

carbon offsetting – the consumer interest

NCC's response to the Defra consultation on establishing a Code of Best Practice for the provision of carbon offsetting

About the National Consumer Council

The National Consumer Council (NCC) makes a practical difference to the lives of consumers around the UK.

With changes in provision of services by government and companies, there is apparently more choice, and more talk about meeting consumers' needs. Yet, the rhetoric does not always match people's experience: markets can operate in ways that act against consumer interests; and consumers who are disadvantaged or inarticulate can be ignored.

The NCC uses its insight into consumer needs to advocate change. We conduct rigorous research and policy analysis to investigate key consumer issues, and use this to influence organisations and people that make change happen. We don't just respond to policy discussions, but shape future debate through our groundbreaking thinking.

An open and collaborative organisation, we seek to work with public service providers, businesses and regulators. We hold regular policy forums which provide us with a unique opportunity to exchange views and test our thinking.

Our relationship with the Department of Trade and Industry – our main funder – gives us a strong connection within government. But we are ready to challenge any organisation, public or private, that does not give consumers a fair deal.

We have linked organisations in Scotland and Wales, and a close relationship with colleagues in Northern Ireland. We play a leading role within European and worldwide consumer groups, ensuring that cross-border consumer issues are tackled and the consumer voice is heard within global institutions.

Please check our website at www.ncc.org.uk for our latest news.

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Executive Summary

This document outlines the National Consumer Council's (NCC) response to Defra's consultation on a Code of Best Practice on carbon offsetting. We welcome Defra's commitment to raising standards and improving consumer certainty in this complex area. However, the NCC has concerns and doubts about some elements of the proposed Code. There is a need to think more holistically about the carbon offset market, to learn lessons from previous environmental labels and to be more joined-up with other carbon offset labelling initiatives, such as those being explored by the voluntary carbon offset market.

In its proposed Code, Defra's is effectively promoting a gold standard that would exclude the unregulated market. This could result in potential imbalances of supply and demand as the availability of regulated certificates is limited. Furthermore, it could encourage the unregulated market to develop their own standard and kitemark and it could create two parallel markets in accredited and unaccredited offsets at possibly widening price differentials, which could confuse consumers.

It is therefore absolutely critical that the Code covers both the regulated and unregulated market and that there is not a proliferation of carbon offset standards. This will enable consumers to choose from a range of carbon offset options (under one scheme) and prevent them being confused by multiple labels. There is a need for consumer research on carbon offset labelling, which should help to shape the development of the standard. There is also a need for social marketing research, which could help to increase the up-take of carbon offsetting and the demand for accredited products.

Introduction

The National Consumer Council (NCC) welcomes the opportunity to respond to Defra's consultation on a Code of Best Practice on carbon offsetting. Climate change is one of the biggest challenges facing society today and while carbon offsetting is not a 'cure', it can help raise awareness and has the potential to act as a catalyst – creating a deeper commitment to sustainability than the action itself, as well as reducing the environmental impact of consumers' actions. Carbon offsetting is part of a hierarchy of actions. The best option is to avoid emissions. The next best option is to reduce emissions – such as through installing insulation or choosing public transport. And if these options are not practical, then the final option should be to offset carbon.

The NCC has worked with government on the issue of regulating green claims and last year we published jointly with the Sustainable Development Commission (SDC) the Sustainable Consumption Roundtable report entitled *I Will if You Will (i)*. Our research has shown that many consumers are willing to lead their lives in a more sustainable manner. Research also shows that although most consumers are aware of the need to reduce CO₂ emissions from their home and their personal travel, often, they have no way of knowing whether what they are doing will actually reduce CO₂ emissions or not. For this reason they look to government and industry to provide them with a framework within which they can act. Within this framework, consumers need clear, unambiguous information about the environmental impacts of the goods and services on offer. Only then will they have the confidence to make the right decisions.

