Oil spill 2

How fossil fuel interests are polluting the US's carbon market rulemaking

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CARBON MARKET WATCH

Table of Content

Executive summary

Oil and gas majors and their affiliated trade associations have striven behind the scenes to negatively influence government regulation on carbon credits in the United States. This report builds on our first Oil Spill report, and highlights how this influence is taking place both at the federal level, with the Commodity Futures Trading Commission (CFTC), and at the state level, where some fossil fuel interests have spent $273 million dollars in lobbying California climate legislation over two decades between 2005 and 2026.

Oil and gas majors have strong incentives in ensuring cheap and low-quality carbon credits remain eligible for compliance obligations, and for ensuring they can continue to engage in misleading public communication on their climate commitments and greenwash their climate inaction. Carbon credits, and the rules governing their use, are of substantial importance in enabling fossil fuel companies to continue business-as-usual practices, while allowing them to abstain from making necessary structural changes to their operations and business models, such as shifting towards clean energy alternatives.

Oil and gas majors attempt to influence US carbon credit legislation through their dedicated corporate lobbying arms, affiliated trade associations and carbon market players they have a financial stake in. They exercise this influence by providing feedback directly through stakeholder consultations, submitting joint and individual position letters, as well as holding positions on committees. One major focus of these lobbying activities is to resist measures that would either restrict credit use, elevate credit price or increase scrutiny over the key quality criteria, which would dampen the volume of eligible credits, thereby raising their cost.

While it is difficult to assess whether the outcomes of the work undertaken by CFTC and California climate legislators has been directly influenced by oil and gas companies, and their affiliated parties. Nonetheless, it's obvious that fossil fuel companies have strongly attempted to influence the rule making process to preserve and even expand their ability to use carbon credits as a cheap compliance and marketing tool.

Key recommendations

Carbon Market Watch has prepared the following recommendations, detailed in full at the end of the report, based on the concerning findings from our research:

1. **Strengthen conflict-of-interest safeguards**
2. **Eliminate carbon credits from the California cap-and-trade programme**
3. **Prohibit greenwashing and prioritise carbon credit quality through better laws**
4. **Scrutinise trade association engagement**
5. **End the use of carbon credits as a substitute for decarbonisation**

Setting the scene

Our first Oil Spill report demonstrated how oil and gas companies have increasingly relied on carbon credits and the voluntary carbon market (VCM) to give the illusion of progress towards their climate goals and to insinuate that they are front runners in addressing climate change. Instead of leading the transition away from fossil fuels and driving emissions reductions down in their supply chain, they instead delay decarbonisation and promote carbon credits as significant climate action. These fossil fuel companies attempt to shape the voluntary carbon market rulebook, pushing for weaker carbon credit requirements and preferable use cases, whilst also embedding themselves in the governing structures of voluntary carbon market bodies like the Integrity Council for the Voluntary Carbon Market (ICVCM) and the Voluntary Carbon Markets Integrity initiative (VCMI).

Shell has been the biggest purchaser of carbon credits for the last three years, using over 10 million credits in 2025. Eni was second with just over 8 million credits. Chevron has purchased 36 million carbon credits since 2021 and Exxonmobil highlighted its commitment to carbon credits in its 2024 report "Advancing climate solutions", but does not disclose the total quantity it has purchased.

The figures presented above likely underestimate the true scale of carbon credit use (referred to as "retirement" in carbon market lingo). Unlike financial disclosures, there is currently no universal requirement for companies to publicly report their carbon credit use. There are likely many credit purchases without attribution, with many credits being retired anonymously in carbon credit registries. The actual retirement volumes from oil and gas companies are likely higher than publicly observable data suggests.

Most of the credits purchased by these oil and gas companies are a mix of predominantly nature-based (such as forestry and land-use) and renewable energy projects, with many of low quality.

Box 1: Oil and gas companies' poor credit record

Research and investigations conducted by civil society organisations and the media have identified instances in which oil and gas companies have purchased carbon credits from projects with questionable environmental and social impact. For example, Corporate Accountability found that 93% of the carbon credits Chevron purchased and counted towards its climate targets between 2020 and 2022 were of low quality.

Chevron has shown a particular tendency to purchase credits from forestry projects in Colombia. Several of the projects it has purchased credits from, such as Pachamama Cumbal and the Preserving the Life of the World have been under fire due to concerns related social safeguards. Investigations by the Latin American Centre for Investigative Journalism (CLIP) have highlighted allegations that these projects proceeded without adequate consultation or free, prior and informed consent of indigenous communities. Additionally, the investigation by CLIP proved that Chevron acquired carbon credits from another Amazon REDD+ project after legal challenges had halted its activities.

Shell has been linked to multiple controversies related to the purchase of credits with dubious climate impact, which the oil giant subsequently used to offset supply chain emissions and make misleading carbon neutrality claims, such as "carbon-neutral driving".

For example, Shell bought credits from some of the biggest REDD+ forestry projects by issuance. A joint investigation by The Guardian, Die Zeit, and SourceMaterial concluded that more than 90% of rainforest carbon credits certified under the Verra standard were unlikely to represent genuine emissions reductions.

Additionally, Shell has recently been embroiled in a series of controversies concerning rice farming carbon credits in China, which were also certified by Verra. An investigation by Climate Home News revealed that Shell was officially involved in 10 out of 37 total projects that Verra ultimately rejected and sanctioned after an internal review found glaring problems regarding overcrediting and inadequate audit processes. Shell acted as the authorised representative[1] with Verra for 10 of these rice farming projects. Shockingly, Shell discretely used more than a million credits from these projects, which it knew to be under investigation, to claim progress towards its Net Carbon Intensity target[2] and has seemingly walked away from the wider scandal without taking on any real liability.

Oil and gas companies also own stakes in carbon credit project developers, further embedding carbon markets within their broader business strategies. For example, TotalEnergies, recently announced that it invested $73 million in carbon credits in 2025, and has committed to investing $100 million per year in forest-based projects and carbon credits through 2030. Following this announcement, TotalEnergies signed a $100-million

[1] An "authorised representative" acts as an agent on a project's behalf with respect to the project and/or the relevant Verra Registry account, a considerably important role allowing, among other things, the representative to submit documents and request carbon credit issuance on behalf of the project developer.
[2] A metric developed by Shell which is meant to measure how much carbon pollution is linked to the oil and gas Shell sells, per unit of energy, rather than the company's total emissions. The metric reportedly includes emissions from Shell's own operations and from the use of its products by customers.

agreement with the US-based forestry developer Anew Climate in 2024, and in the summer of 2025 entered into a further partnership with forestry developer NativState. Similarly, Shell has established stakes in carbon project developers including Carbonext, Select Carbon and Green Carbon. Until 2025, BP also had a majority financial stake in Finite Carbon, the largest forestry project developer in the United States, responsible for more than a quarter of all US carbon credits.

These investments give oil and gas companies strong incentives to ensure that relatively low-cost and lower-quality credits remain eligible for use in compliance markets and voluntary net-zero commitments. Such eligibility can provide flexibility in how companies meet climate targets, while also shaping how their climate strategies are communicated publicly. As a result, carbon credits and the regulatory frameworks that govern how they can be used and applied are pivotally important to their climate strategies.

