IS SCALING UP VOLUNTARY CARBON OFFSET MARKETS REALLY WHAT THE CLIMATE NEEDS?

Former Bank of England governor Mark Carney, now vice chair & head of ESG investing at Brookfield Asset Management and UN special envoy for climate action and finance has initiated a private sector-led initiative called 'Taskforce on scaling voluntary carbon markets'. In November 2020, this taskforce published a consultation paper calling - as the name would suggest – to scale up voluntary carbon offset markets.[1]

This report is surprising in our opinion for 7 reasons:

1. **Carbon offset markets have been a spectacular failure over the past 12 years**, with plenty of documented evidence of the appalling track record of the Kyoto Clean Development Mechanism.[2]

Even more surprising, the report also promotes offset credits from forestry activity. Yet, as noted by NGO Carbon Market Watch, '*a little over ten years ago, forest conservation was excluded from the Clean Development Mechanism, and the EU decided to ban offset credits from forestry and land use land change activities (LULUCF) in the EU-ETS. And for very good reasons. There is an inherent high risk that forest offset credits do not represent real emission reductions due to leakage, the impermanence of forest carbon, inflated baselines, problematic additionality testing and difficult monitoring reporting and verification. If these artificial credits would be traded in a global compliance market, global emissions would actually rise*.'[3]

It might also be worth remembering that by definition offsets at best displace emissions, but do not reduce them. Indeed, the whole point of an offset is that one entity gets to keep emitting.[4]

2. **Carbon offsets have also been and still are riddled with fraud and human rights abuses**. Frauds range from companies manufacturing greenhouse gases to later destroy them and collect credits, to the re-use of expired credits by a European member state[5] and more recently fake forestry offsets.[6] Unfortunately, while fraud can be addressed, other more serious issues cannot.

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[1] Taskforce on scaling voluntary carbon markets, November 2020 https://www.iif.com/Portals/1/Files/TSVCM_Consultation_Document.pdf
[2] Hache F, 50 shades of green part I: carbon https://greenfinanceobservatory.org/wp-content/uploads/2019/03/50-shades-carbon-final.pdf
[3] Carbon Market Watch, REDD, April 2013. Online. Available at: https://carbonmarketwatch.org/2013/04/09/redd/
[4] Stabinsky D, Letter: Don't rely on carbon offsets as a climate change solution, Financial Times, 10 December 2020 https://www.ft.com/content/300213d3-7968-4219-a131-e433e6012b60
[5] The Guardian, Carrington D, EU plans to clamp down on carbon trading scam, 26 October 2010, https://www.theguardian.com/environment/2010/oct/26/eu-ban-carbon-permits;
The Atlantic, Jacobs R, The Forest Mafia: How Scammers Steal Millions Through Carbon Markets, 11 October 2013, https://www.theatlantic.com/international/archive/2013/10/the-forest-mafia-how-scammers-steal-millions-through-carbon-markets/280419/

Many carbon offset projects have been documented to result in land use and land ownership conflicts, land grabs and human rights violations against indigenous communities, including violence, torture and murder against local communities.[7]

3. **Carbon markets rely on debunked assumptions** (traditional regulations have failed, polluting is free today, price-based mechanisms would be more effective, markets are efficient and able to price scarcity).[8]

4. **Carbon offset markets suffer from intractable conceptual issues,**[9] including dubious equivalences, incalculable additionality and the absence of a price signal.

5. Carbon offsetting does not accelerate but on the contrary has been shown to delay climate action.

The priority is to curb GHG emissions immediately and drastically. Since it is too late to avoid climate change, we will also need to rely in addition on so-called 'negative emissions technologies' such as the sequestration of GHG gases from the atmosphere through forestry. But this is VERY different from offsetting: firstly, this sequestration targets past emissions, whereas offsetting is an enabler of current emissions; secondly this sequestration must come IN ADDITION TO curbing emissions and not instead of. Yet, offsetting by definition puts emission reduction and sequestration on an equal footing, thereby implicitly favouring the latter, as it is much cheaper.

