, e.g., setting price benchmarks or establishing guidelines for cost elements that should be funded by buyer countries.</li> <li>2. Provide guidance on managing reversal risks, e.g., creating insurance products and credit buffers.</li> <li>3. Develop a coordination mechanism for securing land for renewable energy projects.</li> <li>4. Offer legal assistance to local communities involved in carbon trading, particularly for voluntary carbon projects.</li> </ol>	
<b>Pillar 4: Increasing public awareness, participation, ownership and capacity</b>		
<ol style="list-style-type: none"> <li>1. Design local initiatives for capacity building at all levels through collaborations with academic institutions, relevant ministry agencies and key development partners.</li> <li>2. Develop targeted stakeholder knowledge tools and resources, training programs and education courses.</li> </ol>	<ol style="list-style-type: none"> <li>1. Support the growth of new and existing local project developers, MRV professionals, auditors, and legal advisors.</li> <li>2. Support the growth of new and emerging carbon market methodologies, primarily focusing on ones that align with national priorities.</li> <li>3. Identify or develop a suitable data dissemination channel (e.g., through the proposed Private Sector Advisory Committee) to announce project opportunities and form public-private partnerships.</li> </ol>	<ol style="list-style-type: none"> <li>1. Collaborate with regional organisations to explore the establishment of a shared platform for project databases, training materials, and expert contacts.</li> </ol>
<b>Pillar 5: Developing effective partnerships and scaling finance</b>		
<ol style="list-style-type: none"> <li>1. Identify financing instruments and funding sources available for implementing NDC targets and define carbon finance needs to be met through carbon markets.</li> <li>2. Explore and secure partnerships that offer financial support, technology transfer, infrastructure development, and capacity building in line with Fiji's national circumstances and policy priorities.</li> <li>3. Facilitate knowledge sharing, information exchange and technical capacity building between local participants and international partners.</li> </ol>	<ol style="list-style-type: none"> <li>1. Identify capacity gaps and devise and implement capacity-building programs in collaboration with development partners to build up domestic capabilities.</li> <li>2. Assist in the development of insurance options and other forms of financial buffers to manage reversal risks associated with carbon market projects.</li> <li>3. Consider the need to re-assess and re-negotiate any existing Article 6-associated bilateral cooperation agreements.</li> <li>4. Trial new accounting methods for valuing co-benefits and potentially mobilising additional co-financing.</li> </ol>	<ol style="list-style-type: none"> <li>1. Develop and market a differentiated 'Fiji brand' high-quality carbon credit to actively target appropriate partners and financiers to advance Fiji's ability to benefit from market-based commitments.</li> </ol>



# 2 /

## THE FIJIAN CONTEXT

### INTENDED NDC (2015)

Focusing on the energy sector, the Intended NDC (INDC) set the following mitigation targets for 2030:

- ➔ **Target 1:** To reduce 30% of BAU emissions from the energy sector by 2030.
- ➔ **Target 2:** As a contribution to Target 1, to reduce 20% BAU energy emissions through 100% renewable energy power generation by 2030 (**conditional**).
- ➔ **Target 3:** As a contribution to Target 1, to reduce 10% of BAU energy emissions through economy-wide energy efficiency improvements (**unconditional**).

### UPDATED NDC (2020)

The revised NDC includes:

- A reaffirmation of the 2030 targets.
- A commitment to achieve net zero emissions by 2050.
- As a contribution to the 30% reduction target, to reduce domestic maritime shipping emissions by 40%.
- To plant 30 million trees by 2035.
- To adopt Climate Smart Agriculture practices, promoting sustainable crop management, livestock, sugarcane farming and fisheries.
- To prioritise nature-based solutions to mitigate the impact of flooding and cyclones.
- To conserve natural environment and biodiversity for long-term provision of ecosystem services and carbon sequestration potential.

### 2.1. NATIONALLY DETERMINED CONTRIBUTION (NDC)

Fiji's Intended NDC to the Paris Agreement was submitted in 2015, outlining Fiji's mitigation targets alongside critical adaptation objectives. Despite Fiji's emissions accounting for only 0.004% of total global emissions, the country set an ambitious mitigation target for 2030 to reduce the projected business as usual emissions from the energy sector by 30%. This target comprises a commitment, conditional on the availability of external financing, to reduce energy sector emissions by 20% and an unconditional commitment to reduce energy sector emissions by 10%.

In 2020, Fiji's NDC was revised and enhanced to provide more comprehensive detail on Fiji's mitigation and adaptation commitments. The updated NDC includes additional intent to utilise nature-based solutions such as afforestation, smart agriculture, and sustainable livestock management to enhance climate resilience, biodiversity, and food and health systems.

Furthermore, the 2020 NDC includes an ambitious target to reduce domestic maritime shipping emissions by 40% by 2030, providing further clarity on specific sectoral contributions towards the 2030 emissions reductions target. The NDC also recognises the importance of the marine environment as a natural carbon sink, and Fiji is committed to protecting and restoring its marine and coastal ecosystems, including mangroves, seagrasses, and coral reefs. To this end, Fiji's revised NDC includes the commitment to designate 30% of its ocean area (Exclusive Economic Zone (EEZ)) as marine protected areas by 2030 alongside an overall objective to actively manage 100% of Fiji's EEZ in the interest of enhancing overall sustainability and protection of Fiji's biodiversity and natural assets.

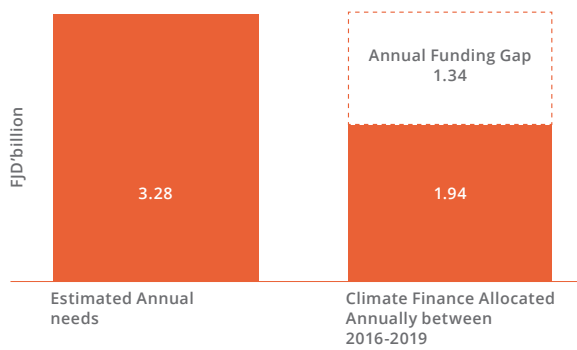
### 2.2. FINANCING OPTIONS FOR FIJI'S NDC

Fiji's NDC puts forth a comprehensive list of mitigation and adaptation targets covering multiple sectors, including energy, nature-based solutions and ocean. These targets – such as reaching nearly



100% renewable energy in power generation and prioritising nature-based solutions – are aligned with the country’s socio-economic development priorities to secure electricity and clean water access for its communities.<sup>4</sup>

**Figure 2: Fiji’s climate finance requirement, allocation, and funding gap<sup>5</sup>**



According to Fiji’s NDC Implementation Roadmap, the estimated costs for decarbonising the energy sector, which is the primary source of carbon emissions, amount to USD2.97 billion for the period between 2017 and 2030.<sup>6</sup> This includes USD1.3 billion for mitigation activities under the unconditional target and USD1.6 billion for mitigation activities under the conditional target.

Meanwhile, the overall climate finance needed, including funding for adaptation purposes, is around FJD3.28 billion (or USD1.4 billion) annually.<sup>7</sup>

Between 2016 and 2019, Fiji received an annual allocation of about FJD1.94 billion (or USD848 million) from domestic and international public finance sources.<sup>8</sup> This funding supported a range

of mitigation and adaptation projects, including the expansion of renewable energy capacity and the relocation of vulnerable communities. However, the current climate finance flows are insufficient to meet the identified needs, with an estimated annual gap of FJD1.34 billion (or USD550 million) – approximately 31% of Fiji’s national budget spending for 2023/2024.<sup>9</sup>

While Fiji has developed a raft of strategies and plans outlining its climate finance needs and potential investment projects,<sup>10</sup> the impacts of the COVID-19 pandemic have put severe strain on both international and domestic fiscal budgets available for climate initiatives.<sup>11</sup> Furthermore, the complex requirements and processes of multilateral climate funds have made it challenging for small island developing states (SIDS) such as Fiji to access international finance.<sup>12</sup> Fiji’s upper middle-income country status has also reportedly posed difficulties in accessing concessional loans, limiting its capacity to borrow for climate projects without risking debt sustainability.<sup>13</sup>

Under a constrained public fiscal space, Fiji’s NDC Implementation Roadmap has underscored the importance of establishing partnerships with development organisations and the private sector to implement the NDC targets and build climate resilience. New or innovative market-based mechanisms and financial instruments, including green bonds, risk mitigation instruments, and blended finance, have been increasingly explored to broaden the financial resources available for climate interventions. To this end, Fiji’s updated NDC comprehensively recognises international carbon markets as a means to expedite technology transfer, capacity building and access to climate finance.<sup>14</sup>

4 See Fiji’s development priorities in Ministry of Economy (2017), 5-Year & 20-Year National Development Plan.  
 5 Please note that the illustration is based on data extracted from Ministry of Economy (2020), Fiji Climate Finance Snapshot 2016-2019 and may not accurately reflect Fiji’s current climate finance gap.  
 6 Ministry of Economy (2017), Fiji NDC Implementation Roadmap 2017 – 2030.  
 7 Ministry of Economy (2020), above n 4, p.17.  
 8 Ibid.  
 9 Government of Fiji (2023), 2023-2024 National Budget Address, p. 22.  
 10 See, for example, Government of Fiji (2022), Fiji National Climate Finance Strategy; and Ministry of Economy (2022) NDC Investment Plan: Investment Planning in Fiji for the Transport and Energy-Efficiency Sectors.  
 11 World Resources Institute (2021), Financing Climate Action and the COVID-19 Pandemic: An Analysis of 17 Developing Countries.  
 12 International Monetary Fund (2021), Unlocking Access to Climate Finance for Pacific Island Countries  
 13 Ibid.  
 14 Government of Fiji (2020), Fiji’s Updated Nationally Determined Contribution, p. 14.

## VOLUNTARY CARBON MARKETS VERSUS ARTICLE 6 MARKETS

**Voluntary carbon markets (VCMs)** provide the means for individuals, corporations, and governments to take voluntary climate action towards net-zero by accounting for their residual emissions by purchasing and retiring carbon credits. This action is pursued alongside critical at-point decarbonisation and outside the scope of compliance carbon markets (CCMs). Carbon credits in VCMs are certified and issued by independent, voluntary carbon standards, including the Verified Carbon Standard (71%), Gold Standard (17%), American Carbon Registry (6%), Climate Action Reserve (5%), and Plan Vivo Standard (1%).

In 2023, a total of 308 million carbon credits were issued, with nature-based and renewable energy projects constituting nearly two-thirds of these issuances. On the demand side, 174 million credits were voluntarily retired by companies and individuals to net out emissions (Climate Focus, Voluntary Carbon Market 2023 Review, 2024).

VCMs should be used as a supplementary measure to incentivise additional mitigation efforts and finance carbon projects in jurisdictions where decarbonisation opportunities are more accessible or cost-effective. While the VCMs are not subject to centralised regulation, participants are encouraged to comply with international best practices such as the Integrity Council for the Voluntary Carbon Market (ICVCM)'s Core Carbon

Principles and the Voluntary Carbon Markets Integrity Initiative (VCMI) 's Claims Code of Practice to ensure the integrity of supply and demand of carbon credits.

**Article 6 of the Paris Agreement** allows countries to cooperate voluntarily in implementing NDC targets. **Article 6.2** introduces 'Internationally Transferred Mitigation Outcomes' (ITMOs) credits, which can be traded with proper authorisation and corresponding adjustments. The generation and sale of ITMOs are subject to negotiations between host and investor countries through bilateral or multilateral agreements. As of March 2024, 81 memorandums of understanding (MOUs) have been signed, with most of them concentrated in the Asia Pacific region.

**Article 6.4** establishes a UNFCCC-governed crediting mechanism to replace the Clean Development Mechanism (CDM). This new mechanism is overseen by a supervisory body for activities ranging from project registration to methodology development and issuance of 'Article 6.4 Emission Reductions' (A6.4ERs) credits. To be eligible, project developers must obtain the approval of host countries and register their projects with the supervisory body. Of the A6.4ERs issued, 5% will be allocated to the Global Adaptation Fund to support adaptation efforts in developing countries, and 2% will be cancelled to contribute to the 'Overall Mitigation of Global Emissions'.

