From risk to reward

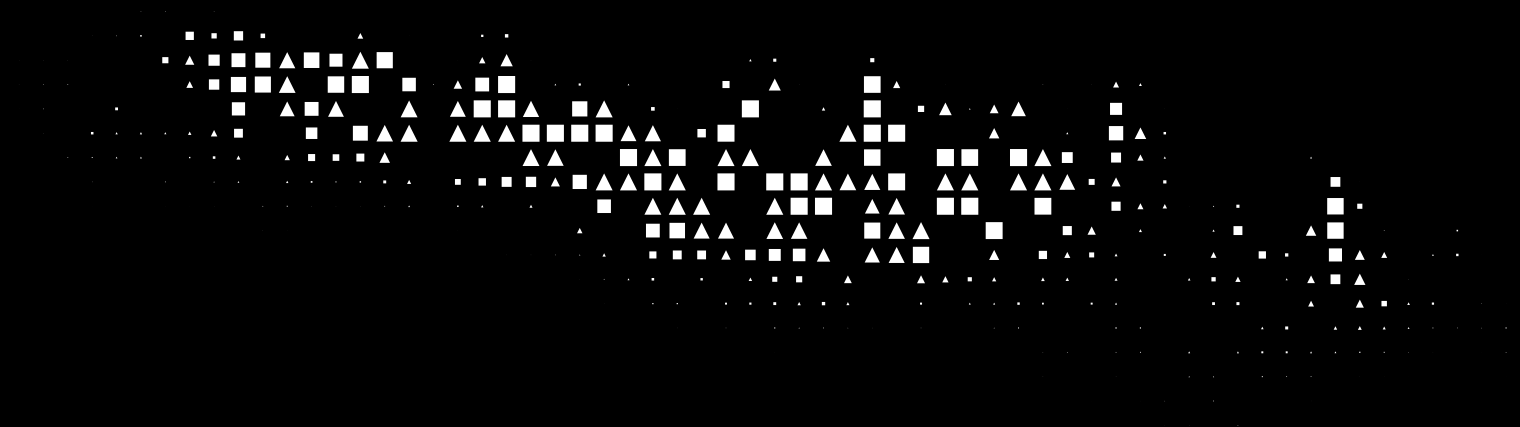
Making the UK the carbon markets capital of the world

BeZero

BeZero Carbon is a carbon ratings agency. We equip world-leading organisations with the knowledge, tools and confidence to make better climate decisions. Our aim is to scale investment in environmental markets that deliver a sustainable future.

Our offices are in London, New York and Singapore. With a 180+ strong team made up of climate scientists, geospatial experts, data scientists, financial analysts and policy specialists, and global partnerships with local experts and world-leading research institutions, our ratings and risk tools can help you make risk informed decisions on carbon projects of any type, at any stage, anywhere in the world. Our analytical frameworks are deeply sector nuanced and bring to the fore our extensive experience in rating hundreds of projects across dozens of sub-sectors.

Our platform, BeZero Carbon Markets, hosts the most comprehensive database of rated and unrated carbon projects across all major accreditors, sectors, and regions to help all participants price and manage risk. Ratings are also available for display on third party carbon exchanges and marketplaces. Headline letter ratings and ratings summaries are publicly available on our website at bezerocarbon.com/ratings/listings.



FOREWORD

There's a simple question at the heart of this report: What if the UK stepped up?

Not just in ambition, but in action. In building a carbon credit market that works, and exporting this to the world. The UK has history here. We built the world's first national emissions trading scheme. We are home to many of the most dynamic and innovative firms in the global carbon market. We've seen businesses attract tens of millions in investment to help define the rules of the game. But leadership doesn't last by default. Other nations are going further and moving faster to bolster this market and embrace this opportunity.

Today, carbon credits are seen as controversial. Companies that buy credits voluntarily are exposed to more reputational risk than those which take no action at all. But today's carbon market is not that of five years ago. We have the tools to mobilise unprecedented capital into climate solutions that deliver for people and planet.

Here's what decisive action now could deliver for the UK within the next decade:

1. 135,000 skilled jobs, delivering £1 billion every year in tax revenue
2. Mobilising the private sector to meet our national targets for carbon removal
3. Private finance leveraged at the scale of today's aid budget for global climate impact.

The infrastructure exists. The businesses exist. The demand is waiting.
But markets don't evolve on hope alone. They need signals. Incentives. Political will.

But right now, the incentives are pushing us in the opposite direction.
The answer to this crisis of confidence isn't retreat — it's reform.

We set out four recommendations for the UK Government. Integrate nature-based and international removals into the UK ETS. Put your full weight behind a robust claims framework for corporates. Deploy carbon ratings to manage risk.
Use targeted regulation to unlock growth.

The blueprint is there. The real question is whether we choose to act on it.

Let's get moving.

Tommy Ricketts
CEO & Co-founder, BeZero Carbon

01

EXECUTIVE SUMMARY

A 2035 vision of the UK as the carbon markets capital of the world

IMPACT

Delivering for the UK economy

- Supporting a potential 135,000 high-skilled UK jobs, delivering an additional £1 billion in taxation income for the UK Exchequer.

Meeting the UK's climate targets

- Exceeding the UK's target for domestic engineered carbon removals of circa 13 million tonnes by 2035 and meeting the UK's target for domestic nature-based removals of circa 5 million tonnes by 2035.

Delivering on the global stage

- Channelling £10 billion per annum of private investment into high-impact international projects, close to the level of the UK Government's spend on international aid in 2024.

