

F&C Guide to Carbon Offsetting



A growing number of companies – including F&C¹ – are choosing to offset their carbon emissions. But at the same time, questions are being raised about the integrity of offsetting schemes.

This briefing sets out the potential benefits as well as some of the pitfalls of offsetting, and gives F&C's views on best practice in implementing an offsetting strategy.

What is offsetting?

The concept of offsetting is a relatively young one, dating back to the late 1980s, where the first project was launched by US power company AES.

“Neutralising” an organisation’s carbon emissions means measuring emissions, and “offsetting” these by buying emission reduction credits for an equivalent amount.

This might fund projects anywhere in the world – many are located in developing countries.

In recent years, as more companies have taken this approach, volumes of voluntary offsets have expanded. Volumes are currently around 20-50 million tonnes a year², and continued rapid growth is likely as the trend towards offsetting continues.

What is the business case?

It is important that offsetting is seen as part of a wider emissions management strategy. The emphasis should be on managing and reducing emissions first, before offsetting what cannot be reduced.

- It focuses **management attention on energy use**, which may help to reduce wastage and cut costs.
- By effectively putting an internal **price on carbon**, it can help companies to understand the issues involved in the transition to a future carbon-constrained economy.
- Offsetting can also be a powerful way to engage **staff** on climate change, and to motivate them to seek ways to cut emissions across the business. Increasingly, a strong environmental record is also seen as a factor in recruiting and retaining staff.

They said...

“**Offsetting should... be firmly placed at the bottom of the hierarchy of actions – below avoiding and reducing our own emissions.**”

WWF evidence to Environmental Audit Committee³

Within the context of this wider strategy, offsetting can have tangible business benefits:

- Offsetting can help to enhance a company’s **reputation and environmental credibility**, and to attract customers and clients. This may be particularly important for companies which retail “green” products, or which are seeking a way to differentiate themselves in a highly competitive market.

They said...

“**As the world's first carbon neutral major bank, our experience in the voluntary offset market has given us a real insight into the challenges facing our industrial clients in the mandatory emissions trading market.**”

Francis Sullivan, Adviser on the Environment, HSBC

Who is using offsetting?

The appropriateness of an offsetting strategy will depend, in part, on the characteristics of the sector. Large emitters, such as utilities and heavy manufacturing, may have their emissions covered by regulation such as the EU Emissions Trading Scheme, which already provide incentives to invest in lower-carbon capacity. The large volume of emissions from companies in these sectors also means that full offsetting would be costly.

To date, companies involved in offsetting have been mainly in the financial services, media and travel industries. Examples include the UK operations of **Royal Sun Alliance**; **BSkyB**; and **Silverjet**, the first fully carbon-neutral airline. Retailers are also joining the list, with

Marks & Spencer committing to carbon neutrality by 2012. And offsetting schemes are being taken up by the public sector: the UK government has committed to offsetting emissions from its entire office estate by 2012.

1 See press notice of 3 April 2007, available at www.fandc.com
2 New Scientist, “Look, no footprint”, 10 March 2007
3 <http://www.publications.parliament.uk/pa/cm200607/cmselect/cmenvaud/carbon/uc1402.htm>
4 http://www.parliament.uk/parliamentary_committees/environmental_audit_committee/eac_14_12_06a.cfm
5 http://www.foe.co.uk/resource/press_releases/carbon_offsetting_18012007.html

Why is it controversial?

Concerns have been raised recently about offsetting schemes. The UK Parliament's Environmental Audit Committee is currently conducting an inquiry on the issue⁶, and a number of media commentators and NGOs have highlighted concerns that it is not quite the panacea that it may at first appear.

One set of questions calls into doubt the **validity of offsetting as a concept**. Some NGOs, such as Friends of the Earth, believe that offsetting encourages a feeling that it is possible "buy your way out of the problem"⁵, so discouraging the behavioural change that will ultimately be needed to bring emissions down – or, worse still, creating perverse incentives to worry less about energy wastage because 'it's all being offset anyway'.

They said...

"It is very hard to convey to people that when they are buying an offset they are not actually neutralising their impact on the global environment. They... believe what they are doing is buying something which means they are relieved from the responsibility of further action."

Ruth Davis, head of climate change policy at the Royal Society for the Protection of Birds (RSPB)⁶

A second set of concerns surround the **integrity of the carbon offsets themselves**. The offsetting industry is unregulated, and there

are high-profile cases where projects have failed to bring about the promised emissions reductions. This is particularly the case for tree-planting projects, which only absorb CO₂ over a very long period of time, leaving them vulnerable to miss their emissions targets if the plantation fails⁷. Whilst some projects have sustainable development benefits, such as helping the fuel-poor, others have risks in this area too, such as tree-planting schemes which result in local people losing access to land.

Questions also exist about whether projects are always "additional" – in other words, that they would not have happened anyway. And the administration of some companies has also attracted attention, with questions in particular about the risks of double-counting where registry systems do not exist, and over the size of administrative charges levied.

