



Enlisting government support for voluntary carbon management & offsetting to scale & accelerate climate action

The International Carbon Reduction and Offset Alliance (ICROA)

&

IETA

WHITE PAPER

Issue 1. 18th November 2014

TABLE OF CONTENTS

- 1 Introduction 4
- 2 The impact and value of voluntary action 6
 - 2.1 How voluntary action works in practice 6
 - 2.2 Impact and growth of voluntary action 8
 - 2.3 business benefits from voluntary carbon management and offsetting..... 9
 - 2.4 Community and sustainable development benefits of carbon offsetting 10
 - 2.5 Government benefits behind supporting carbon offsetting 13
- 3. State of government engagement in voluntary carbon offsetting 14
 - 3.1 Carbon credit standards..... 15
 - 3.2 Carbon credit registries..... 15
 - 3.3 Carbon credit exchanges..... 16
- 4. Principles of good design of a voluntary carbon market 17
 - 4.1 Policy, Infrastructure and standards..... 17
 - 4.2 Oversight and endorsement of voluntary activities..... 18
 - 4.3 Government incentives and rewards..... 18
- 5. Conclusions and Next Steps 20

GLOSSARY OF TERMS AS USED IN THIS WHITE PAPER

Carbon Credit: A transactable, non-tangible instrument representing a unit of carbon dioxide equivalent (CO₂e) – typically one tonne – that is reduced, avoided or sequestered by a specific carbon mitigation project and is certified to an nationally or internationally recognized Carbon Offset Standard. Carbon credits are typically ultimately used to counter-balance or compensate for emissions occurring elsewhere. Carbon credits are used in this way either to meet regulatory requirements (for example under a carbon emission trading scheme), or on a voluntary basis (see Voluntary Action).

Carbon Management Advisory Sector: The sector which includes companies that provides carbon foot-printing and carbon management services.

Carbon Offsetting: The practice of compensating for greenhouse gas emissions by retiring Carbon Credits. See also <http://www.wri.org/publication/bottom-line-offsets>.

Carbon Offset Standard: The accounting processes, including project design, project validation, performance monitoring, reporting and verification developed by an independent, qualified entity to measure the amount of carbon dioxide equivalents that will not be released into the atmosphere as a result of a specific carbon project's activity.

Co-Benefits: Additional environmental, economic, social, or other benefits arising from a carbon offset project. These are increasingly quantified based on defined metrics, indicators and co-benefit standards.

Registry: A registry is an entity that manages a database of carbon credits and their transactions, where each credit has a unique identifier. Registries track ownership of carbon credits and allow retirement (cancellation) of carbon credits when they are sold to offset an equivalent amount of greenhouse gas emissions.

Retirement: The permanent cancellation of a Carbon Credit from future use in a third-party registry.

Voluntary action: Carbon reduction activities that organizations or individuals take in addition, outside or beyond their basic environmental regulatory requirements. Activities that are voluntarily undertaken to manage carbon can including but not limited to -- foot-printing, internal carbon reduction measures, switching from fossil to renewable energy and carbon offsetting.

Voluntary Carbon Market: The sector that is responsible for and encompasses all transactions of carbon credits that are not transacted for use in an active regulated carbon market -- from the development of carbon projects to the retirement of carbon credits within programs for voluntary action on climate change.

1 INTRODUCTION

Scientific research coordinated by the IPCC suggests that policy and regulation is not keeping up with the urgency of the requirement to mitigate climate change impacts. The necessary policy and regulatory frameworks are evolving: top-down under the auspices of the UNFCCC, and bottom-up through the varied actions of individual governments and states.

That has prompted a small but growing number of corporations, organizations, public sector agencies and individual members of society to take voluntary action on climate. They are doing so for a variety of reasons, the most common of which is the requirement to mitigate climate risks in order to deliver against their commercial, economic, environmental and social objectives. Those that take on stretching greenhouse gas emission reduction targets include carbon offsetting amongst the tools they use to bridge the gap between internal reductions and their more ambitious targets – targets which are deemed necessary to meet scientifically informed atmospheric concentrations of greenhouse gases for a stable climate.

By definition, voluntary activities are non-mandatory but can nonetheless involve a greater degree of government involvement. Effective voluntary environmental approaches rely on creating enabling conditions that can steer, facilitate and reward voluntary action. Under a government program these would be known as ‘hybrid’ or ‘mixed’ regimes. Research has shown that voluntary environmental programs with defined government incentives are most effective as they encourage early action¹. Voluntary carbon offsetting done well delivers a range of climate mitigation, adaptation and indeed sustainable development benefits, over and above the ability to compensate for unavoidable emissions.

