Crediting mechanisms beyond 2020

Partnership for Market Readiness

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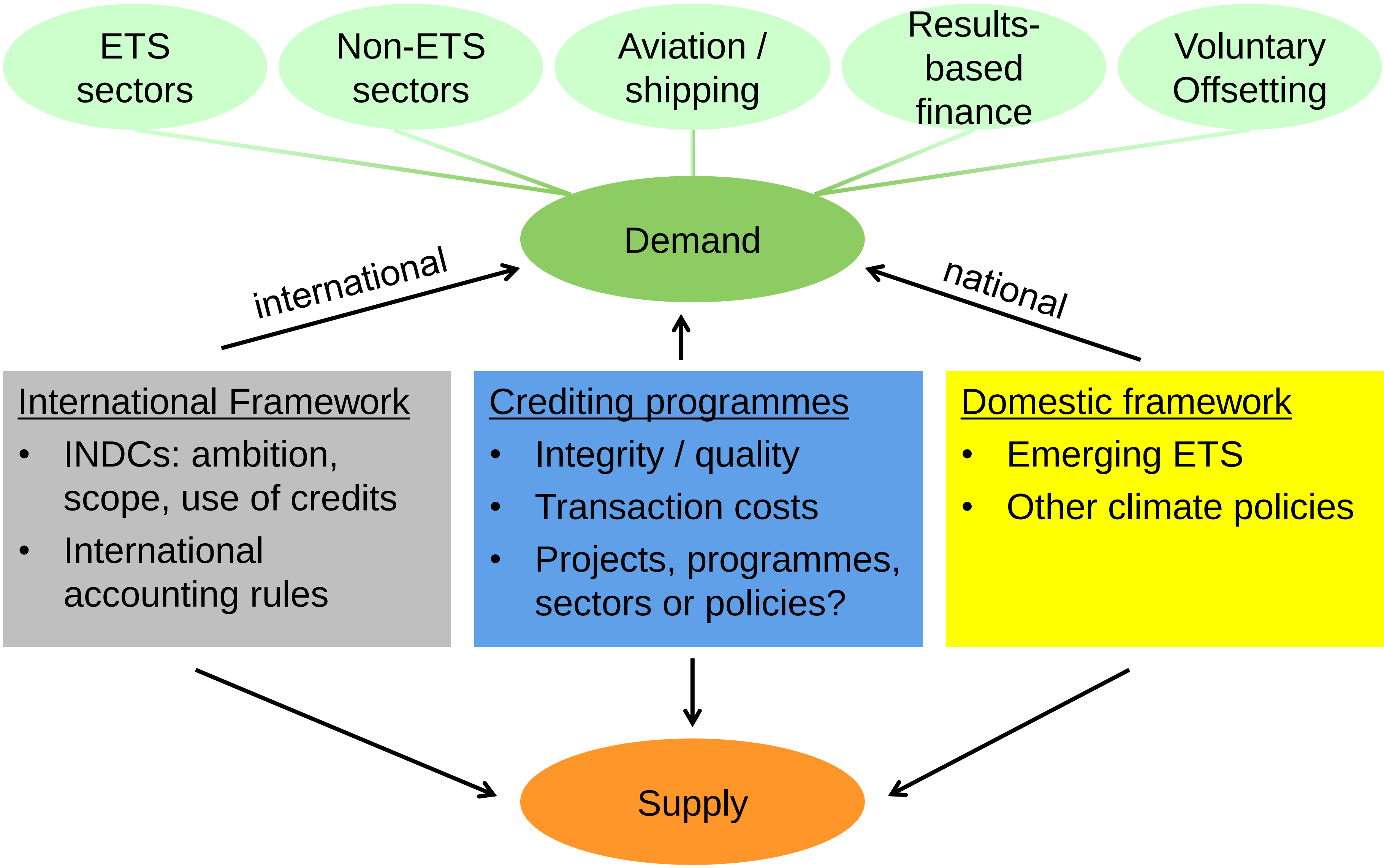
Key factors impacting the role of crediting



Crediting programmes: lessons learned

- **Benefits:**
  - Identification of untapped mitigation opportunities
  - Lower GHG abatement costs
  - Tool for climate finance & technology transfer
  - Co-benefits for sustainable development
  - Capacity building & awareness raising
  - International cooperation
- **Challenges:**
  - Integrity: Additionality, baselines, perverse incentives, overlap with other policies, information asymmetry
  - Transaction costs
  - Adverse impacts: social & environmental safeguards
  - Reaching dispersed sectors and less developed countries

Crediting programmes: at what level?

