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Environmental Audit Committee

Government Response to the Committee's Sixth Report of Session 2006–07: Voluntary Carbon Offset Market

Second Special Report of Session 2007–08

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The Environmental Audit Committee

The Environmental Audit Committee is appointed by the House of Commons to consider to what extent the policies and programmes of government departments and non-departmental public bodies contribute to environmental protection and sustainable development; to audit their performance against such targets as may be set for them by Her Majesty's Ministers; and to report thereon to the House.

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Second Special Report

Voluntary Carbon Offset Market—Government Response

1. The Environmental Audit Committee published its report on ***Voluntary Carbon Offset Market*** on 23 July 2007 as it's Sixth Report of Session 2006–07 HC 331.

2. The Government's Response to the Committee's Report was received on Thursday 21 February 2008 in the form of a memorandum to the Committee. It is reproduced as an Appendix to this Special Report.

Appendix—Government response

INTRODUCTION

1. The Government welcomes the EAC report and believes it has helpfully promoted understanding and debate in this area.

2. Offsetting is a relatively new but growing activity. In response to rising consumer demand the industry has worked hard to develop the market for offsetting. There is now a variety of offset products available to consumers, from a range of providers. These products offer consumers the opportunity to invest in a diverse range of projects designed to reduce or abate Greenhouse Gas emissions. Offsetting can have broader benefits such as sustainable development projects in developing countries.

3. The Government believes that carbon offsetting should sit in a hierarchy of action: consumers should be encouraged to avoid and reduce their emissions prior to offsetting. This might be by considering whether a journey is necessary or by choosing a form of transport which produces reduced carbon emissions, rather than simply offsetting their default decision, for example.

4. We welcome the efforts of companies to develop and market robust carbon offset products. However, we are aware that the absence of commonly-accepted and fully implemented standards in the industry could damage consumer confidence and thereby impact on the emissions reductions that offsetting can provide. It is also important that Government raises awareness about offsetting and its role in tackling climate change.

5. After a period of consultation, the Government announced in July 2007 that it would develop a Code of Best Practice for Carbon Offsetting. We believe that establishing a Code that offset providers can choose to sign up to will provide a framework to support the development of robust, transparent, reliable and timely carbon offsetting products that offer consumers genuine value for money. A communications campaign will support the Code to address the uncertainty among consumers about the role of offsetting in tackling climate change. In turn, having a Code could enable the UK offset supply sector to emerge as a global market leader in the field. In the light of comments received in the consultation, and the EAC's own findings, we have been considering whether, and if so, how, voluntary credits (VERs) could be included under the Code. As part of our announcement of the framework for the Code of Best Practice, we are challenging the industry to come together

to develop and implement a common standard and procedures/infrastructure/system for VERs which meet the principles of a good quality offset. After a period in operation, Government will conduct an audit of the projects and procedures to confirm whether credits approved under the industry standard could be accredited under our consumer Code.

6. At this early stage in the development of the offset market, regulatory or legislative intervention would not be the most effective way for the Government to provide such a framework. A voluntary Code would allow flexibility for market participants and new entrants both to evolve existing business models and to innovate.

RESPONSE TO THE RECOMMENDATIONS

We recommend strongly that the Government grasps the opportunity to show leadership here. It must set out its own view on the role that the voluntary offset market can play in reducing emissions and why offsetting is a positive thing. The view should be unambiguous, well-publicised and prominent in all Government communications concerning offsetting and climate change. (Paragraph 24)

7. The Government believes that voluntary carbon offsetting can help raise awareness of climate change and reduce the impact of our actions. Indeed all central Government official and ministerial air travel is offset by purchasing credits that meet strict standards in terms of the certification and monitoring of emissions reductions. The projects supported are all located in developing countries, are small-scale and involve renewable energy and/or energy efficiency.

8. The quality mark that is being developed to accompany the Code will be branded as Act on CO2 and will be promoted as part of the ongoing Act on CO2 campaign.

9. The Government believes that the VER market can add value outside of the compliance market by bringing forward innovative offset projects which can be tried and tested before entering the compliance market. Such innovation can also be used to inform international mechanisms post 2012, when the current phase of the Clean Development Mechanism (CDM) is due to finish. However consumers need to have confidence when they purchase an offset that the tonnes of carbon have indeed been measured and saved.

