Offsets in Emissions Trading Systems (ETS): Trends and Prospects

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Offsets in ETS - Overview

1. Offsets and domestic carbon pricing policy
2. Benefits risks and challenges
3. Current overview of ETS and offsets
4. General trends, approaches and issues
5. Prospects for beyond 2020

Domestic carbon pricing – ETS and carbon tax

In the beginning…

…offsets shaped the carbon market landscape.

Today, they remain an integral part of climate policy,

…but their role has changed

Domestic carbon pricing – ETS and carbon tax

Mandatory domestic **ETS (cap-and-trade)** and **carbon taxes**

Emissions reductions from **outside the scope** of the instrument

- From other sectors and/or regions

Projects generate **certificates** that:

- Can be traded and used for compliance
- Represent allowances **over and above the 'cap'**

Domestic carbon pricing – ETS and carbon tax

Mandatory domestic **ETS (cap-and-trade)** and **carbon taxes**

From this perspective…

- Domestic systems are the main source of offset **demand**
- But, potential **supply** sources are diverse

Benefits, risks and challenges

There are good reasons to use offsets…

- Lowering **compliance costs** for covered entities
- Expanding the **carbon price incentive** beyond the ETS
- Environmental, social and economic **co-benefits**
- Building capacity and awareness

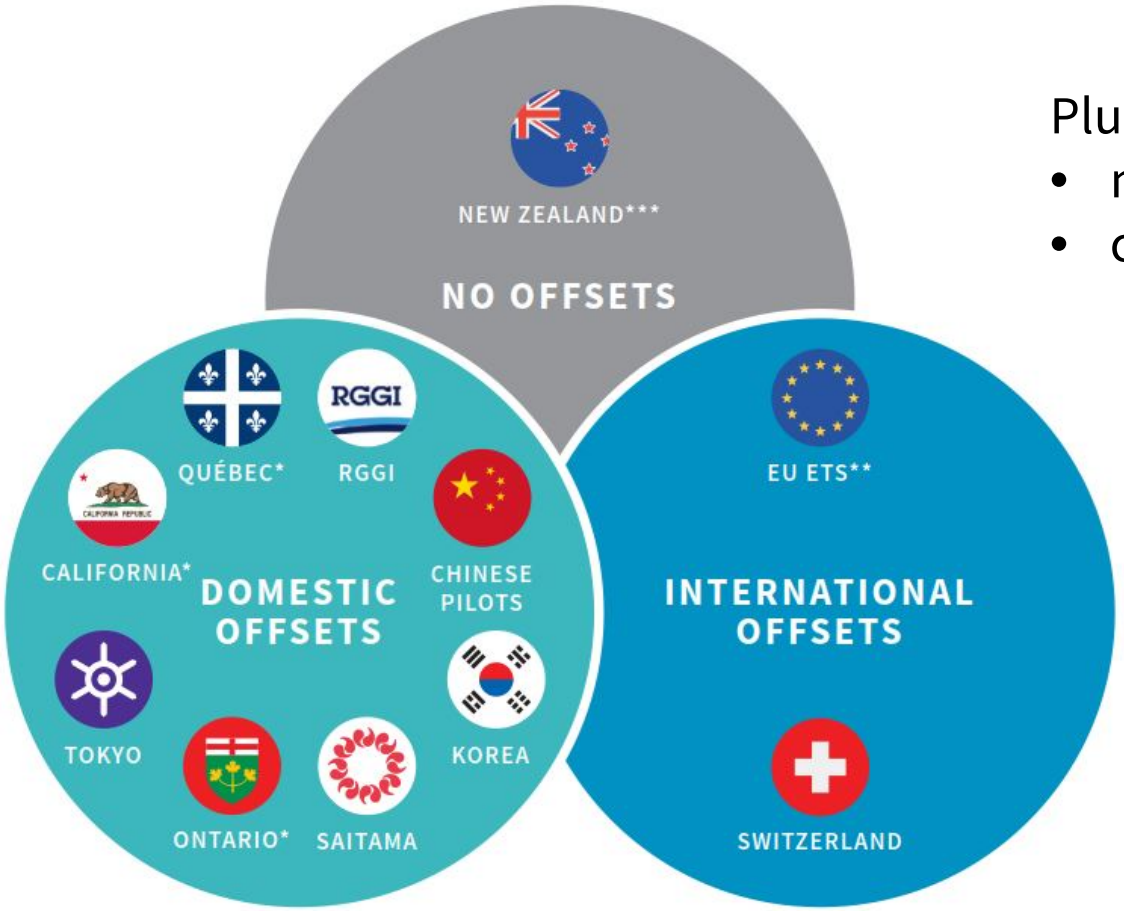
…. and many more, depending on the domestic context

Benefits, risks and challenges

Experience has shown us…

- Too many offsets can reduce abatement in covered sectors
- Environmental integrity is a concern
  - ➢ Additionality, baselines, permanence… hot air

Current practice - offsets in ETS



Plus…

- new systems emerging
- carbon tax systems
  - e.g. Mexico, Colombia

Varied approaches

- Scope
- Quantity used
- Design
- Methodologies

*California, Québec and Ontario allow offsets mutually sourced from linked jurisdictions
**The EU ETS plans to no longer use offsets in Phase IV starting from 2020
***Up until June 2015, New Zealand allowed the unlimited use of international offsets.

General trends, approaches and issues

Offset **rules tailored to fit** domestic policy objectives

- Limits on offset types (qualitative) and amounts (quantitiative)

Three broad approaches to program development

1. Using established international units (e.g. Europe)
2. Adapting UNFCCC protocols to fit domestic programs (e.g. China)
3. Developing new domestic protocols (e.g. California, Québec, Ontario)

Trend towards a **more restrictive** use of offsets

- a more selective scope and tighter limits

Prospects for offsets - beyond 2020

What about international carbon markets?

Paris Agreement - Article 6

- many unknown factors,
- rules are still being developed,
- NDCs and baseline approaches first need to be compatible

Only few countries have signaled demand in their NDCs– e.g. Korea, New Zealand, Switzerland and Norway

- Potential demand from CORSIA

Prospects for offsets - beyond 2020

General trend from the big emitters – **domestic abatement first**

- achieving NDCs at home before looking to international offsets

NDCs are still **not yet ambitious enough** to really need offsets

- Without ambition, offsets = hot air

Ensuring **environmental integrity**?

- preference for domestic programs and trusted linking partners
- Sound methodologies needed – beyond cheap abatement

Expanding carbon markets – offsets foster cooperation

Thank you for your attention!

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