



# MRV and scope in building a global carbon market

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# Key issues defining scope

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- The ultimate objective should be full coverage of emissions sources
- Because:
  - ▶ Scale
  - ▶ Cost-effectiveness
  - ▶ Liquidity
- But:
  - ▶ Not all sources have good data
  - ▶ Transaction costs may be prohibitive
  - ▶ Not all actors are natural traders
  - ▶ Price elasticity varies between sectors
  - ▶ Governments may face distributional issues (effort sharing)
  - ▶ In linked schemes, different coverage may result in competitive distortions
  - ▶ Different countries have different regulatory regimes



# The cap is paramount

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- To avoid overallocation, MRV must be sufficiently robust to ensure that the cap is set outside the margin of error of emissions
- Consequently:
  - ▶ Early phases should not have a soft start, unless they are explicitly a learning phase
  - ▶ Sources covered should be limited to those with very good data, both current and projected
- In linked systems, overallocation or inadequate stringency in any system will result in contagion, removing value and undermining investment globally



# MRV-related criteria for inclusion

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- Objective: regulators need to find the right balance between being comprehensive and being accurate
- Accuracy
  - ▶ Level of uncertainty
  - ▶ Ease of definition of boundaries
- Simplicity and cost
  - ▶ *De minimis* rule i.e. size – MRV costs are not proportional to size
  - ▶ Materiality – some processes may be hard to monitor and may not be significant, but this depends partly on targets
- Fugitive emissions, diffuse or mobile emissions, irregular and complex process emissions are hard to monitor relative to stationary sources
- Gases:
  - ▶ May be best to phase in over time (eg EU ETS, CCAR)
  - ▶ Ease and accuracy of measurement: CO<sub>2</sub>, then CH<sub>4</sub> (not yet agriculture), N<sub>2</sub>O

# Challenges in accounting for LULUCF

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- Both source and sink
- Wide variation location to location and year to year
- Actions in one year can have an emissions impact for multiple years
- Climate and other natural impacts – not only manmade impacts
- Permanence
- Leakage
- Lack of widely accepted accounting protocols
  - ▶ More costly to monitor
  - ▶ Top down (perspective of the atmosphere) versus bottom up (measuring stock changes and fluxes)
  - ▶ Full carbon accounting is really needed in order to be scientifically accurate, but this approach may not be appropriate for crediting under compliance
- Uncertainty has implications for liability and price
- More work is needed before LULUCF can be included

# Are domestic offsets a solution?

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- Project-by-project approach allows for more intensive scrutiny of emissions in sectors where there is little data to start with
  - ▶ Data discovery
  - ▶ Price discovery
  - ▶ But high transaction costs
- But if domestic offsets are allowed into an emissions trading scheme:
  - ▶ The costs within the scheme will be lower
  - ▶ But the costs of mitigation nationwide will be higher
  - ▶ Offsetting does not get us closer to the environmental goal so will have to be phased out over time



# In summary

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- Limits to scope – technical and political
- The cap is paramount – keep outside the margin of error
- Find the right balance between completeness and accuracy
- Is LULUCF ready for inclusion? Probably not
- Offsets can help in difficult sectors but shouldn't be seen a panacea or permanent feature
  
- Need to invest in MRV to expand coverage
- And finally, a plea... Regulators from developed countries must build trust and assist developing countries with data gathering and MRV
  - ▶ Graduation from project-based carbon finance to approaches with greater scale and ambition (eg sectoral benchmarks)
  - ▶ Accelerated progress towards emissions trading



# Contact Climate Change Capital

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