



International Carbon
Action Partnership

Offset Use Across Emissions Trading Systems

Maia Hall

15 February, 2023

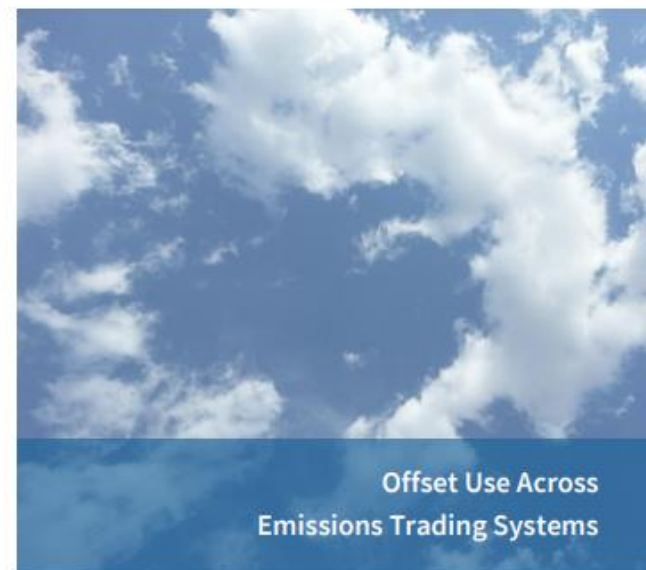
New ICAP publication

- Available on ICAP website
- Overview of offset provisions in several major ETSs around the world
- Provides outlook for offsets in the future

Stephanie La Hoz Theuer, Maia Hall, Alexander Eden, Emma Krause, Constanze Haug, Stefano De Clara (2023)



International Carbon
Action Partnership



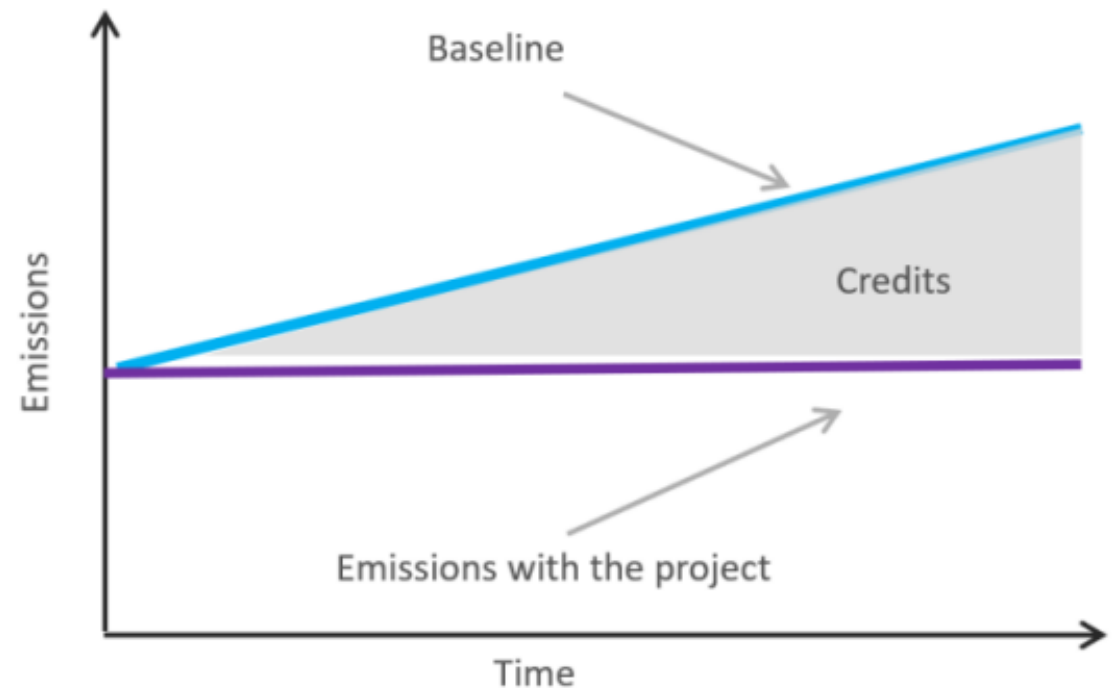
January 2023. Berlin, Germany

Stephanie La Hoz Theuer, Maia Hall, Alexander Eden,
Emma Krause, Constanze Haug, Stefano De Clara

Secretariat of the International Carbon Action Partnership

What is an offset and how are they generated?

