

Why voluntary offsetting offers a way to engage with customers on climate change

Introduction

Most enterprises don't encounter emissions trading as part of their normal operations. In Europe, a business has to emit more than 25,000 metric tons of carbon dioxide equivalent from a single source to qualify for inclusion in the bloc's carbon market; only around 12,000 installations ranging from giant power stations to brick factories qualify on that basis.

But for the many thousands of other companies across the European Union and indeed worldwide, there are ways to contribute to the fight against climate change: some come at a cost, while others offer an opportunity to engage with the market, develop closer relationships with clients and build commercial value.

Most companies can find ways to reduce much of their own carbon footprint fairly easily: by switching to renewable electricity, cutting down on paper use, boosting recycling and reducing corporate travel wherever possible are common examples. But in most cases it is not possible to completely eliminate greenhouse-gas (GHG) emissions.

The emergence of carbon offsetting in the last ten years has allowed businesses not covered by mandatory legislation to target their remaining GHG emissions and develop strategies that allow their entire carbon footprint to be monitored, verified and "cancelled out" through the purchase of emissions reduction certificates.

The offsetting landscape

Developed nations' economy-wide climate pollution is covered by the Kyoto Protocol, which mandated a 5% cut in total emissions from 39 countries from 1990 levels by 2012. This government-level agreement has been extended to 2020, and a new treaty currently under negotiation will set a framework for national emissions cuts for all nations through to 2030 and beyond.

The majority of those developed nations, notably the European Union, chose to employ emissions trading systems (ETS) to drive their reduction. Under an ETS, companies buy permits, each one representing the legal permission to emit one metric ton of CO₂. Any installation that can lower its emissions more cheaply than the cost of buying permits can then sell surplus allowances to the market.

Some carbon markets, such as California's ETS, cover the entire economy, including transportation fuels and domestic heating. Others, such as the US northeast's Regional Greenhouse Gas Initiative, cover just the power sector.

Europe's ETS only covers about half of all GHG emissions in the bloc: from industry and power generation. Climate-warming gases from commercial, transportation and domestic sources are not covered.

Consequently, there exists no formal framework for non-industrial sectors in many developed nations to participate in the fight against climate change. Voluntary offsetting exists to serve those enterprises that take on the responsibility to play their part.

Critically, offsetting offers companies the opportunity to broadcast their values and their support for the fight against climate change. While headlines are dominated by UN-sponsored negotiations over a global climate treaty, the political discussion doesn't necessarily offer a "halo" effect outside the closed world of diplomats and activists. Offsetting is a practical way in which companies can engage their customers in the issue and demonstrate thought leadership.

How does offsetting work?

Through the efforts of organisations ranging from the United Nations Framework Convention on Climate Change to standards and quality assurance companies it's now possible to measure accurately how much climate pollution an entity directly and indirectly emits. Consumption of electricity, generation of GHGs from heating or cooling of

premises, even emissions generated by supply chains can all be accounted for, giving every enterprise an accurate picture of its impact on the environment.

Focus on co-benefits

Projects to build and distribute clean cookstoves in rural parts of Africa have a number of benefits beyond emissions reductions. Firstly, the local community benefits from better health by avoiding smoke inhalation while cooking. Secondly, time spent by children gathering firewood in ever-more distant locations is replaced with time spent in education, and the personal risks involved foraging are eliminated. Less firewood is used, so forests are protected

Additional benefits may accrue in the form of employment opportunities, in designing, building, servicing or repairing the cookstoves, in establishing a supply chain for the fuel (often propane gas) and even in establishing related business such as restaurants.

Such co-benefits can be a compelling feature of a company's customer engagement strategy, as well as an important way to broadcast a business' values. For commercial companies or enterprises not covered by mandatory emissions trading systems, offsetting presents a way to efficiently neutralise that part of their emissions that cannot be addressed by internal investment or changes in practices.

UK retailer Marks and Spencer, for example, has made significant efforts to minimise its carbon footprint, which it details in an annual report. Those emissions that it cannot economically reduce internally are offset, since emissions reductions achieved anywhere in the world have the same environmental value.

Offsetting emissions by investing in projects in developing countries also offers a more economical way to achieve carbon neutrality, since the cost of cutting greenhouse gases is often considerably lower than in wealthier nations.

At the same time, investors and project developers deploy resources to build infrastructure projects that reduce emissions compared with a business-as-usual scenario. For example, converting urban bus networks to run on natural gas rather than

diesel, or building wind or solar power facilities instead of coal- or oil-fired power plants, reduce emissions compared to what they would have been using incumbent technology.

By measuring the reduction in emissions achieved by these projects, and then verifying their environmental integrity, project developers can generate carbon offsets, each one representing a metric ton of emissions saved. These offsets can then be sold to entities whose climate pollution cannot be reduced so easily or at a similar cost. Buying offsets to match emissions allows businesses to achieve carbon neutrality.

Carbon offsetting methodologies exist across a broad scope of industries and activities, ranging from forestry to transport to domestic lighting and heating. Most of them offer so-called "co-benefits" in addition to reducing climate impacts, such as reducing traffic congestion, improving health or allowing greater access to education in developing nations.

Why offset?

Public awareness of climate change is growing rapidly: a Guardian opinion poll at the start of 2015 found that 90% of respondents agree that climate change is happening. 84% of respondents blame human activity for the rise in global temperature, and 15% see it as a major threat in the next 20 years.

Among businesses, the same viewpoint is driving more and more action; corporates are taking steps to reduce their impact on the climate at an ever-faster pace. According to Ceres, a sustainability advocacy group, "clean energy practices are becoming standard procedures for some of the largest and most profitable companies in the world, including AT&T, DuPont, General Motors, HP, Sprint, and Walmart."

