

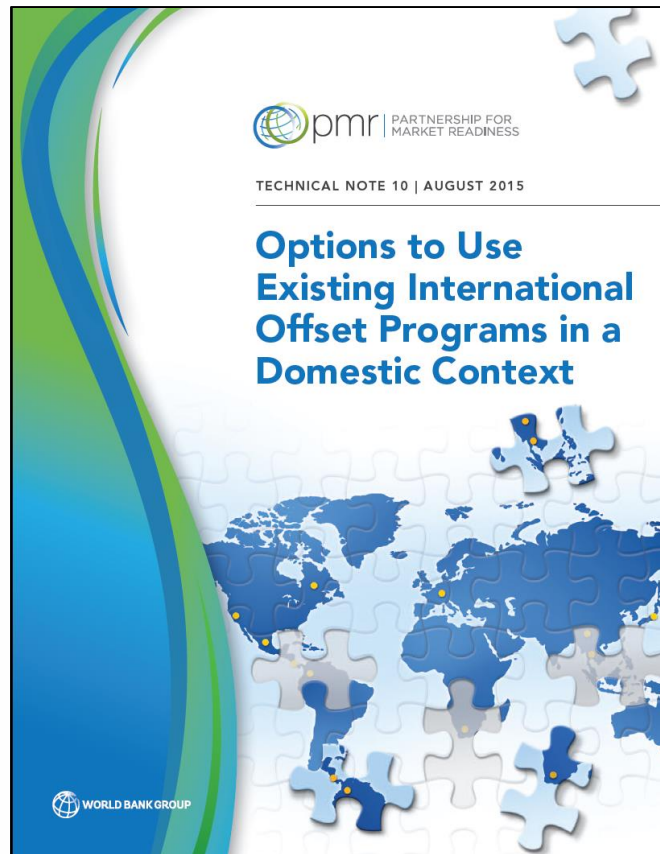
Leveraging the Registry Systems of International Offset Programs

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Leveraging international offset programs



- Many possible elements & options
- Registries are only one component

International offset programs

Governmental / Compliance Programs

- Clean Development Mechanism (CDM)
- Joint Implementation (JI)
- Japan Joint Crediting Mechanism (JCM)

Voluntary Programs

- Climate Action Reserve (CAR)
- Gold Standard (GS)
- Verified Carbon Standard (VCS)

Offset Labels (Voluntary)

