

## **Can Voluntary Carbon Offsets assist development? Notes of Round Table 26th October 2006**

### **Introduction**

The Voluntary Carbon Market for Carbon Offsets has grown rapidly in recent times. IIED and **nef** held a Round Table on "Voluntary Carbon Offsets: development opportunity or climate get-out clause?" in March 2006 bringing together significant players on this issue for a frank exchange of views. Since then some further work has surveyed the retailers of voluntary carbon offsets to establish the size, characteristics and growth prospects for this market. There has also been some examination of the possibility of developing premium Carbon Offset products combining mitigation AND adaptation in vulnerable communities around the developing world.

The aim of the second Round Table was to discuss the findings of this research and the implications for the Voluntary Carbon Offsets market.

The meeting was facilitated by Andrew Simms of **nef**. Participants were drawn from development agencies, environmental organizations, carbon offset retailers, government, consultancies and researchers.

The Round Table started with two presentations after which there was a facilitated discussion.

### **Presentations**

#### **1. The Voluntary Carbon Market – an overview and implications for development benefits, Elizabeth Harris**

Lizzie Harris presented her findings from a survey she had conducted of voluntary carbon offset retailers. (See [www.iied.org/climate](http://www.iied.org/climate) change for a copy of the presentation and background paper). The main conclusions were as follows:

- The voluntary market is tiny but growing very fast
- It is dominated by small projects such as forestry projects and appears accessible to projects with development benefits.
- The voluntary market is constrained by lack of credible standards and lack of transparency
- The market is evolving with a move to more formal standards – this may favour cheaper, larger projects less favourable for development benefits
- But demand for projects with development benefits is likely to persist

## **The possibilities for combining mitigation, adaptation and sustainable development**

**Jessica Ayers and Saleemul Huq**

This presentation set out some ideas on the possibility of combining mitigation and adaptation in a new kind of offset. (See [www.iied.org/climate](http://www.iied.org/climate) change for a copy of the presentation and background paper). Jessica Ayers introduced the idea, highlighting the difference between mitigation which tends to be global in focus, large scale and long-term, and adaptation which is local, more immediate and closely tied in with sustainable development. She explained how mitigation and adaptation could be combined in a single Mit-Ad project using the example of composting. This would involve reduced methane emissions, (mitigation) and the resulting compost could be used increase moisture holding capacity of soils, important in drought-prone areas (adaptation). Challenges to implementation included the need for standards and verifications systems for both mitigation and adaptation, adding to the costs. In addition, adaptation standards are not fully developed.

Saleemul Huq presented some details on how a Mit-Ad offset scheme could work in practice. The proposed scheme would not involve significant carbon reductions as its main purpose would be to raise awareness and demonstrate solidarity. It would enable buyers to become part of the solution not just part of the problem by supporting both mitigation and adaptation in vulnerable communities in least developed countries.

The buyers of these offsets would have to meet certain conditions before a sale could be agreed.

- Pledge to reduce their carbon footprint – offsets would only be the last resort
- Pledge to encourage others to take measures to combat climate change
- Agree to pay a premium price

The projects could be developed by NGOs working with vulnerable communities in developing countries. Certification could be managed by a consortium of development and environment NGOs, or by a Fair Trade organisation.

### **Discussion**

The subsequent discussion addressed general concerns about carbon offsets as well as reactions to the specific Mit-Ad scheme set out in the presentations.

### **Pros and cons of offsets**

The advantages and disadvantages of offsets were discussed extensively in the previous Round Table on March 2<sup>nd</sup> (see [www.iied.org/climate](http://www.iied.org/climate) change). Much of the reaction to the Mit-ad offset, took up similar issues concerning misgivings about carbon offsets in general and specific concerns about voluntary carbon offsets.

Misgivings about offsets in general centred on:

- Superficial engagement principally by private sector for which offsets could be simply a way of evading responsibility.

- Imposition of Northern priorities on communities. While the priority in the South is to broaden access to electricity, the North wants to buy emission reductions. There are also concerns about the local adverse impact of offsets and claims of human rights abuse.
- Perverse incentives – the flow of money to offset projects is dependent on companies continuing the carbon-emitting activities eg if Ryan Air sponsors an offset project, the money only flows while the company is in the business of flying.

