



Climate Care's Response to Government Consultation

This is Climate Care's position on the UK Government's proposed Code of Best Practice for voluntary carbon offsetting.

18 January 2007

After ten years working in the voluntary carbon market, Climate Care is delighted that DEFRA is taking a positive interest in the sector, its potential to deliver emission reductions and to engage the public.

DEFRA has launched a consultation on its proposals for the voluntary carbon market. Climate Care is supportive of DEFRA's broad objectives. However, we have concerns about the content and direction of the consultation.

In Defra's press release, a limited number of providers are named who 'already meet the Government's standard by offering Certified Emission Reduction Credits'. The clear implication is that the exclusive use of compliance credits has already been decided, casting doubt on whether this is a true consultation process for this most critical issue.

In light of this Climate Care would like to take the opportunity to set out clearly our position:

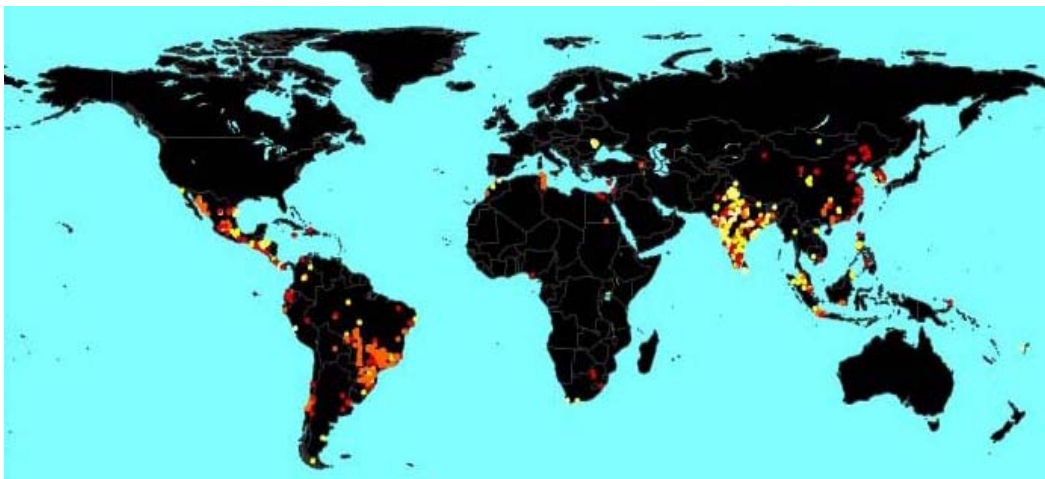
- Climate Care believes that a strong and common voluntary market standard is vital; due attention must be given to the rigour of monitoring and verification and to the key issues of additionality, permanence, double counting and leakage.
- We acknowledge that the Clean Development Mechanism (CDM) provides a template and mechanism for creating high quality emission reductions.
- In addition, we accept that the EU Emissions Trading Scheme (EU ETS) could also have a role in delivering real emission reductions.
- However, at this point in time the compliance mechanisms are not appropriate as **the only** mechanisms for the voluntary market.

Compliance Market issues

- Climate Care retains serious doubts over the incorporation of phase one EUAs as a means of offsetting. As a cap-and-trade scheme, the EU Emissions

Trading Scheme's success relies on the allocation of allowances by each country to incentivise investment adequately. Yet an asymmetry in information between emitters and governments has produced weak targets out of line with climate change targets¹ and cast doubt on the legitimacy of the allocations.

- Within the CDM, a number of design and procedural issues have led to failings in key areas:
 - Without certainty that the CDM will exist beyond 2012 it is possible future emission reductions will never attain certification. The absence of a long term signal for commitments has deterred investment, negatively impacting any projects with long paybacks beyond 2012.
 - This particularly impacts smaller projects which have high proportionate transaction costs, and often rely on long paybacks as a consequence.
 - Projects with significant risk of delay in delivery past 2012, often in the less developed areas where infrastructure and resources are weak, are also significantly affected.
 - Despite sustainable development being one of the mechanism's two stated objectives², projects with such attributes are not being delivered.
- The failure to incorporate sustainable development benefits adequately is nowhere more obvious than in Africa, where less than 1% of CERs originate³. This is particularly clear when looking at the CDM map of projects⁴:



CDM Map of projects

This situation is the result of a number of inadequacies in the CDM set-up - issues and emerging trends which the International Emissions Trading Association considers 'threaten the continued viability of the Mechanism'³ and include:

- o Lack of technical competence and institutional uncertainty, notably with reference to the key concept of non-renewable biomass. This is a critical concept for projects (often using biogas digesters and cookstoves) in the least developed countries, which can be closer to the ideal of the CDM than many of the prevalent project types. Having proposed a poorly crafted and inadequate methodology, the CDM Executive Board has withdrawn it without approval. Yet, despite the great potential of such projects, a replacement methodology remains to be approved.
- o Inappropriate procedures for small scale projects, which are often most suitable for sustainable development. These processes can impose unnecessary complexities and greatly increase the transaction costs, jeopardising project feasibility.