Building on the first Oil Spill report's findings, this report aims to further reveal the role fossil fuel companies play in attempting to influence the regulatory frameworks governing carbon credits in ways that support their interests. The report focuses on big oil's interference in compliance policy developments on carbon credits in the United States, specifically concerning the Commodity Futures Trading Commission and legislation in the state of California.

US trade associations

Major oil and gas companies' influence on government regulation related to carbon credits is exerted through a range of lobbying activities, including participating in climate policy workshops, sending position letters, as well as holding private meetings with policymakers and engaging in other forms of targeted lobbying. Fossil fuel companies lobby both directly or indirectly via trade associations, industry coalitions, and business groups of which they are members. Through these collective platforms, companies are able to amplify their policy positions and contribute to shaping regulatory frameworks governing the use of carbon credits in both compliance and voluntary climate markets.

Multiple trade associations are active in this kind of lobbying. For example, in our first Oil Spill report we covered the International Emissions Trading Association (IETA) and the American Petroleum Institute (API), which have some of the world's largest fossil fuel producers as members and have attempted to steer the direction of carbon credit rules in ways that support the strategic interests of the oil and gas sector.

IETA and API advanced positions that favour the interests of oil and gas, by responding to public consultations, sending position letters publicly or privately, as well as holding private meetings with policymakers and engaging in other forms of targeted lobbying. At COP30 in Brazil in 2025, the likes of BP, ExxonMobil and TotalEnergies were all able to attend via IETA's delegation, while at the 2024 UNFCCC conference held in Bonn, Shell and BP attended via IETA's delegation, as was also covered in our first Oil Spill report.

Moreover, in the United States, the Western States Petroleum Association and the California Chamber of Commerce have been among the most prominent lobby groups influencing rules and requirements governing carbon credits and broader climate regulation at the federal level and in the state of California.

Box 2: Western States Petroleum Association

The Western States Petroleum Association (WSPA), whose members have long included some of the largest oil and gas companies, such as Shell, Chevron, and ExxonMobil, wields significant influence in California's climate policymaking. BP was previously a member but chose to leave WSPA in 2020, alongside its departure from American Fuel & Petrochemical Manufacturers (AFPM) and the Western Energy Alliance (WEA).

In its 2023 lobby report, Shell states that it "encouraged WSPA to continue to work with policymakers towards a robust and feasible plan to help achieve California's target". In its 2024 report, Shell said that WSPA was concerned about the costs of the California Cap-and-Trade programme, a position Shell said it shared. Shell also said it "shares many of WSPA's concerns about the feasibility of California's plan to achieve" its 2045 net-zero emissions target.

According to their own disclosures, oil and gas majors like Shell have paid WSPA membership fees for years. For example, Shell and Chevron each contributed between $1 million and $2.5 million in 2023. Shell continued contributing within the same range in 2024, while Chevron increased its contribution to between $2.5 million and $5 million. ExxonMobil also contributes membership fees to WSPA, but far lower, between $10,000 and $25,000.

Box 3: The California Chamber of Commerce

The California Chamber of Commerce (CalChamber) is one of the biggest industry lobby groups in California. Their members include the largest oil and gas companies, such as Shell, Chevron, and BP. Both BP and Chevron representatives sit on its board of directors. These oil and gas majors pay annual fees to the CalChamber. For example, in 2024 Chevron paid an annual fee of $50,000 to 100,000. Given that CalChamber does not disclose full membership lists and Shell and BP don't always disclose their affiliated trade associations, it makes it difficult to determine how much they contribute in membership fees.

According to InfluenceMap, CalChamber scores an E- on climate policy engagement (on a scale from A to F) as it "exhibits strategic engagement that is oppositional to science-aligned climate policy". InfluenceMap's 'LobbyMap' further states that CalChamber engages heavily on Californian climate policy "taking firmly negative positions on a number of different climate policy strands". CalChamber also takes on positions promoting voluntary market-based approaches and carbon credit growth. For example, in a 2024 report, it stated its opposition toa bill seeking to regulate carbon credits (SB 1036, discussed further below) claiming it "imposes unnecessary and redundant reporting requirements on the voluntary carbon offset market. The requirements will likely stymie growth in the carbon offset market and will lead to a reduction in offsets."

Shaping US federal legislation

In the United States, the Commodity Futures Trading Commission (CFTC), a body of federal agencies that regulates financial markets, has exclusive jurisdictional overview over derivatives markets (like futures contracts). In recent years, it's been debated whether carbon credits should be subjected to CFTC regulatory oversight, particularly given concerns regarding market integrity, transparency and fraud.

Big polluters have long lobbied government regulators on climate policy. In recent years, they have extended these efforts to the CFTC and its oversight of the voluntary carbon market, lobbying for increased market growth, flexibility, and the use of carbon credits, while cautioning regulators against putting in place regulations that could constrain trading activity. They have done this largely through providing feedback via their dedicated corporate lobbying arms and affiliated trade associations, as well as their positions on various committees.

● Governance

Oil and gas majors have been involved in the CFTC through representation on various committees. For example, BP representative Vincent B Johnson was appointed as an associate member of the CFTC's Energy and Environmental Markets Advisory Committee (EEMAC) in 2016. This was followed by another BP representative, Sarah Tomalty, joining the committee in 2020 and her counterpart at Shell, Matthew Picardi, who was a member from 2019 to 2026. Industry bodies, such as the American Petroleum Institute have been speaking at EEMAC meetings since 2009, and became an associate member from 2022 to 2026. The EEMAC advises the CFTC on matters related to energy derivatives and environmental markets.

BP's commercial manager for environmental products, Naty Figueroa, also sat on the CFTC's Climate-Related Risk Subcommittee in 2020, a body made up of 13 associate members tasked with advising on how climate-related risks manifest in financial markets, including through carbon pricing and carbon credits. The subcommittee contributed to, and supported, the 'Managing Climate Risk in the US Financial System' report.

BP's participation in this subcommittee reflects early engagement in shaping the CFTC's thinking on climate-related market risks, including carbon credits, and its potential regulatory responses. The presence of representatives from two major oil and gas companies across these advisory structures provided Shell and BP with sustained access

to regulatory discussions on carbon markets and energy trading. While these committees are advisory in nature, such participation raises serious questions about potential conflicts of interest, particularly given the commercial stakes these firms hold in the development and governance of voluntary carbon markets and related derivatives.

The CFTC governance documents explicitly state that the EEMAC is intended to “reflect a wide array of interests,” including energy producers, indicating a deliberate intention to include oil and gas companies within its governance structure. Under this framework, associate members are permitted to participate in committee deliberations. While they do not have voting rights on EEMAC decisions, associate members may provide recommendations, which affords them a formal role in influencing discussions and policy advice.

This raises concerns because fossil fuel companies are among the largest global emitters and have a direct commercial interest in the growth and continued flexibility of the voluntary carbon market. This involvement risks undermining confidence in the independence and climate credibility of these mechanisms.

● BP consultation response

In June 2022, the CFTC hosted the Voluntary Carbon Markets Convening which brought together climate policy experts from across the regulatory and market spectrum to discuss issues relating to carbon credits. On the same day, the CFTC also requested information on climate-related financial risk related to voluntary carbon markets. During this period, oil and gas companies, such as BP, as well as trade associations, including IETA and the American Petroleum Institute, provided detailed inputs to the CFTC.

