

Accounting for flows of emissions units

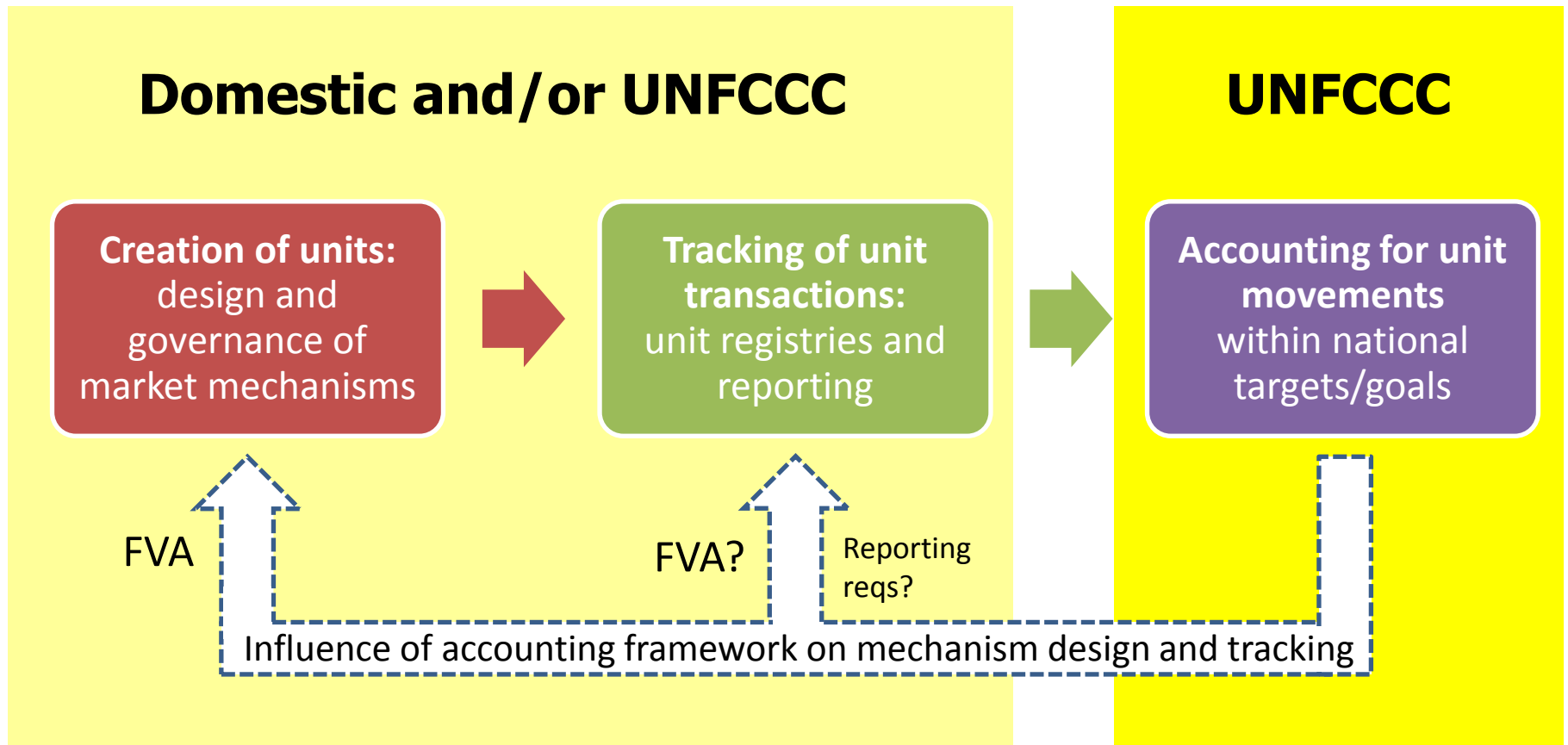
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Overview

- “Life cycle” of an emissions unit
- Which units matter for UNFCCC accounting?
- Understanding “double counting”
- Period of application of target
- Options for tracking and reporting requirements

“Life cycle” of units: scope of UNFCCC accounting



Which units matter, and how to account for net flows of units?

