



Update of the Voluntary Carbon Market

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Overview

1. Introduction
2. Insights from 'Leveraging domestic offset projects for a climate-neutral world'
3. Outlook: Guide to quality standards on the voluntary offset market
4. Discussion

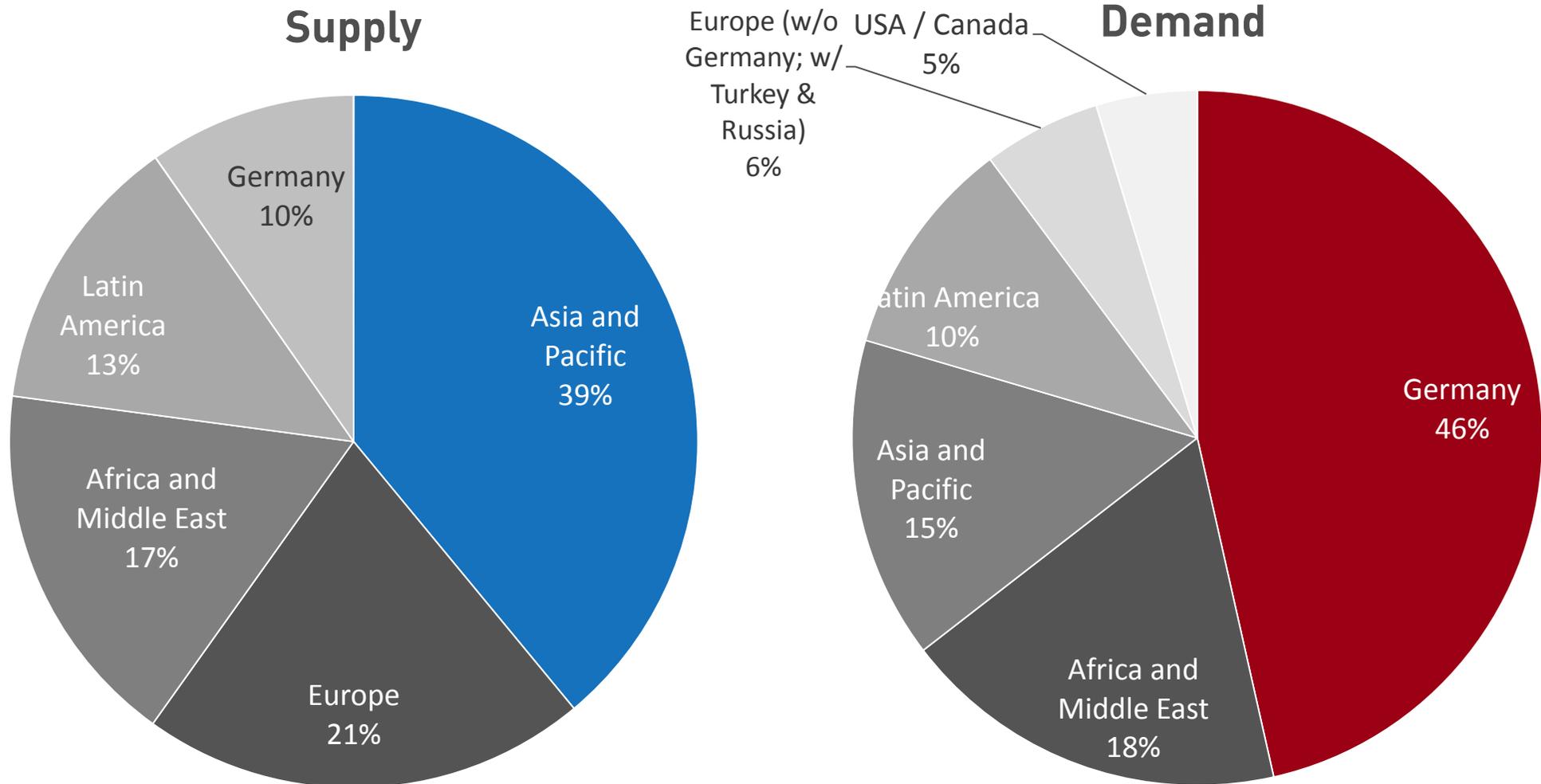


- What does the German offset market look like?
 - Market volume is growing, but market faces uncertainty
 - Awareness is good
 - (We will have new figures this year – high granularity)
- DOPs are instruments for countries with mitigation targets to stimulate domestic emission reduction or removal opportunities and technological innovation not used for compliance purposes
- Do consumers want domestic offsets?
 - Strong preference for local offsets
 - But financial reasons much more decisive, especially among companies – and domestic offsets tend to be much more expensive (in Annex I)
 - Confusing / intransparent market is key challenge for bringing across advantages of domestic offsets – choice of standards, communication