BP America directly engaged with the CFTC on carbon market issues through multiple written submissions, as demonstrated in the first Oil Spill report (see Box 4: BP America’s carbon credit lobbying of the US Commodity Futures Trading Commission). Specifically, Responding to the CFTC request for information, BP America urged it to "focus on simultaneously enhancing its oversight role in derivatives and futures markets while allowing these markets to become deeper and more liquid". BP repeatedly advocated for the scaling up of the VCM as a "valuable tool in accelerating the energy transition". In a June 2022 presentation, BP's Jeff Swartz supported carbon credits for achieving "net zero" and Paris Agreement goals, but cautioned against excessive regulation that could limit market participation.

In response to the Second Voluntary Markets Convening in 2023, focusing on strengthening integrity, transparency, and high-quality standards in carbon credit derivatives, BP North America submitted another letter explicitly describing its participation in trade associations as a mechanism for influencing carbon market developments. BP states that it engages in these associations to "develop and strengthen the compliance and voluntary offsets market." The trade associations cited - including the International Carbon Reduction and Offset Alliance (ICROA), the International Emissions Trading Association (IETA), the Oil and Gas Climate Initiative (OGCI), and the Natural Climate Solutions Alliance - each actively engage on carbon markets, often with a view to pushing for greater supply of carbon credits and wider, more flexible, use of carbon credits by companies. BP's participation in these bodies demonstrates a coordinated approach that is likely to reflect the company's commercial and strategic interests.

● Trade association consultation responses

Several trade associations have directly engaged with the CFTC through formal feedback processes. For example, several submitted feedback comments on the CFTC's guidance on the listing of voluntary carbon credit derivative contracts in late 2024. These guidelines aim to help exchanges develop standards for the derivatives of carbon credits.

Such submissions, further detailed below, illustrate how trade associations and carbon market actors are actively shaping regulatory discussions in ways that align with the scaling and normalisation of voluntary carbon markets, to the benefit of a range of players with financial interests in carbon markets.

IETA, for instance, framed its submission around the need to "elevate the use of high-quality carbon credits". IETA first of all claims that the existing, principle-based rules under the Commodity Exchange Act, especially the "Core Principles" for Designated Contract Markets (DCMs), which are high-level legal standards governing derivatives exchanges, are sufficient to protect against fraud and manipulation. IETA also appears to be arguing against CFTC stepping in to regulate carbon credit quality attributes because "DCMs are not ideally positioned to evaluate VCC quality". IETA claims these factors are well addressed already by the VCM.

However, the voluntary carbon market has largely failed to reliably deliver high quality credits. Research and investigations by academics, civil society and the media have consistently found significant flaws in carbon accounting rules and social safeguards across a wide range of carbon projects, whether related to avoided deforestation,

renewable energy, coal phase-out, cookstoves, and more. IETA's comments indicate a preference for self-governance over CFTC oversight, which could lead to additional requirements that would inconvenience market players.

Additionally, the American Petroleum Institute (API), a representative of which is also an associate member of the EEMAC, urges the CFTC to "allow for broad market participation" and avoid what it characterises as "overly burdensome" or "overly stringent requirements" for carbon credit generation, credit use in meeting climate targets, or reporting requirements. API repeatedly cautions in its feedback against regulatory approaches that could impose "significant cost burdens for market participants" or create "barriers to market entry," arguing that "overly restrictive requirements are not implemented" because they would "stagnate growth" and "limit market development."

In parallel, API emphasised that high-quality carbon credits are a key to meeting corporate, state, and national climate goals and expressed its conviction that companies should be able to use these credits to progress towards their emissions reduction goals or targets. Furthermore, API asserted that the oil and natural gas industry supports the use of carbon credits "as a durable, effective climate solution".

Taken together, API's comments support a hands-off regulatory approach which keeps the voluntary carbon market both flexible and non-restrictive, whilst facilitating continued growth and reinforcing the legitimisation of carbon credits as a way to achieve net-zero targets.

Counter to these associations' statements, we and independent researchers like Libby Blachard and Barbara Haya have cautioned that the voluntary carbon market is particularly vulnerable to fraud and manipulation due to persistent problems with quality assurance. While welcoming the CFTC's attempt to set out guidelines and mentioning it as a step "in the right direction", we believe that the CFTC has not gone far enough.

The CFTC should require designated contract markets to apply robust, science-based quality standards specifically around transparency, additionality, permanence, and robust quantification, given that existing registries have produced carbon credit methodologies that result in very high rates of overcrediting. When this overcrediting is combined with the current lack of financial transparency regarding the number of times and the price at which credits are changing hands, this further dilutes the credibility of the VCM in channeling monetary value towards project developers and local communities: these credits stop being climate tools and become primarily financial instruments.

Pressure from the CFTC's new Republican leadership under the Trump administration ultimately led to the withdrawal of the proposed guidance in 2025. While the proposed guidance was never enforced, the past record of comments leading up to that decision is telling. Submissions from trade associations consistently promoted market growth, flexibility, and the use of carbon credits, while cautioning regulators against putting in place regulations that could constrain trading activity or voluntary corporate climate action. While no individual energy companies submitted comments to this particular consultation, major oil and gas companies, such as BP, and lobbies like the API, actively engaged in earlier CFTC consultations and participated in key committees, advancing similar arguments.

These submissions reflect a broader industry perspective closely aligned with the interests of large fossil fuel firms. When viewed alongside BP's documented advocacy in our first Oil Spill report through trade associations, and BP's past and present participation in advisory and governance structures linked to carbon markets, a clear pattern emerges of attempting to shape the regulatory discourse around the American voluntary carbon market.

As the CFTC case shows, major oil and gas companies and their trade associations exert significant financial and political pressure in trying to shape US government regulation on carbon credits at the federal level. Beyond the federal level, they are also active at the state level, such as in California, where they spend millions of dollars in lobbying to preserve and even expand their ability to use carbon credits as a cheap compliance and marketing tool.

Fossil fuel companies and California's carbon market policy

California has established numerous climate laws governing the use and disclosure of carbon credits. The US arms of large oil and gas companies, and their affiliated trade associations, are deeply involved in attempting to influence these policies, going all the way back to the earliest stages of California's cap-and-trade programme.

Over the two decades from 2005 to 2026, BP, Chevron, ExxonMobil and Shell spent nearly $127 million on lobbying the state of California on climate policy. Of these, Chevron, formerly headquartered in California, was the biggest spender among individual fossil fuel companies, topping the list at an estimated $101.7 million (Table 1). BP, Exxon Mobil and Shell respectively spent $10 million, $8 million and $7 million over the same time period. The Western States Petroleum Association (WSPA), California's largest corporate lobbying group, spent nearly $146 million between 2005 to 2026.

