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What is the voluntary carbon market – and can it make an effective contribution to climate action?

What is the voluntary carbon market?

The voluntary carbon market is a mechanism used for the private funding of climate action projects and does not form part of an emissions trading scheme, such as the EU Emissions Trading System. Carbon credits are offered on the market and acquired mainly by private actors. An carbon credit equates to saving one tonne of greenhouse gas emissions, which are supposedly offset in this way. The credits are generated by climate action projects that claim to avoid the release of greenhouse gases or remove carbon dioxide from the atmosphere.

Who uses carbon credits – and what for?

The main buyers of carbon credits are companies who wish to offset their own greenhouse gas emissions. They use the credits to meet self-imposed climate protection targets, such as ‘climate neutrality’. Companies follow this and other climate strategies chiefly to satisfy the demand for greater climate action from consumers and investors.

For the first time, the German Energy Efficiency Act passed in 2023 also includes regulatory benefits for companies considered to be ‘climate neutral’. The German government is currently drawing up the requirements for being defined as a climate-neutral company.

Opportunities and challenges

In theory, carbon credits allow non-state actors to get involved in efforts to protect the climate beyond their own value chain. Since the market’s creation, around EUR 10 billion has been generated in this way for carrying out climate action projects. In practice, however, the voluntary carbon market only has a very limited impact on climate action. The main reasons for this are:

Supply: Many climate action projects make a smaller contribution to climate protection than indicated by the carbon credit as they fail to meet certain quality criteria, such as additionality and permanence.

Demand: Carbon credits offer companies a relatively easy way to meet their self-imposed climate targets. This can lead to companies neglecting to implement measures for lowering their own greenhouse gas emissions.

Structure: There are no public supervisory authorities to lay down the quality criteria for carbon credits and assess the quality of the regulations. To date, this task has only been performed by private initiatives. Such inadequate regulation can aggravate problems.

The future of the voluntary carbon market is uncertain

The future evolution of the voluntary carbon market and its contribution to climate action primarily depend on

- how the market is regulated in future, both nationally and internationally,
- whether climate action projects succeed in demonstrably meeting high standards of quality in future,
- the future role played by carbon credits within the context of corporate climate action strategies and the extent to which alternative climate action strategies are implemented.