

# **Case Studies**



### **Items to discuss**

- Defining the domestic crediting strategy and infrastructure.
- Choosing the right crediting approach and methodology.
- Transferring emission reductions and linking back to NDC targets.
- Three hypothetical countries:
  - "Best in Class"
  - "On its way"
  - "Just starting"





### "Best in Class"



#### Where "Best in class" stands

- BAU modelling down to sector level, updated;
- Long-term (2050) low carbon pathway agreed;
- Economy-wide 2020-2030 carbon budget substantially below BAU;
- Domestic actions and available resources for implementation clearly defined;
- Full clarity on potential domestic funding gap;
- Substantial MRV capacity for domestic carbon pricing;
- Registry for domestic target compliance.



### **Maximum flexibility**

- All carbon market options open:
  - Linking domestic carbon market (private sector);
  - International ITMO transfers;
  - Carbon crediting of all kind.
- Attracting and optimizing usage of international climate finance:
  - Potential focus on most transformative measures identified in domestic implementation planning;
  - Building synergies (e.g., sequencing climate finance and market mechanisms).



### Having the Answers...

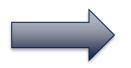
Example: LED lights close to zero market share, low-carbon pathway: 70% in 2030, economy-wide NDC target.

- Knowing what to open for crediting and when:
  - Credit 2020-2030 beyond a conservative BAU trajectory;
  - Exempt from 2030 on, capitalize market increase for 2030 NDC.
- Sell at no-regret price:
  - ER through LED stands at 7\$/t but NDC MAC at 25 \$/t;
  - Price at a minimum at \$25/t (potential floor price/taxation).
- Choose the right methodology and avoid "overselling":
  - Crediting period, LED-BAU, opportunity cost pricing;
  - Exempt ERs attributed to domestic or international subsidies.
- Get the transfers and corresponding adjustments right:
  - Simple adjustment of carbon budget that spans crediting period.

## ... and the luxury to go for the simple.

### The effort required

- <u>Substantial</u> modelling, planning, capacity requirements;
- Major technical challenge: reliable data;
- Policy challenge: political vision/commitment; inter ministerial coordination; long-term planning.



Domestic carbon pricing/market: an important step towards 'Best in class".





#### "On its way"



### Where "on its way" stands

- Robust partial NDC target (sectors) below and derived from transparent state-of-the-art BAU modelling;
- Point-target (e.g. 2030) with trajectory modelling;
- Clearly defined and agreed domestic implementation plan.

However:

- No anchoring in long-term low carbon pathway;
- No carbon budget;
- No MRV and no registry capacity.



### Make the most out of it...

- Robust sector targets enable:
  - Sectoral crediting (easier the narrower the sector is defined);
  - Policy crediting (easier the better the policy package is defined).
- Point targets:
  - Difficult for corresponding adjustments;
  - Trajectory modelling enable "carbon budget" type of approach;
  - Might also help to move over time to budget targets.
- Methodology and pricing:
  - Sectoral crediting: target-based crediting, incremental cost pricing (in case of 100% boundary congruence);
  - Policy crediting: crediting conditional to target achievement, opportunity cost pricing.

...to become Best in class: Sectoral crediting builds facility level MRV; Policy crediting directly supports carbon pricing and carbon market policies.





## "Just starting"



### Where "just starting" stands

- Aspirational and qualitative (partial, conditional only) NDC target, not derived from BAU modelling;
- No domestic implementation plan;
- No clarity on resource needs for implementation;
- No MRV or registry capacity;
- Potentially portfolio of stranded CDM projects.



### **Consideration of a transition strategy**

- Likely limited opportunities if staying with CDM approach:
  - Does not help in domestic NDC/low carbon planning process;
  - Not fit for crediting under Paris Agreement (targets);
  - Limited demand if any (for vulnerable projects).
- Elements of a transition strategy
  - Establish sectoral crediting frameworks (example current piloting of standardized crediting framework);
  - Include existing CDM projects where possible;
  - Use quasi-targets to derive below BAU crediting lines;
  - Consider discounts for international support received (attribution);
  - Broaden MRV to full sector to build capacity for NDC planning;
  - Benefit from possibility to just do incremental cost pricing and from potential limitation to reporting level for corresponding adjustments (at least for RBCF).





#### Conclusions



## Strategizing carbon crediting

- Carbon crediting under Paris Agreement requires domestic strategies and management;
- Opportunity to advance low-carbon planning and policy/NDC process and to build needed capacity;
- Opportunities are increasing with ambition (best to be "Best in class");
- "Just starting" can build on CDM;
- Risk to get trapped in the middle ("on its way");
- Sectoral/policy crediting to prepare for domestic carbon pricing/markets as a transition strategy.





