OBJECTIVE OF THE KICK-OFF DISCUSSION (CALL #1)

The PMR Assembly agreed at its 7th meeting in Marrakech (October 2013),¹ to establish the offset working group as part of the PMR offset technical work program. The offset working group will bring together individuals nominated by PMR member countries, invited representatives from several offset standard setting organizations, and some PMR experts. Suggested objectives for the first kick-off call are to:

1. Discuss the scope of the offset-related technical work program and identify focus areas for discussion. The discussions are to respond to the technical challenges faced by those PMR countries looking at developing domestic offset programs (Section 2);
2. Discuss the types of deliverables and knowledge products to be produced by the PMR secretariat and/or consultants to support PMR country participants (Section 3); and
3. Discuss the role of the offset working group members and the engagement process (Section 4).

The PMR Secretariat has prepared this background note to facilitate the discussion during the first kick-off call of the working group. The thinking presented in this note builds on the findings of the PMR technical paper No. 6 “Overview of Carbon Offset Programs: Similarities and Differences”, as well as on early discussions with some PMR participants. We are aware, however, that we may not have covered all the issues that are of interest to participants. We therefore strongly encourage participants to submit additional ideas, issues, and comments on this note and on future discussion topics. Suggestions may be submitted by email prior to/or after the kick-off call, or raised during the discussions themselves.

Following working group discussions, the PMR secretariat could, on request from the participants, prepare a summary of the discussions and outline the group’s thinking on the draft work program for the next discussion.

BACKGROUND NOTE

1. Rational for an Offset Working Group

The rational for establishing a PMR Offset Working Group is to:

1) Enable the PMR offset working group members to advise the PMR Secretariat on the development of knowledge products, trainings, and E-Learning modules on offsets. These outputs will be developed to address common technical challenges encountered by PMR participants as they develop and implement their Market Readiness Proposals (MRP);

2) Provide feedback and comments on the resulting knowledge products, trainings, and/or E-Learning modules produced by the PMR Secretariat and/or consultants;

3) Share information on the ongoing offset work by the relevant agencies and countries; and

4) Identify common and different options that are 3C-compatible for offset program design.

2. Suggested scope for the offset work program

Figure 1 – Options for consideration in defining the scope of the offset-related technical program

**Common features:** Several PMR countries are either considering or starting to develop offset programs as part of their national climate change mitigation policies. Key drivers for the use of offsets include:

- The ability to act as an efficient cost containment option under a cap-and-trade or carbon tax mechanism;
- The provision of a direct financial incentive to a wide range of emission abatement options in sectors that are often difficult to capture otherwise (i.e., under other types of policies); and
- Their potential as a useful step towards tighter abatement measures such as cap and trade since they develop MRV capacity.

**Specific features:** The design of domestic offset programs ultimately comes down to strategic and/or political considerations related to national circumstances and priorities. The resulting degrees of variance in offset design may raise issues and risks related to environmental integrity, transaction costs,
governance, or transparency that may hamper - or compromise the perception of - the credibility and consistency of these programs, and their compatibility with others.

**3Cs approach to offset program development:** The working group could focus on creating and providing knowledge products that support PMR participants design and implement offset programs. Such products would not restrict the need for offset programs to incorporate distinctive design elements that enable each offset program to accommodate national circumstances, but will facilitate a better understanding of how similar but different programs can deliver Credible, Consistent and Compatible outcomes (i.e. the application of a 3C “lens”).

**Figure 2 – 3Cs approach in offset program design: key elements**

The reason for applying the 3C lens approach is to help PMR participants avoid unintentionally compromising future prospects of recognition, linking or fungibility of carbon assets. Therefore the 3C principles of credibility, consistency, and compatibility will guide the discussions of the offset working group. Key elements for consideration are defined in Figure 2. Ideas of specific questions for stimulating discussion under each of the key elements are presented in the Technical Annex A.

**3. Suggested deliverables and knowledge products to support PMR participants**

The range of outputs of the PMR technical work program on offsets may include:
- Knowledge products (e.g., guidance documents, analyses, literature reviews etc.) to support the design and implementation of domestic offset programs;
- Training; and
- E-Learning modules on offsets.

The appropriate outputs will depend on the main focus areas defined by the offset working group and should reflect the most appropriate way to address the common technical challenges that PMR participants face in the design and implementation their Market Readiness Proposals (MRP). Examples of potential outputs are suggested in Table 1.

