

Sustainability Now Podcast

“Carbon Markets Seem Static. Prices Don’t”

Transcript, 23 January, 2026

Bentley Kaplan

Hello and welcome to the weekly edition of Sustainability Now, the show that explores how the environment, our society, and corporate governance affects and are affected by our economy. I'm Bentley Kaplan, your host for this episode. And on today's show, we're going to take a look back at how carbon markets performed in 2025. Because while the value of the primary global carbon credit market has held steady, there were some really interesting changes to do with credit price and quality – changes that may give us a clue about how the market will develop in the years ahead. So, thanks for sticking around. Let's do this.

As the year ended and rolled into 2026, over 10,200 projects were registered across 18 major carbon credit registries that MSCI tracks. During 2025, 202 metric tons of carbon dioxide equivalent were retired. That means they were effectively used by a buyer, often a large corporate, to offset their emissions. It sounds like a lot, but the volume of retirements has been pretty steady since about 2020. And the same goes for the average prices of these credits.

In 2025, we estimated that the value of the primary carbon credit market was around \$1.4 billion, the same as 2024 and slightly lower than 2022 and 2023. But for what appears to be a relatively static market, there is a lot happening if you look a little closer. To do that, I've got Nicholas Baldwin and Utkarsh Akhouri. Nick leads our efforts on carbon credit pricing and Utkarsh leads our carbon markets forecasting team. So really, there ain't many other people you need to be talking to.

Now Nick, my first question is going to be for you because if we look at both retirements and overall carbon credit prices, we see that things kind of remained steady. And in a year like 2025, maybe you take a look at steady overall and you bank it. But your team actually found that there are some clear trends happening underneath these top-line numbers. So why don't you tell us a little bit about what you found there?

Nicholas Baldwin

Exactly. As you say, we've seen that the overall market value and market price in general has been broadly flat, but there are higher prices for certain types of carbon credits within that. And the clearest one that we've seen is a real price premium for higher rated projects, so projects that have higher environmental integrity. We've seen that price premium over lower rated projects just rise and rise through the year. We've got actually two MSCI indexes that track both the higher rated slice of the market and the lower rated portion of the market. And that spread between those two indexes has just widened and widened until it's around a 360% premium at the end of the year for the higher rated projects.

Another couple of areas to pull out is credits that are eligible into the CORSIA Scheme for aviation, which is a kind of a semi-compliance scheme whereby airlines are required to buy certain types of carbon credits. And those credits that are eligible into that scheme have priced materially higher than all sorts of credits that are not eligible into that scheme. Other interesting areas include REDD+, which are credits associated with avoiding emissions from deforestation. Those credits

had really fallen out of favor a couple of years ago following some negative media attention, but they've come back into vogue this year. And prices have really started to recover there with, again, a really particular differentiation by quality as measured by ratings. So I think those are the key areas to pull out underneath that headline overall flat number.

Bentley Kaplan

Okay. So you mentioned this kind of pricing divergence between higher and lower quality credits, something that isn't obvious if you're looking at the overall average prices. Can we just deal with this idea of quality first or carbon credit ratings? It's not necessarily something that everyone will be aware of. If you're out there as a sort of generic compliance buyer for a company, ton for ton, isn't there a temptation to kind of opt for cheaper credits if you can? What's the appeal of quality here?

Nicholas Baldwin

When we think about quality, it's really a recognition that not all carbon credits are created equal. A ton is not a ton, is not a ton. And the question we're trying to answer really is, what is the integrity of the claims made by that carbon credit? To what extent is that emissions reduction or removal of emissions credible? So we think about is it additional is a key question. To what extent would this project have happened in the absence of carbon credit finance? How well is it quantified? And are there any risks to reversal of those emissions removals, for example, so the permanence of that activity. But there are many more attributes that feed into this as well in giving a kind of overall view of what is the quality of that carbon credit.

Bentley Kaplan

Okay. So it's this idea that a ton of carbon also has an asterisk linked to it. So how that carbon's being removed or stored has several implications, and buyers may have either certain views or requirements about the projects themselves.

So Utkarsh, let me bring you in here because market perception is a pretty big deal, right? We can set up a rating system for carbon credits or projects based on some of the categories that Nick has touched on, but whether or not the market engages with this idea is another topic altogether. So from where you sit, the kinds of conversations maybe that you've had, what would you say about the concept of quality for carbon markets generally?

Utkarsh Akhouri

I would probably focus on the quality points which Nick mentioned. I think permanence, co-benefits and delivery risk are these three factors within quality that most of the buyers we talk to or investors who are investing in the projects are really focused on. And those are really important in creating that differential between high-quality and low-quality projects. Especially permanence and co-benefits because permanence is a very big question, which I think Nick mentioned that it's about likelihood of emission reduction or removal being later reversed due to natural risk or human risk.

So, understanding the permanence of our credit and understanding what kind of delivery risks are there, plus what kind of co-benefits these projects are providing helps us get into the position where how much premium does a high-quality credit command or a low-quality credit? And that helps us to understand how the market size for these two different market segments, high quality and low quality, play out in the short and long term.

