



# Offsets in an ETS

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*Study tour – Chilean experts*

*December 2017*



## **Creative Solutions and Service Provider for ecological, social, economic, and political challenges**

- Strategies and solutions for global sustainability topics
- Integrated research and consulting approach
- Interdisciplinary team of experts with 150 staff members
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**Climate**

**Energy**

**Resources**

**Green Economy**

**Sustainable  
Business**

**Green Finance**

**Peace and  
Security**

**International  
Cooperation**

**Urban  
Transformation**

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## **1. Rationale of offsets**

## 2. Challenges

## 3. Offset rules: offsets for compliance in an ETS

## 4. Offset rules around the world



## Allowing domestic offsets

Sources	No offset program	With offset program	
	(MtCO <sub>2</sub> e)	Before trading (MtCO <sub>2</sub> e)	After trading (MtCO <sub>2</sub> e)
Covered emissions	100	100	110
Uncovered emissions within offset program	200	20	10
Other uncovered emissions	(with no offset program there is no distinction between these categories)	180	180
<b>Total emissions</b>	<b>300</b>	<b>300</b>	<b>300</b>

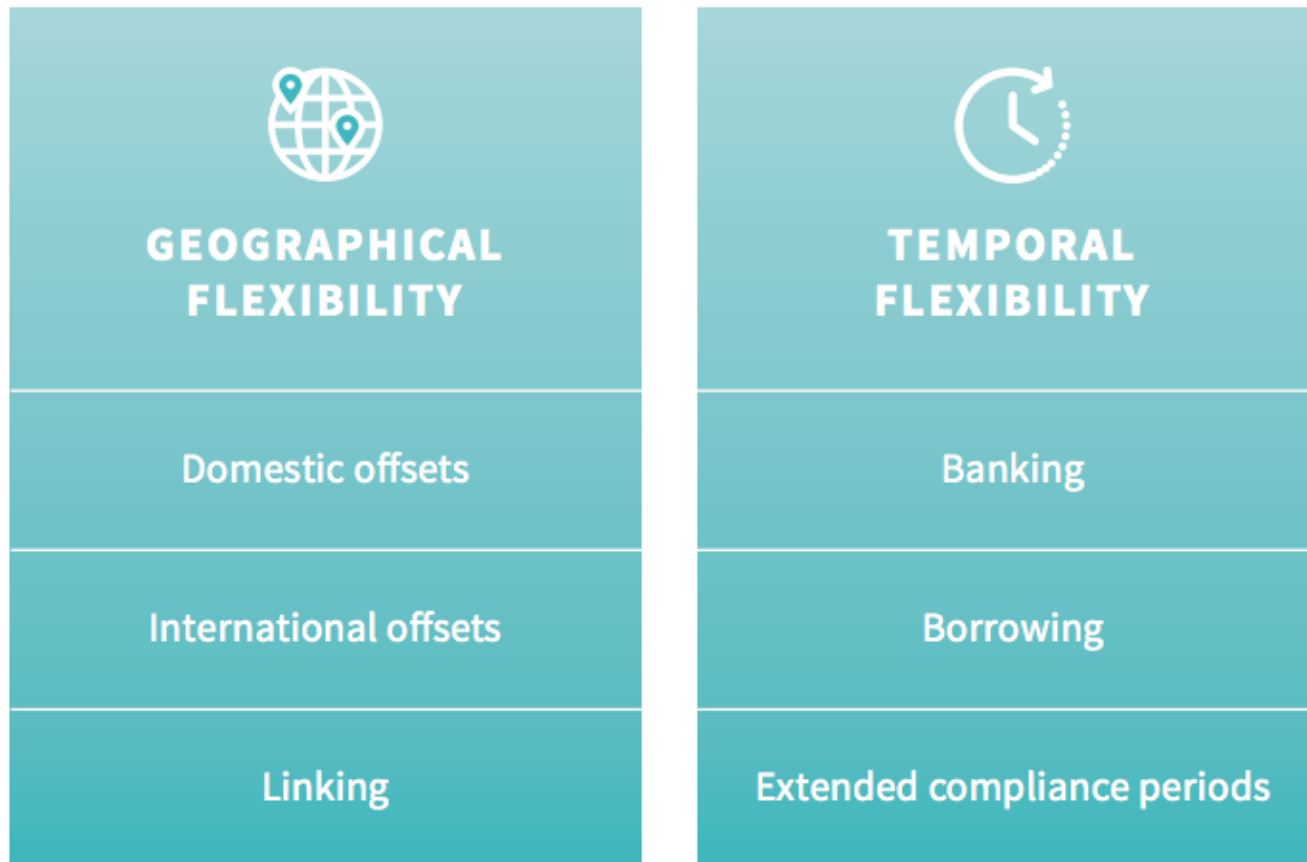
Source: PMR ICAP Handbook 2016



- **As a flexibility mechanism**
  - Cost containment mechanism or achieve a more ambitious cap?
  - Econ theory- “the more you include, the more cost-effective”
- **As a “linking” mechanism (domestic & international/ link to uncovered ETS sectors)**
  - Econ theory- “the more you include, the more cost-effective”...
  - Financial resources for green development in regions where funding is scarce
  - Reduce emissions in non-ETS sectors, investment flows, innovation, learning
- **As a “use of revenue” mechanism**
  - Clearer in the case of carbon taxes // “Foregone revenue” in a tax, but having the same result as a “earmark” approach

## As a flexibility mechanism

Cost containment mechanism or achieve a more ambitious cap?



Source: ICAP ETS Brief 7



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## Allowance market

### **Demand**

**for allowances the  
ETS capped sectors**

### **Supply**

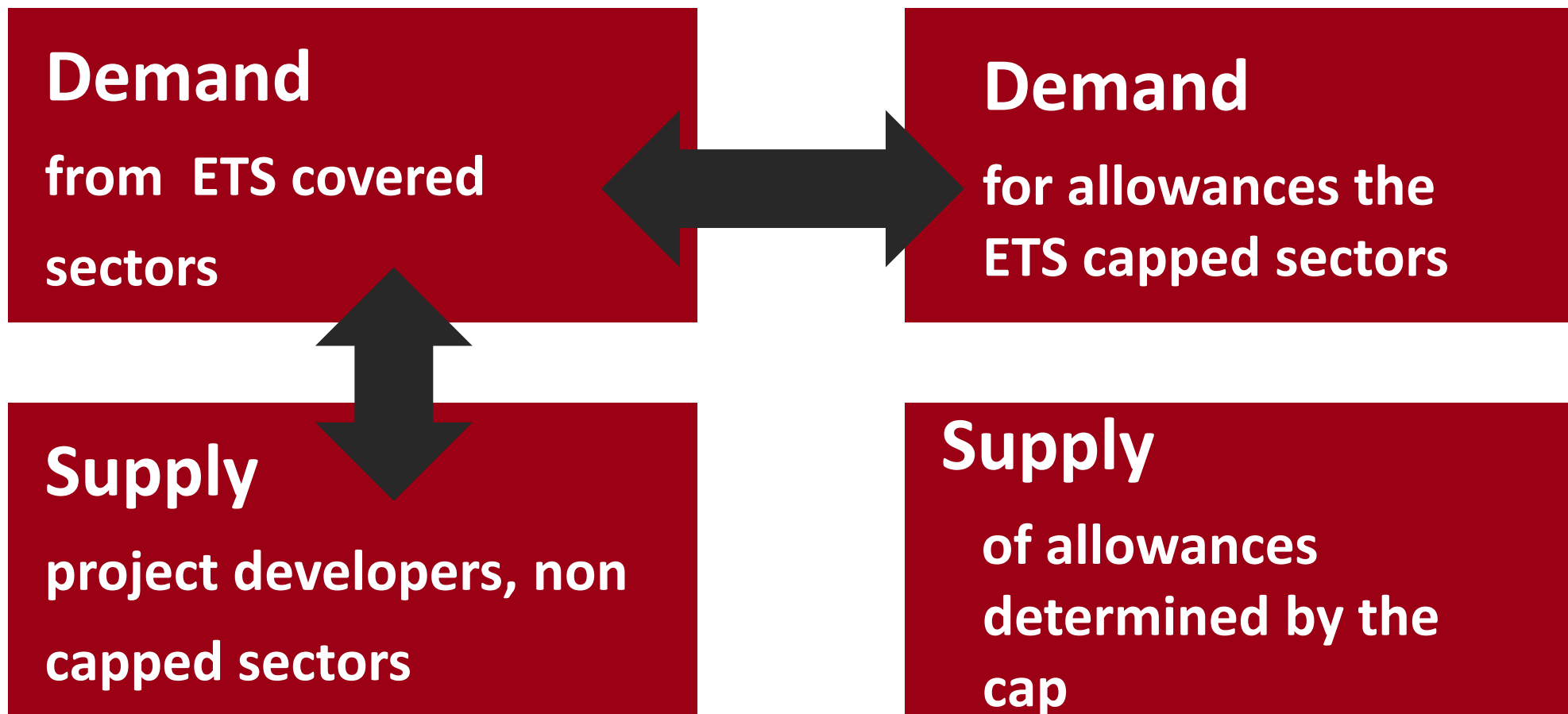
**of allowances  
determined by the  
cap**

