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

Wiil provide pratical guiding principles for the design & implementation of crediting instruments and programs

Tecnical 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

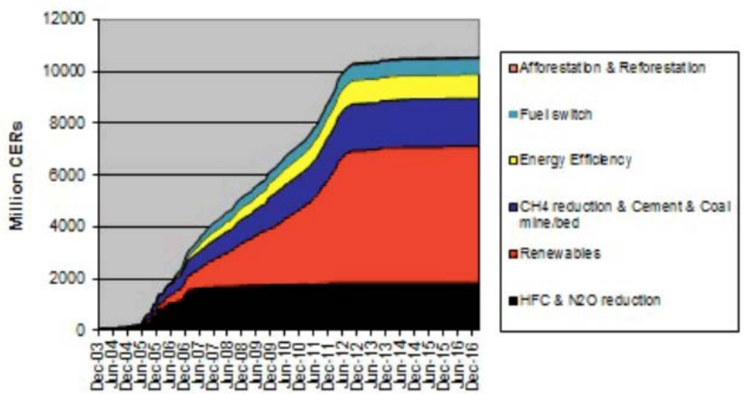
In the current context of the Paris Agreement:

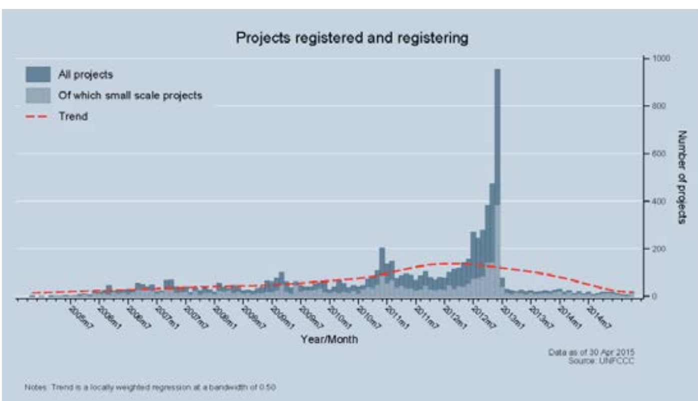
- what drives (international and domestic) demand for carbon crediting?

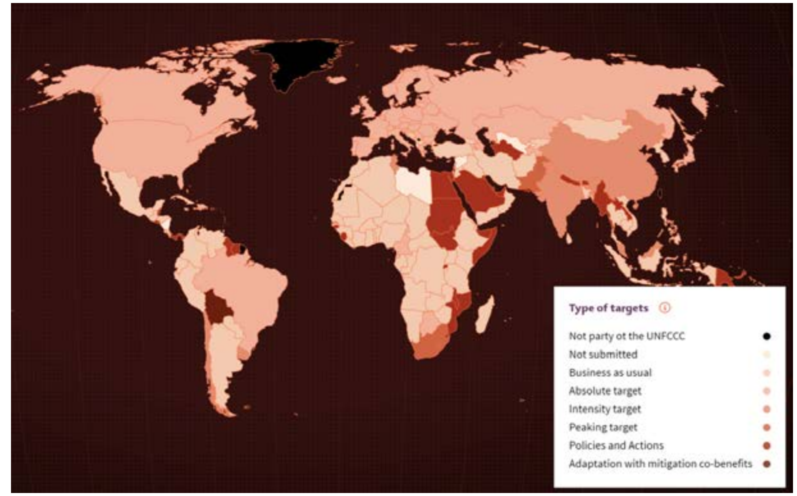
- At what scale the “mitigation outcomes” of crediting-related programs can be generated effectively and efficiently in a prevailing domestic policy and economic context (scale of supply)?

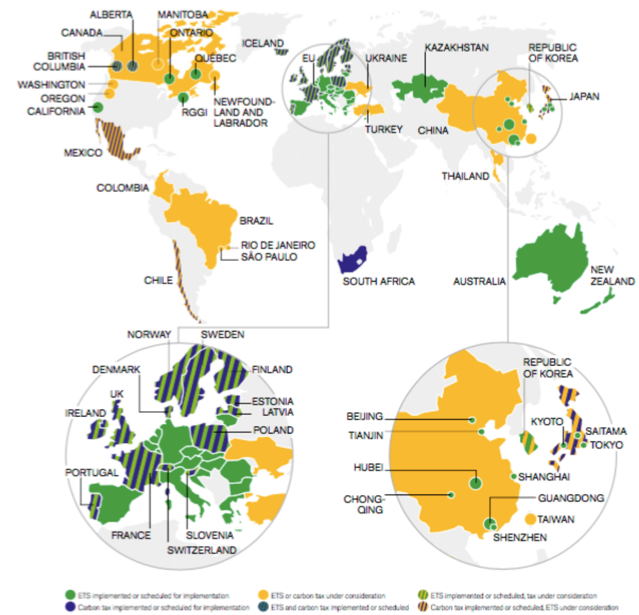
- how to mobilise resources to ensure implementation?

