Introduction:
Carbon Credits & Offsetting

Interested to know more?

We at Newbridge Advisors are proud of our financial and project expertise across infrastructure, housing and regeneration. We also specialise in sustainable finance and help our clients explore innovative solutions.

If the following article has generated interest and you would like to understand more, we at Newbridge have relationships with some of the largest and most credible certificate agencies for offsetting and would be delighted to help support your journey to net-zero.

The voluntary market is unregulated and requires expertise to ensure appropriate diligence has taken place.

This publication

Introduction **S.1**

Difference between the products **S.2**

How to sell **S.3**

Acquiring & trading **S.4**

Should the sector consider this **S.5**

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Chris has supported numerous housing association clients with arranging finance linked to sustainability metrics and has a qualification in ESG Investing.

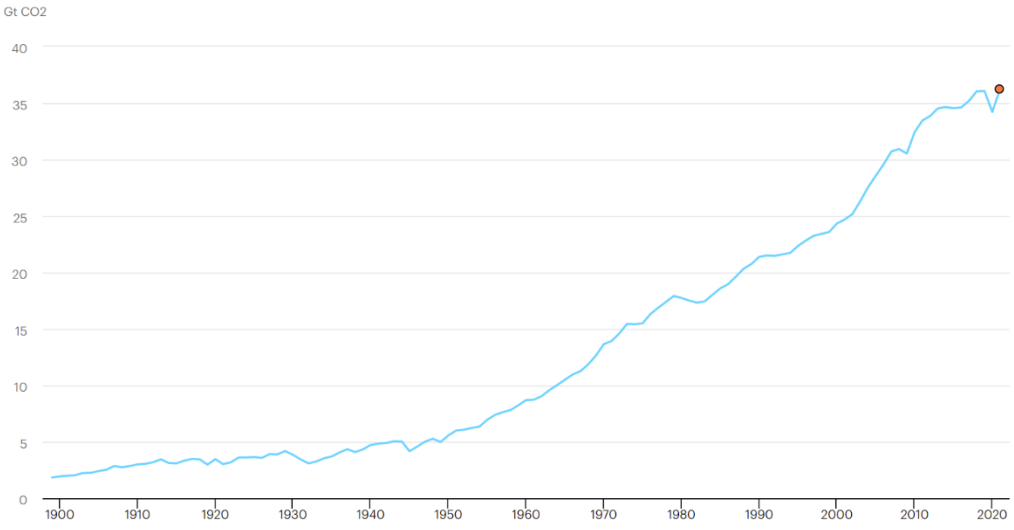
An introduction to carbon credits and offsetting.

Globally, an estimated 40 billion tons of CO2 was emitted in 2021, an increase of 400% since the 1950s. This drastic increase has seen governments, corporations and the general public all look at what they can do to help reduce the impact of climate change.

For many businesses, the goal is to become net-zero as quickly as possible, however, due to technological constraints, it is just not feasible to reduce enough emissions to be considered net-zero today or even lessen them at a pace which would be preferable.

Therefore, in order to speed up the net reduction of greenhouse gases, many organisations are turning their attention to other means outside of their immediate business responsibility and, as a result, the growth of alternative carbon products continues to rise.

Global CO2 emissions 1900 to 2021.



Source: IEA *CO2 emissions from energy combustion and industrial processes, 1900-2021*, IEA, Paris https://www.iea.org/data-and-statistics/charts/co2-emissions-from-energy-combustion-and-industrial-processes-1900-2021

What is the difference between carbon credits and carbon offsetting?

Carbon credits and carbon offsets both offer a way for a company to acknowledge its emission of a certain amount of carbon into the atmosphere. Because of this, the general application of language means a 'credit', or an 'offset' is often used interchangeably but, there are key differences between the products.

Carbon credits, also known as carbon allowances, work like permission slips for emissions. When a company buys a carbon credit, usually from the government, they gain permission, and, effectively the right to generate one ton of CO_2 emissions.

This formal "permission" is the primary difference with **carbon offsetting** which instead represents a company internally counterbalancing its emissions with a sustainable alternative. To explain, when one company removes a unit of carbon from the atmosphere as part of its normal business activity they can generate a carbon offset. Other companies can then purchase that carbon offset to reduce their own carbon footprint.

"Two significant markets to choose from"

When it comes to the sale of carbon credits or carbon offsets, there are two significant markets to choose from.

