PMR TECHNICAL WORKSHOP

Post-2020 accounting: implications for carbon pricing and registries

Session 2: Breakout group exercise

Relationship between carbon pricing and accounting

☐ Objective

With the Paris Agreement countries have agreed they will account for their NDCs and any international transfers of mitigation outcomes (ITMOs) to avoid double counting. The accounting system, still to emerge, will likely have implications for how carbon pricing instruments are designed and implemented, and vice versa. The objective of this exercise is to discuss the relationship between carbon pricing and accounting to better understand why accounting is important for the PMR and how the developments internationally may influence the activities of the PMR.

☐ Instructions

Participants are asked to join one of four groups to discuss the relationship between accounting and carbon pricing focusing on one of the following themes:

(1) relationship between accounting and cap or baseline setting

(2) relationship between accounting and the scope and coverage of carbon pricing

(3) relationship between accounting and MRV to support carbon pricing

(4) relationship between ITMOs and the legal nature of assets traded through carbon markets.

We encourage you to coordinate with other participants from your jurisdiction to choose different topics as this will ensure diversity of views and experiences in each group and will allow jurisdictions to benefit from discussions on more than one topic.

Groups will have around 60 minutes to discuss the illustrative case studies below. Please select one person to report back on the groups discussion in the afternoon session "PMR's forward work program on accounting". One of the experts will facilitate discussions and each group will also be supported by a member of the PMR Secretariat.

☐ Topic 1 – Relationship between accounting and cap or baseline setting

The NDC will be the target or goal that is important when accounting under the Paris agreement. Carbon markets will either set a cap on the number of allowances issued or use a baseline against which credits are issued. Using the following case studies identify the key relationships between accounting for the NDC and setting the cap or baseline for the carbon market mechanism. What might be some of the synergies; and what might be some of the differences or departures between them.

1. Country A has an economy wide, multi-gas NDC consistent with their longer term mitigation policy to peak emissions in 2025, plateau emissions until 2030 and then steadily decline its absolute emissions from 2030. Country A has also decided to implement an ETS covering around 50 per cent of its current emissions. Discuss how the nature of the NDC and the need to account for it might influence the cap setting for the ETS. You may like to consider interactions between the accounting system and the level of the cap, the trajectory of the cap, and the frequency or timing of extensions to the cap. You may also like to discuss the relationship between the analytical and technical capacities needed for both. Also think about how the cap in the ETS might influence the nature of future NDCs and therefore the future accounting system.

2. Now consider the same, except now country A has an NDC to reduce its emissions by 30 per cent below its projected business as usual emissions.

3. Country B has an NDC that is an economy wide intensity target to reduce its emissions/GDP by 20 per cent by 2030 compared to 2012 levels. Country B has decided to implement a sectoral crediting mechanism in its steel industry. Discuss how the nature of the NDC and the need to account for it might influence the baseline set for the crediting mechanisms. Again consider also the analytical and technical capacities need for both and identify any synergies.

4. Now consider the same, except now country B has an NDC that is an absolute budget for emissions over the period to 2025 including the steel sector.

5. Take around 15 minutes to reflect on the discussions and identify any work or support the PMR could undertake to explore these interactions between accounting and cap and baseline setting. You will have more time to discuss this with the full workshop in the afternoon session.

☐ Topic 2 – Relationship between accounting and the scope and coverage of carbon pricing

The scope and coverage of the accounting system will likely match the scope of the NDC that might be economy-wide or sector specific, cover only CO_2 or multiple greenhouse gases, or be a single year or multi-year target. It is possible where ITMOs are generated outside the scope of the NDC that the scope of the accounting system will also be broader than the NDC. The scope and coverage of a carbon pricing mechanism could be a subset of emissions captured by the NDC or perhaps even cover emission sources that are not covered by the NDC. Using the following case studies identify the key relationships between accounting for the NDC and the scope and coverage of a carbon pricing mechanism. What might be some of the synergies; and what might be some of the differences or departures between them.

1. Country A has an NDC to reduce its CO_2 emissions by 20% below its 2012 emissions in 2025. However, due to a lack or capacity to measure emissions in its agriculture, land use and forestry sectors it has decided to exclude these from its NDC at this time. Country A is also investigating the possibility of implementing an ETS and looking at what sectors the ETS might cover. Discuss how the nature of the NDC and need to account for it might influence the coverage decisions for the ETS. You might like to consider if it would cover say emissions from the waste sector since methane emissions are not covered by its NDC but may represent low-cost mitigation options. You may also like to discuss if it would be advisable to allow for offsets from agriculture or forestry since these emissions sources are also not covered by the NDC. Assuming the ETS is implemented beyond 2025 how might the coverage of the ETS influence future NDCs?

2. Country B has an intensity based NDC to reduce emissions/GDP by 30 per cent below its 2012 levels by 2030. It is economy wide but does not include all gases just CO_2, CH_4, N_2O. Country B would like to implement a sectoral crediting mechanism for its industrial processes sector. It is negotiating a bilateral agreement with another country to sell some of the resulting credits. Discuss how the scope and coverage of the NDC, and the need to account for it and ITMOs traded might influence the scope of the baseline for the crediting mechanism.

