**NOTE**

Contribution from I4CE on how to address double counting within voluntary projects in Annex B countries

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### MAIN ISSUES

The development of voluntary offsetting projects in Annex B countries is hampered by one difficulty: in some cases, voluntary certification schemes require the cancellation of Kyoto units in the country hosting the project, equal to the emission reductions produced. Joint Implementation (JI) requires the cancellation of units in order to prevent the same reduction in emissions from being counted twice as part of meeting the Kyoto requirements: firstly and directly, in the form of joint implementation units (ERUs) and, secondly and indirectly, in the form of the Kyoto units resulting from a reduction in the host country’s emissions which are listed in their UNFCCC\(^1\) inventory. However, under certain conditions, AAUs do not need to be cancelled to ensure the environmental integrity of international agreements. This is the case when carbon credits result from projects certified by voluntary schemes because these credits have no value in terms of Kyoto compliance. Above and beyond the problem of environmental integrity, the issue of double monetization of the same emission reduction is often raised. To address this dilemma, we must identify whether the aim of voluntary offsetting is to increase the country’s efforts to reduce emissions or rather help it achieve its Kyoto targets.

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\(^1\) United Nations Framework Convention on Climate Change

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1. **Joint Implementation (JI) as a baseline for carbon offsetting in Annex B countries**

**JI WAS A ORIGINALLY INTRODUCED AS A FLEXIBILITY MECHANISM IN THE KYOTO PROTOCOL**

The Kyoto Protocol, which was adopted in 1997 and entered into force in 2005, imposes upon ratifying States Parties the obligation to reduce their greenhouse gas (GHG) emissions. The objective was set to reduce emissions by 5% below 1990 levels during the first commitment period (2008–2012). In 2013, the Kyoto Protocol entered the second commitment period (2013–2020), under the terms of which States Parties must reduce emissions by 18% against 1990 levels (I4CE).\(^2\)

This overarching reduction objective is then divided into national objectives in the form of ‘carbon units’. These are ‘Assigned Amount Units’ (AAU), commonly referred to as ‘Kyoto units’. Each AAU represents one tonne of CO2e. Each country is assigned a number of units corresponding to their commitment. For the first commitment period, France received 2,820 million AAUs, corresponding to its reduction objective. To prove their emission reductions, countries must submit an inventory of their GHG emissions to the Secretariat of the UNFCCC. At the end of the first period, countries had to be able to return as many carbon assets as their emissions over the 2008–2012 period. These carbon assets could, of course, be AAUs, but could also be credits resulting from Kyoto projects.

There are various possible avenues open to States Parties to facilitate compliance:

- **Reducing emissions in their countries**: emission inventories are submitted each year to the UNFCCC.
- **Purchasing Kyoto units from countries in surplus**: this principle corresponds to the ‘cap and trade’ mechanism set out in the Kyoto Protocol. ‘Cap’ corresponds to the amount of units assigned to the country in terms of its emission objective, while ‘trade’ implies that countries in surplus can resell them to countries in deficit.

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\(^2\) Climate Report No. 44 ‘Ex-post evaluation of the Kyoto Protocol: Four key lessons for the 2015 Paris Agreement’ – I4CE
• Purchasing Kyoto units generated in countries with no Kyoto restrictions (CDM): the Clean Development Mechanism (CDM) enables countries which are subject to emission reduction objectives by the Kyoto Protocol to invest in emission reduction projects in countries which are not covered by these restrictions, and to receive Certified Emission Reduction Credits (CERs).

• Purchasing Kyoto units generated in other countries subject to Kyoto restrictions (JI): Joint Implementation enables countries which are covered by emission reduction objectives in the Kyoto Protocol to invest in emission reduction projects in other countries which are also subject to emission constraints and to receive Emission Reduction Units (ERUs).

AAUs MUST BE CANCELLED AS PART OF JI TO PRESERVE THE ENVIRONMENTAL INTEGRITY OF THE INTERNATIONAL AGREEMENTS

The traceability of carbon units traded on the markets is necessary to ensure the credibility of these units. In particular, a project can only produce carbon credits for a single certification standard at any given time and a carbon credit can only be sold once. These rules must be respected by all certification schemes to guarantee the environmental integrity of the projects.