DEMAND

Demand for an estimated 500 million credits per annum, delivered through:

- All large UK businesses addressing their expected residual emissions at net zero (scopes 1, 2 & 3) through carbon removal credits
- All large UK businesses addressing their remaining ongoing emissions (scopes 1, 2 & 3) through carbon credits: both removal and avoidance credits.

INTERVENTIONS

- **Integrate nature-based and international carbon removals into the UK ETS**
- **Strongly incentivise alignment with a claims code such as the VCMI for large UK corporates**
- **Use independent carbon ratings to introduce guardrails against credit under-performance**
- **Introduce targeted regulation to unlock, not stifle, growth**

02

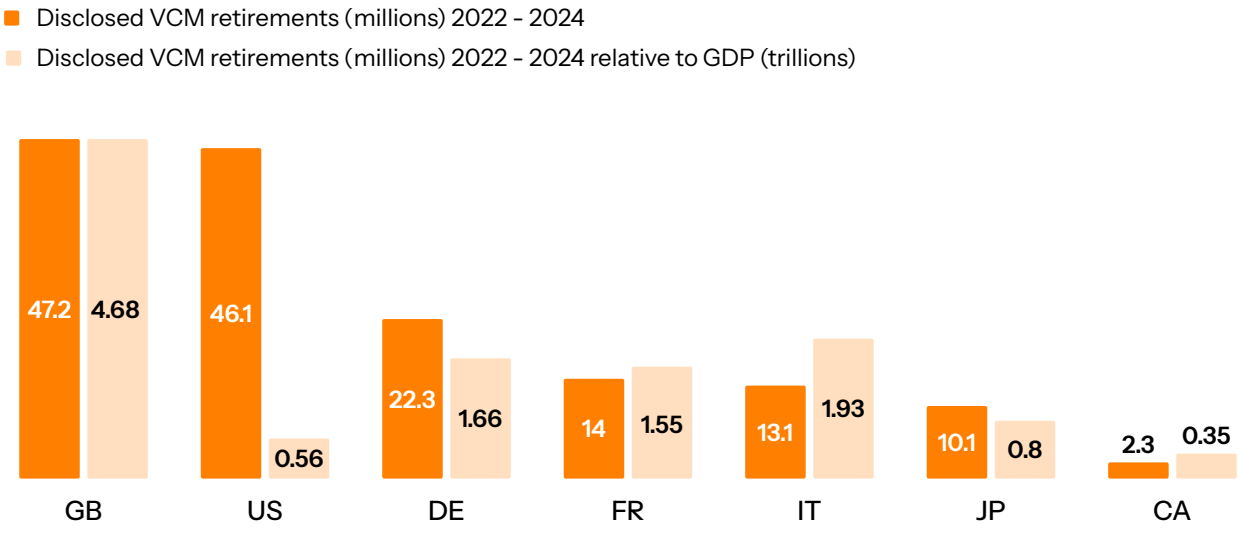
Carbon credits in the UK today

The UK has been a pioneer in the development of the global market for carbon credits. It has spearheaded many of the innovations that have laid the groundwork for these markets to thrive, across science, technology and market infrastructure. From a domestic policy perspective, the UK led the way on carbon pricing, establishing the first national greenhouse gas emissions trading system globally in 2002.[1] On the international stage, the UK has consistently been a positive diplomatic force in establishing global carbon market frameworks, such as the operationalisation of the Paris Agreement Crediting Mechanism at COP29.

Examining recent market activity, the UK leads the G7 in disclosed voluntary carbon market (VCM) corporate retirements - both in absolute terms and relative to GDP (see Figure 1 below). On the latter metric, the UK outstrips its nearest national rival by a factor of more than two. This tells us that, even through a period of economic instability and increasing attacks on corporate decarbonisation strategies, many UK-based businesses have continued to fund climate action through carbon credits.

From a supply perspective, the Government has put in place the frameworks to allow a flourishing ecosystem of carbon crediting projects to emerge. The Department for Environment, Food & Rural Affairs' Woodland and Peatland Carbon Codes provide methodologies for nature-based projects in ecosystems across the country, which have grown in number over recent years.[3] Looking to the future, contract-for-difference schemes such as the Government's industrial carbon capture and storage programme position the UK well to become a hub for engineered carbon removal solutions such as Bioenergy with Carbon Capture and Storage.[4]

