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Including non-Western Climate Initiative (WCI) partner offsets: possibilities for a WCI Offset Gateway

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Issue

Offsets are to be part of provincial, regional and international climate change initiatives. Under the Western Climate Initiative (WCI), 49% of the overall emission reductions achieved by the cap and trade system can be achieved through offsets (this translates to a 4-10% usage limit for regulated operations). A sufficient and stable supply of credible offsets is fundamental to provide lower-cost emissions reduction options in a cap and trade system. Offsets are currently limited to specific project protocols and to reductions in the USA, Canada and Mexico. A recent WCI offset protocol review and recommendation process has highlighted the possibility for including new protocols[i]. This brief aims to support this process through analysis of analogous examples and other possible ways forward. We consider the creation of an 'Offset Gateway'[ii] – a regulatory checkpoint that allows only specifically certified external offset programs to link to the WCI – as this may be appropriate as a mechanism for incorporating other offsets into the WCI system.

Background

Although WCI modelling has shown that offsets reduce compliance costs[iii], the supply and availability of offsets for the WCI is still unclear. WCI design recommendations have created strong environmental integrity for the offset project and protocol guidelines, including draft recommendations on standardising offset creation across WCI partners[iv]. Offsets in the WCI are currently geographically limited to North America.

Section 9.8 in the WCI Design Recommendation, however, notes that the system could be open to the inclusion of the Kyoto Protocol's Clean Development Mechanism (CDM) and Joint Implementation (JI) credits. Such inclusion would open the system to offsets from other developed and developing countries. Given the development of quality in the offset market

internationally[v], and the recent WCI guidelines for standardisation, a precedent for assuring quality external offsets could be useful for compliance in WCI jurisdictions.

Opening the WCI offset system to external credits

The inclusion of non-WCI offset systems into the WCI program introduces the risk that low quality offsets could undermine the market and environmental objectives of the WCI. But it also provides a wider source of carbon credits to assist in cost effective compliance. Linking compatible offset systems and/or harmonising at a programmatic level could be a possible way to enable increased supply to the market and engage international projects such as Reduced Emissions from Deforestation and Degradation (REDD+).

WCI analysis has shown that at a price of $20/t$CO_2$e, between 68–80 million metric t/CO_2e would be available per year until 2020 (when the WCI's overall goal of a 15% reduction from 2005 levels is to be achieved). This supply would cover the amount of offsets needed within WCI jurisdictions[vi] during this compliance period. However, as offset opportunities are used-up during this time, offset supply may be an issue for WCI compliance post 2020[vii]. Indeed, other analyses point to increased carbon prices due to limited internal abatement opportunities—a case that could be addressed by increased offset provision[viii]. Given these uncertainties, it may be prudent to explore the options for extending the offset supply (should it be needed) through the use of a regulatory checkpoint in the form of an Offset Gateway. This also opens options for wider integration into a global system of offset trading, while maintaining WCI environmental integrity.

In general, emissions trading schemes from different jurisdictions should reconcile policy and protocol differences, seek a way to harmonise carbon prices, and use harmonization to link regional trading systems[ix]. Harmonization for offsets must be slightly different given that emissions reductions are based on projects attributed with different risk profiles, and, therefore, require stipulations to ensure environmental credibility at a protocol or standards level. This is in order to make the external offsets compatible with the WCI system. Linkage of offset systems therefore requires harmonization of: the **principles of carbon offsets** in the system; **enforcement provisions; and a guarantee** that the principles will be appropriately applied to carbon reductions.

The WCI has provided draft recommendations to ensure that offsets are sufficiently rigorous to be interchangeable across all WCI jurisdictions, and it will be providing guidance on the process of creating offset credits. In addition to possibly amending this internal process to incorporate non-WCI offset creation, it could be useful to consider other credible offset standards that offer alternate methods for creating interchangeable credits.[x]. For example, through the use of a gap analysis, the Verified Carbon Standard (VCS) has approved the use of CDM, JI and Climate Action Reserve credits in its system[xi].

Four key criteria are applied:

- once a project is accepted, its credits cannot be retired under a different system (i.e. other than the VCS)
- verifiers must be specifically accredited and registered to the VCS system (not just to the external system)
- methodology elements from the approved program may be used under the VCS
- the VCS secretariat reviews the approved programmes annually with the option to suspend them if they no longer comply with VCS requirements.

A WCI-specific Gateway

While the VCS gap analysis offers an example of how two offset systems can be compared, the development of a WCI-specific Offset Gateway for accrediting other offset systems would need to reflect the environmental goals of the WCI design. No project protocols are currently compatible with WCI design requirements[xii]. The following points build on the Draft Offset Protocol Review and Recommendation Process (DOPRRP) and outline options for the creation of an appropriate Gateway.

