

## **Response to Defra Consultation on establishing a voluntary Code of Best Practice for the provision of carbon offsetting to UK customers**

This paper has been produced as an industry-wide response from the energy suppliers forming the Energy Retail Association (ERA). The Energy Retail Association, established in October 2003, is the only dedicated trade association for domestic energy suppliers in Great Britain. All the main energy suppliers operating in the domestic market in Britain are members of the Association: British Gas, Scottish & Southern Energy, RWE npower, E.ON Powergen, EDF Energy and ScottishPower.

The Energy Retail Association welcomes the opportunity to respond to Defra's Consultation on establishing a voluntary Code of Best Practice for the provision of carbon offsetting to UK customers.

Offsetting products do not yet have mass market appeal and the offsetting marketplace is still a niche market, albeit a growing one. Over time it will need to be able to evolve and adapt to consumers' wishes. It is important that if Defra decides to implement a Code of Best Practice for the provision of carbon offsetting to UK customers, it is not too prescriptive and does not stifle innovation and customer uptake.

### **Q1: Do you agree that the Government should publish a Code for offset providers?**

The ERA agrees that the Government's primary focus should be on avoiding and reducing direct carbon emissions. Any offsetting activity should be an additional measure, only when these other methods of reducing a consumer's carbon emissions impact have been implemented as far as practicable.

We recognise that in some situations carbon offsetting can make a genuine contribution to reductions.

However initially Government could consider whether there is scope for encouraging the emerging industry to develop its own Code, as the benefits of this is that the Code is more likely to be adopted quickly by the industry.

### **Q2: Do you agree with the proposed aims of this Code?**

It is important that the Government and industry help to educate consumers about offsetting and its role in addressing climate change, and to enable and encourage consumers to make active choices about offsetting. Consumers can have the freedom to choose offsetting products they feel connected to, if the offset provider feels there is value in doing this. Customers should not feel constrained, which may turn them off from future offsetting purchases, but rather have choice and flexibility from a competitive market.

The offsetting market place is still establishing itself within the UK but has the potential to become a high profile sector. Increased consumer confidence in the integrity and value for money of the offset products available is important. However any Code should not be unnecessarily onerous and hold back innovation and development. The Code should give consumers trust that their purchase is achieving what they believe it will achieve, i.e. a reduction in carbon emissions.

The Code should encourage the provision of credit types which are consistent with the Government's policies on meeting its Kyoto obligations. However any leadership shown by the Government should not be overly controlling and the Government needs to work closely with the offsetting sector as well as industries that sell offsetting products to their customers to ensure a full understanding of the needs of the different sectors and of their customers so that over time the offsetting marketplace matures and by achieving this the UK's will become a global market leader in this field.

The most important elements of the Code are transparency, so that customers know what they are getting; independent verification; accreditation of the scheme, though this does not necessarily have to be Government; and a quality mark so that products are recognised. These elements will give customers confidence in the Code.

**Q3: Should Government consider, in the future, making the Code mandatory and putting it in legislation?**

Currently the offsetting market place is a small, though rapidly growing one. Whilst the industry develops there is a high probability of significant change as it learns more about consumers needs and expands to manage this growth.

New entrants are likely and to encourage competition within this sector clear sight of what activities the Government is expected to do is required.

Any decisions on future legislation should not be taken lightly and should only be introduced as and when there is a serious requirement for it.

Once the industry and the Code has had time to develop, an appropriately timed review of how the Code is working in practice may be required, which includes a consideration of whether or not it is necessary and appropriate to make the Code mandatory. Any decision to mandate a Code must have robust and clear grounds, with a full consultation of stakeholders.

However a voluntary Code is necessary in the first instance to allow the market place the opportunity to develop and for innovation and competition to flourish.

**Q4: Do you agree that the Code should be voluntary in nature?**

It is essential that any Code remains voluntary, in order to allow for innovation and development within the market, as long as this is fully transparent and verifiable. The market needs to see a value in attaining accreditation for their offsetting products otherwise innovation will not progress.

A voluntary Code would also be less of a regulatory burden, in line with Better Regulation, and also could be introduced and adopted more quickly.

A voluntary Code would support and possibly encourage competition in this area as companies seek to differentiate themselves from other offsetting suppliers.

In addition, we believe that this would meet the aims of the Code to educate consumers and increase confidence in the products available as those providers with the quality mark will be able to distinguish themselves from those providers that choose not to sign onto the Code.

**Q5: Do you agree that the most appropriate credits to demonstrate best practice in offsetting are one, or a combination of, CERs, EUAs or less easily, ERUs?**

The Code should ensure credits purchased are generated through projects that have been regulated and verified, and we therefore agree that EUAs, CERS or ERUs are currently the most appropriate means to demonstrate this.

However the Government needs to take into account the implications of the initial pitching of the standards in the Code, as higher costs could deter keen customers who are not prepared to pay the higher costs of CERs. It should also be recognised that projects with VERs can be small scale projects with social benefits which cannot support the high verification cost required by CERs. However, simpler less bureaucratic verification could be used to demonstrate a good standard VER.

**Q6: With a Code that includes EUAs, do you agree with this proposed treatment of the 'double-counting' issue?**

The relationship between voluntary offsetting and the EU ETS is complex. The Code of Practice should not conflict with other mechanisms for reducing UK emissions of greenhouse gases as there would be the potential for double-counting of emissions covered by EU ETS. The Code must avoid a situation where any offsetting of electricity carbon might effectively result in customers paying twice for such reductions.

The 'double payment' issue could become even more complex with the introduction of other policy measures to reduce UK greenhouse gas emissions and Code needs to recognise this and take account of inclusions of other sectors (i.e. aviation) in the EU ETS.

