

25 Degrees in Africa - Perspectives

Perspectives on the Voluntary Carbon Market

This is part of a series of articles dealing with legal issues associated with climate change and the international legal regime founded on the United Nations Framework Convention on Climate Change (UNFCCC) and the Kyoto Protocol.

Upping the climate change ante

The phenomenon of climate change seems to occupy an increasing volume of media space with each passing moment. Most recent newsworthy events include: the pending conference of the parties to the Framework Convention on Climate Change (Bali, Indonesia from 3 to 14 December 2007), the co-award of the Nobel Prize to Al Gore (for the film "An Inconvenient Truth") and the Intergovernmental Panel on Climate Change (see: www.ipcc.ch for their Fourth Assessment Report), and the initiation of the Carbon Disclosure Project, which seeks to have large companies reveal their greenhouse gas emissions profile, in South Africa (see: www.cdp.org).

The dynamism of the international carbon market is able to reflect the proliferation of climate change-related issues and, in a relatively recent set of developments, has spawned a so-called "voluntary" carbon market. As pointed out by the World Bank (State and Trends of the Carbon Market 2007), the carbon market "can be segmented in a number of different ways: chief among these being compliance or non-compliance, and mandatory or voluntary markets".

Voluntary carbon market

The main characteristic of the voluntary carbon market is that purchasers of voluntary carbon credits do not seek thereby to meet a compliance commitment. Instead, purchasers in the voluntary market include companies, governments, institutions, event organisers, non-governmental organisations and individuals seeking to purchase offsets to reduce their carbon footprint on a voluntary basis. An example of such a transaction is FIFA's determination to reduce the environmental impacts of the 2006 and 2010 Soccer World Cups through various initiatives, including through the purchase of voluntary carbon credits that will be offset against the greenhouse gas emissions associated with staging the tournaments. This is different from a compliance purchaser of carbon credits, e.g., a country party to the Kyoto Protocol or an installation participating in the European Union Emissions Trading Scheme. Compliance purchasers seek to purchase carbon credits in order to assist them in complying with a legally binding emissions reduction target. Voluntary purchasers seek to purchase (voluntary) carbon credits with a view to improving their environmental performance and (most likely) to enhancing their corporate social image; or, in the case of individuals, to assuage their consciences for their personal environmental impact.

Generating voluntary emissions reductions

A voluntary carbon credit is generated in a similar manner to a compliance carbon credit, i.e., through the implementation of a greenhouse gas emissions reduction project activity that would not have occurred in a business-as-usual scenario. South African industry is becoming increasingly familiar with the Certified Emissions Reduction (CER) generated through the implementation of a Clean Development Mechanism (CDM) project activity developed in terms of the Kyoto Protocol. One of the criticisms levelled against the CDM is the perceived very high level of bureaucracy and associated costs required formally to register a CDM project activity. One of the premises upon which the voluntary market is based is that emissions reductions with sound environmental integrity may be achieved without the difficulties associated with the Kyoto process. Unfortunately, in a number of cases the environmental integrity of voluntary carbon credits generated by particular project activities has been questionable.

However, the voluntary market cannot be discounted, for a number of reasons, including:

The actions of developers of projects seeking to generate voluntary carbon credits and of standards-generating entities towards improving the environmental integrity of voluntary carbon credits and the reputation of the voluntary market. The reduced costs of project implementation promised by the voluntary market.

Emissions mitigation projects in the voluntary market tend to be smaller than in the compliance market. This has led one commentator to note that the “the voluntary market has potentially more scope to invest in small-scale projects with high sustainable development benefits as project developers can avoid bureaucratic procedure and high transaction costs associated with the CDM registration process” (Exploring the market for voluntary carbon offsets, Nadaa Taiyab, 2006). Thus the potential that the voluntary market holds for the development of greenhouse gas emissions reduction projects in Africa is high. By the end of 2006 Africa hosted the highest number of voluntary carbon offset projects. This is in stark contrast to the continent’s performance in developing CDM projects, which generate carbon credits for the compliance market. See the figure, below, for an indication of the locations of voluntary carbon projects as at the end of 2006.

