Prioritise emissions-reduction efforts and address carbon offset inadequacies on the path towards net-zero

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Carbon offsets: A credible net-zero strategy or greenwashing tool?

Voluntary carbon markets (VCMs) enable stakeholders such as governments, private investors and corporates to purchase carbon credits. One carbon credit is equivalent to one metric ton of greenhouse gases avoided or removed from the atmosphere. When carbon credits are used by the buyer to compensate for greenhouse gas emissions, it can be referred to as carbon offsets.

Purchasing high-quality carbon credits can be an important tool for channelling funds into climate solutions. However, some critics say that corporates are too dependent on cheap and low-quality carbon offsets and use it as an easy way out to justify carbon neutral claims. VCMs have also been criticised to lack transparency and regulation requirements. Recently, large companies and verification bodies have received greenwashing criticisms for bogus carbon offsets.

Recent controversies

1. Multinational corporations purchasing low-quality carbon offsets

According to Bloomberg Green's analysis of over 200,000 offset transactions, many large companies in emissions-intensive industries have made bold climate claims through the purchase of cheap and low-quality carbon credits that did not avoid or remove greenhouse gas emissions.

These carbon credits were largely from renewable energy projects that were criticised to be bogus offsets. This is because many renewable offsets came about when solar and wind power was established as the cheapest source of energy in some countries. Therefore, it can be argued that these renewable energy projects would have been viable in the absence of the offsets market and would not fulfil the "additionality" criterion.

While some major purchasers intend to phase out or reduce the use of renewable offsets, many continue to turn to renewable offsets as a cheap and short-term measure to eliminate their own greenhouse gas emissions. As it is difficult to ascertain if renewable energy funded by carbon offsets is genuinely additional, it is creating deep doubts in the credibility and efficacy of these offsets. The lack of an enforcement mechanism in the VCM makes it all the more difficult to filter out cheap and low-quality offsets.

2. Verra, global leading carbon standard, criticised for phantom rainforest offsets

There is increasing concern amongst consumers and environmental stewards on VCMs, as even carbon offsets that were considered to be of high-quality have recently been criticised to be less genuine than they were made out to be. The Guardian and other stakeholders analysed Verra's rainforest schemes, and reported that more than 90% of their rainforest offset credits most commonly used by companies are likely junk offsets that do not represent genuine carbon reductions. The findings showed that only a small proportion of Verra's rainforest projects have evidence for deforestation reduction, but Verra has disputed these claims.

Sylvera, a carbon offsets ratings agency, published a response to The Guardian's article with their own analysis of REDD+ credits on the market. It found that 31% of projects rated are of high-quality, which is a more hopeful value than what The Guardian reported but still a concern.

The allegations against Verra are concerning and it raises a serious question on whether carbon offsets are more beneficial or detrimental to the global decarbonisation journey.

Key Takeaways

1. Increased uncertainty in VCMs but offsets should not be abandoned

Recent controversies have cast doubt on the credibility of VCMs and the legitimacy of using carbon offsets as a net-zero strategy. The nature-based segment of the VCM came under pressure following market reactions to The Guardian's article on the issue, and the impact extended to other segments of the VCM such as the renewable energy credits sector. Renewable energy credits certified by Verra's Verified Carbon Standard (VCS) Program were offered at a widening discount toward Gold Standard-certified credits on the VCM. A developer highlighted that VCS-certified hydro credits with a 2019 vintage that sold at $2.75/mtCO2e last week, are now valued at less than $1 this week.

While it is a problem that some credits do not deliver the benefits they claim, VCMs are still one of the funding mechanisms for the conservation of carbon sinks and valuable ecosystem services. It is therefore more urgent to address the inadequacies in carbon offsets rather than to abandon them.

2. Urgent VCM framework required under Article 6 of the Paris Agreement

At the 27th United Nations Climate Change Conference (COP27) in 2022, texts on Article 6.2 (guidance on international trade of carbon credits) and Article

6.4 (set-up of a centralised carbon market overseen by the UN) saw some progress but countries pushed back to 2023 a decision for project types that can produce credits, as well as definitions on what constitutes a high-quality carbon credit. These are urgent, albeit complex, issues to address to enable stakeholders to confidently engage in VCMs without risking greenwashing accusations.

From 2024, carbon tax-liable facilities in Singapore will be able to use high-quality international carbon credits to offset up to 5% of their taxable emissions. To facilitate this, Singapore's National Environmental Agency (NEA) has signed agreements with organisations such as Verra and Gold Standard to allow credits issued by them to help Singapore's carbon tax-liable facilities meet part of their carbon tax obligations. With the demand for carbon offsets from corporates anticipated to increase with policy developments and greater net-zero commitments, a clear and mandated VCM framework can enable the VCM to thrive and genuinely contribute towards net-zero goals.

3. Prioritise carbon reduction over carbon offsets

While carbon offsets are important, they should not be used as a substitute for genuine emissions-reduction efforts. Achieving a reduction in absolute emissions should be prioritised, before using carbon offsets for residual and unavoidable emissions for hard-to-abate sectors to complement existing decarbonisation strategies.

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