DOMESTIC CARBON OFFSETTING STANDARDS AND THE INTERNATIONAL AND INSTITUTIONAL EXPERIENCE

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Industrial Policy in an era of global structural change: Implications for Southern Africa

Introduction

- **The voluntary carbon market has seen remarkable growth over the last few years**, with estimates that it may grow to upwards of $50 billion by 2030. It is thus essential that measures are put into place to ensure the integrity of carbon offsets and that the **local economy derives maximum economic benefit.**
- Additionality, permanence, avoiding over estimation and eliminating double counting must be in place for assessing high-quality credits. Most carbon offsets today also come with an additional **sustainable development requirement**, which is particularly relevant in South Africa - with the need for positive socioeconomic impacts to support the Just Transition.
- Concerns when it comes to the quality and integrity of the claims behind carbon offsets
- Nascent **carbon market structures** and **the rigour of carbon standards applied** in registering carbon offsets are important.

Objectives

- This research sought to provide an overview of national and international policy regulations and instruments that directly impact carbon reduction measures in South Africa, as well as carbon offset standards (local or international) that impacts carbon reduction measures in South Africa.
- It then looked at best practise internationally and institutionally.
- **The following key points were discussed:**
  - ✓ ***The potential implications of the current regulatory framework.*** *This includes the Carbon Tax Regime, South Africa's Nationally Determined Contribution (NDC) targets and any other relevant legislature or existing commitments that has been signed by the government.*
  - ✓ ***The roles and contributions of South Africa's official standards and accreditation authorities*** *in the implementation of this framework?*
  - ✓ ***What can South Africa learn from international legislation, the use of carbon standards elsewhere, and carbon offsetting best practice in general?***
  - ✓ ***Are local carbon standards fit for purpose?*** *To what extent is the proposed framework by the DMRE effective, efficient, and responsive to the South African context, and how should the framework be supported?*

Review of local and international use of private standards

The analysis of private local and international standards was undertaken to assess the potential, or real impact they are having on South Africa's nascent carbon reduction efforts.

In so doing, ten common insights were identified and listed.

10 insights

1. Trust and integrity of the standard

2. A sound **governance** structure and governing body

3. Projects to be **tracked** on a registry system

4. Experienced standard **subcommittees**

5. Auditors are independent third-party bodies

6. Regular **stakeholder engagement**

7. Focus on local projects and the **development gains** i.e., co-benefits (see CNG and Credible Carbon for the South African context)

8. Linkages with the global carbon market (see the BCR and VCS)

9. Project **legitimacy**

10. Evidence of preparation with regard to **Article 6** and alignment with the Paris Agreement.

Review of national and policy, regulations, instruments, and commitments

- Mapping out the relevant stakeholders focussing on their roles and responsibilities regarding the implementation of a local carbon offset standard (within a local carbon market)
- Assessment of policy regulations and instruments that have a direct impact on carbon reduction measures in South Africa
  - *SA carbon tax; Barriers associated with international standards; South Africa's NDC targets; The PCCs work on the JT framework and the country's JET IP; Finance agreements and discussions at COP27, 2022 and Article 6; National Standards (ISO16064-2; ISO16064-3; ISO16065)*

Stakeholder	Roles and objectives
National Treasury	• Credibility of a domestic carbon offsetting standard in the context of the South African carbon tax.
DFFE	• Alignment of carbon offsets towards meeting NDC targets • Article 6 of the Paris Agreement
PCC	• Presidential commitment and policy guidance • Aligning with the NDC target set by the DFFE and approved by cabinet
DMRE	• DNA within the domestic carbon offsetting programme • Extent to which draft framework on the South African carbon offsets programme and domestic standards is used
The dtic (and its entities SABS and SANAS)	• Accreditation • Players in the development, promotion. and implementation of the national standards (and conformity assessment accreditations) • Ensure national standards drive competition in the local carbon market
Provincial and local governments	• May have own preferences, but must ultimately align with minimum national target • Ensure no spread of cheap quality credits • Promote project development that reduces carbon, creates jobs, and creates economic activity
Private sector	• Stand to gain credibility in the local market • Barriers to entry (costs)

A high-level review of international carbon offsetting legislation, and benchmarking exercise

- **A survey of eight countries determined that no single approach, or best-practice, dominates domestic carbon offsetting programmes.** It is therefore more useful to assess each country in greater detail rather than undertake a more traditional benchmark analysis, which would provide limited benefit.
- The countries selected were Australia, Japan, South Korea, Colombia, USA (California), Canada, Kazakhstan, and China – all evolving differently.

