3. WHY MORE BUSINESSES SHOULD REASSESS THE VOLUNTARY CARBON MARKET

AMID AN INCREASED PUSH FOR CLIMATE RISK DISCLOSURES AND EFFORTS TO MITIGATE EMISSIONS, BUSINESS NGOS ARE LOOKING TO THE VOLUNTARY CARBON MARKET TO HELP COMPANIES RAISE THEIR AMBITION. MARK NICHOLLS REPORTS

TWO YEARS on from the Paris Agreement in 2015, one of the most encouraging developments has been the engagement of the corporate world in tackling climate change. Dozens of private-sector initiatives have sprung up or accelerated. Hundreds of leading global companies have proposed, or are working on, science-based targets in line with the climate goals enshrined in Paris. Billions of dollars are being invested in low-carbon technologies.

But even the most optimistic observer will acknowledge there's a long way to go.

According to the 2017 UN Emissions Gap report, even if all countries fulfil the pledges they made in the run-up to Paris, we'd only be a third of the way to the reductions needed to keep warming to less than 2°C. Given the scale of the climate problem, and the need for companies to address emissions within their wider value chain, it's time to reassess the role of voluntary carbon offsets, say experts.

For those advising companies on climate strategy, there is a well-established hierarchy of action. It starts with setting ambitious targets — preferably in line with climate science. Here, the Science Based Targets (SBT) initiative has recorded enormous success. According to SBT director Alberto Carrillo Pineda, around 1,200 companies worldwide either have set such targets or say they plan to do so by 2020.

In terms of meeting their carbon reduction targets, companies should start with a laser focus on resource efficiency, particularly regarding energy, to reduce their direct, Scope 1 emissions. Companies should then seek to use renewable electricity to address Scope 2 emissions. Here, too, progress has been rapid, as the costs of renewables fall.

But even with these measures, few organisations will have addressed their entire impact on the climate — especially those in the value chain, for which they are not directly responsible. In response, leading companies are increasingly looking to the voluntary carbon market as a means to address their full climate impacts.

THE LEGACY OF VOLUNTARY INITIATIVES

Voluntary carbon markets pre-date the first mandatory carbon trading programmes. They enable any company, or individual, to measure their carbon footprint and offset what they can't reduce, by paying for the removal of an equivalent volume of CO_2 from the atmosphere.

"The situation at the moment is so desperate that we need to do everything we can to reduce overall systemic climate risk, and that includes offsets," said Martijn Wilder, a leading environmental lawyer at Baker McKenzie, based in Sydney. "If you're taking emissions out of the global system, it's a good thing."

He said that large emitting companies are increasingly seeking his advice on purchasing offsets, as they look to reduce their climate exposures. This trend will, he believes, accelerate as a result of the work of the Task Force on Climate-related Financial Disclosures (TCFD). That body, established by central banks, financial regulators and finance ministries, has produced a set of recommendations on how, and what, companies should report to investors regarding the climate risks they face.

"As you get disclosure around climate risk, there will be shareholder pressure to do something about those risks," Wilder said. "If your company emits carbon, and you want to negate those emissions, it's definitely the case that offsets can do that." "Offsets have strong added value," added David Wei, in the climate and energy team at BSR, given the flexibility they offer in allowing companies to potentially reduce emissions at lower cost than by making direct reductions — and in bridging any potential gaps between ambitious goals and the ability to deliver internal emission reductions. "The question that people will ask is how to ensure that offsets are integral and represent additional emissions reductions."

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The voluntary carbon market has come a long way over the last 20 years. "We've supported thousands of projects, resulting in over 1 billion tonnes of CO2 transacted in the voluntary market. And we've developed some of the most robust reporting and monitoring systems that ensure carbon credits represent real, measurable and additional emissions reductions," said Simon Henry, programme director at the International Carbon Reduction and Offset Alliance (ICROA), which funded the research for this article.

