



GHG Unit Accounting after 2012: Managing Crediting Mechanisms and Tracking Transactions

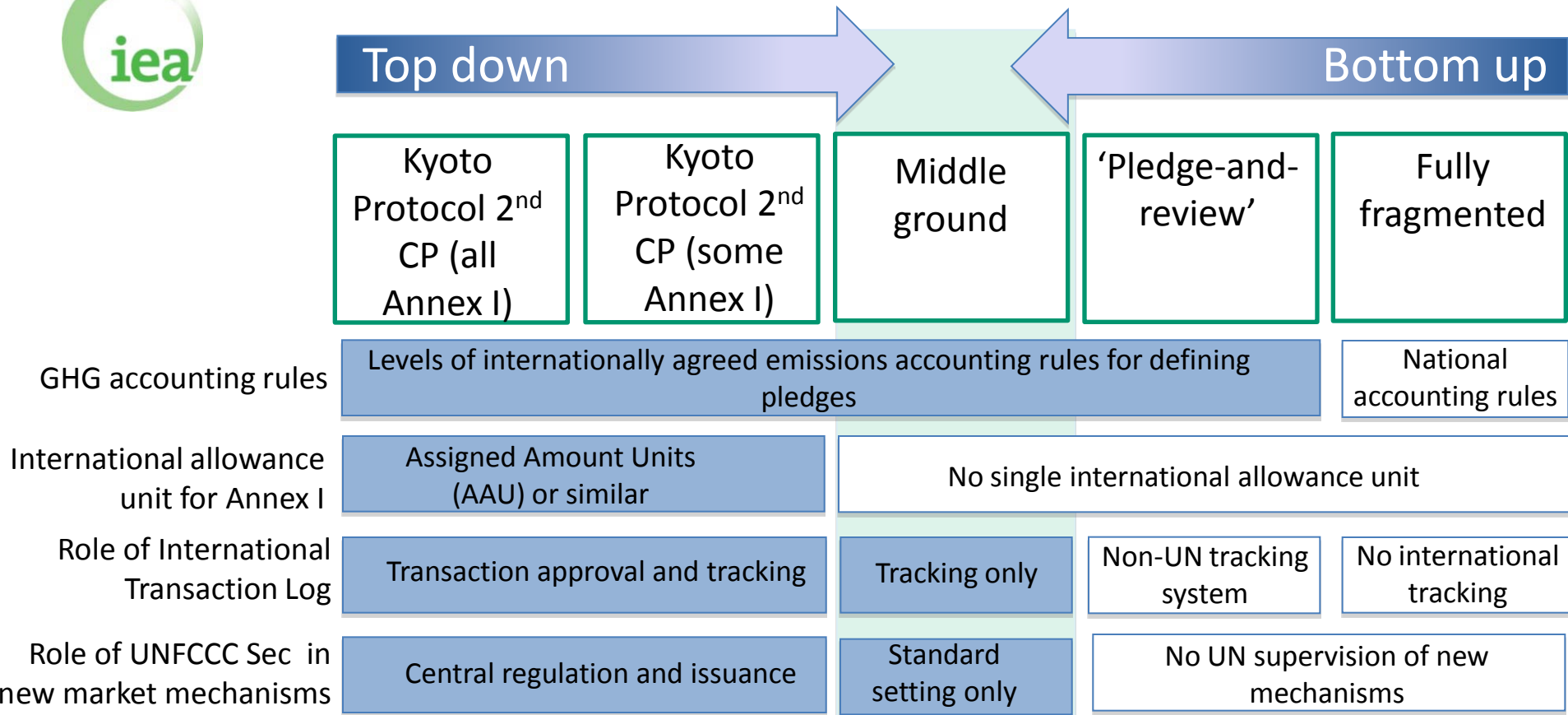
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Seminar on MRV and Carbon Markets
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Outline of presentation

- **Framework for GHG unit accounting post-2012**
- **Options for governance of crediting mechanisms and questions for discussion**
- **Options for tracking of unit transactions and questions for discussion**

