NEW ENERGIES & THE ENERGY TRANSITION

Green shoots ahead for VCMs in 2025 and beyond

Tightened standards have helped improve the outlook for the voluntary carbon market, which is set for a record year and poised for long-term growth

By Luke Leslie, CEO and co-founder, Key Carbon

In 2024, the voluntary carbon market (VCM) underwent emergency surgery following heightened scrutiny of market mechanisms and allegations of corporate greenwashing. Swift action taken by carbon credit registries and framework setters has overhauled categories such as clean cooking and renewables and removed many low-quality carbon credits from the market. And a tightening of standards has significantly increased the hurdle for the issuance of new carbon credits.

This renewed VCM is more resilient and poised for long-term growth. While carbon credit sales contracted by 56% in 2023, 2024 is likely to be a record year, with direct investments into 'upstream' carbon projects already reaching $62b by the end of Q3.

Going forward, we must continue to embrace additional calls for transparency, governance and due diligence as these will build trust, integrity and stability in the market as a vehicle for climate action through more rigorous verification processes and credit methodologies.

As we navigate the path ahead, we will continue to see market forces eliminate low-impact projects, increase carbon prices and drive up demand for high-quality supply into 2025 and beyond. Already, we are seeing green shoots in the market.

Green shoots in the VCMs

Around the world, market infrastructure is being established across the public and private sector to enable carbon trading; enhance clarity around methodologies, credit quality and end-use claims; and increase the availability and transparency of data. The VCM has become a pre-compliance market, which is stimulating demand today, and bilateral agreements between countries will determine which credits can be traded across borders.

Meanwhile, governments are establishing greater incentives and compliance measures, which are expected to be a significant source of demand. In Singapore, organisations operating within the country are incentivised to purchase carbon credits in exchange for a tax break. Similarly, as of 2024, 126 countries have signed up to join the Carbon Offsetting and Reduction Scheme for International Aviation to reduce the environmental footprint of long-haul flights through carbon offsets.

New frameworks are building trust and oversight in the market. The US Commodity Futures Trading Commission has approved guidance on the use of voluntary carbon credit derivative contracts and initiated its first enforcement actions. And in October 2024, a UN expert group agreed a deal on key elements of a global carbon trading system. This framework will allow governments to trade carbon credits towards their own climate goals, unlocking significant opportunities to fund climate adaptation in developing countries.

These developments—though many are still being operationalised—pave the way for mainstream credibility and longevity of the VCMs. Private investors are increasingly seeing the VCM as an asset class in its own right. In the last six months, Key Carbon, one of the largest investors in carbon offset projects, announced $33m in new investment and carbon financing deals from private equity firm Cartesian Sustainable Finance and global financial platform Marex Group. These deals are a powerful endorsement of continued demand for high-quality, high-integrity credits and a validation of the need for robust governance, monitoring and due diligence by those across the sector.

Impact of VCMs

As the market continues to grow stronger, we cannot lose sight of the tangible impact that high-integrity carbon offset projects have on combatting global emissions, improving biodiversity and elevating the standard of living for some of our most vulnerable communities around the world.

For instance, a lack of clean cooking affects more than 2b people around the globe, including over 1b in Africa. Displacing inefficient and carbon-intensive cooking methods can improve air quality, reduce respiratory illnesses and help avoid the estimated 3.7m premature deaths per year associated with poor indoor air quality. Roughly 150m people across Africa need to gain access to clean cooking methods to achieve universal access by 2030. However, less than one-third of clean cooking plans in Africa are funded.

Clean cookstove credits provide an opportunity to help plug this gap. To date, Key Carbon has provided $45m in funding to expand the rollout of clean cookstoves in eight African countries, which will improve the lives of an estimated 7.5m people and help avoid or remove more than 45mt of carbon emissions.

VCMs also provide a pathway towards positive nature outcomes. In 2022, a monumental agreement was achieved during COP15, including targets to halt and reverse biodiversity loss, protect 30% of land and sea areas and restore 30% of degraded ecosystems—all by 2030. But despite this global agreement to protect nature, the rate of biodiversity loss and habitat destruction is accelerating.

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High-quality carbon offsets help improve local biodiversity and reverse nature loss. For example, mangrove restoration projects have the highest impact on mitigating the effects of climate change since mangrove swamps are up to four times more effective at absorbing carbon dioxide emissions than terrestrial forest.

They also help to maintain biodiversity by providing a rich habitat for marine and bird nurseries while improving fish stocks and water quality. To date, Key Carbon has financed the planting of 3.75m trees since its incorporation alongside other projects that support biodiversity action.

2025 and beyond

Next year will be a critical juncture for voluntary carbon markets as new regulations are passed around the world and integrity standards are operationalised. As we race ahead to 2030, we expect this surging demand to drive tremendous benefits to local communities, nature and the planet. ■