

Accounting rules: the International Debate and National Practices

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Global Workshop on Intended Nationally Determined Contributions

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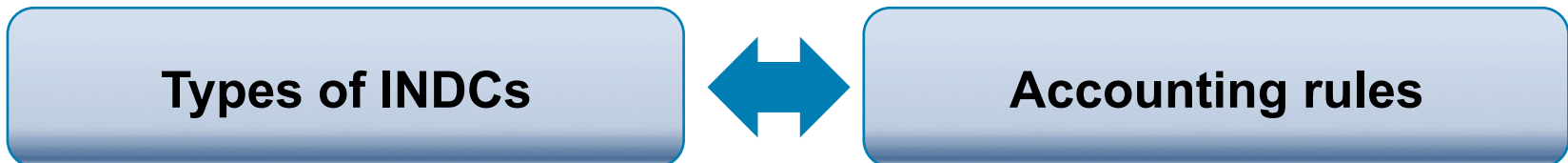
1 Background

2 The international debate

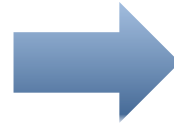
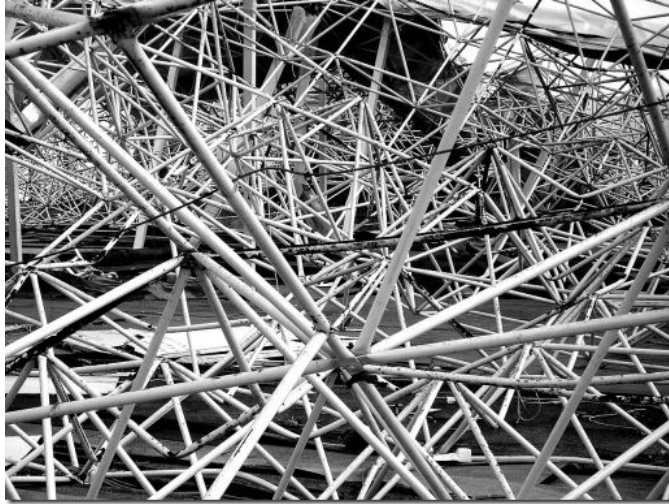
3 National practices

Background

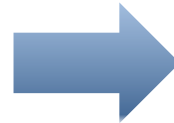
- „**Intended nationally determined contributions**“ will comprise a diversity of different target types
- Questions to be resolved:
 - **How can progress with INDCs be assessed in a situation of diverse target types – for each country and at global level?**
 - **What type of information do we need to understand what Parties proposed and what they will implement ?**



Background



What rules are necessary to turn the **complexity** arising from an **unlimited diversity of INDCs**



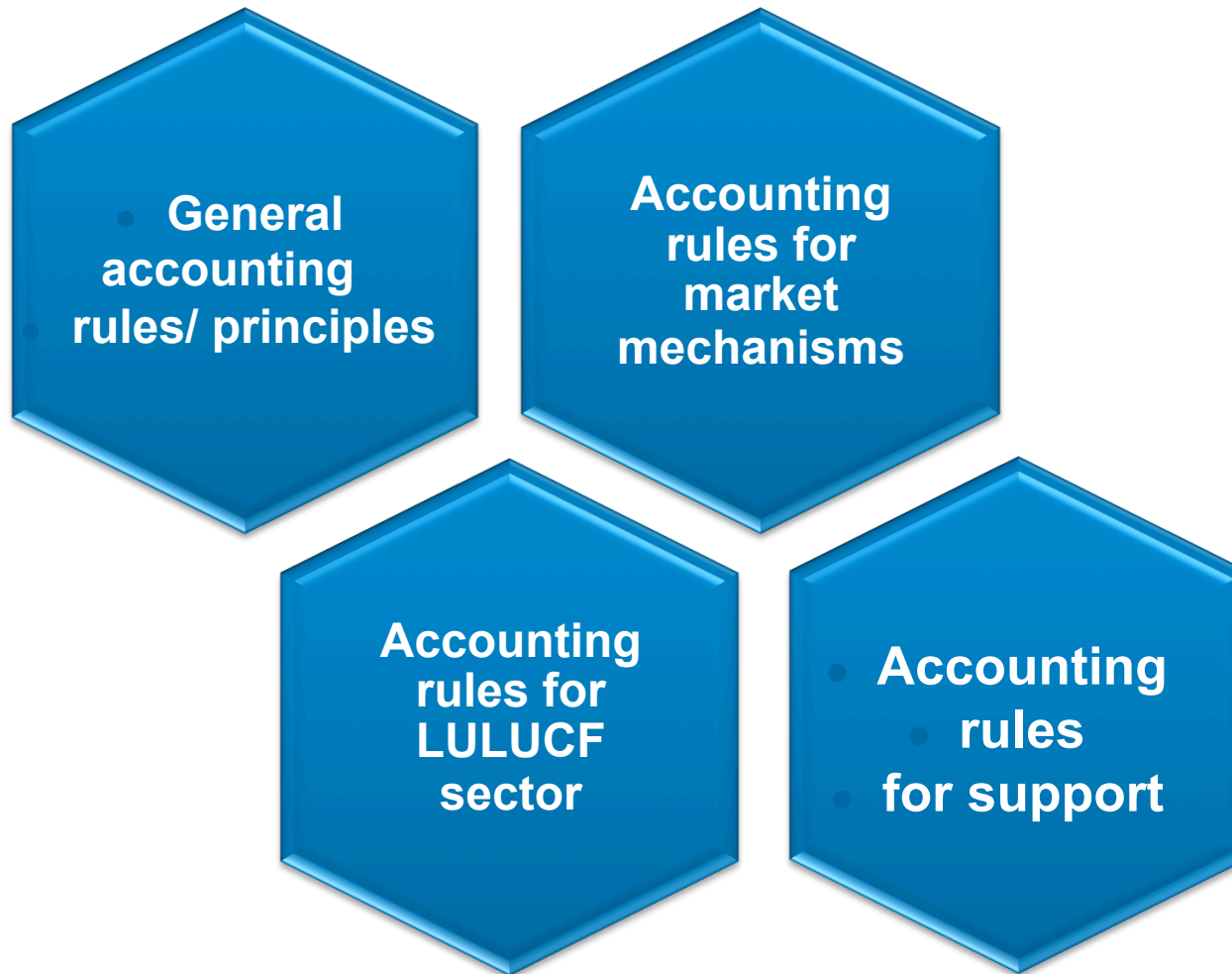
into a **structured accounting and MRV system** in a post-2020 agreement

