Photo: Frans Lanting/Corbis

The rapidly growing market for voluntary CO_2 compensation is developing quality marks and standards to battle its poor public image. In this way, market players hope to grow their business - and to keep the government out of it.

Climate compensation
is the planet getting what you pay for?

by Gert van Wijland

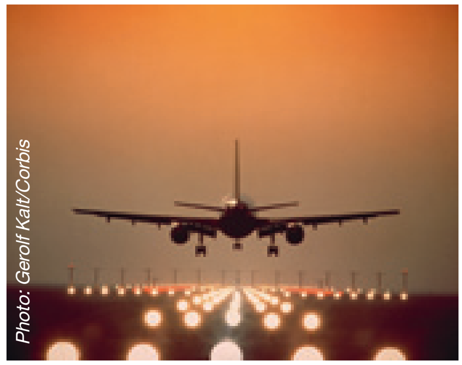
Travelling by air with a clear conscience is a simple matter these days. All you have to do is plant a few trees. Not personally, of course. There are companies that will do for it you. They calculate how much CO_2 you emit during your flight, how many trees it will take to make your flight 'climate neutral', and make sure the requisite number gets planted. Et voilà: the climate is saved, the middleman has made some money and you can continue doing business as usual.

That's the theory, anyway. The reality is more complex. For one thing, planting trees is no more than 'compensation'. And for the climate activists at the World Wildlife Fund for Nature (WWF), the act falls short. 'Setting up a forestry project somewhere in the world is definitely not enough to make the operations of a bank or an industrial company climate neutral,' says Donald Pols, head of WWF's Climate Program. 'Voluntary or not, we believe that the essence of every compensation programme should be to really push back CO_2 emissions.' If the remainder must be compensated elsewhere, then it should always be done through a project aimed at saving CO_2 rather than neutralising it. 'Invest in solar cookers for an African village rather than a forestry project,' advises Pols. 'The local population must benefit. If you want to do it properly, then compensation often requires radically changing your entire business process.'

Market Growth

The WWF's high standards notwithstanding, more and more companies are venturing into the compensation market. According to a recent study – 'Forging a Frontier: State of the Voluntary Carbon Markets 2008' – by two influential American institutes, New Carbon Finance and Ecosystem Marketplace, the voluntary compensation market grew by 165% in 2007. The researchers were able to track 42.1 million tonnes of carbon dioxide equivalent ($MtCO_2e$) transacted on the over-the-counter (OTC) market in 2007. Combined with the 22.9 $MtCO_2e$ transacted on the voluntary Chicago Climate Exchange (CCX), this means a total volume of 65.0 $MtCO_2e$. The deals had a total value of some \$330 million. This represents a tripling of transactions for the OTC market and more than a doubling of volumes on the CCX. The average price per tonne in 2007 was \$5, up from \$4 in 2006. Since the report is based solely on confirmed transactions, the numbers are undoubtedly conservative. The actual volume is most likely greater.

The voluntary market is still small compared to the billions of tonnes being traded in the mandatory CO_2 markets made obligatory under the Kyoto protocol. In 2007, these amounted to 2,918 $MtCO_2e$ with a value of \$66 billion. But according to Milo Sjardin of New Carbon Finance



(CDF), the voluntary market should not be trivialised. 'It is a fine market, with great potential, if only for creating awareness among companies that they must and can do something about their CO_2 balance. The world will be better off for it.'

Greenwashing

So why do all these companies make such a fuss over their CO_2 balance? 'Nowadays, companies are fully aware that they must take responsibility', says Daniël Hires of the German-based First Climate Group (FCG), an international provider of compensation projects. 'They can no longer shift their production costs on to the environment or the climate. Corporate social responsibility is not a fad that is bound to pass.'

Companies also see a business advantage. 'If you do it properly, you do not simply compensate, but push back energy consumption. You can generate significant cost savings that way,' says Sjardin.

Hires mentions a third consideration prompting companies to compensate. 'They are using it more and more as a marketing tool. Consumers demand sustainability and transparency. Planting trees or implementing other climate projects fits in that notion.' According to the New Carbon Finance report, corporate responsibility and public relations were in fact the primary motivations behind the OTC market.

The danger is that companies see reductions as an indulgence. Instead of curbing their CO_2 emissions, they support a project without thinking whether the climate benefits. Their main objective is to polish their image – 'greenwashing'. 'Making a play with good intentions while in practice sitting back and only transferring some money, that's something WWF is opposed to,' says Donald Pols. 'Actually, we consider the whole compensation business as a transition mechanism for giving the industry time to switch from fossil fuels to sustainable energy sources.'

The market is maturing and leaving its Wild West practices behind

Others are more tolerant of greenwashing. Companies do not necessarily need to be green to want to do something about the climate, says Korthals Altes, director of the Climate Neutral Group (CMG), a joint venture of the six largest CO_2-compensation providers in the Netherlands. He points to Hyundai, a company that doesn't score high marks on green fronts but does compensate CO_2. And coincidentally, produces one of the most efficient cars in the world. 'So why shouldn't it be allowed to greenwash?'

Tel Aviv-based philosopher, climate expert and computer technician Gideon Greenspan agrees. 'It is a fine way to show that you, as a company, actually take your responsibility without it taking too much time. Not one company does it by itself. They all contract out to providers.'

