

A DIGITAL CARBON CREDITS ECOSYSTEM, POWERED BY BLOCKCHAIN

Abstract

According to the World Bank, the market for carbon credits is estimated to grow from US \$50 billion to US \$185 billion by 2030. The chief challenges for the carbon market are rooted in its fragmented implementation globally, lack of transparency and standardization in estimating emissions, and the inability to effectively price carbon credits. This paper shows how blockchain technology can be used to streamline operations to measure greenhouse gas (GHG) emissions, standardize and automate carbon credit issuance, and offset and track credits through an integrated and transparent ecosystem.

Introduction

The 2015 Paris Agreement set in motion a concerted global effort to meet the sustainability goal of net-zero carbon emissions and limit global warming to 1.5 degree Celsius by 2050. As part of this, countries have set regulations for carbon taxes and permissible carbon emissions for every industry and company. To align with this goal, many organizations have taken responsibility and committed themselves to the journey of helping the world become carbon neutral by 2050. In one of the many decarbonization initiatives, Arcelor Mittal's XCarb™ green steel certificates (equivalent to carbon credits linked to green projects) allow customers to report an equivalent reduction in their Scope 3 emissions, in accordance with the GHG Protocol. Similarly, Toyota Material Handling Europe is moving towards net-zero future with 100% renewable electricity.

Individuals and companies can purchase carbon credits over-the-counter or from voluntary carbon markets. Carbon credits are generated from a variety of carbon reduction projects, including afforestation (planting new trees), reforestation (preventing deforestation), and investment in renewable energy. The credits provide:

- ✦ Certified Emission Reduction (CER) to offset project emissions through a regulatory framework
- ✦ Voluntary Emission Reduction (VER) to contribute towards climate goals/green projects for environmental, social, and governance (ESG) purposes

Challenges

1. Lack of standardization of metrics and algorithms used for measuring carbon emissions
2. Limited visibility into corporate ESG goals to meet the Securities and Exchange Commission (SEC) requirements for ESG disclosure
3. International differences that exist in measuring and pricing carbon credits. For example, carbon credits earned for 2 megawatts (MW) of power generated by a renewable source in one country may vary from the credits earned from afforested land in another country or reduction of emissions from a manufacturing plant in a third country
4. Lack of transparency that is the characteristic of unregulated carbon offset marketplaces. Poor visibility into the lifecycle of issued carbon credits may lead to double-spending and over-crediting
5. High transaction costs In the carbon trading marketplace are due to the involvement of intermediaries, who take a cut of almost 30% of the value of each transaction.
6. Complexity involved in auditing and verifying carbon transactions due to limited visibility when tracking the authenticity of underlying projects and their subsequent monitoring. A recent ProPublica report found that some forests were deforested after receiving funding for carbon offsets.



Blockchain – Enabling Transparent Carbon Credit Tracking

Blockchain technology can create a more transparent and accountable ecosystem for carbon trading, enabling various stakeholders to work together more seamlessly with improved trust and process efficiency.

This technology can be leveraged to setup a connected carbon trading ecosystem with the primary goal of reducing the overall carbon footprint in the final product.