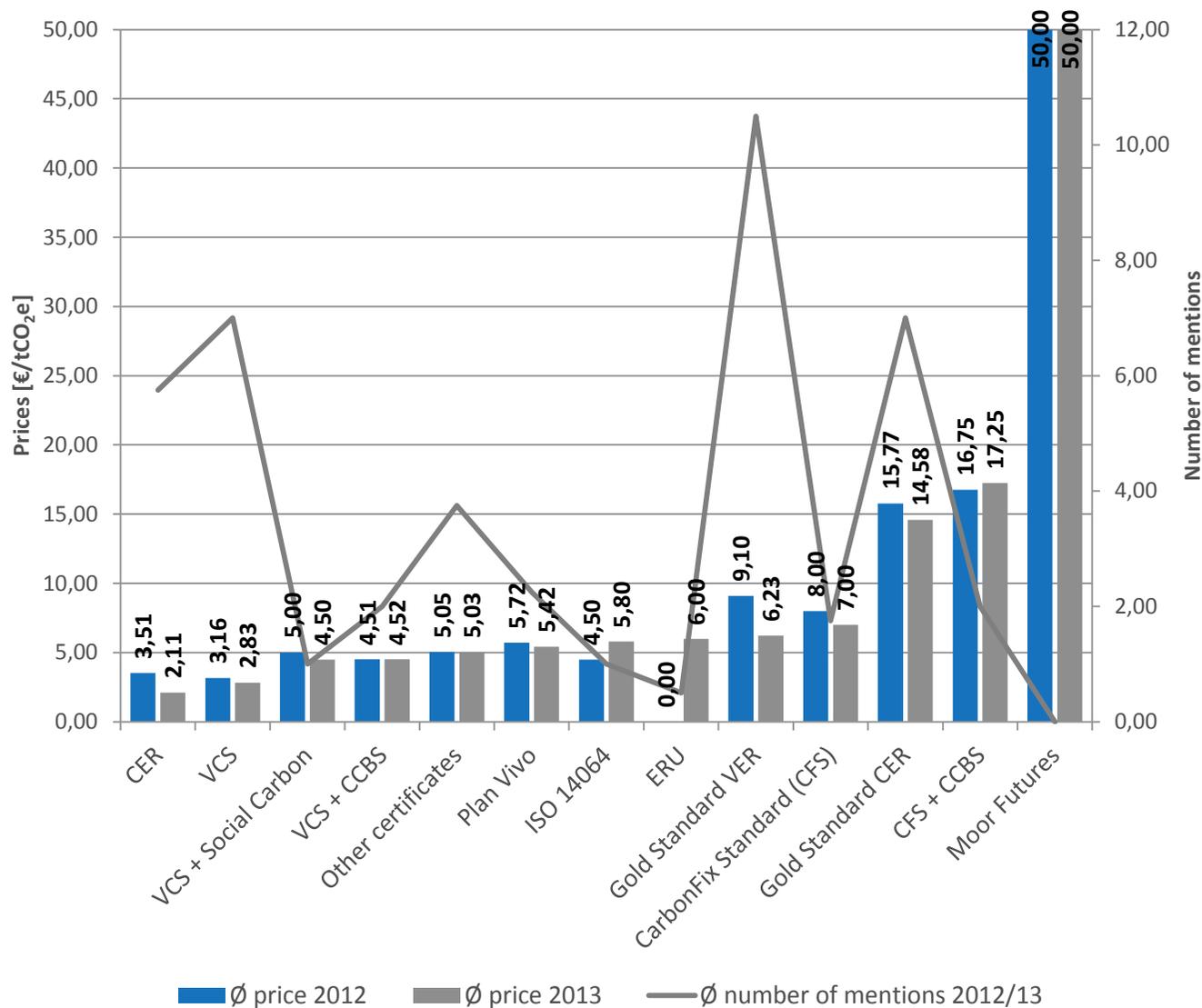
The good news is: local certificates are strongly preferred



Supply has a strong regional focus on Asia and Pacific (38.9%). However, demand is highest for German certificates (46%).



