

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

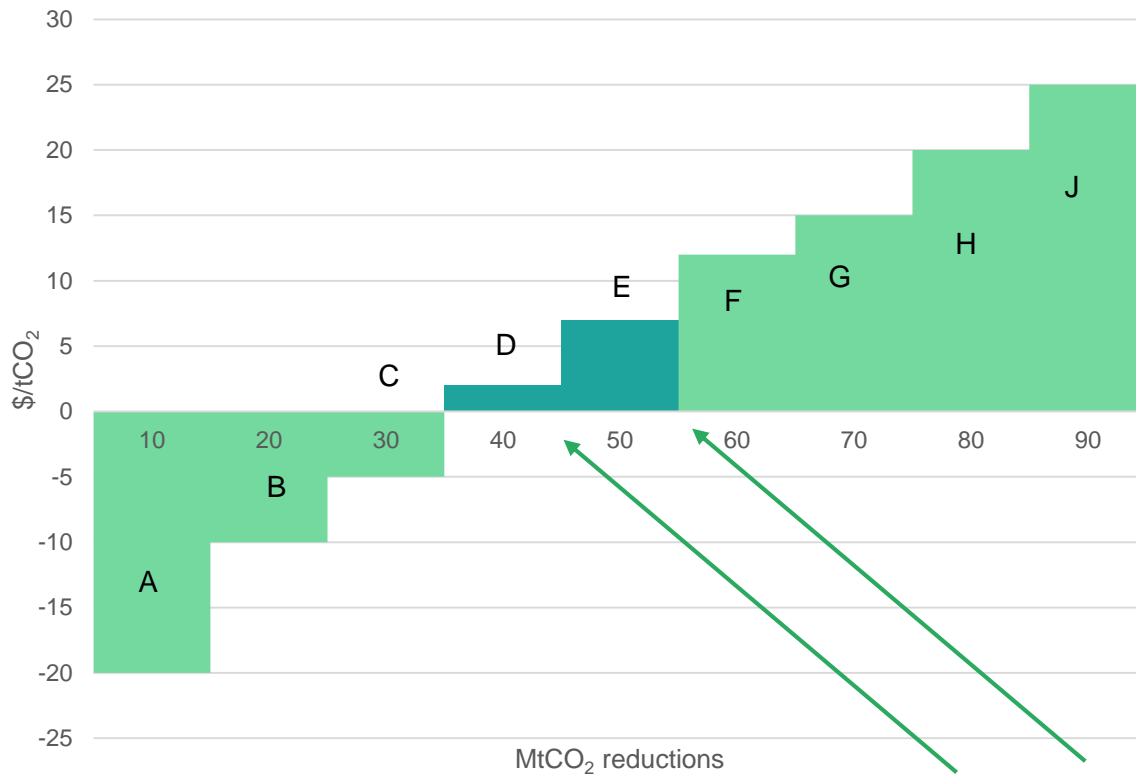
- Selling low cost mitigation outcomes (MOs) that are necessary for meeting the NDC goal (selling “low hanging fruit”)
- Selling MOs that do not represent real reductions (selling “non-existent fruit”)
- Selling MOs for which the reduction in emissions will not be captured by the transferring country’s 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

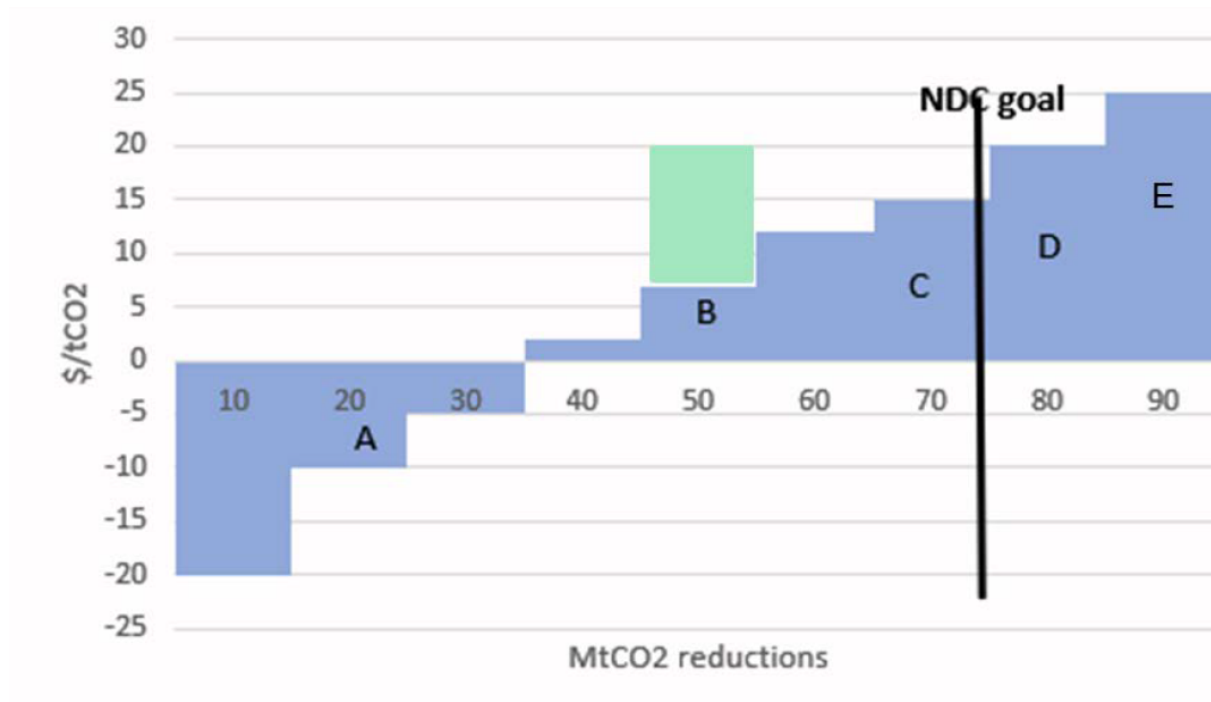


Article 6 pricing to fund a “reserve” for additional mitigation

- 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		Medium positive		Large positive
Limit crediting periods	Small positive		Medium positive		Large positive
Conservative baselines	Small positive		Zero impact		Large positive
Conditionality of transfers	Medium positive		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		Yellow (w/ or w/o costing)		Orange
Abatement cost threshold	Light Green		Orange (w/ or w/o costing)		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
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Conservative baselines	Small negative	Medium negative	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

