

Position Paper

Double counting under the Paris Agreement

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Note for COP delegates, standard owners, the carbon community

The Project Developer Forum (PD Forum) is a collaborative association and collective voice of companies and practitioners that are developing and financing greenhouse gas (GHG) emission reduction projects worldwide. Our members work on a global scale and evaluate opportunities to deploy climate financing and carbon market instruments to accelerate investments for GHG mitigation and sustainable development.

To achieve these emission reductions, real investments have to be made by companies. This requires lead times. And as much certainty as possible. Carbon markets have proven to be a very powerful tool to incentivise action; the CDM alone has already resulted in nearly 2 billion tonnes of CO₂e reductions.

Once the Marrakesh Accords had been agreed, Kyoto provided such certainty, and the market took off. Since the end of the original Kyoto commitment period of 2008-2012, the international climate negotiations have provided little incentive for developers to invest in projects. Due to a lack of commitments, project development has been reliant primarily on voluntary corporate demand, rather than national and international targets.

There are three possible market-based sources of demand to potentially stimulate new action in real emission reductions:

- (1) the Paris Agreement, under which national government make pledges with regards to their emissions;
- (2) CORSIA, which is the global aviation industry's scheme to stabilise emissions from 2020; and
- (3) the continuing voluntary market, where corporates and individuals take responsibility for their emissions footprint and make a voluntary contribution through offsetting their footprint and (often) claiming carbon neutrality of their operations.

Unfortunately, there is a lack of clarity that exists currently, including with regards how these three interact, that is disincentivising action, and which we call on the international negotiators under the UNFCCC and the Carbon standards to address.

Under Kyoto it was relatively simple, with a small number of countries (the industrialised countries in Annex A) having absolute and binding targets for a set period. Under Paris this will be much more complex, with (almost) every country having a commitment, more or less quantified, for some year or period in the future, which may be adjusted – in fact is encouraged to be adjusted – at any point in the future, including ex-post. While at the same time, there is yet no globally harmonised MRV system defined to actually monitor countries' mitigation contributions in a nonbiased and transparent manner.

This complexity under Paris, and the existence of the CORSIA scheme which will rely on project-

based emission reductions (which will be originated from sectors that are more or less covered under countries' draft/final NDCs and GHG inventories), will make it essential that any double counting between the aviation sector's use of such credits and the national accounts of Paris Agreement Parties is avoided. This means that it needs to be possible to make a "corresponding adjustment" to avoid the same reduction being counted under both systems. This requires both procedures under Paris to define how to do this, and national governments to start issuing letters of approval including their commitment to make such corresponding adjustments. The UNFCCC will also need to develop a system very much like the ITL under Kyoto, to keep track of such transfers, to avoid double counting. However, CORSIA is also expected to accept credits from non-UN Carbon standards, which will need a similar "corresponding adjustment" and transaction log for reasons of transparency and building trust in the new schemes.

As the voluntary Carbon market and CORSIA both rely on project-based reductions it should be relatively straightforward to avoid double counting between these two. This does not rely on any corresponding adjustments, merely on retirement of the credits upon their use for either programme.

With regards to the interaction between the voluntary markets (for corporate accounting) and the national targets under the Paris Agreement, no adjustments are needed for corporate offsets, despite some calls for them. Voluntary Carbon markets make no claim with regards to any national emissions or targets, but only that project emissions are reduced below the project baseline. There is no double counting, and no corresponding adjustments are needed. Participants take responsibility for their own footprint, not for any national targets or NDCs. Of course, some participants may want it as an additional differentiator. Genuine action taken by some host countries will mean that the baseline is no longer an absence of any action / regulation. However, requirements under all the different standards already require that regulation is taken into consideration in their methodologies and procedures, and additionality assessment. For example, if the host mandates (and enforces) the capture and destruction of landfill gas for any new landfill site, then an emission reduction project cannot claim reductions from capture and destruction – but maybe from the use of the methane for power generation. Increased efforts from all countries under the Paris Agreement means that the standards' (and auditors' job) will become harder. Whether a host country will subsequently claim the reductions achieved by a genuinely additional project, and relax the regulation proportionally on all other projects under their NDC, is not in the control of and therefore not the responsibility of voluntary market participants. We do not believe that any Party signing up to the Paris Agreement would act in such a cynical way, thus we do not believe this is a concern.

Finally, it will take time for some of these important issues to be resolved through the international channels. We should allow continuity for now, until further clarity is in place, under all the different standards, CDM and voluntary. Small emission reduction project developers cannot be made responsible to resolve everything, when country negotiators are still not in agreement, nor can we demand perfection from projects that is still impossible to deliver without the certainty of the currently negotiated "Paris guidelines".

Under the Paris Agreement starting in 2020 every country will sooner or later have a national target to reduce their emissions which will be made legally binding in the so-called NDC. While industrialised countries (Annex A in the Kyoto protocol) have economy wide targets, the Annex B countries have "only" sector wide targets. In this environment it has to be clarified how and where projects can be developed for a) compliance purposes or b) for carbon neutrality claims in voluntary sector.

The VCS e.g. requires the cancellation of AAU for projects under regulated trading schemes (like the EU ETS). Latest intelligence by the PD Forum revealed that this kind of cancellation is neither legally nor practically possible! Hence, the PD Forum has developed solutions for the issue of double counting.

/A/ Solutions for compliance (NDC, CORSIA, ...)

The Paris regime will certainly principally similar to JI track I where AAU trading was also involved despite the technical solution can be totally different. The consequences are that the prices for trading will be rather high otherwise no country would give away emissions that it will have to compensate sooner or later. Higher carbon prices will strengthen the market and allow for establishing a robust trading floor.

Nevertheless, one major requirement to address double counting is the existence of a UN based global registry that allows to follow up on sales and purchases of credits on all levels. This is foreseen in the Paris Agreement under Article 6 but not yet implemented. The ITL (international transaction log) exists but national inventories are not yet linked.

- **So, we request the Parties to accelerate the implementation of a global registry as soon as possible**
- **And we request that host countries issues LoA including a guarantee to the project developer that the achieved emission reductions for compliance purposes as per Art. 6.4 will not be claimed by the host country for an agreed period of time (allowing the project to get re-financed before it potentially moves into the national target)**

/B/ Solutions for voluntary carbon neutrality claims

VCS proposes to limit eligibility for many mainstream technologies and project types (eg. wind and solar) in non-LDC countries, and only allow this in LDCs/SIDs. This would severely restrict the projects that can be developed under this standard. We do not believe that excluding project types in this way is a suitable alternative for proper additionality assessment. We recognise that there have been massive changes in the energy market (for example), and wind and solar are much more attractive than before in the most attractive settings, and with supportive environments. Nevertheless, we need to bear in mind that renewables are forecasted (optimistically) to be less than 20% of the world primary energy consumption in 2040 (see WEO and BP Outlook). The relatively large installed capacity of renewables in China (while the total share is still small!) does not mean that the technologies are non-additional in, say, Kenya, Morocco, Vietnam, Honduras, etc.

- **We request that voluntary standards should not place a blanket ban on so-called mainstream technology, but rather apply the additionality tool, and the common practice guidance including the assessment of the countries NDC.**
- **If a voluntary project achieves real, measurable, additional emission reductions the investor who financed the project should still have the right to claim carbon neutrality as long as this emission reduction is not accounted in the investor's country national registry (as corresponding adjustment). If the host country in an unfair manner claims the emission reduction as a free rider, this should not be considered double counting.**