## 2.3. POTENTIAL ROLES OF HIGH-INTEGRITY CARBON MARKETS

Carbon markets, including international market mechanisms under Article 6, provide an additional climate finance source from the trading of carbon credits that represent actual and verifiable carbon reductions or removals. They attract new public and private investments into carbon projects that would not have occurred without the financial returns gained from undertaking those activities. For example, Article 6.2 of the Paris Agreement allows countries to trade ITMOs from host-approved projects at an agreed price. Switzerland, a pioneer buyer country, indicates that the cost of ITMOs stood at CHF23 (or USD25) per tonne at the end of 2022.<sup>15</sup> Besides facilitating financial flows between jurisdictions, carbon markets provide technology transfer opportunities between investor countries and host countries. In the Asia Pacific region,

Thailand has partnered with Switzerland to increase the uptake of electric vehicles for decarbonising its transport sector, as well as addressing air pollution in the Bangkok Metropolitan Area. Under the Bangkok E-Bus Program, the Swiss and Thai governments are collaborating with private entities – Klik Foundation and Energy Absolute – to replace around 2,000 diesel buses with electric buses and build up a network of charging stations in the city.<sup>16</sup>







High-integrity carbon markets, underpinned by robust monitoring, reporting and verification (MRV) processes, could offer advantages beyond climate finance and technology transfer. In voluntary and compliance markets, carbon credits validated to provide co-benefits and contribute to sustainable development goals (SDGs) are commanding premium prices and are in growing demand by companies seeking broader impacts beyond carbon reductions.<sup>17</sup> For example, in Australia's voluntary carbon market, Indigenous-led savanna burning

<sup>15</sup> Klik Foundation (2023), Annual Report 2022: Focus on Projects Abroad, p. 23.

<sup>16</sup> South Pole (2023), Article 6 and Electric Buses in Thailand: How Carbon Markets Speed Up the Net Zero Transition, <https://www.southpole.com/blog/article-6-and-electric-buses-in-thailand-speed-up-net-zero-transition>.

<sup>17</sup> Lou et al. (2022), Integrating Sustainability into Climate Finance by Quantifying the Co-Benefits and Market Impact of Carbon Projects, Communications Earth & Environment 3(1) article id. 137.

**Figure 3: Major types of carbon projects**

Technology-based projects			
 <p><b>Renewable Energy</b></p> <ul style="list-style-type: none"> <li>• Biomass</li> <li>• Hydro</li> <li>• Solar</li> <li>• Wind</li> <li>• Geothermal</li> </ul>	 <p><b>Energy Efficiency</b></p> <ul style="list-style-type: none"> <li>• Energy demand efficiency</li> <li>• Fuel switching</li> <li>• Household devices (e.g. improved cookstoves)</li> </ul>	 <p><b>Transportation</b></p> <ul style="list-style-type: none"> <li>• Transportation</li> <li>• Vehicle fuel efficiency</li> <li>• Electric, hybrid, biodiesel</li> <li>• Transport energy efficiency</li> </ul>	 <p><b>Industry and Engineered Removals</b></p> <ul style="list-style-type: none"> <li>• Abatement of GHGs from industrial processes</li> <li>• Carbon, capture, and utilisation</li> <li>• Waste treatment</li> <li>• Landfill gas</li> </ul>
Nature-based projects			
 <p><b>Conservation</b></p> <ul style="list-style-type: none"> <li>• Agroforestry</li> <li>• Improved forest management</li> <li>• Logged-to-protected forest transition</li> </ul>	 <p><b>Restoration</b></p> <ul style="list-style-type: none"> <li>• Forest regeneration</li> <li>• Wetland restoration</li> <li>• Afforestation, reforestation, and revegetation</li> </ul>	 <p><b>Blue Carbon</b></p> <ul style="list-style-type: none"> <li>• Restoration of mangroves</li> <li>• Avoided degradation of coastal ecosystems</li> </ul>	 <p><b>Regenerative Agriculture</b></p> <ul style="list-style-type: none"> <li>• Grazing management</li> <li>• Irrigation systems</li> <li>• Pasture management</li> <li>• Crop rotation</li> <li>• Soil carbon</li> </ul>

units have historically traded at higher prices for their social, cultural and environmental benefits to First Nations People.<sup>18</sup> The intersection between carbon credits and SDGs offers significant potential to drive progress towards a sustainable future and contribute towards SDG 13 (Climate Action), SDG 7 (Affordable and Clean Energy), SDG 15 (Life on Land), SDG 8 (Decent Work and Economic Growth), and SDG 9 (Industry, Innovation, and Infrastructure).

While there are eight major types of carbon projects encompassing both technology-based and nature-based solutions (see Figure 3), Fiji's current engagement in voluntary markets is confined to a limited range of project types. Predominantly, the registered projects revolve around improved forest management and improved cookstove programs (see further detail in Section 2.6). To meet the NDC targets, Fiji should evaluate the possibility of expanding the project portfolio to include more sectors of the economy and more technology-based solutions, including renewable energy, transportation and energy efficiency whilst targeting

specific SDGs through curated projects. This will enable the country to maximise the potential of carbon markets for its sustainable development. However, Fiji should evaluate how any additional project activities align with its long-term objectives and the potential impacts on the provision of other essential goods and services.

## 2.4. GUIDING PRINCIPLES FOR CARBON MARKET ENGAGEMENT

This section presents a set of principles that were collaboratively developed by the participants of the Second National Carbon Market Strategy Roadmap stakeholder consultation workshop held in August 2023. Ensuring alignment with these principles is critical to safeguard that all carbon market projects potentially carried out in Fiji adhere to international best practices, uphold the highest levels of environmental integrity, and conform to social safeguards put in place by the Fiji government.

<sup>18</sup> Clean Energy Regulator (2022), Australian Carbon Credit Units (ACCUs), [https://www.cleanenergyregulator.gov.au/Infohub/Markets/Pages/qcmmr/june-quarter-2022/Australian-carbon-credit-units-\(ACCUs\).aspx](https://www.cleanenergyregulator.gov.au/Infohub/Markets/Pages/qcmmr/june-quarter-2022/Australian-carbon-credit-units-(ACCUs).aspx).

- **Alignment with Fiji's Development Goals:** Carbon market mechanisms are utilised to support, enable, and complement Fiji's long-term environmental protection objectives and resilient development priorities.
- **Accountability:** Clear governance structures and processes to facilitate decision-making and regulatory oversight are established to enable transparency and accountability while also supporting coherence across Fiji's greenhouse-gas emissions reduction efforts.
- **Social Safeguards Relevant to Fiji:** Safeguards and equitable benefit-sharing arrangements that reflect Fiji's unique contextual (environmental, cultural, and economic) circumstances are enforced to help prevent and manage unintended or negative consequences from carbon market engagement and protect the rights of local stakeholders, businesses, landowning units, and resource owners.
- **Real and Additional:** Emissions reduction or removal outcomes traded through carbon markets should be verified as equivalent to the real reductions or removals achieved as a result of the carbon market activity/investment. Verification processes will be used to confirm that the emissions or removal outcomes that are subject to trade are real and additional and would not have occurred without the market intervention.
- **Net-Positive Outcomes:** Carbon market projects should ensure removal and reduction activities do not directly or indirectly result in an increase in emissions or a reversal of removals (leakage) in another location or within another sector. Outcomes traded on international carbon markets will be subject to required accounting adjustments to prevent double-counting. Reductions and removals verified and traded should be permanent with appropriate measures in place to prevent the risk of reversal and ensure any reversal that may occur is reported.
- **Local Ownership and Inclusiveness:** Relevant communities and stakeholders have opportunities to participate equitably and meaningfully in project design and implementation to ensure carbon markets support the fair distribution of benefits, including employment and livelihood diversification opportunities, direct investment in local communities, creation of sustainable development co-benefits, and the empowerment of women, marginalised groups, and indigenous communities.
- **Accessible and Transparent:** Information to support the involvement of relevant stakeholders and key decision makers in carbon market projects and transactions should be made accessible and be provided in a transparent and timely manner. Consultations should be inclusive and ensure stakeholders have the relevant capacity and understanding to ensure that free, prior, and informed consent can be secured where required.
- **Flexible and Responsive:** Carbon market projects, methodologies, and implementation arrangements should be responsive to the needs of key stakeholders, including through pre-agreed grievance redress mechanisms, context-appropriate standards, and the design of appropriate flexibility to accommodate changes to the circumstances and needs of local communities, businesses, and implementation teams (i.e. disaster events).
- **Respect and Awareness of Pre-Existing Rights:** The customary and statutory rights of local stakeholders should be recognised, respected, and reflected within any projects that interact with or benefit from these rights. FPIC principles should be upheld and enforced.
- **Unlock Financing for High-Cost Mitigation Measures:** The ability of carbon market mechanisms to catalyse and mobilise new and additional financing should be used where relevant to unlock mitigation potential in hard-to-abate sectors, enable non-state actors to contribute directly to emissions reductions, and contribute to the achievement of specific sectoral targets within Fiji's NDC.
- **Prioritise (or target) Co-Benefits:** Stakeholders are encouraged to proactively advance the development of innovative carbon-market-compatible projects that offer additional demonstrable direct or indirect benefits for local communities and Fiji's economy in addition to verifiable emissions reduction and/or carbon removal potential.

## 2.5. ALIGNMENT WITH NATIONAL DEVELOPMENT PRIORITIES AND CLIMATE CHANGE POLICIES

Fiji's intention to use market mechanisms aligns with its NDC Implementation Roadmap, which recognises the potential benefit of pursuing voluntary cooperation agreements with other parties to produce mitigation outcomes through Article 6 of the Paris Agreement.<sup>19</sup>

While a detailed national position on the degree to which market mechanisms will be leveraged to support NDC implementation is yet to be articulated, the synergy between carbon market activities and Fiji's broader policy frameworks on climate change is outlined in Figure 4.

<sup>19</sup> Ministry of Economy, above n 6, p. 15.



**Figure 4: Alignment between carbon markets and Fiji's key climate policies, plans and strategies**

Key policies, plans and strategies	Overview
<b>National Adaptation Plan 2018</b>	The Plan pinpoints 160 adaptation measures across five action areas (food, health, human settlements, infrastructure, and the natural environment). Given the limited progress made from 2018 to 2022, <sup>20</sup> there are valuable opportunities to integrate the implementation of these measures into the planning and design phases of carbon market projects.
<b>5-Year &amp; 20-Year National Development Plan 2017-2036</b>	The Plan establishes national targets in line with Fiji's objectives for 'inclusive socio-economic development' and 'transformational strategic thrusts'. Its overarching vision is to foster new opportunities by nurturing emerging sectors, improving transportation infrastructure, and adopting suitable technologies. The emphasis on energy security, food and water sustainability, and employment prospects is highly pertinent to harnessing the co-benefits of carbon markets.
<b>National Climate Change Policy 2018-2030</b>	The Policy outlines four objectives for climate mitigation and resilient development: <ol style="list-style-type: none"> <li>1. To derive 100% electricity production from renewable energy by 2030 and achieve net zero emissions by 2050;</li> <li>2. To decarbonise Fiji's transport sector;</li> <li>3. To prioritise mitigation initiatives that increase national resilience and help achieve SDGs;</li> <li>4. To preserve and enhance Fiji's natural carbon sinks and reservoirs.</li> </ol>
<b>Low Emissions Development Strategy 2018-2050</b>	The Strategy presents four mitigation pathways for achieving net zero emissions by 2050. These pathways are relevant for evaluating the potential carbon reductions that Fiji can viably trade under different policy scenarios.
<b>NDC Implementation Roadmap 2017-2030</b>	The Roadmap sets out specific mitigation actions for the energy sector, covering power generation, energy efficiency and transportation. It highlights the need for external support, notably through Article 6 markets, which will enable Fiji to trade ITMOs from outcomes exceeding its NDC targets.
<b>National Climate Finance Strategy 2022</b>	The Strategy outlines Fiji's main investment opportunities spanning 2022 to 2029, serving as a climate finance blueprint for the Government and development partners. This living document identifies climate finance priorities in 12 sectors and analyses the sectoral annual investment needs, allocations, and government actual expenditures.
<b>NDC Investment Plan 2022</b>	The Plan provides detailed information on emissions reduction opportunities in the land transport, maritime, aviation, and energy efficiency sectors, including the need for capacity building, technical assistance, and investment capital. It can be used as a guiding document for defining investment priorities to help achieve Fiji's 2030 NDC targets through carbon market activities.
<b>National Ocean Policy 2020-2030</b>	The Policy will guide Fiji's efforts on sustainable ocean management, with a primary aim of safeguarding marine ecosystems and the economic livelihoods of Fijians. Nature-based solutions will also be explored to enhance climate mitigation and adaptation, recognising the substantial role of oceans as a carbon sink that holds potential value within carbon markets.

<sup>20</sup> Office of the Prime Minister's Climate Change Division (2023), Fiji National Adaption Plan: Progress Report 2022.



## 2.6. STATE OF PLAY OF CARBON MARKETS IN FIJI

Fiji has had early involvement in carbon markets since it ratified the Kyoto Protocol in 1998. To facilitate the implementation of CDM, Fiji established a National Designated Authority (NDA) and published a CDM Policy Guideline in 2010, followed by a CDM Investors Handbook in 2012.<sup>21</sup>

As illustrated in Figure 5, Fiji is a host country to four registered CDM projects, focusing on hydropower, methane avoidance, and improved cookstove programs. These projects have collectively generated 323,053 Certified Emission Reductions (CERs).<sup>22</sup>

While the Paris Agreement permits the transition of CDM projects to the Article 6.4 market mechanism, three of the registered CDM projects have reached the end of their crediting periods and are no longer active. This leaves Fiji with only one project – the Improved Cookstoves Program – which may be eligible for transition. However, this project is currently registered with the Verified Carbon Standard (VCS) in voluntary carbon markets.