However, until recently, there have been few interactions between regulatory and voluntary spheres in climate policy. This paper sets out to describe voluntary carbon management and offsetting action to governments as a valued complement to their regulatory initiatives. It invites those that have taken or are considering taking an interest in voluntary action to explore ways in which they may do so to greatest effect. ICROA, an international industry association that assures best practice in voluntary carbon management & offsetting amongst its members, has substantial experience in the voluntary

¹ Morgenstern, R., Pizer, A. (2007) ‘Case Study Findings’, In “How Well Do Voluntary Environmental Programs Work?” *Resources*,

carbon market which is available to governments in order to extend and deepen the positive impact of voluntary action.

The **International Carbon Reduction and Offset Alliance** (ICROA) is an international not-for profit industry association managed by the International Emissions Trading Association (IETA) Secretariat. Its members provide carbon reduction and offset services across the world to 1000's of organizations including household brands, multinationals and global sporting events supporting the reduction of global emissions towards the goal of avoiding dangerous climate change impacts.

The primary aim of ICROA is to promote best practices in carbon management and offsetting. ICROA keeps abreast of the latest developments within carbon management and the carbon markets to ensure its members adhere to the best possible practices in the industry. All ICROA member companies follow and publically report against the ICROA Code of Best Practice, which provides specific requirements for the manner in which ICROA members provide their carbon footprinting, greenhouse gas reduction advice and offset services. ICROA members are annually third-party audited to assure their compliance to the ICROA Code of Best Practice.

Objectives of this paper:

- Communicate to governments the value of supporting voluntary carbon reduction, particularly voluntary carbon offset programs;
- Provide governments with information on efficient voluntary carbon market infrastructures for governments to support and/or develop within their domestic programs;
- Encourage governments to provide real and meaningful incentives for voluntary action so that domestic schemes can scale up.

2 THE IMPACT AND VALUE OF VOLUNTARY ACTION

2.1 HOW VOLUNTARY ACTION WORKS IN PRACTICE

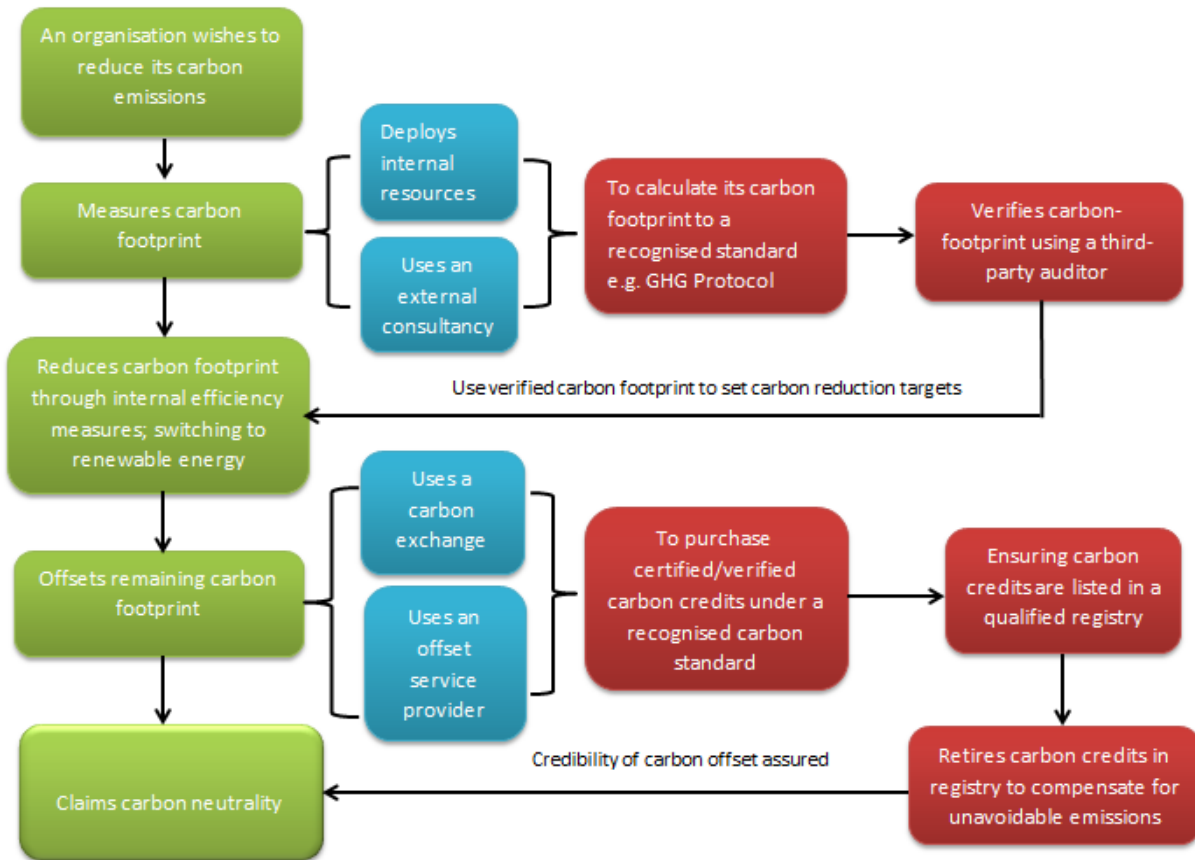
Voluntary action on climate change is delivered by a variety of actors, including developers which establish and manage projects to deliver carbon credits; standards and verification bodies which ensure the quality of carbon credits; intermediaries including retailers, brokers, exchanges and providers of carbon management and offsetting services; and, registries which track the ownership, transaction, and retirement of carbon credits as offsets. Ultimately, it is the collective engagement of individuals and organizations taking voluntary action that drives the development and growth in the voluntary carbon market.

