09/12/2021

Making climate impact: creating a network and prevent double counting

Lessons to be learned from the creation of the French Label Bas-Carbone

Co-funded by the European Union

Institute for Climate Economics (I4CE)

- Non profit association.
- A think tank that provides public and private decision-makers with independent expertise on economic and financial issues related to the energy and ecological transition.
- Contributed to the creation of the French Carbon Standard (Label Bas Carbone).

An overview of the French carbon standard history

Carbon certification standards have existed for a long time

CDM/JI

United Nations Framework Convention on Climate Change

International private standards

Gold Standard® – Climate Security & Sustainable Development

Verified Carbon Standard – A VERRA STANDARD

Domestic standards

Woodland Carbon CO_2de

REDUZCO · COMPENSO · CÁLCULO · CO_2

MoorFutures

Green Deal

LABEL BAS CARBONE

In France : creation of national carbon standard with a bottom-up approach

- 2010- today – Incentive from I4CE's research clubs members

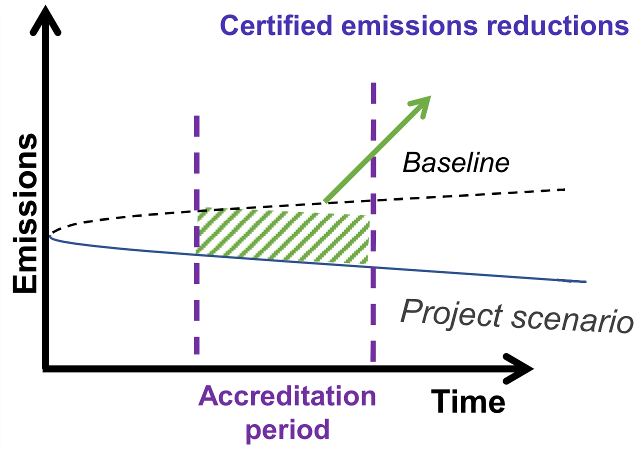
- 2016-2018 : The VOCAL project led by I4CE

Funding | **Partners** | **Steering committee**

- **Propose a certification framework to the Ministry**
- **Develop the first methodologies**
- **Test on pilot projects**

I4CE – Institut de l'économie pour le climat

Label Bas Carbone today : a national standard under the Ministry for Ecology



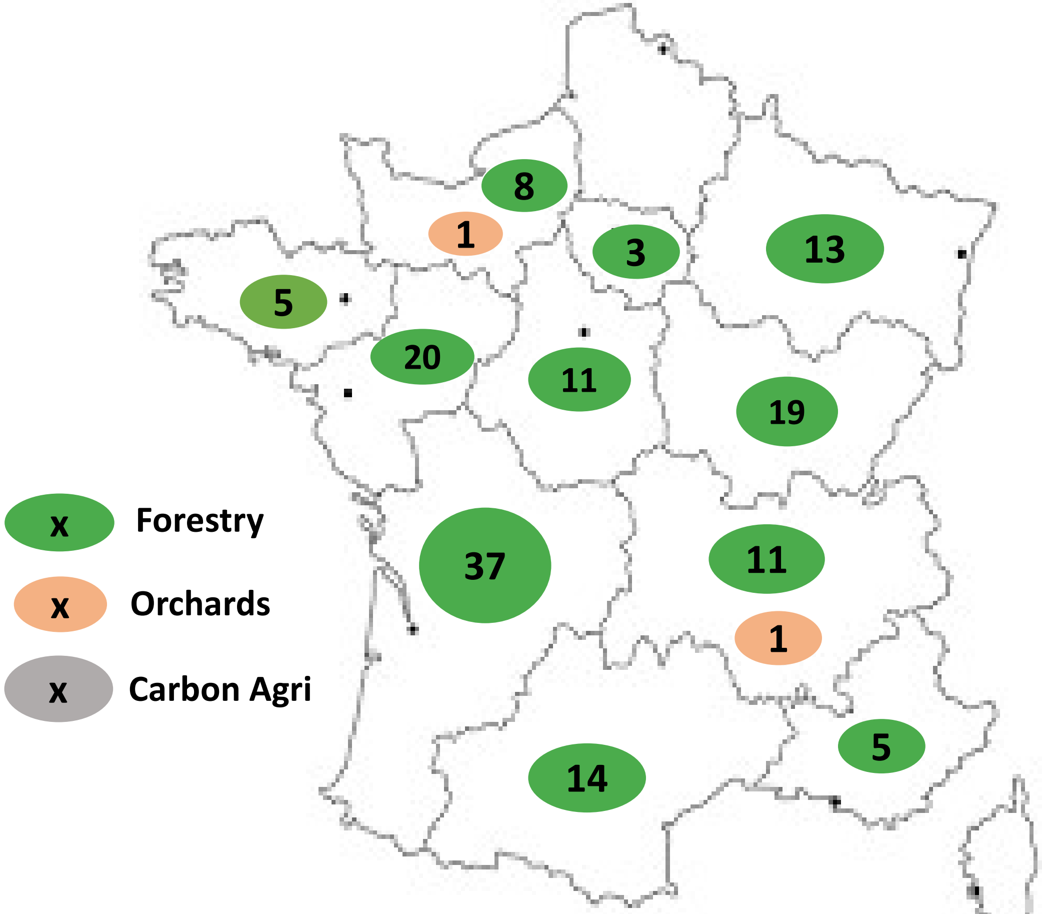
All current projects are land-use projects

To date :

- **152 projects**
- **390 000** potential tCO2 avoided or sequestered
- **11 approved methodologies**

To come :

- 200 projects under instruction
- More than 10 methodologies under development



Source : french ministry for Ecology

Collective national Project : carbon Agri

© https://www.france-carbon-agri.fr/1er-chiffres-fcaa-des-projets-bas-carbone-engages/

The LBC action plan : continuous improvement processes and scaling

- Reinforce the standard's robustness and credibility
  - Review of first methodologies
  - Standardized involvement of experts and scientists through a scientific and technic committee, and systematic public consultations
  - Increase the environmental requirements (co-benefits) in all methodologies

- Facilitate funding
  - Evaluate the possibility for funding for citizens
  - Create a group of 'LBC funders' to promote methodologies and projects
  - Public funds : rely on LBC for offsetting emissions from public sector (ministries…)
  - Private funds : build a commitment envelope of 1MtCO2 from companies willing to finance local projects.

