



GORDIAN KNOT STRATEGIES

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# OUR TAKE:

## THE SHIFTING UNITED NATIONS STANCE ON CARBON CREDITS AND OFFSETS

**WHITE PAPER**

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# ACKNOWLEDGEMENTS

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Last week, a draft United Nations (UN) document, surfaced by the Financial Times, expressed [opposition to companies using credits to neutralize their carbon dioxide footprint](#). The UN document, prepared by a task force convened by UN Secretary-General António Guterres, advocates that companies should refrain from using carbon credits to offset emissions outside state-regulated schemes. Instead, the UN believes companies should invest in reducing their emissions rather than relying on the voluntary carbon market (VCM).

Although the UN opinion aligns with recent scrutiny of carbon market malpractices, it voices a very conflicting message, as the UN led the development of the Clean Development Mechanism and is currently working on developing a new Paris Agreement Article 6 carbon market.

The statement from the recent UN draft document prompts a look under the hood of the UN's involvement in carbon markets, its current stance on carbon credits, and the mixed signals it is sending market participants.

### **Role in Carbon Markets**

The UN has helped shape the global carbon market landscape for nearly 30 years. UN efforts began with the adoption of the [Kyoto Protocol in 1997](#). This protocol introduced the concept of carbon markets through flexible mechanisms like the [Clean Development Mechanism \(CDM\)](#) and [Joint Implementation \(JI\)](#). Between 2001 and 2005, rules for CDM projects were developed, allowing projects to be registered even before the mechanism became operational. The [European Union Emissions Trading System \(EU ETS\)](#), was launched in 2005 and became the world's first major carbon market. Then in 2006, the CDM officially became operational which marked the beginning of the first large-scale international carbon market.

During the first commitment period of the Kyoto Protocol from 2008 to 2012, the CDM [experienced rapid growth](#). However, from 2012 to 2014, the carbon market entered a period of "hibernation" due to decreased demand for carbon credits and regulatory challenges.

The adoption of the [Paris Agreement](#) in 2015, which includes Article 6, laid the groundwork for new international carbon market mechanisms. By 2021, at [COP26 in Glasgow](#), parties agreed on the rulebook for implementing Article 6, setting the stage for new international carbon markets.

By 2023, many countries indicated in their Nationally Determined Contributions (NDCs) that they [plan to or will possibly use carbon credits](#) from cooperative approaches under Article 6.

During this time the UN, especially through the UN Framework Convention on Climate Change (UNFCCC), has been instrumental in establishing frameworks, facilitating negotiations, and providing guidance for the development and implementation of carbon markets.

### **Article 6 of the Paris Agreement**

Let's zoom in more on the UN's most recent, and current, carbon market efforts – Article 6 of the Paris Agreement.

Article 6 provides a framework for countries to cooperate in achieving their NDCs through both market and non-market approaches. This framework has been in development since 2021. At each consequent COP since 2021, continual work has been done on pushing forward Article 6. The efforts undertaken during the COPs are supported by developments that occur at ongoing UN meetings throughout each calendar year leading up to the COPs.

The first carbon market from the Paris Agreement is established via *Article 6.2: Bilateral and Multilateral Agreements*. This developing market allows countries to trade emission reductions and removals through bilateral or multilateral agreements, with the traded credits known as Internationally Transferred Mitigation Outcomes (ITMOs). The primary objective of these transactions is so nations can contribute to the overall reduction of global emissions on a national-level. Even though an official text for Article 6.2 is not yet adopted, many countries have already established frameworks and agreements for trading ITMOs. In fact, the [first ITMO transaction](#) already took place between Thailand and Switzerland.

The second UN carbon market effort is guided by *Article 6.4: Global Carbon Market*. This initiative aims to establish a global carbon market overseen by (6.4SB). Projects under this article must receive approval from both the host country and the Supervisory Body (SB) before issuing UN-recognized credits, known as Article 6.4 Emission Reductions (A6.4ERs). The SB is tasked with setting the rules and methodologies for these projects, promoting sustainable development and environmental integrity while facilitating international cooperation in carbon markets. This market is designed to replace the earlier Clean Development Mechanism. Similar to Article 6.2, this market is not currently operational. Progress is being made on both 6.2 and 6.4 via regular UN-sponsored meetings.

### **Shifting Stance on Carbon Credits**

In 2019, the UN Environment Programme (UNEP) wrote how it [supports carbon offsets as a temporary measure to accelerate climate action until 2030](#). However, the UNEP emphasized that offsets are not a "silver bullet" and should not lead to complacency. The organization advocated for a transition away from carbon reliance and highlighted the need for direct emission reductions. While carbon credits can aid in the transition to a low-carbon economy, the UNEP stressed direct emission reductions and sustainable practices.

