



# Forest Carbon Partnership Facility

## Double Counting

FCPF Carbon Fund Meeting (CF15)

Washington DC, December 12-15, 2016

# Background

# Paris Agreement

- Parties are encouraged to implement and support ‘results-based payment’ systems for positive incentives for REDD+ activities
- Parties shall account for their ‘Nationally Determined Contributions’ (NDCs) and, in doing so, shall, among others, **“promote environmental integrity, transparency, accuracy”** and **“ensure the avoidance of double counting”**
- Where engaging in Cooperative Approaches (Art. 6 (2) PA) that involve ‘internationally transferred mitigation outcomes’ towards NDCs they shall **“ensure environmental integrity, transparency”** and **“apply robust accounting to ensure, inter alia, the avoidance of double counting”**
- Where using the Sustainable Development Mechanism (Art. 6 (4) PA) to fulfill NDCs, ERs resulting from such mechanism shall **“not be used to demonstrate achievement of the host Party’s NDCs if used by another Party to demonstrate achievement of its NDCs”**

# FCPF Charter

- As one of its objectives, the FCPF is to pilot a performance-based payment system for ERs from REDD+ programs.
- In this regard, the FCPF Charter refers to **ERPAs** as agreements governing the “**acquisition and transfer of ERs**” – as one of the system’s performance requirements to trigger payment.

# FCPF Participation Agreements

- Current Carbon Fund contribution ratio between Tranches:
  - Tranche A: 6% (USD 46.9 million)
  - Tranche B: 94% (USD 688.9 million)
- Tranche A Participants **NOT LIMITED** under FCPF in how to use received Contract ERs/Additional ERs
- Tranche B Participants **LIMITED** under FCPF to “cancel” received Contract ERs/Additional ERs

# FCPF Methodological Framework

- The host country of an ER Program is required to select an appropriate arrangement to ensure that:
  - Any ERs from an ER Program are **not generated more than once**, and
  - Any ERs from an ER Program sold and transferred to the FCPF Carbon Fund are **not used again by any entity for sale, public relations, compliance or any other purpose** (Criterion 38)
- In this regard, the host country is required to use a public ER transaction registry to:
  - Account for generated ERs,
  - Offer assurance against double counting, and
  - Provide transparency to the public that there is no double claiming of environmental benefits in respect of generated ERs

# ERPA General Conditions (1)

- According to 5.02(g) of ERPA General Conditions (GCs):
  - Contract ERs/Additional ERs/underlying tCO<sub>2</sub>e can **only be used or claimed once** (no double counting), and
  - Program Entity shall **not use** such ERs/tCO<sub>2</sub>e **for sale or for public relations (if the latter implies continued ownership)**
- ERPA GCs provide for process under which Program Entity may request Trustee **to allow Program Entity to use or claim tCO<sub>2</sub>e underlying transferred Contract ERs/Additional ERs** for its **domestic commitments**, subject to Trustee's express, prior, written consent

# ERPA General Conditions (2)

## - No Double Counting -

ER Program Accounting Area



tCO2e

Program Entity  
(Seller)

General  
Conditions

**Contract ERs/Additional ERs/  
tCO2e only to be used once**

ERPA

Contract ERs/  
Additional ERs

Transfer of  
Title to ERs

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Trustee of  
Carbon Fund  
(Buyer)

Carbon Fund

TRANCHE A

TRANCHE B  
(Contract ERs to  
be cancelled)

