



The International Carbon Reduction and Offset Alliance (ICROA) is the leading membership organisation, for carbon reduction and offset providers, in the voluntary carbon market. The primary aim of ICROA is to promote best practice in the voluntary carbon market, via self-regulation, with the ICROA Code of Best Practice. ICROA members are based in European, American and Asia-Pacific markets.

ICROA members sign up to, and publically report, against the ICROA Code of Best Practice which has specific requirements for how ICROA members provide their carbon footprinting, greenhouse gas reduction advice and offset services. ICROA members only provide the highest quality offsets, currently: Gold Standard, Climate Action Reserve, Voluntary Carbon Standard and CDM/JI. ICROA members also provide a unified voice to Governments and other key stakeholders on voluntary carbon market issues. For further information on ICROA, please visit www.icroa.org

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The International Carbon Reduction and Offset Alliance's response to DECC's Consultation on the term 'carbon neutral': its definition and recommendations for good practice

We thank DECC for the opportunity to contribute to its consultation.

However, we wish to make the following crucially important point at the outset:

We believe that a clear definition for a class of terms that define a net zero state of GHG emissions achieved through a combination of internal and external reductions is critical to underpin and grow voluntary action on climate change.

However, we see this work as outside of the core purpose and expertise of DECC. We note, and are a stakeholder in, the work that BSI is doing to develop a Publicly Accessible Specification (PAS) that may eventually become an ISO standard for net zero claims. We believe that the BSI is appropriately qualified to undertake the task of defining internationally recognised guidance on net zero GHG emission claims, and that its PAS processes are fit for purpose.

We therefore encourage DECC to support and contribute to BSI's work in order to fulfil DECC's need for a recognised definition for the UK Government's carbon neutrality programme and the ASA's need for clear guidance on advertising claims.

With that point made, we provide below a detailed response to the DECC consultation in order to address a number of mis-statements in the consultation document, and so that this exercise can be useful to DECC's further contributions in this area.

To start, we highlight the following five specific issues to emphasize their high importance:

1. Use of the term "carbon neutral"

We advise that the term "carbon neutral" should not be attributed to guidelines on net zero GHG emissions for the following two reasons:

- i. The objective of this definition and recommendation of good practice is to ensure that claims about voluntary action on climate change can be trusted. "Carbon neutral" is one of many terms used to describe the state of net zero greenhouse gas emissions, and to restrict the guidelines to a single term will defeat its purpose. For that reason we strongly advise that the guidelines are defined and described in such a way as to incorporate claims using terms such as, but not limited to, "climate balanced", "carbon balanced", "climate neutral", "zero carbon" or "net zero carbon", and "carbon free" – i.e. any and all claims pertaining to the state of net zero greenhouse gas emissions.
- ii. Specific use of the term "carbon neutral" will breach, in certain specific applications, the trade mark of one of the ICROA member companies. This trademark is CARBON NEUTRAL (UK registration 2184028 and Community trade mark registration 1672310). ICROA trusts DECC to act appropriately given

this fact.

2. Offsetting delivers a real reduction in emissions

We feel that there is confusion or misunderstanding in the consultation document around what carbon offsetting is and how it helps to tackle climate change.

For example, from 6.2: "carbon offsetting... does not reduce the overall emissions contributing to climate change." This is followed in 6.3 by: "In theory, it could be possible to be carbon neutral without making an (absolute) reduction in emissions simply by measuring emissions and then offsetting". Offsetting means helping to fund a project that delivers an emission reduction – the project just happens to be 'external'. From a global perspective there is no difference between an internal and an external emissions project, as it has been scientifically proven that a reduction in emissions is a reduction in emissions, regardless of the location.

A further example of this confusion is in section 7.1: "There is no question that offsetting lessens the impact of a consumer's or organisation's actions – but it does not reduce the overall emissions contributing to climate change." If offsetting does not reduce overall emissions contributing to climate change, then how can it lessen the impact of an action? This is internally inconsistent.

Any language in this consultation document or in the final guidance around carbon neutrality that suggests that an external emissions reduction (a.k.a. offset) is less effective than an internal emission reduction is wrong and undermines the stated aim of this guidance – which is to improve the credibility of the term carbon neutral.