Domestic offset prices: A world of its own



Results:

- Slightly negative trend
- Big difference between ∅ and maximum price

Highest prices:

- Max. 50 €/tCO₂
- MoorFutures (peatland) certificates

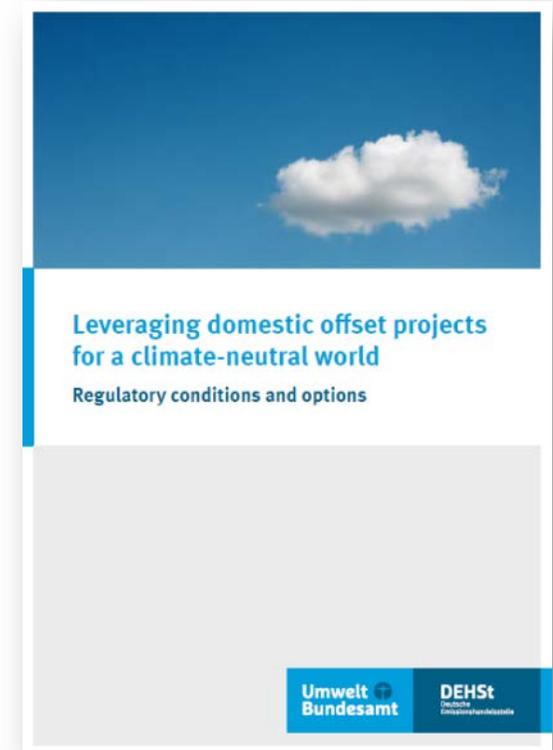
- **Limitations:** Kyoto mitigation commitments, 4 types of double counting, lacking guidance on additionality, changing regulatory frameworks post-2020
- **Opportunities:** DOPs can advance climate action and support transition to low-carbon economies, exchange best practices



Leveraging domestic offset projects (DOPs)



- Study carried out by adelphi on behalf of the German Emissions Trading Authority (DEHSt) at the German Environmental Agency (UBA) to
 - **analyse characteristics, challenges and opportunities** of initiatives in countries that generate carbon credits from DOPs
 - **develop recommendations** for improving regulatory conditions
- Copies are available at the German Pavilion



Leveraging domestic offset projects for a climate-neutral world. Regulatory conditions and options. March 2017.

[→ Download](#)



1. Australia's Carbon Farming Initiative (CFI): Avoiding double counting: Exchange of Kyoto ACCUs for AAUs or RMUs
 2. France's Voluntary Carbon Land Certification (VOCAL): Ensuring government buy-in: Successful development of new DOP
 3. Italy's Forest Carbon Code: Guaranteeing broad acceptance: bottom-up inclusive stakeholder process
 4. Spain's domestic registry and carbon fund: Leveraging potential of DOPs: Government purchase of voluntary credits
 5. Switzerland's domestic offset initiative: Towards more ambition: Using domestic credits for national targets
 6. UK's Woodland Carbon Code: Building on existing good practice: a robust accounting framework
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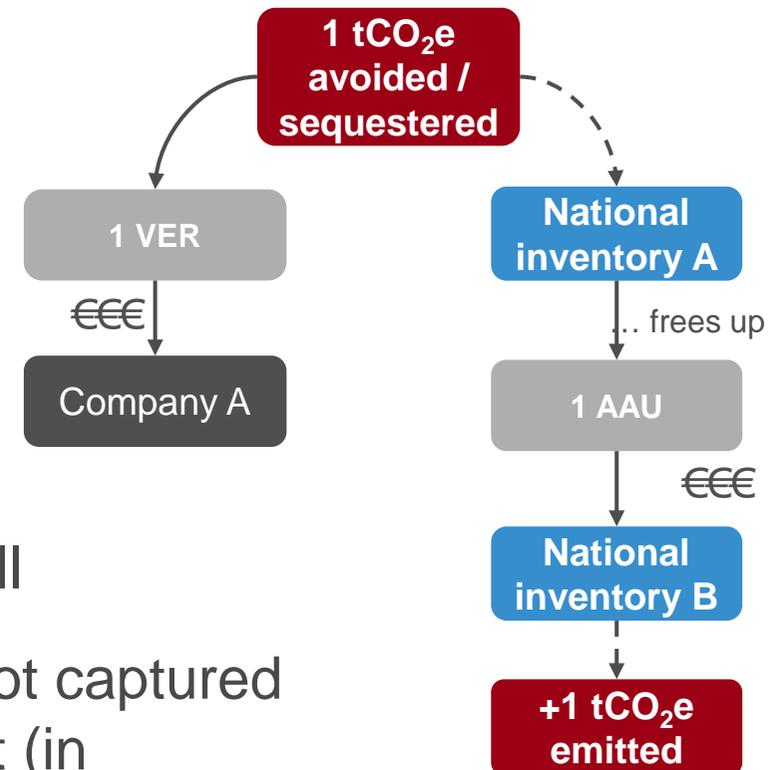
- **Environmental integrity:** One unit corresponds to a real reduction or removal of its equivalent amount of CO₂e ('net zero')
- Double counting can impair environmental integrity
 - Different implications in voluntary and compliance scenarios
 - Particular challenge for DOPs in countries with binding targets (-> Annex I)
- **Double counting:** 1 GHG emission reduction/removal is...
 - ...sold
 - ...issued
 - ...claimed *or*
 - ...monetized **twice.**

