

**CONSULTATION ON ESTABLISHING A VOLUNTARY  
CODE OF BEST PRACTICE FOR THE PROVISION OF  
CARBON OFFSETTING TO UK CUSTOMERS**

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**SUBMISSION TO: DEPARTMENT FOR ENVIRONMENT, FOOD AND RURAL AFFAIRS  
(DEFRA)**

**MEMORANDUM BY: SUSTAINABLE FORESTRY MANAGEMENT LTD**



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**Consultation on establishing a voluntary Code of Best Practice for the provision of carbon offsetting to UK customers**

**Submission from Sustainable Forestry Management**

Sustainable Forestry Management Ltd (“SFM”) was established in 1999 to demonstrate that reversals of tropical and subtropical forest degradation and mitigation of global warming can be accomplished by private sector investment meeting the highest commercial, environmental and social standards. As a developer of projects which generate carbon credits and offsets, SFM is concerned to ensure reliability and integrity in the voluntary carbon market. SFM commends DEFRA on its consultation launched on January 18<sup>th</sup> 2007 on establishing a voluntary ‘Code of Best Practice’ for the provision of carbon offsetting to UK customers and concurs on the importance of ensuring credibility of carbon credits in this growing sector, but cautions against repeating mistakes in regulation which have distorted the principal mandatory markets.

SFM does not therefore support the initial recommendation of the consultation which proposes the introduction of a voluntary code which will only accredit or give a ‘quality mark’ to emissions reductions which meet criteria approved by the Kyoto Protocol or the European Union Emissions Trading System (EU ETS). Properly regulated, the voluntary carbon offsets market can make a significant impact on global warming and greatly assist the achievement of other critical policy goals by providing additional means of carbon offsetting, including reforestation and avoided deforestation, that are not, or are not adequately, provided for under either the Kyoto Protocol or the EUETS. Broad public participation and market innovation would both be discouraged by adopting the rules of either mandatory system as the sole criteria of environmental integrity. Several self-regulatory standards for the voluntary carbon market now exist which are the result of widespread consultation and which are more suitable for use by the public than rules established for industrial and institutional market participants.

**Questions asked by the consultation:**

**1. Do you agree that the Government should publish a Code for offset providers?**

SFM agrees that there is a need for accreditation of carbon credits to ensure integrity in the marketplace, but maintains that this should be done through endorsement of existing voluntary market standards.

**2. Do you agree with the proposed aims of this Code?**

We agree with the general aims of the code in:

Educating consumers about offsetting and its role in addressing climate change;; enabling and encouraging consumers to make active choices about offsetting; increasing consumer confidence in the integrity and value for money of the offset products available to them; developing the UK’s position as a global market leader in the field; and encouraging the



development of a robust and liquid global market infrastructure for carbon trading. We note that constraining the Code to existing mandatory market standards would discourage the growth of the voluntary market in the UK and encourage its development elsewhere.

### **3. Should Government consider, in the future, making the Code mandatory and putting it in legislation?**

SFM supports the accreditation of voluntary carbon credits to ensure both integrity in the marketplace and that real, measurable and long-term emissions reductions are being offered. SFM does not, however, endorse a mandatory scheme either in the UK or EU. As explained in greater detail below, the voluntary market corrects for failures in the mandatory markets and should be allowed to continue to serve as a source of innovation in the carbon markets. The voluntary market has and continues to develop accreditation schemes such as the Climate, Community, Biodiversity Standards,<sup>1</sup> the Gold Standard,<sup>2</sup> and the soon to be released Voluntary Carbon Standard.<sup>3</sup> These standards, the result of extensive consultation with private and non-governmental sectors, provide detailed specifications for certification of emission reductions.

The emergence of these standards for the voluntary market is an expression both of the demand for reliable carbon offsets and for greater flexibility than currently provided by existing mandatory schemes, including the EU ETS and the Kyoto Protocol. The emergence of competing standards within the voluntary market, in addition to underscoring demand from this sector, also will provide both project developers and end buyers greater flexibility to address market demand. Project developers benefit from a wider variety of standards by which they can develop “bespoke” projects and can therefore create value-added branded offsets; consumers benefit from a wider choice of offsets. For example, if a consumer wishes to purchase offsets associated land use or forestry, then he/she can purchase offsets developed to CCBA standards. The creation at this time of a mandatory accreditation scheme for voluntary carbon offsets, or a voluntary scheme based on the standards of the existing mandatory schemes, would be both redundant and counter-productive. It would repeat past mistakes, stifle necessary innovation at an important point in the evolution of the carbon market and risk defeating the achievement of significant additional efforts to mitigate global warming.