Building blocks of post-2012 accounting framework

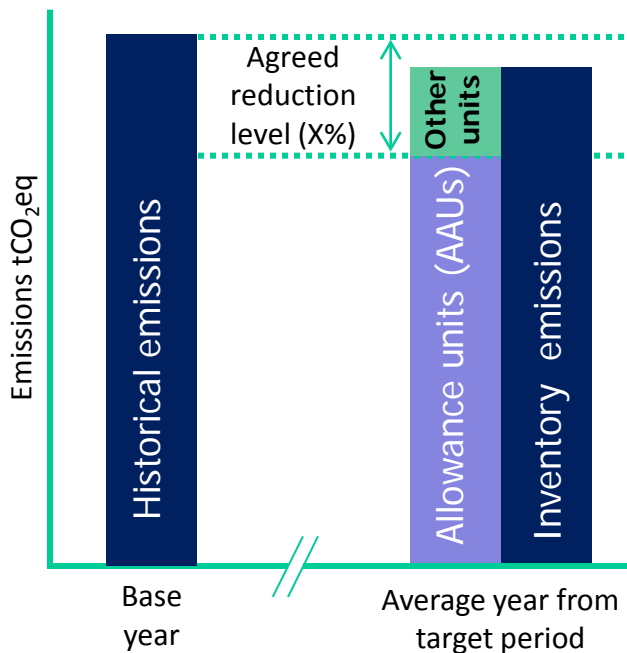


Note that the Middle Ground does not preclude continuation of KP for some countries

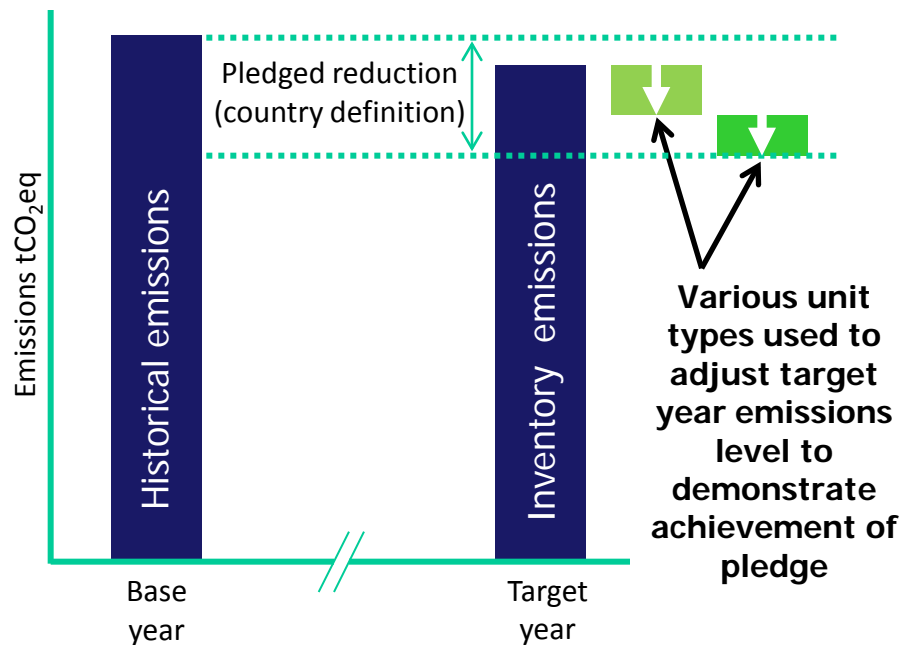
Using units outside of the KP



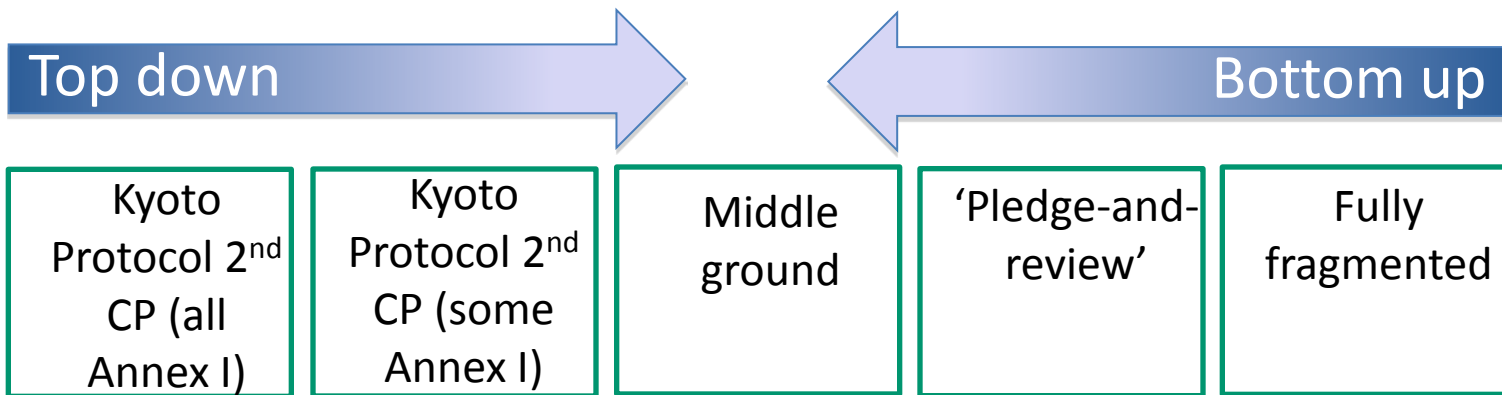
1. Allowance-based system (e.g. KP):
compliance by submitting allowance units plus purchased unit types