3. Take around 15 minutes to reflect on the discussions and identify any work or support the PMR could undertake to explore these interactions between accounting and the scope and coverage or carbon pricing mechanisms. You will have more time to discuss this with the full workshop in the afternoon session.

☐ Topic 3 – Relationship between accounting and MRV to support carbon pricing

When accounting for the NDC the countries emissions inventory and the adjustments made for LULUCF and ITMOs will likely be key. While the process to support accounting is still to be decided, it will require that necessary data is reported and made available for other countries. Perhaps there will also be some kind of expert review adopted as part of the accounting system. Carbon pricing involves the measurement, reporting and verification (MRV) of emissions in the case of ETS or carbon tax and emissions reductions in the case of crediting instruments. Using the following case studies identify the key relationships between accounting for the NDC and MRV for carbon pricing. What might be some of the synergies; and what might be some of the differences or departures between them.

1. Country A will use its national inventory as a key input to its accounting system. Its inventory covers all sources across the economy and all gases using the IPCCC tier 1 (global default) methods. Country A will also implement an ETS for emissions from the energy sector, waste and industrial sectors. For the ETS the measurement system will focus on the direct emissions at the point where they are generated. The measurement protocols are being developed with a mix of estimation methodologies and direct measurement being deployed. A reporting platform is also being developed for the ETS. Country A has decided to make third part verification of the emissions reports compulsory for large emitters liable under the ETS and will have a range of verification tasks performed by the regulator for the ETS as well. Country A expects to link its ETS with a regional ETS already operating and expects to be a net exporter.

   Discuss how the accounting system might interact with the MRV system of the ETS. You might like to consider the implications for the estimation methodologies used for the ETS compared to the inventory. You may also wish to consider the GWP used under the ETS and how these relate to the NDC.

   Discuss how the ETS reporting system might support the accounting system and vice versa.

   Discuss how the MRV system for the ETS might relate to the adjustments made for ITMOs under the accounting system.

   Consider the analytical and technical capacities needed for both the accounting system and MRV for the ETS to identify if there are any synergies.

2. Now consider the same, expect that Country A is implementing a policy crediting mechanism linked to their energy efficiency trading certificate scheme. They have entered into an agreement with another country to sell some of the credits generated. Discuss how the MRV system for both the crediting system and the underlying energy efficiency certificate scheme might relate to accounting for the NDC.

3. Take around 15 minutes to reflect on the discussions and identify any work or support the PMR could undertake to explore these interactions between accounting and MRV for carbon pricing. You will have more time to discuss this with the full workshop in the afternoon session.

☐ Topic 4 – Relationship between ITMOs and the legal definition of assets traded through carbon markets

Country A is an Annex 1 country under the Kyoto Protocol. Country A is also now a Party to the Paris Agreement and has taken the necessary steps under its national laws to ratify the Paris Agreement. Country A's NDC sets an absolute cap on its emissions.

Country B is a non-Annex 1 country under the Kyoto Protocol and was the host of CDM projects under Article 12 selling CERs to other Annex 1 countries, including Country A. Country B has set an NDC that adopts a commitment to reduce its GHG emissions in three gasses (CO_2, N_20 and CH_4) by 30 per cent below business as usual emissions (as projected in 2010) by 2030.

Both Country A and Country B, prior to signing the Paris Agreement had, in 2012, agreed to enter into an agreement to bilaterally cooperate on measures relating to climate change (the "**Agreement**"). As part of this Agreement, Country A entered into transactions to fund GHG mitigation activities – at project and/or sectoral level – with a number of private sector participants in Country B and in return received the right to offtake the greenhouse gas emission reduction credits (i.e. carbon credits) achieved. Country A and Country B decided to set up registries, that were not Kyoto Protocol registries, for the issuance and transfer of these carbon credits.

Some of these carbon credits are from projects that would qualify as CDM projects (but are not registered as CDM projects) and others would not qualify as CDM projects (e.g. because they were REDD+ projects). It took some time for the Agreement to be implemented but some projects are now (in 2016) ready to deliver and issue their first carbon credits. However, when funding these projects, the financing was based on crediting from the projects for 10 years (i.e. until 2023).

Now that the Paris Agreement has come into force, both Country A and Country B are trying to assess its impact on their Agreement.

1. What will be the status of the carbon credits generated by the projects in Country B under the Paris Agreement? Will their Agreement with Country A be a 'Cooperative Approach under Article 6? Will the carbon credits be treated as ITMOs?

2. If the carbon credits are ITMOs, how does Country A and Country B reflect them in their respective NDCs? If the carbon credits are ITMOs, how does Country A and Country B, respectively, account for them after 2020?

3. What is the status of the carbon credits generated (even if not issued) before 1 January 2021? Can they count as ITMOs under County A's NDC targets? How do Country A and B ensure no double counting prior to 2020?

4. Country B is debating whether for new projects to continue under the Agreement with Country A, whether to use Art 6.2 or the 6.4 mechanism to recognize the sale of credits from those projects under the Paris Agreement, or develop the new projects under the CDM to provide CERs for sale under ICAO's recent CORSIA.

5. Take around 15 minutes to reflect on the discussions and identify any work or support the PMR could undertake to explore these interactions between accounting and MRV for carbon pricing. You will have more time to discuss this with the full workshop in the afternoon session.