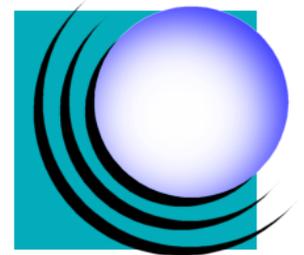


# SCALED-UP CREDITING MECHANISMS: Key Features and Issues

**Insights from a review of existing and  
proposed crediting mechanisms**

Presentation at  
**PMR Technical Workshop**  
**Istanbul, Turkey**  
26 October 2011  
**by Murray Ward**



***GtripleC***  
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# Framing the discussion

## ❖ **Market mechanisms**

- in regulatory settings (so established by explicit public sector design and decisions)
- in service of climate change mitigation (“carbon”)

## ❖ **Crediting market mechanisms**

## ❖ **Scaled-up crediting mechanisms**

## ❖ **Drawing experience and insights from**

- project-based mechanisms
- in regulatory and voluntary markets

# Context

- ❖ **“New market mechanisms” is something under discussion in UNFCCC negotiations**
  - But still a range of views and no decisions yet
  - And this workshop not about the negotiations
- ❖ The topic **“scaled-up crediting mechanisms”** may have application in either international or domestic policy frameworks .... or both
- ❖ Therefore, a generic apolitical treatment of the issues
  - Drawing from literature and submissions by parties and expert groups
  - Observations from two decades of experience

# Why Crediting Market Mechanisms?

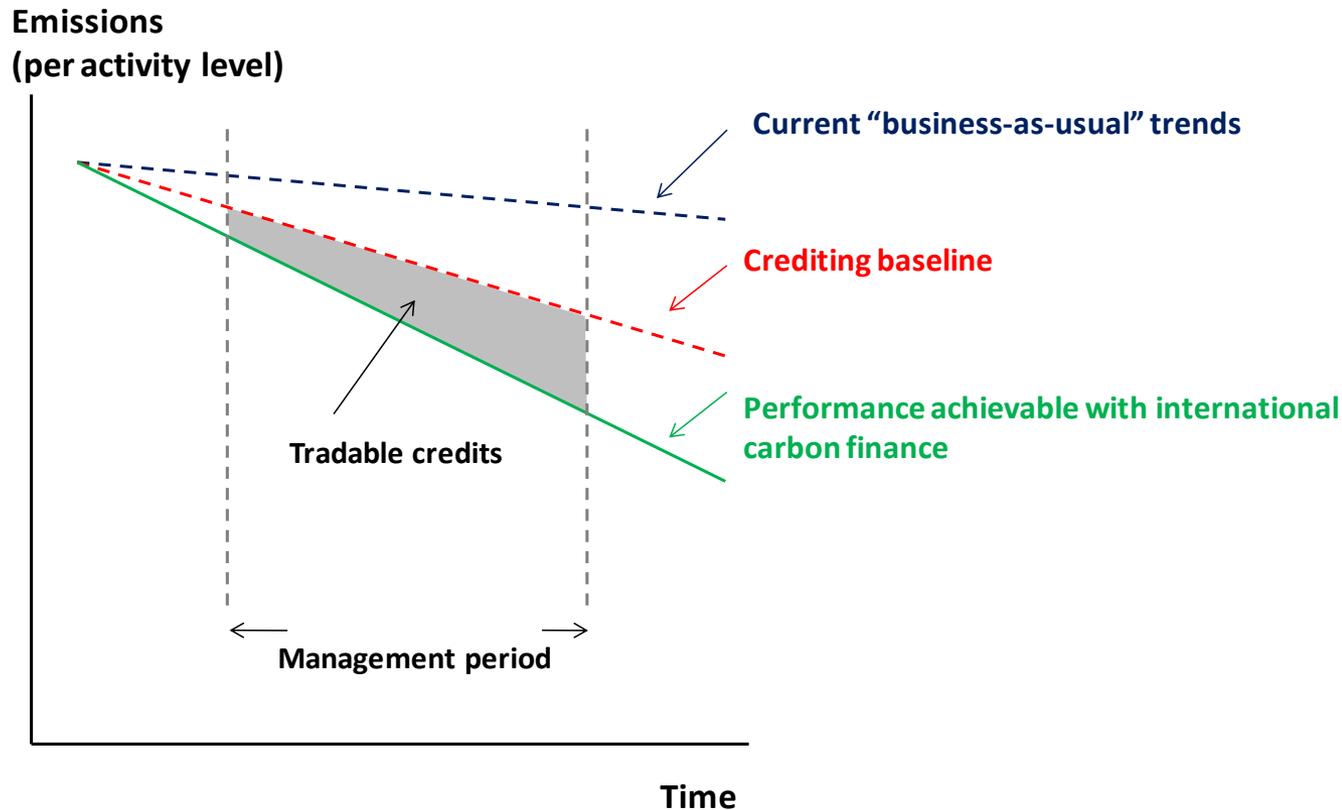
- ❖ (On the supply side) draw in opportunities for cost effective mitigation from beyond the boundaries of those facing regulation (the demand side)
  - and beyond the detailed knowledge and/or ‘current interest’ of the regulators
- ❖ Engage a “broad church” of technology, business and finance/investment practitioners, e.g. involved in
  - 6930 CDM projects
  - 478 JI Projects

