The role of offsetting in ambition raising and net-zero



20th IEA-IETA-EPRI GHG Trading Workshop
(Panel 6: Role of carbon markets in reaching net zero)

Carsten Warnecke, 22 October 2020

Kyoto to Paris



Paris Agreement

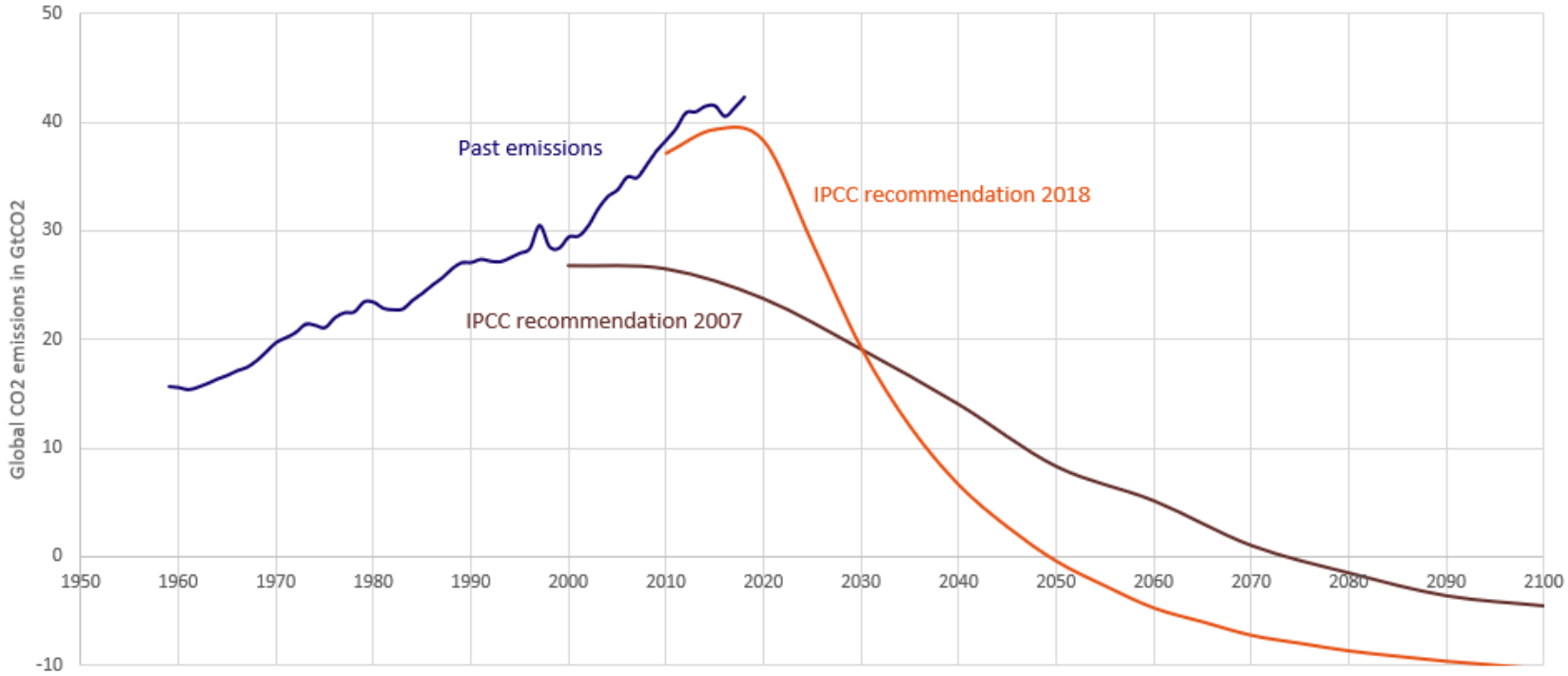
- **all** Parties expected to contribute, peak their own emissions as soon as possible, reduce emissions thereafter, and decarbonize their economies this century
- to **allow for higher ambition** in their mitigation and adaptation actions and to promote sustainable development and environmental integrity

Kyoto Protocol

- Annex I and non-Annex I world
- Flexibility mechanisms were to assist Parties included in Annex I in achieving compliance with their quantified emission limitation and reduction commitments
- to assist non-Annex I Parties in achieving sustainable development and in contributing to the ultimate objective of the Convention