ICROA is an industry association focused on the integrity and impact of voluntary action. It maintains a Code of Best Practice and certifies providers of carbon management and offsetting services to enhance the integrity of the voluntary carbon market and provide quality assurance to end users and buyers. The ICROA Code of Best Practice ensures ICROA members deliver carbon management services that are credible and of high quality and impact. In summary, the ICROA Code of Practice requires its members to:

1. Measure organizational or product and service carbon footprints to internationally recognized standards like ISO 14064-1, the WRI GHG Protocol, or PAS 2050.
2. Encourage customers to set ambitious greenhouse gas reduction targets and help them identify opportunities to reduce their footprint;
3. Help customers achieve zero net carbon emissions for all or part of their footprint via the use of carbon offsets from an ICROA-approved carbon credit standard. Carbon Offset Standards accepted under the ICROA Code include the American Carbon Registry, Clean Development Mechanism, Climate Action Reserve, Gold Standard, and Verified Carbon Standard as well as government-managed standards. Carbon credits must be shown to be real, measurable, permanent, additional, verifiable, and unique, this is assessed by ICROA technical working groups.
4. Retire carbon offset credits in a traceable independent registry after they have been sold to ensure those offsets are permanently matched against specific customer greenhouse gas emissions.
5. Work with customers to ensure they are communicating their carbon footprint, reduction and offset activities accurately.

ICROA members are annually audited to ensure their practices adhere to the Code of Best Practice. New offset standards under the ICROA Code may be proposed at any time by any ICROA member or third-party including Standards Bodies and national and sub-national governments. New standards are accepted into the Code if they meet the Offset Standard Review Criteria, and the ICROA Executive votes to accept the new standard.

Diagram to outline the processes in voluntary carbon management and offsetting:

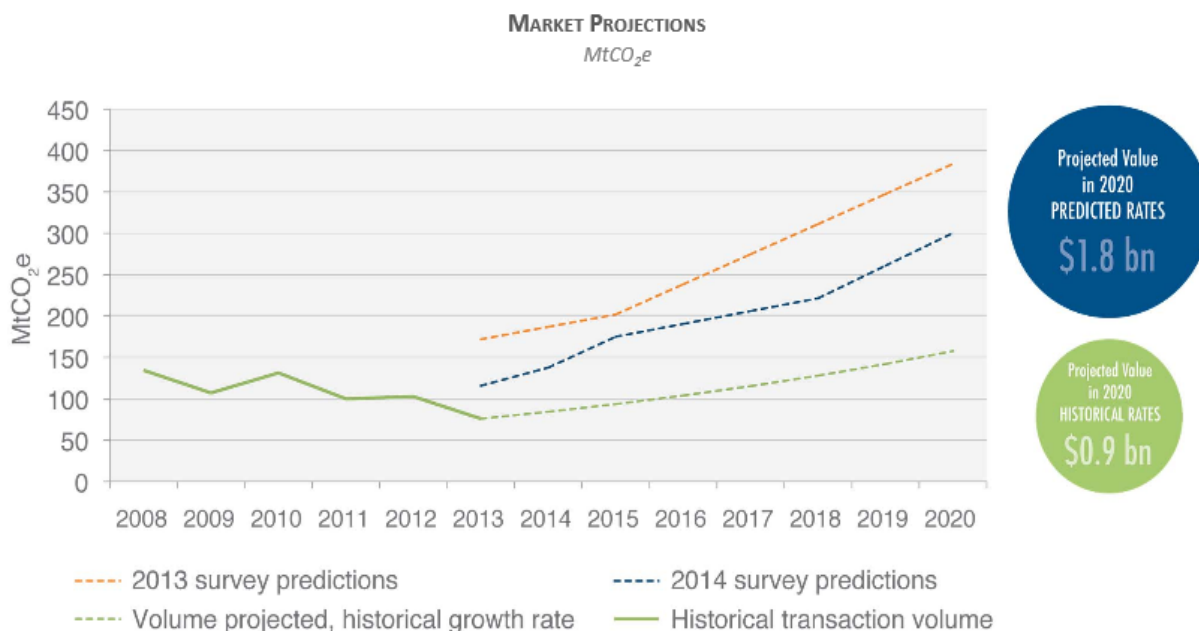


2.2 IMPACT AND GROWTH OF VOLUNTARY ACTION

Commitment to proactive carbon management and voluntary carbon offsetting has remained strong in the face of turbulent economic conditions since 2008 and despite, or perhaps because of, the time it is taking to deliver a global agreement for climate.

To date, voluntary carbon offsetting has directly funded 844m tonnes CO₂e of emission reductions, valued in the voluntary carbon market at US\$4 billion². As seen in the graph below, according to survey results published by Forest Trends' Ecosystem Marketplace, suppliers transacted at least 67m tonnes CO₂e in 2013. The global average offset price has remained resilient at around US\$4.9/tCO₂e. Market projections anticipate steady growth of the market leading up to 2020. Thousands of businesses are implementing offset programs around the globe, many of which are global household names such as Microsoft, Jaguar Landrover and PUMA as well as many SME's and public service organizations. Sectors which participate are diverse and drivers to participate also vary. Evidence on benefits to participants is growing.

Figure 1: Projected growth of voluntary carbon market



² Ecosystem Market Place (2014) 'Sharing the Stage: State of the Voluntary Carbon Market 2014'. Accessed: http://www.forest-trends.org/documents/files/doc_4501.pdf

2.3 BUSINESS BENEFITS FROM VOLUNTARY CARBON MANAGEMENT AND OFFSETTING

By utilizing a comprehensive carbon strategy that includes offsetting, companies are able to achieve environmental goals more efficiently and develop responses, which maintain their competitiveness under increasing environmental and climate risks. Carbon offsetting supports the business community in playing its role in managing climate impacts and meeting future economic sustainability goals.

Research by Imperial College London commissioned by ICROA³ identified the three most important drivers of voluntary carbon offsetting in the private sector: improved reputation and brand; employee engagement; and, market differentiation. Sixty-seven percent of respondents reported positive and tangible business benefits from their voluntary offset programs, despite the fact techniques to measure and quantify these are still at an early stage. Those benefits range from reductions in energy consumption and costs, market differentiation, winning new business, improved client retention, employee engagement and more. Furthermore, the purchase price of carbon offsets serves as a tangible cost of carbon and helps support investments to lower greenhouse gas emissions.

³ Kountouris, Y., Makuch, Z., Tan Loh, E.F. (2014) 'Quantification and Evaluation of the Voluntary Carbon Market's Co-benefit', Imperial College London: London, UK.

Figure 2: Business benefits of carbon offsetting



Reference: ICROA (2014) 'Unlocking the Hidden Value of Carbon Offsetting'