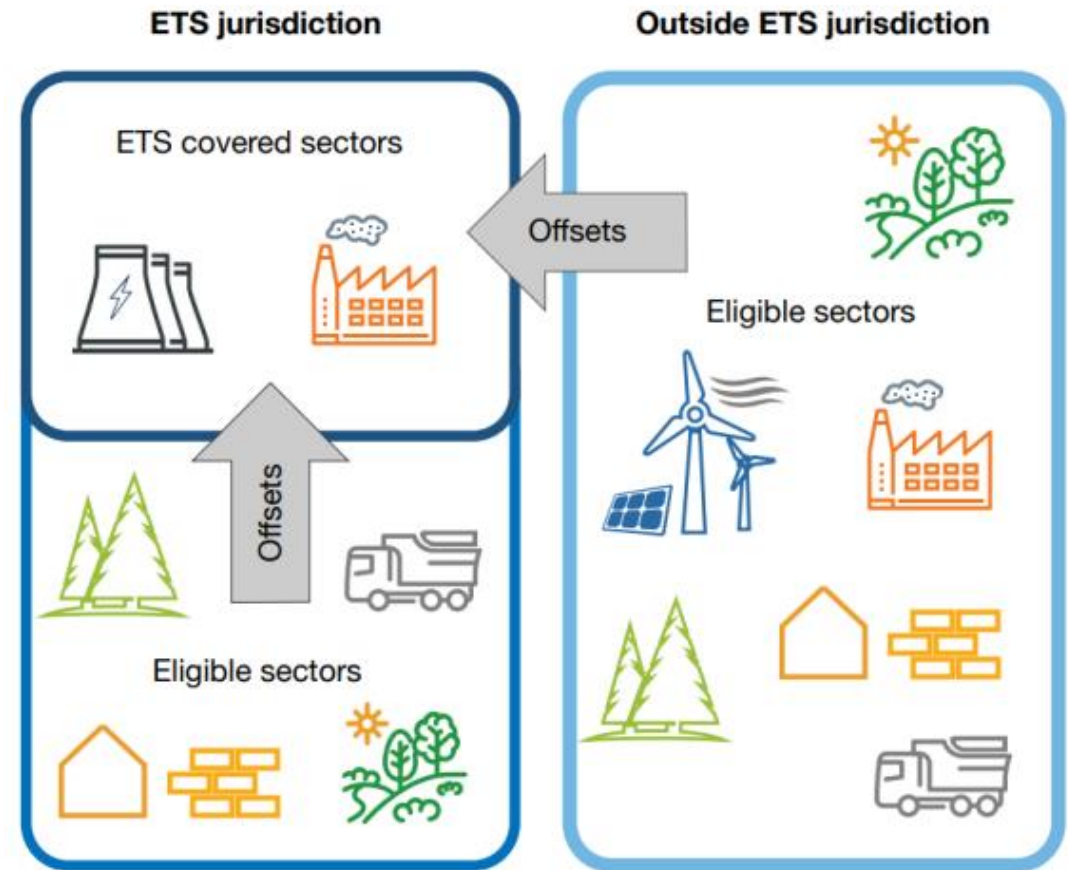
- **An offset represents 1 tCO₂e reduced or removed, compared to a counterfactual scenario**
- **Achieved by implementing emissions reduction projects**
 - E.g., landfill methane capture, afforestation
- **Projects normally take place in activities/sectors outside the scope of an ETS**
- **Generated by crediting mechanisms**
 - “International” (e.g., Verra) or “Domestic” (e.g., CCER)
 - Mechanisms ensure compliance with requirements and issue units



Source: ICAP Offset Use Across ETS (2023)

Offsets and ETS: How and why?

