Producing and Selling a Voluntary Carbon Offset

Producing a Voluntary Offset

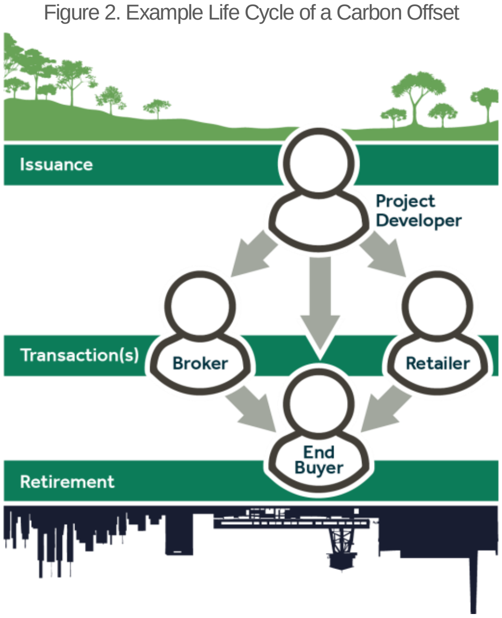
In order to generate offsets, a project developer must complete a rigorous process in order to ensure that real, quantifiable emissions reductions have been achieved. Although the process can vary, most follow a similar series of steps (Figure 1).

Figure 1. Project Development Process for Carbon Offset Projects

Once the project developer has decided on their project activities, they begin to work on a Project Idea Note. This first step focuses on early-stage preparations, like generating a project plan, assessing the project's feasibility, impacts, and risks, and/or engaging with local stakeholders.

Next, the project developer makes more concrete plans in a Project Design Document. The developer provides information about the project's anticipated emissions reductions, plans for quantifying and monitoring the delivery of climate and other social and environmental benefits, and a demonstration that the project's activities exceed "business-as-usual" reductions and avoids emissions leakage.[1]

Figure 2. Example Life Cycle of a Carbon Offset



These plans and assumptions are then "validated" by a third-party auditor. After the project has been implemented and monitored over a period of time, another audit process called "verification" assesses the delivery of greenhouse gas mitigation. Only after the project has successfully passed each of these steps can the project developer begin to issue tradeable offsets.

Selling a Voluntary Offset

Once a project developer issues offsets, s/he can sell them. But with no centralized voluntary marketplace, finding a buyer can be a multi-step, challenging process. Some project developers sell their offsets directly to end buyers. Others sell their offsets through a broker or an exchange, which provide platforms for buyers and sellers to meet; still others may sell to a retailer, who then resells offsets to an end buyer.[2]

The transaction phase includes any time an offset is sold. Yet once an end buyer is ready to claim that offset against their own emissions, s/he should retire it. Retired offsets are no longer able to be traded in the market, and represent emissions that are permanently "removed" from the atmosphere.

[1] Leakage means that emissions are simply displaced to a different location, instead of avoided altogether. For instance, if a forestry project claimed to avoid emissions by preventing deforestation, but resulted in other forests being felled.

[2] We define brokers/exchanges and retailers by offset ownership; retailers take temporary ownership of an offset, while brokers and exchanges do not. However, there are many other differences as well. Retailers are more likely to walk companies through the process of offsetting and provide more tailored, customized advice.