**Problems Plaguing the Carbon Market**

The reason why [carbon credit](https://carboncredits.com/the-ultimate-guide-to-understanding-carbon-credits/) markets exist is so simple yet compelling. If polluters must pay for their carbon emissions, they’ll have a good reason to pollute less. All the while, more money will go toward activities that avoid, remove, and reduce emissions.

However, if the analysis is true that a large chunk of certified carbon offset credits is of poor quality, the logic behind carbon credits fails.

[Journalists said that up to 90% of the carbon credits](https://carboncredits.com/deforestation-projects-reduce-carbon/) that the largest certifier, Verra, approves are ghosts. That means they’re not really representing the actual reductions of carbon they claim to do.

The scandal shook the market. Yet, it is not surprising because of the current design of the [voluntary carbon markets](https://carboncredits.com/what-is-the-voluntary-carbon-market/) (VCMs). But given the high relevance of carbon credits in corporate net zero targets, the finding, if it’s true, isn’t a good sign of climate actions.

Another problem that is shaking the market is the rise of the so-called “carbon cowboys”. They are the middlemen working in poorly governed carbon markets who are paying offset project developers and communities in the Global South less than what they deserve. They then sell the credits with a big margin to their buyers in developed countries.

* As such, [intermediaries](https://carboncredits.com/transparency-in-intermediaries-vcm-carbon-credit-transactions-is-critical/) – brokers, retailers, or carbon cowboy dealers – have been under a watchful eye.

A watchdog group reported that 90% of the intermediaries don’t reveal the exact fees or profits they earned from selling carbon credits on the VCM.

This lack of transparency in the financial transactions in the carbon market is alarming. It doesn’t give the key players true insight if the sector is really successful in financing climate actions.

**“Market-based approaches to environmental protection have become the default option in much of modern environmental policy, both in the United States and abroad.”**

**The Root Cause**

The environmentalists or climate activists, or whatever they’re called, argue that a [market-based approach](https://www.resources.org/archives/market-based-approaches-to-environmental-policy-a-refresher-course/) is designed to fail. That’s because it allows businesses to strike out carbon from their balance sheets by buying offset credits without actually cutting their own emissions.

The critics, thus, think that companies were able to prevent public and political pressure to change their business-as-usual operations. As such, their decarbonization slows down.

While they think it that way, the real cause of problems confronting the carbon credits scheme is not because it is market-based. It is the lack of robust governance that ensures that carbon markets deliver on their proclaimed purpose.

In fact, other sectors such as finance have strict rules to ensure the accountability of market players. In particular, they don’t only regulate product quality but also have price rules to follow.

On the contrary, the VCM depends solely on private certification programs validating that a certain amount of carbon has been avoided or removed from the atmosphere.

Certification of carbon offset credits is definitely crucial. Without it, issuance of the credits won’t be possible. But it should be supported on top by a broader governance framework.

**Integrity Council’s Core Carbon Principles for Carbon Credits**

The Core Carbon Principles (CCPs) will set new threshold standards for [high-quality carbon credits](https://carboncredits.com/what-is-the-best-carbon-credit-to-buy/). They will also provide guidance on how to apply the CCPs and define which carbon-crediting programs and methods are CCP-eligible.

The Council’s CCPs are a set of criteria ensuring that carbon credits bought to offset emissions have a real, verifiable climate impact. And that’s based on solid science, not speculations.

For carbon credits to be of high integrity, the ICVCM suggests that all carbon purchases (reductions or removals) meet CCP’s 10 key criteria:

1. Additionality
2. Mitigation activity information
3. No double counting
4. Permanence
5. Program governance
6. Registry
7. Robust independent 3rd party validation & verification
8. Robust quantification of emissions reductions & removals
9. Sustainable development impact and safeguards
10. Transition towards net-zero emissions

Moreover, mitigation efforts must avoid locking in levels of emissions or practices that are not in line with achieving the [net zero emissions](https://carboncredits.com/what-does-net-zero-emissions-really-mean/) by 2050.

As per Carney, the UN Special Envoy on Climate Action and Finance:

*“By providing a global threshold standard for credible, transparent, high-integrity carbon credits the Integrity Council’s new Core Carbon Principles will support the net zero transitions of companies… and the reduction of global emissions while providing much-needed financing to projects in emerging and developing economies and to Indigenous Peoples.”*

[Emissions reduction efforts](https://carboncredits.com/canadas-2030-emissions-reduction-plan/) must also be guided by: *“clear guidance, tools and compliance procedures”.*

Plus, all carbon credit programs must also be validated and verified by third-party. They also have to be robustly quantified according to: *“conservative approaches, completeness and sound scientific methods.”*

The Core Carbon Principles draft also suggested that all carbon crediting programs should be available with comprehensive and transparent information. Such information should be accessible to non-specialized audiences and come in electronic format.

**They must also have effective governance systems to achieve:**

* transparency,
* accountability, and
* overall [quality of carbon credits.](https://carboncredits.com/vcmi-code-for-ranking-companies-using-carbon-credits/)

Lastly, they should identify, record and track mitigation activities on a registry.

All these CCP criteria will ensure projects are compatible with sustainable development goals.

