

LGiU

LOCAL GOVERNMENT
INFORMATION UNIT

CO₂T

CARBON TRADING COUNCILS
A PROSPECTUS

INDEPENDENT INTELLIGENT INFORMATION 2007



‘CLIMATE CHANGE IS EVERYONE’S CONCERN. THE LGIU’S NEW CARBON TRADING COUNCILS SCHEME PROVIDES THE FRAMEWORK FOR EFFECTIVE LOCAL GOVERNMENT ACTION AND A POSITIVE SYMBOL OF COMMITTED LEADERSHIP. JOIN THE FOUNDER MEMBERS OF THIS INNOVATIVE SCHEME NOW’

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PART 1: CARBON TRADING COUNCILS — THE ENTERPRISE

An invitation

The Local Government Information Unit (LGIU) is inviting forward-thinking local authorities to join the founding core of an innovative carbon budget and trading scheme, initiated by local government for local authorities and their communities. The scheme will be developed in 2007 for launch in 2008. We will initially work with up to 20 local authorities before roll-out to the entire sector.

Launch partners will be asked to contribute to the development costs of the scheme and, as pilots, will benefit from early access to its service and the ability to shape its key parameters.

Definition

Carbon Trading Councils — **CO_T** — is a scheme, managed by the LGIU, which will enable local authorities and approved partners to commit to a path of reducing carbon emissions.

By putting a price on carbon emissions **CO_T** will incentivise action to tackle climate change.

At its core is a system for issuing tradable carbon permits. These are allocated to each council based on an audit of their activity and will provide their annual carbon emission budget. The LGIU will issue the carbon permits annually and will decide their cost each year in consultation with experts and members of the scheme.

In order to drive emissions down, carbon budgets will decline annually, while the price of tradable carbon permits will rise — encouraging each council to stay within its carbon budget.

Carbon trading, that is the buying of permits to enable an increase in emissions or the selling of permits made possible through a reduced level of emissions, will be done through financial transactions. Should a member of the scheme require additional carbon permits to those budgeted, they can be bought, if necessary, at a premium from a member with a surplus to sell.

The **CO_T** scheme will have local authorities at its core, but will be open to other local organisations — private, public and community-based — provided they accept the principles of carbon budget-setting and the tradable permit system.

CLIMATE CHANGE

Climate change is accepted as a scientific fact and the vast majority of scientists involved in its research now believe that there is a direct link between emissions and climate change. Emissions of certain gasses — the most common of which is Carbon Dioxide — form a film in the atmosphere that prevents the heat of the sun from being dissipated into space, causing a greenhouse effect.

Major threats associated with climate change are desertification of wide areas of the temperate zones due to lower precipitation and rising sea levels due to melting ice packs. This will lead to increased flooding of low-lying areas.

Climate change generates positive feedback loops — in other words, the process feeds on itself and accelerates. For example, as polar ice caps melt, the area covered by bright, reflective matter shrinks and is replaced with a darker, heat absorbing surface. As temperatures rise and precipitation patterns change, natural forests are more prone to fire damage. The fires generate greenhouse gasses and in their aftermath, the forest cover is smaller. More such positive feedback loops occur, and they mean that the pace of climate change is predicted to accelerate dramatically unless global action is taken.

Even if drastic action is taken immediately, the globe will continue to become hotter because there is a lag between heat absorption and warming.

Benefits of the scheme

Participation in the scheme will:

- Enable councils to focus their efforts to reduce carbon emissions and become local and national leaders in this effort.
- Position local authorities as the pace-setters on carbon reduction and as leaders in a bottom-up movement to combat climate change.
- Support the efforts of the majority of councils that will not be covered by the government's planned compulsory emissions trading scheme because their energy use falls below the proposed threshold.
- Engage businesses, public sector organisations and communities in carbon reduction.
- Lay foundations for a global carbon budgeting scheme — a leading contender to replace the Kyoto Agreement in 2012.
- Confer on members the right to display the **CO_T** logo, reflecting their commitment to carbon contraction and carbon accountability.