3. Alignment of this guidance on net zero GHG emissions with the Quality Assurance Scheme (QAS) for Carbon Offsetting

We strongly believe that the Government should NOT seek to align any guidance with the QAS. We make this recommendation for two reasons:

- i. When the QAS was first published, DECC committed to starting a process to evaluate VER standards for potential inclusion in a second phase of the QAS. Recent correspondence between DECC and ICROA suggests that the Government is not able to commit any resource to starting this evaluation until the start of 2010 at the earliest. From a 'due process' point of view, we do not believe that the Government should align the carbon neutrality guidance with the QAS at least until it has honoured its commitment to review VER standards for inclusion within the QAS.
- ii. This consultation document states that it is possible for VER projects to be as robust as compliance market projects and that these projects can result in benefits (poverty alleviation, innovation, geographic reach etc.) that are not possible (or at least more difficult) through compliance market projects. Once the carbon neutrality guidance is published, companies are likely to want to align themselves with it – particularly for use in advertising in order to avoid negative judgements with respect to the ASA. If the Government were to link the guidance around net zero GHG emissions to the QAS in its current form (i.e. compliance market projects only), this is likely to result in a dramatic reduction in demand for high quality VER projects – an outcome that DECC says it wants to avoid.

4. Internal and external reductions should happen in parallel

The definition of carbon neutral proposed in the consultation document stipulates that the internal reductions step should be implemented prior to the purchase of carbon offset. We believe this is incorrect, and that by instead allowing the two actions to happen in parallel, the emissions reductions achieved would be greater, and engagement in action on climate change improved. This is for the following reasons:

- i. By allowing an organisation to offset before, or at the same time as, reducing emissions internally, the cost of carbon is internalised immediately, and so the organisation's reductions are driven more effectively – by an economic motivation. This change in the definition could only serve to increase the overall reductions achieved. So we advocate internal and external emissions reductions being implemented in parallel on the basis of economics (i.e. implement the emissions reductions that are cheapest – whether they are internal or external).
- ii. The aim of the guidance is to increase credibility of the term carbon neutral. However, it would be very difficult to know if an organisation's internal reductions had been implemented prior to the purchase of offsets, and hence it would be uncertain whether it was entitled to describe itself as carbon neutral under a definition that requires these steps to be taken in sequence. For this reason, we believe such a requirement would leave the definition subject to the very cynicism it seeks to avoid.

5. Interaction with carbon accounting relating to 'green' / renewable electricity tariffs

Historically, many companies that sought to minimise their GHG emissions, chose to procure all or part of their electricity from a 'green' electricity tariff that could be zero-rated from a carbon accounting point of view. In its most recent guidelines, Defra changed the carbon accounting rules in its corporate GHG reporting guidelines to require most green tariffs to be accounted for using the standard UK grid factor. However it also left open, through a proposed consultation exercise, the possibility of setting out requirements for 'truly additional' green tariffs that could be zero-rated for carbon accounting purposes (or at least rated using a lower emissions factor than the standard one). To the best of our knowledge, this consultation has not yet been held and so there is still an element of uncertainty around green tariffs.

If guidance for carbon neutral, zero-carbon etc. terminology is to be clear and unambiguous, the remaining uncertainty around the treatment of 'green' electricity (whether generated on site or purchased through a 3rd party tariff) needs to be addressed.

Q1 Is it appropriate for Government to produce a definition of the term carbon neutral and recommendations on using the term? If not, why not?

No. We think this work is appropriate to a standards setting organisation like the BSI. Further, for any guidance supported by DECC, the following important qualification applies to all our responses in the remainder of these questions:

There is inconsistency and great variation in the use of many terms related to voluntary action on climate change so bringing more consistency to the use of this class of terms will increase the credibility of companies making sound claims.

We understand that the objective of DECC's definition and recommendation of good practice is to ensure that claims about voluntary action on climate change can be trusted. "Carbon neutral" is one of many terms used to describe the state of net zero greenhouse gas emissions, and to restrict the guidelines to a single term will defeat its purpose. For that reason we strongly advise that the guidelines are defined and described in such a way as to incorporate claims using terms such as, but not limited to, "climate balanced", "carbon balanced", "climate neutral", "zero carbon" or "net zero carbon", and "carbon free" – i.e. any and all claims pertaining to the state of net zero greenhouse gas emissions.

