



Setting the Global Standard for Quality Carbon Credits

The VCS Program: Quality Assurance for Carbon Markets

The VCS Program is the most widely used quality assurance system for accounting for greenhouse gas emission reductions from voluntary projects. Used by hundreds of project developers worldwide, the VCS Program is recognized and trusted to ensure voluntary greenhouse gas emission reductions are real, additional, permanent, independently verified and transparently registered.

WHY VOLUNTARY? SPURRING EARLY ACTION ON CLIMATE CHANGE

The voluntary carbon market is the front line of early action on climate change, providing a space where businesses, communities and individuals can take the initiative to curb greenhouse gas (GHG) emissions, before regulatory requirements are enacted. As more and more businesses and individuals develop voluntary projects to reduce emissions, the market needs a reliable standard to ensure GHG emission reductions are real and verifiable.

The VCS Program provides a comprehensive quality assurance system for GHG credits backed by a robust and universal standard—the Voluntary Carbon Standard—developed over five years of consultation with global experts. Whether organizations are reducing GHG emissions for reputational reasons or to prepare for coming regulation, the VCS Program provides widely trusted requirements to ensure voluntary projects and GHG credits have environmental integrity and lasting value.

ENVIRONMENTAL INTEGRITY & FLEXIBILITY

The VCS Program has four main components, which work together to ensure environmental integrity. And because the voluntary carbon market is an important space for innovation, the VCS Program introduces flexibility at every stage of the process, encouraging project proponents to create new and better ways to curb emissions.

At the center of the Program sits the Voluntary Carbon Standard, a living document that lays out the fundamental principles and requirements for creating and accounting for real and verifiable GHG emission reductions or removals.

The Standard is supported by three core processes—a rigorous process for assessing new project methodologies, a fast-track approval process for entities wanting to provide project auditing services, and a straightforward registration process for issuing and listing GHG credits on the fully transparent VCS registry system.

Together these four components cover the entire life cycle of the GHG credit, spurring innovation from methodology selection and project development all the way through to the issuance and retirement of quality assured Voluntary Carbon Units, or VCUs. The VCS Program also features a searchable project database, which lists all projects and credits developed to VCS criteria, providing a clearinghouse of information on voluntary projects worldwide.



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The Voluntary Carbon Standard

The Voluntary Carbon Standard is the backbone of the VCS Program. Developed with extensive input from global experts, the Standard was first released for public comment in 2006. Its development was led by a 19-member expert Steering Committee and included seven technical working groups, two open consultations and input from roughly 1,000 stakeholders. The first official version of the Standard was released in 2007, an improved VCS 2007.1 version was released in 2008, and a third major update, the VCS 2011, is being prepared for release in early 2011.

At the heart of the Standard is a robust eight-point framework that defines the attributes of a quality assured Voluntary Carbon Unit. Every VCU produced under the Standard must represent an emission reduction that is real, measurable, additional and permanent, as well as independently verified, conservatively estimated, uniquely numbered and transparently listed.

To be real, GHG emission reductions must be accounted for after they occur, or ex-post, and never before, or ex-ante. To be measurable, reductions must be quantifiable against a credible emissions baseline using robust and established scientific practices. To be additional, reductions must go beyond 'business as usual' and reduce emissions that would have occurred in the absence of the

project. And reductions must be permanent—this means projects must ensure GHG removals last over time, especially land-use projects which carry the risk that stored carbon may eventually be released to the atmosphere. In these cases, the VCS requires that projects dedicate a percentage of emission reductions to a buffer account that can be drawn down in case of losses.

All GHG emission reductions must be conservatively estimated to ensure environmental performance, and all project plans and results must be rigorously validated and verified by independent, accredited auditing bodies with expertise in the appropriate sector. Once reductions are verified, each VCU is issued with a unique serial number and listed with an independent registry operator approved by the VCS Program.

These eight criteria set a robust quality standard for every VCU. The Voluntary Carbon Standard and the VCS Program Guide, available on the VCS website, lay out clear rules for meeting these criteria.

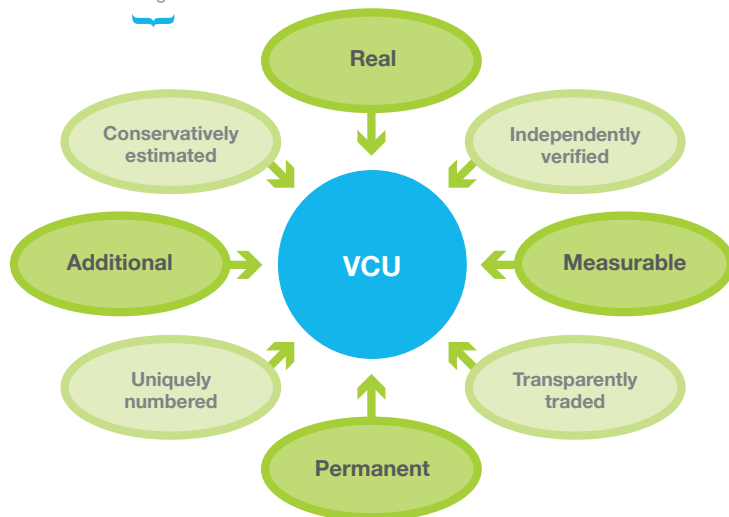
Innovative Methodologies

The VCS Program provides a methodology selection process to guide project proponents in choosing a scientifically sound methodology for project development. Project proponents can use a methodology already approved by the VCS Program or by another approved program, such as the Climate Action Reserve or the U.N. Clean Development Mechanism. Or project proponents can use the unique VCS Methodology Approval Process to develop new methodologies in cases where specific opportunities are afforded by new approaches or technologies to curb emissions.