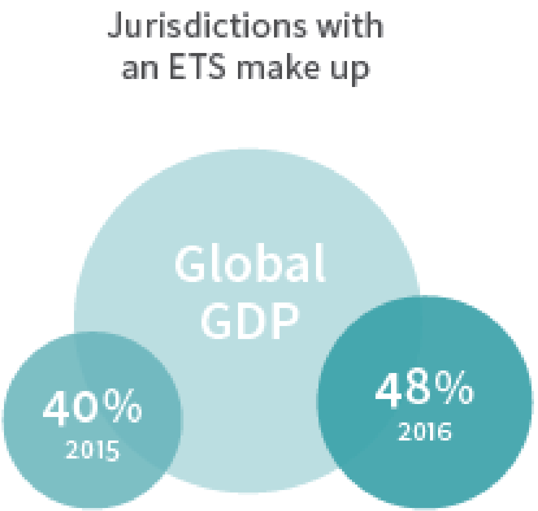
- **Projects / Programmes**
  - \+ Proven concept
  - \+ Direct incentive and price signal for GHG emitters
- **Sectors**
  - – Difficult to set price signal / incentives for GHG emitters
  - \+ Large-scale reductions
- **Policies (e.g. NAMAs)**
  - – Additionality of policy decisions?
  - – Quantifying emission impacts could be challenging
  - \+ Large-scale reductions

Demand for credits

- **International demand by countries**
  - EU, US: Focus on domestic reductions
  - Switzerland, Norway: Significant use of crediting
- **Compliance with ETS**
  - Focus on domestic credits (US, China, South Korea)
- **Compliance with carbon taxes**
  - Mexico, South Africa, others
- **Results-based finance**
  - Pilot Auctioning Facility (PAF)
  - Climate Initiative for Development (Ci-Dev)
  - Green Climate Fund?
- **Mechanisms for aviation and maritime emissions**
- **Voluntary offsetting**

