



CARBON
MARKET
WATCH

SECRETIVE INTERMEDIARIES

Are carbon markets really financing climate action?

FEBRUARY 2023

SUMMARY AND RECOMMENDATIONS

The purchase of carbon credits through the voluntary carbon market is widely considered to be an effective way to channel finance towards climate action. However, despite years of existence and the recent hype surrounding voluntary carbon markets, no public research exists to assess how much VCM finance is actually reaching climate mitigation projects and local communities on the ground.

Existing measures of “market size”, such as the often-cited number of \$2 billion in market value,¹ focus largely on the volume of trades and their price, irrespective of who receives the money paid to acquire a carbon credit and for what end. For instance, a market worth €100 could be due to a single credit representing a tonne of carbon dioxide being traded 10 times at €10 or 10 different credits of €10 each changing hands once. Assuming the quality of the credits is the same, the climate benefit of the first example is only a tenth of the second, even though the “market value” is the same. Similarly, these aggregate market figures tell us nothing about how much of the revenue generated reaches the climate projects on the ground and how much is intercepted by intermediaries along the way, through fees and markups.

In practice, this means that it is often impossible for a buyer, let alone an external observer such as a journalist or consumer, to know how much of the money paid to purchase a carbon credit will benefit the climate and how much will profit brokers, exchanges, resellers and other intermediaries.

Misleading by omission

A review carried out on behalf of Carbon Market Watch by AlliedOffsets found that 90% of intermediaries operating on the carbon market did not disclose the exact fees they charged or the profit margins they made during the sale of carbon credits on the VCM.

Of the 10% that disclosed their fees transparently, the average fee for these intermediaries amounted to 15.5%. This is probably an underestimate because it is likely that the small minority which publishes information about fees are those go-betweens who have the lowest fees and use this to attract buyers.

In addition, intermediaries apply these fees to credit prices that they may have already marked up compared to the original price that the project owner received. For example,

¹ Ecosystem Marketplace (2022): *'VCM reaches towards \$2 billion in 2021'*

a broker could purchase a credit at €5 and sell it at €15, and apply the 15.5% fee to the €15 final sales price. This would mean that the price paid by the final user of the credit is more than 100% of what the project owner received, even though the fee is officially only reported as being 15.5%. And the real world can exceed this hypothetical example. There is anecdotal evidence that the final sales price charged by some brokers is several times what they paid the project owner for the carbon credit.² This can happen when market prices rise over time, and the broker cashes in on early investments. At the same time, some of these early investments have provided project developers with a lifeline, at a time when there were very few buyers of credits on the market, and have allowed the emissions reduction activities to continue. Today, it is impossible to assess whether the returns on investment are fair with respect to the risk taken by intermediaries, because of the excessive level of opacity.

Profiting or profiteering?

This poses several problems. From a climate perspective, it diverts the flow of funds away from climate action and towards financial go-betweens. It also distorts the picture of how much finance is actually being channelled to mitigation projects as it would not be unreasonable for a buyer or observer to assume that the majority of the revenue generated on the VCM would end up bankrolling climate action.

In addition, this reinforces existing socioeconomic and geopolitical inequity, as intermediaries tend to be wealthy individuals or organisations (compared to the global average), while climate mitigation projects are often implemented in the less affluent societies of the so-called Global South. Finally, excessive margins for intermediaries are not only unfair but also inefficient, as they reward intermediaries who typically shoulder much less risk than the actual project owners. In some cases, early investments from intermediaries are crucial for the development of projects. However, for these deals to be fair, they should include provisions that ensure that project owners also benefit from rising carbon credit prices.

Finally, the shadowy nature of the market reduces the attractiveness of the VCM for buyers. A recent survey of companies showed that transparency on the use of revenues was the main obstacle discouraging greater utilisation of carbon credits.³

² Unearthed (2022): *'How middlemen carbon brokers take a cut from money meant to help offset emissions'*

³ Conservation International & We Mean Business Coalition (2023): *'Corporate minds on climate action'* (p.17)

Clearing the fog

It is in the interest of both project owners and the final users of carbon credits to ensure that as much VCM finance as possible reaches actual mitigation projects. Despite this, most stakeholders simply assume that the VCM is an effective climate finance tool, but nobody actually measures how successful this system is. This cannot continue. To assess the voluntary carbon market's performance in this regard requires intermediaries to be transparent about their profit margins and fees.