But many companies have learned by bitter experience that it is not so easy to find a good provider. 'There is a lot of hot air in the market,' Pols says of its Wild West image. Imagine, for example, a well-intentioned company investing in a forestry project in Ghana, only to find out later that not a single tree was ever planted. Or that a primeval forest was burned down to make room for the company's new plantings. 'It is an emerging market, and there are always a few cowboys who want to make a fast buck and are heedless of the damage they do,' says Sjardin of New Carbon Finance. Hires and Korthals Altes know 'the rotten apples' but believe the problem is exaggerated. 'Reports on alleged fraud are not always meticulous,' says Korthals Altes somewhat bitterly, partly because CNG itself was the subject of negative publicity.

The New Carbon Finance report acknowledges that negative publicity has a chastening effect: '...articles in the mainstream press highlighted various quality issues. In response, suppliers embraced a range of tools for producing high-quality credits and proving their legitimacy.' Thus was born an industry-wide system of standards, registries, and quality marks.

The green standard

One of the most prestigious standards in the market is the so-called Golden Standard backed by various NGOs, including WWF. Pols strongly recommends it. 'The Golden Standard only accepts projects that meet the highest demands from both a social and an environmental standpoint,' he says. 'Making solar cookers available to the Third World is okay, but a wind farm in the North Sea does not meet our conditions. Nor does installing low-energy light bulbs in the Hilton Hotel in Jamaica. That's something the hotel should pay for.'

Forestry also doesn't fall under the Golden Standard. 'You don't know how sustainable the compensation is, and it does not save any energy. It also keeps the price of CO_2 at an artificially low level.'

Hires and Korthals Altes consider the Golden Standard limited and expensive. 'Planting trees can be a good way for a paper factory to compensate,' says Korthals Altes. 'Projects that fall under the Standard are still rare and therefore expensive. An international bank like the Dutch Rabobank opts for gold, but by doing so actually pays too much and so cannot compensate enough.'

Guideon Greenspan has built an internet catalogue allowing companies o compare the transparency, quality marks, projects and costs of individual providers through a points system. 'I base my information on the websites of the providers themselves,' says Greenspan. 'It is impossible for me to go out and check onsite whether the trees have actually been planted as promised.' Every now and then Greenspan has an uneasy feeling about a provider and removes it from his site.

'2007 was in many ways a pivotal year,' says the New Carbon Finance report. '[It was] a year when standards began to emerge where rules were developed and proposed.' It is for this reason that regulation is being rejected by many insiders, who believe the market can regulate itself. 'Obviously, action must be taken against frauds,' says Pierre Henry, a staff member of the European Commission's Directorate-General for the Environment. But he says the Commission is not preparing guidelines and, with the possbile exception of Britain, he does not see much enthusiasm among national governments either. The UN Framework Convention on Climate Change in Bonn, which oversees the compliance market, also doesn't have any plans to monitor the voluntary market, says a spokesperson.

If the market does regulate itself, to what lengths are companies prepared to go? Would providers, for example, help an environmentally unfriendly event such as the Red Bull air race achieve a climate neutral image? 'Yes,' says Korthals Altes of CNG. 'No,' says Hires of First Climate Group.

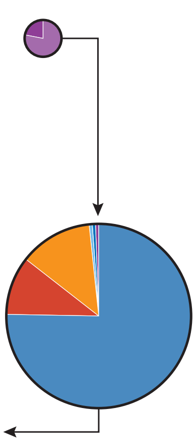
'Research shows that the damaging factor is not so much the nature of the event as the number of people attending the event,' says Korthals Altes. 'So it doesn't really make much difference whether you race airplanes under a bridge or run a marathon.'

But Hires disagrees. 'We recently rejected a similar offer,' he says. 'We believe that people must change their lifestyle, use less energy. This kind of energy-guzzling event does not tally with this message.' ■

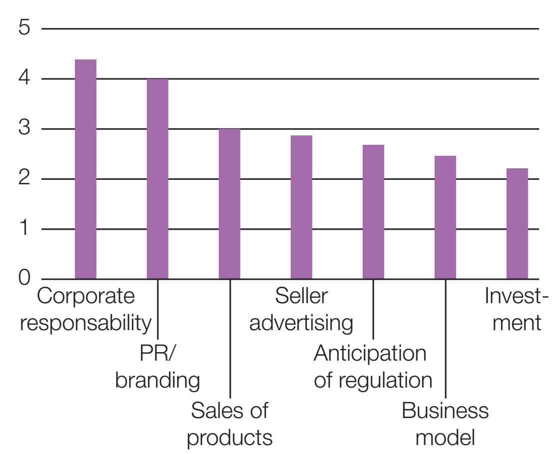
Compensating emissions

How big is the market?

		Value $ mln 2006	2007
Voluntary	Voluntary OTC Market	58.5	**258.4**
	Chicago Climate Exchange (CCX)	38.3	**72.4**
	Total	96.7	**330.8**
Regulated	EU ETS*	24,436	**50,097**
	Primary CDM**	6,887	**6,887**
	Secondary CDM	8,384	**8,384**
	Joint Implementation	141	**495**
	New South Wales	225	**224**
	Total	40,072	**66,087**
Total	Voluntary & regulated	40,169	**66,417**



Why do customers buy the offsets?
(Importance rating, 2007)



X&Y Graphics
Source: Ecosystem Marketplace, New Carbon Finance
*European Union Emission Trading Scheme **Clean Development Mechanism