The UN's current stance on carbon credits emphasizes the need for companies to focus on direct emission reductions. The organization advocates for businesses to invest in curbing their emissions rather than relying on carbon credits, which some critics argue are used to avoid making significant internal changes, [despite evidence indicating otherwise](#). The UN also criticizes the VCM, pointing out issues such as the unverifiable and non-permanent nature of many carbon offset projects.

The leaked UN draft document seems to suggest that carbon credits should be used only within state-regulated schemes, such as the EU ETS or the California Cap-and-Trade program, to ensure accountability and effectiveness. This stance presents a direct challenge to large companies like Chevron, ExxonMobil, Microsoft, and Apple, which have incorporated carbon offsetting into their climate strategies.

### **Own Reliance on Carbon Credits**

Coincidentally, the UN purchases carbon credits to support its own [climate neutrality claims](#), which adds complexity to its recent statements against relying on carbon credits. To make the matter even more interesting, recent investigations have highlighted significant issues with the UN's reliance on carbon credits. A [year-long investigation by The New Humanitarian and Mongabay](#) in 2023 revealed that many of the UN's purchased carbon credits come from projects that are ineffective or even harmful, such as large-scale hydropower projects linked to environmental damage and displacement. This has led to questions about the credibility of the UN's claims of climate neutrality based on these offsets.

Additionally, the UN established and hosts the [United Nations Carbon Offset Platform](#), which allows for the voluntary cancellation of Certified Emission Reductions (CERs). These CERs are available for purchase by anyone, including the UN itself, to offset emissions or support various environmental projects.

### **Mixed Signals**

The UN draft document obtained by the Financial Times was written by a task force convened by UN Secretary-General António Guterres. The task force has received input from leading UN agencies, including the UNFCCC, which oversees the coordination of global efforts on climate issues, including at COP meetings.

The draft stated that: “Carbon credits used cannot be counted as their [polluters’] own emission reductions” when purchased in voluntary markets outside of government-regulated schemes in which companies can trade permits giving them the right to pollute.

This sends mixed signals to market participants and could be potentially problematic for many companies that are currently active in the voluntary carbon market (VCM). By purchasing carbon credits, these entities are actively working to avoid or reduce emissions while also unlocking critical climate finance.

Without a widely available alternative, adhering strictly to the UN's message could leave these companies without viable options for mitigating their carbon footprints. This is particularly challenging for companies in North America and other regions not currently under regulation from compliance markets, where the VCM remains the only market in which they can purchase, sell, and trade credits.

Additionally, it appears that the UN might be steering market participants toward its own regulated market. Despite its stance against the VCM, the UN continues to develop a regulated carbon market under Article 6.4, which will be formally overseen by the UN Supervisory Body. This dual approach could be seen as the UN promoting its own market framework over the VCM, adding another layer of complexity and potential bias in the global carbon market landscape.

### **Conclusion**

The UN's stance on carbon credits signifies a shift towards prioritizing direct emission reductions over the reliance on carbon credits. This position appears to reflect a refinement of its past approaches.

The UN's opposition to the use of voluntary carbon credits may prompt companies to focus more on direct methods of reducing emissions, such as investing in cleaner technologies, improving energy efficiency, and modifying operational practices to minimize their carbon footprint. Everyone agrees that direct emission reductions are crucial for combating climate change.

However, despite the UN's position, industry representatives (including Gordian Knot Strategies), argue that carbon credits are vital to help drive climate finance. High-integrity carbon projects can provide essential financial support for initiatives such as environmental protection, biodiversity conservation, and sustainable land management, which might otherwise lack sufficient funding. Carbon credits are not merely tools for offsetting emissions; they also contribute to broader environmental and social benefits and can help bridge the gap between immediate action and long-term sustainability goals.

The debate often presents a false dichotomy between direct emission reductions and the use of carbon credits. In reality, companies should focus on reducing their emissions while also using high-integrity carbon credits to neutralize hard-to-abate residual emissions.

Given the nuanced role of carbon credits in supporting both immediate and long-term environmental goals, it is perplexing that the UN's recent statement does not fully align with this balanced approach. One would expect the UN to recognize the complementary nature of direct emission reductions and carbon credits and reflect this understanding in its messaging.



# ABOUT

Gordian Knot Strategies is an expert climate finance consultancy firm. Drawing on two decades of experience, our clients rely on us to devise high impact solutions that are innovative and implementable.

Over 80% of the impact investors, corporations, and developers that we serve are repeat clients. They trust us to provide clarity as they mobilize and deploy capital in a complex and rapidly evolving market.

With our proprietary frameworks and deep industry knowledge, our clients are equipped to unlock and optimize environmental impact and returns. Trust us to unlock your impact!

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