**Table 1 – Examples of deliverables of the offset technical program**

<table>
<thead>
<tr>
<th>3C relevant issue</th>
<th>Examples of potential deliverables (e.g., knowledge products, trainings, or e-learning)</th>
</tr>
</thead>
</table>
| **Environmental integrity**       | o Generating real and additional offsets: key issues and options  
Knowledge product/Training  
  o Addressing permanence: key issues, options, and impacts  
Guidance/Training |
| **Cost effectiveness**            | o Assessing and managing transaction costs in offset program design  
E-learning  
  o Leveraging local capacity and existing infrastructure  
Knowledge product  
  o Offset programs – Considerations, opportunities and risks  
Knowledge product exploring when and why to establish an offset program |
| **Ensuring objectivity and consistency** | o Building an accreditation process for third-party verifiers: key considerations and international practices  
Training  
  o Can offsets achieve net reductions and therefore be consistent with requirements under a 2020 agreement? Options for consideration  
Knowledge product  
  o Learning from existing standards programs  
Knowledge product |
| **Transparency**                  | o Setting transparent infrastructure and processes in offset programs: key considerations and international practices  
Knowledge product  
  o Avoiding double crediting and claiming: key considerations and options for building tracking infrastructure  
E-learning/training |

*Others?*
4. Roles and responsibilities

- **Working group members**: The working group is to help inform, guide, and review the outputs of consultants and the secretariat. PMR participants will nominate representatives to participate in the working group. Representatives of existing offset programs will also be invited to participate as members.

- **Working group ad-hoc participants**: Depending on the scope of work defined by the working group, additional participants may be invited to join future discussions on an as-needed basis. Such participants could include DOE, and other carbon market stakeholders whose experiences may provide useful inputs into discussions on technical subjects.

- **PMR Secretariat**: The PMR Secretariat will be responsible for providing inputs in advance of working group meetings, including managing consultant contributions when needed; chairing working group meetings, preparing discussion summaries; and reporting to the Partnership Assembly on the findings of the working group.

- **PMR experts**: At the discretion of the PMR Secretariat, some PMR experts will be invited to participate in working group meetings and undertake research and analysis on questions identified by the working group participants as relevant for achieving the proposed offset working group objectives.
The following table presents rough ideas regarding the type of questions that could be the basis of offset working group discussions. Please note that the questions included are only proposals and are not intended to be prescriptive. This Annex is included in order to indicate the type of technical issues that could provide useful input in the preparation of the deliverables defined in Section 3.

Table 2 – For consideration: possible discussion topics for applying the “3C lens” to offsets

<table>
<thead>
<tr>
<th>3C relevant issue</th>
<th>Possible discussion areas for consideration</th>
</tr>
</thead>
</table>
| Environmental integrity          | o Generating real and additional offsets: key issues & options  

Discussions could address issues such as double claiming, leakage, management of uncertainty in measurements, free riding and other subjects

o Dealing with permanence: key issues, options, and impacts  

Discussions could address issues such as liability, buffers, ex-post invalidation etc

| Cost effectiveness               | o Options for managing transaction costs in offset program project cycles  

Discussions could address issues such as roles and responsibility delineation, how to maximize efficiencies in the processing of project activities (i.e., degree of standardization, defining scope of a program). Other?

|                                | o How to Leverage Local Capacity and Existing Infrastructure  

Discussions could address issues such as pros and cons of building on what exists or starting something new

|                                | o Offset programs – considerations, opportunities and risks  

Discussions could address relevant issues for determining whether to set up their own domestic offset standard or use assets generated under existing standards in their national climate change policy

| Ensuring objectivity and consistency | o Learning from existing offset programs  

Discussions could identify key issues or elements that could be learnt from existing offset programs

|                                | o Building an accreditation process for third-party verifiers: key consideration and international practices  

Discussions could address issues such as defining minimum requirements for verifiers (i.e., what data need to be audited? How often do data need to be audited? How to apply materiality)? Which existing standards can be applied (i.e., ISO, CDM, local etc.)? How to ensure low costs? When to apply fast track validation/verification procedures - if at all? Other?

|                                | o Options for accommodating national circumstances in terms of data quality and availability?  

Is consideration of a tiered approach useful (i.e., different quality criteria in methodologies according to capacity and availability of data)? Is it best applied to some sectors more than others? Other?

|                                | o Can offsets achieve net reductions and therefore be consistent with NMMs under 2020 agreement?  

Discussions could consider the different approaches for calculating net reductions including discounting, net reduction funds, or other options?
| Transparency | o Setting transparent infrastructure and processes in offset programs: key considerations and international practices  
Discussions could consider issues such as the role of stakeholder consultations in the project cycle and design of offset programs, clarify which information should be publically available and what information can be kept confidential? Other?  

o Avoiding double crediting and claiming: Key considerations and options for building tracking infrastructure  
Discussions could consider issues such as who is responsible for tracking (outsourced or national government)? How are units accounted for in terms of net flows)? What are the IT requirements (serial no., vintage year etc.)? What software is used and what are the minimum requirements for communication with other systems? Other? |
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>[?]</td>
<td>o Other topics?</td>
</tr>
</tbody>
</table>