# Why offsets – “Linking”?



## Offsets market

## Allowance market





1. Rationale of offsets
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- Lower allowance prices and **less incentives to reduce in covered sectors (lock in high carbon infrastructure)**.
- **Environmental integrity**
- **Reversal:** Offset credits from sequestration projects might have a non-permanent mitigation effect only.
- **Distributional issues:** Offsets imply resource transfers to areas outside the ETS or abroad.
- **Subsidy lock-ins:** Offsetting sectors may resist eventual inclusion in ETS.

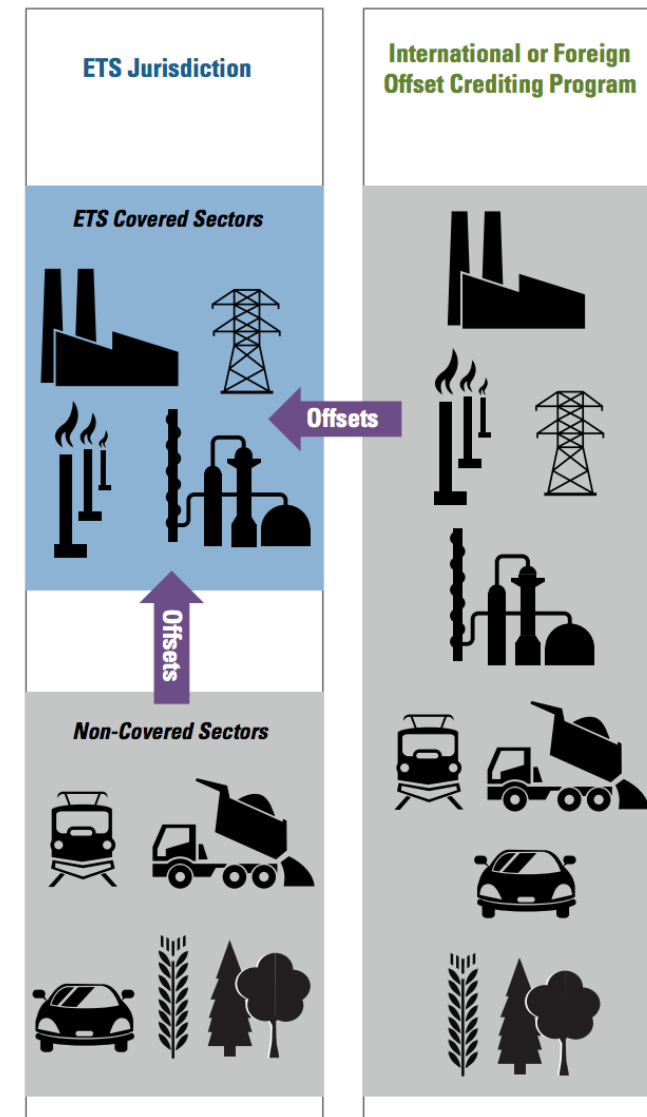


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# Offset rules: offsets for compliance in an ETS



- **Quantitative restrictions:** ensure a certain level of abatement in covered sectors, e.g. up to 10% of compliance
- **Qualitative restrictions:** allow targeting priority areas
  - Sectors & activities, types of gases
  - **Origins:** domestic, international