FIGURE 1. DISCLOSED VCM RETIREMENTS (ABSOLUTE AND RELATIVE TO GDP) 2022 - 2024 FOR G7 COUNTRIES

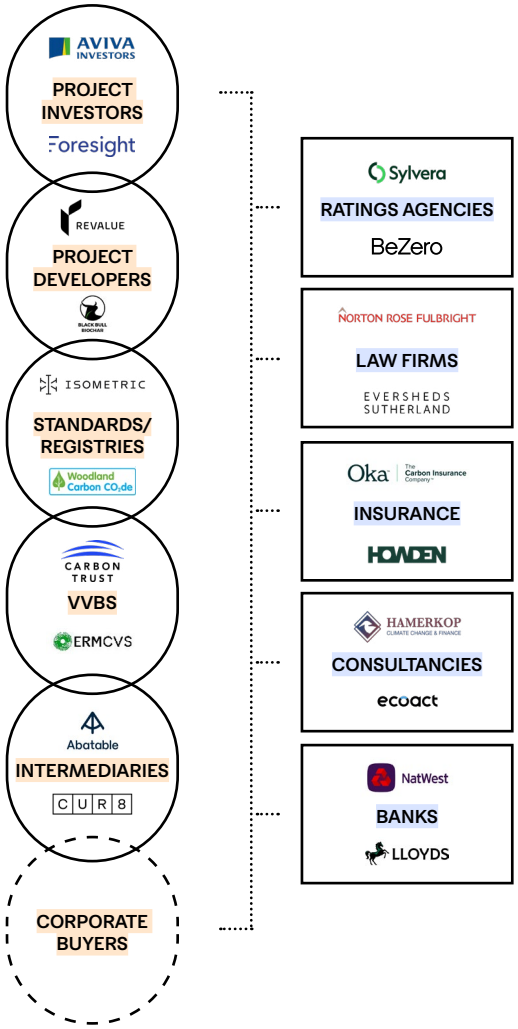


Sources: BeZero Carbon corporate retirements database drawn from major VCM registries; Statista (for GDP)

Internationally, the UK has invested in operationalising Article 6 - the UN framework that allows carbon credits to contribute to national climate targets - through its support of initiatives such as the Transformative Carbon Asset Facility.

As a result of this leadership from policy, demand and supply points of view, a dynamic ecosystem of UK-based carbon credit businesses has emerged. These companies serve not just the UK market, but export their services globally, with many being the pioneers and leaders in their respective fields. This includes project developers, technology providers, insurance firms, ratings agencies, standards bodies, law firms and more. Figure 2 provides just a small snapshot of some of the leading businesses in this ecosystem.

FIGURE 2. KEY ORGANISATIONS IN THE UK CARBON CREDIT MARKET ECOSYSTEM



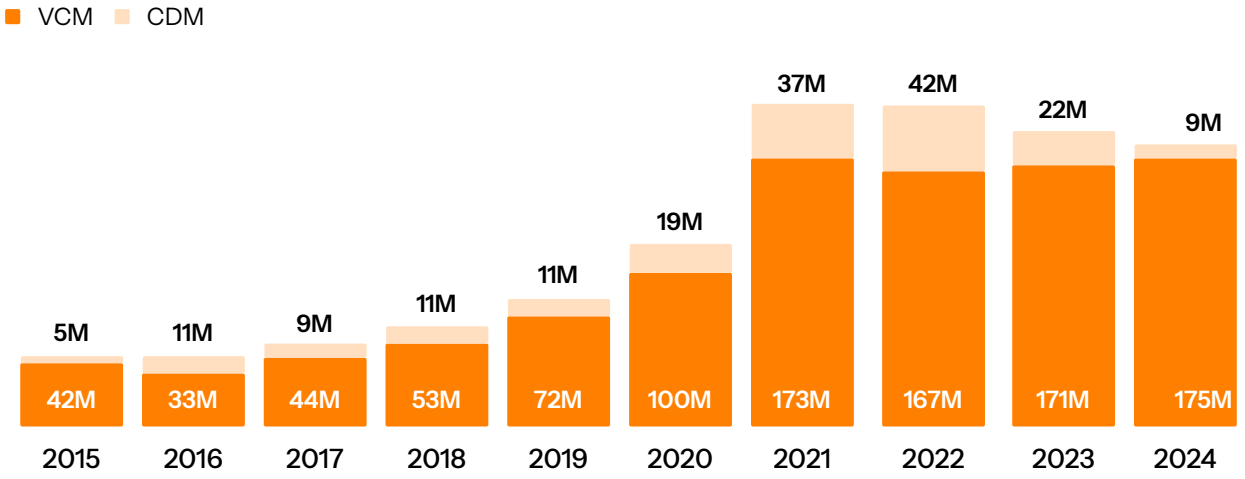
But what are the challenges?

Over recent years, the global carbon credit market has faced a crisis of confidence. The fallout from scandals regarding the integrity of credits has created a situation where companies that make well-intentioned investments in credits to compensate for ongoing emissions face more criticism than those that take no action. Demand has stagnated, as indicated by retirements remaining flat over recent years (see Figure 3).

While the UK leads among the G7 in voluntary international credit retirements, this must be contextualised against the broader context of relatively low overall market activity. We estimate disclosed credit retirements from UK corporates in 2024 to be around 18 million, compared with total UK territorial greenhouse gas emissions of around 371 million tonnes CO_2e.[5] Once the much larger scope 3 emissions impact of UK business activity is taken into account, this illustrates how far we are from truly compensating for our carbon footprint as a country.

Today, investing in carbon credits to compensate for ongoing emissions on the pathway to net zero is perceived as a riskier prospect than not doing so. In reality, the UK's carbon credit demand is driven by a handful of large corporates that are the exception, rather than the norm. That's billions in untapped capital left on the table that could otherwise be deployed into projects which reduce or remove emissions, alongside restoring nature, growing the carbon removals industries of the future and improving human health.

FIGURE 3. INTERNATIONAL CARBON CREDIT RETIREMENTS (VCM AND CDM) BY YEAR 2015 - 2024



Source: BeZero Carbon proprietary database drawn from major carbon credit registries.

In a report published last year, we estimated that a global carbon credit market with a transacted value of $100 billion could deliver over 1 billion tonnes CO_2e per annum of atmospheric impact, support 17 million jobs and restore 150 million hectares of land, among other benefits.[6] But to get there, the market must grow by around 100x: this will not happen without a fundamental change in incentives.

