



Carbon Market: Overview

A carbon offset is defined as an instrument representing the reduction, avoidance or sequestration of one metric tonne of carbon dioxide or greenhouse gas equivalent.

The voluntary carbon marketplace encompasses all transactions of carbon offsets that are not purchased with the intention to surrender into an active regulated carbon market. It does include offsets that are purchased with the intent to re-sell or retire to meet carbon neutral or other environmental claims.

Voluntary demand for carbon offsets is driven by companies and individuals that take responsibility for offsetting their own emissions, known as purely voluntary buyers, as well as entities that purchase pre-compliance offsets before emissions reductions are required by regulation.

Purely voluntary offset buyers are driven by a variety of considerations related to corporate social responsibility, ethics, and reputational or supply chain risk. Pre-compliance buyers speculatively procure offsets before a compliance carbon market start date, hoping to obtain a lower price than what the same offset may eventually fetch in the compliance program.

Voluntary markets co-exist with compliance offset markets driven by mandated caps on greenhouse gas emissions, which operate at a significantly larger scale. Compliance carbon markets are marketplaces through which regulated entities obtain and surrender emissions permits (allowances) or offsets in order to meet predetermined regulatory targets. In the case of cap-and-trade programs, participants – often including both emitters and financial intermediaries – are allowed to trade allowances in order to make a profit from unused allowances or to meet regulatory requirements. The most active compliance carbon offset program is the **United Nations Clean Development Mechanism**, the source of offsets for

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What the voluntary carbon markets lack in size, they make up for in flexibility – spinning off innovations in project finance, monitoring, and methodologies that also influence regulatory market mechanisms. For example, the voluntary carbon market has spawned its own standards, registries, and project types beyond the scope of existing compliance market mechanisms. In turn, in recent years governments worldwide have increasingly turned to voluntary carbon market mechanisms – particularly standards and registries – to inform the development of or serve as compliance instruments themselves.

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