Ecosystem Marketplace
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State of the Voluntary Carbon Markets 2015 **Webinar Q&A Document:**

The following questions were collected during the the *State of the Voluntary Carbon Markets 2015* webinar, presented June 25, 2015. Subsequent answers include responses by the report's lead author, Kelley Hamrick, along with the webinar panelists:

Sarah Leugers | Director of Marketing and Communications, The Gold Standard Foundation
David Antonioli | Chief Executive Officer, Verified Carbon Standard
Sophy Greenhalgh | ICROA Programme Manager, IETA

Both webinar slides and the full report can be found here.

Questions about the report:

1) Why do VCU transactions outpace issuances? (slide 18)
2) For the buyer figure, $10.4 million transactions are tracked by the public sector. If that's the case, why is the red 'Government' sector slice in the donut chart in the top right so small? (slide 19)
3) What's the distinction between overall value and value to projects? Where else does the value go if not to the projects? (slide 21)
4) Can you provide the average price per standard, as has been provided in past years? (missing slide)

Questions for the panelists:

1) What are our hopes/expectations for COP21 in Paris? How can this COP influence the voluntary market?
2) With the average price decrease, how do you motivate and explain it to project developers? Do you think PDs will continue to get involved in the market and continue with their certification process?
3) What are the panelist's efforts to create demand?
4) What is the attitude of buyers? Are they looking at short term (quick fix for CSR objectives under 2 years) or long term (offsetting will always make sense to their strategy, 5-10 years' time)?
5) Is there any discussion about forest bonds to help the longer-term finance of real-scale REDD+?

Questions about the report:

1) "Why do VCU transactions significantly outpace actual VCU issuances?
My understanding is that if a VCU is sold to a retailer, and then sold again to an end-user, this is counted as two VCUs transacted. Could this difference also be attributed to the signing of multiyear contracts, whereas a ten-year contract for 10 million VCUs would count as 10 million VCUs transacted in 2014?"

Yes, that is correct – we track transactions, defined in our report as occurring at "*the point of contract between the buyer and seller*". This means two things:

1) An offset can be transacted multiple times from issuance to retirement. For example, one reported transaction could be from a project developer to a retailer. The retailer could then report another transaction between their organization and an end user buyer (which then retires the offsets). We track market turnover and the total volume of these many transactions as a measure of market health. We do not track the individual "life" of an offset from creation to retirement.
2) The point of contract is not necessarily the same as the year when the delivery of offsets (or even the payment) occurs. A case in point is the REDD Early Movers agreement, in which the 10 MtCO2e agreement between Germany, Norway and Ecuador does not mean that those tonnes have been generated yet. Both payment and delivery will occur when the emissions reductions have been verified and are ready for issuance, but the financial *commitment* is there. When those offsets do change hands, we would not count it in any future market report.

We often have people ask us why we don't measure individual offsets instead of transactions and we tried to address why this is so difficult in the report:

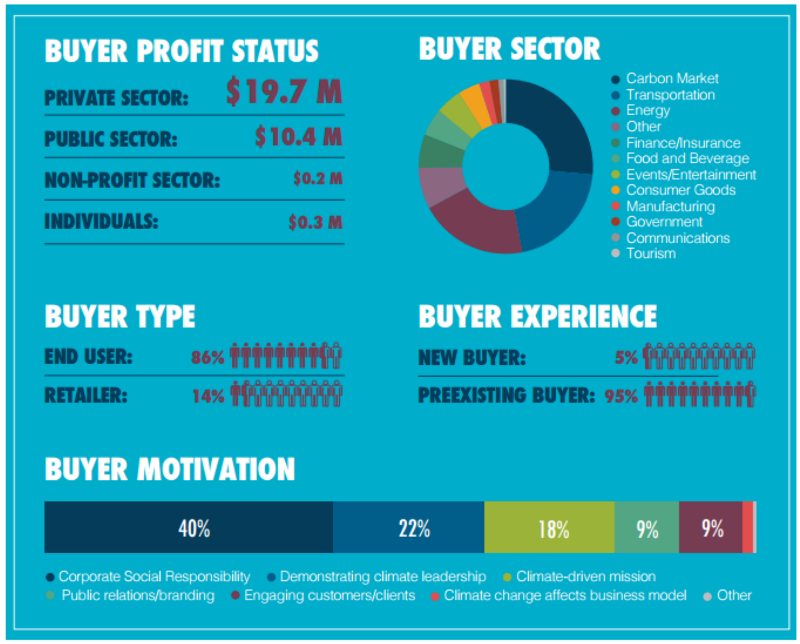
> ***What is the voluntary market's environmental impact?***
> *Offset transactions, issuances, and retirements are all important metrics for market size – but none of them is an exact indicator of environmental impact. Transactions are a measure of the health of the market (indicating new demand for offsets year-on-year), but a single offset may be traded more than once. Issuances are a measure of emissions reductions that have been verified as occurring, but that number may not capture all of the emissions reductions that resulted from the carbon finance – especially since many projects only issue offsets when they have a willing buyer. Retirements are a measure of the offsets that can no longer be traded and are therefore permanently "removed" from the atmosphere, but some end-users choose not to retire their offsets (even if they do not plan to resell them) – and retirement can occur years after an actual transaction. In this sense, tracking the exact environmental impact of the voluntary carbon market year-on-year is elusive, but undoubtedly exceeds the volume of offsets that have been transacted historically.*

2) "For the buyer figure, $10.4 million transactions are tracked by the public sector. If that's the case, why is the red 'Government' sector slice in the donut chart in the top right so small?"