Governments must lead the way in creating this change. The UK Government is taking a step in the right direction with the launch of its consultation on voluntary carbon and nature markets.[7] But other countries are leaping ahead, taking real action now to stimulate demand and build carbon credit business ecosystems to rival that of the UK.

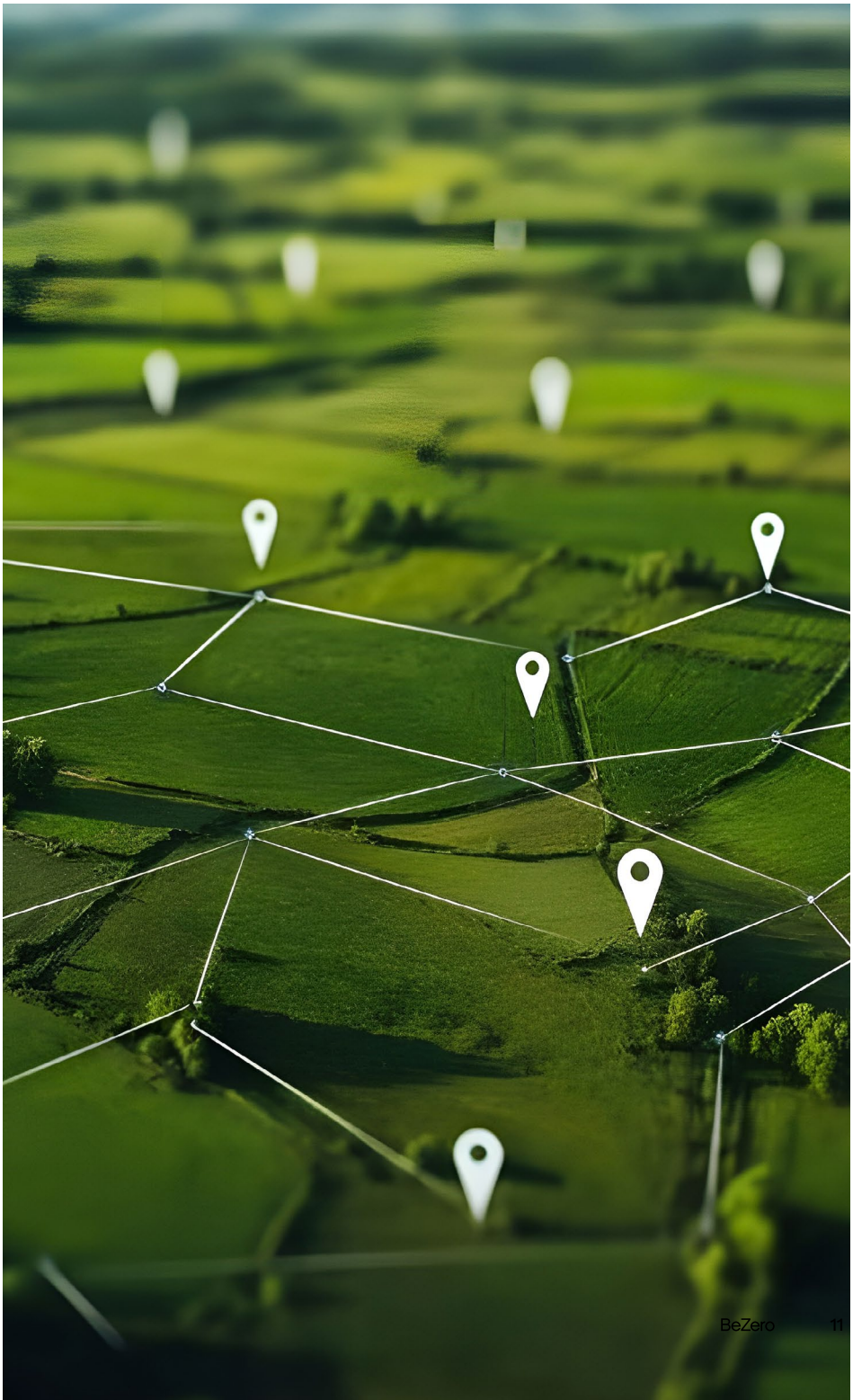
Caution is understandable given the historic issues with carbon credit markets, and a broadly sceptical media environment. But today's market is not that of five years ago. More robust and innovative monitoring, reporting and verification systems are available.

The Article 6 framework finalised at COP29 enables carbon credits to interact with national emissions accounting, guarding against double-counting. Carbon ratings and new insurance services, backed by the latest science and technology, offer a means of managing the risk of credits failing to deliver their stated emissions impact at a project-specific level. The UK Government can show the world how, by embracing these (largely UK-pioneered) innovations, confidence can be brought back and demand unleashed.

In this report, we put forward a vision of the UK in 2035 as the global capital for carbon markets, focussing on two key questions:

1. What are the tangible benefits of achieving this vision, in terms of impact on the UK's economy, carbon footprint and global standing?
2. How can this vision be delivered?

03



Vision 2035

The UK will not be the carbon markets capital of the world unless it unleashes homegrown demand for credits. In response to this demand, supply will scale (both domestically and internationally), and the ecosystem of innovative firms based in the UK which service the global market will thrive.