The story also continues at the EU level…

- Carbon Farming
- MRV framework for carbon removals

⇒European Communication mid-december

Some questions remaining :

- Level of MRV precision and types of criteria
- Centralized or decentralized governance
- Funding modalities (public, private…)

A few recommandations from the French experience
1) on MRV
2) on funding

The two pillars of a carbon methodology

Measurement and diagnosis :

Equations modeling the emissions of an activity

- How to measure carbon and deal with uncertainty ?
- Lots of models available with different levels of precision/uncertainty (tier 1, 2, 3)
- Need to sort out tools' robustness in coherence with expected objectives

Certification rules :

Move from an estimate of emissions at a given time to an estimate of the emissions reductions allowed by the project

- How to define the baseline scenario (counterfactual)?
- How to demonstrate the project's additionality?
- How to manage the risk of non-permanence?

A few thoughts for new methodologies/frameworks

- **Carbon certification : no need to reivent the wheel**
  - Already lot of expertise internationally, and more recently in Europe with domestic standards.
  - Build from existing tools to help scaling carbon payments in the agriculture sector, in order to save both time and money and to ensure the commitment of the actors already involved in these approaches in the future.

- **Finding the right scale for MRV tools application and take into account local specificities**
  - Need to find a balance between 1) relying on a common tool which will give better clarity to the framework, especially to buyers, 2) or building on the existing local frameworks and tools already used by stakeholders.

- **Diversity of tools and methodologies but need for a common scientific background**
  - Profusion of models and methodologies to estimate emission reductions and carbon sequestration in the agricultural sector
  - Need to scientifically assess them and make sure carbon methodologies are robust constantly adapted to the latest scientific knowledge

A few thoughts for new methodologies/frameworks

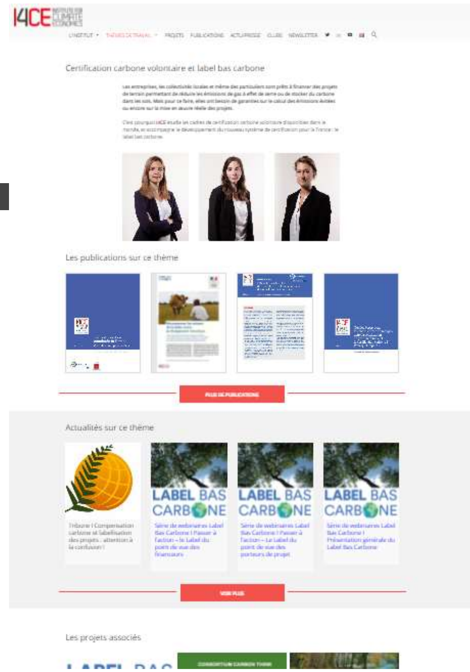
- **Not letting uncertainty deter action**
  - ➢ There will always be uncertainty linked to carbon measurement, especially wihtin the land-use sector (measures, non-permanence risk…)
  - ➢ This has to be taken into account but must not prevent action (no regrets strategies, discount rate)

- **Find an acceptable balance between MRV precision and costs**
  - ➢ Evaluating emission reductions in the agricultural sector is complex but standards and methodologies can find a proper balance between precision and costs, to have a credible methodology but still accessible to project developers.
  - ➢ Carbon certification needs to be applicable to small-scale projects (Europe)
  - ➢ On-site measurement and soil sampling are not always necessary to estimate carbon sequestration
  - ➢ Tools like the discount principle (applied to uncertainty, information asymmetry…) can help find this balance

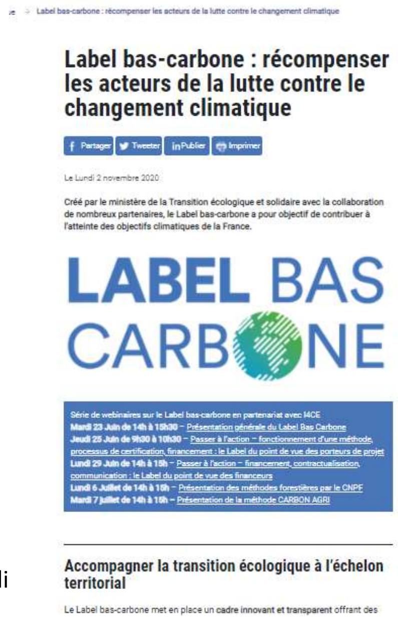
A few thoughts on carbon projects funding

- **Carbon offsetting and project certification: beware of confusion**!
  - ➢ Not letting the debates about carbon offsetting provoke a race to the bottom regarding projects and discourages robust project certification. Certification of projects' climate impact is relevant, whether or not there is a climate neutrality claim involved.
- **Payments based on results are not necessarily more expensive than payments with an obligation of means**.
  - ➢ When taking into account design costs of mechanisms and not only monitoring costs, result-based mechanisms like carbon standards are not more costly than non-result-based schemes like agri-environmental measures.
- **A decent carbon price will be paramount for the development of European carbon projects.**
  - ➢ If internationally the price of carbon credits remain rather low (a few euros per ton), the price is already higher in Europe: 13€/t in the UK, between 20€/t and 50€/t in France... And expected to rise?
- **Diversification and coordination of funding sources**, especially public and private, to ensure funding efficiency. There is a challenge in not putting the different sources of financing in competition with each other, while guaranteeing the principle of additionality.