Types of double counting: Double monetisation



1 GHG emission reduction (or removal) is monetized once as an allowance and a second time as a GHG credit

→ Not environmentally sound:
net emissions increase possible



Solutions?

- Cancellation of AAUs or commitment not to sell
- Reductions / removals from voluntary DOPs not captured or beyond what can be counted towards target (in LULUCF) (workarounds)

Types of double counting: Double claiming

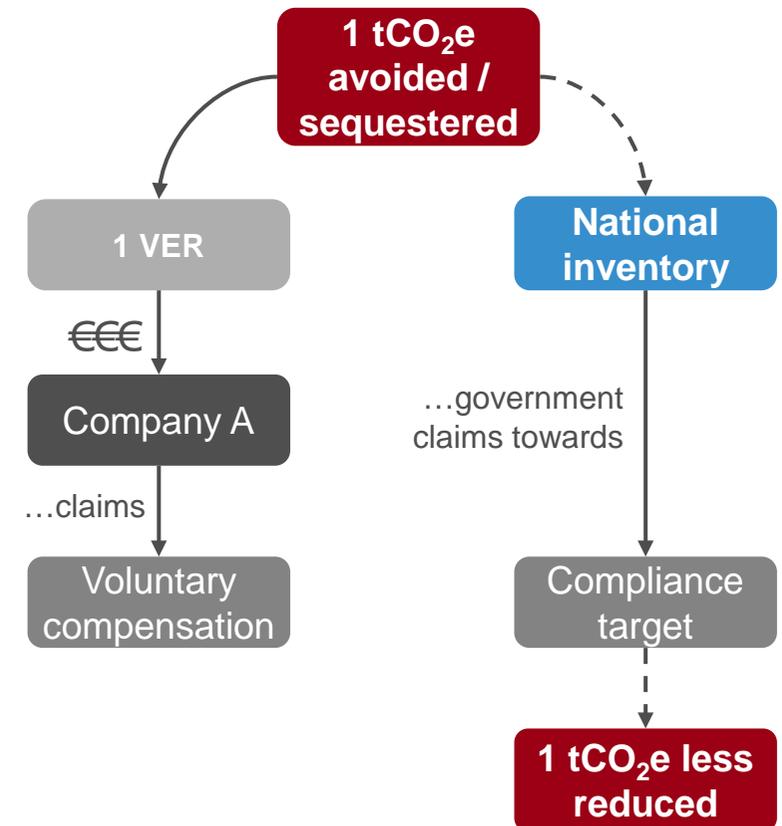


Two entities 'claim' the environmental benefit of the exact same reduction or removal unit.

- Environmental integrity disputed
 - Still, only one party with reduction obligation
 - Extension: Perceived environmental integrity
- But: Reduces overall ambition

Solutions? Rigorous vs. pragmatic approach

- Cancellation of AAUs
- Transparent communication





- Voluntary standard that generates credits for national woodland creation within the United Kingdom
- 200+ projects since 2011, 125 validated, sequestration potential of 5.848 million tCO₂e over next 100 years
- Transparent communication – no double claiming
- More stringent domestic target & commitment not to sell excess AAUs – no double monetization
- Environmental integrity preserved



Recommendations – on double counting

No more niches:

- As scope for voluntary markets is reduced with NDCs, regulative framework needs to proactively safeguard environmental integrity.
- Governments could cancel Assigned Amount Units (AAUs) or commit to not selling excess AAUs.
- Transparent communication can alleviate concerns of double claiming.



Recommendations – on the Paris Agreement

Close the ambition gap with voluntary action: Voluntary domestic offsets can help to get on track with ambitious climate targets.