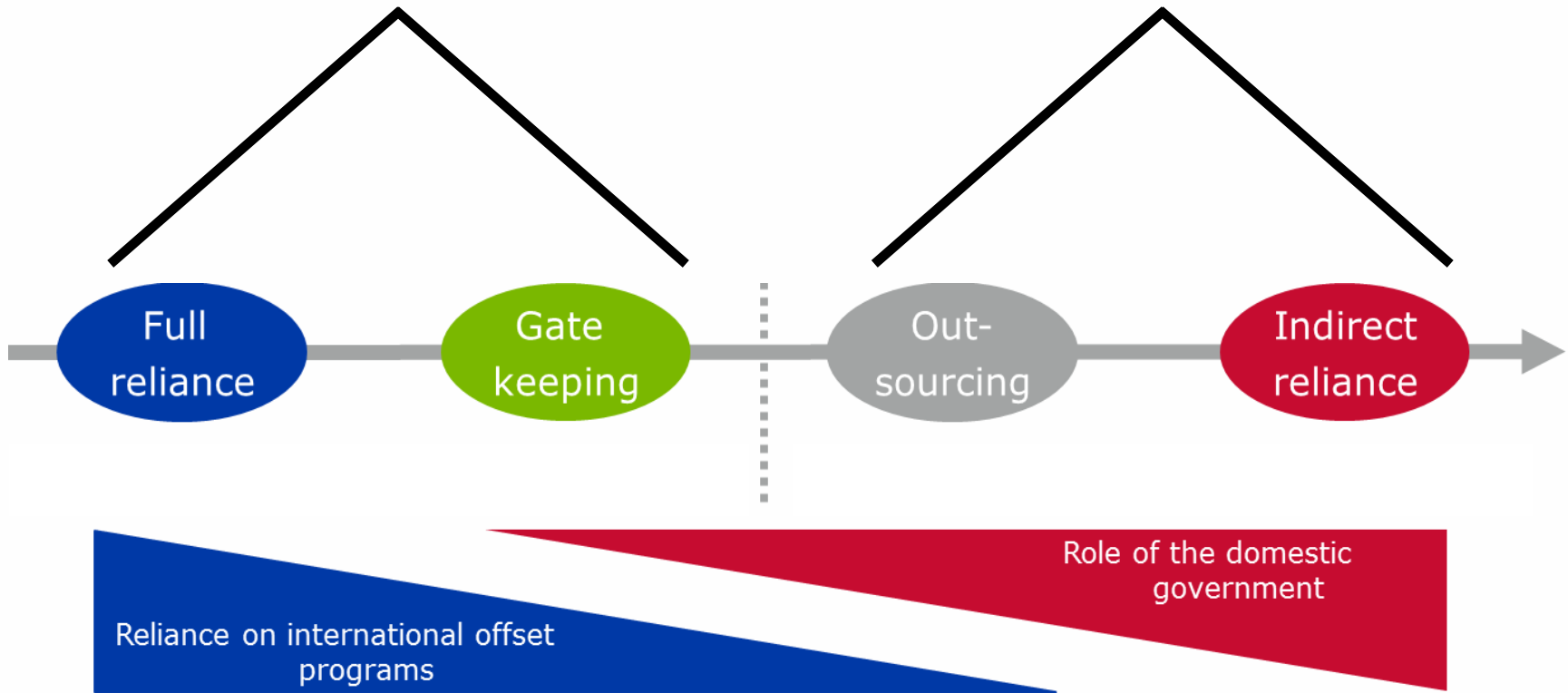
- Climate, Community, and Biodiversity Standard (CCBS)
- Social Carbon (SC)

All of these programs are supported by “Level 3” registry systems

Leveraging options

Credits issued by international program

Credits issued by domestic program



If credits are issued by the international program...

- **Key Question:** How to confirm when, and by whom, credits have been retired for the purpose of complying with a domestic policy requirement?

If credits are issued by the international program...

- **Two Main Options:**

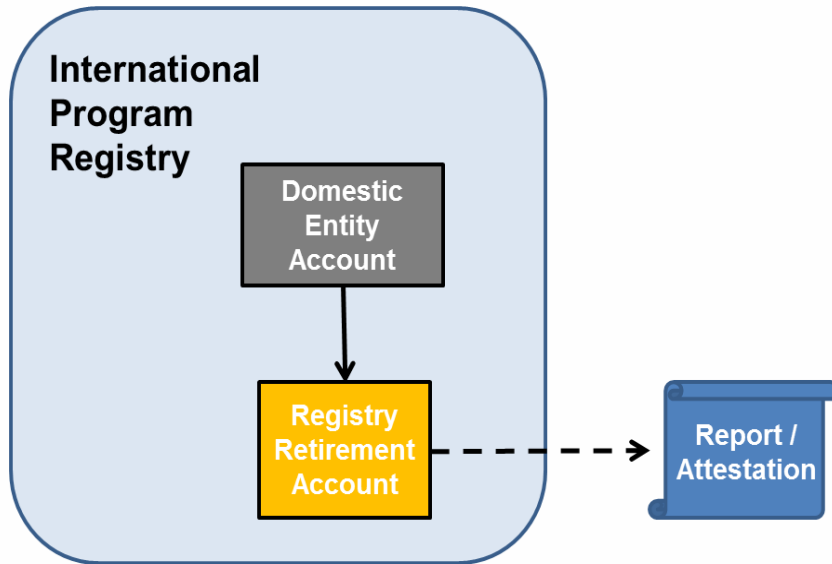
1. Allow credit retirements on international program registry system
2. Require credits to be transferred to domestic registry for retirement