- **Two conditions** under which units matter for UNFCCC accounting:

“Used” by a Party as **counting directly towards a target** under UNFCCC

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Originating **outside the boundary of that target** (geographic, scope or temporal)

- Could include **credits** (offsets) **AND allowance units** from domestic emissions trading systems
- **Three key challenges:**

How to know in advance **which units** Parties may count towards pledges?

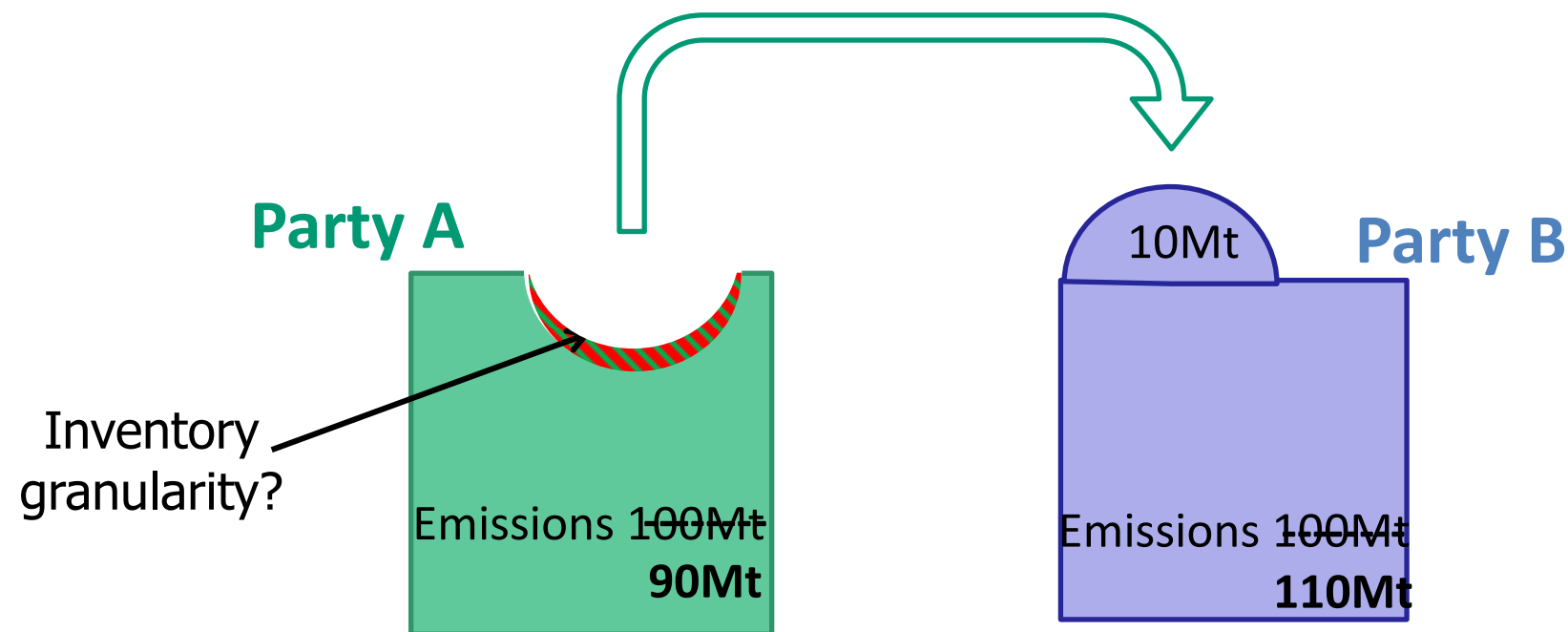
How to address “**double claiming**” of units towards more than one country target

Does the target’s **period of application** matter?