The changing context









Demand up to 2020

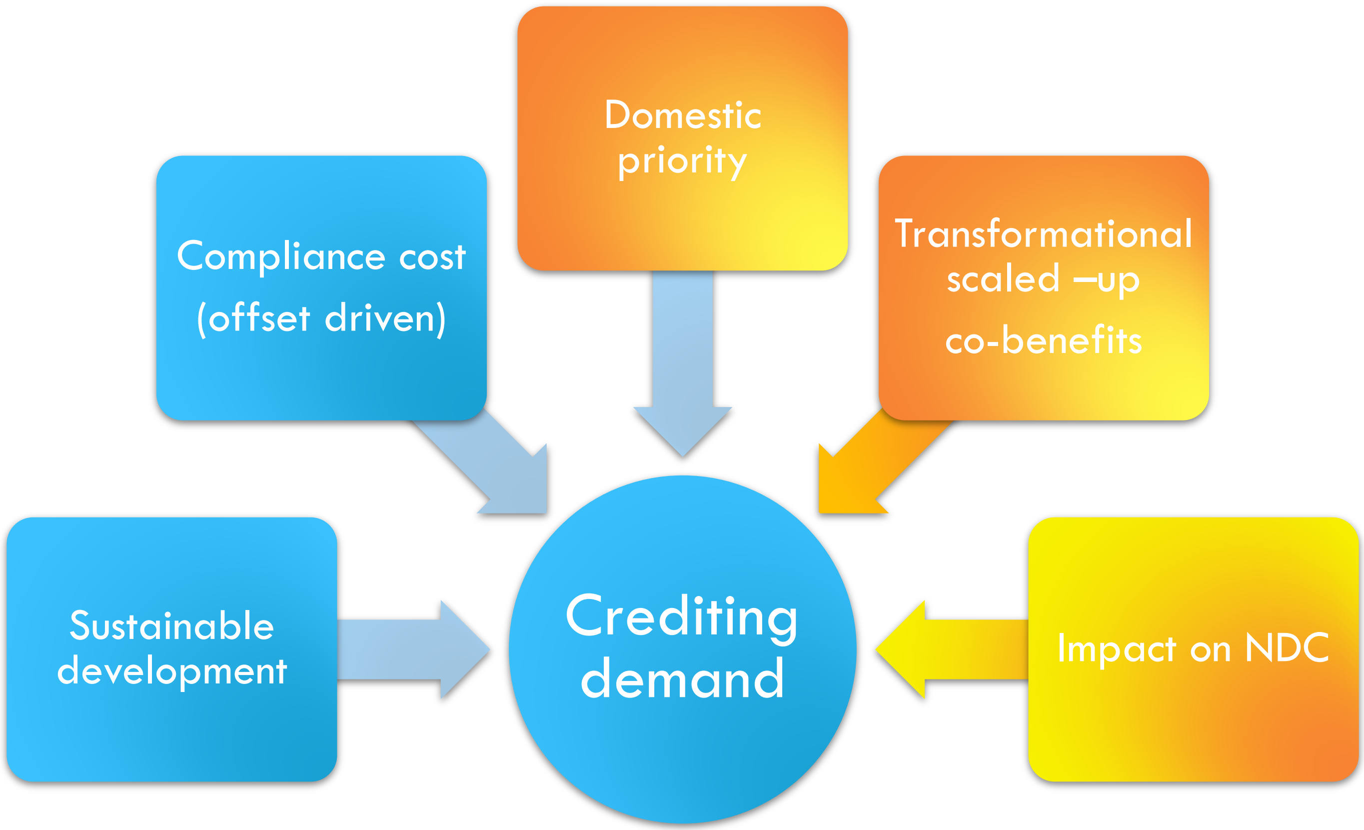
Demand Source	Type	Examples of initiatives	Credit Type	Credit Demand till 2020 (Mt/year)
Compliance Schemes	ETS	> EU-ETS (includes EU aviation), Kazakhstan, Switzerland > RGGI, WCI > China Pilot ETS Systems, South Korea etc	> International credits (CER, ERUs...) > Domestic based (e.g. Chinese CCER) > Voluntary (e.g. VERs, GS, CRTs)3	30 - 90
	Carbon Tax	> Mexico Carbon Tax > South Africa "tax and offset"	> International credits (increasingly atomised by countries)	5 - 20
	Governments	> Kyoto Governments (using also climate finance facilities; e.g. NorCap)	> International credits	30 - 50
Voluntary Schemes	> Private Sector > Public Sector > Individuals	General Motors, Walt Disney, Microsoft, Goldman Sachs, Danone, EasyJet, British Airways, QANTAS	VERs, CRTs, GS CERs, ROCs, EAOCs, etc	20 – 40
Climate Finance	RBCF	> WB PAF, Ci-Dev > PBC Facility, TCAF...	> Mainly international credits (CERs) > Voluntary (VERs...)	10 - 20

Pre – 2020, which factors have been driving the credit demand?

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

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?



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	⟷	Buyer/investor ownership of the abatement. Crediting would be opened to international demand, in which case the abatement would count towards the buyer/investor' 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 integrated into an ETS or carbon tax as a cost containment measure
▪ Crediting programme focused on market demand for credits	⟷	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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