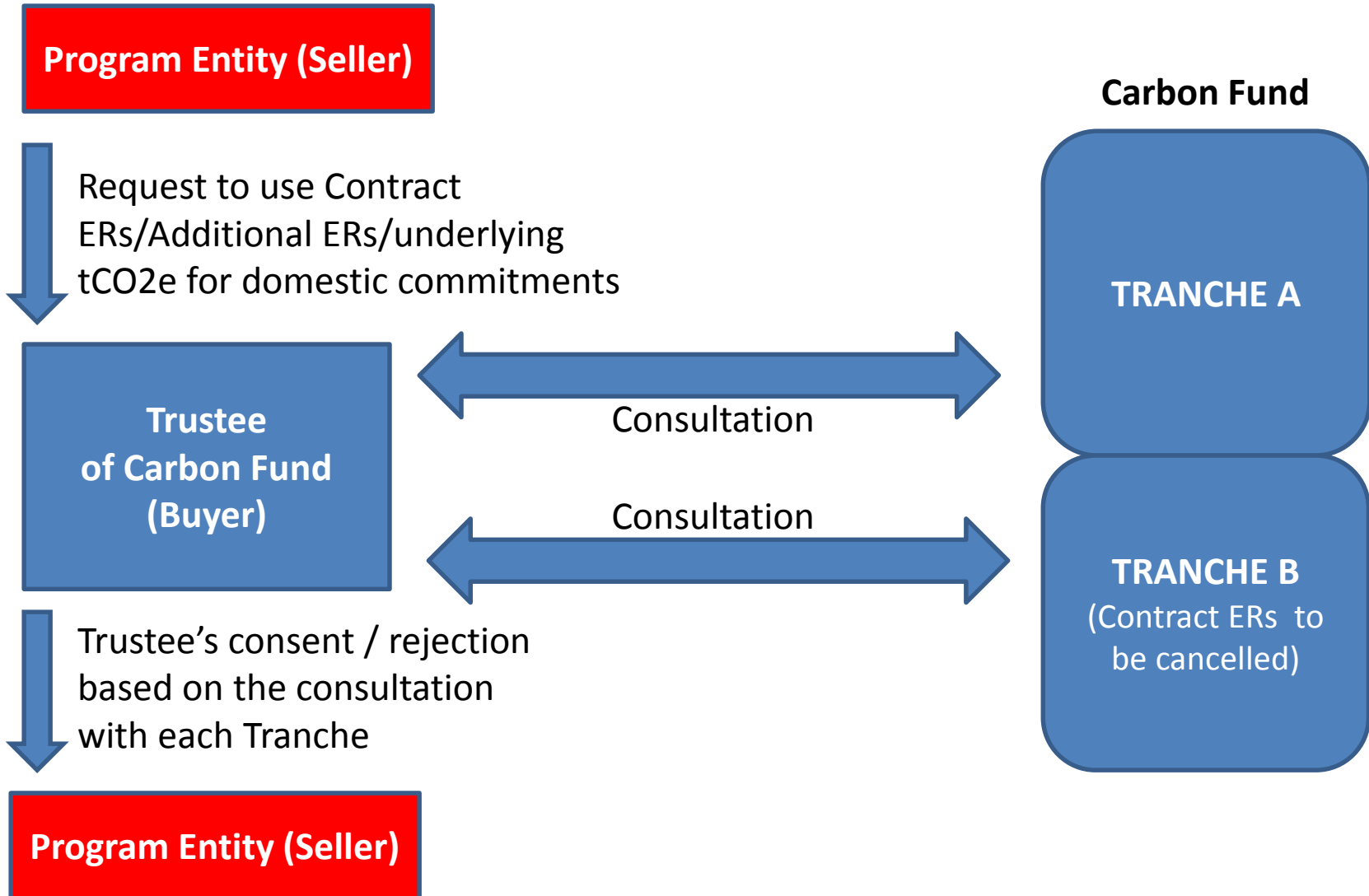
- No sale
- No PR that implies ownership; otherwise ok
- No use of tCO2e for domestic commitments w/out Trustee consent

