HMRC - VATSC64230 - Voluntary Non-Compliance Market

The voluntary market has developed independently of government or national emissions reduction targets. It provides a means for individuals and businesses to offset their carbon emissions outside the regulatory frameworks provided by the Kyoto Protocol and the EU Emissions Trading System (EUETS) (see VATSC64220).

Voluntary offset retailers have developed their own standards to create credits, which use the generic term ‘Verified Emission Reductions’ (VERs). The acronym is shared with Voluntary Emission Reductions and the two are often used interchangeably. This can cause confusion as in one the emissions reduction or saving has been verified, whereas in the other this is not necessarily the case.

VERs are generated by projects which certify that they have, or will, reduce greenhouse gas emissions. These projects cover a multitude of possible activities from alternative means of energy production (such as solar, wind, or hydroelectric power) through to carbon sequestration (for example tree planting).

In the voluntary market there are no overarching or compulsory standards or methodologies for creating credits, (although there are a number of voluntary standards emerging) and there is no formal requirement to register or retire credits (although some of the voluntary standards do have their own registries).

This leads to wide variations between the various ‘standards’, including how project baselines are calculated, how ‘additionality’ is tested and how verification is carried out. Indeed, for some projects this is not done at all which reflects the cheaper cost of some of these credits in the voluntary market.

This lack of a single standard means that the voluntary market is more susceptible to problems such as double counting where several people try to take the credit for a carbon saving from one project. This can occur unintentionally through bad management of a project with an inadequate audit trail, or it can occur intentionally through someone trying to commit the fraudulent act of selling the same credit more than once. Ultimately, it is up to the buyer of voluntary credits to determine what standards they want their credits to meet, but VERs can never be used to meet greenhouse gas (GHG) emissions targets under Kyoto or EUETS.

Customers in the voluntary market may elect to purchase credits which originate from the compliance market, rather than VERs. But when compliance market credits are used for voluntary offsetting, they do not count against any legally-binding greenhouse gas reduction targets.

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