The proposer — the Local Government Information Unit (LGIU)

The LGIU is a leading UK independent think-tank for local government. It is a charity and local government company, governed by representatives of more than 150 affiliated local authorities and trade unions. Established in 1983, it provides policy analysis, training and other services both to affiliates and to a large number of other local bodies. The LGIU employs a staff of more than 35 at its headquarters in central London. Since its inception, the LGIU has been a key campaigner for local democratic governance and the leadership role of local authorities.

Through its newly launched Centre for Local Sustainability, the LGIU is committed to developing high-impact policies and practical ideas for addressing the local dimension of issues such as climate change, liveability and sustainable economic development.

What the LGIU plans to provide for members of the CO₇ scheme

1. Support and advice on measuring their carbon footprints.
2. Benchmark emission targets for specific types of facilities and activities.
3. A forum for agreeing carbon reduction rates — that is contraction budgets — which over time will yield a rapid reduction in carbon emissions.
4. A process for calculating and issuing annual carbon permits for member councils, with the number of permits contingent upon benchmark emissions and the agreed contraction rate.
5. An independent forum of experts to help set the price of carbon permits.
6. A trading facility through which councils can trade carbon permits.
7. Training for officers and members involved in implementing the scheme and its day-to-day management.

The LGIU will engage with recognised experts in the appropriate field to provide a high-quality support service.

Being a member of CO₇: how the system works in practice

Roll-out of the scheme is in stages to enable each member local authority to undertake the necessary information gathering, benchmarking and development of internal monitoring structures. However, once some benchmarking and monitoring have taken place, the scheme is modular, enabling individual authorities to expand its scope according to local circumstance — while maintaining a commitment to the contraction rate set by the scheme.

Implementation stages:

1. Data gathering and benchmarking
2. Department-level implementation in an individual authority
3. Intra-authority trading
4. Inter-authority trading
5. Inviting commercial and public sector non-council carbon emitters to join a local scheme
6. Developing residential community schemes
7. International schemes — towards contraction and convergence

CARBON REDUCTION AND CARBON TRADING

UK policy towards carbon reduction has been based on harnessing the power of markets to deliver carbon emission reduction from major emitters. This policy is based on the European Emissions Trading Scheme, with carbon permits issued to industries and traded. The European system has targeted intensive energy users such as chemical industries. The government has recently updated its proposals for a carbon cap and trade scheme for non-intensive energy users, which includes local authorities. The new scheme, announced in the energy White Paper published in May 2007, is called the Carbon Reduction Commitment and replaces the Energy Performance Commitment. It will apply to large energy users within business and the public sector and overall will be setting a declining cap. The scheme will start in 2010 at the earliest and the government estimates at present that it will apply to organisations with energy bills of over £500,000 a year.

The LGIU's scheme will be available earlier than the Carbon Reduction Commitment and will be offered to all users. Its design will make for an easier transition into the mandatory scheme. In contrast with the government-proposed scheme, CO₇ is open to, and specifically designed for mobilising, communities rather than remaining an arrangement between central and local government. As befits the LGIU's mission, CO₇ is a scheme designed for and around local leadership and communities.

Stage 1: data gathering and benchmarking

The first stage in the **CO₂** scheme involves council departments or facilities of the local authority being allocated an annual carbon budget alongside their monetary budget.

The budget should reflect the existing commitments and infrastructure of the department in question. To capture this baseline, a carbon emission survey is necessary — you may have done this as part of a Carbon Trust Carbon Management programme. The LGIU's Carbon Zero Councils framework (available from the Centre for Local Sustainability) also provides a list of areas where you should measure your carbon emissions.

Year 1 carbon permit allocations should be based on the status quo minus the gains achievable through good housekeeping, efficiencies and changes in purchasing policies. Beyond year 1, the goal will be to move rapidly towards the lowest possible carbon emissions.

