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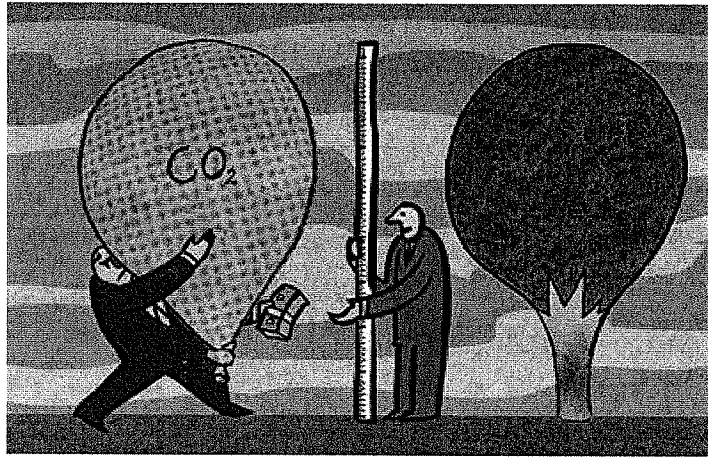
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Emissions offsets

Upset about offsets

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As the business of offsetting emissions grows, it is coming under more scrutiny

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AT A get-together in Los Angeles on July 31st, Tony Blair, Britain's prime minister, and Arnold Schwarzenegger, the governor of California, resolved to investigate the use of market mechanisms to combat global warming. But many of their compatriots are already busily (and sometimes voluntarily) buying and selling emissions of the greenhouse gases that are heating up the planet. This has created a new, fast-growing and controversial industry: emissions offsetting.

Offsetting happens when one individual or organisation pays another to reduce emissions of greenhouse gases (carbon dioxide and methane, for the most part) on its behalf. Those who wish to trim or eliminate their emissions, but find it too expensive or difficult to do so, can thus buy the appropriate amount of offsets instead. In theory, offsetting should reduce the cost of combating global warming, by giving those for whom it is cheapest and easiest to cut emissions most incentive to do so.

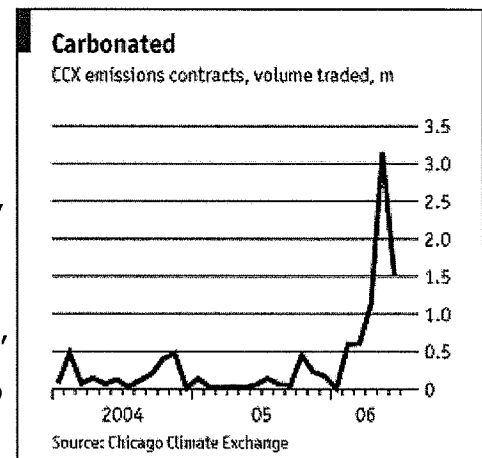
Offsets are suddenly in demand. FIFA, the body that governs world football, bought some to make up for the emissions associated with the World Cup. The Rolling Stones and other bands buy them to compensate for the greenhouse gases they emit while on tour. Al Gore, a former American presidential candidate turned environmental activist, offsets his own emissions, while Paramount, a Hollywood studio, is offsetting the emissions involved in making his film about global warming, "An Inconvenient Truth". All kinds of organisations, including Bank of Tokyo-Mitsubishi, the British government and the Temple Emmanuel, a synagogue near Washington, DC, have pledged to go "carbon neutral", by reducing their emissions as much as they can, and buying offsets to compensate for the remainder.

About \$2.7 billion-worth of offsets were sold last year, according to the World Bank, representing 374m tonnes of carbon-dioxide emissions. The vast majority of offsets are used to meet rich countries' obligation to cut their emissions under the Kyoto protocol, a treaty on global warming. But voluntary offsets are growing rapidly, albeit from a low base. Bill Sneyd, of the Carbon Neutral Company, Britain's biggest offset firm, reckons volumes rose from 3m-5m tonnes of carbon dioxide in 2004 to 5m-10m tonnes last year, and will rise even faster in the future, to as much as 50m tonnes this year and 100m next.

Moreover, the market for voluntary offsets is evolving rapidly. Until now, most buyers were firms with relatively low emissions, such as banks, hoping to generate good publicity and draw in environmentally minded customers. But others are beginning to get involved. Various emissions-belchers have joined the Chicago Climate Exchange (CCX), which requires them to eliminate or offset 6% of their emissions by 2010. Its membership has grown from 23 firms at the end of 2003 to 210 now, including such corporate titans as Motorola, DuPont and Ford. The volume of offsets traded on the exchange has risen accordingly (see chart).

Other heavy emitters are buying offsets and passing the costs on to consumers, or arranging facilities for customers to offset by themselves, should they want to. BP, for example, offers more expensive offset petrol in Australia, while British Airways gives passengers the option to offset emissions from flights through Climate Care, another British offset firm.

Richard Sandor, the head of CCX, says members join for a variety of reasons: to improve their image, to gain insight into a nascent industry, to prepare for future regulation, or to appease green shareholders, customers or staff. Swiss Re, a big reinsurance firm, says it is going carbon neutral partly to fight global warming, which damages its business by causing more extreme weather, and therefore more claims against its policies. But it also hopes to gain experience of a new type of risk which it can manage on behalf of its customers.



Sellers of offsets are an equally varied bunch. There are firms, charities, NGOs, community groups and international agencies such as the World Bank. Some plant trees to soak up carbon dioxide. Others prevent existing trees from being chopped down. Replacing fuel-guzzling stoves in China and India with more efficient ones is popular, as is collecting methane from rubbish dumps and using it to fuel power plants. NativeEnergy, Mr Gore's favoured supplier, offers offsets from wind turbines on farms owned by Native Americans.

The price of offsets varies wildly too, from a few cents to \$27 per tonne of carbon dioxide, according to the World Bank. The wide range suggests that some offsets are not as good as others. Environmental groups believe many are suspect. Friends of the Earth, for example, says the efficiency of stoves is irrelevant if they burn renewable fuels such as dung or wood, as those in poor countries often do.

Offsets based on forestry are perhaps the most controversial. Deforestation accounts for roughly 20% of the world's greenhouse-gas emissions, which reforestation could potentially counter. But trees, once planted, can die and decay or be chopped down for firewood, releasing the carbon they stored back into the atmosphere. And digging holes to plant saplings releases greenhouse gases from the soil. All of this makes the net benefit of reforestation extremely difficult to measure. The Carbon Neutral Company, which began life as Future Forests, used to invest only in forestry schemes. But as misgivings about the merits of reforestation grow, it is turning to technology projects, which will make up 80% of its portfolio this year.

The Kyoto protocol includes strict rules on the design, measurement and monitoring of the offsets it permits rich countries to buy from poor ones to meet their targeted cuts in emissions. But there are no accepted norms for voluntary offsets. Many offsetting firms develop and even police their own regulations—a licence to print money, if abused. HSBC, another carbon-neutral bank, finds the market for offsets so murky that it bypasses all brokers and devises its own projects.

Several NGOs have developed independent standards to determine whether forestry offsets really

deliver the promised emissions reductions. Others support a system called the Gold Standard, which mimics Kyoto, but adds requirements to use certain technologies and conduct consultations with local people in the name of "sustainable development". Meanwhile, a rival standard is being drawn up by the International Emissions Trading Association and the Climate Group, which will focus solely on emissions reductions, no matter how or where they are achieved. Competition between such standards might help bring clarity to the business of offsetting. The market, it seems, will determine not only where emissions reductions are made—but also how they are defined.

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