Various actors in the VCM chain have a role to play in enhancing market transparency:

- Buyers should refuse to purchase credits from intermediaries who do not make their fees and mark-ups public
- Industry standards, such as the ICVCM, should require more transparency from the market, including information about the price received per credit by the original project owner (which would allow buyers to compare what they pay to what the project owner initially received)
- Intermediaries should make their fees and mark-ups public, and challenge their peers to do so as well
- VCM registry managers (most often the VCM standards) should provide information about registry account holders, and their account holdings (which several VCM registries already do, but which the biggest registries do not). This would allow for the identification of intermediaries and a better understanding of carbon market transactions.

CHECKLIST FOR BUYERS OF CARBON CREDITS

Asking the right questions to channel money to the right places*

1. HOW MUCH DID THE *PROJECT OWNER* EARN FROM THE SALE OF THIS CREDIT?

This will allow buyers to identify how much of the price they are paying reflects the actual benefit to the project owner, as opposed to paying the intermediary. Many intermediaries will be unable or unwilling to answer this, which is why question 2 is useful.

2. WHAT WAS THE ORIGINAL COST OF THE CREDIT TO THE *(RE)SELLER*?

This will allow the buyer to know the difference between the price paid by the seller to acquire the credit, and the price it is charging for selling it. This is more informative than simply asking for the fee level, because it will include both the fees and any markup applied by the seller.

3. IS THERE A PLAN IN PLACE TO DISTRIBUTE A SHARE OF THE REVENUES FROM THE PROJECT OWNER BACK TO LOCAL COMMUNITIES? (AKA “BENEFIT-SHARING AGREEMENT”)

This question will help buyers get a more complete picture of where their money is flowing. Beyond the share going to intermediaries and project owners, how much is returned to local communities in the area where the project is implemented?

4. HOW MANY TIMES WAS THIS CREDIT TRADED BEFORE IT REACHED THE SELLER?

While sellers are unlikely to be able to provide a complete answer to this question, they can indicate whether they have acquired the credit from a project owner or from another intermediary. The more intermediaries are involved, the more likely it is that a significant share of the final price does not directly serve climate action.

5. WERE ANY FOSSIL FUEL COMPANIES INVOLVED AT ANY STAGE OF THE PROCUREMENT OF THIS CREDIT?

This question will help the buyer understand whether it might inadvertently pay into the profits of a fossil fuel company in the process of attempting to finance climate action. This is because fossil fuel companies are active in diverse roles throughout the carbon market, including as project developers and intermediaries, often through subsidiaries.

* This checklist suggests questions that buyers should ask sellers in order to make informed decisions that will maximise the flow of finance to project owners who in turn should invest it into climate action. It **does not** address the environmental and social integrity of carbon credits, nor the distribution of benefits between the project owner and local communities. These are also key concerns for carbon credit buyers and should be thoroughly considered before any purchase. Moreover, Carbon Market Watch recommends that buyers of carbon credits refrain from claiming the “compensation”, “neutralisation” or “offsetting” of their emissions, as this practice is misleading, and instead should say that their purchase of carbon credits is a financial contribution towards mitigation actions.

THE VOLUNTARY CARBON MARKET AS A CLIMATE FINANCE TOOL

Voluntary carbon markets (VCM) are often promoted as a promising source of finance for climate action. Advocates maintain that the VCM is an efficient way of connecting companies with cash to climate projects in need of finance, while opponents regard these voluntary markets as little more than a green fig leaf to cover up continued climate inaction.

Based on research carried out on behalf of Carbon Market Watch by Allied offsets, this report seeks to follow the money by focusing on what happens in the murky middle ground between when buyers purchase carbon credits and project owners sell them to intermediaries.

How is the finance channelled? How much money is actually being funneled into climate action through this market? Who are the intermediaries guiding this money, and how big of a cut do they keep?

