

Practical strategies to avoid over-selling under Article 6

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Preface

- New world of international carbon market under the Paris Agreement
- All countries have mitigation pledges
- No double counting – only one country can use a transferred mitigation outcome – so must have “corresponding adjustments” for transfers
 - Acquiring (i.e. buying) countries subtract the mitigation outcomes from their GHG inventory when reporting on NDC progress
 - Transferring (i.e. selling/host) countries “add back” the mitigation outcomes to their GHG inventory when reporting on NDC progress

Outline



Understanding types of over-selling risk – focus on “low hanging fruit”



Prioritizing mitigation actions to achieve NDC goals



Practical strategies

- Excluding the ‘NDC package’
- Sharing mitigation outcomes
- Creating reserve fund

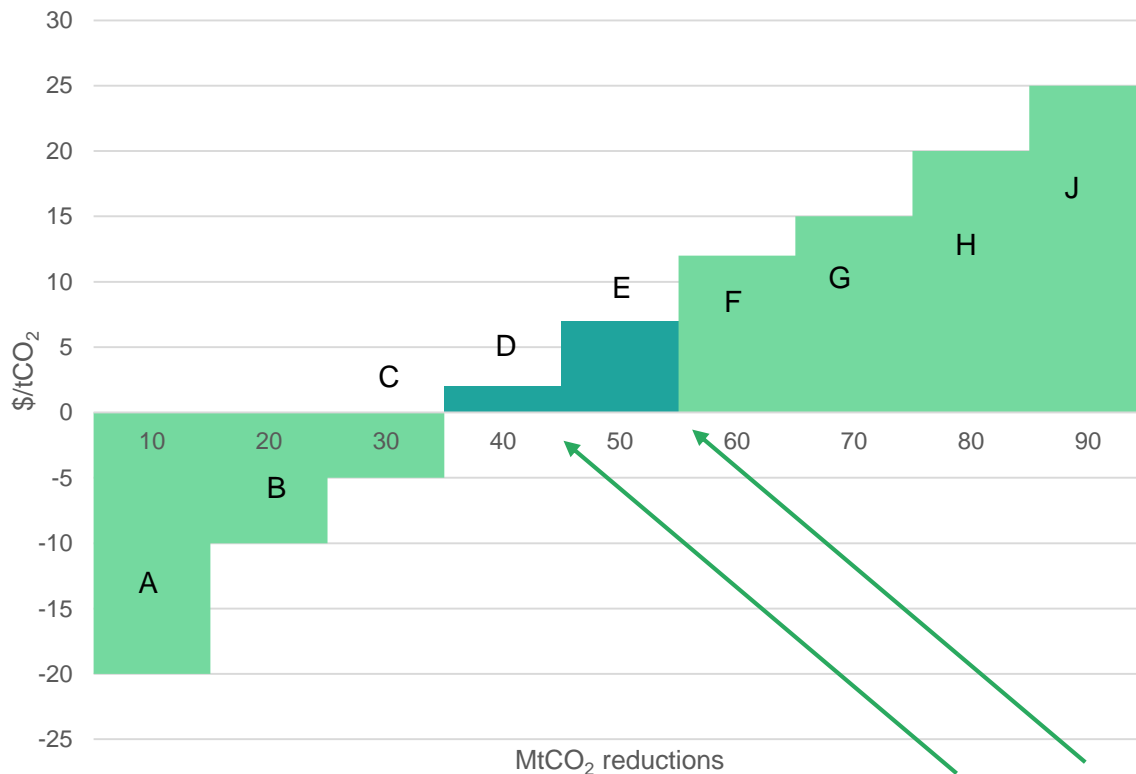
Strategies for transferring and acquiring countries, but the action takes place in the transferring country



Capacity building and institutional development

Prioritizing mitigation actions to achieve NDC goals

Example of Marginal Abatement Cost Curve



“NDC package”

Intervention	Abatement cost (\$/tCO ₂)	Abatement potential (mtCO ₂)
A	-20	10
B	-10	10
C	-5	10
F	12	10
G	15	10
H	20	10
J	25	10
Total for NDC		70

Interventions not included in NDC plan for other reasons (e.g. policy alignment, co-benefits, barriers)



Excluding activities that the country intends to use for NDC achievement from Article 6 cooperation

- Negative list to screen out activities in the NDC package
 - Transparent & quick to implement
 - Relies on NDC mitigation analysis
 - Lists only include technology or project type
- Positive list to use Article 6 for implementing “inaccessible” technologies
 - Transparent
 - Relies on elaborate analysis
 - Interventions excluded for future NDCs
- Abatement cost threshold for Article 6 activities
 - Difficulty of estimating abatement costs
 - Incentivizes project developers to inflate costs
 - Low-cost options only available for NDC (for better or for worse)
- Baselines derived from NDC targets
 - Greater flexibility
 - Feasibility depends on level of detail of NDC targets



