



CRUNCH TIME FOR OFFSETS

**WHERE TO NOW FOR THE
VOLUNTARY CARBON MARKET?**

**A Discussion Paper from the Total Environment Centre and the Green
Capital Program, Written by Murray Hogarth* – September 2008**

ABOUT THIS PUBLICATION

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Executive Overview

Australia has shifted rapidly on international and domestic climate policy since the election of the Rudd Labor Government in November 2007. Though probably an unintended consequence, ratifying the Kyoto Protocol and fast-tracking a national emissions trading scheme are making it crunch time for the voluntary carbon market too.

Now gripped by confusion and uncertainty, and lacking cohesion across many diverse players large and small, very mixed views abound about the voluntary market's evolution – its future size, shape, offerings and very existence. There's now a key question for the credibility of this trade: whether Australian buyers pursuing beyond compliance action on climate are getting what they expect when purchasing so-called 'carbon offsets', in particular those sourced from emission reduction projects carried out in Australia?

Early indications suggest the smallish voluntary market, and especially Australian-based offset origination activities for the voluntary trade, face significant collateral damage from Australia becoming a Kyoto-capped country, and from the impending introduction of a much bigger compliance market for carbon trading. This is because:

- By ratifying the Kyoto Protocol, effective March 11 2008, relevant carbon emission reductions in Australia now count within Australia's Kyoto cap (108 percent of the 1990 baseline by 2012), and later within the compliance scheme
- *Prima facie* this means that offsets originated in Australia and sold in the voluntary market are not 'additional' because they will be counted within the cap, a binding target that Australia has already committed itself via the United Nations to achieving, and in the future will fall within compliance scheme targets
- It is open to conclude that this includes reductions under the Australian Government's own high-profile Greenhouse Friendly™ initiative¹, which in turn is subject to speculation that it must either be phased out or significantly changed
- Most official and informal watchdogs consider 'additionality' to be crucial to voluntary offsetting credibility (additionality literally means that offsets are in addition to any reductions that would have happened anyway, whether through business as usual or government mandate i.e. to meet a binding Kyoto target, or under an official cap-and-trade scheme like that planned for Australia)
- Historically, according to market participants, Australian offset buyers including corporations, professional services firms, government agencies, local councils, small businesses and individuals have preferred sourcing all or part of their offsets portfolios from projects involving on-the-ground activity in Australia
- Now, however, they'll at least need to rethink offset strategies, and either
 - The Australian Government could act to remedy the situation by making voluntary offsets additional to Kyoto cap and/or compliance scheme reductions (there are proposed mechanisms that could do this), or
 - Offset buyers, in particular those who require certainty on quality for reputation and other reasons, will likely turn to purchasing offsets from overseas carbon reduction projects in non-Kyoto capped countries (this is standard in the UK, for example, and may already be happening here).

Unfortunately, there appears to be little headspace at political and bureaucratic levels to deal with the voluntary market's challenges, mainly because of the resource-draining complexity and sheer workload of getting the compliance market in place. Yet much greater focus is required if Australia wants a healthy and innovative, albeit niche voluntary market to continue operating alongside a big, mainstream compliance one.

Introduction: A Question of Survival?

This discussion paper focuses on the future for the voluntary carbon market and related service businesses and offset origination projects in Australia. Any such discussion includes the question: is there a future at all? Views on this range from indifference at best among market solution skeptics, through to a mixture of qualified optimism and real concern among genuine champions of the voluntary market, although most of them are active participants with 'skin in the game'. Certainly, there is evidence that the voluntary market's future is at risk from attention deficit among policy-makers and key influencers; given the massive focus by government, business and community stakeholders on the design, development and implementation from 2010 of a national compliance market for carbon emissions now known as the Carbon Pollution Reduction Scheme (CPRS)². So is the voluntary market in danger of dying through neglect, if not misadventure? Or could it not only survive, but even grow and thrive?

The advent of the CPRS is driving everything from eager anticipation to fear and loathing across Australia, especially in business and political circles. But what does it mean for the voluntary market that came first? While there are no easy answers, the question deserves increased attention, whatever the pressures to meet the 2010 deadline for the CPRS in a suddenly very difficult political and economic environment. We've already seen that merely the prospect of a regulated national carbon market years ahead contributed to a major carbon price collapse in 2007 under the NSW Greenhouse Gas Abatement Scheme (GGAS), casting a pall of uncertainty over the future value of NSW Greenhouse Abatement Certificates (NGACs). GGAS started in 2003 and is the world's oldest mandated carbon trading scheme, but will now end when the CPRS starts. Is the GGAS experience some warning of what still may lie ahead for the voluntary market?