Leverage the potential of the LULUCF/AFOLU sector: Carbon sinks will become more important (think carbon neutrality, 1.5° goal). Most domestic offset initiatives are active in this sector and provide experience in developing and implementing emission reduction and removal projects to learn from.

-> Important exploratory role of DOPs



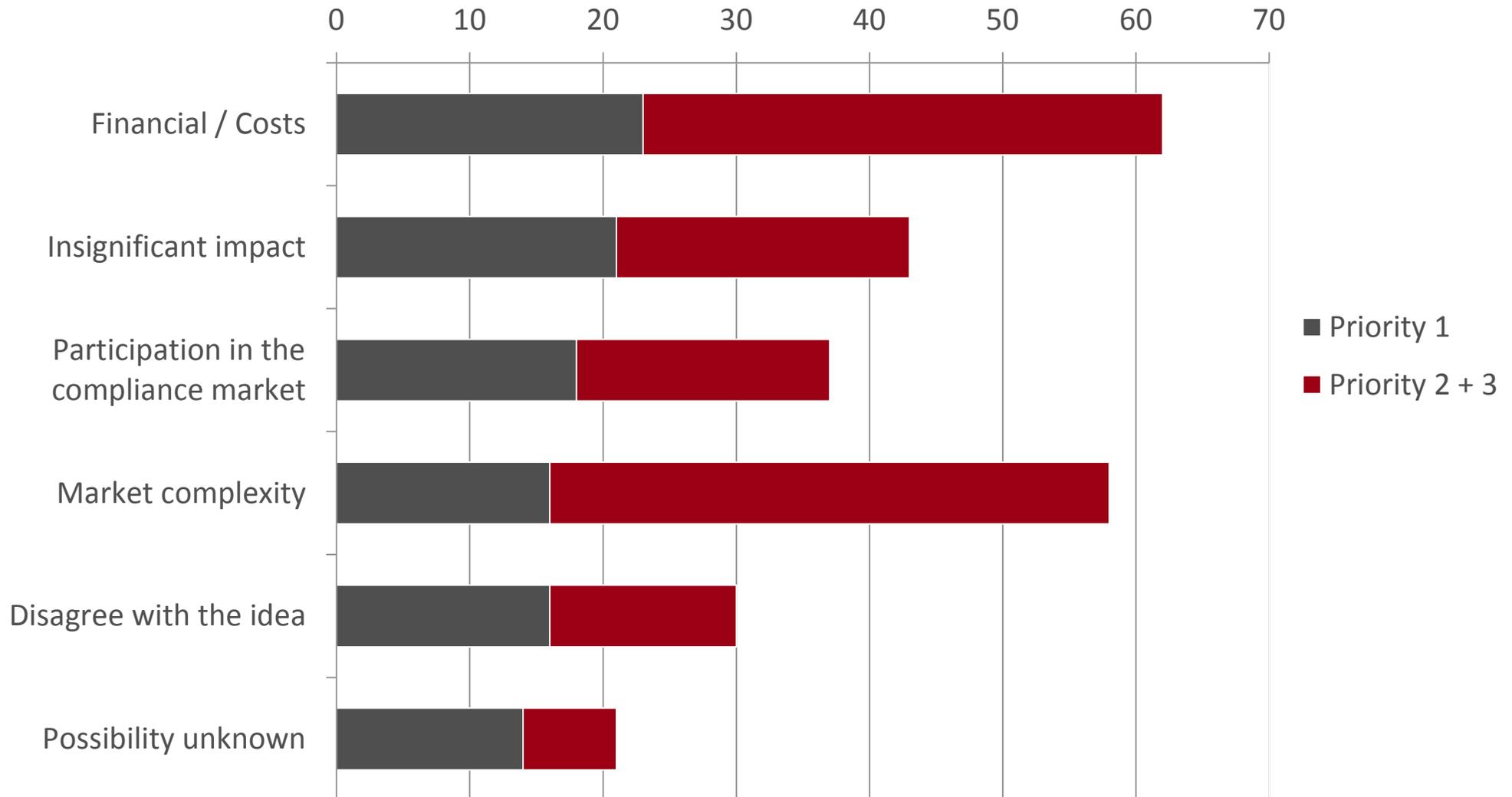


Recommendations – on credibility & demand

Assess and endorse existing voluntary carbon standards: Official endorsements of voluntary offset mechanisms could help build on credible existing standards (positive lists and benchmarks).



