

Voluntary Carbon Offset: development opportunity or climate get-out clause?

Note of a Roundtable discussion, 2nd March 2006

1. Introduction

The market for voluntary carbon offsets is growing extremely fast as companies, governments, individuals and organisations outside of the compliance regime look for ways of compensating for their greenhouse gas emissions. The funds generated could contribute to sustainable development. Voluntary offsets can engage individuals in the issue of climate change and create opportunities to experiment and innovate. Yet some fear that voluntary carbon offsets can be a distraction from the challenge of changing fossil-fuel energy systems and that by providing an easy way out they will reduce incentives to change behaviour. The International Institute for Environment and Development (IIED) and the new economics foundation (**nef**) are working together to explore how this largely unregulated market for voluntary carbon offsets can be steered in ways that promote sustainable development.

The aim of the Round Table was to map different views on the emerging market for voluntary carbon offsets and to identify areas of mutual interest and concern.

The meeting was facilitated by Saleemul Huq of IIED and Andrew Simms of **nef**. Participants were drawn from development agencies, environmental organisations, carbon offset providers, government, consultancies and researchers. The meeting started with a *tour de table* in which each participant gave their perspective on the issue. This revealed that participant organisations were grappling with a diversity of concerns – what to do about their own carbon footprint so that they could “walk the talk” better, how to educate the public and their supporters about climate change and the role of voluntary carbon offsets within this, which offset providers they should promote to their supporters, and the potential for selling carbon offsets from their own development projects (what price etc) given the need for some stamp of approval for their social/environmental integrity. A general discussion then followed. A wide range of issues was covered but several key areas of debate emerged. The note of this meeting is organised around these areas.

2. Key Issues

Carbon accounting and the concept of carbon neutrality

One participant stressed the need to be clear about the function of offsets and the claims that are made for them, arguing that they do not remove carbon already in the atmosphere. The claims made for forestry projects on their carbon sequestration potential have been contested and offset providers in response have greatly reduced

their reliance on such projects. It was acknowledged that the emissions reductions associated with energy efficiency and renewable energy offsets are ultimately virtual reductions as they are based on avoiding future emissions. Their calculation therefore relies on the construction of counterfactuals involving assumptions about what would happen with and without the offset project. There is a danger of destroying confidence and hence the market through the creation of false emission reductions. This highlights the importance of standards for carbon accounting.

Credibility, integrity and standards

Many of the participants emphasised the need for credibility in the offset market and the role of standards in this. The need relates to the calculation and accounting of avoided carbon emissions, as well as demonstrating the development benefits. One participant highlighted six types of activity or stage in the offset market where standards are needed:

1. Calculation of emissions
2. Steps to reduce emissions when coupled with purchase of offsets
3. Offsets – baseline scenarios, establishing additionality, technical actions
4. Registration standards – what to disclose emissions and offsets and how to present
5. Verification
6. Branding

This participant expressed the view that the areas that have been least addressed so far are reductions, registration and verification, emission and offset standards have received relatively more attention and problems are being smoothed out.

The Clean Development Mechanism (CDM) Gold Standard was cited as an example of a set of standards with clear criteria e.g. on development benefits that could be applied to offset projects. Others agreed that the Gold Standard is a worthwhile initiative but it was pointed out that it has been applied so far to only one CDM project, one which has not been very successful. There was a call for the Gold Standard to be rewritten as a standard for offsets to reduce the bureaucracy involved but without diluting the standard. Options such as using representative samples in the same way that accountants do should be explored.

Development benefits

Some participants were interested in the potential development benefits of voluntary offsets. As the CDM is not being very effective in delivering development given its concentration on a few countries and large projects, the voluntary market is an opportunity for enhancing the development outcomes of carbon markets. In particular, the voluntary market might be a means of engaging the victims of climate change. Projects could be selected for their adaptation potential for people affected by climate change damage, and charges for such offsets could be correspondingly higher. Such projects with a development component would have the advantage of acknowledging and trying to mitigate the impacts of climate change as well offsetting emissions.

Engaging individuals/awareness-raising

A number of participants emphasised the role of voluntary carbon offsets in raising awareness about climate change and providing a means to engage individuals.

