



Carbon Neutrality and Carbon Offsets

Workshop Report

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Workshop Background

There is increasing interest in both public and private sector organisations in carbon neutrality, including the offset of unavoidable emissions through both mandatory and voluntary schemes. However, there are huge uncertainties over what carbon neutrality means, and in what constitutes a viable carbon offset.

This UKERC Meeting Place seminar, co-sponsored by the Sustainable Development Commission and the Department for Food, Environment and Rural Affairs, aimed to achieve three outcomes:

- a consensus on what carbon neutrality means, its validity as a concept, and whether there are different definitions which might apply to operations, plans and policies;
- a consensus on the use of carbon offsetting, if and when it is justified, and what constitutes a viable and sustainable carbon offset;
- a consensus on what steps need to be taken, by the UK Government, the Devolved Administrations and/or the private sector, to ensure that commitments and pledges on carbon neutrality (including the use of carbon offsets) are applied in a way which is robust and compatible with the UK's commitment to sustainable development.

The event set out to engage a multi-disciplinary stakeholder group to stimulate solution-focused debate. Participants included policy-makers, policy advisors, academics, carbon management organisations, existing carbon neutral organisations and NGOs.

These proceedings will feed directly into current discussions both within UK Government departments, the Devolved Administrations, the wider public sector, and the private sector, over the purpose and design of carbon neutrality policies, including the use of carbon offsets. They will also feed into the SDC's work on climate change, and its advice to Government and the wider public sector.

DAY 1 – Carbon Neutrality

Brenda Boardman of UKERC and Oxford University welcomed participants and set out the objectives for the two-day seminar. **Oliver Knight of the Sustainable Development Commission (SDC)** opened the morning's discussion with a presentation on "Carbon Neutrality and Carbon Offsets". The UK Government and devolved administrations have made commitments to become carbon neutral. Officials from various departments have the task of implementing these commitments which involves deciding what carbon neutrality means in practice and what role carbon offsets should play in achieving carbon neutrality. It is also the case that the carbon offset market is rapidly expanding and attracting increasing and wider interest. The Government is therefore about to issue a consultation on issues surrounding carbon neutrality and carbon offsets with a view to issuing standards for the voluntary market. As watchdog and advisor to the Government, the Sustainable Development Commission is also looking to take a position on the issue.

Oliver introduced participants to some of the key issues relating to carbon neutrality, all of which were to be discussed by participants over the two days:

- How to define carbon neutrality?
- The scope of application: can it apply to plans and policies as well operations?
- How should direct and indirect emissions be treated?
- Can offsetting contribute to reducing absolute emissions?
- Is offsetting a valid concept or could it result in more harm than good if used to 'buy a way out'?
- How to procure carbon offsets e.g. club together; purchase through a fund?

Oliver went on to consider how carbon neutrality and carbon offsets might fit with other policies. For example, the Government is currently consulting on the introduction of an Energy Performance Commitment (EPC) policy measure. The EPC would apply to large energy consuming entities and would involve a form of emissions trading. It may be that EPC and carbon neutrality policies are contradictory. Indeed the EU emissions trading scheme might also conflict with carbon neutrality standards or policies. Oliver explained that ideally a global cap would apply to carbon emissions which would result in a global trading scheme – perhaps under this scenario there would be no need for carbon offsets?

Audience clarification was sought on how carbon offsets are distinguished from carbon neutrality. SDC regards carbon offsets as a subset of carbon neutrality. Carbon neutrality relates to all emissions to be managed and carbon offsets apply to those emissions which are 'unavoidable'. There was discussion on what is meant by 'unavoidable' and 'cost effective' – terms which may be interpreted differently by organisations, reflecting their differing ambitions or standards.

As regards the cost effectiveness of offsets, some participants believed the costs of offsets are likely to rise in the future. This is due to increased demand and the fact that the low-lying fruit in terms of projects has already been taken so projects will become more difficult and therefore expensive.

Other participants talked about the 'tipping point' as regards stabilisation of greenhouse gases at safe levels and that climate science should drive the determination of a global stabilisation level, indirectly influencing the carbon market. There is no point in having regulations that will not be sufficiently effective. A global cap would drive markets and bring about necessary innovation. We are perhaps looking at an 80 to 90% carbon reduction instead of 60% by 2050 to compensate for the UK's inaction over the last 16 years and because the science points to trends more worrying than we initially realised in 1990.

Clarification was sought on the extent to which carbon neutrality and carbon offsets apply to emissions in the UK or overseas. Carbon neutrality generally relates to the emissions of an entity which is UK-based (for the purposes of this seminar). However, members of the supply chain may be based overseas. Carbon offsets may relate to emissions in the UK or overseas e.g. through CDM projects in developing countries.