Table 1: Top lobbying expenditures by fossil fuel companies and trade associations on California climate policy (2005–2026)

Organisation or Association	Total from the beginning of 2025 to end of 2026 (in millions)	Total from 2005 to 2026 (in millions)
Western States Petroleum Association	$12.4	$146.8
Chevron U.S.A., Inc. And Affiliates	$12.9	$101.7
BP America, Inc. And Affiliated Entities	$0.3	$10.1
Exxon Mobil Corporation	$0.2	$7.7
Shell Oil Products/Shell Oil Company & Affiliated Entities	$0.1	$7.1

Source: Cal-Acces (2026): Lobby Activity "Employers of Lobbyists"

According to The Climate Centre, a California-based climate think tank, these lobbying efforts reflect a coordinated strategy by oil companies and trade associations to halt or weaken climate-focused legislation. The bills they oppose span a wide range of issues, from climate and energy policy to regulation of the voluntary carbon market, and include efforts to preserve the issuance of new oil offshore drilling permits.

CalMatters, a nonpartisan, nonprofit news organisation, has flagged how Chevron and WSPA have dominated the lobbying forces in the state of California for decades, with the intention of watering down the ambition of California's cap-and-trade programme. According to research by ProPublica, since 2006, WSPA has funneled tens of millions of dollars into lobbying to influence climate regulation, applying pressure on virtually all aspects of its design, including emissions offsets, fees and the allocation of pollution permits.

Influencing California's cap and trade programme

Oil and gas companies and their affiliated trade associations have been trying to influence California's cap-and-trade programme going all the way back to the mid 2000's.

First authorised by the 2006 Global Warming Solutions Act, known as AB 32 and extended by AB 398 in 2017, California's cap-and-trade programme which sets a declining limit on greenhouse gas emissions for in state companies, and allows companies to meet a portion of their emission caps using carbon credits. Under AB 32's rules, companies could use credits for up to 8% of their total emission compliance obligation between 2013 and 2020. This was then extended to 2030, though the use of credits was reduced to 4% for 2021-2025 obligations, and, following last year's new legislation, rising to 6% for 2026-2045, with no more than half of those credits originating from outside the state of California.

In practice, however, the integrity of California's carbon credits has been heavily debated. Studies have raised serious doubts about whether many carbon crediting projects truly do offset the emissions they're meant to compensate for. Research led by UC Berkeley found that the state "oversold the climate benefit" of certain nature-based carbon projects. The study highlights such issues as leakage, where conservation activities in one area simply shift deforestation to another location outside the project boundaries, meaning the project's climate impact is overstated. Overall, the study finds that the

California Air Resources Board's (CARB)[3] US Forest offset protocol[4] underestimates the risk of carbon leakage and that 82% of these credits probably do not represent true emissions reductions due to the protocol's lenient leakage accounting methodology. This leniency resulted in approximately 80 million additional tonnes of overestimated emissions. Further research in 2021 into California's forest carbon carbon credit programme claims it has led to a systematic over-crediting of 30 million tonnes of CO_2, worth an estimated $410 million.

When AB 398 was moving through the legislative process, oil and gas companies, WSPA and utility companies spent $34 million lobbying it. Between 2015 to 2017, oil and gas companies' expenditures included: Chevron, $8.2 million; Exxon Mobil, $1.1 million; and Shell, $1 million, with BP also engaging but spending less than $1 million. During the same period, WSPA alone spent over $20 million on lobbying activities, nearly double the combined lobbying expenditures of all individual oil and gas companies. Observers like Brent Newell, legal director of the Centre on Race, Poverty and the Environment, a California-based environmental justice nonprofit organisation, noted seeing oil lobbyists, including former state legislators on industry payrolls, roaming the halls of the state Capitol during the bill's drafting.

A top priority for the oil lobby in California has been to preserve the use of carbon credits in the cap-and-trade system. From an oil company's perspective, carbon credits are crucial as they provide a cheaper compliance option than actually cutting refinery emissions or fuel production. As far back as 2009, WSPA and fossil fuel companies provided feedback to CARB, suggesting that offsetting represents a "critical element" of a cap-and-trade programme and encouraging regulators to allow "broad use of offsets" citing that allowing unlimited use of carbon credits could slash compliance costs by up to 80%.

Cap-and-trade regulation workshops

Following the implementation of AB 32, the CARB convened dozens of workshops on cap-and-trade for the post-2020 period beyond the programme's initial mandate. These public meetings enabled stakeholders to provide feedback on the scheme and related greenhouse gas regulatory requirements.

[3] CARB is the lead state agency for climate change programs (i.e. the state's cap-and-trade system) and oversees all air pollution control efforts in California to attain and maintain health-based air quality standards.
[4] The U.S. Forest Offset Protocol is a carbon crediting framework used within California's cap-and-trade system to generate carbon credits from forestry projects in the United States. CARB plays a central regulatory role in the protocol and administers it as part of California's cap-and-trade programme.

CARB workshops have taken place since 2015. Discussions of carbon credits have centred on their type, quantity and credibility, particularly in relation to their role in helping companies meet their compliance obligations. Workshops examined the share of credits eligible to meet compliance obligations, how they could provide cost containment and flexibility, and whether to expand eligible credit types from outside California's state boundaries, and how they interact with sector-based coverage.

The workshops were highly participatory processes, with extensive feedback from an array of stakeholders, including academics and NGOs, who raised concerns about credit quality and over-reliance. Industry groups were also in the room and they generally called for greater flexibility and access to a broad, low-cost pool of carbon credits to meet compliance obligations.

The full list of feedback from selected fossil fuel companies and affiliated trade associations can be found in this spreadsheet. The section below assesses selected feedback from these companies and associations in detail.

● Fossil fuel influence

Between 2015 and 2025, major oil and gas companies, most notably Chevron, and the North American arms of Shell and BP, submitted letters to CARB pushing for amendments regarding carbon credit use under California's cap-and-trade programme.

In October 2016, CARB held a workshop to discuss amendments to the regulation aimed at updating the programme for the post-2020 period. Among the provisions considered by CARB staff was a proposal to reduce the limit on the use of carbon credits, which at the time was set at 8%.

The following month (November 2016) a series of letters from representatives of major oil and gas companies, like Shell, emphasised that the 8% carbon credit limit "should at least be maintained," arguing that companies "must be able to rely on carbon credits, alongside other compliance instruments, to meet the state's GHG reduction obligations".

Echoing broader industry positions about maintaining flexibility within the programme, BP went further by strongly opposing any reduction in the limit, describing it as "extremely concerning" and urging CARB to "consider raising the offset limit, not lowering it." They point to the benefits that carbon credits provide for "cost containment", which is

precisely the problem since the inclusion of credits weakens the carbon price in California's cap-and-trade programme, to the benefit of fossil fuel companies like BP.

In 2024, CARB held a workshop to discuss amendments that would allow the use of carbon credits to cover 4% of compliance obligations during 2021-2025 and for up to 6% in 2026 and beyond. Shell urged CARB to reinstate the 8% offset usage limit from AB 32. This suggestion would enable fossil fuel companies to meet a larger share of their compliance obligations through carbon credits rather than through necessary internal emission cuts.

In another workshop in 2016, BP called for a company's unused carbon credits in a given compliance period to be carried over to future ones. Allowing such transfer would enable companies to bank large volumes of credits and delay direct emissions reductions, potentially weakening climate ambition. Additionally, BP called for allowing the use of other categories of carbon credits, such as those derived from problematic REDD+. Since most REDD+ projects are based in the Global South, companies would need to purchase such credits from abroad. Additionally, as we outline above, research by academics and civil society reveals that many REDD+ projects significantly overestimate their climate impact, raising serious concerns about their environmental credibility.