This is also the case with 'net zero' targets that mix both together.[10] In fact, offsetting is already being used by some governments to hide their failure to reduce emissions. As noted by Kevin Anderson, the British Committee on Climate Change's '*latest report is relying on approximately 40% higher negative emission technologies by 2050 than in their previous analysis. As we fail on mitigation, we simply turn up the negative emission technologies' dial.'*[11]

Euractiv, Crisp J, Leaked paper exposes EU countries' abuse of climate loophole, 24 March 2017, https://www.euractiv.com/section/climate-environment/news/leaked-paper-exposes-eu-countries-abuse-of-climate-loophole/
The Climate Examiner, UN carbon trading hit by massive fraud, 27 August 2015,
http://theclimateexaminer.ca/2015/08/27/un-carbon-trading-hit-massive-fraud/
The Corner House, Lohmann L, "Strange Markets" and the Climate Crisis, 2010,
http://www.thecornerhouse.org.uk/sites/thecornerhouse.org.uk/files/Strange%20Markets.pdf
[6] Elgin B, Bloomberg, These Trees Are Not What They Seem, 9 December 2020
https://www.bloomberg.com/features/2020-nature-conservancy-carbon-offsets-trees/
[7] Carbon Market Watch, The Clean Development Mechanism: Local Impacts of a Global System, 29 October 2018,
https://carbonmarketwatch.org/publications/the-clean-development-mechanism-local-impacts-of-a-global-system/
Bachram H, Climate Fraud and Carbon Colonialism: The New Trade in Greenhouse Gases, Capitalism, Nature, Socialism Vol 15, December 2004,
http://www.carbontradewatch.org/pubs/cns.pdf
Carbon Market Watch, Open letter to ICAO council representatives & national delegates on ending the Clean Development Mechanism, 29 October 2018, https://carbonmarketwatch.org/publications/open-letter-to-icao-council-representatives-national-delegates-on-ending-the-clean-development-mechanism/
Friends of the Earth, New report on human rights violations linked to REDD in Acre, Brazil, 8 December 2014, https://foe.org/news/2014-12-new-report-on-human-rights-violations-linked-to-redd/
The Oakland Institute, Carbon Colonialism: Failure of Green Resources' Carbon Offset Project in Uganda, 2017,
https://www.oaklandinstitute.org/carbon-colonialism-failure-green-resources-carbon-offset-project-uganda
Motherboard, Ahmed N, Carbon Colonialism: How the Fight Against Climate Change Is Displacing Africans, 1 December 2014,
https://motherboard.vice.com/en_us/article/kbzn9w/carbon-colonialism-the-new-scramble-for-africa
[8] Hache F, 50 shades of green part I: carbon https://greenfinanceobservatory.org/wp-content/uploads/2019/03/50-shades-carbon-final.pdf
[9] Bouleau N, Le mensonge de la finance, Editions de l'Atelier, 2018, https://www.babelio.com/livres/Bouleau-Le-mensonge-de-la-finance/1024693; Hache, supra
[10] Kevin Anderson replying to Greta Thunberg https://twitter.com/KevinClimate/status/1337315994730160129
[11] Prof Kevin Anderson, https://twitter.com/KevinClimate/status/1171852678403645442
Also see '*Important contributions demonstrating how (for the unscrupulous) the speculative potential of 'CO2/GHG-removal' risks undermining stringent mitigation today - passing the buck to future generations. UK shift from 80% to 'net-zero' illustrates this in action.'*
https://link.springer.com/article/10.1007%2Fs10584-020-02732-3
https://www.nature.com/articles/s41558-020-0740-1
https://twitter.com/KevinClimate/status/1333546552254746629

Carbon offsets credits have also been shown to be instrumentalized to remove any upper limit to emissions allowances, by being allowed in the EU cap and trade carbon market, in addition to the EU's own cap-and-trade own credits. This contributed significantly to the failure of the cap-and-trade market to have any significant effect on curbing emissions and thus to wasting precious years in the fight against climate change.