Resources in French



For more information on the history of the Low Carbon Label, carbon certification in general, how the LBC works, etc. go to the dedicated page on the I4CE website: https://www.i4ce.org/themes/climat-certification-carbone-volontaire-et-label-bas-carbone/



To see all approved methods, validated projects and funded tCO_2 go to the MTE website:

https://www.ecologie.gouv.fr/label-bas-carbone

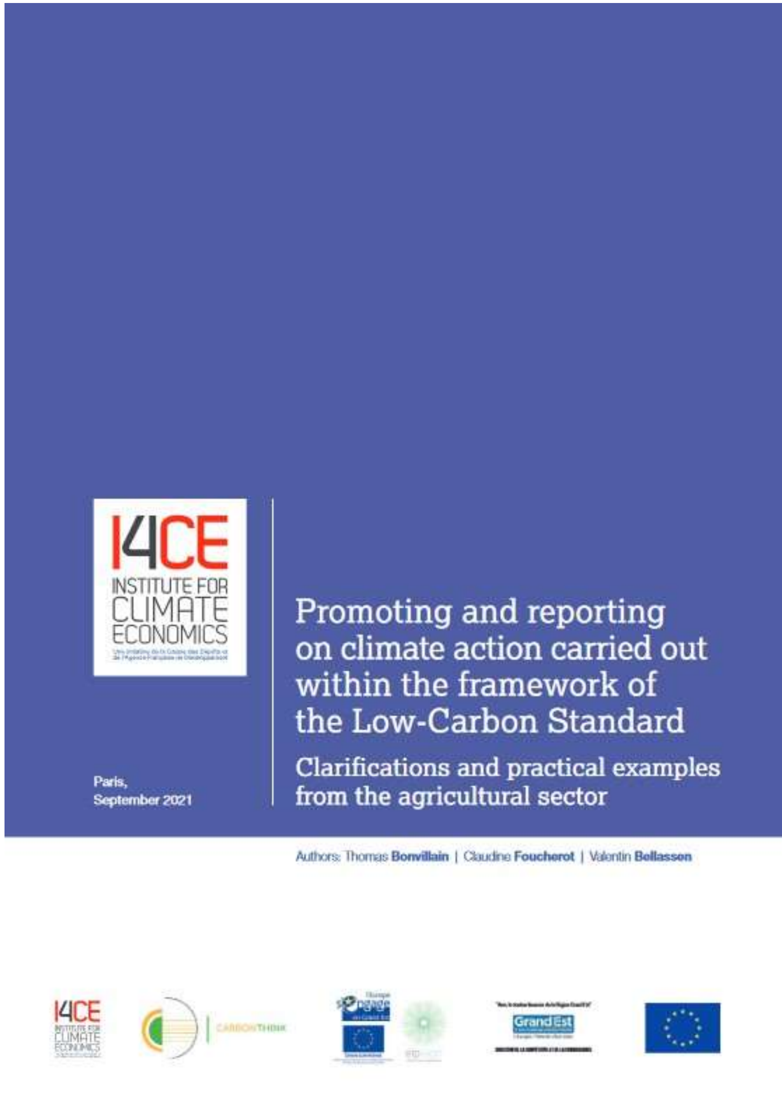
Some more information in English…

- Will the obligation of environmental results green the CAP? https://www.i4ce.org/download/will-the-obligation-of-environmental-results-green-the-cap/

- Domestic standards in Europe : https://www.i4ce.org/download/domestic-carbon-standards-in-europe/

Publication

- Promoting and reporting on climate action carried out within the framework of the Low-Carbon Standard
- https://www.i4ce.org/download/climate-action-framework-low-carbon-standard/



Partners of the publication:

Points discussed:

1. Context
2. Issues around project financing
3. Lessons to be learned

Points discussed:

1. Context
2. Issues around project financing
3. Lessons to be learned

Why this publication?

➢ Many questions from potential project funders…

What is the difference between offsetting, contributing or reducing my company's Scope 3 emissions?

Do I need to distinguish between emissions reductions that take place on and off my value chain as part of a carbon offset approach?

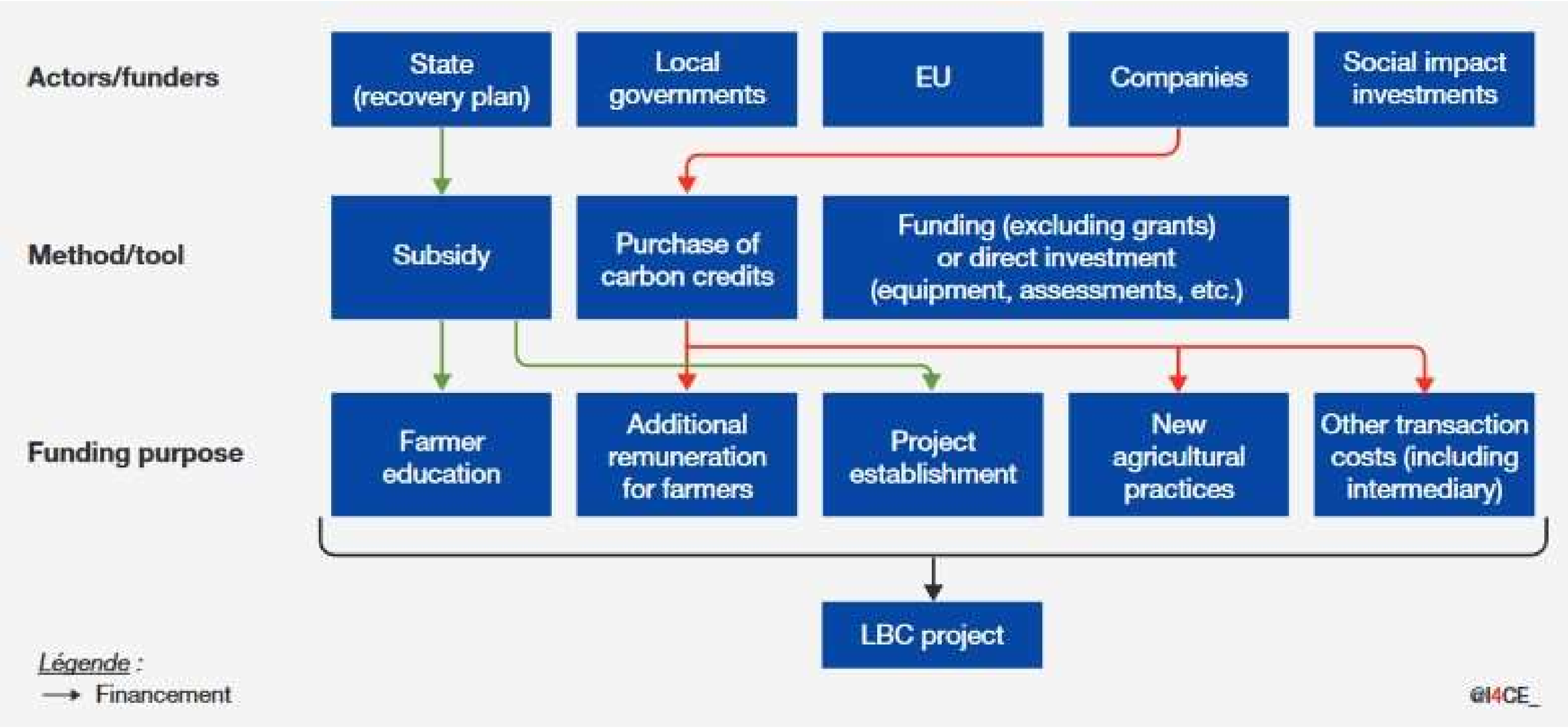
How to communicate about projects when there are several funders involved?

