5 reasons why funding climate action is good for business

Companies like yours are facing increasing pressure to take meaningful action on climate change. Often the focus is on decarbonisation — as all companies should be investing in and working towards emission reduction targets today, as part of a science-aligned net zero strategy. But decarbonisation is not the only piece of the credible climate action puzzle...

Experts, including the Science Based Targets initiative and others, agree that while companies are decarbonising, they should also compensate for their emissions today by investing in high-quality carbon credits. Carbon credits are an essential mechanism for achieving global net zero, protecting nature, supporting communities and funnelling critical investment to projects that would otherwise not get off the ground.

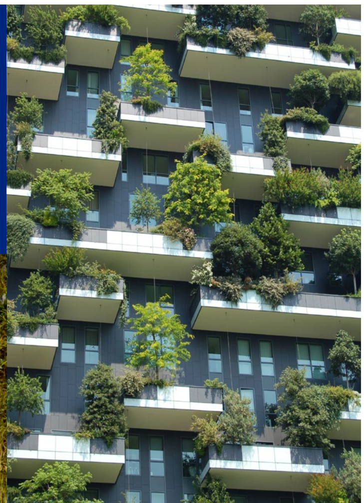
But companies face a challenge here. With limited budgets, how can they effectively invest in multiple climate action initiatives that deliver impact? And with the voluntary carbon markets receiving some critical coverage in the media recently, is it even worth doing? The answer is yes - and here are 5 reasons why:

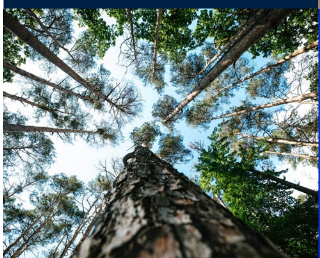
01

Understand the cost of carbon

02

Drive decarbonisation by knowing your emissions





03

Get ahead of compliance

04

Hedge against price rises

05

Gain a competitive advantage

Who is buying carbon credits?