2. Pledge-based system: various types of purchased units used to readjust inventory emissions in target year



Options under the “middle ground”



Option A

Option B

Option C

Governance of international crediting mechanisms	UNFCCC management of new mechanisms	Minimum standards for crediting mechanisms	Transparency requirements
	Maintain existing ITL including ability to block transactions	ITL acting only to record transactions	No ITL or any central hub

Governance of crediting mechanisms: overview of options



Decreasing centralisation of credit mechanism governance

<u>Option A:</u> UNFCCC regulation	<u>Option B:</u> Eligibility criteria approach	<u>Option C:</u> Transparency approach
<p>UNFCCC management of new crediting mechanisms similar to CDM regulatory process</p> <p>COP considers establishment of mechanisms according to "Cancun Principles"</p>	<p>Countries seek UNFCCC recognition of units generated from mechanisms designed and regulated bilaterally or pluri-laterally</p> <p>Different levels of international co-ordination of what can qualify as a unit to meet pledges</p>	

"Cancun Principles" include: Ensuring a net decrease ... of global GHG emissions;
Complementing other means of support for NAMAs;
Stimulating mitigation across broad segments of the economy

Governance of crediting mechanisms: comparison of options B and C

<u>Option B:</u> Eligibility criteria approach	<u>Option C:</u> Transparency approach
Agreement at UNFCCC COP	
Countries agree on minimum eligibility criteria and standards , could include an environmental quality test	Countries agree to general principles and disclosure requirements , but such requirements would not ensure environmental quality
Mechanism-specific modalities and procedures	
Countries develop their own detailed modalities and procedures influenced by UNFCCC eligibility criteria	Countries develop their own modalities and procedures guided only by general principles
Verification/Issuance/Reporting	
Standards could require continued use of UNFCCC accredited DOEs as for CDM	Verification by ISO- certified agencies, verifying reductions only according to country procedures
Countries issue credits and reporting would demonstrate adherence to UNFCCC eligibility criteria	Countries issue credits and report activities according to transparency requirements

Advantages/disadvantages

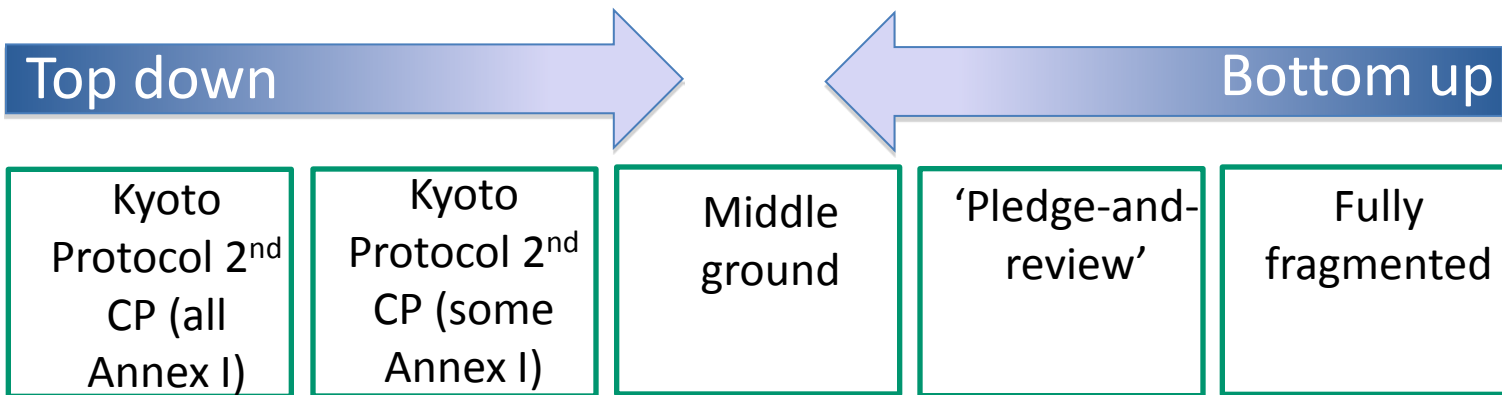
Option A: UNFCCC regulation	Option B: Eligibility criteria	Option C: Transparency approach
<i>Advantages</i>		
<p>Maintains close international regulation, ensure fungibility between units.</p> <p>Builds on existing UNFCCC bodies and processes.</p>	<p>CDM experience can be utilised in developing standards.</p> <p>Common standards and UNFCCC accredited DOEs improve fungibility of units.</p>	<p>Greater flexibility may lead to innovation and new solutions.</p> <p>Avoiding centralised UNFCCC governance <i>may</i> reduce costs and be quicker to implement.</p>
<i>Disadvantages</i>		
<p>Difficult and time consuming to get full agreement under the FCCC.</p> <p>Could be restrictive.</p>	<p>Difficult to ensure environmental quality of units.</p> <p>Minimum standards <i>may</i> continue to create processing bottlenecks and reduce flexibility.</p>	<p>Environmental quality of units entirely at countries' discretion</p> <p>Fungibility and trust in the use of units may be difficult to establish.</p>