Understanding the role of intermediaries in the VCM is key to determining whether it is succeeding at its task. In light of this, it is puzzling that there has been so little written about this subject. The role of intermediaries continues to be opaque. For all the talk about the VCM being a tool to channel finance towards climate action, there is no credible data to actually measure whether or not it is succeeding.

This question is of even greater importance when considering the market's geographical imbalance. Most projects are implemented in the Global South, while most intermediaries are based in the Global North.

This report attempts to shed some light on the role of intermediaries. It summarises the findings of Allied Offset's research and lays out Carbon Market Watch's recommendations to strengthen the integrity, and hence credibility, of the VCM.

SPOTLIGHTING THE ROLE OF INTERMEDIARIES

Carbon market intermediaries can take various forms, but all serve the same general purpose: facilitating the transaction of carbon credits to make it easier for sellers to sell and buyers to buy. In a dispersed market like the VCM, where it is difficult for sellers to find buyers and difficult for buyers to get an overview of who is selling what and at what price, these intermediaries can play a valuable role in ensuring that those who have money are connected with those that need money.

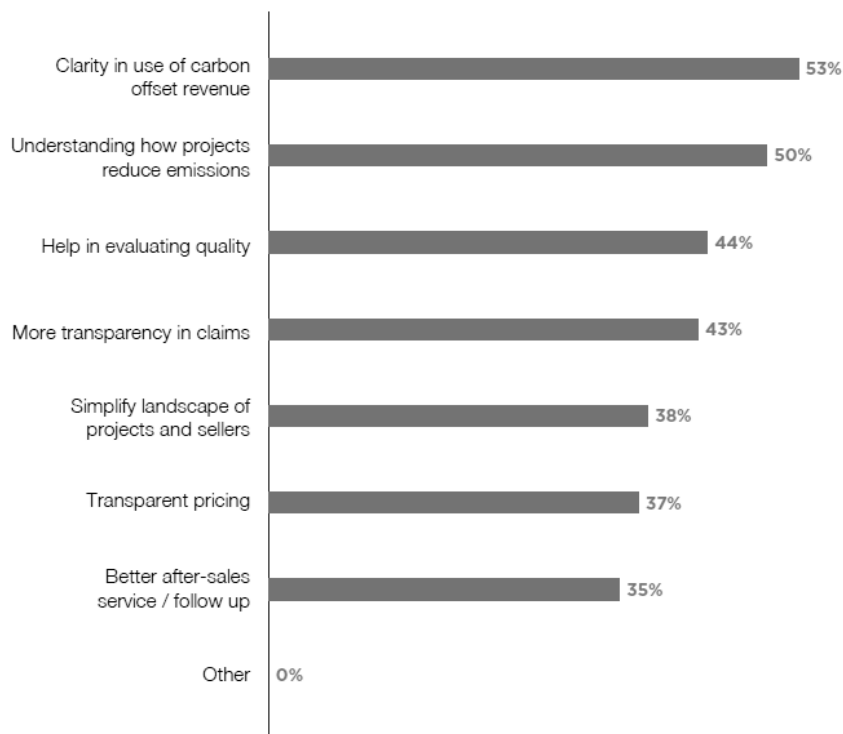
However, the extreme lack of transparency and the enormous complexity of the VCM open the door to exploitative practices. Some actors with a lot of information about the market, can exploit others' lack of understanding to make huge profits at the expense of climate action. Intermediaries can convince unaware buyers to purchase low-quality, very cheap carbon credits at hugely inflated prices. This is especially the case when prices are relatively low, and the differences between projects can be very high. For example, a broker could convince a buyer to pay €5 for a carbon credit that is worth only €1. While the customer would regard both prices as relatively cheap compared with the costs associated with reducing their actual emissions, the sales price represents a hefty 400% markup for the broker.

Currently, there is no reliable data about the overall amount of money that is flowing to project owners through the VCM. All that is available are reports about the aggregated volume of the market, which essentially multiply the average price of a credit by the number of transactions in a given year. But this is not informative about the amount of finance flowing to climate action, because these aggregate figures erase the distinction between money paid to project owners and money paid to intermediaries. If a carbon credit is traded 10 times at €5, the market volume will be €50, but the project owner actually only receives €5.