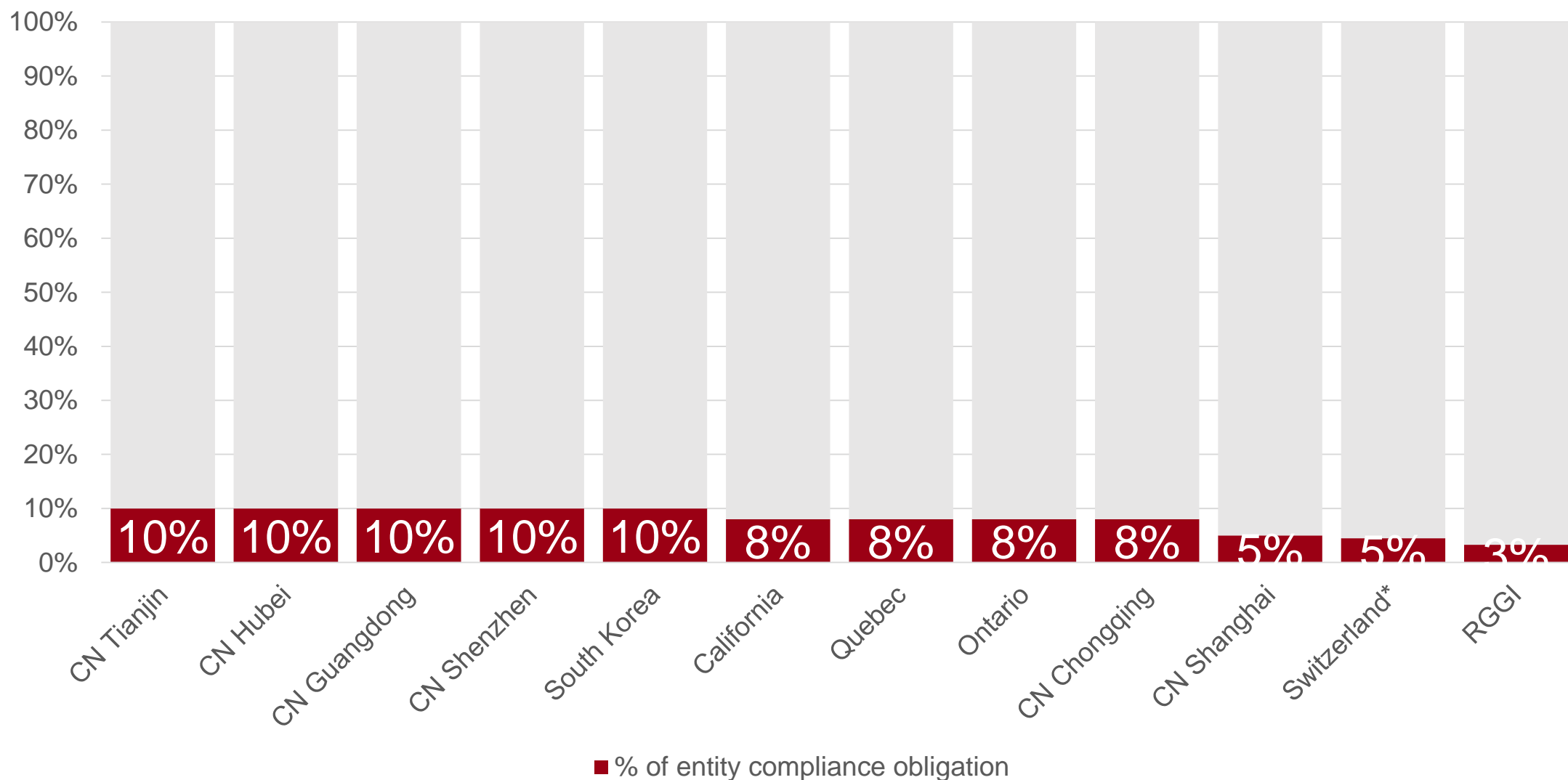
Source: Mehling, cited at PMR ICAP Handbook 2016



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## Quantitative restrictions: ensure a certain level of abatement in ETS covered sectors





## Origin restrictions: Key considerations

### Domestic

- **Attractive when domestic reductions are key priority**
- **Keeps co-benefits within the jurisdiction**

