

United States Senate

WASHINGTON, DC 20510

October 13, 2022

Chairman Rostin Behnam
Commodity Futures Trading Commission
1155 21st St NW
Washington, DC 20581

RE: Climate-Related Financial Risk RFI [87 FR 34856]

Dear Chairman Rostin Behnam,

Thank you for the Commodity Futures Trading Commission’s (CFTC) June 2022 release of a Request for Information (RFI) to seek public comment on climate-related financial risk to inform oversight in the derivatives markets and underlying commodities markets. We write today to emphasize the risks and integrity challenges of the current voluntary carbon offsets market and to urge CFTC to pursue strong oversight of these markets. The world needs to reach net-zero greenhouse gas emissions by 2050 to avoid the most catastrophic effects of climate change, and frontline communities—who are disproportionately Black, Indigenous, and low-income—are already experiencing the brunt of climate impacts. We need bold, realistic action to effectively address carbon emissions that exacerbate environmental injustice and drive climate change.

One hundred companies alone have been responsible for 71% of all greenhouse gas emissions since 1988.¹ While some of these corporations have made great strides at reducing their own emissions, many have turned to a strategy of purchasing carbon offsets from organizations claiming to sequester greenhouse gasses through strategies like tree planting or installation of renewable energy. This has led to the rapid growth of offset markets, sometimes referred to as carbon credits. The purchase of offsets allows many of these multinational companies to make bold claims about emission reductions and pledges to reach “net zero,” when in fact they are taking little action to address the climate impacts of their industry. Several studies have highlighted that carbon offset projects are frequently illegitimate, and those that do contribute to meaningful emissions reductions are often representative of broader “pay to pollute” schemes that place profit over protecting frontline communities.²

¹ Dr. Paul Griffin, “CDP Carbon Majors Report 2017,” *The Carbon Majors Database* (2017), <https://cdn.cdp.net/cdp-production/cms/reports/documents/000/002/327/original/Carbon-Majors-Report-2017.pdf?1501833772>.

² “Paying to Pollute; The Environmental Injustice of Pollution Trading,” *Food & Water Watch & Greenaction for Health and Environmental Justice* (2017) https://foodandwaterwatch.org/wpcontent/uploads/2021/03/ibsp_1711_ejpaytopollute-webfin2_0.pdf

The carbon market enables wealthy corporations and countries to continue polluting due to broad standards that ineffectively regulate what counts as an offset. Projects that generate carbon offsets claim to adhere to a standard known as additionality, whereby a project would not have happened without the financial incentive of the “carbon credit”. However, JP Morgan recently wrote a one million dollar check to protect a mountainous region in Pennsylvania that was already preserved land and did not face a threat of deforestation, and in doing so claimed it had achieved carbon neutrality across its operations in 2020.³ Extensive research indicates systemic and persistent issues with offsets, including inaccurate or exaggerated promises of the positive effects, inflated climate benefits, and weak or unenforceable regulations.⁴ These fraudulent investments are a convenient and profitable way to market climate consciousness without requiring real action to reduce emissions.

Relying on offsets rather than direct emissions reduction mechanisms disproportionately harms frontline and environmental justice communities, which have already borne the brunt of decades of pollution and disinvestment. Without adequate safeguards, offset markets also risk violating the rights of local and Indigenous communities when those communities are excluded from land use management decisions that are used to generate offsets.⁵ Carbon offsets as they currently stand are not compatible with climate justice goals, as they enable wealthy corporations to continue emitting while using fraught tactics that prioritize their bottom line over the health and well-being of vulnerable communities.

Voluntary standards and safeguards have done little to alleviate these issues. To reduce risk to frontline communities, investors, and the planet, the CFTC should take concrete steps to implement rules governing the carbon market. These rules should include a clear definition of a carbon credit and a robust standard for auditing, and they must take into account the environmental justice risk of growth in the offset market.

We recommend that the CFTC:

- Investigate the integrity of currently approved derivatives and their underlying carbon offsets, and develop qualifying standards for carbon offsets that effectively reduce greenhouse gas emissions and can serve as underlying commodities for approved derivatives in the future.
- Create a registration framework for offsets, offset brokers, and offset registries.

³ Ben Elgin, “These Trees Are Not What They Seem: How the Nature Conservancy, the world’s biggest environmental group, became a dealer of meaningless carbon offsets.” *Bloomberg* (2020), [JPMorgan, Disney, Blackrock Buy Nature Conservancy’s Useless Carbon Offsets \(bloomberg.com\)](https://www.bloomberg.com/news/articles/2020-08-11-jpmorgan-disney-blackrock-buy-nature-conservancy-s-useless-carbon-offsets)

⁴ Lisa Song, “An (Even More) Inconvenient Truth: Why Carbon Credits For Forest Preservation May Be Worse Than Nothing” *ProPublica* (2022), <https://features.propublica.org/brazil-carbon-offsets/inconvenient-truth-carbon-credits-dont-work-deforestation-redd-acre-cambodia/>

⁵ Megan Rowling & Lauren Goering, “Rights groups warn Paris pact rules on carbon markets leave indigenous people exposed” *Reuters* (2021), <https://www.reuters.com/business/cop/rights-groups-warn-paris-pact-rules-carbon-markets-leave-indigenous-people-2021-11-12/>

- Pursue cases of individual project fraud.
- Develop a working group to study both the risk to investors associated with carbon offsets and derivatives (legal, reputational, and regulatory) and the systemic climate financial risk created by their availability and usage.

The CFTC has a duty to promote the integrity of U.S. markets through sound regulation and to hold companies accountable for fraud or misrepresentation, and we urge you to set meaningful standards to address these issues in the offset market.

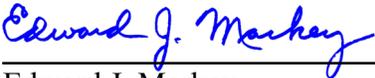
Sincerely,



Cory A. Booker
United States Senator



Elizabeth Warren
United States Senator



Edward J. Markey
United States Senator



Richard Blumenthal
United States Senator



Bernard Sanders
United States Senator



Jeffrey A. Merkley
United States Senator



Kirsten Gillibrand
United States Senator