# The Carbon Credit Movement – how investors can take advantage of the new ESG currency

“Coin of the realm” is a term that describes whatever is valued as money in a particular sphere. In the EU it’s the euro, on the dark web it’s bitcoin, in politics it’s power.

In the ESG world, the coin of the realm is the carbon credit, a unit that represents 1 metric ton of carbon dioxide. If you are a farmer planting crops that will absorb 10 tons of $CO_2$, you can have this verified by an independent third party and you’ll be able to sell 10 carbon credits at the prevailing market price. If you own a coal-fired power plant emitting 10 tons of $CO_2$, you may need to buy those 10 carbon credits to remain in compliance.

Compliance in the carbon world is enforced by both a carrot and a stick. The stick is administered by regulators who monitor carbon emissions and fine bad actors. Increasingly, a stick is also wielded by institutional investors, who are leaning on their portfolio companies to adopt climate change measures. This is the mission of the Net Zero Asset Managers Initiative, which includes Blackrock, AXA, Wellington and 27 other managers representing $9 trillion.

On the carrot side of compliance, individuals and companies are voluntarily buying carbon credits for various reasons. Some do it for PR value, some are speculators, and some are genuinely trying to save the world.

Why should you care? Because the carbon credit market, which evolved in fits and starts over the past 15 years, is now growing exponentially. Today carbon trading frameworks (also called cap and trade programs) exist in the EU, China, California, parts of Canada, and a consortium of 11 states between Virgina and Maine that is called the RGGI (Regional Greenhouse Gas Initiative).

The numbers are a wake-up call. Carbon credits grew 164% in 2021, to a notional value of $851 billion. According to Earth.org, the market is projected to grow 30X by 2030 and 100x by 2050. If these projections are correct, by 2030 the carbon credit market will be equal in size to the NASDAQ stock market.

And while the growth stats are notable, the numbers that really catch the eye are performance-oriented: in 2021, the IHS Market Global Carbon Index was +108%, the EU market alone was +138%, and the California market was the laggard at +73%.

What is driving these eye-popping returns? A big part of it is growing awareness, but more important are the structural features of carbon trading markets. Each market is set up so the annual cap on carbon emissions declines every year, and the minimum price per carbon credit rises every year. Remarkably, this means that growing demand and higher prices are baked into each program.

How can we participate in this unique market? The simplest way is to buy ETFs that own carbon credits. These provide the benefit of diversification, which is especially important in early-stage markets. A brief list to investigate includes: GRN, KCCA, KEUA, KRBN, CRBN.

A second option is to buy shares in a carbon streaming company. These look like their cousins in the mining world, except they fund projects that will absorb CO2 in exchange for some or all of the future carbon credit revenue. There are several of these in the works, but at this point only one, Carbon Streaming Corporation (NEO: NETZ | OTCQB: OFSTF) is actively trading.

A final trading option is the futures market, where the ICE and CME both offer carbon trading contracts.

While many don’t yet realize it, carbon credits are set to become a central fact of life in the new green economy. Larry Fink, the CEO of Blackrock, recently speculated that “the next 1000 unicorns will be those that help the world decarbonize and make the energy transition affordable for all consumers.” Many of those unicorns will be focused on carbon credits, the coin of the realm in ESG.