Additionally, Fiji has successfully hosted the Drawa Rainforest Project under the Plan Vivo Standard. In recognition of its efforts in sustainability and conservation, this project won the Pacific Community (SPC) and the Secretariat of the Pacific

Regional Environment Program (SPREP) Award for Excellence in Implementing Island Ecosystem Management Principles in 2015 and the International Energy Globe Award for Fiji in 2020.

In 2021, Fiji signed an agreement with the Forest Carbon Partnership Facility (FCPF) of the World Bank to implement the Fiji Forest Emission Reductions (ER) Program. This initiative is a Reducing Emissions from Deforestation and Forest Degradation, Forest Carbon Stock Conservation, Sustainable Management of Forests, and the Enhancement of Forest Carbon Stocks (REDD+) project. The program encompasses 87% of Fiji's land area, where 86% of the population lives, covering the islands of Viti Levu, Vanua Levu and Taveuni. Its overarching objective is to reduce emissions by 2.5 million tonnes over five years, potentially receiving up to USD12.5 million in result-based payments upon verification of the outcomes.

In parallel, Fiji is exploring opportunities for bilateral cooperation under the Article 6.2 market mechanism while closely monitoring the progress of the Article 6.4 negotiations. To advance its engagement in carbon markets and foster relationships with like-minded countries, Fiji has entered MOUs with Australia and Singapore. Currently, it is in the process of strengthening the legal framework to govern Fiji's participation in carbon markets.

<sup>21</sup> See Republic of Fiji (2012), Clean Development Mechanism (CDM), <https://docplayer.net/34150598-Clean-development-mechanism-cdm-investors-guide-republic-of-fiji.html>.

<sup>22</sup> United Environment Program (2023), CDM Pipeline, <https://unepccc.org/cdm-ji-pipeline/>.

**Figure 5: Status of CDM, VCM and REDD+ carbon projects in Fiji <sup>23</sup>**

Project Name	Location	Project Type	Standard	Start Date	End Date	Status	Estimated Annual Reductions (tCO <sub>2</sub> e)	Credits Issued	
1	Vaturu and Wainikasou hydropower project	Viti Levu	Energy	CDM	2005	2012	Registered, end of the crediting period	24,928	122,734 CERs
2	Kinoya Sewerage Treatment Project	Viti Levu	Methane avoidance	CDM	2012	2022	Registered, end of the crediting period	22,471	18,663 CERs
3	Nadarivatu Hydropower Project	Viti Levu	Energy	CDM	2013	2020	Registered, end of the crediting period	47,361	100,367 CERs
4	12MW Biomass Power Plant at Nabou	Viti Levu	Biomass energy	CDM	2018	2025	Validation terminated	29,238	-
5	Improved Cookstove Program	Countrywide	Energy efficiency	CDM	2019	2026	Registered	277,731	81,289 CERs
6	Drawa Rainforest Project	Vanua Levu	Improved land management	Plan Vivo	2012	2042	Registered	25,861 (years 1-15) 14,841 (years 16-30)	165,350 PVCs
7	Improved Cookstove Program	Countrywide	Energy efficiency	VCS	2020	2027	On hold	272,846	-
8	Fiji Forest ER Program	Viti Levu, Vanua Levu, Taveuni	REDD+	World Bank's FCPF	2021	2025	Registered	2,500,000 (5 years)	-



Image by Sarah Liversidge via Nakau

<sup>23</sup> Ibid; The Goldman School Public Policy Berkeley (2023), Voluntary Registry Offsets Database, <https://gspp.berkeley.edu/research-and-impact/centers/cepp/projects/berkeley-carbon-trading-project/offsets-database>; Plan Vivo, Fiji Drawa Rainforest, <https://www.planvivo.org/drawa>; FCPF (2023) Fiji, <https://www.forestcarbonpartnership.org/country/fiji>.

# CASE STUDY:

## DRAWA RAINFOREST PROJECT

The Drawa Rainforest Carbon Project is an improved forest management project that safeguards over 4,000 hectares of tropical rainforests in Vanua Levu, Fiji. The project was initiated when eight Mataqali (Fijian clans) came together to protect their forests when logging coupes had been mapped out, and communities were ready to clear the forest for timber.

In 2012, the Mataqali joined forces to form the Drawa Block Forest Communities Cooperative (DBFCC) to represent the clans and launch this pioneering project. As the project owner, supported by Nakau, and in collaboration with a local NGO, Live & Learn Fiji, the DBFCC assumes a coordinating and advisory role across all aspects of the Drawa Rainforest Project.

The roles of the DBFCC include managing the funds received in a manner that benefits the community, such as improving infrastructure, supporting further income-generating activities, and administering the process of distributing carbon revenues to members. Since its commencement, the project has earned 132,280 carbon credits under the Plan Vivo Climate.

### CLIMATE MITIGATION AND ADAPTATION BENEFITS

The Drawa Rainforest Project has successfully resulted in 165,350 tonnes of verified emissions reductions since its inception. Beyond carbon mitigation, the project has contributed to ensuring climate resilience by reducing the impacts of extreme weather events. For instance, the Drawa rainforest helped the local communities adapt in the aftermath of Cyclone Yasa, which struck the villages in December 2020. Within the forest, there were intact fishing grounds to provide nutritional support



Image by Sarah Liversidge via Nakau



at a time when homes, infrastructure and food systems were heavily affected. Beato Dulunaqio, a senior project officer with Live & Learn Fiji, noted that the forest exhibited remarkable resilience by recovering swiftly after the event.

## CO-BENEFITS

- **Employment:** Local rangers have been recruited to monitor the project. Live & Learn Fiji has supervised and guided the ranger activities since the project development phase. This responsibility has been gradually handed over to the DBFCC as capacity is built and systems and procedures are established.
- **Biodiversity protection:** The project location is an important habitat for 385 plant species, a wide range of fauna, including 22 bird species, two types of endangered skinks and the endemic Fiji ground frog (*Cornufer vitianus*).
- **Water security and infrastructure:** The carbon revenue has helped fund improved water and sanitation facilities in five villages across the region. Turning logging activities into a protected forest area has also provided the communities with a continued supply of clean water and food, including prawns, eels, fish, seeds, and fruits.
- **Sustainable income:** Apart from carbon revenue, a beekeeping business has been established to provide an alternative source of income through the sale of rainforest honey products. The enterprise has supported women's livelihoods and enhanced local ownership. The honey income can be reinvested or spent on village activities, such as church maintenance, educational expenses, and women and youth projects.
- **Gender balance and inclusiveness:** The DBFCC comprises members from the eight Mataqali, as well as a women's group and a youth group. Women and youth are encouraged to participate in project activities, including village council meetings, community education and consultation. They reported to have equal access to the income generated from the project.



# 3/

## CARBON MARKET OPPORTUNITIES AND RISKS IN FIJI

### 3.1. CARBON MARKET OUTLOOK AND DRIVERS

Globally, carbon markets have continued to expand, with countries like Indonesia and Australia launching new compliance schemes, while some existing emissions trading schemes are undergoing or planning scope expansions.<sup>24</sup> New markets are set to be launched in Brazil, Mexico and India, and regulators have introduced supply-cutting reforms in existing markets, such as the European Union Emissions Trading Scheme (EU ETS) pushing up prices. Voluntary carbon markets have seen significant growth globally, with record carbon credit retirements in 2023.<sup>25</sup> A slight reduction in the supply and demand of carbon credits was witnessed in 2022,<sup>26</sup> which can be attributed to various factors, including macroeconomic conditions, bans on credit tokenisation, and increased scrutiny of the integrity of certain carbon projects. However, with the announcement of numerous enhanced integrity initiatives at COP28 and the uptick in retirements at the end of 2023, the outlook for 2024 is optimistic. Meanwhile, the implementation of Article 6 markets is gaining momentum, with more than 80 partnerships announced by countries around the world.<sup>27</sup>

While carbon market developments are resulting in a proliferation of carbon trading across the globe, the prevailing trend is that governments, standard bodies, and service providers are actively taking initiatives to enhance the transparency and effectiveness of carbon markets. Looking ahead, Fiji's participation in carbon markets requires an understanding of the global drivers influencing these markets:

#### THE PARIS AGREEMENT AND ARTICLE 6

The Paris Agreement acknowledges that countries can engage in voluntary cooperation in implementing their NDCs to allow for higher

mitigation ambition and to promote sustainable development. Article 6 outlines the modalities for such collaboration, encompassing both market- and non-market-based approaches. 77% of countries that have updated their NDCs express intentions to use market collaboration under Article 6.<sup>28</sup> Notably, half of these nations originate from Africa or Latin America, underscoring the importance of international carbon markets as one of the instruments to mobilise climate finance and technology to developing countries.

#### INTERNATIONAL TRADE IMPLICATIONS

Regulatory and policy changes are increasingly considering the role of trade and trade policy in emissions reductions. For example, the European Union (EU) is introducing a Carbon Border Adjustment Mechanism (CBAM) in 2026 that will impose a carbon levy on imported goods to address carbon leakage concerns. Foreign carbon-intensive products, including cement, iron and steel, aluminium, fertilisers, electricity, and hydrogen, will be subject to an EU carbon price equivalent to the EU ETS allowance price. Furthermore, nations with their own carbon pricing instruments, such as Australia, Japan, Canada, and the United States, are also exploring similar trade protection measures. Australia, for example, is currently undertaking a Carbon Leakage Review to assess leakage risks and the development of policy options. In the future, exporting countries may encounter restricted market access if they do not have a decarbonisation strategy or a comparable carbon pricing policy. Many goods and services are already seeing low, or zero carbon requirements imposed for market access purposes. Asia and the Pacific will increasingly look to reduce trade-embedded emissions through market-based instruments such as CBAMs, green procurement (e.g. renewables) and production processes and leveraging free trade agreements that prioritise climate action.

<sup>24</sup> The World Bank (2023), State and Trends of Carbon Pricing 2023, p.8.

<sup>25</sup> BloombergNEF (2024), Carbon Offset Demand Hits Record in 2023 Off Huge December, <https://about.bnef.com/blog/carbon-offset-demand-hits-record-in-2023-off-huge-december/>.

<sup>26</sup> Climate Focus (2022), The Voluntary Carbon Market Dashboard, <https://climatefocus.com/initiatives/voluntary-carbon-market-dashboard/>.

<sup>27</sup> UN Environment Program (2024), Article 6 Pipeline, <https://unepccc.org/article-6-pipeline/>.

<sup>28</sup> Perspectives Climate Group and Climate Focus (2021), Article 6 Readiness in Updated and Second NDCs, p. 2.



## ECONOMIC INCENTIVES FOR ENERGY TRANSITIONS

While carbon pricing mechanisms cover around 25% of global greenhouse gas emissions, these instruments are predominantly located in developed economies. However, with more developing nations embracing net zero targets as part of their NDCs, policymakers are increasingly considering a wide array of policy tools, including various forms of carbon pricing, to drive investment in clean energy and incentivise low-carbon transitions. In Southeast Asia, countries such as Indonesia, Vietnam and Malaysia are strengthening their regulatory frameworks to build an enabling environment for carbon markets, leveraging the tools to raise additional revenue streams that go beyond existing available climate funds.

## CORPORATE NET ZERO COMMITMENTS

Like governments, businesses and corporations are becoming increasingly aware of their climate impacts, with many committing to net zero targets

and quantified commitments to reduce climate-related risks. As of November 2023, 10,274 companies had joined the United Nations' Race to Zero campaign in support of the Paris Agreement goals.<sup>29</sup> Meanwhile, more than 4,000 businesses around the world are working with the Science Based Targets initiative (SBTi), which involves committing to and disclosing on Paris Agreement-aligned emissions reduction targets. As more companies work towards achieving their climate targets, the majority will still require carbon credits to compensate for residual emissions after undertaking direct emissions reduction action within their value chains. This aligns with the IETA's and PwC's 2023 GHG Market Sentiment Survey, which indicates that the demand for carbon credits has been primarily driven by the surge in corporate net zero commitments.<sup>30</sup> It is recommended that companies also support beyond value chain mitigation (BVCM), defined in the SBTi Corporate Net-Zero Standard as "mitigation action or investments that fall outside a company's value

<sup>29</sup> United Nations (2022), Race to Zero, accessible at <https://climatechampions.unfccc.int/whos-in/>.

