Price Differentiation in Carbon Offsets – Not All Created Equal

November 4, 2022

Voluntary carbon markets have become an important source of managing carbon for organizations that have exhausted economical ways of reducing their carbon footprint. “Voluntary carbon markets will become one of the biggest commodity markets in the world in the next 20 years,” Nigel Brunel, head of commodities and carbon trading at Jarden said in an interview.

Voluntary carbon offsets are not homogenous. The type, methodology, location, age and impact of carbon projects result in differentiation between carbon offsets generated from projects. These differentiators also ultimately have an impact on the end price or value associated with an offset.

“The story behind the creation of a carbon offset is extremely important in the voluntary carbon market because it helps companies make a statement about their values. It is very different from what you see companies doing in compliance markets,” Brunel said. “Our clients are interested in how the offset was created and what kind of socio-economic benefits a carbon project brings to its local community.”

How companies invest in carbon offsets is sometimes more important than the act of reducing their carbon footprint. “I have customers, clients and friends that have been involved in primary projects where they’ve actually gone to have a look at a project and ask the right questions. They are willing to spend time doing the due diligence to avoid any sort of future reputational risk that comes from buying offsets from a poor project,” Brunel said.

Nigel Brunel, head of commodities and carbon trading, Jarden. Photo courtesy of Jarden.

The following Q&A has been edited for length and clarity.

Q: Why do we need offsets to decarbonize in the first place and how are companies using offsets currently to decarbonize operations?

A: You’ll get a different answer depending on who you’re speaking to. To reach net-zero emissions, it is paramount that companies reduce their emissions first. There is no way we can use offsets alone to meet decarbonization targets. When companies make a commitment to reduce emissions to zero by a date, the first step of the process is to identify its Scope 1, Scope 2 and then Scope 3 emissions. Then they assess how to reduce these emissions by, for example, flying less or substituting fuel. However, most companies are left with a residual and that’s what the offset market addresses. Offsets have a place in the overall decarbonization strategy of a company and need to be used when other options to reduce emissions are exhausted – however it’s all about the reduction strategy.

Q: Take us through the different types of offsets that exist today. What are the major sources of differentiation between offsets: geography, sector, avoidance versus removals, what else? Give us examples based on your experience in Australia and New Zealand.

A: There is a multitude of methodologies and different types of projects and different vintages. However, these can be divided into two groups: avoidance and removal-based projects.

An example of an avoidance-based project is one saving a forest that is at threat from logging activities. But you need to ensure that the logging doesn't just move to another part of the country, and this would qualify as a project that avoids a net increase in carbon emissions. On the other hand, one of the most well-known methods of a removals-based project is planting a tree that removes carbon from the atmosphere.

Within avoidance or removals-based projects there are several methodologies that can be implemented to manage carbon emissions. However, a key determination of the integrity of any project is if the carbon emission reductions are additional and would not have occurred in the absence of carbon offsets. At the end of the day, the creation of carbon credits really is to enable a project to happen that could not have occurred on its own.

Another layer of differentiation between carbon offsets are vintages – or the year those carbon offsets were issued. Once the project becomes quite old, the vintage becomes kind of important. Generally, companies will try to align the vintage of a carbon offset with the years they need offsets for. It's really important for a voluntary offset buyer to understand the type of project, the type of methodology and vintage of offsets they purchase because voluntary offset buyers are often scrutinized more than those in the compliance markets and are often accused of greenwashing.

Q: Why are there differences in prices for carbon offsets originating from different countries? Is it purely because of domestic policies or use in domestic compliance markets? Or is it that an offset developed in one country has more integrity over others?

A: The way I look at it is that it should be cheaper to do an offset project in a developing country than a developed country, this partly explains the price difference in offsets. Developed countries generally have higher costs of developing a project. Some countries may also have carbon avoidance or removal opportunities that can be considered low-hanging fruit and can be unlocked at a lower price compared to other parts of the world. Over time, as demand for voluntary offsets rises, we should see the low-hanging fruit slowly disappearing and project developers moving to more expensive methods.

I certainly support projects that can offset emissions at a low cost and bring important socio-economic benefits to developing countries. An example of such a project is building clean cookstoves that not only displace carbon emissions that come from burning fuel but also produce health benefits and save lives.

Q: Should prices for carbon offsets created from different methodologies be fundamentally different?

A: It really does come down to the cost of creating an offset being the cost of the primary project. There are costs associated with ensuring and guaranteeing that carbon emissions are indeed avoided or removed. For example, you have to ensure that the financial benefit to stop logging for a landowner is enough for them to actually stop logging (elsewhere).

Our clients normally want to know where offsets come from and are aware that the cheapest option may not be the best option for them. Unlike the compliance market, voluntary carbon offset buyers want to make a statement and are more conscious about reputational damage from buying carbon offsets from a project that may not be delivering the outcomes that align with the buyer's objectives.

At Jarden, we have decided not to pursue the cheap (priced) projects – the kind that risks becoming questionable in the future. We have picked a band of primary project carbon pricing that we know can deliver good outcomes.

Q: As a broker and facilitator in the market, do you see buyers becoming more particular about in terms of quality or type of carbon offset?

A: We see a variety of requests from our clients. Some are price sensitive and want inexpensive, but credible, carbon offsets. Others are interested in buying carbon offsets from local or domestic projects with an aim to support the domestic industry even though carbon avoidance or removal has the same impact anywhere in the world.

We also have clients asking us for carbon offsets from projects that deliver other socio-economic benefits to local communities. Additionally, we have recently started to see buyers that only want removal-based carbon offsets. The type, methodology and impact of a carbon offset is important in the voluntary carbon market because it helps companies make a statement about their values. It is very different from what you see companies doing in compliance markets.

Q: What's your outlook on carbon offset markets? What is your take on Australia in wanting to be a leader in this space?

A: I think voluntary carbon will become one of the biggest commodity markets in the world the next 20 or 30 years. Voluntary markets are the key to unlocking decarbonization in the developing world and plays an important role in reaching net zero. There's a lot of stuff that needs to be worked out, like the transparency and integrity of projects, but I am very bullish on voluntary markets.

It is also a massive opportunity for countries like Australia that have a lot of resources to decarbonize itself and also help the rest of the world to decarbonize through offsets. Australia is very strong in developing financial markets and if it gets the right policies in place Australia could have one of the best carbon markets in the southern hemisphere.

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