The inclusion of indirect emissions could dramatically change the scope and baseline. Where should the line be drawn? Indirect emissions contribute to the lifecycle emissions of products or materials purchased as well as direct emissions resulting from the operational activities of an organisation. There was considerable discussion on the definition of carbon neutrality and the inclusion of indirect emissions. Some large companies, such as BSKyB and HSBC, have claimed to be carbon neutral but some audience participants believed no carbon neutral companies exist. The existence of carbon neutral entities would depend on how 'carbon neutral' is defined, the assumptions used, the boundaries set for indirect emissions and the timeframe applied. Therefore transparency is required for such claims. It was suggested that the term 'low carbon' might be more appropriate than 'carbon neutral'.

Considerable discussion revolved around the inclusion of sustainable development and social criteria for valid or credible carbon offsets. These costs often seem to be ignored. Organisations may want to include such criteria and there may be a role for NGOs, the SDC and others to promote these criteria. Some participants gave examples of how offset projects can contribute positively to social issues. Another view pointed to how inclusion of social costs might make projects economically infeasible.

There was mention that there are various justifiable definitions for carbon neutrality and offsets and it may not be useful to apply a holistic all-encompassing term because it may prevent some activity taking place today. The approach should be to encourage positive activity which reduces direct emissions today and to influence supply chains and indirect emissions in the longer term.

Another view was that going carbon neutral had a value in terms of positive or negative public relations.

Pablo Ceppi of the Carbon Trust spoke to delegates about their recent report, "The Carbon Trust three stage approach to developing a robust offsetting strategy". This provides organisations and offset providers with guidance on carbon neutrality and carbon offsets. The Carbon Trust takes the view that offsetting does have a role to play in tackling climate change but this role is limited and short term. The position of the Carbon Trust is to treat carbon offsets as an optional part of a holistic carbon management strategy. Pablo set out the three stage approach advocated by the Trust which involves getting the organisation's 'house in order' by dealing with its own direct emissions. This will lead to economic, environmental, regulatory and reputational benefits. This will also bring down the cost of further emissions and enable the organisation to pursue reductions of indirect emissions which would involve squeezing out carbon from the supply chain and then as a last (optional) resort, purchasing carbon offsets. Acting as a champion by influencing the supply chain is very important because the carbon footprint of many organisations is much larger, often several times, than the footprint for its direct emissions resulting from operations.

Pablo gave the example of potatoes being purchased from farmers based on weight. This incentivised farmers to artificially humidify potatoes which involves energy intensive processing and increases transportation costs. By changing the way in which potatoes are purchased, the purchaser is able to reduce the related (indirect) carbon emissions from the process.

The Carbon Trust has issued the report in response to the rapidly growing offset market, which is currently unregulated with no defined rules of engagement, raising many credibility concerns. Poor offsets can bring no environmental or social benefits and may deliver less emissions than promised or may not be able to maintain the reductions in the longer term. Poor offsets can damage the purchaser's reputation. Pablo set out the Trust's VALID criteria for offsets to ensure purchasers are buying a real tonne of carbon: Verification; Additionality; Leakages; Impermanency; Double Counting. The following independent standards comply with this minimum level of quality assurance: CDM/JI; Voluntary Gold Standard; Climate Group Voluntary Standard; Climate, Community and Biodiversity standards (CCB); and Plan Vivo.

Day 1 Breakout Session

Three breakout groups considered the following issues and questions relating to carbon neutrality:

1 - Definitions

- What is carbon neutrality?
- Is it a valid concept?
- Is it different to 'zero carbon'?
- Do criteria need to be applied to the achievement of carbon neutrality?

2 - Different levels of carbon neutrality

- Does carbon neutrality just apply to operations, or can it also apply to plans and policies?
- If so, can the same criteria be used?
- If not, how should the different levels of carbon neutrality be defined?

3 - The calculation of baseline emissions

- What are the issues associated with calculating baseline emissions?
- Is there anything that Government can do to improve this process?
- How should organisations deal with green electricity tariffs, and other existing sustainability measures?

4 - Treatment of direct and indirect emissions

- Should the calculation of baseline emissions include indirect emissions (e.g. the emissions in goods and services)?
- If so, can this be achieved in a cost-effective way?
- If not, are there are policies or measures that could be put in place to encourage carbon neutrality for indirect emissions?