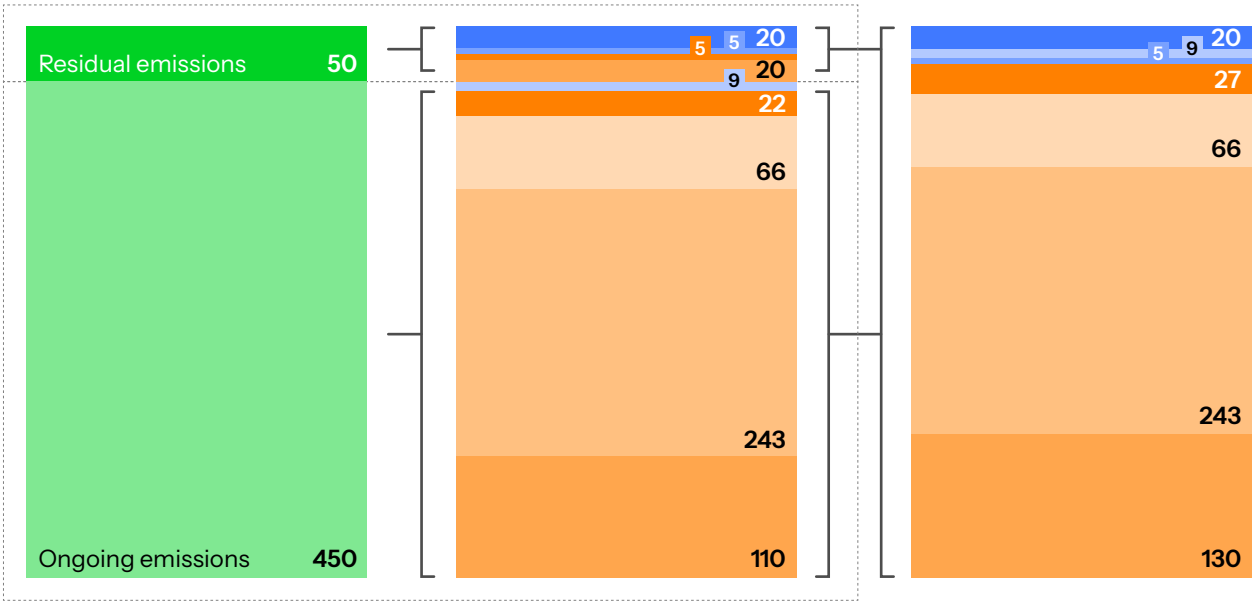
Our vision for 2035 is premised on the following assumptions holding true at this point:

1. All large UK businesses address their expected residual emissions at net zero (scopes 1, 2 & 3) through carbon removal credits.
2. All large UK businesses address their remaining ongoing emissions (scopes 1, 2 & 3) through carbon credits: both removal and avoidance credits.

These are clearly somewhat simplistic assumptions, but are broadly grounded in companies aligning with best practice claims guidance put forward by the likes of the Voluntary Carbon Markets Integrity Initiative (VCMI). If we layer on top of this a set of plausible assumptions about the emissions footprint of large UK businesses in 2035, and where the corresponding demand for credits could be met - by location (UK vs. international) and type of credit (e.g. nature-based removals) - we can project the "state of" demand for carbon credits from the UK in 2035. This is set out in Figure 4.

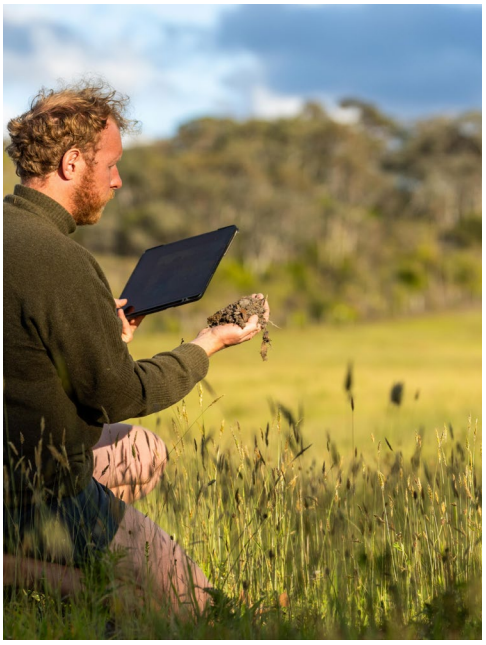
On the basis of this indicative projection, the following sections of the report explain the tangible benefits that could be delivered through such a market.

FIGURE 4: BREAKDOWN OF POTENTIAL DEMAND FOR CARBON CREDITS FROM LARGE UK BUSINESSES IN 2035



IMPACT

Delivering for the UK economy



135K

Supporting a potential 135,000 high-skilled UK jobs

1BN

Delivering an additional £1 billion in taxation income for the UK Exchequer

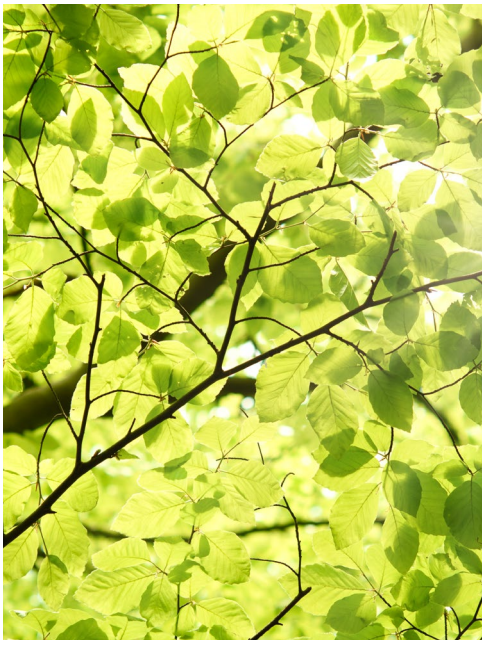
- **80K jobs in nature-based projects**
- **30K jobs in engineered carbon removal projects**
- **25K jobs in market infrastructure & services**