General principles:

- Maintain the **WCI-specific gap analysis** approach outlined in the DOPRRP to allow the screening of other offset systems (rather than project methodologies and protocols) for compatibility with core principles of offsets based on the WCI Offset Process Draft Recommendations (i.e. a focus on one-time validation assessment of a project, and the ongoing annual assessment of project activity, reporting and qualified third party verification; and assurance that credits are not used under another carbon accounting system).
- A clear understanding as to the application of principles in the incoming systems could be facilitated empirically by a **validation/calibration period** to ensure that they are achieving the rigour needed under the WCI. For example, once a standard or system is accepted, the Gateway could limit incoming offset projects to the same project-types developed under extant WCI protocols. This would facilitate comparative assessment of emissions reduction credibility and provide a material test of comparability of the incoming standard. Project scope could be increased over time as understanding and trust increased.

Geographic compatibility:

- Offsets external to North America would have to be governed by bilateral agreements that specifically assert the environmental integrity of the credits generated[xiii].
- This could be facilitated by a standardised 'Memorandum of Understanding' to be signed by jurisdictions at appropriate levels (e.g. state, national) that would ensure accountability for issuance of credits[xiv]. MOUs or Joint Concept Notes are being used in other low carbon development bilateral deals[xv] and could serve as a template. Spot verification checks could be used to assess effectiveness.

Linking and offset improvement:

- Given that WCI design recommendations are more rigorous than all comparable ISO definitions, and that other popular offset standards such as the VCS are based on ISO 14064-2, there may be few current offset standards that would pass the WCI Gateway. Its creation, however, may encourage a move to quality in other markets interested in supplying WCI entities with offsets.
- A key area to watch will be the development of sectoral methodologies for CDM projects as these may provide better compatibility with WCI top-down methodologies than the project-by-project approach currently used in the CDM[xvi].

Conclusion

The WCI has created a rigorous offset system that uses good governance to ensure that credits generated within North America are environmentally sound. It has the option to

include offsets from other systems if demand warrants, and is defining how external offsets, and other North American trading schemes, could be included in the system[xvii]. This brief has described a WCI 'Offset Gateway' that could be created to augment the existing WCI recommendations and test the applicability and integrity of potentially compatible systems. A combination of extending the WCI Offset Process Draft Recommendations to other jurisdictions, analysing interchangeability of credits in other offset standards, and building on existing models for bilateral carbon agreements will provide guidance on creating a Gateway that will help WCI compliance flexibility. Further research is needed to define potential supply-demand issues and administrative transaction costs of establishing and maintaining such a Gateway, the ultimate objective of which is to maintain environmental integrity in the system.

Sources

[i] See http://www.westernclimateinitiative.org/document-archives/Offsets-Committee-Documents/Draft-Offset-Protocol-Review-and-Recommendation-Process/

[ii] A 'gateway' here is used to mean an access point from one offset system to another which can be opened or closed, and can be used to allow offsets that pass a quality control in, and keep those that do not, out.

[iii] Appendix B: Economic Modeling Results, Design Recommendations for the WCI Regional Cap-and -Trade Program; http://www.westernclimateinitiative.org/component/remository/func-startdown/33/. But see Wara and Victor 2008.

[iv] WCI Offset Process Draft Recommendations, June 7, 2011

[v] Bumpus, A.G., Lovell, H. & Liverman, D.M., In Review. The rise of voluntary carbon offset standards: self-regulation, legitimacy and multi-scalar governance. *Transactions of the Institute of British Geographers*.

[vi] See http://www.westernclimateinitiative.org/component/remository/Economic-Modeling-Team-Documents/Updated-Economic-Analysis-of-the-WCI-Regional-Cap-and-Trade-Program/; figure 4, p. 31.

[vii] See Updated Economic Analysis of WCI Regional Cap and Trade Program.

[viii] Bloomberg/NEF North America Deep Dive report, Dec 2008.

[ix] Sterk and Kruger. 2009. Establishing a transatlantic carbon market. Climate Policy 9, pp. 389 – 401.

[x] Note that there is very little analysis of the use of gateway concepts for offset inclusion. The example of the VCS is provided to illustrate the kinds of action that can be taken to examine the comparative rigour of different standards.

[xi] http://www.v-c-s.org/programs.html

[xii] Det Norske Veritas, 2010. Review of Existing Offset Protocols Against WCI Offset Criteria

[xiii] The use of bilateral deals has been outlined in WCI stakeholder meetings and by groups such as the Carbon Offset Providers Coalition in order to promote wider geographic inclusion (http://carbonoffsetproviders.org/resources/COPC+Letter+re+Proposal+to+Withdraw+Board+Adoption+of+Voluntary+Protocols+$282.24.10$29+w_attachments.PDF)

[xiv] This follows WCI design recommendations that note "Offset projects must also be enforceable by the individual WCI Partner jurisdiction that is issuing the credit and the credit must be verifiable by the individual WCI Partner jurisdiction that is accepting it."

[xv] For example, the deal between Norway and Guyana for the protection of native rainforest (see http://www.regjeringen.no/upload/MD/Vedlegg/Klima/klima_skogprosjektet/Guyana/Technical%20note_%20Norway%20and%20Guyana%20partnership.pdf)

[xvi] http://www.ccap.org/docs/resources/539/CPOL8-5_05_Schmidt%20(2).pdf

[xvii] IETA Carbon Forum North America synopsis 2011: http://eko-eco.com/archive/ieta-carbon-forum-north-america-day-1.php. Also see: http://www.climate-connect.co.uk/Home/?q=node/516, April 13, 2011.