5 - Fitting with other policy measures (e.g. the proposed Energy Performance Commitment)

- How does carbon neutrality fit within the wider climate change policy agenda?
- Specifically, is carbon neutrality compatible and additional to a cap and trade approach to reducing emissions (e.g. Energy Performance Commitment)?

Two of the groups defined carbon neutrality as a state of zero net carbon (i.e. after accounting for offsetting). The third group defined carbon neutrality as a process rather than a state with carbon neutrality meaning the process of measuring the climate change impact of the individual/organisation and reducing it to zero. The group regarded carbon neutrality as a transitional instrument to obtain easy wins as part of a positive and transparent endeavour to reduce emissions. However, the two groups defining carbon neutrality as net zero carbon did refer to carbon neutrality as a means to move towards carbon zero (without offsets). Group 2 added that carbon neutrality is a valid concept only if boundaries are defined and timeframes and stages are identified and communicated. There were a number of comments on the usefulness of the term 'carbon neutrality', with a suggestion that 'carbon positive' might be more appropriate. This point of view received some support, but there was also recognition of the fact that carbon

neutrality is now commonly used, and has become a term that is the subject of Government policy.

On the application of carbon neutrality to different levels, Group 2 emphasised the importance of the organisation's sphere of influence. The group recognised that the relative importance of operations, plans or policies would depend on the nature of the organisation's business. For example, plans and policies are far more significant in carbon terms compared with operations for an organisation such as the World Bank. Group 3 took the view that carbon neutrality as an ongoing process should apply to plans and policies as well as operations.

On calculation of baseline emissions, Group 3 agreed that the creation of standard conversion factors would be useful. To ensure transparency, the Government could enforce disclosure of baselines and assumptions underpinning calculations/timeframes. The group also concluded that double-counting is a difficult issue with green energy as it is confusing as to whether green tariffs are inside or outside carbon neutrality. Group 2 emphasised the importance of communication in the calculation of baseline issues. The group pointed out that the process of calculating baselines and reducing or offsetting the emissions is guilt driven, so it is important to calculate the baseline in a positive and not a negative way, and to communicate this effectively. Better communication might also overcome the problem of different calculators and factors being used which give different numbers and costs. Although group 2 did not identify enforcement of disclosure, this group's recommendation would likely contribute to improving the quality of baselines through improved communication.

Group 1 regarded the treatment of indirect emissions as logistically and financially difficult and questioned whether it was the organisation's role or responsibility to tackle indirect emissions. Group 3 suggested that all organisations should be encouraged to take the first step of reducing their own direct emissions. If all organisations would do this then indirect emissions would eventually be covered.

On the final point concerning fitting with other policy measures, both groups 2 and 3 recognised that the introduction of cap and trade schemes to cover all organisations and individuals (e.g. personal carbon allowances; domestic tradeable quotas) would remove the need for carbon neutrality and offsetting measures. But as a transitional measure carbon neutrality should be part of a wider carbon management strategy. Group 2 also concluded that activity in the carbon neutrality/offset sector could be very positive for the UK, which is already recognised globally as a leader in tackling climate change. The UK should perhaps seek to transfer best practice and measures relating to carbon neutrality and offsets worldwide.

Group report-back and plenary discussion

There was considerable discussion on issues relating to the definition of carbon neutrality and the differences between the definitions proposed by the three groups. While two groups defined the concept in terms of a state, that being net zero carbon, they did in fact consider the concept as part of a process or path towards zero carbon (with no offsets). This idea is close to the process definition put forward by group 3: the process of measuring the climate change impact of the individual/organisation and reducing it to zero. Participants then considered whether a common definition or descriptor was indeed necessary. In response a participant proposed that an organisation is likely to interpret carbon neutrality based on its own circumstances and pressures. Therefore any descriptor should be simple, broad and generic as terms can sometimes be over-defined. It was suggested that carbon neutrality should perhaps be described in the context of the activity of the individual or organisation. It is the transparency of the process including calculation of the baseline and the measures to reduce emissions etc which are important. However, unless there is a common definition and common methodology, comparison would be difficult. But is comparison necessary?

On the discussion of inclusion of operations, plans and policies, the view of group 2 was that their relative importance would depend on the nature of the organisation's business. One participant concluded that it would be easiest to measure operations but policies and plans might be more important. Another participant thought that the inclusion of plans and policies and treatment of indirect emissions needs to be considered in the context of a broad carbon management strategy, ideally with a cap and trade system covering all emissions. Indirect emissions then become another entity's responsibility. An organisation would then only be responsible for its direct emissions. The problem relating to boundaries between direct and indirect emissions is then solved. Consideration of plans and policies is also easier. For example, DfT's plans for extra runways would be determined within the context of the cap and trade system.

