



## **Response to Defra consultation on establishing a voluntary Code of Best Practice for the provision of carbon offsetting to UK customers**

### **1. Who we are**

Forest Carbon brokers bespoke and genuinely additional forestry off-set schemes for corporate and other organisations. We believe off-setting to be the action of last resort, once avoidance and reduction activity have taken place, but that forestry off-sets have a valuable role to play in off-setting. Forest Carbon welcomes the government's involvement in the ongoing debate on the need for a code of practice for voluntary off-setting.

Climate Focus is an advisory company committed to the development of projects and policies that reduce greenhouse gas emissions and generate carbon credits. We help project developers, investors, buyers of carbon credits and policy makers succeed in the carbon market. We consider emission trading and off-setting as a useful part of a broad mix of policies and measures needed to reduce global greenhouse gas emissions. It is not a panacea however and can only serve if it complements national and regional climate policies.

The voluntary market has the potential to give individuals, households and (small) business access to instruments to offset their emissions. Apart from the reduction potential this may encompass, it can contribute to increasing awareness of climate change and stimulate participation in emission reduction initiatives.

## 2. General comments

Before addressing specific questions in Defra's consultation paper, we would like to make the following general points.

The consultation paper is notable, we feel, for three things:

- its potentially negative impact on the voluntary off-set market through its apparent pre-judging of its own outcomes (which caused the media to largely focus on this outcome at the time of its launch – with very little mention of the fact that this was the opening of a consultation);
- the limitation of the eligible credits to CERs, EUAs and ERUs;
- its complete avoidance of the debate around the issues of afforestation and deforestation.

### 2.1 *The nature of the consultation and government's role in the market*

Forest Carbon and Climate Focus welcome the initiative from DEFRA to develop a Code for the voluntary market. We appreciate having the opportunity to express our views on the draft Code as developed by DEFRA. However, we would have expected a true consultation with an open outcome. With respect to the latter point, we would draw attention to the following wording:

*“The Code will include the following elements.*

- *Robust and verifiable emission reduction credits from the regulated market, ie CERs, EUAs and ERUs”*

The formulation may be fine of itself but it does not entertain the possibility of other credits being included should a robust case be made during consultation. We also feel that no consultation document should include the word “will” if it does not want to be accused pre-judging outcomes.

We believe that government should have a light touch in this area, and that its primary role is to educate consumers about the relative merits of different types of off-sets, and to equip them with the right questions to ask of off-set retailers. Secondary government roles would be the provision of transparent data on carbon measurement and the production of a scheme that:

- is as simple as possible for sellers to adhere to and gain accreditation from (with the onus on the transparency of information with respect to the off-setting claims of credits);

- includes the universal requirements for any off-setting scheme, drawn from the principles of the UNFCCC protocols and accords, namely those of: additionality, permanence, assessment of biodiversity and socio-economic impacts, and leakage;
- supports the requirement for independent monitoring and verification that the claimed sequestration/reductions have occurred and will continue to occur for as long as contracted.

The success of the voluntary market, in parallel to compliance markets, is essential to long-term climate change mitigation. The voluntary market moves much more quickly than compliance markets, could ultimately provide a greater volume of off-sets, can provide off-sets tailored to buyers' needs, and is not subject to the bottleneck and high transaction costs that currently exist in the CDM market; nor the political brokering around NAPs leading to possible 'hot air' in the EU ETS.

We believe that there are good quality voluntary off-sets available that will suffer due to the possible over-regulation of the market (and in fact may have already suffered due to the way the consultation is framed and was launched). At the same time we challenge DEFRA's view (in particular with respect to EUAs) that the credits generated and assigned in a regulated environment would inherently be of higher credibility and value.

## 2.2. *The restriction to and choice of eligible credits*

The Code allows offsetting of GHG emissions by cancelling CERs, ERUs and EUAs. We consider this choice of carbon credits as overly restrictive. We also disagree with DEFRA's assumption that only CERs, EUAs and ERUs would generate credible off-sets.

We see the objectives of the voluntary market as distinct from those of the regulated market. The two markets provide complementary elements of the general effort to reduce the emissions of greenhouse gases. The voluntary market (i) provides the opportunity to entities not covered by mandatory emission regimes to off-set some or all of their GHG emissions; (ii) bring new international and national actors into the carbon markets; (iii) provides room for the development of projects in categories currently not included in the CDM or JI; (iv) provides a potentially more cost-effective mechanism of bringing credits to the market from small projects where it may not be economical to register the projects as CDM projects.