“Double counting”

- “Double issuance” = more than one unit issued for the same emissions reductions.
 - *What incentives could/should there be to ensure those issuing allowances take care to avoid this?*
- “Double claiming” against pledges/targets = same emissions reductions used by two jurisdictions (one via inventory, other via units)
- “Double selling” = same **unit** sold more than once and used towards emissions obligations
 - *What tracking arrangements are needed to preclude this? (e.g. common serial numbers? Reporting of all issuance/retirement of units that are valid for international pledges?)*

“Double claiming” example



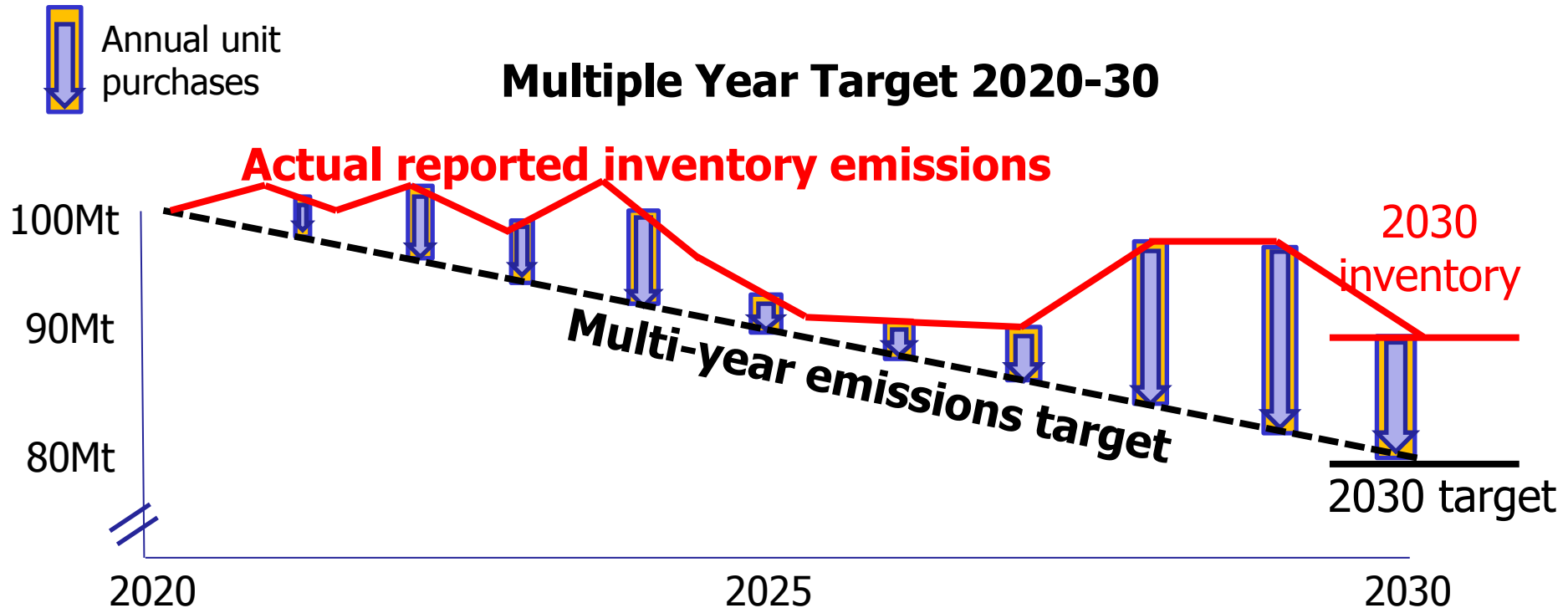
- If Party A DOES NOT account for **export** but Party B DOES account for **import**, then:
 - ◆ Declared total = $90+100 = 190\text{Mt}$,
 - ◆ Combined emissions inventory total = $90+110 = 200\text{Mt}$

Addressing “double claiming”

- If net export of units is not accounted for by selling country, then if units are purchased and “used” by another country there is overlap of country pledges
 - reduced mitigation effort globally
 - could impact mutual trust
- **Tracking** of unit flows allows ex-post reconciliation, could avoid double counting of global mitigation ***ex-post***
- “Avoiding” or “minimising” double claiming ***ex-ante*** would require **restrictions** on how pledges are expressed and/or unit use.



