

USE OF OFFSET CREDITS ACROSS EMISSION TRADING SYSTEMS and CARBON PRICING MECHANISMS

May 2014

This briefing note provides an overview on how the use of offset credits is regulated in different emission trading systems (ETS) and carbon pricing mechanisms around the world. It takes into consideration systems that are active and under-development, and looks at whether rules allow the use of domestic offsets, i.e. credits generated by non-covered projects in the same jurisdiction, and/or international offsets, i.e. credits generated by projects in other jurisdictions. The intent is to provide a snapshot of the regulations in place and facilitate the comparison of their design.

EU ETS – Current and Future Situation

Phase III (2013 - 2020)

Use of Domestic Offsets	Use of International Offsets
YES , projects in EU Member States which reduce greenhouse gas emissions not covered by the ETS can issue credits	YES , the overall use of credits is limited to 50% of the EU-wide reductions over the period 2008-2020. Covered entities are allowed to use up to either the amount allowed to them in Phase II or to 11% of the allowances they were allocated in Phase II, whichever is higher

Phase IV (post 2020)

On 22 January 2014, the European Commission presented a text that would exclude international credits from the EU ETS starting from 2021.

Alberta Specified Gas Emitters Regulation (SGER)

Use of Domestic Offsets	Use of International Offsets
YES , covered entities will be allowed to use offsets generated from non-covered facilities in Alberta	NO , not envisaged

Additional Comments: In order to be eligible, an offset must: have occurred in Alberta; result from actions taken on or after January 1st 2002; be real, demonstrable, quantifiable and measurable; and be from an action that is not required by law at the time of its initiation.

California ETS

Use of Domestic Offsets	Use of International Offsets
YES , covered entities will be allowed to use offsets up to an 8% quantitative usage limit	Limited , under the current protocols offsets are only allowed from the US, Canada, Indonesia, Brazil and Mexico

Additional Comments: California officially linked its ETS to Quebec's. Under the linked system, compliance instruments (allowances, offsets, and early action offsets) will be recognised as mutually and equivalently acceptable in either jurisdiction. Assembly Bill 32 allows using offsets from outside the current limits if the CA governor signs them.

China Chongqing ETS

Use of Domestic Offsets	Use of International Offsets
YES , companies will be allowed to use Chinese Certified Emissions Reductions (CCERs) to cover for up to 8% of their emissions. All CCERs must be generated from projects within the province	NO , not envisaged

China Tianjin ETS

Use of Domestic Offsets	Use of International Offsets
YES , companies will be allowed to use CCERs to cover up to 10% of their emissions	NO , not envisaged

China Hubei ETS

Use of Domestic Offsets	Use of International Offsets
YES , companies will be allowed to use CCERs to cover up to 10% of their emissions. All CCERs must be generated from projects within the Hubei province	NO , not envisaged

China Beijing ETS

Use of Domestic Offsets	Use of International Offsets
YES , companies will be allowed to use CCERs to cover up to 5% of their emissions. At least 50% of the offsets have to come from projects within the jurisdiction of the city of Beijing	NO , not envisaged

China Shanghai ETS

Use of Domestic Offsets	Use of International Offsets
YES , companies will be allowed to use CCERs to cover up to 5% of their emissions	NO , not envisaged

China Guangdong ETS

Use of Domestic Offsets	Use of International Offsets
YES , companies will be allowed to use CCERs to cover up to 10% of their emissions. At least 70% of the offsets have to come from projects within the province	NO , not envisaged

China Shenzhen ETS

Use of Domestic Offsets	Use of International Offsets
YES , companies will be allowed to use CCERs to cover up to 10% of their emissions	NO , not envisaged

Kazakhstan ETS

Use of Domestic Offsets	Use of International Offsets
Under Consideration	Under consideration

Additional Comments: The following sectors are preferred for domestic offsets: mining and metallurgy; agriculture; housing and communal services; forestry; prevention of land degradation; renewables; processing of municipal and industrial waste; transport; and energy-efficient construction.

Mexico's Carbon Tax

Use of Domestic Offsets	Use of International Offsets
YES , offsets from Mexican CDM projects may be used to reduce a firm's carbon tax liability	Unclear , priority might be given to domestic credits

Additional Comments: The rules for the use of offset credits are yet to be published.

New Zealand ETS

Use of Domestic Offsets	Use of International Offsets
Under Consideration	Under Consideration

Additional Comments: The use offsets is contingent upon qualitative rules, e.g. CERs and ERUs from nuclear projects, large-scale hydro projects are not accepted for compliance and neither are long-term CERs, temporary CERs, and non-NZ originated AAUs.

Quebec ETS

Use of Domestic Offsets	Use of International Offsets
YES , companies will be allowed to use offsets up to an 8% quantitative usage limit	YES , offsets issued by jurisdictions linked with Quebec will be recognised

Additional Comments: Quebec's ETS is linked to the Californian system. Under the linked system, compliance instruments (allowances, offsets, and early action offsets) will be recognised as mutually and equivalently acceptable in either jurisdiction.

Regional Greenhouse Gas Initiative (RGGI) ETS

Use of Domestic Offsets	Use of International Offsets
YES , offsets are subject to a 3.3% quantitative usage limit	YES , for offsets that originate outside of the RGGI region, the project's state must be entered into a Memorandum of Understanding with the RGGI states

South Africa Carbon Tax

Use of Domestic Offsets	Use of International Offsets
YES , offsets from Southern Africa may be used to reduce a firm's carbon tax liability	YES , offsets may be used to reduce a firm's carbon tax liability

Additional Comments: Further regulatory details on the offset mechanism and design features, including carbon offset standards, project types and methodologies, and origins of offset projects have yet to be published.

South-Korea ETS

Use of Domestic Offsets	Use of International Offsets
YES , offsets are subject to a 10% quantitative usage limit	NO , offsets from international sources will be excluded from the first two phases (2015 - 2020)

Additional Comments: Post-2020, covered entities will be allowed to use international offsets to meet up to 10% of their surrender obligations, with the specification that the volume shall not exceed the number of domestic offsets used for each compliance year.

Switzerland ETS

Use of Domestic Offsets	Use of International Offsets
YES , offsets are subject to an 8% quantitative usage limit	YES , ERUs, CERs, and RMUs are accepted international offsets. AAUs are permitted from countries that have a similar ETS

Tokyo ETS

Use of Domestic Offsets	Use of International Offsets
YES , unlimited offset credits both from uncapped small and medium enterprises within Tokyo, and from renewable energy certificates nationwide. Use of offsets generated from Japanese installations outside of Tokyo is limited to 33% of a company's obligations	YES , in the event of high allowance prices international credits from CDMs and other units might be allowed as offsets, on the condition that domestic offsets are also used



CONTACT INFORMATION

For more information on IETA's work, or if you have any queries about this briefing note, please contact **Stefano De Clara**

Email: brussels@ieta.org, Phone: +32 2 230 11 75 Website: www.ieta.org