Consequently, it is one of the defining elements and strengths of the voluntary market that it allows the generation of off-sets beyond the restrictions of the regulated market. The voluntary market is key:

- to foster learning in sectors or project categories for which no approved CDM methodology exists, such as biofuel projects, forestry and land-use change projects, projects that reduce bunker fuel emissions in international transport, projects in the transport sector; fuel switch from non-renewable to renewable biomass, fuel switch where the carbon intensity of the project power plant drops below the grid baseline, just to name a few;
- to allow the generation of emission reductions in countries that are excluded from the CDM/JI markets (for whatever reason);
- to reward emission reductions to very small projects or to projects or emission reductions which do not qualify for administrative reasons (missed deadlines).

We think that verified emission reductions (“VER”) are a legitimate unit of the voluntary market. VERs are project-based and originate from a baseline and emission reduction system. Their generation, monitoring and possibly certification can be designed to ensure that each credit represents a tonne of CO<sub>2</sub> equivalent that would have been emitted in absence of the project. It is important to note that the majority of VERs is generated by applying CDM procedures. The private sector is currently developing a number of standards<sup>1</sup> which promote the standardization of the VER market. We consider the private market as well as consumer control of quality and credibility as sufficient to ensure the creation of credible VERs.

On the other hand, we consider allocated carbon rights, such as EUAs, as inappropriate to be traded in a market which rewards additional, voluntary emission reducing effort. EUAs are allocated rights in the context of a cap and trade system. Taking into account the (i) significant risk of over-supply in the EU ETS; as well as (ii) the fact that the sale of EUAs are not matched by “additional emission” reductions, cancelling an EUA does not necessarily coincide with reducing emissions (indeed the EUA 2007 vintage market is believed to be somewhere in the region of 100 million tonnes ‘long’, with credits trading at less than €1 each).

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<sup>1</sup> We would like to draw your attention on the Gold Standard (“GS”) certified VER Projects, as well as the Voluntary Carbon Standard (“VCS”) developed by IETA, the Climate Group and WEF (under development).

The Code seems also to be undecided regarding the acceptance of ERUs. The reasons given by the Code, namely that ERUs were less easy to trade due to the involvement of national governments, are not very convincing. ERUs generated (at least under Track II) are generated under a baseline and emission reduction system and therefore credible assets for a voluntary off-set market.

### 2.3 *Forestry off-sets*

The voluntary market is the place where knowledge is being created and projects being tested. Whereas it is important to account for emission reductions in a conservative manner to safeguard the integrity of the process, the voluntary market should open an opportunity for those that wish to undertake extra efforts to mitigate climate change. Within this frame, we consider it the role of voluntary standards to define conservativeness without being exclusive in its scope.

This is in particular true for the forestry sector which accounts for the largest quantities in voluntary off-sets. Projects in the area of Land use Land-use-change, and Forestry (LULUCF) are under the CDM limited to afforestation and reforestation projects. Other project classes that entail significant sustainable development (sustainable agriculture, watershed management) or climate (avoided deforestation, forest management) benefits remain excluded. Projects developed in the excluded project classes are currently offering their emission reductions and removals on the voluntary markets. In order to avoid a further discrimination against these projects, the Code should be extended to cover all potential forestry carbon assets.

### 2.4 *Forestry off-sets in the UK*

The UK is host to some very high quality forestry off-set schemes and the proposed mechanism makes their accreditation by the Code of Best Practice impossible. Forestry projects show considerable benefits, over and above sequestration, that accrue from tree planting. It is estimated that sequestration accounts for less than 10% of the non-market benefits produced by forestry in the UK – meaning every carbon £1 becomes £10 of environmental and socio-economic benefit. (Ref: Willis et al, University of Newcastle, July 2003, “The social and environmental benefits of forests in GB”, which used a value of £6.67/tC). In the UK, forestry new planting rates have been through a long period of decline and carbon financing provides a necessary boost.