<sup>30</sup> IETA and PwC (2023), GHG Market Sentiment Survey 2023. Accessible at [https://k5x2e9z8.rocketcdn.me/wp-content/uploads/2023/09/IETA\\_GHG\\_Sentiment\\_Survey\\_2023.pdf](https://k5x2e9z8.rocketcdn.me/wp-content/uploads/2023/09/IETA_GHG_Sentiment_Survey_2023.pdf).

chain, including activities that avoid or reduce GHG emissions, or remove and store GHGs from the atmosphere”, as they transition to net zero.

### ESTABLISHMENT OF SECTORAL SCHEMES

The need to address increasing emissions within specific sectors, such as the transport sector, is also a significant driver of the need for market-based innovation. The Carbon Offsetting and Reduction Scheme for International Aviation (CORSIA) is an initiative designed to limit global net emissions derived from international aviation to 2020 levels to help enable carbon neutral growth. To reach this goal, a range of direct emissions reduction measures should be implemented, including operational improvements, enhanced engine efficiency, and the uptake of sustainable aviation fuels. Additionally, the CORSIA scheme enables the use of eligible carbon credits to account for hard-to-abate emissions. Meanwhile, the International Maritime Organisation’s (IMO) 2023 Strategy on Reduction of GHG Emissions from Ships includes plans for a maritime carbon pricing mechanism to complement emissions reductions achieved through changes to marine fuel standards and operational practices.

### GROWING DEMAND FOR HIGH INTEGRITY CARBON CREDITS

As policy requirements and carbon standards continue to evolve and improve, corporations are progressively interested in carbon projects with robust monitoring, reporting and verification (MRV). These projects are characterised by their capacity to generate real and measurable climate impacts while delivering essential co-benefits such as biodiversity conservation, job creation, improved water quality and enhanced community livelihoods. Buyers are increasingly seeking high-integrity carbon credits that not only contribute to emissions mitigation but also align with the SDGs of host countries. Additionally, investors are actively in search of suitable partners to develop projects that adhere to the refined standards.<sup>31</sup>

### REGIONAL LEVEL COMPETITION

At the regional level, Southeast Asia is leading in generating credits from renewable energy, while Latin America and the Caribbean are the primary sources of nature-based credits, with Africa contributing significantly to the majority of energy efficiency credits. While carbon markets in the Pacific are still relatively small and homogenous (focusing on improved forest management and cookstove programs), there is growing interest among private and public stakeholders in investing in this region to scale up nature-based and renewable energy projects. Pacific Island Countries have a unique opportunity to collaborate with regional partners to access technical resources, investor capital, and market demand for carbon credits that value additional verified co-benefits to Pacific communities. There is also an opportunity to create and position a ‘Pacific brand’ of carbon credits that are fungible but differentiated in recognising its unique values.

### 3.2. FIJI’S PRIORITIES AND EXPECTATIONS FOR CARBON MARKET ACTIVITIES

Fiji’s involvement in carbon markets should not be driven by the aim to produce large amounts of carbon credits that could substitute or delay the necessary decarbonisation efforts of potential credit buyers.<sup>32</sup> Instead, its natural assets and rich biodiversity, and lack of access to sufficient financing and technology transfer required to reduce national emissions presents an opportunity for Fiji to become a producer of high-integrity premium carbon credits that contribute to accelerating decarbonisation efforts and increasing natural carbon sequestration potential while also unlocking a range of sustainable development co-benefits for Fiji’s economy, environment, local communities and the sustainability of traditional livelihoods, cultural norms, and traditions.

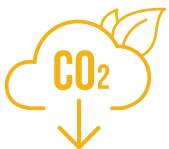
31 Trove Research (2023), Investment Trends and Outcomes in the Global Carbon Credit Market, p. 18. Accessible at <https://trove-research.com/report/global-carbon-credit-investment-report/>.

32 Fiji does not have the landmass or widespread degradation of natural resources seen in Asian, African, or American countries that could generate carbon credits at scale. Conversely, our environment remains unadulterated by large-scale infrastructure and economic development, providing an opportunity to leverage the carbon sink and ecological value to reduce the trade-offs between environmental integrity and economic growth.





Therefore, existing and future engagement with carbon market activities in Fiji should be guided by the following considerations:



## 1/ NET ZERO COMMITMENT AND PATHWAY

Fiji is committed to achieving its 2030 nationally determined contribution (NDC) targets and the long-term 2050 net zero emissions goal. Engagement with carbon market mechanisms should consider these commitments and ensure that Fiji's ability to achieve the targets is enhanced and not compromised by the trading and transfer of carbon credits generated by projects or programs in Fiji.



## 2/ ENVIRONMENTAL INTEGRITY AND DEMAND-SIDE INTEGRITY

Fiji's vulnerability to climate change and heavy reliance on the natural environment requires carbon markets activities to be regulated to ensure genuine contributions to verifiable emissions reductions and greater global mitigation ambition. Prioritising demand-side integrity is also essential to promote the credible use of carbon credits by purchasers, supplementing other decarbonisation efforts within their value chains.



## 3/ SOCIAL INCLUSIVITY AND PROCESS TRANSPARENCY

Carbon market engagement in Fiji should be inclusive and transparent, considering our unique national circumstances, land ownership structures, and cultural traditions. This approach would enable local communities to participate meaningfully in the early stages of project development and throughout the project implementation period. Transparent stakeholder consultations and decision-making are key to obtaining social mandates for commencing and sustaining a project.



## 4/ EQUITABLE BENEFIT SHARING AND LOCAL CAPACITY BUILDING

International standards and methodologies that offer sustainable development co-benefits to help build socio-economic and climate resilience, while ensuring that outcomes are shared equitably, should be preferred. Carbon market activities in Fiji should support economic diversification and job creation by utilising local expertise where possible and building domestic capabilities.



## 5/ TRUST, PARTNERSHIP, AND COLLABORATIONS

Fiji's engagement with carbon markets will be dependent on the development of strong partnerships based on shared intent and trust. These efforts are required to build robust legal frameworks, systems, and safeguards for effective collaborative carbon mitigation approaches, as well as establishing our national profile and attractiveness to quality credit buyers.

### 3.3. OPPORTUNITIES AND ABATEMENT POTENTIAL – THE FIJI ADVANTAGE

Fiji's vibrant tourism industry and the natural environment offer a unique opportunity to develop a brand that integrates the preservation of its invaluable natural resources with both tourism and carbon markets. This approach will allow Fiji to protect its terrestrial and marine landscapes while promoting sustainable development practices and advancing its commitment to climate mitigation and adaptation. Within this context, Fiji is well positioned to take the lead in pioneering innovative 'green' and 'blue' carbon projects, capitalising on its market readiness.

The country is in a strong position to be a first mover on Article 6 carbon markets within the Pacific, enabled by a raft of factors, including:



#### Policy Intention and Alignment

Fiji's NDCs, in both original and updated versions, clearly convey the intention to leverage market mechanisms to attain the conditional climate goal.<sup>33</sup> The

ambitious target of achieving near 100% renewable energy by 2030 depends on the ability to secure funding from various available climate finance sources, including bilateral, regional, and international carbon markets. This strategic direction aligns with Fiji's National Climate Change Policy (2018-2030), which envisions the creation of a 'distinct economic sector' focused on strengthening climate resilience through ecosystem enhancement and carbon sink management.<sup>34</sup>



#### Legal Frameworks

While most Pacific Island Countries do not have specific legislation for market engagement, Fiji's CCA sets out a robust legal framework and provisions to regulate its carbon market activities. Part 10 of the

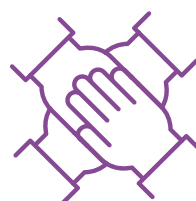
Act defines Carbon Sequestration Property Rights and clarifies the registration processes. Project developers who intend to conduct an emissions reduction project under independent carbon standards or Article 6 rules must first obtain the consent of relevant regulatory authorities. Part 10 of the Act allows Fiji to establish the regulatory frameworks for domestic VCM and Article 6 projects.



#### Capacity Building Support

Several capacity-building initiatives are helping developing countries like Fiji establish carbon projects and engage with voluntary and

Article 6 markets. For instance, Fiji can build institutional capacity within the government and the private sector by leveraging training and workshop opportunities under the United Nations Development Programme's (UNDP) Carbon Payment for Development, the Global Green Growth Institute's (GGGI) Carbon Transaction Platform, the International Blue Carbon Partnership, or the World Bank's Partnership for Market Implementation. Assistance in designing institutional, policy and regulatory frameworks to support carbon market development can be sourced from the same programs. Aside from the Indo-Pacific Carbon Offset Scheme (IPCOS) program launched by the Australian Government, there is a lack of ongoing and coordinated initiatives addressing the specific capacity-building needs in PICs, particularly in Article 6 implementation. There is an opportunity to work with other countries in the region, such as Australia and New Zealand, to develop targeted, bespoke capacity-building programs to address national gaps and requirements.



#### Support for Pilot Projects

There are similar initiatives helping developing countries like Fiji to implement pilot carbon projects, contributing crucial funds. Under the

Carbon Payment for Development's payment-for-result mechanism, the UNDP shares upfront costs with private-sector project proponents looking to scale up low-carbon solutions in developing countries. Another example is the Carbon Transaction Platform. Under the program, carbon trust funds are managed by the GGGI to procure ITMOs on behalf of beneficiaries and donors. The Institute simultaneously works to identify buyer interest among partnered countries as well as to facilitate dialogue between buyers and sellers.

<sup>33</sup> In its 2015 Intended Nationally Determined Contribution (INDC), Fiji emphasised that a combination of global market-based mechanisms and international direct aid transfers would be essential for achieving rapid and cost-efficient mitigation. This included the use of bilateral, regional and international market mechanisms like the Clean Development Mechanism. In the 2020 updated NDC, Fiji reiterated its commitment to exploring various forms of market-based cooperation, including Article 6 of the Paris Agreement, to support its own climate targets and those of other countries. Fiji's INDC can be accessed at [https://fijiclimatchangeportal.gov.fj/wp-content/uploads/2022/01/FIJI\\_INDC.pdf](https://fijiclimatchangeportal.gov.fj/wp-content/uploads/2022/01/FIJI_INDC.pdf), and the updated NDC is available at <https://unfccc.int/NDCREG>.

<sup>34</sup> Ministry of Economy, Fiji's National Climate Change Policy 2018-2030, p. 26.



**Figure 6: Mitigation potential of NDC targets and the required investment and action<sup>35</sup>**

NDC Target	Mitigation Action	Mitigation Potential (Per year)	Investment Needs (USD)	Activities Required
10% unconditional (Energy efficiency)	Demand-side energy efficiency	30,000 tCO <sub>2</sub>	150 million	<ul style="list-style-type: none"> <li>Energy labelling and energy performance standards for electrical appliances</li> <li>Energy efficiency in business</li> <li>Energy efficiency in the public sector</li> <li>Updated codes and standards for buildings</li> </ul>
	Transport (land and maritime)	137,000 tCO <sub>2</sub>	1,149 billion	<ul style="list-style-type: none"> <li>Replacement of old buses, taxis, private cars, lorries and minibuses</li> <li>Import and use of biodiesel</li> <li>Maintenance of sea vessels</li> <li>Increased utilisation of fuel-efficient outboard motors</li> </ul>
20% conditional (Power generation)	100% renewable energy (power generation and transmission)	427,000 tCO <sub>2</sub>	1,671 billion	<ul style="list-style-type: none"> <li>Sustainable biomass plantations and waste to energy</li> <li>Hydro power generation</li> <li>Solar PV generation</li> <li>Grid improvement and storage</li> </ul>
		597,000 tCO <sub>2</sub>	2.97 billion	

<sup>35</sup> Ministry of Economy, above n 6.

### 3.4. RISKS AND CONSTRAINTS

#### CARBON PRICE VOLATILITY

Carbon credits, as financial products, can experience unpredictable price fluctuations. Pricing uncertainties can be driven by changes in government policies, shifts in company strategies, supply dynamics like surpluses and shortfalls, media coverage or changes in public perceptions. They can lead to unexpected drops in the value of carbon credits and, consequently, the associated income stream. Historically, this volatility has sometimes deterred landholders and local communities from participating in carbon markets.

#### SHIFTING BUYER DEMAND

As guidelines for the best use of carbon credits continue to develop, buyer expectations may shift and evolve accordingly (e.g., emissions removals vs avoidance). Project proponents, often working under long-term contracts with specific land management obligations, face a risk that their project may no longer meet the integrity, transparency, or benefit-sharing standards that buyers seek in the future.

#### LONG LEAD TIME IN CARBON PROJECTS

The process of developing and crediting a carbon project can be lengthy. It involves a series of measurements, audits, and reports by different specialists before any credits can be issued. Land-based projects can take years to obtain free, prior, and informed consent (FPIC) and to sequester enough carbon in vegetation and soil. This process can lead to long lead times and hinder project uptake.