Working Paper on the Voluntary Carbon Market: Current & Future Market Status and Implications for Development Benefits, October 2006

Voluntary carbon business

“For sellers, the voluntary market provides an outlet for emissions reductions projects that are not viable or economical under the requirements of the Kyoto Protocol’s project mechanisms. On the buy side, individuals have the opportunity to reduce their net carbon footprints, while companies can offset their emissions to distinguish their environmental credentials among competitors” (Voluntary Offsets Market – Outlook 2007, IFC International)

Drivers in the voluntary market include (Exploring the market for voluntary carbon offsets, Nadaa Taiyab, 2006):

- Environmental reporting requirements (corporate governance and sustainability reporting).
- The imperative towards greater corporate social responsibility.
- The need for diversification in an organisation’s carbon investment portfolio.
- National and international policy development (pro-active implementation to ensure competitive advantage).
- Seeking to ensure more effective branding.
- Environmentally-sound investing, e.g., in terms of the Equator Principles (see: www.equator-principles.com).

The voluntary market has grown considerably over the last two years. In 2006 twenty-three million seven hundred thousand tonnes of carbon dioxide equivalent were transacted in the voluntary market. Prices paid for voluntary carbon credits vary depending on a number of factors, including: purchasers’ motivations, perceived project benefits and the “quality” of the carbon credit, e.g., whether or not the carbon credit been developed in accordance with a recognized voluntary carbon standard. See the table, below, for an indication of the price variation in voluntary carbon credits.

Source: “State of the Voluntary Carbon Market 2007: Picking up steam”, Ecosystem Market Place and New Carbon Finance, 17 July 2007

It seems clear that projects which adhere to a specific standard will generally enjoy a higher price for their carbon credits. Initial commentary on the voluntary market sounded the fear that the “administrative flexibility of the voluntary carbon market might jeopardize the credibility of the voluntary offsets, mainly due to the lack of standardize project standards and verification requirements and methodology” (Exploring the market for voluntary carbon offsets, Nadaa Taiyab, 2006). However, recent consolidation in the market has seen the development of a number of voluntary carbon standards according to which emissions reductions can be generated and credits issued. A voluntary carbon credit is typically named a ‘VER’ (Voluntary/Verified Emissions Reduction). Alternatively, some of the voluntary standards provide a different name for the credit generated according to that standard, e.g., the “VSU” or Voluntary Standard Unit” generated by the voluntary carbon standard developed by the International Emissions Trading Association (IETA).

The following are some of the standards currently being applied to the generation of voluntary carbon credits:

- CDM process as far as Verification
- VER Plus (VER +): developed by TÜV SÜD
- Voluntary Carbon Standard: IETA, The Climate Group, World Economic Forum (www.ieta.org)
- Gold Standard VER: Gold Standard (www.cdmgoldstandard.org)

The voluntary carbon market is an important consideration in the ongoing debate on the future of the carbon market in the post-2012 period, i.e., from the time when existing Kyoto greenhouse gas emissions limitation and reduction targets are extinguished. Certain investors view the voluntary market as more sustainable than the Kyoto-related markets because it is not dependent on participants assuming binding emissions reductions targets. This last factor will be an important issue to be addressed by the looming meeting in Bali, with the world watching the international negotiations for intimations of the future of carbon markets.

IMBEWU Enviro-Legal Specialists (www.imbewu.co.za) is a specialist environmental legal consultancy providing professional legal consultancy services in the area of environmental, health & safety and climate change law.

Contact: andrew@imbewu.co.za. IMBEWU collaborates with Warburton Attorneys in providing CDM project development and contract advice to clients. This article should not be regarded a comprehensive discussion of the topics addressed, and should not be taken as legal advice or relied upon. Those seeking to participate in climate change-related activities are advised to seek specific legal advice.

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