Carbon offsetting can have a role to play, but it can only be an option if consumers can be sure that carbon reductions (equivalent to their own emissions) are genuinely being achieved through the offset. This requires, as a starting point, an accurate assessment to be made of their own CO₂ emissions, and a realistic value to be placed on each tonne of CO₂ emitted. It also requires reliable information for the consumer that emissions reductions have taken place elsewhere, and that they have not been counted more than once. Yet, too often consumers do not have this reassurance, and do not know for certain where their money has gone and whether the emissions reductions have actually been achieved. Consumers are being asked to take a leap in the dark. This flies in the face of all the well-established green consumer principles of transparency, additionality and verifiability.

In NCC's recently published report, entitled *Reality or rhetoric? Green tariffs for domestic consumer (ii)*, we found that five of the green energy tariffs being offered were based on the carbon offset principle. However, of these, only one offer was backed by regulated emissions reductions certificates retired out of the system. In respect of the others, it was not very clear how much CO₂ was being offset, on what basis this had been calculated, what price for a tonne of CO₂ was being charged, how much of this was to cover administration and processing, and exactly how the emissions were being offset.

We welcome Defra's commitment to raising standards and improving consumer certainty in this complex area.

Defra's proposal

Defra is proposing that the Code is voluntary and offset providers can choose whether to seek accreditation for all, or some, of their offsetting products. It is also proposed that the Code will be based on the following regulated emissions credits, because they are – in Defra's opinion – robust and verifiable:

- **Certified Emissions Reductions:** Tradable units generated by projects in developing countries under the Clean Development Mechanism. They may be counted toward compliance with emissions targets and are equal to 1 tonne of CO₂ equivalent gases.
- **EU Allowances:** Units specific to the EU Emissions Trading Scheme, which started in 2005 and are equal to one tonne of carbon dioxide equivalent gases.
- **Emission Reduction Units:** Tradable units generated by projects in developed countries. They may be counted toward compliance with emissions targets and are equal to 1 tonne of CO₂ equivalent gases.

This is in contrast to the unregulated market, which is based on purchasing non-certified credits often known as Voluntary Emissions Reductions. Many of the offsets currently available to consumers come from this market.

Defra's is proposing that the Code will include the following elements:

- The use of certified credits to offset emissions;
- Accurate calculation of emissions to be offset;
- Clear information for consumers regarding the mechanism and/or projects supported;
- Transparent pricing;
- Timescales for cancelling credits; and
- Offering offsetting at the point of sale with other goods and services (for example, a 'compulsory choice' or 'default option').

A quality mark will be developed to represent the Code and will be attached to accredited products to help consumer confidence in purchases. Only offset providers who choose to sign up to the Code and those products that are approved will be able to use the quality mark.

NCC's response

Aims for developing a Code

Q1: Do you agree that the government should publish a Code for offset providers?

The NCC agrees that the government should publish a voluntary Code of Best Practice for offset providers. It is important that accreditation against the Code is administered by a third party organisation. However, there are potential implications of the proposed Code (based on regulated emissions credits), which need to be addressed in the development of the scheme. These include: the impact on unregulated markets, the consequence of two parallel markets and the imbalance of supply and demand.

Impact on unregulated markets

Although the consultation stresses that accreditation for offsetting offers will be voluntary, in practice this is likely to mean that any offsetting offer that is not accredited will be seen as being sub-standard, which has implications for those offerings that are based on the unregulated market. The NCC acknowledges and applauds the entrepreneurship of the carbon offset pioneers who have paved the way and helped increase the demand for carbon offsetting. It is important that the dynamism of social entrepreneurship is not lost. Defra needs to engage with the unregulated industry to develop a continuing role for their offsetting offers and find ways in which consumers who take these up can have confidence in what they are being offered.

Consequence of parallel markets

If the proposed Code is implemented, it would be likely to create parallel markets in unaccredited and accredited offsets (offered at possible widening price differentials). This could send confusing messages to consumers as to the value of a tonne of CO₂ mitigated, and the cost of offsetting. A widening price differential between the two markets could also create an incentive on those offering carbon offsets to use the quality mark in a fraudulent or misleading manner, which could undermine consumer confidence. Careful consideration will need to be given to how messages are communicated to consumers and how misleading claims can be dealt with.