Therefore while we support DECC's work to bring integrity to this area, we believe the focus must be on defining a class of claims, rather than a definition only for the use of the specific term 'carbon neutral'.

Furthermore specific use of the term "carbon neutral" will breach, in certain specific applications, the trade mark of one of the ICROA member companies. This trademark is CARBON NEUTRAL (UK registration 2184028 and Community trade mark registration 1672310). ICROA trusts DECC to act appropriately given this fact.

ICROA is an international organisation with members based in European, Asia-Pacific and American markets. It would be counterproductive if different definitions of net zero emissions develop in different regions.

Q2 Do you agree with the Government's broad approach? If not, what alternative would you propose?

Yes, in principle, subject to the following concern:

The proposed sequence of action with regard to reduction and then offset is not workable. Firstly, it would be very difficult to know whether an organisation had reduced emissions before offsetting and hence was entitled to describe itself as carbon neutral.

Secondly, by allowing an organisation to offset before, or at the same time as, reducing emissions, the cost of carbon will be internalised and so the organisation's reductions will be driven by an economic motivation. This could only serve to increase the overall reductions achieved. A fundamental

principle of ICROA is the "reduce and offset" approach to carbon management. So we advocate internal and external emissions reductions being implemented in parallel on the basis of an economic analysis (i.e. we implement the emissions reductions that are cheapest – whether they are internal or external).

Q3 Do you agree that basing the measurement of emissions, including recommendations on good practice, on the GHG Protocol is appropriate? If not, what alternative(s) would you propose?

Yes. ISO 1464-1 should also be recommended for use, particularly as it was developed by BSI and has gone through the formal ISO process.

Q4 Do you agree that users of the term carbon neutral should retain flexibility over exactly which emissions to measure? Should organisations be able to pursue carbon neutrality only for certain parts of the organisation?

Yes and Yes. Subject to our reservations stated above.
We agree with both of these statements, subject to organisations clearly stating the boundary of what is being claimed for their net zero GHG emissions claims.

Q5 Are the proposed recommendations on good practice for measuring emissions clear and appropriate? Are recommendations necessary?

Yes, broadly. However, we do not agree that a full PAS 2050-compliant assessment should be compulsory for net zero GHG emissions claims made around products and services (see further Q8).

As set out in the opening statement, we believe that the issues around accounting for the use of green electricity tariffs need to be addressed in an unambiguous way, if the guidance given around net zero GHG emissions claims is not to be undermined.

Q6 Do you believe that users of the term should be able to choose whether to measure all Kyoto greenhouse gases (in CO₂e) or only emissions of CO₂? Or should the definition specify measurement of all Kyoto gases?

Yes. We believe that all six Kyoto gases should be covered. Given this, we believe that the Defra guidelines for company reporting on greenhouse gas emissions should be expanded to cover all six gases wherever that is not currently the case, with extra guidance about the RFI and aviation in respect of this.

Q7 Do you believe the transparency elements on measuring emissions to be correct and/or sufficient?

Yes, broadly. However, we are concerned about the issue of relocation of emissions e.g. if a company moves a call centre from the UK to India, and think that this needs further thought / clarification. This clarification needs to be grounded in what is practical - we do not believe that it is practical to report every business change of this kind along with a claim of net zero GHG

emissions.

If appropriate the time period and footprint should be made publically available, noting that this may not always be possible (due to reasons of commercial sensitivity) and could deter organisations from net zero GHG emission programs if it is mandated.

Q8 Do you agree that PAS 2050 (or the full life cycle of the product using ISO 14044) should be used as the basis for calculating the carbon footprint of products for carbon neutrality purposes? If not, what alternative(s) would you propose?

No. We consider that the requirement of a full PAS 2050-compliant assessment for products to be too stringent. We take this position on the grounds of cost, as PAS 2050 assessments are very expensive, and so the requirement will act as a barrier to action – particularly for companies wanting to test a carbon neutral proposition on a limited basis (i.e. where the cost of a full PAS2050 assessment would be a relatively large proportion of total costs for the carbon neutral programme). Another example would be a company that wants to make an entire range of products (e.g. bottle sizes / flavours of a soft drinks brand) carbon neutral.