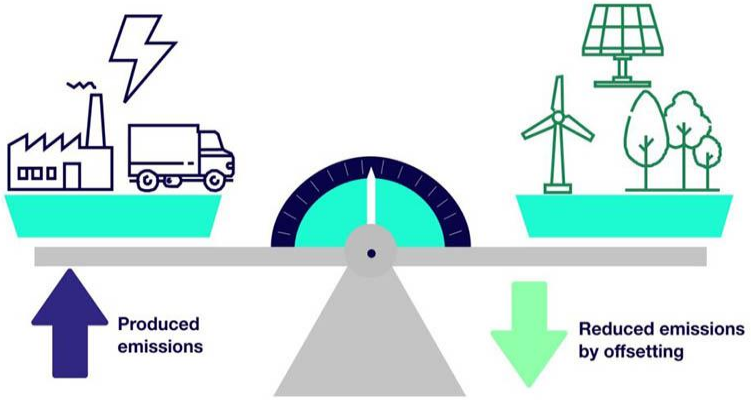
1. **Carbon Credits:** Certified emissions reduction (CER) – On a regulated market, set by "cap-and-trade" regulations at regional and state levels. Here, allowances are either freely allocated or auctioned to companies. A third-party certifying body regulates the CER market

2. **Carbon Offsetting:** Voluntary emissions reduction (VER) – As per its name, this is a voluntary market where businesses and individuals buy a product to offset their carbon emissions. Companies in this marketplace have the opportunity to work with businesses and individuals who are environmentally conscious and are choosing to offset their carbon emissions ultimately because they want to as opposed to being told to.

Where is the trading conducted?

Carbon credits can be traded on both private and public markets. Current rules of trading allow the international transfer of credits.

The prices of credits are primarily driven by the levels of supply and demand in the markets. Due to the differences in the supply and demand in different countries, the prices of the credits fluctuate.



Source:

Magnus Commodities

https://www.magnuscmd.com/carbon-offset-projects/

How are the products created?

Carbon credits are a measurable, verifiable emission reductions from certified climate action projects. The caps on greenhouse gas emissions are typically set by governments or regulatory authorities.

As previously highlighted, for some companies, the immediate reduction of the emission is not economically viable and therefore, they can purchase carbon credits to comply with the emission cap.

Offsetting projects must adhere to a set of criteria to pass verification by third-party agencies and a review by a panel of experts at a leading carbon offset standard. The likes of **Verra** or **Gold Standard** are widely accepted.

Although carbon credits are beneficial to society, it is not easy for a conventional investor to start using them as investment vehicles. CERs can be purchased from a primary market (purchased from an original party that makes the reduction) or a secondary market (resold from a marketplace).

There are unique exchanges that specialise in the trading of the credits, including the likes of the European Climate Exchange and NASDAQ.

Alternatively, the purchase of a VER is considered significantly more straightforward in comparison, and performed via brokers or intermediaries who bring buyers and suppliers together, creating pools of liquidity in specific niches.

Who can issue carbon products? Why?

CER carbon credits are issued by national or international governmental organisations. Under the Kyoto Protocol, the Clean Development Mechanism was created to allow developing countries to be traded by industrialised countries who need to meet emission reduction targets.

From the perspective of VER, many organisations, **including housing associations**, have the ability to sell offsetting projects.

Should the initiative reduce the amount of carbon already in the atmosphere, say by planting more trees or investing in renewable energy, then, subject to third-party eligibility tests, this can qualify and attract investment.

Is this something the sector should consider?

The question is actually twofold, firstly, should housing associations consider becoming an investor in carbon products and secondly, should it explore the potential of issuing credits – generating finance?

Given the complexities and expense of trading Carbon Credits, it is wise to discourage the product at this point of time. Carbon Offsetting on the other hand is both easier to articulate and smaller scale, allowing for environmentally minded consumers to align themselves with companies and projects that share their values.

Whilst the individualism of projects can bring scepticism around its quality, when done well, offsetting represents support to local economies and the direct funding of work which can make a real measurable impact to the environment. As a result, we would focus the sectors attention to the voluntary market.

By being conscious of offsetting you can demonstrate accountability for your unavoidable climate impact. It is a way to take climate action beyond your own area of influence and demonstrates awareness to your broader stakeholder group of commitment to climate change and the transition to a low-carbon economy. This supports the argument that climate change is a global issue and actually where the reduction takes place is irrelevant.

Offsetting projects can represent sustainable development in vulnerable communities, closely aligned to many objectives in the sector. This resonates closely with the social housing sector and, with no restrictions as to where projects originate, could/should the sector utilise its purpose and become an issuer of carbon offsetting projects?

Eye on the future

Direct Air Capture

This is a fast-moving environment and we are continuing to evaluate new innovative products.

One which has caught our eye is the technological development of Direct Air Capture (DAC) technique.

Here, C02 is extracted from the atmosphere and either recycled – for food processing or the production of synthetic fuels – or, through science, permanently stored in deep geological formations (stone) thereby achieving negative emissions.

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