

Double counting in the climate equation

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Double counting is a basic accounting notion in climate circles. In order for GHG accounting and sequestration to be reliable and just there needs to be some accountability. In an ideal world, all those involved in the GHG accounting process would be part of a compatible system; in the real world, however, tracking GHG reductions must be done from consumers to businesses to their installations, and from regions to states to nations which are all using different systems of accounting. Here are three ways double counting errors (or fraud) can occur under this system: calculating the same GHG emissions twice, selling a verified and quantified GHG reduction multiple times or claiming the same quantified GHG reduction from two separate entities.

The definition used by VCS/VERRA is as such: «*The scenario under which a singular GHG emission reduction or removal is monetized separately by two different entities or where a GHG emission reduction or removal is sold to multiple buyers*»¹. Here is a breakdown:

1. Calculating the same GHG emission twice: it is the direct responsibility of the project owner or the auditor to accurately delineate the perimeter of the carbon footprint. For example, for a building, the perimeter for level 1 (direct) and level 2 (indirect) emissions is relatively simple and does not require complex calculations. However, for level 3 GHG emissions related to sustainable transportation of people or products, in input or output modes, during their lifecycle, the choice of anchorage point can be problematic as it can be set as much at the departure as at the arrival and can easily cause double counting.

Such a situation could easily occur for travel between two buildings owned by different companies. It can be quite useful then to have digital tracking. We are seeing the emergence of technological solutions such as block chain in the sustainable development field.

2. Selling the same GHG reduction/sequestration multiple times to different buyers once it has been verified by a third party and turned into a carbon offset. It becomes critical to have a serial code for every reduction that is accounted for in a registry. This becomes of utmost importance when considering the secondary market of brokers and resellers between project promoters that do the reduction and buyers who are offsetting the credits, thereby removing them from circulation. Once again, block chain technologies have their place here in the selling of these reductions converted into carbon credits.

3. Claiming an identical GHG reduction twice in a project involving a chain of activities, such as a supply chain. A perfect example is waste management. The cycle of waste management comprises of generation, collecting, transporting, sorting, reusing, recycling and final elimination. The same GHG reduction can only be attributed to one actor in the chain though it does not prevent those actors from sharing that reduction amongst themselves. It becomes critical then to make sure who receives the attribution of the GHG reduction.

At the international level, ongoing, and seemingly endless, discussions are happening concerning Article 6 of the Paris Agreement on *International Trading Mitigation Outcome* (I.T.M.O.) which touches upon double counting and the funding transfer promised by rich countries to the rest of the world (approx. \$100 billion/year).

Ten countries or so which committed to a National Determined Contribution (NDC), following the Paris Agreement, aim to reach their objectives by using market mechanisms. The market's role between the countries buying carbon credits and the countries selling them will be to support GHG reduction projects geographically located on their territory. How will these carbon credit transactions be accounted for in order to avoid the pitfalls of double counting? What mechanisms will be put into these markets in order for them to have a social justice, historical justice and an environmental basis?

What of the myth of the opportunity for low cost carbon credits on reduction or sequestration projects in an economically protectionist world? Will there be mechanisms in order to limit that 50% of carbon credit purchases be done locally while another 50% be done internationally. Will the international community encourage an entry to the national accounts to their NDCs for every certified carbon credit? A quarter of an NDC could be assigned to OCDE (or G20) buying countries while three quarters of that NDC could be assigned to selling countries. This would favour be a way to finally make good on the promised transfer of funds from rich countries to the rest of the world.

Quebec context: provincial government and the SPEDE cap-and-trade system

Since January 1st 2015, a mere 0.1% of all GHG-generating installations are regulated under the SPEDE. For the rest of civil society, 99.9%, a carbon tax is applied. In this scenario, double counting occurs when the Quebec government automatically takes on the ownership of GHG reductions at the detriment of the consumers of fossil fuels. In fact, producing fossil fuels in

no way means consuming them. Fossil fuel distributors are in no way the owners of the GHG emissions that their clients produce.

Finally, the price of emission rights on the WCI auctions are systematically inferior the social cost of carbon. The SPEDE's current rights emission is around \$CAD 20 whereas the social cost of carbon is roughly \$CAD 200. However, the SPEDE need not drastically modify its price in order to have an immediate impact, simple administrative or regulatory changes would bring about significant changes to the system.

Without throwing the baby with the bathwater, simple adjustments would be applicable to Québec's available carbon budget and that represents 8% of GHG offsetting through regulatory offset credits for the 150 companies that are subject to the SPEDE. Certified and verified GHG reductions and sequestrations should be accepted up to 50% in companies offset portfolios.