

The Carbon Management and Offsetting Trends Survey Results 2009

In partnership with:

ClimateBiz
The Business Resource for Climate Management

BAKER & MCKENZIE

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Acknowledgements

This report contains a compilation of survey responses from 311 organisations covering a wide variety of geographies and industry sectors. Specifically, 280 responses were received from a diverse range of organisations and an additional 31 responses were received from carbon companies. We are indebted to all those who took the time to respond to our questionnaire and provide us with information about their preferences.

This report was also made possible due to the promotion, energy and support of a number of organisations including: 2degrees, Borealis Offsets, Carbonoffsetsdaily.com, GreenBiz.com, JustMeans, The Karo Group and Westgate.

About the partners involved in the research study

Three organisations teamed up to gather a large enough network of interested survey participants and to work together in the evaluation and the dissemination of the results.

EcoSecurities

EcoSecurities has spent the last 12 years focusing on climate change mitigation activities and is now one of the world's leading organisations in the business of sourcing, developing and trading emission reductions.

EcoSecurities' emission reduction portfolio covers a wide range of emission reduction standards (Gold Standard, CDM, VCS etc), technology types and geographical locations. In addition, EcoSecurities provides clients with carbon management services, helping them to understand and deal with an increasingly carbon constrained world.

EcoSecurities Group plc is listed on the London Stock Exchange AIM (ticker ECO). Additional information is available at www.ecosecurities.com.

ClimateBiz

ClimateBiz is the leading business resource for climate management. ClimateBiz informs CFOs, CIOs, supply-chain, operations and other executives on the key business issues in climate and carbon. The website and its free fortnightly newsletter ClimateBiz News offer news, best practices and resources in such areas as carbon measurement, reduction and trading; renewable energy; and carbon offsets.

ClimateBiz (<http://www.climatebiz.com>) is a website of Greener World Media, the leading media and information-services company focusing exclusively on the greening of mainstream business. Greener World Media websites include GreenBiz.com, GreenerBuildings.com, ClimateBiz.com, GreenerComputing.com, and GreenerDesign.com. Greener World Media also produces the annual State of Green Business report and other research, as well as Greener By Design and other conferences.

Baker & McKenzie LLP

Baker & McKenzie LLP was the first law firm to recognise the importance of global efforts to address climate change and the importance of such legal developments to our clients. For more than ten years, the Firm's dedicated team of over 60 lawyers have worked on numerous pioneering deals, including writing one of the first carbon contracts, setting up the first carbon fund, advising on the first structured derivative transaction and the first REDD project. In 2008 and 2009, legal directory Chambers Global ranked the practice as Tier 1 for climate change law.

Executive summary

Interest in this survey has grown nearly 400% since our inaugural efforts in 2008 to more than 300 participants, allowing us to build the foundation for observing significant trends in the market for corporate carbon management and offsetting. Furthermore, the geographical spread is particularly interesting with a marked increase in responses from North America (56%), and with companies in Australasia becoming a key part of our findings and outperforming other regions in terms of awareness and action.

Despite the somewhat doom-and-gloom outlook for the world's economy in 2009, green issues have remained high on the agenda with both senior management and corporate boards. 76% of companies in our survey are consistently implementing or planning their carbon management strategies. In addition, an average of 60% have actually measured their carbon footprint. Whilst this is positive, there is still some way to go for this to be optimal. North American companies have some catching up to do: Just 54% assessed their footprint, compared to 92% of Australasian respondents, and 62% of European companies. With or without a carbon management strategy or footprint companies are already taking action by implementing energy efficiency measures (85%), recycling activities (79%), and waste reduction initiatives (68%). This makes sound economical sense and represents some of the easiest actions that companies can take.

Companies showed a strong interest in offsetting with more than two thirds claiming they have already bought offsets or would consider doing so before 2012. Of those that bought offsets in the last two years, there seemed to be an equal split between those that had offset air travel and those who offset for specific services or products. Companies that were not already offsetting but still had a positive response showed interest in doing so before 2010 or 2012. This is likely to increase as companies work hard to meet long-dated carbon neutrality targets. Attitudes towards offsetting within Europe remain mixed with 33% who do not intend to offset at all before 2012 but a reasonable number of companies who are carbon neutral (14%) as well as others that offset air travel (13%) or products (11%). There is only a very small sample of companies that actually stopped offsetting despite the expectation at the start of the year that the voluntary market was facing a crisis of confidence with the economic downturn. In fact, this was not stated as a real driving factor. Having said this, budget concerns were given as a reason why companies chose not to offset yet. There were also strong responses that companies are still waiting for consolidation of standards (47%). Coupled with 30% of respondents having a lack of understanding of offsets, the industry clearly has more work to do and this is a reminder that whilst industry participants may already see a clear movement to backing standards such as Voluntary Carbon Standard (VCS), Clean Development Mechanism (CDM) and Gold Standard, the trickledown effect to consumers and corporates is perhaps yet to happen. In addition regulatory

Executive summary – continued

uncertainly was cited as a reason why companies chose not to offset yet, which could reflect a very strong corporate wait-and-see policy, mirroring some of the early days in Europe before the EU Emissions Trading Scheme (EU ETS) was created.

In terms of the quantities of carbon offsets purchased in the last year, the vast majority of respondents (75%) fell into the small- and medium-sized purchase category, reflected by both the size of the companies and the number of larger companies that only offset certain activities, such as flights or products. The remaining respondents purchased larger quantities of offsets, with slightly more than 5% tipping over the 1m tonnes mark last year.

Alternatives to carbon offsetting were clearly represented. Companies choose both internal emissions reductions and investing in community projects, followed by contributions to adaptation projects. Interestingly, when broken down by region, the Rest of the World was strongly in favour of adaptation, where the effects of climate change are often felt most. Companies are also promoting innovation with other activities in renewable energy and promoting behavioural change in consumers, which is a positive trend.

In all geographic samples the majority (69%) of respondents have positive views of offsetting. In terms of whether companies have changed their views towards offsetting, the trend has shown that views have either remained the same or grown more positive. Less than 10% per region stated their views have grown more negative. This is a good sign that the voluntary carbon market is gaining more credibility and that recent development with registries is having a positive effect.

Reasons for offsetting are clear – environmental benefits (91%), carbon neutrality and marketing (89%) and CSR commitments (79%). This is in contrast to pressure from customers, which scored very low. It is perhaps more important to think about how companies believe these green activities will result in increasing their brand strength rather than having a direct push from customers.

In terms of what buyers want, the voice is loud and clear. Customers want renewable energy projects – specifically solar and wind, which scored 92% and 86% respectively, showing a clear preference for renewable energy. As outlined in our previous Forest Carbon Offsetting Survey, interest is growing in forestry projects, with avoided deforestation in particular being cited as highly desirable over other technologies.

Executive summary – continued

The location for emission reduction projects which scored the most 'highly desirable' votes was the US, followed by Africa and South America. These results obviously change significantly when looking at the results from individual regions as the preferences for domestic-based offsets, or those "close to home," become prevalent. North American support was shown for domestic offsets, followed by those in Canada and Central America. This trend was mirrored in the Australasian responses that also looked close to home and which ties in with their strong interest in local community projects. Those in Europe bucked the trend with the majority of respondents finding India, Africa and South America the most desirable.

As previously noted, there is greater recognition of some key standards, specifically VCS, Gold Standard and CDM. There were few negative responses echoing the notion that standards are good! This sentiment is reiterated in the responses to the question about important factors that were considered when purchasing carbon offsets. However, there were some regional preferences. In Europe, responses showed a stronger preference for the Gold Standard, followed by the CDM and VCS. In terms of standard preferences by region, the North America respondents favoured the VCS and Gold Standard, followed closely by Climate Action Registry (CAR) and interest in Renewable Energy Certificates (RECs). CDM also received strong support, which is interesting in the context of future regulations and the use of offsets within the US under the Waxman-Markey

climate change bill. Generally at least 25% of respondents – and in some cases up to 65% – just didn't know enough about a standard to be able to give a clear opinion.

Pricing is a difficult area and results were fairly difficult to interpret. On average and across all regions, the price brackets of \$7-9, \$10-12 and \$5-6 attracted nearly the same amount of respondents, with less on each end of the spectrum. In general this shows that there is still quite a range of pricing dependent on standards, size and project type. This changes when looking at North America versus Europe, with Europe showing more distinct trends, which may reflect VCS versus either Gold Standard or CDM credits.

The geographic diversity is echoed when looking at how different carbon offset providers are recognised across different areas, with some companies showing a strong brand awareness in local markets, such as The Carbon Fund and Climate Trust in the US, whilst those with a greater global presence such as EcoSecurities feature highly across the board. This shows there are clear opportunities for strong regional brands as the rest of the bunch jostle for position.

What we set out to achieve

The Carbon Management and Offsetting Trends Survey was originally undertaken in 2008 to establish what the business consumer thought about the voluntary carbon market and understand the varying views and opinions about the use of carbon offsets as part of a wider, integrated carbon management strategy. Now, one year on there is still the same underlying impetus that climate change must be addressed, with businesses playing vital and important roles in helping society as a whole transition to a low carbon economy.

However, now in 2009, unlike early 2008, many of the global economies are experiencing negative growth and the financial sector is emerging from a period of deep turmoil. Against this rather different economic landscape, this report seeks to get a better understanding of the issues that are currently motivating buyers of carbon offsets, in addition to gaining greater insight into the project characteristics these buyers seek.

We hope that the information contained within this report will help to further stimulate the growth in the voluntary carbon market, enabling organisations who are contemplating the use of carbon offsets to not only better understand the valuable role carbon offsets can play as part of a wider carbon management strategy, but also to gain a wider appreciation of industry best practices.

The objectives of this report

1

To understand the current corporate attitudes towards carbon offsets and management strategies

2

To determine the factors which drive purchasing decisions of carbon offsets

3

To explore what the carbon industry needs to do to help further stimulate the market

Capturing the data: methodology

This report is based on data collected from a total of 311 organisations of varying size and locations. As our primary objective was to understand the motivations of the end-users of carbon offsets, we removed the 31 responses from carbon companies in order to analyse these results separately. The main focus therefore was placed on the remaining 280 responses from a diverse range of corporations, which included global, multinational and regional companies.

The partners participating in this year's report were extremely encouraged with the 2009 response rates, which increased by nearly 400% (compared to last year's survey). In part we feel this can be attributed to the fact that climate change and environmental best practice have received increasing attention on the world stage with the arrival of the Obama administration in the US and the urgent need to agree to a successor to the Kyoto Protocol at the forthcoming UNFCCC conference in Copenhagen in December.