Furthermore, in a 2018 workshop on potential changes to the CARB's cap and trade regulations in the post-2020 period, Shell pointed towards making the carbon credit system more predictable, less punitive, and less risky for companies using carbon credits as part of their compliance obligations. First, Shell proposed for CARB to "narrow the types of activities or actions that result in invalidation of an offset project". In other words, Shell argued that CARB should be more lenient when evaluating fraud, errors in calculations, changes in regulatory rules, or a lack of compliance with protocol or standards rules so that the supply of credits would not be restricted. Shell further argued for invalidation to be limited to cases that directly undermine climate goals, with the argument that "the reasons for invalidation should be limited to actions that compromise GHG emission reductions." Simply put, Shell suggests that administrative or regulatory violations unrelated to emissions should not lead to carbon credits being revoked, since those issues are already handled by other authorities. As a consequence, under this approach, a project might retain its credits even if it violated human rights or failed to comply with social safeguards or procedural requirements, so long as the underlying emissions reductions themselves were not disputed.

As evidenced above, Shell and BP have sought to leverage their engagement in CARB workshops to water down requirements, calling for greater flexibility regarding carbon

credit quality and eligibility for meeting compliance obligations, all of which would lighten their compliance costs and emission reduction obligations.

Proposal framework

Proposed amendments to the cap-and-trade regulation were discussed in workshops in 2018 following the adoption of AB 398. The bill stated that from 2021, no more than a half of the carbon credits used for GHG emission compliance may be sourced from projects that do not provide direct environmental benefits in the state" (DEBS). The condition simply stated that any emission reduction which was physically located in California, or any project located adjacent to a water body that flows within or into California was eligible for the stamp of approval.

Shell and BP representatives showed strong support for CARB's proposed local environmental benefits framework. Shell's letter pushed CARB to accept all projects located in California and that all projects registered before the end of 2020 should be deemed to qualify by default. This in practice would grant automatic eligibility to projects without requiring verification that they demonstrably produce environmental benefits within California, undermining the entire purpose of the legal provision.

Echoing this position, representatives from Chevron strongly recommended against proposals to "require projects that are entirely within California to provide additional justification or review to qualify as DEBS". BP encouraged CARB to adopt streamlined language enabling a rapid screening process for projects, with "limited" information requirements, arguing that such an approach would make it easier for carbon credits to qualify, avoiding costly and complex assessments that could otherwise restrict their availability.

BP, Chevron and Shell's support for a blanket approval of projects serves their interests of maximising the eligibility and quantity of credits under compliance obligations, which would let them off the hook for actual emission reductions. This is problematic for a host of reasons, since many projects in California have an exaggerated climate mitigation impact and fail to deliver benefits to local communities, as Barbara Haya at the University of California, Berkeley, rightly pointed out in comments submitted in 2018. Haya further argues that direct environmental benefits in the state should refer to "tangible improvements in California's air and water quality", particularly given that carbon credits allow continued pollution in-state and cause California to "lose the co-benefits" tied to local emissions reductions.

A recent policy briefing by academics at the University of California, Berkeley, and Oxford University (2025) reinforces the caution originally raised in 2018. They found that after the implementation of the DEBS requirement in 2021, around two-thirds of carbon credits used under the cap-and-trade obligations originate from out-of-state ozone-depleting substances (ODS) projects[5], which they say bring few direct benefits to Californian communities.

Further research by Barbara Haya and Stephen Lezak in 2025 highlighted that millions of dollars have been spent annually since 2021 on low-quality carbon credit projects outside of California. In addition, they estimated that at least three out of four carbon credits issued for California's market have little or no real climate impact. Moreover, they point out that approximately three quarters of these credits come from "improved forest management" projects, which have been criticised for overestimating their climate benefit.

As a consequence, Haya and Lezak proposed an alternative: a climate solution fund modelled after Oregon's Community Climate Investments (CCI) programme that enables regulated companies to use a limited number Community Climate Investment credits (CCIs) as part of their Climate Protection Program, a cap to reduce greenhouse gas emissions from fossil fuels throughout Oregon. Regulated companies can choose to earn CCI credits which represent the reduction of one metric ton of CO_2 equivalent by contributing funds to the Department of Environmental Quality (DEQ)-approved Community Climate Investment entities which then invest those funds in reducing emissions. Importantly, CCIs are not tradable and are both issued and have a fixed price - since February 2026 it stands at $136, up from $129 initially proposed.

● Trade association influence

Trade associations affiliated with the oil and gas sector, especially WSPA and IETA, provided a large volume of comments to CARB during workshop proceedings. Their positions reflected those stressed by the oil majors and even pushed for weaker provisions.

Across submissions, both WSPA and IETA consistently advocated for a more flexible and permissive regulatory approach to carbon credits, arguing that existing rules risk constraining credit supply and limiting their role as a cost-containment mechanism. Their proposals supported expanding the availability and usability of credits through such

[5] ODS projects involve the destruction of harmful chemicals, protecting the ozone layer and preventing heat-trapping gases into the atmosphere.

measures as integrating sector-based credits and international credits into the cap, loosening additionality, permanence and invalidation requirements, allowing unused credit limits to be carried over to next compliance periods, and enabling companies to trade credit limits between themselves. Given the volume of submissions, not all comments are discussed in this report; so selected examples are highlighted below to illustrate their intent. For a full list of letters and comments, please refer to this spreadsheet.

In the first workshop in 2015, WSPA advocated for weakening key safeguards on carbon credit use, including exempting California offset projects from the 8% cap and expanding the use of credits issued outside California to meet compliance obligations. At the same time, they challenged basic additionality requirements for these out-of-state projects. Together, these propositions would substantially increase the volume of credits available to regulated companies and allow them to do so with junk credits if they want to.

Additionally, in follow-up workshops in 2016, WSPA proposed the expansion of the current use limit from 8% to 16%, which it reiterated in a second submission on the 17 May 2016 .WSPA also expressed support for broadening the types of eligible credits to include sector-based offsets and REDD+, positions that were repeatedly advanced by IETA across multiple workshops in 2015 and 2016 (28 October 2015, 22 March 2016 and 28 April 2016). As demonstrated in the previous section, these proposals would significantly increase both the quantity and scope of carbon credits eligible under the cap limit outside the US.

In later workshops in 2017, WSPA recommended the "grandfathering" of projects that are currently listed with a carbon crediting registry but not issued by the state of California. Simply put, this would mean that carbon credits issued under older methodologies, registration criteria, or standards would be permitted under the cap-and-trade programme. In essence, this would have allowed any credit to be eligible to meet the cap limit, despite lots of old legacy credits being of low environmental quality and rigor. For example, this would have allowed certified emission reductions (CERs) from the Clean Development Mechanism (CDM) to be eligible, even though a European Commission study which came out a year before the workshop demonstrated that 85% of CDM projects, covering 73% of the potential CERs supplied between 2013 and 2020, are "highly unlikely" to be additional.

