10 Trends Carbon Market Experts are Talking About Right Now

Halfway through 2023, we're looking at what's happening in the voluntary carbon markets, and where we're headed.

Pachama Sylvera

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Introduction: The market in flux

We are just halfway through what has already been a significant year for the voluntary carbon markets (VCM). Change is visible everywhere: new climate disclosure regulations are coming online around the world, further guidance is being developed and issued by market bodies like the IC-VCM and VCMI, and the market has received an unprecedented amount of mainstream media attention.

These changes have caused movement and confusion in the market, leaving many would-be buyers hesitant to get involved. But the need for carbon project funding has never been more critical.

Sylvera's recent Carbon Markets Summit brought together carbon market leaders from around the world to discuss the current state of and future possibilities for the carbon market. This expert guide, produced by Sylvera and Pachama, reflects on the top ten trends these carbon market experts see in 2023 and beyond.

We'll explore recent events and their effects on the market and make some predictions about what to expect down the road. We aim to reduce some of the uncertainty many corporate buyers are feeling and — hopefully — unlock the critical funding the world needs to reverse the trajectory of climate change.

Sylvera

Sylvera provides trusted carbon data for real climate action. Discover high-quality carbon credits with the most accurate and in-depth ratings and analytics.

Learn more

Pachama

Pachama harnesses satellite data and artificial intelligence to help companies confidently invest in high-quality carbon credits.

Learn more

1. Small setbacks have occurred against the backdrop of steady market growth.

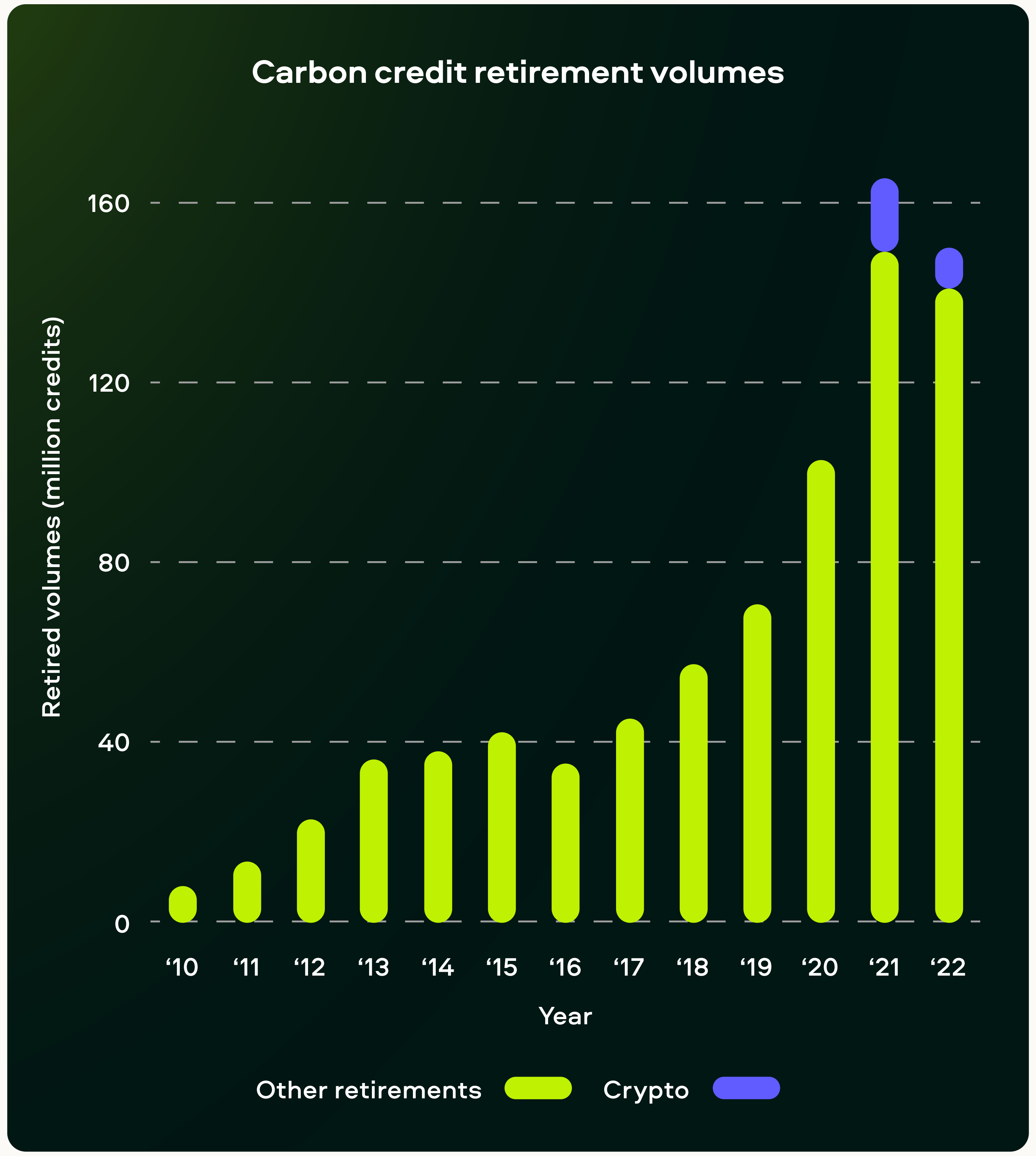
The rapid growth in carbon markets over the past few years slowed down in 2022. We attribute this to a year of unusual geopolitical and economic turmoil and see it as one of many to-be-expected ‘growing pains’ of an emerging market.

Yet despite a slight decrease in new supply and transactions over the year, retirements held steady, indicating that, for the most part, corporates are still bullish about the use of carbon credits in transition strategies. Retirements from 2023 are on track to exceed prior years[1]. Despite global conditions, carbon markets — both voluntary and compliance — have proven their resilience.

The first quarter of 2023 saw the prices of nature-based solutions (NBS) slow down in response to negative press coverage on NBS credit quality. REDD+ prices saw a particularly sharp decline until April and have now begun to recover.

Media attention has led to broad recognition that some legacy credits have quality and methodology issues. Still, the market setbacks have been temporary, limited in scope, and by no means indicate market-wide abandonment.

Rather than turn buyers away en masse, the media scrutiny over carbon markets has highlighted what many on the inside have advocated for years: greater transparency, integrity, and higher volumes of quality carbon projects.