During year 1, the LGIU will seek funding to collate a set of benchmarks for typical local authority functions and these will be made widely available. From year 2 onwards, these benchmarks (that will themselves improve constantly) will form the basis for departmental carbon budgets.

There are divergent views on how to calculate the emissions of any facility. One can look at the building and its suppliers — how much carbon is used for heating and lighting and how much is embedded in supplies such as paper and food. A wider measure would include the carbon used by people in travelling to the facility. Ideally, the emissions resulting from users travelling to a facility should be included in its carbon budget, encouraging schemes such as safe cycle routes and special bus services that reduce transport-related emissions.

PARTNER OPPORTUNITIES: The LGIU is seeking to develop partnerships with providers of carbon audit services to assist our members in preparing their baseline reports and collating benchmarks.

Stage 2: department-level implementation in an individual authority

In a participating local authority, a decision will be taken as to which departments and facilities to include in the scheme and a timetable will be set for its application to the entire council. We anticipate that this process will take no longer than three years, with departments entering later still being subject to the more limited carbon budgets that will apply then because of contraction. This requirement should create an incentive to tackle the biggest emitters first.

In year 1, once departments and facilities have been allocated their carbon budgets, they will monitor their carbon use and make judgments on a monthly basis as to whether they will need to buy additional carbon permits, or are in a position to sell them. The cost of meeting carbon needs or revenue from selling surpluses will accrue to the department.

Alongside maintaining their carbon budget, departments will be required to develop carbon reduction plans so that they can successfully meet a progressively contracting annual carbon budget. Funds should be available to departments to invest in reducing emissions — with council climate change officers agreeing cross-council priorities for investment.

Stage 3: intra-authority trading

The LGIU will support intra-council trading by providing a generic set of trading tools. LGIU experts will advise members (free for founding members in their first year of trading, subject to a time limit)

on setting up the trading scheme, appointing a trade coordinator, and will provide a support network for the trade coordinators.

Stage 4: inter-authority trading

As soon as there is more than one local authority in the scheme and carbon budgets have become operational, there is scope for trading between councils. The LGIU will provide a listing facility and register trades to ensure a reliable record exists of all permits in circulation. Once demand justifies it, an electronic trading platform will be adopted.

We anticipate that paying for extra carbon use will produce an incentive to use less energy over time, ensuring a low burden of cost, if any, in the longer-term. The presence of carbon budgets may encourage bringing forward schemes to slow down climate change. This will be more beneficial than implementing the same schemes at a later date.

PARTNER OPPORTUNITY: The LGIU will be looking for partners, possibly established in commercial trading systems or providers of shared services to local authorities, to provide an electronic trading platform for carbon permits. Franchise arrangements could be possible.

Stage 5: inviting local commercial and public sector non-council carbon emitters to join a local scheme

Once a council has started implementing its departmental **CO₂** scheme, it can invite other local organisations to join. For example, a local supermarket could join the scheme. It would have to pass the same measurement and benchmarking stage as a council department or facility, and agree to abide by the contraction rate of the scheme. It would then be issued with carbon permits by the scheme that

INTERNATIONAL CONTRACTION AND CONVERGENCE

The LGIU supports moves towards a contraction and convergence approach to reducing global carbon emissions. Contraction and convergence proposes a global agreement on amounts of carbon emission permits to be allocated to countries on an annual basis. The overall quantity of permits would contract from one year to the next — hence the term contraction. Permits would be allocated on a per-capita basis and their volume would reflect a trend towards the average per capita emission that is consistent with arresting runaway climate change. The system will favour developing countries whose per capita carbon use is low, and support low-emission routes to development.

The allocation of carbon permits between nations starts from the unequal distribution of the status quo. However it converges to an equal per capita distribution over an agreed timescale. Converging access to these increasingly valuable permits supports a convergence in levels of development. The idea of contraction and convergence is particularly persuasive as it addresses two key threats to humanity — climate change and unequal development — in one framework.

