Group certification and certificate trading briefly explained

CO2 certificates are emission credits that are issued for ecological and, to a large extent, social and participatory projects. Through the price to be paid for them, they indirectly reduce greenhouse gas emissions for the buyer on the one hand and at the same time directly create economic independence for the projects or sellers. The projects are evaluated by international bodies and regularly monitored to prove the amount of CO2 removed from the atmosphere through reforestation measures, soil regeneration and the use of renewable energies. This process is called carbon certification.

For a given project to receive CO2 certificates from a recognised certification body, it must go through two main steps: it must be **validated** and **verified**. For validation, inventory data must be recorded. Future measures must be defined and their ecological and social impacts quantified. The calculations to be carried out here are based on algorithms specified by the certification body. The project owners who have to carry out this task summarise all data in a 200-300 page document: the so-called **P**roject **D**esign **D**ocument (PDD).

After completion, the Project Design Document is submitted to the certification body and checked by auditors on site in the project area. If all data and calculations are correct, the project owners receive positive feedback. This means that the project, or rather the project design, has been successfully validated.

Now the second step can begin: The project managers, together with the smallholders and forest owners, have to implement all the defined measures. The certification body again sends auditors to the project area to verify the correct implementation of the measures. Successful verification then prompts the certification body to distribute the desired certificates in the final step.

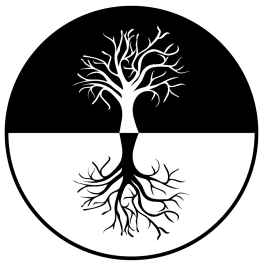
The certification body acts as an independent auditing institution. It verifies according to the criteria of the requested certificate standard, of which several are now recognised internationally and nationally. The first of these standards was defined by the united nations in the course of the Kyoto Protocol and bears the name CDM, which stands for **C**lean **D**evelopment **M**echanism. Mostly very large projects of governmental or bilateral development cooperation are certified according to the CDM standard. The CDM certificates are traded on the so-called regulated carbon market. They are used to enable large emitters of carbon dioxide (and other greenhouse gases) to offset their emissions. This market is regulated because the individual countries determine the number of certificates that can be traded each year according to their pledged climate targets. This influences the price of the individual certificates, which gives the large national emitters an incentive to reduce their emissions.

In addition to the regulated carbon market, there is also a voluntary carbon market. On this market, there is no regulation of the amount of certificates traded. Therefore, the price of a certificate standard on the voluntary market is (still) below that of the regulated market. This market is called

"voluntary" because companies and even private individuals can offset their emissions there on a voluntary basis. The certificates are traded on exchanges where other commodities are also traded. Companies or private individuals cannot buy certificates on these exchanges themselves, but must do so through a broker. The brokers are subject to exchange supervision and must have an account with the certification bodies whose certificate standard they sell. On this account the numbered certificates are held. If interested buyers can be found, certificates can also be sold directly. In this case, an individual price is then negotiated independently of the exchange price. The brokers are responsible for "deleting" the certificates after they have been sold and as soon as the buyer wishes to do so. This means that a buyer can buy certificates from a broker today and in return receives a document with the number of the certificate, whose status can be viewed in a public database of the certification body with the help of this number. He receives another document for the cancellation of this certificate as soon as he redeems it for the purpose of offsetting his emissions. Each certificate offsets the emissions of one tonne of greenhouse gases, measured in carbon dioxide equivalent.

Carbono Local wants to perform a dual role in the future. It will register as a broker with one of the voluntary market's commodity exchanges and at the same time act as a project developer. This will ensure that the profit from the sale of the certificates of their projects will directly benefit the project participants because there is no extra brokerage commission. In the meantime, large issuers such as energy suppliers buy their certificates not only on the regulated market but also on the voluntary market, which is why a gradual alignment of prices is to be expected. In December 2021, the average certificate price on the regulated market is over €70 and on the voluntary market less than €25.

The certification or verification bodies that validate and certify projects on behalf of a given certificate standard are subject to control, or accredited, by mostly non-governmental organisations that enjoy a certain degree of international recognition. In the case of the Verified Carbon Standard (VCS or Verra), these are the Climate Group, the International Emissions Trading Association and the World Economic Forum. Other recognised standards of certificates traded on the voluntary market are "Plan Vivo", "Gold Standard" and "ISO". The standards differ in their requirements for the projects, which is why one also speaks of a different grade or quality of the standards. This in turn has an influence on the price at which the certificate standard is traded.



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