Source: publicly disclosed registry data

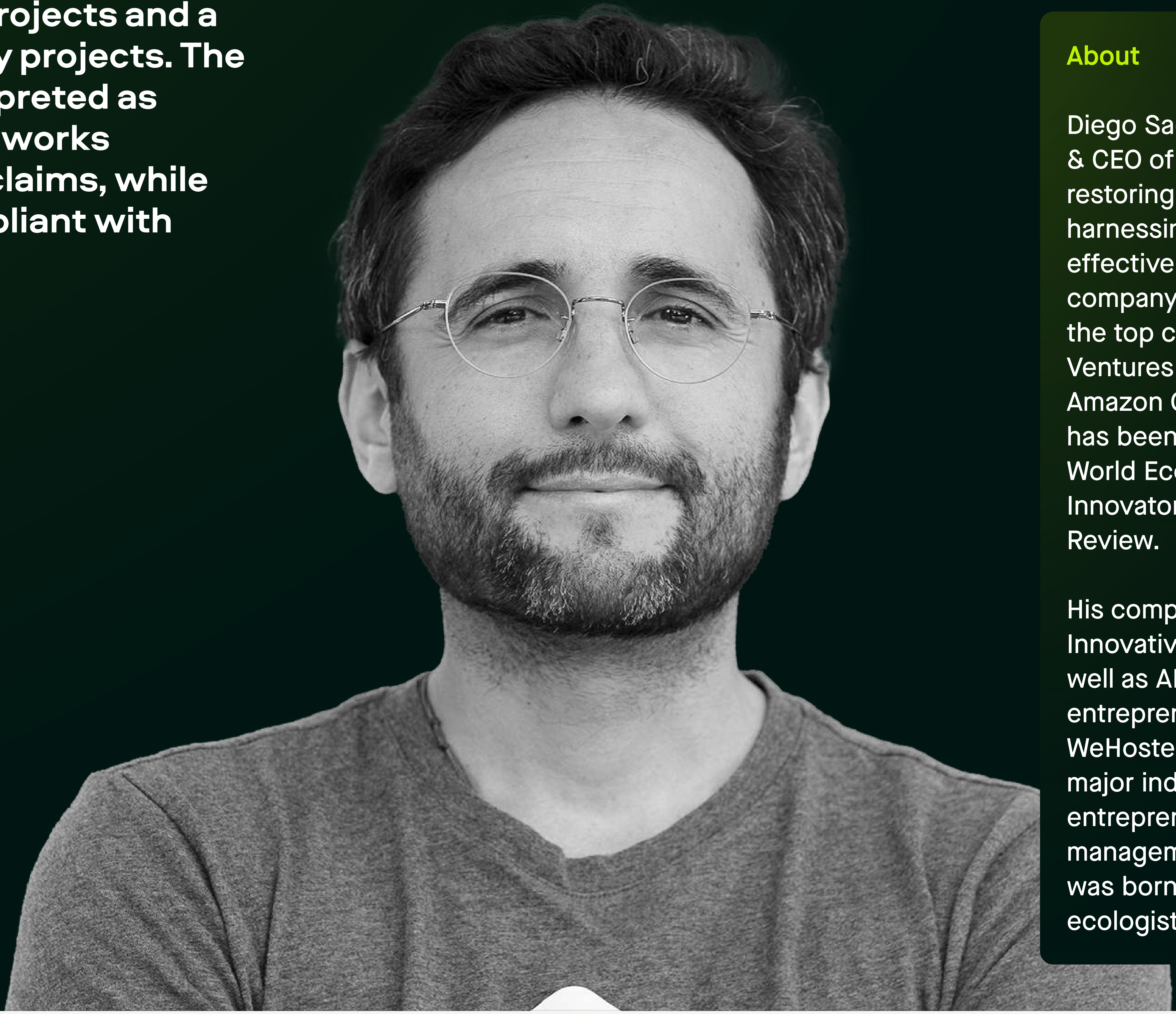
1. Source: Trove Intelligence, data pulled June 1, 2023

Pachama Sylvera

Diego Saez Gil
CEO & Co-Founder, Pachama

Pachama

“We've seen a bifurcation in the market between legacy, low-quality projects and a new generation of high-quality projects. The former are starting to be interpreted as unusable by the various frameworks companies followed to make claims, while the latter are going to be compliant with these frameworks.”



About

Diego Saez-Gil is a climate-tech entrepreneur, Founder & CEO of Pachama, a startup with the mission of restoring nature to solve climate change by harnessing AI and satellite data to monitor and finance effective reforestation and nature conservation. The company has raised more than $80M from some of the top climate investors such as Breakthrough Energy Ventures (Bill Gates' climate fund), LowerCarbon, Amazon Climate Pledge Fund and Y Combinator. Diego has been selected as Technology Pioneer by the World Economic Forum and has been awarded as Innovators 35 Under 35 by the MIT Technology Review.

His company Pachama has been awarded as the Most Innovative AI Company of 2021 by FastCompany as well as AI 50 for 2023 by Forbes. Diego is a serial entrepreneur having co-founded Bluesmart and WeHostels, two travel-tech companies acquired by major industry leaders. Diego studied entrepreneurship at Stanford GSB and project management at LaSalle University in Barcelona. Diego was born in Tucumán, Argentina and is a lifelong ecologist and seeker.

2. Corporate buyers are participating in a 'flight to quality.'

Recent media attention has highlighted the need for stronger, more consistent carbon crediting methodologies, along with more thorough due diligence on the part of buyers. To this end, the market has responded positively — we are seeing an accelerating 'flight to quality,' with buyers becoming increasingly determined to invest in high-quality carbon credits, both to avoid the potential for greenwashing accusations and to maximize the environmental impact of their carbon budget.

Experts refer to this trend as 'buying brand' — buying high-quality projects whose impact and reputation can be infused with a buyer's brand identity. Carbon credits are becoming highly publicized investments that corporate buyers are proud to share with their customers and stakeholders. This is why quality is becoming a key concern for buyers — the risk of investing in low-quality carbon projects that may publicly fail is not just environmental but also reputational.

Peter Reinhardt
CEO & Co-Founder, Charm Industrial

"In many cases, what you're buying is some kind of brand affinity and trust, and the ability to say 'I'm doing something about this.' And that means that [buying carbon credits] is different than buying other things. The buyer is interested in actually talking about their purchase, announcing it, what happens post-announcement, and being able to stand behind it and show that it's really having an impact. They're buying brand, to some extent."

This greater focus on credit quality comes at a time when technology is becoming more capable of validating carbon credit quality. Today, we can employ satellites for remote forest sensing and ground-level insights, compute dynamic baselines with artificial intelligence, and give buyers access to detailed and up-to-date carbon credit ratings and analytics. So while technology is being employed to identify high-quality carbon projects, some buyers are facing the reality of the VCM's inelastic supply.

Samuel Gill
Co-founder & President, Sylvera

"The sophistication with which we can quantify [project quality] is developing. And moving forward, we have a huge amount of technology that we can leverage to tighten up project quality. My sense is that regulation will tighten, but it will be pushing out the projects that we already know are low-quality. Developers should be shifting towards definitions of 'high-quality' that are already available – and these tools now exist. The pillars of quality are very clear."

C T V C

Sophie Purdom
Managing Partner at Planeteer Capital & Co-Founder, CTVC

“Most folks would agree that there’s been a flight to quality happening in the market. [For example], rather than buying 100 lower-quality credits that remove 100 metric tons of CO_2 on paper, corporates are shifting to buying 10 higher-quality carbon removal credits for the same price.”

About

Sophie Purdom is Managing Partner at Planeteer Capital, an organisation investing in and supporting early-stage climate tech founders. She is also the Co-Founder of Climate Tech VC, a leading source on the new climate economy that provides 50,000+ investors and operators with a fresh perspective and data-driven projections about the evolving world of climate innovation.

Prior, Sophie worked as a sustainable business operator; first launching an ESG fund at a major endowment, followed by a few years at Bain & Co.. She has also published a book on sustainable investing and helped found Kula Bio, an agricultural technology company that makes carbon-negative, low-cost ammonia fertilizer with microbes.

3. Technology is working to unlock greater supplies of high-quality projects.

The VCM's recent flight to quality has revealed the limited number of truly high-quality carbon credits on the market.

Justin Cochrane
Director & CEO, Carbon Streaming Corporation

"One of the biggest concerns we started hearing from buyers several years ago was the worry that there wasn't going to be enough high-quality supply of credits to meet their needs."

While demand can change quickly, problems of supply in carbon markets take a long time to correct due to a number of reasons. Firstly, carbon projects are complex. Even nature-based solutions require significant amounts of capital, technical expertise, and on-the-ground relationships to get started.