Urgent action required



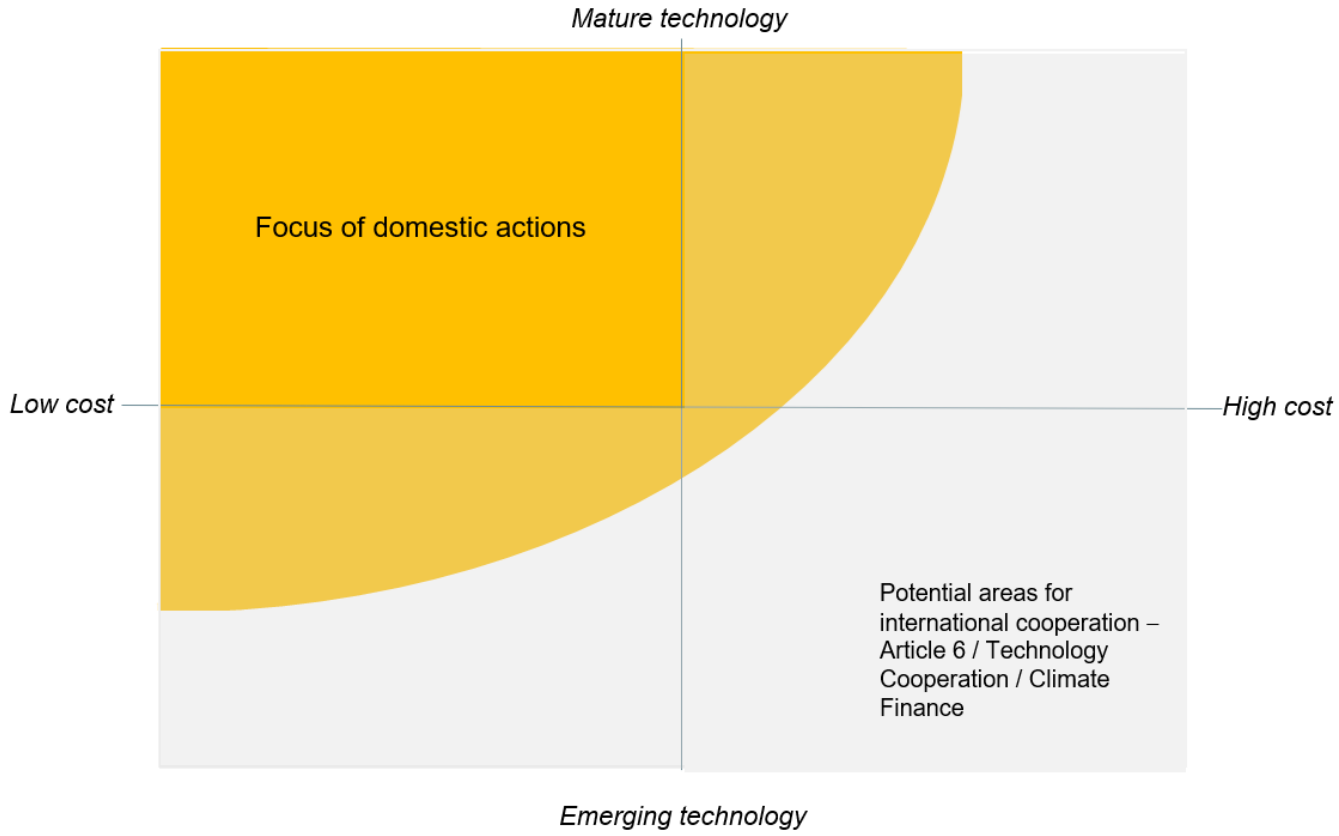
- Incremental changes insufficient
- Real transformational change in all sectors
- Current NDCs collectively not ambitious enough
- Developing Long-term Strategies (LTS) as visioning exercise

Pathways of global CO2 emissions recommended by IPCC
in the 2007 Fourth Assessment Report for scenarios compatible with 2.0°C (the at that time agreed global limit) and by the 2018 IPCC Special Report on 1.5°C for low and no overshoot scenarios aiming at 1.5°C (the currently agreed global limit) (only average ranges shown). Source: Höhne, N. et al. (2019) 'A possible 2050 climate target for the EU'. https://newclimate.org/2019/09/23/a-possible-2050-climate-target-for-the-eu/



How does this change the role of offsetting?