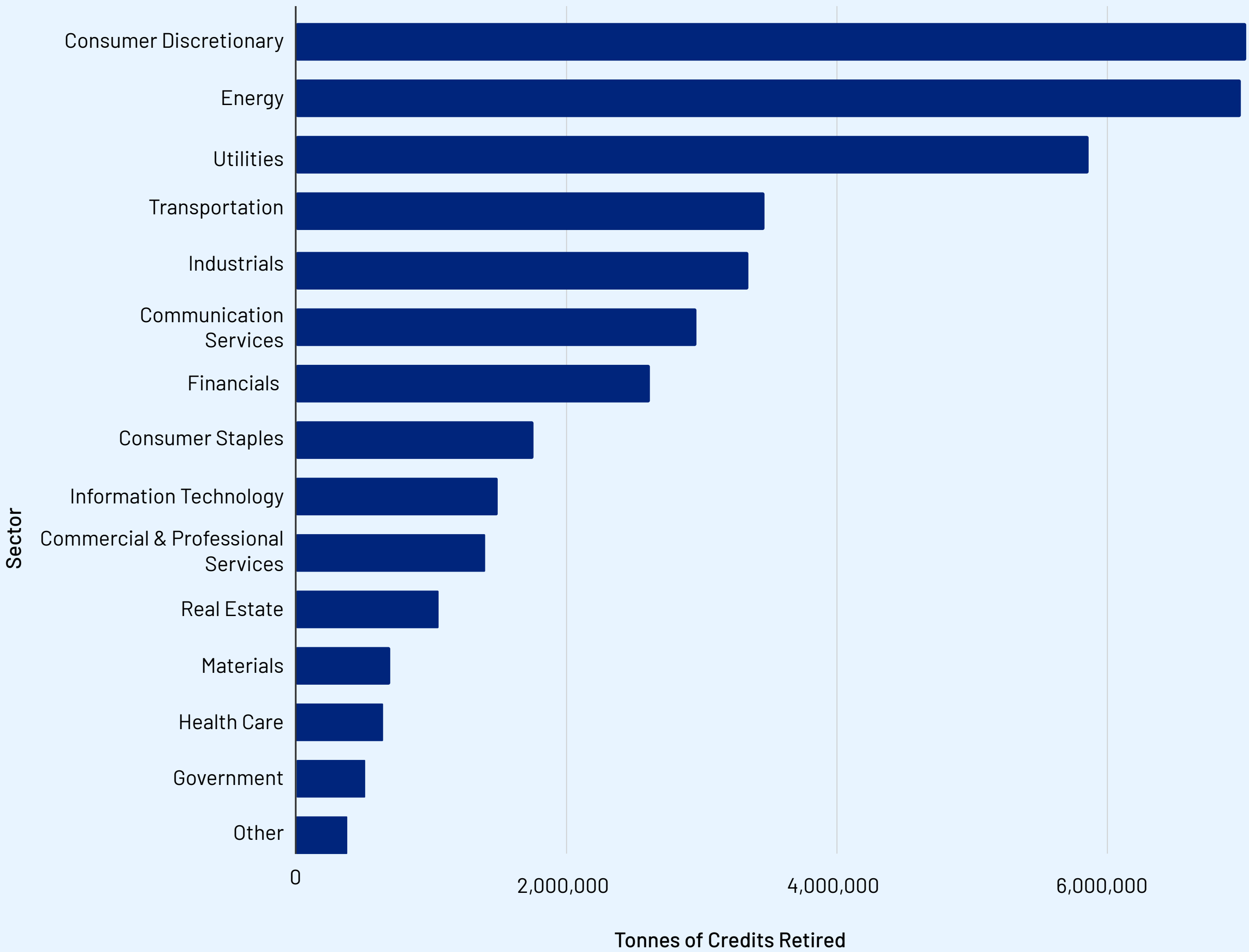
Most medium and larger companies agree that carbon credits are important to address the unabated emissions which they are not yet able to eliminate or neutralise. That view is reflected in action, with over 93 million tonnes of carbon credits retired globally in the first half of 2023.

The chart below shows that companies of all types are active in the carbon credit market already in 2023. The most activity is occurring in the consumer discretionary sector — which includes fashion, electronics, travel and online retail — likely driven by increasing pressure from consumers. High-emitting sectors like energy, utilities, transport and industrials are taking action too, along with service-based sectors. So no matter which industry you are in, your competitors are already realising the benefits of investing in carbon credits.

93 million

tonnes of carbon credits retired globally already in 2023

Volume of Credits Retired in 2023 up to June across Industry Sectors



Volume of carbon credits retired in 2023 up to end June across industry sectors, based on retirements where company information is available (approximately 43% of total retirements)
Source: South Pole analysis of six publicly available carbon credit registries

As well as being critical to tackle climate change, funding climate action by purchasing high-integrity carbon credits also makes business sense. Here's why:

01 Understand the cost of carbon

The world is waking up to the environmental cost of greenhouse gas (GHG) emissions, but to really make it meaningful for companies, it needs to come with a financial cost too. For most companies, the only way to understand the cost of their historical and future emissions is to introduce an internal carbon price. One way to do this is by procuring carbon credits to pay a price per tonne of GHGs emitted. This means your emissions can be measured and reported alongside other business costs and their impact on the bottom line is visible.

Taking this action creates awareness of emissions and the cost of carbon with senior stakeholders, and helps ensure the company is factoring this externality into business decisions. Research by CDP shows that the number of companies that are either using or planning to use an internal carbon price has increased by 80% in only five years. Nearly 50% of the world's 500 largest companies are part of this trend.

80%

increase in companies setting an internal carbon price

02 Drive decarbonisation by knowing your emissions

You can only manage what you measure — and typically before buying credits, companies will complete an inventory of their emissions and build a complete picture of their footprint. Then by purchasing carbon credits and putting a price on carbon, you can see what your emissions are costing your business. This becomes an immediate incentive to lower emissions over time and thus avoid this compensation cost. The business case for investing in reduction activities becomes much more compelling when there is a clear financial cost of inaction.

