

Potential of upscaled crediting under Article 6

Workshop: Market mechanisms as a means to effectively implement India's climate mitigation objectives

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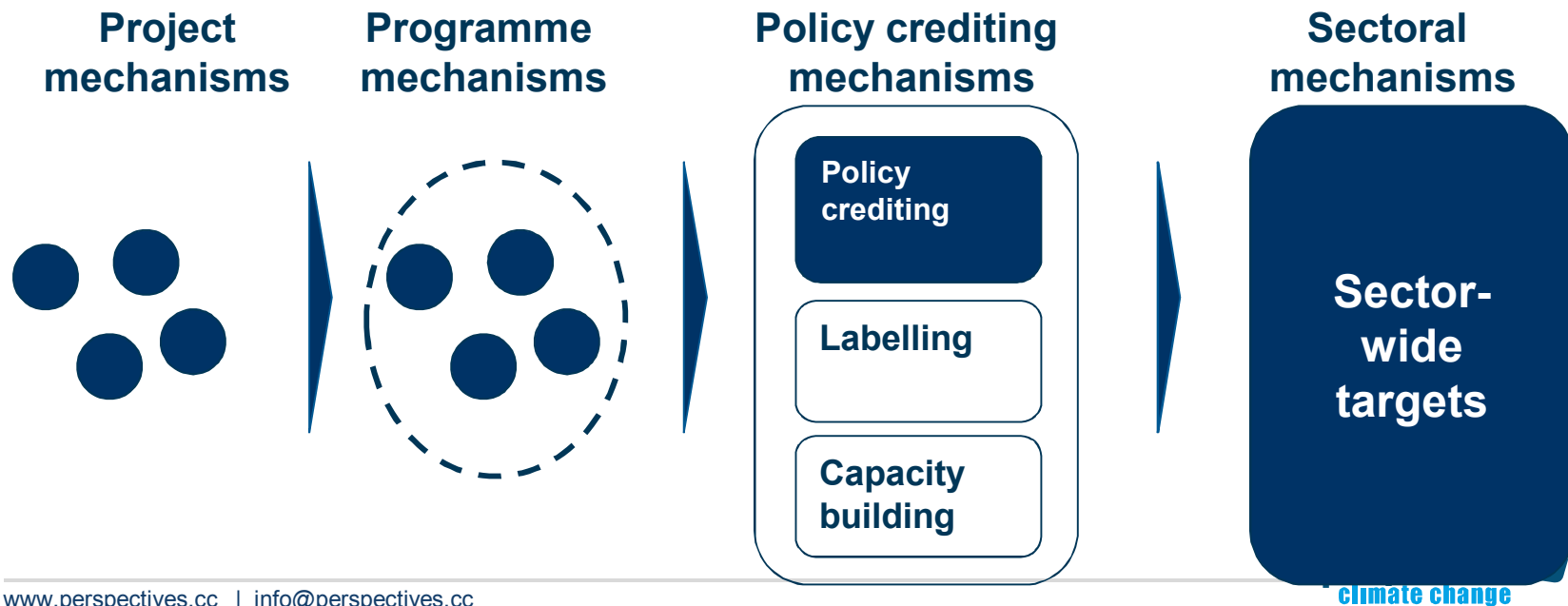
Agenda

- **Why** upscaled crediting?
- When is a **policy instrument** additional?
- **Solutions** for additionality determination of policies
- Defining the **length of the crediting period**
- Baselines and additionality for upscaled crediting mechanisms in the context of **pilot activities**

