Using existing crediting mechanisms: Spectrum of reliance

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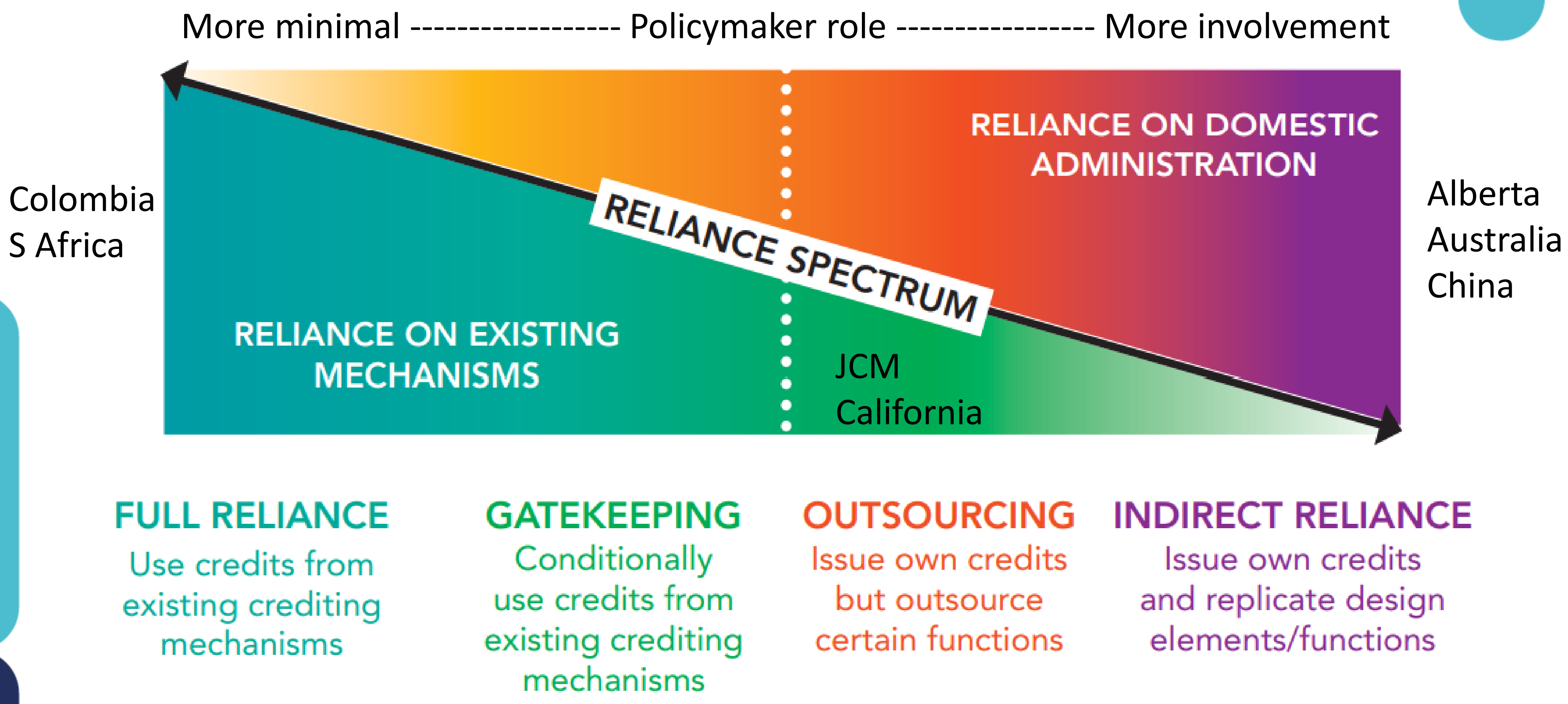
Before we begin

- Which countries in the room are working on crediting?
- Why?
- What have you found to be the most challenging areas?

Starting from scratch?



- Building a domestic crediting mechanism can be a significant undertaking, requiring financial resources, technical capacity, and regulatory expertise. Policymakers can save time by relying or building on existing mechanisms.
- This can change across design elements + phases

Gatekeeping

- Domestic policymakers can allow externally issued carbon credits for domestic policy or regulatory requirements.
- In most cases, domestic policymakers prefer to be selective about which credits are used, using “gatekeeping” criteria like project type, vintage and location (generally domestic projects).
- In practice, allowing credits from existing crediting mechanisms almost always means relying on international crediting mechanisms —and typically only if those programs operate within the country that allows their credits to be used
- Benefits
  - **Urgency**: generate a readily available supply of credits in the near term—for example, to promote early action, increase market liquidity, attract investment, or give program flexibility to domestic carbon pricing instruments
  - **Limited resources**: way to source carbon credits without having to establish a domestic initiative that can be administratively burdensome. Countries can build on their CDM experiences and pre-existing projects without much additional work.
  - **Attract international finance**: offers consistency and familiarity to international credit buyers already familiar with such programs

Gatekeeping: Examples

- **Colombia:** Credits accepted as part of carbon tax from domestic projects.
  - From a crediting mechanism with a public registry and methodology development that underwent public consultation, not activities mandated by law, generated after 1 January 2010
- **South Africa:** Credits from domestic projects can be used to meet 10% of carbon tax liabilities
  - Generated outside of carbon tax sectors (industry, power transport), do not receive government subsidies, generated after carbon tax implemented (1 June 2019).
- **Republic of Korea:** Credits from domestic projects to meet up to 5% of liabilities
  - From domestic facilities not covered by the ETS, from June 2016 or from international projects developed by Korean companies

Outsourcing + Replication

- Domestic policymakers may prefer to directly administer a domestic crediting mechanism
- This entails greater effort to both design and administer the mechanism but gives policymakers greater control and, they can ensure the mechanism is more closely aligned with domestic policy objectives. But policymakers can still outsource certain functions while still retaining oversight.
- **Benefits**
  - **Aligns with domestic policy goals:** Because existing crediting mechanisms were developed to serve a variety of different markets and policy contexts, they may not always align well with domestic policy needs in terms of scope or stringency. Establishing a domestic crediting mechanism—though it requires more time and cost—gives policymakers more control over how the mechanism will function, the relative incentives it provides for mitigation activities in different sectors, and the balancing of transaction costs with environmental integrity
  - **Builds domestic capacity:** build up technical capacity related to certain mitigation activities, as well as MRV capacities

Outsourcing

- **Standards:** incorporating the principles, standards (including methodologies), or other requirements of existing mechanisms into the domestic crediting mechanism design.
    - Korea Offset Program allows domestic projects to be developed using CDM methodologies
- **Functions:**
    - Use of auditors accredited and overseen by other crediting mechanisms (e.g. JCM allows CDM or ISO-14065 approved creditors)
    - California approved the Climate Action Reserve, American Carbon Registry, and VCS to serve as official "offset project registries" tasked with reviewing project applications, evaluating auditor reports, and issuing provisional credits.

Replication

- Policymakers can use or build on what existing mechanisms have done by replicating or adapting their standards, governance structure, or procedural requirements.
- **Methodologies:**
  - Alberta: Crediting methodologies have been independently developed but have drawn from other existing mechanisms, including the CDM, Climate Action Reserve, the American Carbon Reserve, and resources from the Intergovernmental Panel on Climate Change, World Resources Institute, and the World Business Council for Sustainable Development
  - China CCERs: largely based on the CDM with adjustments to reduce transaction costs: no request for review stage in the project cycle and no charge for project proponents, MRV can also be done at the local rather than national level.

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