

Alternatives to Carbon Off-setting

A Discussion Document

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Executive Summary

Many businesses that fall outside carbon-based regulation have sought to demonstrate their carbon credentials to stakeholders through the procurement of voluntary offsets. However, the stampede to offsetting has steadied to a gentle canter as businesses re-visit their carbon management and mitigation strategies. The question of offsetting and its value in mitigating the effects of dangerous climate change, engaging employees and driving behavioural change is under evaluation.

Offsetting has led to accusations of corporate green-wash and business as usual practices, and the quality, robustness and value of offset products in the marketplace is under constant scrutiny. Offsetting however, is not the only option available to businesses currently outside of carbon regulation. There are alternative investment strategies that businesses can use to demonstrate carbon awareness and commitment.

This paper presents three investment alternatives to offsetting. The paper does not advocate one investment method over the other, and recognises that there is much discussion required when exploring, developing and assuring the value of each investment method discussed.

The paper considers uncoupled offsetting, carbon philanthropy and Internal Carbon Mitigation Investment. Uncoupled offsetting abandons the concept of gram for gram emissions calculation and reduction, and focuses on donations and investment in charities that are involved in the front line of climate change adaption, or the consequences of a changing climate. An organisation involved in uncoupled offsetting could invest in environmental, carbon or humanitarian projects.

Carbon Philanthropy is similar to uncoupled offsetting in that an organisation donates funds to a charity completely unrelated to carbon or climate change issues, such as local schooling or a welfare charity, where the value of emissions are invested in another socially responsible activity.

Internal Carbon Mitigation Investment (ICMI) focuses on internal investment in carbon reduction technologies using a ring fenced fund. ICMI might, for example, result in a company investing in video conferencing suites and/or traveller behaviour education to reduce the number of business trips taken as part of business as usual activities. It could also be used to invest in non travel related activity, such as energy efficiency.

The pricing of emissions using these three alternatives to offsetting need not be based on voluntary offset values. An Alternative pricing strategy, perhaps based on market mechanisms such as the EU ETS or policy mechanisms such as the Shadow Price of Carbon could be viable alternatives. The options available, and pricing mechanisms, are up for debate.

Introduction

The politics of climate change comes sharply into focus with the meeting of political leaders, business, academics and non-governmental organisations at the UN Conference on Climate Change at Copenhagen in December 2009. Emissions reduction, often referred as the greatest challenge facing humankind, will be the subject of political horse-trading and diplomacy as the search for a global deal to succeed the Kyoto Protocol is negotiated

Climate change is one of few issues with cross party UK political consensus, and at a global level the debate over the causes and consequences of climate change has largely subsided. Emission reduction is now firmly in the centre ground, and strategies reduce emissions will involve complex political discussions. The issue now facing representatives in Copenhagen is the avoidance of dangerous climate change, and economic and social adaption to mitigate the worst effects of a changing climate.

Aim

This paper examines a small corner of the climate change debate, but one that has captured the imagination of many organisations and individuals when designing strategies to manage, reduce and mitigate the carbon impacts of organisational operations: Carbon Offsetting. The paper seeks to stimulate discussion on the potential for alternative strategies and actions at an organisational level to support voluntary emissions reduction, either within the organisations own operations or outside of their immediate reporting boundaries or direct sphere of influence.

It is not the intention of this paper to examine the merits of one type, or credit, of carbon offset over another, or the use of offsets to achieve carbon neutrality. It is a “think piece” to encourage debate and discussion on carbon offsetting and alternative options when considering the release of emissions from an organisation.

This paper should be read in conjunction with the Project ICARUS toolkit: A guide to Carbon Offsetting which explains the concept of offsetting, the offset market place and how organisations can develop strategies to achieve best value when engaging in the offset marketplace.

Background

The number of UK organisations legally bound to engage in the carbon market will increase substantially with the introduction of the Carbon Reduction Commitment Energy Efficiency Scheme (CRC) in April 2010. An organisation affected by the CRC, like those in the EU Emissions Trading Scheme, will be required to measure and report their emissions, and engage in a cap and trade market.

