

REDUCTION IN CARBON EMISSIONS CAN BECOME AN ASSET FOR COMPANIES

2023



Introduction

Businesses may begin to understand where most of their emissions come from when they assess their carbon footprint. Once these emissions are identified, businesses may take steps to reduce the amount of carbon their activities emit.

Reduced carbon emissions are beneficial to the environment. As more firms assess their emissions trends and take actions to reduce their carbon impact, global warming can be delayed.

Not only can monitoring and reporting carbon emissions aid enterprises in environmental preservation, but it may also enhance company operations and, in certain situations, is required for bigger organizations.

Investors esteem companies that are transparent about the sustainability of their business practices. When researching firms to invest in, these investors look at environmental statistics. Companies that are environmentally responsible appear to be less risky because they are better equipped to respond to changing business rules and resource constraints.

Lesser the emissions - more the assets

Government-mandated emissions reporting puts pressure on huge corporations, and the public may see the trajectory of their emissions. Companies now have a greater motivation to publish the lowest feasible emission levels, boosting their public image.

As global opinion on sustainable business practices continues to shift in favor of businesses that understand their environmental impact, organizations of all sizes should consider tracking their carbon footprint in order to please their client base and investors while also adhering to local law regulations.

Carbon offsets are simply a tradeable certificate proving that one - of CO₂ or the equivalent quantity of another GHG has been removed from (or is not being released into) the atmosphere.

One carbon offset = one metric ton of carbon or other greenhouse gas (GHG)

The compliance carbon market is where carbon credits are exchanged. Many nations and states have enacted "cap-and-trade" policies, which restrict the amount of CO₂ emitted by businesses in a given year. Carbon credits are assigned to these tonnes.

Even firms that work hard to reduce their carbon footprint may discover that the assigned emissions "cap" is insufficient for their activities. They may be years away from significant and complying pollution reductions, but they must keep operations running to earn a profit in the meanwhile. As a result, they must find a means to exceed their carbon quota without breaching the law.

When a firm reaches its emissions quota, it looks to the compliance market to "trade"—that is, to trade money for another company's credits.

The voluntary carbon market operates in a very different manner. Participation in the VCM is voluntary, as the name implies. It is a site where businesses and people may purchase carbon offsets to offset their carbon footprints.

This sector is largely made up of companies that care about the environment and aim to offset their carbon footprints voluntarily. It may be a company that wants to demonstrate to its consumers that it is doing its part to protect the environment. Alternatively, it may be someone who wants to offset the carbon footprint of their flight.

Regardless of who is purchasing offsets or why they are purchasing offsets, they are seeking a means to minimize their carbon footprint. As a farmer, rancher, or landowner, and even as a micro, small, and medium-sized enterprise (MSMEs), you may sell carbon offsets on the voluntary carbon market, producing an extra (and often large) source of revenue.

With sustainability gaining traction around the world, India's MSMEs can play a significant role in preventing rising carbon emissions by incorporating environmental, social, and governance (ESG) measures into their business models

According to market insights, carbon dioxide emissions from fossil fuels and industrial processes in India grew 11% in 2021 to a new high of 2.6 billion metric tonnes. To cut carbon emissions, India submitted its long-term low-emissions growth strategy at the COP27 summit in November last year, identifying low-carbon transition routes in key economic sectors.

Carbon credits, also known as carbon offsets, are quantifiable reductions in emissions from verified climate action programs. They work to decrease, eliminate, or avoid greenhouse gas emissions. A carbon credit grants permission to emit one metric tonne of CO₂.

Carbon credits can be transferred freely or as part of a legal framework in a carbon market. A corporation that buys carbon credits funds programs that remove CO₂ from the environment. This reduces the company's carbon footprint.

Carbon credit value or price changes in voluntary markets due to the economy's supply and demand. Current regulations allow for the international transfer of carbon credits. Carbon offset costs are now unsustainably low and must rise dramatically to stimulate increased investment in new projects that remove carbon from the environment.

Companies might be accused of greenwashing their emissions if prices remain low, as true emissions reduction and carbon removal are more expensive than today's costs. However, price differences will occur due to changes in supply and demand among nations. A carbon credit will be worth between \$40 and \$60 for every metric tonne of CO₂ deposited in 2023.

It is vital to note that as more organizations commit to net-zero targets, demand for carbon offsets will certainly increase. This might result in a rise in the cost of carbon offsets.

However, over the next decade, the voluntary market will provide a valuable financing mechanism to support the protection of existing forests and the restoration of degraded habitats, providing immediate climate and biodiversity benefits while other carbon-removing technologies are scaled up.

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