The data capture period for this year's research study began 30th June and ended 18th August 2009. Survey responses were collected in the following ways:

- Via an online questionnaire posted on www.greenbiz.com, www.climatebiz.com, and www.ecosecurities.com
- Baker & McKenzie LLP, ClimateBiz, EcoSecurities, Borealis Offsets and The Karo Group all sent emails to their respective contacts to ensure the sample of responding organisations was geographically and sectorally diverse
- For a number of organisations, EcoSecurities and The Karo Group also followed up with telephone calls and emails to further maximise the survey response rates
- Online sustainability forums, including www.justmeans.com, www.2degreesnetworks.com and green www.linkedin.com groups, were utilised to identify other specific contacts within organisations best placed to contribute to the survey

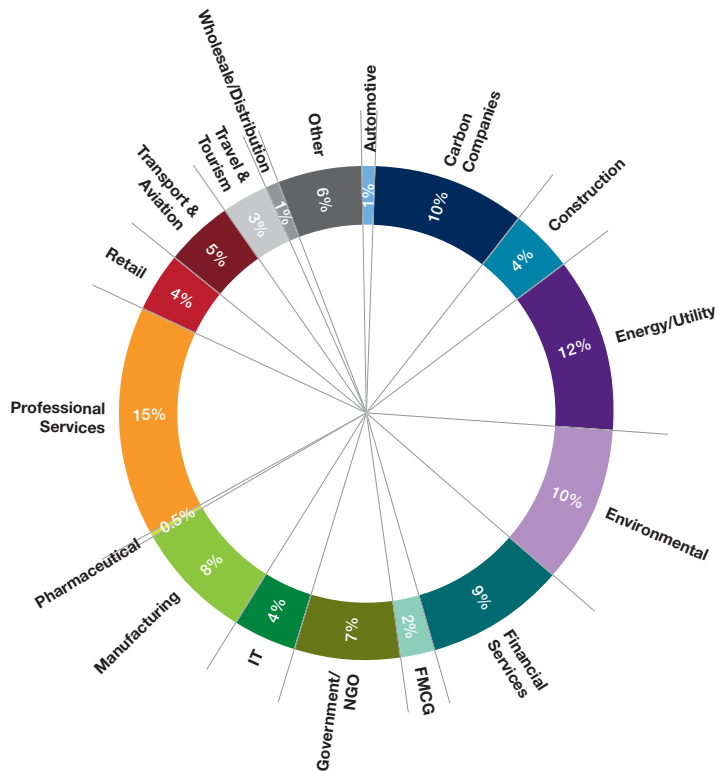
For each question, participants were given the opportunity to provide alternative answers or further comment in order to give a more complete picture of their attitudes and opinions. All survey specific information was anonymous and for the basis of this report, all responses have been aggregated.

Data presented throughout this report are based purely on information volunteered by marketplace participants. No data was extrapolated and no quality criteria checks were carried out on respondents prior to questionnaire responses being submitted. However, 11 responses contained no data and were removed from the sample (reducing its size from 322 to 311). The number of respondents who answered each question is clearly marked on each graph. On some graphs, the sum of responses may be more than 100% due to rounding. This report only summarises our key findings.

Who are our respondents?

What sector does your organisation operate in?

Key
Total sample = 311



The survey process employed (and which is outlined in the capturing data section on page 8) achieved 311 usable responses. Responses from organisations covered a diverse array of industry sectors with the greatest number of respondents operating in the professional services, energy/utility, environmental, financial services and manufacturing industries.

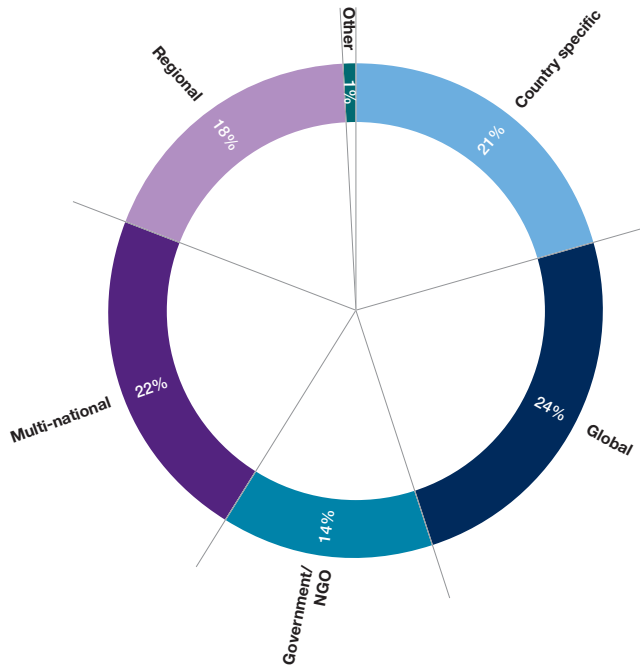
We received 31 responses from specialised carbon companies. These were treated separately in order to focus primarily on the perspective of end-use offset buyers, rather than carbon market intermediaries.

Who are our respondents? – continued

How would you best describe your organisation?

Key

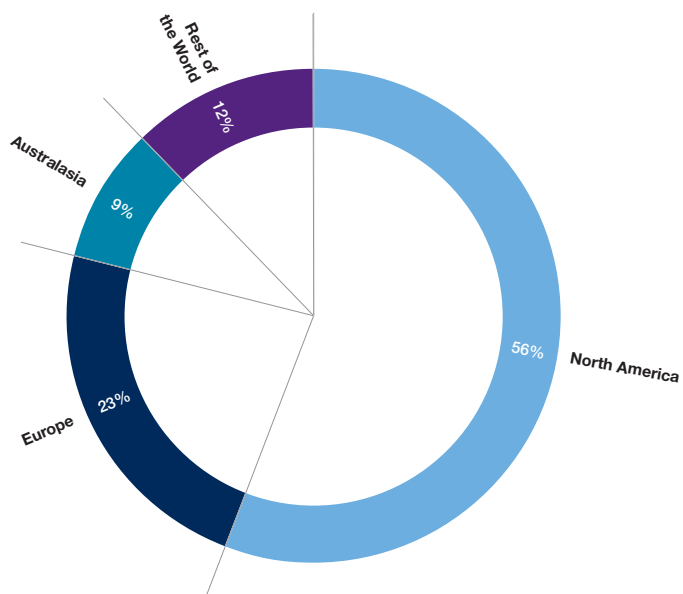
Total sample = 280



Where are your company's headquarters?

Key

Total sample = 279

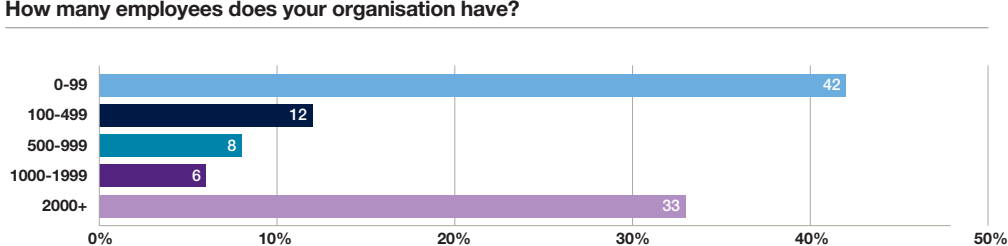


Who are our respondents? – continued

Responses came from a diverse range of organisational sizes, including global, multinational, regional and those based in only one country. The majority of participants had headquarters located in North America and represented more than 56% of the sample size. This was a sizeable increase over the 2008 study, where only 35% of responses represented North America. However, this could be explained by the fact tackling climate change is an important issue for the Obama administration, and as a result, corporations are increasingly viewing their carbon liabilities as a strategic issue, especially in light of the Waxman-Markey climate change bill, which could see a US cap and trade system implemented in the near future.

What was also interesting to see in the 2009 sample was the increasing number of responses from Australasia (9%), particularly Australia and New Zealand, where tackling climate change has also become a key political issue.

How many employees does your organisation have?



Key
Total sample = 277

In terms of company size, results were polarised around two extremes with the largest sample (42%) coming from organisations who have less than 100 employees, compared to slightly fewer respondents (33%) coming from very large companies with more than 2000 employees. It is interesting to note that smaller companies are treating the issue of climate change with as much importance as many of the larger companies who may face a greater necessity to participate in CSR related activities and report on their environmental impact because of stakeholder pressure.

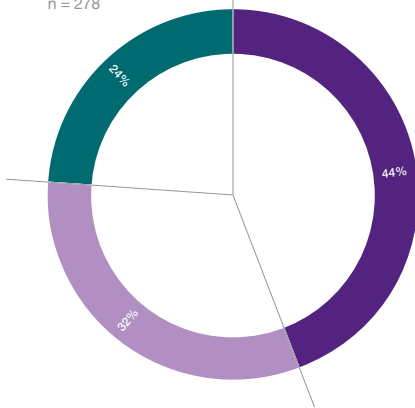
The 2008 study also showed a similar pattern with the highest number of responses coming from either very small or very large organisations.

Carbon management strategies

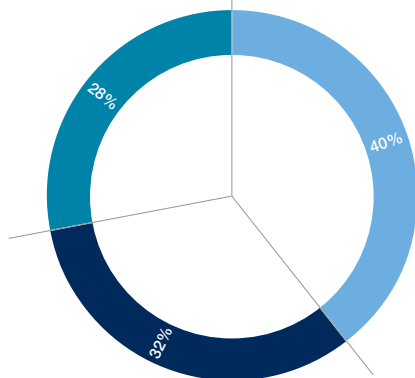
Does your organisation have a defined carbon management strategy?