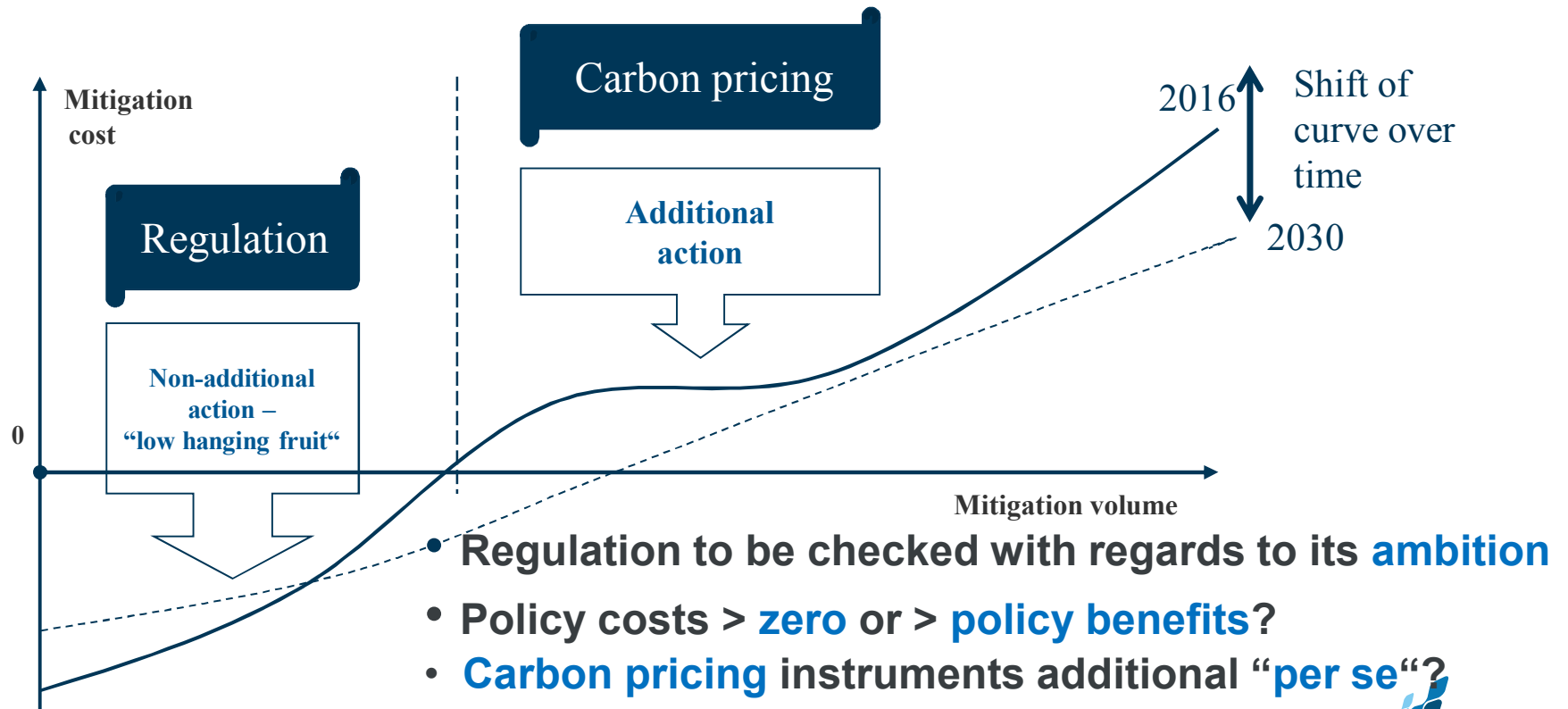


Why upscaled crediting?

- **Project-based** offset mechanisms have worked under the Kyoto Protocol
- Mitigation volume required under the Paris Agreement's ambitious target needs **“transformational change”** of entire sectors