10. There is currently no definition or established standard for 'good quality VERs.' The Government believes that good quality offsets recognise the following principles additionality, leakage, avoiding double counting, permanency, independent verification, transparency and certification (i.e. ex-post certification and having a registry). Kyoto-compliant credits currently provide the best assurance mechanisms to demonstrate these criteria and we continue to support the international mechanisms we have helped to create and would not want to undermine these efforts.

11. We believe that VERs can be as rigorous. The rapidly developing VER market has the potential to provide new and innovative projects to reduce emissions. Therefore, as part of our announcement of the Code of Best Practice, we are challenging the industry to come together to develop and implement a common standard and procedures/infrastructure/system which meet the principles of a good quality offset. We recognise the efforts of the industry so far to develop different standards for VERs and are keen for the industry to come together and build on this important groundwork.

12. Defra is keen to help facilitate industry discussions so that the standard will meet the necessary criteria for a good quality offset. We will set up a workshop to help the industry come together and to kick start discussion on an industry standard. To help facilitate discussions we will appoint an independent moderator. We will then continue to support the industry in its work to develop a standard. After a period in operation, Government will conduct an audit of the projects and procedures to confirm whether credits approved under the industry standard could be accredited under our consumer Code.

We urge the Government to explore measures which would incentivise businesses to encourage their individual customers to offset. We recommend that Government make it compulsory, for more carbon-intensive activities, for associated businesses to offer offset services either themselves or through a provider. In connection with this it should be mandatory for individuals to be given a compulsory-choice option for offsetting when procuring such goods and services. (Paragraph 25)

13. When we embarked on this project we discussed with stakeholders, especially the aviation industry, how we could encourage consumers to take up offsetting. As a result our consultation proposed that businesses selling offsetting with other goods and services should make it a 'compulsory choice', i.e. that at the point of sale consumers have to actively chose 'yes' or 'no' to offsetting that activity. Alternatively the 'default option' should be to offset and consumers would have to actively opt out from offsetting.

14. In the consultation there was some support for making offsetting a 'compulsory choice' but little support for it being a default option, along with concerns that a compulsory "opt-out" might decrease consumer transparency and trust. We do not at this stage have any research that points to a particular sales technique for increasing the take up of offsetting, and would look primarily to industry as sources of such marketing expertise and creativity. Therefore we have decided that we will encourage businesses selling offsetting with other goods to make it a compulsory choice or default option. However, we will not make this a requirement but will review the effectiveness of the different approaches to selling offsetting.

We recommend that the Government commission independent research to evaluate and understand the behaviour of individual consumers in the voluntary offset market and publish it as soon as possible. (Paragraph 28)

It is important that the Government seeks to understand better the reasons why businesses use the voluntary carbon offset market and what motivates them. We recommend that the Government commission independent research in this area and publish it as soon as is practicable. (Paragraph 29)

15. The Government agrees with the Committee that we need to develop a better understanding of the motivations, understanding and concerns that underlie offsetting decisions. We have commissioned independent research focussed on individual consumers with the aim of exploring perceptions of, and attitudes to, carbon offsetting. This includes awareness around the concept of carbon offsetting, the terminology, the process and attitudes to the quality mark and its design. This research will help inform communications around the Code. The outcomes will also help individual firms correctly and consistently promote standard offsetting, the role of offsetting and its position in the carbon-reducing hierarchy. We are also considering commissioning research into the views and attitudes of business consumers of offsets.

We recommend that Government engage in a dialogue with business to develop a consensus definition of what 'carbon neutral' means. It is essential that standards should be developed to allow for audit and verification of this status to bring legitimacy to any claim to be 'carbon neutral'. (Paragraph 31)

16. The Code of Practice is not intended as a standard for carbon neutrality, which is clearly a broader concept. Nor is the linked quality mark intended to be used as a brand or logo for companies that have offset their emissions or consider they have become carbon neutral.

17. More generally the Government is looking at how it will meet its commitment to having a carbon neutral central office estate by 2012, and is working with the Carbon Trust to develop an overall strategy and guidance for departments. The Government will take steps to ensure that its approach to carbon neutrality is widely known and businesses encouraged to adopt a similar definition.