Imbalance of supply and demand

There is considerable consumer demand for carbon offsetting, both from individuals and businesses. Yet the supply of regulated certificates (e.g. Certified Emissions Reductions and EU Allowances) is severely limited. This will mean that consumers will need to expect to pay considerably more for offsetting than they currently do. In its proposed Code, Defra's is effectively promoting a gold standard (which would exclude the unregulated market). This has the potential to alienate some "light green" consumers that are not prepared to pay a large premium for carbon offsetting.

Need for Research

There appears to be a lack of consumer research to back-up the proposed Code. It is absolutely essential that government commissions/undertakes some deliberative consumer research on carbon offset labelling, which should help shape the aims, scope and development of the standard. There is also a need for social marketing research, which could help to increase the up-take of carbon offsetting and the demand for accredited products.

Q2: Do you agree with the proposed aims of this Code?

The NCC agrees that a Code of Best Practice should support the development of robust, transparent, reliable and timely carbon offset products that offer consumers genuine environmental benefit and value for money.

However, for the reasons set out above, NCC is concerned that the accreditation scheme (backed by retired regulated certificates), could have implications (please see Q1) – all of which could adversely impact on consumers. We believe that there is a continuing role for offsetting offers backed by voluntary emissions reductions, for example from projects based in the UK, or from very small projects which have not yet been recognised by the UN Clean Development Mechanism. A way needs to be found to ensure that the unregulated market is included in the scheme, so that there is a way consumers can be sure that they are supporting good projects which achieve real emissions reductions from these carbon offset products and have clear information about them.

Q3: Should government consider, in the future, making the Code mandatory and putting it into legislation?

Q4: Do you agree that the Code should be voluntary in nature?

The NCC agrees that the Code of Best Practice should be voluntary, as a mandatory approach would be too rigid at this stage of the development of the industry. However, Defra should monitor the market carefully once its voluntary Code has been introduced, and retain the mandatory route as an option in the future.

Methodologies for offsetting and calculating emissions

Q5: Do you agree that the most appropriate credits to demonstrate best practice in offsetting are one, or a combination of, Certified Emission Reductions, EU Allowances or less easily, Emission Reduction Units?

The NCC agrees that Certified Emission Reductions, EU Allowances and, perhaps, Emission Reduction Units are sufficiently regulated and transparent to be capable of offering consumers assurance that they are purchasing real CO₂ emissions reductions. The fact that the regulated certificates are issued *post hoc* removes one important area of uncertainty from the consumer's viewpoint. Of course this degree of certainty comes at a price, and consumers, as with other green products, will find that meaningful offsetting is not a cheap option in future.

The NCC is aware that several standards are being developed for the Voluntary Emissions Reduction market. Defra should aim to work with the unregulated market to ensure that a robust and internationally recognised standard emerges and that this should be included within the scope of the Code. It is important that any standard being developed for the Voluntary Emissions Reductions markets must have, as a minimum, the consumer green principles of transparency, additionality and verifiability at its heart.

In addition, some carbon offset providers might find the rigour needed to comply with the Kyoto Protocol and the Clean Development Mechanism off-putting and expensive for very small projects. For example in

Africa it is possible that the Designated National Experts might not be promoting the Clean Development Mechanism as hard as their equivalents in China, India and other developing countries in Asia and South America. It may also be the case that they do not have as many examples of good practice to follow.

Q6: With a Code that includes EU Allowances, do you agree with the proposed treatment of the ‘double-counting’ issue?

In its consultation document, Defra proposes that the Code should deal with the potential ‘double-counting’ issue by ensuring that those businesses with accredited carbon offset products that use EU Allowances 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 additional of offsetting occurring as part of compliance with other regulations or mechanisms*”.

These issues are very complex for consumers. Whilst the NCC supports Defra’s desire to ensure that double counting is avoided, we have some doubts as to how easy the ‘charitable donation’ explanation would be to convey to consumers. Research carried out in the green tariff market shows that consumers find the different certificates extremely difficult to understand. It is essential that consumers do not believe they are offsetting their electricity use, for example, when they have effectively already paid for this through their bills under another mechanism. Government has in the past shied away from making explicit to consumers the different elements that make up their gas and electricity bills. However, it is important that this is communicated to consumers in the clearest and simplest possible way.