2.4 COMMUNITY AND SUSTAINABLE DEVELOPMENT BENEFITS OF CARBON OFFSETTING

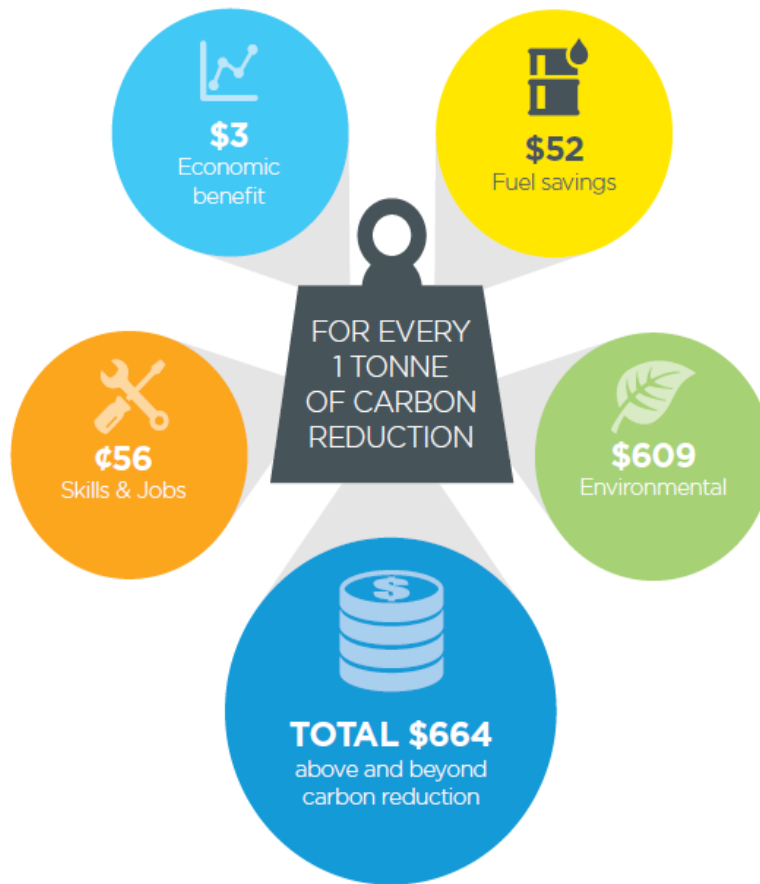
Carbon offsetting delivers broad and far reaching benefits to local communities around the globe. Implementing carbon-offset programs can reduce emissions effectively whilst simultaneously promoting sustainable development in the location where carbon projects are developed. Finance from the sale of carbon credits supports carbon offset projects – such as forestry and land use; renewable energy; household devices (such as clean cook-stoves); energy efficiency and fuel switch projects – which can have additional sustainable development benefits including job creation, skills training, deployment of low carbon technology to new areas and community health and local environmental enhancements.

A recent study by Imperial College London University outlined sustainable development benefits in terms of monetary value across a sample of projects in the voluntary carbon market. Findings from a sample of 59 projects that deliver a total carbon mitigation of 32 MtCO₂e emission reductions per year

and around 836 MtCO₂e reduction over the projects' life time, found that in addition to carbon reduction they also deliver benefits to:

- **Local Economy:** The projects were estimated to contribute around US\$110.4 million to local economies during development stage and a further US\$78.7 million per year of operation through local employment and sourcing local services and materials.
- **Infrastructure Health and Education:** To-date, the projects have contributed around US\$725,000 to local infrastructure and services, such as education, healthcare, transport systems and micro-financing local projects.
- **Household Savings:** Assuming the household device distribution projects meet their targeted number of households (1.9 million), they are estimated to generate around US\$2.8 billion of house-hold savings: Around US\$52 per tonne CO₂e.
- **Environmental Benefits:** Projects that conserve natural ecosystems are estimated to generate around US\$16 billion of ecosystem benefits per year. Whilst the lands are conserved for carbon sequestration, they also deliver other ecosystem services such as soil protection, water regulation, and biodiversity conservation: Around US\$609 of ecosystem benefits per tonne CO₂e.
- **Upskilling:** The projects collectively train around 211,310 local people in administration, with technical skills or in health & safety or environmental/community issues: Around 2 people trained per 1000 tonnes CO₂e.

Figure 3: Co-benefits behind carbon offsetting



Reference: ICROA (2014) 'Unlocking the Hidden Value of Carbon Offsetting'

According to the study sample by Imperial College London⁴, against a sample survey of 59 projects representative of voluntary markets, for every tonne of carbon offset, an additional benefit worth up to US\$664 in socio-economic and environmental positive impacts is brought to the local economy where the offset is being developed.

In addition, a report by the Gold Standard reports \$billions worth of social, environmental and economic benefits to the local communities where carbon offset projects are developed.⁵

A World Bank⁶ study to quantify the benefits of supporting climate finance through low-carbon projects found that encouraging rural households to switch to more fuel-efficient and environmentally friendly

⁴ Kountouris, Y., Makuch, Z., Tan Loh, E.F. (2014) 'Quantification and Evaluation of the Voluntary Carbon Market's Co-benefit', Imperial College London: London, UK.

⁵ <http://www.goldstandard.org/gold-standard-study-reports-billions-in-environmental-and-social-benefits>

cook-stoves in China would have significant health and energy benefits. Through subsidies for the deployment of more than 20 million cook-stoves between 2015 and 2020, it is estimated that 85,000 premature deaths from in-door air pollution could be avoided annually to 2030, representing \$1.5 trillion in 2010 dollars' worth of health benefits. Significant energy savings could also reduce energy costs nationwide, resulting in broad economic benefits of more than \$10 billion over the analysis period. Finally, more than 20,000 new jobs could be created.

