Voluntary Carbon Market

Introduction

This info sheet summarises issues around the voluntary carbon market including examples of how the market may work, and how it relates to the Kyoto protocol and the NZ Emissions Trading Scheme.

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Voluntary Market

Voluntary carbon trading markets usually exist because participants see an advantage (e.g. a marketing opportunity) in taking steps to address their carbon emissions over and above their Kyoto Protocol obligations. Voluntary markets exist when there are willing buyers and sellers of carbon credits outside the rules of the Kyoto Protocol.

The voluntary market in New Zealand is still developing. Currently there are no programmes that a landowner can easily participate in. A number of international schemes are being developed for forestry and agriculture but they are very complex and expensive. The current price paid for the voluntary credits does not sufficiently cover the costs of meeting the requirements of these standards.

A number of international standards have either been developed or are being developed. These include the Chicago Climate Exchange[1], Voluntary Carbon Standard[2] and the Gold Standard[3] to name a few.

Most international voluntary standards require that to qualify, a project must have occurred in addition to business-as-usual. That is, the project would not have occurred without the anticipated income from carbon sales. If, for example, a farm was reverting to a low-till operation for normal business reasons then the build up of soil carbon is not additional and cannot be claimed. If, however, the income from a voluntary carbon project enabled a project to proceed, such as reducing stock numbers to allow pasture and soil build up, then this would qualify.

The voluntary market sector has become very aware of the potential to sell a single credit twice (once on the regulated market and once on the voluntary market), so strict standards are being developed to avoid this "double dipping".

Broadly, a voluntary carbon credit can be generated in one of two ways. The first is to measure an emission reduction or offset activity that is consistent with the Kyoto Protocol but is outside the current "adopted" rules. The other way is to generate a Kyoto credit and sell it on the voluntary market. These are detailed below.

1 Chicago Climate Exchange, www.chicagoclimatex.com
2 Voluntary Carbon Standard, www.v-c-s.org
3 Gold Standard, www.cdmgoldstandard.org

Outside Kyoto

EXAMPLE 1 "PRE KYOTO (PRE 2008)" – Some voluntary credits have been sold from forests which absorbed carbon before the commencement of the Kyoto period (1 January 2008). The owners of these forests claim to meet all the Kyoto forest requirements, that is, the forests are new, were planted after 1990 on bare land, and are over 1 hectare. However the owners are selling the carbon sequestered in the years prior to 1 January 2008 (Jan 2005 to Dec 2007), therefore these credits are generated outside the Kyoto Protocol and will not have been "used" already. Small sales of these pre-Kyoto forestry credits were made in late 2008 into the Chicago Climate Exchange.

EXAMPLE 2 – FOLLOWING A KYOTO RULE NOT ADOPTED BY NEW ZEALAND. The New Zealand Government decided not to adopt article 3.4 of the Kyoto Protocol, which allows countries to claim credits for changes to the management of a pre-1990 forest which result in a permanently build up of carbon stocks. The most obvious example is extending the rotation length of a forest. If this change is made permanently, the carbon stocks of the forest will increase. Another option being examined is pest control on DOC land. If goats or possums are removed from an area the forest biomass is increased, absorbing additional carbon. The difficulty with this approach is that to qualify, carbon gains must be permanent, therefore the pest control must be permanent – and this cannot be guaranteed in areas subject to re-infestation.

EXAMPLE 3 – BUILD UP OF SOIL CARBON. This example, which is yet to be tested in the New Zealand voluntary market, relates to changes made to land management techniques which result in a permanent build up of carbon in the soil. New Zealand does not currently account for changes in soil carbon under the Kyoto Protocol. A number of voluntary markets are beginning to work on ways to measure and verify such carbon build up. The Carbon Farmers of Australia is one such group[4]. Info Sheet 2 has more on soil carbons.

4 Carbon Farmers of Australia, www.carbonfarmersofaustralia.com.au

Kyoto

The alternative source of carbon credits for the voluntary market is the regulated Kyoto system. These credits are generated through official schemes under the Kyoto protocol such as the New Zealand Emissions Trading Scheme (ETS). Compliance credits under Kyoto can be cancelled, recorded as such on a registry, and then traded on a voluntary market. By cancelling a compliance or regulatory credit it makes it unavailable for use under the Emissions Trading Scheme. Therefore more credits need to be sourced to meet NZ's Kyoto commitments, over and above what is required – the underlying philosophy of the voluntary market.

Further Reading

Carbon Farming Information Report
www.carbonfarming.org.nz
http://www.maf.govt.nz/climatechange

Go to www.carbonfarming.org.nz for other Info Sheets on: ➤ Greenhouse Gases and Farming Livestock ➤ Soil Carbon ➤ Carbon Trading ➤ NZ Government Initiatives ➤ Managing Emissions from Livestock ➤ Practical Case Studies ➤ Carbon Forest Management ➤ Co-Benefits of Managing Carbon ➤ Risks and Liabilities