Legal negotiations and scientific prep work can mean that projects take years to receive a green light. And even with adequate funding and landowner agreements in place, carbon projects typically won't begin sequestering carbon for many years.

Diego Saez Gil
CEO & Co-Founder, Pachama

"Trees take time to grow, right? And for a reforestation project, you'll start to see a meaningful stream of carbon sequestration that can be certified generally in year four, five, or six. And the real volume will come even later."

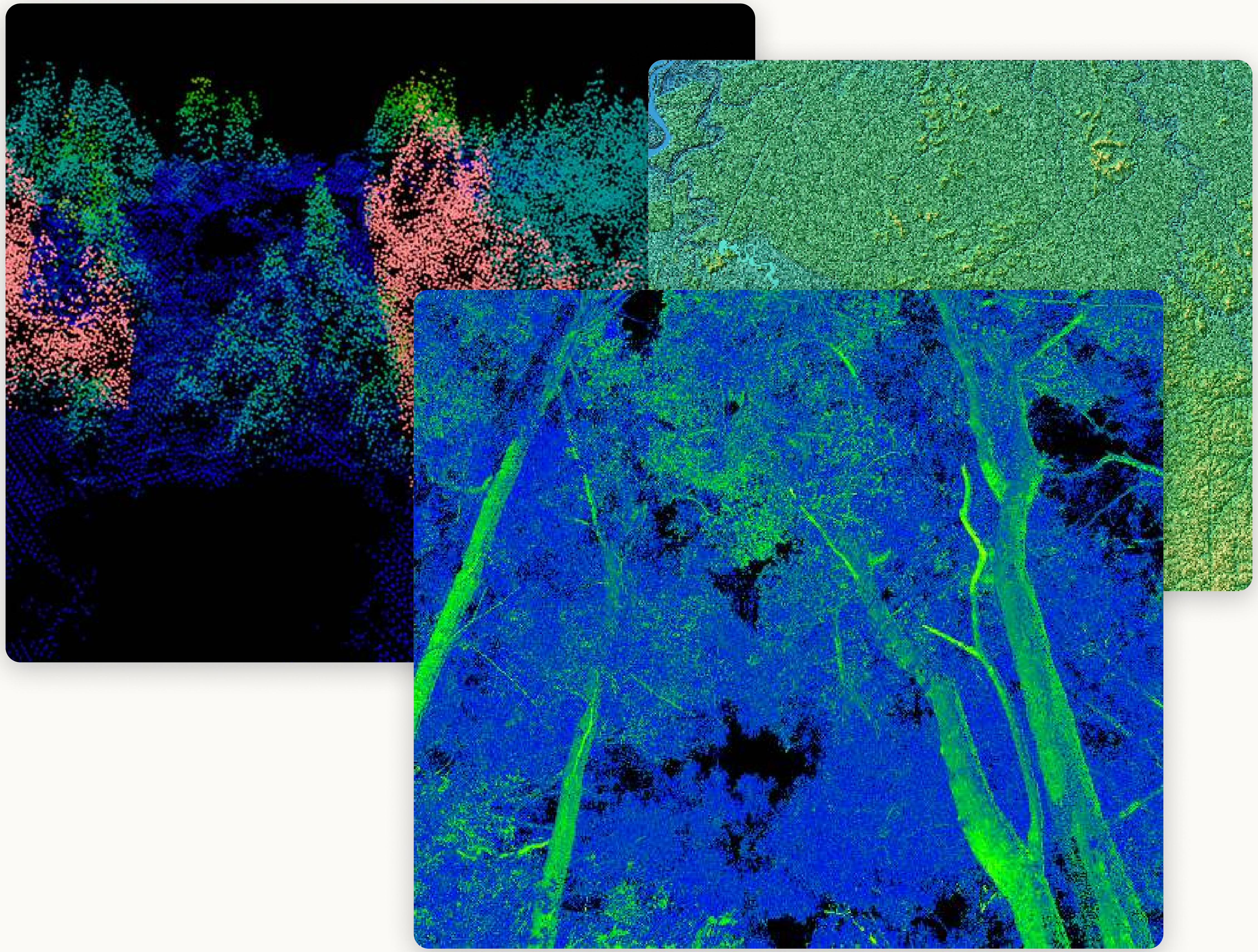
These long lead-in times and the difficulty of getting projects off the ground contribute to the inelasticity of the VCM's supply side. For the past few years, and likely for many more to come, the pace at which demand is rising will outstrip the growth of new supply.

Organizations like Sylvera and Pachama are working to overcome supply issues in several ways. For example, Pachama uses satellite data and AI technology to assess the potential for land use in carbon projects. To date, there has been high interest from landowners in the Global South to enroll their land in carbon projects. The difficult part for these owners was knowing where to start — how to join carbon projects and whether their land would qualify.

3. Technology is working to unlock greater supplies of high-quality projects. Continued

Traditionally, landowners might engage consultants to determine the eligibility of their land, a process that can take months or even years. But through a combination of satellite data and AI technology, Pachama is building models that will be able to determine almost instantly whether a landowner's property is eligible for carbon crediting. This technology will enable them to start their journeys towards carbon sequestration immediately, reducing time to market and opening up what has been a significant bottleneck to supply volumes.

Technology is one piece of the supply puzzle, but financing is another. Since carbon projects require substantial funding upfront (typically long before credits can be issued), it's important that corporate buyers — and even third-party investors and financers — put the right signals out into the market and demonstrate their willingness to invest early on in these projects.



Source: Pachama

4. Corporates are focusing on ‘investing’ over ‘buying.’

Securing quality, affordable future supply will require that more companies invest earlier in the carbon crediting process — before credits can even be issued. Early-stage financing is critical for getting carbon projects off the ground. Nature-based solutions require significant resources to compensate for land use and invest in the necessary activities for science-backed reforestation, conservation, and forestry management efforts.

67–75%

of a project’s lifetime cost will incur in the first five years of it’s life.

For example, Pachama’s sample cost structure model for an active reforestation project puts upfront land costs at 33-49% of total lifetime cost. Add to that the costs required for tree planting and qualifying for registry issuance, and the first five years of a project’s life will incur 67-75% of a project’s lifetime cost — yet credits are only issued (and revenue only generated) up to 5-7 years after tree planting.

Even for technology-based solutions such as biochar and direct air capture, sizeable upfront investments are required to get these nascent technologies to remove CO2 at an appreciable scale.

Diego Saez Gil
CEO & Co-Founder, Pachama

“The challenge is really financing. We need more financiers to come early. We think it's a great financial opportunity to invest in these projects that will have a return when the credits are issued. As the old saying goes, ‘the best time to plant a tree was 20 years ago; the second best time is now.’ We have to start today to satisfy the demand that is coming in a couple of years.”

4. Corporates are focusing on ‘investing’ over ‘buying.’ Continued

It’s good news for carbon markets that third-party investors can see the writing on the wall: with soaring demand and a limited supply, early-stage carbon projects are full of investment potential.

Shona Crawford-Smith
Product Manager, Sylvera

“We're seeing more and more people move upstream to secure these future optics of quality credits that they can't find on the spot market today. So really, quality is front of mind, even in the upstream space.”

Corporate buyers who are willing to invest in early-stage projects to secure quality also need to understand the underlying risk. Sylvera is working with these buyers to assess the quality and delivery risk of these investments by leveraging proprietary datasets and knowledge.

Brian DiMarino
Global Head of Operational Sustainability, JPMorgan Chase & Co.

