VCS | VERIFIED CARBON STANDARD
A Global Benchmark for Carbon

VCS POLICY BRIEF

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Double Counting: Clarification of Rules

1 INTRODUCTION

VCS rules on double counting were updated on 1 February 2012. Under the updated rules, double counting is clarified to mean either *double monetization* or *double selling* of GHG credits and GHG emission reductions and removals – but not *double claiming*. This document describes the rationale for this distinction, which is becoming increasingly relevant as climate policy evolves.

The changes to the VCS rules are technically minor, but they have important implications:

1) **Projects in non-Annex B countries** under the Kyoto Protocol are clarified as eligible under the VCS Program.
2) **Projects in Annex B countries,** and which do not assume emission reduction commitments under the second commitment period of the Kyoto Protocol, will become eligible under the VCS Program. Note that projects in countries that *do* assume emission reduction commitments under the second Kyoto commitment period will not be eligible under the VCS Program (unless there is corresponding cancellation of AAUs.)[1]

2 SUMMARY

All GHG programs must address double counting of GHG emission reductions and removals to ensure environmental integrity. However, the term double counting as used today tends to conflate three distinct scenarios: *double monetization*, *double selling* and *double claiming*. This document explains why the rules of VCS and other GHG programs can and should address double monetization and double selling, but the rules cannot and should not attempt to address the issue of double claiming.

Double monetization occurs when a singular GHG emission reduction or removal is monetized once as a GHG credit and a second time as a GHG allowance. GHG programs can address this by requiring the cancellation of GHG allowances on the back of credit issuance. Double selling occurs when a single GHG emission reduction or removal is sold to multiple buyers. GHG programs can address this through oversight procedures.

Double claiming occurs when the environmental benefit of a singular GHG emission reduction or removal is claimed by two different entities. For reasons elaborated in this document, it is beyond the jurisdiction of GHG programs to control how GHG credits are used and what statements are made by entities using

[1] Note that some activities may not be covered under the scope of the Kyoto Protocol reduction commitment, thereby allowing some projects in such countries.

them. Ultimately, an overarching framework that includes international tracking of GHG credit transactions is required to address double claiming. This is especially true if project and NAMA credits are to be used to meet national emission reduction targets.

The VCS Program has always had rules on double counting. These rules have been updated to clarify and address double counting more effectively. This document and the update to the VCS rules build upon VCS Policy Announcement *Applicability of Section 5.2.2 of the VCS 2007.1*, issued on 23 July 2009.

3 RATIONALE

3.1 What is Double Counting?

Double counting was previously defined under the VCS Program as follows:

> The scenario under which the environmental benefit of a singular GHG emission reduction or removal is claimed separately by two different entities or where a GHG emission reduction or removal is sold to multiple buyers

This is consistent with the general understanding of what is meant by double counting in carbon markets. Expanding upon this further, double counting is generally intended to cover the following situations:

1) Double monetization: In this situation a singular GHG emission reduction or removal is monetized once as a GHG credit and a second time as a GHG allowance. It can be illustrated using the example of a VCS project operating in an Annex B country[2]:

    a) The project issues a Verified Carbon Unit (VCU) and a corporate buyer uses (ie, retires) that VCU to offset its GHG emissions.

    b) The host country does its national inventory and finds that it has surplus Assigned Amount Units (AAUs), which in part is due to the VCS project (though the host country does not know about the sale and retirement of VCUs generated by the project).

    c) The host country sells AAUs to another country that has exceeded its Kyoto Protocol target and has chosen to meet its reduction commitment in part through international emissions trading.

    In this example, the global atmosphere sees a reduction of one tonne of CO_2e due to the reduction of emissions by the project. However, on the back of this one tonne reduction, the buyer of the VCU has emitted one tonne and the buyer of the AAU has emitted a further one tonne. Hence, the single GHG emission reduction generated by the project has been monetized twice and the rules have thus permitted the generation of one additional tonne of CO_2e as a result of the project and the ensuing GHG credit and allowance transactions.

[2] Assuming the country has ratified the Kyoto Protocol and is qualified for international emissions trading.

2) Double selling: In this situation, a single GHG emission reduction or removal is sold to multiple buyers. For example, a GHG credit might be sold twice, or a singular GHG emission reduction might be certified under two GHG programs and sold under each.

3) Double claiming: In this situation, claims about the environmental benefit of a singular GHG emission reduction or removal are made by two different entities. It can be illustrated using the example of a VCS project operating in a non-Annex I country that has assumed a national emission reduction target:

    a) The project issues a VCU and a corporate buyer uses that VCU to offset its GHG emissions, making a public carbon neutrality claim.

    b) The country does its national inventory and makes a public statement about the attainment of the target (which is in part due to the VCS project).

    In this example, two entities have made a claim on the back on a singular GHG emission reduction. Note that double claiming does not pose an environmental integrity problem in all circumstances, as further discussed in Section 3.3.

This document focuses on scenarios 1 and 3 because this is where most of the nuance lies and where further clarification under the VCS Program was required. Double selling is a more straight-forward scenario and did not require further clarification in the VCS rules.

