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# Argus Insight: Voluntary Carbon Markets



## How the Voluntary Carbon Market can take net zero from ambition to reality

In January 2023, UK newspaper *The Guardian* ran an article with the headline “Revealed: more than 90% of rainforest carbon offsets by biggest certifier are worthless”. In it, the paper criticised the validity of carbon credits issued by a number of Reducing Emissions from Deforestation and forest Degradation (REDD+) projects. The response from participants of the Voluntary Carbon Market has been energetic and swift to point to a number of errors and inconsistencies in the reporting and investigation by *The Guardian*. LinkedIn has played host to a robust and detailed debate around methodologies and measurements. While the Voluntary Carbon Market has often attracted negative media coverage, it is notable that the fundamental practice of offsetting itself is rarely the subject of controversy. This gives hope that in time, the market can mature and concerns around integrity can eventually become a thing of the past and a symptom of a market in its infancy.

The Voluntary Carbon Market offers the private sector a mechanism through which to redirect capital from carbon-positive to carbon-negative activities, making net zero emissions an actual possibility rather than an aspiration. A business aiming to reach net zero, in the spirit of the Paris Agreement and in response to investor and customer pressure, must focus primarily on how to physically decarbonise its operations. But for most companies — and particularly those in energy-intensive industries — reducing rather than eliminating emissions is the most they can hope for, except perhaps in the very long term. The Voluntary Carbon Market makes it possible to achieve a net zero goal by introducing the concept of offsetting.

In offsetting, a company with residual emissions in its operations — those that cannot yet be eliminated by physical decarbonisation — instead will offset them against negative emissions generated elsewhere, and it will pay for the right to claim those negative emissions. And the activity generating the negative emissions is rewarded with a revenue stream.



### A positive negative

“Carbon-negative” projects generate credits by preventing or avoiding emissions, or by actually removing greenhouse gases from the atmosphere. As an example: deforestation is a process that leads to the destruction of a carbon sink and the release of stored carbon dioxide into the atmosphere. In a region that has a predictable rate of deforestation, a project intended to protect a parcel of land, and thus prevent deforestation, could claim to have avoided a certain amount of emissions. For this claim to turn into a supply of carbon credits, the owner or developer must demonstrate that without intervention and without the revenue from the sale of carbon credits, these emissions would indeed occur. Ownership of these negative emissions is transferred to the entity trying to offset its residual emissions by selling the carbon credit.

“Avoided deforestation”, as it is called, is an example of a nature-based avoidance solution in which natural ecosystems are used to sequester and store carbon. Meanwhile, afforestation and reforestation projects that either introduce or reintroduce forest into previously deforested areas or restore mangrove habitats are examples of nature-based removals projects. These approaches seek instead to remove carbon

dioxide from the atmosphere outright. These can be nature-based but increasingly they are engineered or technology-based approaches. Techniques such as direct air capture (DAC), which uses physical and chemical processes to literally extract carbon dioxide from the atmosphere, are considered by some to be the future of the market for removal projects. Their application of engineering, chemistry and physics allows for greater scalability and measurability.

There is also great variation in the availability of credits from these projects. Credits from clean cookstove projects, in which rural communities are provided with efficient cookstoves to reduce firewood consumption and mitigate household pollution, are widely traded in the market with relatively well-defined price transparency. Other project types, such as those for biochar – which involves the pyrolysis of waste material to produce biochar and thus lock in carbon – or regenerative agriculture are in a much earlier stage of development, and there is as yet a less meaningful supply of carbon credits to the market.

### Patchwork of prices

Indeed, it is arguably unhelpful to describe the current situation as a single “market”. The diverse nature of offsetting projects, the variability of their attractiveness in terms of “corporate image” and the wide differences in the availability of credits together have created a patchwork of distinct price patterns by project type and location. There is no “one price fits all” in the way the market is currently evolving.

For example, the bulk of existing carbon credits comes from avoidance strategies that have been the quickest and lowest-cost projects to commercialise. These include REDD+, renewable energies and clean cookstoves for which prices are typically in the \$3-17/t CO<sub>2</sub>e range.

Meanwhile, removals credits deriving from afforestation, reforestation and revegetation projects and blue carbon – which relates to the protection of coastal and marine ecosystems – are in high demand, but supply is still scarce. Their removal approach and low availability have resulted in premium valuations of up to \$50/t CO<sub>2</sub>e higher than prices for avoidance credits. Among the highest-priced removals credits are those from technology-based solutions such as DAC, which barely trade and can fetch prices of well above \$500/t CO<sub>2</sub>e.

The bulk of projects lingers for now in the supply pipelines of crediting programmes such as Verra and Gold Standard. Such programmes act as issuing bodies for carbon credits, setting standards for project monitoring, verification and reporting. The Qatar-based Global Carbon Council, the first of its kind in the MENA region, has recently joined the list of carbon crediting programmes.

The wide range in the supply, price and perceived desirability and risks of different carbon credits, meanwhile, has prompted businesses to adopt a portfolio approach. Companies will have their own preferences and policies relating to choice of credits, but, in general, most wind up opting for a balanced selection. Portfolios typically will comprise a majority of lower-cost, more readily available credits and a smaller proportion of higher-cost, more sought-after credits.

The companies that thus far have led the way on the demand side have typically have been from two groups. The first are the energy-intensive industries such as oil and gas and power generation, which already operate with a commodity trading culture and infrastructure. These are the companies with the largest carbon footprints to manage. The second group comprises companies with a strong brand – typically from the tech and consumer goods sectors – where the expectations from their customers, and therefore investors, are pushing them to take a leadership role in decarbonisation.

### Multiple marketplaces

To meet ever-growing demand, marketplaces have proliferated over the past few years, from ad-hoc exchanges to platforms based on click-and-buy models. Governments are also trying to find their place in this market, and regional exchanges such as the Abu Dhabi Global Market and the Regional Voluntary Carbon Market established by Saudi Arabia’s PIF are flourishing.

The pressure to achieve net zero can only increase in the coming years, and global decarbonisation is still a long way off. The Voluntary Carbon Market offers businesses and other large organisations a ready-to-use means by which to offset emissions while supporting more sustainable energy sources, protecting ecosystems and improving socioeconomic development in developing countries.

The emergence of standards and exchanges and the involvement of the world’s leading trading and energy firms are a testament to the potential of the voluntary market. Price reporting agencies such as Argus Media will be key in providing much-needed price transparency in a market with such an enormously diverse set of products, suppliers and end-users.

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