An organisation that is subject to legislation is more likely to be familiar with the 'price' of carbon derived through market based mechanisms or set price auctions – and in turn carbon offsets sold in the regulated marketplace under the Kyoto Protocol. This paper, and the options contained within, is not intended to offer potential options to organisations subject to legislation. Such organisations are required to engage in carbon markets to have a licence to operate.

This paper focus on those organisations which have, or may be considering, voluntarily managing, reducing and mitigating their emissions. To date, the most common solution to reducing emissions on a voluntary basis has been through the purchase of offset credits. There are two markets through which organisations can choose to voluntarily offset their emissions – the regulated market, in which those covered by legislation operate, or the voluntary market.

The regulated European carbon market has a value of 90billion Euros, equivalent to approximately 16% of total global spend on business travel. The European carbon market however, was established in 2005. The voluntary market mirrors the some elements of regulated offsets established under the Kyoto Protocol, in as much as it helps organisations calculate emissions and invest in project to offset with them. However, as the market is not regulated there are no legally binding standards, although many bodies have sought to establish voluntary accreditation to improve the reputation of the market and present customers with a level of assurity in the products they are offering.

Many organisations decided to buy offsets and then make claims of “carbon neutrality”. Offsets had the effect of making organisations, employees and consumers feel less guilty about air travel and car use. This rise in the use of offsets has been accompanied by greater carbon literacy amongst companies and consumers, with hard questions being asked, not just of the offset providers, but also of the relevance of offsets in the wider carbon climate change challenge.

The voluntary off-set market is fraught with quality issues and the UK government has attempted to deal with quality issues by developing a carbon standard for the voluntary marketplace. However, many remain sceptical of the value of offsetting, or the goods and services offered by offset providers.

The use of voluntary offsets has helped to raise awareness of relative emissions values of different activities, the effects and the consequences of emissions; however, for most corporate and individual consumers there is still a low level of understanding of the products available and ability to evaluate their relative merits.

Alternative Options

The purchase of an offset by an organisation outside of a regulatory carbon based scheme is essentially a voluntary donation, and therefore, it could be considered a charitable donation.

The overarching motive for voluntary offset purchase is to transfer money into schemes that mitigate the effects of climate change. The use of voluntary carbon offsets, in theory, allows an organisation to account for its emissions and then invest in projects that either prevent the release of emissions (e.g. energy efficiency schemes or renewable energy) or absorb emissions from the atmosphere (for e.g. tree planting) to match total emissions. For example, an organisation calculates that its emissions are 50 tonnes and chooses to invest in project are intended to prevent or absorb 50 tonnes of emissions. This matching gram for gram emissions with reductions and has led to some organisations to claim carbon neutral or carbon zero status.

“People who demand neutrality in any situation are usually not neutral but in favour of the status quo” - Max Forster Eastman

Shadow Price of Carbon and Social Cost of Carbon: Alternative mechanisms to establish a price for offsetting and offsetting alternatives?

“The social cost of carbon (SCC) measures the full global cost today of an incremental unit of carbon (or equivalent amount of greenhouse gases) emitted now, assuming the full cost of the damage it poses over the whole of its lifetime in the atmosphere.....The SCC matters because it should, in theory, be willing to pay now to avoid the future damage caused by incremental carbon emissions”

The Department of Environment Food and Rural Affairs (Defra), 2007

It is possible for businesses to use the two main recognised international and domestic methodologies for carbon measurement, the GHG Protocol and Defra, to calculate the SCC as a result of their operations on a historic basis. It is also possible for organisation to predict the carbon and therefore monetary impacts of future business models - and at a granular level, particular policies and programmes such as travel policies.

Due to the increase in carbon based regulation, and the likelihood of increased regulation, organisations are already taking a risk based approach to the potential cost of carbon and how this could impact of their operations, relationships with governments, suppliers and customers.