- **Regulated entities can surrender an offset instead of ETS allowance**
- **Rationale:**
 - More flexibility for regulated entities
 - Can lower compliance costs (if offsets are cheaper than allowances)
 - Provides incentives for abatement outside of ETS scope
 - Stimulates learning outside the system
- **What's happened in practice**
 - Often qualitative and quantitative restrictions on offset use



Note: Sectors need to be deemed eligible by the ETS jurisdiction.

Source: ICAP & PMR ETS Handbook (2021)

Current status of offset use around the world



Source: ICAP Offset Use Across ETS (2023)

European Union and New Zealand

Harnessing the potential of the Kyoto Protocol's flexible mechanisms

- **Early years: extensive integration with Kyoto Protocol flexibility mechanisms**
- **Lots of offsets used for compliance; high supply of KP units**
 - But this contributed to declining allowance prices
 - + Impacts of financial crisis
- **Concerns about quality of some offsets**
- **EU: Major restrictions introduced from 2013, significantly curtailing offset eligibility**
- **NZ: Market price for international offsets crashed from late 2012**
 - Rush of international offsets to NZ → NZU price crash, halt in domestic abatement activities, buildup of NZUs in circulation
- **Both EU (disallowed 2021) and NZ (disallowed 2015) now exclude offsets entirely**



China and Republic of Korea

Domesticating Kyoto flexibility mechanisms

- **China and South Korea originally involved as CDM host countries**
 - Helped establish experience and capacity for government and in developing carbon offset projects
- **Experience with CDM key to establishing their own crediting mechanisms**
 - Chinese Certified Emission Reductions (CCER) scheme
 - Korean Credit Units (KCU) scheme
- **CCER**
 - 2017: Need to revise “Interim Measures” → suspended CCER
 - Signals that CCER will become operational again
- **KCU**
 - Domestic projects to generate Korean Offset Credits + (some) CDM CERs allowed
 - Domestic and international offsets are converted to KCUs before being used for compliance



Western Climate Initiative and Regional Greenhouse Gas Initiative

Using domestic crediting mechanisms

- **Offsets allowed, though eligibility varies between programs**
- **Systems follow broader guidelines to make offsets comparable and fungible across borders**
- **Administered independently**
- **Environmental integrity approaches:**
 - Québec: environmental integrity account used to replace any offsets deemed illegitimate after issuance
 - California: buyer liability → state can invalidate offsets later determined not to meet the protocol requirements and the entity must substitute it
 - Forest Buffer Account for wildfires/pests



In the works

New offset regulations in existing ETSs / upcoming ETSs with offset provisions

- **Mexico**
 - Flexibility mechanisms including offsets currently under development
- **Colombia**
 - 2018 climate change law includes crediting provisions
 - Offsets used under carbon tax since 2017
 - ETS under development, expected pilot phase in 2024 / full operation in 2025
 - Offset provisions not yet defined
- **Vietnam**
 - Developing a national crediting program



Takeaways

Looking back, looking ahead

- 1. Clear move away from international crediting mechanisms in the last decade**
- 2. International mechanisms have nevertheless played a key role in supporting the growth of domestic mechanisms**
 - E.g., building capacity, developing methodologies
- 3. Where allowed, offset use is carefully regulated by governments**
 - Balance between flexibility for participants and achieving the ETS targets
- 4. Offsets must be of high integrity or risk undermining ETS objectives**
- 5. Offsets look to play a prominent part in the next generation of ETS/CPIs, often countries setting up domestic mechanisms**

Thank you



@ICAPSecretariat



International Carbon
Action Partnership

www.icapcarbonaction.com