*(Source of project numbers: UNEP Risoe CDM/JI Pipeline, October 1<sup>st</sup> 2011)*

# A caveat on environmental outcomes

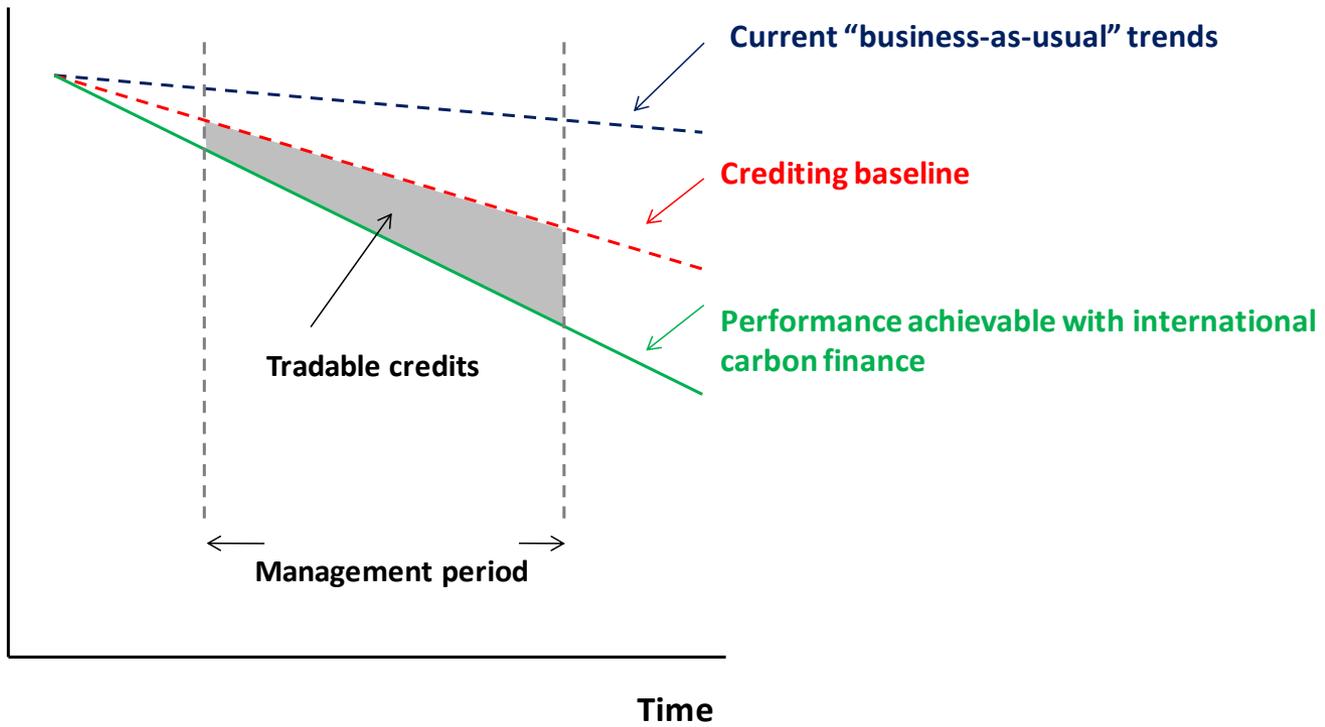
- ❖ In the first instance, it is the regulatory settings on the **demand side** that establish the environmental outcomes
- ❖ On the **supply side**:
  - Credits are used to allow emissions elsewhere, so these mitigation outcomes are “zero sum”
  - But outcomes prior to the “crediting threshold” count
  - And, over time, as economies of scale are achieved and technology costs come down, the mitigation opportunities may no longer need the finance from credits to be commercially viable – a point that can be determined through periodic reviews