Based on our demand projection, we estimate that the market for carbon credits could support around 135,000 high-skilled UK jobs in domestic projects and services for the global market. Of this total, we expect 80,000 jobs in nature-based carbon projects: ecologists, farmers, foresters, rangers and more.[8] We estimate around 30,000 jobs in engineered carbon removal projects: engineers, construction workers, plant managers and more.[9] Finally, we estimate around 25,000 jobs in market infrastructure roles, serving not just the UK market but the global market: analysts, brokers, scientists, insurers, lawyers, consultants and more.[10]

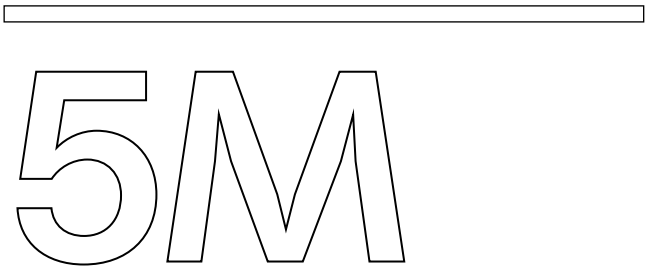
This level of job creation could equate to around £1 billion in additional income tax and national insurance for the UK Exchequer (at current prices).[11] This is larger than the Government's income from the much-discussed digital services tax.[12]

IMPACT

Meeting the UK's climate targets



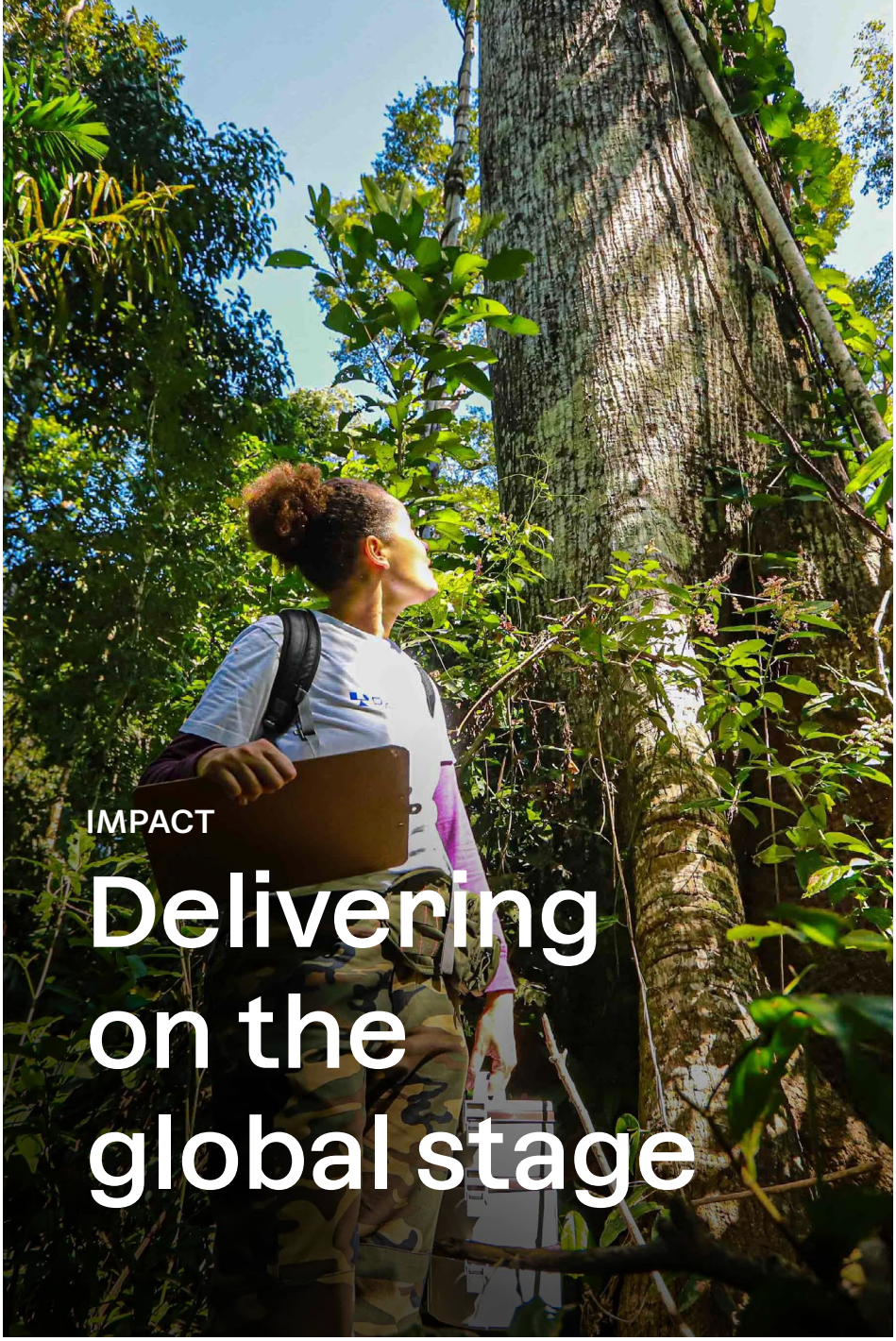
Exceeding the UK's target for domestic engineered carbon removals of circa 13 million tonnes by 2035



Meeting the UK's target for domestic nature-based removals of circa 5 million tonnes by 2035

Our projection would see the UK exceeding its target for domestic engineered carbon removals in 2035 of 13 million tonnes, as defined by the "Balanced Pathway" for abatement set by the Climate Change Commission in its 7th Carbon Budget published in February 2025.[13] Indeed, by reaching 20 million tonnes of demand for domestic engineered carbon removal credits in 2035, the UK would be close to achieving its 2040 target five years ahead of time.