2.5 GOVERNMENT BENEFITS BEHIND SUPPORTING CARBON OFFSETTING

The ability for nations to become familiar with carbon markets & cap-and-trade systems is becoming increasingly important as regional schemes are progressively gaining traction around the globe. A carbon trading system, unlike a carbon tax, provides capped entities with the ability to reduce emissions at the lowest possible cost. Combining cap and trade schemes with offset programs will accelerate global emissions reductions⁷. Furthermore, promoting a voluntary carbon market will enable companies and countries to gain experience with carbon inventories, registries, standards and emissions reductions. Such was the case in California where the State used the voluntary carbon market as an opportunity to lay the groundwork for domestic GHG regulation through a cap-and-trade system.

Voluntary approaches can trigger a learning process in environmental policy-making. For example, an important motive for developing voluntary environmental policies amongst Colombian regulators is to build capacity to implement a new environmental regulatory regime⁸.

In fact, a recently released report from the Grantham Research Institute suggests that well-designed climate change policies which provide flexible structural policies have enabled increased competitiveness by encouraging greater innovation and efficiency⁹.

⁶ World Bank (2014) 'Climate-Smart Development'. Accessed: http://www-wds.worldbank.org/external/default/WDSContentServer/WDSP/IB/2014/06/20/000456286_20140620100846/Rendered/PDF/889080WP0v10RE0Smart0Development0Ma.pdf

⁷ IETA (2013) 'Why Emissions Trading is More Effective Than a Carbon Tax'. Accessed: http://www.ieta.org/index.php?option=com_content%26view%3Darticle%26id%3D207:why-emissions-trading-is-more-effective-than-a-carbon-tax%26catid%3D54:3-minute-briefing%26Itemid%3D135

⁸ Blackman, A. et al. (2012) 'Voluntary Environmental Agreements in Developing Countries: The Colombian Experience'. Accessed: <http://www.rff.org/documents/RFF-DP-12-06.pdf>

⁹ Bassi, S., Zenghelis, D. (July 2014) 'Burden or opportunity? How UK emissions reductions policies affect the competitiveness of businesses'. Accessed: <http://www.lse.ac.uk/GranthamInstitute/wp-content/uploads/2014/07/Bassi-and-Zenghelis-policy-paper-July-2014.pdf>

Furthermore, due to the systems and infrastructures in place to create measured outcomes, governments are increasingly looking to the voluntary carbon market to support results-based financing as they consider the focus and spend of their overseas aid and development budgets.

Several of the national governments profiled in Section 3, below are party to the World Bank's new Partnership for Market Readiness¹⁰, a capacity-building trust fund to assist developing countries that wish to take on GHG reduction targets. Beyond implementing national pilots to engage the private sector in carbon offsetting, some of these governments also view their "voluntary" programs as the first step toward developing national climate action plans and regulated carbon marketplaces.

3. STATE OF GOVERNMENT ENGAGEMENT IN VOLUNTARY CARBON OFFSETTING

ICROA has worked over the past five years to promote voluntary carbon reduction and offsetting, including research into how governments currently are and could further leverage voluntary action. ICROA to date has convened three Government/Voluntary carbon market workshops, in collaboration with the International Emissions Trading Association and Climate Markets and Investment Association (CMIA) during UNFCCC COPs to explore the status and direction of government support¹¹. In addition, a recent workshop in Zurich on the development of domestic based government offset programs was published in 2013¹², examining the development of government initiatives.

Based on these reports, ICROA has identified 22 countries¹³ where governments have initiated or supported voluntary action on carbon offsetting. Activities range from the creation of a carbon credit exchange platform, to the development of domestic voluntary carbon projects and credit standards, to registries to track activities and ownership of the carbon reductions, as well as government incentives to promote the voluntary carbon market.

¹⁰ <https://www.thepmr.org/>

¹¹ Ecosystem Marketplace has reported on those meetings and further research has been conducted in a number of its publications: Ecosystem Marketplace (2013) *Manoeuvring the Mosaic - State of the Voluntary Carbon Markets 2013*. <http://www.forest-trends.org/vcm2013.php>

¹² JiQ: Magazine on climate and sustainability. International Workshop on Domestic Offset Schemes - Towards scattered ambitions? Vol. 19 - No. 3, October 2013 - Groningen, the Netherlands ISSN: 1877606X. http://www.jiqweb.org/images/stories/mifiles/jiq_issues/2013oct.pdf

¹³ Australia, Brazil, British Columbia (Canada), California (USA), Chile, China, Colombia, Costa Rica, France, Germany, Indonesia, Italy, Japan, Mexico, Netherlands, New Zealand, South Africa, South Korea, Spain, Switzerland, Thailand and the UK.

