WHAT ROLE FOR THE VOLUNTARY CARBON MARKET AFTER PARIS?

Jonathan Shopley examines the evolution of the voluntary carbon market – and anticipates a critical role in a post-Paris world

The IPCC's First Assessment Report in 1990 provided the scientific impulse for a global climate agreement and led to the Kyoto Protocol. This helped lay the foundations for a global carbon market that has waxed and waned along with political will and ambition. It also stimulated a small, environmentally-committed section of civil society and business to take early action by offsetting their unavoidable greenhouse gas emissions.

Over the past 10 years, voluntary action has grown slowly and steadily, delivering $4.5 billion in carbon finance for 1 billion tonnes of CO2e emissions reductions from a broad range of climate mitigation projects worldwide.[1] It is unlikely that aggregate ambitions of initial Intended Nationally Determined Contributions will deliver the emissions reductions required to limit the global average temperature increase to 2°C. Voluntary action that goes beyond regulatory requirements can close that gap – as has been shown in the past decade.

In fact, offset-inclusive carbon management may need to do some heavy lifting, and is well placed to do so for five notable reasons:

1. Enables corporates to price carbon into their capital allocation plans.
2. Directs carbon finance to parts of the global economy where it is most needed and most effective in delivering reductions and co-benefits.
3. Innovates and pioneers approaches that accelerate impact, and leverage private sector capital.
4. Provides the potential to link the disparate national and sub-national programs that are the likely outcome post-Paris.
5. Delivers tangible value to businesses using offset-inclusive carbon management strategies.

After three distinct stages of development, the voluntary carbon market (VCM) has demonstrated its capacity to complement policy and regulation, and is poised to make a critically important contribution to the climate change fight after the Paris negotiations.

PIONEERING EXUBERANCE

Hot on the heels of the 1997 Kyoto Protocol, hundreds of enterprises from Australasia across Europe and throughout North America offered offsetting solutions, and hundreds more developed low-carbon projects to supply compensating reductions. In the absence of independent third-party standards, most developed their own methodologies to calculate, verify, transact, and retire reductions. There was a mixed press on this 'Wild West' era: attention to quality and impact was eclipsed by a pioneering exuberance for jump-starting carbon sequestration and reduction projects around the world. The seeds were sown and took root, as early adopter celebrities, consumers, corporates and government agencies used offsets as an effective way to action their sustainability commitments and engage environmentally conscious audiences.

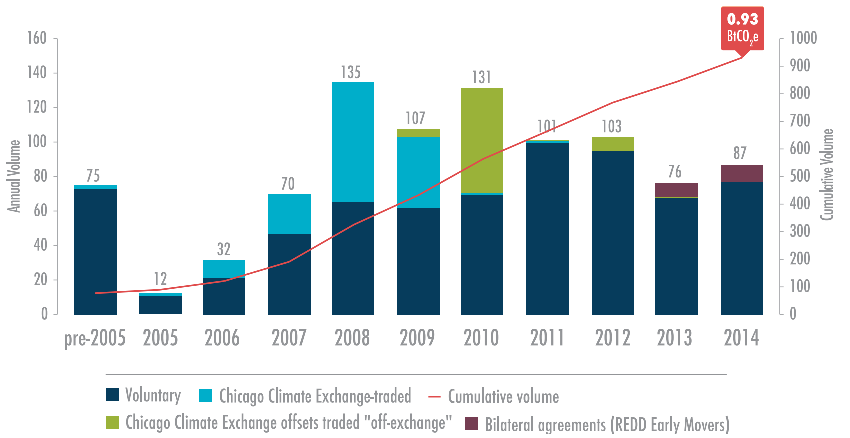
DELIVERING WITH INTEGRITY

The second era saw the quality and integrity of the VCM underpinned as third-party offset standards adopted and adapted the Clean Development Mechanism's (CDM) additionality tests. The Voluntary Carbon Standard (later renamed the Verified Carbon Standard, or VCS), referenced the comprehensive additionality approaches and combined them with validation and verification processes that reduced the transaction costs for voluntary carbon projects. Its agriculture, forestry and other land use (AFOLU) methodologies, launched in 2007, brought valuable innovation to a class of reductions poorly covered by the CDM, and a buffering solution for the permanence issues that undermined early stage enthusiasm for forestry projects.