# National and International settings

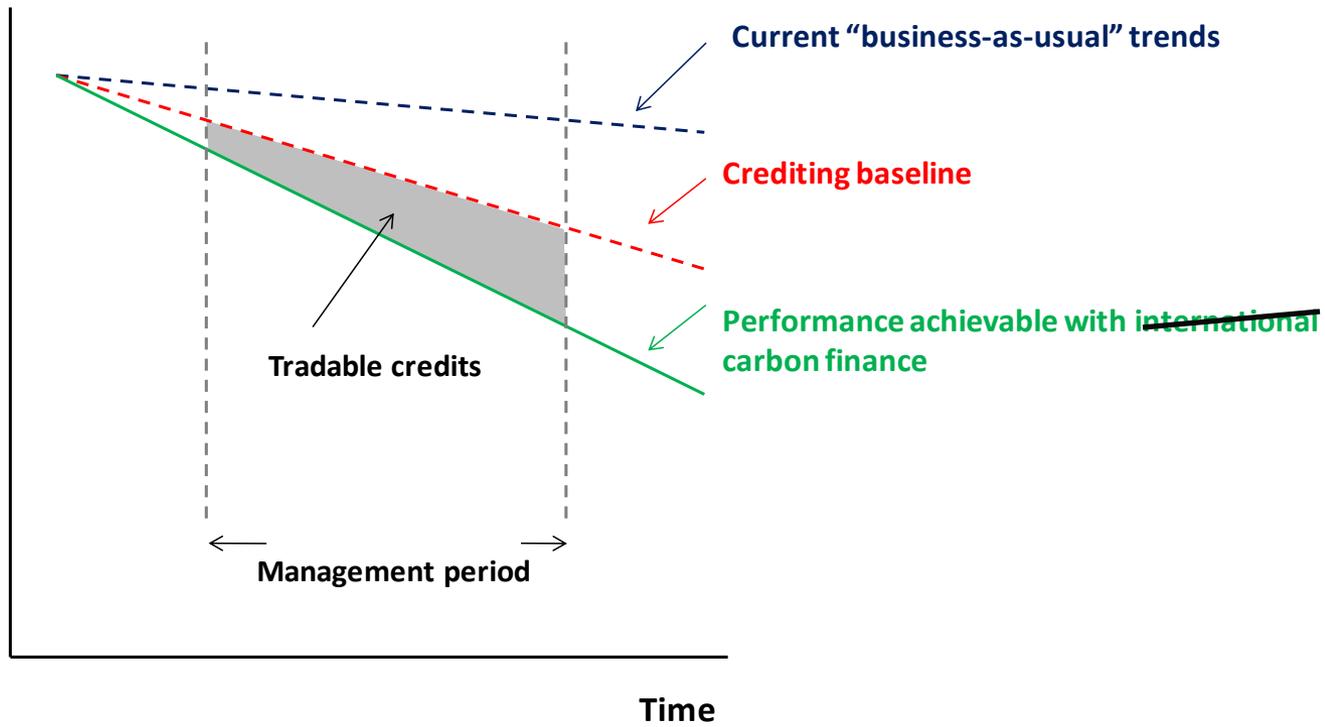


- ❖ This could be a generic depiction for:
  - an international or a domestic scaled-up mechanism
  - or both (e.g. domestic 'nested' inside international)