However, one particularity of JI is the risk of double counting. The same emission reduction may be counted twice: once by the host country, in other words the country within which the project is conducted, through the reduction in its emissions which leads to fewer carbon assets being returned, and once by the investing country, i.e. the country financing the project, via an increase in its carbon assets. The consequence of this double counting would be to increase the global emission ceiling of developed countries. To avoid this problem, it has been agreed that the host country converts AAUs into ERUs and transfers them to the investing country. Thus, the situation of the host country does not change because, despite the transfer of units, its emissions have declined thanks to the investing country. The investing country recovers the units generated by the emission reduction project. The two countries' overall balance therefore remains unchanged and the same emission reduction is only counted once in terms of Kyoto compliance (see Fig.01).

2. Historically, voluntary offsetting has been based on JI in terms of addressing double counting, but this is not the case for all mechanisms

Voluntary offsetting corresponds to a request for carbon credits from entities (companies, public authorities, individuals, etc.) wishing to voluntarily offset their emissions, i.e., without any regulatory constraints. To do so, they may buy Kyoto units (CDMs or ERUs), but they may also buy certified credits from voluntary certification schemes (Gold Standard, VCS, etc.). ERUs can therefore be resold on the voluntary market. They are not used in the same way as within the framework of Kyoto compliance, but the rules remain the same, notably in terms of cancellation of the equivalent quantity of AAUs by the host country.

VOLUNTARY CERTIFICATION SCHEMES

Historically, voluntary certification schemes, spearheaded by VCS, have followed the same model as ERUs for Annex B countries. As such they require the cancellation of the equivalent AAUs by the host country. However, this position is under debate.

VCS has explained the various types of double counting which may take place:  

1. Double selling: the same carbon unit is sold several times to multiple buyers.
2. Double certification: the same emission reduction project is certified by two or more certification standards.
3. Double monetization: the same emission reduction is monetized once as a voluntary GHG credit and then by the State as a Kyoto unit.
4. Double claiming: several entities or governments claim to ‘own’ the same emission reduction.

The first type of double counting is particular in the sense that it results from dishonesty or gross negligence. While accounting difficulties related to the first two cases may be
easily resolved by keeping a registry, the latter two raise more questions. The third case is the reason why Annex B countries are requested to cancel AAUs. We consider the distinction between the third and fourth cases to be conceptual and of little relevance in this case.

If the emission reductions resulting from the project are not accounted for in national inventories, which is the case, for example, of carbon sequestration in soils, then the certification standards consider that the risk of double counting does not exist and that credits may be generated for projects situated in Annex B countries without cancelling the AAUs.

This issue is the subject of debate for projects which are listed in the inventories. Currently, some voluntary certification standards consider indeed that the cancellation of AAUs should be required, due to the possibility of double monetization.

Double monetization:

Each reduction of one ton of emissions which is listed in the national inventory gives rise to the non-use of a Kyoto unit in terms of the country’s compliance. If the country has a credit deficit, the project thus contributes towards achieving its national objectives and prevents the State from having to buy a unit in order to comply. If the country has already achieved its objectives, the emission reduction frees up a unit which can then be sold to another country. Double monetization, therefore, takes place, by the project holder (via the credit) and the State (via the unit).

Not all certification standards have the same policy on the subject:

- VCS requires the production of an official document from the country certifying that AAUs corresponding to the number of units being applied for in terms of the certification have been cancelled from the national registry. Without such a document, projects carried out in countries subject to an emission reduction are not eligible within the standard’s framework.

- The CCB Standard requires convincing proof that the issue of double counting has been avoided for each project, but does not necessarily require an official document.

- The CarbonFix Standard (CFS) proposed resolving the problem of double counting by negotiating on a case-by-case basis with the authorities during the certification process. If Kyoto units are not cancelled in equal quantities, it offered two other options to meet the conditions: (1) the buyer acknowledges in the act of sale that it is aware that the emission reductions that he is buying contribute towards achieving the national objective5 or (2) the country certifies that projects on the voluntary market have no impact on emission reductions imposed on national companies subject to a compliance objective. In Europe, this ensures that there are no projects within facilities subject to EU ETS. This condition must be respected in all certification schemes because, in contrast to States Parties in the Kyoto framework, those facilities subject to a compliance target (e.g., EU ETS) are responsible for reducing their own emissions. If this was not the case, the responsibility for meeting countries’ required targets would be transferred to companies which previously had no restrictions and that wished to voluntarily offset their emissions.

