

Meeting the climate change goals of the Paris Agreement

# How to avoid double counting of emissions reductions

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The crucial test of the Paris Agreement is whether climate-damaging emissions are going down, or up. International emissions trading can help drive emissions down. But strong rules are needed to ensure traded emission reductions aren't counted twice.



## INTRODUCTION

Trading of emissions reductions through international carbon markets can allow nations to undertake more ambitious pledges to cut climate pollution.<sup>1</sup> In a well-designed carbon market, when one entity reduces its emissions beyond its pledged effort, and transfers those surplus reductions to another entity that uses them to cover an increase in its emissions, the result is that both entities together meet their joint climate goals. The possibility of such trading spurs innovators to search for new ways to cut emissions faster and at lower cost.<sup>1</sup> That search, in turn, means that even more ambitious reductions can be achieved without an increase in costs. Rules in well-designed markets require the transferor to subtract the transferred reductions from its allowable emissions. Ensuring that transferred emissions reductions are accounted properly towards national emission reduction pledges, also known as “Nationally Determined Contributions,” or NDCs, will be vital to meeting the Paris Agreement’s goal of limiting climate-warming greenhouse gases (GHG) so as to avert the most dangerous climate shifts.

One particular concern is that traded reductions might be “double counted,” meaning counted once by the country of origin when reporting its emissions inventory, and again by the receiving country (or other entity) when justifying emissions above its pledged climate effort. In the absence of rules, a country of origin could reduce emissions to meet its pledged

effort and transfer those to a recipient; the recipient could then claim those same reductions to meet its pledged effort. In that case, only one reduction has actually occurred, but it is being claimed twice. Analyses indicate that such double-claiming could eliminate the entire climate benefit of all the NDCs under the Paris Agreement.<sup>2</sup>

Unlocking the potential climate gains offered by international trading requires comprehensive and enforceable rules to minimize the risk of double counting. Even so, opinions circulating within the climate talks aimed at developing the Paris Agreement’s rulebook for international carbon market cooperation are divided on the topic of accounting for internationally transferred mitigation outcomes (ITMOs). Should such rules ensure the comprehensive prohibition of double counting for emissions reductions that happen both within and outside of the emissions coverage listed in NDCs?

This user-friendly handbook identifies eight existing or potential transfer scenarios that could lead to double counting of emissions reductions, cites the legal requirements relevant to the accounting of these transfers, and proposes the actions needed by participating entities to avoid double counting in each scenario.

1. <http://blogs.edf.org/climate411/2018/08/01/international-trading-of-emissions-reductions-could-greatly-increase-global-climate-ambition/>

2. Gabriela Leslie, Alex Hanafi and Annie Petsonk, *Global Emissions Within and Outside the Scope of Nationally Determined Contributions* (Environmental Defense Fund), June 2018.

## GUIDING PRINCIPLE

Parties choosing to transact voluntarily under Article 6 accept an additional layer of rigor and accuracy in their MRV and accounting in order to fulfill the specific requirements of Article 6, distinct and additional to the requirement in Article 4.13 to “account for” NDCs.

## GLOSSARY OF ABBREVIATIONS

### “ARTICLE” and “¶”

Refer to articles and paragraphs respectively of the Paris Agreement and its accompanying decision, unless otherwise indicated

### CAEP

Committee on Aviation Environmental Protection (under the International Civil Aviation Organization)

### CDM

Clean Development Mechanism (under the Kyoto Protocol)

### CER

Certified Emission Reduction unit under the Clean Development Mechanism

### CMP

Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol

### CORSIA

The Carbon Offsetting and Reduction Scheme for International Aviation

### CP/CP2

The first and second commitment periods of the Kyoto Protocol, respectively

### ITMO

Internationally Transferred Mitigation Outcomes (under Article 6.2 of the Paris Agreement)

### KP

Kyoto Protocol

### MRV

Monitoring, Reporting, Verification

### NDC

Nationally Determined Contribution (under the Paris Agreement)

### PA

Paris Agreement

### QELRC

Quantified Emissions Limitation and Reduction Commitments (under the Kyoto Protocol)

### UNFCCC

United Nations Framework Convention on Climate Change

## INDEX OF POSSIBLE TRANSFER SCENARIOS

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\* These transfers are theoretical, as it is still to be determined if crediting from outside NDCs is allowed under PA Article 6.2 or 6.4

# NDC→NDC

## STEPS NEEDED

Host Party accounts for the transfer by recording and reporting at least every two years, in an account based on its NDC-relevant inventory, the addition of a corresponding amount of emissions.

## LEGAL BASIS

PA Article 6.2 requires “robust accounting,” and Decision 1/CP.21 ¶136 specifically requires “corresponding adjustment.”