The PAS 2050 standard would require a separate assessment for each functional unit of product (and potentially a different one for each geographic sales region as well). This is likely to be very expensive and prevent the carbon neutral commitment being made. In line with the ICROA Code of Best Practice¹ we recommend that the broad PAS 2050 approach is adopted in product assessments, without the requirement to have the assessment formally certified to the standard.

Q9 Do you agree that emissions reductions form a necessary part of the definition? If not, why not?

Yes. However, 'emission reduction' is a generic term and applies to both external reductions through project based credits and internal reductions through renewable energy and energy efficiency. It is important to be specific where the reference is to internal or external reductions. Critically, we see no need to distinguish between the two types of reductions when defining a carbon neutral status, provided the standards by which both are measured, reported, and verified are to acceptable standards of quality.

Q10 Should the Government definition and/or good practice recommendations specify a reduction requirement and/or timeframe for delivery of emissions reductions? If so, what would you propose?

No. Specific internal reduction requirements and/or timeframes would be very difficult to enforce, and for that reason may not give an accurate view of the reductions achieved. In addition a level of emission reduction that is

¹ "product and service footprints shall be determined on a life cycle basis where applicable. The PAS 2050, Greenhouse Friendly Program, and Bilan Carbone documents provide guidance on how to estimate product and service emissions on a life cycle basis. the PAS 2050, Greenhouse Friendly Program, and Bilan Carbone documents provide guidance on how to estimate product and service emissions on a life cycle basis . *ICROA Programme and Policy Framework 2008 p. 6*

challenging for one company may be simple for another and vice versa – so any level of reduction that is set as a minimum requirement will not reflect comparability of effort by those companies.

Q11 Are the recommendations on good practice for reducing emissions clear?

Yes, broadly. However, we disagree with the statement in 6.2 that carbon offsetting does not reduce the overall emissions contributing to climate change. We describe emission reductions in terms of the external (from project based credits) and internal (e.g. through energy efficiency) and believe that the use of this language is helpful when defining specific actions.

Q12 Do you agree that emissions reductions can be measured in either absolute or relative terms? If 'no', what would you prefer? If 'yes', do you support the use of the relative measures recommended (per unit turnover, per revenue expenditure and per functional unit) or would you propose other specific measures?

Yes. We think that organisations should be able to choose the metric they use to track emissions over time to ensure it is appropriate to their organisation, and that they should then use the same metric consistently to measure reductions year on year. This may be one of the units suggested, but could also be another unit defined by the organisation in question.

Q13 Do you believe the transparency elements on reducing emissions to be correct and/or sufficient?

Yes, broadly. We believe it is important to note that there would be sufficient transparency if the relevant information were to appear on an organisation's website alone, without the requirement for it to appear in an advert or other marketing collateral.

Q14 Do you agree that carbon offsetting is a fundamental element of achieving carbon neutral status?

Yes. It is largely impossible for entities and individuals in today's fossil fuelled economy to reach zero GHG emissions without offsetting, and that is likely to be the case for some decades to come. Through the purchase of carbon offset, an organisation has the means to immediately internalise the cost of carbon, and so set the most effective driver for reducing emissions through the use of renewable energy and efficiency measures.

Q15 Given that the Government currently only feels able to vouch for the quality of Kyoto-compliant credits under the Quality Assurance Scheme, should the definition only include the use of such credits? Or would you propose other types of restrictions on the types of credits allowed?

No. We do not feel that the guidance should be tied to the Quality Assurance Scheme (QAS). As it stands, the QAS is a voluntary initiative, and to link it with the definition of carbon neutral would make it a mandatory scheme for those organisations wishing to use the term 'carbon neutral'. This would conflict with the Government's existing commitment to evaluate the use of Verified Emission Reductions (VERs) in the QAS' second phase. As we have always maintained, we believe that there are high quality VERs in existence, and so the Government should look for ways to include these in the QAS rather than excluding them. The quality of some of the CERs that have been approved by the QAS has also been questioned.

We believe that in addition to Kyoto compliant credits, premium quality VERs validated and verified to standards accepted in the ICROA Code of Best Practice should be acceptable offsets (ref: www.icroa.org.)