A number of major oil[12] and aviation[13] companies have also expressed a strong interest in planting trees to offset emissions, while ***expanding*** their activities.

Last, as you can create an unlimited number of offset credits – only limited by the availability of land to plant trees, it stands to reason that offsets cannot be used to curb emissions.

6. Large-scale forest carbon sequestration & offsetting could cause food prices to skyrocket
A recent study published in the journal Environmental and Resource Economics found that '*meeting half the Paris Agreement's goal for atmospheric carbon reduction would send food prices soaring, especially in developing economies. In some places, food prices would get so high that it would never happen (…) Significant forest carbon sequestration leads to reductions in food supply at the same time we're expecting population increases. This is a simple supply and demand problem.'* As forest carbon sequestration competes with cropland and disproportionately affects the poor, it can at best only be a small piece of the puzzle. As one of the authors of the study puts it, '*if we want to be serious about climate change, there is no way around reducing emissions*.'[14]

7. **Who really needs scaled-up voluntary carbon markets?** Two major new international carbon offset compliance markets are already being created, one to "offset" civil aviation emissions and the other linked to the Paris Agreement. In addition, the main European carbon market called the EU ETS is also being expanded to new sectors as part of the European Green Deal. Why would we need a dramatic expansion of voluntary markets in addition? It is also worth remembering that only compliance markets have seen significant demand historically, as the demand is created by legislation: as an example, most of the demand for Kyoto Clean Development Mechanism credits came from the EU ETS. While the demand for voluntary credits for altruistic or brand management motives exists, it has always been very limited, and does not appear to justify the massive scaling up envisioned.

The report fails to address these issues and raises serious concerns in our opinion.
1. The report fails to make the case that carbon offsetting is needed to achieve our climate ambitions. It makes the case that negative emission technologies (removal and sequestration) are

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[12] 3 'By planting trees, which absorb CO2 from the atmosphere, companies like Eni are looking to offset the pollution that their traditional operations create, while still looking to expand production of fossil fuels like oil and gas — arguing they need to meet growing demand in the developing world.'
Financial Times, Sheppard D, Hook L, Eni to plant vast forest in push to cut greenhouse gas emissions, 15 March 2019
https://www.ft.com/content/7c4d944e-470d-11e9-b168-96a37d002cd3
Reuters, Shell starts to offset some drivers' carbon with new trees, 08 April 2019
https://www.euronews.com/2019/04/08/shell-starts-to-offset-some-drivers-carbon-with-new-trees

[13] 'The Carbon Offset Reduction Scheme for International Aviation aspires to the "carbon neutral emissions growth" of the global aviation industry, relying primarily on so called "alternative aviation fuels" (mostly biofuels) and carbon offsets, with a large proportion expected to come from forests and tree plantations' Biofuelwatch, CORSIA: A FALSE SOLUTION TO THE VERY REAL THREAT OF EMISSIONS FROM AVIATION, https://www.biofuelwatch.org.uk/2019/corsia-briefing/

[14] Peña-Lévano L.M., Taheripour F., Tyner W.E., Climate Change Interactions with Agriculture, Forestry Sequestration, and Food Security, Environmental and Resource Economics, October 2019, Volume 74, Issue 2, pp 653–675
https://link.springer.com/article/10.1007%2Fs10640-019-00339-6
Wallheimer B, Large-scale forest carbon sequestration could cause food prices to skyrocket, Phys.org, 23 April 2019
https://phys.org/news/2019-04-large-scale-forest-carbon-sequestration-food.html

now necessary in addition to curbing emissions, but this is VERY different from offsetting, and does not require markets at all.