An organisation can use the SCC to assess the commercial viability of future business models and marketplaces, thereby future proofing their decisions on a risk based approach. It also enables businesses to project into the future and understand how the political and policy framework in operation today has the potential to influence decision in the short, medium and long term. The adoption of the SCC by the UK has the potential to inform business development and innovation as government responds to legally binding carbon budgets, emission intensity or absolute carbon reductions.

Equally so, an organisation could base the monetary value of its emissions by tracking the EU Emissions Trading Scheme, the price of offsets credits, or the average value of credits. There are a plethora of pricing mechanisms that an organisation could use to calculate the 'cost' of its emissions. ICARUS does not advocate one pricing position over the other, but encourages discussion amongst interested parties on a pricing mechanism that have the potential to deliver the best return and position UK PLC at the most competitive position. We recognise that the model adopted may vary between markets and industry sectors, and that one size fits all solution may not always be the best approach.

However, we do recognise that an increase in carbon based regulation, and the re-shaping of national and international markets is not necessarily a market inhibitor, but an opportunity for organisations to review their current operations and offerings, and identify commercial opportunities.

The Shadow Price of Carbon (SPC) was valued at £26.5 per ton as at December 2008, with an incremental increase year on year depending on the date when the emission was produced. This value is greater than the market price of EUAs (14.03 Euros (3. December 2009)) or the majority of voluntary offsets.

A monetary value conversion for carbon provides companies with a value for budgeting and assessing potential carbon financial risks to their business, but would also provide a notional financial value that could inform alternative strategies to offsetting.

Three Alternatives to Offsetting

Uncoupled Off-setting

Uncoupled offsetting abandons the concept of gram for gram emissions calculation and reduction, and focuses on donations and investment in charities that are involved in the front line of climate change adaptation, or the consequences of a changing climate. An organisation involved in uncoupled offsetting could invest in environmental, carbon or humanitarian projects.

Environmental charitable giving comprises less than 8% of charitable giving in the UK, yet charities that are working to mitigate the direct impacts of climate change will be increasingly pressured as the consequences of increased emissions are realised. Increased drought, flooding, disease and environmental refugees that may result from climate change will put greater pressure on those charities, for example, those who specialise in disaster relief.

Companies using Uncoupled Off-setting would be able to amend their corporate philanthropy programmes to directly support charities that are responding to climate change issues and in doing so engage with charities whose operations and accounts are more transparent than some organisations that operate in the voluntary offset market.

This particular approach does not immunise companies from criticism with regard to their environmental impact, but coupled with clear emissions reporting and monetary conversion it has the potential to present to investors, stakeholders, employees and customers a greater understanding and acceptance of level of responsibility taken by them. Uncoupled offsetting does risk accusations of business as usual or eco-colonialism, and diminishing donations as organisations become or carbon-efficient.

Carbon Philanthropy

Similar to uncoupled offsetting an organisation could use the various methodologies outlined above to determine a carbon price and donate this to a charity completely unrelated to carbon or climate change issues, such as local schooling or a welfare charity, where the value of a company's emissions are invested in another socially responsible activity. This approach, which operates on a similar principle to uncoupled offsetting, has the potential to align with a Corporate Social Responsibility investment programme.

For some companies, the carbon philanthropy approach could provide an opportunity to create an internal funding system to support CSR related charities. Examples already exist in public and private companies where employees and even clients vote and bid for money from such internal funds to support a variety of philanthropic projects. This internalised approach enables employee mobilisation and engagement with CSR activities.

The internal model for the voluntary distribution of funding could exist hand in hand with donations to external agencies that reflect the core values of a company, its geographical scope of operations or location, thereby creating greater alignment between an organisation's setting and its wider CSR activity. However, businesses would need to ensure carbon based funds were ring-fenced and were not used to substitute for existing donations. As with Uncoupled offsetting there are risks associated with diminishing investment as organisations become more carbon efficient.

Internal Carbon Mitigation Investment

A third option relates to the mitigation of emissions through the creation of a ring fenced fund for internal investment in carbon reduction. ICMI might, for example, result in a company investing in Video Conferencing suites and/or traveller behaviour education to dramatically reduce the number of flights taken as part of everyday business. It could also be used to invest in non travel related activity, such as energy efficiency measures.