In Australia and internationally, credibility has been the biggest challenge in the voluntary market's training wheels phase over the past several years. This credibility challenge has confronted the very concept of voluntary trading in 'carbon credits' to offset polluting activities including supply chain footprints, and also work and lifestyle choices such as air travel and private vehicle use; and the closely-associated carbon reduction and offsets services sector. After all, the core commodity in this trade is an invisible gas (CO₂) being emitted, or kept out of, or removed from the global atmosphere, without the benefit of tight internationally agreed standards and record-keeping.

Demonstrating credibility is a prerequisite for voluntary carbon trading to succeed, even though it is qualitatively different to the regulated kind. Buyers in compliance markets purchase 'pollution permits' because they have to in order to operate legally. Buyers of voluntary offsets have different, beyond legal-compliance motivations, including personal accountability, corporate social responsibility, staff or community engagement and motivation, competitive differentiation, perceived customer demand, and supply chain commercial requirements. Genuine and proven carbon reduction is paramount, but a rich offset 'story' that adds other social, environmental and/or economic 'co-benefits' also is important for many buyers.

Looking ahead, the voluntary sector in Australia now faces an even bigger challenge to add to its ongoing need to prove itself on the credibility front. As canvassed above, this challenge is whether it can continue to grow, or even survive in any significant form, with the advent of the national compliance carbon market within two years? Certainly, it seems, most current sources of voluntary offsets from projects in Australia will move into the compliance market, including the higher quality forestry-related projects which can

opt into the CPRS and create pollution 'permits', known as Assigned Amount Units (AAUs), which each equal one tonne of CO₂ equivalence (CO₂e). So where will future supply for quality offsets come from? How will the needs of individuals, businesses and others that want to go above and beyond mere compliance be met?

In addressing the question '*Where to now for the voluntary carbon market?*' this discussion paper synthesises the results of research and interviews with a number of industry participants and observers³. Key conclusions are that:

- A high-quality voluntary market should be encouraged as a potentially valuable complement to the planned compliance market, including
 - Providing an ongoing, differentiated avenue for willing investors in beyond-compliance action to reduce carbon pollution, *and*
 - Acting as an incubator for innovation in carbon reduction processes, technologies and methodologies (for cutting carbon, but also for other co-benefits such as biodiversity protection and social welfare gains), by driving voluntary dollars into Australian-domiciled projects
- Unfortunately, however, the viability of the voluntary market may be threatened unless firm action is taken to protect and promote its future, including
 - By the voluntary sector itself in terms of continuous improvement of product quality, and also sustained business model innovation, with active development of high-quality integrated carbon reduction and offset offerings that deliver energy efficiency reductions first, renewable energy replacement options second and then offsets for the remainder of targeted emission cuts, *and*
 - By the Australian Government as architects of climate change policy including the incoming national carbon emissions compliance market, with a core issue being the clear problem of voluntary offsets originated in Australia not being additional' to carbon reductions that we must already make under the Kyoto Protocol⁴ (i.e. our national target to confine Australian emissions to 108 percent of the 1990 baseline by 2012), and the incoming CPRS targets.

Ideally, it is proposed, a robust and innovative voluntary market can operate in tandem with the CPRS as one of three main complementary dimensions for carbon action that will enhance delivery of pollution reduction outcomes from the official compliance scheme by driving early, often lower-cost cuts in emissions. The three are:

1. Energy efficiency with a national target (currently not on the national political agenda at least until after the introduction of the CPRS, and possibly not until 2015, but being addressed at state level in NSW⁵, Victoria⁶ and South Australia⁷)
2. The '20 percent by 2020' renewable energy target or RET⁸ (a Rudd Government election commitment in the process of being designed and implemented, but which faces strong opposition from significant industries and business lobbies)
3. A voluntary market in tandem with the carbon reduction and offsets sector (which currently lacks much organisation or cohesion as a sector and risks being sidelined or simply overlooked while nearly everyone is focused on high stakes wrangling over the CPRS). The RET and greater attention on energy efficiency are the next highest priorities, yet still struggle to get the focus they deserve, with the future of the niche voluntary market lagging well behind.