High level view of additionality and policy instruments



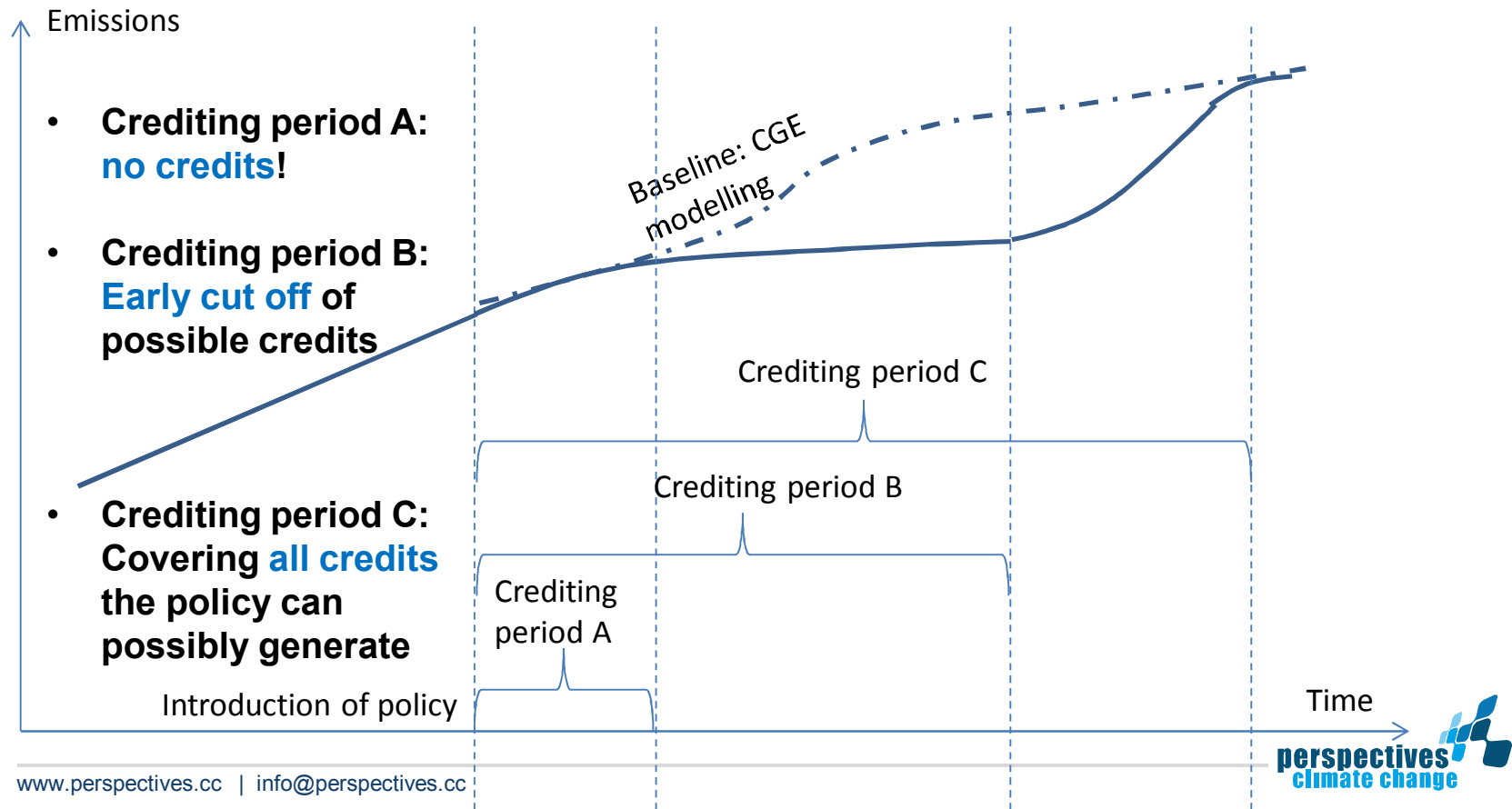
The additionality challenge for policy crediting

- **Theoretically:**
 - **Policy costs > benefits:** policy is additional and not baseline
 - Including **reduced cost due to less adaptation needs?**
 - Calculation on a **societal** level, use of **social discount rate**
- **What factors really drive introduction of a policy?**
 - **Short-term political gain**
 - Catering for **lobbies**
 - **Who** carries the policy cost?
 - **Co-benefits are often not considered** by policymakers (own experience from many NAMA support activities)
 - Challenges in **valuing non-monetary** benefits
 - **Lack of trust** that co-benefits actually accrue
 - **Should we ignore policy benefits? → Non-conservative!!**

Potential solutions for additionality in policy crediting

- **Positive list of policies**
- **Fiscal policies and market mechanisms: Carbon price threshold: policy is deemed additional if it generates a carbon price exceeding a pre-defined benchmark**
 - Theoretical: at level of **social cost of carbon**, ~ 10 - ~50 €/t CO₂
 - Differentiation according to **country development status**? 5 €/t CO₂?
- **Regulation: additional if payback period of mandated technologies generally exceeds a level of [x] years**
 - 3 < [x] < 5 years
- **Non-additional policies should be part of the baseline**
- **Rules should be similar for SDM and CAs and international climate finance institutions to create level playing field**

Length of crediting period is crucial for global mitigation



Conclusions

- There is **no easy solution** for additionality and baseline determination for upscaled crediting mechanisms
- Current level of policymakers' attention to this problem is **unsatisfactory**
 - Negotiations need to address this issue to enable full use of mechanisms
- Urgent need for **concerted research effort** of political sciences/economics to develop policy recommendations
 - Case studies of historical policy instruments
 - Political economy of policy instrument choice
- **Pilot activities for upscaled crediting need to develop baseline and additionality testing very carefully**
 - Indian TCAF pilot will be watched by many stakeholders

Thank you!

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