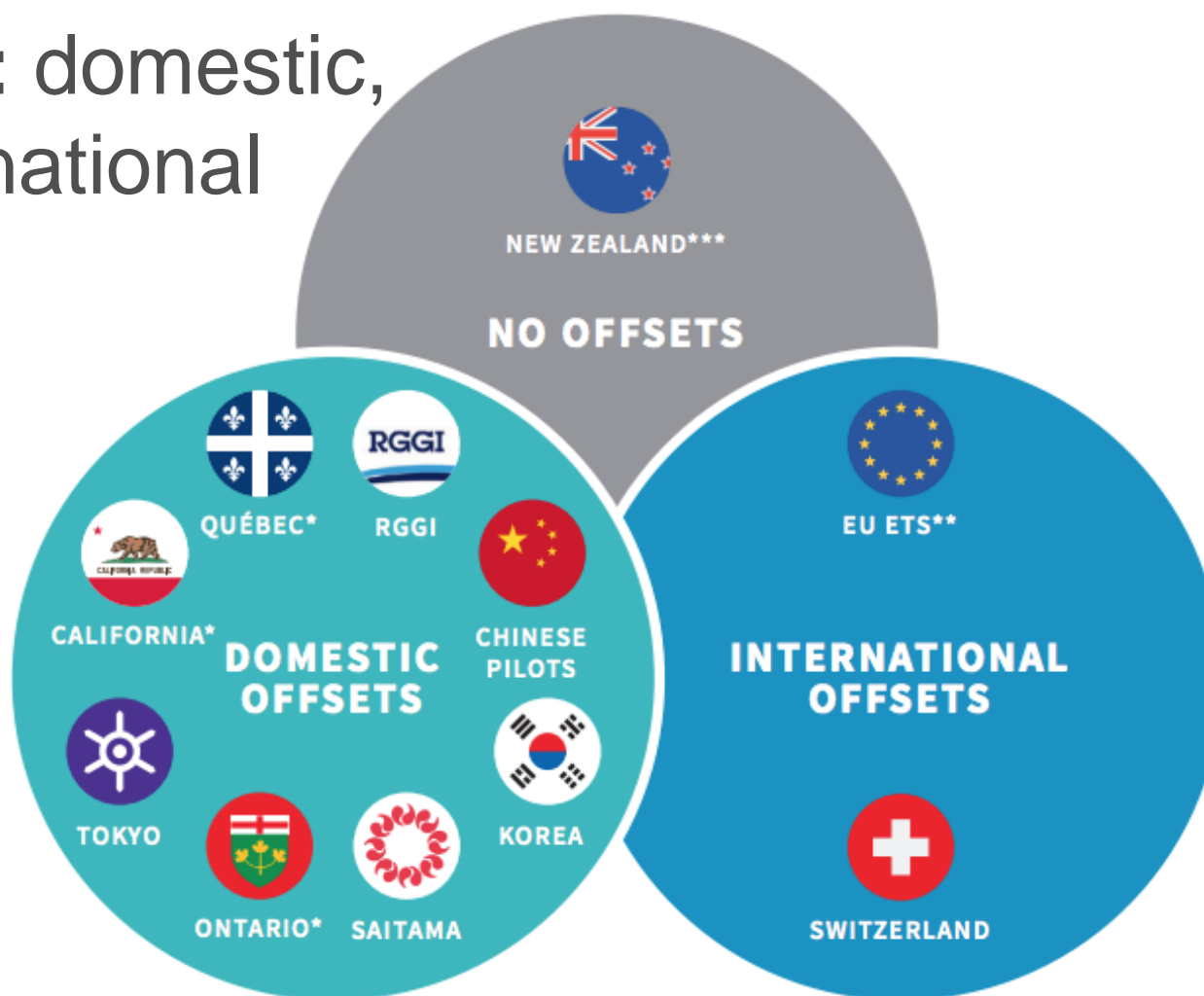
### International

- **Expands supply and offers more low-cost abatement options**
- **Aids international cooperation- carbon finance**

# Offset rules around the world



Origin: domestic,  
international



\*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.

**Thank you for your attention**

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# EU ETS: Qualitative & Quantitative limits



**1st phase  
(2005-  
2007)**

**2nd phase  
(2008-2012)**

**3rd phase  
(2013-2020)**

Use of CDM and JI,  
no credits from  
LULUCF and nuclear  
power

Newly generated international  
credits (post 2012) only from LDCs.

Projects from Industrial gas credits  
excluded.

Qualitative

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CDM and JI credits up  
to certain percentage  
limit, MS NAPs

Unused entitlements transferred to  
Phase III

The total use for Phase II & III may amount up to 50% of the  
overall reduction under the EU ETS in that period (approximately  
1.6 billion tons CO<sub>2</sub>e).

Qualitative

Quantitative