1 Background

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Key areas of accounting rules proposed for the 2015 agreement I



Key areas of accounting rules proposed for the 2015 agreement II

- Proposals were made by both developed and developing countries.
- Many different options proposed, mostly not new ideas – which existing accounting provisions will apply under the new agreement
- Highlighted by many Parties: Accounting rules for carbon markets/ market mechanisms and for the land-use sector
- One option stating that there should be no provisions on market mechanisms and actions in the land use sector
- No clarity yet how the proposals currently in the negotiation text will develop and whether and how they will be reflected in the final agreement
- Need for accounting rules depend on the INDCs proposed

General accounting principles proposed - I

- **Implementation** of INDCs shall be **guided by accounting rules**
- Parties shall **account for all significant emissions and removals** of GHGs included in their commitments in a transparent and verifiable manner.
- Mitigation commitments shall be **increasingly comprehensive** through progressive inclusion of sources and sinks over time.
- Net changes in emissions of greenhouse gases by sources and removals by sinks as part of contributions should be **real, additional, permanent and verifiable**
- **Once** a gas/sector/activity/pool has been **accounted** for once, it should **continue to be accounted** for in future.
- Use **common metrics** and **IPCC methodologies** adopted by the IPCC and agreed by the COP for the estimation of GHG emissions and removals
- Mandates for **further development of accounting rules after Paris.**

General accounting principles proposed - II

Proposals related to baselines/ reference levels

- Parties shall **define and report the methodologies**, rules and assumptions used to frame their commitments, in particular those used to **calculate BAU projections** and work towards **common methodologies** and rules over time;
- transparent **technical assessment** of Parties' **projected baselines**
- Parties shall ensure **methodological consistency** between the calculation of emissions and removals for the **baselines** and the calculation of emissions and removals for the **achievement** of commitments. **Technical corrections** of reference level if methodologies change.
- Elaborate **rules** on when Parties may **change their baselines**
- Parties should be allowed to make **corrections to their reference levels/ baselines** to ensure that credits are only earned for climate performance directly related to anthropogenic measures and not to unexpected macroeconomic circumstances.

Accounting provisions proposed for **carbon markets**

- **Recognition** of the use of market mechanisms defined under the KP or the UNFCCC in relation to INDCs, use of units from market mechanisms dependent on specific rules and requirements
- **Creation / definition of new market mechanisms**, approval or certification of standards under UNFCCC
- Rules for **supplementarity** of the use of market mechanisms
- **Avoid double counting** and **ensure environmental integrity**
- Future rules to include **participation** and **eligibility requirements**
- Establishment of a **tracking system for units**
- Encouragement for **voluntary cancellation of CERs**
- Introduction of **share of proceeds** from use of market mechanisms to assist vulnerable countries
- **Mandate** to elaborate **more detailed accounting modalities** after Paris

Accounting provisions proposed for **LULUCF** sector

- If included in INDCs should cover **all major sinks and sources**
- **Once** included in accounting, should **be accounted** for in the future
- Use of **consistent definitions** over time
- Accounting shall **only** include **carbon stock changes** and exclude carbon stocks
- Accounting should be based on **realistic and meaningful reference levels**
- Reference levels should be **subject to technical assessment**
- Parties may apply **methodologies and existing approaches under Convention and the Kyoto Protocol**
- Parties may **exclude** emissions and removals from **natural disturbances**
- Establishment of result-based payments for **REDD-plus** activities under the agreement
- Mandates for **further work** on accounting rules after Paris

Accounting provisions proposed for **support**

- Use of comparable **accounting mechanisms** for support
- If funds provided for **multiple purposes**, **only share for climate change** shall be accounted as climate finance
- **Leveraging effect** shall **not be counted** as part of climate finance
- Establishment of **financial support registry**
- Source and character of funds shall allow for **traceability**
- Developing countries that receive funding shall **certify funds received** and report on **effective use** of funds.
- Resources used for **acquiring emission reductions** shall **not be counted as international climate finance** by the buying Party
- Common agreed **definition of climate finance**
- **Common metrics** for climate finance

How does international debate impact INDC development?