ICROA members may use only premium quality offset standards: offset standards currently permitted by the ICROA Code are: CDM/JI, Voluntary Carbon Standard (VCS), Gold Standard and Climate Action Reserve (CAR). These standards have been developed through a thorough process of stakeholder engagement involving business and NGOs. They require third party verification by qualified experts to standards which are largely similar to CDM but without requiring the bureaucracy and cost of government certification. ICROA recommends that premium voluntary offset standards permitted by the ICROA Code of Best Practice also be included in any Government recommendations on carbon offsetting within the larger definition of net zero GHG emissions.

Premium voluntary offset standards that have been designed specifically for the voluntary carbon market are more appropriate for the needs of businesses and consumers using the voluntary carbon market. Contrary to some perceptions, the majority of transactions in the voluntary market are "business to business" rather than "business to consumer". The majority of transactions in the voluntary carbon market are VERs rather than CERs.

Premium voluntary offset standards provide business and consumer customers with essential choice on reductions. Certified Emission Reductions (CERs) have historically been concentrated in only a few countries and industries and do not provide the range of 'narratives' consumers expect from voluntary offsets. VERs, generated by voluntary offset projects, are highly differentiated by location, technology and their contribution to sustainable development. Premium VER offset standards (and the project narratives they generate) meet the needs of ICROA members' business customers i.e. Corporate Social Responsibility (CSR) purposes, green marketing initiatives and ICROA members' consumer customers. It is generally agreed that VERs, particularly those generated using premium voluntary offset standard projects, directly reach the communities most deeply and most quickly affected by climate change.

ICROA would not recommend the use of only one premium voluntary offset standard as ICROA views the three premium voluntary offset standards permitted for use by ICROA members (CAR, VCS and Gold Standard) as working in conjunction rather than in competition with each other. Gold Standard, VCS and CAR were selected for inclusion in the ICROA Code of Best Practice, because they meet the key criteria that ICROA has

established for offset credits i.e. offsets validated and verified under Gold Standard, CAR and VCS are real, measurable, unique, independently verified, permanent and additional. Gold Standard, VCS and CAR have independent external registries, which allow the offset credits to be tracked, using their serial numbers, from origination to retirement.

The Gold Standard, VCS and CAR have different key benefits, which is why they have been selected for inclusion in the ICROA Code of Best Practice. It depends on the location and the nature of the offset project, as to whether implementing the Gold Standard, Voluntary Carbon Standard or CAR is more appropriate.

Q16 Do you agree that, because of the difficulties inherent with domestic offsetting, such offsetting should not tend to be pursued as part of becoming carbon neutral? If not, why not? Can you suggest other ways of supporting and encouraging valuable domestic action that does not qualify as carbon offsetting?

Yes. ICROA agrees that domestic offset projects are not appropriate, due to problems with demonstrating additionality and avoiding double counting. Domestic projects in the UK cannot be validated and verified by one of ICROA's permitted standards. The UK Government does not allow JI projects and would be unlikely to retire an AAU to ensure that a reduction from a VCS project based in the UK would not be double counted. CDM and usually Gold Standard are restricted to the developing world and CAR methodologies are specific to North America. Other ways of supporting and encouraging valuable domestic action that don't qualify as offsetting include: loans and grants from Government funded organisations, incentives to install green technology to reduce emissions, encouraging donations i.e. to local community forest protection and renewable energy projects as part of companies' CSR policies.

Q17 Are the draft recommendations on good practice for offsetting clear?

No, specifically: We think the description of offsetting given in 7.1 is contradictory: "There is no question that offsetting lessens the impact of a consumer's or organisation's actions – but it does not reduce the overall emissions contributing to climate change." If offsetting does not reduce overall emissions contributing to climate change, then how can it lessen the impact of a consumer's or organisation's action? This does not make sense.

Additionally, we were concerned to see VERs described in 7.3 as "Voluntary Emissions Reductions". The correct definition is 'Verified Emissions Reductions'.

Q18 Do you believe the transparency elements on carbon offsetting to be correct and/or sufficient?

Yes.

Q19 Do you believe that the proposed definition and recommendations can work in practice?