For these reasons, the benefits of offsetting depend very much on how well it is implemented. A bad scheme puts companies at risk of being accused of "greenwashing", undermining their environmental reputation.

They said...

"Funding energy projects is intuitively better [than forests] because it stops pollution, rather than soaking it up later, and you are contributing to a wider move away from fossil fuels."

Mike Buick, Climate Care⁸

Four steps to best practice

F&C believes that offsetting can be beneficial as one element of a broader business strategy on climate change. We also think that good-quality offsetting projects can be valuable, not just in terms of the emissions reductions they achieve, but also the wider sustainable development benefits they deliver.

We set out below four steps to best practice⁹ for an offsetting strategy:

Step 1: Put systems in place to measure and monitor emissions

Step 2: Seek emissions reductions wherever possible

Step 3: Offset what can't be reduced

Step 4: Publicise what you do, and track progress.

Step 1: Put systems in place to measure and monitor emissions

Effective measurement and monitoring systems are an essential first step in any energy management programme. Companies may face a number of challenges in collecting good data. Issues may include ensuring that employees are accurately reporting their business travel, and separating out individual energy use from the service charges for multi-tenanted buildings.

Companies need to be clear in defining the scope of the emissions which will be offset. Most schemes would include the company's own use of electricity and heat, as well as staff business transport. They tend to exclude emissions from less direct routes, such as emissions from staff commutes and from the supply chain of the goods supplied to the company. The latter are, however, still important as part of a wider carbon management strategy.

Translating economic activity into emissions is not always straightforward, particularly in the case of air travel – see box on "Why do different carbon calculators give different results?".

Why do different carbon calculators give different results?

Much confusion has been caused by the variation in results produced by different carbon calculators, particularly when applied to flights. A recent Guardian article¹⁰ found a 200% variation in the amount of carbon emitted by a flight from London to Cape Town.

The differences are a result of the assumptions used. First, an assumption has to be made about how intensively the transport is being used. A half-full plane produces double the amount of emissions, per passenger, than a full one.¹¹

Second, offsetting companies make different assumptions about the overall "radiative forcing" (warming) impact of aviation. Because aircraft emit gases at altitude, their overall impact on climate change is greater than if the emissions were at ground level. This is because of effects such as the impact on cloud formation. But there is uncertainty over exactly how big the multiplier should be. Because of this, some companies only count the CO₂ emissions alone; some use the 2.7 figure estimated by the Intergovernmental Panel on Climate Change; still others use a more recent estimate of 2 from the Oxford University Centre for the Environment.

6 Given in evidence to the Environmental Audit Committee report on 20 February 2007

7 See, for instance, "How Coldplay's green hopes died in the arid soil of India", Telegraph, 29 April 2006

8 Quoted in the New Scientist, "Look, no footprint", 10 March 2007

9 A similar approach is set out in the Carbon Trust report, "The Carbon Trust three-stage approach to developing a robust offsetting strategy"

10 "Why it's harder than you think to pay for a carbon guilt trip", Guardian, 17 February 2007

11 Ignoring, for simplicity, the additional fuel burn resulting from carrying a heavier load.

Step 2: Seek emissions reductions wherever possible

Companies need to look systematically across their business, and identify many opportunities to cut energy use. There are numerous ways to do this, many of which both reduce emissions and save money by cutting the organisation's energy bill.

Describing the methods for developing an energy and carbon management programme is beyond the scope of this note. But to give some examples, very simple steps could include:

- **Lighting:** Ensuring that lights are switched off in unused rooms, perhaps through installing motion sensors. Using low-energy lightbulbs.
- **Heating and cooling:** Avoiding unnecessary heating or cooling through using thermostatic controls. Insulating buildings, and ensuring that equipment is well maintained.
- **Travel:** Exploring the opportunities for videoconferencing rather than travelling. Where travel is necessary, using a lower-carbon option where practical, such as taking the Eurostar rather than flying.
- **Power:** Encouraging staff to switch off IT equipment at night. Exploring the potential for on-site renewable energy, and/or switching to a "green" tariff.

Companies may also set choose to set emissions reduction targets as a further spur to action.

Understanding offset standards

In the **mandatory carbon markets**, credits are created by regulation, including through systems established under of the Kyoto Protocol. The most common are carbon credits generating within the EU Emissions Trading Scheme (known as EU allowances, or EUAs), and those from the Clean Development Mechanism (known as Certified Emission Reductions, or CERs), which is a scheme for projects based in developing countries.

Most credits used for offsetting, though, are generated in the **voluntary carbon markets**. The lack of formal regulation in this market has attracted criticism. But two voluntary standards systems exist, which aim to provide greater confidence in the market:

- The **Voluntary Carbon Standard**¹², Version 1 of which is already being used for a number of projects, is due to be re-launched in the third quarter of 2007. It provides project eligibility criteria, verification, certification and registration processes for GHG emissions reduction projects.
- The **Gold Standard for voluntary offsets**¹³, developed by WWF and a number of partner organisations, looks beyond the volume of projected emissions reductions, and considers issues such as local stakeholder support and the promotion of sustainable development goals.