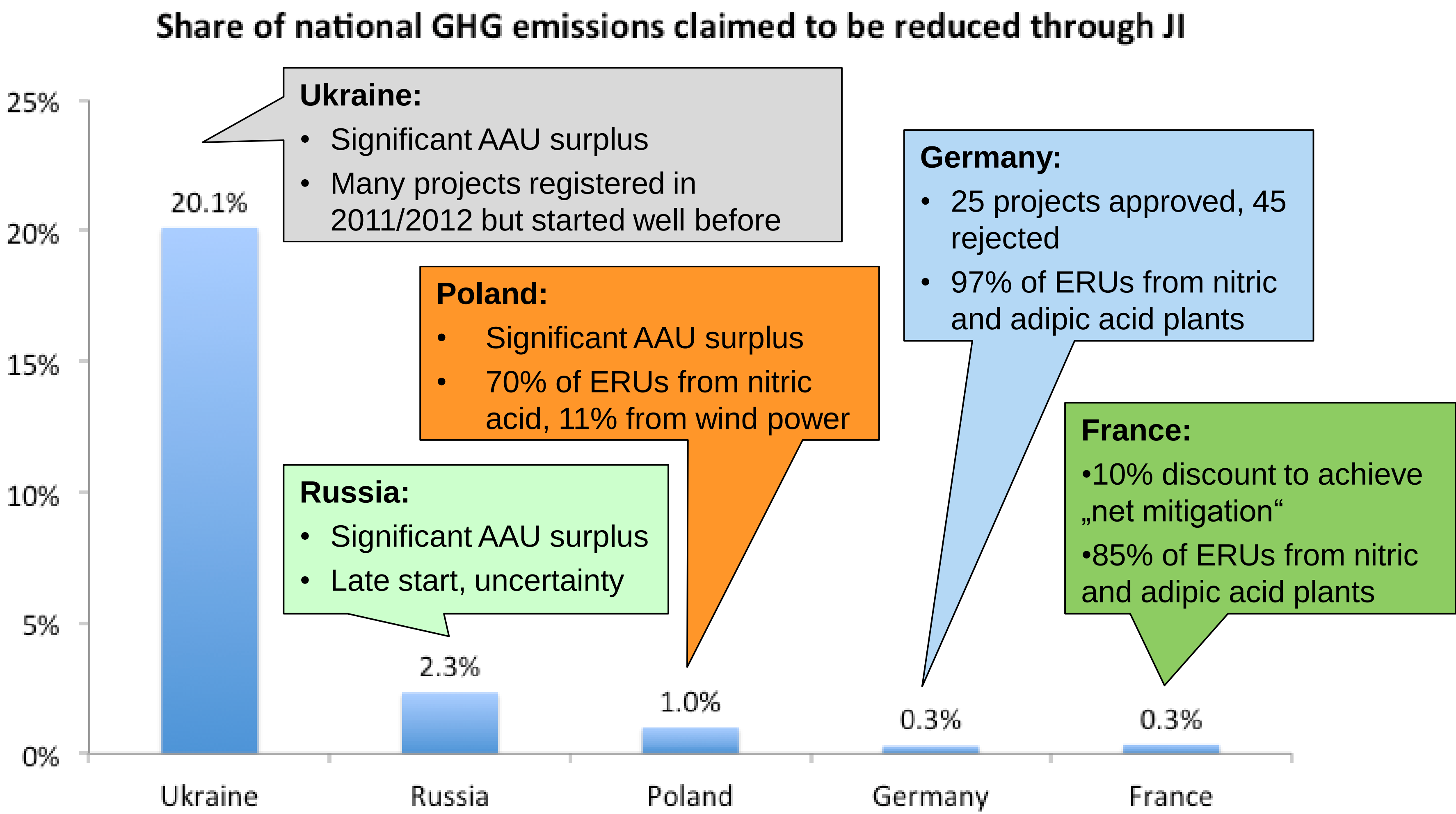
Domestic framework

- **Increasing proportion of emissions covered by ETS**
  - Less potential for supply
  - Possibly more demand
- **Large proportion of emissions could fall within scope of INDCs**
  - Double counting risks
  - CDM type => JI type mechanisms?
  - Incentives for countries to ensure integrity under ambitious INDCs
- **Other policies may address the same emissions (feed-in tariffs)**