3.2 The Impact of Targets vs Measures

Double counting is typically considered with initiatives such as the Kyoto Protocol and the EU Emissions Trading Scheme (ETS) in mind, though there are a number of ways double counting can potentially occur. For the purpose of analyzing the efficacy of VCS rules on double counting, it is useful to make the distinction between targets and measures. The following observations with respect to targets and measures are pertinent to the double-counting issue:

1) Targets: Targets represent a level of ambition for GHG emission reductions in a jurisdiction. Although targets themselves do not directly lead to emission reductions (measures will likely have to be implemented if the target is to be achieved), they can lead to double claiming of GHG emission reductions, as illustrated in Section 3.1(3) above.

2) Measures: Measures such as emissions trading programs and international emissions trading under the Kyoto Protocol create carbon market instruments, and can therefore lead to double monetization of GHG emission reductions, as illustrated in Section 3.1(1) above. Measures such as credited Nationally Appropriate Mitigation Actions (NAMAs) present the potential for double claiming. Measures that do not create carbon market instruments cannot lead to double counting, though there are other implications that must be (and are) handled under the VCS rules.[3]

[3] There are two things to note here. First, measures such as renewable portfolio standards create other forms of environmental credits such as renewable energy credits (RECs), which are not carbon market instruments. Under the

Table 1 provides examples of both targets and measures.

Table 1: GHG Emission Reduction Targets and Measures

Scale	Target	Measure
International	• Absolute target (eg, Kyoto Protocol Annex B reduction commitments)	• Allowance trading, plus offsets (eg, Kyoto Protocol flexible mechanisms)
Regional	• Absolute target (eg, EU)	• Emissions trading program (eg, EU ETS)
National	• Absolute or intensity target (eg, Copenhagen Accord quantified economy-wide emission reduction targets or other pledges) • Other national targets	• Emissions trading program • Fuel tax • Carbon tax • NAMA (supported, credited) • Renewable portfolio standard • Feed-in tariffs • Fuel efficiency standards • Energy efficiency standards • Voluntary carbon market • Funds

It is worth taking a moment to emphasize the differing effect of targets and measures on double counting. Targets can lead to double claiming though perhaps not double monetization, whereas the predominant concern with measures is that of double monetization. Again taking the Kyoto Protocol as an example, Annex B reduction commitments could give rise to double claiming, but the commitments themselves do not present any means by which the country can monetize a GHG emission reduction generated by a VCS project in that country. However, the mechanism (ie, measure) of international emissions trading creates AAUs and it is these instruments that could give rise to double monetization. Likewise, the EU target of 20-30% reduction by 2020 could give rise to double claiming and the EU ETS (through its mechanism of tradable allowances) could give rise to double monetization.

3.3 The Double Claiming Issue

As described above, targets raise concerns in respect of double claiming. It is important, however, to consider the impact of targets on overall environmental integrity.

VCS Program, as set out in the *VCS Standard*, projects cannot generate both RECs and VCUs. Second, measures such as taxes and tariffs impact on a project's ability to demonstrate additionality, in that they may make the project the least cost option. Likewise, fuel and energy efficiency standards may render a project unable to demonstrate regulatory surplus. Such types of measures are not relevant to double counting because by limiting the scope for making additionality claims they limit the number of projects that can generate creditable GHG emission reductions or removals thereby obviating the need to address any double counting issues.

Referring back to the example in Section 3.1(3), a VCS project in an EU country sold a VCU and the singular GHG emission reduction was "claimed" by both the VCU buyer (who made a carbon neutrality claim) and the host country (who made a claim about attainment of a national emission reduction target). Despite this double claim on the GHG emission reduction, the situation does not undermine environmental integrity with respect to national emission reduction goals. This holds true whether the VCU is sold to a domestic or an international voluntary market buyer:

1) Domestic buyer: The project has reduced emissions in the host country, which appear in the national inventory of the host country. This helps the country to reach its emission reduction target and because the VCU has been kept within the country, there is no potential whatsoever for it to be used in respect of a second country's emission reduction target.

2) International buyer: The project has reduced emissions in the host country. The VCU is sold to a corporate buyer in a second country, who makes a carbon neutrality claim. The project's emission reduction will appear in the national inventory of the host country and will help the country to reach its emission reduction target. However, it will not appear in the national inventory of the second country (ie, it was used by the company for its claim but has not caused any actual emission reductions within the country), and therefore the government of the second country will have to secure reductions elsewhere within the jurisdiction.

Hence, in both of these examples, the singular GHG emission reduction has been used only by the host country in respect of national inventories and compliance with national emission reduction targets, and there is not an environmental integrity issue with respect to national emission reduction goals.