Market complexity is major reason not to offset



- Consumers find the voluntary market confusing
 - Assessing and safeguarding the environmental and climate impacts is **complex**
 - There is a multitude of international and national quality standards

→ Buyers/final consumers need **guidance**:

- What to look for e.g. regarding transparency, validation & verification processes, permanence, co-benefits/contribution to sustainable development
- How do the various standards compare?
- What role do specific projects and project types play?
- ...



- Easy-to-understand explanations, a checklist and informative charts
- Methodology:
 - Inventory of essential standards (screening and factsheets)
 - Market survey (including update on volumes and prices for Germany) and interviews (inclusive process)
 - Analysis and evaluation on the basis of relevant criteria (comparative matrix)
 - Ranking and recommendations
- Multi-stakeholder consultation to discuss first results:
28. September 2017, Berlin





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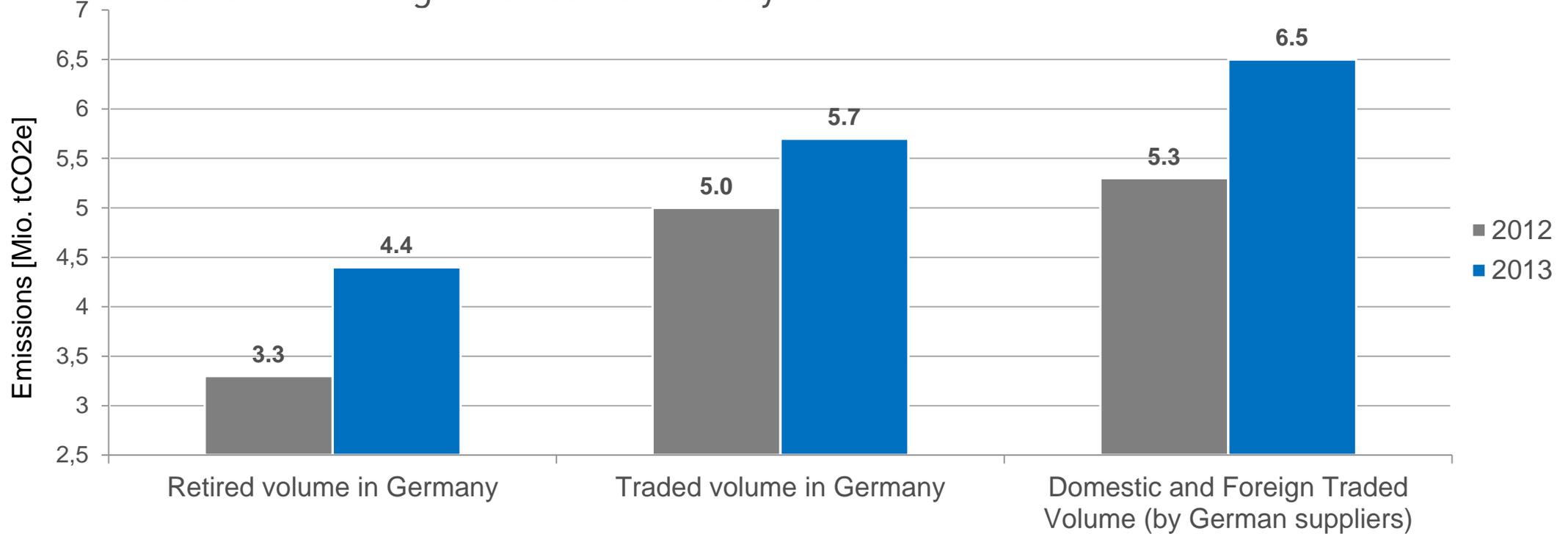


- Analysis of the German market by adelphi/sustainable 2015:
 - Survey of suppliers: Data collected for 2012-13 (80% of the market volume covered)
 - Survey of consumers: >200 participants, focus on companies, not representative
 - For both groups: Online survey and phone interviews
- Information on:
 - Market volume and revenue
 - Consumption patterns and consumer preferences
 - Quality standards and project criteria

The volume of the voluntary market in Germany is increasing



Comparing 2012 and 2013: Retired volume increased by 33%, domestic and foreign traded volume by 23%