Depending on how offsets are presented, they could encourage individuals to make links between their behaviour and climate change impacts. The example was cited of the Eden Project's pilot initiative to engage the public on transport use. This combined exhibits conveying messages about reducing emissions through driving less and driving cars more efficiently with the possibility to buy carbon credits to offset driving emissions.

There was also discussion about whether offsets in raising awareness and changing attitudes could increase support for more radical measures such as personal carbon allocations.

Engaging the private sector

The need to make a distinction between promoting offsets for individuals and offsets for companies was stressed as different approaches may be needed. One participant noted that the private sector likes to have a story about development impacts that gives more legitimacy. While it is important to have clear standards for voluntary offsets, there are already several corporate citizenship standards and there is a risk of alienating the business community.

The relationship between reductions and offsets

There was some discussion of the concern that offsets reduce incentives for emission reductions – (if you offset the emissions from air travel why should you cut back on flying?). It was noted that the experience from the Eden Project's pilot initiative was encouraging in this respect. A follow-up survey of those people who had bought offsets revealed that they had looked at the other messages about reducing emissions and were not just buying offsets to assuage their guilt.

It was argued strongly by some participants (offset providers mostly) that offsets are one part of the solution, one means for achieving a low carbon economy which can complement other approaches such as emission reductions and that the latter on their own will not be sufficient. A related argument put forward by one participant was that offsets are not an alternative to emission reductions but a pricing mechanism to internalise costs. While not all participants were able to agree that offsets are unavoidable there was more agreement about their internalising cost role.

Scaling up

The facilitators raised the issue of scale: How big is the voluntary market likely to be, how big should it be and what is needed to scale up? How can the sporadic loss of confidence that has adversely affected other green markets such as recycling be avoided? Or are offsets merely a transitional measure?

One participant stressed the potential contribution of shifting from the current opting in arrangement for voluntary offsets to an opting out approach as a way of scaling up. Experience from other applications of an opting-out approach suggests that 60-65% of people might stay opted in and thus buy offsets. An offset system if applied in this way would become a carbon tax that would engage people. Whether this would work would depend on the standards for offsets and the ability of retailers to scale up quickly.

It was pointed out that expansion in the voluntary market will depend on developments in the compliance market – if, for example, airlines are brought into the compliance market, the voluntary market's sphere of action could be reduced. The market is demand-driven not supply-driven and therefore market expansion will depend on the integrity of standards.

One participant, pointing to the conceptual and accounting issues associated with offsets argued that there were dangers in scaling up something that is so poorly understood.

3. Next Steps

While all the issues discussed are highly pertinent to the climate change debate, IIED and **nef** consider that the priorities in the immediate future are the following:

- Standards- in particular adapting the CDM Gold standard to offsets
- Development benefits – in particular exploring the potential of offsets linked to climate change adaptation
- The relation between offsets and emission reductions and the role of offsets within a low carbon strategy – complementary or conflicting options?

It is also important to keep track of the outlook for the voluntary offset market, given developments in the compliance market as this is necessary background for the other three issues.

List of Participants

Name	Organisation
1. Saleemul Huq	IIED
2. Hannah Reid	IIED
3. Beth Hughes	IIED
4. Andrew Simms	Nef
5. Maryanne Grieg-Gran	IIED
6. Halina Ward	IIED
7. Jonathan Shopley	The Carbon Neutral Company
8. Caroline Digby	The Eden Project
9. Catherine Pearce	Friends of the Earth
10. Charlie Kronick	Greenpeace
11. Mike Mason	Climate Care
12. Emelia Holdaway	Ecofys
13. Matt Prescott	RSA
14. Rachel Berger	Practical Action
15. Ian Roberts	LSHTM
16. Rachel Roach	Tearfund
17. Hugh Jones	Carbon Trust
18. Joanna Collins	Sustainable Consumption Roundtable (Sustainable Development Commission)
19. Andrew Pendleton	Christian Aid
20. John McGrath	Oxfam
21. David Wellington	Climate Care
22. James Laing	africappractice
23. Tamsin Vernon	Stern Review, HM Treasury
24. Lorraine Hamid	Stern Review, HM Treasury
25. John Manoochehri	Consultant
26. Lizzy Harris	Imperial College, MSc Student