

10 TIPS...

...for purchasing carbon offsets.



1 What is a carbon offset?

An offset is a carbon dioxide equivalent (CO₂e) emissions reduction or removal that is used to counterbalance or compensate for ('offset) emissions from other activities. Offsets can be purchased by countries, companies or individuals to meet their own reduction requirements. The key criterion for an offset is that the CO₂e reduction or removal that is used as an offset would not have happened anyway i.e. is "additional" to business-as-usual activity (see box).

While there are many attributes that an offset should have to ensure that it is environmentally credible, additionality is most important. Since an offset is being used to compensate or neutralize emissions elsewhere, it is essential that the reduction used as an offset would not have happened anyway. Otherwise there will be no net reduction in emissions. In other words, the seller of the offset should be able to prove that the emission reduction would not have occurred if the offsetting payment (in aggregate across the project) had not taken place. This can be done, for example, by showing that the extra revenue made project returns sufficiently attractive or enabled external financing that would not otherwise have been available.

2 Decide how many offsets you need

The first step is to calculate your organisation's carbon footprint. The GHG Protocol, developed by the World Resources Institute (WRI) and the World Business Council for Sustainable Development (WBCSD), (<http://www.ghgprotocol.org>) and ISO 14064, developed by the International Standards Organisation (<http://www.iso.org/iso>) provide globally recognised standards for measuring and reporting the carbon footprint of your organisation. Then you need to set your company target, both for internal reductions and offsetting. Your target should take into account the potential for cutting emissions at source – e.g. decreasing energy consumption, improving the efficiency of operations, and purchasing renewable energy electricity – and whether you want to be overall carbon neutral (net zero emissions including reductions and offsets) For some organisations the largest impacts may be through working with your supply chain, employees or consumers. Remember, the more you reduce at source, the less you'll have to spend on offsets.

3 Develop a tailored offset strategy

You need a robust strategy for purchasing the residual emissions that your organisation wants to offset. Here are some questions that you should answer that will help with this process:

Questions to help develop your strategy

- > What are our drivers for offsetting?
- > What are the key audiences we are trying to reach with our offset programme?
- > How important is alignment with government (& other) standards?
- > Do we have particular areas of geographic focus or sectors we prefer?
- > Are there particular types of technologies that we do (or do not) wish to support?
- > How important are sustainable development attributes of projects?
- > What is our budget?

4 Decide how you plan to buy offsets

You should think about whether you want to choose a preferred provider or buy from the market, whether you want a long term agreement or buy year-on-year and who will pay for the offsets (making individual units pay can provide an incentive for reductions at source).

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5 Choose the offset standard that best suits you

There are a number of offsetting standards that suit different needs. The table overleaf provides a summary¹. If you are choosing voluntary offsets, The Climate Group recommends offsets approved under the two main international standards: the Voluntary Carbon Standard (VCS) and the Voluntary Gold Standard.

6 Undertake due diligence on projects

Before and after you purchase offsets, complete your own assessment of projects to ensure that they are delivering what they say. NGOs and consultants can help with this.

7 Talk to different sellers

Offset prices generally increase as you go up the offset supply value chain. Average prices charged by offset retailers are US\$ 8.04/tCO₂-e compared with \$6.03 for brokers, \$5.31 for wholesalers and aggregators and \$3.88 for project developers². Ask sellers to disclose how much of your money goes directly to the project and how much covers their administrative costs. You may also want to consider directly developing offsets projects yourself. While this increases your exposure to project risk, it should also decrease offset costs.

Standard	Reg / Vol	Techs. included	Pro's & Cons	Ret. Price
CDM	Regulated	Industrial gases, renewables, energy efficiency, A&R	+ Gov't backed, rigorous process - Price, mainly large scale projects	~€17-20
JI	Regulated	Industrial gases, renewables, energy efficiency	+ Gov't backed, close to credit 'users' - Mainly industrial, not issued until '08	~€15-18
Gold Standard	Reg & Vol.	Renewables, demand side energy efficiency	+ Premium quality, SD benefits - Few projects available, small-scale	~€11-25+
Voluntary Carbon Std.	Voluntary	Industrial gases, renewables, efficiency, A&R (?)	+ Consultation process, Registry - Delays	~€5-15
VER +	Voluntary	All approved CDM meths.	+ Relatively simple - No consultation, not widely tested	~€5-15 (?)
CCB	Voluntary	Forestry & land-use	+ Consultation process, quality - Project standard (not carbon credit)	~€5-15
EUA's	Regulated	N/A (Not project-based)	+ Govt. backed - Additionality (Ph.1), no projects	~€2-8 (Ph.1) ~€24 (?) (Ph.2)
CFI's (CCX)	Voluntary	Allowances & project-based credits (all types)	+ Inexpensive - Additionality	~€1-3
'Plain' VER's	Voluntary	All / any	+ Inexpensive, SD benefits - Variable quality, no central registry	~€8-20

¹ Table provided by the Carbon Neutral Company and reflects their estimates of offset prices (not necessarily actual market conditions)

² Ecosystem Marketplace and New Carbon Finance 'State of the Voluntary Carbon Markets 2007'
http://ecosystemmarketplace.com/documents/acrobat/StateoftheVoluntaryCarbonMarket18July_Final.pdf

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8 Ensure that offsets are retired on a credible GHG registry

To ensure that offsets are not used more than once you should require that they are retired on a credible GHG registry. There are several registries that currently offer these services and many offset retailers also operate internal registries that are independently audited.

9 Be transparent about your offset purchases

Any offset strategy should be transparent and publicly communicated. Disclose information on your carbon footprint calculations, emissions reduction activities, the type of offset being used, where offsets have been retired and any uncertainties related to these issues.

10 Review your approach to offsetting on a regular basis

Your organisation's carbon footprint and approach to carbon management will no doubt change over time. The carbon market is also likely to change over time. With this in mind, ensure you review your approach to carbon offsetting on a regular basis to ensure it is still in line with best practice.