#### LIMITED INSTITUTIONAL CAPACITY

While Fiji has gained some experience through market mechanisms such as CDM and REDD+, the government departments still need to build up their capacity for large-scale engagement in international carbon markets. Additionally, Fiji's market readiness is constrained by a shortage of expertise across the entire value chain, including project developers (existing ones are small-scale and predominantly focused on forestry and cookstove projects), legal practitioners, financial institutions, auditors, community groups and buyers.

#### LACK OF BANKABLE PROJECTS

Fiji is a small island nation with limited land space to develop new carbon projects. The national REDD+ program under the World Bank FCPF has covered 87% of Fiji's total land area, leaving the remaining space for competing land uses, including agriculture, industry, tourism, housing, infrastructure, and

carbon farming. The opportunity costs and trade-offs have restricted the scale and type of carbon projects that can be implemented in Fiji.

#### HIGH UPFRONT COSTS

Project development and implementation require substantial outlays of transaction costs, including scoping costs, feasibility studies, legal fees, leases, insurance, salaries and MRV. The upfront capital needed has created a barrier to entry, reducing the commercial viability of small-scale projects. Meanwhile, large projects may need to prove their ability to deliver abatement at scale to apply for donor funding schemes.

#### LAND TENURE CARBON RIGHTS OWNERSHIP

Given that 88% of Fiji's land is held by traditional landholders,<sup>36</sup> obtaining consent for projects or obtaining carbon sequestration property rights (CSPR) might pose complex and time-consuming challenges. Sections 45 to 47 of the CCA contain provisions for CSPR, and it is important that Part 10 provisions are expedited to create certainty, clarity and avoid lengthy waiting times which, alongside high upfront costs, could deter project uptake. In addition, local communities may face high opportunity costs when using their land resources for carbon projects, hence requiring careful consideration of the trade-offs involved. It is important to note that existing institutional arrangements, such as those in TLTB, provide a comparative advantage in mitigating risks and providing added certainty for investors.

#### COMPLEXITY IN ASSESSING TRADE-OFFS

Due to the sensitivity of communal and traditional land-owning governance structures and decision-making structures, there is complexity when it comes to securing consent for project activities.

#### INFORMATION ASYMMETRIES

Navigating carbon markets can be complex due to the limited availability of public data on carbon prices, project performance, and transaction history. Information asymmetries between project developers, investors, and local resource owners may introduce risks to decision-making and inequitable benefit sharing. Local communities should not rush into carbon market engagement before fully understanding the potential implications.

<sup>36</sup> SPC and GIZ (2013), REDD+ and Forest Carbon Rights in Fiji, p.5.



# 4/

## CARBON MARKET ENGAGEMENT OPTIONS

When assessing its strategic approach to carbon markets, Fiji has several options for participation, as outlined in Section 4.2 below. These options include no market involvement, VCM involvement only, Article 6 involvement, a domestic market focus, or a hybrid option involving a combination of engagement with VCM and Article 6 mechanisms. Before delving into the specifics of market engagement options, it is imperative to assess several strategic considerations, including pricing and valuation, implications of the VCM & Article 6 markets, interactions between Fiji's NDC and carbon markets, and ensuring demand-side integrity.

### 4.1. STRATEGIC CONSIDERATIONS FOR FIJI IN EXAMINING CARBON MARKET ENGAGEMENT OPTIONS

#### 4.1.1 POLICY GOALS AND PRIORITIES OF THE FIJI GOVERNMENT WITH RESPECT TO ACHIEVING ITS NDC

Any strategic consideration of how market mechanisms should be leveraged to support NDC implementation must be in the context of alignment with national development goals and priorities and existing national climate change policies (as outlined in Section 2.5).

This requires a full, evidence-based assessment of how Fiji will achieve its NDC commitments; whether a quantum of domestically generated credits will be required to meet the country's NDC and how this may change over time; what Fiji's carbon budget is for international trading; and to what extent Fiji's annual finance gap to achieve its NDC may be addressed through carbon market revenue.





Decisions should be formalised in a national carbon market strategy to guide Fiji's transition towards net zero and its international cooperation approaches, including:

- Supporting efficient domestic decarbonisation, nature repair and strategic SDGs;
- Outlining an approach to participating in international carbon markets
- Providing policy direction and transparency to investors, businesses, and communities about the intended roles of carbon markets, crediting and trading.

#### 4.1.2 PRICING AND VALUATION APPROACHES

From a policy perspective, fluctuations in carbon prices pose a challenge for Fiji in planning its carbon market engagement strategy. Instruments such as carbon pricing and current carbon market lead pricing can assist in formulating valuation approaches for carbon trading. There are some basic carbon asset pricing approaches such as market pricing (following a market lead price), auctioning (for renewable energy projects whereby there is price discovery through willingness to pay), and cost pricing (based on financial analytics – benchmarking loans or concessional finance and project costs). Factors such as activity type, location, size, and co-benefits delivered alongside the carbon will influence cost pricing and valuation. These approaches are particularly relevant for emission reduction credits or mitigation outcomes that will stay in Fiji, contributing to the host country's NDC compliance.

In the case of a credit that is adjusted as an ITMO and transferred out of the host country under

Article 6, an opportunity cost is applied related to the marginal cost of the NDC as the unit is no longer available for the host country's NDC compliance. This requirement to avoid double-counting mitigation outcomes by applying corresponding adjustments will create an obligation for the host country to undertake additional mitigation activities to meet its emissions targets, which may come at higher costs. Consequently, the host country may need to consider establishing carbon price benchmarks for cross-border ITMO transfers. These guidance prices could also serve as a reference for voluntary market projects.

For SIDS like Fiji, the 'value' of participating in carbon markets can extend beyond carbon prices. Fiji's susceptibility to climate change, limited land area, close dependency between environmental services and human systems, and the urgent need to drive energy sector transitions provide a solid basis to leverage carbon standards that recognise and price the associated co-benefits of investing in the country. For example, the Gold Standard often prices carbon credits higher than others by considering and valuing the social, environmental, and economic impacts of carbon projects.<sup>37</sup> Similarly, many Article 6 pilots increasingly focus on activities with sustainable development benefits.<sup>38</sup> Therefore, it is vital to consider the co-benefits or indirect advantages associated with these market activities, as well as their practical usefulness and functionality. Importantly, Fiji should adopt a holistic approach to assessing the value of investment activities, considering both market and non-market factors.

<sup>37</sup> Gold Standard (2023), Carbon Pricing: What Is a Carbon Credit Worth? Accessible at <https://www.goldstandard.org/blog-item/carbon-pricing-what-carbon-credit-worth>.

<sup>38</sup> Sandra Greiner et al. (2020), Article 6 Piloting: State of Play and Stakeholder Experiences.



### 4.1.3 IMPLICATIONS OF DIFFERENT TYPES OF CARBON MARKETS

#### Article 6 Markets

Article 6 markets require voluntary cooperation between countries to be premised on 'higher ambition' and the mutual achievement of NDC targets. This requirement indicates that any transactions made between Fiji and other nations, either bilaterally through Article 6.2 or under Article 6.4, should ensure that Fiji is able to:

- Achieve its own NDC targets partly through the help of carbon market activities.
- Generate sufficient ITMOs to sell and transfer to the buyer countries.

Ensuring that ITMOs represent measurable and verifiable emissions reductions depends on adherence to the principles outlined in Section 2.4. Additionally, ITMO transfers must guarantee that any emissions reductions credited to the 'buyer' account are not claimed directly or indirectly by the seller to avoid double counting. Both buyer and seller must make 'corresponding adjustments' within their respective national GHG inventories and registries to reflect the trade of the ITMOs.

Part 10 of Fiji's CCA provides a legal framework for engagement in Article 6 mechanisms. This framework forms the basis for introducing the

necessary regulations, guidance, and processes for Fiji on project eligibility and approval, registration of carbon sequestration property rights, monitoring project outcomes, registering outcome units, and authorisation of carbon credit units for international transfer and trading as ITMOs.

As Article 6 requires corresponding adjustments, Fiji could use these mechanisms to reduce emissions in sectors with quantified emissions reduction targets specified within the current NDC. As of 2023, this restriction implies that Article 6.2 agreements (as Article 6.4 is not yet operative) would only apply to activities related to the energy sector. The potential inclusion of the forestry sector and other sectors within Fiji's upcoming 2025 NDC could broaden this scope. Additionally, Fiji could differentiate its market approach to its unconditional and conditional NDC. For example, Fiji might pre-determine a target list of carbon project activities relating to its conditional target (NDC subject to international cooperation, requiring external financial resources). This target list could be designated eligible for expedited pre-authorisation, thus encouraging capital investment in the country and providing assurance and confidence for project developers. This approach has been taken by Ghana, a country that launched the first Article 6.2 bilaterally authorised project in 2022.



The table below outlines some (non-exhaustive) pros and cons of Article 6.2 mechanisms that need to be considered in Fiji's context.

PROS	CONS
<ul style="list-style-type: none"> <li>• Article 6.2 approaches are generally expected to yield higher carbon prices than voluntary markets.</li> <li>• Bilateral collaborations under Article 6.2 involve regulatory oversight by both the buyer and host governments, ensuring high transparency and visibility. In a small island context, this cooperative approach could be transformational and enable a scale of investments not accessible otherwise.</li> <li>• Participating in Article 6.2 cooperative approaches with close partners offers the opportunity to leverage existing relationships, supplement development aid and assistance packages, and incorporate additional capacity-building support.</li> <li>• For a small island country, a single Article 6.2 partnership has the potential to facilitate a range of projects and investments, reducing the need for and complexity of engaging with multiple parties and managing the open market.</li> <li>• Within the agreed rules, Article 6.2 agreements offer countries the flexibility to negotiate and establish terms and criteria that are aligned with their climate goals and development priorities.</li> </ul>	<ul style="list-style-type: none"> <li>• Large-scale Article 6.2 agreements place significant pressure on host governments and project implementers to deliver the specified emissions reductions. Operationalisation requires increased capacity alongside the need to upgrade the host countries' MRV systems and the regulatory frameworks for carbon markets, under Part 10 of the CCA.</li> <li>• Bilateral agreements often prioritise sectors with high mitigation potentials to allow countries to meet their NDCs. This may limit interest and opportunities for smaller, community-based projects to be included within the agreements. However, strong guiding principles for market engagement, as outlined in Section 2.4 can help mitigate this risk.</li> <li>• The requirement to make corresponding adjustments and focus on sectors covered by existing NDC targets confines the scope of potential activities.</li> <li>• Fiji's opportunities for Article 6.2 engagement may be restricted by the emissions reduction capabilities of Fijian sectors and its carbon budget for trading, as outlined in its long-term NDC. Article 6.2 agreements may require the transfer of ITMOs in quantities exceeding capacity.</li> <li>• Expanding Fiji's NDC to encompass new sectors eligible for Article 6.2 collaborations may reduce the potential to participate in voluntary markets.</li> </ul>





### Voluntary Markets

The global voluntary carbon markets (VCMs) offer a flexible platform for forging diverse partnerships aimed at financing carbon sequestration and emissions reductions in developing countries. They also provide an avenue for quantifying, certifying and monetising co-benefits that target specific SDGs supporting sustainable development investments and credible emissions reductions that might not have been achieved without the voluntary markets. The markets have gained momentum due to increased demand largely driven by pressure on the private sector to comply with domestic and international emissions reduction targets, driven by a general shift towards corporate social responsibility. They have supported innovation and experimentation with market mechanisms since their inception in the early 1990s.

Despite the growth and projected outlook, the VCM has been hampered by reputational, integrity and process concerns, and outcomes of voluntary activities have been mixed. The VCM is neither legally mandated nor enforced, and the supporting industry ecosystem is fragmented, leading to inconsistent methodologies, requirements, and transparency around the impacts and verifiability of projects. However, the VCM has been doing much of the heavy lifting, developing infrastructure and market maturity in a process of continual improvement. Recent initiatives such as the ICVCM, VCMI, and major initiatives to back up the credibility of VCMs at COP28 seek to address these concerns on both the demand and supply side of the market and organise the market generally.<sup>39</sup>

The voluntary markets encompass a wide array of standards. However, the well-established agencies regulating the carbon credit supply chain are Verra's Verified Carbon Standard (VCS), the Gold Standard (GS), the American Carbon Registry, the Climate Action Reserve and Plan Vivo Climate. They define project methodologies, verify compliance and host registries that regulate the minting and retirement of credits. Fiji's CCA includes a list of 'approved international emissions reduction standards', including VCS and GS. In operationalising carbon markets and granting authorisations, Fiji may consider expedited approval or a simplified process for these standards to reduce administrative and technical processes – on the provision that the projects meet Fijian carbon market strategy principles and standards.