See next slide for  
further details



# ERPA General Conditions (3)

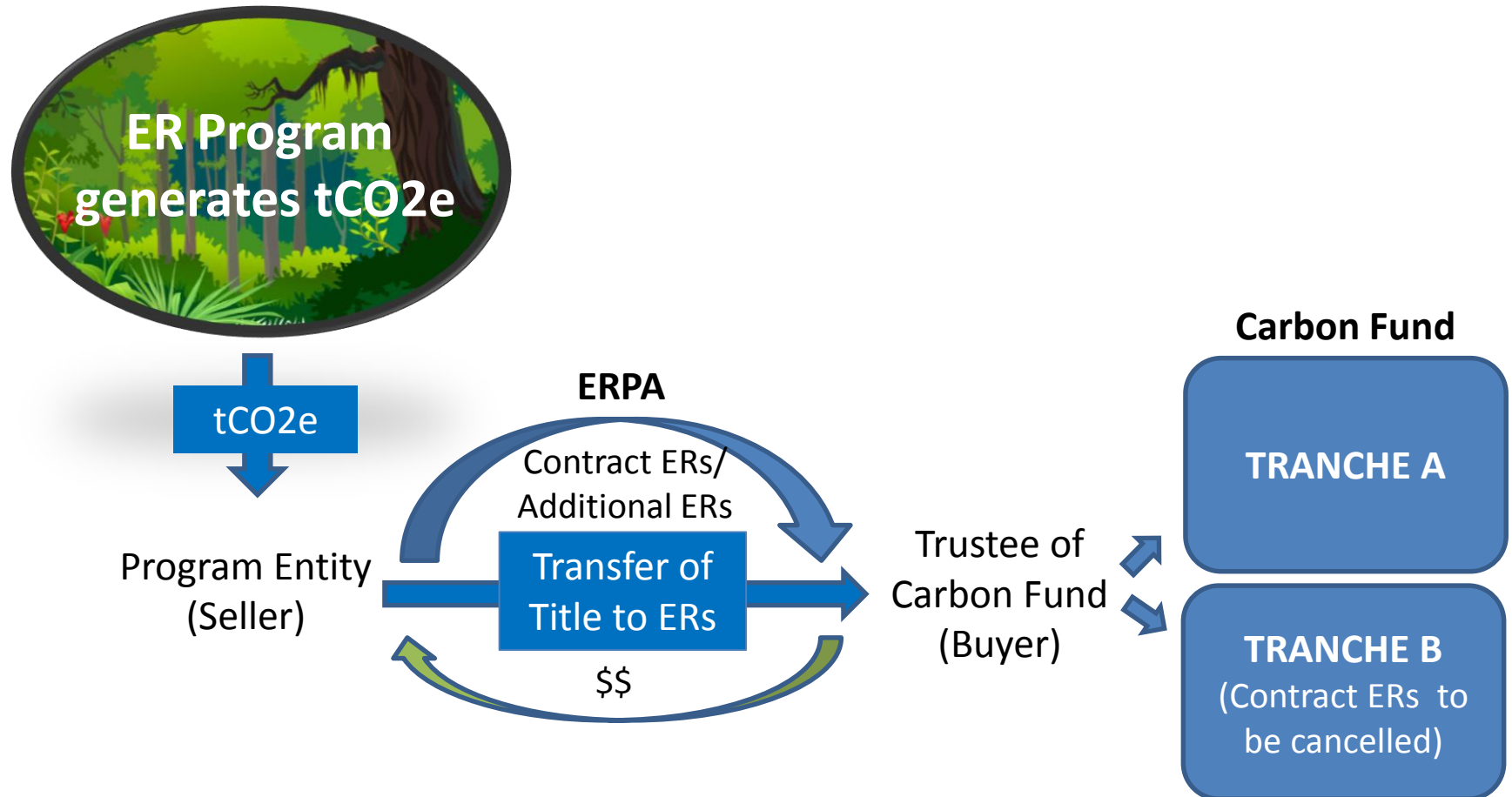
## - Process -



# Options

# Option 1

## - Deny Request -



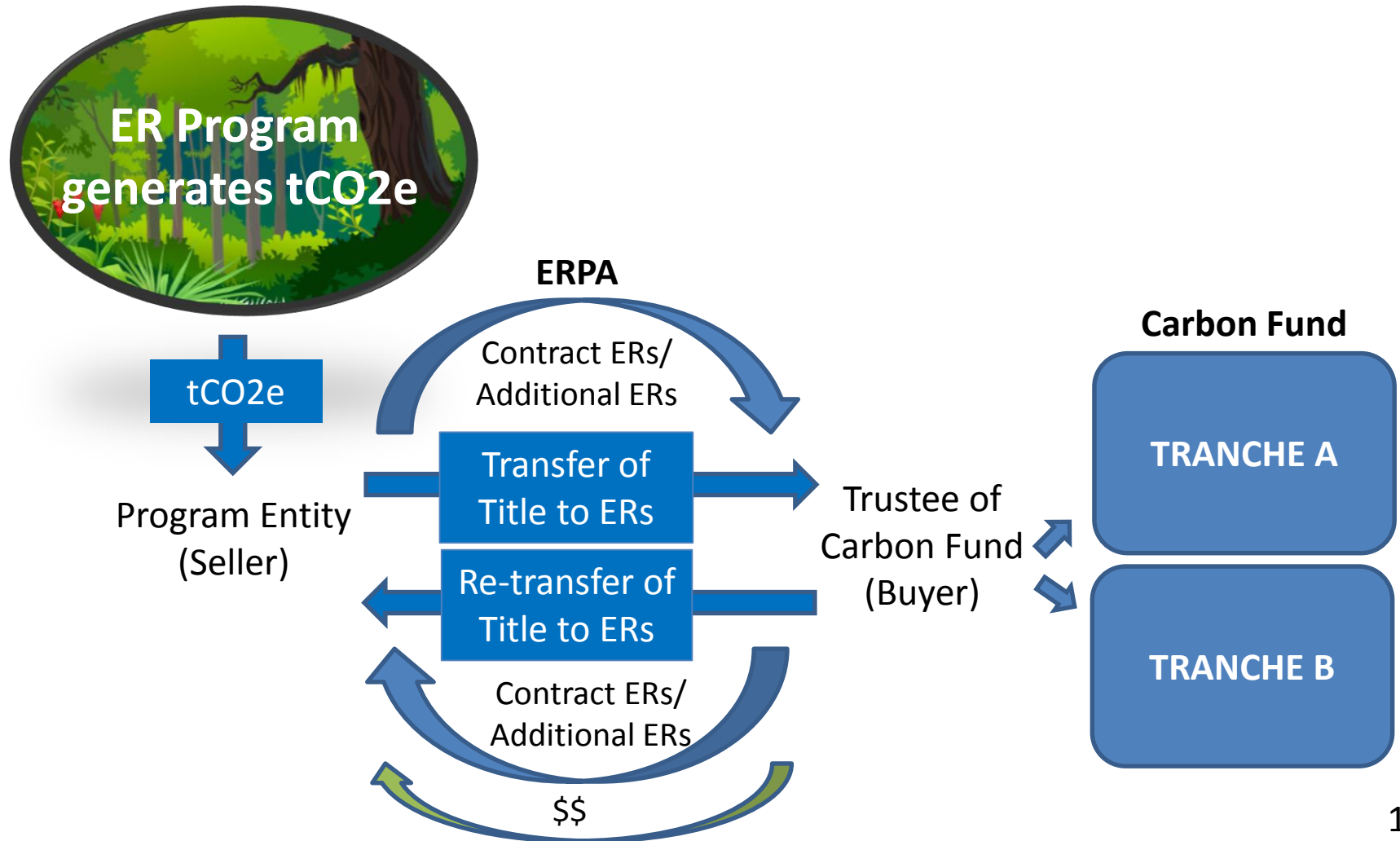
# Option 1

## - Implications -

- Contract ERs/Additional ERs would be **transferred** to Tranche A/Tranche B Participants as per current ERPA terms (and cancelled on behalf of Tranche B Participants) and **cannot be used by Program Entity/host country for NDC compliance purposes**
- Regarding Tranche B, this may lead to “**stranded**” Contract ERs/Additional ERs that can neither be used by Tranche B Participants nor by Program Entity/host country
- Host country **may not** be able to meet its **NDC commitments** (reputational risk)
- Program Entity may ...
  - not be willing to sign an Emission Reductions Payment Agreement (ERPA) at all,
  - be willing to sign an ERPA but on a *pari passu* basis (no seniority),
  - try to negotiate ERPA commercial terms that lead to a higher overall transaction value for Program Entity (e.g. higher price, advance payments, put options etc.)

