



# 4. Details of the Deals

## Buyers and Contract Structures



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## 4. Details of the Deals: Buyers and Contract Structures

Every major trend in offset supply is influenced by buyer preferences – and every offset buyer brings to the market a unique motivation for offsetting and varying criteria that guide their purchases. No one is more attuned to these motives and preferences than the offset supplier responsible for meeting their demands.

This section describes the market's “buy” side according to offset suppliers that responded to our survey. In 2012, 189 survey respondents reported buyer types alongside their transacted volumes. While

some survey respondents may only be able to offer a best guess about the fate their offsets, the information in this section aims to connect the dots between elusive offset buyers and disaggregated offset suppliers and to contextualize market trends in 2012.

### 4.1 Who Buys Offsets?

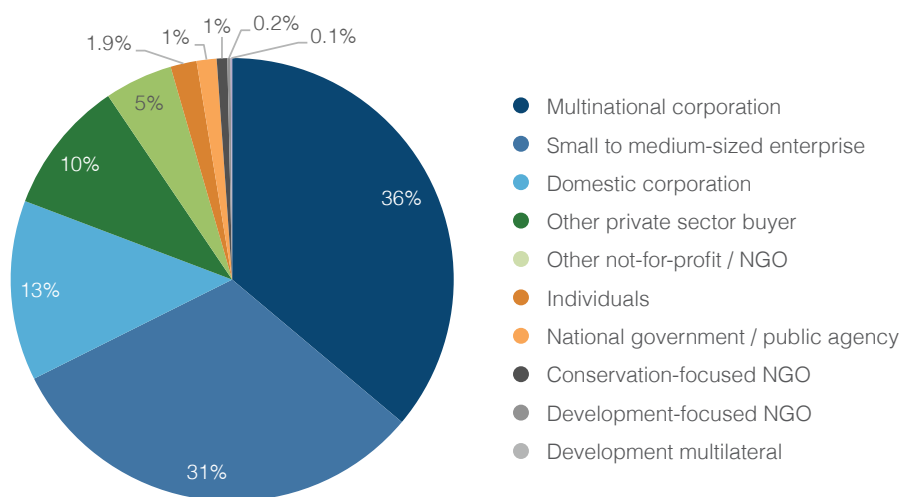
Buyers offset a variety of activities, including their personal, employee, event, product, or overall corporate emissions. They may also buy offsets to prepare for the emergence of a future regulated carbon market.

#### 2012 KEY FINDINGS

- In 2012, the private sector was behind 90% of offset purchases. Here, multinational corporations in North America and Europe transacted the largest offset volume of any business category (27 MtCO<sub>2</sub>e). Close behind these organizations were offset buyers from domestic small- to medium-sized enterprises, 82% of which were Europe-based.
- Last year, offset retailers were the voluntary market's most active offset buyer. Overall, retailers bought or supplied 50 MtCO<sub>2</sub>e valued at \$230 million in 2012 – roughly 51% of all transacted offsets and 45% of market value.
- Among offset end users, manufacturing companies topped the chart, transacting 8 MtCO<sub>2</sub>e in 2012. Energy utilities were next in line, transacting 7.2 MtCO<sub>2</sub>e and primarily based in Europe (90%). The transportation sector – particularly aviation – was behind another 4 MtCO<sub>2</sub>e of transacted offsets. Individual offset purchases remained small (1.4 MtCO<sub>2</sub>e) but grew 17% from our 2011 market survey.
- As in all previous years, CSR ranked at the top of the list of offsetting motivations, behind 14.3 MtCO<sub>2</sub>e of transacted offsets, a volume 33% less than in 2011 as some buyer intentions shifted to “demonstrating climate leadership in their industry” or in policy, particularly when the buyer is a “first mover” in their sector and in the EU and US where a carbon price policies was weak to non-existent.
- Survey findings indicate a relationship between the types of offsets being contracted and buyers' business activities or environmental impacts. Examples of sectoral offsetting relationships are seen among buyers in agricultural and forest products sectors; the food and beverage industry; and the manufacturing sector.
- In 2012, suppliers reported transacting offsets to buyers in 29 countries around the globe, from both developed and developing countries. Buyers in the EU remained the voluntary offset market's primary source of demand for international offsets from all active project regions.



Figure 41: Market Share by Buyer Organization Type, OTC 2012



Notes: Based on 75 MtCO<sub>2</sub>e associated with a buyer organization type.

Source: Forest Trends' Ecosystem Marketplace. *State of the Voluntary Carbon Markets 2013*.

Within these divisions, buyers hail from an array of sectors, business types, and in some cases carbon market roles<sup>6</sup>.

#### Private sector buys lion's share of offsets, NGO purchases grow

In 2012, the private sector was behind 90% of offset purchases. Here, multinational corporations in North America and Europe – from consultants Bain & Company to eBay – transacted the largest offset volume of any business category (27 MtCO<sub>2</sub>e – Figure 41). Close behind these organizations were offset buyers from domestic small-to-medium-sized enterprises, 82% of which were Europe-based. Suppliers explain that buyers of this size are prevalent in the EU simply because their awareness of carbon offsetting is raised by the presence of the EU ETS, whereas in North America, carbon offsetting is not such a household topic, so less common among small businesses.

