

Optional offsetting



Matthew Lockwood

Will voluntary carbon markets genuinely tackle climate change or could they encourage further emissions?

**VOLUNTARY CARBON MARKETS:
AN INTERNATIONAL BUSINESS GUIDE TO WHAT AND HOW THEY WORK**

Edited by Ricardo Bayon, Amanda Hawn and Katherine Hamilton

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The origins of the voluntary carbon market lie in the growing trend amongst companies over the last twenty years to demonstrate their corporate social and environmental responsibility. Through financing projects that (claim to) reduce greenhouse gas emissions, companies or individuals can offset their own emissions in an attempt to go ‘carbon neutral’. The first recorded offset deal took place in 1989, when an American electricity company, AES Corporation, invested in a tree-planting project in Guatemala. Since then, offsetting has become increasingly mainstream. An example discussed in some detail in this book is the commitment by international bank HSBC from late 2005 to buy carbon offsets of about 600,000 tonnes a year. From small beginnings, total trading in voluntary carbon markets has grown in volume to 3–5 million tonnes of carbon in 2004 and to an estimated 100 million tonnes this year. This short book is the first of its kind — a practical and comprehensive guide to these rapidly growing markets for voluntary carbon offsets.

The authors cover the basic theory of emissions trading and provide a useful overview of the official (here called ‘compliance’) markets established through the Kyoto Protocol. They include the Clean Development Mechanism (CDM) offset markets, whereby parties to the Protocol can buy part of their emissions reduction effort through projects in developing countries, such as renewable energy investments or methane and other greenhouse gas capture projects. Some CDM credits are also permitted in the world’s largest official market, the EU emissions trading scheme. Shifting the focus to the voluntary market, the authors provide a clear and quite detailed explanation from product creation, to verification, distribution and consumption.

Written largely from a US perspective, a central portion of the book describes the growing links between the national voluntary carbon market and renewable energy certificates (RECs). Like Renewable Obligation Certificates in the UK, RECs are designed to incentivize investment in renewable power generation. Market makers in the US are increasingly offering RECs as a product for other companies and individuals wishing to purchase offsets. They effectively retire the RECs, thereby helping to maintain scarcity in the market and keeping the price up. Sales of RECs in the American voluntary market more than doubled between 2003 and 2005 alone.

Despite a diversity of contributors (in addition to the main authors, thirteen, including carbon traders, project developers and NGO experts on voluntary

markets), most of them make the same two points. The first is that the voluntary market will remain secondary to, and will probably eventually be swallowed up by, official markets. Official carbon markets are established in the EU, Japan and parts of Australia, and are due in California and the North Eastern American states very shortly. Likewise, in the UK, a new mandatory carbon cap-and-trade scheme — the Energy Performance Commitment — will draw many large retail and service organizations into a compliance market. There are many questions about how the voluntary market will interact with these official markets, and a global official market (as argued for in the Stern Review) is now an increasingly likely reality.

The second point is that although the voluntary system offers flexibility and innovation not seen in the official



Voluntary markets offset emissions through projects such as afforestation, gas capture and renewable energy projects.

markets, the down side of this is the common problem of ensuring standards in a new and unregulated market. This is not an insignificant problem given that the efficacy of some Clean Development Mechanism projects within the Kyoto Protocol is under question. As HSBC found when it entered the market as a particularly large buyer, finding credible offset projects is still not an easy task. This book acknowledges the lack of uniformity in voluntary markets — which offset emissions through a range of projects from afforestation in central America, to landfill gas capture initiatives, through to large-scale renewable energy projects in the USA — as well as the lack of transparency in some projects.

The authors raise the major pitfalls of emissions offsetting, ranging from how a company buying credit knows whether the emission reduction would have happened anyway (so-called ‘additionality’) to ensuring it is reasonably permanent. Trees planted to offset emissions might die, for example.

These credibility issues are not probed in any great depth, however. With the subtitle: “An international business guide to what they are and how they work”, this book is not a critical theoretical treatment. What the authors do provide is quite comprehensive information on how the market itself has attempted to respond to its shortcomings, for example by developing major international standards. One problem with a book like this is that it can very quickly become dated, nowhere more so than in such a fast-developing area.

The biggest question overhanging offset markets — both official CDM projects and voluntary market projects — is whether they actually help tackle climate change, or, through giving a false sense of security, actually encourage further emissions. At the end of the book the authors describe the voluntary carbon market as “an interesting public relations and risk-management option for companies”, which “at the same time helps involve and educate

consumers about the importance of combating climate change”. PR and risk management are not bad objectives, but they do not equate with genuinely offsetting emissions. The latter can only be guaranteed if this effectively self-regulating market improves standards across the board, to ensure that all credits reflect genuinely additional and lasting emissions reductions — a very challenging task. With its acknowledgement of the challenges, this handbook is a useful and practical contribution to helping address the shortcomings of the voluntary markets. However, the optimistic prediction that they will develop into an important part of efforts to stem climate change, providing a broad spectrum of ‘gourmet carbon’ products, needs to be taken with a pinch of salt. □

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