Questions for discussion on crediting mechanisms



- Should units from country-led mechanisms be recognised under UNFCCC?
- What role could there be for the UNFCCC process in co-ordinating country-led mechanisms?
- What kind of minimum requirements and standards could be developed and agreed multilaterally?
- Can a continuation of the CDM DOE system or the use of ISO standards for verifiers be feasible for non-UNFCCC mechanisms?
- Which governance arrangements could be most suitable for mechanisms crediting more than individual projects (eg NAMAs)?

Options under the “middle ground”



Option A

Option B

Option C

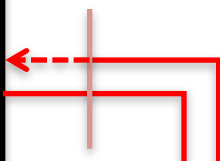
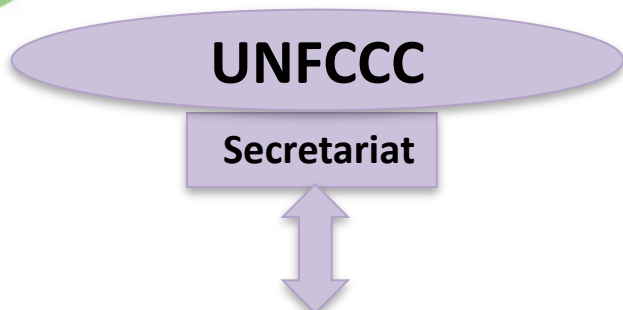
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Importance of tracking unit transactions



- Facilitates countries' use of multiple international GHG unit types in meeting mitigation goals
- Provides international visibility of transactions (buyer, seller, observers)
- Could be used to make ex-post unit accounting more rigorous
- Can be used to check and approve transactions in real time depending on internationally-agreed rules
- Existing ITL is a KP tool, but could be used by non-KP countries and mechanisms