Some concerns were more specific to the voluntary market:

- Costs of measurement and demonstration of the carbon reductions can be high. For small emission reduction volumes it may be better to concentrate on an activity that is valuable and worthwhile rather than putting a lot of effort into counting the tonnes of carbon.
- Future of demand for voluntary offsets if the compliance regime is extended. But it was also argued that companies buy voluntary carbon offsets for reputation reasons and are likely to continue to do so even if the compliance regime is extended.
- Too much NGO focus on voluntary offsets may detract attention from long-term solutions.

In defence of offsets it was pointed out that investing from the North to the South is not necessarily bad. The aim is to invest in projects with a positive impact on the communities concerned. For example, offsets can provide funds to enable communities to get low carbon electricity. Reducing emissions is better than offsetting them. However, offsets can serve to educate people about their own carbon footprint and make the link with their own behaviour.

The voluntary market is also evolving and there are efforts to deal with some of its problems. In particular, there are moves towards the development of a common standard and a registry that is publicly available to demonstrate that there is no double-counting.

Some participants argued that action from the private sector should be welcomed. Some companies are planning for the future, in the US because of expectations of mandatory schemes and in Europe for motives related to corporate responsibility. But offset retailers are concentrating on safe project types and not the ones with the most development benefits. There is a need to contemplate a wider range of technologies.

One participant expressed the view that the voluntary offset market is developing rapidly worldwide and that this market growth cannot be stopped. The priority therefore is to align the voluntary offset market with development objectives.

### **Pros and Cons of Mit-Ad offsets**

While there were reservations about offsets there were positive reactions to the idea of focusing on adaptation. One participant observed that people are not generally making the connection that climate change is causing poverty. The Mit-Ad projects would help them make this connection. The possibility of raising funds for communities vulnerable to climate change was also highlighted.

Nevertheless, there were some concerns about linking mitigation and adaptation in an offset product. One practical concern was the possibility of standards overload as these offsets would require the addition of another set of standards for adaptation. A more fundamental concern expressed by one participant was whether it was appropriate for adaptation to be linked to markets because of the problems of priorities being imposed through demands from the North. It would be better to secure support for adaptation through development funding. However, another participant pointed out that there was no fundamental difference between money coming from a market or from development funding as both were likely to come from the North. What was important was to have a good process.

It was also questioned whether it was appropriate to use Mit-Ad offsets as a means of raising awareness as the voluntary market is so marginal. It was suggested that there are better ways of raising awareness about the impacts of climate change. Another participant cited the example of a proposal for a levy on flying with dual aims of reducing emissions and raising money for participation. This had been criticised for trying to do too much and it was possible that the same criticism could also apply to the idea of Mit-Ad offsets.

One participant, taking up the point made in the presentation that Mit-Ad projects would not involve significant emission reductions, questioned why it was necessary to pursue these projects in this way. He argued against linking the two issues of mitigation and adaptation, on the grounds that mitigation is a problem that has to be dealt with by the North and that adaptation is a separate issue. This was challenged by another participant who stressed the interconnection of climate change pointing out that China has a significant renewable energy programme.

A further point made was that long-term, more radical solutions such as Contraction and Convergence would be more effective in channelling funds to adaptation as automatic transfers of wealth would be involved.

### ***Delinking from offsets***

In view of the reservations about offsets, and the linking of mitigation and adaptation some participants while welcoming the focus on adaptation suggested that the Mit-Add projects should be delinked from offsets. Projects could be presented in terms of solidarity for example.

### ***Emphasising communities***

In particular it was suggested that the focus of these projects should be the community. The benefits to the community could be marketed rather than the emission reductions or renewable energy. It was also suggested that another condition for buyers could be added to the list presented by Saleem, that of regular contact with

the community. The advantage of placing communities at the centre of the scheme is that the agenda would be set by them and not imposed from the North. The community could decide what action to take in accordance with its aspirations/the aspirations of its members. In Africa, for example, the immediate adaptation priority in many cases was to deal with HIV.

### **Relationship with existing offset projects**

Retailers of voluntary carbon offsets questioned whether the proposed Mit-Add offsets would involve anything different from the projects with development benefits currently being sold. While they were not selling offsets from projects specifically focused on adaptation, many of their projects were linked to development, for example improved cooking stoves projects. They also questioned whether a premium specifically for adaptation was necessary as the market was showing that buyers were prepared to pay extra for development benefits.

### ***Role of the private sector***

Offset retailers, pointing out that much of their business was with companies, suggested that there would be more scope to work on Mit-Ad offsets with companies than with individuals.