Even at the micro level, very few companies publish the price at which they purchase carbon credits. When they do, it is usually impossible to know how many times this credit has been traded by various intermediaries before it was used, and what the markup of each of these intermediaries was. The result is that for virtually all cases where a company pays for a carbon credit, it is impossible to know how much of that money is actually serving climate action as opposed to enriching intermediaries.

This is holding back investment. A recent survey found that more clarity on the use of carbon offset revenue was the number one factor which companies say must be improved for them to make greater use of carbon credits.

Graph 1 - "What is needed for carbon credits to be utilised more?"

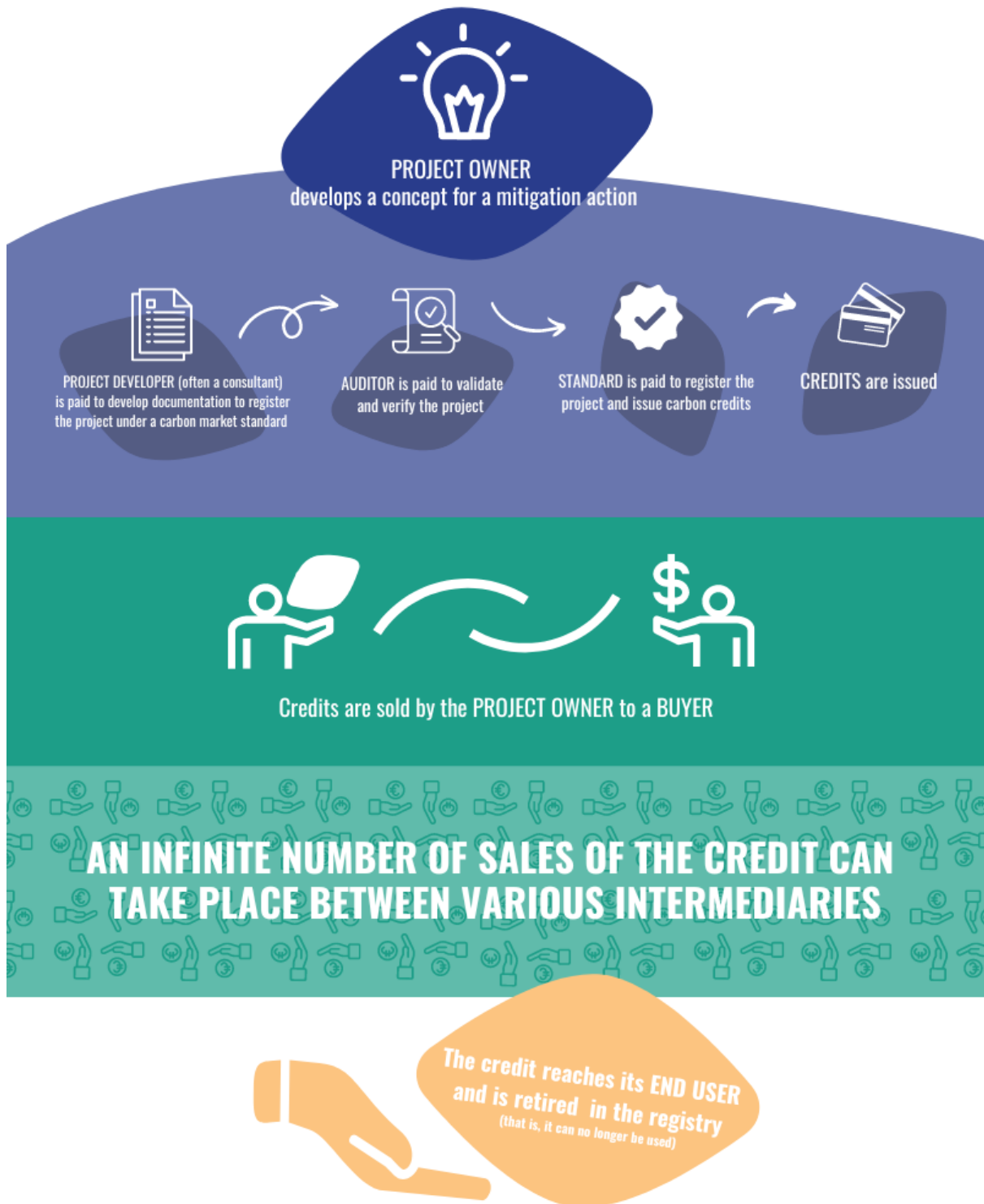


Source: Conservation International & We Mean Business Coalition (2023):
"Corporate minds on climate action" (p.17)

Different types of intermediaries

Intermediaries can be classified into four main categories: exchanges, brokers, online resellers, and crypto outfits. There can be some overlap between these.