SITE WHERE LIVE CARBON TRADING IS DONE:  
<https://carboncredits.com/carbon-prices-today/>

“Companies that don’t use up all their emissions credits can trade their excess credits to other companies that would otherwise exceed the limit.” – LOOKS TO BE GOOD IDEA.

**The Key Methods of Carbon Pricing**

The goal of pricing carbon is to force entities to produce less CO2 and other greenhouse gas emissions (GHG). Most people agree on that point; the disagreement comes over which method of carbon pricing achieves that goal the best.

There are two primary carbon pricing instruments, along with several other secondary ones.

**Primary Carbon Pricing Mechanisms**

**Carbon Tax**

Governments love taxes. They bring in revenue, they’re easy to understand, and at least in theory, they’re easy to administer. Taxes are also a great control mechanism.

Increase the taxes on something, and you increase the price. Increase the price, and fewer people will be able to purchase that item or use that service.

This idea isn’t new; it’s the same principle behind the so-called [“sin tax.”](https://academic.oup.com/heapol/article/36/5/790/6246142) Increase the tax on alcohol and cigarettes and you can, in theory, reduce the number of people who use them.

The “sin” idea came to be applied more generally to practices that have a negative social cost. For cigarettes, that’s an increased burden on the healthcare system. While for alcohol, there’s disorderly conduct, healthcare costs, and even drunk-driving incidents.

Applying the same concept to carbon pricing initiatives makes sense. Carbon emission, for all the reasons listed earlier, has similar social costs.

By taxing the institutions that emit CO2, governments can reduce those negative impacts while also providing a revenue stream.

A [carbon tax](https://carboncredits.com/canada-carbon-capture-tax-credit/) isn’t perfect. As a pricing mechanism, it’s fixed; adjusting a tax rate is a laborious and time-consuming process. And there’s no real way to respond to market demand.

**Emissions Trading System**

Building a system for trading CO2 emissions establishes a rudimentary carbon market. The market can set the price, at least within certain constraints.

At the same time, an ETS allows regulatory bodies to create a baseline price that increases over time – incentivizing decarbonization.

There are at least two basic approaches to an ETS. A [cap-and-trade](https://carboncredits.com/a-guide-to-compliance-carbon-credit-markets/) program sets an upper emissions limit and assigns carbon credits for emissions within those limits.

Companies that don’t use up all their emissions credits can trade their excess credits to other companies that would otherwise exceed the limit.

Baseline credit systems use a similar process in reverse. Carbon credits are dispersed only to companies that keep their emissions below a set baseline. Those [credits can then be traded](https://carboncredits.com/the-top-4-carbon-exchanges-for-2022/) with companies that are above the baseline.

**Other Carbon Pricing Mechanisms**

Apart from carbon tax and an emissions trading system, there are other carbon pricing mechanisms that tend to gather a bit less attention.

**Internal Carbon Pricing**

When companies calculate their own price for carbon emissions and build that into their planning, that’s an internal pricing mechanism. Internal carbon pricing provides the greatest flexibility for companies, but can also be the hardest to clarify or define.

Some recent initiatives, such as the Science-Based Targets initiative (SBTi) seek to provide some third-party guidance on this process.

In setting an internal carbon price, there’s a range of points to consider. It includes reviewing external risks and looking into the carbon tax risks in operating countries, where there can be variations.

The most important starting point if you’re considering internal carbon pricing is to understand your own business drivers for setting it.

**Results-Based Climate Funding (RBCF)**

Typically funded by various regulatory agencies or even non-governmental organizations, [RCBF offers payments](https://blogs.worldbank.org/climatechange/results-based-climate-finance-powerful-tool-build-back-better-only-if-it-within-easy#:~:text=Results%2DBased%20Climate%20Finance%20(RBCF,equitable%2C%20low%2Dcarbon%20recovery.) when certain emissions reductions have been reached.

By focusing on results that create incentives to take action – from planting trees to improving access to clean energy, RCBF can help cut emissions.

But for all its utility, this mechanism has been a complicated tool to use, putting off many would-be users.

There’s a final method of carbon pricing that’s worth mentioning, having quickly become a multi-million-dollar market globally: offsetting.

**Carbon Offsetting as a Pricing Mechanism – (GREENLEAD’S MODEL).**

[Carbon offsetting](https://carboncredits.com/what-is-a-carbon-offset/) embraces a free-market approach to the carbon pricing problem. CO2 emissions are calculated by a tonne of C02, but offsets are given for preventing or removing CO2 emissions.

For example, planting a forest allows trees to absorb CO2 into their trunks; building a Carbon Capture and Storage (CCS) facility can pull CO2 straight from a factory’s exhaust and lock it away before it has a chance to enter the atmosphere.

Projects calculate the value of these [offsets and then sell them](https://carboncredits.com/how-to-make-money-producing-and-selling-carbon-offsets/) on the open market to other companies who want to cover some of their own emissions.

If every tonne of CO2 produced by an entity is covered by an offset, then in theory the net result would be zero emissions – what is commonly referred to as a [“net zero”](https://carboncredits.com/what-does-net-zero-emissions-really-mean/) position.

Carbon offsetting lacks the regulatory oversight and control of some of the other approaches to carbon pricing, such as government-run carbon policies.

But in exchange, it provides a wide range of flexibility. Carbon offset projects can be highly technical CCS programs or focused on natural approaches. Example is restoring natural carbon sinks like forests and peat bogs.