Öko-Institut e.V.
Institut für angewandte Ökologie
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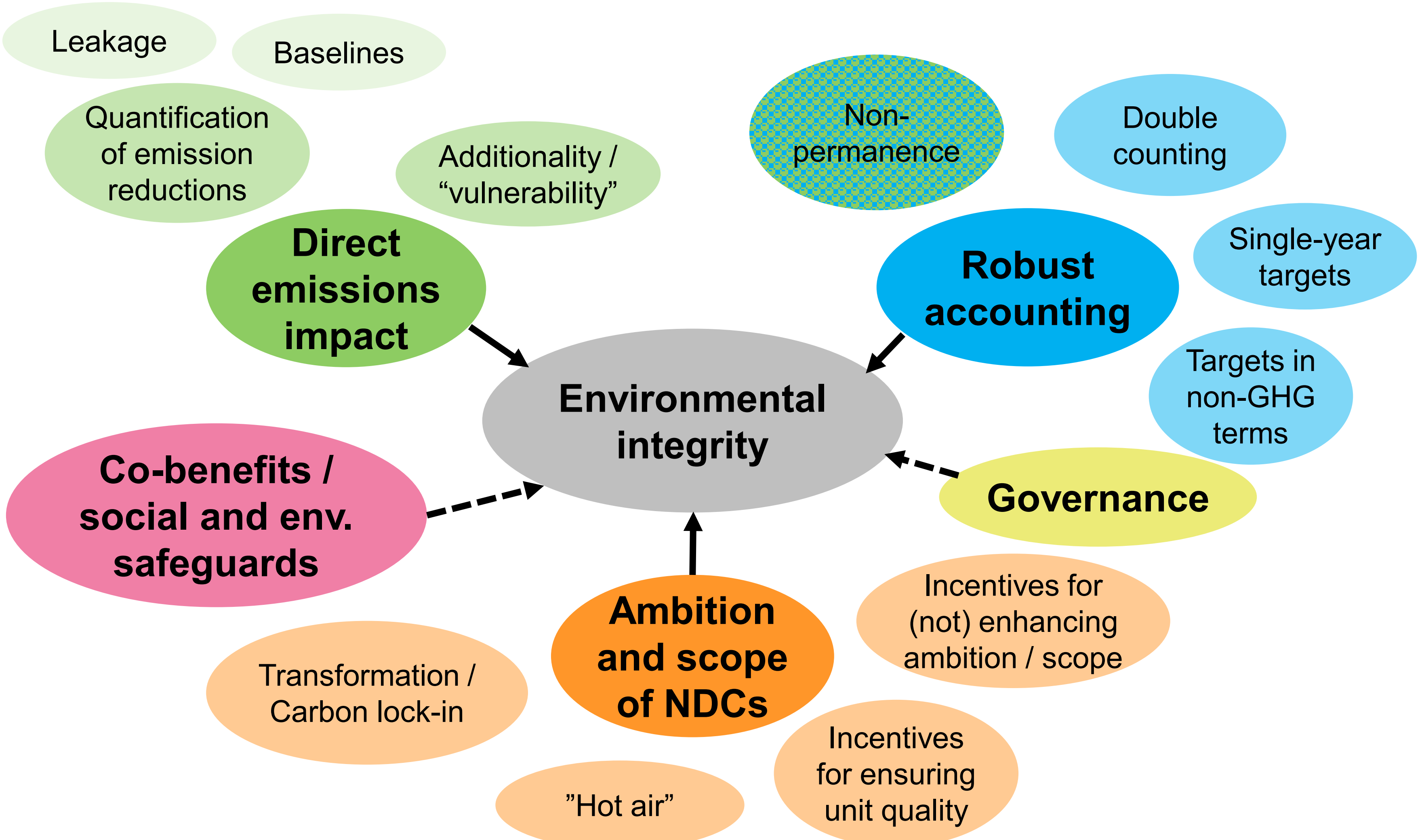
Quality of offsets

Online debate by Florence School of Regulation

Lambert Schneider | 15 December 2020

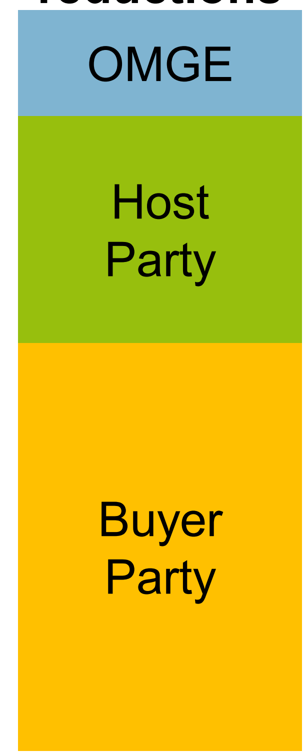
Quality of offsets at one glance



Paris Agreement – A paradigm shift for internationally transferred offsets

- Markets should **enhance ambition** (flexibility / costs-effectiveness not in focus)
  - Ambitious baselines below BAU, consistent with NDCs
  - Shorter crediting periods
- **Overall mitigation in global emissions** (OMGE)
- Robust accounting
- Transparency
- Environmental and social safeguards
- Share of proceeds for **adaptation**

