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COP24 Side Event Report
Double counting - the million dollar question for the implementation of Article 6 and further issues

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This is a report of a side event held at 24th Session of the e Conference of the Parties to the UNFCCC (COP24) from December 2nd to 14th 2016, in Katowice, Poland.

- Title: Double counting - the million dollar question for the implementation of Article 6 and further issues
- Date: 6 December 2018, Thursday, 15:00–16:30
- Venue: Room Pieniny
- Organizers: Project Developer Forum Ltd. (PD-Forum), Designated Operational Entities and Independent Entities Association (DIA), International Climate Dialogue e.V. (ICD)
- Panel: Christiaan Vrolijk (Project Developer Forum/Natural capital partners), Jeff Swartz (South pole), Stephan Hoch (PoA Working Group/Perspectives), Asmau (Nigeria), Nicole (Climate Focus), Werner Betzenbichler (D.I.A.)
- Moderator: Dr. Axel Michaelowa (Perspectives/University of Zürich)

Abstract

After 2020, most of the parties will have national commitments. How can we make sure that cooperative approaches / carbon markets are still possible without conflicting with national targets? In this context, double counting issues regarding not only compliance markets but also voluntary market was discussed.

Session summary

1. Dr. Axel Michaelowa (Perspectives/University of Zürich): The issue of double counting (Introduction)

✓ Three types of double counting:
   - Double issuance: this is easy to deal with appropriate verification process and isn’t critical issue currently.
   - Double claiming: This becomes more and more relevant in the context of the PA because all countries have their NDCs and they are interested in using units. This

is a critical and complex issue being negotiated.

- Double use: There are number of actors, standards and registries in the voluntary market. One idea option is having a global registry to deal with this issue.

✓ Critical issues under the PA:

- Will voluntary markets wither away given all countries have NDCs? Or will voluntary markets find their place under the NDCs?
- Will non-Pa sectors (aviation/shipping) get access to ITMOs?
- How can a global registry be set up under a bottom-up regime?
- Can corresponding adjustment be done in a way that prevents double claiming?
- Will upscaled crediting reduce or increase risk of double counting?

2. Christiaan Vrolijk (Project Developer Forum / Natural capital partners): Views from a voluntary market player

✓ Any of reductions achieved through voluntary actions will help reduce emissions further because they are additional emission reductions over and above regulation (e.g. Voluntary use of CERs under ETS or carbon tax is not called voluntary market activities)

[Accounting treatment for voluntary action by non-state entities to avoid double counting]

✓ Voluntary action ahead of or beyond regulatory requirements through the use of market-based instruments for claims of net-zero emissions / carbon neutrality is increasing Paris ambition in two ways

1) The non-state actor funds additional emission reductions that are not required by regulation and in doing so delivers reductions under, although not mandated by, the PA.
2) The country in which the emission reductions are generated (the host country) benefits from the emissions reductions funded by the non-state actor. This can and should encourage greater host country NDC ambition under the Paris ratchet mechanism (Article 4).

✓ This is the case in all instances where:

- Action by non-state entities is voluntary and free of any regulatory requirement.
- Emissions reductions are accounted for only once, almost invariably this will be in the host country, mitigation instruments are not expected from the host country to another country or sector's compliance account.
- Credible standards establish the emission reductions using accurate baselines that reflect changing regulatory requirements in the host country.

✓ These conditions remain true until the sector is covered by compliance ETS or similar regulation where the reduction achieved enables rest of the sector to emit more.

