THE VOLUNTARY CARBON STANDARD
PROPOSED VERSION 2

Consultation

Summary

The Voluntary Carbon Standard has been developed by the International Emissions Trading Association (IETA) and The Climate Group (TCG) to promote harmonization of the voluntary carbon market. Designed to provide a certification tool for project-based GHG emission reductions that are real, measurable, permanent, additional and independently verified, it is hoped that the VCS will give confidence to all stakeholders in this rapidly growing market and so enable cuts in emissions beyond those already required by regulation.

The first version of the VCS was launched for comment on March 28th 2006. The proposed 2nd version reflects many of the inputs received and is now being released for further consultation. Comments are invited on all sections of the document, though in particular on the three areas – additionality, project-specific vs. performance standard approaches and permanence in LULUCF projects – that have been identified as specifically requiring further work. Comments should be sent to consultation@v-c-s.org by November 13th 2006.

It should be noted that, for the purpose of those already using the VCS, the proposed 2nd version does not replace the Version 1 for consultation released earlier in this year. Version 1 will remain in operation until the VCS Steering Committee – a group of independent experts responsible for reviewing inputs received and agreeing any changes – has approved the final Version 2. Once this has taken place, Version 2 will be formally launched and replace Version1.

Introduction

Alongside the regulations that have emerged over the last decade to control emissions of greenhouse gases (GHGs) – many of which have led to the creation of markets in GHG allowances and reductions – there has been a rapid expansion in the voluntary carbon market (VCM).The VCM can be defined as the collectivity of local, national and regional schemes that involve the trading of allowances created by voluntary emission reduction commitments and/or of credits from voluntary investments in emissions reductions projects - emission reduction credits generated by projects voluntarily undertaken to reduce greenhouse gas emissions below a project baseline level. The VCM is now growing because organisations – companies, government bodies, NGOs and others – that are often not subject to binding GHG regulations, wish to:

- make a quantifiable contribution to cutting GHG emissions.
- differentiate their strategic positioning on markets
- increase flexibility of pricing products/services
- learn about the carbon markets
- influence policy makers
- increase response options and the flexibility of carbon management
- enhance public relations
- generate goodwill by entering the carbon markets
- cement strategic interest in specific offset projects
- manage corporate social responsibility obligations
- become "carbon neutral" and /or sell carbon neutral products and services.

More generally, although carbon markets, both regulated and voluntary, are still relatively young, they are coming to have a central role in policies aimed at cutting greenhouse gas emissions in a cost-effective manner and it is becoming increasingly clear that attaching a price to GHG emissions within a clearly regulated framework can act as strong incentive to GHG emissions reductions.

However, while compliance markets have evolved around an existing set of rules and adopted regulations which defined the issuance, validity and use of emissions allowances and credits – principally those of the Kyoto Protocol's Clean Development Mechanism (CDM) and the EU Emissions Trading System (EU ETS) – no similar framework exists for voluntary emissions reductions. As a result, investors, buyers, project developers, verifiers and others have had to proceed on an ad hoc basis, leading to the emergence of a number of competing standards with no guidance as to which can be considered credible. This, in turn, has undermined confidence in the VCM and increased transaction costs for those that wish to participate on a credible basis.

In response to this, the Voluntary Carbon Standard (VCS) seeks to provide a credible but simple set of criteria that will provide integrity to the voluntary carbon market and underpin the credible actions that already exist. Specifically, The Voluntary Carbon Standard will ensure that all voluntary emission reductions that are independently verified meet its criteria – defined as Voluntary Carbon Units (VCUs) - <u>represent real, quantifiable, additional and permanent project-based emission reductions</u>.

The Voluntary Carbon Standard, therefore, provides the protocol and criteria to certification entities and emission reduction project developers on the specifications for creating, verifying, and registering VCUs. The VCU Verification Protocol in Section 2 provides verifiers with a general operating scope for undertaking the verification of VCUs. The VCU Verification Criteria in Section 3 lists eleven minimum threshold criteria which the emission reduction project must meet in order for its reductions to meet The Voluntary Carbon Standard and be verified and registered as VCUs.