Domestic corporations – think energy utilities and domestic transportation operators – transacted another 9.8 MtCO<sub>2</sub>e, followed by buyers in a “general private sector” category.

Another 8% of market share is split among non-governmental organizations (“NGOs”), the public sector, and individual buyers – twice the share these

types purchased in 2011. NGO buyers transacted 4.4 MtCO<sub>2</sub>e, more than the triple their 2011 market participation. While a large proportion of these buyers were unidentified, suppliers reported that 13% of NGO buyers run conservation-focused programs while another 4% were development-focused. The public sector made up a collective 2% of market share, hailing from governments in South Korea and Turkey, as well as a few UN agencies and development multilaterals. The public sector's share is expected to grow in 2013 based on examples like the one of German development bank KfW's which contributed \$24 million to Acre state's REDD development efforts that includes some offset purchase volume; and Australia's \$250 million commitment to buy domestic non-Kyoto compliant offsets.

While individual offsetting programs are some of the most public-facing offset offerings (à la travel offsetting or other point-of-sale offset options), purchases remained small (1.4 MtCO<sub>2</sub>e) but grew 17% from our 2011 market survey.

In reality, individual emissions from discrete activities are low, and opportunities for individual offsetting are growing fewer as offset retailers target their energies toward “upstream” emitters – like utilities, industrial facilities, manufacturers, shipping companies, and

<sup>6</sup> Because it is often difficult to connect prominent buyers with the year in which they bought offsets, this section references dozens of reportedly active offset buyers, but acknowledges that not all of them may have contracted offsets in 2012, but instead in the prior or current year.

Table 10: Buyer Profile: BP Target Neutral

Andrea Abrahams, Global Director of Target Neutral
Highlights
Official offset partner of the 2012 London Olympic Games
What criteria drive your offset decision?
1. Standard; 2. Community impact; 3. Vintage; 4. Project location; 5. Relationship to supply chain
What is your motivation for offsetting?
"To work with our customers on jointly taking action to reduce the environmental impact caused from the use of our products."
Is the voluntary offset market mature? How could it improve?
"Yes it is mature, especially due to the work of the International Carbon Reduction and Offset Alliance (ICROA) to set a Code of Best Practice, review standards and methodologies, and expose unscrupulous organizations."
Offset project types
Olympic portfolio: VCS+CCB A/R, Kenya; VCS biomass, China; Gold Standard landfill, Turkey; Gold Standard wind, New Caledonia; CAR landfill methane, United States; VCS + SOCIALCARBON biomass, Brazil.

Source: Forest Trends' Ecosystem Marketplace. *State of the Voluntary Carbon Markets 2013*.

retail product suppliers, where offsetting can be more efficiently embedded into products and services supplied downstream. Even the latest variation of a "climate neutral credit card", launched by South Pole Carbon and Swiss Cornèrcard in late 2011, offsets users' emissions using the card's marketing budget rather than taking the traditional route of letting cardholders cash in "points", as airlines like air SWISS permit for members' earned mileage points.

In other efforts to incentivize individual action, offset retailer BP Target Neutral offered to offset for free the travel emissions of all 2012 London Olympics attendees, who could sign up online or at the event – and over 500,000 did so. Airline operator TUI Travel features an "opt-out" function for its holiday packages, whereby if buyers don't actively opt out of the offset option, their travel emissions are offset. Virgin America flights enable travelers to purchase offsets from the touch screen on the back of airplane seats – making a direct connection between the offset purchase choice and the activity being offset.

## 4.2 Which Business Sectors Actively Offset Their Emissions?

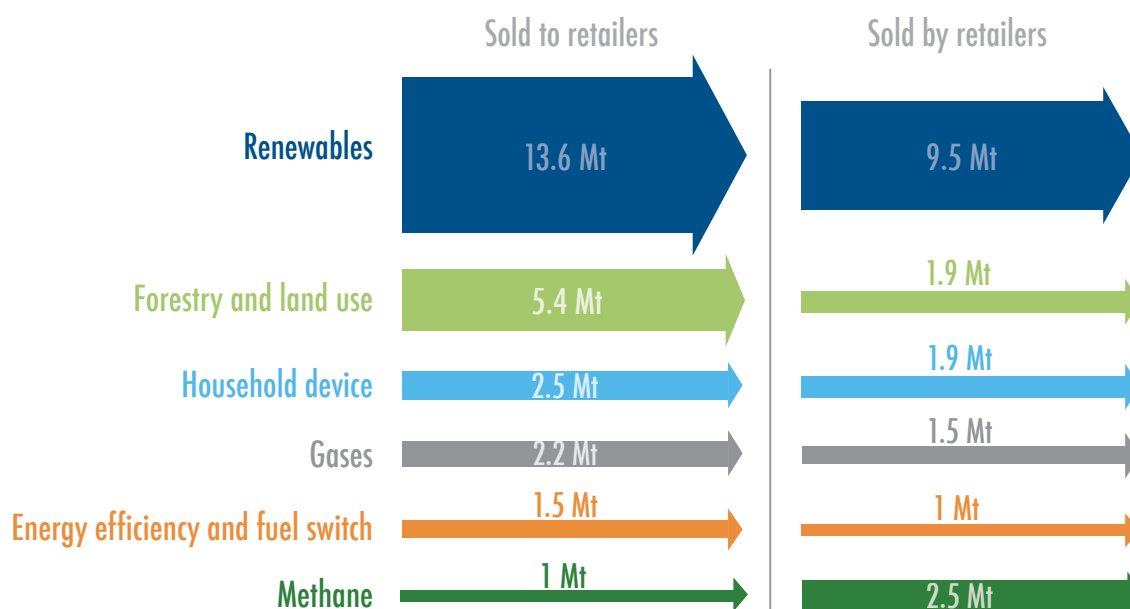
If and how companies choose to offset their emissions is often determined by their line of work. Some buyers choose to offset because their business is primarily