Bentley Kaplan

Okay. So we've got this idea of credit quality, not all projects generating equal carbon credits. And Utkarsh, you point to permanence, co-benefits, and then delivery risk as being pretty common focal areas for buyers. The market's rewarding higher quality credits with higher prices,

and this is all kind of accelerating. Before we get to the question of where this is headed, what it might mean for the carbon market more generally, Nick, I wanted to ask you about why you think we're seeing the split in 2025 specifically. What is it about right now that might have led to pricing aligning with credit quality more aggressively, to put it that way?

Nicholas Baldwin

A lot of it relates to media scrutiny that it really picked up pace a couple of years ago. And companies thinking about the negative media risk really encourages more careful behavior. So, a lot of them have a real increase in the list of requirements that they have before considering investing in a carbon credit project or assessing its quality. At the same time, you've got market-wide quality initiatives starting to take hold, things like the Core Carbon Principles, which is picking up pace a little bit.

And also, ratings. So, the wider market adoption of ratings really brings this sort of quality information and makes it more accessible to people because a lot of people engaging with this market aren't necessarily experts in carbon credit methodologies. It's quite hard as an outsider to answer the question, what makes this credit different from this other credit? And so that adoption of ratings makes that information a lot more accessible. And so as we see that adopted, we start to see the price differentiation reflecting that.

We see lots of interesting other bits of buyer behavior, much, much more lengthy due diligence processes, and it's all related, I think originally, to being conscious about the media risk associated with getting involved in carbon markets.

Bentley Kaplan

So just for listeners, Nick, the media coverage that you mentioned there, that happened in early 2023 where we saw some major news articles that questioned the claims of climate impact from REDD+ projects in rainforests where the credits were said to have helped avoid deforestation. So while there was fallout for the project developers and the verifiers, what you're pointing to here is that the scandal also affected large corporates that had bought these credits to offset their emissions. So you have this kind of reputational risk on the one end. And then you also mention in the same year, you also have the Core Carbon Principles coming out, which are 10 kind of categories that were developed by the Integrity Council of the Voluntary Carbon Market to help define credit quality and better ensure that a credit's linked to a verifiable climate impact. They've really helped to have an independent benchmark for the market. And in combination, the reputational risk on the one end and the clearer things to aim for on the other, they might have helped paint the way forward.

So Utkarsh, let's bring you in for my last question, which is very much about the way forward. A lot of market players will want to know whether they can read anything into these results. Is the market bound to sort of keep this price differential, but stay relatively small? Is there any reason to expect the market to grow? And then more practically, if you're, say a project developer, does this help provide some assurance that working on higher quality projects that demand more might ultimately yield better prices, or maybe that rising demand could even be used to de-risk these new projects in the development phase through the use of something like offtake agreements.

Utkarsh Akhouri

Retirements have been largely flat. And when I say retirements, that's the main indicator for demand. We quantify demand based on how many credits have been retired in a year. And if you look at the last four years, they've been largely at the same level. But one thing which is very interesting is that if you look beyond the numbers and look at the trends, there are a couple of trends which are coming up very strongly.

One is that there's been an increase of nearly 70% of more companies in the last 12 months that have signed up to the Science-Based Target Initiative. If you're committed to that

initiative, you're going to use high-quality credits. So, if that commitment number is increasing amongst the corporates, that means that you'll see the size of the credit high quality market growing up over time.

And the second trend is there are new sources of demand coming in the market. So there's a program for the aviation sector, which is called CORSIA, Carbon Offsetting Reduction Scheme for international aviation, and it's kind of a quasi-compliance scheme. So it's not just voluntary. There's some kind of enforcement by governments and the International Civil Aviation Organization, ICAO, as well, if the aviation industry is participating in it, which means that there are more stronger signals of demand coming in.

And also CORSIA has a lot of eligibility factors for the credits to qualify in that specific market, which is also a mark of quality. So you can see the couple of trends clearly pointing that in the near term, the demand would, or the quality of the demand would pick up and the market size would be stronger.

If I look at the long-term scenarios, MSCI has a long-term morning product. And we look at output until 2050, and we see a strong divergence between that low quality and high-quality markets by 2050. So from 60 billion to 270 billion, 270 being the high-quality market size. And that is based on the growing importance of removal credits, which are considered to be high quality. So more forestry credits, more credits on forestation, improved forest management, and more credits on the engineered solutions like direct air capture and biochar, which are very expensive credits. But because of their high-quality nature and their permanence and other qualities, the usage is expected to grow over time, and that might create the divergence that you have a very high-quality market in the long term as well.

Bentley Kaplan

And that is it for the week. A massive thanks to Utkarsh and Nicholas for their take on the news with the sustainability twist. If you want to read more about the state of carbon markets, my lovely guests have co-authored a blog with Will Zimmerman, Guy Turner, and Jamie Lambert, titled Carbon Credits Come of Age in 2025. It's up on our website, msci.com for all and sundry to read. I also do want to say thank you very much for tuning in. It is great to be back in a new year, and we have some awesome content lined up for the next few months. You know the deal. If you like what we're doing, then let us know. Drop us a review, rate the show on your platform of choice, and tell a friend or colleague about this very episode. Thanks again, and until next time, take care of yourself and those around you.

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