THE MARKET USE OF VOLUNTARY CARBON STANDARDS

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OVERVIEW

- The growing voluntary carbon market
- Challenges for the voluntary carbon market
- The Voluntary Carbon Standard
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  - *Process*
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  - *Challenges*
- Summary

ABOUT TCG

- Founded 2004 to act as a hub for business & government leadership on climate change
- 31 members including HSBC, Allianz, BP, AIG, Virgin, JPMorgan, BSkyB, California, New York, London = 8% of global emissions
- Bases in UK, US, Australia, China (March 07), India (Q2 07)
- Philanthropic support from a wide range of sources
- Programmes on Finance/Banking, Consumer Brands WITT), Cities, States/Regions, Insurance (US), Green Power (with WRI)
- Partner with Institutional Investors Group on Climate Change (IIGCC) – 30 European Pension Funds & FMs

THE VOLUNTARY CARBON MARKET

> Over last 3 years demand for VERs and other voluntary offset project credits has grown rapidly.

> Figures are hard to find but estimates suggest:

2004: 3-5m tCO_2e

2005: 10-20m tCO_2e

2006: 20-50m tCO_2e (prob. underestimate)

2010: 125-1200mtCO_2e+ (ICF consulting)

> Demand is from corporates, governments, NGOs and individuals

> Motivations for offsetting and carbon/climate/emissions neutrality vary widely

THE VOLUNTARY CARBON MARKET

Companies are entering voluntary carbon markets to:

- to differentiate their strategic positioning on markets
- to increase flexibility of pricing products/services
- to learn about the carbon markets
- to influence policy makers
- to increase response options to enhance public relations
- to generate goodwill by entering the carbon markets
- to cement strategic interest in specific offset projects
- to manage corporate social responsibility obligations

CHALLENGES FOR THE VCM

Three key voluntary carbon market needs:

> Customer awareness – what is offsetting and where it does it fit into broader climate strategies?

> Delivery mechanisms – how to create an attractive sales proposition

> Standardisation – developing trust, integrity, confidence and fungibility …

… hence the **Voluntary Carbon Standard, Gold Standard, VER+, Defra Code of Conduct, CRS GHG Standard, Carbon Stewardship Council, etc.**

STANDARDISATION APPROACHES

Different standards are emerging...

...with different specific goals

- > CDM/JI
- > National/Regional Standards
- > Voluntary Carbon Standard
- > Gold Standard
- > Defra Code of Conduct
- > CRS GHG Standard
- > Carbon Stewardship Council:

THE VOLUNTARY CARBON STANDARD

Vision

> Offsets can be an important part of a credible GHG management and reduction strategy.

> Increased investment in offset projects can increase the uptake of and flow of funds to low carbon solutions.

> Consumer-focussed offsets and offset products can raise awareness and accelerate public action.

> Rigour is as important in the voluntary as the compliance market but innovation is important.

> The **VCS** will help expansion of the voluntary carbon offset market and drive major emissions reductions.

THE VOLUNTARY CARBON STANDARD

- Aims to be a basic standard for voluntary emission reductions – a tonne is a tonne.
- Focuses exclusively on emissions reductions
- VCUs must be real, additional, permanent, additional and independently verified
- Seeks to build on existing good practice – complement not compete with existing credible approaches

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Content:

> The **VCS** relates to VER projects and credits from them.

> It does *not* seek to certify:
  - the 'emissions footprint' being offset
  - The 'goodness' of buyers / users / suppliers of VERs
  - Other attributes of projects other than additional and real greenhouse gas reductions

> VERs certified as meeting the VCS have to enter into an approved registry (rules under development) and become Voluntary Carbon Units (VCUs)

THE VOLUNTARY CARBON STANDARD

Process:

> 1st version for consultation launched by TCG, IETA and WEF, March 2006.

> ~85 comments received from TCG, IETA, WBCSD and WEF members/partners

> 2nd draft released October 2006, consultation through end November 2006: >60 comments received

> Independent Steering Committee now reviewing comments and producing final version

> Launch in mid-2007, new independent body

THE VOLUNTARY CARBON STANDARD

Agreed so far:

> No restriction on project types

> Independent additionality test

> CDM/JI methodologies plus from other programmes that meet or can be adapted to VCS

> Looking to accommodate project and programme-based approaches

> Innovative methods for dealing with permanence in LULUCF

> Verification by DOEs, other verifiers accredited to ISO14065 + rules for microprojects

SOME QUESTIONS FOR DEBATE

The voluntary carbon market will grow fast, but:

> Where is the balance between rigour and cost-effectiveness?

> Should other environmental aspects be included?

> How does the voluntary market interact with compliance markets?

> Does voluntary offsetting help or hinder policy development e.g. in the US, non-Annex 1?

> How can offsetting be used as part of customer engagement? Does it drive or prevent individual action?

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