Participants differed in opinion on how far upstream and downstream to go when influencing or talking indirect emissions i.e. where to set the boundaries. It was proposed that direct emissions would relate to any emissions 'on site' e.g. electricity used for lighting/heating/power is off site. Another suggestion was that direct emissions would include any that could be controlled by the organisation. Organisations might identify indirect, or lifecycle, emissions, and act as a champion to reduce them through the supply chain, but may choose to only offset unavoidable direct emissions.

Some organisations have been able to carry out complete lifecycle assessments. Some participants cautioned against the significant time and resources needed for this, and pointed out the risks involved such as accuracy issues and the danger of going on forever. A response was that tackling indirect emissions is important but must be manageable and practical. A point was raised that dealing with indirect emissions or embodied emissions can be very complicated as these emissions may come from any number of countries, including non-Kyoto countries. A sensible approach may be that advocated by the Carbon Trust, to tackle direct emissions first then be a champion to influence those entities responsible for your indirect emissions. A participant emphasised the importance of taking responsibility seriously to reduce own direct emissions before asking others (in the supply chain) to do the same, otherwise the request would not be viewed as credible.

One participant thought that it would not be helpful to put 'everything', including plans and policies, under the carbon neutrality umbrella. Plans and policies might be best dealt with by applying a standard 'social cost of carbon.' A participant added that it maybe more worthwhile spending money on reductions at source rather than on plans and policies. One response was that a good carbon management plan would help. Another response emphasised how it might depend on the type and business of the organisation but the way forward is likely to be tackling operations in the short term and plans and policies in the longer term.

There was some discussion on how disclosure of data relating to carbon neutrality could be enforced. Spot-checks may be one method but most firms are likely to comply with legislation.

The problem of double-counting was discussed. One participant suggested relaxing about this problem. Because present policies are not part of an overall carbon reduction management plan (e.g. cap and trade) there will inevitably be some double-counting. For example, there is overlap between green electricity and the EU ETS. As policies become more coherent and we gain more experience in this area, anomalies will probably be sorted out over time.

A participant pointed out that the biggest reductions are likely to be most controversial. For example, the Ministry of Defence is one of the largest Government departments and its procurement is very significant. The idea of a carbon neutral war was dismissed by a government official but the MOD would be looking at its operations from a carbon

neutrality point of view and it is clear that procurement of military related products and their associated emissions raised a major challenge.

At the end of the discussion a general consensus was reached whereby carbon neutrality was defined as the adoption by an organisation of a comprehensive carbon management strategy, which measures and reduces direct emissions, before engaging up and down the supply chain to influence indirect emissions. After complete lifecycle emissions are reduced, the organisation may then wish to offset the remaining emissions over which they have some control. Although this would differ from organisation to organisation, these emissions might include all direct emissions, plus emissions from activities such as transportation (including public transport and aviation) or those from contracted services. Carbon offsets would need to be subject to a carbon offset strategy to ensure integrity and additionality (see separate discussion on Day 2).

DAY 2 – Carbon Offsets

Hugh Raven, Sustainable Development Commission Commissioner, chaired the morning session and opened Day 2 with a summary report on Day 1. **Oliver Knight** of the **Sustainable Development Commission** followed with a presentation on the UK Government's consultation on a voluntary Code of Best Practice for carbon offset providers. The consultation document was due to be published a few days before the workshop but was postponed. As a result the policy lead from Defra was not able to attend so Oliver spoke on behalf of Defra to outline the key aspects of the Code and how this related to the discussion on the role of carbon offsetting. The consultation is due to be announced shortly.

The Government's line is that an organisation or individual should first take care to avoid and reduce emissions and only then consider offsetting the residual emissions. Government intends to provide a standard through the Code to ensure consumer confidence in the emerging offset market and therefore ensure continued growth in this sector. The consultation comes a time when the offset market has grown dramatically and also follows some negative reports (e.g. Internationalist Magazine) about offsets.

Defra states that it does not intend to undermine verified emissions reductions (VERs) from the voluntary market. Neither does the Government have plans for a Government-approved VER standard. However, there is recognition of the need to engage consumers and to give people more information and better transparency. The Code is geared towards offset providers and these providers may be selling to any type of organisation or even individuals.

The Code is expected to cover:

- Robust and verifiable emission reduction credits from the (Kyoto) compliance market i.e. CERs, EUAs, ERUs.
- Accurate calculation of emissions to be offset
- Clear consumer info on mechanism and projects supported
- Transparent pricing
- Timescales for cancelling credits (close to real time purchasing so credits not still circulating on market when bought)
- Where offered with goods and services, should be a compulsory choice for the consumer to offset.

