

OFFICIAL UNFCCC SIDE EVENT

The Carbon Market Challenge: Preventing Abuse Through Effective Governance

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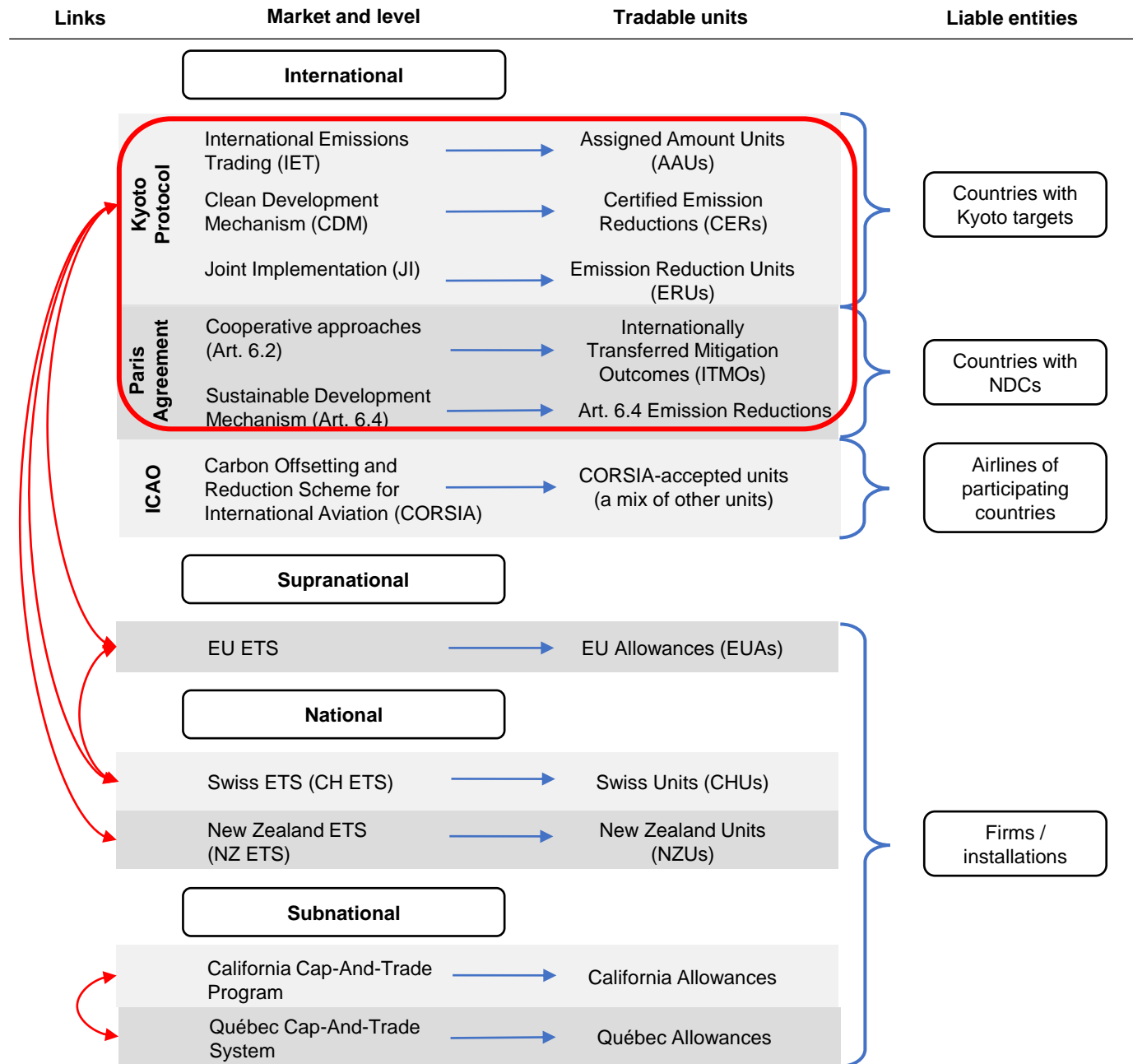
Overview of carbon markets

CHALLENGES:

- Many different markets on different levels with different tradable units:
 - International
 - Supranational
 - National
 - Subnational
- Different liable entities
- Linkages between markets and fungibility of units

RISKS OF ABUSES:

- Double counting due to missing oversight between the levels (Governance gaps!)
- Money laundering due to missing transparency of registries, rigorous account opening processes



Baseline-and-Credit Systems

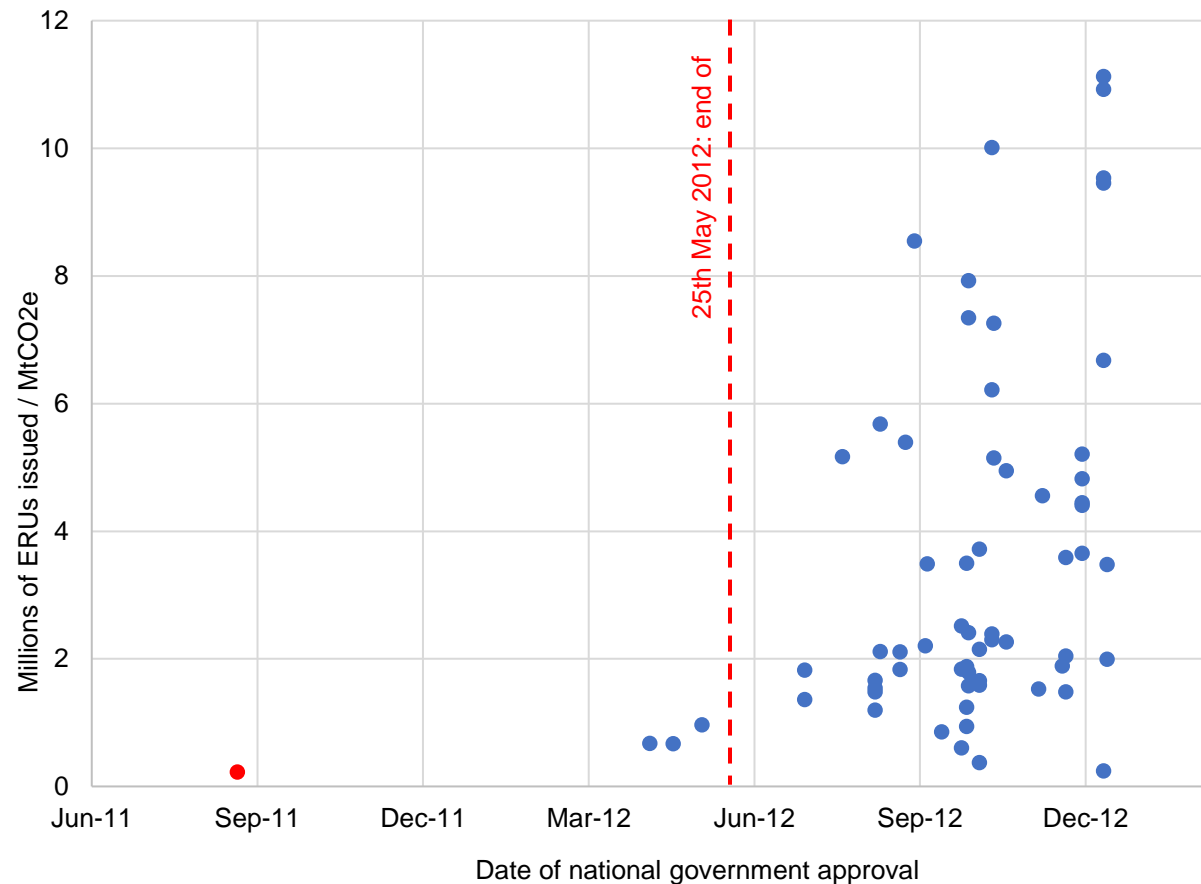
CHALLENGES:

- Incentives of all participants in the process to overstate the generated number of credits (conflict of interest)
- Project/activity developers benefit from larger credit volumes
- Credit Buyers want low prices therefore also interest in high credit volumes
- Host country governments benefit from larger credit sales (e.g. selling hot air) unless they must apply «Corresponding adjustments»