➢ …which is the reason why we built a working group with those funders, in order to design efficient and realistic recommendations.

Why these questions? (1/2)

- Because there are many ways to fund a project... but no clear recommendations on how to value the funding based on its structuring.

➢ Rather LBC specific



Why these questions? (2/2)

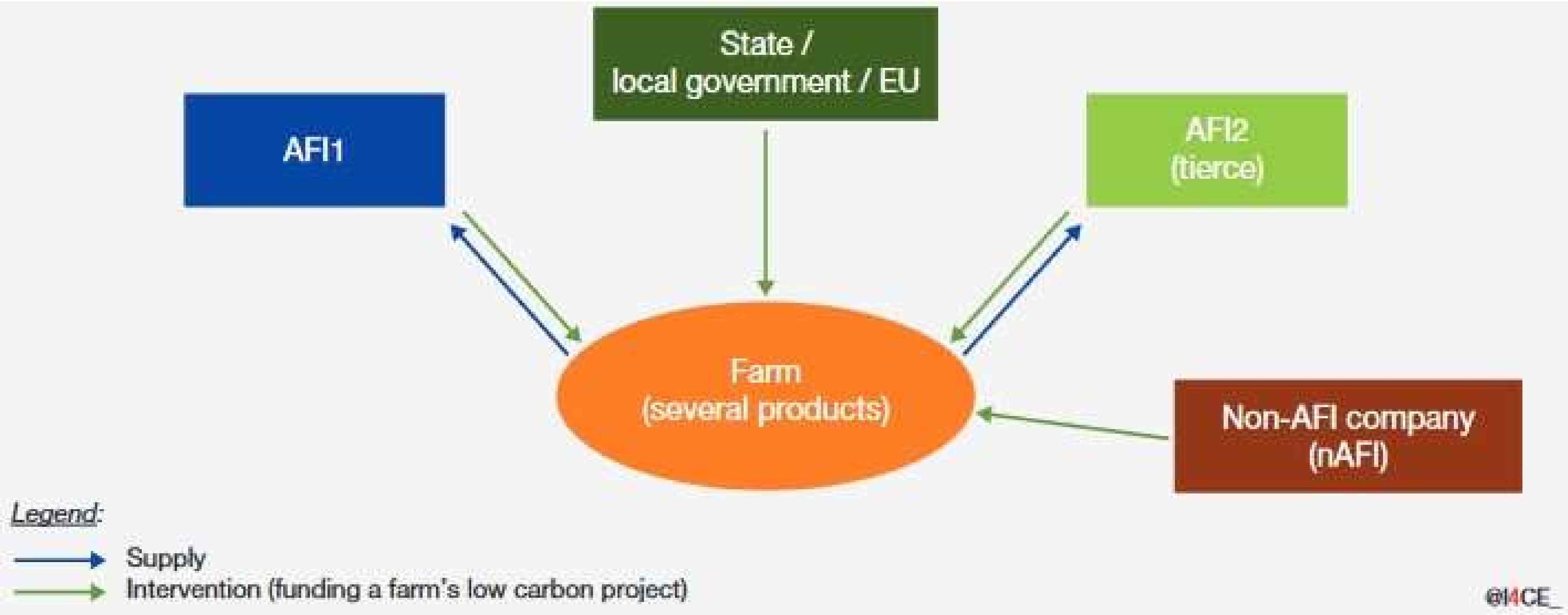
- Because there are unresolved debates internationally on the issue of "double counting" and this creates confusion.

➢ Rather non-LBC specific

Points discussed:

1. Context
2. Issues around project financing
3. Lessons to be learned

Who are the actors of the financing?



Three different visions for corporate carbon finance

1. Carbon offsetting with the aim of achieving carbon neutrality for Scopes 1 and 2.
   - Remember to distinguish between offsetting and insetting.
   - In the case of the agricultural sector, most emissions occur at the production stage (Scope 3 for the food industry).
2. Carbon offsetting specifically outside the value chain, with the aim of achieving carbon neutrality in Scopes 1, 2 and 3.
   - More ambitious but insetting becomes problematic.
3. Contributing to the climate effort, without seeking to be carbon neutral.
   - This is the most recent vision.
   - Supported by ADEME and many other organizations.

Funders' dashboard

- To visualize the consequences of the action of the funders, a "dashboard" was built.
- It is composed of four indicators:
  - « Scope 3 » (tCO_2e) → A snapshot for a given year of all the emissions observed in a company's value chain (changes in emissions are not necessarily due to the company).