- Option #1 will generally be simpler and less expensive, but...
 - Governments may have other reasons for establishing a domestic registry (e.g., to serve a domestic ETS)
 - There may be legal advantages to having “compliance” credits issued on a domestic registry
 - Option #2 may be easier if multiple programs are involved

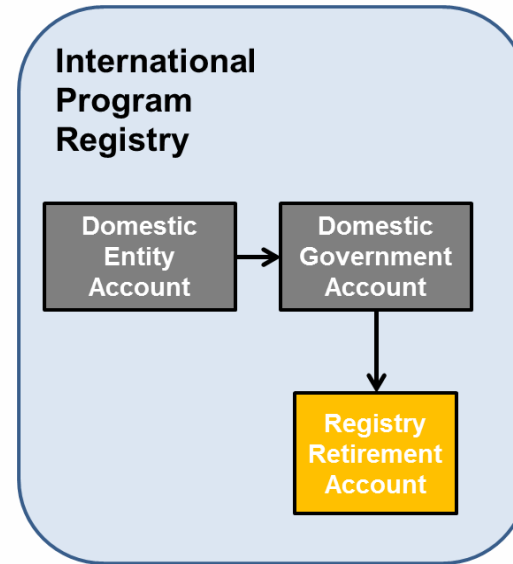
Exclusive use of international program registry

Two options for how retirement can be confirmed:

(a) Direct Retirement



(b) Transfer to Government Account



(a) Direct retirement

- **Advantages**

- Low overhead / easy to implement

- **Considerations & potential challenges**

- Reports must contain all information needed to confirm compliance
- Greater potential for error or fraud
- Credits generally cannot be “unretired” – creates risk for entity retiring the credits if they are not accepted

(b) Transfer to government account

- **Advantages**

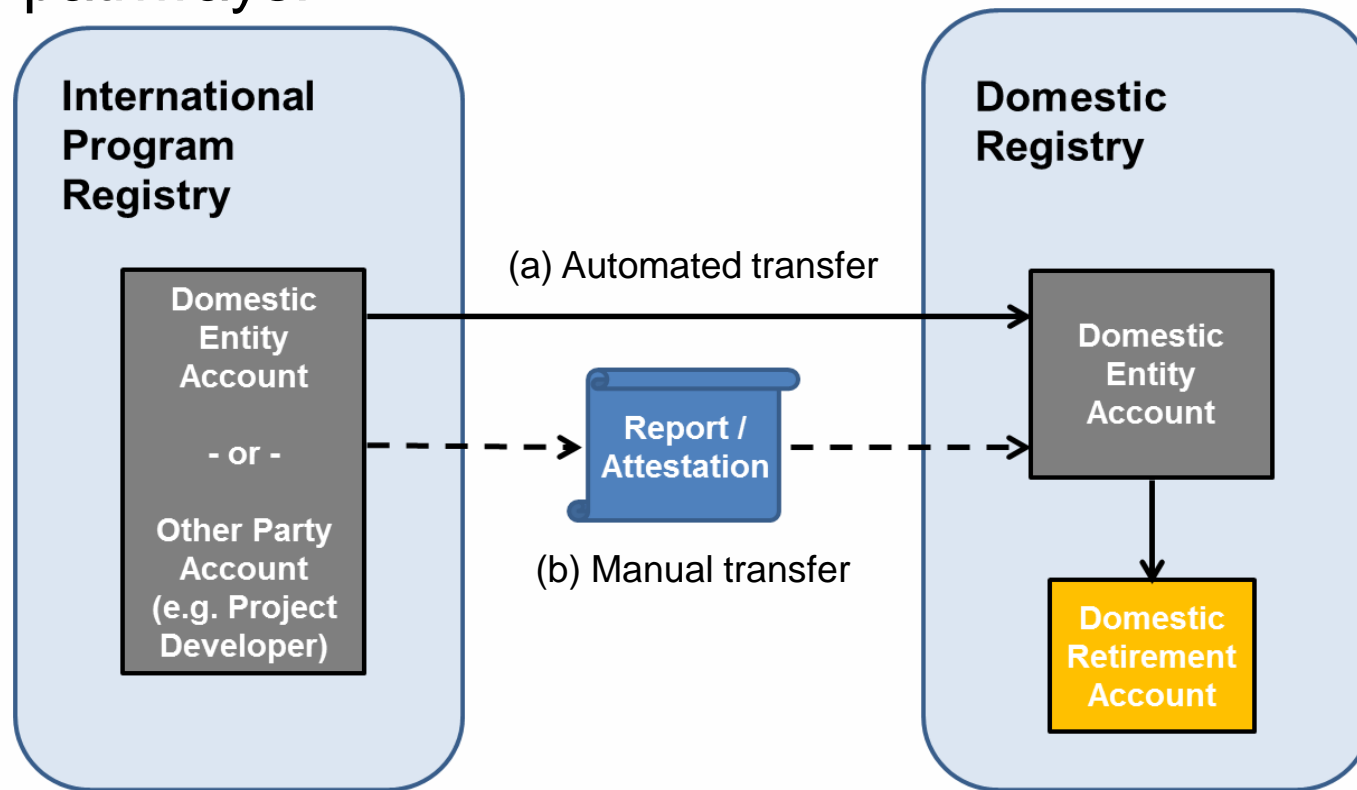
- Easy to track & verify credit transfers
- Lower potential for error/fraud
- Maintains “active” status of credits so they can be used by government (or returned in case of error)