Key
 n = sample size
 ■ Yes
 ■ Under development
 ■ No

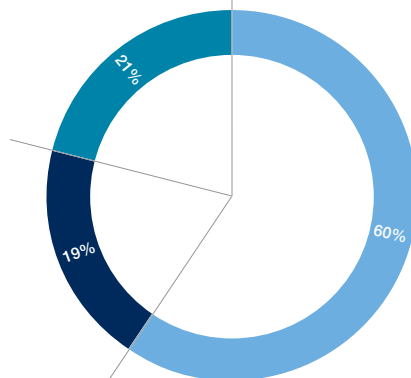
Total sample
 n = 278



North America
 n = 157

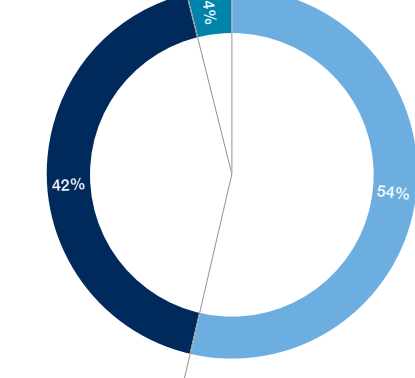


Europe
 n = 62

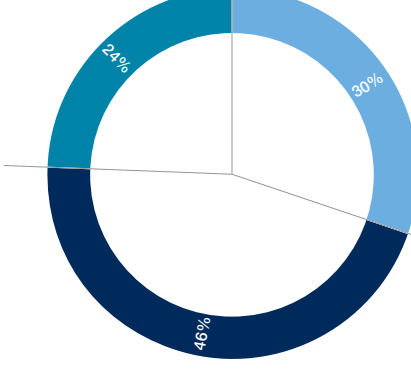


Key
 n = sample size
 ■ Yes
 ■ Under development
 ■ No

Australasia
 n = 26



Rest of World
 n = 33



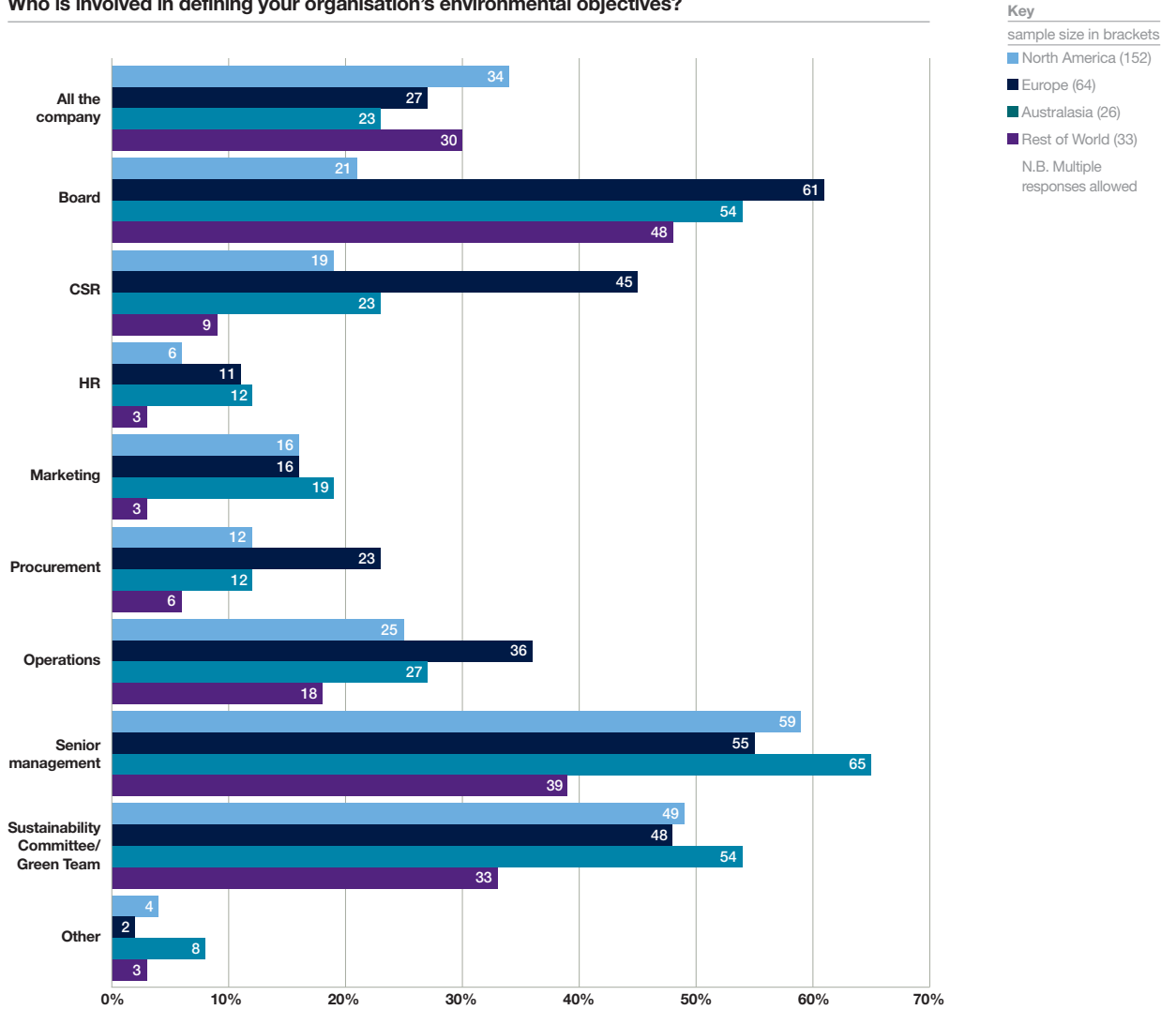
Carbon management strategies – continued

It's encouraging to see across all samples that the majority of respondents have a defined carbon management strategy (44%) or one under development (32%). This is a positive indication of the importance companies are attaching to environmental sustainability, but shows surprisingly little movement from last year's survey (43% and 34% implemented and under development, respectively). However, this is most likely a reflection of the larger survey sample this year, and the high level of responses from North American companies, compared to last year's Euro-centric responses, where carbon management is a much more established undertaking.

Particularly striking is the Australasian sample where only 4% of respondents do not have a carbon management strategy. This is no doubt due in part to the high profile climate change has taken in the recent political agenda with the contentious debate over a national cap and trade scheme. In contrast, the North American sample, where a cap and trade scheme has also been fiercely debated in recent months, shows a much lower level of carbon management strategy development, much more in line with the total sample. This could be explained at least in part by Australia now having ratified Kyoto, whereas US involvement in a global climate framework is still not definite.

Carbon management strategies – continued

Who is involved in defining your organisation's environmental objectives?



Carbon management strategies – continued

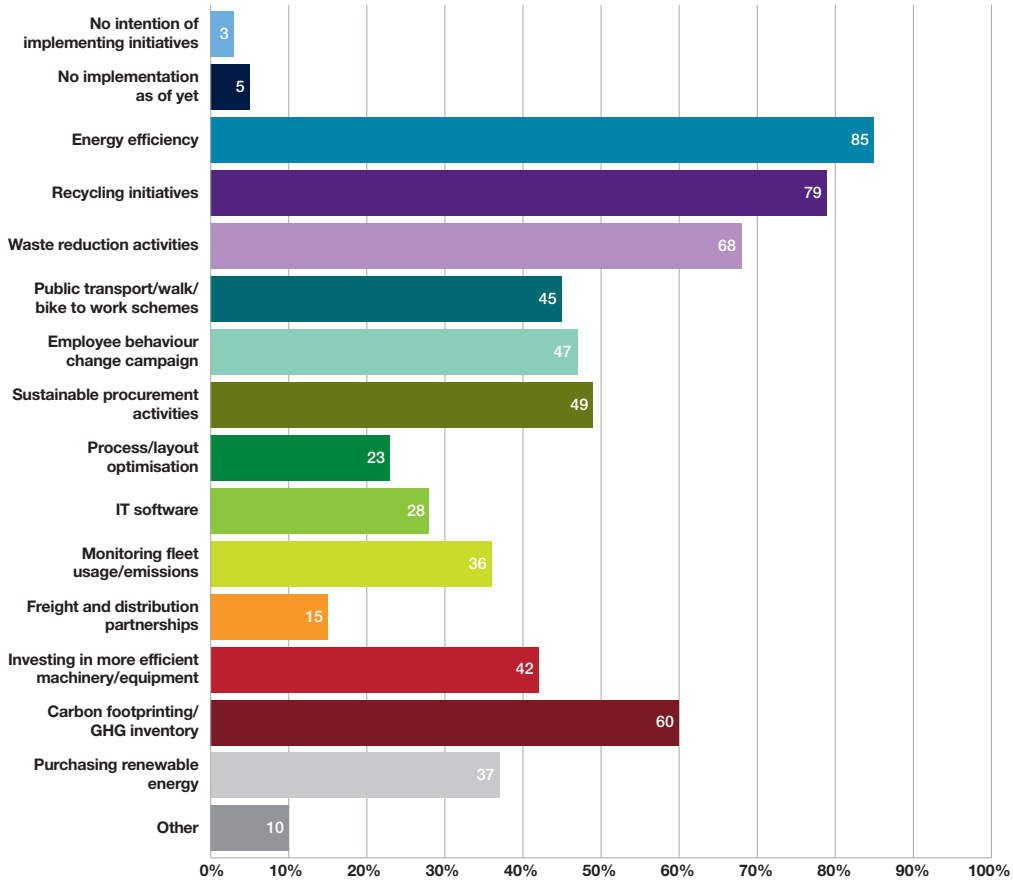
Responsibility for establishing carbon management strategies sits predominantly at senior management and board level, with support from specially created ‘Green Teams’.

Senior management takes the lead in defining environmental objectives in Australasia and North America, whilst in Europe and the Rest of the World responsibility lies predominantly with the board. Within Australasia and Europe, the responsibility seems to be largely shared, with both categories highly involved in the decision-making process. In contrast, board input in North America is much less frequent (only 21%), perhaps due to emissions reductions and carbon management only becoming more prominent comparatively recently, meaning that North American boards remain relatively ill-equipped to address carbon management.

The EU has a relatively high level of input across all the various categories, and has the largest proportion of CSR representatives by far involved in defining carbon management strategy (45%). This is probably a reflection of environmental reporting and sustainability being much more entrenched in EU companies due to longstanding legislative requirements and the need to satisfy benchmarking objectives. It also serves as an indication of the rise of green collar jobs lauded by EU and US governments as one of the benefits of increased funding for alternative energy and energy efficiency. It will be interesting to see if this trend spreads to North America and Australasia over the next few years.

Carbon management strategies – continued

What internal emission reduction initiatives have you implemented?



