WWF-UK’s response to the consultation on establishing a voluntary code of best practice for the provision of carbon offsetting to UK customers

April 2007

THE VOLUNTARY CARBON OFFSET MARKET

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

The voluntary market for carbon offsets, though still small in comparison to the compliance market, is growing at a rapid rate. The market, which is entirely unregulated has lead to serious concerns that many offerings lack credibility. Indeed there has been a strong backlash against offsetting in the UK, fuelled by press reports of poor quality, non-additional projects and the use of offsetting to portray highly polluting products, such as SUVs, as “carbon neutral”. With this in mind WWF welcomes the government’s efforts to standardise this market by introducing a voluntary code of best practice (hence forth referred to as the Code).

WWF considers that offsetting, if used properly, can play a limited part in a strategy to reduce carbon emissions and help catalyse the transition to non-fossil fuel based energy systems and encourage greater energy efficiency in offset host countries. However, there is a danger that offsetting is becoming a distraction from – and even worse, a direct competitor to – the real and urgent need to reduce carbon emissions from industrialised nations through better efficiency, promotion of less polluting products, managing demand for polluting activities and a shift to the use of renewable and low-carbon energy sources. We welcome the government’s recognition in the consultation document that offsetting should sit firmly below these measures in a hierarchy of options.

COMMENTS ON SPECIFIC ELEMENTS OF THE CODE

1. The use of certified credits to offset emissions

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?

a) The compliance market

WWF has specific concerns with regards to the use of non-Gold Standard compliance credits, which it is proposed would be eligible for use under the Code. These are summarised below:

i) Certified Emissions Reductions from Clean Development Mechanism projects

The CDM has two aims – to assist Annex I countries in meeting emissions reduction targets by using credits generated from emissions reduction projects in non-Annex I countries, and to help non-Annex I countries achieve sustainable development. Both objectives depend entirely on proving that projects are additional to what would have happened in the absence of the carbon
markets. However, WWF is concerned that approval of a project by the CDM Executive Board may not currently guarantee this. In addition we are concerned that the sustainable development criteria is often overlooked – a situation which has likely been exacerbated by the fact that the CDM Executive Board does not provide common criteria for a project’s contribution to development.

Both of these issues were highlighted in a recent Channel 4 News report (7 February 2007)\(^1\) which focussed on two projects in India. The first - the Shree Bajrang waste-heat recovery project in Raipur which is housed within a sponge iron plant that is suspected of polluting the soil and water in the area. With the second, another waste heat recovery project, in a steel plant in Karnataka state, it was claimed that the technology to recover heat would have been installed regardless of the existence of the carbon market. Worryingly, an advisor to the CDM Executive Board, Dr Axel Michaelowa, told the programme that he thought one third of the 50 projects he had surveyed in India were not additional.

Another concern is that at present the CDM is dominated by cheap credits generated from projects to reduce industrial greenhouse gases such as the potent HFC-23. The argument is often put forward that such industrial gas projects are the “low hanging fruit” which offer quick, cheap, emissions abatement opportunities that will in the long run be replaced by the more expensive renewable energy and energy efficiency projects. However, until credits from these projects run out they will continue to divert funds away from tackling the real challenge – the drive towards a low carbon energy system. Indeed a recent article in Nature indicated that it would cost around €100 million to install scrubbers onto the existing factories producing HFC-23 in the developing world. Yet the same factories look set to make €4.7 billion from the sale of credits into the carbon market - funds which could have been much better spent in assisting the rapidly industrialising countries such as China and India develop along a lower carbon pathway, and giving access to energy to some of the world’s poorest people.

Moreover, access to large volumes of such cheap credits tends to depress the carbon price. This undermines abatement in Europe, and also tends to push CDM developers to projects which are “less additional”.

\section*{ii) European Union Allowances from the EU Emissions Trading Scheme}

Allowances from the EU Emissions Trading Scheme should not be eligible under the Code at least until there is proof that the scheme is delivering real emissions reductions and driving investment in low carbon technology within Europe. There is clear evidence that Phase I will be long – 2005 verified emissions from sectors covered by the scheme were massively under their allocation and data for 2006 is indicating that this trend is continuing\(^2\). For phase II the jury is still out with regards to whether the scheme will deliver substantial emissions reductions within Europe, not least because Governments are proposing to allow access to significant amounts of project credits in the EU ETS which could mean that the market is still long (or that the deficit is marginal). Overall, the concern is that the use of EUAs in the voluntary market could be tantamount to the purchase of “hot air”.