“This conversation about moving upstream and investing versus just buying does a couple of things. One, it gets money to developers early on, so it shows our commitment to the market in general, and that this should grow in scale. Two, it gives us a little bit of control over what's going on in the project, because we're getting in at the early stages. And at the end of the day, we think it's the right thing to do. So buyers need to be out in front of the market.”

It’s not just organizations in the finance and investment space that can get involved in these early stages. Forward-thinking corporate buyers are also moving upstream, using initial financing offers to lock in future supplies of high-quality credits at reasonable prices. These climate leaders are demonstrating that there’s no need to wait to invest in high-impact carbon credits.

5. Carbon credits should come 'last, but not later.'

Alexia Kelly
Managing Director, Carbon Policy and Markets Initiative, ICVCM & High Tide Foundation

"My former colleagues at Salesforce coined a term when thinking about the role of carbon credits in a corporate decarbonization journey, which is 'last, but not later.' I think there's a very strong philosophical debate right now about when is the appropriate time to use carbon credits on your decarbonization journey, and the role that they play in delivering maximum climate impact and ambition."

The mitigation hierarchy encourages emission reductions first and carbon credits last — but companies leading on climate are demonstrating the difference between hierarchy and chronology: 'last' does not have to mean 'later.' Companies can purchase carbon credits throughout their decarbonization journeys so long as these purchases are not used in place of actual emissions reductions across the value chain.

Indeed, scientists warn that the Amazon Rainforest, which serves as a critical source of global carbon removals, is reaching a tipping point: beyond which it can no longer recover from decades of destruction and would become a net carbon emitter rather than a carbon sink. Conservation International explains the concept of 'irrecoverable carbon' — the immense stores of nature-based carbon that, if released, could not be restored by 2050, the deadline for avoiding the worst impacts of climate change.

The need for funding, both for conservation and for reforestation efforts, is critical. Mitigating the effects of climate change will require that companies invest in carbon credits as soon as they can — not when they have achieved 90% decarbonization (or other near-term science-based targets), but rather, as soon as they have set science-based targets with clear plans for achieving them. Companies should consider offsetting residual emissions not just once they have reached their decarbonization targets but every year along the way.

5. Carbon credits should come ‘last, but not later.’ Continued

Ana Haurie
CEO, Respira International

“About $44 trillion of GDP, which is about half of global GDP, depends on nature. We need to protect nature. It's an incredibly important function for the whole planet.

Deforestation accounts for 10 to 15% of global emissions every year. If we keep undermining the confidence in this sector, this rate of deforestation is going to continue increasing.

So how do we preserve it and conserve it so that it can keep doing the function that it's meant to be doing? This is where we have to look at forest conservation and REDD+.”

“Organizations that invest in carbon credits are cutting emissions at twice the rate of their non-credit-buying peers.”

6.2% ↑

Companies that buy carbon credits are simultaneously cutting their Scope 1 and 2 emissions by 6.2% per year.

3.4% ↓

Companies that don’t use carbon credits are cutting emissions by only 3.4% per year.

Sylvera report, 2023

Yet many buyers hesitate, thanks to a long-standing notion that corporations use carbon offsets as a ‘license to pollute.’ Sylvera recently explored this concept in our study of 100 of the most influential companies worldwide. Trove Intelligence also released similar findings from a study of over 4,000 companies.

The central question in both studies was: does buying offsets slow corporate decarbonization? And the answer, resoundingly, was no. Both studies revealed that organizations that invest in carbon credits are cutting emissions at twice the rate of their non-credit-buying peers.

So what does this mean for the VCM? It’s clear that the market needs stronger incentives and clearer official guidance to encourage companies to begin offsetting today — at the speed and scale the planet requires. Buyers need reassurance from standard-setters that investing in high-quality carbon credits won’t detract from progress on internal emissions reductions.

Alexia Kelly
Managing Director, Carbon Policy and Markets Initiative, ICVCM & High Tide Foundation

"I personally feel very strongly that finding strong incentive frameworks to enable companies to invest now and today in both their internal decarbonization while also providing that additional assurance and incentive to spend the significant additional money that will be required in order to invest in high-quality carbon credits as a credible and recognized part of your decarbonization journey."

About

Alexia Kelly has worked for more than 17 years at the intersection of policy and finance to address the climate crisis. Alexia currently serves as Managing Director of the Carbon Policy and Markets Initiative (CPMI) at High Tide Foundation. The CPMI accelerates ambitious climate action and capital mobilization through robust rules and guidance for voluntary corporate action and disclosures, and by building the next generation of high-integrity carbon and environmental services markets. In this role she serves on the Board of the Integrity Council for Voluntary Carbon Markets (IC VCM) and on the Board of the Advanced and Indirect Mitigation Initiative, as well as on the Expert Advisory Group of the Voluntary Carbon Markets Integrity Initiative (VCMI).

Prior to joining High Tide Foundation, she served as Director of Net Zero + Nature at Netflix, where she led the company's inaugural greenhouse gas inventory, renewable energy strategy, Science Based Target and global carbon credit portfolio. Previously, she worked at the U.S. Department of State, where she served as lead negotiator to the UNFCCC on Article 6 of the Paris Agreement. She has also held senior roles at the World Resources Institute, The David and Lucille Packard Foundation, The Climate Trust, and in private equity.

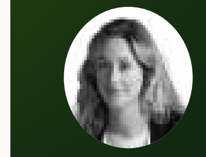
6. Companies are going beyond offsetting

Despite the wealth of companies investing in carbon credits to create genuine climate impact, there is still widespread skepticism about the effectiveness of carbon credits.

Part of this reputation stems from framing carbon credits as carbon 'offsets', a term that seems to imply that carbon credit purchases absolve buyers of the need to reduce emissions. Adjacent to this is the use of terms like 'carbon neutral' when marketing particular products and services, which can give a false impression that a product makes no negative environmental impact.

As the use of carbon credits comes into question and more companies understand the importance of following mitigation hierarchies in their decarbonization journeys, standard-setters are encouraging companies to move away from thinking of carbon credits as 'offsets.'

The SBTi has issued clear guidance around the valid use of carbon credits for 'Beyond Value Chain Mitigation' (BVCM) and has more guidance coming in 2023. Investing in BVCM shifts the focus away from offsetting corporate footprints toward the opportunities for large-scale climate impact.



Scarlett Benson
Beyond Value Chain Mitigation Lead, Science Based Targets Initiative (SBTi)

"I'm working with the SBTi to provide best practice guidance on what Beyond Value Chain Mitigation looks like. Mitigating beyond the value chain is not a substitute for in-value-chain decarbonization. It's about going above and beyond."

6. Companies are going beyond offsetting Continued

Part of the move from mitigation to contribution involves shifting from a binary, carbon-in-carbon-out mindset. More corporate buyers are approaching carbon credits, particularly nature-based solutions, as ways not just to neutralize residual GHG emissions but to make a net-positive environmental impact.

The upcoming release of the TNFD recommendations in September 2023 and the United Nations' COP15 Biodiversity Conference in December 2022 put a spotlight on the myriad non-carbon benefits of conservation and reforestation efforts. Some companies are setting environmental commitments outside of GHG emissions, such as nature and biodiversity goals, water goals, and more.