The Government must ensure that, by means of its proposed code or quality mark, or by other related measures, greater transparency is brought by offset providers to what is anyway a complex and currently an opaque market. Without transparency consumers will have little confidence in purchasing or otherwise dealing in offsets, confidence that the market needs in order to grow. (Paragraph 44)

18. The Government agrees with the Committee on the importance of transparency in this complex market. It is important that clear and appropriate information is available for consumers on offsetting their emissions so that they understand what it entails and they are reassured about the quality of the product they are purchasing. The Code of Best Practice will require the following information to be made available when selling offsets:

- A clear and simple explanation of offsetting (including that purchasing credits from an emissions reduction project can help to address emissions produced from the consumers' activities);

- Information on tackling climate change and the importance of avoiding and reducing energy consumption. Guidance should be provided to individuals or businesses (as appropriate) on steps they can take to reduce their emissions. More detailed information can be provided directly by the offset provider or there can be a link to a suitable organisation such as the Energy Saving Trust or Carbon Trust, or to the Act on CO_2 Calculator.

19. Additionally the following information may be made available:

- Written or e-mailed confirmation that the credits will be purchased and cancelled may be sent or emailed to the consumer. If an accredited offset provider chooses to do this then they should include links to information regarding the role of offsetting and the importance of avoiding and reducing emissions.

20. Currently offset providers generally use their own emissions data or calculation methodology to determine the emissions to be offset. As a result, different companies may offset different volumes of emissions for the same or similar activities. Using the Government-agreed database of emissions figures will help to avoid these discrepancies and will, again, ensure greater transparency for consumers.

21. Transparent information about pricing will also be required. Whether the offset is being sold as a stand-alone product, or as part of a package of goods and services, the following information should be clearly available to consumers at point of sale:

- Volume of emissions calculated to being offset (in tonnes of CO2)
- Price to the consumer per credit being purchased (£/tCO2)
- Total price of credits being purchased (£)
- Total price of offsetting services to be purchased (£)

22. Consumers can then use this information to ascertain exactly what they are paying for, and how prices compare between different offset providers.

We recommend that the Government press for immediate action to be taken to ensure that the Methodology Panel can draw upon the advice of experts quickly and easily and that regulators and those being regulated are encouraged to, and are given the means to, communicate in a direct and efficient manner. (Paragraph 60)

23. CDM Methodologies are crucial to the integrity of emissions reduction calculation. Under CDM, unlike under the voluntary standard, these methodologies and emissions calculation are made publicly available and open to public comment. The process for proposing and adopting methodologies is designed to ensure the highest level of integrity, is transparent and includes input from a roster of methodological experts on a methodology panel chaired by member of the CDM Executive Board. Individual project proponents have criticised the panel and the Board with regard to the consistency and quality of decision making; while it is difficult to assess general complaints the government has sought to ensure that the CDM Executive Board has the issue of improved decision making at the forefront of its deliberations.

24. It is important to ensure that appropriate and high quality expertise is made available for assessment of methodologies, and that experts are independent and free from any conflict of interest. The proposals of Designated Operational Entities (DOEs) and of the panels have significant financial and environmental Impact. The Methodology panel consists of expertise from a variety of sources, in both the public and private sectors, and is increasingly supported by dedicated expert staff within the secretariat. The Government has been at the forefront of pressing for strengthening of the CDM support structure in the secretariat to ensure increase level of support while guaranteeing the independence and quality of expertise.

