



# Leveraging domestic offset projects for a climate-neutral world: Regulatory conditions and options

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- Provide platform of exchange
  - Continuation of last year's conference in Berlin (documentation: copies available)
- Discuss key challenges and opportunities for domestic offset projects and develop options and recommendations
  - To this end: systematic study
  - Laboratory of ideas



- Voluntary DOPs important instruments for transformation towards low-carbon economies
- International, regional and national regulative frameworks limit DOPs in Annex B countries; changing environment post-2020
- Initiatives lack a common framework for accounting and certification
- **Objectives of this study by adelphi:**
  - Identify challenges and opportunities for DOPs in Annex B countries
  - Analyse initiatives in industrialised countries that generate carbon credits from domestic projects for voluntary compensation
  - Develop recommendations to advance the development of a domestic voluntary market and leverage its potential for a climate-neutral world



1. Australia's Carbon Farming Initiative (CFI): Avoiding double counting: Exchange of Kyoto ACCUs for AAUs or RMUs
  2. France's Voluntary Carbon Land Certification (VOCAL): Ensuring government buy-in: Successful development of new DOP
  3. Italy's Forest Carbon Code: Guaranteeing broad acceptance: bottom-up inclusive stakeholder process
  4. Spain's domestic registry and carbon fund: Leveraging potential of DOPs: Government purchase of voluntary credits
  5. Switzerland's domestic offset initiative: Towards more ambition: Using domestic credits for national targets
  6. UK's Woodland Carbon Code: Building on existing good practice: a robust accounting framework
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- Part I: Key results of the study
- Part II: Analysing challenges and opportunities for domestic offset schemes in Annex I countries
  - A closer look at double counting (vs. transparency approach)
  - Special focus on LULUCF (DOP niche approach, high visibility)
  - Snapshots from initiatives in France & Australia
- Part III: How to harness the potential of domestic offsets for a low-carbon development
  - Inputs on Paris Agreement and §6; post-2020 Effort Sharing Regulation
  - Snapshots from initiatives in Spain & Italy



1. Main barriers for DOPs
2. Framework conditions for DOPs pre-2020
3. Opportunities for DOPs in a post-2020 world
4. Recommendations



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**Main barriers: additionality and double counting**



- Additionality critical for “net zero”
- **Question:** Would the GHG reduction/removal have happened anyway?
- Additionality tests:
  - Financial barriers
  - Legal barriers
  - Technological barriers
  - Other (non-financial) barriers
- Project-based additionality tests vs. performance standards

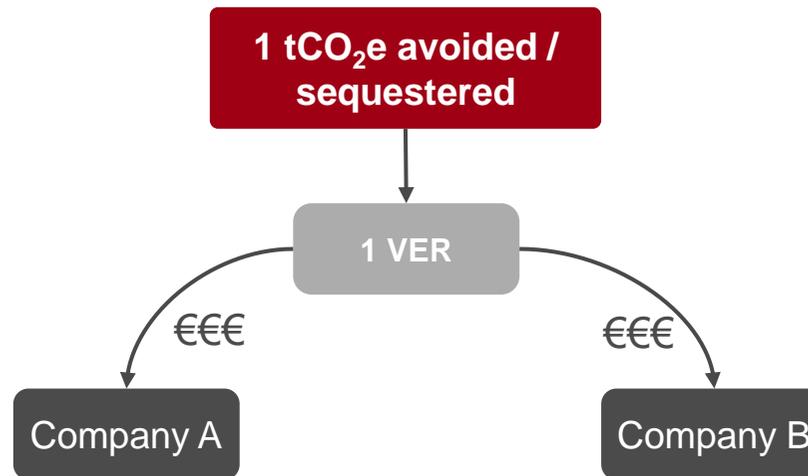


- **Environmental integrity:** One unit corresponds to a real reduction or removal of its equivalent amount of CO<sub>2</sub>e ('net zero')
- Double counting can impair environmental integrity
- **Double counting:** 1 GHG emission reduction/removal is...
  - ...sold
  - ...issued
  - ...claimed *or*
  - ...monetized twice.