consumer-facing (like retail operations) or to offer offset options to their customers (like the transportation sector). Still others, because of supply chain or regulatory risks and opportunities (like manufacturers and the financial sector).

Last year, offset retailers were the voluntary market's most active offset buyer. Carbon offset retailers contributed significant value to the market, picking up over half of all project developers' transacted volumes and providing multiple services to offset end users. Overall, retailers bought or supplied 50 MtCO<sub>2</sub>e valued at \$230 million in 2012, roughly 51% of all transacted offsets and 45% of market value.

As described on Section 2.1, a large proportion of retailers' 2012 transaction volumes (both purchases and sales) was comprised of inexpensive renewable energy offsets for which they could obtain a sufficient margin in order to sometimes sell more expensive offset types at cost or at a loss, while continuing to pay project developers average or above-average prices (depending on the project type). This "basket approach" is also reflected in Figure 42, which illustrates a common retail strategy taken to remain profitable while continuing to add value to projects and clients. Of all retailer offset buyers captured in these findings, 83% were based in Europe.

Figure 42: Transacted Volume Sold to and by Retailers, OTC 2012



Source: Forest Trends' Ecosystem Marketplace. *State of the Voluntary Carbon Markets 2013*.

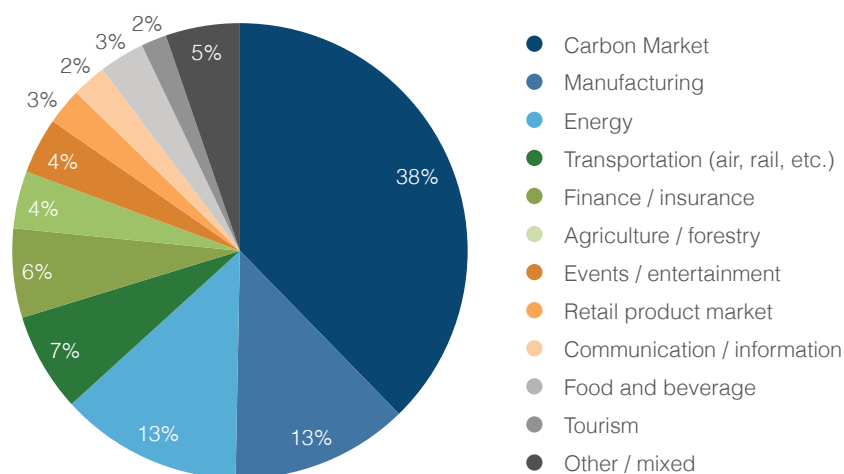
Among offset end users, manufacturing companies topped the chart, transacting 8 MtCO<sub>2</sub>e in 2012. Two-thirds of this volume was contracted to North America-based manufacturers like Chevrolet, while another 30% went to manufacturers in the UK.

Energy utilities were next in line, transacting 7.2 MtCO<sub>2</sub>e and primarily based in Europe (90%). Even though European utilities are capped under the EU ETS,

companies like Germany's ENTEGA offer customers carbon- or "climate-neutral" energy products, typically supporting co-benefits-heavy international offset projects. Suppliers say this type of action is likely to escalate if EU policy makers fail to address the region's deflated carbon price.

Companies in the transportation sector – particularly aviation – were another significant offset buyer in

Figure 43: Market Share by Buyer Sector, 2012



Notes: Based on 57 MtCO<sub>2</sub>e associated with a buyer organization type.

Source: Forest Trends' Ecosystem Marketplace. *State of the Voluntary Carbon Markets 2013*.

2012, behind another 4 MtCO<sub>2</sub>e of transacted offsets. This sector was represented by dozens of names worldwide, like Hostelling International, Qantas, Kenya Airways, TUI Travel, Spirit of Japan Travel agency, Virgin America and Virgin Atlantic, United Airlines, Amtrak, and Lufthansa. Suppliers say that, despite the transportation sector's enormous carbon footprint, this volume is not larger because most companies' offset programs still rely on individual travelers to voluntarily "opt in" to an offset transaction – and often not at the point of sale or travel.

Offsetting sporting and other events featured prominently among a few regions' top buyer motivations in 2012 – of which one of the most recognizable was BP Target Neutral's 2012 London Olympic Games offsetting program, which set a record for the largest number of individual attendees to offset their journey to a single event. A follow-up assessment of the program's performance, however, said that uptake could have been stronger if, over the course of the event, due media attention had been paid to global sustainability issues, including climate change. The Commission review concluded, ***"It will be important for future events to try and establish a baseline of changed consumer preferences resulting from engagement in travel offset programmes so that learnings can be gathered***

***about what works best and why, during and after the programme has been implemented.***" Other significant event offset programs included US-based utility Entergy's offsetting of the 2012 Superbowl XLVI and ongoing preparations for the 2014 FIFA World Cup, hosted in Rio de Janeiro, Brazil.