### **4. Do you agree that the Code should be voluntary in nature?**

Yes, SFM recommends the creation of a self-regulatory framework which would set out guiding principles rather than prescriptive rules. The experience of the Financial Services Authority (FSA) is instructive in this regard. The FSA initially sought to rely on detailed prescriptive rules. Experience demonstrated that it was far more effective and efficient to set out broad principles for market participants, leaving room for innovation and

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<sup>1</sup> <http://www.climate-standards.org/>

<sup>2</sup> <http://www.cdmgoldstandard.org/>

<sup>3</sup> <http://www.theclimategroup.org>



adaptation. The success of the London financial markets in competition with its principal competitors is largely a result of this approach to regulation.<sup>4</sup> London's current leading position in the greenhouse gas markets will be maintained only to the extent that it extends this approach to the carbon markets. Carbon offsets are, after all, hybrids of financial and commodity instruments traded on terms comparable to other financial instruments. Markets are excellent at developing qualitative and quantitative standards and impose discipline in an effective and efficient way. Fraudulent activity can be dealt with through existing legislation. There is therefore every reason to believe that a regime similar to that applicable to other financial markets would be most workable. This approach would allow an appropriate balance to be struck between increasing confidence in the environmental integrity of such instruments and the need for innovation both in products and market standards. SFM therefore urges the Environmental Audit Committee to endorse the existing voluntary market standards for accreditation and use them as a source of appropriate broad principles allowing the private and NGO sectors to continue to develop standards. Provision should be made for regular review and consultation as the market for carbon offsets evolves.

**5. Do you agree that the most appropriate credits to demonstrate best practice in offsetting are one, or a combination of, CERs, EUAs or less easily, ERUs?**

No. SFM does not support the initial recommendation of the consultation which proposes the introduction of a voluntary code which will only accredit or give a 'quality mark' to emissions reductions which meet criteria approved by the Kyoto Protocol or the EU ETS. This is not least as both systems create a perverse incentive for temperate forestry and deny any incentive for tropical forestry which is of far greater utility in dealing with climate change.<sup>5</sup> The Kyoto system credits temperate forestry in the rich North and excludes tropical forestry in the poor South. This results in a virtually total and indefensible exclusion of the world's most vulnerable people from the benefits of the carbon markets and their principal opportunity to adapt to climate change.<sup>6</sup> It also incentivises continued deforestation, legal and illegal. The EU ETS, in its first and second phases, bans forestry altogether. To replicate this in the voluntary market would simply compound already perverse outcomes.

Voluntary markets provide the necessary flexibility for achieving this by crediting forestry projects currently excluded in today's compliance markets. These include credits for avoided deforestation, assisted natural regeneration and sustainable forest management. Land use, land use change and forestry ("LULUCF") activities are a major driver of climate

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<sup>4</sup>See comments by Mayor Bloomberg, of New York and Senator Schumer:  
<http://www.schumer.senate.gov/SchumerWebsite/pressroom/record.cfm?id=267787&&year=2007&>,  
Financial Times, January 23<sup>rd</sup>, Paulson backs efforts to tackle competitiveness threat to Wall Street  
<http://www.ft.com>

<sup>5</sup> Swingland, I et al, 2002, Carbon, biodiversity, conservation and income: an analysis of a free-market approach to land-use change and forestry in developing and developed countries, Phil. Trans .R .Soc. Lon. A (2002) 360, 1561-1900

<sup>6</sup> Wangari Maathai, Nobel Peace Prize laureate  
<http://carbonfinance.org/Router.cfm?Page=FeaturedResources&FeatResID=26935>



change and a key focus for poverty alleviation, adaptation to climate change, and protection of bio-diversity and water resources. LULUCF activities are also, however, a serious example of market failure by the existing mandatory regulatory regimes. The emergence of forest-based carbon offsets in the voluntary market serves as an example of the importance of allowing innovation and flexibility in addressing the problem of climate change and environmental services generally.<sup>7</sup>

Deforestation and other land-use activities account for 18% of annual greenhouse gas (“GHG”) emissions, a share larger than that contributed by the global transportation sector.<sup>8</sup> Ninety percent of the exchange of carbon between the atmosphere and the Earth occurs through photosynthesis primarily in the world’s forests.<sup>9</sup> Deforestation is by far the largest source of emissions from developing countries, contributing an amount greater than total US fossil fuel emissions.<sup>10</sup> Sustainable forestry management, particularly in the tropics and sub-tropics, must play a crucial role in the mitigation of emissions,<sup>11</sup> particularly over the next few decades in which stabilisation of atmospheric CO<sub>2</sub> concentrations must occur if we are to avoid crossing critical thresholds.<sup>12</sup> Allowing and encouraging trade in carbon credits from tropical and sub-tropical forestry will enable swifter action to be taken to avoid deforestation and all of its repercussions than any other single policy measure.

Climate research has shown that to avoid catastrophic changes to the global climate and large-scale irreversible systemic disruption, temperatures must not increase more than the threshold of 2 °C above those in pre-industrial times.<sup>13</sup> A stabilisation around 450 ppm implies a medium likelihood of staying below this threshold.<sup>14</sup> Stabilizing atmospheric concentration at 450ppm would allow cumulative emissions of close to 2100 Gt CO<sub>2</sub>e between 2000 and 2100.<sup>15</sup> Recent analysis has shown to get on track for long-term

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<sup>7</sup> Swingland, I, 2002, *Capturing Carbon and Conserving Biodiversity: The Market Approach*, The Royal Society

<sup>8</sup> Stern, Nicholas, 2006, “Stern Review: The Economics of Climate Change”, November 2006: Watson, Robert et al. eds.” *Land Use, Land-Use Change, and Forestry. A Special Report of the IPCC*”, Cambridge University Press 2000.

<sup>9</sup> J. K. Winjum, R. K. Dixon and P. E. Schroeder, ‘Forest management and carbon storage: an analysis of 12 key forest nations’, *Water, Air, and Soil Pollution*, 70: 1–4, 1993, pp. 239–57.