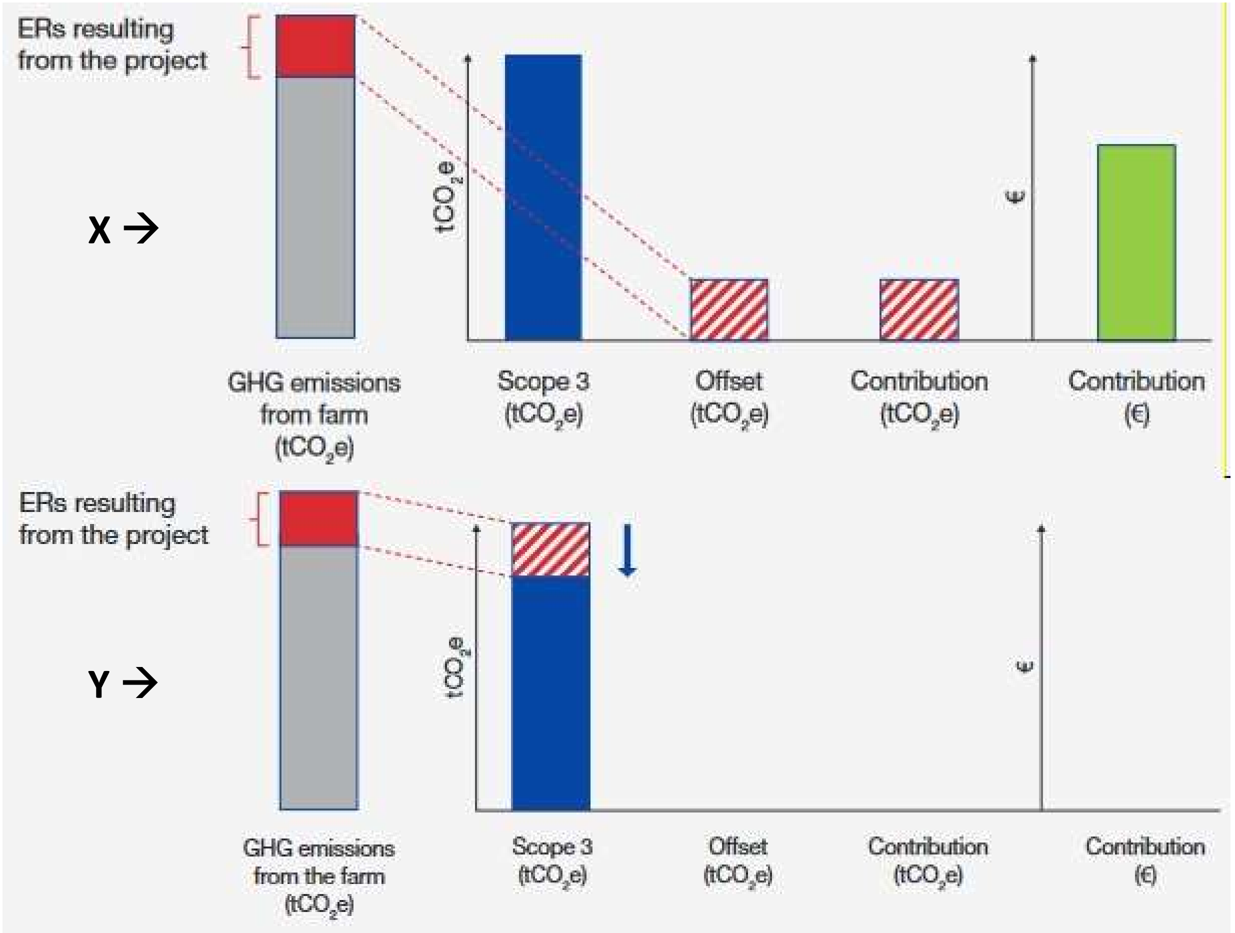
≠

  - « Contribution CO_2 » (tCO_2e) → Emissions reductions enabled by the funder's action (calculations based on baseline scenarios).
  - « Compensation CO_2 » (tCO_2e) → Quantity of carbon credit that can be valued for offsetting by the financer.
  - « Contribution € » (€) → Financial contribution to emission reductions (complementary indicator).

➢ *"Distinguish the picture from the action"*

Funders' dashboard

- To illustrate these indicators, let's take an example:
  - Company X finances a low-carbon project in order to offset its emissions.
  - This project is in the value chain of company Y.