Companies are starting by examining their own operations to see where carbon savings can be made; for example, by switching electricity providers or installing their own zero-carbon generation such as wind turbines or solar panels, by increasing energy efficiency or by reducing travel wherever possible.

Where carbon emissions are unavoidable, or where they cannot be easily reduced, offsetting is an

effective means of accounting for and neutralising a company's environmental impact. Crucially, it also offers a company additional value in its offering to customers.

It's also good business practice to develop a climate strategy and a response before any mandatory measures begin to roll out (see below). European airlines, for example, have become regulated under the EU's carbon market, but many of their counterparts around the world are taking action and developing strategies in anticipation of regulation in the future.

While it may be some time before commercial entities are gathered into mandatory carbon policies, the gradual development of economy-wide response measures to climate change - as demonstrated by the more than 150 national submissions to the UN this year - means that the day may not be as far away as once thought.

Customer offsetting

International logistics company Deutsche Post DHL operates a carbon offsetting service for clients that wish to operate a carbon-neutral business.

A number of its large customers, ranging from manufacturers to mail-order companies, wish to operate carbon-neutral business models, so DP DHL has created a business option that allows it and its clients to measure and offset emissions within their supply chain.

DHL's Go Green service measures and verifies all emissions from an individual client's freight services, and purchases the equivalent number of carbon offsets from a selected portfolio of projects, according to Daniela Spiessman, head of Go Green.

"We want to ensure that the projects we select for our customers really reduce emissions; that's the first thing," Spiessman said in an interview. "Also that they have additional benefits on-site and no negative environmental impacts. For example, with a large hydropower project there are usually criticisms about the impact on biodiversity."

The projects also need to offer benefits beyond simply reducing emissions, Spiessman said. "These co-benefits can include technology transfer, creating work opportunities or generating an

economic impact. For example, clean stove projects reduce the time spent on gathering firewood, and have health benefits for the local people. It's about improving life and bringing economic benefits for local communities and helping them grow in a more green way."

The company buys offsets that meet the United Nations Clean Development Mechanism standard as well as the Gold Standard, an independent benchmark used both by UN and voluntary offset projects that emphasises sustainable development.

"If you look at the projects we select, such as a water purification project in Cambodia, a biogas project for small farmer households in China, or forestry in Panama, there's not necessarily a link to logistics but we are looking for projects that meet high standards," Spiessman said.

"For our customers, it's important that such an offering is credible. Many people may have read critical reports about offsetting, describing it as 'greenwash'," she added. "We want to offer our customers the opportunity to have a carbon-neutral service. A credible service depends on the selection of projects and the independent verification of them."

Go Green customers can receive verification documents detailing the way in which the emissions have been measured and verified. The company also offers its clients further options to reduce the environmental impact of their freight component, through changing the type of transport used (ships instead of aircraft), or making deliveries via zero-emission vehicle fleets.

"For private customers in Germany, who may ship only a few letters or parcels each year, most of our products already include the climate-neutral option, and DHL covers the cost of the offsetting," Spiessman added.

Aviation

Airline travel is a unique business sector in that the vast majority of the emissions associated with aviation, which are generated through the burning of jet fuel, cannot be reduced through alternative technology. While efforts are underway to develop carbon-neutral biofuels, offsetting has become the key way in which airlines address their impact on the environment.

In Europe, all commercial aviation within EU airspace is regulated as part of the EU's Emissions Trading System, and operators must surrender EU emissions permits matching their measured emissions each year.

Under a mandate from the UN Framework Convention on Climate Change, the International Civil Aviation Organisation, which regulates global air travel, is studying a global aviation emissions market, but a number of airlines ranging from Delta to Virgin Australia have already set up their own offsetting service for passengers keen to minimise the impact of their travel.

Among these is Qantas, Australia's leading air carrier. The company's Fly Carbon Neutral service calculates the net emissions attributable to each passenger and purchases carbon offsets representing the total demand for offsetting from clients. Offsets come from projects meeting the Verified Carbon Standard.

Qantas allows passengers to calculate the emissions from their flights and pay an offsetting fee direct from the airline. For example, a single person flying from Sydney to London will be responsible for 1.975 tonnes of CO₂ emissions, according to the airline's carbon calculator. Offsetting this amount costs A\$18.25, all of which goes towards purchase of offsets, Qantas says.

The company emphasises the transparent and verified nature of its offset programme, which is recognised by the Australian government's National Carbon Offset Standard.

Pre-compliance

In the case of industries facing a mandatory carbon market at some point in the future, there are

considerable advantages to taking early action. Companies gain vital knowledge and understanding of carbon trading, and because some systems allow companies to buy and retain offsets ahead of a mechanism's launch, there are opportunities to acquire lower-cost compliance units.

In the case of California's carbon market, companies covered by the cap-and-trade system were able to buy and hold carbon offsets well in advance of the market's launch. Those so-called "Early Action Offsets" are now being used to meet compliance requirements under the state's cap-and-trade system.

Even carbon tax mechanisms may allow carbon offsets to be used to meet obligations. For example, Mexico levies a tax of \$5 a tonne on emissions generated by the use of fossil fuels, and allows covered entities to pay using UN offsets. Because carbon offsets can be purchased at a lower price than the cost of the tax, it offers a cheaper route to compliance.

Summary

Offsetting offers corporates opportunities to engage with customers and assist them in achieving their business objectives or values, and it also offers consumer-facing companies an opportunity to adopt and broadcast environmental values that align with the views of their clients.

Furthermore, the additional benefits of early knowledge and experience are likely to become increasingly valuable as more and more nations adopt stricter regulations.

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