# Option 2

## - Allow Request (with ER transfer & re-transfer) -



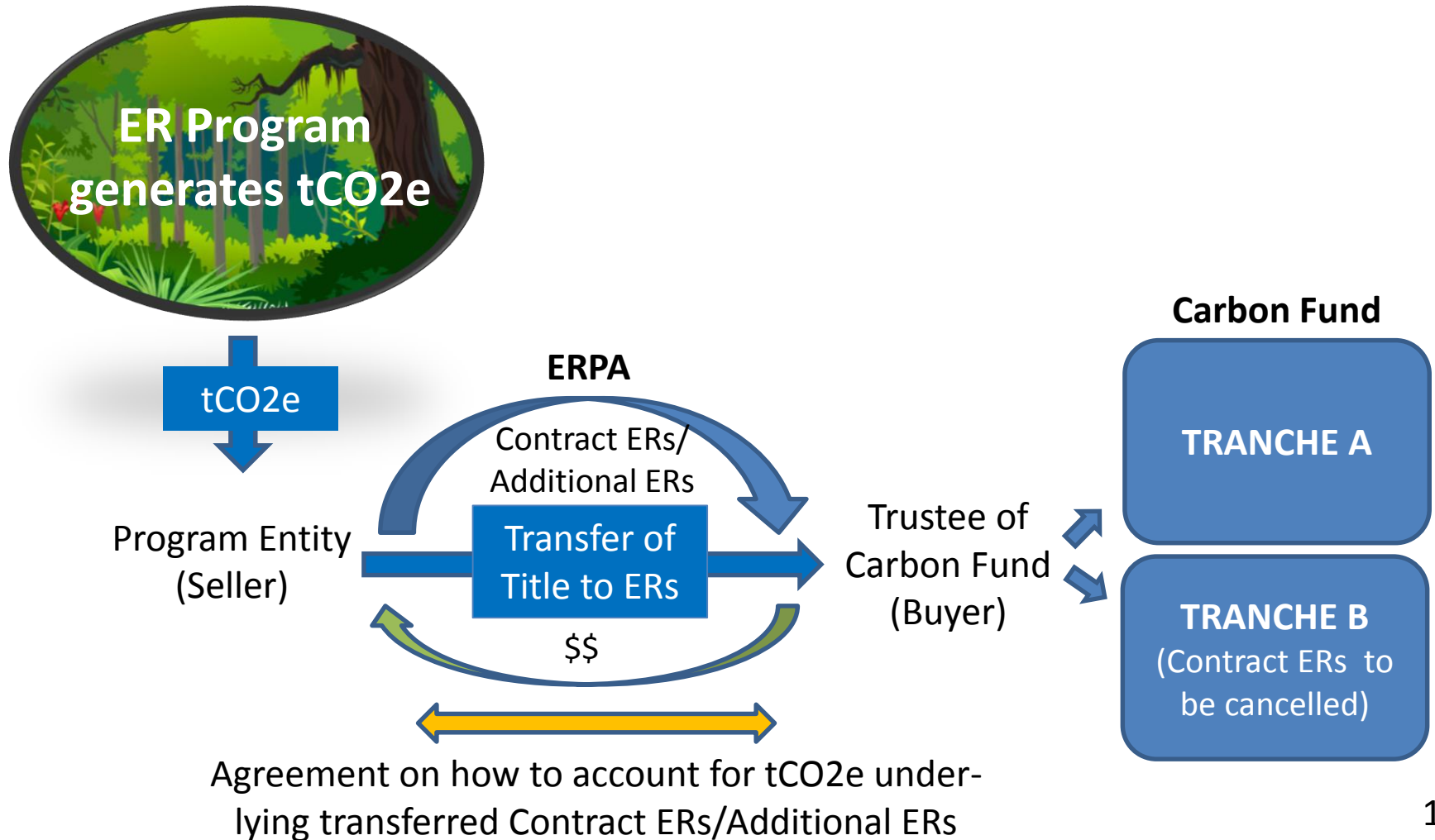
# Option 2

## - Implications -

- Contract ERs/Additional ERs would be **transferred** to Tranche A/Tranche B Participants (for a legal second) and **immediately be re-transferred** to Program Entity (to be specified in ERPA terms modifying ERPA GCs) to be **used by Program Entity/host country for NDC compliance purposes**
- Would meet Charter/MF requirements
- Tranche A/B Participants would need to **authorize the re-transfer** and **commit** that they will **not use or claim** such re-transferred ERs a second time (through **Resolution**)
- May **help** host country to meet its **NDC commitments**
- Tranche A/B Participants may ...
  - try to negotiate more favorable ERPA commercial terms to balance out added value for Program Entity (e.g. lower price, no advance payments, call options, cost recovery discount etc.)

