# Searching for trust in the voluntary carbon markets

*Voluntary carbon markets are growing rapidly but where credits or the claims made by buyers lack integrity and quality, this could undermine global climate action and development. **Rob Macquarie** explains how companies and policymakers who want VCMs to succeed can make them a meaningful contribution to sustainable development and a just global transition.*

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**This article is part of a series by LSE's Grantham Research Institute on Climate Change and the Environment.**

Christiana Figueres, a key architect of the Paris Agreement, recently wrote that trust as an essential resource in our collective response to climate change is still scarce. This observation is particularly apt when it comes to voluntary carbon markets (VCMs).

The volume of carbon credits traded by private organisations or individuals acting voluntarily (absent any need to comply with policy) is growing rapidly. VCM activity surpassed US$ 1 billion in 2021, more than doubling in value since 2020. The approval of rules for carbon trading involving *countries* under Article 6 of the Paris Agreement, which was granted at COP26 last November, has fuelled VCM momentum.

For their advocates, VCMs are an important mechanism for scaling up climate finance. As more and more net-zero commitments and nearer-term targets are made, the demand for carbon credits to offset emissions will increase. By enabling this, VCMs could drive a huge increase in funding to climate- and nature-positive investments. This could complement other forms of finance and help direct flows from prospective buyers in the Global North to meet substantial investment needs in emerging and developing economies. However, major doubts remain over whether VCMs can deliver on their expansive promise.

### Integrity and quality

On the supply side, the true nature of projects being funded is difficult to verify. Issues include ‘additionality’ (whether the activity would have occurred anyway), ‘permanence’, and ‘leakage’ (whether emissions are partially displaced elsewhere).

Historically, carbon credits have often been awarded on shaky foundations. Recent research into the Clean Development Mechanism – which enabled carbon trading under the Kyoto Protocol – found most Indian wind farms financed with credits would likely have been built anyway. A study of forest offsets under California’s cap-and-trade programme found that almost 30 per cent of projects were credited with greater emission savings than they really achieved. Forestry projects account for a majority of VCM credits issued in 2021, while renewable energy represents most of the rest.

Information gaps and asymmetries make matters worse. Although several organisations exist to certify VCM credits (e.g. Verra and Gold Standard), the social and environmental impacts of accredited projects vary widely. Many nuances in how projects work and their context will not be known to buyers or, in some cases, even to intermediaries acting as sellers. There is also an under-appreciated difference between *reducing* and *removing* carbon. Reductions, provided through avoided deforestation or through renewable deployment, for instance, can contribute to global decarbonisation but will not be sufficient on their own to reach net zero; removals via nature-based and engineered solutions will need to be much more commonplace than they are now.

However, quality means also contributing to climate resilience, biodiversity, and community wellbeing. Many credits do not pass muster on these counts. For example, when Compensate, a non-profit organisation that helps buyers find ‘good’ offsets, screened *accredited* carbon capture projects against its own set of evaluation criteria developed with scientific experts, nine out of 10 failed its test.

### Solution or problem?

Buyers should reduce their own emissions as much as possible first, and then offset where other options are not available; credits must not supplant investment in mitigation within companies' operations and value chains. Quality credits should fetch higher prices, helping to incentivise deep decarbonisation.

Early signs suggest many companies' emission reduction plans are not robust. Out of approximately 4,000 organisations surveyed in the Net Zero Tracker, the vast majority did not specify any conditions for using offsets. Of the 10 per cent that announced their intention to use offsets, almost three-quarters gave no specific conditions.

Fear that offsets will simply help companies to greenwash their public image has meant VCMs have struggled to establish a credible reputation. Activists protested at an event at COP26 hosted by the industry-led Taskforce for Scaling Voluntary Carbon Markets (TSVCM), calling the taskforce a 'scam' for the way offsetting gives polluters a way around making deep emissions cuts. Other critics have labelled offsets 'false solutions', both for doubts over the quality of most credits and for the harm they may cause by deterring action to mitigate emissions.

Some indigenous communities oppose markets while, perversely, those seeking finance can be shut out by additionality standards, since their stewardship of resources may be deemed likely to have happened anyway. High-quality projects should always be sensitive to local consent and control, but affected communities are rarely consulted or engaged. Systemic factors also matter: for instance, the impact of mass afforestation-based carbon removals on land use and food prices could exacerbate poverty.

**Burden of proof**

VCMs must demonstrate their potential for global development. Several coalitions have been launched to provide certainty on credible good practice, with important milestones expected in the first half of 2022. The TSVCM-backed Integrity Council for Voluntary Carbon Markets will define 'core carbon principles' for demonstrating integrity, aiming to drive alignment across all accrediting standards. The Voluntary Carbon Markets Integrity Initiative (VCMI) is also developing guidance for legitimate claims by offsets users. A group of NGOs are pushing for consensus on high-quality offsets in tropical forests.

Participants in the VCMs can also do their bit, at a minimum by supporting organisations selling high-quality credits. The London School of Economics and Political Science used Compensate's service to purchase offsets for its own claim to carbon neutrality. Bigger players can be bolder. For example, Microsoft launched a request for proposals for carbon removal projects it would fund in 2020. It subsequently published lessons learned and carbon removal assessment criteria, to be renewed annually. Companies can discuss and emulate best practice and endorse formal benchmarks. In an imperfect market, transparency and collaboration are powerful tools.

Governance and assurance of both sides of the market will be vital. The Integrity Council for VCMs will look at how to investigate and enforce credit issuers' adherence to standards. Unless consumers and investors know how to differentiate between good and dubious climate claims, companies and institutions will not have strong incentives to use high-quality offsets. Guidance published by VCMI will not be final; ultimately, what counts as a valid claim should be a matter for national authorities regulating climate disclosures.

To attain quality, proponents must also answer what role markets ought to play within the wider global net-zero transition. A study of pre-Paris Agreement CDM credits argued that crediting should be 'time-limited and niche', focused on areas where integrity is most likely. In the VCM era, when all forms of climate finance must increase rapidly – including national public budgets, bilateral and multilateral development finance, and other private lending and investment – ideally that niche should be where others cannot reach.

Therefore, beyond standards, VCMs could benefit from mechanisms to connect buyers with projects at the frontier of countries' climate strategies. Governance bodies could look at how to foster this kind of coordination. By financing effective, sustainable development, buyers can prove their offsets are worth more than a boost to their own advertising.

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*Notes:*

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- *This blog post expresses the views of its author, not necessarily the position of the Grantham Research Institute on Climate Change and the Environment, LSE Business Review, or the London School of Economics.*
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