Carbon Markets are Not Climate Finance

As the climate crisis escalates, the climate finance gap only grows. Past promises of funding for climate action in the Global South fall orders of magnitude short of what is required – with Global North countries offering $100 billion rather than the trillions needed. Persistent failures to fulfill even those insufficient pledges have not only delayed climate mitigation and adaptation but undermined trust. The demand from people around the world is clear: Those countries that have contributed the most to the climate crisis must pay up their fair share. **But not all money is climate finance– and paying for carbon credits doesn't qualify!**

Having repeatedly flouted their legal obligations under the UNFCCC and Paris Agreement to fund climate action, a growing number of Global North countries are now claiming that carbon markets will deliver billions in climate finance. **But big polluters paying to claim other countries' climate action as their own through carbon offsets neither fulfills their duty to fund mitigation and adaptation nor makes up for their own inaction.**

Climate Finance

Though it remains legally undefined under the UNFCCC regime, climate finance is money provided largely by Global North countries that have contributed the most cumulatively to greenhouse gas emissions, to Global South countries to fund mitigation or adaptation action or address loss and damage–the harm caused by climate change. Whether something can legitimately be considered "climate finance" depends not merely on whether there is a climate connection, but whether it pays for real climate action. Provision of adequate, predictable climate finance is a necessary prerequisite for unlocking ambitious climate action and is an obligation of Global North countries. Climate finance is a core part of both the UNFCCC and the Paris Agreement, but actual flow of climate finance has been far less than expected when targets were set, and absolutely inadequate to the need.

Enter Carbon Markets

Carbon markets are premised on the idea that a country or company pays money to buy “carbon credits” generated by an activity to remove or reduce greenhouse gas emissions in one place. The buyers then use these credits to offset their ongoing emissions.

But this premise is fundamentally flawed. For one, CO2 emitted from burning fossil fuels cannot be “offset” by land-based removals. The carbon stored for millennia in oil, gas, or coal is not equivalent to the carbon stored in a living tree. The effect of not releasing the former fossil carbon into the atmosphere is not the same as absorbing some of the carbon dioxide already released in plants or soil. Fossil fuel emissions accumulate in the atmosphere causing climate impacts, some of which are irreversible even if CO2 is removed.

Additionally, many credit-generating projects take place in the Global South, including on Indigenous Peoples’ land, and credits are bought by entities in the Global North. History has shown that many projects result in negative environmental impacts and human rights violations, including those related to land grabbing. Others simply do not deliver the climate impacts they claim. Many of the projects generating credits traded on carbon markets have been ones that protect forests/land or produce cleaner energy (i.e. dams, geothermal, cookstoves). The amount of greenhouse gases removed (i.e. through reforestation or avoided deforestation) or reduced (i.e. through generation of clean energy or replacing high-emitting stoves with clean cookstoves) is then estimated to determine the credits. However, numerous problems with monitoring and verification and the inability to permanently remove CO2 from the atmosphere once it has been released (for example, if a forest subsequently catches fire), among others, mean carbon markets have been long plagued with claims of fraudulent credits or removals being reversed.

How Do Carbon Markets Generate Finance?

There are two ways carbon markets generate finance: countries or companies buy the generated carbon credits, which pays for the project, or through a “share of proceeds” from the sale of carbon credits being put into adaptation finance. For example, the sale of credits under the Clean Development Mechanism were used as part of the capitalization of the Adaptation Fund, but in reality this share of proceeds has been very little. Regardless, this isn’t real climate finance.

The Problems

Global South countries have been backed into a corner. Given the woeful lack of funding for mitigation, adaptation, or loss and damage, carbon markets appear to many Global South countries and communities as the only source of needed finance. But this is a false choice. Leaving countries with no option but to accept carbon markets as finance places the burden of climate action on those who have done the least and are suffering the most and lets polluters in the Global North off the hook for taking the necessary action and providing adequate finance.

There are three key problems with reliance on carbon markets as a source of climate finance:

1. The money actually does not advance climate action because of structural flaws with the impacts of carbon markets. The credits generated do not have an overall mitigation impact when they are used to "offset" ongoing fossil fuel emissions. On the contrary, they are perpetuating the fossil economy. Buyers of carbon credits purchase them as a substitute for taking their own actions to reduce emissions directly. Thus, reliance on carbon markets and offsets disincentivizes these corporations and countries from curbing their own fossil fuel production and use.

2. The money does not reach the communities that need it most. While there are some Indigenous Peoples, local NGOs, governments, or local communities who have been able to sign fair and equitable benefit-sharing agreements, this is often not the case. Rather than communities at the frontlines benefitting, middlemen who have brokered the projects or project developers, who may not be local people, reap the majority of the benefits.

3. The transactions primarily benefit the buyers, chiefly in the Global North. The buyers of carbon credits are using them to claim climate action or greenwash, such as by claiming being carbon neutral, and continuing to pollute. Thus rather than taking necessary action to reduce fossil fuels, which may be costly or impact their profits, they are paying to continue polluting.

Moreover, carbon credit projects ultimately can make the host countries' own climate mitigation measures more costly. Not only do communities or Global South countries not benefit financially, once the credits are bought, the country can no longer claim that as part of their climate action or mitigation goals (as that would be double-counting). Thus, these countries will have to take even more climate action, and potentially more expensive climate action, to meet their climate commitments.

Conclusion

Saying something is climate finance does not make it so. Paying to pollute is not climate finance and cannot replace the obligation of Global North countries to provide real finance for real climate action. Carbon markets have no place in the new finance goal expected at COP29. Instead, States at COP29 and beyond must reject reliance on carbon markets. We call on Global North countries to not only commit to an ambitious climate finance goal but to follow through on providing rights-compatible finance.

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Aknowledgement

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