PA Article 4.4’s encouragement to move towards “economy-wide emission reduction or limitation targets” supports use of inventory-based accounting to ensure “robust accounting” for Article 6 Parties, distinct and additional to the requirement in Article 4.13 to “account for” NDCs.

PA 13.7 and Decision 1/CP.21 ¶190 require provision of “information necessary to track progress” to NDC at least every two years.

Accounting for transfers involving PA Article 6.4 would support PA Article 13.5 requirement to provide “a clear understanding of climate change action in the light of the objective of the Convention.”

# \*Non-NDC→NDC

## STEPS NEEDED

Host Party demonstrates robust baselines and accounts for the transfer by recording and reporting at least every two years, in an account based on its NDC-relevant inventory, the addition of a corresponding amount of emissions.

## LEGAL BASIS

PA Article 6.2 authorizes the CMA to develop guidance that applies robust accounting for any cooperation that involves the use of ITMOs *towards* NDCs. (Article 6.2 is not restricted to ITMOs originating from NDCs).

Any transfer that assists a host Party to achieve its NDC (e.g., through use of received revenues to reduce host country emissions, or via achievement of a conditional NDC) would also fall within the scope of Article 6.2 guidance.

Applying Article 6.2 accounting guidance to both NDC and non-NDC transfers would (a) support PA Article 4.4’s encouragement to move towards economy-wide targets, since non-NDC sectors could not generate double-countable credits; and b) if transfers occur via PA Article 6.4, support Article 6.4(d)’s aim to deliver an overall mitigation in global emissions. Counting them twice would not.

PA 13.7 and Decision 1/CP.21 ¶190 require provision of “information necessary to track progress” to NDC at least every two years.

Reporting of non-NDC transfers is needed for PA Article 13.5 Framework for Transparency of Action to provide “a clear understanding of climate change action in the light of the objective of the Convention.” Decision 1/CP.21 ¶192 is to ensure environmental integrity, transparency, accuracy, completeness, and avoid double counting.

# \*PA Non-Party Country →NDC/CORSIA

## STEPS NEEDED

Using Party verifies non-party country applies effectively equivalent procedures to those applied by PA Parties. Host demonstrates robust baselines and accounts for the transfer by recording and reporting at least every two years, in an account based on its inventory, the addition of a corresponding amount of emissions.

## LEGAL BASIS

PA Article 6.2 authorizes the CMA to develop guidance that applies robust accounting for any cooperation that involves the use of ITMOs *towards* NDCs. (Article 6.2 is not restricted to ITMOs originating from NDCs).

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PA 13.7 and Decision 1/CP.21 ¶190 require provision of "information necessary to track progress" to NDC at least every two years.

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PA Party that uses—or hosts an airline that uses—ITMOs remains bound by PA Article 6.2 guidance and Decision 1/CP.21 ¶136 to perform a "corresponding adjustment."

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Developed country Parties to the Convention are required by ¶5(e) of guidelines contained in annex I of decision 2/CP.17 and ¶11 of Decision 19/CP.18 (and its accompanying Table 2(e)(I)) to report every two years on the use of market-based mechanisms under the Convention.

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UNFCCC Article 12(1)(c) requires each Party to submit information that it "considers relevant to the achievement of the objective of the Convention." This information is necessary for the UNFCCC COP to fulfill its requirement under UNFCCC Article 7.2(e) to assess "the extent to which progress towards the objective of the Convention is being achieved."

# NDC→CORSIA

## STEPS NEEDED

Host Party accounts for the transfer by recording and reporting at least every two years, in an account based on its NDC-relevant inventory, the addition of a corresponding amount of emissions.

## LEGAL BASIS

**PA 6.1** recognizes that some Parties choose voluntary cooperation to allow for higher ambition in their mitigation actions. Cooperation is not restricted to achievement of NDCs, and CORSIA is a form of voluntary cooperation among countries. There is no requirement that ITMO transfers be made only “towards NDCs.”

Any transfer to CORSIA that assists a host Party to achieve its NDC (e.g., through use of CORSIA-derived revenue to reduce host country emissions, or via achievement of a conditional NDC) would be a use “towards” an NDC and fall within the scope of Article 6.2 guidance.

**PA Article 4.13** requires Parties to account for their NDCs and avoid double counting. Reporting of these transfers is required for **PA Article 13.5** Framework for Transparency of Action to provide “a clear understanding of climate change action in the light of the objective of the Convention.”

**PA 13.7** and **Decision 1/CP.21 ¶190** requires provision of “information necessary to track progress” to NDC at least every two years.

**UNFCCC Article 12(1)(c)** requires each Party to submit information that it “considers relevant to the achievement of the objective of the Convention.” This information is necessary for the UNFCCC COP to fulfill its requirement under **UNFCCC Article 7.2(e)** to assess “the extent to which progress towards the objective of the Convention is being achieved.”

