

Practical strategies to avoid over-selling under Article 6

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Outline



Understanding types of over-selling risk



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



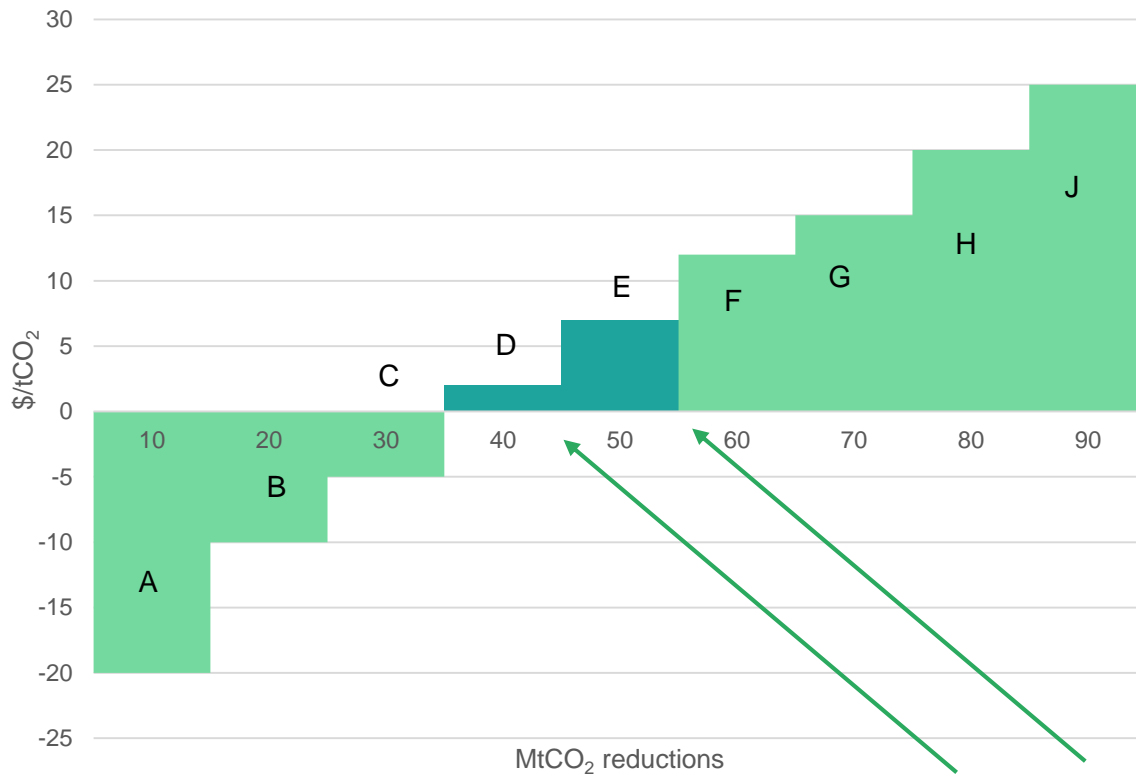
Different types of over-selling risk

- Selling low cost mitigation outcomes (MOs) that are necessary for meeting the NDC goal (selling “low hanging fruit”)
- Selling MOs that do not represent real reductions (selling “non-existent fruit”)
- Selling MOs for which the reduction in emissions will not be captured by the transferring country’s GHG inventory (selling “uncounted fruit”)
- Selling MOs generated outside the scope of the NDC - if the international rules require CAs for these transfers (“trying to sell peaches from an apple farm”)