Key

Total sample = 277

N.B. Multiple responses allowed

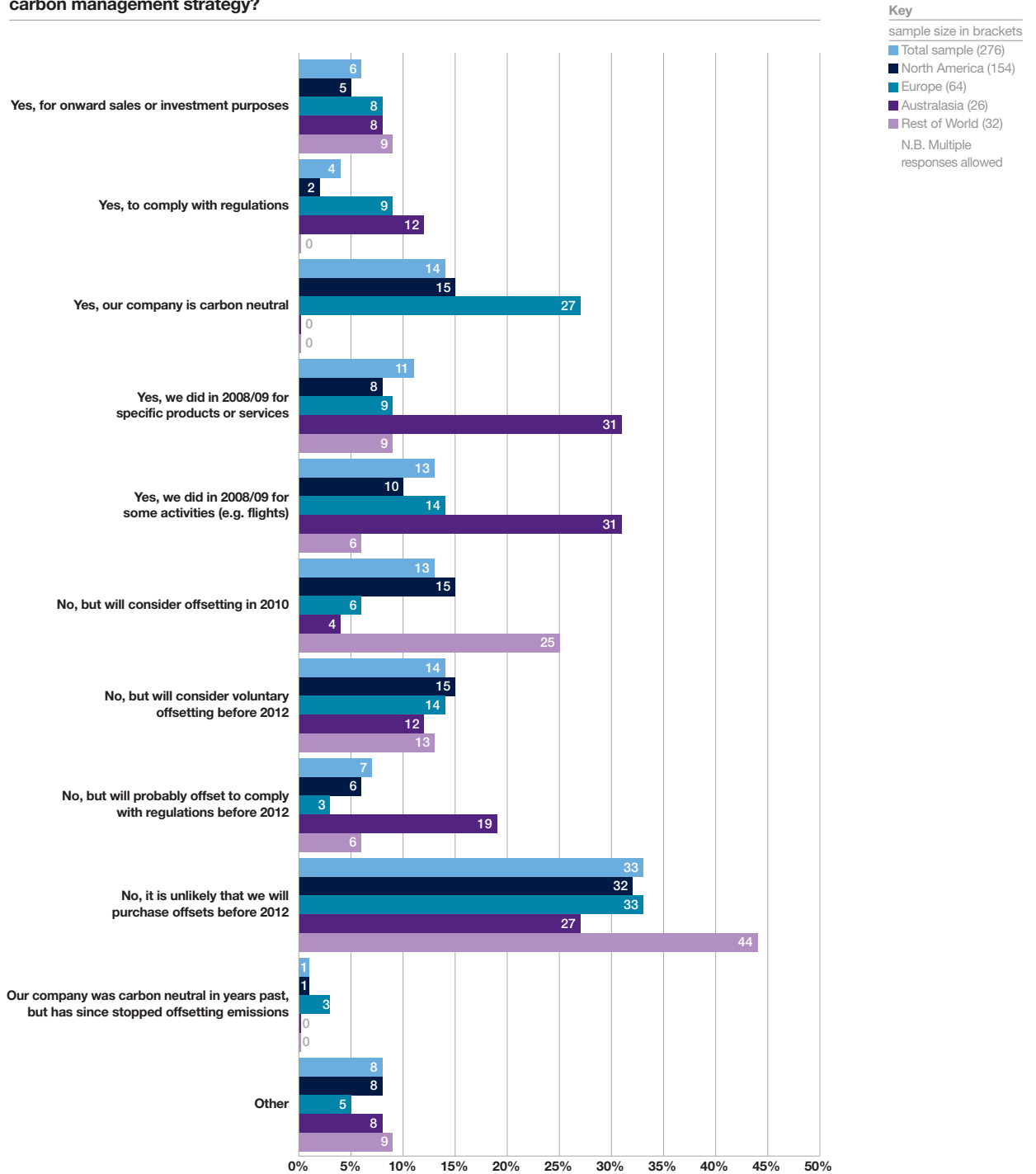
Carbon management strategies – continued

In the total sample there were very few responses of inaction in reducing emissions (5%), and an even lower number of responses expressing no intention to reduce emissions (3%), sending a positive message about the level of engagement over concerns regarding climate change in businesses around the world. The easiest and lowest cost initiatives, as expected, appear to have been implemented first, judging by the high level of implementation of energy efficiency, recycling and waste reduction activities. There is also a high level of incidence of carbon footprinting (60%), which suggests that generally respondents have a good understanding of the necessity and the benefits of measuring footprints to make a carbon management plan robust. Freight and distribution partnerships stand as the least implemented measures among respondents, perhaps a reflection of the difficulties in implementing an integrated partnership or strategy across the entire transportation network and inapplicability of this category to certain sector types.

The Australasian sample again shows a high degree of responsiveness to climate change concerns, with all Australasian respondents having implemented some sort of emission reduction activity. Furthermore, Australasian respondents showed a relatively high level of activity in all categories, lagging behind only in public transport-to-work schemes.

Carbon management strategies – continued

Does your company purchase emission reduction credits (carbon offsets) to complement your carbon management strategy?



Carbon management strategies – continued

A positive two thirds majority are contemplating purchasing offsets in the next three years. A significant number of respondents (48%) have already bought offsets at some point, with a further 10% considering offsetting within the next 12 months¹. This, along with the high number of internal emissions reductions activities implemented above, would indicate that carbon neutrality, whether of a company, product or activity, is on many firms' agendas. Indeed, of the companies who are already offsetting just under a third (29%) have fully neutralised their emissions. However, readers should bear in mind that the survey sample will not be representative of all companies, with many respondents participating in the survey due to their interest and existing participation in carbon management and offsetting.

Looking at the regional samples, almost one third (31%) of Australasian respondents said they had offset specific products or services, and almost one third (31%) said they had offset specific activities – a high action rate compared to the other sample locations. However, none of the respondents in Australasia, or in the Rest of the World, had gone carbon neutral, in stark contrast to the higher rates of carbon neutrality in the EU (27%) and North America (15%). The high number of carbon neutral companies in the EU sample is in interesting contrast to the 33% in the same sample who do not intend to offset at all before 2012, showing a marked split in attitudes towards offsetting within Europe. This may be due to European firms having had longer exposure to, and greater scepticism of, the offsetting industry, and the problems that beset the industry at the time of its inception, such as a lack of regulation. This would also be supported by responses to 'What is your company's general attitude towards carbon offset projects' on page 24, where Europe notes a high number of mixed and negative attitudes towards offsetting.

¹ It is worth noting that multiple responses could have been selected

Companies who have not embarked on offsetting

Following on from the responses in the previous question 'Does your company purchase emission reduction credits (carbon offsets)?' on page 18, we decided it would be useful to further explore the reasons behind companies not already purchasing carbon offsets, why companies have stopped purchasing carbon offsets, or why a company may choose not to embark on a carbon offsetting strategy and what they are doing instead.

The main reasons for not offsetting as of yet were uncertainty of the direction of offsetting standards (47%) and budget limitations (42%). Interestingly, whilst 42% of respondents who have not yet purchased offsets cited budget limitations as a reason, in a later question to those respondents who have purchased offsets but later stopped, only 11% cited this as a key factor in their decision. It is interesting that economic reasons seem to have deterred more respondents from starting to offset than those respondents who are already offsetting. This could imply that the benefits of offsetting only become more apparent once this step has been taken, or that there is a pressure to show consistency in the approach regarding offsets.

Uncertainty over standards was also regarded as more off-putting than uncertainty over regulations (47% compared to 22%). One would expect that uncertainty over the existence of a framework would be a more fundamental point of concern than the robustness of said market, but this may be due to respondents from Europe having a much clearer indication of the relevant regulatory frameworks, and having more concern over the eligible methods for compliance with those regulations.

The main reason given by respondents who have offset but then later stopped was uncertainty surrounding legislation (28%). Three respondents (17%) stated they no longer needed offsets for carbon neutrality; it would be interesting to expand upon this and discover if this is due to companies who have managed the rare feat of becoming carbon zero, or if this instead suggests a shift in attitude within these companies where carbon neutrality is no longer seen to be of value. Only two participants out of the 20 who responded to this question said their budgets or the economy was the main reason they stopped offsetting, which, in light of the global economic downturn and focus on streamlining budgets, seems surprising.

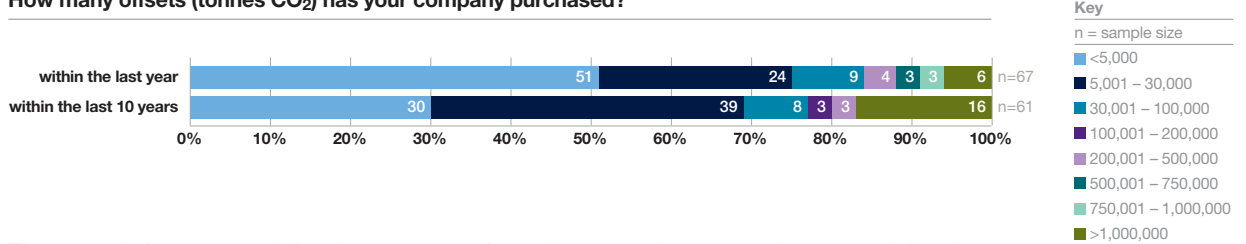
Companies who have not embarked on offsetting – continued

Survey participants who are not interested in offsetting were also asked what other environmental activities, if any, they were participating in. Local community projects and further internal reductions were the preferred alternatives, in line with the common criticisms about offsetting being an easy option which does not effectively incentivise behavioural change and mitigation in industrialised countries, where they are most needed. Adaptation also appears to be rising up the agenda – nearly a quarter of respondents (23%) preferred to get involved in adaptation rather than offsetting. The Rest of the World in particular showed a preference for this course of action (53%), which may be due to the fact that respondents in this category would indeed be the first to be impacted by a changing climate. Regardless of the geographic sample, the effects of climate change are already in evidence and companies are increasingly focused on mitigating the impact of this inevitable issue, whether it is increased insurance premiums or threats to productivity.

Australasia showed a marked preference for investment in local community projects (71%), which coincides with the strong domestic preference from Australasian responses in the question on page 27, on preferred offset project locations. Australia has one of the highest rates of GHG emissions per capita in the world, so this trend may be explained by awareness within the region that energy consumption patterns within the sample need to change dramatically.

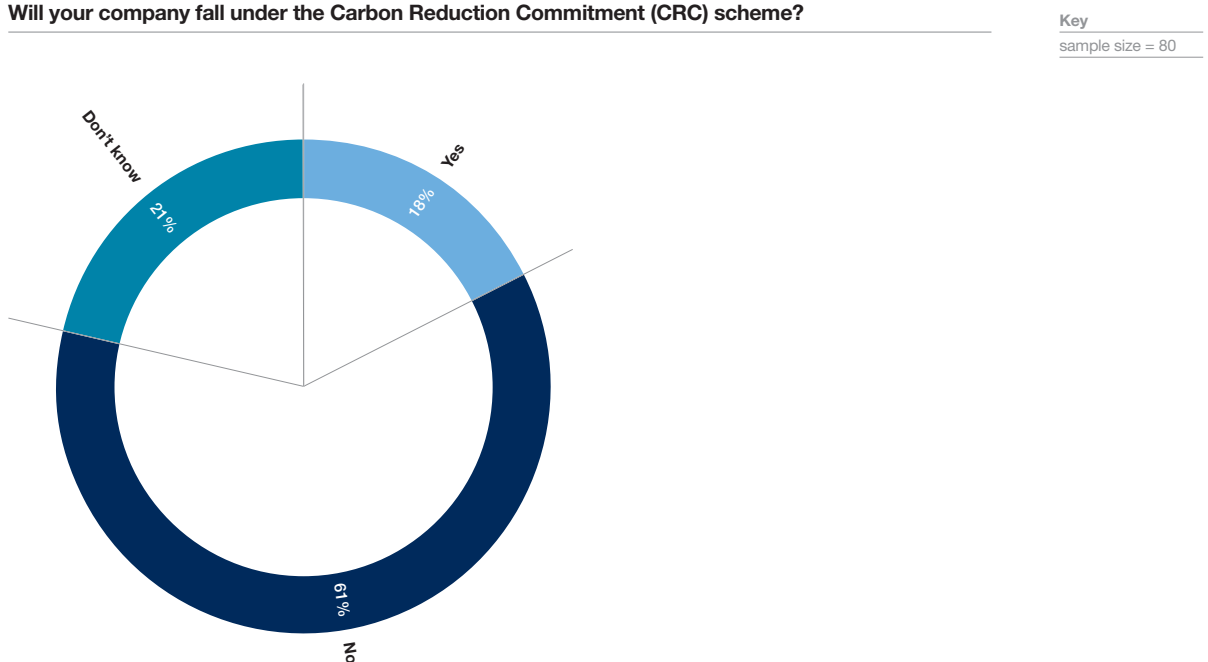
Carbon offsetting

How many offsets (tonnes CO₂) has your company purchased?