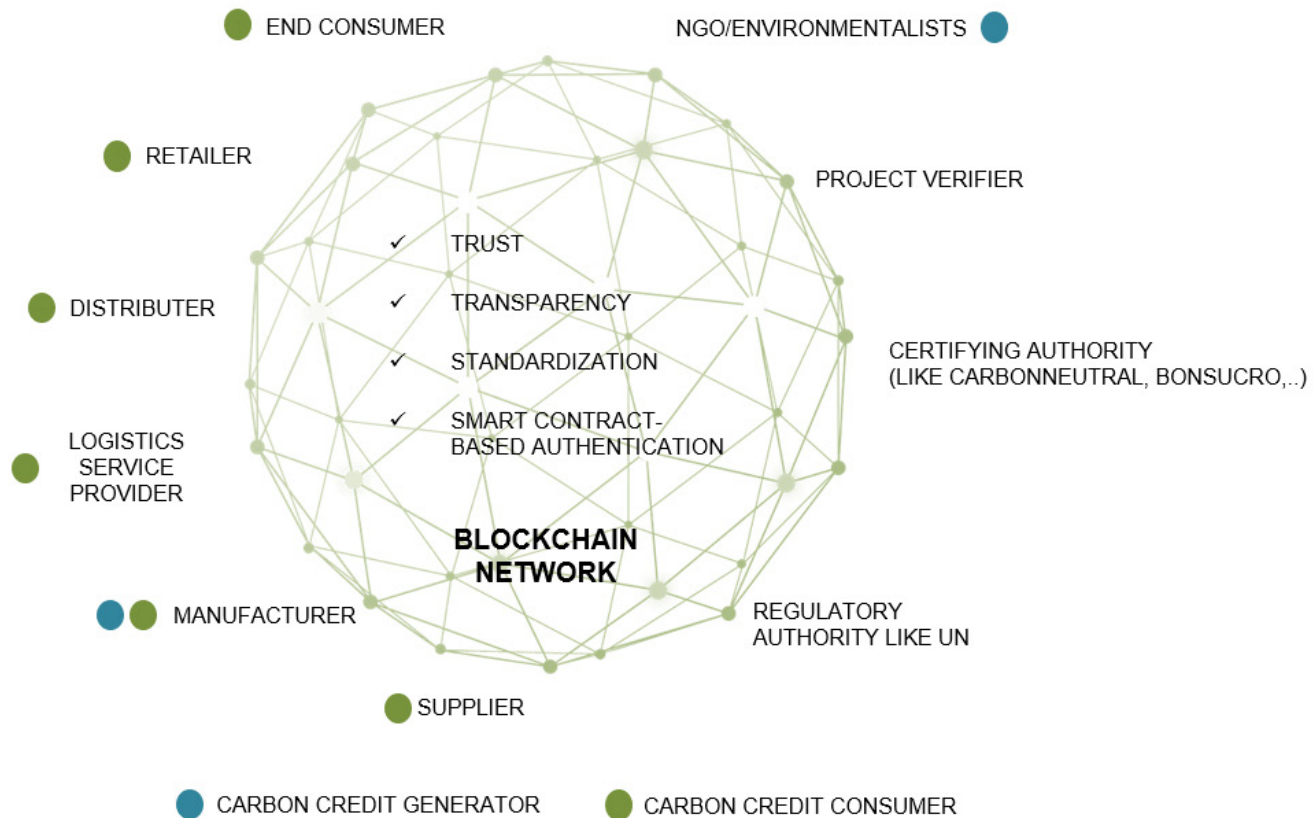


Figure 1 – How carbon credits travel within a blockchain network

Blockchain has immense potential to improve the following two focus areas:

1. Trackin carbon emissions

- Blockchain allows high-emission organizations to monitor and track their carbon emissions by creating a single platform for carbon measurement. In particular, the technology helps:
- Enable standardization and accountability to track, measure, and manage environmental impact data for tracking, measuring, and managing environmental impact data across the Scope 1, 2, and 3 categories.
- Capture accurate data on emissions using standardized metrics and algorithms. These are calculated from actual measurements (and not estimates) across extended supply chain partners comprising suppliers, manufacturers, logistics providers, stocking service providers, and retailers
- Provide accurate environmental data by integrating with other technologies such as satellite monitoring, Internet of Things (IoT) sensors, and machine learning
- Foster proper associations between data at various stages in compliance with Global Standards 1 (GS1) and other industry standards
- Make data transparently accessible to relevant stakeholders
- Measure the integrated environmental impact from final product packaging through 'carbon footprint labels'. These consolidate information about the overall carbon dioxide footprint during the process of manufacturing, transporting, stocking, and delivering a product to the consumer. French retailer, E.Leclerc, displays carbon labels on store shelves indicating carbon emissions per kilogram of produce.

