

In the second of a two-part article, **MICHAEL MOLITOR** outlines the key components necessary for a global market for voluntary carbon offsets.

# Carbon volunteers: Part 2

A robust global market for voluntary carbon offsets will require several key operational components if it is to make a significant contribution to stabilising atmospheric greenhouse gas (GHG) concentrations at or below 500 parts per million by 2050. Most of these essential market features will mirror the standards and processes that exist for the many carbon compliance instruments, such as EU allowances and Certified Emission Reductions (CERs).

The most important of these requirements is the creation and recognition of a new voluntary carbon instrument supported by an unchallengeable set of standards and metrics. The market will also need the means of tracking the instruments to ensure validity and to avoid double counting. In this connection, a global registry will be required to identify and track the chronology and ownership of all voluntary carbon instruments.

I would like to propose that the global carbon trading community recognise a voluntary carbon unit (VCU) as the new instrument traded and retired for voluntary purposes. Like all of the existing carbon compliance instruments, VCUs are denominated in tonnes of carbon dioxide equivalent (tCO<sub>2</sub>e) and are also recognised by the year in which they were created – the 'vintage'.

It is essential that the emerging global voluntary carbon market trade only the VCU and that it is a carbon credit and not an allowance. There is enough confusion and complexity with allowances in the carbon compliance market. The voluntary carbon market needs to focus on simplicity, both for its efficient operation and to ensure that the public understands how the scheme works. The largest share of the voluntary carbon market will arise from new consumer carbon offset products and services; it is critical that the public can grasp the basic details of how VCUs are created and retired if we are to expect them to pay a small premium for them.

## Non-carbon related benefits

There is an ongoing international effort to create the standards, a global registry and a hallmark to support the global market for VCUs. One interesting issue concerns the VCU standards and the extent to which they should attempt to treat non-carbon related benefits. I have taken the view that VCUs should only reduce GHG emissions and not attempt to deal with the myriad other sustainability issues that have been integrated or proposed for inclusion within compliance carbon instruments. These non-carbon related benefits are important but, they should not be directly integrated into the VCU standards. The demand for VCUs is expected to be enormous and the addition of non-carbon benefits will unnecessarily limit the global VCU supply. We need to always keep in mind the over-riding goal of stabilising GHG concentrations in the atmosphere and not get side-tracked with other objectives.

I would expect that leading organisations with specific expertise in the non-carbon benefits will launch complementary standards that would create VCUs with special characteristics. This is not unlike the Gold Standard designation for Clean Development Mechanism projects, where environmental NGOs have created uniquely recognised CERs with elevated carbon and sustainable development benefits. Specialised organisations are welcome to introduce 'VCU-plus' standards that incorporate non-carbon related benefits. It is my

view, however, that the total pool of projects in the world that generate real non-carbon benefits is minuscule relative to the future demand for VCUs. My firm has estimated that the total pool of VCU-plus reductions may be less than 20 million tonnes (Mt) CO<sub>2</sub>e over the next five years. Demand for VCUs could easily surpass 500Mt CO<sub>2</sub>e per year within three years.

Not unlike carbon compliance instruments, VCUs must also deal with 'additionality' as well as other key issues. The additionality test for VCUs requires that the projects from which they are created must be able to demonstrate that the reductions are real and were not going to happen without a specific intention to reduce emissions. The reductions cannot, furthermore, have been undertaken to meet a formal or voluntary target imposed by a government regulation or under agreement with a government agency. The latter includes agreements between, for example, the auto manufacturers and the EU, where the companies agree to meet reduction targets voluntarily through their industry associations.

An additional requirement for VCUs is that they can only be created as of 1 January 2000. Projects that began before this date but after 31 December 1994 – which provides a useful five-year cut off date – are also eligible to produce VCUs. However, there should be the following two stipulations: (1) the original project developer must be able to demonstrate that the project was undertaken with the unique purpose of reducing GHG emissions; and (2) once the proof of intent is authenticated by third-party verification, then the project may only begin producing VCUs as of 1 January 2000 – any reductions generated before this date are not eligible for VCUs.

Responding to climate change means fundamentally changing the way we produce and use energy. For this reason, I would strongly urge that VCUs cannot, for the time being, be created from agricultural and forestry projects of all types. With limited funds to invest in emissions reduction projects, the market needs to direct this scarce capital to energy and energy-related projects.

## Industrial emission reduction projects

Large-scale projects that reduce non-CO<sub>2</sub> gases from industrial processes are eligible because they lead to real long-term, cost-effective reductions with limited risk. Furthermore, these industrial projects, although large in volume, will be quickly undertaken and phased-out as they only apply to existing plants. Under the baseline scenario, new plants should have installed carbon abatement technology and so are no longer additional.

The voluntary carbon market is not a long-term solution to the problem but is an important driver for large-scale emissions reduction volumes while we wait over the next decade for the global introduction and penetration of cost-effective low carbon technologies. We cannot afford to wait a decade to reduce emissions on a large scale. The voluntary carbon offset market provides a simple and cost-effective means for individuals worldwide to begin managing their carbon footprints today.

At current carbon offset prices, any individual, regardless of their net income, can afford to offset their entire annual carbon footprint for about 1.5% of their annual income – this is substantially less than the funds expended by individuals annually for all forms of insurance. VCUs are, in fact, a form of unique global environmental insurance for individuals. You can pay the manageable premium now or roll the dice and pay for the potentially substantial damages later. **CF**

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