The cumulative nature of the 'Last 10 years' graph means the categories are weighted much more evenly than in the 'Last year' chart, where as expected the dominant categories are those at the lower end of the volume scale. Interestingly the Australasia sample indicates a much more even distribution of offset purchases along this scale, with a high distribution of relatively high purchase volumes both this last year and the last 10 years. This could be for compliance with the New South Wales Greenhouse Gas Reduction Scheme (NSW GGAS). In contrast, respondents in the Rest of the World sample are anchored firmly at the lower end of the scale, with no purchases greater than 30,000 tonnes of offsets either in the last year or in the last 10 years. Interestingly, over the last year 75% of carbon companies that have responded only purchased 5,000 tonnes of offsets, this could be reflective of a rise in the start-up of small consumer facing carbon retailers.

Will your company fall under the Carbon Reduction Commitment (CRC) scheme?



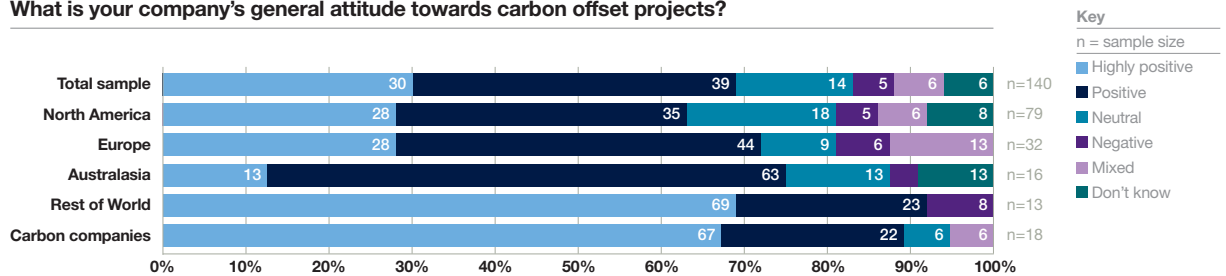
Carbon offsetting – continued

The UK Carbon Reduction Commitment (CRC) is a piece of legislation that will come into force in 2010 and aims to curb the emissions of large, non-energy intensive private and public sector organisations within the UK. Most respondents stated that their companies are not eligible under the CRC (61%), which ties in with the large number of SMEs within the sample (to be eligible for the CRC companies need an electricity consumption of at least 6,000MWh/yr). Worryingly, one fifth of respondents are not sure if they will be covered. Since one of the requirements of the CRC is to supply detailed emissions data for 2009, this could pose problematic if these firms have not begun collecting this data over the past months. It also highlights that despite the government's best efforts, communication of this complicated piece of legislation has not been entirely successful. However, it should be noted that these results may have been slightly skewed by responses from non-UK companies, as the sample size seems quite large in comparison to the number of responses from Europe.

According to one respondent, "The CRC will help focus on energy saving rather than offsetting", this is due to the ineligibility of international offsets to count towards a company's emissions reductions under the scheme. It would be interesting in next year's survey to assess the impact of this legislation on UK respondents, in terms of increased emissions reduction activities and the strategies employed to fulfill obligations.

Perks of carbon offsetting

What is your company's general attitude towards carbon offset projects?



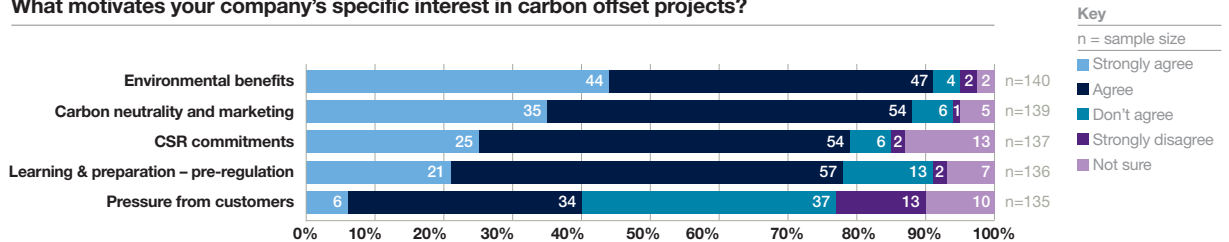
In all geographic samples, the majority (69%) of respondents have positive views of offsetting. Respondents from the Rest of the World prove in particular to be very positive about offsetting, with 69% classing themselves as highly positive; a higher percentage than among respondents from offsetting professionals!

The EU has the highest number of mixed/negative views, which is probably a reflection of its position as a pioneer in emissions reduction strategies. Carbon offsetting first came to prominence in Europe, and European firms have borne witness to the failures and scandals surrounding offsets in the early days of the market before transparency and greater robustness became stronger requirements.

When asked about changes in attitude towards carbon offsetting projects, the majority of respondents' views have remained the same, but some respondents reported a change. A high number of respondents said their attitude towards offsetting had become more positive (35%). This is the prevalent trend in the Rest of the World (62%). Supporting reasons for the increasingly positive attitude included a better understanding of offsets, whilst reasons given for increased negativity towards offsets centred on poor customer reaction from an inadequate explanation of offsetting and the difficulties surrounding the monitoring and assessment of carbon offsets.

Perks of carbon offsetting – continued

What motivates your company's specific interest in carbon offset projects?

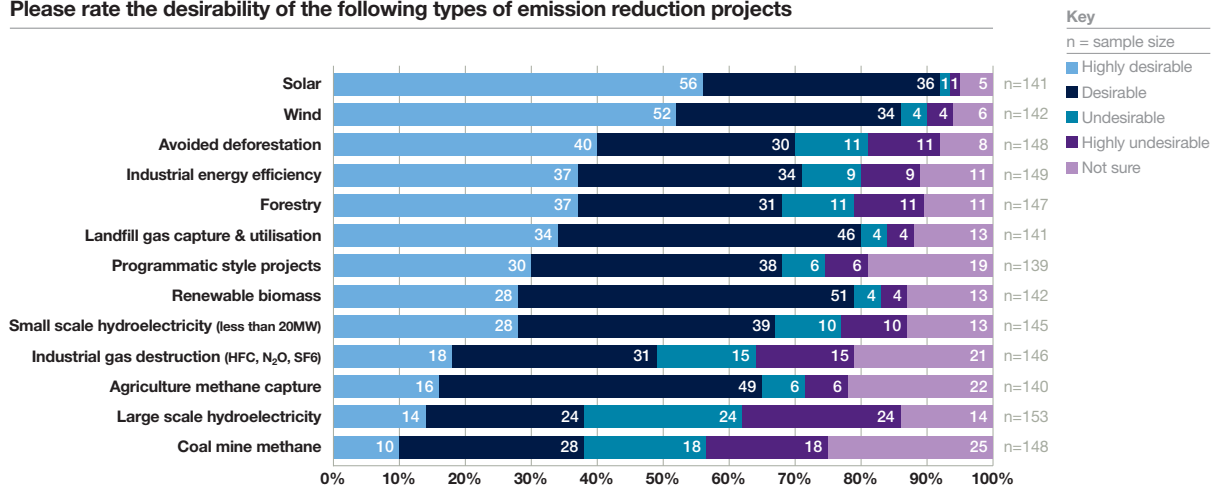


The main reason given by respondents for interest in offsetting centred on the environmental benefits (91%). However from the sample size and number of responses given it is clear that most respondents ticked two or more reasons for offsetting; carbon neutrality and marketing (89%) and CSR commitments (79%) were also important factors in stimulating interest. Pressure from customers was the least valued factor (40%), which stands in contrast to the belief in valuable marketing benefits. This implies that although companies are looking to differentiate themselves from their competitors and appeal to customers there is as yet no real overt pressure from customers for companies to offset their emissions.

Much has been made of the pre-compliance market incentivising offset interest in the US, but responses from this location showed it to be of less value than in other sample locations. Within the EU, CSR commitments are more valued compared to North America and Australasia, a likely sign of evidence in the rise in green collar jobs, first established in Europe in response to pioneering environmental legislation, and expected to soon increase in other parts of the globe. In the Rest of the World sample the strongly agree responses showed that environmental benefits (69%) were of huge importance for the motivation in carbon offset projects. However, by contrast when combining strongly agree and agree responses, each of the motivational factors were deemed fairly equal in importance. This pattern was also reiterated in the Australasian sample which also indicated a belief that no one reason is more important than the other.

What buyers want

Please rate the desirability of the following types of emission reduction projects



The most highly desired project types this year were solar and wind power, with more than 50% of respondents rating them as highly desirable, indicating a clear preference towards renewable energy projects. The high desirability of solar projects could be due to the perception of them being smaller scale and having higher community benefits or the willingness to see a real shift towards innovative technologies as currently solar energy is not a global common practice.

On a second tier, avoided deforestation, forestry, industrial energy efficiency, and landfill gas capture and utilisation projects were rated as highly desirable by more than 34% of the respondents. This shows a clear change in attitude compared to last year in regards to forestry and avoided deforestation activities, which are gaining considerable interest from the market.

One interesting finding is that the preference for forestry and avoided deforestation projects was shared across the regions, including Europe. Historically, some European buyers have shown mixed opinions on forestry offsets, which were reinforced by its exclusion from the EU ETS. It seems, however, the evolution of the voluntary market for developing such projects is starting to attract more interest in Europe. The innovative approach by the VCS to address permanence, and the Climate Community and Biodiversity Standard for testing social and environmental benefits, are gaining market acceptance from buyers. Some of the first avoided deforestation projects are being implemented under the VCS and will start testing the uptake from voluntary buyers and laying the foundations for a potential inclusion in the future climate regime succeeding the Kyoto Protocol.

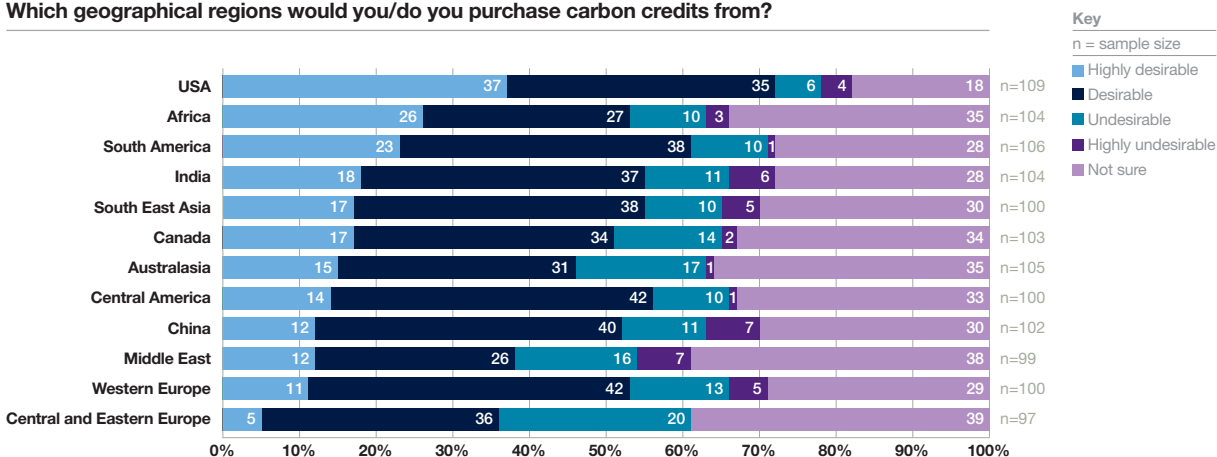
The North American and Rest of the World survey participants were highly supportive of forestry projects. Many companies in the US see the ability to create domestic offset projects in the forest sector, and land use projects in particular seem an interesting option. Land-use projects are prominent on the Chicago Climate Exchange and the Alberta compliance market. The only region from which respondents were less inclined for forestry related projects is Australasia, where their main preference revolved around renewable energy.