<sup>10</sup> Indonesia, for example, is now the third largest emitter of greenhouse gases in the world almost entirely as a result of deforestation. See Wetlands International:

<http://www.wetlands.org/ckpp/publication.aspx?ID=1f64f9b5-debc-43f5-8c79-b1280f0d4b9a>

<sup>11</sup> IPCC, 2000, *Special Report of the Intergovernmental Panel on Climate Change: Land Use, Land-Use Change and Forestry*, Cambridge University Press

<sup>12</sup> Stern, N, 2006 *Stern Review: The Economics of Climate Change*

<sup>13</sup> European Commission Communication "Limiting Global Climate Change to 2° Celsius: The way ahead for 2020 and beyond.", Stern, N, 2006, *Stern Review: The Economics of Climate Change*, Meinshausen, Malte. "On the Risk of Overshooting 2°C." *Proceedings from International Symposium on Stabilisation of Greenhouse Gas Concentrations -- Avoiding Dangerous Climate Change*, Exeter, 1-3 February 2005 at [www.stabilisation2005.com/programme.html](http://www.stabilisation2005.com/programme.html).

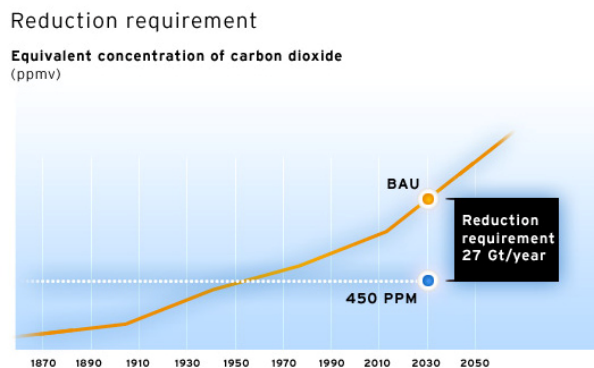
<sup>14</sup> IPCC, 2001, *The Scientific Basis*, Cambridge University Press, Meinshausen, Malte. "On the Risk of Overshooting 2°C." *Proceedings from International Symposium on Stabilisation of Greenhouse Gas Concentrations -- Avoiding Dangerous Climate Change*, Exeter, 1-3 February 2005 at [www.stabilisation2005.com/programme.html](http://www.stabilisation2005.com/programme.html).

<sup>15</sup> Stern, N, 2006, *Stern Review: The Economics of Climate Change*



stabilization in 2030, emissions should not exceed 31 Gt CO<sub>2</sub>e/yr.<sup>16</sup> Achieving this target requires significant emission cuts against the business as usual scenario (Figure 1).

**Figure 1:**



Source: Vattenfall, 2007, Global Mapping of Greenhouse Gas Abatement Opportunities up to 2030

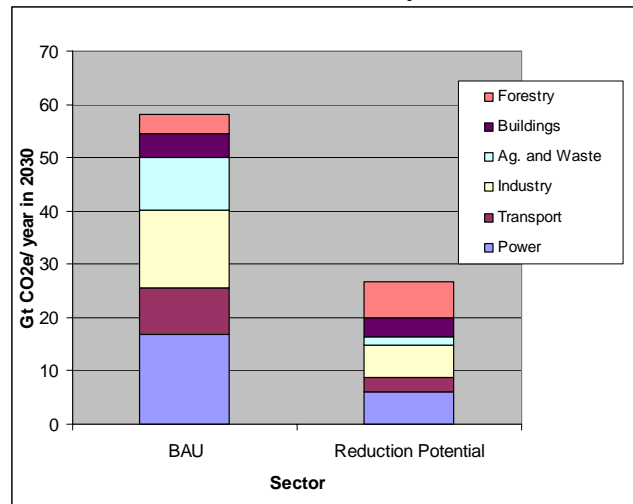
To achieve such a reduction requires the inclusion of emissions reductions from the forestry sector. Emissions offset through forestry account for a larger share of potential reduction abatement than any other sector, including potential reductions from the power sector.<sup>17</sup> Recent analysis has exhaustively examined potential abatement scenarios for reduction of emissions to 31GtCO<sub>2</sub>e/yr at a cost below €40/tCO<sub>2</sub>e.<sup>18</sup> Forestry accounts for 25% of the additional reduction potential in emissions required to reach this target. It is clear that to achieve stabilisation at 450 ppm by 2030 requires both avoided deforestation and reforestation. The potential 2030 abatement from reducing deforestation is ~3.3 Gt CO<sub>2</sub>e /year, and from reforestation a further 3.5 Gt CO<sub>2</sub>e/year (see Figure 2). Without forestry offsets, achieving these emission reductions targets at an acceptable cost is impossible. In other words, the alternative to achieving forest-based emissions abatement is the likely onset of calamitous and irreversible climate change by 2030.