3.1 CARBON CREDIT STANDARDS

Carbon standard organizations provide frameworks and methodologies to ensure carbon projects generate carbon credits that meet required levels of quality and integrity. ICROA approves internationally recognized standards determined to be legally attributable, measurable, permanent, additional, independently verified and unique. Many such standards draw upon the core additionality requirements of the Kyoto Protocol's Clean Development Mechanism, with some standards adding further environmental and social performance requirements.

Several governments have developed domestic carbon credit standards tailored to their unique domestic situations and climate change mitigation objectives as illustrated in the Table 1 below.

Table 1: List of domestic carbon standards

Country	Domestic standards deployed
Australia	Carbon Farming Initiative National Carbon Offset Standard
Brazil	Brasil Mata Viva
British Columbia (Canada)	Pacific Carbon Standard
California (United States)	Climate Action Reserve American Carbon Registry
China	China Forest Carbon Sink Standard Panda Standard
Costa Rica	Costa Rican Carbon Unit Costa Rica Compensation Units
Japan	Japan Credit (J-Credit)
Thailand	Thailand Verified Emission Reduction
UK	Woodland Carbon Code

3.2 CARBON CREDIT REGISTRIES

Carbon offset registries are vital to managing the issuance, ownership, transfer and retirement of carbon credits, and so ensure that each credit is uniquely attributable to a specific entity. Using a registry ensure that a unique serial number is assigned to each verified carbon credit. Once the credit is sold, the serial number and credit is transferred from the account of the seller to an account for the buyer. If the

buyer claims the credit by using it as an offset against their own emissions, the registry retires the serial number so that the credit cannot be resold, or “double counted”.¹⁴ There is no single registry covering all voluntary offsetting. Rather a variety of registries have been developed by governments, non-profit organisations and the private sector. Some of the registries are tied to certain standards, whereas others function across multiple standards.

In domestic voluntary carbon schemes, registries can be classified as:

1. Government endorsed and operated
2. Government endorsed and privately operated
3. Privately endorsed and operated

Examples of each are given in Table 2.

Table 2: Registries deployed in domestic voluntary carbon schemes

Government endorsed and operated	Government endorsed and privately operated	Privately endorsed and operated
Australia, Japan, New Zealand, South Korea, Thailand	Canada (British Columbia), Chile, Netherlands, United Kingdom, USA (California)	China, Germany, South Africa

3.3 CARBON CREDIT EXCHANGES

Carbon credit exchanges are trading platforms that enhance liquidity in the carbon-offset market. Carbon exchange platforms enable the market dynamics of supply and demand to determine the price of carbon credits and facilitate disclosure of pricing information and trends, minimize speculation and increase confidence and market participation.

Countries including Chile, Colombia, Mexico and Costa Rica have developed their own exchange platforms for carbon credit transactions. The Santiago Climate Exchange launched in Chile in 2011 as the first carbon credit exchange platform in Latin America. The Exchange quickly expanded to include the provision of carbon advisory services, often required prior to a business engaging in an offset program. Mexico recently launched a government-backed voluntary offset exchange platform (MEXICO2); similarly, Costa Rica has a national exchange platform (BANCO2), and Colombia is in the process of creating a platform for nationally traded carbon credits for voluntary offsetting.

¹⁴ WWF (2008) ‘Making Sense of the Voluntary Carbon Market – A Comparison of Carbon Offset Standards’ http://www.wwf.org.uk/filelibrary/pdf/carbon_offset_long.pdf

4. PRINCIPLES OF GOOD DESIGN OF A VOLUNTARY CARBON MARKET

As demonstrated in the previous sections, support from government for a robust voluntary carbon market can enable the business community and others to play their part in meeting scientifically informed emission reduction targets, while also delivering crucial benefits to sustainable economies of the future.

From the review of public sector involvement in voluntary carbon offsetting in Section 2, it is apparent that governments can support the creation, development and improvement of voluntary carbon offsetting in three ways:

1. Promoting policy, infrastructure and standards;
2. Providing oversight and endorsement of voluntary activities;
3. Providing incentives and rewards for corporate voluntary action.

4.1 POLICY, INFRASTRUCTURE AND STANDARDS

Drawing from international voluntary carbon market experience enables governments to reap the benefits of utilizing pre-existing internationally recognized offset mechanisms, methodologies and infrastructures at a reduced cost. The procedure to develop, test and pilot the protocols can be minimized or removed altogether, which reduces the time and resources to launch domestic voluntary initiatives and for offset projects to issue credits and begin to receive carbon finance.

Using pre-existing infrastructure (for example, established registries or locally adapted international carbon standards), governments can strike the balance between local relevance and international fungibility. Adopting international standards to apply in local situations supports the development of a fungible, liquid, international voluntary offset market. In addition, it enables countries to exchange carbon credits internationally, extending the pool of supply and demand to provide cost-efficient reduction solutions to carbon credit buyers wishing to offset their emissions. Post-2020, carefully designed domestic programs may be able to link through the proposed Framework of Various Approaches (FVA) under consideration in the UNFCCC-led discussions about a successor agreement to the Kyoto Protocol.