### 4.3 What Motivated Offset Buyers in 2012?

Reflecting offset retailers' sizable demand in 2012, the most common buyer motivation behind offset transactions was resale. Beyond this, Table 12 describes offset end buyers motivations, which saw a significant shift last year when we added a new motivation to our list of survey options – that of demonstrating climate leadership within a buyer's industry or in policy. This option was added in the 2012-13 survey based on feedback from several prominent offset buyers in 2011. As it turns out, they weren't alone in this motivation, which was the second most popular reason for private sector offset end use purchases, globally.

As in all previous years, though, CSR ranked at the top of the list, behind 14.3 MtCO<sub>2</sub>e of transacted offsets, a volume 33% less than in 2011. Suppliers say this decline is not only a function of the new survey question, which inherently overlaps with some CSR

Table 11: Buyer Profile: Volcom, Inc.

Derek Sabori, Senior Director, Department of Sustainability
Highlights
2012: Offset company-hosted surfing events, in addition to parent company Kering's (formerly PPR Group) existing offsetting commitment
What criteria drive your offset decision?
1. Community impact; 2. Standard; 3. Relationship to supply chain; 4. Project location; 5. Vintage
What is your motivation for offsetting?
"For all of our effort to reduce our environmental impact, we realized that we still have a carbon footprint. As we move along with our carbon reduction initiatives, the idea of offsetting what's left is becoming more tangible."
Is the voluntary offset market mature? How could it improve?
"Without a crash course on offsetting or someone to walk you through it, [offsetting] can be very overwhelming and easily bypassed and also hard to justify as an expense when pushing the idea up the company ladder – because it's such a unique market."
Offset project types
Volcom portfolio: VCS + CCB REDD in Kenya

Source: Forest Trends' Ecosystem Marketplace. *State of the Voluntary Carbon Markets 2013*.

intentions and resources. It also speaks to voluntary buyers' increasingly holistic take on offsetting as a "one-to-many" key to financially incentivizing internal and external climate, social and political action.

***"We need to go further than just having CSR," said Puma General Manager Martyn Bowen in a speech about the company's REDD offset investments. "We need to go further than just doing less bad. We need to start doing more good."***

Indeed, media and NGO communities have not always been kind to companies' choice to offset, to the extent that those who continue to operate in this space have formed increasingly sophisticated arguments for offsetting. It also might explain why, year-on-year, the volume of offsets transacted explicitly for marketing and public relations purposes continues to fall down the list of motivations (down 71% from 2011). In its place, demonstrating corporate leadership – particularly when the buyer is a "first mover" in their sector and in the EU and US where carbon price policies are weak to non-existent – increasingly motivates corporates who really want to offset. And in some cases, that's exactly how they're communicating it – "because we wanted to."

"The more we as a company learn about offsetting and how important these programs are, it just becomes more important," says clothing brand Volcom's Senior

Table 12: Offset End Users' Top Offsetting Motivations, 2012

Motivation	Ranking by % Share
CSR	34%
Demonstrating climate leadership	26%
Pre-compliance	19%
PR / branding	10%
Climate-driven mission / philanthropy	9%

Notes: Based on 42 MtCO<sub>2</sub>e associated with an offset end user motivation.

Source: Forest Trends' Ecosystem Marketplace. *State of the Voluntary Carbon Markets 2013*.

Sustainability Director Derek Sabori. "As far as our consumers go, I haven't had any feedback on our program and think it's a bit too esoteric to resonate with them. ***But it's a large concept that you have to appreciate no matter what. We've committed to it and will keep doing it.***"

Other examples of this kind of offsetting activism include both The Walt Disney Company's and Microsoft's self-imposed internal carbon tax levied on business

Table 13: Buyer Profile: Interface, Inc.

Buddy Hay, Assistant VicePresident, Sustainable Strategies
Highlights
Large-scale offset buyer for 10 years
What criteria drive your offset decision?
1. Standard; 2. Vintage; 3. Project location; 4. Community impact; 5. Relationship to supply chain
What is your motivation for offsetting?
"To provide our customers with a product that is carbon neutral for the full life-cycle – from raw material extraction to end of life of the project – in keeping with our company's Mission Zero goal."
Is the voluntary offset market mature? How could it improve?
"Yes. When the market today—with numerous projects available, globally recognized standards and web-based registries—is compared with the market 10 years ago, there is a tremendous difference that provides the structure and accountability needed to ensure that you are buying quality offsets."
Offset project types
Examples from current portfolio: VCS A/R, Guatemala; VCS + SOCIALCARBON biomass, Brazil; VCS fuel switching, US; VCS wind, China; VCS+CCB REDD, Kenya

Source: Forest Trends' Ecosystem Marketplace. *State of the Voluntary Carbon Markets 2013*.



divisions that incentivizes internal emissions reductions while operations realize the real business cost of carbon and also leverage the revenues raised to support their international offset programs. Also at REDD Talks, an event hosted by REDD campaign Code REDD in April 2013, Microsoft's Tamara "TJ" DiCaprio said that pricing carbon within the company has led to a sea change. "It was very important to start speaking about carbon in terms of dollars," she said. "The impact on the business has been significant. Folks are engaged now."