Background: Evolution of the Voluntary Market

While informal trading in offset products sourced from carbon reduction projects has existed internationally in various forms for nearly three decades, in Australia the voluntary market really took off only relatively recently, with 2006 the launch pad year. This is consistent with overseas development of the voluntary market, although Australia lagged slightly behind the European and North American markets.

A report called *State of the Voluntary Carbon Market 2007 – Picking Up Steam*⁹ provides valuable insights into the size of voluntary markets globally (estimated to be worth about \$US91 million in 2006), the main sources of voluntary offsets (forestry projects, renewable energy and industrial gases), the origins of voluntary trading, and the impact of regulated markets coming into play (with the advent of the EU emissions trading scheme in 2005 being the key learning experience):

These markets had their start in the desire of conservation organizations to find new ways of financing their projects. Look at the first big deals in this sector, and you will find that they are often deals related to forestry and the conservation of forests. You can see the effects of these deals in the responses to this survey that relate to the voluntary market pre-2002. Since 2003, the voluntary market has gone from being the “only game in town” (from 1989-2003), to being virtually forgotten as the excitement over regulated carbon markets (i.e. the EU-ETS) has taken hold of the public, business, and regulatory imagination.

In 2006, this began to change. In a period where climate change moved from being a subject of much discussion and hand-wringing among certain specialized circles to the subject of gallons of newspaper ink and even the subject of an Oscar-winning documentary, voluntary carbon markets have begun to both pick up steam and step into the spotlight.

In 2006 and 2007, this new market looked more like a Wild West gold rush than a disciplined and reliable trading system. ‘Buyer Beware’ became a catch cry as new service providers offering diverse carbon reduction and offset products of very mixed and inconsistent origins and standards crowded into the emerging marketplace.

In Australia, in the absence of an official national trading regime, voluntary market growth was fuelled by rapidly rising community concern about climate change threats and an emerging trend for individuals, businesses and other organisations to seek to go ‘Carbon Neutral’. This concept of carbon neutrality has itself become increasingly controversial, with critics seeing it as faddish and flawed, and concern being directed at the methodologies adopted for establishing carbon footprints, at the sourcing of carbon offsets, and at the use of offsets at all. Nonetheless, many individuals, small companies, government agencies and even large businesses such as NAB, IAG, KPMG, PwC, ANZ, News Limited and the AFL have set targets for carbon neutrality, and at least some are buying offsets to achieve them. Also, we now see growing activity around consumer products as well, for example with beer brands claiming to be ‘100% carbon offset’ and bottled water ones even claiming to be ‘carbon negative’.

Like it or not, and there are strong advocates on both sides of a deepening divide, carbon neutrality has been a key driver of demand for offsets and also of action by organisations and individuals to accurately calculate their carbon footprints. As a

consequence of this, product quality, rigorous processes and trading integrity quickly became the great challenge for the fledgling voluntary market. The media, green groups and consumer advocates highlighted their concerns about an uncontrolled surge in voluntary carbon trading, and perceived lack of standards and consistency on matters such as quality, record-keeping, price and environmental value. This in turn prompted close attention from both formal regulators like the Australian Competition and Consumer Commission (ACCC) along with its international counterparts, and also forced politicians to pay attention.

In 2007 the then Labor Opposition, now the Australian Government, promised to set minimum standards for voluntary carbon trading in 2008 while also committing to the bigger-ticket items of quickly ratifying the Kyoto Protocol and introducing a national emissions trading scheme (ETS) by 2010. Kyoto was ratified as one of the first major acts of the new Rudd Government in December 2007, and the government is working frenetically on its ETS, now rebadged as the CPRS. So what about minimum standards for the voluntary trade?

Thus far, say observers with mixed emotions on the topic, the new Government has been silent on any formula for minimum standards for the voluntary market. Some attribute this apparent inaction to an election commitment to the CPRS requiring priority focus, with the intense demands of creating a national compliance carbon market sucking dry available political and bureaucratic energy and resources in the carbon arena. 'There's just no headspace for the voluntary market,' said one offsets industry participant, citing the Canberra reform overload as a clear threat. It begs the question: Should the voluntary market be left to wither through indifference or inattention, or should there be clear policy direction on whether or not we want it as part of the long-term mix for our transition to a low-carbon future? Surely it is better if it lives or dies, prospers or fails by design rather than happenstance? Yet, having originally appeared uninvited of its own spontaneous volition, must it expect nothing from officialdom and take full responsibility for its own success or otherwise?