- Development of INDC does not necessarily need to consider these proposals
- Some Parties did not quantify certain parts of their INDCs (e.g. contribution of market mechanisms or contribution of LULUCF sector) because they expect accounting rules to be agreed later.
- They want to keep INDC design open to adapt to such future rules or feel unable to quantify their contribution in these areas without such further rules.

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National practices I

- Parties need to define for national purposes how they account for the status of implementation of their INDC
- Accounting at national level can be rather simple:
 - Example: Reduction of total emissions in future year/period compared to base year
 - Necessary accounting elements: GHG inventories for future years and base year
 - Simple calculation, no additional burden, but it is important that inventories reflect impacts of mitigation actions.
- Accounting at national level can be more complicated:
 - Example: several broad new mitigation actions with many stakeholders in sectors with data problems
 - Example: economy-wide targets and carbon markets
 - Example: LULUCF sector

National practices II

- Accounting at national level has to make use of existing data, monitoring and information systems
 - Ongoing project with Mexico, Colombia and Costa Rica to develop national accounting systems for the INDCs and electronic accounting tool that can be adapted to different INDC types and linked to existing information systems

Accounting choices in LULUCF sector I

Starting point:

- Very complex situation of accounting approaches for LULUCF in Annex I countries under KP and Convention
- A range of methodological documents by the IPCC (1996 IPCC GL, 2003 GPG, 2006 IPCC Guidelines, KP supplement, Supplement on wetlands)
- Methods and accounting approaches for REDD plus in developing countries agreed in decisions
- Methods and accounting approaches under CDM

Accounting choices in LULUCF sector II

Origin of accounting approach

REDD+ approach

**Kyoto approach/
activity-based approach**

Convention or inventory based approach

Full carbon accounting

Sectoral scope

Project approach (CDM, JI)

Activities defined at sectoral or regional level

Economy-wide INDC including LULUCF sector

Accounting choices in LULUCF sector III

Determination of categories or activities included

Forestry

- Land rem. forest land, land converted to and from forests
- Forest management
- Afforestation/ Reforestation
- Deforestation / avoided deforestation
- Forest degradation

Other land uses

- Croplands rem. croplands
- Grasslands rem. grassland
- Wetlands, Settlements, other land categories
- Cropland management
- Grassland management
- Revegetation
- Wetland drainage and rewetting

Choice of specific accounting elements

Definitions

Approach for harvested wood products

Approach related to natural disturbances

Reference level:

- compared to base year (net-net)
- Projection
- Zero in base year (gross-net)

Accounting choices in LULUCF sector IV

Question at national level:

- What approaches and elements to use for INDC?
- Large number of options challenging as options need to be analyzed related to their impacts until 2030
- Will chosen approaches and elements be in line with accounting rules elaborated after Paris for this sector?



These challenges lead to the situation that some of the first INDCs are not very clear related to the contribution of the LULUCF sector

Key accounting elements in INDCs

- Reference chosen (references can be converted with some additional information)
- Implementation period
- Gases / activities / categories covered
- Methodologies used
- Common metrics used
- Separation between conditional and unconditional actions
- Use of market mechanisms
- Accounting choices related to LULUCF sector
- Fixed decisions or some flexibility for changes (e.g. fixed base year or BAU projection)

Accounting challenges based on reports during workshop

- Mexico:
 - inclusion of black carbon – no agreed GWP yet, but a range of values provided by IPCC. No agreed inventory methodologies under UNFCCC for black carbon
 - Much more analysis behind the scenes, difficult to put forward all considerations that are required for any comparative analysis ⇒ transparent documentation is important at least at domestic level for clarity of INDC
 - mentioned that BAU projections may be updated
- Integration and quantification of LULUCF in INDC difficult due to large amount of accounting options and decisions to be made
- Quantification of contribution of market mechanism in absence of agreement on such mechanism is also difficult
- Accounting of conditional and unconditional part related to support

Conclusions

- Ongoing work process related to accounting provisions at international level, there may be some further clarity in Paris, but the work may continue afterwards
- International process depends on INDCs proposed
- Depending on INDCs chosen, the accounting at national level can be challenging
- When INDCs are prepared, it is important to think about and define how the accounting of progress with INDCs will work at national level. This involves the definition of
 - Equations and methods
 - Data needs
 - Institutional arrangements and responsibilities

Thank you for your attention!

**Do you have any
questions?**



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