No. Because of the reservations / comments set out in the answers to previous questions.

Q20 Do you believe the Government should regulate the use of the term carbon neutral? If so, why and how? How could regulation be enforced?

No. We believe that the right role for Government in supporting pre- or beyond-compliance action on climate change is to provide guidance on best practice, and encourage the industry to develop and manage self-regulatory programmes to the highest standards. ICROA promotes best practice with a self-regulatory Code of Best Practice. Members sign up to and will publically report against how they adhere to the ICROA Code.

Q21 Do you believe the Government should develop a definition of carbon neutral that would allow more direct comparison between uses of the term? If so, what means of delivering this would you propose?

No. While this would be a useful objective, we do not see a practical and pragmatic means of doing so at this stage.

Q22 Do you agree that users of the term carbon neutral should retain the flexibility to decide what type of verification is applied? Or should the Government make recommendations on external verification? If so, what should they be?

Yes. Users of the class of terms to define net zero GHG emissions should be able to decide what type of verification is applied to their use of the term. We believe this because we do not think the costs of verification should exceed the amount spent by organisations on internal and external emission reduction activities.

Q23 In addition to any guidance offered by Government under the Climate Change Act later in 2009, should the Government make recommendations on how to communicate carbon neutrality statements? Or are the transparency recommendations made in Parts 5, 6 and 7 sufficient?

No. We believe the transparency recommendations are sufficient.

Q24 Should Government make specific recommendations for good practice on reviewing carbon neutrality status? If so, what would you propose?

No. However, organisations should be required to review their status and claims with a frequency that allows them to stand behind the claims that they are making.

Q25 If you agree that Government should make recommendations on carbon neutrality (see Q1), should they tend towards good practice or best practice? How often should recommendations be reviewed?

Good practice. We believe that the Government should encourage organisations to take action on climate change, and for this reason the recommendations should tend towards good practice rather than best practice. We know that generally organisations' performance improves over time, and once they have made a net zero GHG emissions claim they find it difficult to go back on it. The bar should not be set so high that it discourages action.

The recommendations should be reviewed every 2 years unless other policies or scientific developments suggest that this should be more frequent.

Q26 Should Government make recommendations on when and how it would be appropriate for individuals, communities, organisations to pursue carbon neutrality? Should Government encourage or discourage the pursuit of carbon neutrality?

No. We believe that it is not the Government's role to recommend when or how it would be appropriate for people to pursue net zero GHG emissions. However, we believe that the Government should communicate that it is a positive thing that people and companies can do.

Q27 Should carbon neutrality be viewed as a transitional term to be phased out over time? If so, how might this be achieved?

No. Offsets will be a declining but necessary part of being carbon neutral because there is no reasonable way to predict the complete elimination of fossil fuels and GHG gas emissions from the world economy. We believe that net zero GHG emissions, ultimately without the need for offset, is a status that we are all aiming to reach, so we do not think the term's use should be phased out. Net zero GHG emissions is a concept that accelerates progress towards a low / no carbon economy, and fulfils its objectives when national economies can operate without emitting GHGs. At that point the term will become irrelevant, but until then, it has a continuing role to play in driving cost effective reductions on a global basis.

Q28 Are there any additional carbon-related terms that you believe the Government should define? If so, what approach should Government take i.e. recommendations on good practice or regulation?

Yes. As we state in Q1, we think this work needs to apply to a class of terms that should include but not be restricted to 'carbon neutral'.

"Carbon neutral" is one of many terms used to describe the state of net zero greenhouse gas emissions, and to restrict the guidelines to a single term will defeat its purpose. For that reason we strongly advise that the guidelines are defined and described in such a way as to incorporate claims using terms such as, but not limited to, "climate balanced", "carbon balanced", "climate neutral", "zero carbon" or "net zero carbon", and "carbon free" – i.e. any and

all claims pertaining to the state of net zero GHG emissions.

Q29 **Although the carbon neutral targets set by Government for its own purposes are not the subject of this consultation, do you agree that Government should apply this definition to those targets? Are there other issues relating to those targets for Government to consider?**

Yes. We believe the Government should apply this definition and its guidelines to its own targets because that was the basis set for the consultation, and it would be inconsistent not to do so.