The arguments being presented are mostly about minimizing the cost of compliance and creating profit opportunities for corporations in order for them to increase their ambitions.[15] This is not surprising since the trading part of carbon markets has never been about addressing climate change, but about minimizing the cost of compliance for private corporations. In the EU cap and trade market for example, the annual cap aims at limiting emissions, whereas the trading part is purely to minimize the cost for market participants, by allegedly letting those who can curb emissions at the cheapest cost do it first, whereas others buy credits. Minimizing the cost of compliance is a legitimate objective, but not at the cost of environmental integrity.

The report also claims that scaling up carbon markets '*will help the private sector mobilize capital to finance the low-carbon transition'* but acknowledges that '*carbon markets are not the only way to do this.*' Indeed, binding environmental regulations mandating a reduction in corporate emissions would automatically impact the expected future revenues of all economic sectors, leading to an automatic shift in capital flows towards financing the transition.

2. The alleged '*lack of consensus on the legitimacy of offsetting'* comes across as a weak attempt at rehabilitating offsets in the face of overwhelming evidence of their environmental failure and documented social issues.[16]
The statement that '*large-scale emissions avoidance reduction should be a priority'* is not backed by concrete and credible proposals. The report states that this priority is reflected in recommended actions 9,10, 14.

Yet, the '*principles for claims and use of offsets'* in recommended action 9 are only about disclosure, measurement, reporting, purchasing and retiring credits, encouraging best practice. Likewise, the '*principles for credible use of offsets in products or at point of sale'* are merely about disclosure, minimum pricing and product transparency. We also note that the report suggests that the said principles '*should be voluntarily followed'* which further undermines the credibility of the recommended action. Pre-crisis light-touch financial regulation has indeed shown the results of self-regulation and voluntary principles.

Similarly, recommended action 10 is only about aligning corporate claims and use of offsets, by adopting a '*common narrative on the role of offsetting in corporate claims that balances the need to offset with the urgency in reducing a company's own emissions*' and '*shaping the overall consensus*

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[15] '*Carbon markets can provide a way of increasing emissions reductions by uncovering economically efficient ways of driving change that can reduce costs and increase ambition.'* Extract from the report

[16] Many carbon offset projects have been documented to result in land use and land ownership conflicts, land grabs and human rights violations against indigenous communities
Carbon Market Watch, The Clean Development Mechanism: Local Impacts of a Global System, 29 October 2018, https://carbonmarketwatch.org/publications/the-clean-development-mechanism-local-impacts-of-a-global-system/ ;
Bachram H, Climate Fraud and Carbon Colonialism: The New Trade in Greenhouse Gases, Capitalism, Nature, Socialism Vol 15, December 2004, http://www.carbontradewatch.org/pubs/cns.pdf ;
Carbon Market Watch, Open letter to ICAO council representatives & national delegates on ending the Clean Development Mechanism, 29 October 2018, https://carbonmarketwatch.org/publications/open-letter-to-icao-council-representatives-national-delegates-on-ending-the-clean-development-mechanism/ ;
Friends of the Earth, New report on human rights violations linked to REDD in Acre, Brazil, 8 December 2014, https://foe.org/news/2014-12-new-report-on-human-rights-violations-linked-to-redd/ ;
The Oakland Institute, Carbon Colonialism: Failure of Green Resources' Carbon Offset Project in Uganda, 2017, https://www.oaklandinstitute.org/carbon-colonialism-failure-green-resources-carbon-offset-project-uganda ;
Motherboard, Ahmed N, Carbon Colonialism: How the Fight Against Climate Change Is Displacing Africans, 1 December 2014, https://motherboard.vice.com/en_us/article/kbzn9w/carbon-colonialism-the-new-scramble-for-africa

on the legitimacy of offsetting.' Lastly, recommended action 14 is about offering guidance to investors on net zero and carbon offsetting.