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\begin{itemize}
\item \(1\) http://www.channel4.com/news/articles/business\_money/carbon+trading+not+cutting+co2/191945\#fold
\item \(2\) Point Carbon, 3 April 2007 “EU ETS 2006 emissions grow to 1,888 million tonnes: EU”
\end{itemize}
In conclusion – WWF understands the government’s reasons for preferring that only compliance standard credits or allowances should be permitted under the Code. However, we are concerned that this does not go far enough in promoting “best practice” in the field of carbon offsetting. WWF is strongly of the view that the only robust and independent standard currently on the market that offers a high level of assurance with regards to “quality” for both the compliance and the voluntary market is the Gold Standard – a transparent, internationally recognised benchmark for “high quality” carbon offset projects. The Gold Standard for both compliance and voluntary markets is restricted to renewable energy and end use efficiency projects, requires a conservative interpretation of the UNFCCC additionality test and evidence from a UNFCCC-accredited independent third party that the project is making a real contribution to sustainable development. Currently there are approximately 60 Gold Standard projects in the pipeline.

We note that the Government Carbon Offsetting Fund sets criteria for the purchase of offsets above and beyond those established by the CDM Executive Board. A letter from the Secretary of State for the Environment to WWF (20 February 2007) states:

“The Defra-led Government Carbon Offsetting Fund, covering air travel emissions from over thirty departments and agencies, will only purchase CERs from small-scale energy efficiency and renewable energy projects. These projects will also have additional sustainable development benefits and hopefully a number of them will gain Gold Standard accreditation… Government is leading the way by committing to the highest standards and ensuring our objective of sustainability is part of this… The Gold Standard for CERs, and the GCOF, shows that it is possible to develop robust offsetting projects and create additional sustainable development benefits without detracting from the primary purpose: to reduce carbon.”

As a bare minimum therefore, WWF would recommend that with regards to the use of CERs/ERUs the government should advocate that the same criteria it is applying to its Carbon Offsetting Fund are also adopted under the Code. Ideally the Code should advocate that only credits certified to the Gold Standard are eligible. EUAs should not be eligible under the Code, at least until there is conclusive proof that the scheme is delivering real emissions reductions and driving investment in low carbon technology within Europe.

b) Voluntary Emissions Reductions (VERs)
We consider that VERs could also have a role to play in the offsets market, provided they follow high and widely-recognised standards for additionality and sustainable development. Provided it is subject to high standards, the voluntary market could help projects to be developed in countries where capacity and expertise in applying CDM accreditation is lacking. It could also enable small projects to gain access to the carbon markets, and could provide a test bed which allows innovation/testing of new technologies and ideas.

3 The Gold Standard was developed because of concerns over the environmental credibility of credits in both the compliance and voluntary markets and the contribution of the projects to sustainable development. The standard for the compliance market was launched in 2003 and to complement this, a standard for the voluntary market was released in May 2006.
The consultation document cites a number of reasons as to why it does not consider that VERs currently provide a suitable basis for offsetting best practice e.g. “There is no overarching internationally agreed project approval or emissions reduction verification procedure for such projects. In addition, there is no international registry for tracking or cancelling VERs.” With respect to a project standard, as already mentioned, we consider that the Gold Standard for VERs (which is as strict as its compliance standard) offers a quality assurance in this market. It is also worth noting that the Gold Standard and The Climate Group are currently in the process of developing a registry for these credits which they hope will be up and running within the year. We strongly agree that a mechanism for tracking and cancelling VER’s is vital to ensure the credibility of the market.

WWF recommends that the Code should acknowledge that a quality standard for the voluntary market exists in the form of the Gold Standard, and that the government should consider including this standard for use under the Code once an international registry is in operation.

2) Accurate calculation of emissions to be offset

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?

Currently there appears to be a big discrepancy between offset providers in calculating emissions from activities – particularly with regard to emissions from flying. For example a recent article in Nature reported “... CarbonNeutral Company calculates a return flight from London to Bangkok, Thailand, at 2.1 tonnes of CO\textsubscript{2} per passenger...... Swiss-based myclimate arrives at 3.6 tonnes.... and the German Atmosfair reckons 6.9 tonnes.”\textsuperscript{4} It is important that the method for calculating emissions is as accurate as possible. As such a common standard would we welcomed and should add to consumer confidence in the market.