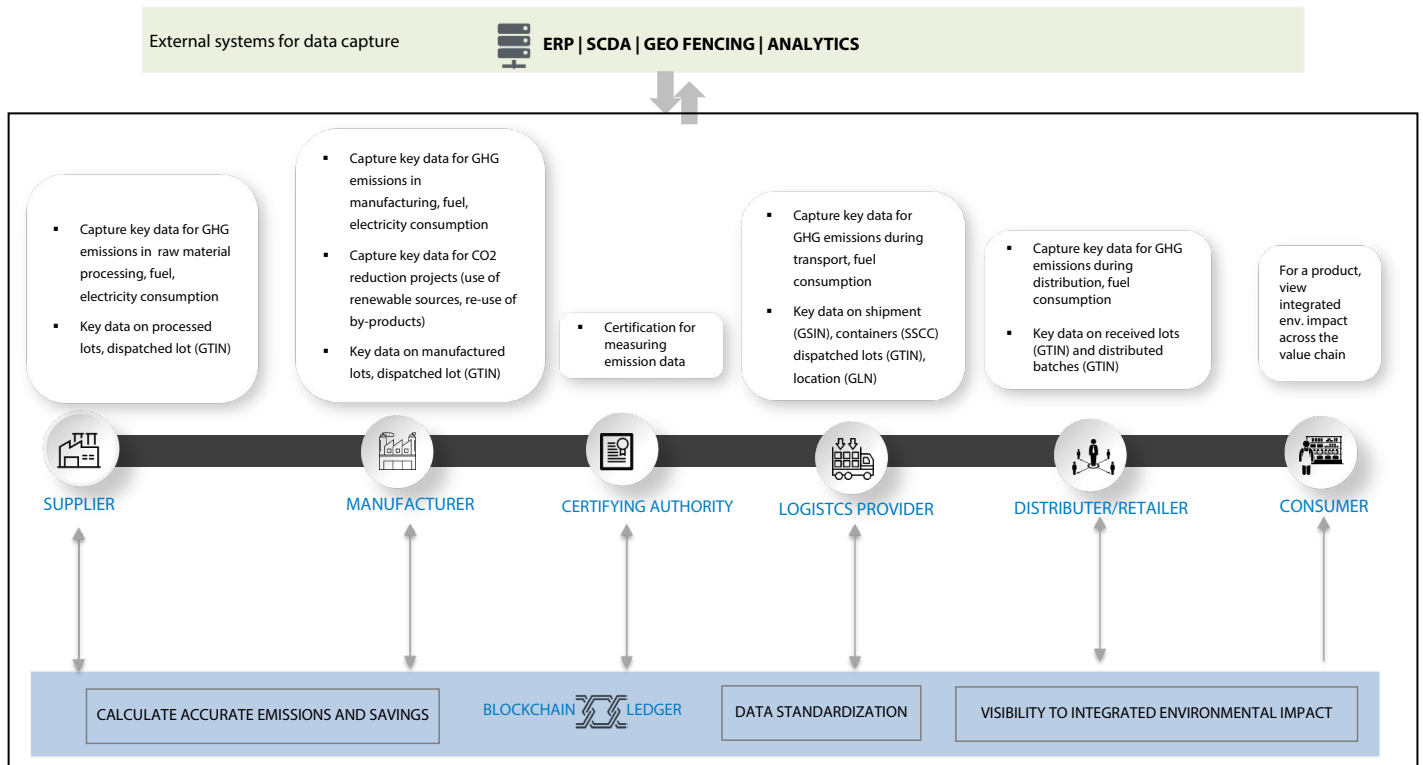


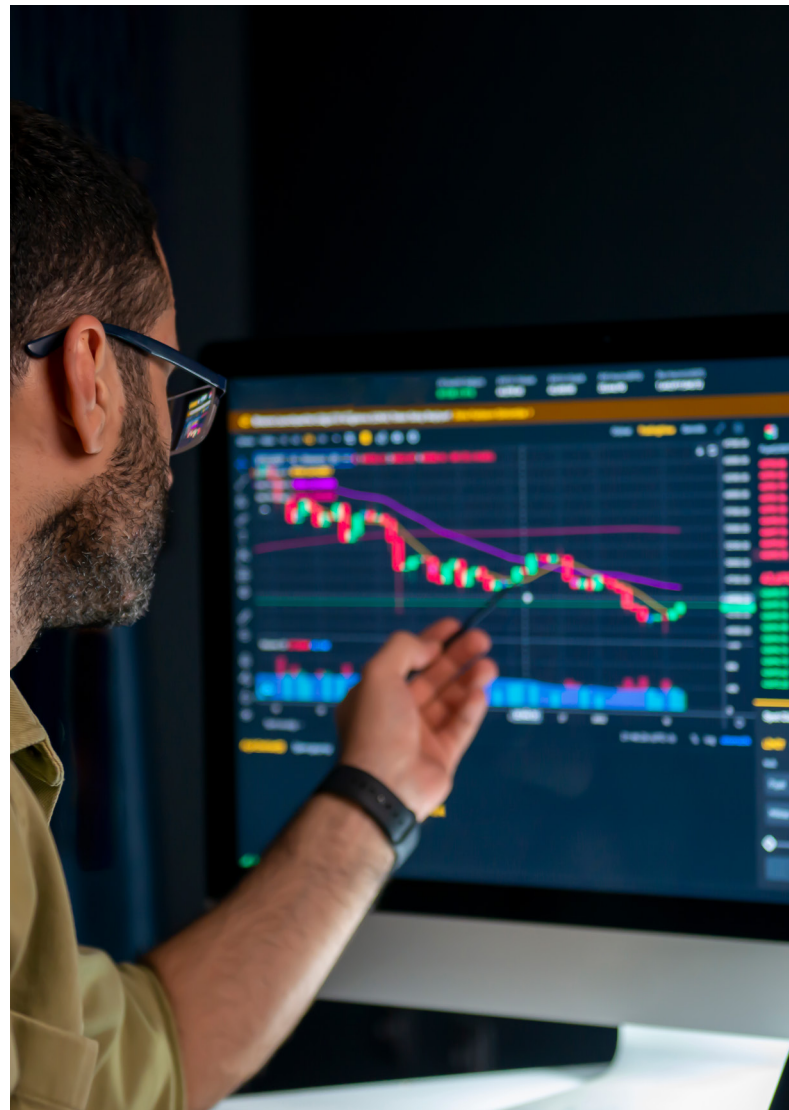
Figure 2 – How blockchain captures data for unified views

2. Establishing a digital carbon credits marketplace

Blockchain provides an efficient way for organizations to monitor carbon emissions sustainability goals, some of them mandated by government. It also enables transparent measurement, reporting, and verification of climate action. These functionalities are supported through tokenizing carbon credits, which means converting them into digital tokens that can be traded on a blockchain network. This can help to make carbon credits more liquid and accessible to a wider range of investors.

These help with:

- Carbon offsets: Blockchain tokens can be used to facilitate carbon offsets, which allow individuals and businesses to nullify their carbon emissions by buying carbon credits from green projects enabling reduction in GHG emissions and climate change impact
- Carbon credit granting: Blockchain tokens can be used to grant carbon credits to companies that reduce their greenhouse gas emissions. This can incentivize companies to take action to reduce their carbon footprint.
- Retirement: Blockchain tokens can be retired to represent the retirement of carbon credits, which helps to ensure that carbon credits are not double-counted.
- Tracking: Blockchain tokens can be used to track the lifecycle of carbon credits, from generation to retirement.