Baroness Bryony Worthington
House of Lords

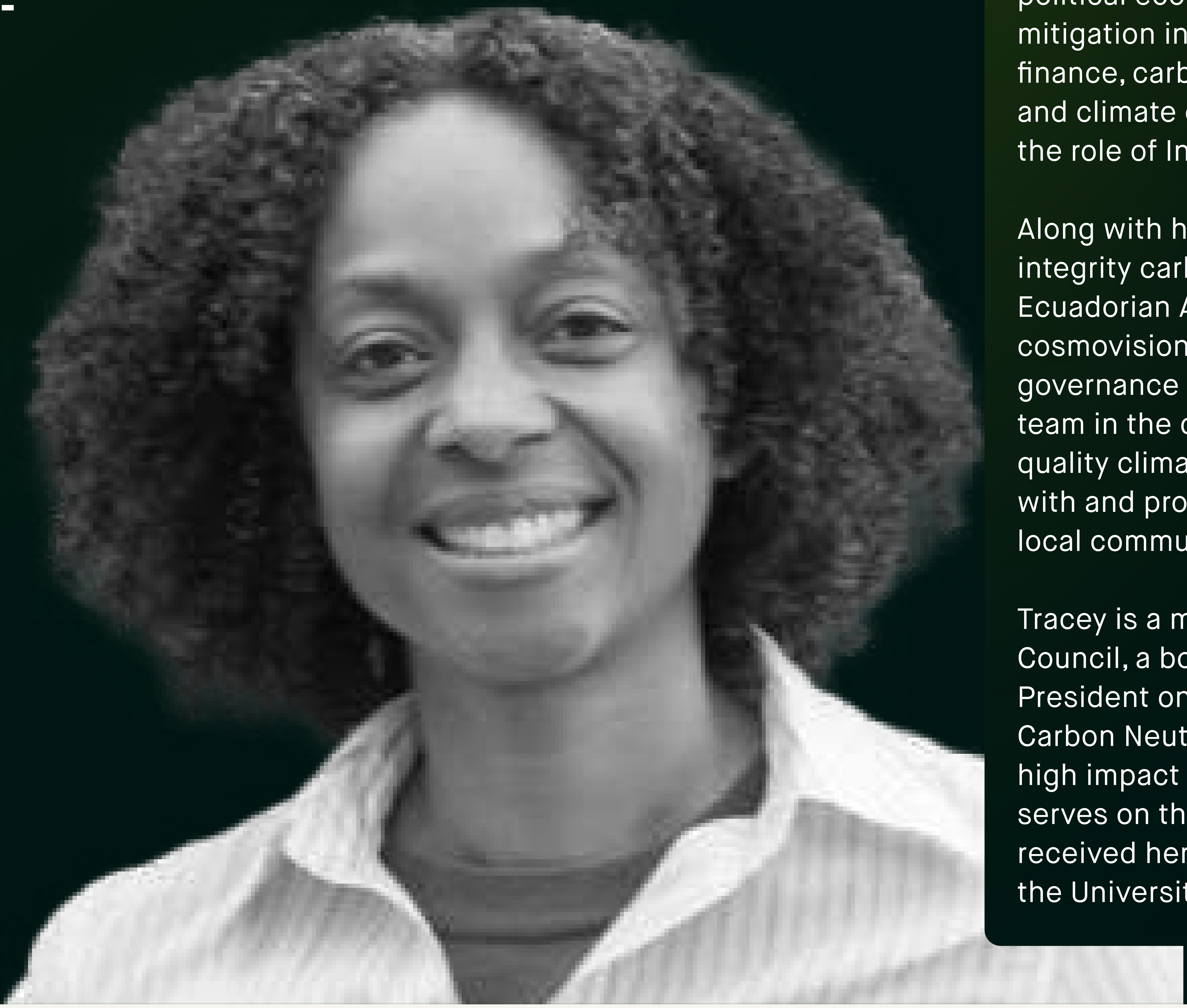
"People are acknowledging that there are many more attributes to a carbon credit than just the tonnage. The old adage that all tons are equal is just not true. Every ton has attributes — its location, its geography, what it's displacing. I think where we're moving to is that there's now much more focus on this kind of multi-attribute assessment."

Beyond nature benefits, many carbon project co-benefits emphasize the 'social' element of ESG through their support of local communities. Done well, carbon projects can offer sustainable sources of income for local residents through regenerative harvesting and eco-tourism; improve local ecosystems and waterways; create educational opportunities and help residents form lasting, emotional bonds with nature.

Tracey Osborne
Associate Professor, University of California, Merced

UNIVERSITY OF CALIFORNIA Center for Climate Justice

"Because of some of the recent critique [of carbon credits], there's a lot more attention to transparency and integrity... and also discussions about biodiversity and other co-benefits of supporting local and indigenous peoples."



About

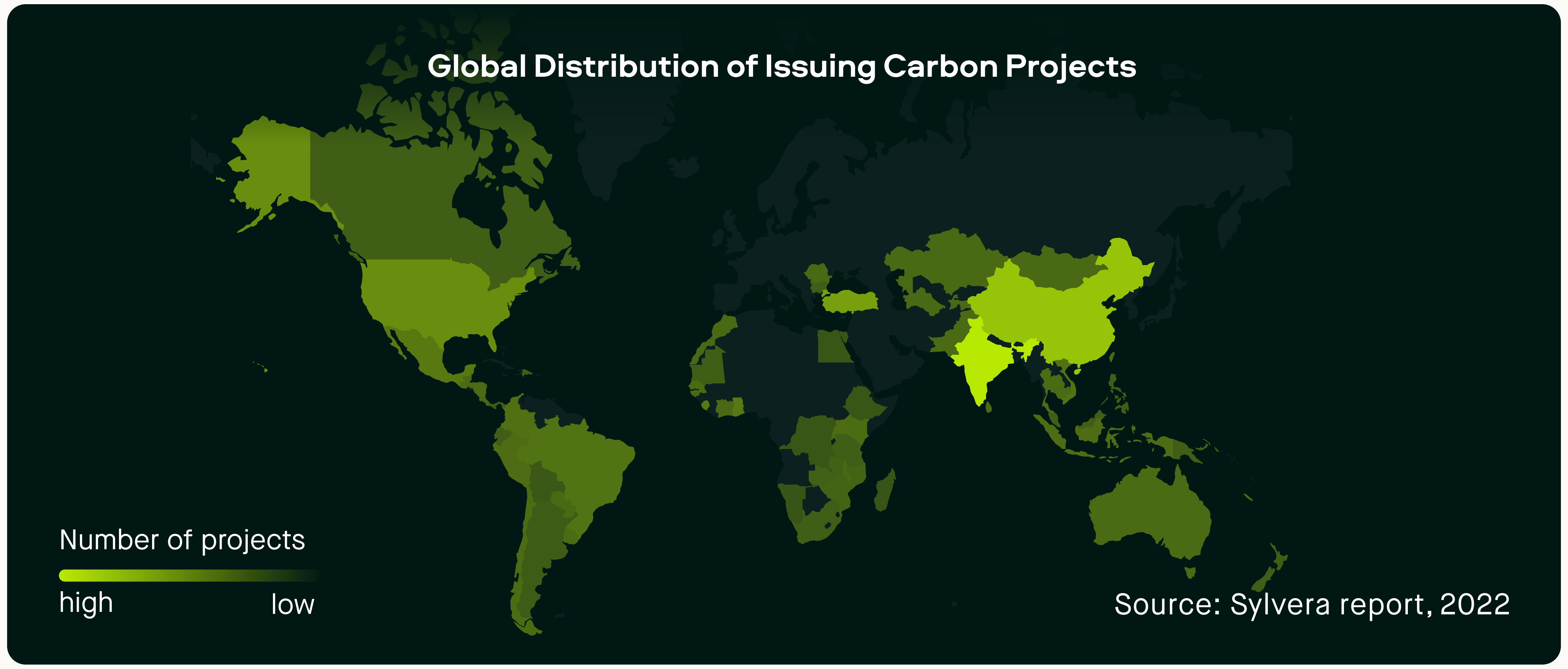
Tracey Osborne is the Founding Director of the University of California Center for Climate Justice. She also serves on the faculty as Associate Professor in the Management of Complex Systems Department at the University of California, Merced. Tracey is an interdisciplinary scholar whose research focuses on the social, ecological and political economic dimensions of climate change mitigation in tropical forests. She is an expert on climate finance, carbon markets, global environmental governance, and climate equity and justice, with particular attention to the role of Indigenous Peoples and Local Communities.