The desire to offset emissions regardless of the activity's "esoteric" nature also extends to other motivations, even branding and public relations. US-based Interface, Inc. purchases approximately 400,000 MtCO<sub>2</sub>e every year to make their product carbon neutral. Buddy Hay, who is in charge of the offset purchases for Interface, says that perhaps there may only a small subset of customers who fully appreciate carbon neutrality, but he still believes the company's Cool Carpets campaign gives them a market advantage. Talking about Interface's carbon initiatives "gives our salespeople another reason to get in front of their customer," he says.

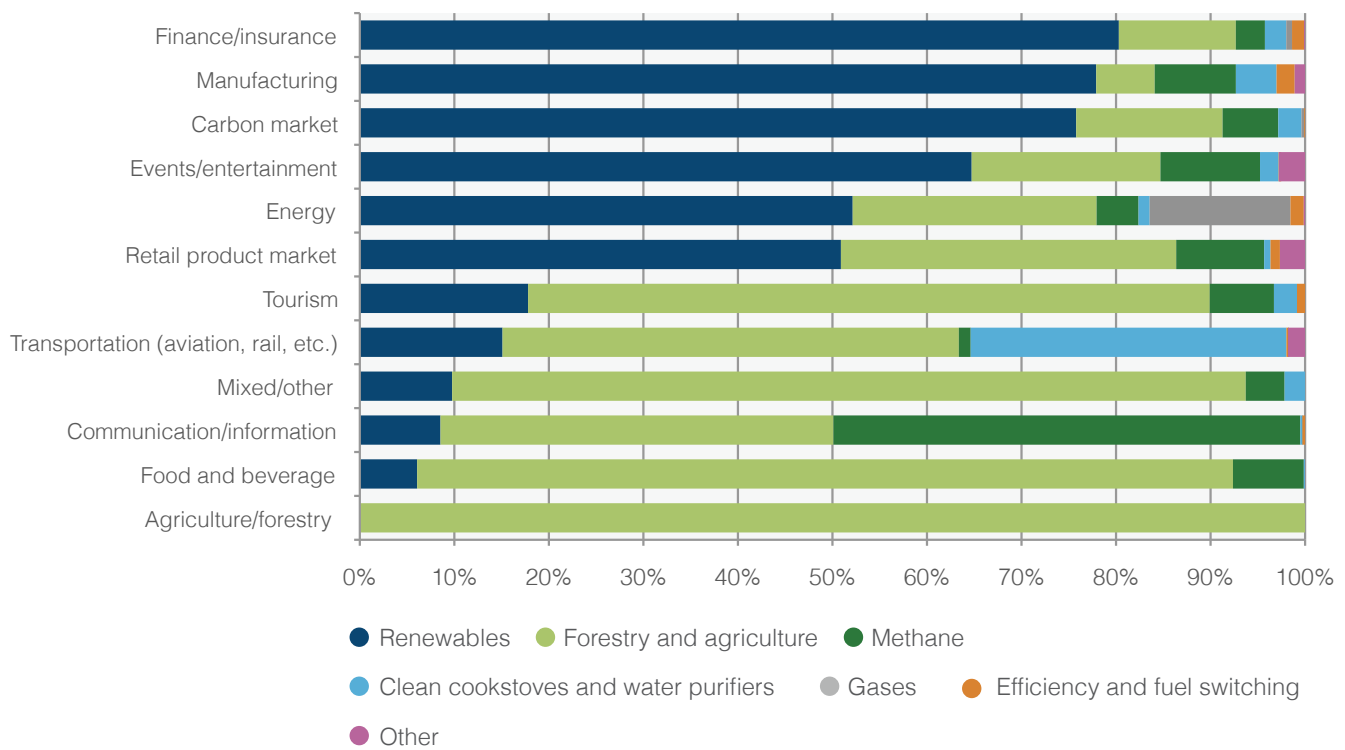
#### 4.4 Are Companies Considering Their Supply Chain in Offset Purchase or Project Investment Decisions?

Both Volcom and PUMA brands are subsidiary brands of Kering (formerly PPR Group) which took an early stake in REDD project developer Wildlife Works. Here, PUMA's employment of the Kasigau Corridor project's sustainable clothing factory into its production chain highlights offsetters' growing interest in supporting projects that have a real or symbolic relationship to their business model.

Despite the fact that supply chain management features prominently in the recent offset market conversation, no 2012-13 survey respondents reported buyers that supported projects directly impacting their scope 3 emissions or sphere of influence (a.k.a. "insetting"). Even so, Ecosystem Marketplace has tracked a few companies that are taking this approach to mitigate climate risks to their business models or stakeholders.