Some participants felt it was sensible that Defra should take the position of supporting Kyoto mechanism credits under the Code for their own offsetting activities because the UK is a signatory to the UNFCCC and Kyoto Protocol. But what might be the implications for the voluntary market? A number of participants thought that because the Code will only support Kyoto compliance credits it would in fact undermine the voluntary carbon offset market. The majority of offset providers are providing VERs which are not Kyoto compliant, but introducing a Code would most likely mean buyers demanding that standard. However, various standards are already available and are widely used by the voluntary carbon offset market e.g. Gold Standard VER and the new Voluntary Carbon Standard (VCS) being developed by the Climate Group. Participants questioned whether this would mean that the voluntary market would either ignore the Code, rendering it meaningless, or whether offset providers would shift from VERs to Kyoto compliant credits such as certified emissions reductions (CERs) obtained through the CDM.

Currently Kyoto compliant credits are being purchased by large organisations, some of which are part of the EUETS. By providing more information and credibility, the Code may provide a role for opening up individual consumer markets. The question is whether the Code provides the right method for doing this.

There was some discussion surrounding the extent to which CDM projects contribute to sustainable development as well as offsetting greenhouse gases. Some participants thought that CDM projects are often based on economic rationale only and fail to incorporate sustainability criteria. Most CDM projects are large industrialised projects which are compliant with the Kyoto Protocol at low cost. However, there is now increased awareness of the sustainable development aspect of CDM projects and there is increasing demand for this from purchasers. Thus the voluntary market has a niche to provide 'CDM plus' projects of a premium standard, such as the Gold Standard.

Other participants believed that the rationale behind the setting up of the CDM mechanism through the Kyoto Protocol was based on the contribution that projects would make to the development of the host country. CDM projects could and should contribute more to sustainable development. Article 12.2 of the Kyoto Protocol sets out: "The purpose of the CDM shall be to assist Parties not included in Annex I in **achieving sustainable development** and in **contributing to the ultimate objective of the Convention**, and to assist Parties included in Annex I in **achieving compliance** with their quantified emission limitation and reduction commitments...". It can be argued that there is no need for 'CDM plus' projects.

A participant pointed out that the CDM mechanism may not continue in its current form, depending on the outcome of the post-2012 international architecture agreed. Any changes could have significant implications for the VER market.

Michael Schlup, Director of the Gold Standard Foundation, gave a presentation about the Foundation and its method for producing Gold Standard premium quality carbon credits. The Gold Standard Foundation is an independent foundation endorsed by 43 NGOs. The Gold Standard Label provides a quality assurance label for projects and credits. Michael informed participants that the Gold Standard deals with all kinds of projects and does not involve extra transaction costs.

The Gold Standard is applicable to both the CDM/JI market and the voluntary market. The Gold Standard for the voluntary market was launched in May 2006 to address the following issues: no independent standards; no regulation and high fragmentation; moral hazard of proper additionality without a CDM Executive Board.

Michael explained that a range of organisations are buying Gold Standard credits: governments; brokers/traders/funds; retailers; voluntary market programmes; special events; organisations. Many big actors also trade Gold Standard credits. The market has the opinion that Gold Standard credits have a higher price so are worth buying.

To achieve the Gold Standard, a project must:

- Be an eligible project type e.g. energy efficiency; renewable energy.
- pass additionality screens e.g. UNFCCC additionality test
- contribute to sustainable development (involves self-evaluation process)
- find local stakeholder acceptance
- pass an independent validation/verification process

A participant questioned how much Gold Standard VERs are in competition with the proposed Voluntary Carbon Standard (VCS). Michael agreed that the Gold Standard competes with the VCS but pointed out that the VCS standard is intended as a minimum standard whereas the Gold Standard is a premium standard.

One participant asked why some projects are excluded e.g. improved cooking stoves. Michael explained that it is not necessarily high transaction costs which prevent inclusion of projects but sound methodologies for calculating the baseline, otherwise the project can not be monitored. Michael suggested that the cooking stove community submit a proposal for a methodology to calculate the baseline. The Gold Standard can offer advice but does not develop methodologies. On the point of high transaction costs, Michael

explained that there are simplified guidelines for very small projects but a minimum volume of 1500 tonnes carbon emissions reduction is usually required for a project to be viable. Michael didn't take the view that the voluntary market was going to necessarily be a market for small projects.