<sup>16</sup> Vattenfall, 2007, Global Mapping of Greenhouse Gas Abatement Opportunities up to 2030  
<http://www.vattenfall.com>

<sup>17</sup> *Ibid.*

<sup>18</sup> *Ibid.*

**Figure 2: Business-as-usual (BAU) and potential reductions in emission of GHG by sector at an abatement cost less than €40 CO<sub>2</sub>e /year.**



Data source: Vattenfall, 2007, Global Mapping of Greenhouse Gas Abatement Opportunities up to 2030

Research by the IPCC has demonstrated the potential of biological mitigation options is in the order of 100 GtC (cumulative) by 2050, equivalent to about 10 to 20 % of projected fossil fuel emission during that period.<sup>19</sup> This analysis shows that emission reductions from the forestry sector, while essential to achieving medium term abatement goals, are also biologically constrained in their ability to mitigate climate change beyond a certain point. This should dispel fears that offsets from forestry will “flood” the market and reduce incentives to technological change. It is clear that forestry carbon credits and offsets are necessary, and it is also clear they are not, by any means, sufficient to mitigate greenhouse gas concentrations on their own.

Importing or copying the EU ban would, of course, largely destroy any possibility of the voluntary market making any contribution to emission reduction through forestry. Importing or copying the rules of the CDM would amount to virtually the same thing. CDM rules restrict forestry credits in several ways that have made it almost impossible to invest in the sector on commercial terms. These restrictions include the following:

**Emission reductions from afforestation/ reforestation activities are capped at 1 % of each Annex 1 countries emission reduction target**

CDM forestry rules cap the use of A/R credits at 1% of an Annex 1’s country’s emission reduction target over the first commitment period; equivalent to 120 Mt CO<sub>2</sub> annually. The principal justification for this restriction is that the inclusion of forestry credits in the CDM would “flood” the Kyoto trading system with “cheap credits.” This argument never bore real scrutiny either in theory or in fact. As discussed earlier, the upper bound of emissions

<sup>19</sup> IPCC, 2001, Climate Change 2001: Mitigation, Cambridge University Press



offsets from LULUCF activities is 10-20% of total demand for emissions reductions and the realistic level is much lower.<sup>20</sup> These calculations have been more than borne out in reality. In the first nine months of 2006, A/R projects accounted for just 2.1MtCO<sub>2</sub>.<sup>21</sup> Annual credit delivery from A/R projects over the entire first commitment period (2008-2012) is forecast to range from 7-14MtCO<sub>2</sub>.<sup>22</sup> The 1% rule has clearly had a “chilling effect” on the market, discouraging investment in A/R projects which offer the only meaningful alternative to meeting timber and fuel demand by continued deforestation of natural forests. There is, importantly, no such cap on Annex 1 countries use of forestry credits from domestic or Joint Implementation (“JI”) projects. The 1% cap is an artificial restraint that arbitrarily enhances the perverse incentive of encouraging A/R in the developed world while discouraging it in the developing world. The cap should be abolished and credit given for all activities which increase forest cover or reduce deforestation in the developing world. This would help promote a fair, comprehensive and environmentally effective global climate protection regime. The 1% cap should certainly not be adopted as a standard for the voluntary carbon market.

### **Limiting A/R projects in location to lands deforested or in agricultural use prior to 1990**

Restoration of land deforested since 1990 and restoration of degraded land is excluded under CDM rules. The original intention of this rule was to prevent “gaming” the then new carbon system by the cutting of natural forest to plant “carbon.” The result has been to exclude from the system any credit for regeneration or replanting of forests destroyed since 1990. The FAO estimates that annual deforestation since 1990 has run at a rate of 13 million hectares per year, with a net forest loss of 8.9 million hectares per year from 1990-2000, and 7.3 million hectares annually from 2000-2005.<sup>23</sup> Thus, 125-195 million hectares of deforested land is now ineligible for CDM forestry (an area three times the size of France) and the area is growing (not least because of the lack of any crediting of avoided deforestation and the lack of alternative supply from A/R projects) by an area the size of Greece every year. It is happening in the world’s most bio-diverse areas and the home to many of the world’s last remaining indigenous forest peoples. A major cause of deforestation is the result of “slash and burn” conversion to subsistence agricultural use by peasant farmers; they are not “gaming” the carbon trading system; they are simply trying to survive.<sup>24</sup> Unless such people are given an incentive to sustainably manage their habitat and deforestation is reversed, the forests of Indonesia and the Malaysian Archipelago, the Congo Basin, West Africa and the Amazon will be destroyed by the middle of the century.<sup>25</sup> The

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<sup>20</sup> IPCC, 2001, *Climate Change 2001: Mitigation*, Cambridge University Press

<sup>21</sup> See: World Bank, IETA, “State and Trends of the Carbon Market 2006: Update January 1 – September 30 2006”, October 2006.

<sup>22</sup> Jung, Martina, “The Role of Forestry Sinks in the CDM - Analysing the Effects of Policy Decisions on the Carbon Market”, Hamburg Institute of International Economics, 2003.

<sup>23</sup> FAO, Schoene, Dieter, “Reducing Emissions from Deforestation,” Rome 2006, <http://www.fao.org/forestry/webview/media?mediaId=11368&langId=1>

<sup>24</sup> FAO, 2005, *The Global Forest Resources Assessment*, Rome

<sup>25</sup> See: World Bank, IETA, “State and Trends of the Carbon Market 2006: Update January 1 – September 30 2006”, October 2006



1990 Rule arbitrarily prevents efforts to restore vast and important areas degraded or deforested after 1990; it should certainly not be replicated in regulations for the voluntary market.

