WWF

‘Buyers Beware’ WWF’s response to the release of the Voluntary Carbon Standard

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SUMMARY

The release of the Voluntary Carbon Standard (VCS) by IETA, The Climate Group and WBCSD may do little to counter criticism surrounding the credibility of the voluntary carbon market. The VCS is a minimum standard, essentially a ‘bottom of the barrel benchmark’, that offers the most basic set of rules, focused primarily on lowering transaction costs and thus carbon prices to consumers. WWF’s view is that loopholes in the additionality rules and validation/verification processes are liable to lead to gaming by project developers and result in potentially large numbers of VCS certified but non-additional carbon credits.

In addition, the VCS bucks the trend towards increasing responsibility of investors by waiving all environmental and social safeguards and requirements for stakeholder consultation. In WWF’s view this substantially increases the non-carbon risk of VCS projects.

In terms of managing both carbon and non-carbon risk the VCS appears to rely to a considerable degree on the goodwill and integrity of project developers. Whilst it is too early to tell, WWF believes that this approach carries significant potential risk for buyers. **WWF strongly recommends that the VCS Board conduct an independent 6 month review of the system to assess the quality of offsets delivered.**

As a result WWF will not be recommending the VCS to its members and partners and will continue to endorse only the Gold Standard methodology with respect to carbon offsets. WWF recommends that consumers that utilise the VCS take a ‘Buyer Beware’ approach and take extra steps to ensuring that both carbon and non-carbon risks are adequately managed by the projects from which they are sourcing.

BACKGROUND

The voluntary market for carbon offsets, though still small in comparison to the compliance market, is growing at a rapid rate. WWF considers that offsetting, if used appropriately, could play a limited part in a strategy to reduce carbon emissions and contribute to sustainable development – helping to catalyse the transition globally to a low carbon economy whilst improving the lives of people in the developing world. The voluntary market could also help projects to be undertaken in countries where capacity and expertise in applying Clean Development Mechanism (CDM) accreditation is lacking; enable small projects to gain access to the carbon markets; and provide a test bed which allows innovation and testing of new technologies and ideas.

However, lack of credibility and declining confidence is the voluntary offset market's most pressing issue. The VCS, as currently designed, will do little to change this.

SPECIFIC COMMENTS

The VCS is designed as a minimum standard with the purpose of ramping up voluntary market volumes by endorsing a low transaction cost set of rules. WWF considers that the release of this standard will do little to improve the integrity of this fledgling market and in some cases may damage it further. For example:

1. Eligibility – All project types are acceptable.- there is no recognition of the wider environmental or social impacts of certain project types such as nuclear power generation, large hydro electric dams or industrial gas abatement projects.
2. Additionality – Carbon offsets need to be additional, i.e. the project would not have occurred without the additional incentive provided by emission reductions credits. Otherwise, buying emissions credits from them lead to a net increase in global emissions. Weak or non-additionality undermines the environmental integrity of carbon markets.

   The VCS uses three alternative additionality tests:

   - Project test: Comprised of Regulatory Surplus, Implementation Barriers and Common Practice steps.

     Regulatory surplus and common practice steps are basic measures to ensure that the project is not replicating normal market behaviour or responding to regulatory requirements. The implementation barriers step is the key to the integrity of this test yet has been defined in a very superficial manner with little guidance to developers or validators in how to operationalise these definitions. Based upon experience to-date with the CDM, this will likely lead to substantial gaming by project developers, in particular by those currently unable to meet CDM Executive Board additionality requirements.

   - Performance and Technology tests:

     These are new and potentially useful approaches to determining additionality in a more transparent and equivalent manner across projects. The weakness of both approaches lies in the levels at which the performance or technology thresholds are set and who is responsible for setting them. It is not yet clear how rigorous the processes put in place by the VCS to determine these thresholds actually are and the effectiveness of these tests is, therefore, hard to judge. It is likely that these tests will not be used extensively for the first wave of VCS projects.
3. Sustainable development issues – The VCS only requires projects to be in line with local environmental and social legislation in the project host country. It is the inadequacy of legal regimes to deliver on widely accepted notions of sustainability that has driven the entire Corporate Social Responsibility movement to design specific instruments such as the Equator Principles and the IFC investment guidelines. The VCS effectively reverses the trend in project finance towards increased investor responsibility. In the absence of both a project type screen, and stakeholder consultation requirements coupled with loose validation and verification protocols, the VCS effectively relies on the goodwill and integrity of

project developers to ensure that non-carbon risks at the project level are managed. Buyers beware!

4. Stakeholder consultation - the VCS requires that independent stakeholders are provided with access to all documents that are not commercially sensitive and given sufficient opportunity to offer comments and other inputs. Definitions of stakeholders, confidential information and 'sufficient opportunity' for comments all appear to be left to the project developer to decide. In addition, there is no stipulation on how stakeholder comments will be managed and taken into consideration. Again the VCS is relying on the goodwill and integrity of project developers to ensure that risks to buyers are managed.

5. Validation and verification – must be performed by verifiers accredited through VCS approved accreditation bodies. Under the CDM accreditation requirements for potential validators / verifiers appear to be stricter than the VCS. The CDM system also offers clearer guidance to validators on implementation of critical issues such as additionality. In addition, the VCS seems to only request that validators / verifiers review a partial and unspecified data set. Given that the results of an Executive Board of the CDM spot check, presented at its 29th meeting, reported serious failures of accredited validators / verifiers to meet basic accreditation requirements, it is reasonable to expect that the VCS's apparently weaker system is even more vulnerable. The combination of weak accreditation requirements, with less specific guidance on critical issues and potentially increased flexibility in terms of which information actually gets validated / verified simply increases the chances that the system will be gamed.

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