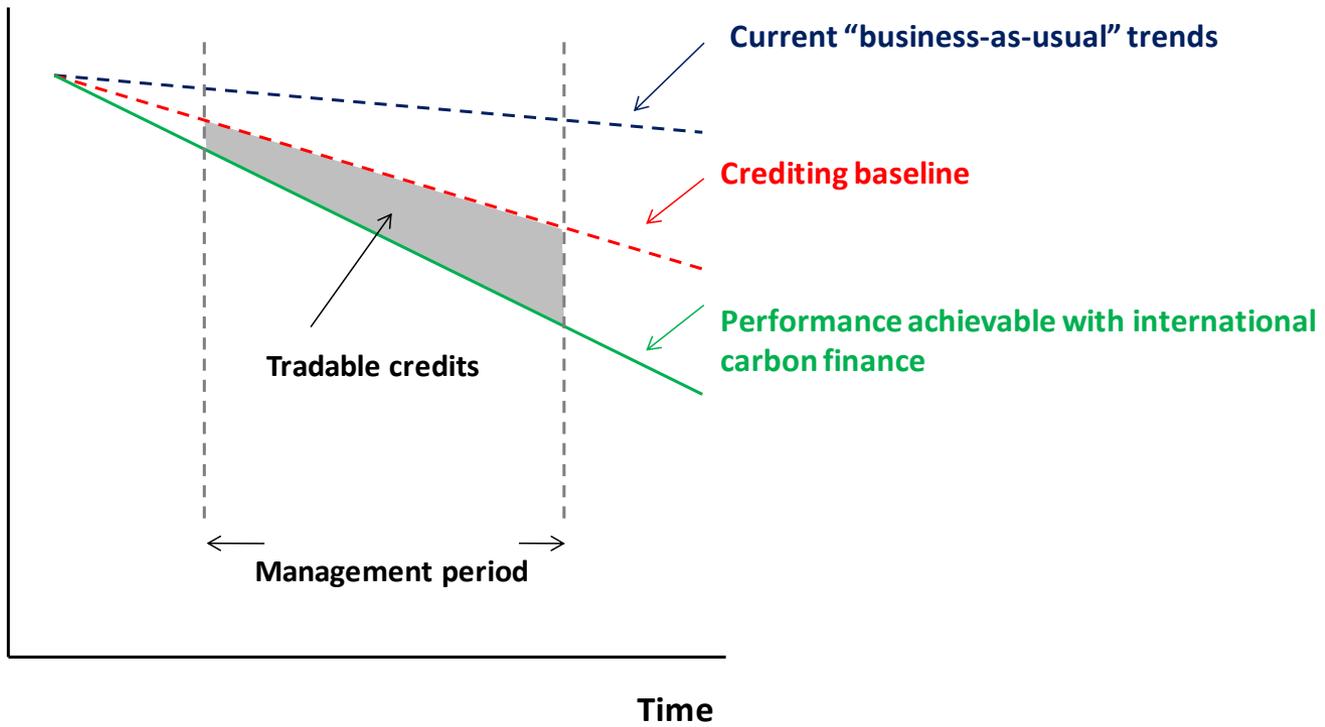
**Emissions  
(per activity level)**

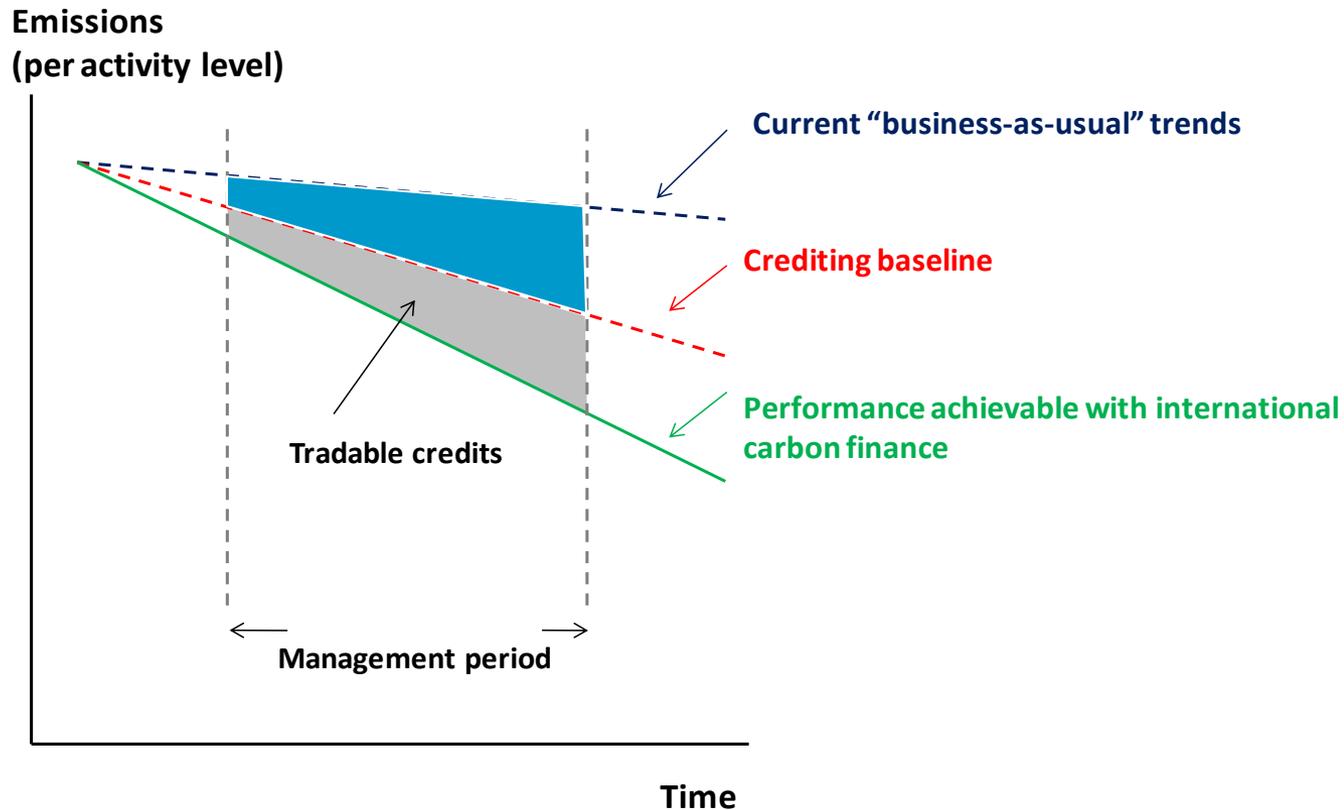


**Emissions  
(per activity level)**



**Emissions  
(per activity level)**





❖ Mitigation wedge  between “business-as-usual” and crediting baseline could include a portion of domestic only crediting mechanisms

# Participation - fundamentals

- ❖ For a market to operate (and be effective in meeting its objectives) must be demand and supply
- ❖ Price for the market commodity ('carbon') depends on the balance of demand and supply
- ❖ And for crediting mechanisms, also needs to be a scarcity of related 'variables' that cause demand in the first place
  - e.g. CERs have value in EU ETS because EUAs have value ... as long as there is a scarcity of EUAs compared with 'anyway' emissions of regulated entities

# Participants

Four main categories of participants

- ❖ **Market regulators**
- ❖ **Buyers** (demand side)
- ❖ **Sellers** (supply side)
- ❖ **Intermediaries**
  - Exchanges, Brokers
  - Carbon Funds, Banks
  - Registries
  - Lawyers, Insurers
  - Market information providers

# Coverage and boundaries (for the **supply** side of crediting mechanisms)

- ❖ What sources of emissions (and sequestration) are to be covered in the accounting system (including MRV)
- ❖ Setting clear boundaries key to “what will happen otherwise” story fundamental to setting baselines
- ❖ Some key issues:
  - Prospective new entrants and plant closures?
  - Treatment of any ongoing (or future?) CDM projects within the boundary

# Crediting Baselines (or Thresholds)

- ❖ A critical step affecting economic values (through scale of supply) and, potentially, environmental outcomes
- ❖ Two key categories of issues:
  - Institutional, including process
  - Technical, including financial
- ❖ Treatment of issues likely to be different depending on if international or domestic mechanisms
  - What are the effects of “getting the baseline wrong”?
    - noting that can’t know with certainty what is “right”

# Market integrity and credibility

- ❖ Rules are normally written from (or more from) a **demand** side perspective