The carbon credit value chain at a glance (simplification):



Exchanges act as platforms that connect sellers and buyers. They usually charge various fees and do not directly take ownership of the credits. These platforms function best in a very homogeneous market, i.e. where all carbon credits are seen as equivalent and can be traded as commodities independent of their underlying nature. This flattens the distinction between credits that are generated by, say, a forest protection and a renewable energy project, or a project that solely focuses on emissions reductions and a project that also focuses on sustainable development issues.

Brokers are intermediaries that connect buyers to sellers. Their activities focus on selling credits on behalf of project owners for a fee or they purchase credits directly, and sell them on to final users or other intermediaries at a markup.

Online resellers are platforms that sell credits from specific projects. They often take ownership of the credits and sell them at a premium. Online resellers tend to sell directly to retail customers (individuals or small organisations), while brokers primarily operate in the wholesale market. Online resellers deal with large volumes of small transactions.

Crypto operations have emerged over the past few years as a new type of intermediary. These organisations, which can take many forms, “transform” carbon credits into crypto units, by retiring (canceling) credits in the VCM registries, and creating their equivalent “on-chain”, which means using blockchain technology. This then allows buyers in the crypto world to purchase these units. However, this amounts to little more than a repackaging exercise. It doesn’t change in any way the underlying nature of the carbon credit, such as the mitigation project that generated them, but simply enables a new public (crypto actors) to be able to purchase these units. This is why crypto suppliers are intermediaries that facilitate the sale of credits.

It is difficult to estimate the number of intermediaries active in the VCM, especially because many have overlapping roles. For example, some organisations both develop projects and act as brokers for other projects. One report estimates that back in 2007, there were at least 60 intermediaries in the VCM, and that recently there has been a consolidation of actors (i.e. different companies have merged).⁴ According to the AlliedOffsets study, there are at least 239 intermediaries registered on the two main US-focused VCM programmes (the Climate Action Reserve and the American Carbon Registry).

⁴ Ecosystem Marketplace (2019): ‘[State of the Voluntary Carbon Markets 2019](#)’, p.2; AlliedOffsets (2023): “Analysis of Voluntary Carbon Market Stakeholders and Intermediaries”

However, in keeping with the overall confusing nature of the VCM, not all intermediaries are equal, with a huge range of quality, size, operating ethos, commitment to climate action and financial profiteering. This explains why many buyers have a preference to directly transact with project owners. The least preferred intermediary type, according to a recent survey, are cryptocurrency platforms, while the most preferred are “marketing partners”.⁵

THE VCM FINANCE BLACKBOX

Murky financial flows

The operations of VCM intermediaries are, for the most part, highly opaque. The volume of data that is publicly available is extremely limited, and we could not identify any relevant literature that examines the role of intermediaries in the VCM. This is a major information gap, given that intermediaries might be capturing a significant share of the funds flowing through the VCM.

AlliedOffsets identified on our behalf that just under 10% of VCM transactions are reported as involving brokers or resellers. The actual number is likely to be much higher, as intermediaries could have been involved in transactions covering the remaining 90% of operations, but simply did not disclose their participation in these trades.

There is also no public data on the actual volume of finance channelled through the VCM that actually reaches project owners, let alone the portion of this funding that is used by the project owner to fund real-world climate action.

This situation is no better when considering individual transactions. For most, there is no price transparency. Even for the few examples where the buyer and/or seller publishes the price at which a carbon credit has been transacted, it is in virtually all cases impossible to know how many times that credit was sold by intermediaries, and what share of the final price the project owner will ultimately receive. The only exception to this is when buyers purchase credits directly from project owners, and publish the prices of that transaction.