What buyers want – continued

Programmatic style projects, a new approach introduced by the CDM in 2008 and more recently adopted by voluntary carbon standards such as the Gold Standard, were considered highly desirable by 30% of the respondents. On the other hand, nearly 20% of responses selected ‘not sure’, which is not surprising given the limited number of projects to date developed under this approach and the overall limited awareness by voluntary buyers. This new programmatic approach involves reducing emissions through the implementation of measures of a dispersed nature, such as the distribution of solar home systems, efficient light bulbs or cook stoves. This project type could gain an increase in interest with voluntary buyers due to their potential to reach communities and deliver sustainable and environmental benefits in areas where a ‘project type’ approach has not been able to reach.

Large-scale hydro ranked the least desired project type, which is consistent with the results from last year’s survey. Coal mine methane also ranked as one of the least desired, followed by industrial gas destruction (HFC, N₂O, SF₆).

Which geographical regions would you/do you purchase carbon credits from?



The most highly desirable location for emissions reduction projects was the US (37%), followed by Africa (26%) and South America (23%). Considering that more than half of the survey participants are based in North America, it shows the preference for buyers in this region to purchase offsets from domestic projects. This trend became even clearer when analysing the responses from North America in isolation, with nearly 60% of the responses ranking US-based offsets as highly desirable. Similarly, 56% of responses from Australasia ranked the projects within their own region as highly desirable, followed by Southeast Asia as the second most preferred choice, which could be explained by the proximity and commercial links between these regions. Surprisingly, Africa, along with the Middle East, were ranked the least preferred locations by Australasia respondents, which contrasts with the responses from other regions, such as Europe or the Rest of the World where Africa is ranked among their top choices.

What buyers want – continued

The preference for domestic projects in North America and Australasia contrasts with the European responses where the preferred region was Africa, followed by India and South America, leaving Western Europe as the fourth most preferred choice. One explanation is that European countries have binding international commitments under the Kyoto Protocol, in addition to the EU ETS and other domestic schemes to cap or reduce their emissions, thus limiting the scope for developing voluntary emissions reduction projects domestically that otherwise would count towards national emission targets.

China was ranked relatively low in terms of 'highly desirable' location for offsets by responses from Europe, compared to responses from other regions that showed a greater preference for this location.

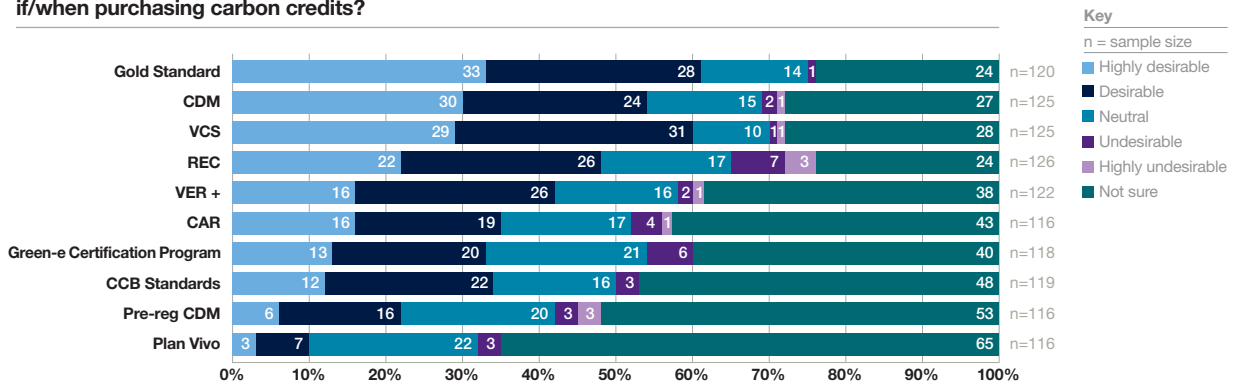
The least preferred regions overall were Central and Eastern Europe, followed by the Middle East. This is probably due to their limited participation to date in the carbon market.

Around a third of respondents were not sure of their regional preference for buying offset projects, thus showing there is a portion of buyers that may not be particularly concerned about the location of offset projects.

Despite the commonly accepted principle that the effectiveness of GHG emission reductions are equal on a global scale regardless of their location, it is evident that voluntary buyers still have preferences for particular project locations, which may be influenced by economic, commercial or cultural links to specific regions where projects are located.

What buyers want – continued

Which carbon standards or certification schemes do you consider the most desirable to use if/when purchasing carbon credits?



Carbon standards have become one of the most important factors taken into account by buyers when purchasing carbon offsets. In terms of preferred choice of standards, the Gold Standard was ranked the most desirable standard by 61% (33% and 28% highly desirable and desirable respectively), followed closely by the Voluntary Carbon Standard (VCS) (60%) and the Clean Development Mechanism (CDM) (54%).

The survey included a wider range of standards compared with last year in order to reflect choices with a regional or sector focus. For instance, the Climate Action Reserve (formerly CCAR), is a regional standard focused on North American projects only. Plan Vivo and the Climate, Community and Biodiversity Standard (CCB Standard) are sector-focused standards that concentrate on forestry-related projects. Given their geographical or sectoral scope, these standards target a limited audience when compared with other standards that apply internationally and to a wider range of projects (such as the CDM, VCS and VER+). The CFI, which trades on the CCX, was excluded from this question as the CCX is mainly identified as a marketplace rather than a standard, and CFIs have not been widely adopted for trades outside of the exchange at this point.

— What buyers want – continued

In terms of standard preferences by region, the North American responses favoured the VCS and Gold Standard, followed closely by CAR. CDM also received relatively high interest from this region, which is surprising given that the US has not ratified the Kyoto Protocol and thus has not been involved in the Kyoto compliance market and more to the point has been fairly critical of the system to date. In the case of Europe, the responses showed a stronger preference for the Gold Standard, then the CDM, followed by the VCS.

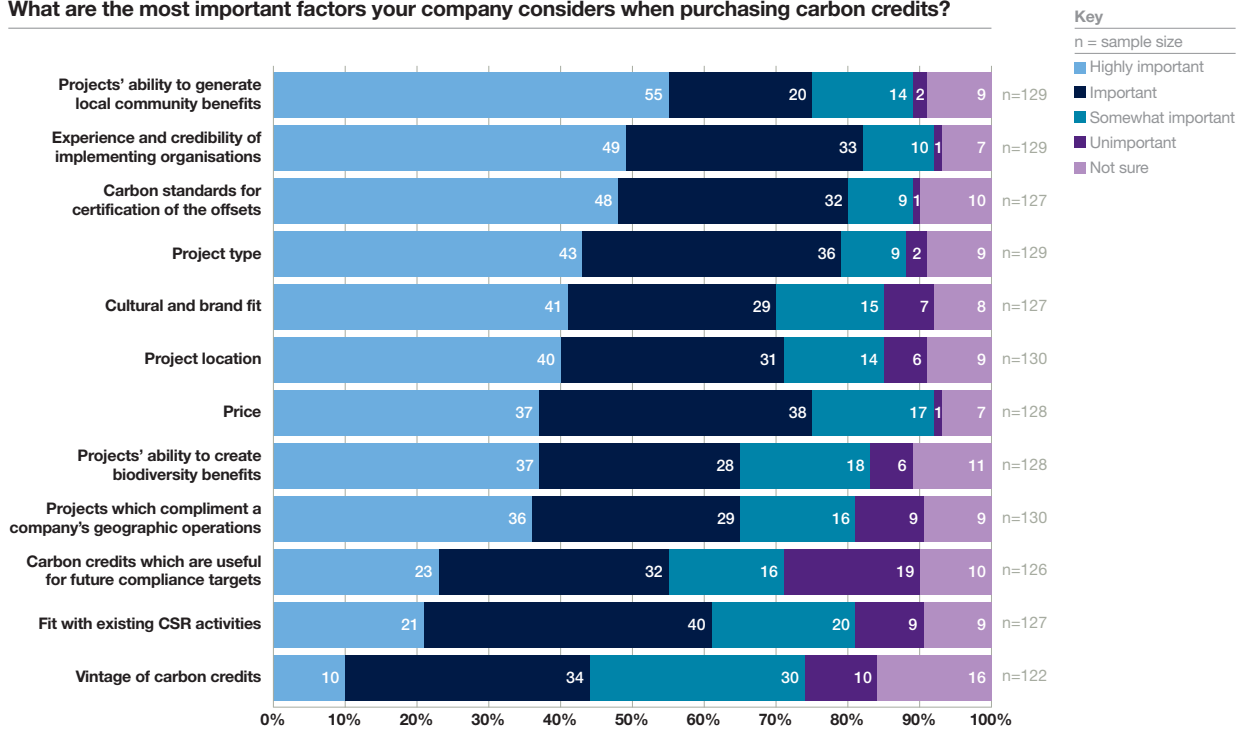
With respect to Renewable Energy Certificates (RECs), 10% of responses labeled them as undesirable/highly undesirable but 24% chose them as highly desirable. Thus despite the divided opinions more buyers favour than oppose these instruments, particularly in North America. The Green Power Partnership run by the US Environmental Protection Agency, which lauds the accomplishments of entities that offset Scope 2 emissions with RECs, has likely contributed to the confusion in the US market about the distinction between RECs and carbon offsets. The emergence of the relatively new EPA program Climate Leaders, which focuses on carbon footprinting and reductions, may lead to an increase in awareness in the US.

It is important to highlight that in some instances, up to 50% of the respondents claimed they “Don’t know enough” about the standards, showing that there is still a limited awareness of some of the choices of standards available to buyers.

There are several new and emerging standards which were omitted from this year’s survey. However as some of these standards achieve increased popularity, they will be incorporated in next year’s survey results.

What buyers want – continued

What are the most important factors your company considers when purchasing carbon credits?