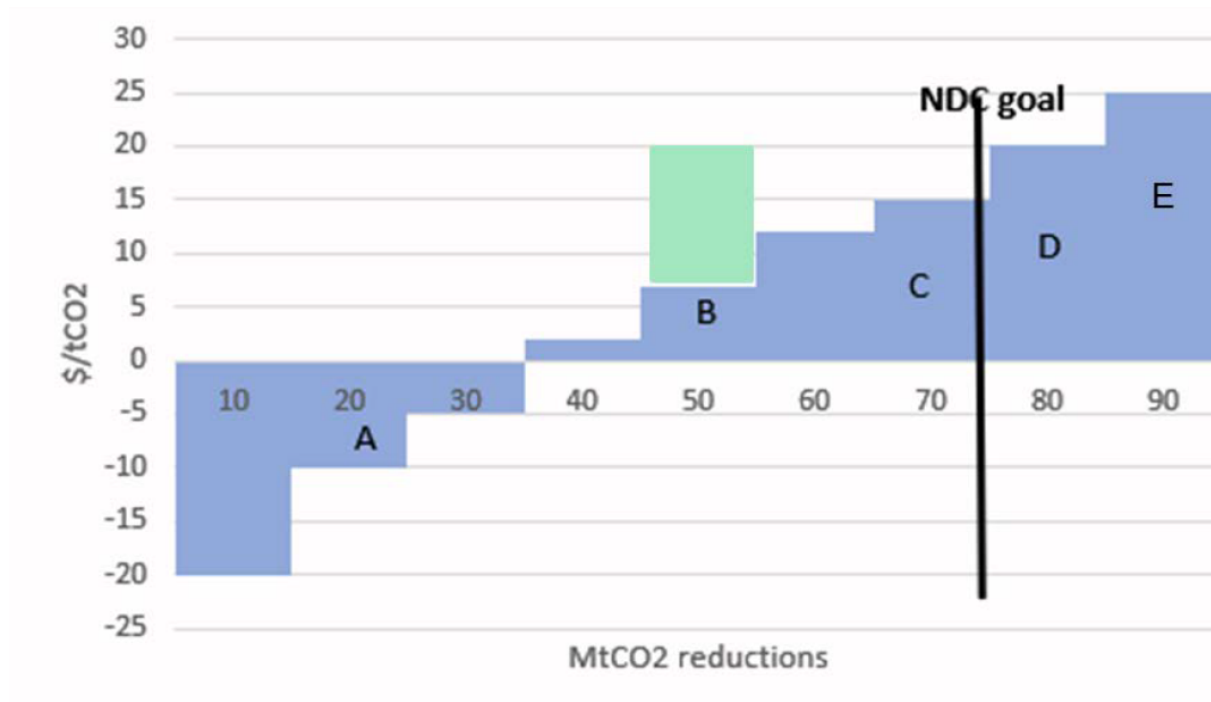
Sharing mitigation outcomes generated by cooperative mitigation actions

- Simple division of mitigation outcomes from cooperative activities
 - Transparent and simple
 - Difficulty of choosing the level of sharing
- Limit crediting periods
 - Set at registration of projects
 - Difficulty of identifying the right period
 - Possible bias towards investments with shorter payback times
- Conservative baselines
 - Alternative to using NDC-derived crediting baselines
 - Need assumptions about burden-sharing and equity
- Conditionality on Article 6 transfers
 - Eliminates risk of overselling
 - Eliminates interest from acquiring countries
 - Alternative: only hold back a portion



Article 6 pricing to fund a “reserve” for additional mitigation

Exploring two-part pricing to reflect opportunity costs



Source: Authors



Article 6 pricing to fund a “reserve” for additional mitigation

- Explore two-part pricing for ITMOs to reflect opportunity cost
 - Allow mitigation activities from all NDC sectors
 - Higher flexibility to achieve NDC
 - Difficult to assess marginal costs
 - More elaborate negotiations and larger transfer volumes needed
- Charging a levy to fund a mitigation outcome reserve or future ITMO purchases
 - Transparency
 - Difficulty of setting the right level of levy

Assessment of risk reduction strategies

Strategy	Over-selling risk reduction	Government burden	Transfer volumes
Negative list for NDC package	Medium positive	Large negative	Large positive
Focus on “inaccessible” technologies	Medium positive	Large negative (w/ or w/o costing)	Medium positive
Abatement cost threshold	Small positive	Large negative (w/ or w/o costing)	Medium positive
Baselines derived from NDC goals	Medium positive	Large negative	Large positive
Simple division of mitigation outcomes	Small positive	Small positive	Large positive
Limit crediting periods	Small positive	Small positive	Large positive
Conservative baselines	Small positive	Zero impact	Large positive
Conditionality of transfers	Large positive	Medium positive	Large negative
Levy to fund domestic mitigation/future purchases	Small positive	Medium negative	Medium positive
Two-part pricing to reflect opportunity cost	Small positive	Medium negative	Medium positive

Large positive	Medium positive	Small positive	Zero impact	Small negative	Medium negative	Large negative
LP	MP	SP	Z	SN	MN	LN

Conclusions



Overselling in many forms is a real risk that must be addressed to create thriving international carbon market



No one strategy will meet all the priorities of transferring and acquiring countries

→ Choice(s) depend on each country's NDC pledges, available mitigation options, the data that is available on those mitigation options, and the capacity of government to manage the Article 6 strategy process



Countries without a detailed mitigation analysis would find it difficult to even consider some of the strategies – and face greater risks of overselling – so capacity building and strategy development is critical in the short term