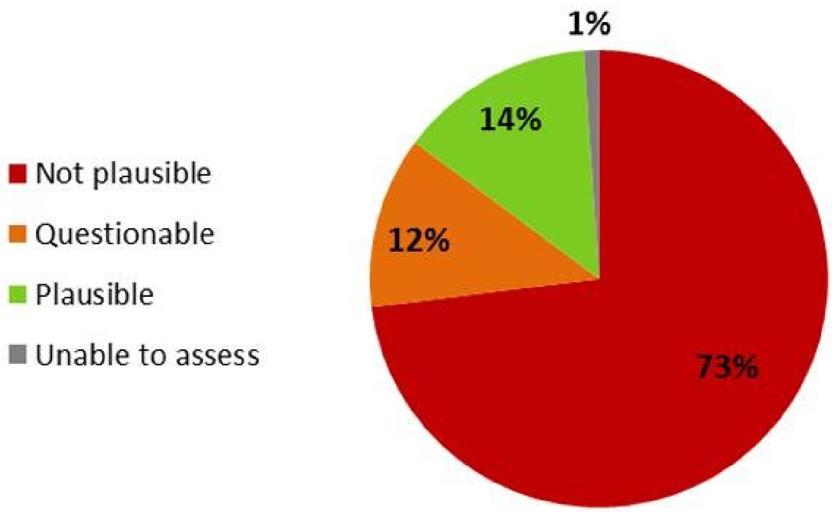
Sharing of reductions



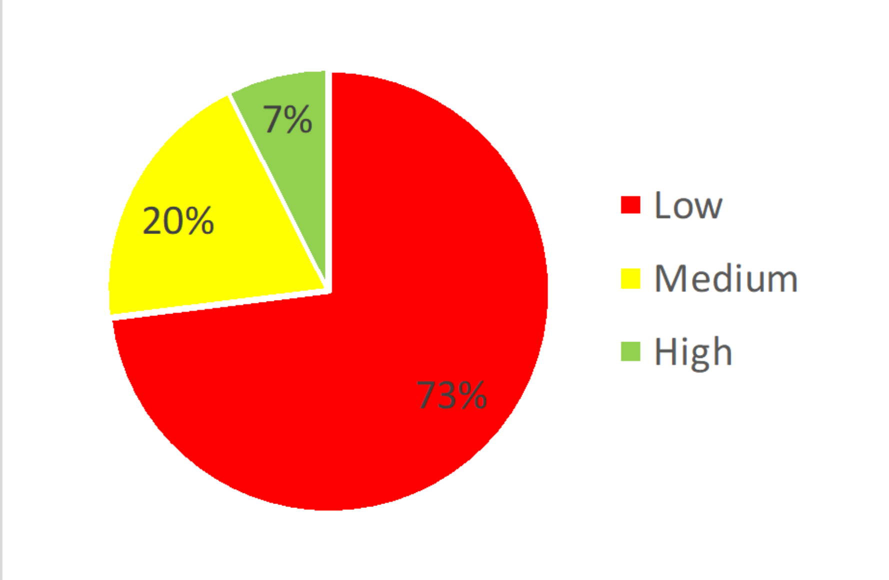
Additionality

Plausibility of additionality claims

Joint Implementation (JI) Credits issued



Clean Development Mechanism (CDM) Credit supply potential 2013-2020



⇒ **Limit eligibility to activities with high likelihood of additionality**

Sources: Cames et al. (2016), Kollmuss et al. (2015)

Key issues for “Nature-based solutions”

- Ensure **non-permanence** through
  - Exclusion of activities with high non-permanence risks from crediting
  - Pooled buffer approaches with sufficient capitalization and diversification
  - Monitoring and compensation for reversals over a 100-year time horizon

- **Limit crediting** to activities where
  - Emission reductions can be clearly attributed to the intervention
  - Uncertainty of baselines and emission reductions is manageable
  - Significant global leakage is unlikely

Article 6 accounting

- **Quantification of NDCs** in tCO_2e
- **Authorization** of internationally transferred mitigation outcomes (ITMOs)
- **Single-year target** accounting
  - **Averaging:** simple but can lead to higher emissions and involves huge uncertainty how much countries can sell or need to buy
  - **Multi-year trajectories:** robust as long as trajectory is well defined
- Consistent use of **Global Warming Potential values** between linking partners and offset host countries
- **Infrastructure** for tracking and reporting on ITMOs and "corresponding adjustments"

Implications for linking of ETSs

- **Offset quality** in one system matters for all linking partners
  - Swapping offsets for allowances provides access to all partners
  - Exception: limits on offset use are fully exploited by ETS entities, irrespective of linking
- **Article 6 accounting** important to facilitate NDC achievement
  - Linking of ETSs shifts mitigation between jurisdictions
  - Net effect can be accounted for through "corresponding adjustments" under Article 6.2
  - Article 6 accounting also needed for
    - Offsets imported from third countries
    - Offsets internationally transferred between linking partners

Recommendations

- **Limit eligibility to**
  - Activities with high likelihood of **additionality**
  - Activities with reasonable **certainty in emission reductions** (e.g. no significant risk of global carbon leakage)
  - Carbon crediting programs that address **non-permanence** through well capitalized buffers over 100 years
- **Internationally transferred credits**
  - **Share emission reductions** with host Party and ensure **OMGE**
  - Pursue **transformative technologies** (no low-hanging fruits)
  - Use robust and conservative **multi-year accounting** trajectories

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Thank you for your attention!

Related publications:

What makes a high-quality carbon credit? (with WWF and EDF)

Environmental integrity of international carbon market mechanisms under the Paris Agreement (Climate Policy)

Double counting and the Paris Agreement rulebook (Science)

Accounting for the linking of ETS under Article 6.2 of the Paris Agreement

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