In alignment with the aforementioned principles to target projects that create direct and verifiable environmental and community co-benefits, there are various international standards that specifically provide guidance on co-benefit accreditation, e.g. VCS+CCB certification, SD Vista, and Plan Vivo. Market information available through the Ecosystem Marketplace indicates that the demand for co-benefits is growing, with transacted volumes increasing and credits attracting a price premium.<sup>40</sup> Fiji may consider assessing these standards for pre-approval via regulation.

Currently, voluntary markets are generally viewed as more flexible than Article 6 mechanisms. However, they may require corresponding adjustments in the future.

<sup>39</sup> ICVCM (2023), ICVCM and VCMI Join Forces to Operationalise a High-Integrity Market to Accelerate Global Climate Action, <https://icvcm.org/icvcm-and-vcmi-join-forces-to-operationalize-a-high-integrity-market-to-accelerate-global-climate-action/>; Verra (2023), Independent Crediting Programmes Announce Ground-Breaking Collaboration to Increase the Positive Impact of Carbon Markets, <https://verra.org/independent-crediting-programmes-announce-ground-breaking-collaboration-to-increase-the-positive-impact-of-carbon-markets/>.

<sup>40</sup> See, for example, Ecosystem Marketplace (2023), 2023 State of the Voluntary Carbon Markets Report: Paying for Quality, <https://www.ecosystemmarketplace.com/publications/state-of-the-voluntary-carbon-market-report-2023/>.

The table below outlines some (non-exhaustive) pros and cons of VCMs to be considered in Fiji’s context:

PROS	CONS
<ul style="list-style-type: none"> <li>Flexibility to explore a wide range of standards, methodologies, and buyers. More potential for innovation and integration of co-benefits into project objectives.</li> <li>More accessible than compliance markets, less government involvement, which can lead to faster project uptake.</li> <li>Opportunity to develop projects that sell credits without corresponding adjustments to buyers interested in making ‘climate contributions’ rather than ‘offsetting’ their carbon emissions.</li> <li>Fiji has more potential to design small-scale community-level projects that may yield lower carbon credits than Article 6.2 agreements.</li> <li>Fiji’s positive experience with the Drawa Rainforest project can serve as a model for the development of national guidelines to enable effective oversight by the Government.</li> </ul>	<ul style="list-style-type: none"> <li>The markets face intense competition, often influenced by private sector interests, and lack the degree of regulatory oversight of compliance markets. Direct interactions between community stakeholders and private actors increase liability risk and potential exploitation.</li> <li>Carbon pricing within voluntary markets is typically volatile and individually negotiated, usually leading to lower carbon prices compared to compliance markets.</li> <li>VCM standards are not centrally regulated and can be inconsistent with varying levels of transparency and integrity between methodologies.</li> <li>The uncertain future of voluntary markets and their stature under the Paris Agreement mean that methodologies and best practices may change over time.</li> <li>Scaling up voluntary carbon projects in Fiji, especially in non-NDC sectors, could complicate the inclusion of these activities in future NDCs as the country moves toward targeting all sectors to achieve net zero emissions by 2050.</li> </ul>

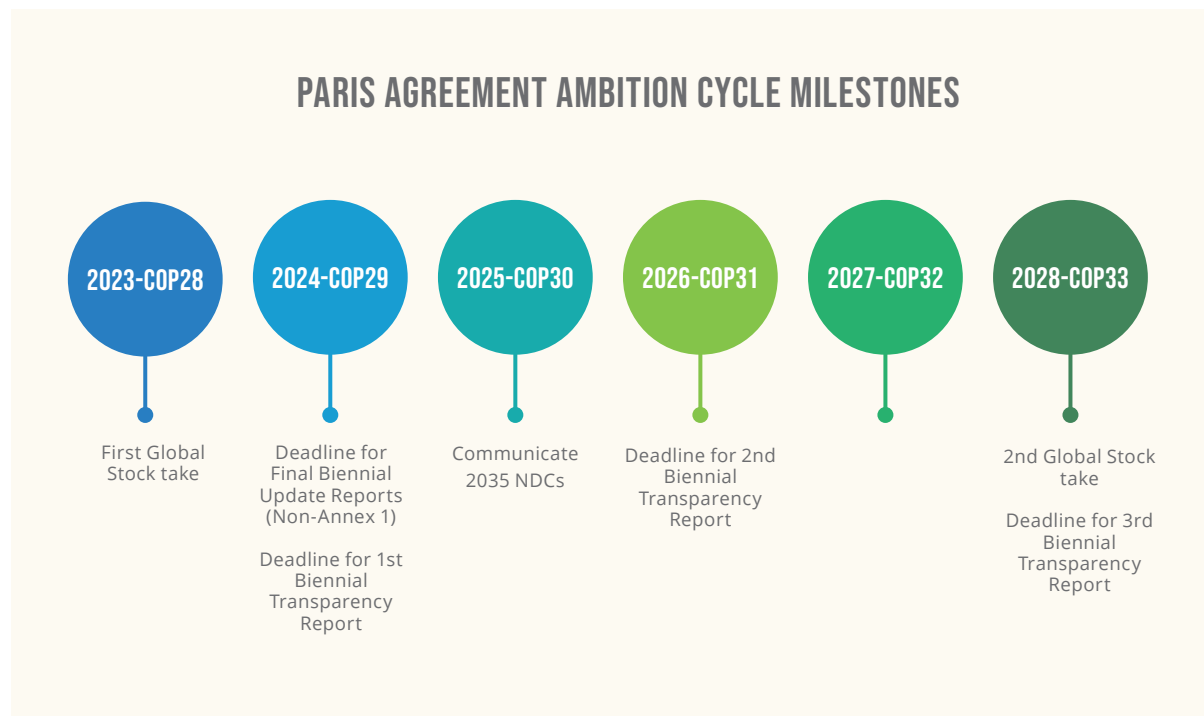
#### 4.1.4 INTERACTIONS BETWEEN FIJI’S NDC AND CARBON MARKETS

The Paris Agreement is anchored in the commitment by all Parties to submit and implement NDCs, documenting the actions they take to reduce emissions and facilitate adaptation. The Paris Agreement’s ‘ambition cycle’ requires Parties to submit increased NDCs every five years and report on progress biennially.

To meet mitigation and adaptation targets, Fiji should strategically evaluate how different market and project types can assist in or impact NDC achievement. Overselling ITMOs might generate carbon revenues, but the corresponding

adjustments could erode Fiji’s NDC progress. On the other hand, underselling or underutilising carbon markets could prevent Fiji from accessing additional financing sources needed to increase emissions reductions and promote sustainable development outcomes.

Timing is a key consideration factor. Given the Paris Agreement’s ambition cycle and the specific target years outlined in Fiji’s NDC, it becomes crucial to strategically consider which sectors or subsectors, market mechanisms, and projects are most appropriate to maximise Fiji’s benefits from carbon market transactions, while minimising the overselling risks that might affect NDC compliance.



### Summary of NDC Approaches:

Fiji can utilise both voluntary and compliance markets. Irrespective of the type of carbon market used, the relationship between carbon trading and NDC achievement should be understood and clarified.

The general typology of relationships between NDCs and carbon credits can be summarised as follows. It is noted that all three approaches could potentially co-exist in application in Fiji:

Approach	Scope	Approval	Corresponding adjustment	Issues	Relevance
<b>NDC – Crediting</b>	Emissions reductions fall within the scope of Fiji's NDC	Requires approval and authorisation	Requires a corresponding adjustment	Implementation challenges / not attractive to voluntary markets	Suitable for Article 6.2 and Article 6.4.
<b>Non-NDC Crediting</b>	Outside the scope of Fiji's NDC	Requires basic approval by the Government	Not required	Some risks of double counting / does not incentivise high-ambition projects	Voluntary projects only
<b>Contribution Claim</b>	Inside and outside of Fiji's NDC	Unlikely to require Government approval	Not required	Cannot lead to neutrality claims / may not be attractive to voluntary buyers	Voluntary carbon projects only

#### 4.1.5 DEMAND-SIDE INTEGRITY

Demand-side integrity refers to the credible use of carbon credits within a high-ambition transition pathway. Managing the demand in an open market setting is a challenging and intricate task to ensure that the generated credits contribute to genuine climate action. There is a risk that demand may come from buyers who view carbon credits as an alternative to directly reducing their carbon emissions. Conversely, there is also demand from actors with legitimate, ethical, and credible motivations to participate in such transactions that are complimentary to direct emissions reduction at source.

Even with regulatory frameworks and approval processes in place, assessing buyer motivations and their alignment with Fiji's policies and positions on climate change remains difficult. Fiji's engagement with carbon markets requires careful consideration of how exported credits will be utilised, accounting for the broader context of the international climate change regime. It involves weighing the trade-offs, costs, and benefits between exporting ITMOs and counting them towards Fiji's long-term NDC targets. The final decisions could be reflected in the individual outcomes of project approval processes by the Government.

#### 4.2. STRATEGIC OPTIONS FOR ENGAGEMENT IN CARBON MARKETS

Figure 7 presents five market engagement options that Fiji could consider in contemplating its strategic approach to carbon markets. Each option carries implications for international export and trading in relation to Fiji's NDC achievement. These options have been informed by stakeholder consultations and shaped by the views provided. They are non-exhaustive, with possibilities of different market configurations within each option. The Strategy Roadmap provides a starting point for considering these strategic options, and it is intended to support efforts to narrow these options (and others) into a comprehensive national strategy for carbon markets.



**Figure 7: Carbon market engagement options**

Limited market use	Voluntary markets	Article 6 markets	Domestic carbon crediting program	Hybrid use
Option 1	Option 2	Option 3	Option 4	Option 5
<ul style="list-style-type: none"> <li>Limited use of Article 6 markets while pursuing other financing means.</li> <li>Minimal voluntary trading and large-scale Article 6.2 cooperation.</li> </ul>	<ul style="list-style-type: none"> <li><b>Policy approach 1:</b> Regulate voluntary market activities.</li> <li><b>Policy approach 2:</b> An independent government authority to provide oversight functions.</li> <li><b>Policy approach 3:</b> Allow for an open-market approach without approving projects or making corresponding adjustments.</li> </ul>	<ul style="list-style-type: none"> <li>Engage exclusively in Article 6 markets for specific outcomes.</li> <li>Trade ITMOs from a range of sectors to support investment into resilience building, NDC achievement, and other development priorities.</li> </ul>	<ul style="list-style-type: none"> <li>Develop a domestic carbon crediting standard.</li> <li>Establish regulations to facilitate the establishment of Fijian methodologies and project types.</li> </ul>	<ul style="list-style-type: none"> <li>Allow voluntary trading and pursue Article 6 cooperation.</li> <li>Tailor project types for different markets.</li> <li>Both markets co-exist with the Government regulating transactions and making corresponding adjustments.</li> </ul>

#### 4.2.1 OPTION ONE: LIMITED MARKET USE

Fiji could primarily focus on achieving its NDC targets through existing means of financial support, such as bilateral partners, multilateral organisations, and climate funds. Simultaneously, it could work on establishing the necessary systems and frameworks for engaging in Article 6.4 markets while also participating in small-scale pilot projects under Article 6.2 markets. This approach allows the UN-governed centralised mechanism under Article 6.4 to be developed and operationalised over time.

#### 4.2.2 OPTION TWO: VOLUNTARY MARKETS ONLY

For participation in voluntary markets, Fiji has three potential policy approaches:

- Government oversight of voluntary market activities.** The Government could develop specific regulations under the CCA to govern voluntary market activities. These regulations could introduce a registration system that mandates government approval for all carbon projects, subject to the review of an advisory body. This approach could ensure protections for local communities and the private sector by enforcing existing community engagement protocols, increasing oversight to shield local companies from potential liability, and developing a feedback and grievance redress mechanism.
- Establish an independent authority for market oversight.** Fiji could establish an independent authority responsible for overseeing voluntary market activities. This authority would take the



roles of project approval and monitoring, regardless of whether corresponding adjustments are required. Additionally, it would be accountable for providing regular reports to the Government on VCM activities.

- Allow for an open-market approach.** Fiji could adopt an open-market approach for voluntary carbon projects that do not require government approval or corresponding adjustments. Recognising that projects would operate outside the scope of Fiji's NDC, the Government could allow stakeholders to participate in voluntary markets under existing legal frameworks. Additionally, it could actively seek capacity-building support and collaborate with academic institutions and non-government organisations to enhance national capacity for effective and informed participation in VCM projects.

In any of the above option scenarios for the 'voluntary market's only' approach there would be a need to establish clear redress mechanisms for communities and businesses as well as ensure a standard set of protocols for third-parties wishing to engage with communities and businesses. It is noted that an 'open market' approach involves higher risk of exploitation as it suggests a reduced role for national authorities and minimal regulatory oversight.

