

Session 7: Accounting and avoiding double counting

Breakout Group Exercises

Introduction

It is anticipated that some countries will use internationally transferred carbon assets to help meet their emission reduction goals or as a means to finance their low carbon developments. In this context, 'accounting' and references to 'avoiding double counting' have been raised in the UNFCCC negotiations.

'Accounting' is important in the 2015 agreement because it helps countries to better understand each other's intended individual and joint efforts to reduce global emissions (e.g., before 2020); to track progress in achieving emission reduction goals (e.g., after 2020); and to preserve the credibility of the carbon market and value of the carbon assets (i.e. that the transfer of a carbon asset from one country to another does not lead to an increase in aggregate emissions).

The purpose of this break out session is to facilitate a better understanding of and an exchange views on the following four accounting issues:

1. Clarifying the meaning of 'avoiding double counting'
2. Tracking of international transfers of carbon assets
3. Determining what types of carbon assets can be counted toward countries emission reduction goals
4. Accounting for the trade in carbon assets with different types of emission reduction goals.

Instructions

Participants are asked to join one of break out groups. Each group will have approximately 30 minutes to discuss each of the following four exercises (2 hours in total). Each group will nominate a scribe and a person to report back on their discussions related to any one of the exercises. Groups will be facilitated by an expert or member of the PMR Secretariat.

Exercise A. Clarifying the meaning of ‘avoiding double counting’

Countries have agreed that arrangements for the international trade of carbon assets should ‘avoid double counting’. There are several different types of double counting that this term could potentially refer including the following five situations:

- A situation where a carbon asset is used by one country and the emission reduction underpinning the carbon asset is also counted toward meeting the emission reduction goal of the selling country (double claiming);
- A situation where more than one carbon asset is issued for the same emission reduction (double issuance);
- A situation where the same carbon asset is used twice (double use);
- A situation where the carbon asset is counted toward a countries’ emission reduction goal and the transfer of finance associated with the trade is also counted toward that countries climate finance contribution (double purpose).

The purpose of this exercise is to clarify the terminology for ‘avoiding double counting’ and to discuss the risks of double counting and how these risks can be avoided.

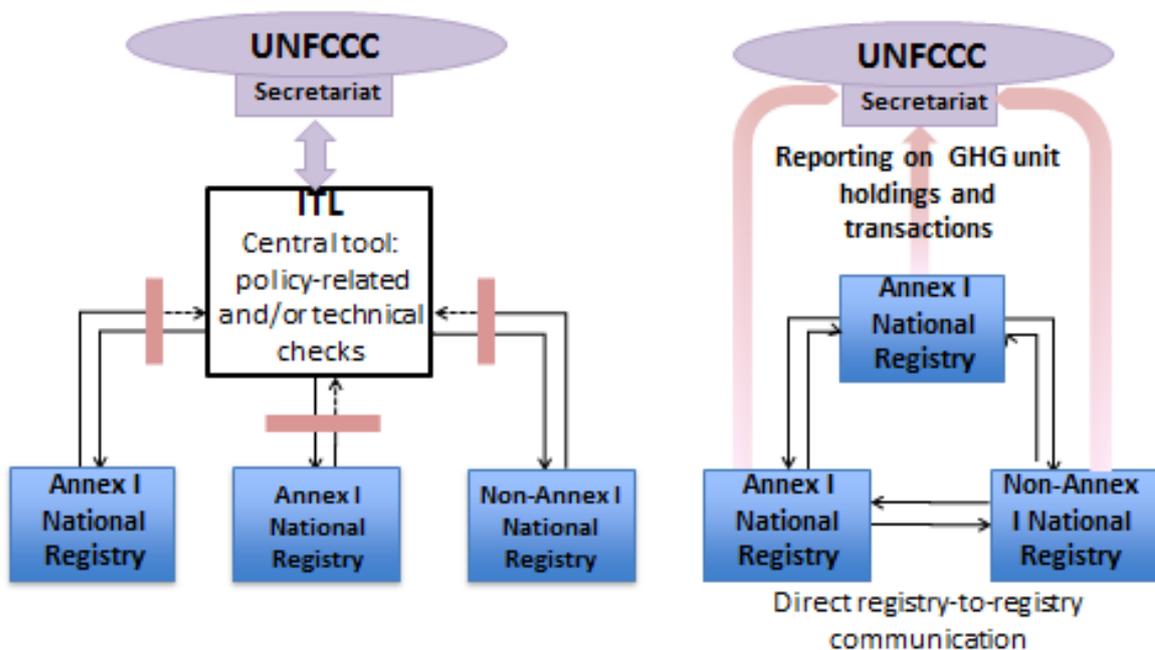
1. Discuss if there are any other types of ‘double counting’ that might need to be avoided
2. Discuss which types of double counting you think are captured by the term ‘to avoid double counting’.
3. Discuss the measures that can be adopted to address or limit each type of double counting, and what this implies for the international regime.