We recommend, therefore, that as a matter of urgency, the Government redoubles its efforts to address the proposals of the IETA report on the 2006 State of the CDM in relation to resolving the disproportionate regional and sectoral distribution of projects: it should help to identify the systematic or systemic barriers to equitable distribution of CDM project activities and promote more regular meetings between the Executive Board and designated national authorities of under-represented regions such as Africa. It should also make a priority its efforts to assist and influence the development of a simplified methodology for projects which support the switch from non-renewable to renewable biomass (Paragraph 62)

25. The Clean Development Mechanism is a market mechanism and the distribution of project activities will necessarily reflect the distribution of emissions internationally. Barriers to investment in CDM are often no different to other barriers and reflect the

general investment climate in less developed countries. The Government has been at the forefront of seeking greater access to the mechanisms by less developed countries and initiated the concept of the Designated National Authority (DNA) forum in 2005. The UK sponsored the initial meeting of African DNAs with IETA representatives in Madrid. The Government has also sought actively to engage the City in the Africa springboard initiative encouraging investment in Africa. The Government Actively supported the meeting of DNAs in Addis Ababa last year. In Bali, Parties approved methodologies for the "switch from non-renewable biomass" in the CDM so that projects which utilise a switch to efficient cooking stoves can now be credited under the CDM. This was a long running political issue for two years and these projects are particularly relevant in less developed countries. Coupled with recent guidelines on Programmatic CDM this will mean they could be replicated on a large scale and deliver substantial sustainable development benefits.

We recommend that the Government take further steps to address the issue of the delay in developing new methodologies by putting pressure on the CDM Executive Board to expand and streamline its methodology development and revision process to make it easier to define and produce methodologies for projects with sustainable development benefits. (Paragraph 63)

26. The development of methodologies requires careful analysis and assessment, and is dependant on expert staff for implementation. The government continues to press for a streamlined and efficient process based on objective expertise and evidence.

We recommend that in further stages of developing the code these problems are addressed in an open and transparent manner and that the code is adapted in light of them. Primarily however, we recommend that Defra continues and expedites its work on further reform of the CDM in order to break down the barriers that prevent these important project types from succeeding. It should press for reform of the CDM in these areas at every available opportunity at an international level. (Paragraph 64)

27. The Government does not consider the rules of the CDM to be the major barrier to climate mitigation in developing countries. The CDM is not perfect but investment patterns and barriers to investment derive from a variety of causes. The government has a variety of programmes which seek to promote improvement in the investment climate in less developed countries.

28. The Government is also supportive of new classes of CDM activity, including programmatic CDM which provide a route whereby smaller scale and diffuse activities can be credited at scale internationally. The government would underline that it is not always desirable that all emission reducing activity is available for crediting as an offset for emissions in the UK, and that activities with minimal climate benefit can often be better funded under other programmes.

Acknowledging that there are significant barriers to CDM projects in Africa which include an absence of capacity to undertake projects and a lack of local capital and private sector engagement, as well as investment and institutional barriers, the Government initiated the "African Springboard" initiative. The Springboard is a partnership between the Government and several major UK-based financial firms to develop CDM projects in sub-

Saharan African countries that have so far benefited little from carbon market investment. UK has pledged an initial £100,000 in start up costs as well as in-kind support and local liaison help to the Springboard, which will initially focus on sub-Saharan countries that have no CDM projects yet and on projects that suit local conditions, maximising the value from the carbon market to host countries and communities, and is expected to generate £1 million in CDM investment in its first year. The Government believes learning by doing will show that investment in Africa can deliver both profits and sustainable development in Africa.

The Government needs to expedite decision-making at an international level to resolve officially the issue of a post-2012 CDM. (Paragraph 66)

29. The Government cannot on its own guarantee continuation of the CDM post 2012 but is working to deliver an international agreement with a strengthened carbon market at its core. The Government announced in its response to the Stern Review in 2006 that it supports continued recognition of carbon credits from pipeline CDM projects post 2012. The Government also supports continued recognition of CDM in less developed countries as proposed in the package of measures proposed by the European Commission in January.

We recommend that the Government push for reform of the CDM to ensure that profiteering from polluting behaviour becomes impossible. Consumers need to be confident that their money is being spent on projects which meet the highest ethical standards. Until this is achieved we recommend that the Government should require offset providers selling compliance market credits in the voluntary market to list the types of the projects from which their credits derive. This should be done as soon as is practicable and regardless of whether it decides to proceed with the proposed code. (Paragraph 67)

30. The Government believes that all offset projects should meet high ethical standards and underlines that developing countries are required to ensure that CDM projects meet the sustainable development criteria under the CDM system. The CDM also requires that public consultation is undertaken in accordance with national laws. The Governments own purchase programme ensures quality by requiring the supplier to make regular reports on projects. The government does not believe that the CDM currently provides for profiteering from polluting behaviour.