  - For what sets the demand and what supply of credits are acceptable
- ❖ Rules (for crediting) then applied on the **supply** side
- ❖ Need a robust regulatory framework, giving regard to interests of both demand and supply side
- ❖ Professional service ‘intermediaries’ can play important roles

# Monitoring, Reporting and Verification

- ❖ MRV another critical element (like setting baselines) that affects economic values (through scale of supply) and, potentially, environmental outcomes
- ❖ MRV methodologies for scaled-up mechanisms may fall between ‘top-down’ national level inventory reporting and ‘bottom-up’ entity level MRV applicable for project mechanisms and corporate reporting
  - May need hybrids drawing from both

# Program authority and administration

- ❖ Connects with market integrity and credibility
- ❖ Rely on/build off existing institutions for CDM?
  - Noting differences in roles around baseline setting and MRV – and greater complexity and responsibilities
- ❖ What institutional and regulatory ‘readiness’ support needed?
- ❖ What implications on the demand side for international mechanisms? – given less international process c.f. CDM/JI (Track 2)

# Potential scaling-up modalities (c.f. existing project based mechanisms)

- ❖ Setting program boundaries at a
  - sectoral or subsectoral level
  - national or regional (or local) scale (also likely sectoral)
- ❖ Setting crediting baselines (or thresholds) appropriate for these boundaries including given other support measures
  - Use of performance benchmarks may help in some sector circumstances
- ❖ Developing appropriate MRV and credits registry systems

# Experience, insights and lessons from project based mechanisms

- ❖ CDM and JI (Track 2) – in addition to institutional:
  - Programmes of (project) activities (PoA)
  - Potential role of standardised baselines
- ❖ JI Track 1
  - Domestic processes for setting baselines and MRV
- ❖ VER Market
  - Simplified procedures
  - Treatment of land use and forestry
  - Ongoing methodological work on scaled-up approaches

# THANK YOU

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