

Carbon Certificates are Crucial

The trade in carbon certificates receives justified criticism but is too important to abolish, according to Erik van Zadelhoff and Michel Schuurman.

The trade in carbon certificates came under pressure last year due to several critical studies. However, for the conservation and restoration of the tropical rainforest, the proceeds from carbon credits are crucial. Every year, an area of pristine tropical forest the size of the Netherlands disappears, releasing an amount of CO₂ comparable to the annual emissions of the entire European Union. Projects are being implemented through the United Nations to combat deforestation in the tropics, preserve biodiversity, and improve the position of the local population. In addition to governments, companies also contribute to this through the Voluntary Carbon Market (VCM).

The idea behind the VCM is that companies compensate for their unavoidable greenhouse gas emissions by purchasing carbon credits. The capital this releases is used to capture carbon elsewhere, including in forests or by financing sustainable energy projects. The voluntary carbon market has grown explosively in recent years, from around \$500 million in 2020 to \$2 billion in 2022. Of that amount, 60 percent went to forest projects in the tropics, aimed at both preserving existing forests and planting new trees.

An example: in Tambopata, a nature reserve the size of North and South Holland in the Peruvian Amazon, forest management has been strengthened with the proceeds of carbon credits. Cocoa farmers in the area surrounding the reserve have improved their cultivation methods, including combining cocoa beans with Brazil nuts. At the same time, investments have been made in establishing property rights and improving sales through a cooperative. These measures have collectively reduced deforestation and strengthened the local economy.

Greenwashing

The criticism of the Voluntary Carbon Market is twofold. On the one hand, some companies use carbon credits to compensate for avoidable greenhouse gas emissions, i.e., greenwashing. On the other hand, projects financed with carbon credits do not always capture the promised amount of carbon and may primarily be a trade in hot air.

These negative findings have led several media outlets and social organizations, such as the TV program Pointer, research agency SOMO, and Greenpeace, to question the entire VCM, as previously highlighted in NRC. Due to this media attention, politicians have heard these concerns, leading to companies increasingly refraining from purchasing carbon credits for fear of being accused of greenwashing. However, this throws the baby out with the bathwater.

Fast Growing Market

Undeniably, the burgeoning carbon credit market has attracted financial cowboys looking to make a quick profit. It is also true that private parties certifying carbon credits have sometimes failed. At the same time, a movement has started to better regulate the market and improve supervision. A company like Verra, which certifies many of the carbon credits, has

tightened its procedures, as has Sylvera, a rating agency that is increasingly successful in separating the wheat from the chaff. Furthermore, independent international parties have taken the initiative to achieve better regulation of the carbon market. This includes both the supply side, concerning the reliability of the amounts of carbon actually captured, and the demand side, concerning the prevention of using carbon credits for avoidable greenhouse gas emissions.

Carbon credit trading is too important to be left to the market alone. Fortunately, governments are also committed to integrity and transparency. The Dutch Financial Markets Authority and the Consumer and Markets Authority work together with their European and international colleagues on procedures for more and better trade supervision. The European Commission is working on more precisely defining the environmental claims that companies are allowed to make. The Netherlands also issued a joint statement at the latest climate conference in Dubai on the importance of strengthening the voluntary carbon market, which was signed by seven EU member states. This signal would be further strengthened if, from a climate justice perspective, the government itself also purchases credits from countries that have managed to reduce their deforestation.

The common thread in the initiatives of both private parties and governments is ensuring that companies accurately specify and justify their claims, whether it concerns the (un)avoidability of the emissions for which they seek compensation or the projects that provide compensation. In this way, trust is restored, and carbon credits can be used for their intended purpose.

Erik van Zadelhoff en **Michel Schuurman** work for the Redd+ Business Initiative, a non-commercial initiative that helps companies offset their emissions.

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