The Buyer Profit Status figure is the only figure in the table that includes the REDD Early Movers ($10 M) agreement, which was classified as "public sector".

The agreement distorts all of the more nuanced buyer data so we excluded it from all further analysis except the overall buyer amounts. There is in fact very little public sector influence beyond REM, however, with the private sector otherwise behind 95% of all transactions.

Buyer Breakdown, by Experience, Motivation, Status, Sector and Type, 2014



Notes: Based on 88 transactions associated with a buyer experience, 228 transactions associated with a buyer motivation, 348 transactions associated with a buyer profit status, 314 transactions associated with a buyer sector, and 601 transactions associated with a buyer type, as described by survey respondents.
Source: Forest Trends' Ecosystem Marketplace. *State of the Voluntary Carbon Markets 2015.*

3) "What's the distinction between overall value and value to projects? Where else does the value go if not to the projects?"

We broke out the transaction types in the regional section to specify the value of payments that go directly to projects (i.e. the primary market: the initial transaction of offsets from the project developer to the first buyer in line) versus the overall market value which can include additional transactions reported by retailers and/or brokers when they resell offsets.

4) "Can you provide the average price per standard, as has been provided in past years?"
As in the past, we calculated those averages, but chose not to include it in the main section of report due to length. You can find average prices by standard in the report's Annex 2.

Questions for the panelists:

What are our hopes/expectations for COP21 in Paris? How can this COP influence the voluntary market?

The Gold Standard: "*Our hope would be strong commitments from all members in ambitious INDCs that together shape a masterplan to stay under the 2°C. It is clear that strong domestic action is needed, and the INDCs are an essential foundation for this. In reality however, large amounts of emission are actually imported by the richer member states, which is not accounted for in their national targets.*

An effective climate agreement therefore needs to make sure finance is used where it's most needed, both in the short and longer term. This is where markets should continue to play a vital role. Gold Standard, of course, hopes and expects that the climate and development agenda will continue to converge and support one another in more concrete ways.

Our expectation is that the door will be kept open for these kind of interventions, but that the more ambitious members like the EU will want to keep the emphasis on the domestic action for this COP."

VCS: "*We have high hopes for the Paris talks later this year and that any agreement keeps us all within our carbon budget. In terms of the voluntary carbon market, our hope is that an agreement will prompt new and sustained action that will turn into more demand. The entry into force of the Kyoto Protocol did wonders for the voluntary carbon market, and an agreement in Paris could provide a similar boost as more entities realize action is needed desperately and carbon offsetting provides a real solution."*

With the average price decrease, how do you motivate and explain it to project developers? Do you think PDs will continue to get involved in the market and continue with their certification process?

The Gold Standard: "*Where there is a price on carbon, there's more voluntary offsetting. We've seen this and Ecosystem Marketplace featured this correlation in their report on the Role of Offsetting in Corporate Carbon Strategies. The voluntary market is stimulated by policy – and we hope for a clear signal in Paris.*

But it's clear that as a market we need to innovate. We've already seen many project developers devising new ways to bring sustainable development benefits to the forefront to demonstrate the greater value of those credits. From our side, Gold Standard introduced last year a new quantification methodology for black carbon to ultimately find new channels of finance for projects like cookstoves. We launched a new Agriculture Standard that features really simple and accessible monitoring tools. And we also launched the Water Benefit Standard, which we will now mainstream across Gold Standard projects. All these programs that have tremendous upside, if you will, in development benefits and have an opportunity to provide additional value within carbon markets.

The convergence of the climate negotiations with a very ambitious post-2015 development agenda can drive further demand for credits with SD benefits. Billions are needed to stay within 2 degrees, but **trillions** *are needed to realize the post-2015 Sustainable Development Goals. So as the private sector also considers engagement in SD, the results-based finance approach that drives carbon markets is a simple way to accomplish a number of benefits so with clear reporting. We will also consider how to bring new financing streams to these beyond-carbon benefits, in health benefits, water impacts, gender empowerment, for example.*

From a practical perspective, Gold Standard also realizes that we need to get leaner and meaner at what we do to support project developers. We will be focused on reducing the complexity of certification—Maintaining the level of rigour, while reducing time and costs. You'll see more detail from Gold Standard on this in the coming months."