#### 4.2.3 OPTION THREE: FOCUS ON ARTICLE 6 MARKETS FOR TARGETED OUTCOMES

Fiji could collaborate with selected bilateral partners to develop a limited number of large-scale emissions reduction programs for sectors or subsectors where NDC targets are unlikely to be achieved due to prevailing market conditions, climate financing constraints, or the high upfront costs associated with technology adoption. For example, this could involve working with a bilateral partner to make a tailored set of investments to promote low-emissions public transport or replace large Heavy Fuel Oil (HFO) EFL generators with photovoltaic (PV) systems supplemented by small-scale backup generators. While this approach carries the potential

for substantial emissions reductions, it also entails considerable risks due to the need to introduce new technologies across a range of sub-sectors to achieve Fiji's NDC targets. The feasibility of entering into such a partnership depends on the working arrangements and capacity support built into the agreements to facilitate the achievement of its objectives.

#### 4.2.4 OPTION FOUR: A DOMESTIC CARBON CREDITING PROGRAM

With the accumulation of capacity and experience over time, Fiji could explore the implementation of a domestic carbon crediting mechanism. This approach provides the flexibility to design methodologies and processes that meet the local circumstances and specific needs. However, it would require the establishment of new frameworks and market infrastructure. Part 10 of Fiji's CCA enables the drafting of regulations to facilitate the development of 'Fijian Emissions Reduction Methodology' (FERM), 'Fijian Emissions Reduction Project, Program or Activity' (FERPA) and 'Fijian Mitigation Outcome Units' (FMOUs). This option could be considered in the future as Fiji enhances its technical and institutional capabilities to establish and operate a robust domestic standard.

#### 4.2.5 OPTION FIVE: A HYBRID APPROACH

In the short term, Fiji could create an enabling environment to promote the use of voluntary markets for community-based projects outside Fiji's NDC, while leveraging Article 6 markets for large-scale emissions-reduction projects within NDC sectors and their associated sub-sectors. In anticipation of Fiji's NDC scope expansion, voluntary projects and transactions would need to report on how carbon credits are used offshore to ascertain whether another country has claimed the credits and whether specific outcomes should be excluded from future NDC reporting.



# 5/

## ACTIONS AND PRIORITIES TO INFORM FIJI'S STRATEGIC ENGAGEMENT WITH CARBON MARKET MECHANISMS

In Fiji, carbon markets have continued to be explored as a means to secure additional financing for development priorities.

Market-based mechanisms involve transactions, exchanges, and the evaluation of trade-offs. The Strategy Roadmap action plan has been divided into 'pillars' to organise actions and priorities to inform Fiji's strategic engagement with existing and emerging carbon market mechanisms. The five pillars are:

- Enhancing market readiness and strategic actions
- Strengthening the legal framework and governance structure
- Safeguarding community benefits and landholder rights
- Increasing public awareness, participation, ownership, and capacity
- Developing effective partnerships and scaling finance

### 5.1. PILLAR 1 - ENHANCING MARKET READINESS THROUGH STRATEGIC ACTIONS

Article 6 of the Paris Agreement recognises the role of voluntary cooperation through market and non-market approaches in enhancing NDCs. This provision aims to uplift ambition in both adaptation and mitigation efforts while promoting sustainable development and environmental integrity. Meanwhile, Article 5 of the Agreement covers the potential use of results-based payments to support the conservation of natural carbon sinks and reservoirs. Voluntary carbon markets, on the other hand, can be broadly seen as contributing to the goals of the Paris Agreement by engaging non-state actors in the financing of emissions reductions.

To ensure the alignment of market activities with existing emissions reduction targets, ongoing reforms, policy priorities, and economic development goals, Fiji's carbon market engagement should be informed by the following strategic actions:





## SHORT TERM

1. Establish and clarify the institutional arrangements and processes for registering CSPR for land- and nature-based projects and ensure that the complete procedures and forms for obtaining project approvals from the relevant authorities are developed.
2. Accelerate the development of the regulations required under Part 10 of the CCA to operationalise Part 10 and enable this section to enter into force.
3. Evaluate Fiji's current NDC performance, along with existing strategies and plans to meet Fiji's 2030 and 2050 targets. Determine the most relevant and applicable emissions reduction activities to progress through carbon markets based on the evaluation of mitigation potential and the consideration of the volume of emissions reductions and removals that will need to be retained for Fiji's NDC achievement.
4. Facilitate robust consideration of carbon markets opportunities to agree on policies to the extent of which Fiji intends to leverage relevant mechanisms to achieve its current and upcoming NDC targets, noting the importance of reflecting this intention within current NDC implementation and investment plans and the process to develop Fiji's 2025 NDC.
5. Scale up and invest in national capacity to monitor, report, verify, and compile sectoral emissions and emissions reduction data in accordance with provisions outlined in Part 7 of the CCA.
6. Perform a cost-benefit analysis to assess potential trade-offs associated with long-term land-based carbon projects, balancing development needs and community benefits to prevent future conflicts regarding land use. While the CCA provides a legal framework for carbon market activities, further policy work will be required to support effective and equitable community-based engagement and additional efforts may be necessary to establish a new national land-use category for nature-based projects.

## MEDIUM TERM

1. Develop and publish requirements applicable to all projects registered in Fiji that clarify minimum thresholds for complying with applicable standards for ensuring integrity and compatibility with existing methods (e.g. CORSIA Emissions Unit Eligibility Criteria 2019). This information could serve as minimum guidelines for ensuring the environmental and social integrity of carbon projects in Fiji and include sector-specific guidance.
2. Increase the alignment between national policies and carbon market engagement

strategies. Given the linkages between Fiji's National Energy Policy (NEP) 2023-2030 and the potential use of carbon markets, the implementation of carbon projects to support energy sector decarbonisation needs to be considered against the challenges identified in the NEP and aligned with the priorities and objectives it sets out. Similarly, Fiji's approach to carbon markets must continue to be well oriented and aligned with the current National Development Plan, which sets out high level sectoral development priorities.

3. Improve the national greenhouse gas inventory system and align it with Biennial Transparency Report timeline, Enhanced Transparency Framework and Article 6 accounting requirements. This infrastructure is essential for Fiji to monitor its NDC targets and implement necessary corresponding adjustments following the authorisation of ITMO transfers.
4. Establish interim measures to enable the documentation and registration of existing and new carbon projects undertaken in Fiji, including the achieved emissions reductions or removals and the issuance of carbon credits under approved voluntary carbon standards for those projects.
5. Facilitate pilot carbon projects by exploring innovative project types or expanding existing programs to enable practical learning and continual improvement of implementation capacity over time.
6. Support the mobilisation of funding and investment for the implementation of nature-based activities associated with voluntary and/or Article 6 markets building on existing institutional capacities and partnerships.
7. Assess the potential to develop a framework or criteria for assessing demand-side integrity to ensure Fiji's carbon market transactions involve appropriate partnerships and support Fiji's overarching climate change policies.

## LONG TERM

1. Assess the feasibility of developing domestic carbon crediting programs and methodologies that align with Fiji's policy priorities and decarbonisation needs, such as renewable energy and land and maritime transportation. This future effort could be achieved by harnessing the research capabilities of local universities and independent institutions.
2. Participation in international carbon markets under Article 6 will require Fiji to have access to a registry which can track the authorisation, movement, and end use of ITMOs. The Fiji Government will need to consider and decide whether to establish a national registry or utilise the international registry planned by the UNFCCC secretariat.

3. Showcase the unique quality and integrity of Fijian Mitigation Outcome Units to prospective buyers willing to offer premium carbon prices for the associated co-benefits of carbon projects. Reporting and valuing these co-benefits is vital for attracting new investments into community-based projects that deliver multiple socio-economic outcomes.
4. Stimulate domestic demand for Fijian Mitigation Outcome Units through appropriate incentive mechanisms and/or policy reforms. For example, Fiji could leverage the growing interest in sustainable travel and low-carbon tourism to facilitate the sale of carbon credits in the tourism industry. Furthermore, the forthcoming 2025 NDC could explicitly delineate the roles and quantified targets of carbon markets to provide a clear policy signal for carbon pricing.
5. Develop demand-side integrity assessment criteria for evaluating carbon market interactions and cooperation agreements.
4. Develop and publish a list of approved voluntary carbon standards prioritising standards that ensure environmental integrity, equitable community benefit-sharing (where relevant), and support Fiji's ability to attain the national sustainable development objectives. This list will guide the initiation of voluntary carbon market activities in Fiji.
5. Develop and publish a list of emissions reduction and removal activities that align with Fiji's NDC priorities and broader sustainable development priorities. This list would be expected to support potential investors and project proponents in better understanding priority mitigation activities that are most likely to be approved by the Fiji Government and registered under approved voluntary standards or through agreements associated with Article 6 of the Paris Agreement.
6. Actively develop Fiji's domestic capacity to provide legal support to local communities participating or intending to participate in carbon market activities. This will require the development of resources and improved access to local expertise to help facilitate the negotiation and implementation of carbon trading agreements and contracts.

## 5.2. PILLAR 2 – STRENGTHENING THE LEGAL FRAMEWORK AND GOVERNANCE STRUCTURE

Engaging in carbon market transactions has the potential to unlock an array of benefits for Fiji. However, this involvement also entails a range of regulatory implications, institutional capacity needs, and legal clarifications to establish an enabling environment for market operations. The following actions are required to strengthen the current legal framework and governance structure for carbon markets:

### SHORT TERM

1. Enhance coordination and collaboration within government agencies to enable Fiji to evaluate external proposals and respond to market opportunities effectively. Challenges associated with determining responsibilities between ministries and departments, given the range of mandates relevant to carbon market engagement, are expected to be addressed through the development of the regulations required under Part 10 of the CCA.
2. Develop a joint work plan led by the Climate Change Division and the relevant line ministries to facilitate the alignment of existing forest carbon initiatives with the CCA's legal framework, the development of new required regulations, and the expected amendment and revision of the Forestry Act.
3. Establish a variation of existing land leases for conservation purposes that incorporates relevant standard requirements, conditions, and restrictions needed for nature-based projects designed to produce carbon credits.

### MEDIUM TERM

1. Strengthen the institutional capacity and oversight functions of the Climate Change Division and relevant line ministries to provide services related to CSPR registration, project approval and validation processes, and the facilitation and implementation of Article 6.2 agreements.
2. Implement the agreed work program for developing regulations under Part 10 of the CCA and enhancing the legal framework governing both voluntary and Article 6 markets.
3. Plan for and establish clear processes for evaluating and approving Article 6 activities, authorising ITMO transfer, and making corresponding adjustments to the national GHG inventory. Having the relevant systems in place for authorising credits and the ability to execute corresponding adjustments will be required to support the commencement of Article 6 pilot projects.
4. Further develop Fiji's national approach to nature-based activities through the update of the required policies, procedures, benefit sharing arrangements and safeguards needed to support the implementation of nature-based carbon projects and transactions.
5. Secure additional technical and institutional capacity to support forest carbon monitoring activities.



## LONG TERM

1. To assess the potential benefits and challenges of establishing a new separate public authority to assume the responsibility of administering carbon markets in Fiji. This authority could be comprised of individuals and experts trained to design, implement, and monitor carbon market-related services and support.
2. The Climate Change Division should assess the need to revise legal and governance-related frameworks for carbon markets through a review of Article 6 negotiation outcomes, appraisal of existing effectiveness, and through an inclusive public consultation-based review process.
- 3&4. Enhance Fiji's institutional capabilities and establish operational procedures to facilitate and oversee Article 6.4 activities when and if relevant. This would include setting up the necessary processes for authorisations, activity approvals, and project registrations in line with the pending rules that would shape and establish a centralised mechanism under Article 6.4 of the Paris Agreement.

### 5.3. PILLAR 3 – SAFEGUARDING COMMUNITY BENEFITS AND LANDOWNER RIGHTS

Close to 90% of Fiji's land is owned by indigenous iTaukei landowning units. As a result, there are significant opportunities for landowners to engage in carbon markets through activities that seek to enhance and restore carbon sequestration and enable the transition of agricultural practices while also offering a range of enduring co-benefits for communities (e.g., water and food security, alternative livelihoods, sustainable development investments, increased disaster resilience and energy efficiency).