- o Uncertainties about the CDM Executive Board's capacity to reach decisions in a timely manner, also resulting in risk, deterring investment.

Example - delays and uncertainty³

Amongst numerous examples listed by the International Emissions Trading Association, most notable are delays caused by the scheduling of only 6 Executive Board meetings in contrast to the management plan which had scheduled 8 meetings. This exacerbates delays at panel level and can result in substantial delays to project crediting periods.

- o Increasing levels of bureaucracy, which delays projects and deters investment, of particular relevance to projects located in less developed areas which already carry greater risk.

Example – bureaucracy³

After the most recent CDM Executive Board meeting (EB23) a Registration and Issuance team has been put in place. The International Emissions Trading Association considers that this entity actually duplicates the work of an existing body, the Accreditation Panel, without adding further value.

- Substantial delays in approval of new methodologies, which will 'lead to quality projects, with significant sustainable development benefits, to go undeveloped'³.

Example – methodology approval delay³

IETA highlights a new bio-diesel methodology, initially submitted on 19th April 2005. As of September 2006 a bio-diesel methodology was still not approved despite general recognition that bio-diesel refineries should be a CDM-eligible project activity.

Benefits of the voluntary carbon market

- Beyond addressing failures within the compliance markets, the voluntary market offers huge value in its capacity as an innovator. The market's flexibility allows it to act as a pioneer in developing and refining methodologies and addressing new project types that can eventually be submitted into the compliance market. In this way the voluntary market is of great benefit to the compliance market, through its ability to act as a learning ground and to expand the scope and practices of the market – the so called 'thin end of the wedge'.
- If offsets are to succeed, they must work for consumers. Voluntary demand is currently focused on a 'valued-added model'⁵, which centres around additional sustainable development benefits. However, the compliance market tends to produce more commoditized emission reductions which do not match these voluntary market preferences.

Market risks

- By including only delivered compliance market emission reductions the price of offsets is likely to rise. Depending on price elasticity, at this point in time the outcome could be a reduction rather than an increase in the total amount of money available for offsetting.
- Without true consultation, voluntary market operators may in fact be pushed farther from unifying around a strong, common standard leading to greater fragmentation in the market than exists already.



Summary

Climate Care does accept that in the long term the compliance and voluntary markets are likely to converge. However, the issues outlined above mean such convergence would, at this point in time, be detrimental to the market.

DEFRA's consultation launch raises concerns that key issues have already been decided.

In summary, Climate Care's position is therefore that:

- Climate Care will support DEFRA's active involvement in the voluntary carbon market.
- Climate Care will continue to offer existing voluntary emission reductions.
- If DEFRA pursues its proposals and provides government endorsement only for compliance based offsets, Climate Care will offer such offsets to customers *alongside* existing voluntary emission reductions.
- This action will be on the understanding that Climate Care believe DEFRA have failed to take advantage of real market experience gained in the industry over the last decade.
- In the meantime Climate Care will continue to campaign for DEFRA to genuinely consider the important points of principle that we feel have been pre-judged.

¹ CAN-Europe (2006) *National Allocation Plans 2005–2007: do they deliver?* [Online] Available from: http://www.climnet.org/EUenergy/ET/NAPsReport_Summary0306.pdf

² Kyoto Protocol (1997) Article 12.

³ IETA (2006) *2006 State of the CDM*. [Online] Available from: <http://www.ieta.org/ieta/www/pages/getfile.php?docID=1931>

⁴ CDM (2006) *CDM Projects Location*. [Online] Available from: <http://cdm.unfccc.int/Projects/MapApp>

⁵ Bayon, R.; Hawn, A. and Hamilton, K. (2006 P.102-103) *Voluntary Carbon markets: An International Business Guide to What They Are and How They Work*. Earthscan, London, UK.