Focus on “low hanging fruit” – other risks addressed in previous papers

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

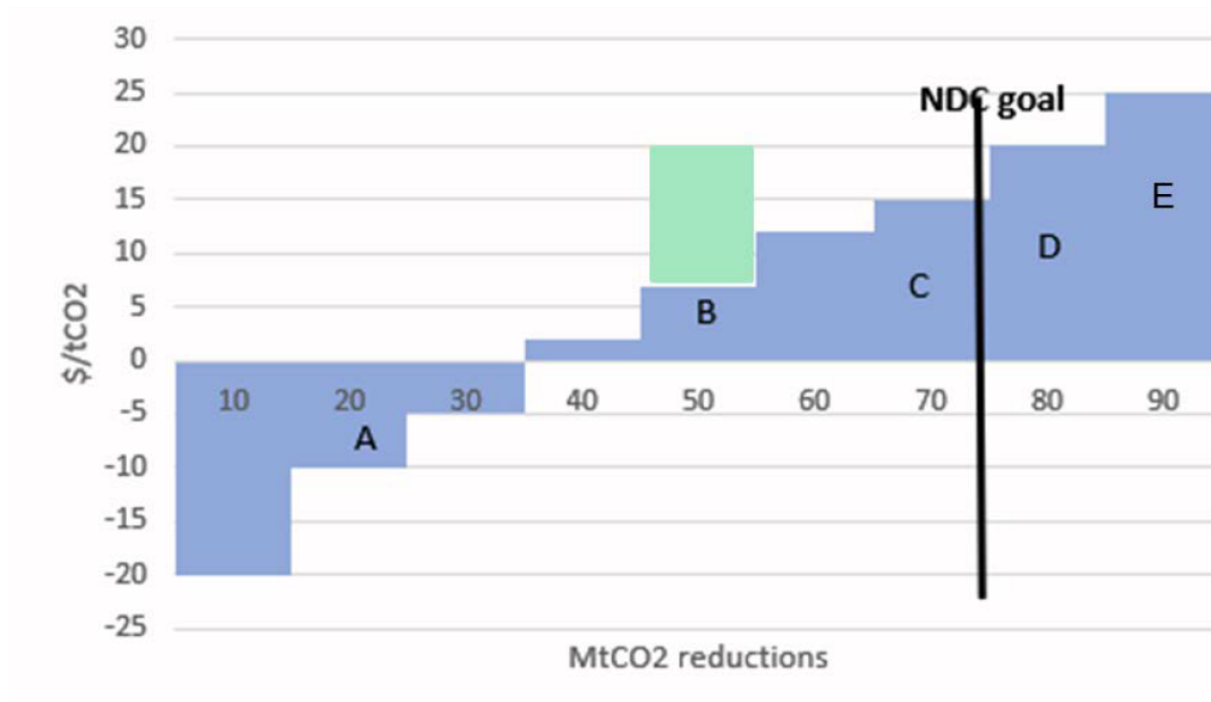


Article 6 pricing to fund a “reserve” for additional mitigation

- Charging a levy to fund a mitigation outcome reserve or future ITMO purchases
 - Transparency
 - Difficulty of setting the right level of levy
- 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



Exploring two-part pricing to reflect opportunity costs



Source: Authors

Assessment of risk reduction strategies

| Strategy | Overselling risk reduction | | Government burden | | Transfer volumes |
|---|----------------------------|---|-------------------|----------------|------------------|
| | | | | | |
| Negative list for NDC package | Medium positive | | Small positive | Large positive | Large positive |
| Focus on “inaccessible” technologies | Medium positive | | w/ or w/o costing | | Medium positive |
| Abatement cost threshold | Small positive | | Medium positive | Large positive | Medium positive |
| Baselines derived from NDC goals | Medium positive | | Medium positive | | 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 negative | | Medium positive | | Large negative |
| Levy to fund domestic mitigation/future purchases | Small positive | ? | Medium positive | Large positive | Medium positive |
| Two-part pricing to reflect opportunity cost | Small positive | | Medium positive | | Medium positive |

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

Assessment of risk reduction strategies

| Strategy | Overselling risk reduction | | Government burden | | Transfer volumes |
|---|----------------------------|---|-------------------|--------|------------------|
| | | | | | |
| Negative list for NDC package | Dark Green | | Light Green | Yellow | Yellow |
| Focus on “inaccessible” technologies | Dark Green | | w/ or w/o costing | | Orange |
| Abatement cost threshold | Light Green | | Orange | | Orange |
| Baselines derived from NDC goals | Dark Green | | Orange | | Yellow |
| Simple division of mitigation outcomes | Light Green | | Light Green | | Yellow |
| Limit crediting periods | Light Green | | Light Green | | Yellow |
| Conservative baselines | Light Green | | White | | Yellow |
| Conditionality of transfers | Dark Green | | Dark Green | | Red |
| Levy to fund domestic mitigation/future purchases | Light Green | ? | Orange | Yellow | Orange |
| Two-part pricing to reflect opportunity cost | Light Green | | Orange | | Orange |

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



Assessment of risk reduction strategies

| Strategy | Overselling risk reduction | | Government burden | | Transfer volumes |
|---|----------------------------|-----------------|-------------------|-----------------|------------------|
| | Small negative | Medium negative | Small negative | Medium negative | |
| Negative list for NDC package | Medium negative | | Small negative | Medium negative | Large positive |
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| Baselines derived from NDC goals | Medium negative | | Medium negative | | Large positive |
| Simple division of mitigation outcomes | Small negative | | Medium negative | | Large positive |
| Limit crediting periods | Small negative | | Medium negative | | Large positive |
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| Conditionality of transfers | Medium negative | | Medium negative | | Large negative |
| Levy to fund domestic mitigation/future purchases | Small negative | Medium negative | Small negative | Medium negative | Large positive |
| Two-part pricing to reflect opportunity cost | Small negative | | Medium negative | | Large positive |

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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