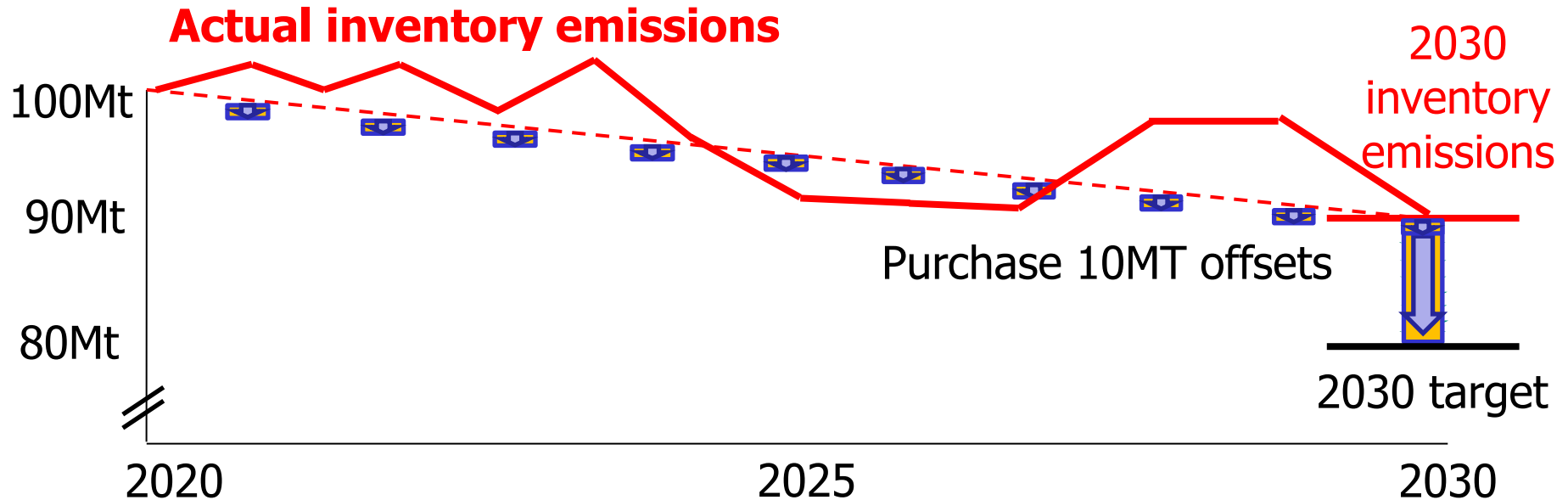
Pledges defined as single-year or multiple-year targets



- Units purchased for each year of multi-year target
- Multi-year target avoids risk that emissions in single target year are unrepresentative of general trend

Impact of a single year target

Single Year Target 2030



- If units only bought to cover 2030 emissions, overall abatement is less than for multi-year target
- Total abatement less certain ex-ante
- Gets complex when we think about "vintages"...

Options for tracking and reporting requirements

Overall objective

Ex-ante clarity on expected total abatement and national goals

Ex-post transparency on total abatement and national goals

Option A

- Prohibit double claiming (could lead countries to redefine pledge numbers)
- No unit use toward single-year targets
- Central tracking (technical + policy check)

Option B

- Quantify double claiming (limits, or ex-ante estimates)
- Quantify unit use toward single-year targets
- Opt-in to central tracking