Recent Developments: Pressure for Improving Standards

In 2008 product quality and trading integrity remain key issues that are now being addressed through competitive leadership by the commercial carbon reduction and offset sector's best practice operators, greater scrutiny by the ACCC and other regulators, and other initiatives by informal watchdogs, with notable activities including:

- Beyond Australia, leading providers have combined to form the International Carbon Reduction and Offset Alliance (ICROA)¹⁰, announced in July 2008 (and launched in Australia in September 2008), which includes a set of principles for sourcing carbon offsets to ensure they are real, measurable, permanent, additional, independently-verified and unique. The eight founding members include five UK-based groups, two from the US and one from Australia (Climate Friendly¹¹).
- The ACCC paper *Carbon Offset Claims and the Trade Practices Act*¹² published in January 2008, and litigation action initiated by the ACCC in cases where it has alleged that carbon claims are misleading or deceptive for customers
- Carbon Offset Watch¹³ (released in September 2008 by green group the Total Environment Centre, consumer advocacy organisation Choice and researchers at the University of Technology Sydney's Institute for Sustainable Futures)

- The Carbon Offset Guide Australia¹⁴ developed through a partnership between EPA Victoria and Global Sustainability at RMIT in Melbourne as an independent resource for businesses, government agencies, NGOs and individuals seeking information about offsets
- Launch in September 2008 of a financial-markets based global registry for voluntary offsets by the UK-based Voluntary Carbon Standard (VCS) Association, as a key mechanism for tracking voluntary carbon transactions (New Zealand group TZ1 named as one of four registry services providers¹⁵).

As it stands, even with the above initiatives, the emerging carbon reduction and offsets sector may be poorly equipped to deal with the challenge of ensuring its own survival and future success. It is young and disparate, lacking cohesion. Many of its players are smallish new businesses with limited financial and other resources, while others are non-commercial organisations venturing into the world of markets and trading. That said, there also are examples of operators that are likely to have much deeper pockets even in the midst of a global credit crunch, including major energy utilities such as Origin and AGL, and also investment banks. Via recent transactions, which could herald more merger and acquisition activity leading to consolidation in the sector, Australian-based group Climate Friendly became half-owned by Macquarie Bank late in 2007¹⁶ and the veteran UK-based Climate Care group, which also operates in Australia, was purchased by JPMorgan Chase Bank in a deal announced in March 2008¹⁷.

Consolidation in the sector, driven in part by a desire to acquire cutting edge carbon trading skills and offset origination capacity, could well draw in more of the well-heeled investors with real market clout like Macquarie and JPMorgan, or simply drive struggling smaller players together. This could be a prerequisite for both ensuring high standards and negotiating the political and business hurdles faced by the voluntary sector, especially in toughening economic times accompanied by great policy uncertainty around the detail of the carbon end game.

The Carbon Offset Watch process found there are now more than 50 carbon offset providers operating in Australia, although only 20 participated in the survey sufficiently to be rated. It may seem unlikely that 50 or more providers will still be operating in the voluntary market when the CPRS comes into force in 2010, so should we expect a shake-out soon? Frankly, that looks to be on the cards, and the Carbon Offset Watch report itself may well put new pressure on some already marginal players.

Looking Ahead: Complementing the CPRS?

While the credibility challenge still needs more work, it now looks like the main game for the Australian voluntary sector in financial year 2008-9 and beyond will be ensuring it has a place alongside the CPRS that is both commercially viable and environmentally positive. Otherwise, it will likely diminish or even die out, or be forced into hastily reinventing its business models, which anyway you look at it makes it crunch time for offsets.

JPMorgan in its August 2008 monthly report on environmental markets in Australia and New Zealand¹⁸ is optimistic, predicting a 'healthy voluntary market' continuing, 'but one where standards play an increasingly important role, and origination sources start to open to other countries beyond Australia and New Zealand'. By contrast Freehills legal consultant John Taberner, writing in *The Australian Financial Review*¹⁹ predicted a voluntary carbon credit market that will be 'orphaned and largely marginalised' by the

CPRS. Taberner says international experience 'suggests that while the existence of a compliance-based scheme does not destroy the domestic market for voluntary credits, it significantly retards its growth'. While the UK and Euro-zone experience suggests a voluntary sector can continue in tandem with a compliance market, will that translate to Australia? Given that Australia is such a latecomer to a cap-and-trade compliance scheme by contrast with the EU, and also is a very different operating environment, with a primary industry and natural resource-heavy economy that has characteristics of both developing and developed nations.