These reporting and monitoring systems confirm that reductions have taken place, and that ownership of them is securely tracked. That means "the voluntary carbon market now provides the highest levels of environmental integrity," he added.

Jonathan Porritt, founder of environmental think-tank Forum for the Future, agreed. "If you look at the quality of these offset schemes, from the best providers, these are five-star, providing real benefits from a climate and a social point of view."

Maria Mendiluce, who heads the climate and energy programme at the World Business Council for Sustainable Development (WBCSD), acknowledged that some environmentalists may criticise the decision of companies to offset emissions rather than focus solely on reducing their own, direct impacts, but she argues for pragmatism: "We can't afford to deny any of the solutions, because we need them all."

"We need to raise awareness of the viability of the solutions, and remove the anxiousness of some players," she added. "The system has evolved, and schemes exist that certify that emission reductions have taken place." These include the American Carbon Registry, the Climate Action Reserve, the Gold Standard and the Verified Carbon Standard.

"Every year that goes by, the market design improves, and gains in strength and confidence," said Christiana Figueres, the UN climate chief who oversaw the Paris Agreement, and who now heads the Mission2020 initiative. "Many companies are still trying to figure out what their science-based pathways are, but forward-leaning companies are already into the second, execution phase, starting of course with their own emissions. The third phase will be addressing the gap between their own emissions and where they need to be. That will be the space for voluntary market."

EMERGING OPTIONS

The urgency of the challenge has prompted a number of new initiatives from business-oriented environmental groups that aim to reassess — and reimagine — the role of voluntary carbon offsetting in helping to generate the finance needed to protect the climate.

For example, the WBCSD is developing its Natural Climate Solutions project to use the voluntary carbon market to direct funding to land-use projects that store carbon. According to Mendiluce, the agriculture and forestry sectors have the potential to generate reductions of around 4 billion tonnes of carbon dioxide a year — more than half of US annual emissions — at a cost of less than $10/tonne. More than 11 billion tonnes/year could be delivered for a cost of below $100/tonne by 2030, she added. This compares favourably with the cost of carbon capture and storage, which would require carbon prices of $60 to $250/tonne.

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"We want to encourage energy-intensive companies to come to the voluntary market and invest in these natural climate solutions," she said.

Figueres's Mission2020 initiative has a similar proposal. Among a suite of recommendations to ramp up climate action, it proposes "a voluntary market or other mechanisms" to incentivise "earth-friendly agriculture."

"The reality is that corporates will be able to reduce a substantial portion of their emissions within their own corporate boundaries," Figueres said, "but the second step is to help those in their value chain to do the same. Once you have reduced as much as possible, if there's a gap between that and your science-based target, there is a role for the voluntary purchase of emissions reductions elsewhere."

CDP, WWF and the Gold Standard are also working on a new initiative involving carbon offsetting, in what they describe as "a new benchmark in corporate climate leadership." It includes, in addition to internal reductions, a commitment to financing external emission reductions either through buying voluntary market carbon credits or by funding activities directly.

The three organisations recognise the existence of a "climate finance gap" and the need for the private sector to step up to help fund emission reduction activities outside their organisational footprint. "It's important for companies to also play a role in accelerating action in other sectors, or in their value chains," SBT's Carrillo said.

The proposed approach, which is out for consultation ahead of a planned launch in April, would see companies either purchase verified emission reductions from the voluntary carbon market, or earn "certified statements of emission reductions" from emission reduction projects or programmes.

BSR's Wei noted that the willingness of companies to act on value chain emissions "is a new tool to reduce emissions, and one we really want to encourage." However, he added that while companies' ability to impact their direct emissions is relatively straightforward, it is "neither as clear nor as assured" when it comes to their value chains.

"The voluntary carbon market is perfectly placed to help companies address both their direct and their value-chain impacts," ICROA's Henry said. "The pipeline of projects is there, as is the infrastructure to ensure that reductions are environmentally sound and are safely and securely transferred. The market is ready to deliver the ambition that the science says is needed."

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