In 2012, VCS launched a framework to account and credit reduced emissions from deforestation and forest degradation (REDD) projects implemented at national or sub-national scale. This provided the basis on which early REDD projects have secured funding in the VCM, and through which REDD approaches can be included in compliance regimes following a Paris agreement.

The NGO-backed Gold Standard pioneered a structured consideration of sustainable development aspects in CDM and voluntary carbon projects. While its original objective to strengthen the CDM's delivery of sustainable development outcomes has been frustrated by the reduced role of the CDM, it has made invaluable contributions by enabling small-scale projects and projects in least-developed economies to access carbon finance.

American Carbon Registry (ACR) and Climate Action Reserve (CAR) have led with standards for domestic carbon projects in the US. They developed cost-efficient offset methodologies, such as ozone depleting gas destruction and methane capture, to serve both voluntary and emerging sub-national compliance carbon markets in North America. Their work will be useful post-Paris, when there will be more opportunities to deploy domestic offsetting



Source: Ecosystem Marketplace

in both developed and developing nations. Then to round out investments in quality assurance, in 2007 a group of carbon offset service-providers established the International Carbon Reduction and Offset Alliance (ICROA, now part of IETA) to promote voluntary action as a valuable complement to compliance and regulation. Members' compliance to a Code of Best Practice is audited by a third-party annually. This self-regulatory initiative brought an overarching approach to quality assurance for buyers of offset-inclusive carbon management services, as it defines accepted practices for measuring, reducing and offsetting emissions, and communicating climate actions accurately.

SCALING IMPACT

With the integrity of the VCM on a more secure footing, the last five years has seen carbon finance expand to a wide range of project types that enable reductions in carbon emissions efficiently and rapidly, and also deliver a variety of other important sustainable development outcomes. Imperial College research[2] commissioned by ICROA in 2014 found that one tonne of carbon dioxide reduced brought an additional $664 in benefits to the communities where these projects are based, such as poverty alleviation and infrastructure development. This evidence of wider sustainability benefits in business supply-chains is shifting offset-inclusive carbon management from the corporate responsibility side-lines to the heart of corporate strategies to future-proof against risks from climate change and climate regulation. Tracking this trend, the Carbon Disclosure Project (CDP) found that 14% of respondents to its annual survey, or 265 companies, offset 50 million tonnes in 2014 – of which, 16.5 million tonnes was voluntarily purchased.

Voluntary offset adherents include Danone, General Motors, Microsoft and Marks & Spencer. Microsoft's 'Carbon Fee' programme places an internal price on carbon across its business units. The accumulated revenue is used to fund internal emission reduction projects, source renewable energy and to purchase a portfolio of carbon offsets. It reported in 2014 that, after three years, the programme was saving the company $10 million a year in addition to reducing annual emissions by 7.5 million tonnes CO2e. It also procured 10 million MW hours of renewable energy over the three years and found that community projects within its offset portfolio had delivered a positive impact for an estimated 3.2 million people.

AFTER PARIS ...

UNFCCC executive secretary Christiana Figueres managed expectations for Paris at the Lima negotiations by making the point that carbon neutrality, the cornerstone of voluntary carbon offsetting, is in fact what policy and regulation will have to deliver by the end of the century – if not sooner. She stressed that the vast majority of businesses, individuals or nations wishing to make absolute reductions to their emissions now will have to rely on quality offsetting.

The VCM challenge is set. It has the potential, the encouragement and momentum to move from niche player delivering 1 billion tonnes every 10 years to a respected component of national and sub-national initiatives making that impact annually, and delivering on sustainable development.

***Jonathan Shopley** is Managing Director at Natural Capital Partners; Council member of the International Emissions Trading Association; founding Co-Chair of the International Carbon Reduction and Offset Alliance; and, Chair of a UK Community Energy Cooperative.*

(1) Ecosystem Marketplace, AHEAD OF THE CURVE: State of the Voluntary Carbon Markets, 2015. (2) ICROA & Imperial College, Unlocking the hidden value of carbon offsetting, 2014.