3. Nicole (Climate Focus): Article 6 pilot experiences from recent studies

- ✓ Mapping Article 6 pilots
  - Standardized Crediting Frameworks (SCF): active in Senegal and Rwanda
  - Transformative Carbon Asset Facility (TCAF)
  - SEA Virtual Pilots
  - NEFSCO Peruvian Solid Waste Sector Pilot (virtual pilot)
  - Klik Foundation Pilots
  - Chile-Canada Environment Cooperation
  - The JCM
  - EU ETS / Swiss ETS linking
  - California-Quebec ETS linking
- ✓ Conceptual/virtual pilots focusing on 1) Simulation of Art 6 transactions, 2) Inform countries wishing to participate in Art 6, 3) Preparing countries wishing to participate in Art 6
- ✓ Implementation pilots focusing on 1) Testing pilots on the ground, 2) Initiating the process for a future transfer of mitigation outcome, 3) Preparing countries wishing to participate in Art 6
- ✓ Closer look: Standardized Crediting Framewarks (SCF)
  - Offers reformed and simplified crediting approach – building on the CDM
  - Simplifies the project cycle and increases capacities, proving countries with more ownership of their crediting approach
  - Instrument neutral which can be applied to both Art 6.2 and 6.4
  - Piloted in Senegal and Rewanda

4. Asmau (Government of Nigeria)

- ✓ West African countries is implementing “West African alliance of Carbon market and climate finance“ to work together for Art 6 preparation.
- ✓ The alliance has offered Art 6 readiness support to Nigeria and we’ve done consultation with experts who came to Nigeria and we’re going to hold a workshop next year.
- ✓ Nigeria has an ambitious NDC to reduce 20% emission compared to BAU unconditionally and other 25% with conditions. There are five priority sectors; agriculture, oil & gas, transport, power industry and industry. Nigeria has launched a green bond to support the NDC.
- ✓ If CDM can be transitioned to SDM, Nigeria would be able to use existing infrastructures on ground such as DNA and process already established.

5. Jeff Swartz (South pole): Double counting & NDC; voluntary market after 2020

- ✓ Double counting issue is critical for project developers who are taking a risk most for the project development. We need clear rules for double counting to keep projects going forward.
- ✓ A lot of clients today are very serious about carbon neutral goals or renewable energy targets and any minor incident where they might be caught up in some kind of fraudulence system causing double counting would look terrible.
- ✓ In this regards, 50 companies including South Pole signed “Principals of sound accounting” this week.
- ✓ We’re looking at new ways of technology using block chain (distributed ledger system) to avoid double counting. We’ve teamed up with Excel Foundation and Gold Standard Foundation to pilot how block chain could be used to generate carbon credits and avoid double counting. Currently, a pilot solar power project in Thailand is ongoing.
- ✓ South Pole is developing 5 Art. 6 pilots; 2 of which are with European governments and others with a multilateral development bank as donor.
- ✓ From our experience, legally binding treaty between host and buyer country is an only way to avoid double counting at this stage.

6. Stephan Hoch (PoA Working Group/Perspectives): Relevance of upscaled programmatic crediting instruments for Article 6 operationalization

[Role of programmatic approaches for PA Art. 6]

- ✓ How can Paris mechanisms promote programmatic mitigation activities while ensuring transparency: prevent double counting?
- ✓ What are specific issues concerning up-scaled crediting e.g. programmatic approaches?
    - ・ They amplify impact (both positive and negative)
    - ・ Their MRV elements are key tools for robust accounting.
    - ・ Governance (additionality, baselines) becomes even more critical than in project activity level

[Analysis informal documents]

- ✓ No reference to programmatic approaches in Art 6.2 and 6.8.
- ✓ All Art. 6.4 options mention programmatic approaches (IV A. Scope of Activities, XVIII Transition from CDM/JI)
- ✓ But only few submissions by Parties and Observers mention PoAs.
- ✓ Talanoa Dialogue: PoA Working Group is the only one to mention PoAs.

[The evolution from single projects to programmatic approaches]

- ✓ CDM has evolved from single projects to programmatic approaches
- ✓ NDCs contain all domestic projects and programmes, including Art 6, NAMA, GCF, etc., but demarcation of conditional/unconditional remains weak.