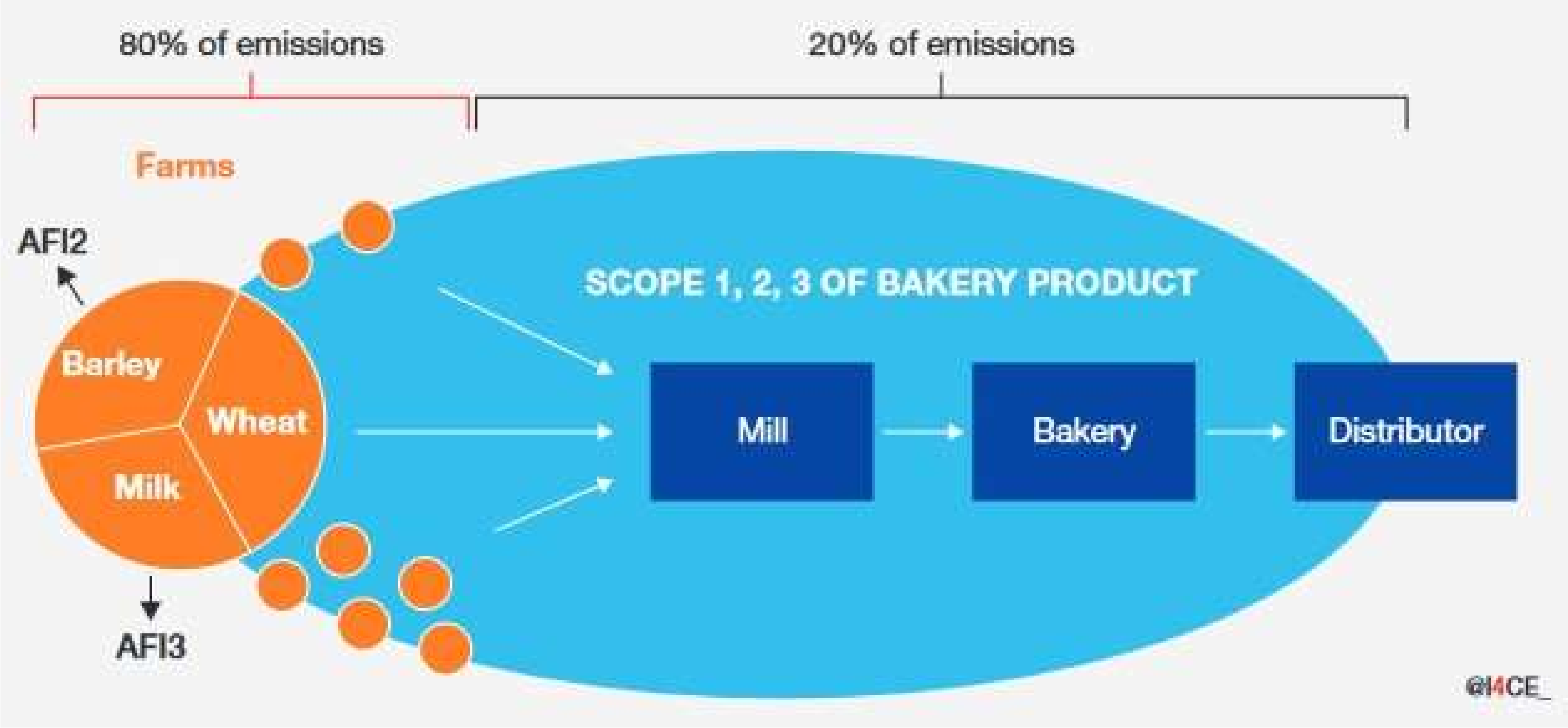
Funding cases

- The questions that have been brought to our attention point to several financing structures where the valuation needs to be clarified:
  - ➢ The AFI finances the entire project
  - ➢ The AFI co-finances the project with another entity
  - ➢ The AFI is the project leader (and potentially sells the credits)
  - ➢ The AFI finances the project other than through carbon financing
  - ➢ The AFI pays a sector premium
  - ➢ The State contributes to the financing of the project through a grant

➢ Here, we will only detail the three cases highlighted.

1. An AFI finances a project partly on its value chain

- This will represent most of the cases (versus a project totally inside the value chain).



No allocation in the methodologies

- We would like to know exactly how much ER are on the value chain.
  - ➢Is it possible to allocate the project's ERs to the different productions of the farm?

- At present, the answer to this question is no. The Low-Carbon Label methods do not provide for such an allocation.
  - ➢In this case, to manage the issue of carbon credits, we recommend considering all emission reductions as being on the value chain. In other words, credits generated from ERs can be sold, but cannot be used for AFI carbon offsets.

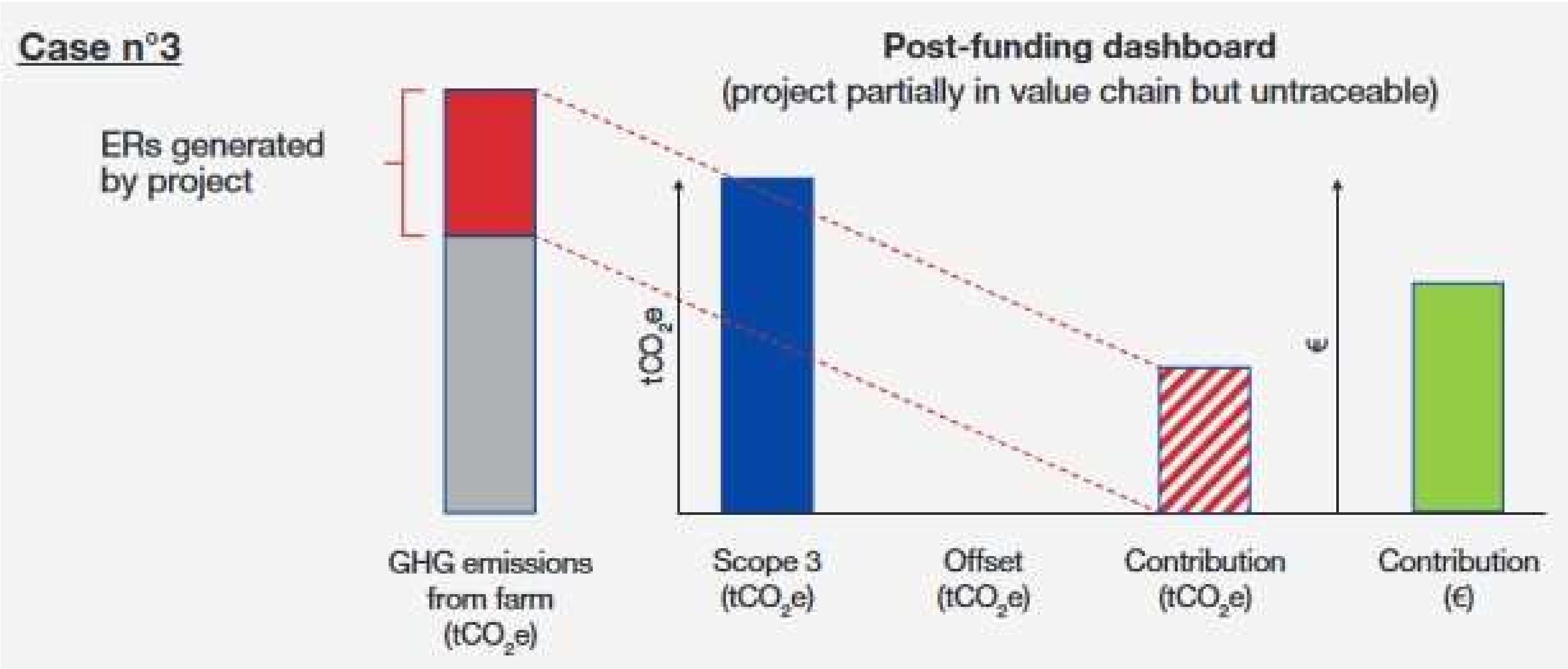
  - Note: reflections are underway to possibly enable this allocation.