⁵ Ecosystem Marketplace (2022): [‘State of the Voluntary Carbon Markets 2022 Q3’](#), p.11

For the purpose of this report, AlliedOffsets has analysed data on intermediaries from the Climate Action Reserve and American Carbon Registry - the only two programmes that clearly identify intermediaries in their registry. It found that:

“The vast majority of intermediaries [...] are not as transparent in explaining what is included in transaction costs and what fraction of credit price reaches project developers and local communities. [...] In terms of transparency of the market, only a small fraction of data on retirements and transactions is public. This makes corporate and non-profit offsetting efforts opaque and more difficult to examine.”

From the intermediaries identified on these registries, only 10% publish information about their markup (see table 1 further down), and a further 7% state that they spend “the majority” of the credit sale revenues on projects. This leaves close to 85% of intermediaries that do not provide any information on their use of proceeds. While this is a limited sample covering only two (largely US-focused) registries, it is plausible that many of these intermediaries are also active in other programmes.

A recent paper provided similar comments about the opacity of carbon intermediaries and the difficulty of identifying where the money is flowing. One consequence of this is that it is difficult to determine whether more expensive carbon credits are expensive because they are of higher benefit to the climate or because their price is inflated by high intermediary profit margins.⁶

Murky use of carbon credits

To be able to identify the true beneficiaries of carbon market finance, it is important to be able to identify the parties to all VCM transactions. At a minimum, it should be clear which buyers are using which credits and for which purposes. Currently, it is virtually impossible to clearly identify the purpose for which a buyer is retiring a carbon credit - whether it is towards a carbon neutrality claim in a given year, for a specific product or brand, or for some other purpose).⁷

In addition, it should ideally also be possible to see who owns carbon credits from a given project. Clearly and publicly identifying the owners of credits would go a long way

⁶ Swinkels and Yang (2022): [‘Investing in carbon credits’](#)

⁷ Carbon Market Watch (2022): [‘Carbon Market Watch recommendations on carbon market infrastructure for article 6 of the Paris Agreement’](#)

towards improving the transparency around the role of intermediaries. This is neither technically nor legally impossible. All registries function with accounts associated to specific entities, and simply making data about account holdings and owners publicly available is technically feasible. In fact, at least two registries already do this - the UK Woodland Carbon Code and the Global Carbon Council - which demonstrates that this is a real possibility.

When it comes to identifying the end user of a carbon credit, much still needs to be improved. Some standards, such as the Woodland Carbon Code, Plan Vivo, the Peatland Code, and Acorn, require this information for each retired credit, but most of the main VCM standards do not. In an analysis of 1000 VCM retirement events, AlliedOffsets found that only 81 contained clear information on both the buyer and the intermediary involved. 614 had information on only the buyer or seller

The main barrier to greater transparency is the pressure from companies, in particular intermediaries, who invoke arguments related to “confidentiality” to keep this data from the public eye. This raises the thorny question of what exactly it is they have to hide? If the bulk of the sales price is going to finance climate action, then this would be a reason for them to publicly boast that carbon credits are doing what they are supposed to do. The fact that they take cover behind confidentiality arguments raises reasonable suspicion that a significant cut of the proceeds, if not the majority, go into the pockets of brokers, platforms and other traders.

WHO GAINS FROM THE VCM?

The current lack of transparency around the role of intermediaries operating in the voluntary carbon market makes it extremely difficult to draw any general conclusions about the prevalence of exploitative practices.

As intermediaries perform different functions, they also earn money in different ways. Some intermediaries charge a fee for merely connecting buyers and sellers. Others charge an annual fee to sellers for seeking buyers and negotiating a credit price. Yet others buy credits directly and earn money from marking up the price of that credit and then deducting processing fees from the sales price when reselling it (or adding the fees on top of the price). Exchanges also earn money by charging fees to participants (such

as for holding an account on the exchange) and fees on each transaction conducted on the exchange.

Generally speaking, information concerning these fees is rarely publicly available. In addition, these fees come on top of existing fees that project owners have to pay to the standards for registration and issuance, as well as to the validation and verification bodies. Thus, there is very little transparency about the amount of money that actually reaches the mitigation activity.