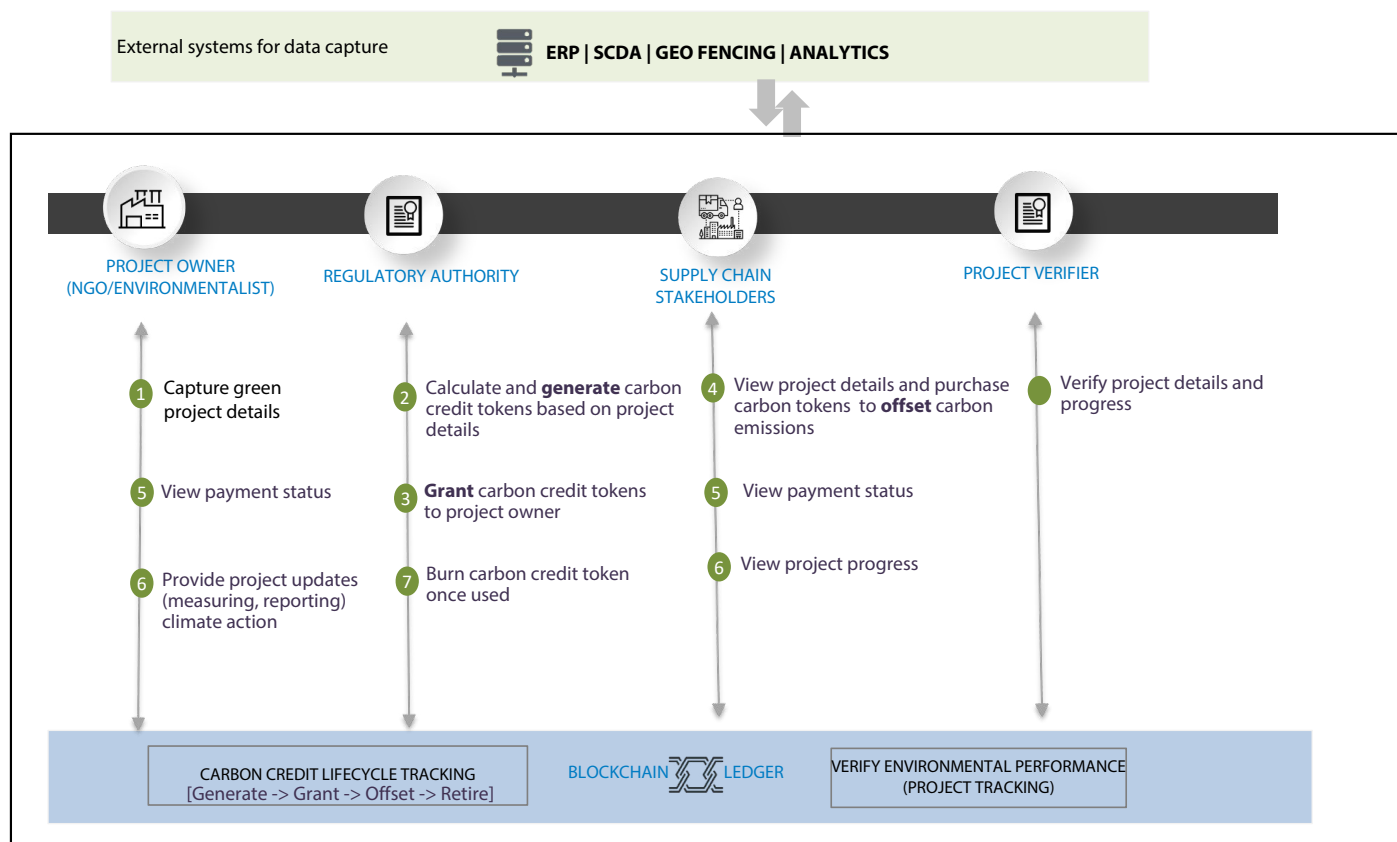


Figure 3 – Carbon credit lifecycle tracking with blockchain

Benefits of Using Blockchain

Blockchain provides a reliable, efficient, and inclusive platform that is uniquely suited for implementing carbon credit marketplaces. It holds the potential to bring forth shared value across ecosystem entities, both in terms of cost and time savings, as summarized in the table below:

	Supply Chain Stake-holders	Project Owners	Regulatory Authorities	Certifying Authorities/ Project Verifier
Visibility and real-time data sharing				
Visibility into carbon emissions across end-to-end supply chain	✓		✓	✓
Visibility into green project initiatives	✓	✓	✓	✓
Carbon credit lifecycle tracking	✓	✓	✓	
Full traceability of any transaction back to the source of the credit	✓	✓	✓	
Automation				
Automates the generation, trading (grant and offset), and retirement of carbon credit tokens	✓	✓	✓	
Automates validation of green project certifications	✓	✓	✓	✓
Cost savings				
Reduces transaction costs due to removal of brokers and agents	✓	✓	✓	✓
Reduces overspending and double crediting	✓	✓	✓	
Optimizes audit and compliance costs through improved data integrity	✓	✓	✓	✓
Better lead time				
Faster reconciliation of integrated emissions data	✓		✓	
Faster realization of sustainability goals	✓	✓	✓	

Conclusion

Blockchain technology has proved to be revolutionary as it establishes the requisite trust among stakeholders and organizations in a decarbonization value chain. Enterprises as well as regulatory authorities can benefit from the integrated end-to-end view of carbon neutral initiatives captured at every stage of a product lifecycle on this secure network. This will help reduce overhead costs around auditing and reconciliation as well as provide conscious consumers with an irrefutable view of sustainable practices and impact on environment.

We have listed below few existing implementations in this area:

1. Blockchain powered Climatetrade marketplace provides multiple options to support sustainable projects in exchange for customized contribution certification providing details of the transaction, providing transparency in all other transactions including funds distribution, project progress.
2. CIBC, Itaú Unibanco, National Australian Bank, and NatWest Group have partnered to launch a voluntary carbon marketplace, Project Carbon to address challenges of lack of transparency, double counting, lack of trust in carbon transactions in carbon offset marketplaces .
3. Singapore's DBS Bank, SGX, Standard Chartered and Temasek have partnered to focus on preservation of natural ecosystems (forests, wetlands, and mangroves) leveraging multiple technologies such as satellite monitoring and blockchain.
4. XELS, an eco-conscious blockchain powered sustainability disclosure platform for tracking and verifying carbon offset projects, for providing enhanced transparency of carbon offset process.
5. Some of the other recent implementations are listed below: Nori, Flowcarbon, Carbonmark, Blockchain for Climate Foundation, Cleartrace, Carbon Grid Protocol and Earthbanc



References

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Glossary

Greenhouse Gas Protocol: GHG Protocol establishes comprehensive global standardized frameworks to measure and manage greenhouse gas (GHG) emissions from private and public sector operations and value chains as well as mitigation actions taken by these parties.

Category of Emissions*:

- Scope 1 includes direct emissions from owned or controlled sources
- Scope 2 covers indirect emissions from the generation of purchased energy
- Scope 3 includes all other indirect emissions in a company's extended value chain

**<https://www.epa.gov/climateleadership/scope-1-and-scope-2-inventory-guidance#:~:text=Scope%201%20emissions%20are%20direct,boilers%2C%20furnaces%2C%20vehicles>*



About the Author

Bandeeep has 10+ years of experience across solution consulting and delivery management with over 4+ years of experience in Blockchain powered supply chain initiatives across multiple industries viz Manufacturing, Retail/CPG, Logistics & Hi-Tech. In the past she has been part of delivery and presales initiatives in banking domain for banks across multiple geographies.

For more information, contact askus@infosys.com



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