
TYPES OF CREDITS

A carbon credit is a tradable unit that represents one ton of greenhouse gas (GHG) emission reductions or removals.¹ Carbon credits in the VCM are created through different activities such as mitigation projects and programmes that are certified by carbon standards.

There are three main outcomes for projects creating carbon credits:

- **Reduced emissions**, for example by restoring peatlands.
- **Removal and storage of CO₂**, for example, by direct air capture or restoring forests

Carbon credits There are more than [170 types of carbon credits](#) from different activities related to renewable energy, energy efficiency, forestry and land use, transportation, agriculture, waste management, chemicals and industry or households.

To date, the volume of credits traded under voluntary market schemes is relatively small compared to compliance markets. For the latest insights on key metrics such as projects and issued credits please refer to the [VCM Dashboard](#).

Carbon credits trends in recent years

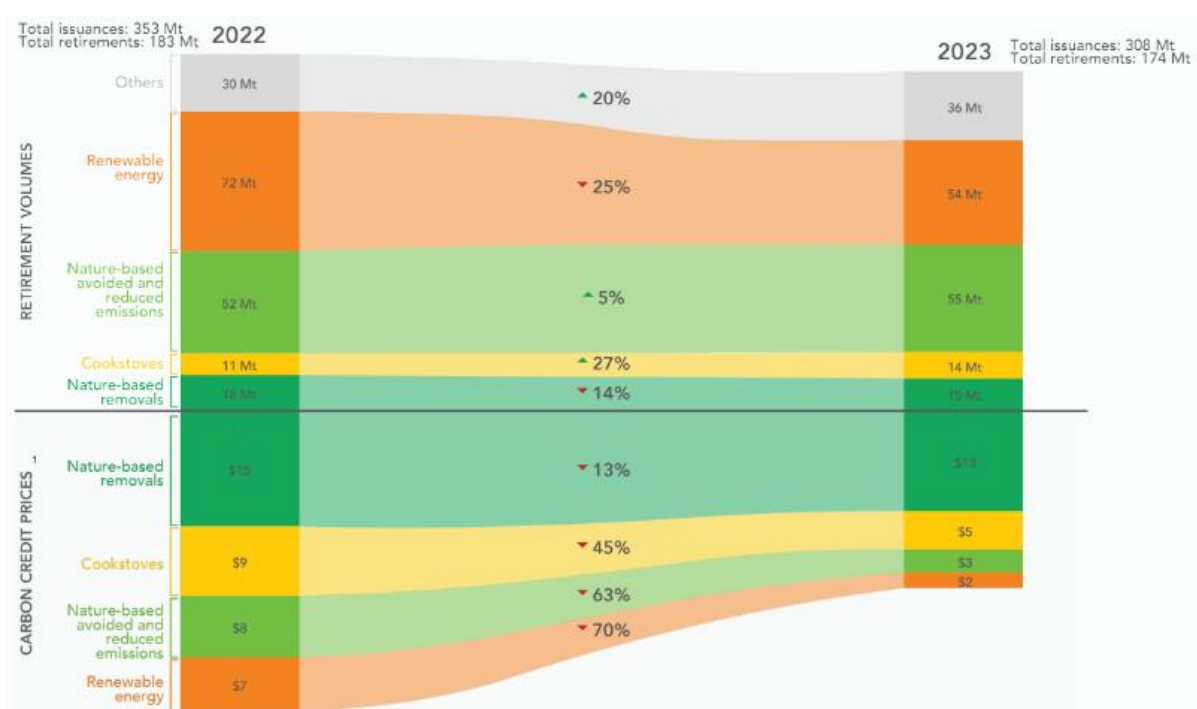
- Annual carbon credit issuances hit a record high in 2021 and in 2022. A 13% decline has been recorded in 2023
- Price decline in 2023 → Notably due to political challenges, credit quality, integrity of claims
- Carbon markets continued to expand into new jurisdictions in 2023, with Egypt, Japan, Indonesia and Taiwan all launching new voluntary schemes.
- 2024 → Failure of Art. 6 negotiations puts additional pressure on the VCM

¹ Some credits traded on voluntary carbon markets are also based on conservation or emission avoidance. These present a special case and are contested. They are discussed in the information note on REDD+.

Carbon credit volumes and prices

The calculation of carbon credits is a complex process influenced by various factors, each playing a crucial role in shaping market dynamics. The price of carbon credits is associated with several key determinants, including project type, vintage, quality, certification, negotiating power, and associated risk. These variables collectively contribute to the volatility of the VCM. Figure 1 presents the price range witnessed in 2022 and 2023 for various voluntary carbon market project types.

Figure 1: Carbon credits prices by activity type between 2022 and 2023



Source: Climate Focus (2024)².

Credit Vintages

In the voluntary carbon market, the term "vintage" refers to the specific year in which an emission reduction occurred or the offset was issued. Vintages are crucial in providing a temporal dimension to carbon credits, allowing buyers to trace the origin and timing of the associated environmental impact. Importantly, the vintage of a carbon credit can significantly influence its quality and pricing. Due to the verification process that can take two to three years from the inception of the project/programme, carbon credits may be generated for emissions that

² The presented carbon prices are derived from the average carbon prices transacted on prominent exchanges within selected project categories as of the end of 2022 (on the left-hand side) and the end of 2023 (on the right-hand side). It's important to note that these prices are indicative data points and do not accurately represent the prices individual projects might currently anticipate in the market.



have already been reduced. Generally, older vintages tend to have a lower price per credit compared to more recent ones. This pricing dynamic is influenced by factors such as the perceived environmental integrity of projects undertaken in earlier years and the potential evolution of standards and methodologies over time. As a result, understanding vintages becomes essential for market participants seeking to align their carbon offsetting, or emission reduction strategies, with specific environmental goals and considerations.

What are some of the risks with older credit vintages?

Over time, protocols and monitoring methodologies have evolved, becoming more robust and leading to improved overall quality in carbon credits. Generally, there is greater confidence in the accuracy of recently registered carbon offsets due to these advancements. Concerns may arise with older vintages, questioning whether they still accurately represent a metric ton of CO₂ as verified. The potential misalignment with current standards adds to these considerations. Quality issues may be further exacerbated when older credits remain unsold for an extended period, especially if they lack third-party verification and the developer holds a substantial number of unsold credits. Acquiring older vintage credits poses a risk of not effectively reducing emissions as intended, particularly if the project doesn't meet current quality criteria.

Credit quality

In order to produce high-quality carbon credits, the activity through which emissions are avoided, reduced or removed must meet certain criteria for environmental and social integrity to provide benefits for both people and ecosystems. A credit is considered of high-quality if the following aspects can be demonstrated by the activity developer:

- conservative calculation of emissions,
- credible baselines that avoid an overestimation of the benefits created through the activity
- additionality tests to ensure the emissions would not have been removed or avoided without the activity,
- prevention of leakage so that the emissions are not avoided in one place but instead displaced to another area
- permanence of emission reduction and removal to reduce the risk of reversals in future.

Project developers should also make sure that their project aligns with existing policies and national priorities in terms of sectors. Further, ensuring safeguards to prevent negative impacts on affected communities and the environment as well



as adopting benefit sharing arrangements for a lasting positive impact of the activity is primordial in this market environment.³

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³ If you want to read more about different initiatives aimed at ensuring high integrity in VCMs, please refer to the information Note *What are Integrity Initiatives trying to achieve?*