### **Requiring the replacement of A/R credits after a maximum of 60 years**

Forests are a long-term store of carbon. They have covered vast areas of the earth's surface for millennia, and contain 60% of the carbon stored in terrestrial ecosystems.<sup>26</sup> CDM rules require that A/R forest credits be either temporary ("tCERs") or long term ("lCERs") and that all of them be replaced at specific intervals which are unrelated to the forest harvest cycle, with a maximum duration of 60 years. This rule not only reduces incentives for forest restoration but actually encourages the liquidation of healthy forests after no more than 60 years in order to generate cash to buy replacement CERs on the open market.

Investors in the voluntary and compliance carbon markets have a desire for fully fungible carbon credits. Other than the Kyoto CDM market, no other carbon market in the world creates a temporary credit in any sector, including forestry.<sup>27</sup> Idiosyncratic temporary credits inhibit and distort the growth of markets, particularly as they begin to link with each other. Robust methods are available to address or account for the permanence issue for LULUCF projects. These include: maintenance of adequate reserves or buffers to cope with unforeseen losses in carbon stocks, insurance, discount factors based on the assessed risk of carbon loss, and general strategies to reduce risk to carbon stocks such as pest control and fire management. The risk of loss from a natural event in managed forests is very small, averaging 0.04% of loss per year.<sup>28</sup>

Existing mandatory schemes do not reach the rural poor of the developing world; only voluntary offset schemes and projects have the capacity to do so. As eloquently explained by Nobel Peace Prize Laureate Wangari Maathai, carbon forestry and agriculture are the only meaningful methods of offering sustainable livelihoods to these people; and they are simply not credited by the existing mandatory schemes.<sup>29</sup> Nearly 90 percent of the 1.2 billion people living in extreme poverty worldwide depend on forests for their livelihoods.<sup>30</sup> Natural and planted forest resources are an integral part of the habitat, economy and socio-cultural framework of rural communities. Almost all tropical forests have people living in them. Deforestation deprives the poor of their 'natural capital.' It degrades not only forest ecosystems but also the services they provide. While deforestation can provide short-term economic benefits from logging and short-term agricultural use, these are almost always outweighed by longer-term losses from soil erosion, flooding, degraded water quality,

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<sup>26</sup> IPCC, Land use, land-use change, and forestry: a special report of the IPCC. (Cambridge & New York. Cambridge University Press, 2000)

<sup>27</sup>eg. See New South Wales Greenhouse Gas Abatement Scheme:  
<http://www.greenhousegas.nsw.gov.au/Documents/syn101.asp>

<sup>28</sup> Hancock Timberland Investor, 2<sup>nd</sup> Quarter 2003, Risk from Natural Hazards for Timberland Investments  
[http://www.htrg.com/research\\_lib](http://www.htrg.com/research_lib)

<sup>29</sup> *Op.cit* 19, *op.cit.* 21 and 26

<sup>30</sup> <http://www.nature.org/rainforests/explore/facts.html>



worsened water security, greater vulnerability to extreme weather events such as drought, and the loss of traditional livelihoods and culture.

### **Crediting emissions reductions from avoided deforestation**

Credits from avoided deforestation and sustainable forestry management practices (such as low-impact logging and enrichment re-stocking of degraded forests) can be accurately measured and quantified and should be encouraged in the voluntary carbon market. Methodologies are readily available. The guiding principles for inventory in the GPG-LULUCF apply to quantification of greenhouse gas reductions from sustainable forestry management and avoided deforestation. Robust and credible project-level methodologies have already been developed for avoided deforestation.

The Coalition of Rainforest Nations, with a membership of 26 different developing countries spread across Asia, Africa and South America,<sup>31</sup> have made clear they face a stark choice: either they receive compensation for carbon sequestration services their native forests provide to the world, or they must continue to exploit them as sources of energy and wood products.<sup>32</sup> The implications of the latter are all too clearly illustrated in that Indonesia is now the third largest emitter of greenhouse gases in the world, almost entirely the result of continued deforestation.<sup>33</sup> To achieve reforestation, stabilisation of arid areas, transition to low-till agricultural practices, protection of watersheds and bio-diversity and compensation for preserving existing forests in developing countries, funding must come from rich nations in the form of payments for ecosystem services.

The Noel Kempff Climate Action Project (NKCAP) in Bolivia provides an excellent working example of how carbon sequestered in the living biomass of forests and emissions reductions achieved through forest conservation can be scientifically quantified, monitored and certified. In November, Société Générale de Surveillance (SGS), an internationally accredited CO<sub>2</sub> certifier and Designated Operational Entity of the UNFCCC, validated the project design, verified and certified emission reductions for the project.<sup>34</sup>

Leakage has often been a key challenge associated with avoided deforestation projects. The NKCAP has demonstrated active management can reduce leakage, and that which cannot be eliminated can be quantified and deducted from the project's total carbon benefits.<sup>35</sup> Methods are readily available for avoiding leakage; providing economic opportunities for local communities that encourage forest protection; providing replacement products that are less carbon intensive such as timber from plantations rather than native forests; and

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<sup>31</sup> <http://www.rainforestcoalition.org/eng/>

<sup>32</sup> Stilts, Joseph, "Cleaning Up Economic Growth," Project Syndicate, 2005

<sup>33</sup> See Wetlands International: <http://www.wetlands.org/ckpp/publication.aspx?ID=1f64f9b5-debc-43f5-8c79-b1280f0d4b9a>

<sup>34</sup> SGS. Summary, Validation and Verification Report, Programa Nacional de Cambio Climatico Noel Kempff Climate Action Project. November 27, 2005.