Under the VCS Methodology Approval Process, project proponents submit methodology proposals to a rigorous quality assurance assessment. Proposals are posted for a 30-day public comment period and then reviewed by two separate and independent validation/verification, or auditing, bodies. To ensure the independence of the review, the second validation/verification body is contracted by the VCS Program.

Voluntary Carbon Standard criteria

The VCS 8-point framework ensures that all VCUs are real, measurable, conservatively estimated and independently verified, that projects generate permanent and additional climate benefits, and that all VCUs are uniquely numbered and transparently listed on a registry to avoid double-counting.



The VCS Program is currently developing a mechanism to compensate methodology developers for the costs related to their pioneering work. The mechanism would rebate methodology developers a fixed amount of money for every VCU issued by any project using the developer's methodology. This mechanism should help spur the development of more broadly applicable methodologies that can be used by a variety of project developers.

Independent Auditing

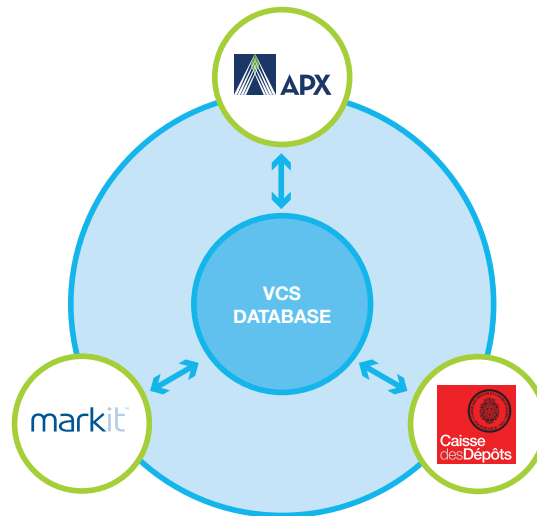
Under the VCS Program, all project plans and GHG emission reductions and removals must be audited by a qualified, independent validation/verification body, or VVB. Qualified VVBs must be accredited to audit to VCS criteria by a recognized organization such as the American National Standards Institute or by an approved program such as the U.N. Clean Development Mechanism.

VVBs must be accredited to audit for each sector and region they cover, and before performing audits, they must sign a VCS validation and verification agreement that sets out strict accountability requirements. To add flexibility, the Program allows for provisional approval of VVBs where accreditation by an approved organization is pending. Project proponents may choose from a list of approved auditing bodies to validate their project descriptions and verify their GHG emissions reductions.

Transparent Registry System

Once GHG emission reductions have been verified, project developers may request the issuance of Voluntary Carbon Units, or VCUs. To ensure every VCU is unique and can be tracked from birth to retirement, project proponents must open an account with one of the registry operators approved under the VCS registry system.

Project proponents submit all documents and monitoring reports to the registry operator. The registry operator checks for completeness and uploads the documents to the VCS project database (www.vcsprojectdatabase.org), where they can be transparently viewed. Only then is the registry authorized to issue VCUs to the project account. Each VCU is assigned a unique serial number so it can be tracked



The VCS Registry System

The VCS Registry System currently consists of three independent registry operators: APX, Markit and Caisse des Dépôts. All project documents and VCUs must be listed on the project's chosen registry and in the central VCS project database. VCUs may be transferred between registries at any time.

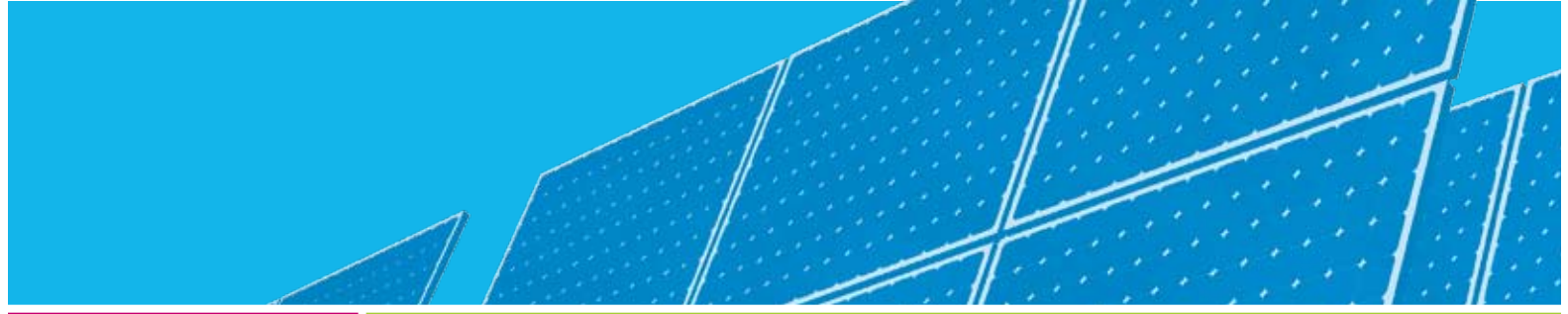
across its full life cycle in the VCU project database, which serves as a central clearinghouse of information on all projects and VCU issuance.