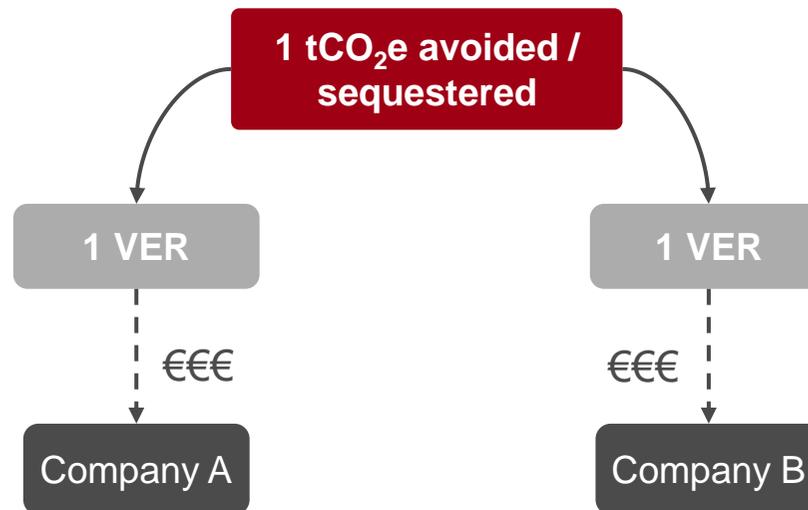
# Types of double counting: Double selling and issuance



## Double selling:



## Double issuance:



# Types of double counting: Double claiming

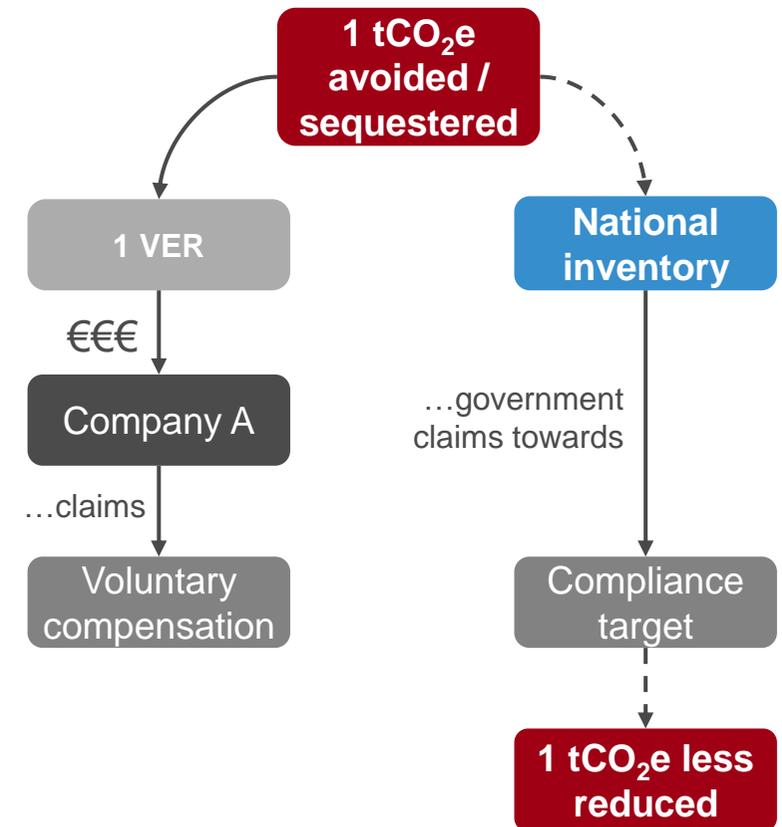


*Two entities 'claim' the environmental benefit of the exact same reduction or removal unit.*

- Environmental integrity disputed
- But: Reduces overall ambition

**Solutions?** Rigorous vs. pragmatic approach

- Cancellation of AAUs
- Transparent communication



# Types of double counting: Double monetisation

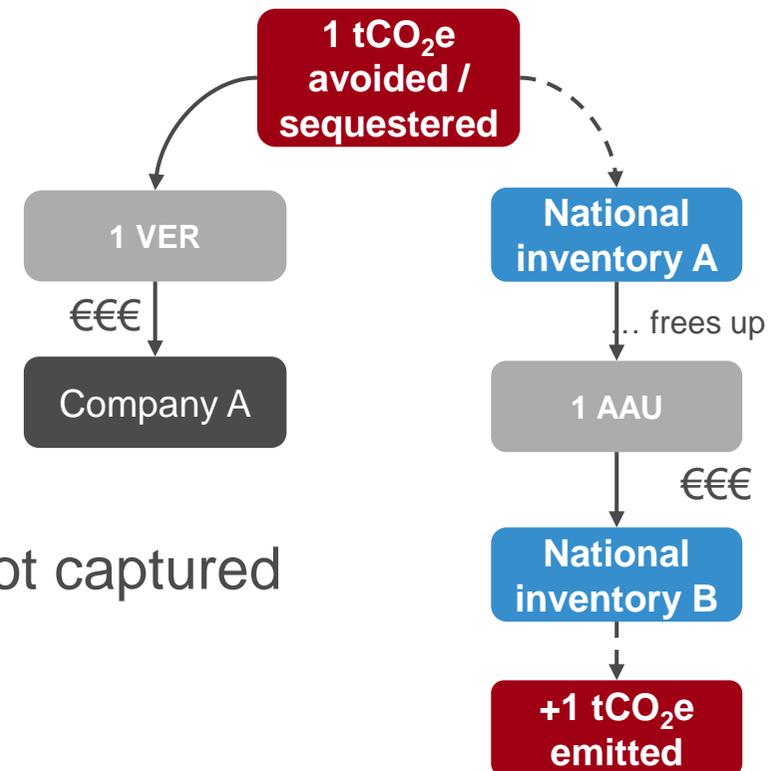


*1 GHG emission reduction (or removal) is monetized once as an allowance and a second time as a GHG credit*