At least partly echoing Taberner, even the view from JPMorgan, new owner of Climate Care, is not entirely rosy. It anticipates supply problems especially for locally-originated offsets in Australia and New Zealand (it is relevant to note that Climate Care's international business is focused on top-end-of-market offsets originated mainly in Africa, Turkey and Asia). The JPMorgan environmental markets report says: 'As there will be an emissions cap covering stationary energy from 2010 in both countries, most origination sources will dry up as additionality will be hard to prove. Bio-sequestration projects (e.g. tree-planting) will be able to opt in to the compliance market, therefore these credits are likely to go to compliance markets as prices are likely to be higher.' While JPMorgan sees agriculture as a potential origination source, as do others, it notes this area also will go into the New Zealand scheme in 2013, and the Australian CPRS could include agriculture from 2015.

It's an interesting conundrum. Relatively small though the voluntary market may be by contrast to the planned compliance market (JPMorgan canvasses a voluntary market in Australasia of 8-10 million tonnes of CO₂e by 2010, compared with a CPRS that could cover 400-500 million tonnes), its ability to drive beyond-compliance dollars into carbon reduction projects and innovation in Australia may be curtailed. At the same time, the CPRS may well be constrained and weakened, in its early years at least, by price caps, limited coverage and compensation to polluters. Arguably, it is precisely in the early years of the CPRS, at a time when the fledgling compliance market will be least effective at driving emission reductions that a complementary contribution from voluntary offsetting would be of greatest value in bolstering early action.

Key Issues: Points for Further Discussion

Based on the views of interviewees, other research and the Carbon Offset Watch report, there are a number of key issues.

1. Lack of additional status for offsets created through carbon reduction projects in Australia now that we are officially a 'Kyoto-capped country'. Purchase of carbon credits produced locally in a Kyoto country will be assumed to already have been counted against that country's official emissions target, meaning that claiming them as an offset would be double-counting. This in turn may
 - a) Drive carbon service providers to source offsets only from overseas projects in non-Kyoto capped countries in response to customer demand for genuinely additional carbon reductions, especially from informed customers such as major corporations with acute reputational concerns (in Great Britain, where a similar issue has existed for several years, the experience shows that offsets for the voluntary market are being sourced offshore and relevant funds are not going into projects within the UK)
 - b) Discourage voluntary market dollars flowing into carbon reduction projects in Australia. This is a real set-back for corporate and other

institutional carbon buyers that want to source at least part of their offsets portfolio in-country, and also for individuals who prefer projects in their own country (as reportedly is true of Australians), *and/or*

- c) Encourage use of compliance market pollution permits or AAUs bought from the Australian Government pool and packaged for the voluntary market, to the extent that it survives, as the main product for beyond-compliance offsetting by individuals and organisations. This would render the voluntary market less effective in terms of driving carbon reduction innovation outside of the compliance market; and is likely to be unsatisfactory to buyers looking for richer 'carbon stories' that typically drive voluntary offsetting (motivated, as it is, by beyond-compliance factors such as corporate social responsibility, competitive positioning, staff and customer expectations etc).

It should be expected that this additionality issue will stir much debate, as it reportedly did at a recent carbon conference event in New Zealand. This includes prompting further challenges to how important adherence to the additionality principle is, as opposed to the desirability of promoting early, innovative and constant action on emissions reductions without being too doctrinaire about how they are achieved.

NOTE: This issue could be solved if the government retired a CPRS permit for each tonne of CO₂e sold as a voluntary offset. The effect of this would to reduce the number of permits available to polluters and therefore should drive up the price of permits (unless the price is capped), although it would require heavy sales in the voluntary market for the price impact to be significant.

2. The future for the Australian Government's Greenhouse Friendly™ program in the context of a compliance market coming into force in 2010, with options raised by interviewees for this paper including
 - a) Phase-out of Greenhouse Friendly ahead of the CPRS (with speculation that this could actually happen as early as mid-2009 given the additionality problem), *or*
 - b) Conversion of Greenhouse Friendly from its current model of certifying commercial products and services as 'greenhouse neutral', to more of a standards body that researches and releases governing rules for carbon reduction and offset services e.g. factors and measures to underpin consistency across different carbon calculators.
3. Establishing the value proposition for retaining and supporting a voluntary market to compliment the compliance one, including
 - a) As an outlet for beyond-compliance carbon reductions
 - b) As a source of consumer-friendly 'carbon stories' that include co-benefits such as biodiversity protection, social welfare gains or human rights opportunities, *and*
 - c) By acting as a test-bed for innovation in carbon reduction methodologies that may ultimately be adopted into compliance markets e.g. in the agricultural sector, which may or may not be incorporated into the CPRS in 2015.
4. Challenge of weathering the lead-up to and early introduction of the CPRS, with the main factors including