One example is US-based energy utility Entergy's support to Tierra Resources for the development of a delta wetland restoration project methodology

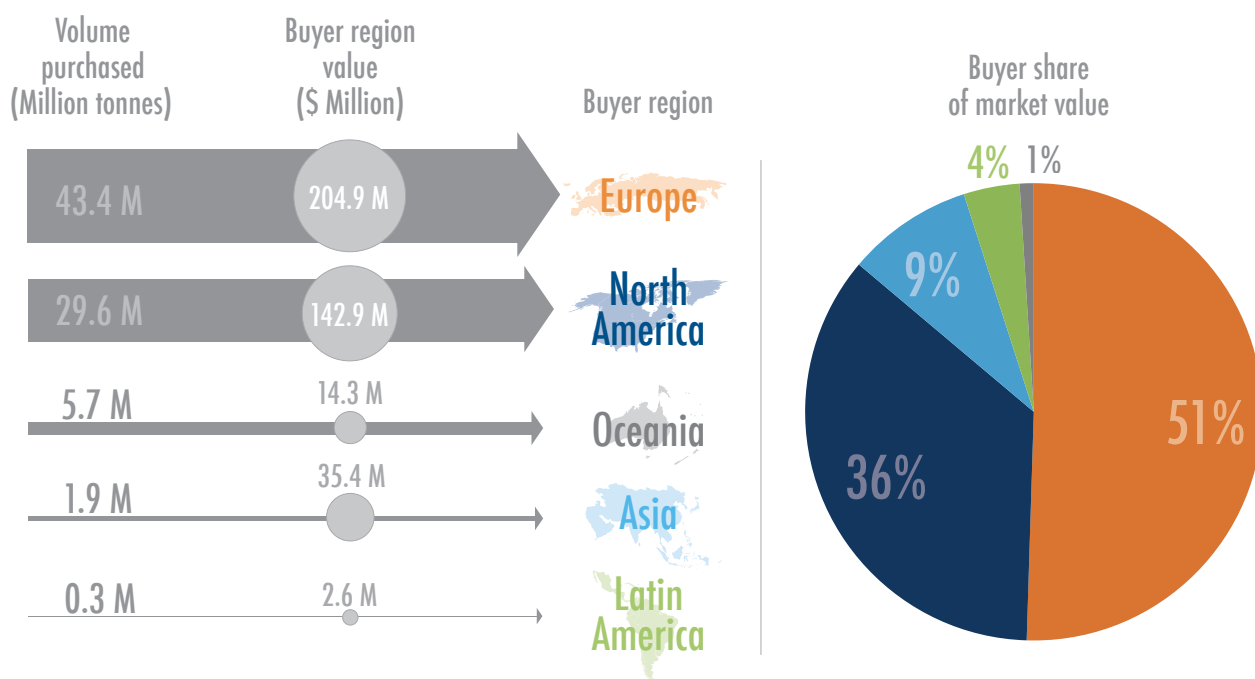
Figure 44: Buyer Sectors' Demand by Project Category, OTC 2012



Notes: Based on 57 MtCO<sub>2</sub>e associated with a buyer organization type.

Source: Forest Trends' Ecosystem Marketplace. *State of the Voluntary Carbon Markets 2013*.

Figure 45: Transacted Volume, Value and Average Price by Buyer Region, OTC 2012



Notes: Based on 81 MtCO<sub>2</sub>e associated with a buyer region.

Source: Forest Trends' Ecosystem Marketplace. *State of the Voluntary Carbon Markets 2013*.

to be piloted in Entergy's southeastern US service region. Chuck Barlow, Entergy's vice president of environmental strategy and policy, describes the project's potential risk mitigating implications for their service area infrastructure. ***"With operations that include Louisiana, Mississippi, and Texas, Entergy values wetlands as a first line of defense against storm surge and flooding, and their protection and restoration are vital to the sustainability of coastal Louisiana," Barlow says.***

Another inseting example is Swiss retail group Co-op's direct investment in the development of a Gold Standard clean cookstove aimed at benefitting the community in and around Kenya's Oserian Flower Farm – one of Co-op's suppliers of Fairtrade- certified roses. ***"As a responsible retail company it is natural for us to engage in projects that improve the living conditions for the people working along our supply chains" notes Peter Küng, Co-op's Head of Purchasing Flowers & Plants, in the context of its 2012 media outreach.***

While our report survey did not track any direct inseting on the part of 2012 buyers, analysis does indicate a relationship between the types of offsets

being contracted and buyers' business activities or environmental impacts. While not analyzed in this report, suppliers and buyers also describe the important connection between where they do business and the choice of offset project location. As seen in Figure 44, noteworthy examples sectoral offsetting relationships are seen among buyers in the agricultural and forest products sector (73% of offsets transacted from the land-use and forestry sectors); the food and beverage industry (74% of offsets transacted from the land-use and forestry sectors); and manufacturing sector (80% of offsets transacted from energy efficiency and renewable energy projects).

#### 4.5 Where Are Offset Buyers Located?

This report examines buyers' market share not only by the region, but also the country where they or their businesses are located. In 2012, suppliers reported transacting offsets to buyers in 29 countries around the globe, representing three more country locations than in 2011, and from both developed and developing countries.