Registry operators must meet strict capitalization requirements to participate in the VCS registry system. They must also ensure VCUs are protected in case of insolvency and submit to VCS oversight and rules, including a prohibition on trading carbon assets to avoid potential conflicts of interest.

The VCS registry system currently consists of three independent registries. This system offers project proponents the flexibility of choosing a preferred registry, while still ensuring all VCUs and project documents are centrally listed in the VCS project database. It also encourages registry operators to compete for clients with competitive fees and services and allows for the rapid scaling up of the system as more registries are needed. VCUs may be transferred between registry operators at any time.

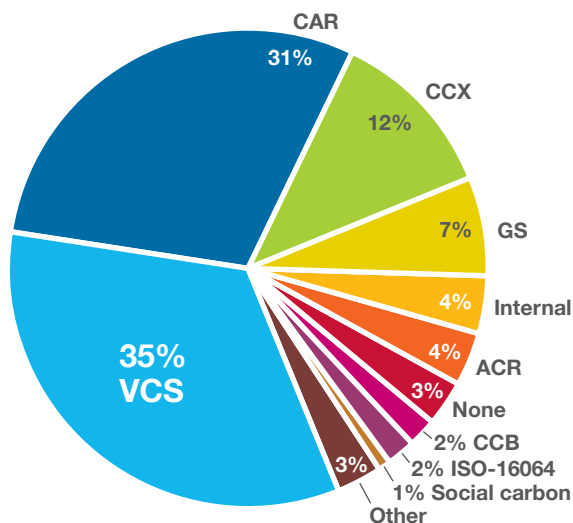
LINKING GLOBAL MARKETS

As the voluntary carbon market grows, project proponents and GHG credit buyers are seeking more and better ways to link across global markets and increase the fungibility of their GHG credits. The VCS Program is dedicated to ensuring VCUs are accepted into emerging regulatory regimes worldwide.



Standard Utilization, OTC 2008

More than a third of all voluntary GHG credits developed to a third-party standard rely on the VCS Program. Many project proponents choose to pair the VCS Program's quantitative GHG accounting standard with a standard that tracks social or biodiversity benefits. Pairing these standards ensures projects co-deliver environmental and social benefits and expands market options for addressing a range of social and climate issues.



The VCS Program has already been recognized under Australia's National Carbon Offset Standard (NCOS), the new voluntary carbon standard program that took effect in July 2010. VCUs have also been approved for trading on Brazil's main commodities and stock exchange, the BM&F Bovespa.

In the United States, the VCS Program is positioned to meet the criteria for early-action offsets laid out in several legislative proposals to date (e.g., the Stabenow Amendment, which is considered the most likely template for an offsets provision in the U.S. Senate).

Yet there is growing demand for still more innovative and flexible tools. To address this need, the VCS Program has introduced features to help project proponents link across global markets and create tailored GHG emission reductions products.

VCS Gap Analysis: Building Global Links

The VCS gap analysis is a powerful tool used to link VCS users to other reputable GHG programs. Using a gap analysis, the VCS Program assesses outside GHG programs against VCS criteria. If an outside program is approved, project methodologies and validation/verification bodies accepted by that program are approved for use under VCS criteria.

In addition, credits issued under compatible programs may be cancelled and reissued as VCUs, increasing the fungibility of VCUs across the global voluntary carbon market. To date, GHG programs approved by the VCS include the Climate Action Reserve and the U.N. Clean Development Mechanism and Joint Implementation programs.

Co-Delivering Climate & Social Benefits

Buyers in the market for GHG credits are increasingly seeking differentiated products and services. Some may want credits from a specific region or sector; others want credits that co-deliver environmental and social benefits. The VCS Program allows project proponents to pair the Voluntary Carbon Standard with other reputable standards to develop credits that meet VCS quantitative GHG accounting criteria and the criteria of standards designed to deliver social, biodiversity or other benefits.

Many developers choose to pair the VCS with leading standards like Social Carbon or the Climate, Community and Biodiversity (CCB) standard to ensure their projects co-deliver social and environmental benefits. These "double-tagged" VCUs expand market options for addressing the range of climate and social issues.

Founded in 2005 by the Climate Group, the International Emissions Trading Association and the World Sustainable Development Business Council, the VCS Program has pioneered the development of flexible and reliable tools for generating quality voluntary greenhouse gas credits with environmental integrity and lasting value.

All Voluntary Carbon Standard documentation is available on the VCS website www.v-c-s.org. For more information about the VCS Program and Standard, contact secretariat@v-c-s.org