Several factors are taken into account by buyers during their decision to choose the right carbon credit to meet their needs and expectations. However, the survey found that special emphasis is placed on the projects' ability to generate local community benefits with 55% of respondents rating this factor as highly important, followed by the experience and credibility of the implementing organisations (49%) and the carbon standard used to certify the offsets (48%). Other attributes such as project type, location and cultural and brand fit were also ranked highly. Pricing is considered another important factor although the survey shows it is not the first or only definitive aspect when selecting an offset and it might be equally weighted with the factors mentioned above.

The vintage (age) of the carbon credits was ranked as the least important factor when purchasing credits. The vintage reflects the year in which the emissions reductions take place. Despite the fact that emissions reductions are the same in terms of net impact regardless of the year in which they occur, some buyers still place a higher interest in more recent vintages. Although vintage is ranked as the least important factor, with the importance given to the carbon standards it is common to find buyers that prefer credits issued by the latest versions of standards, which in cases like the VCS 2007 or VER+ 2.0 have a knock-on effect on the applicable vintages eligible. This unfortunately results in effectively penalising early action projects.

The importance of these factors varied across regions. For instance, the North American responses placed more importance on the experience and credibility of the implementing organisations, whereas the European buyers place greater value on the carbon standards used to certify the offsets.

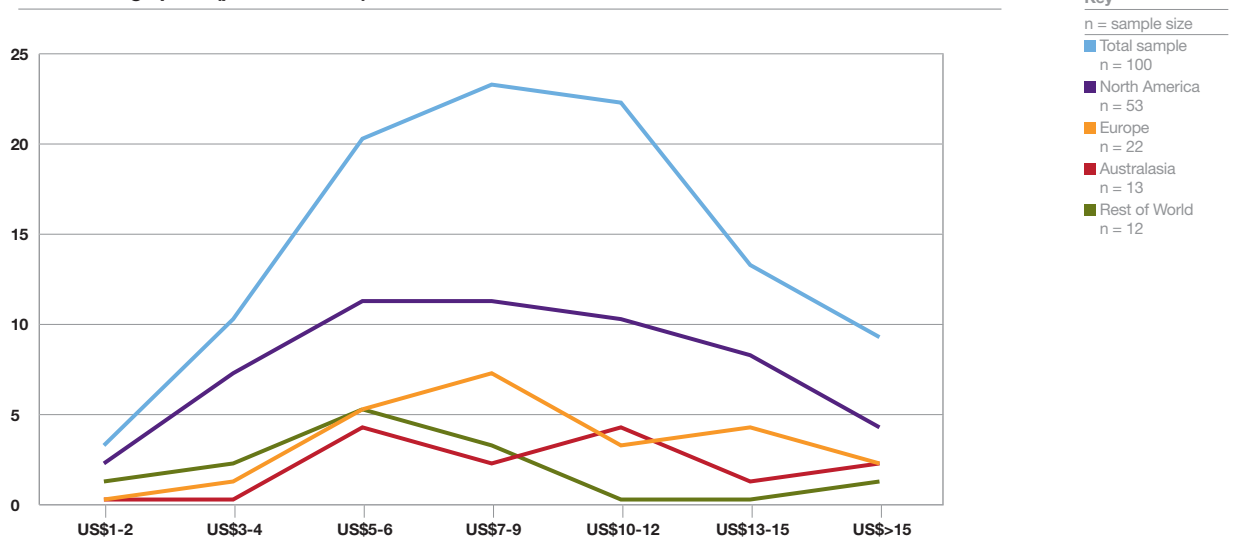
Price

Following on from last year's poor response to this question, we decided to consolidate the question of pricing to get a higher response rate and further insights from different buyer geographies. The overall response was 125 with the majority from North America, however 25 of the participants responded 'not sure' to this question and were therefore omitted from the graph below.

The results represent a bell curve with greater convergence this year for the total sample set. The three price brackets with the greatest responses are \$7-9, \$10-12 and \$5-6 respectively.

With wholesale prices at a lower level this would tend to show that companies who answered the survey are paying a retail price that may include various add-on services, such as communication and marketing support. Some companies may be receiving wholesale pricing if they are buying larger quantities of offsets, such as more than 50,000 tonnes per year.

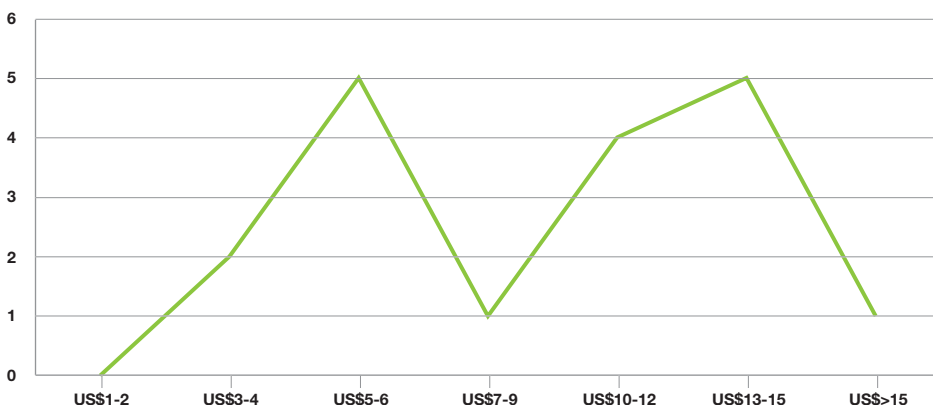
What average price (per tonne CO₂) for carbon credits?



The higher level may also indicate different standards and project types. Gold Standard is still attracting a significant premium compared to other standards. It is possible this is why there are two peaks for European buyers at \$ 7-9 and \$10-15, representing the Voluntary Carbon Standard and Gold Standard units. This is particularly apparent when looking at the responses for carbon companies. Although it might also show how prices vary depending on volumes that are purchased, for example, large chunks of volume versus very small retail levels.

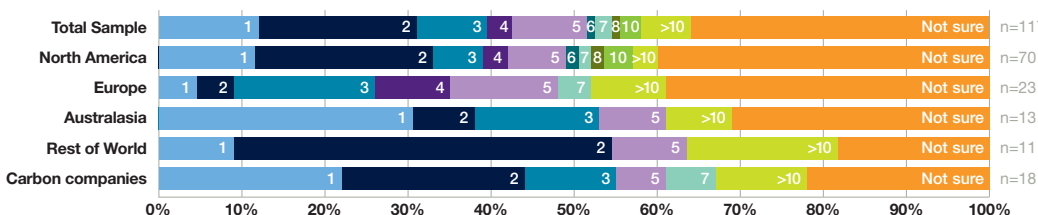
Price – continued

Carbon companies



Key
n = sample size
Carbon companies
n = 18

How much of a price premium for VEROs with social/environmental benefits that have been certified to the CCB Standard



Key
n = sample size
The figure shown in the chart indicates the price premium in US \$
US\$1
US\$2
US\$3
US\$4
US\$5
US\$6
US\$7
US\$8
US\$9
US\$10
>US\$10
Not sure

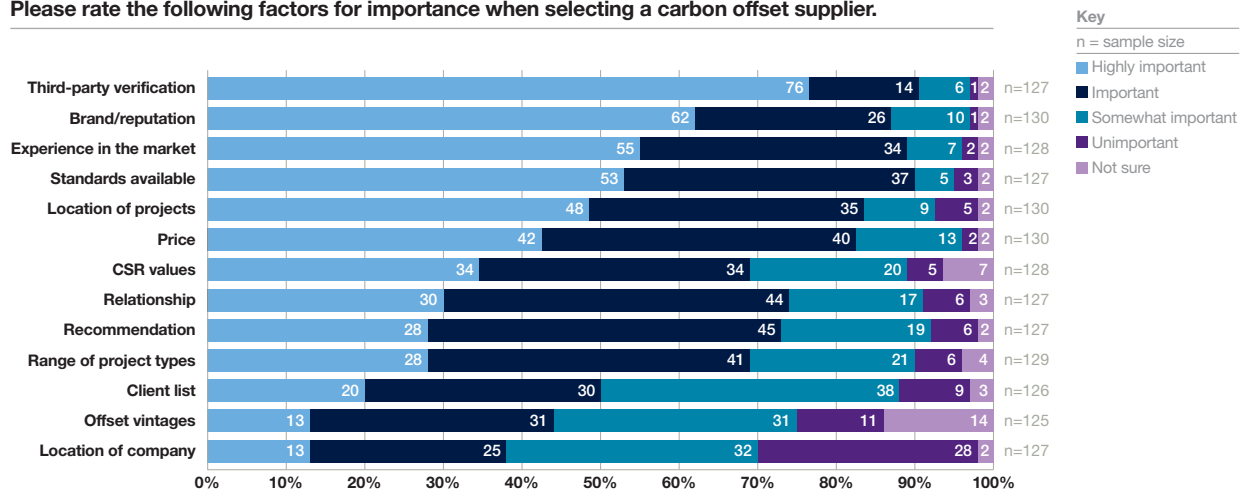
The CCB Standard is administered by the Climate, Community & Biodiversity Alliance (CCBA), a global partnership of companies and non-governmental organisations aimed at promoting the development of forest protection, restoration and agro-forestry projects through high quality multiple-benefit land-based carbon projects. Therefore when looking at the premium (per tonne CO₂) that buyers are prepared to pay for such forestry projects under the CCB standard, there are quite different results depending on the region. The total sample shows convergence in the \$1-3 range, although there are still a sufficient number of participants who would be prepared to pay a \$5 premium or more. However, this could be due to confusion with the question, meaning respondents were unsure whether to respond with just the premium amount or with a total cost including the premium.

Just looking at the modal average for each region the answers are as follows: North America \$2/tonne, Europe \$3/tonne, Australasia \$1/tonne and Rest of Word \$2/tonne.

There are still a large number of respondents who are not sure how much of a premium they would pay, probably due to the fact that CCB is still an emerging standard for end customers. As forestry projects become increasingly popular, this should become more widely understood. More generally it will be interesting to see how social carbon standards, which aim to specially demonstrate these additional benefits, fare in the future.

Offset providers

Please rate the following factors for importance when selecting a carbon offset supplier.