# Option 3

## - Allow Request (with ER transfer & agreement on accounting) -



# Option 3

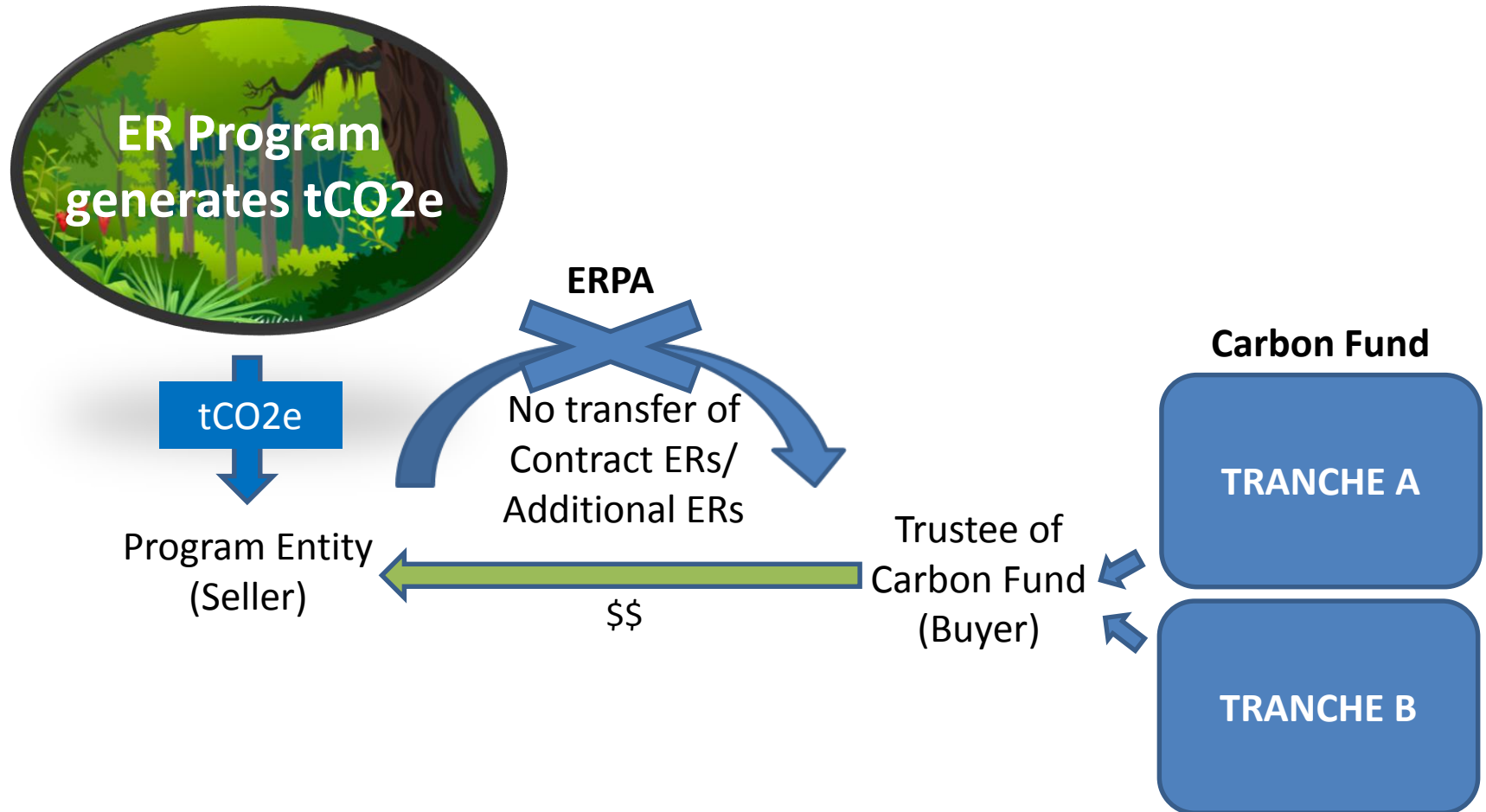
## - Implications -

- Contract ERs/Additional ERs would be **transferred** to Tranche A/Tranche B Participants as per current ERPA terms (and cancelled on behalf of Tranche B Participants), but Trustee and Program Entity **agree** that **Program Entity/host country may account for underlying tCO<sub>2</sub>e for NDC compliance purposes**
- **Not clear** whether Paris Agreement will allow for separate treatment of ERs and underlying tCO<sub>2</sub>e for accounting purposes
- Would meet Charter/ERPA GCs/MF requirements
- Tranche A/B Participants would need to **authorize the accounting agreement** and **commit** that they will **not use, claim or account** for such ERs (through **Resolution**)
- May **help** host country to meet its **NDC commitments**
- Tranche A/B Participants may ...
  - try to negotiate more favorable ERPA commercial terms to balance out added value for Program Entity (e.g. lower price, no advance payments, call options, cost recovery discount etc.)



# Option 4

- Allow Request (without ER transfer) -



# Option 4

## - Implications -

- Contract ERs/Additional ERs would **not be transferred** to Tranche A/Tranche B Participants (to be specified in ERPA terms) and can be **used by Program Entity/host country for NDC compliance**
- Would require **amendment to Charter, significant modifications to GCs through ERPAs** and, potentially, **amendment to MF and the Participation Agreements**
- Tranche A/B Participants may need to **authorize the lack of ER transfer requirement** (through **Resolution**)
- May fail to pilot potential market-based mechanism
- May help host country to meet its **NDCs**
- Tranche A/B Participants may ...
  - try to negotiate more favorable ERPA commercial terms to balance out added value for Program Entity (e.g. lower price, no advance payments, call options, cost recovery discount etc.)

# Discussion

- What option seems preferable to Tranche A/Tranche B Participants?
- Is there a different preference between Tranche A and Tranche B?
- Can the selected options differ between the Tranche A ERPA and the Tranche B ERPA?
  - E.g. if Tranche A selects Option 1 (Deny Request) and Tranche B selects Option 2 (Allow Request) how can CFPs ensure that both Tranches are in a position to sign an ERPA?
- Should the options be assessed and selected on a case by case basis or once for the entire portfolio of each Tranche?

A photograph of a field of small blue flowers, possibly cornflowers, in the foreground. The background is a blurred forest of tall, thin trees. The text "THANK YOU" is centered in the middle of the image in a white, sans-serif font.

THANK YOU