Assembly Bill 1207: market-based compliance mechanism extension

Most recently in September 2025, WSPA and IETA provided feedback to the recently passed AB 1207 bill which extends and introduces new requirements for California's emissions cap-and-trade programme, renamed as the "cap-and-invest" programme. The bill's provisions involved extending the cap-and-invest programme to 2045 and increasing the limit on the use of carbon credit towards compliance obligations from 4% to 6% for 2026-2045. In the build up to the bill, the California Chamber of Commerce and Western States Petroleum Association, strongly opposed the changes suggesting that a rushed timeline wasn't possible for producing a robust piece of legislation and "that it is a major reversal for both affordability and stabilization of the oil and gas industry". Some environmental and justice organisations based in California, opposed it, claiming that the proposal didn't go far enough for disadvantaged communities.

Workshops on potential amendments to the cap-and-invest programme held in late October 2025 generated substantial feedback from the WSPA, which sought to influence and amend certain carbon credit provisions. WSPA's feedback advocated for greater flexibility and leniency in the use of carbon credits within the cap-and-invest programme, in order to reduce their compliance costs, which of course ignores the intent behind the programme for companies to actually reduce their emissions to avoid higher compliance costs. They point out that a key concern is the proposal for "the supply of allowances issued in a given year to be reduced by the number of credits used for compliance in the previous year". WSPA warns this approach could create "unintended adverse consequences for the offsets market", which is a weak justification to distract from their main interest in reducing their members' compliance costs.

However, claims that restrictions on credit availability would impose undue "compliance burdens" overlooks evidence that persistently low carbon prices and abundant cheap carbon credits have historically weakened mitigation ambition and delayed economy-wide emissions reductions. Therefore, framing carbon credit availability as necessary for affordability risks entrenching incremental, low-cost interventions at the expense of necessary emissions cuts.

Assembly Bill 1305: Voluntary Carbon Market Disclosures Act

The AB 1305 bill requires companies, since the start of 2025, to publicly disclose details of their marketing of any voluntary carbon credits they sell or purchase. Additionally, the bill requires companies and other organisations that make net-zero emissions claims to publicly disclose the role of carbon credits in achieving that. This is consistent with the recommendations of UN experts that "any credit transactions must be transparently reported, and associated claims must be easily understandable, consistent and verified".

Prominent academics backed AB 1305, sending in a letter of support on 17 April 2023. The joint missive, led by the Berkeley Carbon Trading Project, was signed by 20 academics, expressed support for the bill's proposed disclosure rules and consumer protection regarding the voluntary carbon market. The academics base their support on research documenting the continued sale of problematic carbon credits and their use for greenwashing purposes.

AB 1305 was strongly opposed by the WSPA, claiming it as "needlessly vague and duplicative of existing disclosure rules". Valero, a member of the WSPA, which has taken over and rebranded some fuel stations previously operating under the Shell name to its own Texaco retail brand, objected to the bill, arguing, bizarrely, that it could be leveraged in a way that unfairly targets the fossil fuel sector and advances policy goals that undermine the industry.[6]

AB 1305 was passed with 59 in favour and 18 against in September 2023 and came into effect in January 2024. However, companies pushed to delay AB 1305, citing difficult and fast-moving reporting obligations regarding Scope 3 emissions and climate-risk disclosures. Lawmakers declined to revise, clarify, or delay the disclosure requirements at the closure of the legislative session on 31 August 2024, despite strong industry opposition to AB 1305 and a proposed "clean up" bill (AB 2331) that did not pass.

AB 2331 was intended to delay enforcement of the AB 1305 following several ambiguities raised, notably regarding the removal of a clause that would require carbon credit developers, and purchasers to disclose the durability period of carbon credits. However, since the bill failed to pass, AB 1305 retained its original durability disclosure requirement, defined in AB 1305 as "the duration of time over which an offset project operator commits to maintain its greenhouse gas reductions and greenhouse gas

[6] Valero Energy Corporation (2023, February 22). Form 10-K for the fiscal year ended December 31, 2022. pp29

removal enhancements, as applicable, exclusive of any aspirational outcomes that exceed or extend beyond the mandatory outcomes required of the offset project pursuant to its offset protocol". Simply put, this durability requirement means the length of time a carbon project is legally required to maintain its climate benefit, rather than how long it claims or hopes to do so (Box 4).

Box 4: Durability of carbon dioxide in the atmosphere

Recent scientific research indicates that carbon dioxide emitted from fossil fuel combustion can remain in the atmosphere for hundreds to thousands of years, suggesting that storage of less than 1,000 years is insufficient for neutralising fossil CO_2 emissions. Given the multi-century to millennia lifespan of CO_2 and the fact that a very small share of carbon credits actually involve durable carbon storage, purchasers of carbon credits risk acquiring credits that do not represent lasting impact on a time scale that would help solve the climate crisis.

Living carbon stores, such as forests, soils, or other natural sinks, are particularly vulnerable to reversals and re-emission. These natural carbon stocks are exposed to both human and environmental disturbances, including land-use changes, as well as the increasing frequency and severity of climate-related events such as pests, wildfires, droughts, and floods.

AB 2331 was backed by several groups, including the California Chamber of Commerce and Anew Climate. During an Assembly Natural Resources Committee hearing in 2024, Jesse Gabriel Assembly Member and author of the AB 2331 bill, noted that the bill incorporated feedback from the California Chamber of Commerce. IETA also supported the amendment bill, and submitted a formal letter of support.

As noted earlier, the California Chamber of Commerce and IETA's memberships include the biggest oil and gas majors, a fact that both companies disclose in their public lobbying and industry-association transparency reports. While there is no evidence indicating that these fossil fuel companies directly advocated for this particular amendment, as IETA members they are part of the broader industry network's engagement on the bill and may have been consulted during internal IETA membership discussions.

To conclude, companies must thus still comply with the original durability requirement, and are obliged to post their first annual disclosures before 1 January 2025. Those that do not comply with this disclosure law for information pertaining to carbon crediting projects will face penalties of up to $2,500 per day for each violation (up to a limit of $500,000).

Assembly Bill 1911: Advertising and environmental marketing claims

In 2026, AB 1911, a bill authored by California Assembly Member Chris Rogers, aimed at regulating the use of carbon credits for environmental marketing claims. This bill aims to create a kind of legal "safe harbour" for companies using carbon credits from approved carbon crediting programmes. Revising existing law which makes it "unlawful for a person to make an untruthful, deceptive, or misleading environmental marketing claim". It backtracks on some of the requirements specified in AB 1305. If the bill ever makes it into law, it would make it harder to sue and hold companies legally accountable for false and misleading climate claims, such as "net-zero" or "carbon neutral".

AB 1911 was supported by Anew Climate and Conservation International during a committee hearing in April 2026. During the hearing Chris Rogers misleadingly claimed that AB 1911 would "increase the value of the voluntary carbon market by increasing the integrity of it, while also removing a key barrier that is stopping businesses from investing in the system". However, as outlined in previous sections, California's carbon crediting programme has failed to reach necessary quality and integrity standards. Additionally, a recent piece by Danny Cullenward at the Kleinman Centre of Energy Policy, points out that AB 1911 "would provide a legal defence to practically any carbon credit buyer, no matter the evidence about the quality of their carbon credits or the buyer's knowledge of that quality".