** C*hosen based on the Emissions Trading Worldwide: 2022 ICAP Status Report)*

10 take home points

1. **Coordination** and clearly defined governance structures and hierarchies
2. **Co-design** and/or the use of independent teams for the generation of methodologies
3. Carbon offset standards are **scrutinized**
4. **Active involvement** in methodology construction and continuous **innovation**
5. **Independent assessment bodies**/member-based advisories/inspection bodies/structures within the overall carbon offset standard
6. **Drawing on the experience** of established international carbon standards
7. The recognition of carbon offsets generated by international carbon standards
8. The importance of **safeguards and oversight** in terms of the relationship to a carbon tax
9. Clarity on how **private registries will co-exist**
10. A **phased implementation** approach

Concluding Remarks

- The carbon market is a nascent industry that is gaining significant attention. It represents a multimillion-rand industry and has the potential to play a crucial role in addressing climate change. However, the current state of the carbon market is **characterised by several challenges that need to be addressed for its long-term success**
- **It is therefore imperative that the DMRE framework is signed so that the potential of a local carbon market can be fully realised**
- **The delays in the framework being signed represent a barrier as** small projects are not able to come online and issue carbon offsets that are compliant with the Carbon Tax Act (unless they use international standards and auditors which are prohibitively expensive and may not cater for their needs)
- Moreover, if these projects were to use international standards, then if and when the framework is signed, they would have no need to go through the local processes - including auditors being verified by SANAS. *Local investors are therefore disincentivised in investing in these types of projects and the projects and their co-benefits cannot be realised.*

Concluding Remarks cont.

- Additional delays in the signing of the framework **means risking the price of compliant carbon offsets being too expensive**, as projects are forced to use international standards if they want to be able to produce Carbon Tax compliant offsets.
- This creates a disincentive for large polluters who would then rather pay their Carbon Tax burden if the offsets were to be more expensive. This money is paid as tax instead of being **channelled towards carbon offsetting projects that work towards creating a lower-carbon economy with economic growth and socioeconomic benefits.**
- The process of quantifying and verifying carbon emissions reductions or removals can be complex and susceptible to manipulation or inaccuracies. This creates a lack of trust among participants, investors, and regulators, hindering the market's growth and effectiveness. To ensure the credibility of the carbon market, **robust carbon standards need to be established.** *These includes clear methodologies for measuring emissions reductions, reliable verification processes, and comprehensive reporting requirements. Transparency in trading practices and the disclosure of information about carbon projects are also essential to build trust and prevent fraudulent activities.*

Concluding Remarks cont.

- **As the carbon market evolves, winners and losers are likely to emerge.** Some participants, such as companies with existing low-carbon practices or access to renewable energy sources, may find it easier to generate and sell carbon offsets, resulting in financial gains. On the other hand, the energy-intensive nature of the South African economy means that many industries are heavily dependent on fossil fuels or have high emissions - these industries may face financial losses as they will need to invest in emissions reductions or purchase carbon offsets to comply with regulations.
- The design and implementation of the mandatory carbon market and, such as cap-and-trade systems or carbon taxes, can significantly impact the market's dynamics. The effectiveness and fairness of these policies will determine the winners and losers within the carbon market.
- While the carbon market holds immense potential for mitigating climate change, its current state is characterized by uncertainty and lack of transparency**. Addressing these challenges and establishing credibility within the market will be crucial for its successful development** and ensuring that it contributes effectively to global emissions reduction goals.
- **Careful consideration should be given to collaborative governance, partnerships, and securing funding to ensure successful implementation.**

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