Regional market dynamics are explored in more depth in the report section Regional Market Deep

Table 14: Volume and Value Transacted by Buyer Region and Top Country Locations, OTC 2012

Location	Volume (MtCO <sub>2</sub> e)	Value (\$ Million)	% Share (Volume)
Europe	43.4	\$205	54%
Of which United Kingdom	22	\$80	
Of which Netherlands	5	\$24	
Of which France	4.8	\$31	
Of which Germany	4.6	\$22.5	
Of which Switzerland	4.5	\$44	
Of which Sweden	0.4	\$3	
Of which Spain	0.2	\$1.4	
North America	29.6	\$143	37%
Of which United States	28.6	\$137	
Of which Canada	1	\$6.4	
Oceania	5.7	\$14	7%
Of which Australia	5.6	\$14	
Asia	2	\$35	2%
Of which Japan	0.5	\$19	
Of which Korea	0.15	\$1.6	
Latin America	0.3	\$3	0.4%
Of which Brazil	0.2	\$1.5	

Source: Forest Trends' Ecosystem Marketplace.  
*State of the Voluntary Carbon Markets 2013.*

Dive. At a high level, buyers in the EU remained the voluntary offset market's primary source of demand for international offsets from all active project regions – even transacting a small volume of offsets from North America. A full 39% of offsets sold to this region were contracted to offset retailers to supply to their end clients. Combined, European retail offset suppliers are the world's primary hub for purely voluntary carbon management services.

Offset buyers in the US were reported as the most active offset market in a single country. In contrast

to European buyers and in keeping with previous years' findings, US-based offset buyers continued to primarily seek offsets from projects within their border. While some suppliers don't see this dynamic changing any time soon, others point to Microsoft's high-profile, internationally-based offset portfolio as a sign that multinational corporations' offset choices may begin to reflect their growing awareness of offsetting as a tool to address their international business impacts and risks.

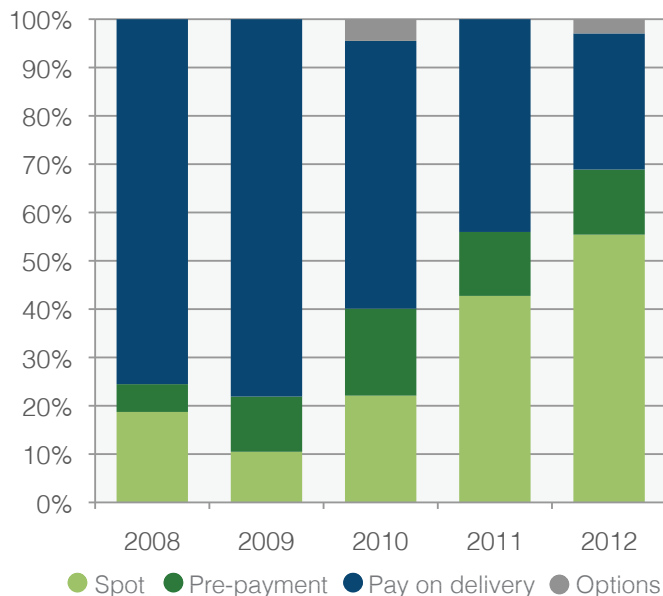
Beyond Europe and North America, offsetting in developing country regions remained muted in 2012. Developing regions worldwide reported carbon price mechanisms under development, however, that may eventually turn some locations from international sources of offset supply into regional sources of demand. Recent examples include several country-level proposals to the World Bank's Partnership for Market Readiness (PMR) that describe countries preparing to design or implement domestic carbon price mechanisms. Costa Rica and Turkey, for example, aim to harness voluntary market activities to inform or underpin their near-term efforts. Other programs, including some of China's domestic pilots and South Africa's draft carbon tax, indicate a willingness to recognize offsets certified to standards that were originally developed for voluntary buyers.

Offset suppliers have long awaited this kind of regulatory affirmation of voluntary market maturity and new market development, but are realizing that developing country-based offsetters require a significant amount of up-front capacity building.

"Buyers in Latin America are generally not yet an educated market," points out South Pole Carbon's Christian Dannecker, "and even if they know to seek out tonnes that use a credible standard, sometimes there is no supply available in their country or the offset price is too high because it's targeted at international buyers."

Colombia's emerging voluntary market, as well as corporate engagement programs through the Santiago Climate Exchange, have already begun engaging the domestic private sector in order to build both domestic supply and capacity for offset market engagement. These efforts have begun to pay off, seeing prominent purchases of domestic offsets from notable companies including Brazil's Natura Cosméticos; Chilean wine producer Concha y Toro; and Brazilian media conglomerate Grupo Abril. Elsewhere, Hilton Asia announced a regional events offsetting program to support Asia-based forestry and clean cookstove

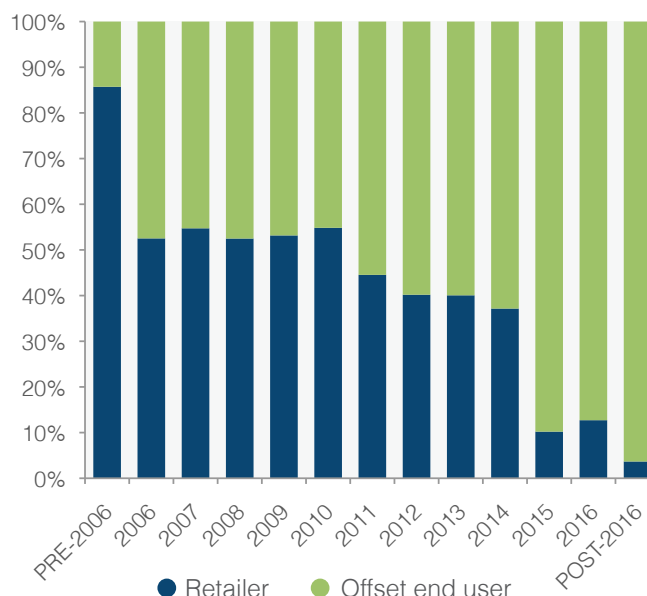
Figure 46: Historical Market Share, Transacted Volume by Payment Method



Notes: Based on 65.5 MtCO<sub>2</sub>e associated with a contract type.

