Overlap of carbon market mechanisms

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Overview

- What do we mean by overlap of market mechanisms?
- Analysis of distinct types of overlap
- Questions for discussion
How might mechanisms overlap?

- Different types of **double counting of credits:**
  - Double monetisation
  - Double selling
  - Double claiming
  -Overlaying a project-based mechanism with an aggregate group-based one
- Crediting mechanism **overlap with other policy measures**
- **Interaction between domestic Emissions Trading Systems** if units are traded internationally
- **Sharing of resources between mechanisms:** using the same standards, verification process, tracking systems
Double counting of credits

Double monetisation
- Credit is issued for reduction at a source that also receives a tradable emissions allowance
- Can be avoided by forcing retirement or conversion of allowances (eg in JI)

Double selling
- Credit from a single emission reduction is sold twice (eg through two independent mechanisms)
- Avoided by strong transparency and unit tracking

Double claiming
- Emission reduction is claimed towards two different targets or goals - impact depends on nature of targets

Language from Verified Carbon Standard analysis v-c-s.org
Understanding “double claiming” outside of the Kyoto Protocol

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

Pledge-based system: various unit types purchased to readjust inventory emissions in target year

Overall MRV process for pledges and targets will be crucial for understanding risks of double claiming
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What if a group-based mechanism overlaps with CDM projects?
Dealing with overlap of CDM with group-based mechanism

- Special case of “double selling”
- Overlaps should be clear from CDM documentation. Future credits from existing projects could be:
  - Discontinued (note investor reaction)
  - Discounted from sector-wide total credits
- New investments would be ineligible for CDM
- In theory, a robust sector-wide baseline would factor in improvements due to existing CDM projects...
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Overlap of crediting mechanisms with other policy measures

- An old issue for CDM (E+/E- jargon)
- Policy measures affecting emissions exist in all sectors, in all countries!
- Any new mechanism should recognise this from the outset, not as a work-around
- A credits-to-government approach, with emitters exposed only to domestic policy incentives, is one solution
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ETS allowances may originate outside pledge (temporal or geographic)
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Positive overlap: sharing of process and resources

- Fungibility requires that units be recognised and valid for the same uses...
- ...requiring shared confidence in unit quality, even where differing governance structure means different decision-makers
- Adoption of international standards, verification process and common systems could help this
- Common unit registries and tracking systems
- Common accreditation criteria for verifiers
A final thought!

Mechanisms also overlap in their share of the overall global demand for units
Three questions for discussion

- Can the international MRV processes lead to better understanding of “double claiming” of credits towards country pledges?
- When setting broad crediting thresholds, how to take into account existing CDM project and other policy measures?
- What standards and systems might be mutually adopted to enhance compatibility of different mechanisms?
More information and papers available at: www.oecd.org/env/cc/ccxg

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