The proposal to treat offsets covering electricity usage on similar basis to charitable donations seems over simplistic and the Government needs to consider how to account for the offsets purchased by individuals and companies against overall UK greenhouse gas emissions. The Government also needs to ensure appropriate and equitable mechanisms are in place to take account of offsets in overall UK calculations.

**Q7: Do you agree with the proposal to use the Government-agreed database of emissions figures as the approved method of calculating emissions to be offset?**

For consistency, transparency and equality there needs to be one set of emissions figures and an approved method of calculating emissions to be offset. This is to ensure that customers can come to reliably expect what their carbon emissions will be for their activities and can consider this in their planning. However any database which contains agreed carbon emission factors for households (as well as private road transport and aviation) must not be too burdensome and needs to have flexibility to include new offsetting projects in a timely manner which will not discourage companies from being innovative and launching new products into the market place.

~~**Q8: Should guidance be provided on how to calculate emissions from businesses?**~~

**Q9: Do you agree that companies providing offsets, as part of a package of goods and services, should be entitled to use the quality mark?**

To enable consumers to become alert and responsive to the Code, the quality mark and offset products that are accredited to the Code, companies providing an accredited offset product should be entitled to use the quality mark to promote that particular product. If the Code is voluntary, a quality mark will play a key role in encouraging companies offering offset-related products to choose offsetting providers whose products are accredited by the Code, and will help providers to differentiate themselves from their competitors.

**Q10: Do you agree that the Code should require companies offering offsetting at the point of sale with other goods or services, to give consumers a compulsory choice or a 'default option'?**

Customers should be allowed to choose a product that gives them value or suits their needs but it should be to the discretion of the individual product provider whether or not this is a 'default option' based on that product.

~~**Q11: Do you agree that the quality mark should only be for accredited offsetting products and not for businesses that have offset their own emissions?**~~

**Q12: Are there any other conditions that should apply to the use of the quality mark?**

While it should not necessarily be a condition within the Code, in order to ensure that the quality mark becomes a widely recognized symbol of accreditation, transparency and verification of offsetting products which engenders consumer support, a fully supported Government marketing campaign needs to take place on a consistent basis.

**Q13: Do you agree that these six points are necessary information to be made available to consumers?**

It is important that clear, robust information is provided to consumers; however it is not necessary to require the provision of:

- Details of projects supported
- A statement on whether the credits came from internal projects or were purchased by a broker
- Written confirmation that credits have been purchased and cancelled

To ensure full sign-on and support for the Code, it is important that obligations on offset providers are not administratively onerous or burdensome.

**Q14: Should consumers be allowed to choose which projects they fund from an offset provider's portfolio?**

Consumers should be able to select specific products to support where these are available. However, dependent on the nature of the products offered or credits used, this may not always be possible, and therefore this should not be a mandatory requirement of the Code.

**Q15: Should written confirmation of the credit purchase and cancellation be provided, a) to all consumers or b) on request only?**

To ensure full sign-on and support for the Code, it is important that obligations on offset providers are not administratively onerous or burdensome. A clear auditing or verification process would reduce the need for such confirmation. Offset products accredited by the Code could provide this information on a request basis, as there is already anecdotal evidence that some of the public are becoming frustrated at the level of coverage of climate issues.

**Q16: Do you agree that this breakdown of prices should be provided to consumers?**

Customers need to be able to clearly differentiate between the costs of the product being bought, with and without the cost of offsets. Key information for consumers will be volume of emissions being offset.

**Q17: Do you agree that this price information should be provided at the time of purchasing offsets? Or on request only?**

Offset products accredited by the Code should provide this information on a request basis, as there is already anecdotal evidence that some of the public are becoming frustrated at the level of coverage of climate issues.

~~**Q18: Does the Government need to issue more guidance on how the process of purchasing and cancelling credits works in practice?**~~

~~**Q19: Is the timescale for purchasing credits appropriate?**~~

~~**Q20: Is the timescale for cancelling credits appropriate?**~~

~~**Q21: What evidence should offset providers have to show to demonstrate compliance with the Code?**~~

**Q22: Do you think that industry could have a role in helping to promote the Code?**

Offsetting companies with accredited products, and companies who offer these products to their customers, could have a self interest to promote the Code to their current and potential customers as a form of differentiation from their competitors. Whether companies promote the Code, and the format they do this in, should be a decision for that company. However, a clear Government campaign is necessary to ensure consumer awareness of the Code and to help build confidence.

**Q23: Do you agree that the administration of the quality mark scheme should be financed by fees charged for upfront accreditation and from annual subscriptions from those using the accreditation quality mark?**

Administration of the quality mark scheme should not be bureaucratic and costly. The financing of the quality mark and the cost of this on offset providers should not be a burden and risk a low uptake of the Code.

**Q24: Should the Code be reviewed on a regular basis?**

The Code should be reviewed on a regular basis to ensure it is keeping up with the industry and is not constricting innovation, growth and customer choice. New entrants should be able to enter the market place and their arrival could change the landscape of this sector, which may need to be reflected in the Code. Additionally the market place could see significant change when more customers opt for offsetting products.

**Q25: If so, how frequently, every year?**

Any review of the Code should not be too onerous and time consuming. In addition, offsetting suppliers and new entrants, as well as companies purchasing offsetting products to sell to their customers need to be able to plan for the future and any changes to the Code could obstruct this. It may be advisable to review the Code on its first anniversary to ensure that it is working as intended and then a decision, based on whether it is working as intended or not, is made on how frequently it should be reviewed going forward.

~~**Q26: Do you agree with the assessment of costs and benefits and described in the partial RIA?**~~