Source: Forest Trends' Ecosystem Marketplace.  
State of the Voluntary Carbon Markets 2013.

Figure 47: Transacted Volume by Vintage and Buyer Type, OTC 2012



Notes: Based on 65.5 MtCO<sub>2</sub>e associated with a contract type.

Source: Forest Trends' Ecosystem Marketplace.  
State of the Voluntary Carbon Markets 2013.

projects, while state-owned South African Airways said it was exploring the possibility of implementing a voluntary domestic forestry offset project.

#### 4.6 What Were the Terms of Payment and Offset Delivery?

Offsets contracted voluntarily are obtained “over-the-counter,” where transactions are guided by several types of contract structures, including:

**Spot transaction:** Offsets and payment are exchanged instantaneously. Some organizations also accept payments to retire offsets on the payee's behalf. This type of transaction may be included in this category or in the “pre-payment” category, depending on the offset project's stage.

**Pre-payment versus Pay-on-Delivery (POD):** Future offset delivery (may be near or distant future) is paid for up front (Pre-Pay) or upon delivery (POD). Pre-payment is typically preferable to project developers seeking up front project financing, but may incur a discount depending on the potential delivery risk incurred by the buyer.

**Firm versus Unit-Contingent delivery:** Contracts also specify the quantity of offsets to be delivered, either

as a “firm” volume or a flexible volume contingent upon how many offsets the project eventually issues. Pricing for these different options can vary according to lots of other factors that are described throughout this report.

In 2012, a sizeable portion of market value (64% associated with a contract type or \$170 million) was paid to offset sellers at the point of transaction rather than offset delivery – primarily via spot contracts (35.6 MtCO<sub>2</sub>e, up 25% from 2011) and pre-payment for future delivery (8.7 MtCO<sub>2</sub>e, down 1% from 2011). Another \$97.5 million will be paid in future years, if and when the projects under contract deliver verifiable reductions. As seen in Figure 46, this finding reflects a significant shift in contract structures favoring upfront payments as the volume of verified tonnes has grown over time, boosting both offset supply and buyer confidence that projects are capable of verifying GHG reductions and delivering offsets.

Some project developers say that the year's lower reporting of investment in new project activities is partly related to just this – a focus on offset delivery and ensuring sustainability of existing projects rather than piloting new projects.

**“Now that we have issued credits, we're focusing on moving those rather than on doing complicated**



**new contracts,” says Conservation International’s Agustin Silvani of the organization’s Peru-based REDD project. “Offset issuance gave us some breathing room. Once you get into a cycle of verifying reductions every year or two, you can focus your energies on finding the capital to support the project.”**

The way in which offset payment and delivery are contracted does ultimately influence their price, as seen in Table 15. Here, spot contracts see the lowest unit prices, though this price is the aggregation of millions of contracted tonnes, the prices for which vary highly by other factors like project type and standard (Figure 38).

Contracts specifying a firm delivery of tonnes (as opposed to a delivery volume that is contingent upon the volume of tonnes issued to a project) were associated with the highest average prices. This reflects a lower risk to the buyer if the contract places a liability on the offset supplier to make up any shortfall with tonnes from other projects in the marketplace; from future issuances from the same projects; or via refund or other arrangement.

With regard to forward transactions, as seen in Figure 47 we tracked a larger volume of offsets from future vintages contracted by offset end users, rather than by offset retailers. As seen in several regional figures that track price by vintage, the vast majority of forward contracts were associated with offset projects in North America and thus represent pre-compliance activity, rather than purely voluntary offset project investment. On the purely voluntary side of the marketplace (i.e., the market for offsets from projects in developing countries) less than a dozen forward contracts occurred and primarily between project developers and (again) end buyers of forest carbon offsets.

Table 15: Transacted Volume and Average Price by Payment and Delivery Terms

Payment Type	Delivery Type	Volume (MtCO <sub>2</sub> e)	Average Price
Spot		35.6 M	\$3.4/t
POD	Unit contingent	13.1 M	\$4.2/t
Pre-pay	Unit contingent	4.7 M	\$5.5/t
POD	Mix, unit contingent and firm	2.1 M	\$5.5/t
Pre-pay	Mix, unit contingent and firm	1.3 M	\$7/t
POD	Firm	3 M	\$9.3/t
Pre-pay	Firm	2.7 M	\$9.3/t

Notes: Based on 65.5 MtCO<sub>2</sub>e associated with a contract structure.

Source: Forest Trends’ Ecosystem Marketplace.  
State of the Voluntary Carbon Markets 2013.

As one offset retailer puts it, the retail sector’s lack of forward offset contracting is “not for lack of trying.” They and other retailers explain that their investments are primarily tied to individual offset clients’ demand for supporting new project activities, which may remain piecemeal and small as long as abundant supplies of issued offsets are available for the full range of project types.



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