Further, our projection would see the UK meeting its target for domestic nature-based removals (covering forestry, peatlands and other sources) in 2035 of 5 million tonnes. As above, this is the target as defined by the UK's 7th Carbon Budget.



IMPACT

Delivering on the global stage

10BN

Channelling £10 billion per annum of private investment into high-impact international projects, close to the level of the UK Government's spend on international aid in 2024

£7BN into nature-based projects

£1BN into clean energy, cooking and industrial projects

£2BN into engineered carbon removal projects

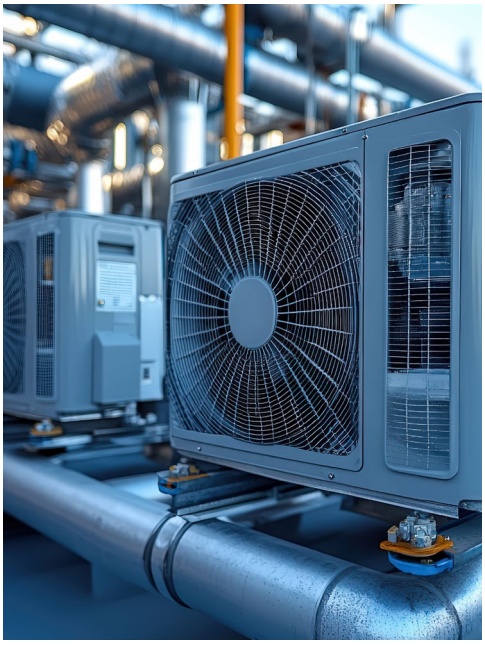
Our projection would see carbon credit demand from UK corporates mobilising vast amounts of capital into carbon projects beyond the borders of the UK - an estimated £10 billion per annum by 2035.[15] This is close to the level of the UK's internationally-spent aid budget in 2024, £11 billion (i.e. the UK Official Development Assistance budget, excluding the amount spent within the UK on support for refugees and asylum seekers).[14]

£7 billion into nature-based projects that restore ecosystems, deliver biodiversity benefits and protect indigenous communities. £1 billion into clean energy, cooking and industrial projects that accelerate the global transition from fossil fuels, reduce pollution and protect human health. £2 billion into engineered carbon removal projects that capitalise on natural resources and energy sources, promote innovation and create high-skilled jobs.

Embracing the use of international credits would also bring significant benefits to the UK. Lower land costs (for nature-based solutions) and access to cheap, abundant sources of clean energy (for engineered removals) mean that international credits are likely to represent a more cost-effective solution than domestic credits in many cases. Further, the UK can still benefit economically from international projects through investment deals, technology transfer, provision of services and market intermediation.

IMPACT

Turning vision into reality



We have demonstrated the significant benefits from which the UK stands to gain if it can cement itself as the carbon markets capital of the world in the next decade.

Job creation across the country. Incentivising the private sector to do the heavy lifting in financing critical carbon removal targets. Making a significant contribution to global sustainable development goals.

But this vision cannot be taken for granted. Turning this potential into reality will require the Government to show leadership and act decisively. The UK already has a world-leading carbon credit services ecosystem and a global reputation as a leader on climate action, finance and professional services. This is a great starting point, but to scale and deliver real impact will necessitate a fundamental shift in incentives: it must become more risky for companies not to invest in carbon credits than to do so.

The UK Government's consultation on voluntary carbon and nature markets represents an opportunity to tackle the challenges which are currently holding the market back and unleash demand. The Government must take rapid action following the consultation to deliver meaningful change.

Four key recommendations:

01 Integrate nature-based and international carbon removals into the UK ETS

WHY?

Unleash demand for removals from the largest industrial companies in the UK.

HOW?

The Government should integrate both nature-based and engineered carbon removals into the UK ETS, including high-quality international credits. There is huge potential for nature-based solutions to play a role in removals - indeed, the Climate Change Committee's own forecasting suggests that the UK must scale nature-based removals to meet its climate targets. Opening up to international credits via Article 6 would enable the UK to focus domestic investment into carbon project types where we have a real comparative advantage, and create commercial opportunities to export the capital, technology, and expertise needed to scale removals globally.

02 Strongly incentivise alignment with a claims code such as the VCMI for large UK corporates

WHY?

Make it the norm, rather than the exception, for large businesses to compensate for ongoing emissions through investment in high-quality carbon credits.

HOW?

The UK Government's consultation points towards options for implementing this recommendation - formally recognising the VCMI and integrating it into Government-led guidance. But will this be sufficient? The Government should go further by introducing strong financial or commercial incentives, including penalties if needed, to incentivise universal adoption of a carbon credit-based claims code among large UK businesses.

03 Use independent carbon ratings to introduce guardrails against credit under-performance

WHY?

The UK can show the world how market-led innovations such as independent carbon ratings can incentivise high integrity carbon credit use, supporting the UK-based firms that have pioneered these innovations.