→ Not environmentally sound:  
net emissions increase possible

## Solutions?

- Cancellation of AAUs
- Reductions / removals from voluntary DOPs not captured (workaround)





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## Framework conditions pre- and post-2020

# Framework conditions for DOPs pre-2020: Kyoto Protocol



LULUCF activities	Article	1 <sup>st</sup> commitment period	2 <sup>nd</sup> commitment period
Afforestation	3.3	Mandatory	Mandatory
Deforestation	3.3	Mandatory	Mandatory
Reforestation	3.3	Mandatory	Mandatory
Forest management	3.4	Voluntary	Mandatory
Cropland management	3.4	Voluntary	Voluntary
Grazing land management	3.4	Voluntary	Voluntary
Revegetation	3.4	Voluntary	Voluntary
Wetland drainage and rewetting	3.4	(not included)	Voluntary

- EU reduction target: 20% by 2020, 40% by 2030
- **EU Emissions Trading Scheme (ETS):** 45% of EU-wide emissions
  - Energy-intensive industrial sectors
  - 2013-2020: 3<sup>rd</sup> trading period
- **Effort Sharing Decision (ESD):** 55% of EU-wide emissions
  - Transport, buildings, agriculture and waste
  - LULUCF excluded until 2020
- **Constraints for DOPs:**
  - Most low-cost abatement activities not eligible for voluntary projects
  - Double counting





- **Other constraints for DOPs:**
  - High transaction costs for MRV and certification
  - No AAU cancellation (as yet) → Double counting risk
  - High up-front investments (particularly for LULUCF)
  - High demand for domestic VERs, but few credits available



- **Less differentiation:** All countries expected to contribute (CBDR-RC)
- **Bottom up:** ‘Nationally Determined Contributions’ (NDCs)
- **Mechanism for mitigation and sustainable development**
- **Trading:** ‘Internationally transferred mitigation outcomes’ (ITMOs)
  - What role for DOPs?
  - Provisions to support robust accounting and avoid double counting
- **Increasing ambition:** 5y review, mandatory from 2023 onwards
  - Increasing demand for domestic credits?



- **No more international credits** (CERs / ERUs / etc.) from non-EU Member States
- **New ESD (2021-2030):** new flexibilities
  1. Allowances from ETS
  2. Domestic credits from land use sector
- **Rising ESD targets:** more demand for DOPs?
- **Inclusion of LULUCF** into 2030 climate and energy framework
  - Accounting framework resembling Kyoto
  - ‘No-debit’ rule: transfer of removals possible



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## Outlook and recommendations

# 1. No more niches: Fostering a robust regulative framework to avoid double counting

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- Currently: niche approaches to avoid double counting
- Gap will close by 2021

## Potential opportunities

- Cancellation of AAUs as safeguard for robust accounting
- Deducting voluntary reductions from national inventory to better separate voluntary and compliance markets (discount factors?)

## 2. Assessing and endorsing existing voluntary carbon standards

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- Increasing recognition of voluntary standards in compliance settings
- Voluntary standards not perceived inferior to compliance standards

### Potential opportunities

- Endorsement of voluntary standards can enhance rigor and integrity
- Basis for AAU cancellation?
- Harmonisation of voluntary market: Build on credible standards and use existing infrastructure

### 3. Closing the ambition gap with voluntary action

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- Current pledges merely sufficient for 3°C world
- Centrally-approved schemes for DOPs: use credits for national compliance and voluntary action

#### **Potential opportunities**

- Enhancing investment security (guarantee demand)
- Encouraging innovative solutions
- Avoiding double counting and safeguarding environmental integrity
- Addressing the supply problem
- Creating multiple co-benefits

## 4. Leveraging the potential of the LULUCF / AFOLU sector

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- Carbon neutrality by 2100: important role for carbon sinks
  - Private action also needed, but high up-front investments
- Kick-start investment to ensure ex-post crediting

### **Potential opportunities**

- High demand for LULUCF projects: visible & easy to communicate
- Use credits as flexibilities under new ESD

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