31. During the development of the Code of Best Practice, the Government considered whether offset providers should be required to provide information to consumers on the specific projects that their credits have purchased. After discussing this with a number of stakeholders we decided that the provision of such information should be optional. This is because offsets are often purchased through brokers as part of a large package of projects so it is not practical to identify individual projects.

32. However, the Code requires offset providers to ensure that marketing materials do not mislead consumers. For example, marketing materials must not show a picture of a windfarm if all the offsets are brought from a hydro project.

33. We will review this issue during the operation of the code and will encourage feedback from consumers and offset providers to ensure that the most reliable and appropriate information is provided to consumers.

The Government should take steps actively to dissuade offset providers from providing EUAs to private consumers given that, as we have concluded in previous reports, EUAs from phase I of the EU ETS are as good as worthless in carbon terms, but yet continue to be retailed. (Paragraph 69)

34. The Government believes that its Code of Best Practice should not conflict with the aims, objectives and practical operation of the EU ETS.

35. Where offsets are purchased to cover emissions already covered under other mechanisms, compliance with the Code will not allow business to use offsets purchased by their customers to demonstrate compliance with these mechanisms. This may be varied in accordance with any proposal from the regulatory authorities regarding the terms of inclusion of sectors in particular regulatory mechanisms.

36. Credits from phase I of the EU ETS will not be included under the Code. In Phase II of the EU ETS EUAs are converted directly from Assigned Amount Units to ensure that the EU ETS can be linked to the EU's Kyoto targets. Once allocated these allowances can be traded between installations on the open market to ensure each installation has enough allowances to cover its emissions in any one year. Anyone volunteering to offset can purchase an EUA and cancel it, therefore removing it from the national registry and reducing the number of EUAs available in the EU. Credits from phase II will therefore be included under the Code.

Given the many unresolved problems with the compliance market, particularly surrounding methodological issues and uneven distribution of projects, we urge the Government to take swift action to resolve these problems regardless of whether or not it chooses to introduce its code. (Paragraph 71)

37. The development of methodologies requires careful analysis and assessment, and is dependant on expert staff for implementation. The government continues to press for streamlined and efficient process based on objective expertise and evidence.

38. The CDM is a market mechanism and the distribution of project activities will necessarily reflect the distribution of emissions internationally. Barriers to investment in CDM are often no different to other barriers and reflect the general investment climate in less developed countries.

The CDM remains significantly flawed and this needs to be addressed. We recommend strongly that the Government think again about its proposed code: of the options set out by the Government in its consultation it must produce a voluntary code based on all credit types which will recognise the important role that the voluntary market has to play in counterbalancing the flaws of the compliance market. (Paragraph 71)

39. The Government believes that best practice in carbon offsetting requires credits with a verifiable level of assurance for the consumer. For example, certified credits only allow for emissions reduction credits to be created ex-post, i.e. after that reduction has actually been

achieved. This provides a guarantee to the consumer that the necessary volume of emissions reduction has taken place. Certified credits are generally more expensive than VERs, but this more accurately reflects the cost of carbon which in turn raises consumer awareness.

40. The Government agrees with the Committee that the rapidly developing VER market has a role in play in voluntary offsetting, and that it has the potential to provide new and innovative projects to reduce emissions. Therefore, as part of our announcement of the Code of Best Practice, we are challenging the industry to come together to develop and fully implement a standard and procedures/infrastructure/system which can provide assurance around the principles of a good quality offset. We will support the industry in these discussions. After a period in operation, Government will conduct an audit of the projects and procedures to confirm whether credits approved under the industry standard could be accredited under our consumer Code.