However, this is not the case where governments use GHG credits to demonstrate compliance with a national emission reduction target. Regardless of the program or mechanism under which the credits are generated (eg, CDM, voluntary market GHG program or credited NAMA), double claiming with underlying issues of environmental integrity may occur and systems for international tracking of GHG credit transactions will be needed if overall environmental integrity is to be maintained. For example, a project (under the CDM or a voluntary market GHG program) or credited NAMA may generate GHG emission reductions or removals in one country, with the corresponding GHG credits sold to a second country that uses them to demonstrate compliance with a national emission reduction target. Both countries might claim attainment of their respective national target, which in part is due to the single set of GHG emission reductions or removals generated by the project/NAMA. These claims lack overall environmental integrity because if there had not been a GHG credit transaction, the government of the second country would have had to secure reductions elsewhere within its jurisdiction.[4]

[4] The issue of double claiming and proposals for international tracking of GHG credit transactions are discussed in the following work by OECD/IEA:

OECD/IEA. 2011. *Tracking and Trading: Expanding On Options for International Greenhouse Gas Unit Accounting After 2012*. http://www.oecd.org/dataoecd/61/35/49101167.pdf

OECD/IEA. 2011. *Keeping Track: Options to Develop International Greenhouse Gas Unit Accounting After 2012*. http://www.oecd.org/dataoecd/47/53/48125645.pdf

The heart of the issue here is that GHG programs such as the VCS, CDM and Gold Standard are programs for the certification of GHG emission reductions and removals (modeled on requirements such as those set out in *ISO 14064-2*). They are not programs for the use of such certified GHG emission reductions and removals. Hence, it is beyond the jurisdiction of these GHG programs to control how GHG credits are used and what statements are made by entities using them. Rather, the program or mechanism under which GHG credits are used must stipulate this (as do the Kyoto Protocol and EU ETS), or other systems for international tracking of GHG credit transactions must emerge (as will be needed if project and NAMA credits are to be used to meet national emission reduction targets in a post-Kyoto Protocol context).

The logical conclusion of the above analysis is that VCS rules on double counting should concentrate on the issues of double monetization and double selling, but not double claiming. The following section outlines the update made to the rules to reflect this.

4 UPDATE TO VCS RULES

Following the analysis in this document, VCS rules on double counting should concentrate on double monetization and double selling of GHG emission reductions and removals, but not double claiming. The VCS Program update on 1 February 2012 revised the rules on double counting, as below (the deleted text has been struck out and the new text is in red).

VCS document *Program Definitions*:

> **Double Counting**
> The scenario under which ~~the environmental benefit of~~ a singular GHG emission reduction or removal is ~~claimed~~ monetized separately by two different entities or where a GHG emission reduction or removal is sold to multiple buyers

Section 3.12.2 of the *VCS Standard*:

Where projects reduce GHG emissions from activities that are included in an emissions trading program or ~~take place in a jurisdiction or sector in which binding limits are established on GHG emissions~~ any other mechanism that includes GHG allowance trading, evidence shall be provided that the GHG emission reductions or removals generated by the project have not and will not be ~~used in the emissions trading program or for the purpose of demonstrating compliance with the binding limits that are in place in that jurisdiction or sector~~ otherwise counted or used under the program or mechanism. Such evidence may include:

1) A letter from the program operator, designated national authority or other relevant regulatory authority that emissions allowances (or other GHG credits used in the program) equivalent to the reductions or removals generated by the project have been cancelled from the program or national cap, as applicable.

2) Evidence of the purchase and cancellation of GHG allowances equivalent to the GHG emissions reductions or removals generated by the project related to the program or national

cap.

3) Evidence from the program operator, designated national authority or other relevant regulatory authority stating that the specific GHG emission reductions or removals generated by the project or type of project are not within the scope of the program or national cap.

5 IMPLICATIONS

The changes to VCS rules are technically minor, but they have important implications:

1) **Projects in non-Annex B countries** under the Kyoto Protocol are clarified as eligible under the VCS Program.

   Countries are increasingly taking on national emission reduction targets, which presents the potential for double claiming. However, this does not necessarily imply an environmental integrity issue, as described in Section 3.3.

2) **Projects in Annex B countries** that do not assume emission reduction commitments under the second commitment period of the Kyoto Protocol will become eligible under the VCS Program. Note that projects in countries that do assume emission reduction targets under the second Kyoto commitment period will not be eligible under the VCS Program (unless there is corresponding cancellation of AAUs.)[5]

This document also provides insight into the role that GHG emission reductions and removals generated in various contexts can, and cannot, play in the offset market. By nature, all project activities that reduce GHG emissions contribute to the reduction of national emissions in the host country. This means, as more countries take on national emission reduction targets, most GHG reductions will already have been counted toward a national target.

The complication arises when GHG credits are issued on the back of these reductions and where a second country wants to use these credits to meet its own national target. An overarching framework for the international tracking of GHG credits is required if GHG credits are to be used by buyer countries to meet their national targets.

Provided credits are not used to meet more than one national target, there is no environmental integrity issue associated with double claiming. GHG programs should therefore allow issuance of credits where double monetization and double selling are addressed.

Double monetization will continue to be an issue in countries with emission reduction commitments under the Kyoto Protocol (because of AAU trading), and it is therefore not appropriate to offset via activities in these countries without the corresponding cancellation of allowances.

[5] Note that some activities may not be covered under the scope of the Kyoto Protocol reduction commitment.