Q7: 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?

Q8: Should guidance be provided on how to calculate emissions from businesses?

The NCC welcomes Defra’s proposal to use a common database of emissions figures as the basis for its Code of Best Practice. It is absolutely essential that there is common agreement as to how to calculate how much CO₂ is emitted as a result of consumers’ different activities. NCC also welcomes the proposal that Defra would provide guidance on how to calculate emissions from businesses.

Procedures under the Code

Q9: Do you agree that companies providing offsets, as part of a package of goods and services, should be entitled to use the quality mark?

The NCC has serious concerns that the quality mark risks being used fraudulently or in a misleading way. There is a real risk that a company who has one of its offers accredited, but not another, will seek to give consumers the impression that all of their activities have been accredited. This is particularly important where the offsetting is bundled as part of a package of goods and services. It should be made clear that it is only the offsetting element of the package that has been accredited, rather than the entire package. The NCC urges Defra to provide very clear guidance as to how and in what circumstances the quality mark can be used.

Q10: 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’?

The NCC (together with the Sustainable Development Commission) in its report *I Will if You Will* proposed an ‘opt-out’, rather than an ‘opt-in’ approach for carbon offsetting. Data from the Travel Foundation (a voluntary scheme on sustainable development in tourism and travel) suggests this can achieve around 60 per cent take-up, far higher than an opt-in basis. Data from payroll deductions on pension savings support this. We also recommended that HM Treasury should introduce a clear incentive for ‘opt-out’ carbon offset schemes.

Q11: Do you agree that the quality mark should only be for accredited offsetting products and not for business that have offset their own emissions?

The NCC agrees that the quality mark should not be used by businesses purely to indicate that they have offset their own emissions. This would seriously undermine the credibility of the mark, and would leave it very open to abuse and confusion.

Q12: Are there any other conditions that should apply to the use of the quality mark?

The NCC has identified some possible issues with the use of the mark earlier in this response. NCC urges Defra to consult with organisations such as British Standards Institute (BSI), the UK Accreditation Scheme (UKAS) and the Office of Fair Trading’s Consumer Code Approval Scheme (CCAS) so as to ensure that best practice is followed in the development of this quality mark.

Consumer information

Q13: Do you agree that these six points are necessary information to be made available to consumers?

Q14: Should consumers be allowed to choose which projects they fund from an offset provider’s portfolio?

Q15: Should written confirmation of the credit purchase and cancellation be provided, a) to all consumers or b) on request only?

In its consultation document, Defra highlights six bullet points that it believes is necessary information that should be made available to consumers when providers are selling carbon offset products. These are:

- A clear and simple explanation of carbon offsetting.
- Information and guidance on tackling climate change and the importance of avoiding and reducing energy consumption.
- An explanation of the mechanisms (e.g. Clean Development Mechanism) that have been used to source the carbon credits.
- Details of the projects supported should be provided and, where possible, consumers should be able to choose from which projects they would like to buy carbon credits;

- A statement on whether the credits come from the provider's portfolio or through a third party broker; and
- Written confirmation that the credits have been purchased and cancelled should be sent or e-mailed to the consumer.

The NCC considers that all six bullet points listed (above) are important and relevant. These types of questions would be ideal to engage consumers on. This should form part of the consumer research.

Transparent pricing

Q16: Do you agree that this breakdown of prices should be provided to consumers?

Q17: Do you agree that this price information should be provided at the time of purchasing offsets? Or on request only?

In its consultation document, Defra proposes that the following information should be clearly available to consumers at the point of sale, and displayed in pounds sterling unless otherwise stated:

- Volume of emissions being offset (in tonnes of CO₂e)
- Cost per credit being purchased
- Total cost of credits purchased
- Any charge of processing and administration
- Total cost of offsetting service being purchased.

