INTEGER WEALTH GLOBAL

Carbon Credits and ESG

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The following narrative is an concise explanation of what Carbon Credits are, and how these are applied in global businesses and ESG (Environments, Social and Governance) applications and purposes.

1. What Are Carbon Credits?

A carbon credit is a permit that allows a company to emit one metric ton of CO_2 (or equivalent greenhouse gases).

- Companies that reduce their emissions below their allowable limit can sell their unused credits.
- Companies that exceed their limit must buy credits to offset the excess.

This system is part of a "cap-and-trade" or carbon offset market, designed to put a price on pollution and incentivize emission reductions.

2. How Carbon Credits Relate to ESG

ESG is a framework used by investors and regulators to evaluate a company's performance on:

- Environmental (e.g., carbon emissions, resource use)
- Social (e.g., labour practices, community impact)
- Governance (e.g., transparency, leadership ethics)

3. Carbon credits support ESG in two key ways:

1. Environmental (E):
    - Using or selling carbon credits reflects efforts to reduce emissions, improve sustainability, and address climate change.
    - Companies that invest in carbon offset projects (like reforestation, renewable energy) demonstrate environmental responsibility.

2. Investor Appeal:
    - Strong ESG performance attracts sustainable investors, improves brand reputation, and lowers risk ratings.

4. How Companies Earn from Carbon Credits

Companies can profit from carbon credits in several ways:

a. Selling Excess Credits

If a company emits less than its carbon cap, it can:

- Sell the extra credits on carbon markets (voluntary or compliance).
- Example: A renewable energy company may generate more credits than it needs and sell them to oil companies.

b. Developing Carbon Offset Projects

Firms can generate carbon credits by:

- Planting trees (carbon sequestration)
- Capturing methane
- Shifting to renewable energy
- Investing in clean tech

These projects must meet certification standards (e.g., Verra, Gold Standard) to issue credits.

5. Offering Carbon Credit Services

Some companies act as intermediaries:

- Facilitating offset projects
- Certifying emissions reductions
- Trading carbon credits on behalf of clients

Example

- A forest conservation project avoids deforestation and prevents CO_2 emissions.
- That project earns verified carbon credits.
- These credits are sold to a large corporation (like Microsoft or Shell) to offset their emissions.
- The forest project operator earns money; the buyer improves its ESG score and avoids regulatory penalties.

6. Summary

Concept	How It Works
Carbon Credit	1 ton of CO_2 allowance
Purpose	Reduce overall emissions by trading permits
ESG Impact	Helps improve environmental metrics and investor appeal
How Companies Earn	Sell excess credits, develop offset projects, or act as intermediaries