<sup>35</sup> <http://www.fan-bo.org/pacuk>



improving the productivity of agricultural lands. National rates of deforestation are available for most developing countries.<sup>36</sup>

With deforestation continuing to increase on a global scale,<sup>37</sup> one could argue that any reductions in deforestation through positive incentives offered through the carbon market are *per se* additional. Nevertheless, with continued efforts through national regimes and overseas development aid it will be important to illustrate that deforestation is being reduced by initiatives linked to climate change abatement and is truly additional to any reduction in deforestation that may have occurred as a result of other initiatives. This can be ensured by comprehensive reporting schemes documenting the origins of finance for avoided deforestation, sustainable forestry management and tree planting initiatives. Existing voluntary market standards, such as that of the CCBA, all require objective, third-party verification of additionality.

### **Crediting replacement or improved efficiency in use of biomass**

Projects that replace or improve the inefficient use of biomass, typically fuel wood, are not currently eligible under the CDM. An example of such a project type would be the establishment of a plantation to meet wood demands to produce charcoal for domestic fuel use which would otherwise be supplied by native forests. Production of charcoal from native forests is a common practise in rural Africa. These types of activities are currently ineligible under the CDM as the emission reductions are interpreted as ‘avoided deforestation.’

Bio-energy provides about 11% of total global primary energy supply and approximately 35% in developing countries. The share of biomass in primary energy consumption in Africa is more than 70%.<sup>38</sup> Some sub-Saharan countries obtain 90 % or more of their energy needs from biomass<sup>39</sup> and this situation is not expected to change in the near future.

Most projects that replace or reduce the use of non-renewable biomass are typically at the household level and located in poor rural and urban communities where solid fuels, often the only source of energy available and affordable to such communities, are used for cooking. Considering that biomass is a major form of energy in Africa, approval of methodologies that support improvement of bio-energy, or replacement of non-renewable biomass (such as biogas or solar energy) would facilitate a wider distribution of CDM projects and more countries would benefit from carbon finance.

Currently there is a lack of an appropriate methodology that project developers can use to benefit from the CDM. In November 2005, the CDM Executive Board (EB) decided to constrain applicability of an existing methodology type, namely ‘*Small Scale methodologies for Thermal Energy for the User*’, that allowed for projects to receive credits from substituting ‘non-

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<sup>36</sup> *Op.cit* 32

<sup>37</sup> *Op.cit* 32

<sup>38</sup> Kaltschmitt 2001, in The Reduction of Emission from Non-renewable Biomass Use Should Become an Eligible Project Activity, Schlamadinger, B and Jurgens, CDM Investment Nr. 3/2005.

<sup>39</sup> *Ibid*

renewable biomass'. This meant that projects that replace or improve inefficient use of such biomass – typically fuel wood – would no longer be considered eligible as the emission reductions were interpreted by some as 'avoided deforestation.'

The current proposal to only approve CERs, EUAs and ERU's under the DEFRA 'voluntary code' would exclude projects that reduce the consumption of non-renewable biomass, a sector which would be one of the few outlets where the poorest nations of Africa could meaningfully engage in the carbon market.

### **Social and Environmental Co-benefits of Forestry Offsets**

The rural poor of the developing world are the people most vulnerable to climate change not least because their "economy" is dependent on the natural environment for food, fuel, fresh water, building material and traditional medicine.<sup>40</sup> Their ability to adapt to climate change is inextricably linked to the level of environmental degradation they cause out of necessity as they have no other way to earn a living. Unless their natural environment is stabilized and livelihoods made sustainable, they will inevitably first exhaust the land and then become environmental migrants, putting further stress on urban areas and presenting increasingly difficult security problems for neighbouring countries and countries of destination.<sup>41</sup>

Deforestation threatens critical natural habitat for the world's plants and animals. Tropical forests cover less than 7 percent of the Earth's total surface area but are home to more than 50 percent of the Earth's species.<sup>42</sup> Protecting biodiversity by reducing deforestation and through forest restoration is important for local and global communities alike.

Forestry offset projects have many benefits which are found in no other carbon-based projects: They include:

- addressing climate change through carbon sequestration in the short, medium and long term;
- enhancing soil protection, erosion and flood control, water purification, agricultural pollination, and biodiversity protection;
- providing alternative, sustainable uses of forest and agricultural land, instead of forcing the liquidation of these natural resources for survival;
- providing access to capital that helps lift the local population out of poverty and into sustainable livelihoods;
- restoring and protecting ecosystem services upon which local people

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<sup>40</sup> McCarthy, James J. et. al. eds, "Climate Change 2001: Working Group II: Impacts, Adaptation, and Vulnerability: Contribution of Working Group II to the Third Assessment Report of the Intergovernmental Panel on Climate Change," Cambridge University Press 2001

<sup>41</sup> Schwartz, Peter and Doug Randall, "An Abrupt Climate Change Scenario and Its Implications for United States National Security," October 2003

<sup>42</sup> Myers, N, 1988. Tropical forests and their species. In *Biodiversity*, E.O.Wilson ed. Washington DC: National Academy Press