Companies in the past have faced court cases for misleading green claims based on the purchase of carbon credits. For example in 2021, Shell was taken to court over advertisements which suggested its "carbon-neutral driving" was possible. These were ruled to be misleading by the Dutch Advertising Code Committee after complaints filed by Vrije Universiteit Amsterdam, along with Reclame Fossielvrij and Greenpeace Netherlands. Additionally, in 2023, Delta Airlines faced a billion dollar lawsuit over misleading carbon-neutrality claims. Recently, Apple has also been the subject of legal action over its marketing of supposedly "carbon neutral" products.

Despite AB 1911 clearing the first two rounds of review in the Assembly's natural resources and judiciary committees, it was ultimately "held under submission" by the Appropriations Committee, effectively stalling the bill for the current legislative session. Often bills held under submission do not move forward due to legislators' belief that it is too expensive, too administratively burdensome, or too politically risky.

The stalling of AB 1911 is therefore a positive development from the perspective of the climate, since it risked shielding large polluters from scrutiny by allowing them to make dubious climate claims based on poor-quality carbon credits. By granting greater legal protection to claims linked to approved crediting programmes, the bill risks legitimising greenwashing and weakening corporate climate accountability.

Senate Bill 390 and 1036: Voluntary carbon credits: business regulation

In 2023, SB 390, a California bill sponsored by California State Senator Monique Limón, aimed to regulate the voluntary carbon market. Key provisions in the bill would have made it unlawful for a person or organisation to issue or sell a carbon credit if they know, or should know, that the underlying carbon crediting project's reductions or removals are "not quantifiable, real, and additional" or if the durability of carbon credits is less than "the atmospheric lifetime of carbon dioxide emissions". In essence, the bill aimed to use the California False Advertising Law to outlaw misleading claims by or based on the voluntary carbon market.

The bill passed through the California legislature but was eventually vetoed by California Governor Gavin Newsom, despite there being no known opposition. This raises questions as to how and why the bill was eventually blocked, particularly given its apparent legislative support and lack of stakeholder resistance.

In 2024, Limón reintroduced the proposal as SB 1036, which was almost identical to SB 390. Although the bill successfully passed through the California Senate, it was then withdrawn by Limón meaning it died without reaching the governor's desk. Limón mentioned that many in the carbon market were "unwilling to accept legally enforceable standards to address the magnitude of junk offsets being marketed and sold in California".

Coordinated carbon market opposition

SB 1036 faced stiff opposition from voluntary carbon market interests. Some 35 organisations send in letters of opposition[7] to the Senate Environmental Quality Committee, which reviews and votes on legislation concerning environmental and climate-related policy, and only eight sent in letters of support. Opponents included major voluntary carbon market players, such as crediting standards like the American

[7] Carbon Market Watch reviewed all the letters submitted by organisations to the Senate Environmental Quality Committee after requesting access. Those seeking access to the letters should contact the Senate Environmental Quality Committee office directly.

Carbon Registry and the Climate Action Reserve, carbon brokers and traders, rating agencies like BeZero, and project developers like Finite Carbon in which BP had a majority financial stake at the time of the bill.

A number of influential industry and business associations also opposed the bill, including the California Chamber of Commerce (CalChamber), the International Emissions Trading Association (IETA), and the We Mean Business Coalition. CalChamber filed a formal letter with 10 signatories, including WSPA. IETA also filed a formal letter with over 60 signatures, primarily from organisations with financial interests in the carbon credit market, including Finite Carbon, contending that SB 1036's provisions were "redundant and will create confusion".

Most of those opposing the bill submitted (near) identical letters to the Senate Environmental Quality Committee, suggesting that there was a coordinated effort. In total, 14 organisations sent in exact or near-exact facsimiles. Those that did not submit copy-pasted letters and opposed the bill nevertheless raised many of the same concerns, often singling out the same specific provisions of the bill for criticism and attack. For example, one line of attack argued that civil litigation was not a remedy for low carbon credit quality because civil courts supposedly lacked the technical expertise required to carry out quality assessments.

The strongest opposition to the bill concerned the "durability" provisions, which would have outlawed the sale or marketing of voluntary carbon offsets if the seller or marketer "knows or should know" that their permanence was less than the atmospheric lifetime of carbon dioxide emissions.

Many organisations including IETA, leading carbon crediting standards Climate Action Reserve and American Carbon Registry, project developers like Finite Carbon and Anew Climate (who signed a 100 million agreement with TotalEnergies in 2024), made spurious claims in their opposition letters, including the alleged absence of scientific consensus on the atmospheric lifetime of CO_2. They cited research from Chapter 5 of IPCC Assessment Report 6 (AR6) from 2021, suggesting that this duration could range from less than 100 years to over 1,000 years.

However, it is factually wrong to assert that there is no scientific consensus on the atmospheric lifetime of CO_2, and such an oversimplification of the IPCC's assessment risks misrepresenting the persistence of the climate effects associated with emissions. The IPCC elaborated on the residence times for an excess of CO_2 emitted in the atmosphere in its Fifth Assessment Report on Climate Change (AR5) published in 2014, also used as a reference in its AR6, Chapter 5, cited by IETA and others. Here the IPCC confirms that,

while a large fraction of CO_2 is absorbed by vegetation and oceans from several decades to several centuries after it is emitted, between 15% and 40% of it remains in the atmosphere after a thousand years, and between 10% to 25% after 10,000 years, thereby increasing the overall CO_2 concentration in the atmosphere and contributing to global warming. At the same time, the CO_2 absorbed by oceans is also contributing to problems like ocean acidification - in turn impacting marine organisms - that will persist for thousands of years. As such, it is today scientifically recognised that CO_2 emissions have global atmospheric and environmental impacts that are permanent by any measure relevant to our species. For this reason, storing carbon for less than several millennia is not physically equivalent to CO_2 emissions.

In addition, multiple recent studies have confirmed that storage durations under 1,000 years are insufficient to neutralise fossil CO_2 emissions and that, on climate-relevant timescales, CO_2 must be considered effectively permanent, on the order of more than 10,000 years, far exceeding the durability of most carbon credits. Further scientific literature indicates that nature-based solutions in forests face substantial and rising climate risks to durability, and that current insurance systems, such as buffer pools (a reserve of non-tradeable carbon credits set aside from a project to act as an insurance policy against reversals) are not currently based on "rigorous evidence". While the climate impact of emissions could, in principle, be counterbalanced through the permanent storage of carbon for at least a thousand years, such storage should be reserved exclusively for truly unavoidable emissions, as only rapid near-term emission reductions are effective in reducing climate risks. In addition, as mentioned above, emissions cause irreversible environmental effects, and permanent carbon removals remain limited.

It is both unsurprising and unacceptable that these organisations would oppose SB 1036. The bill would have likely required companies to buy carbon credits from projects focusing on permanent carbon dioxide removals. Although these tend to be considerably more expensive and scarce in supply, they have the benefit of being more likely to deliver actual climate benefits, while their high cost and scarcity would have encouraged companies to rethink their business models along more sustainable lines, in order to reduce their own emissions first. Since SB 1036 would have complemented the aforementioned AB 1305 legislation, mandating climate-related disclosures, including on the use of carbon credits, companies relying on poor-quality or non-permanent credits would thus have needed to disclose this, exposing themselves to reputational and legal risks.