- a) Lack of political and bureaucratic headspace for dealing with the policy adjustment needs of the voluntary sector, which may not be seen as 'material' alongside the CPRS itself, the new 20 percent Renewable Energy Target (RET) and a coming push for acceleration of a national energy efficiency target
 - b) Potential pricing pressures on the voluntary market if the government sets or engineers a 'low-ball' carbon price in the early years of the CPRS (say in the order of \$10-\$15 a tonne of CO₂e). This could set a price expectation in the market place for a tonne of CO₂e that would be well below the required price point for quality offsets, especially ones from overseas projects. One market participant commented: 'The CPRS may weaken the incentive for corporate customers. A price cap or low price will impact on the appetite for voluntary cuts.'
5. The supply of high quality offsets, especially from Australian projects, has been in question even before the Kyoto and CPRS impacts on additionality hit
- a) There appears to be a lack of depth in the Australian origination of high quality offsets for regular supply, which is likely to be exacerbated by them now not being additional
 - b) Therefore, putting the CPRS and additionality to one side for a moment, the long-term future of an Australian voluntary market with locally produced offsets requires supply-side improvements.

6. There is an obvious tension between the quality and credibility imperative, and the championing of the voluntary offset origination area for its innovation capacity (by acting as a test bed for projects and processes that may be later incorporated into the compliance scheme). Arguably this has been happening with forestry, and could happen with agriculture, but the cutting edge nature of innovation could sit uncomfortably with expectations for quality and certainty.

7. There are divergent views on whether the Australian Government needs to fulfill its election commitment to create minimum standards for the voluntary market in Australia. Some suggest that existing overseas standards would suffice, perhaps with guiding principles from an Australian perspective. Others see some evolution of Greenhouse Friendly™ as at least part of the answer, and still others are just interested to see whether the Government comes up with anything at all.

Conclusion: Address the Additionality Dilemma

The Carbon Offsets Watch report released in September 2008 indicates how seriously the voluntary market is challenged in Australia, especially in regard to the additionality dilemma. It also highlights the importance of having the voluntary sector, concluding:

'We consider it of paramount importance that the voluntary market creates reductions that are additional to Kyoto and future obligations. That voluntary offsets are currently counted within Australia's Kyoto obligations is not the fault of retailers. Furthermore, we do not want to undermine the market for voluntary carbon credits generated from Australian projects that were established prior to Australia's ratification of the Kyoto protocol. For these reasons, we have excluded this issue from the assessment. However, the issue needs to be quickly resolved and it should be included in future Carbon Offset Watch assessments. This would mean that all Australian voluntary carbon offset projects would lose points in future assessments if this issue is not resolved.'²⁰

The voluntary market's domestic future is genuinely threatened by all of this uncertainty, and it is worth working to save it. If for no other reason, this is true in keeping with the widely held and commonsense view that stopping dangerous climate change requires many solutions – and that there is no silver bullet. In Australia's case, multiple solutions means both the regulated compliance market to be created under the CPRS, and other key measures to complement it including energy efficiency and renewable energy targets, and a beyond-compliance voluntary market catering to willing buyers looking to do more than merely meet legal requirements.

A healthy and innovative voluntary market is one of the extra dimensions of activity required to drive emissions reductions, especially in the early, possibly tentative years of the CPRS, which could include a low-ball price cap that will weaken its initial impact. It provides choice for individuals and organisations that will not be found in the compliance market, including a variety of richer 'carbon stories' with the extra attractions of socio-economic and environmental co-benefits, such as new investment in rural and regional areas and creation of wildlife corridors and biodiversity reservoirs.

In order to live up to the value proposition for the voluntary market outlined in this discussion paper, carbon reduction and offset service providers will need to continuously improve their business models to deliver real reductions through energy efficiency and direct pollution reduction first, replacement of dirty energy with cleaner energy second, and offsets after that. Government policy-makers, meanwhile, need to address the additionality issue so that voluntary dollars will continue to be directed to offset origination projects in Australia, or failing that, at least to provide some certainty to the carbon reduction and offsets sector on this threshold issue.

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