HOW?

Too often, we see governments exclusively turning to relatively arbitrary, rigid cut-offs to manage the risk of carbon credit underperformance - excluding particular credit types, standards or methodologies from compliance schemes or voluntary codes. In reality, underperformance risk is, to a large degree, determined at a project-specific level. Consequently, the Government must embed project-specific independent ratings as a central element of carbon market design, not an optional extra. Not doing so means repeating the mistakes of the past, continuing the ongoing cycle of credit integrity scandals damaging confidence and stalling growth. For more detail, please see our recent reports “A New Blueprint” and “Maximising the climate impact of carbon credits in compliance schemes”. [16, 17]

04 Introduce targeted regulation to unlock, not stifle, growth

WHY?

Some aspects of the market require regulation, where guidance and incentives will not be sufficient to restore confidence as required. Critically, as per recommendation 3, regulation should embrace, not stifle market-led innovations.

HOW?

The Government should focus on regulation in two areas. First, regulating specific categories of organisation within the ecosystem, where doing so has the clear potential to introduce better incentives and unlock growth. Specifically, the Government should consider regulating carbon ratings agencies as a means of enabling ratings to play the core function in market design set out under recommendation 3. Second, providing legal clarity on the definition and treatment of carbon credits within UK law, aligning with international counterparts. The existing lack of legal certainty on basic aspects such as how credits can be owned, acquired, and traded represents a barrier to growth - overcoming this would empower market participants to act with more confidence in commercial agreements and unlock new financing opportunities for projects.[18]

Glossary

Article 6 markets

Article 6 is designed to address the key aims of the Paris Agreement: mobilising capital to increase country ambition and accelerating action towards net zero.

Article 6.2 enables bilateral emissions trading between countries in order to achieve their respective emission reduction targets, while Article 6.4 is the new UN mechanism for the trading of carbon credits, also known as the Paris Agreement Crediting Mechanism (PACM).

Avoidance credits

Carbon credits from projects that prevent emissions from occurring, like protecting forests or deploying clean energy sources.

BECCS

Bioenergy with carbon capture and storage. Involves capturing and permanently storing CO_2e from processes where biomass is converted into fuels or directly burned to generate energy.

Carbon credits

Transferable instruments each representing an emission reduction or removal of 1 tonne of CO_2 or CO_2 equivalent.

Carbon ratings

Publicly available, risk-based frameworks for assessing the effectiveness of a given carbon credit, assigning it a score representing how likely it is to avoid or remove a tonne of CO_2e

Compliance carbon schemes

The most common types of compliance carbon markets are emissions trading schemes and carbon taxes implemented at a national level.

Created and regulated by mandatory national, regional, or international carbon reduction regimes. Some compliance carbon markets allow for the retirement of carbon credits to achieve compliance obligations.

Direct air capture (DAC)

Technologies which extract CO_2 directly from the atmosphere, for CO_2 storage or utilisation.

Issuance

The process of generating carbon credits from a given project, which will often require verification from standards organisations (e.g. Verra, Gold Standard, ACR, etc.).

Once a project is registered and verified, it is issued with carbon credits that represent 1 tonne of CO_2e that has been reduced or removed from the atmosphere.

Ongoing emissions

Emissions that a company continues to produce as part of its operations, including those it plans to reduce over time.

Removal credits

Carbon credits issued from projects that actively remove CO_2 from the atmosphere and store it, such as reforestation or direct air capture.

Residual emissions

Emissions that will remain after a company has taken all feasible steps to reduce its footprint in line with climate science.

Retirement

The process of permanently removing a carbon credit from circulation after it has been used to offset emissions so that the credit cannot be reused or claimed by another entity.

Voluntary carbon market (VCM)

The market in which international carbon credits are sold and bought by companies for the purposes of contributing to climate action and compensating for operational emissions.

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8. Based on estimation of the average annual issuance per hectare for nature-based avoidance and removal projects, with an assumption of 0.1 jobs per hectare based on ILO/WWF research: https://webapps.ilo.org/wcmsp5/groups/public/---ed_emp/documents/publication/wcms_757823.pdf
9. DAC estimate based on Rhodium research which estimates that a 1 megaton per annum DAC plant requires on average 278 workers to operate on an ongoing basis:https://rhg.com/wp-content/uploads/2020/06/Capturing-New-Jobs-Employment-Opportunities-from-DAC-Scale-Up.pdf. BECCS estimate based on Stockholm Exergi estimate of 6,700 jobs per 10 million tonnes of CO_2e captured by BECCS.
10. Market infrastructure estimate based on the UK capturing 50% of the global market for these services, estimated at 50k jobs in the mid-2030s in BeZero Carbon's "100bn for planet and people" report: https://bezerocarbon.com/insights/100bn-for-planet-and-people
11. Assuming an average salary of £35,000 per annum and an average tax rate of 20%.
12. https://ifs.org.uk/taxlab/taxlab-key-questions/where-does-government-get-its-money
13. https://www.theccc.org.uk/publication/the-seventh-carbon-budget/
14. https://assets.publishing.service.gov.uk/media/67f90e5f45705eb1a1513f58/Statistics-on-International-Development-Provisional-UK-ODA-Spend-2024.pdf
15. Assumes an average cost of £25 per credit for nature-based removals, £15 per credit for nature-based avoidance, clean cooking, clean energy and industrials and £100 per credit for engineered carbon removals

commercial@bezerocarbon.com