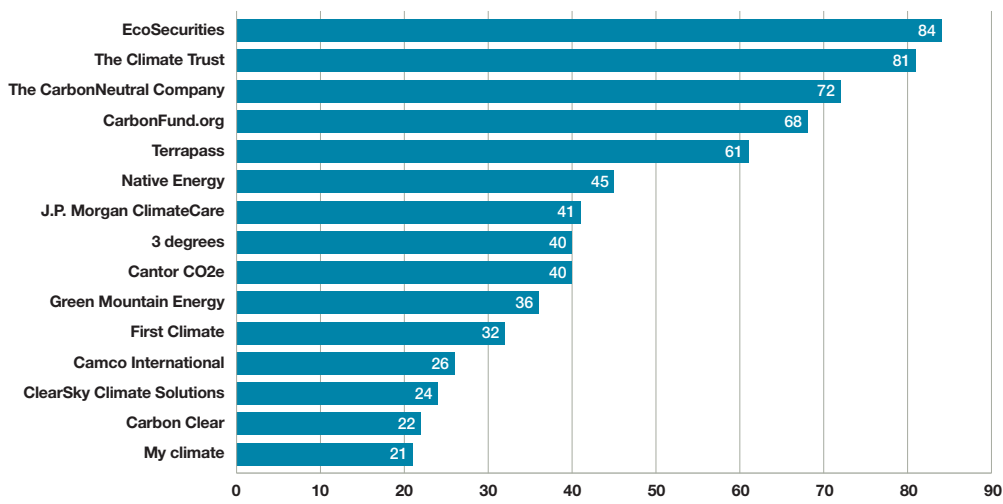
Third-party verification (90%) and the standards available (90%) within the offset providers' portfolio are considered the two most important aspects when selecting an offset provider (considering both highly important and important responses). Experience in the market (89%) and brand and reputation (88%) closely follow in terms of importance, with 62% of respondents rating brand and reputation as not just important but highly important. If you break down the above findings regionally it makes for quite interesting results. Third-party verification and the standards available are rated the most important, however for North America the next most important factor is experience in the market, whereas for Europe it's price. As Europe is a more mature market it may have developed a greater understanding of price and there is likely to be greater pressure to reduce the cost of offsets to get more value for money from those companies who have previously purchased carbon offsets. The least important factor is location of company, followed by offset vintages.

Offset providers – continued

Which of the following carbon offsetting companies are you familiar with?

Key
Total sample = 143
N.B. Multiple responses allowed

Top 15 recognised offset providers – total sample

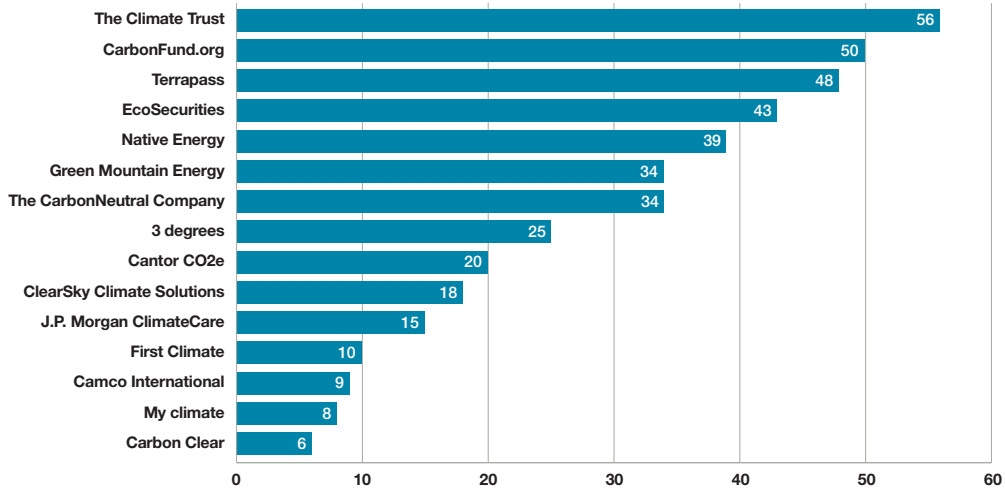


In the total sample the top three most recognised carbon offset providers from the options provided in the questionnaire are EcoSecurities (84 votes), The Climate Trust (81 votes) and The Carbon Neutral Company (72 votes). However if you break down the results regionally, the results are very interesting. The Climate Trust is the most recognised offset provider in the US, The Carbon Neutral Company comes out on top in Europe and EcoSecurities ranks first in Australasia and the Rest of the World.

The graphs would indicate a mix of offset providers with a regional presence against those with a global reputation. For instance, Terrapass is the third most recognised offset provider in North America but it falls outside the top 10 for Europe and the Rest of the World and ranks ninth in Australasia. According to the survey results EcoSecurities has a consistent presence globally. The recognition in the Rest of the World could be due to the business' focus on CDM projects in developing countries.

Offset providers – continued

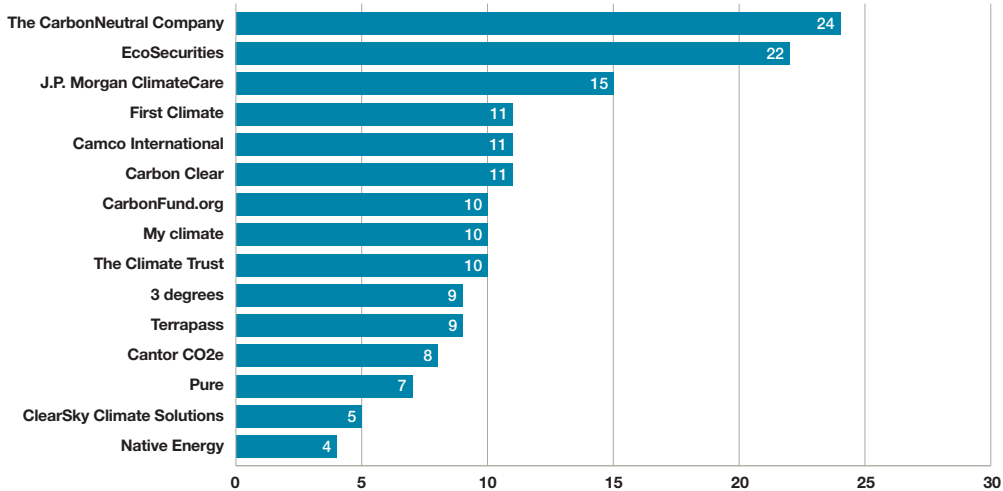
Top 15 recognised offset providers – North America



Key

Total sample = 80
N.B. Multiple responses allowed

Top 15 recognised offset providers – Europe

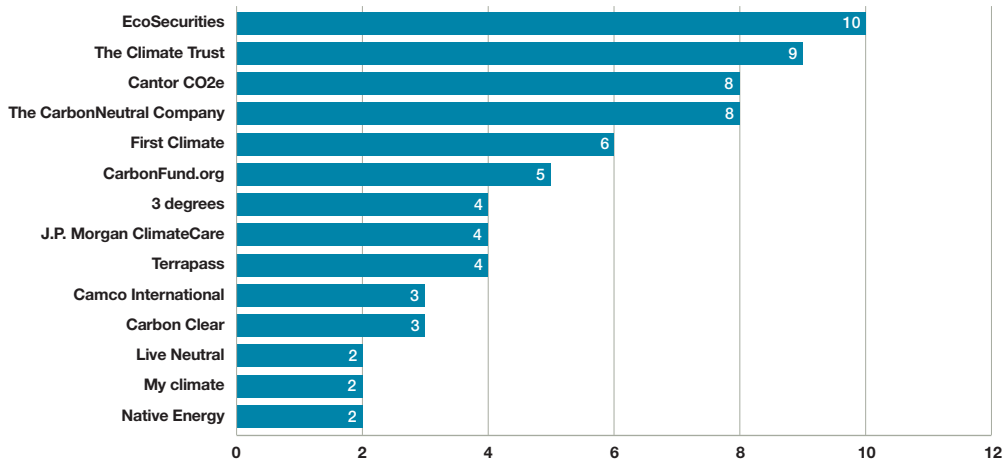


Key

Total sample = 33
N.B. Multiple responses allowed

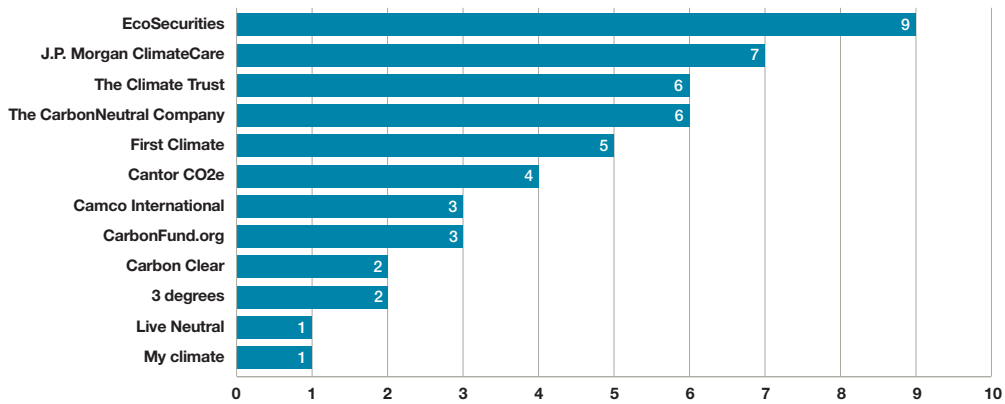
Offset providers – continued

Top 14 recognised offset providers – Australasia



Key
 Total sample = 17
 N.B. Multiple responses allowed

Top 12 recognised offset providers – Rest of World



Key
 Total sample = 13
 N.B. Multiple responses allowed

Due to the sample size the Australasian and the Rest of the World charts only show the top 14 and 12 most recognised offset providers



Conclusion

The survey shows there is strong interest in offsetting, including corporations who have not yet done so and who see the environmental benefits of offsetting. Set in the context of a carbon management strategy the survey echoes best practise as companies are already undertaking internal emission reduction activities; very few companies are planning to take no action. Of course those that answer the survey are likely to have an interest in environmental issues and be more aware but clearly there are still those who have a long way to go and are still in the planning phase and use surveys and reports such as these to help shape their strategy. Activities in all geographies are growing and the survey shows quite different results depending on the region in question, which is likely to be influenced by a difference in existing and forthcoming regulation.

EcoSecurities with its partners aim to continue to reach out and expand the scope and dissemination of the survey to provide useful insights into the minds of corporations and their views on carbon management and offsetting. We hope that you found this report useful.

Glossary of terms

CAR – Climate Action Registry (formerly CCAR – California Climate Action Registry)
CCBA – Climate, Community & Biodiversity Alliance
CCB Standards – Climate, Community & Biodiversity Standards
CCX – Chicago Climate Exchange
CDM – Clean Development Mechanism of the Kyoto Protocol
CFI – Carbon Financial Instrument
COP 15 – 15th Conference of Parties to the United Nations Framework Convention on Climate Change
CRC – Carbon Reduction Commitment
CSR – Corporate Social Responsibility
EU ETS – European Union Emissions Trading Scheme
EPA – Environmental Protection Agency
FMCG – Fast Moving Consumer Goods
GHG – Greenhouse Gas
NGO – non-profit Non Governmental Organisation
NSW GGAS – New South Wales Greenhouse Gas Reduction Scheme
RECs – Renewable Energy Certificates
REDD – Reducing Emissions from Deforestation and Degradation
SMEs – Small and Medium Enterprises
UN – United Nations
UNFCCC – United Nations Framework Convention on Climate Change
VCS – Voluntary Carbon Standard
VER+ – A standard for the voluntary carbon market created by TÜV SÜD

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