A trustworthy and independent regulatory body will be needed to decide or advise on the quality mark to be awarded to offset companies for their projects and credits. The body involved in assessing companies' projects and credits would need to be authoritative, independent, and well-resourced. The only just and equitable solution to the question of who should pay for such a body, is that industry pay out of its profits for its establishment and upkeep. Appointments to the body would have to be within the remit of Government rather than the industry, and key NGOs may also have a role to play in participating in this function of oversight and approval. (Paragraph 86)

41. The Government agrees with the committee about the importance of the characteristics of the organisation acting as the accreditation body. AEAT with Futerra Sustainability Communications have been appointed as the accreditation body following a tender exercise. In choosing a body the Government considered the following:

> **Independent:** In order to remove any conflict of interest, the accreditation body should not provide its own offsetting service to consumers, and it should not be in partnership with or have financial investments in businesses that provide offset products.
>
> **Trusted:** The organisation that provides the accreditation service should be recognised in the market and trusted by consumers.
>
> **Technical and commercial competence:** The organisation will need to have the right level of technical and commercial competence to undertake proficient audits to ensure compliance.
>
> **Communication and advice role:** The organisation will require strong communication and advice capabilities to ensure the accreditation mark is well understood by the public.

42. The accreditation body will ensure the quality mark is used correctly in marketing and promotional activities by offset providers. It will also ensure that the brand is not misused or used by an organisation without permission. Government, or the accreditation body, will also provide independent advice to the public on how offsetting works, and will communicate the benefits of offsetting, relative to other actions to address climate change such as energy efficiency.

43. The accreditation of an offset product provides the offset business with added value to differentiate and promote the quality of their product to customers. Accreditation therefore has a market value. Government agrees with the Committee that the costs to undertake an upfront audit and provide annual accreditation should be charged to those offset providers who wish to use the accreditation quality mark. The accreditation body will therefore be self-financing.

Anything that can be done through the mechanisms of offsetting—in the voluntary or compliance markets—to preserve existing forests, so long as the projects or methods are robustly grounded in good science and good practice, and allowances or credits made available are properly audited, has to be encouraged. (Paragraph 91)

44. There are no current mechanisms through the compliance markets which serve to reduce deforestation. The UK has been actively participating in international negotiations, and seeks the integration of forestry and land management within the international climate framework. Providing effective incentives for reducing deforestation is an objective, for instance through comprehensive inclusion of properly regulated forestry credits in a unified carbon market.

45. A decision was taken at COP13 in Bali on how to develop a mechanism to incentivise the reduction of emissions from deforestation and degradation (REDD). This decision is important because it recognises that REDD should be part of a post 2012 Climate framework and provides a way forward under the Bali Action Plan for establishing how this will be achieved. The agreement does not resolve funding issues, but the text includes a call for the mobilisation of additional and sustainable resources. It also provides rules for demonstration activities, which may be taken into account in future negotiations, allowing the possibility that emission reductions achieved before 2012 could be taken into account subsequently. IPCC methodologies and guidance exist, which are grounded in good science, and provide a basis for calculation of associated emissions reductions.

46. In the short term there are risks that bringing deforestation into carbon markets, could destabilise the market. The Government's view is that the possibility of integrating deforestation into the compliance market should be considered in the context of the overall post 2012 package, which involves developed nations taking deeper cuts in order to create the additional demand required.

47. In response to the consultation Defra will be setting a challenge to the industry to propose a robust methodology or methodologies for non compliance standard offsets that could also be included in the Code. Should the proposals meet our minimum criteria, in particular "additionality", then we will consider including them in phase II of the Code's operation. Defra will be providing support and advice to those involved in the debate, encouraging technical experts and project developers involved in voluntary activities to reduce emissions from deforestation to engage with this process. This would take account of the indicative guidance on deforestation projects agreed at Bali in order that VER credits from these activities could be considered for inclusion in the second phase of the Code, and of demonstration activities following from the Bali agreement.

48. The Prime Minister has appointed Johan Eliasch as a Special Representative to report on the role of global forests in tackling climate change through existing and new financing

mechanisms. This will include looking at best practice and innovative approaches to tackling deforestation.

49. The UK is also working with international partners through UNFCCC and G8 processes, and with the World Bank, to explore ways of mobilising international resources to assist developing countries in sustainable forestry management and build long-term funding mechanisms to reduce deforestation. Current UK action includes:

- £50 million to slow the rate of deforestation in the Congo Basin from the £800m International Environmental Transformation Fund.
- Active support (including £15 million) to the World Bank in the development of a Forest Carbon Partnership Facility (FCPF) which will implement and evaluate incentive programs designed to reduce deforestation rates in three to five developing countries over a period of up to ten years, and build capacity in 20–30 countries.
- Working with the International Finance Corporation (the private sector wing of the World Bank Group), City bankers and investors, civil society and research organisations to explore commercial financing options.
- The UK has also been a significant contributor to EU processes aimed at reducing illegal logging, and recognises the importance of good governance to the success of any eventual REDD mechanism.