The ICMI has the potential to reduce costs and carbon emissions if invested in appropriate measures. This, in turn, would lead to lower levels of investment in the ICMI in future, but organisations could mitigate this effect by the pricing mechanism for carbon emissions.

There are issues that an organisation will need to address with this system. The organisation may need to distinguish between business as usual internal investment and that created as a result of an ICMI programme.

Pricing carbon for offset alternatives

The price invested or donated in each fund could be determined in a variety of ways. For example the market price of carbon, the cost of offsets, an average price of offsets, or the SCC. There are a multitude of options and four have been laid out for discussion and debate.

Pros & Cons of Off-set Alternatives

This paper touches the surface and considers three concepts. There is unquestionably further research required and the mechanics of each system requires greater exploration.

Pros

- Each of the systems above allows an organisations greater flexibility
- By allowing more flexible charitable investment, companies have more options to choose established charities with stated administration costs
- This approach has the potential to align emission reduction more closely with CSR programmes
- The flexibility with investment option allows greater stakeholder engagement, and stakeholders can help decide on donation or investment decisions.
- A company could take the approach of working across all 3 options, and allow staff and/or clients to dictate where the investment is directed.

Cons

- There are challenges in demonstrating that the funds invested are new investments and a direct result of carbon related finance
- There could be accusations of business as usual practices and eco-colonialism. There is a risk that organisations could be seen acting in a fatalistic fashion.
- Determining the level of investment presents similar issues to carbon offset pricing structures.
- Difficulty in measuring returns.

Summary

Carbon emissions reduction and mitigation is a voluntary activity for many organisations. Offsetting is seen by many as the principal strategy to mitigate emissions.

In 2006 and much of 2007 many consumers and investors were not sufficiently carbon literate to question carbon offsets, although there was an uneasiness about the process of buying environmental absolution. In 2008 we have seen companies withdrawing from offset purchase and further questions being raised around the business as usual emissions of “carbon neutral” companies, and accusations of greenwash.

Reduction of emissions as part of a wider CSR programme will be the hallmark of responsible organisation of the future. The use of a transparent off-setting or alternative off-setting strategy, supported by clear carbon and cost metrics, will assist organisations demonstrate their voluntary financial commitments to the corporate climate change agenda. The approaches discussed here have the potential to deliver tangible benefits that investors, employees and consumers will understand and recognise.

The use alternative offsetting, as with offsetting, also has the potential to prepare organisations for a regulatory environment, support the important link between carbon efficiency and cost efficiency, thereby bringing carbon into business operations as a CSR and cost issue.

Project ICARUS welcomes views and thoughts. If your business has adopted a new strategy to emission management and mitigation we would like to hear from you.

Please contact

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Institute of Travel & Meetings (UK and Ireland)

The Institute of Travel & Meetings was established in 1956 to provide networking, education and best practice in business Travel Management. The Association boasts over 1,000 buyer and suppliers members in the UK and Ireland with a representation of over 25% of the business travel market in this region. ITM undertakes conferences, research, lobbying and training for its members.

Project ICARUS

Project ICARUS was established by ITM, initially to promote carbon reduction in travel management programmes throughout the UK business travel industry. The project is led by, and targeted primarily at travel buyers/managers as any movement to reduce carbon emissions needs to be focused on this community.

Project ICARUS was conceived after the ITM conference in 2006, when a number of leading industry figures and journalists all independently discussed their concerns with ITM about a lack of leadership on Climate Change in business travel management.

The Project's Goals

The intention of ICARUS in the first instance is to drive the UK travel industry to reduce carbon emissions in line with government targets.

After its initial focus on Carbon Emissions, the project will look at other areas of CSR, such as other greenhouse gas emissions, duty of care and sustainable procurement in due course. The project group has set about creating a plan of action to firstly inform buyers and suppliers of our environmental situation and the action they could take and secondly to provide practical guidance and assistance for travel buyers to start on the environmental road.

For more information contact ITM on 01625 430472 or visit

www.icarus.itm.org.uk