The NCC considers that consumers need to understand clearly the different elements of the price of an offsetting transaction. Therefore the accreditation body, on its dedicated website, should make clear why these elements of the transaction are important, and how the prices are calculated. It could also include an updated index of traded prices for Certified Emissions Reductions and EU Allowances. Then each accredited provider should, as part of its offer, explain how the volume of emissions being offset has been calculated, and what that total is. When the provider informs the consumer of the total cost of the offset, this should be related back to the total number of tonnes of CO₂e being offset, i.e. by means of the cost of offsetting each tonne of CO₂e, and any charge the company is making for processing, administration or profit. The NCC considers that this information on how the price of the offset is constructed is a vital element of the transaction. Without this, it will be impossible for consumers to make informed choices between different offset providers. Therefore, NCC would like to see this information made available to consumers as part of the 'carbon calculator' function.

The accreditation body, and other commercial websites such as the price comparison websites, should be free to publish comparisons of the price per tonne of CO₂e offset being charged by each provider, together with the proportion of the overall transaction used for processing, administration or profit.

Q18: Does the government need to issue more guidance on how the process of purchasing and cancelling credits works in practice?

Q19: Is the timescale for purchasing credits appropriate?

Q20: Is the timescale for cancelling credits appropriate?

The NCC understands Defra's intention to provide an initial lead-in time for offset providers to register with the UK Emission Trading Registry. However, we are concerned that six months is a long period which could provide uncertainty for consumers who are being asked to pay up-front for the offset. Their money will remain on deposit with the offset provider for up to six months before being converted into a regulated emissions reduction certificate. This arrangement will certainly not be in consumers' favour. In addition, there may be an element of hedging built into the cost of offsetting to account for any possible price changes over the six month period.

For these reasons, NCC would like to see a much shorter timescale built into the Code for purchasing credits (say one month). This could be accompanied by a one-off extension for companies who are registering for the first time and who can demonstrate that they have suffered a delay. The proposed timescale of 48 hours for cancelling credits appears reasonable. Finally, NCC agrees that further guidance on this for providers could be helpful.

Accreditation and Financing

Q21: What evidence should offset providers have to show to demonstrate compliance with the Code?

The NCC refers Defra to its response to Q12. The more widely the mark is used, the more potential for confusion and fraudulent use there will be. Therefore NCC strongly urges Defra to adopt best practice in restricting the use of the quality mark. Clear guidance on this is needed. Providers must have a copy of the Code of Best Practice on their website, or else a link to the accreditation body's dedicated website on which the Code must be displayed. However, it is extremely important, as part of the legal agreement the provider enters into, that it is clear which offers have been accredited and which have not.

Q22: Do you think that industry could have a role in helping to promote the Code?

The NCC considers that it will be most appropriate for government together with the accreditation body to publicise the Code. Industry may contribute to this, but the main responsibility should remain with government and the accreditation body. This will allow consumers to have objective, third party information which will encourage them to shop around between carbon offset providers. This objectivity and independence is critical for building consumer confidence.

Q23: 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 accreditation quality mark?

The NCC considers that government should provide some funding for the Code and accreditation scheme in the short-term. Without this initial and upfront investment, there could be a situation where the accreditation body has a conflict of interest in deciding whether or not to accredit an offset offering, since they will have an interest in getting the scheme off the ground, maximising their income as well as maintaining high standards. These interests will pull in different directions. It is important that such conflicts are not allowed to dilute the impartiality of the accreditation body, and that the scheme is not completely

dependent on subscriptions from accredited members at the beginning. Once the scheme has reached a period of stability, it could become self-financing over the longer-term.

Monitoring & Reviewing the Code

Q24: Should the Code be reviewed on a regular basis?

Q25: If so, how frequently? Every year?

The NCC agrees that the Code should be a living document, which is reviewed regularly. NCC suggests that the accreditation body should be required to produce an annual report, which should list all the activity under the Code and the issues that have been encountered during the previous year. The annual report should be submitted to the Secretary of State and placed on the accreditation body's dedicated website. Ministers should then consider whether any of the issues highlighted in the annual report require any changes to the Code to be made. If so, there should be a clear procedure for making these changes.

References

i National Consumer Council (NCC) *I will if you will*, May 2006

ii National Consumer Council (NCC) *Reality or Rhetoric? Green tariffs for domestic consumers*, December 2006.