Along with her team, she has co-developed a unique high-integrity carbon project with Indigenous partners in the Ecuadorian Amazon based on their knowledge, cosmovision (worldview), and traditional forest governance and land use practices. She is also leading a team in the development of a new certification for high-quality climate/biodiversity projects that are co-developed with and provide significant benefits to Indigenous and local communities.

Tracey is a member of the Global Climate Leadership Council, a body that advises the University of California's President on the successful implementation of UC's Carbon Neutrality Initiative. She has published articles in high impact environmental and geography journals and serves on the boards of Amazon Watch and One Earth. She received her PhD from the Energy and Resources Group at the University of California, Berkeley.

7. Buyers and developers are pushing for more equitable approaches to carbon project development.

A less binary approach to carbon projects is also more socially aware and equitable. Many of the world's carbon projects take place in the Global South. With the market only unofficially regulated by standard-setters and registries and often lacking in transparency, buyers and developers mustn't sacrifice social goals in the name of environmental progress.



To this end, market-leading buyers are working with project developers at the ground level to understand how projects work, the co-benefits they offer to local communities, and how well local stakeholders are engaged and involved from the beginning of a project. This is important not just from a social justice perspective — community involvement is also the number one factor that can make or break the success of a carbon project.

Tracey Osborne
Associate Professor, University of California, Merced

"What really came out of [studying carbon projects] is the importance of local community and Indigenous land use practices, and the importance of providing more support and driving more finance toward local communities, Indigenous peoples, and also making sure that the price is high enough to compensate for those opportunity costs of the larger commodity."

Baroness Bryony Worthington
House of Lords

"If you've got a high-value commodity market already happening, whether that's ranching or plantations or logging, then you need a very high price to dissuade [landowners] from doing that 'natural market' to doing a carbon market. If the carbon isn't a high price, it's actually doing something quite inequitable, which is kicking people who have no money off their land, and encouraging them into that more economic natural market."

This is where carbon pricing can be put in context. Buyers should be focused not just on what the price of a carbon credit means for them but also on what it means for the communities and landowners involved in the projects. Corporate buyers should not aim to secure a ton of carbon at the lowest price possible, but rather, a ton of carbon at a price that ensures that local communities and landowners have enough incentive not to convert carbon project land for carbon-emitting activities.

7. Buyers and developers are pushing for more equitable approaches to carbon project development.

Continued

A positive side effect of the increasing focus on equitable approaches is that more buyers are looking to get close to their carbon projects' direct impacts on the environment and communities.

Justin Cochrane
Director & CEO, Carbon Streaming Corporation

"We're trying to work directly with project developers get close to the project, to see the direct impacts on the ground, both at the local community level at protecting biodiversity, and the activities that help meet the UN's Sustainable Development Goals. And we're finding the buyers want the same — the buyers want to get closer to the direct impacts that these projects are having."

Working directly with local communities and organizations is not just a way to ensure the success of individual carbon projects and the net benefit to local stakeholders — it may also be the key to unlocking quality supply at scale.

Diego Saez Gil
CEO & Co-Founder, Pachama

"We don't want to be the ones on the ground, doing the work that has to be done by local organizations. The question is: can we actually empower a new generation of project developers? Can we turn NGOs and local communities and landowners into project developers? We're hoping to help unleash thousands of new project developers around the world."

The social and ethical nuances of working with local communities must be further addressed by standard-setters and policymakers. But in the absence of concrete regulation for the booming VCM, voluntary market bodies are working around the clock to produce more guidance for eager corporate buyers.

Tracey Osborne
Associate Professor, University of California, Merced

"We really want to see more coherence across the results we're looking for on the ground in a way that's equitable, with state policies, and with international finance mechanisms that are going to allow for the most effective and equitable outcome on the ground. The role of the state and policy is really important here. However, in a lot of the early examples of carbon offsets, we haven't really seen the kind of the jurisdictional state policies and even jurisdictional approaches that are really paying attention to local and Indigenous land uses."

8. Standard-setters are working on better, more consistent corporate guidance.

Afraid of being called out for greenwashing over their carbon credit investments, many corporate buyers are delaying investments until clearer guidance is released from standard-setters and industry bodies.

Mark Kenber
Executive Director, VCMI

"We're seeing new policy initiatives in Europe and elsewhere, trying to regulate what claims can be made. Our fear, backed up by some evidence, is that companies are in a way shut off — sometimes shying away from taking action — both on decarbonization and the use of carbon credits, because they don't understand what they can and can't do. They're worried about saying something that will be judged in the court of public opinion, even if they are already clearly leaders in the space. So the VCMI's goal is both to cut out the greenwash, but also give confidence to those who are doing the right thing that they can say so publicly, and be rewarded for it."

But as more companies push for greater transparency and accountability from standard-setters, others are expressing concern about the potential for fragmentation in the market. The primary concern is that the guidelines and standards released by different organizations will create even more confusion in the unregulated VCM and further block action at scale from corporate buyers.

Alexia Kelly
Managing Director, Carbon Policy and Markets Initiative, ICVCM & High Tide Foundation

"As a former corporate practitioner, I think the lack of alignment currently among the standard setting organizations ... is a significant impediment currently to action and to scaled finance. And I hear this consistently from my former colleagues in corporations. So I'm feeling a high degree of urgency in aligning as quickly as possible on a robust set of guidance."

Rt Hon Chris Skidmore
MP (Member of Parliament of the United Kingdom)

"The space currently for offsetting standards is fragmented. And that's to the detriment of the emerging carbon market. We know that there are various standards, and the longevity of these are set by organizations internationally. But this makes it difficult for businesses looking to invest, to know exactly how to offset and where to place their investments, as well as also looking at where to place those investments in emissions reductions and removals."

8. Standard-setters are working on better, more consistent corporate guidance. Continued

So as more guidance and standards become available, both around carbon credit quality and their role in corporate decarbonization strategies, organizations like the Voluntary Carbon Markets Initiative (VCMI), the Integrity Council for Voluntary Carbon Markets (ICVCM), and the Science-Based Targets Initiative (SBTi) are working closely to ensure consistency and alignment.

The ICVCM released their Core Carbon Principles in March of 2023; the VCMI will issue a Claims Code of Practice in June, and the SBTi's Corporate Net-Zero Standard will be complemented by further guidance on BVCM. The organizations are working collaboratively to ensure that each offers guidance that is complementary and does not create additional confusion in an already complex market.

Scarlett Benson
Beyond Value Chain Mitigation Lead, Science Based Targets Initiative (SBTi)

"I think [the SBTi and other bodies are] very much aligned in that grand vision of what the role of the carbon market can be as their complementary tool. There's a lot of technical work, but also a lot of communicating with [the different bodies] about how to strategically present our initiatives to the outside world."