Valuation

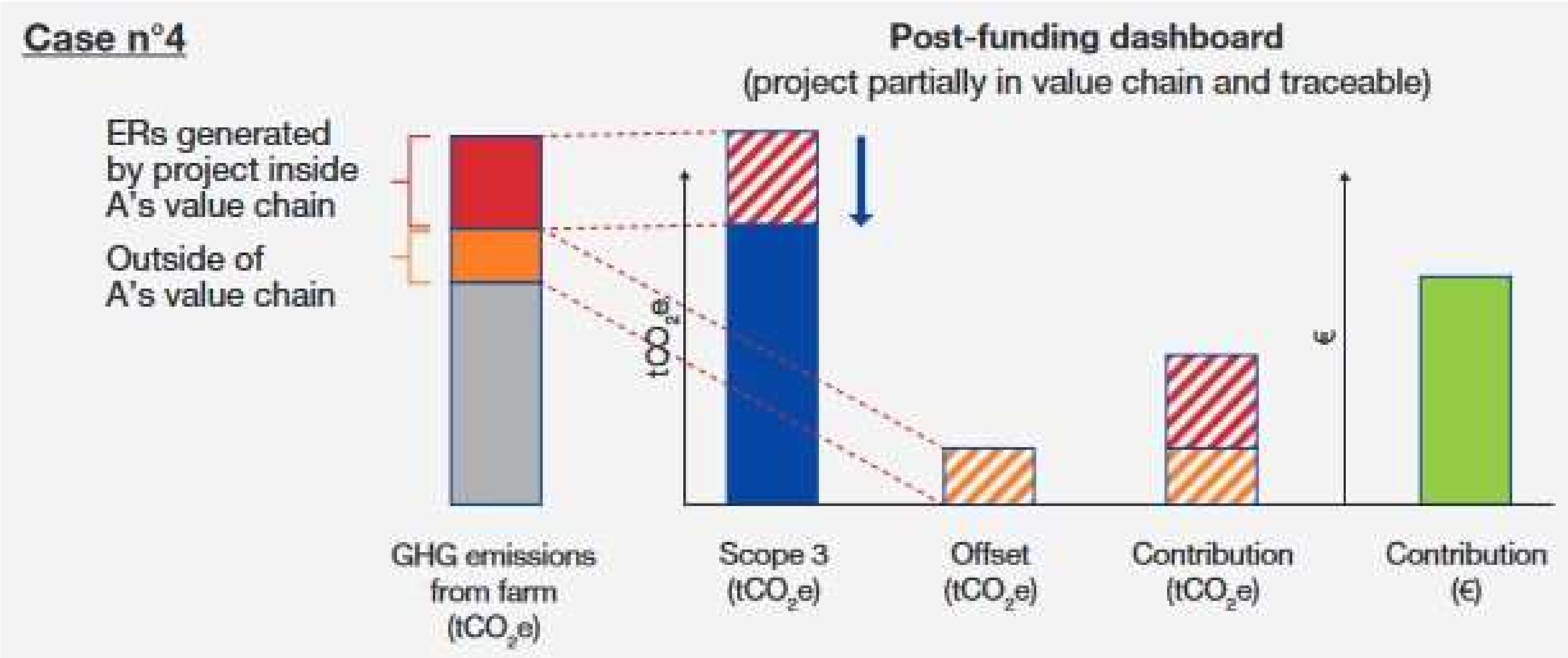
- No offsets can be made since the project is partially on the value chain.
- Scope 3 cannot be reduced since there is no allocation of ER to the farm's production.

➢ The value is therefore in the Contribution (carbon and euros).

Summary dashboards



Summary dashboards



2. The project is co-financed by several actors

- The funding: an AFI and an nAFI fund a project.

➢ Who can claim what?

➢ Is it possible to sell the credits and still see a Scope 3 reduction?

"Scope 3 - Carbon Credits" double counting

- According to Gold Standard, carbon credits should not be generated from ERs that have resulted in a Scope 3 reduction.
  - Example: a food company that finances a project on a farm from which it is sourced must not issue credits from the emission reductions in its value chain.

- There is no consensus on this recommendation, even at the international level.