The accuracy of calculating emissions from, for example flying however, should take into account a number of variables as described in the recent report from the Tufts Climate Initiative\textsuperscript{5}. These include:

- radiative forcing (e.g. the non-CO\textsubscript{2} impacts should also be taken into account) – based on the most up to date science;
- flight distance (this affects the fuel efficiency of the flight as more fuel is used during take off and landing, hence shorter flights are less fuel efficient);
- occupancy efficiency (for example international flights fly at 78% of maximum payload and domestic flights at around 65% on average)\textsuperscript{6};
- business versus economy; and
- the type of plane that is used.

If the government-agreed database took these factors into account then it would provide a sound basis for use by offset providers.

\textsuperscript{4} Nature, 444, 976-977, 21 December 2006 “Why change your lifestyle when you can pay a company to save your greenhouse-gas emissions for you?”

\textsuperscript{5} Tufts Climate Initiative “Voluntary offsets for air-travel carbon emissions” December 2006

\textsuperscript{6} Royal Commission on Environmental Protection (RCEP), (2003). ”The Environmental Effects of Civil Aviation in Flight“
3) Clear information for consumers regarding the mechanism and/or projects supported

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

We agree that the six points outlined in the consultation document cover information that should be made available to consumers. We would recommend though that the first two points are combined and presented in such a way which ensures that customers gain a clear understanding of the role of offsetting in tackling climate change. For example offsetting must be presented as a last resort option which should only be considered once actions have been taken to avoid and reduce emissions. It must not be presented as a solution in itself which lulls consumers into believing that their carbon footprint has been somehow “neutralised”. For example BP’s “targetneutral” initiative (www.targetneutral.com) states:

“We all contribute to CO$_2$ emissions when we drive. We can all do something about it. It’s simple and doesn’t cost the earth. On average, it’s just £20 a year. Neutralise your CO$_2$ emissions now”

Such statements are completely misleading as they imply that it is acceptable to continue with “business as usual” activities as long as you purchase offsets. In our view such “products” should not be approved by any government Code.

We would also therefore recommend that clear guidelines on the responsible marketing of offsets are also included in the Code.

4) Transparent pricing

Q16. Do you agree that this breakdown of prices should be provided to consumers?
Q17. Do you agree that this price information should be provided at the time of purchasing offsets? Or on request only?

Consumers should be able to see where their money is being spent so presenting a breakdown of costs is very important. We agree with the breakdown of prices presented in the consultation document and agree that this information should be provided at the time of purchase.

6) Encouragement of consumer uptake

Q10. Do you agree that the Code should require companies offering offsetting at the point of sale with other goods or services, to give consumers a compulsory choice or a “default option”?

A “default option” which automatically includes the price of offsetting for a product would appear to contradict one of the aims of the code which is to ‘to enable, and encourage, consumers to make active choices about offsetting’. In our view it would appear to be more sensible to offer consumers a compulsory choice. Active uptake of offsetting could indicate a level of interest in climate change and the actions that can be taken to tackle it whilst a default option would indicate no such interest.
OTHER COMMENTS

Q3. Should the government consider, in future, making the Code mandatory and putting it in legislation?

Q4. Do you agree that the Code should be voluntary in nature?

In general we remain nervous about the use of voluntary codes and agreements as past experience has shown that these are limited in their effectiveness. In this instance though it may make sense initially if the code was voluntary in nature. However, confidence and participation in the scheme should be reviewed at regular intervals to assess level of uptake. If uptake is low then the voluntary nature of the scheme should be re-considered. The government could consider, for example, making aspects of the code a mandatory “licence to operate” This could include - the accurate calculation of emissions to be offset; clear information for consumers regarding the role of offsetting, the mechanism and projects supported etc.; transparent pricing and the timescale for cancelling credits.

A mandatory code would also offer a more robust way in which breaches of the code could be challenged.

Q6. With a code that includes EUA’s, do you agree with this proposed treatment of the ‘double counting’ issue?

We consider that the consultation document over-complicates the issue. Emissions of installations within the EU ETS are not reduced to zero. Rather caps are set which the individual installations must meet. However, to avoid confusion over double counting - and in addition to the other reasons mentioned previously - we would suggest that EUA’ are not eligible under the code.

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7 For example the European Commission’s voluntary agreement with car manufacturers to reduce CO₂ emissions from new cars to an average of 140g/km by 2008 looks set to fail by a wide margin.