ASSESSING AND MOBILIZING INTERNATIONAL AND DOMESTIC SOURCES OF DEMAND FOR SCALED-UP CREDITING-RELATED PROGRAMS

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Day 1: Session 3

Emerging drivers for international market development: main sources of demand, supply and finance

Barcelona, 22 May 2017
Overview

- Get2C and Carbon Counts developed with WB a Technical Note on “international and domestic sources of demand for scaled-up crediting programs”
- Technical Note inserted in a broader design of a *Crediting Guidance Document*

**Guidance Document**

Will provide practical guiding principles for the design & implementation of crediting instruments and programs

**Technical Note "#1"**

Assessing and mobilizing sources of demand

**Technical Note "#2"**

Baseline Setting in the context of broader policy development

- Provide an overview of the main existing and potential sources of demand (international and domestic level)
- Identify & develop the main issues that currently arise from the development both of new crediting protocols and new demand channels within a more fragmented carbon market architecture
Questions for this technical note

In the current context of the Paris Agreement:

- what drives (international and domestic) demand for carbon crediting?

- At what scale the “mitigation outcomes” of crediting-related programs can be generated effectively and efficiently in a prevailing domestic policy and economic context (scale of supply)?

- how to mobilise resources to ensure implementation?
The changing context
## Demand up to 2020

<table>
<thead>
<tr>
<th>Demand Source</th>
<th>Type</th>
<th>Examples of initiatives</th>
<th>Credit Type</th>
<th>Credit Demand till 2020 (Mt/year)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Compliance Schemes</td>
<td>ETS</td>
<td>EU-ETS (includes EU aviation), Kazakhstan, Switzerland</td>
<td>International credits (CER, ERUs...)</td>
<td>30 – 90</td>
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<tr>
<td></td>
<td></td>
<td>RGGI, WCI</td>
<td>Domestic based (e.g. Chinese CERs)</td>
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<td></td>
<td>China Pilot ETS Systems, South Korea etc</td>
<td>Voluntary (e.g. VERs, GS, CRTs)</td>
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<td></td>
<td>Carbon Tax</td>
<td>Mexico Carbon Tax</td>
<td>International credits (increasingly atomised by countries)</td>
<td>5 – 20</td>
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<td></td>
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<td>South Africa “tax and offset”</td>
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<tr>
<td>Governments</td>
<td></td>
<td>Kyoto Governments (using also climate finance facilities; e.g. NorCap)</td>
<td>International credits</td>
<td>30 – 50</td>
</tr>
<tr>
<td>Voluntary Schemes</td>
<td>Private Sector</td>
<td>General Motors, Walt Disney, Microsoft, Goldman Sachs, Danone, Easyjet, British Airways, QANTAS</td>
<td>VERs, CRTs, GS CERs, ROCs, EAOCs, etc</td>
<td>20 – 40</td>
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<td></td>
<td>Public Sector</td>
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<td>Individuals</td>
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<tr>
<td>Climate Finance</td>
<td>RBCF</td>
<td>WB PAF, CI-Dev</td>
<td>Mainly international credits (CERs)</td>
<td>10 – 20</td>
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<td>PBC Facility, TCAF...</td>
<td>Voluntary (VERs...)</td>
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</tbody>
</table>
## Pre – 2020, which factors have been driving the credit demand?

<table>
<thead>
<tr>
<th>Demand source</th>
<th>Key Drivers for Credit Demand</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Compliance schemes (ETS, Carbon Tax, Governments)</strong></td>
<td><strong>• Reduce cost of compliance for regulated entities (credit costs lower than allowances)</strong></td>
</tr>
<tr>
<td>Government / jurisdiction mandate in place which requires regulated entities to reduce their emission through different types of instruments</td>
<td></td>
</tr>
</tbody>
</table>
| **Voluntary schemes (Private Sector, Public Sector, Individuals)** | **• Corporate social responsibility (CSR)**  
**• Demonstrating climate leadership by entities involved**  
**• Enhance mitigation action in sectors not covered by mandates** |
| Corporations, governments and individuals seeking to offset their GHGs emissions. | |
| **Climate finance instruments** | **• Contribute to the development of, and innovation in, mitigation offsets**  
**• Contribute to overall mitigation** |
| Mainly Results-Based-Finance (RBCF) instruments through purchase of high quality emission reductions (output/performance oriented) | |

Note: The level of demand in the next three years is likely to be small compared to the overall overhang of some crediting protocols, most notably the Clean Development Mechanism.
Post-2020 credit demand drivers?

- Compliance cost (offset driven)
- Sustainable development
- Domestic priority
- Transformational scaled-up co-benefits
- Impact on NDC
How to define “transformational”?

• You’ll know it when you see it?

• Is it “large scale” or “large magnitude”?
• Is ”transformational” an “alternative scope”?
• Is “transformational” as “non-linear”?
• Is “transformational” as “behavioural change”? 
Scaling-up: what would be different?

Methodological issues

- Moving from project-level protocols to programme and policy protocols
- Quantification through economic modelling
- Need to develop models of causality

Additionality

- Policymaker vs project developer viewpoint
- Internalisation of crediting into policy “offsetting” only one possible use

Policy embedding

- Need to ensure coherence with existing policies
- Coherence with national commitments, especially NDCs
Determining scope for scaled-up crediting

• Identify abatement potential
  • Use of tools such as marginal abatement cost curves
  • Supplement with policy analysis

• Determining an appropriate role for crediting
  • Key factors:
    • role of crediting in addressing barriers,
    • range of abatement options and costs,
    • achieving transformation,
    • consistency w/development objectives,
    • assessment of international and domestic demand

• Ensuring coherence with other policy instruments
Choice dimensions in setting role for crediting

- Host country ownership of the abatement. Crediting would rely on domestic demand and the abatement would count towards the host country’s contribution to mitigation.

- Independent crediting programme aimed at emission reductions in targeted sectors and non-GHG benefits, possibly with a view to more directive carbon pricing policies later.

- Crediting programme focused on market demand for credits.

- Buyer/investor ownership of the abatement. Crediting would be opened to international demand, in which case the abatement would count towards the buyer/investor’s contribution to mitigation.

- Crediting programme integrated into an ETS or carbon tax as a cost containment measure.

- Crediting programme open also to results-based climate finance, enabling also blended finance between public and private sources.
Options for mobilization of funding for scaled-up crediting

- Allowing offsetting against compliance obligations
- Promotion of voluntary offsetting schemes

Domestic funding sources

- Recycling of compliance scheme revenues
- Recycling of voluntary scheme revenues
- Reform of fossil fuel subsidies
- Government-issued green bonds

International funding sources
Gaps

- Understanding how crediting and carbon finance instruments can mobilize transformation.
- Further refining the use of economic modelling tools
- Developing further thoughts on embedding scaled-up crediting within domestic climate finance frameworks
- Understanding and come to a common interpretation on the impact of crediting (and scaled-up crediting) on countries’ NDCs
- Roadmap for the development of scaled-up crediting / piloting of initiatives. Do we need one?
Thank You

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