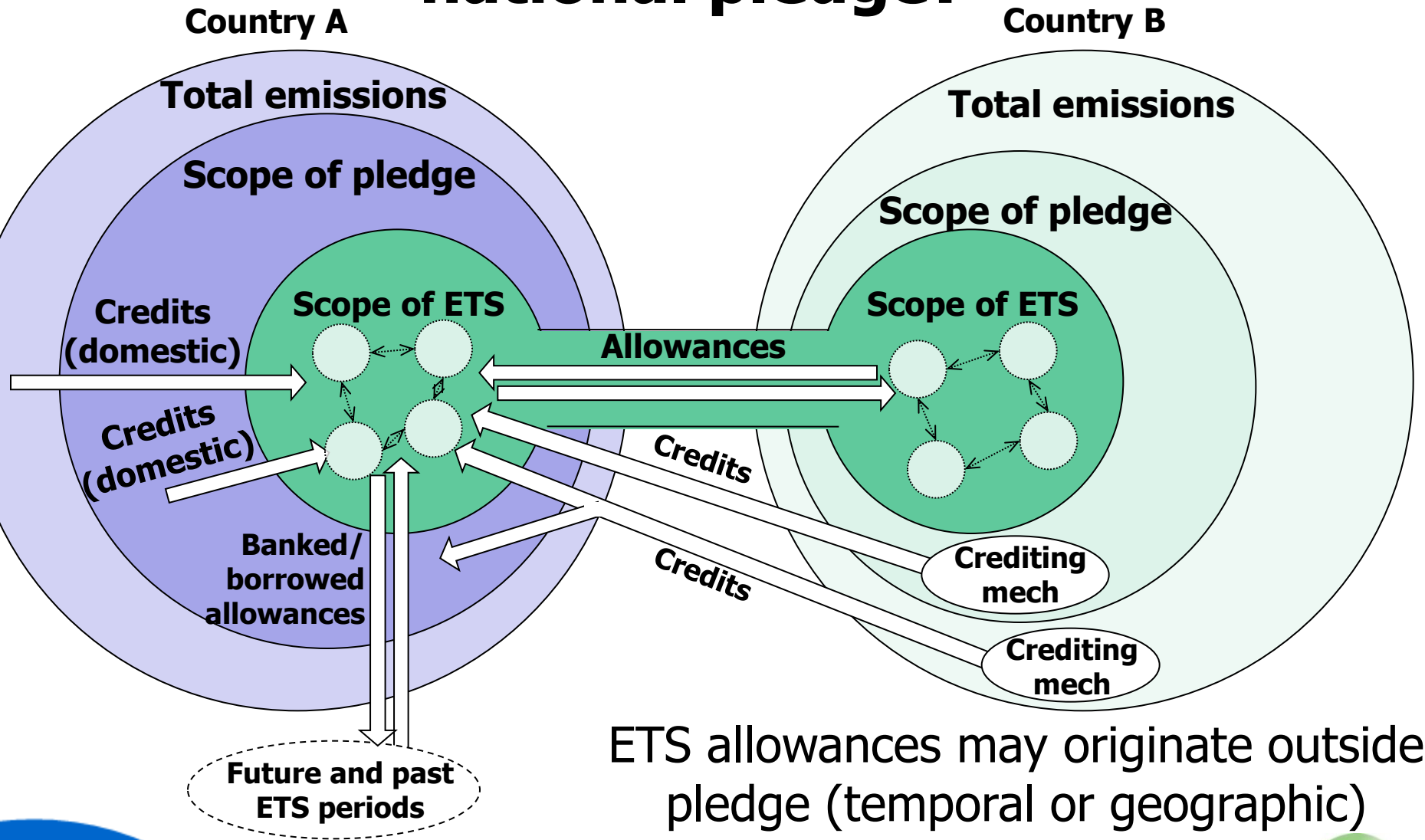
Option C

- Ex post reporting of unit flows
- No central tracking

Questions for discussion

- What are the implications of different types of commitments for the transfer of units e.g. with national commitments defined as single-year targets as opposed to multiple-year targets?
- What do we need to know about post-2020 commitments to avoid or minimise “double claiming” of market units as counting towards the pledge of more than one country?
- What do we need to know about domestic market mechanisms if their units may be counted towards national commitments under UNFCCC?

What market units might count towards a national pledge?



ETS allowances may originate outside pledge (temporal or geographic)