The UK environment department, Defra, has launched a consultation on a voluntary "Code of Best Practice" for carbon offsetting¹⁴. They propose that only credits earned in the mandatory carbon markets should be approved under the Code.

Whilst F&C strongly supports the need for greater standardisation, we believe that the focus on mandatory credits is an excessively restrictive approach. The voluntary market can be a valuable source of innovation, particularly for smaller projects where the cost of getting full regulatory approval may be prohibitive.

Step 3: Offset what can't be reduced

Once emissions have been minimised, the remainder can then be offset. Most companies will do this by paying one of a number of carbon providers, who will in turn use the money to fund emissions reduction projects. There is a wide choice of offset providers¹¹; the selection process can be daunting.

Companies should seek to ensure that the emissions reductions they are paying for are real, verifiable and sustainable. This means being confident in the checks and controls in place at the provider in question.

The following questions might be a useful checklist for companies investigating different providers:

- Are the emissions reductions from your projects independently **verified**, and do you report regularly on progress?
- What **safeguards** do you have in place to ensure that emissions reductions from a given project cannot be sold twice to different buyers (double-counted)?
- How do you ensure that your projects genuinely go beyond what would have happened anyway (that they are **additional**)?
- Do your projects meet external **standards**: either the mandatory carbon market standards such as CDM, the Gold Standard, or the Voluntary Carbon Standard? (See box on "Understanding offset standards").
- Do you fund specific **projects**, and if so, what are these? Is there an option to specify which projects my money will fund?
- To what extent is **tree-planting** an important part of the portfolio, and if it is, what long-term monitoring arrangements do you have in place?
- What are the **wider sustainable development impacts** of your projects?
- Do you have **publicity and education materials** available for me to use?

Step 4: Publicise what you do, and track progress

It is important that management clearly communicates its strategy both to staff and to the general public, explaining how and why it has gone through all the steps above. The active involvement of staff is a critical element in identifying fresh opportunities to avoid waste and to find efficiency savings.

It is also important to track and publish progress in achieving lower energy usage, as well as assessing whether the company is on track to meet any specific targets in this area. F&C encourages companies to report on this in their Annual Report or Corporate Social Responsibility report.

11 A guide to some of the major offset providers can be found at <http://www.cleanair-coolplanet.org/ConsumersGuidetoCarbonOffsets.pdf>

12 <http://www.v-c-s.org/>

13 <http://www.cdmgoldstandard.org/>

14 <http://www.defra.gov.uk/environment/climatechange/uk/carbonoffset/codeofpractice.htm>

Giving customers the option to offset their activities

In the travel and tourism sector in particular, many companies are now providing customers with more information about the carbon implications of their choices, and offering them the option to offset their emissions. Some utility companies are also offering their customers a similar service¹⁵.

In designing and implementing these schemes, similar considerations apply as for a company considering offsets for its own operations. It is important that the concept of offsetting is clearly explained to customers, and that they are given sufficient information to understand

how their money will be used, and what type of project is being funded.

With low uptake of some existing schemes, companies should also think hard about how they put the offering to their customers. Uptake will be higher if customers are forced to make a “yes/no” decision about offsetting, and higher still if customers have to actively opt out – but companies will have to make a call on how acceptable this would be to their customers.

How does offsetting fit with other elements of a climate change strategy?

An emissions management strategy is not the “be all and end all” of how companies should respond to climate change. Companies can also:

- Look beyond the company's direct emissions at its **indirect emissions impact**, through, for instance, the carbon footprint of its supply chain, and identify opportunities to make improvements.
- Consider how climate change is affecting the **products they offer consumers**. Increasingly, customers are demanding more information about the carbon content of the goods they buy. Interest in “green” product offerings, such as ethical funds, is growing.
- Assess whether the **physical impacts of climate change** will have an effect on the business. Companies with large property holdings, for instance, may be particularly exposed.
- Look at the potential to become leaders in the **public policy debate** – for instance, by joining one of the growing number of business groupings – both to enhance their own reputation and to leverage change by governments.

Where can I find out more?

The **Carbon Trust** (<http://www.carbontrust.co.uk>) offers a range of help and support to companies on how to manage emissions.

F&C's offset provider is **Climate Care** (<http://www.climatecare.org>). Their website offers calculators to measure emissions, and describes their offset projects in detail.

An independent view on the issues involved in offsetting is offered by the **Tufts Climate Initiative**, at <http://www.tufts.edu/tie/tci/carbonoffsets/index.htm>

¹⁵ For instance, Pacific Gas & Electric's “ClimateSmart” program will offer customers in California the option to offset emissions from their energy use from Spring 2007.

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