The Voluntary Carbon Standard does not seek to replace or undermine the Kyoto Protocol or the compliance-driven markets that have arisen around it. On the contrary, it designed to provide rigour to the quantification of many of the project-based activities taking place outside these markets and help drive actions by organisations that are as yet not regulated. It is anticipated that as carbon regulation and pricing expands – leading to larger and more liquid compliance markets – much of the voluntary activity covered by the Voluntary Carbon Standard will become part of these compliance driven systems.

Indeed, it is clear that to successfully combat the threat of dangerous climate change, major cuts in absolute levels of global GHG emission are essential and that international regulation will be necessary to achieve such reductions. By helping to provide confidence and build understanding of emissions markets, it is hoped that the VCS will assist the development of market-based and other solutions that enable these deep emissions reductions.

Similarly, the Voluntary Carbon Standard does not seek to compete with existing standards in the market but rather looks to reinforce those that are robust and already exist (e.g. WBCSD/WRI GHG Protocol for Project Accounting, ISO14064, Gold Standard) and give confidence to actors in this emerging market about the integrity of their investments.

Development Process and Consultation

Since late 2005, The Climate Group (TCG), the International Emissions Trading Association (IETA) and the World Economic Forum Global Greenhouse Register (WEF) have been working together to develop the Voluntary Carbon Standard (VCS).

Version 1 of the VCS was released for consultation on March 28th 2006 and written comments have been received from around 65 Climate Group and IETA members and partners. Consultation meetings have also been held in the UK, Germany, US and Japan along with a series of teleconferences with interested stakeholders. During the last three months TCG, IETA and WEF have synthesized and reviewed all the inputs received and been developing a 2nd version. This 2nd version has been reviewed by an ad-hoc group of independent experts and is now being released for further consultation.

COMMENTS SHOULD BE SENT TO consultation@v-c-s.org NO LATER THAN NOVEMBER 13TH 2006.

Once comments have been received they will be synthesized and presented to the VCS Steering Committee (SC) which will be formally constituted during the consultation period. The SC will comprise a minimum of nine and a maximum of 13 experts in project-based emission reductions and the voluntary carbon market, represent the full range of stakeholders: project developers, buyers, sellers, financiers, researchers, verifiers and NGOs. The SC will review the Proposed VCS Version 2 and any inputs received and have final authority over the content of the final VCS Version 2. Initially members of the SC will be appointed by IETA, WEF and The Climate Group but, after one year of operation, the SC will accept nominations for the selection of new members.

In addition to the consultation, expert subgroups will be formed to consider the following issues

- Governance and business plan
- Additionality

- Guidelines for allowing both project-specific and performance standard based approached that ensure equivalence of rigour between the two.
- Guidelines for the permanence of emissions reductions generated by LULIUCF projects.

The subgroups will review submissions and prepare draft text for inclusion in the VCS V2. As with other inputs this will be presented to the SC for approval.

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Next steps

The following represents the expect timetable of actions between release of the Proposed VCS Version 2 and the final launch

- Release of Proposed VCS Version 2: October 16th 2006.
- Closing date for submissions: November 13th 2006
- Appointment of VCS Steering Committee: by November 13th 2006
- Review and synthesis of submissions and subgroup proposals: by November 17th 2006.
- VCS V2 Final prepared and approved by VCS Steering Committee: by end of November 2006
- Formal launch of VCS and Steering Committee including institutional arrangements and rules for accreditation of verifiers and registries – December 2006.

One year after the launch of the VCS, a formal review of progress and possible revision of the standard in the light of experience will take place. This will include an audit of the sample of VCU generating projects and an evaluation of the VCU Certification Procedures and Criteria and the registry and governance functions.