VCS: *"The operative words here are "average price decrease" because the voluntary carbon market does not operate on average pricing, as do compliance markets. Each project type, and even projects within the same sector, can command very different prices, and it is up to the developer to do their due diligence before diving in and then make the case that their particular project delivers compelling benefits, which can translate into good pricing. We do see new projects entering the system all the time, and that must be because these developers know there are compelling stories behind them that can command decent prices.*

As a standard-setting body, our job is to streamline our processes and systems as much possible while maintaining environmental integrity. However, we do not we do not see our role as trying to encourage project developers to developing new projects. Each developer needs to do that assessment on their own."

What are the panelist's efforts to create demand?

The Gold Standard: *"Gold Standard has begun engaging directly with corporates, and we have plans to dramatically raise our voices in support of stronger climate action for business within CSR and sustainability events and publications around the world.*

In this effort, we do need to acknowledge the effects that detractors of offsetting—even the Pope!—have had on the reputation of offsetting. We will engage our NGO network to promote the virtues of market mechanisms, and we'll do our part to ensure the highest integrity in market dynamics. The Gold Standard will also develop detailed and ambitious best practice recommendations for strong climate action that positions offsetting as a way to fund the transition to a clean energy future.

Gold Standard has reached out to a number of industry players to create some disruptive ways to stimulate both bottom-up demand from individuals or 'consumers', and at the same time, increase the pressure on corporates to be more accountable and engage in more robust climate action that includes aggressive offsetting.

In addition, we think we all have an opportunity as a market to take advantage of any momentum created by the UNFCCC's Climate Neutral Now campaign that will launch in

September. Though focused on CERs, their visibility should significantly push the offsetting agenda. Gold Standard will build on this and encourage business and individuals to go further and make their contributions to low carbon future also transform lives in vulnerable *communities."*

VCS: "*We are always looking for opportunities to create demand, and think that the best way to do so is to work through third-party entities or industry-wide efforts to carry the message that offsetting works and has tremendous benefits. So, for instance, we are very supportive of the work ICROA is doing to encourage CDP to treat carbon offsets purchased and retired from credible GHG programs the same as internal emission reductions. If successful, that effort would give offsetting a tremendous boost as it would help streamline the concept, which is where we need to go.*

While we continue to promote demand on our own, there is a risk that such efforts are perceived as being self-serving, so the larger picture requires that we work together to make structural changes that will effectively strengthen demand. If anybody has any ideas about this we would welcome a further conversation."

ICAP: "*The International Carbon Reduction and Offset Alliance has for some time been exploring demand creation for voluntary markets. Whilst our members have years of expertise in communicating the value of the market to business in order to bring new buyers to the market, as Ecosystem Market Place's report alludes, really, policy drivers are required to support a sustainable demand.*

To that end, we have been taking a number of actions. We have formally requested that the Carbon Disclosure Project, one of the leading business disclosure surveys regarding climate and sustainability, better recognises the efforts corporates take in participating in carbon management and offset programmes. We see other global and domestic sustainability reporting organisations have opportunity to better reflect the activities businesses are taking in this space and the benefits that they receive through such participation. ICROA has been reaching out to engage such organisations and sees opportunity for the voluntary markets to encourage business to be better recognised for their investments in offset programmes.

This year we have been exploring what government engagement in the voluntary markets can do to support demand in any policy or communications activities. We have developed a white paper for governments that wish to further engage in the market as a tool to supporting business environmental goals. The UN's move to promote global climate neutrality should help other multilaterals and governments to take leadership in this space and could potentially generate demand from public service agencies.

Industry associations and sectoral policy approaches are also deemed as a demand opportunity and we look to the aviation sectors and others to follow suit in utilizing offsets as a carbon management tool which will further support demand.

Finally, we understand that for a business to engage in voluntary offsetting in the longer term, we must demonstrate the business value for engaging in such programmes. We (the market) still need to get much better at demonstrating the evidence of what the *market has delivered, of course both in terms of carbon but some of the research on co-benefits and quantification will further aid the case for investment."*

What is the attitude of buyers? Are they looking at short term (quick fix for CSR objectives under 2 years) or long term (offsetting will always make sense to their strategy, 5-10 years' time)?

The Gold Standard: *"While the project developers and retailers who were on the webinar have the clearest picture of what buyers are asking for, it's clear that climate change continues to rise in public awareness. From Gold Standard's perspective, we are seeing new major new corporate players emerging with ambitious climate strategies. They often feature long-term offsetting purchases, but the hope is often that their offset purchases would decline over time as they are able to further reduce their footprints. Many are looking first at their supply chains, so we believe interest in insetting will continue to grow. In this case, it will require adaptation for all of us."*

VCS: *"There are a variety of strategies employed by buyers, and it is therefore hard to tell without doing a comprehensive survey – which is why we think the SOVCM is such a great report!"*

Is there any discussion about forest bonds to help the longer-term finance of real-scale REDD+?

VCS: *"Yes, there are a variety of efforts on this front, including from the Climate Bonds Initiative (CBI), which have established an AFOLU working group to develop guidelines for bonds in the AFOLU sector. However, currently, most bonds are not focused on emission reductions as the primary asset, rather they are based on the activity (eg, reforestation) or products (eg, timber). However, there is potential for bonds to be utilized for longer-term REDD+ finance as the sector matures."*