Forestry carbon off-setting schemes hosted in the UK face few quality and socio-environmental impact problems due to the strict regulation of the industry. Many forestry off-sets in Great Britain are co-funded with Forestry Commission (FC) grants, with carbon finance being the marginal income needed to give a positive NPV (net present value) and therefore incentivise the landowner to plant. Any new planting which is done in conjunction with FC grant will have to meet the UK Forestry Standard and will therefore be a well managed and appropriate undertaking. A felling licence is required, with a replanting obligation under the Forestry Act 1967, which ensures that new woodland in Great Britain is permanent. New planting is inspected by FC until established and, where woodland is certified under the UK Woodland Assurance Scheme (UKWAS), inspections are carried out by independent auditors at five-yearly intervals. We would propose that the simplest way of assuring the existence of the forests that claim to host the carbon sequestration claimed for such schemes would be to add an additional section on this to the UKWAS accreditation and monitoring process.

The science of how much carbon is sequestered would be formulated by another independent body (Forest Research perhaps) and fed into an appropriate monitoring and verification system which we suggest could be achieved under the auspices of UKWAS. To avoid over-selling, we believe that the accreditation system should specify an insurance margin (i.e. that no more than  $x\%$  of the anticipated sequestration for a given project may be sold, in case of contingency and based on a standardised matrix of various criteria such as, for example, species, proximity to roads and location). An additional benefit of UK-based off-set schemes is that organisations using them can actually verify their existence – they can be visited and consumers can experience the additional benefits that arise from them.

### 3. Specific questions from the consultation document

Q1. *Do you agree that the Government should publish a Code for offset providers?*

Yes we agree, but we believe, as stated in 2.1 above, that this code should represent a light touch, and should primarily be aimed at educating consumers.

Q2. *Do you agree with the proposed aims of this Code?*

We agree with the aims of the Code. However, we do not think that only credits that can be used by the UK for Kyoto compliance should be eligible. The voluntary market should reward any additional and complementary emission reducing activities.

Q5. *Do you agree that the most appropriate credits to demonstrate best practice in offsetting are one, or a combination of, CERs, EUAs or less easily, ERUs?*

We disagree strongly that compliance credits alone are appropriate for voluntary off-setting. As mentioned in 2.1 above these credits have their own problems and may not be as robust in all cases as would be hoped. Credible and high quality voluntary credits can be at least as robust as compliance credits, with the added advantages of being more responsive to market needs and being much cheaper and faster to develop.

Q6. *With a Code that includes EUAs, do you agree with this proposed treatment of the 'double-counting' issue?*

Consumers need to be educated about the possibility of double counting with respect to areas covered by the EU ETS (such as electricity generation) – and the onus for this could be on two parties: government in its provision of carbon measurement data and off-set retailers in their consultancy with buyers. It is worth remembering however that a significant proportion of electricity generation credits, for example, are grandfathered and could therefore still require off-setting.

Q7. *Do you agree with the proposal to use the government-agreed database of emissions figures as the approved method of calculating emissions to be offset?*

The provision of independent data on 'carbon footprints' in as many areas as possible is highly desirable.

Q8. *Should guidance be provided on how to calculate emissions from businesses?*

Yes.

Q9. *Do you agree that companies providing offsets, as part of a package of goods and services, should be entitled to use the quality mark?*

Yes.

Q11. *Do you agree that the quality mark should only be for accredited offsetting products and not for businesses that have offset their own emissions?*

This is a fine distinction: companies using the quality mark or stating that they have off-set using a company that has the quality mark.

Q13. *Do you agree that these six points are necessary information to be made available to consumers?*

Yes, with the proviso that we believe that non-compliance credits should also be admitted to the quality mark scheme.

Q14. *Should consumers be allowed to choose which projects they fund from an offset provider's portfolio?*

Yes, although this will be a complex and expensive undertaking if only compliance credits are used.

Q16. *Do you agree that this breakdown of prices should be provided to consumers?*

Yes.

Q17. *Do you agree that this price information should be provided at the time of purchasing offsets? Or on request only?*

At the time of purchasing – as we already do, in fact.

The Code assumes that VERs are generally cheaper than EUAs/CERs/ERUs and have “little relation to the established carbon price”. (i) We believe that the EUA market does not provide an established carbon market; (ii) the VER price is not necessarily lower than the price in the regulated market.

Q22. *Do you think that industry could have a role in helping to promote the Code?*

The industry should have a role in promoting a code it has had a significant input into designing. It may not wish to have a role in promoting a code which has been imposed.

Q23. *Do you agree that the administration of the quality mark scheme should be financed by fees charged for upfront accreditation and from annual subscriptions from those using the accreditation quality mark?*

Yes, but as already stated the scheme should have a light touch and be relatively cheap.

Q24. *Should the Code be reviewed on a regular basis?*

Yes.

Q25. *If so, how frequently, every year?*

Yes.