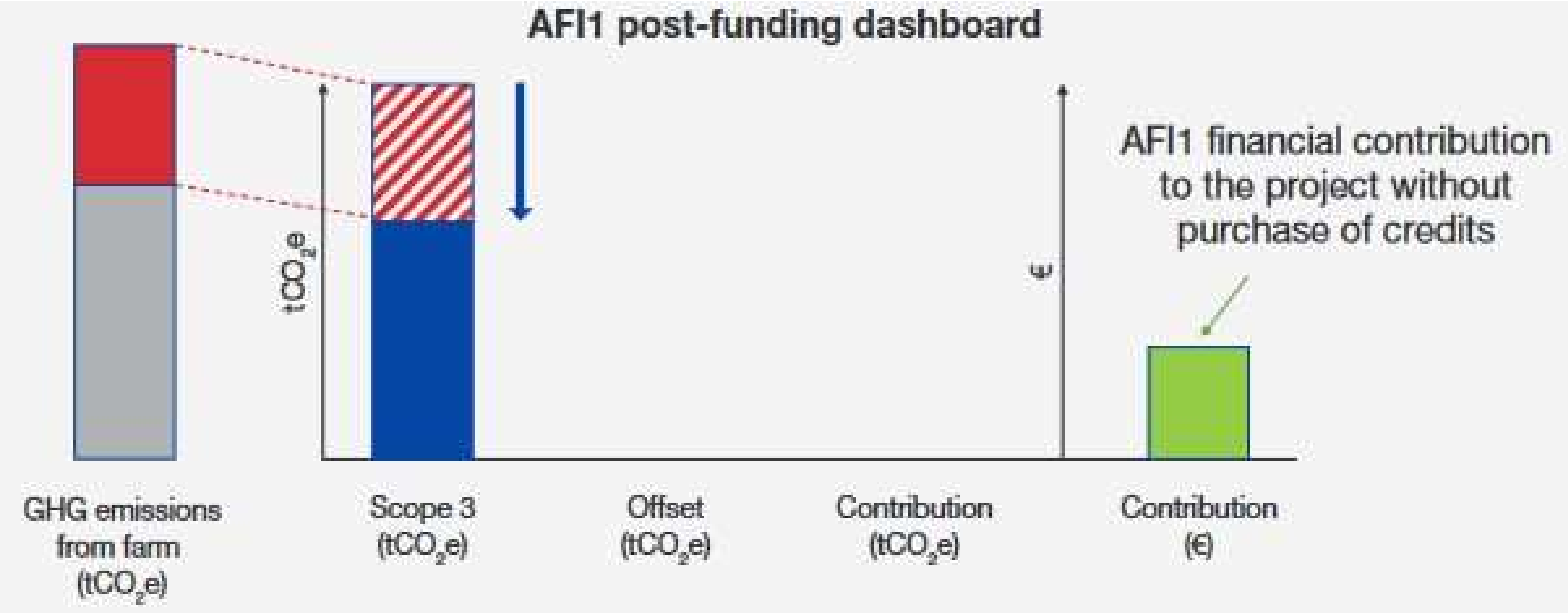
Consequences and solutions

- This discourages cooperation between project financing actors (opposition over the "ownership" of ERs).
- This recommendation is questionable in the context of Scope 3, where double counting is, by nature, present.
- In practice, it is unverifiable.

➢ We therefore recommend allowing the issuance of credits in all cases except one: the case where the company would like to keep (or buy) CCs from ERs on its value chain.

What it allows to do

- An AFI can finance part of the project without buying carbon credits (by financing the initial GHG diagnostics of the project for instance), let it be sold, and still see a Scope 3 reduction.



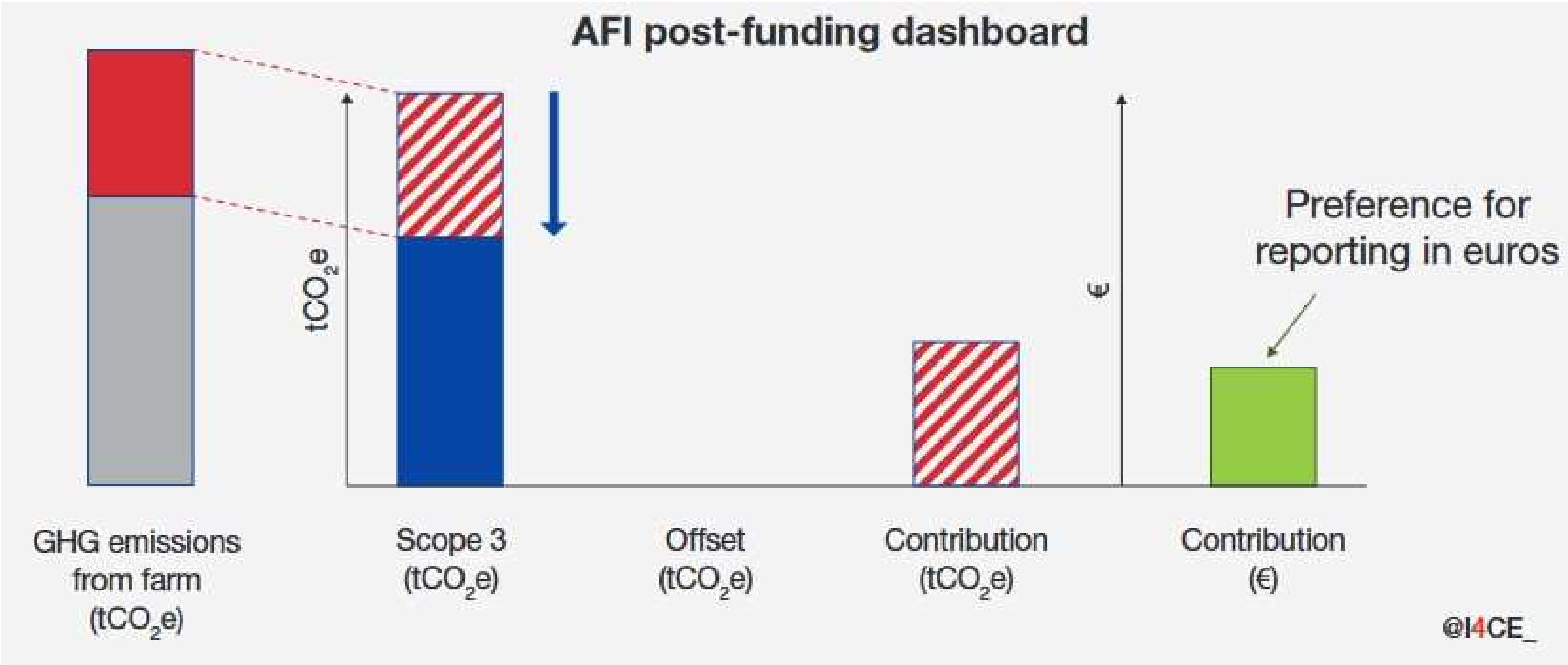
3. The State contributes to the financing of the project through a grant

- Most of the time, the public funder (EU, State, …) will not claim credits for tis financing.
- From the point of view of the project funders it makes the project cheaper.

➢ This is not an issue (it encourages cooperation between private and public actors), provided that the public contribution is notified by private funder.

➢ This another reason why we recommend to communicate both in euros and tons of carbon.

Dashboard


AFI post-funding dashboard
tCO2e
€
Preference for reporting in euros
GHG emissions from farm (tCO2e)
Scope 3 (tCO2e)
Offset (tCO2e)
Contribution (tCO2e)
Contribution (€)
@I4CE_

Points discussed:

1. Context
2. Issues around project financing
3. Lessons to be learned

In a nutshell

It is all about being:

- **Cooperative**
  - Need to diversify funding sources to scale up.
  - Carbon assessment at farm scale VS agricultural sectors.
- **Pragmatic**
  - A field that inherently involves uncertainties (do not seek perfection).
  - Do not take as a guideline rules that cannot be verified in practice.
- **Transparent** (key counterpart)
  - Carbon footprint and credits: "distinguishing the picture from the action"
  - Also communicate in euros.

Thank you for your attention

thomas.bonvillain@i4ce.org

julia.grimault@i4ce.org