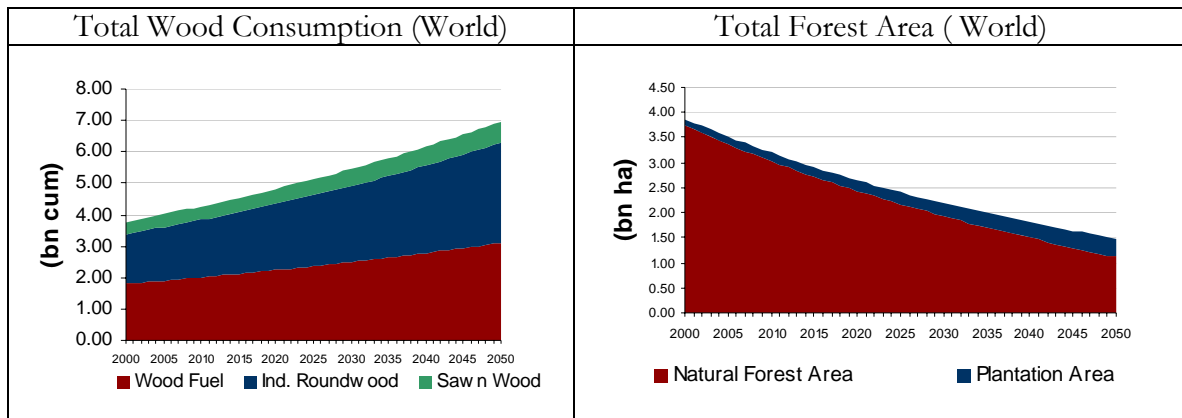


depend;

- preserving the habitats of the world's remaining indigenous peoples;
- combining mitigation and adaptation activities in ways that make poor communities more resilient against the impacts of climate change, including extreme weather events, droughts, storms, wildfires and floods.<sup>43</sup>

In the absence of voluntary market carbon offsets for forestry projects, this entire array of economic, environmental, social and cultural benefits will not be achieved.

In any assessment of the need for carbon forestry projects in the developing world, it is critical to understand that without them the laws of supply and demand will overwhelm, as they have for decades, all other efforts to address the loss of native forests. Projected world demand for industrial round wood and sawn wood will be met partially by an increase in plantation forestry, particularly in the developed world; the balance of timber supply together with consumption of wood for fuel will, unless forest carbon offset projects are incentivised, continue to be met through the destruction of native forests. At current rates of exploitation the tropical forests will be largely exhausted by 2050 and will have ceased to be intact eco-systems.



Illegal logging costs developing countries worldwide around US\$15 billion a year in lost revenue.<sup>44</sup> It also causes deforestation, environmental degradation and biodiversity loss. It damages livelihoods and is associated with corruption, organised crime and the fuelling of armed conflicts. Crediting forests with payments for carbon emission reductions provides a sustainable alternative and can reduce the incentive for illegal logging and its negative repercussions.

<sup>43</sup> Swingland, I, 2002, Capturing Carbon and Conserving Biodiversity: The Market Approach, The Royal Society

<sup>44</sup> World Bank: <http://web.worldbank.org>



If we are to swiftly reduce the rate of tropical deforestation and achieve atmospheric carbon stabilization in the medium term, the rural poor of the developing world must be provided with sustainable, alternative ways of life. This goal must be based on a reliable, long-term supply of compensatory payments and incentives. Today, only the voluntary sector of the carbon markets and forest carbon offset projects in particular, offer this prospect.

**6. With a Code that includes EUAs, do you agree with this proposed treatment of the ‘double-counting’ issue?**

In the consultation the following points are made relating to double-counting:

4.12 Where offsets are purchased to cover emissions already covered under other mechanisms, compliance with the Code will not allow business to use offsets purchased by their customers to demonstrate compliance with these mechanisms. This may be varied in accordance with any proposal from the regulatory authorities regarding the terms of inclusion of sectors in particular regulatory mechanisms.

4.13 The inclusion of electricity generation in the EU ETS means a consumer’s electricity consumption, is already accounted for under other mechanisms. Businesses offering such offsets should make it clear to consumers that they are purchasing ‘emissions reductions’, akin to them making a charitable donation to reduce carbon emissions that may or may not be additionally to offsetting occurring as part of compliance with other regulations or mechanisms.

The above statements do not accurately deal with the double-counting issue. Aside from a consumer’s electricity, currently all carbon offsets would be additional. It should in fact be highlighted to consumers that current emissions from the transport sectors are not included in any emissions trading system.

**7. Do you agree with the proposal to use the government-agreed database of emissions figures as the approved method of calculating emissions to be offset?**

As the calculator and the parameters on which it is based have not yet been released to the public it is difficult to answer this question. However, in principle one standardised calculator would be beneficial, as long as the assumptions upon which calculations are based reflect best industry practice.

**8. Should guidance be provided on how to calculate emissions from businesses?**

Yes, a guide for businesses on calculating emissions from all sources of GHG emissions for which they are responsible would be useful. The actions a company decides to take to offset emissions through the voluntary market would of course remain at its discretion.

**9. Do you agree that companies providing offsets, as part of a package of goods and services, should be entitled to use the quality mark?**



Yes. We believe any carbon offset which meets the standards of a voluntary code should be able to use the quality market. The quality market should be assigned to a specific carbon credit, not to a company as a whole.

