

South Pole Group Carbon Offset Strategies



What are offsets?

- An offset is a quantified, verified emission reduction,
 - that happened somewhere else,
 - but that you can claim against your emission reduction target
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- The unit of an offset is one tonne of CO₂
 - In China, they are regulated by NDRC and called CCERs

Offsets as a flexible compliance instrument

- Most ETS allow offsets in one form or another
- Offsets enable higher ambition, and/or reduce costs of compliance by accessing low-cost abatement opportunities outside of the ETS boundaries
- All ETS limit the usage of offsets in one way or another

Your offset quota is an asset, make use of it

- Offsets are priced lower than allowances, use them to lower your compliance cost
- Make use of your offset quota even if you are long on allowances
- Sell allowances and buy a corresponding amount of offsets, up to your maximum quota

Offset eligibility

- A CCER is a standardized unit with a single set of rules governing its creation
- However, currently all seven pilot ETS limit offset usage in several ways:
 - Maximum offset usage quota
 - Restrictions on offset origin
 - Restrictions on underlying project type

Buy spot, buy futures, or create your own?

	Risks	Cost
Spot CCERs	very low	highest
Future CCERs	medium	medium
Developing CCERs	high	lowest

- Select the right purchase strategy based on the size of your demand and your risk profile
- Typically, a combination of spot and future purchases is carried out

Spot CCERs

- Spot CCERs can be bought directly on an exchange
- You can also buy CCERs OTC and execute the transaction on an exchange
- When do you buy your CCERs?
Periodically throughout the year?
Towards the end of the compliance period?

Future CCERs

- You can enter into a purchase contract with a seller of CCERs with a delivery date in the future
- The seller will likely offer such CCERs at a discount, either at a fixed price, or indexed
- You expose yourself to a non-delivery risk (or delays) and counterparty default risk
- The final transaction will be executed on an exchange

CCER project development

- Interesting if you have access to eligible low-cost mitigation projects
- Can also be interesting if you need large amounts of offsets at low cost
- Development cycle fairly mature by now, comparatively low costs
- Main risks are delays in registration and issuance (missing the compliance deadline) and eligibility changes

Offset/allowance portfolio management

- If your allowance/offset portfolio reaches a certain size, you will be doing management in-house
- For smaller portfolios, you can pool with partners, team up with funds, or portfolio management companies
- You gain access to economies of scale (e.g. for grouped offset projects), better market intelligence and can adjust your risk exposure

Offset strategy in summary

- Make use of offsets to lower your costs
- Come up with the right strategy depending on your demand, risk profile and appetite to actively participate in offsets
- Define a purchase/sales strategy, follow the market(s), plan ahead when to engage
- As an absolute minimum, try to use up your offset quota and consider the allowance/offset swap

About us



South Pole Group – leading offset provider

- A large portfolio of high-quality offsets from over 350 projects worldwide
- Very experienced project developer under all major standards, including CCERs
- Pioneered scaled-up projects in China (e.g. the small hydro power bundle with 97 installations in Southwest China)
- Global leader in voluntary offsets

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