In its survey conducted on behalf of Carbon Market Watch, AlliedOffsets found that intermediaries who disclosed their fee levels were charging on average charges which amounted to 15.5%. However, this does not mean that 85% of the money paid by a buyer will serve climate mitigation actions. This is partly because the 10% of intermediaries identified by AlliedOffsets who provided public data about their fees are likely to be amongst the cheapest on the market because those who charge considerably higher fees would be reticent about publicising them out of fear of losing clients or facing criticism.

In addition, the fees are typically applied to the sales price of a credit, but an intermediary might be selling the credit at a significant mark-up compared to what it paid for the credit.

In fact, there is anecdotal evidence that intermediaries inflate carbon credit prices to the extent that they end up making several times more income from a sale than the project owners who actually take the climate action and bear the risks associated with it. For example, AlliedOffsets identified almost 250 projects where brokers shockingly resold credits for at least three times the purchase price.⁸

⁸ Unearthed (2022): *'How middlemen carbon brokers take a cut from money meant to help offset emissions'*; Follow The Money (2023): *'Showcase project by the world's biggest carbon trader actually resulted in more carbon emissions'*

Table 1 - Intermediaries with publicly available information about their fees
(based on the registries from the American Carbon Registry and the Climate Action Reserve)

NAME	TYPE	FEE
Carbon Credit Card	Reseller	3.5% goes to credit card processing, 11.5% goes to Carbon Credit Card fund to finance the ongoing development of the platform
Carbonfund.org	Reseller	5%-10%
Carbon Neutral Britain	Reseller	10% to administrative costs, 10% to fundraising and marketing
Carbon Removed	Reseller	30% of the price goes towards business development
Climate Wise	Reseller	10%
Greentripper	Reseller	18% (3% transfer costs and 15% commission)
HALO.eco	Reseller	15% goes to running costs, 3% to payment processing, 82% directly to HALO projects
Klima Ohne Grenzen	Reseller	Maximum 15% (transaction costs)
Klimat Kompensera	Reseller	20%-30% fees
Offsetra	Reseller	18% is used to cover transaction and admin costs
Persefoni	Reseller	10% Patch fee + 4.5% Persefoni fee
plannetzero	Reseller	Up to 15% fee
Ripple Africa	Reseller	10% towards administrative costs

Source: AlliedOffsets (2022)

Table 2 - Fees from VCM exchanges

EXCHANGE	REGISTRATION FEE	ANNUAL FEE	TRANSACTION FEE BUYER (per credit)	TRANSACTION FEE SELLER (per credit)
CBL	NA	NA	\$0.05	\$0.05
AirCarbon	Not published	NA	NA	\$5 per 1,000 credits
CTX (SME)	\$1250	\$595	5% - 10%	5% - 10%
CTX (Large/Listed Entities)	\$1995	\$995	5% - 10%	5% - 10%

Source: AlliedOffsets (2022)

CONCLUSION AND RECOMMENDATIONS

It is astonishing that, for a system that is touted as an efficient and effective way of channelling finance towards climate action, there is no publicly available data of any sort that would even come close to estimating the amount of funding the voluntary carbon market truly provides for climate action.

Existing measures of the size of the VCM are useless when it comes to measuring the contribution of the market to overall climate action, as it does not distinguish between money changing hands among intermediaries and the money that flows to mitigation projects.

Anecdotal evidence, coupled with the lack of transparency of many actors, makes it reasonable to suspect that some intermediaries are leveraging their position to extort excessive profit margins from buyers, at the expense of project owners and to the detriment of climate action.

The first step to solving this troubling situation is to improve transparency. Without clear data on the destination of money paid to acquire carbon credits, buyers will remain in the dark.

To improve this, various actors in the VCM have a role to play:

- Buyers should refuse to purchase credits from intermediaries who do not make their fees and mark-ups public
- Industry standards, such as the ICVCM, should require more transparency from the market, including information about the price received per credit by the original project owner (which would allow buyers to compare what they pay to what the project owner initially received)
- Intermediaries should make their fees and mark-ups public, and challenge their peers to do so as well
- VCM registry managers (most often the VCM standards) should provide information about registry account holders, and their account holdings (which several VCM registries already do, but which the biggest registries do not). This would allow for the identification of intermediaries and a better understanding of carbon market transactions.



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