50. The forest area of the United Kingdom has been increasing. The Kyoto Protocol recognises the contribution of land use, land use change and forestry activities to helping to increase the carbon store and reduce CO_2 emissions, although the main aim of the Protocol is to reduce emissions of greenhouse gases at source. As a Party to the UNFCCC and Kyoto Protocol, the UK reports annually all net changes in greenhouse gas emissions including emissions and removals by afforestation, reforestation and deforestation since 1990.

We consider it essential that the EU ETS should be structured in such a way as to bring about an early decrease in emissions from air travel, and to enforce a continuing trajectory towards a substantial cut in emissions. (Paragraph 120)

51. The Government's principle of sustainable development for aviation is that a proper balance should be struck and maintained between economic, environmental and social considerations; and within this framework, the polluter should pay and aviation should meet its external costs. Therefore, we support emissions trading as the most environmentally effective and economically efficient way to tackle the climate change impacts of aviation.

52. We welcomed the publication of the European Commission's proposal on 20 December 2006 to include aviation into the EU ETS and we welcomed the progress achieved during the EU Environment Council on 20 December 2007.

53. EU Member States unanimously agreed that all flights arriving in and departing from the EU should be included in the scheme from 2012 with a cap of 100% of average 2004–06 emissions. The Member States also agreed a harmonised minimum level of 10% auctioning in 2012, which will be negotiated as part of the wider EU ETS Review for 2013 onwards,

and an open trading scheme with 15% access to Certified Emissions Reductions (CERs) and Emissions Reductions Units (ERUs) in 2012. The agreement also ensured special reserve for new entrants and fast growing airlines from within the cap. The European Commission will review the scheme for aviation in 2015 and as part of this review consider the future access of airlines to project credits.

54. This agreement makes important progress towards the implementation of a scheme which will enable the aviation sector to take responsibility for its carbon emissions in the most cost effective way. This marks an important milestone and provides a significant and timely demonstration of our action to curb emissions soon after the significant progress that was made during the negotiations at COP13 in Bali. The proposal will now go to the European Parliament, with the aim to reach agreement towards the end of 2008.

We are pleased to see that Defra's assumptions for aviation emissions on its Act on CO2 web-site, while making no direct allowance for radiative forcing, do explicitly deal with the issue, and that there are clear statements in its Frequently Asked Questions section and in relevant Action Plans that the effects of aviation on climate are greater than its carbon impacts alone. It is also good to see that the web-site refers to the Government's use of a radiative forcing factor in its own calculations. We hope that such statements appear even more explicitly in whatever calculator is agreed later in the year for use with the Defra Code of Practice for offsetting. (Paragraph 127)

55. There is currently uncertainty in the scientific community on the relative impacts of non-CO2 emissions from aviation although it is generally accepted that aviation's climate change impacts are greater than its CO2 emissions alone. Offsetting providers vary in terms of whether or not they use a factor, and if so, which factor.

56. We will not require offset providers to include these impacts when calculating emissions. However, they must make it clear whether or not they are using a multiplier, If not, they must make it clear that their product is only offsetting CO2 emissions across the range of activities offset. If providers wish to account for the non-CO2 impacts of aviation by applying a multiplier (best reflected by the Radiative Forcing Index), they should make clear that the best scientific view currently is that 1.9 is most appropriate. If they do not use this factor they should justify their use of any other factor (which should be greater than 1) and point consumers to linked information on the AEA website for the Code. This website would give background on the scientific advice and explain that the wider non-CO2 impacts are particularly significant for aviation as they take place at altitude. The Government will keep the use of the most appropriate multiplier for aviation under review and as new evidence emerges, update this best practice guidance accordingly.

List of Reports from the Committee during the current Parliament

The reference number of the Government's response to each Report is printed in brackets after the HC printing number.

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