**10. Do you agree that the Code should require companies offering offsetting at the point of sale with other goods or services, to give consumers a compulsory choice and/ or a 'default option'**

This should be a matter of choice for the company or product or service provider in light of its particular circumstances, pricing and customer base. There is no one suitable solution for the wide variety of companies and products which may offer offsetting.

**11. Do you agree that the quality mark should only be accredited offsetting products and not to label businesses that have offset their own emissions?**

Yes, we agree. These are different things and DEFRA should be clear in its communications to the public and businesses to make the distinction.

**12. Are there any other conditions that should apply to the use of the quality mark?**

There should be provision for periodic review of compliance with the standards adopted.

**13. Do you agree that these six points are necessary information to be made available to consumers ( see p19)**

We agree with all these points, with the exception of point 2 which says:

*Information should be provided on tackling climate change and the information of avoided and reducing energy consumption. Guidance should be provided to individuals and businesses (as appropriate) on steps they can take to reduce their emissions. This information can be provided directly by the offset provider or there can be a link to a suitable organisation such as the Energy Saving Trust or the Carbon Trust.*

Although it is important to raise awareness amongst the public on steps it can take to reduce its carbon footprint, doing so when purchasing a carbon offset confuses the issue.

Information provided to consumers should be limited to that pertaining to the offset itself.

**14. Should consumers be allowed to choose which projects they fund from an offset provider's portfolio?**

Yes, as with other commodities consumers should be permitted to make informed choices. As mentioned above, a portfolio of approved standards will allow greater flexibility to consumers in their choice of offsets, and will allow offset providers to increasingly brand their product offerings.

**15. Should written confirmation of the credit purchase and cancellation be provided a) to all consumers or b) on request only?**



We think that written (including internet) confirmation of credits purchased and cancellation should be provided to all consumers.

**16. Do you agree that this breakdown of prices should be provided to consumers?**

SFM does not agree with this assertion. It is not normal for a cost breakdown to be provided for other products in the marketplace.

**17. Do you agree that this price information should be provided at the time of purchasing offsets? Or on request only?**

We think this should only be provided on request – as commented on under question 16 it is not normal for a cost breakdown to be provided for other products in the marketplace.

**18. Does the government need to issue more guidance on how the process of purchasing and cancelling credits works in practice?**

Not in our view.

**19. Is the timescale for purchasing credits appropriate?**

n/a

We do not think that a single timescale should apply but that this should be a matter of disclosure to the offset purchaser.

**20. Is the timescale for cancelling credits appropriate?**

A short timescale invites failures to comply which are unrelated to genuine compliance. Any such timescale must be based on practical commercial experience and selected arbitrarily.

**21. What evidence should offset providers have to show to demonstrate compliance with the Code?**

This will vary from project type to project type. As discussed previously in this document SFM urges the government to include credits beyond CERs, EAU's and ERU's. Each of the Standards mentioned above (CCBA, Gold Standard, VCS) requires third-party verification of generated offsets as well as requirements for monitoring of project performance. Such requirements for monitoring and verification by third parties should be sufficient to demonstrate compliance with the Code.

**22. Do you think that industry could have a role in helping to promote the Code?**

If the Code is voluntary and achieving the quality mark for carbon credits adds value to offset providers, then industry itself will undoubtedly be incentivised to promote the Code. Markets competition, in price and quality is the most efficient means of identifying value-added opportunities.



**23. Do you agree that the administration of the quality mark scheme should be financed by fees charged for upfront accreditation and from annual subscriptions from those using the accreditations quality mark?**

If the government makes accreditation mandatory, it would seem fair for the government to cover the cost burden of accreditation. Under a voluntary scheme, an administration fee would be justified provided it is reasonable.

**24. Should the Code be reviewed on a regular basis?**

The Code should be reviewed on a regular basis. Every market, whether established or new, requires and benefits from review, both to enhance its efficiency and adapt to changes in the underlying marketplace.

If DEFRA follows SFM's recommendations to accredit carbon credits which meet existing or future voluntary standards released by industry, there should be a system and provision made for new standards to be submitted to DEFRA for acceptance as part of the scheme.

**25. If so, how frequently, every year?**

Care should be taken to ensure the Code is properly implemented initially, with a review period following its introduction. It is not necessary to review the Code annually; doing so would increase administrative costs and could undermine the Code itself by introducing unnecessary uncertainty. SFM recommends review of the Code every 3 years, a sufficient time to gather and analyse market data as a basis for changes to the system.

**26. Do you agree with the assessment of costs and benefits as described in partial RIA?**

Professional offset providers already have established protocols for assessing additionality, monitoring and reporting. These would have to be standardised into the approach required by the Code.

**Conclusion**

In considering its approach to regulation of the voluntary carbon market, DEFRA should take advantage of the lessons learned both from the first stages of the mandatory carbon markets and from much longer established systems of financial and commodity market regulation. It should also take cognizance of the considerable progress already made by self-regulatory organisations in developing appropriate standards for the voluntary offset markets. Protection of the public does not require multiple layers of regulation which only serve to increase costs and stifle innovation. An appropriate set of inclusive principles of best practice to qualify for a quality mark would be far more efficient and effective in achieving the desired goals than either new prescriptive requirements or voluntary standards drawn exclusively from the existing early stage mandatory markets.

