



Carbon Offsets – An Introduction



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Introduction

Carbon offset is the process of balancing a defined unit of carbon dioxide emissions with a product that saves or stores an equivalent amount of carbon dioxide. The offset process will vary in its delivery of the saving or storage of carbon dioxide. This overview is designed to provide potential users of offset with the facts that they need to decide upon the best product for their requirements.

The Role of Offset

Offset rebalances specific emissions, but its overall role in climate change prevention as an independent activity is to retard not reverse it. The value of retarding the pace of climate change through offset is to help to provide more time for behavioural change, technology and legislation to begin to reduce emissions overall and thus arrest climate change. The accepted approach to carbon emissions is that emissions should be saved where possible and offset where they cannot be saved. Currently offsets are used as part of integrated corporate carbon strategies, but are also used as demonstrable environmental credentials. Irrespective of the motive for using offsets, how is it possible to distinguish between the available options? Purchasers must consider a range of factors in their offset choice.

Absorption Rates

The carbon tonnage of the emissions and the savings are calculated to provide a purchasable offset. The immediate act of purchasing an offset, for example 1 ton of offset, does not always confer immediate carbon neutrality upon the purchaser, as the savings are not always immediate but often gradual over a period of time. Absorption rates vary considerably according to the project type, with forestry being a very slow absorption project type.

'Additionality'

For any offset project to have a balancing value it must be originated for the purposes of creating additional carbon savings or storage. It cannot be a saving or storage of emissions created in a business as usual activity and sold retrospectively. This means that existing savings being created by a project that would have been created by an individual or organization in the course of their every day activities cannot be sold retrospectively as an offset. Funds for offset projects must be channelled into additional/new projects that will save or store carbon dioxide. They must be able to demonstrate that their activity is an additional carbon benefit.

Double Counting

Offset values must be calculated and apportioned in a precise manner that avoids the possibility of any double counting of savings. Double counting can result from any situation where carbon savings are present and claimed by more than one component part of that supply chain. In a renewable energy project that is created to save carbon emissions for a specific company, the company could not claim the carbon value of the renewable energy for its own footprint and then sell on these savings to consumers as a product or service benefit.

Offset Types

VERs

These offsets range from well audited to poorly defined emissions savings/storage. At the most regulated end of the market VERs are certified offsets in waiting, at the least regulated end of the market they can frequently fail to fully offset the emissions they have been designed to balance. The VER market has a number of distinct project types.

Trees. Woodland is one of the earths natural carbon sinks, processing and storing carbon dioxide. The creation of new woodland supports natural carbon reprocessing. The location and management of new woodland will determine how successful it is as a carbon sinks. The same will apply to avoided deforestation.

Biomass Stoves. The use of biomass stoves is designed to reduce the deforestation of developing world countries and to directly reduce CO2 by promoting more fuel-efficient cooking methods.

Low Energy Lightbulbs. The distribution of lightbulbs in the developing world is designed to reduce CO2 from lighting use, with a reduction in electricity usage which may have been generated at a higher than average CO2 cost.

Solar Panels Technology is one of the key ingredients in the drive towards lower carbon emissions and in many developing countries with high levels of annual sunshine they can be very effective.

Methane Capture Methane is more powerful than CO2 although it has a shorter life span. It is produced naturally by wetlands and farm animals, but also through landfill sites. Methane capture from landfills and coalmines can be used to reduce methane and provide a power source.

Certified Units. Traded units or certified emissions come in three main forms. Any projects that are VERs may be CERs in waiting.

ERUs are emissions reduction units that are created in the developed world from projects that have saved carbon emissions through low carbon technology or biomass for example.

CERs are emissions reduction units created in developing world locations using low carbon technology, but whose savings may be used in developed world emissions reduction calculations under a mechanic known as the Clean Development Mechanism.

EUAs are allowances that are created by EU national governments to limit emissions. They are a traded unit that allows surplus carbon credits to be sold on the open market to those who have exceeded their allowances.

Offset Selection

VERs

The key issues for prospective purchasers of VERs are the ability to verify their existence, to be assured that the projects are viable and that funds provided are destined for the selected project. In addition to these central issues are additional considerations of their wider environmental value, their additionality and their role in reducing and promoting emissions reduction overall.

Certified units

In theory but not entirely in practice certified units will deliver savings of emissions that have been more thoroughly vetted than VERs and will be compliant with stringent project certification and a framework that provides the purchaser with greater security. This will include definition on areas such as project leakage, double counting, and lifetime of a carbon project. The purchaser is still, as with VERs, taking the risk of the purchase upon themselves.

Many of the projects that comprise VERs are not acceptable certified projects. This does not necessarily reflect any deficiency in carbon saving/storage of VERs, but more that their aims may be a combination of carbon and wider social and environmental considerations.

Certified products that are CDM based may be graded upon their wider social and environmental value. The CDM Gold Standard is an organization that helps to define suitable projects for purchasers in this respect.

Key Points to Consider

- 1. Verification** – both of project existence, but also how it delivers carbon balance.
- 2. Emissions calculation** – the calculated emissions method must be understood to enable a clear match with any offset product.
- 3. Viability** – there must be clarity on the long-term viability of any project, where carbon savings are delivered over a long period of time.
- 4. Value** – what is the offset value in terms of carbon saved/stored and wider benefits in the context of CO2 reduction.
- 5. Content** – what does the offset unit include and is this specified by the broker or project originator.
- 6. Delivery** – how does the offset unit actually deliver the content and value that it claims.
- 7. Reason for purchase** – the purpose of offset will help to determine choice. Companies in a regulatory framework must purchase certified credits. Individuals may choose offsets according to personal taste. Unregulated companies may choose projects that fit their brand or product profile in terms of project location and type.

Conclusion

The purchase of offset is similar to the purchase of any technical consumer item or even a financial instrument like a share. They are created and priced based upon the best available data, which itself will continue to evolve and improve. The purchaser must satisfy themselves on key product issues and establish a basic understanding of the mechanics of offset projects. They must look beyond the immediate surface content and consider the key points that have been outlined above.