Source: ICAP

Domestic crediting: experience from JI



Intl framework for crediting beyond 2020

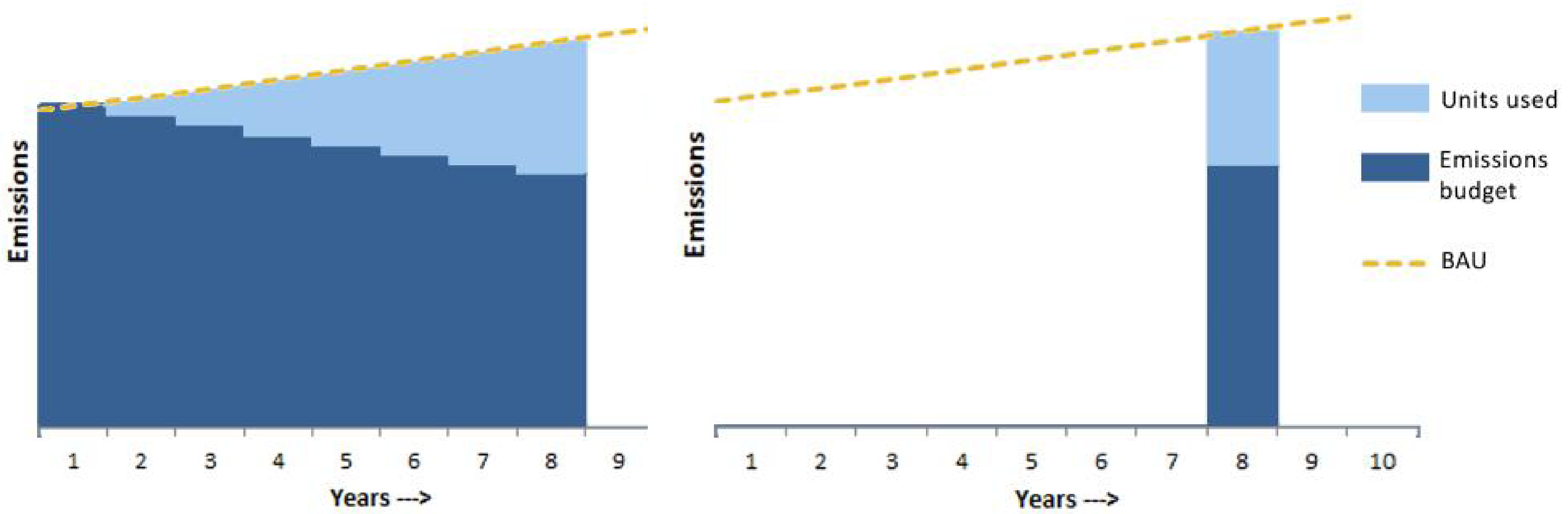
		<u>Within</u> the scope of ~~Kyoto targets~~ INDCs	<u>Outside</u> the scope of ~~Kyoto targets~~ INDCs
Compliance market	International unit transfer	JI JCM/BOCM (Japan)? NMM?	CDM JCM/BOCM (Japan)? NMM?
	Domestic use of units	JI CAR (California) CCERs (China)? CDM, VCS, GS CCBA (South Africa)?	CCERs (China)? CDM, VCS, GS CCBA (South Africa)?
Voluntary market		VCS? GS VERs?	VCS GS VERs

Accounting challenges for post-2020 crediting (1)

- **Risk of double counting of emission reductions by:**
  - Host country in achieving its INDC
  - User of the credit
- **Consequences of not preventing double counting:**
  - Disincentive to use international carbon markets
  - Comparability of pledges
  - Credibility of the climate regime
  - Increased global GHG emissions <u>and</u> abatement costs
- **Diversity of INDCs pose challenges for identifying and preventing double counting**
  - Economy-wide / sectoral
  - Other metrics than GHG emission budgets

Accounting challenges for post-2020 crediting (2)

- **Conditionality of INDCs**
  – Purchasing and using credits by industrialized countries does not support developing countries if double counting should be avoided
- **Single-year targets not compatible with unit transfer**



A possible post-2020 crediting world (1)

- **A fragmented market**
  - Several crediting mechanisms
  - Several demand sources with own restrictions / priorities
- **Increasing role of ETS**
  - Large coverage
  - Less uncertainty surrounding emission reductions
  - Over-allocation serious risk
- **80% of global emissions within scope of INDCs?**
  - International transfers mostly “trading” – not crediting
  - Domestic crediting gaining importance, but limited supply

A possible post-2020 crediting world (2)

- **International crediting limited and depending on:**
  - Political willingness of buyers
  - Buyer INDCs expressed as multi-year emission budgets
  - International accounting rules
  - Integrity and transaction costs of crediting mechanisms
- **Results-based finance important tool**
  - Promising to support developing countries in their INDCs
  - No double counting risks as units are cancelled
  - Less concerns surrounding additionality, baselines, etc
- **Other demand sources**
  - International aviation / shipping
  - Voluntary offsetting

A long-term vision on intl carbon markets

- **A comprehensive UNFCCC accounting framework for international transfer of mitigation outcomes**
  - Transferring mitigation outcomes within the scope of INDCs
  - International oversight on using credits from mitigation outcomes outside the scope of INDCs
- **A UN mechanism for crediting emission reductions**
  - International / domestic crediting, results-based finance
- **ETS / carbon taxes main carbon pricing instruments**
- **Support to developing countries through**
  - Using tax / auctioning revenues for (results-based) finance
  - Net financial flows through international linking of ETS
  - Crediting mainly in countries / sectors without INDCs

Thank you for your attention!

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