None of these actions propose any concrete and credible measure to prioritize emission reductions over offsetting. Real proposals could have been made, in order to remove at least the worst risks, such as excluding forest offsets, banning international offsets (in order to increase accountability and prevent carbon colonialism), replacing 'net zero' targets by targets separating emission reductions and carbon sequestration and prioritizing the former, and a ban on the financial settlement of contracts[17] together with position limits to weed out excess speculators.

3. The taxonomy proposal is not a cause for optimism, given the recently finalized EU sustainable finance taxonomy that includes a range of notoriously polluting transitional activities incompatible with IPCC findings in its list of 'green activities.'[18]

4. The call to catalyze structured finance is a particular concern, since it could foster 'subprime carbon'[19] and create financial stability risks.[20]

Overall, we understand the report – in particular its focus on forestry credits[21] together with the push for structured finance and the push for cross-border trading, as implicitly promoting eco-labelled securitizations of forestry offset projects taking place in developing countries which are used to offset emissions in developed countries.[22] We interpret this as a way to create economic growth, new profit opportunities and maintain the status quo in developed countries.

We also understand this report as aiming to secure accommodating carbon market rules for polluters ahead of the COP26,[23] as well as pre-empting future tighter environmental regulations that would mandate corporate emissions reductions.

For all these reasons, we believe that while it may be that *'net zero is the greatest commercial opportunity of our time,'*[24] in the words of Mr. Carney, carbon offsetting does not need to be scaled-up at all. What is urgently needed on the other hand is environmental policies mandating a

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[17] Allowing only the physical settlement of contracts, i.e. exchanging carbon credits, not cash.

[18] Hache F, GFO's feedback on the draft delegated regulation for climate change mitigation and adaptation, https://greenfinanceobservatory.org/wp-content/uploads/2020/12/GFO-analysis-delegated-act-climate-taxo-1.pdf

[19] Subprime carbon refers to contracts or projects that carry a high risk of not being fulfilled and may collapse in value. These may come from projects using controversial methodologies to verify emissions reductions, or projects where additionality is nearly impossible to calculate. Subprime carbon is comparable to subprime loans or junk bonds, which are debts that have a high risk of not being repaid. As hundreds of projects at various stages of regulatory approval are pooled together, it could be extremely difficult to assess the quality of the underlying projects. As a result, the rating downgrade or unexpected price decline of one securitization may spark undue panic among investors.
Friends of the Earth, Subprime Carbon? Re-thinking the world's largest new derivatives market, March 2009, http://www.reimaginerpe.org/files/SubprimeCarbonReport_0.pdf

[20] GFO, Open letter to Mark Carney - Nature as an asset class could also create financial stability risks https://greenfinanceobservatory.org/wp-content/uploads/2019/06/Open-letter-to-Mark-Carney-2.pdf

[21] 'it is important to note that the largest category of avoidance projects - avoided deforestation - generally has higher biodiversity co-benefits.'
Taskforce on voluntary carbon markets

[22] *'Many of the highest-potential projects are located in less developed countries.' 'Much of the supply would come from countries with high natural capital assets and potential. Twenty countries account for the majority of potential supply of natural climate solutions; these countries are led by Indonesia, Brazil, the Democratic Republic of Congo, Peru, and Bolivia.' 'We note that a significant proportion of offsets will require cross-border purchase agreements, because most of today's demand comes from Europe and the United States and most of the potential supply is outside these regions.' 'Buyers and sellers will need to be able to trade credits across the world to ensure sufficient supply and allow everyone to benefit.'*
'There is a geographical mismatch sources of finance and sources of offset supply.'
Extracts from the report Taskforce on voluntary carbon markets

[23] '*Now is the moment to establish the infrastructure for effective carbon markets. New rules are expected to be agreed on in the next round of the United Nations Framework Convention on Climate Change (UNFCCC) climate negotiations at the 26th meeting (COP26) in Glasgow in late 2021.*'
Extract from the report

[24] African Conservation Development, https://africanconservationdevelopmentgroup.com/

reduction in greenhouse gas emissions and a public debate on how to allocate carbon budgets and share costs fairly.

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