Crediting mechanisms beyond 2020

Partnership for Market Readiness

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Key factors impacting the role of crediting

**International Framework**
- INDCs: ambition, scope, use of credits
- International accounting rules

**Domestic framework**
- Emerging ETS
- Other climate policies

**Crediting programmes**
- Integrity / quality
- Transaction costs
- Projects, programmes, sectors or policies?

**Demand**
- ETS sectors
- Non-ETS sectors
- Aviation / shipping
- Results-based finance
- Voluntary Offsetting

**Supply**
- International
- National
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)
Domestic crediting: experience from JI

**Ukraine:**
- Significant AAU surplus
- Many projects registered in 2011/2012 but started well before

**Poland:**
- Significant AAU surplus
- 70% of ERUs from nitric acid, 11% from wind power

**Russia:**
- Significant AAU surplus
- Late start, uncertainty

**Germany:**
- 25 projects approved, 45 rejected
- 97% of ERUs from nitric and adipic acid plants

**France:**
- 10% discount to achieve „net mitigation“
- 85% of ERUs from nitric and adipic acid plants

**Share of national GHG emissions claimed to be reduced through JI**
## Intl framework for crediting beyond 2020

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