

Linking Carbon Offset Markets

Improving Efficiency, Effectiveness, & International Harmonization, of Compliance Activities in Emissions Trading

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What is a Carbon Offset?

- ➡ A tradable instrument representing a verified reduction in GHG emissions.
- ➡ Carbon offsets originate from **specific projects or activities** (“offset projects”) designed to reduce GHG emissions.
- ➡ Purchasing and retiring an offset says:
“I’ve foregone reducing my own emissions, but I’m paying someone else to reduce emissions for me.”



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Defining Criteria for Carbon Offsets

- **Real** – Offsets should represent actual emission reductions and not artifacts of (incomplete) emissions accounting
- **Surplus** – Offset reductions should be a response to the buyer's purchase, not reductions that would have happened anyway (i.e., they should be “additional”).
- **Verifiable** – Offset reductions should result from projects whose performance can be readily monitored and verified
- **Permanent** – Offset reductions should be permanent, or be compensated by further reductions if they are reversed (e.g., through forest fires).
- **Enforceable** – Offset reductions should be backed by contracts or legal instruments that define their creation and ensure exclusive ownership



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Standardizing Carbon Offsets

Verifiable

➡ Procedural Standards

- Validation of projects
- Monitoring & verification of project performance and GHG reductions
- Certification of GHG reductions

Enforceable

➡ Contractual Standards

- Terms for payment and delivery of offsets
- Offset project risk allocation
- Transfer of offset “property rights”
- Avoidance of double-counting / double-claiming

Real Surplus Permanent

➡ Accounting Standards

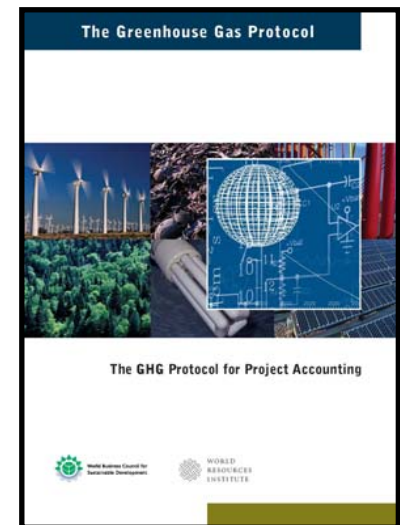
- Project baseline identification
- Additionality
- Leakage
- Ensuring a “ton is a ton”



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The GHG Protocol for Project Accounting

- WRI / WBCSD Multi-Stakeholder Initiative
- Policy & Program Neutral
- Accounting Concepts & Definitions
- General Requirements and Guidance for:
 - Estimating baseline emissions
 - Accounting for “secondary effects” (leakage)
 - What to monitor
 - Quantifying and reporting GHG reductions



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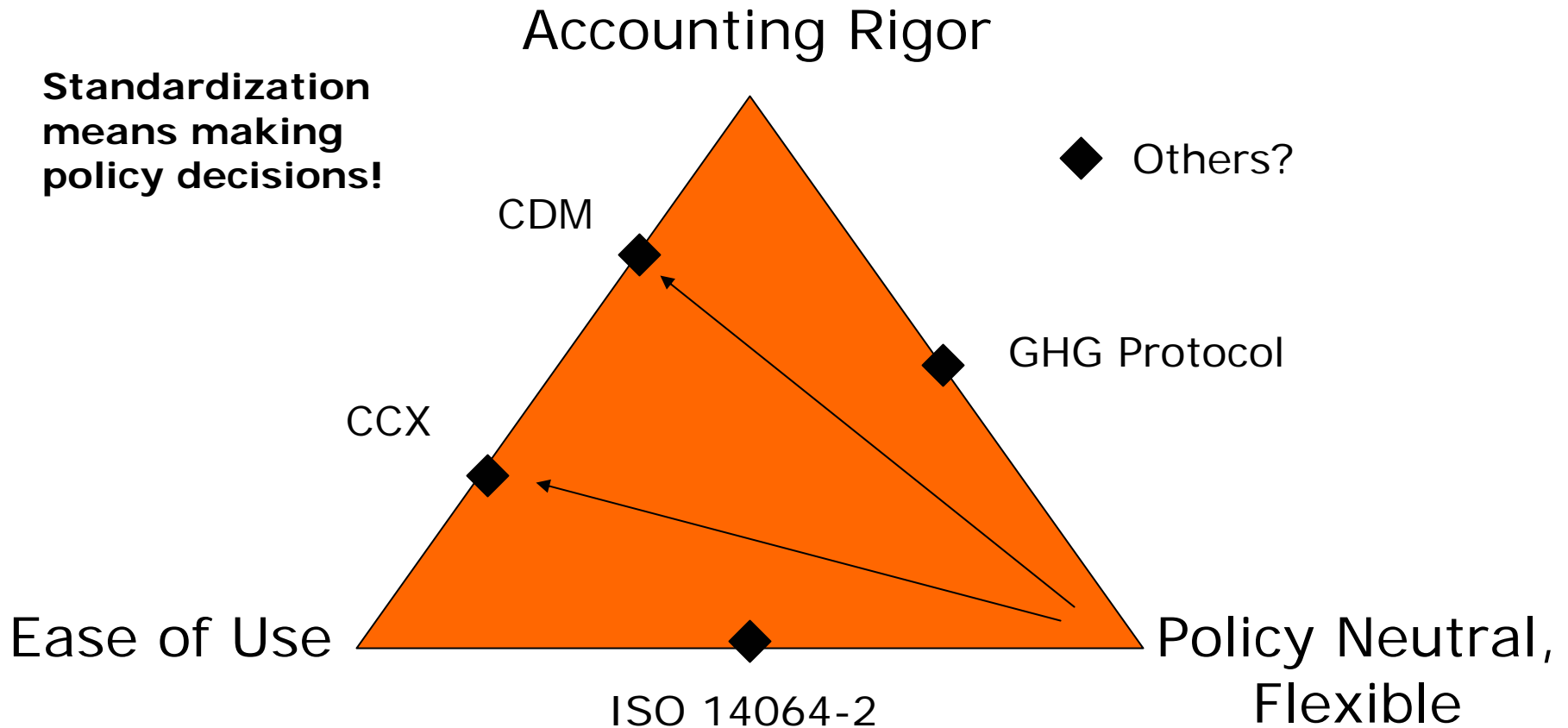
The GHG Protocol for Project Accounting

- **Baseline Estimation**
 - ➔ Offset project baselines are *forward-looking and hypothetical*
- **Two Options**
 - ➔ *Project-Specific Baseline Scenarios*
 - ➔ *Performance Standards*
- *Can lead to different results!*



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Carbon Offset Accounting Standards



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Conclusions and Next Steps

- Linking requires procedural, contractual, and accounting standards
- Eligibility criteria also matter
- But not all need to be harmonized
- Going forward...
 - ➡ Focus first on contractual standards and creation of common registries
 - ➡ Promote work to improve the compatibility of procedural (verification) standards
 - ➡ Identify ways to accommodate different accounting methods