Option A – ITL as existing



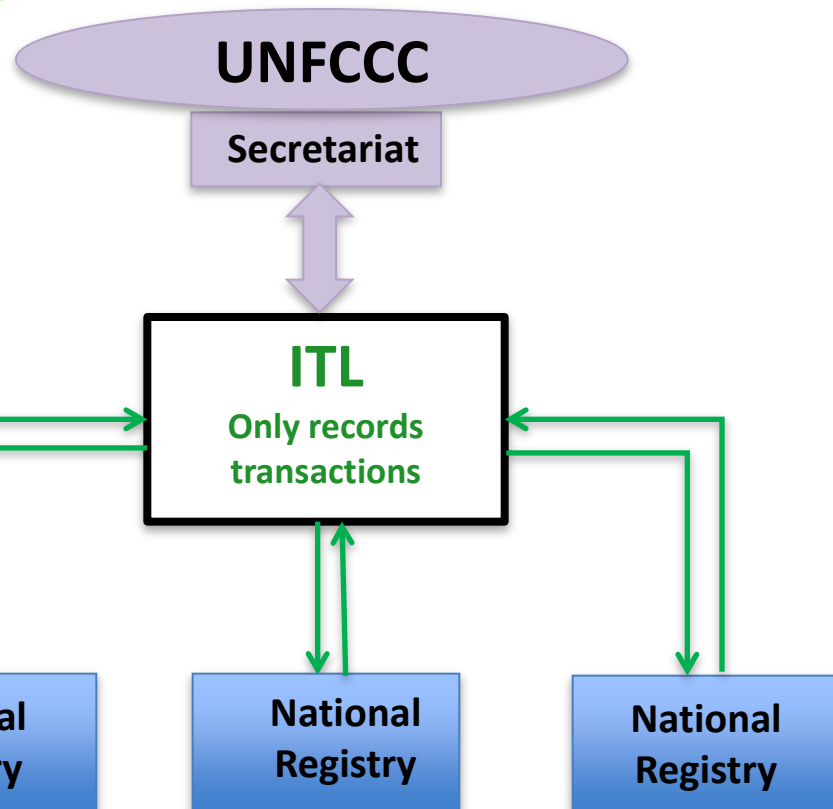
National Registry

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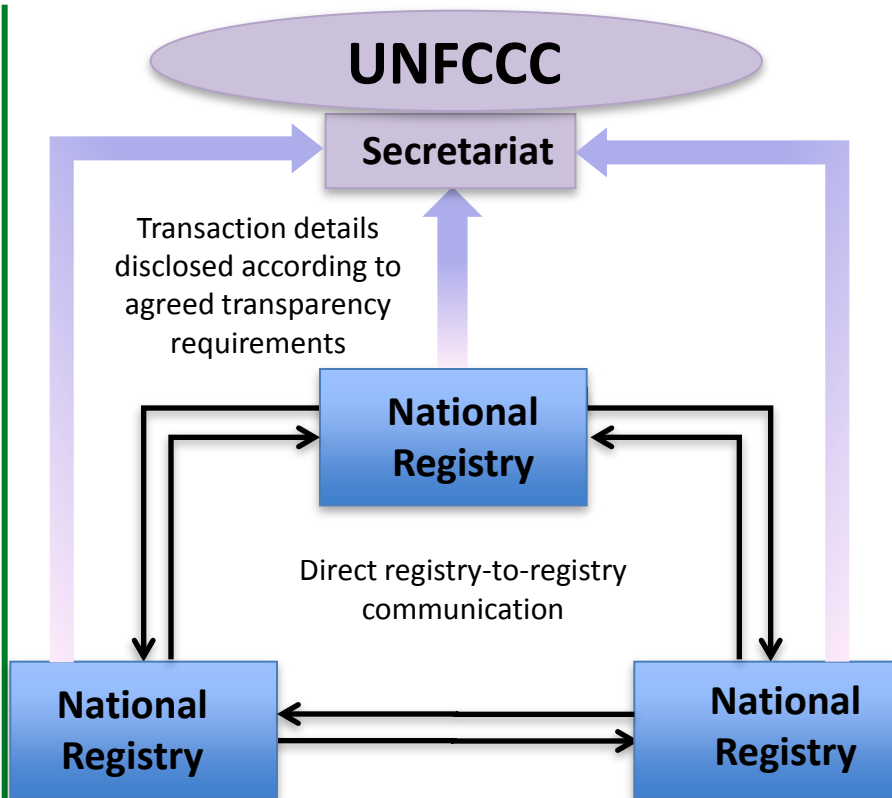
- **Transaction checks** could be at different levels:
 - ◆ **Mechanism level** (all units of same type pre-approved)
 - ◆ **Activity level** (each transaction checked)
- Could be suited to **UNFCCC mechanisms** or a system of agreed **minimum standards**
- **Good visibility** but top-down approach may not encourage maximum participation

Option B – ITL without checks



- Provides **international visibility** whilst remaining flexible
- **Some use of existing systems**
- Does **not provide any control over unit quality** (except when countries first connect, checking mechanisms adhere to general principles)

Option C – no ITL or central hub



- Each registry would **connect directly** with other registries
- Relies on **country disclosure** of unit transactions to UNFCCC, otherwise no visibility
- Difficult to **ensure uniqueness** of transactions
- **Technical challenges** to ensure security and disclosure

Questions for discussion on transaction tracking



- What role can the ITL play outside of the Kyoto Protocol?
- Even for country-led mechanism, is it appropriate for a hub to approve transactions?
- With continued KP, can the ITL serve simultaneously for KP units and new mechanism units in or outside UNFCCC?
- What are the key challenges to operating without a central hub, as depicted in option C?