While critics say that carbon credits are used by companies to cover the fact they are not reducing emissions, research is increasingly disproving this. Recent studies from Trove Research and Sylvera indicate that companies using carbon credits are actually decarbonising at twice the rate of companies that do not.

2x

faster decarbonisation rate for companies buying carbon credits

03 Get ahead of compliance

Carbon taxes and schemes have ramped up since the Paris Agreement — emissions covered by carbon pricing grew from 7% to 23% in the past 10 years. With more countries prioritising climate action, regulation could affect your business in the very near future. So you can sit back and wait until then, or you could take steps now to be ready.

The links between voluntary and compliance markets are already forming with some domestic schemes, such as the Singapore Carbon Tax and Australia's Safeguard Mechanism, allowing companies to use carbon credits created for the voluntary market under international certification schemes (subject to specific eligibility criteria) to help meet their requirements. Airlines that will need to comply with the aviation sector carbon pricing scheme CORSIA can also voluntarily compensate for their emissions with carbon credits now ahead of mandatory participation from 2026.

Setting an internal carbon price is key for being prepared for future compliance. This will help to incentivise the reallocation of resources toward low-carbon activities and drive the business case for green investments to reduce future exposure. Knowledge will also be valuable — carbon markets are complex and it can take time to learn how to procure credits that are high quality, meet your budget and align with your other strategic priorities. Build your confidence, capacity and business readiness by starting today.

23%

of global emissions already covered by carbon pricing regulation

04 Hedge against price rises

Carbon credits are generally increasing in price as the market evolves, quality increases, supply reduces and demand grows. While this is positive for the projects generating the credits because they receive more funding for their efforts to tackle climate change, it's an obvious risk for companies engaging in (or planning to) the voluntary carbon market. According to a new study by PwC, FTSE 350 companies spent £38 million on voluntary carbon credits in 2022. However, based on current pricing models, PwC calculates this total cost could increase by 256% by the end of the decade.

There are many commercial structures available for procuring carbon credits, including forward purchasing for multiple years or investing directly into projects. These options can provide some price security for your carbon credit needs, minimising risk and allowing you to retain budgets for decarbonisation activities. Now is the time to speak to an experienced carbon credit provider who can help you explore these options and be prepared for future rising prices.

256%
forecast increase on carbon credit spending by corporates

05 Gain a competitive advantage

Investing in carbon credits alongside your decarbonisation efforts shows that your company is serious about climate action. And right now, while it's voluntary, you can use this action as a proof point in your sustainability story to engage customers and your employees. This can set you apart from your competitors and unlock competitive advantage. A recent survey of Australian consumers found that 84% want to see businesses take serious action on climate change and 78% of customers consider a brand's social and environmental actions when making a purchase – a trend which is increasing globally too. Carbon credits have a role to play here, with consumers being willing to switch brands if they can offset their purchases.

How you communicate about your climate action is critical to ensure your reputation is boosted. South Pole's own analysis of almost 70,000 company climate claims found that corporate climate commitments are still extremely flawed. Key climate communication principles to follow, especially when communicating about carbon credits, are transparency, authenticity, accountability and impact.

84%
of consumers want to see businesses take climate action

Where to from here?

The world needs companies to fund climate action by investing in high quality carbon credits. The points above show why 'good for the planet' can also mean 'good for business'.

If you're ready to discuss your carbon credits requirements or need help developing a carbon strategy to inform your future procurement, we can help. As well as having one of the broadest portfolio of climate action projects globally, South Pole also supports you with:

- Building robust compensation strategies on the way to a net zero target aligned with SBTi.
- Benchmarking your existing portfolio against best practice and selecting the right portfolio of climate projects that are aligned with your corporate values and value chain.
- Training you and your team with workshops on project development, climate claims and trends within the VCM.

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