The potential transferring country perspective

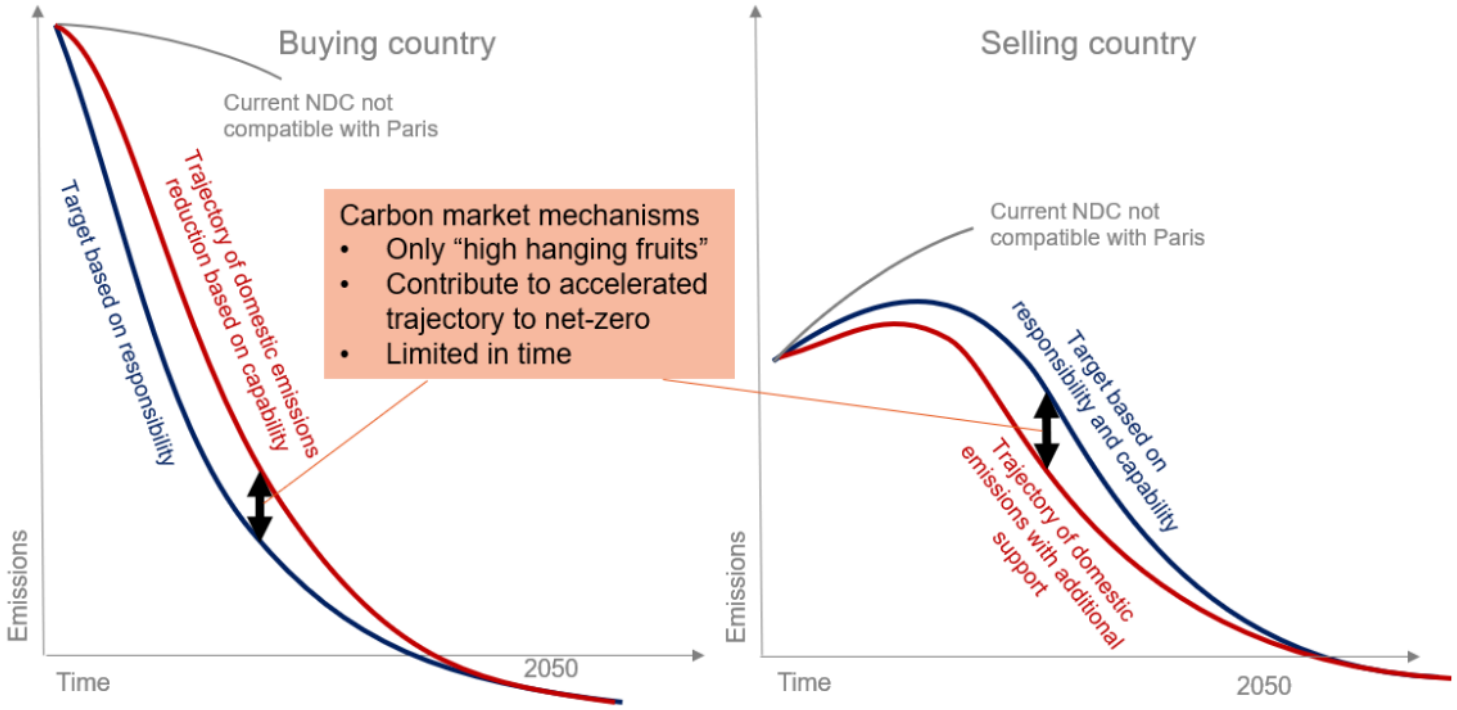


- Enhancing ambition by driving mitigation in inaccessible abatement options
- Governments must take an active role in assessing and identifying proposals for "*high-hanging fruits*"
- Safeguards needed against risks for ambition raising through disincentives and undesirable impacts
- In no ambitious scenario large quantities of cheap offsets will be available post 2020

Two-dimensional technology mapping related to Article 6.
Source: Warnecke, C. et al. (2018) 'Opportunities and safeguards for ambition raising through Article 6 - The perspective of countries transferring mitigation outcomes'. https://newclimate.org/2018/05/09/opportunities-and-safeguards-for-ambition-raising-through-article-6/

The potential acquiring country perspective

- Industrialised countries have capacity to undertake the steepest possible **domestic** reduction pathway
- Historical responsibility can lead to **fair share contributions** beyond most ambitious domestic decarbonisation pathway technically feasible
- Intl. offsetting offers option **"on top"** of fastest decarbonisation pathway



Article 6 transfers "on top" of fastest possible decarbonisation pathway.
Source: Kachi, A. et al. (2019) 'The role of international carbon markets in a decarbonising world - Aligning Article 6 with long-term strategies'.
https://newclimate.org/2019/11/26/the-role-of-international-carbon-markets-in-a-decarbonising-world/

Net-zero

- Problematic direct translation of net-zero targets from country to corporate level
- Corporates need to strive for **real zero** to allow countries to achieve their net-zero targets, no sector allowed to define itself as the exception
- Immediate drastic reductions and a radical change of business models and operating modes bears significant transition risks, but also opportunities in going further
- Dependence on the uncertain future availability of offsets is a risk in many ways, but not itself ambitious
- Unsubstantiated single year net-zero targets should not hide or reduce transparency on efforts following ambitious decarbonisation pathways to achieve real zero

Conclusions

- Offsetting can enhance ambition by driving mitigation in inaccessible abatement options under certain ambitious conditions
- Reduced effort to reduce emissions cannot be compensated through ‘easier’ reduction or indeed removals elsewhere
- Offsetting for ambition raising has a limited, niche role to play when everyone is committed and doing everything possible to decarbonise as fast as possible
- The real potential of using international offsetting is the quality of the mitigation action and rapid and far reaching transformational change it can trigger in the target host country, not the quantity of reductions bought and sold



Thank you

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