RISKS OF ABUSES:

- Missing additionality
- Overstated Baselines
- Poor verification

Approval dates and credit volumes of Ukrainian Coal Pile JI Projects (Source: Adopted from Kollmuss et al 2015)



Approval of Track 1 JI projects after the SB Meeting in May 2012

Baseline-and-Credit Systems in a Net-Zero World

FUTURE CHALLENGES:

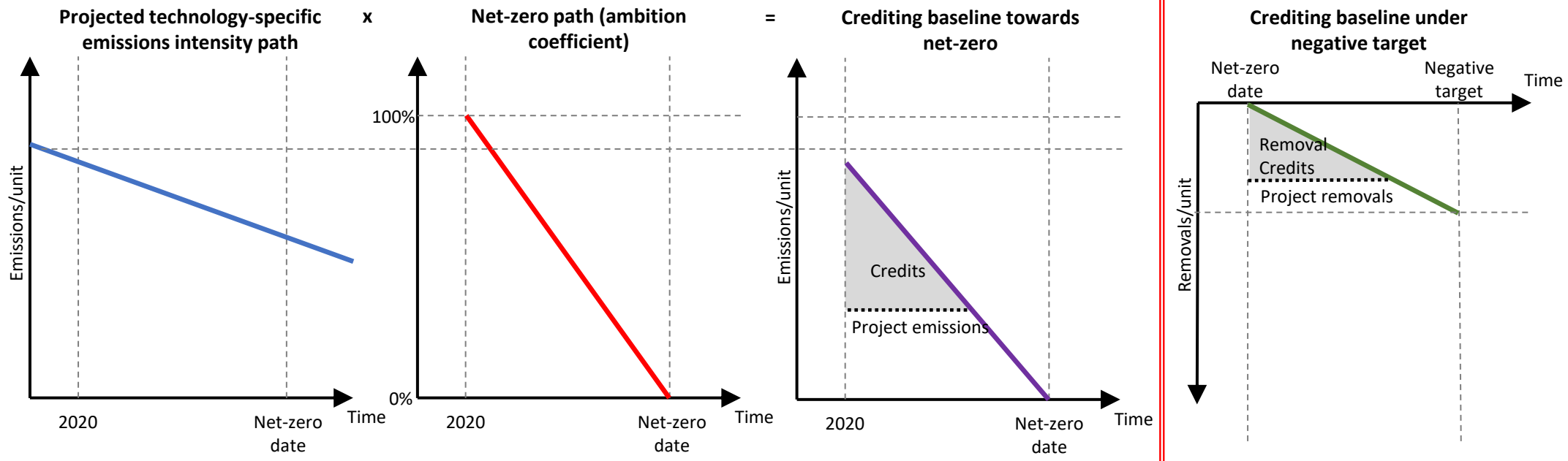
What is an appropriate approach of baseline setting in a net-zero world?

See below: Crediting baseline taking ambition coefficient into account which is related to net-zero date

Set separate negative emissions targets

RISKS OF ABUSES:

How to ensure that the net-zero date is not influenced? How to ensure that removal credits are additional?



Note: The projected technology-specific emissions intensity path would be calculated using existing methods. For power plants, it could rely on the grid emissions factor. For industrial facilities, it could be based on emissions benchmarks for the best available technology. In both bases, the expectation is that baseline emissions intensity decreases over time as the system becomes 'greener'.

PUBLICATIONS & VIDEO

Policy Brief I

The Carbon Market
Challenge: Preventing
Abuse Through Effective
Governance



Video:

<https://www.youtube.com/watch?v=YLZqq0NTSXU>

**TRADING POLLUTION:
A CLIMATE SOLUTION?**

Policy Brief II

Carbon Markets in a Net-
Zero World



**Will be published soon
Open source**

**The Carbon Market Challenge: Preventing
Abuse Through Effective Governance**

Legal, Environmental and Economic Principles

Baseline-and-Credit-Systems:

Risks, Impacts, Examples,
Prevention, Detection and Enforcement

Cap-and-Trade:

Risks, Impacts, Examples,
Prevention, Detection and Enforcement

Lessons Learned

Future Challenges