Carbon Trading Councils could foreshadow a contraction and convergence model by agreeing voluntary twinning with localities in the developing world. For example, a town in the UK could twin with a town in — say — Tanzania and support its low-carbon development. The aim would be to create a visual, personal picture of what climate change means globally and to encourage people to think outside their immediate needs and focus. The Fairtrade movement has achieved a similar success in showing UK consumers that even very small changes in their behaviour can have a notable impact on lives of people who are growing foods or making goods in developing countries.

CARBON OFFSETTING

An available and heavily promoted route to reducing carbon footprint is carbon offsetting. This works through enabling an emitter of greenhouse gases to invest in schemes that reduce greenhouse gas emission in another location — for example, distributing low-energy light bulbs in a developing country.

The Carbon Trading Councils scheme does not preclude offsetting. However, carbon offsetting should be a last resort as it does not reduce the overall level of emissions. The first commitment should be to deliver steady reductions in carbon emissions, and having an internal mechanism that ensures that carbon awareness is as pervasive as budget awareness, should produce gains that require a smaller residual amount of carbon to be offset.

Carbon offsetting schemes present difficulties to the prudent local authority, for three reasons at least. First, their effectiveness and even honesty are, in many cases, in doubt. Second, even a good scheme has the effect of taking money from payers of a local council tax and sending it outside the locality. Third, carbon offsetting does not operate with the discipline of a declining emissions cap.

These reservations suggest that becoming part of the CO_T scheme is a preferable first resort to offsetting. If offsetting of residual emissions is unavoidable, the LGIU encourages developing carbon-saving schemes within the local community, which are verifiable and re-invest community funds locally.

would be tradable with other local authorities or businesses. Consequences of engaging with the scheme could be radical. For example, for a supermarket to achieve its emission target it might well need to minimise car-based travel to its site. This could be done through door-to-door delivery or setting up collection points in communities.

Stage 6: developing residential community schemes

At a scheme member's discretion, membership can be offered to residential properties — either individually or through neighbourhood-wide schemes. A residential scheme would present greater challenges in terms of monitoring emissions and facilitating trading. The LGIU will set up a working party to examine how a residential scheme could be part of the CO_T scheme.

Stage 7: international schemes — towards contraction and convergence

Carbon emissions are a global problem requiring global solutions. The LGIU will initiate a feasibility study for recruiting towns and regions from less-developed countries to the scheme, informed by the global contraction and convergence framework.

PARTNER OPPORTUNITY: Funding the feasibility study on expanding the Carbon Trading Councils scheme to less developed countries.

Funding the CO_T scheme

The LGIU is seeking development funding and the cooperation of founding members from among local authorities, to develop the CO_T scheme in the second half of 2007. Running costs will be covered through a mixture of membership fee, transaction fee and grant funding to develop the system. For opportunities to be part of this exciting venture, please refer to Part 2 of this prospectus.

PART 2: JOINING THE CO_T SCHEME

Local authority founding members

The LGIU is inviting local authorities to become founding members of the CO_T scheme. Our aim is to have up to 20 local authorities involved in the scheme's development in its first year, with several ready to implement carbon budgets from April 2008.

The joining fee for the initial development phase is £500 or £1,000 per local authority depending on size (under or over 150,000 population). These funds will contribute solely to offsetting the LGIU's direct costs. Members of the scheme will be involved in setting the fees for its subsequent development and operation.

Partner and sponsorship opportunities

The LGIU will be seeking sponsors for elements of the programme, including developing a trading system.

The small print

'Carbon Trading Councils' and the CO_T logo are LGIU trademarks.

The Carbon Trading Councils scheme is a proposed enterprise and initial participation carries risk. Although the joining fee is low it will not be returned. The LGIU will disseminate its methods and practical lessons learnt from the scheme to scheme members, LGIU affiliates and in wider communications. A key initial benefit of joining will be access to the learning from the scheme.

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**Carbon Trading Councils is
an enterprise of the LGU—
innovating local government**