4.2 OVERSIGHT AND ENDORSEMENT OF VOLUNTARY ACTIVITIES

Once the infrastructure is in place, providing oversight and endorsement of domestic voluntary action is essential for the credibility, evolution and impact of voluntary carbon markets. The goal is to find the right balance between oversight to encourage demand, trust and transparency, while avoiding high transaction costs or imposing regulatory red-tape that dampens enthusiasm for pre- and beyond-compliance action.

A number of countries have established government agencies to ensure the reliability and performance of their domestic carbon markets. For example, Japan has created a strong oversight capacity by adapting CDM principles to develop the J-Credit which is administered by an Executive and a Certification Committee hosted by the Ministry of Environment. The Executive Committee governs modalities and procedures, administers the registry and oversees a Technical Sub-Committee to develop methodologies. Similar examples arise in Korea where Korea's Ministry of Knowledge Economy (MKE) and Korea Energy Management Corporation (KEMCO) are in charge of administering the K-VER. In California, Climate Action Reserve and American Carbon Registry carbon credits are administered by the California Air Resources Board which sits within the state's Environmental Protection Agency. The Australian Government has provided endorsement and incentives for voluntary action through its National Carbon Offset standard and Going Carbon Neutral program.

Finally, and in contrast to governments' direct involvement in oversight, industry led codes of conduct for service providers such as those developed and deployed by ICROA, provide an alternative which can appeal to multi-national corporations that operate across many national markets, and provide a cost-effective form of oversight.

4.3 GOVERNMENT INCENTIVES AND REWARDS

In addition to using established and fungible instruments and platforms in the design of domestic programs and providing oversight for these, governments' most effective way to stimulate voluntary action is to recognize, educate and incentivize voluntary action by business, communities and individuals. By providing rewards and incentives to participate in voluntary action, governments can support the market and enhance climate mitigation efforts by business.

There are a number of initiatives and rewards governments have already put in place to increase uptake of voluntary carbon initiatives by corporates:

UK government's Mandatory Greenhouse Gas Reporting for FTSE100 companies has encouraged other businesses to measure and manage greenhouse gas emissions and set an example for others in their supply chains.

In other instances – Governments may provide fiscal relief for low-carbon products and services, or, prioritise such products and services in public sector procurement. Governments may choose to encourage carbon offsetting by classifying voluntary carbon credit retirement as an activity exempt from tax. Carbon neutral products or services could also benefit from reduced VAT to encourage demand for these products.

Other examples include a variety of countries that have started regional or national cap-and-trade programs or carbon tax schemes that allow the use of carbon credits to meet their compliance obligations in the future. The U.S. State of California allows entities within the scope to use carbon offsets to meet up to eight per cent of their compliance obligation¹⁵. Other countries that include carbon offsets verified to international standards to be included in compliance cap and trade systems are South Africa, China, Australia, Mexico and Japan. These approaches are most effective for companies that wish to pre-comply as they are expecting future mandatory cap and trade regulations.

¹⁵http://moderncms.ecosystemmarketplace.com/repository/moderncms_documents/em_governmentmarkets_2012_3-12.pdf

5. CONCLUSIONS AND NEXT STEPS

This White Paper makes the case for the continued development of voluntary carbon offsetting as a valuable complement to regulation and compliance regimes. It does so by highlighting the material and qualified benefits of voluntary action to corporations and governments. It calls for greater support and involvement by governments in order to release the full potential of voluntary action to mitigate climate impacts and deliver sustainable development co-benefits. In doing so it draws on the collective experience of ICROA and its members to make recommendations of how government support can be applied to maximize impact.

Interested agencies are invited to contact the ICROA Secretariat for further information, and to enlist ICROA's support in discussing this paper.

For enquiries please contact the Secretariat: Secretariat@icroa.org

IETA - Climate Challenges, Market Solutions

24, Rue Merle d'Aubigné
Geneva, 1207, Switzerland
Tel: +41 (22) 737 0500

Boite 27
Rue de la Loi 235
Brussels, 1040, Belgium
Tel: +32 (0)22 30 11 60
Reg. 0889.072.702

1730 Rhode Island Ave., NW,
Suite 802, Washington, DC
20036 USA
Tel: +1 (202) 629-5980

100 King Street West, Suite
5700, Toronto, Ontario
M5X 1C7, Canada
Tel. +1 (416) 913 0135