- **Considerations & potential challenges**

- Step needed for government to actively accept transfers into account (this is standard practice)
- May have slightly higher cost (e.g., to maintain & monitor account)
- Higher security risk

Requiring transfer to domestic program registry

Two pathways:



(a) Automated transfer

- **Advantages**

- Easy to track & verify credit transfers
- Lower potential for error/fraud

- **Considerations & potential challenges**

- Technically more complex
- Potential higher security risk
- May not currently be possible in the case of CDM or JI

(b) Manual transfer

- **Advantages**

- Simpler to implement
- Avoids some fraud & security risks
- Could have legal or regulatory advantages
- Currently supported by all international programs

- **Considerations & potential challenges**

- May be administratively more involved and burdensome
- Could be more prone to error
- Unclear recourse for credit owners if credits are cancelled on international registry but rejected (or not issued) by domestic program

If credits are issued by the domestic program...

- **Key Question:** To what extent does domestic program “make or buy” registry functions and services?
- Limited scope for relying on international program registry systems (“share” option would be difficult)
- However, domestic programs could use the same registry *service providers* used by these programs in lieu of developing their own systems (including management, operation, & support services)
- Could also enlist international programs to help perform domestic program functions, including some registry functions (California example)

California “outsourcing” example

- California Air Resources Board (ARB) trains and approves existing programs to serve as “Offset Project Registries” (OPRs)
 - CAR
 - American Carbon Registry
 - VCS
- In accordance with ARB regulations, OPRs review project submissions and verification reports and issue provisional credits in their own registry systems
- Upon ARB approval, provisional credits are reissued as compliance offset credits in ARB’s registry through a “manual transfer” process

Due diligence questions

- As with developing one's own registry, there are important legal, institutional, and technical considerations when leveraging international programs, including:
 - What is the legal status of credits in the international program registry? What implications are there for taxation, ownership, and assignment of liabilities?
 - What information is accessible, and who may access it?
 - For what types of entities does the program maintain accounts, and what are the program's terms of use? What "know your customer" procedures are in place? What functionality is provided for different users?
 - What security systems and arrangements has the program (or its registry service provider) implemented?