Mark Kenber
Executive Director, VCMI

"We're already looking at the individual organizational level to make sure we're joined up. We're aware that our collective as well as individual success depends on what we produce being intelligible and usable by our audience, which is principally corporates around the world. We are already working closely with all those organizations and others to make sure we are aligned and joined up. And that's not just in the technical requirements in our standards, frameworks, and guidance, but also in the way we communicate."

9. The voluntary market is laying the foundations for mandatory regulation.

To date, the voluntary carbon market has remained separate from compliance markets like the EU's Emissions Trading System or California's Cap and Trade Program. But as more jurisdictions around the world tighten environmental regulations and look seriously at pricing carbon, the voluntary market may become increasingly entwined in compliance efforts.

Scarlett Benson
Beyond Value Chain Mitigation Lead, Science Based Targets Initiative (SBTi)

"I think it's very clear that these voluntary initiatives can never be a replacement for policy in support of climate change. The reality is that we're actually dealing with a policy failure here, in that there isn't already a policy in place that's requiring companies to [decarbonize and mitigate]."

Mark Kenber
Executive Director, VCMI

"The fact that we're talking about voluntary climate action in 2023 is a clear sign of policy failure. We've been talking about this long enough, and we should have economy-wide policies everywhere. The reason this voluntary action exists is because there's appetite for it, and there's need for it."

Many participants in the VCM are vocal about the urgent need for policies that mandate decarbonization and mitigation through carbon credits. Improvements in transparency and integrity within the corporate-driven voluntary market — which often tends to move faster than government-regulated programs — may lay the foundations for policymakers to replicate. Additionally, the corporate demand signaled by VCM growth should give policymakers confidence that mandatory carbon regulation might, in fact, be well received.

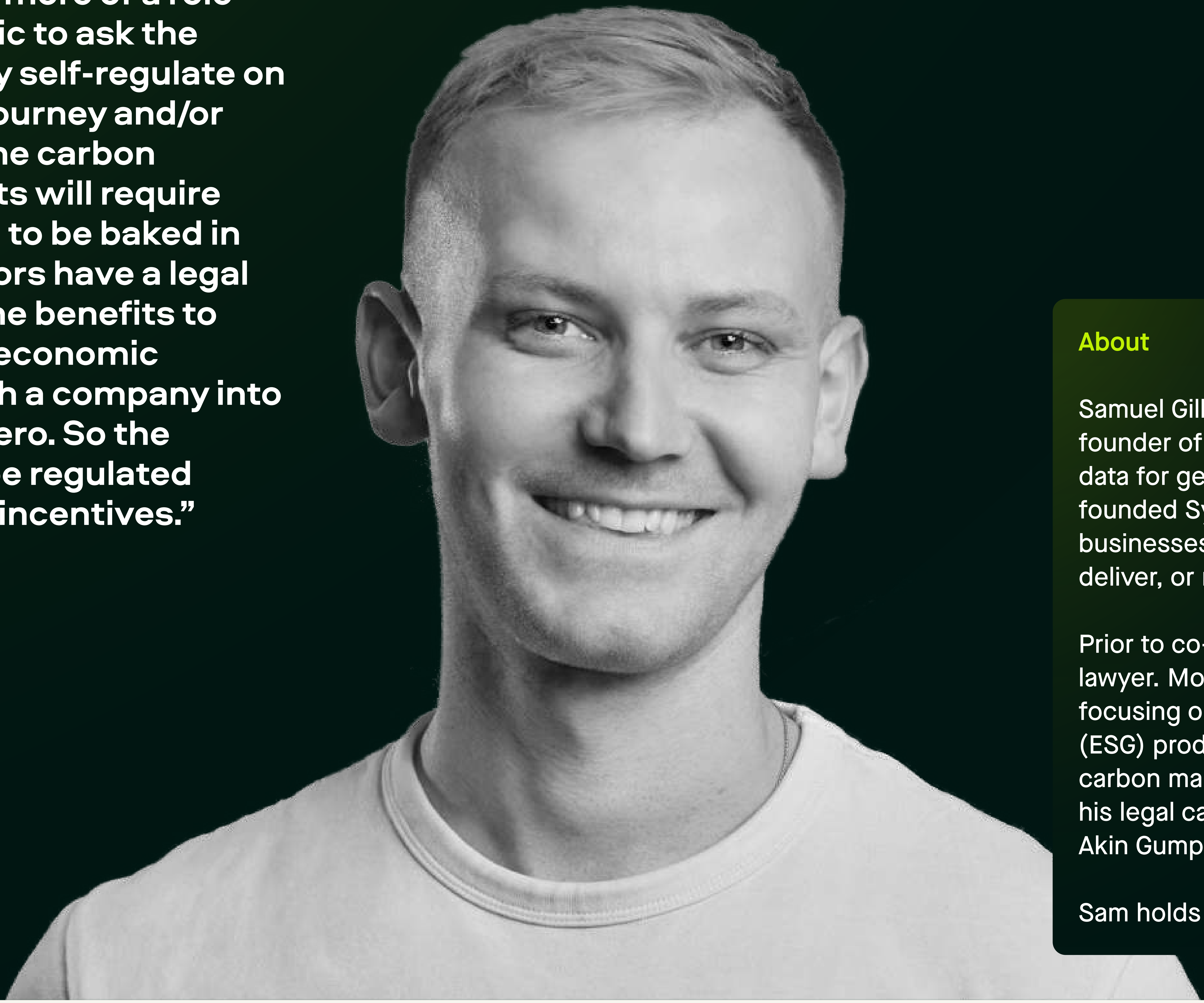
Scarlett Benson
Beyond Value Chain Mitigation Lead, Science Based Targets Initiative (SBTi)

"I think what we can do as standard-setters is show policymakers that companies are willing to do this voluntarily. The SBTi has more than 5000 companies across the world [voluntarily] committed, so we can see that companies and businesses want to go faster than regulation. They see climate change as a real risk to their businesses, and want to take this action.

"One would hope that this emboldens policymakers to move faster. And then I also think that the standards that we set can give them a bit of a leapfrog in terms of policy design. We can show them what's worked and what hasn't, and give them a roadmap for how they could implement and progressive climate policy."

Samuel Gill
Co-founder & President, Sylvera

"Government needs to play more of a role here. I don't think it's realistic to ask the private sector to completely self-regulate on either its decarbonization journey and/or what it should be doing in the carbon markets. Real behavior shifts will require some sort of carbon pricing to be baked in and pushed into law. Directors have a legal requirement to maximize the benefits to their shareholders from an economic perspective – you can't push a company into the red in the name of net zero. So the private sector will need to be regulated much more heavily to drive incentives."



About

Samuel Gill is the co-founder and president co-founder of Sylvera, a firm providing trusted carbon data for genuine climate impact. In 2020 Sam co-founded Sylvera along with Allister Furey to help businesses and governments confidently invest, deliver, or report their real climate impact.

Prior to co-founding Sylvera, Sam was a corporate lawyer. Most recently, he worked at Baker McKenzie focusing on Environmental, Social and Governance (ESG) products, where he gained exposure to the carbon markets' issues and opportunities. He began his legal career as an investment funds Associate at Akin Gump Strauss Hauer & Feld.

Sam holds a Bachelor's of Law from Cardiff University.

9. The voluntary market is laying the foundations for mandatory regulation. Continued

Mark Kenber
Executive Director, VCMI

"[The VCMI] don't expect corporate climate claims around the use of carbon credits and decarbonization to be voluntary forever. And we certainly hope that by the end of this decade at the latest, a lot will have been incorporated into regulation. We're already talking to advertising regulators and consumer protection bodies so that where companies are using climate claims or competing in their advertising, that becomes regulated."