Exercise B. Tracking transfers of carbon assets between countries

Critical to the trade in carbon assets and to the avoidance of double counting is the tracking of the issuance, and transfers of those carbon assets. Tracking is typically achieved through a transaction registry system so that each carbon asset is represented by only one entry within the registry system. A registry can provide security, clarity and transparency over transfers and ownership of the carbon asset; and thus provide trust and confidence between trading parties. Discussions are currently exploring how to facilitate and track the transfer of carbon assets between countries. The literature on tracking indicates that there are broadly two options (Figure 1):

- A **central international transaction log** model (e.g. such as the ITL adopted under the Kyoto Protocol), where transfers of carbon assets between countries are tracked through a centrally governed log that assures before an entry for the carbon asset is made in the receiving country registry that an equivalent entry has been removed from the selling country registry. Individual country registries would need to be designed to connect with such an international log.
- A **direct transfer registry** model, where the transfer of the carbon asset between countries is tracked directly by the trading countries’ registries. The registries would directly communicate with each other to assure that before an entry for the carbon asset is made in the receiving country registry that an equivalent entry has been removed from the selling country registry. Individual country registries would need to be designed to connect with each other to allow trading.

• Figure 1 - Registry / Tracking Options



Source: OECD

The purpose of this exercise is to evaluate the different registry tracking options. Specifically, participants are asked to:

1. Identify the advantages and disadvantages of each model
2. Identify and compare the technical and capacity requirements of each model
3. Share views on their preferred approach.

Exercise C. Determining what carbon assets can be counted toward countries' emission reduction goals

Carbon assets can be generated by several different types of mechanisms (e.g. crediting mechanisms or emission trading schemes etc.). These mechanisms can be established and governed under the UNFCCC (as is the case under the Kyoto Protocol for International Emission Trading, the Clean Development Mechanism, and the Joint Implementation mechanism). Alternatively they can be established and governed by domestic laws (e.g. Chinese Pilot ETS) and could include multiple countries (e.g. the EU ETS) or link directly to another jurisdiction (e.g. California and Quebec). They can also be established through bilateral arrangements between countries (e.g. Japanese Crediting Mechanism).

These different mechanisms could result in carbon assets that have different characteristics. Discussions are ongoing on the types of carbon assets that could be counted toward countries' emission reduction goals. Some potential options include:

- Allow only those carbon assets that are generated by mechanisms established and governed by the UNFCCC (e.g. as was the case under the Kyoto Protocol);
- Allow those carbon assets that are generated by mechanisms that are 'accredited' by the UNFCCC (meaning that mechanisms must go through some kind of accreditation process governed by the UNFCCC before their carbon assets can be used);
- Allow carbon assets that are generated by any mechanism provided that the country can demonstrate they meet certain criteria;
- Allow Parties with absolute emission caps to issue and trade units freely;
- Allow countries to decide what carbon assets they will use;
- A combination of any of these options.

The purpose of this session is to discuss what carbon assets can be counted toward countries emissions reduction goals? Specifically, participants are asked to:

1. Discuss the advantages and disadvantages of each option
2. Discuss what would be needed in the international regime to operationalize (e.g., rules, procedures, infrastructure etc.) each option.
3. Discuss within the group what could be the preferred option.

Exercise D. Accounting for cross-border trade of carbon assets with different types of emissions reduction goals.

Countries' emission reduction goals could be expressed in a variety of ways, for example, they could be expressed as an absolute cap on emissions over a specified period (as per Kyoto Protocol), an intensity target (emission per unit of national output), or as a commitment to implement a certain policy or measure. They could be multi-year or single year targets, and they could be aspirational (with best intention to achieve) or binding (definitely will achieve).