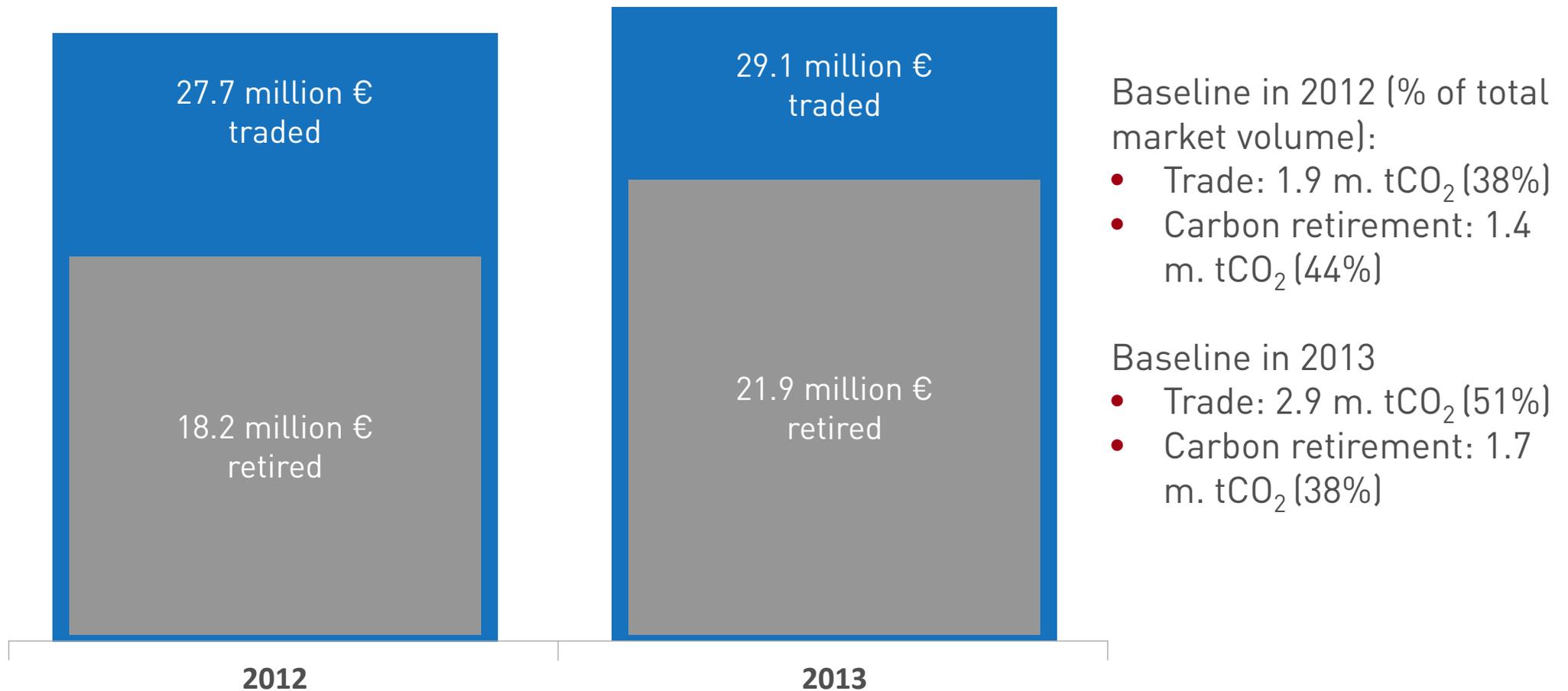


Companies account for **80%** of demand

Revenue of the voluntary market in Germany



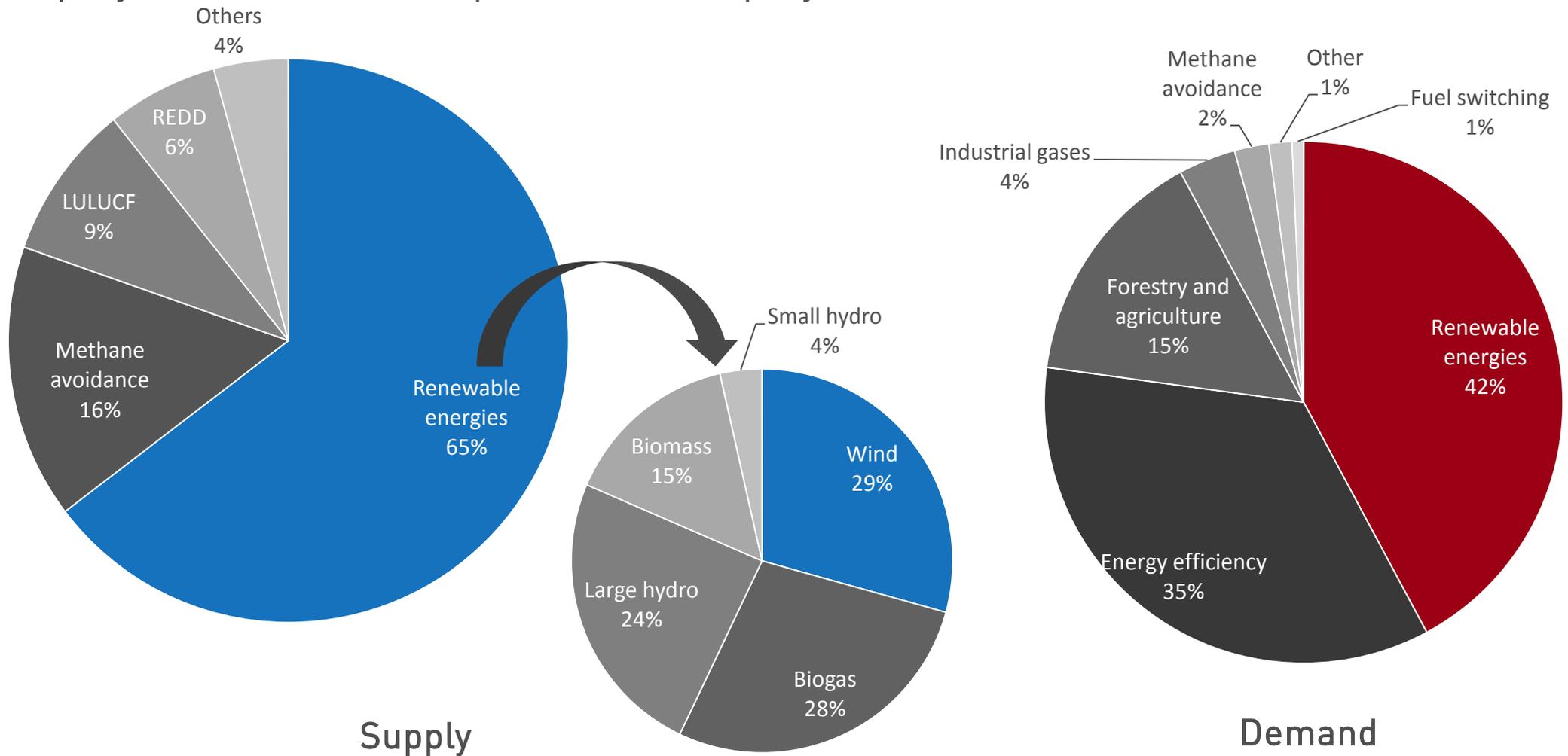
Revenue of trading volume increased by 5%, of retired volume by 14%



Project type preferences spell trouble for domestic offsets



Suppliers and customers prefer renewable energies and energy efficiency projects. **But:** Consumption of REDD project-based certificates is on the rise.





- **Dynamic and evolving market:** New, merging and disappearing standards
- Buyer **preference** for local, visible projects (almost 50% of respondents)
- Increasingly, we see **domestic programmes** that offer voluntary offset credits
- **Paris Agreement** (Article 6): fundamental for the compliance and voluntary market after 2020, by changing current CDM processes (all Parties may buy and sell emission reduction certificates; provisions to ensure there is no double counting, etc.)



- CO₂ Act: Switzerland committed to reducing GHG emissions by 20% to 40 million tCO₂e by 2020
- Domestic offset scheme is designed to be used for **compliance** (of fossil motor fuels importers/producers)
 - Scheme is not voluntary: GHG reductions realised through domestic offset projects are counted towards national climate target
 - any sector eligible for compliance can be suitable for domestic offset scheme without risking double counting



→ **Environmental integrity** preserved



State of the voluntary market (Ecosystem Marketplace 2016*):

- **84.1 million tonnes** of carbon dioxide equivalent (MtCO₂e) transacted in 2015, a 10% increase over 2014
- shrinking average price of **\$3.3/tonne** resulted in an overall market value of **\$278 million**; prices highly **variable**
- **98%** of offsets verified by **independent third-party standard**; **VCS** remained the most transacted standard (49% market share)

German market: Supply side update adelphi/sustainable 2017

- High granularity

*Forest Trends' Ecosystem Marketplace collects data through an annual survey of offset suppliers, tracking transactions at the point of contract