Today, what is currently voluntary in many jurisdictions may be mandatory by the end of the decade, which could significantly impact voluntary markets. For example, Article 6 of the Paris Agreement may lead to better quality control from voluntary registries and see certain voluntary carbon credits designated as 'adjusted credits' (ensuring these aren't double-counted towards host country or purchasing country Nationally Determined Contributions).

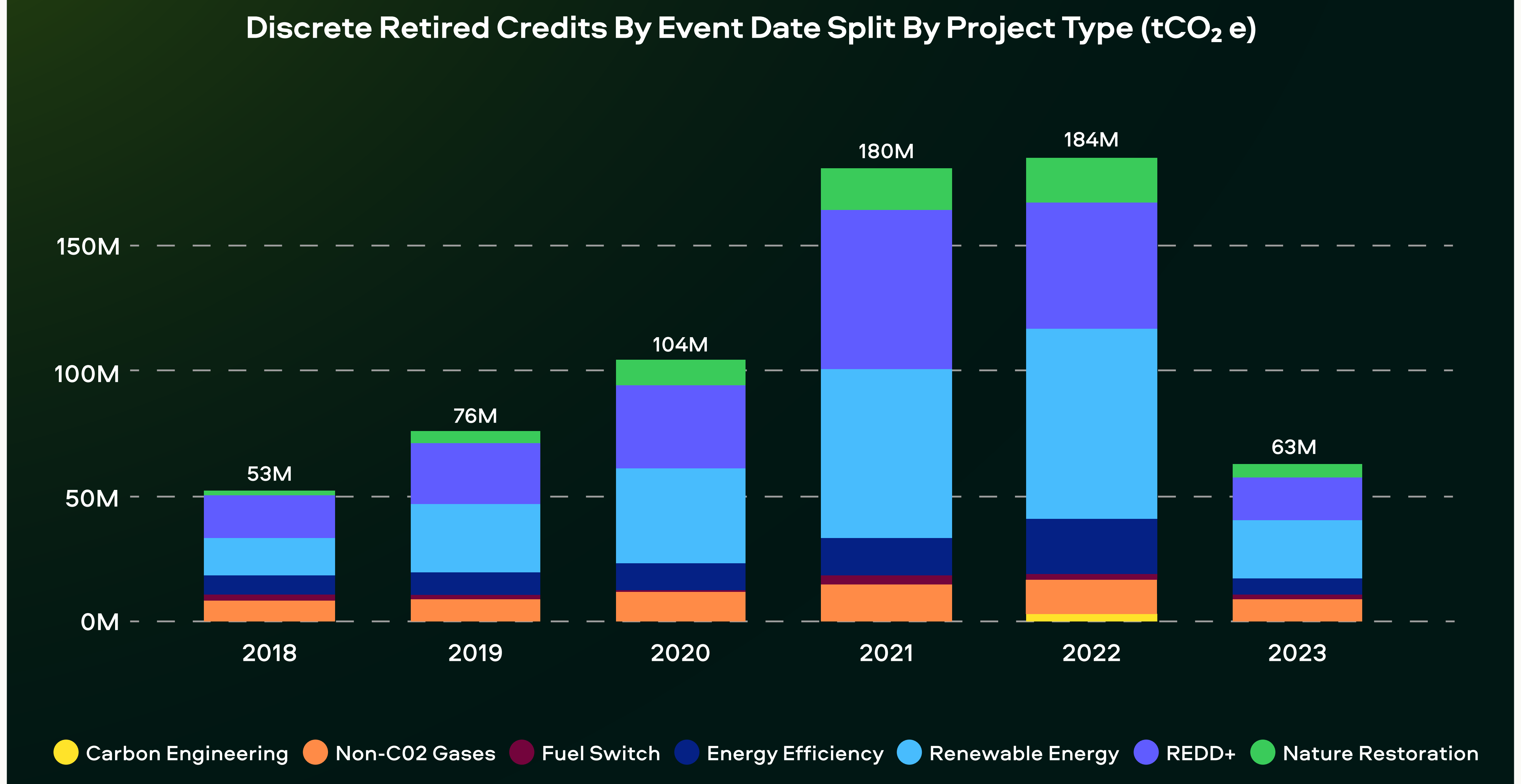
Samuel Gill
Co-founder & President, Sylvera

"I think that, on an ongoing basis, Article 6.4 will likely be the mechanism that facilitates that interaction between compliance markets and voluntary carbon markets, depending on whether a corresponding adjustment is required. Whether or not that impacts pricing [is another question]. Where corresponding adjustments are be required for private sector entities, this will require a higher price being set, because almost indefinitely the host country will ask for a contribution from the issuing entity. The highest-taxed offsets will likely be 6.2- and 6.4-correspondingly-adjusted carbon credits, in a host country where there is a specific taxation regime. But there will be variation.

10. The voluntary carbon market is still growing.

Despite challenges with legacy credits, limited high-quality supply, and continuing work on official guidance, the corporate demand for carbon credits is strong — and that's unlikely to change.

More and more corporate buyers are taking a more nuanced, impact-driven approach to carbon credit investments, becoming involved earlier in projects and focusing on contribution over 'offsetting.' Voluntary credit retirements held strong in 2022 and are on track to beat records in 2023. And although further market adjustments and developments will undoubtedly lead to smaller-scale highs and lows in future years, the overall trajectory for the VCM looks positive.



Source: Trove Intelligence

Rt Hon Chris Skidmore
MP (Member of Parliament of the United Kingdom)

"When I wrote The Mission Zero report, I was very much determined to ensure that we saw Net Zero not as a cost or a burden on business, but as that growth opportunity — that opportunity to recognize new efficiencies, new productivities, new ways of creating supply chains of innovation for the future. So Net Zero is not simply an environmental tool by which we need to decarbonize and reduce our emissions. It is an economic instrument for the future."

Justin Cochrane
Director & CEO, Carbon Streaming Corporation

"It's not going to be a flat curve upwards. We're going to see some volatility. I'm very excited about where this market is [headed] over the next 5, 10, 20, 30 years."

Pachama Sylvera

Conclusion

It has been a busy year for carbon markets so far, full of developments and ongoing dialogue about the role of carbon credits in global decarbonization. But these changes speak to the undeniable growth and positive momentum that is taking place in the market.

New technology and innovation will allow for better verification of legacy projects and produce a new generation of tech-enabled projects with built-in quality assurance. Regulatory bodies and standard-setters are working closely to build frameworks and guidance for a high-integrity voluntary carbon market. And corporate buyers are showing bold leadership, optimizing for quality, and looking to get involved with projects at the grassroots level.

We urge hesitant buyers to follow the example of the leading corporate climate brands and invest in high-quality carbon projects as soon as possible and at a meaningful scale. Think 'last, not later.' Carbon projects need your contributions to save many of the world's critical forest ecosystems and reverse the trajectory of unmitigated GHG emissions.

Samuel Gill, Co-Founder and President at Sylvera, and Chris Bennett, Global Head of ESG Strategy at S&P Global, discuss the state of the carbon markets at the Carbon Markets Summit in-person event in London.

Sylvera

For insights on carbon credit quality ratings and analytics

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Pachama

To invest in high-quality forest carbon projects enabled by tech

Contact us

Sylvera

Who trusts the Sylvera platform?

Our customers and partners span corporate buyers, traders and exchanges. They are often large institutions who have made net zero commitments, and who are the biggest buyers of carbon credits in the market.

Contact us to learn more.

Sylvera's mission is to be a source of truth for carbon markets.

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