Carbon Market Trend Brief

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VCM Faces Growing Supply Gap Between Avoidance and Removal Credits

- Need for differentiated procurement strategies for avoidance and removal credits
- Potential shift toward early procurement and long-term offtake agreements for removal credits

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VCM Faces Growing Supply Gap Between Avoidance and Removal Credits

Climate Decode's VCM Market Outlook 2026 finds that the voluntary carbon market is likely to see continued differences in supply conditions between avoidance and removal credits. While a large volume of avoidance credits remains available, the supply of removal credits is expected to fall well short of demand. By 2036, demand for removal credits is projected to reach 120 MtCO2e, compared with only 23 MtCO2e of supply, leaving a potential gap of around 97 MtCO2e. Durable carbon removal is expected to face the greatest supply constraints, given its limited issuance to date and the time required to develop new projects. These differences may require companies to take different approaches when sourcing credits, depending on the type and availability of credits they need.

VCM Faces Growing Supply Gap Between Avoidance and Removal Credits

Climate data provider Climate Decode's VCM Market Outlook 2026 highlights significant differences in the supply conditions for avoidance and removal credits in the voluntary carbon market (VCM). According to the report, around 1.27 billion tCO2e of issued credits remain unused, with the vast majority consisting of avoidance credits. This represents close to half of all credits issued and is equivalent to roughly eight years of current annual demand. By contrast, very little inventory remains for carbon removal credits, indicating much tighter supply.

On the demand side, annual retirements have remained at around 157 MtCO2e, worth approximately USD 1 billion, over the past four years. Under the baseline scenario in SBTi V2*, annual demand is expected to increase to around 290 MtCO2e by 2036. New credit supply is also projected to reach approximately 235 MtCO2e by 2036, but much of this additional supply is expected to come from avoidance projects.

The supply outlook is considerably tighter for removal credits. Demand is projected to reach around 120 MtCO2e by 2036, while supply is expected to reach only around 23 MtCO2e, resulting in a potential shortfall of approximately 97 MtCO2e. Durable carbon removal** is identified as the most significant supply constraint. Cumulative issuance currently stands at only around 2 MtCO2e, or 0.08% of total issuance, leaving a limited base from which to scale up supply as demand increases. Nature-based solutions (NbS) could provide around 12 MtCO2e annually and help address part of the shortfall in the near term. However, their potential for further expansion is limited, making it difficult to meet the expected increase in removal demand throughout the 2030s.

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*__SBTi V2__ : An updated framework developed by the Science Based Targets initiative to provide more specific guidance on corporate net-zero target setting and implementation. It places greater emphasis on emissions reductions while clarifying the role and requirements of carbon removals for residual emissions.

*__Durable carbon removal__ : Carbon removal approaches that capture CO_2 from the atmosphere and store it for an extended period. Examples include direct air capture (DAC) and biochar

Implications

Differentiated Procurement Strategies for Different Credit Types

A key takeaway from the outlook is the significant difference in supply conditions between avoidance and removal credits. A substantial volume of avoidance credits is already available in the market, while removal credits may become increasingly difficult to secure as demand grows. Companies may therefore need to approach the two types of credits differently depending on their intended use and market conditions. Existing market inventory provides relatively greater flexibility when sourcing avoidance credits, whereas companies seeking removal credits for their net-zero strategies may need to secure reliable projects and future volumes in advance. As the market develops, factors such as credit type, storage approach and quality may become increasingly important alongside price when companies make procurement decisions.

Removal Credits May Shift from Price Competition to Volume Availability

Limited supply of removal credits could create not only upward pressure on prices but also a risk that companies will be unable to secure sufficient volumes when needed. This is particularly relevant for durable carbon removal, where current issuance remains very limited and developing new projects takes time. If demand grows rapidly, relying solely on credits already issued in the market may not be enough to meet corporate procurement needs. Companies may therefore increasingly seek to secure future volumes through advance purchases or long-term offtake agreements at the project development stage. For project developers, securing long-term buyers could also become increasingly important for project financing and commercial viability.

Related Articles & References

1) Climate Decode, 「VCM Market Outlook 2026」