SOME INTERNATIONAL EXAMPLES

- The Bosklimaatfonds programme in the Netherlands (extract from the Domestic Projects methodology):

  ‘The Bosklimaatfonds programme, which forms part of the Dutch National Fund for Rural Areas (Nationaal Groenfonds) receives €11.5m from two ministries. It provides plantations with subsidies of up to €4,000 per hectare. Launched in 2001, in 2011 it opted for CarbonFix certification for the 400 landowners participating in the programme (Peters-Stanley, 2012). The programme hopes to sell credits which have not yet been generated to private Dutch buyers’, and is based on the principle of ‘Kyoto responsibility’.6

- The Woodland Carbon Code in the United Kingdom:

  the Woodland Carbon Code is a UK voluntary certification scheme, relating to afforestation and reforestation projects. Within the programme, the UK Government does not cancel AAUs and handles the risk of double counting in a different way: units are destined only for UK buyers and the State recognises the direct contribution of the Code to achieving the UK’s GHG emission reduction objectives as part of the Kyoto Protocol.7

3. The cancellation of AAUs in the voluntary context is not necessary, unless it aims to increase States’ targets

The two points under discussion are environmental integrity and double monetization of the same emission reduction

Environmental integrity is not an issue in the voluntary context

The relevance of the risk of double counting in the voluntary market is currently under discussion because voluntary offsetting is not connected to Kyoto Protocol targets and compliance markets. Voluntary credits have no value in the context of Kyoto compliance.

Thus, a company that buys credits for voluntary offsetting does not see any increase in Kyoto-eligible carbon assets and consequently does not change the overall targets of Annex B countries. Only the emission reduction resulting from the project can contribute towards the Kyoto target. The environmental integrity of the Kyoto Protocol is therefore not at risk. However, if the host country has to cancel an

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6 Quote translated from the original French in ‘Mise en œuvre de projets domestiques en Région wallonne dans le cadre de la politique climatique à l’horizon 2020 – CO2gic’, I4CE, PWC.

7 Club Carbone Forêt Bois – 2013
equivalent number of units, this means not counting this emission reduction as part of the Kyoto Protocol and is therefore equivalent to increasing the targets of Annex B countries.

Environmental integrity is not an issue because if AAUs are not cancelled, the emission reduction is only counted once as part of the Kyoto Protocol.

**Double monetization is not necessarily a problem as it exists and is accepted at other levels**

The real issue is that of double monetization, i.e. when different actors monetize the same emission reduction. However, double monetization exists and is not questioned when conducted at two totally different levels, such as by States and by companies, for example, as part of the EU ETS. Indeed, a credit used for EU ETS compliance will also be used by States for Kyoto compliance.\(^8\) The problem raised by voluntary certifications is moral in nature: can a State benefit from the windfall effect by monetizing an emission reduction it did not directly cause? Although it can be difficult to demonstrate the influence of a range of policies – whether coercive or not – on emission reduction projects, not counting emission reductions stimulated by public policies has never been suggested with regards to the Kyoto Protocol. For instance, a mild winter will reduce GHG emissions and contribute to countries’ efforts to achieve their emissions, while a company which voluntarily finances an emission reduction project without seeking carbon certification will also contribute to the country’s effort to reduce its emissions. Moreover, cancelling AAUs is likely to incite States not to encourage voluntary offsetting, because this will not contribute to its Kyoto effort and will generate administrative costs.

**It would be preferable to increase States’ ambitions or contribute towards the Kyoto effort**

The main value of voluntary offsetting is communication. In this context, it would appear complex – if not impossible – for a single stakeholder’s image to benefit from a reduction in emissions. Moreover, the certification schemes themselves benefit indirectly from the fact that other companies finance emission reductions. However, this benefit may vary depending on the level of commitment. There are two levels of commitment depending on whether the purchased carbon credit increases ambition – and hence the Kyoto targets – of developed countries or, in contrast, contributes towards their compliance.

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\(^8\) This involves ensuring that the credit cannot re-enter the market to be used as part of the EU ETS.