Dr Marianne Moscoso-Osterkorn, International Director for the Renewable Energy and Energy Efficiency Partnership REEEP, gave a presentation on "Capacity Building for Carbon Offsets". REEEP's activities target developing markets and emerging economies. REEEP aims to reduce market barriers and financial obstacles for renewables and energy efficiency systems and to improve access to energy for the poor. REEEP also believes in action on the ground via project activities that are targeted on policy improvements and innovative finance mechanisms. As a global wide network of more than 4000 stakeholders and experts, covering more than 90 countries, REEEP has an excellent understanding of regional demand and is well placed to identify projects,

REEEP's Voluntary Carbon Offset Mechanism links regional demand for clean energy with customer needs for offsets. The projects undertaken are renewable energy and energy efficiency only – Marianne described several examples of REEEP projects in Africa. The mechanism only supports CDM, Gold Standard CERs or Gold Standard VERs and favours projects which have the potential for replication. Marianne explained that the voluntary market does make a difference for several reasons: only CDM and JI are eligible offset credits in the EUETS; in practice CDM has no sustainable development component; VERs can also deliver development dividends; VERs under a robust and credible scheme can deliver assurance for the purchaser as well as high impact on the ground; VERs can be an important finance source for small projects which would not be bankable otherwise.

Marianne called for a robust and harmonised system for VERs because the lack of an overarching framework means that the market is extremely diverse with a lack of integrity of the verification process. Lack of registries increases the risk of double-counting and delivery risks can be high. She then went on to lay out criteria for a successful offset. For offsetting parties, offsetting should be consistent with the overall sustainable strategy, there should be adequate knowledge about the project/impact and only reliable credits should be used e.g. CERs, Gold Standard VERs. Project developers will seek easy administration, media attention to attract debt financing and capacity building to improve skills.

One participant emphasised the importance of local networks and understanding regions. The Department of International Development (DfID) is in the process of mainstreaming climate change aspects into development projects. The question related to whether REEEP was linking into existing networks which perhaps don't have the carbon expertise but do have the financial or development expertise. Marianne explained that REEEP does link into existing networks. She explained that many networks in developing countries are focussed on access to energy so REEEP introduces the focus on clean and sustainable energy.

There was considerable discussion surrounding additionality. This concept generally means that a project would not have happened in the absence of the additional carbon finance. A participant questioned whether there was a category of projects which would be additional purely because they are not attractive e.g. too small, too difficult. Marianne explained that REEEP can provide capacity building to help tackle such projects. Additional money can then be attracted via the VER market. Local banks or development money might then be attracted. Another participant argued that methodologies for bundling projects was needed rather than standards for very small projects.

One participant pointed to the financial investment aspects of additionality. Marianne had mentioned in her talk that an offset project in South Africa had stimulated the market to such an extent that possibilities for other forms of investment in similar projects had opened up. The participant asked if this had had the effect of removing the potential for

additionality of future REEEP projects in that area. Marianne explained that REEEP is a capacity builder and facilitator, not an offset provider. REEEP's core business is to deliver access to clean energy, so replication of the project through the expanding market was welcomed whether or not the projects delivered offsets. Additionality in this case would need to be judged through the offset criteria.

A participant argued that the additionality rule should be reviewed for the sake of developing a robust market. At present, additionality is regarded as a fundamental part of process. However, the scale of projects to reduce emissions is no where near meeting the needs for tackling the climate change problem. Perhaps the rules are too constraining? Some companies are now questioning whether to enter the market at all.

One participant mentioned the huge unsustainable biomass problem with clear-cutting and deforestation. Projects to tackle this problem are not eligible for CDM and they should be. However, Marianne repeated the point made by Michael – that sufficient scale was the key issue here, just as with the South African wind power project it wouldn't be viable to build just one wind turbine. REEEP wants to bring into the VER market some projects and issues not yet included e.g. cooking stoves, deforestation. Marianne suggested that REEEP might develop some methodologies with NGOs and experts.

Day 2 Breakout Session

The second breakout session involved three groups each discussing different themes relating to carbon offsets: criteria; procurement and communication.

Group 1 - criteria

Before considering its assigned task relating to carbon offset criteria, the group had a quick brainstorm on the UK Government's proposed code. The group agreed that the consultation process was badly thought through. There was a general feeling that the VER market will be affected. However, the group agreed it was good that Government endorse something for their own offset considerations but the Government should also look to the potential of endorsing third party VER standards e.g. VCS, and Gold Standard VERs.