# \*Non-NDC→CORSIA

## STEPS NEEDED

Host Party reports the transfer at least every two years via the PA Article 13.5 framework, and records the addition of a corresponding amount of emissions in an account based on its inventory.

## LEGAL BASIS

**PA 6.1** recognizes that some Parties choose voluntary cooperation to allow for higher ambition in their mitigation actions. Cooperation is not restricted to achievement of NDCs, and CORSIA is a form of voluntary cooperation among countries. There is no requirement that ITMO transfers be made only towards NDCs.

Any transfer to CORSIA that assists a host Party to achieve its NDC (e.g., through use of CORSIA-derived revenue to reduce host country emissions, or via achievement of a conditional NDC) would be a use “towards” an NDC and fall within the scope of Article 6.2 guidance.

Reporting of these transfers is required for **PA Article 13.5** Framework for Transparency of Action to provide “a clear understanding of climate change action in the light of the objective of the Convention.”

CMA’s guidance under **Decision 1/CP.21 ¶192** is to ensure environmental integrity, transparency, accuracy, completeness, and avoid double counting.

Accounting for these transfers would support **PA Article 4.4** by removing any disincentive to move toward economy-wide targets, and, for any transfers occurring via **PA Article 6.4**, the aim of delivering an overall mitigation. Counting these twice would not.

**UNFCCC Article 12(1)(c)** requires each Party to submit information that it “considers relevant to the achievement of the objective of the Convention.” This information is necessary for the UNFCCC COP to fulfill its requirement under **UNFCCC Article 7.2(e)** to assess “the extent to which progress towards the objective of the Convention is being achieved.”

# \*CDM CERs→NDC

## STEPS NEEDED

Steps will depend on legal contexts, including *inter alia* time period and sectors of origin of CERs. Further legal steps may be needed, including decisions by KP CMP to authorize use, transfer, and acquisition of CERs outside of KP.

## LEGAL BASIS

This has to be looked at in the legal context of both the **KP** and the **PA**. The **PA Legal Context** from **NDC→NDC & non-NDC→NDC** applies. And, if CER transfer is to occur via **Article 6.4**, then 6.4 supervisory body would need to approve CERs' validity under 6.4 rules.

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**KP Legal Context:** As specified by **KP Article 12**, CDM purpose/use is to assist Parties included in Annex I to meet their KP Article 3 commitments. KP Secretariat (2010) opined on question of whether CDM (a) may not, or (b) may, issue CERs after expiry of KP CP, and said (b) was correct. But it is an open legal question whether CERs can be used for other purposes.<sup>3</sup>

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CMP decided that a Party included in Annex I may participate in ongoing project activities under Article 12 and in any project activities to be registered after 31 December 2012, but only Parties with QELRCs may transfer and acquire KP CP2 CERs (Decision 1/CMP.8 ¶13).

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CMP also established a voluntary cancellation platform and encouraged the Executive Board to explore options for other uses (Decision 6/CMP.11 ¶¶4, 7, and 3/CMP.12). The COP welcomed voluntary cancellation by Parties and stakeholders, of CERs valid for KP CP2 (Decisions 1/CP.21 ¶106, 1/CP.19); these raise no double-claiming risk. **To date however, neither the CMP nor the COP has authorized any other uses of CDM/ CERs.**

3. Environmental Defense Fund, What is the Legal Basis for the Use of Certified Emission Reductions after 2020? May 2018.

# CDM CERs→CORSlA

## STEPS NEEDED

Steps will depend on legal contexts, including *inter alia* time period and sectors of origin of CERs. Further legal steps may be needed, including decisions by KP CMP to authorize use, transfer, and acquisition of CERs outside of KP.

## LEGAL BASIS

This has to be looked at in the legal context of both the KP and CORSIA:

**See Legal Context of KP in the scenario CDM CERs→NDC.**

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**CORSIA Legal Context:** In 2016, the ICAO Assembly decided to establish a Carbon Offsetting and Reduction Scheme for International Aviation (CORSIA). In **ICAO Resolution 39-3**, the Assembly decided that emissions units generated from mechanisms established under the UNFCCC and the PA are eligible for use in CORSIA, provided they align with decisions by the Council, with technical contribution of the CAEP, including on avoiding double counting and on eligible vintage and timeframe.

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Note: **A39-3 ¶121** does not mention KP, so it is not clear if CERs are covered by it; if they are, CERs will need to meet CORSIA eligibility criteria and decisions, which have yet to be made.

# Voluntary units

## →CORSlA

### STEPS NEEDED

Steps will depend on legal context, plus time period and sector of origin of units.

### LEGAL BASIS

Taking into account CORSlA, KP and PA Legal Contexts, voluntary programs will need further rules to ensure reductions originating under them are not claimed twice.

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For additional resources on emissions accounting and the Paris Agreement, please visit **[edf.org/handbook](https://www.edf.org/handbook)**