[Uptake of programmatic approaches in Art 6 pilots]

Art. 6 pilot schemes	PoA-approach
WB Transformative Carbon Asset Facility	Yes
WB Ci-Dev Standadrized Crediting Framework	Yes
Canada-Chile	Unknown
AfDB Adaptation Benefit Mechanism	Yes
Swiss KLIK Foundation (Peru, Mexico, Columbia)	Yes
JCM	No
NEFCO Article 6 Pilot is Peru	Yes
Swedish Energy Agency Article 6 Virtual Pilots	Unknown
California (Pilot initiatives)	No

7. Werner Betzenbichler (D.I.A.): A new object of investigation – the role of Third Parties in protecting against double-counting

- ✓ DIA is representing society of validators and verifiers so far in CDM and JI, but also of Art. 6 PA in future which has a reference to DOEs.
- ✓ Double counting risks exist in following cases/situations;
  - · Emission reductions are registered and transferred in more than one regime
  - · Emission reductions contribute to the balance of more than one owner/country
  - · Mitigation actions have impacts on sectors outside the boundaries, but covered by policy measures
- ✓ Double counting is not something new issue, but there have been risks in JI and EU-ETS. When some Eastern European countries entered EU with registered JI projects which are covered by EU-ETS, there had been potential for double counting.
- ✓ There has been also risks for double counting between two crediting scheme when CDM project are switched to use voluntary standards.
- ✓ Possible safeguards against double counting are as follows;
  - · Contractual measures: bilaterally between seller and buyer
  - · Regulatory measures: 1) Host country legislation and regulatory framework, 2) International agreements (e.g. UNFCCC bodies)
  - · Investigation by specialized experts (Third party): 1) Requires market acceptance (any kind of accreditation), 2) Requires transparent standards and procedures, 3) Requires access to data/information of all potentially involved regimes (incl. NDC)

- ✓ There is no perfect regulation or system at the start, so there will need continuous improvement process.
- ✓ Third Party assessments cannot deliver; 1) Protection against criminal behavior especially on double-registration, 2) Protection of misuses in case of a half-baked regulatory framework
- ✓ Third Party assessments should deliver; 1) A confirmation of the matching boundaries, emissions reductions and the corresponding regime, 2) An evaluation of potential impacts on emissions outside the boundaries, 3) A verification reports which clearly indicates the regime where each ton of emissions reductions will be accounted to.
- ✓ Challenges for Third Parties are; 1) internal capacity building is needed to be familiar with new regimes, 2) need to deal with much more country specific regulations and information, 3) Access to data not owned by the orderer (e.g. baselines), 4) Expectations of a moderator role between investors and host countries.

Q&A session

Q1. Rodrigo, CMW

How would you ensure Environmental Integrity and safeguards of projects? 73% of CDM projects didn't create any additional emission reduction and created environmental thread and human right abuses.

A1. Jeff Swartz

You need to make your statement based on clear facts. 73%... is false.

A1. Stephan Hoch

The number 73% comes from very specific study. I admit there are some project types that have questions. Main difference between KP and PA is that host countries have their own targets and policies to achieve it. In this regards, additionality needs to be reinterpreted in Art. 6 to ensure environmental integrity.

A1. Werner Betzenbichler

You can blame the regime, but as I said in my presentation, it is the regulation which offers a loophole. With 15 years knowledge and experience from CDM, I don't see big risk.

Q2. Tobias

Question about nature of the mechanism; it's a way to facilitate low emission development especially in LDCs. I wonder are we starting this discussion from zero to design the mechanisms or that can be built on existing capacities and infrastructures.

A2. Stephan Hoch

Art. 6 mechanisms can make strong contribution to help countries. There are many sectors in rural areas with no data available. In sort of bottom up way, these mechanisms help to build accounting preconditions for NDC.

Q3. (Comment) Before going to double counting issues, we need to understand the essential nature of international cooperation. Without sound cooperation, we will not reach to 1.5C/2C objective. We need to mobilize capital to flow into developing countries and also need to allow reduction of high cost mitigation in industrialized countries. Transformational mitigation is not only payment for offsets, but it's always conjunction between domestic mechanisms and policies. We need programmatic approach to use international cooperation/carbon market to overcome lack of capital and resource in developing countries.

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English:
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