The group listed 7 reasons why VERs and the voluntary market add value:

- lack of country capacity and expertise in applying for CDM accreditation
- involves non-Kyoto countries
- projects too small for Kyoto compliant mechanisms
- faster implementation
- better able to respond to customer needs
- promotes innovation e.g. testing of technology/ideas

Group 1 had been asked to consider the following issues relating to criteria:

- When is offsetting justified?
- What constitutes a viable and sustainable carbon offset?
- What is the scope for additional sustainability criteria when procuring offsets?
- Is there scope for a combination of approaches or offset funds?

Group 1 agreed that offsetting could only be justified if it is part of a carbon management strategy for a low carbon future. There is an implicit assumption that the offset reduces over time. There is a need to consider the lifecycle of the offset – that it keeps its value over the required timeframe. The offset must be based on controlled and measurable emissions. The validity of an offset is also dependent on very clear communication.

The group thought that there would be a role for Government to promote reductions and efficiencies ahead of offsets. Offsetting would be part of a framework with an end goal of a low carbon world. This process would involve education and promotion of behavioural change.

The group considered the VALID concept proposed by the Carbon Trust (see presentation on Day 1) as an acceptable minimum standard. An extra step forward would be to provide additional sustainable developments benefits. The group also proposed that the Government use Gold Standard CDM credits for their own offsetting - but this requirement should not be imposed on other purchasers.

The group considered the scope for additional sustainability, and identified the following needs:

- a list of target countries that could most benefit from sustainable development (e.g. the 50 least well off countries?)
- a pragmatic approach
- a definite commitment
- capacity building

The group considered an alternative to be investment in low carbon technologies in a rapidly industrialising country. Efforts could be increased to join up the dots vis-à-vis development assistance. Good governance needs to be promoted and supported.

The group did not support combining different types of offset – e.g. CDM credits along with a contribution to a capacity-building fund that does lead to certified offsets (e.g. core REEEP funding). However, where capacity-building can be achieved as part of the offset project procured, this would represent a double-win. Furthermore, there is a strong case for funding capacity-building projects in their own right as part of core development funding. The group also concluded that the Government should not be permitted to put offset money into an internal carbon reduction fund – e.g. by using offset funds to improve energy efficiency or install microgeneration. These activities would not be additional and should be carried out as part of a comprehensive carbon management strategy as recommended by the Carbon Trust.

Group 2 - procurement

Group 2 was asked to consider three issues relating to the procurement of carbon offsets:

Question 1: What can public sector organisations do to raise the standard of carbon offsets, both in terms of additionality, and in terms of the regulatory burden on the beneficiary?

The Group considered this question in the context of the Government's consultation on a proposed Code:

- Is a Government guidance document really necessary?
- CERs have the advantage that they are already approved so no additional standard is necessary
- There may be a need for a common standard for voluntary offsets as there is a problem with competing standards. This leads to high costs and barriers to entry for VER providers
- A standard would offer some protection for a consumer who has not been able to undertake due diligence; large organisations are likely to do this themselves
- The voluntary offset market surely does not want its reputation undermined by a couple of bad cases
- The Government should support the Kyoto Protocol by purchasing Kyoto compliant mechanisms. The Government could also encourage or promote other premium standards such as the Gold Standard and should set an example of best practice. In addition, low risk is attractive to public sector organisations – for this reason CERs would be more favourable than VERs.
- It could be possible for the Government to have a portfolio of projects from both the Kyoto compliant mechanisms and the voluntary market.

- Standards should be able to cover smaller projects.
- Is it possible/acceptable to have a multi-level standard?
- Consideration should be given to 'vintage' i.e. when will the benefit be delivered?
- Possible setting of long-term government purchase of carbon to provide some certainty to the market post-2012
- Offsets in non-Kyoto countries could reduce motivation for countries to join post-Kyoto regime.

Question 2: What would be the most cost effective way of procuring offsets?

- Bulk purchasing could be cost effective – Government Departments could band together. However, there may be different motivations for offsetting such that different Departments might opt for different types of offsets.
- Outsourcing may be an attractive option.
- Consideration should be given to the level of risk. Cheaper offsets may carry a higher risk which may not be desirable
- Consideration should be given to purchase of post-2012 guarantees
- Carbon credits might be available through technology transfer e.g. export credit guarantees
- Government procurement is a formalised process which may have implications for cost-effectiveness.

Question 3: Is there scope for sharing offset funds or providers across different organisations?

- Sharing should be encouraged
- Bulk purchasing will spread risk
- Splitting contracts adds cost
- Length of contract is important. Need to keep the ability to change provider
- Government procurement can make it possible or easier to mainstream products/ideas

There was a short discussion following the Group's report back. A participant raised the possibility of complaints of the Government taking too many CERs through large scale procurement. Another participant pointed out that bulk procurement is likely to result in less commission which is sometimes charged by providers per transaction. Another participant suggested the use of export credit guarantees as another means of spreading the agenda and realising another incremental move towards getting a project off the ground.