When a country does not trade in carbon assets (buy or sell), then it will be possible to demonstrate that it has achieved its emission reduction goal using its emissions inventory, measures of national output or other easily measured indicators to demonstrate its success. When countries trade carbon assets adjustments need to be made to take into account the exchange of those carbon assets to determine if they have achieved their emission reduction goals. (For example, if both trading countries have goals expressed as absolute caps then the selling country will reduce its cap and the buying country will increase its cap). How this adjustment (or accounting) is done could be different depending on the nature of the emission reduction goals of the trading countries (i.e., it is not necessarily a straightforward addition or subtraction that can be applied due to the different types of goals).

The purpose of this exercise is to demonstrate and explore (with illustrative examples) options for accounting for the trade of carbon assets when countries have different types of emission reduction goals. These examples are for illustration and only cover four possible scenarios, as others are also possible.

Example 1 Country A and B have goals expressed as absolute emission reduction caps

	Country A	Country B
Emission reduction goal	Absolute emissions cap of 100 Mt per year for 5 years, binding multi-year target	Absolute emissions cap of 100 Mt per year for 5 years, binding multi-year target
Inventory Emissions	On average 120 Mt per year, 600 Mt total	On average 80 Mt per year, 400 Mt total
Imports	120 Mt over the period	20 Mt over the period
Exports	20 Mt over the period	120 Mt over the period

1. Discuss the formula/approach for accounting for trade between these two countries.
2. Are there any implications for the approach if either countries' cap is more aspirational rather than binding?
3. What rules and procedures would be needed in the international regime to account for this type of scenario

Example 2 Country A has an absolute emission reduction cap and Country B has an intensity target

	Country A	Country B
Emission reduction goal	Absolute emissions cap of 100 Mt per year for 5 years, binding multi-year target	Reduce emissions intensity to 1t CO ₂ e per \$1000 GDP by year 5. Single year intensity target.
Inventory Emissions	On average 120 Mt per year, 600Mt total	Growing from 75Mt in year 1 to 80 Mt in year 5
GDP Output	NA	Growing from \$70 billion in year 1 to \$100 billion in year 5
Imports	120 Mt over the period	20 Mt over the period
Exports	20 Mt over the period	120 Mt over the period

1. Discuss the basic formula/approach for accounting for trade between these two countries.
2. Discuss how this approach is different from example 1.
3. Are there any implications for the approach if either countries' cap is more aspirational rather than binding?
4. What rules and procedures would be needed in the international regime to account for this type of scenario?

Example 3 Country A has an absolute emission reduction cap (multi-year) and Country B has an absolute emission cap (single year)

	Country A	Country B
Emission reduction goal	Absolute emissions cap of 100 Mt per year for 5 years, binding multi-year target.	Absolute emissions cap in year 5 of 60 MT, single year target.
Emissions	On average 120 Mt per year, 600Mt total	Reducing from 90Mt in yr 1 to 60 MT in year 5
Imports	120 Mt over the period	20 Mt over the period
Exports	20 Mt over the period	120 Mt over the period

1. Discuss the basic formula/approach for accounting for trade between these two countries.
2. Discuss how this approach is different from example 1 and 2.
3. Are there any implications for the approach if either countries cap is more aspirational rather than binding?
4. What rules and procedures would be needed in the international regime to account for this type of scenario?

Example 4 Country A has an absolute emission reduction cap and Country B has a commitment to implement an ETS in some sectors of its economy.

	Country A	Country B
Emission reduction goal	Absolute emissions cap of 100 Mt per year for 5 years, binding multi-year target	Implement an ETS with a cap of 100Mt per year for 5 years.
Inventory Emissions	On average 120 Mt per year, 600Mt total	Emissions covered by the ETS 80Mt per year, uncovered emissions 40 Mt per year, total emissions 600Mt total.
Imports	120 Mt over the period	20 Mt over the period
Exports	20 Mt over the period	120 Mt over the period

1. Discuss the basic formula/approach for accounting for trade between these two countries.
2. Discuss how this approach is different from example 1, 2 and 3.
3. Are there any implications for the approach if either countries cap is more aspirational rather than binding?
4. What rules and procedures would be needed in the international regime to account for this type of scenario?