Landowning units influence land-use planning and overall land management through collective decision-making. As such, it is essential to create a platform to provide information to landowning units on the opportunities and trade-offs associated with carbon markets. When benefits flow through projects implemented by community entities, establishing a well-defined framework for equitable distribution among individuals and stakeholders is crucial. The following actions should be undertaken in support of these objectives and the specific contextual circumstances that define landowning units and communities in Fiji:

## SHORT TERM

1. Enforce the established protocols for engaging with local communities and ensure that compliance is strictly adhered to by project developers. Lessons from the case studies in the Asia Pacific region and Africa emphasise the need to safeguard local communities from potential risks associated with foreign interests, which may misunderstand or undermine social and cultural practices, governance arrangements, traditional norms, and capacity in Fiji. Therefore, establishing a system of enforcement and regulatory oversight will be increasingly required when contemplating the expansion of voluntary market interactions between third parties and Fiji's communities.
2. Benefit-sharing arrangements should be organised around a standardised template or approach and consider monetary and non-monetary benefits to ensure that these agreements have a credible structure and adhere to legal requirements with regard to local consultation, the process for securing FPIC from landowners and the equitable and transparent distribution of benefits amongst eligible parties.



3. Develop an approved financial mechanism for ensuring equitable and transparent distribution of carbon revenue to safeguard the interests of local communities and asset owners.
4. Develop and implement national outreach and education programs to support the effective scaling up of nature-based projects. This effort would be best coordinated through a cooperative approach directed by the Ministry of iTaukei Affairs, Ministry of Rural and Maritime Development, Provincial Councils, the iTaukei Land Trust Board, and any other relevant stakeholders with mechanisms for direct community engagement.

### MEDIUM TERM

1. Convene a stakeholder consultation process aimed at exploring options to mitigate pricing volatility through the assessment of the feasibility of establishing price benchmarks for community-based projects or developing national guidelines for requiring specific project costs (e.g., third-party verification costs and capacity building) to be funded separately from the agreed carbon price.
2. Develop guidance on managing permanence risk to help protect communities from undue liability and financial burdens resulting from carbon market agreements in the event of a reversal. Activities that increase carbon sequestration in the natural environment are vulnerable to climate change and disaster risks, which can quickly cause a reversal in carbon sequestration potential.
3. Develop a coordination mechanism for securing the land necessary for renewable energy systems as directed within the National Energy Policy 2023-2030. This mechanism must include a robust means for consultation with communities to help identify landowning units that are in a position to lease land to host renewable energy projects.
4. Develop legal capacity in Fiji to assist local communities in navigating the complexities

and processes of carbon trading, including project initiation, negotiation of agreements, compliance with regulatory frameworks, and addressing potential legal challenges.

## 5.4./ PILLAR 4 – ENHANCING PUBLIC AWARENESS, PARTICIPATION, OWNERSHIP, AND CAPACITY

Carbon market mechanisms aim to incentivise direct action to sequester carbon or reduce emissions. The success of these actions will largely be contingent on the active engagement of Fiji’s private sector, state-owned enterprises, and communities. Consequently, fostering public awareness and competency to support project development and implementation will be vital for ensuring ownership and effectiveness. Targeted efforts will be required to build national capacity in an inclusive and equitable way. Specific proposed actions include the following:

### SHORT TERM

1. Develop local awareness initiatives on carbon markets supported by academic institutions, relevant ministries, and key development partners. Carbon market concepts are complex and evolving and are not easily accessible. Increased interest in Fiji’s potential as a producer of carbon credits requires efforts to reduce the inaccessibility of these concepts.
2. Establish and disseminate tailored knowledge products and tools for training programs and educational courses to educate targeted stakeholders. This is necessary to build up a national ecosystem that will enhance the understanding, awareness, and complement the capacity and traditional knowledge of local communities.

### MEDIUM TERM

1. Support the growth of emerging and established local project developers, auditors

and legal advisors while promoting local ownership over specific project types, activities, and methodologies. For instance, projects focused on expanding rural electricity access should involve local communities in the oversight, management, and verification of project interventions.

2. Support the growth of new and emerging 'home-grown' methodologies that closely align with Fiji's national priorities, contextual circumstances and development objectives and draw on a solid understanding of localised needs and capacity.
3. Identify or establish a platform for distributing information on project opportunities and encouraging public-private partnerships to deliver projects. This service can be incorporated within the potential role of a 'Private Sector Advisory Committee' introduced by the CCA.

### LONG TERM

1. Collaborate with regional organisations to explore the establishment of a shared platform for project information, learning materials, and expert contacts. This platform will act as a regional knowledge-sharing hub that streamlines market information and facilitates peer-to-peer capacity building in the region.

## 5.5./ PILLAR 5 – DEVELOPING EFFECTIVE PARTNERSHIPS AND SCALING FINANCE

Despite increasing external and domestic interest, distinct opportunities to progress community-based activities, and a robust policy and institutional framework, Fiji's capacity to realise significant benefits from carbon markets remains constrained and will continue to require the support of effective partnerships with regional and international governments, foreign private sector investors, and non-government organisations to develop effectively. Such collaborations are pivotal for Fiji's ability to secure 'carbon finance'<sup>41</sup> for suitable activities, guided by agreements tailored to Fiji's national circumstances. The actions required to develop these effective partnerships include the following:

### SHORT TERM

1. Identify financial instruments and funding sources available to support NDC implementation, assess financing gaps, and determine the role of carbon markets and the extent to which market-based mechanisms could contribute to emissions reduction targets, increased carbon sequestration potential, and the achievement of national

sustainable development objectives.

2. Secure partnerships that offer financial support, technology transfer, and infrastructure development in alignment with Fiji's policy objectives, particularly in increasing renewable energy uptake. Additionally, these partnerships are encouraged to recognise capacity gaps within Fiji, promote locally led implementation arrangements, provide dedicated support for capacity building, and allow for the necessary flexibility and time for interventions to generate tradable mitigation outcomes.
3. Seek international assistance for enhancing and developing local expertise across the value chain of carbon markets. This effort should promote knowledge sharing and technical capacity building between local participants and international partners.

### MEDIUM TERM

1. Collaborate with development partners to identify capacity gaps and implement tailored capacity-building programs aimed at enhancing domestic capabilities in the carbon market industry.
2. Consider insurance options or other financial buffers that address the risk of reversal events associated with carbon losses for credited sequestration.
3. Consider the need to re-engage in project negotiations with potential partners to communicate Fiji's specific requirements rather than adopting existing carbon market engagement modalities. This entails clearly articulating criteria, priorities, preferred activities, and approaches that suit Fiji's specific national circumstances and needs.
4. Conduct trials of new accounting methods aimed at valuing co-benefits of carbon projects and utilise the results to assess opportunities to leverage additional opportunities, partnerships, and financial flows.

### LONG TERM

1. Develop a strong track record and reputation linked to Fiji-derived carbon credits and associated branding that positions Fiji-based mitigation outcomes as a premium high-integrity provider of carbon credits. Present a unique competitive advantage for buyers through the integration of development benefits and impactful carbon mitigation outcomes. Develop strategic outreach and engagement initiatives to create market differentiation for Fiji aimed at attracting suitable partners and financiers to support the expansion of carbon project implementation in Fiji.

<sup>41</sup> Carbon finance refers to revenue streams generated from the sale of carbon credits and is considered as a subset of climate finance.

# 6/ METHODOLOGY

The Fiji National Carbon Market Strategy Roadmap was developed under the guidance of the Climate Change Division (CCD) of the Ministry of Environment and Climate Change with support from the Carbon Market Institute.

The development process follows a sequential approach:

1	Mapping of key domestic and international stakeholders involving representatives from government agencies, private sector entities, financial and legal institutions, non-government organisations, local communities, development partners, and leading regional organisations.	
2	Establishment of an Advisory Group comprising 19 expert members from targeted government agencies, project developers, and environmental groups. The voluntary Advisory Group functions as a technical body to provide guidance on various issues related to and extending beyond the scope of the Strategy Roadmap.	
3	An introductory 'Fiji Carbon Market Design & Capacity Building' webinar was conducted on 4 April 2023 to commence an inclusive process of stakeholder engagement. 78 participants attended the session, which provided an overview of the Strategy Roadmap development process and the state of play of carbon markets in Fiji.	
4	The first stakeholder consultation workshop was held on 1 May 2023 in Suva, bringing together 68 stakeholders from relevant government departments, the private sector, regional organisations, international institutions, universities, and civil society groups. The workshop explored emerging risks, opportunities, options, and strategic priorities for Fiji to leverage different market mechanisms.	
5	The second stakeholder consultation workshop was convened on 14 and 15 August 2023. This two-day workshop engaged a diverse range of 71 stakeholders, including representatives from local communities. The remaining elements of the Strategy Roadmap were considered and deliberated upon, including key considerations for Fiji in engaging with carbon markets and the identification of action items necessary to enhance market readiness.	
6	Small group discussions and consultations were held with key line Ministries, project implementers, and community representatives to assess particular points of consideration based on experiences, existing institutional arrangements, and case studies.	
7	The draft Strategy Roadmap was prepared, where stakeholder inputs were synthesised to form consensus views along with a comprehensive review of Fiji's existing climate change policies and laws to ensure their alignment with the Strategy Roadmap. Throughout this process, the developments in various carbon markets – compliance, voluntary, and international markets under Article 6 of the Paris Agreement – were closely monitored to track the latest changes in the global carbon market landscape.	
8	The draft Strategy Roadmap was released on the Climate Change Division's website and shared with the Advisory Group and key stakeholders for comments and feedback. A survey form was provided to facilitate receipt of feedback.	
9	A third stakeholder consultation workshop was held on 25 March 2024. The one-day workshop convened 70 stakeholders to validate the Draft Roadmap, particularly focusing on the guiding principles and the Action Plan.	
10	Final revisions to the Strategy Roadmap based on written submissions, validation workshop outcomes and ministerial review.	
11	Submission of the Strategy Roadmap to line ministries for review, followed by endorsement by the Cabinet.	
12	Public publication of the Strategy Roadmap on the Fiji Climate Change Portal for public access.	

# ACRONYMS

<b>A6.4ERS</b>	Article 6.4 Emission Reductions	<b>ITMOS</b>	Internationally Transferred Mitigation Outcomes
<b>BAU</b>	Business as Usual	<b>LEDS</b>	Low Emissions Development Strategy
<b>BVCM</b>	Beyond Value Chain Mitigation	<b>MOU</b>	Memorandums of Understanding
<b>CBAM</b>	Carbon Border Adjustment Mechanism	<b>MRV</b>	Monitoring, Reporting and Verification
<b>CCA</b>	Climate Change Act	<b>NAP</b>	National Adaptation Plan
<b>CCD</b>	Climate Change Division	<b>NCCP</b>	National Climate Change Policy
<b>CCMS</b>	Compliance Carbon Markets	<b>NDA</b>	National Designated Authority
<b>CDM</b>	Clean Development Mechanism	<b>NDC</b>	Nationally Determined Contribution
<b>CERS</b>	Certified Emission Reductions	<b>NDP</b>	National Development Plan
<b>CORSIA</b>	Carbon Offsetting and Reduction Scheme for International Aviation	<b>NEP</b>	National Energy Policy
<b>CSPR</b>	Carbon Sequestration Property Rights	<b>PICS</b>	Pacific Island Country
<b>DBFCC</b>	Drawa Block Forest Communities Cooperative	<b>PV</b>	Photovoltaic
<b>EEZ</b>	Exclusive Economic Zone	<b>REDD+</b>	Reducing Emissions from Deforestation and Forest Degradation
<b>EFL</b>	Energy Fiji Limited	<b>SBTI</b>	Science Based Targets Initiative
<b>ER</b>	Emission Reductions	<b>SDGS</b>	Sustainable Development Goals
<b>ETS</b>	Emissions Trading Scheme	<b>SIDS</b>	Small Island Developing States
<b>EU ETS</b>	European Union Emissions Trading Scheme	<b>SPC</b>	The Pacific Community
<b>FCPF</b>	Forest Carbon Partnership Facility	<b>SPREP</b>	Secretariat of the Pacific Regional Environment Program
<b>FERM</b>	Fijian Emissions Reduction Methodology	<b>UNDP</b>	United Nations Development Programme
<b>FERPA</b>	Fijian Emissions Reduction Project, Program or Activity	<b>UNFCCC</b>	United Nations Framework Convention on Climate Change
<b>FMOUS</b>	Fijian Mitigation Outcome Units	<b>VCS</b>	Verified Carbon Standard
<b>FPIC</b>	Free, Prior and Informed Consent	<b>VCMS</b>	Voluntary Carbon Markets
<b>GGGI</b>	Global Green Growth Institute	<b>VCMI</b>	Voluntary Carbon Markets Integrity
<b>GHG</b>	Greenhouse Gas	<b>VBBS</b>	Validation/Verification Bodies Initiative
<b>GS</b>	Gold Standard		
<b>HFO</b>	Heavy Fuel Oil		
<b>ICVCM</b>	Integrity Council for the Voluntary Carbon Market		
<b>IMO</b>	International Maritime Organisation		
<b>INDC</b>	Intended Nationally Determined Contribution		
<b>IPCOS</b>	Indo-Pacific Carbon Offset Scheme		