Group 3 - communication

Group 3 considered three questions relating to communication issues associated with carbon offsets.

Question 1: How should offsetting be presented to the public?

- Offsetting should be presented as part of wanting to make a difference - not just offsetting.
- There needs to be standard which can be trusted – this might limit creativity of some projects.
- Over time, as more people engage, there will be more clarity and transparency.
- There is a risk of doing something good becoming negative i.e. reputation risk.
- ERO – efficiency reduction offset. Climate change can not be solved by offsetting alone, it must be evident that offsets are part of a process of reduction. Transparency is therefore required. There must be focus on efficiency and reductions across the rest of the supply chain as well as behavioural change.
- Offsetting could be seen as a dubious use of resources. For example, some might argue that a hip replacement is a better use of public money than the purchase of carbon offsets. The story must be right about why we do this.

Question 2: What are the risks of offsetting being seen as dubious use of scarce public resources, and how is this affected by the choice of offsetting option?

Offsetting could be seen as dubious use of public funds:

- competing priorities for funds
- political capital (offsetting vs. new hip operations?)
- local (efficiency and reduction) or global (offsets) – geography involved which is politically important

Question 3: Are there any risks in terms of reputation or credibility related to offsetting that public sector organisations need to consider? How can these be mitigated?

Reputational Risks:

- An independent survey or research of public attitudes is needed. Public is not currently fully engaged and has inadequate understanding. Lack of public awareness leads to lack of understanding. It is not just information which is needed but public engagement.
- [Carbonsense indicated some focus groups they had been involved with, involving famers, shopkeepers etc had revealed cynicism of Government with offsetting being regarded as a laughable waste of money.
- There is a danger of a fragmented approach across Government and of offsets being purchased without action on the efficiency and reduction elements of ERO. Government needs to adopt a holistic approach in terms of engagement, strategy and policy.
- Balancing mainstream activity and mitigating reputational risks is important.

Leadership is essential:

- This Government is more engaged than any other but could do better.
- The Government must be accountable and deliver.
- The Government must be transparent.
- Much thought should be given to communication, including with children.

Mitigants:

- leadership
- accountability
- transparency
- communication
- robust offset for HMG, describe options for public
- improved carbon literacy

Plenary discussion

One participant pointed out that some offset providers service the voluntary market with only CERs or Gold Standard VER credits and that many VER projects could in fact qualify as CDM projects. Providers opt to provide VERs over CERs to avoid the rigorous and more expensive CDM verification process. Most CDM and Gold Standard projects only deliver about 60% of the expected reductions after verification has been carried out. As a VER project without such rigorous verification, 100% reductions can be claimed without being verified. The participant therefore felt that a Code for the voluntary market that is restricted to compliance market credits is necessary. Participants were split on this view with some saying that the CDM mechanism poses barriers for some types of project, such as small projects and projects involving deforestation/biomass – see the discussion from Group 1.

One participant expressed agreement that some VER projects could be CDM, but questioned whether they *should* be CDM? He argued that VERs are, like CDM, verified but the verification standard varies from provider to provider. In response to this, a participant suggested that more than one set of standards may be necessary as the

Government's needs are different to the needs of organisations and individuals. Some participants agreed with this. Others took the view that CERs should be the common minimum standard.

There was some discussion regarding the inclusion of sustainable development benefits in CDM projects. While the Kyoto Protocol requires the CDM mechanism to deliver sustainable development benefits, few CDM projects have delivered in this area. A participant pointed out that high development projects need development money and VER projects are able to obtain these necessary funds. A less bureaucratic setup for the VER market means that more innovative, small and less expensive projects can be pursued and these projects can also deliver sustainable development benefits.

In summary, a consensus emerged on the following:

- Agreement that CERs, perhaps with the Gold Standard, is an appropriate standard for Government procurement of carbon offsets.
- Serious concern that Government is being prescriptive for the voluntary market, with insufficient consultation.
- Competing standards in the voluntary sector are problematic.
- A credible process for verification of VERs is needed.
- Possibly another standard or standards, in addition to the Government's Code (which could be made applicable to Government Departments only), could be introduced for organisations and individuals. The Voluntary Carbon Standard (being developed by the Climate Group) may provide this, but only if the additionality criteria are as robust as the CDM criteria. However, there was some disagreement about the ambition of such a standard - with some arguing that all offset producing projects should meet CDM criteria.
- Transparency and communication between Government, providers and purchasers is very important.