Conclusion

The evidence provided in this report illustrates a consistent pattern whereby major oil and gas companies and their affiliated trade associations have sought to negatively influence US regulation at the federal and state level, concerning carbon credit quality, eligibility, and use. Across a range of legislative processes, fossil fuel industry representatives have argued against regulatory measures that would restrict credit use, impose stricter quality requirements, or otherwise limit the role and supply of carbon credits as a substitute for direct emissions reductions.

Additionally, the presence of fossil fuel representatives across advisory structures such as in the US CFTC provides these companies with sustained access to regulatory discussions on carbon markets. While these committees are advisory in nature, such participation raises serious questions about potential conflicts of interest, particularly given the commercial stakes these firms hold in the development and governance of voluntary carbon markets.

Lobbying activities from oil and gas companies have especially concentrated on resisting measures that would either restrict credit use or increase scrutiny over the key quality criteria. While these companies do not always act publicly or individually, their positions are frequently mirrored by trade associations or organisations they have a monetary stake in, allowing oil and gas companies' preferences to be reflected in legislative debates and proposed amendments..

The scale of lobbying expenditure from fossil fuel majors further demonstrates the priority they assign to exerting influence over US climate policymaking. Major oil and gas companies and allied trade associations have spent huge amounts on influencing California climate legislation, aimed at weakening or blocking California's cap-and-trade programme and climate policies, including those designed to regulate carbon credit use, increase transparency, and raise the standards for credit quality and integrity. Given the trillions of dollars fossil fuel companies globally generate in annual revenue, these lobbying expenditures represent, in their utilitarian calculations, a relatively marginal cost compared with the strategic importance of maintaining regulatory conditions that favour the continued burning of fossil fuels at the expense of the climate, the environment and society.

CARB should take lessons into account from other jurisdictional cap-and-trade programmes which have shown that allowing carbon credits can have negative consequences for their effectiveness in helping companies decarbonise. Research into the

European Union's Emissions Trading System, has shown that allowing carbon credits into a cap-and-trade programme depresses the carbon price, delaying domestic decarbonisation efforts and undermining the effectiveness of the system. Similarly research, on the Korean Emissions Trading System, which permits up to 5% international credit use, has found that low quality carbon credits are currently weakening its effectiveness and should be phased out in favour of stronger domestic emissions reductions.

This troubling state of affairs cannot be allowed to continue. It is imperative that legislators and policymakers exert every effort to keep fossil fuel interests from polluting political and legislative processes.

Recommendations

In light of the concerning findings detailed in this report, Carbon Market Watch has prepared the following set of recommendations. These recommendations aim to curtail and eliminate the undue influence of the fossil fuel lobby on US climate regulation.

Strengthen conflict-of-interest safeguards

Bodies that deal with environmental or climate issues, such as the Commodity Futures Trading Commission, should ban fossil fuel companies from holding any kind of membership, including associate membership, or advisory roles like Energy and Environmental Markets Advisory Committee (EEMAC).

Advisory committees play an important role in informing technical regulatory approaches. Even though associate members don't enjoy formal voting rights, they can exert indirect influence by helping set the tone of debate, kicking certain ideas into play or mounting early resistance to ideas that go against their interests before they see the light of day. Given that many oil and gas companies rely on carbon credits as part of their decarbonisation strategies, their involvement in advisory processes concerning the governance of these markets creates a clear risk of conflicts of interest, as well as the heightened risk of regulatory capture. The same applies to other processes related to climate policies.

Given these dynamics, stronger governance rules would help ensure that advisory input reflects a balanced range of expertise and mitigates the risk that policy development is unduly shaped by oil and gas companies.

Eliminate carbon credits from the California cap-and-trade programme

The California Air Resource Board (CARB) is revising its cap-and-trade ("cap-and-invest") programme recently announced, increasing the carbon credit usage limit from 4% to 6% from 2026 to 2045, alongside updated compliance mechanisms aimed at aligning the programme with California's 2045 carbon neutrality target. CARB should instead have eliminated the use of carbon credits under this emissions trading scheme.

The continued or expanded use of carbon credits risks weakening the effectiveness of California's climate framework, slows progress towards eliminating emissions and enables companies to renege on part of their climate responsibility. CARB should take

lessons into account from other jurisdictional cap-and-trade programmes and exclude all carbon credits from California's cap-and-trade ("cap-and-invest") programme in order to fully require domestic emission reductions on the part of regulated entities.

Prohibit greenwashing and prioritise carbon credit quality through better laws

US and Californian lawmakers drafting bills focused on the climate or carbon markets should pursue a robust and precautionary regulatory approach that prioritises environmental integrity, transparency, and accountability. The climate and environment, with their outsized societal impact, must never play second fiddle to vested business interests.

For example, the newly proposed and stalled California Assembly Bill 1911, focused on carbon credits and environmental marketing claims, risked weakening climate accountability by giving companies greater legal protection when using carbon credits to support climate related claims like "carbon neutral" or "net zero".

Taking these concerns on board, we recommend for California state assembly member Chris Rogers, author of the 1911 Assembly Bill, to pull it entirely to avoid fast tracking widespread greenwashing. Additionally, we recommend that other California policymakers oppose the bill, if it's revived in this legislative session or an upcoming one, as well as any future version of the bill that contains similar provisions to grant companies immunity from greenwashing with carbon credits.

Policymakers should also preserve existing anti-greenwashing regulation that previously came under attack, such as California Assembly Bill 1305, while also reviving and passing additional legislation that address low quality carbon credits and misleading marketing concerning them, such as California Senate Bills 390 and 1036.

Scrutinise trade association engagement

Trade associations represent memberships that include powerful fossil fuel companies. Evidence presented in this report and our previous Oil Spill report illustrate that associations such as the International Emissions Trading Association (IETA) and the American Petroleum Institute (API), the Western States Petroleum Association (WSPA), and the California Chamber of Commerce (CalChamber), command substantial financial resources and have repeatedly advocated policy positions that seek to weaken, delay, or block measures designed to strengthen rules governing carbon credit quality, transparency, and limits on their use.

Given this track record, regulatory authorities and standard-setting bodies, including the Commodity Futures Trading Commission (CFTC), the California Air Resources Board (CARB), as well as voluntary carbon credit integrity initiatives such as the Integrity Council for the Voluntary Carbon Market (ICVCM) and the Voluntary Carbon Markets Integrity Initiative (VCMI), should be cognisant of these conflicts of interest and take action to tackle them when engaging with trade associations and considering their policy input.

In particular, these bodies should recognise that feedback and recommendations submitted by trade associations reflect the commercial interests of member companies. Policymakers should therefore critically assess such contributions against independent scientific evidence and public interest objectives, ensuring that rules governing carbon credit quality, eligibility, and use are not unduly shaped by vested interest groups.

End the use of carbon credits as a substitute for decarbonisation

All companies, especially oil and gas companies whose business practices depend on the continued extraction, production and combustion of fossil fuels should stop relying on carbon credits to promote climate progress or using them as a cheaper compliance option for direct emission reductions. They should instead prioritise driving deep emissions reductions across their entire operations and supply chain and channel substantial financial resources into renewable energy.

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