



Center for
Clean Air Policy
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Sectoral Study Overview and Lessons Learned

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Outline of Presentation – Part I

- Sectoral Study Overview
- Sectoral Approaches: Some General Issues
- Sectoral Study Lessons from China and Mexico
- Overall Sectoral Study Lessons
- Sectoral Study Publications and Next Steps

The Sectoral Study: Overview

- CCAP is leading a “proof of concept” study of sectoral programs in China, Mexico and Brazil (w/ parallel efforts in India & Indonesia)
 - » Funded by European Commission, Hewlett Foundation, BP Foundation, UK Special Programme Fund
 - » Partners are CEPS, ZEW, CCC, IDDRI
 - » Sectors: electricity, cement, iron and steel, aluminum, oil (Mexico only)
- Key questions/issues:
 - » What data is available (technologies, costs, emissions, fuel use)?
 - » How big an impact can sectoral programs have on global emissions?
 - » How can sectoral programs fit into the Copenhagen agreement?
- Developing potential sectoral goals in Mexico and China
- Final results in March/April 2010

Sectoral Approach Issues: Flexibility

- Sectoral approaches should be:
 - » Voluntary
 - » Tailored to the circumstances of individual developing countries
 - » Not impose uniform global benchmarks
- Sectoral goals should not be rigidly limited to emissions-intensity goals.
- Sectoral boundaries could vary from country to country.

Sectoral Approaches Issues: Implementation

- Developing countries should be able to implement sectoral approaches through a variety of means:
 - » Domestic cap-and-trade programs
 - » Tradable intensity standards
 - » Technology deployment mandates
 - » Other measures

Sectoral Approach Issues: Data and MRV

- Appropriate MRV procedures must be established and followed for a developing country to be eligible for international support or sale of credits to international carbon markets.

→ Significant data gaps exist.

→ Capacity building for developing countries needs to begin immediately.

→ MRV implementation rather than emissions?

Sectoral Study Lessons: China

- Barriers to implementation
 - » Transitional social costs
 - » Lack of domestic finance
 - » Numerous inefficient small enterprises
 - » Availability of data
- Design of Sectoral Program
 - » Technology goals better fit the Chinese system and China's preferences for international assistance

Sectoral Study Lessons: Mexico

- Sectors not independent and constrained by government policies
 - » Fuel oil sold to power company at low prices set by government; use of natural gas limited
 - » Electricity prices subsidized and co-generation limited
- Other government actions needed
 - » Municipal waste: need long-term supply contracts and further processing prior to use as fuel
- Confidentiality issues limit plant-level data

Sectoral Study Lessons: Overall

- Sectoral approaches can be feasibly designed and implemented in developing countries.
- Sectoral approaches can lead to significant emissions reductions in developing countries.
 - » Many of these reductions can be achieved cost-effectively or the required assistance is simply loans (not large grants).
- Setting sectoral goals in developing countries is similar to setting caps in Annex I countries.
 - » Both a policy and political negotiation process.
- Bottom-up analysis of the barriers to cost-effective options can uncover the need for tailored incentives and needed links to policy reform.
 - » Not evident from a simple depiction of a cost curve.
 - » International assistance can be made contingent upon policy reform that removes these roadblocks.

Sectoral Study Lessons: Overall (cont.)

- The key to any sectoral program is implementation – the policies and measures that a country adopts to achieve its sectoral goals.
 - » Domestic implementation must address the identified barriers and treat the affected entities equitably.
- Even when data is limited, reasonable sectoral goals can potentially be determined.
- A sectoral approach does not have to be perfect, as we are not devising an architecture for the very long term.
 - » Can be viewed as an interim step on a longer-term quest.
- The Sectoral Study has led to significant exchange of knowledge between developed and developing countries on critical climate change issues.

The Sectoral Study: Recent Publications

- Recent Publications:

- » Paper discussing the use of benchmarks in sectoral approaches: [*Benchmarking Global Sectoral Approaches as Part of a Post-2012 Framework*](#)
- » First *Sectoral Study* Interim Policy Report Summary: [*Sectoral Approaches: A Pathway to Nationally Appropriate Mitigation Actions*](#)
- » Paper discussing capacity building for sectoral approaches: [*Getting Started Now: Capacity Building for the Data Systems Foundations for Sectoral Approaches*](#)
- » Paper describing Mexico sectoral goal-setting exercise: [*Setting Mitigation Goals for Sectoral Programs: A Preliminary Case Study of Mexico's Cement and Oil Refining Sectors*](#)
- » Paper describing China sectoral goal-setting exercise: [*Technology-Based Sectoral NAMAs: A Preliminary Case Study of China's Cement and Iron & Steel Sectors*](#)
- » Paper describing tradable intensity standards: [*A Tradable Intensity Standard for Sectoral Crediting*](#)

Next Steps in the Sectoral Study

Today:

- New paper: [Status of Policy Findings from the Global Sectoral Study](#)
- New paper: [Nationally Appropriate Mitigation Actions by Developing Countries: Architecture and Key Issues](#)
- New paper: [A Primer on Clean Technology Finance](#)
- New paper: [The Role of Industry in Sectoral Approaches](#)
- New analysis of Trade Impacts of Sectoral Approaches in the Cement Sector

Future:

- Final Study Workshop (Brussels, March 2010)
- Final Study Report (April 2010)
- Papers on:
 - » NAMA Financing in China & Mexico
 - » The ZEW modeling
 - » Modeling of China's power sector

Outline of Presentation – Part II

- Sectoral Study Policy Goals
- Sectoral Approaches
 - » Original three approaches
 - » Evolution of the concept
- NAMAs and the CDM
- NAMAs and Competitiveness
- Conclusions

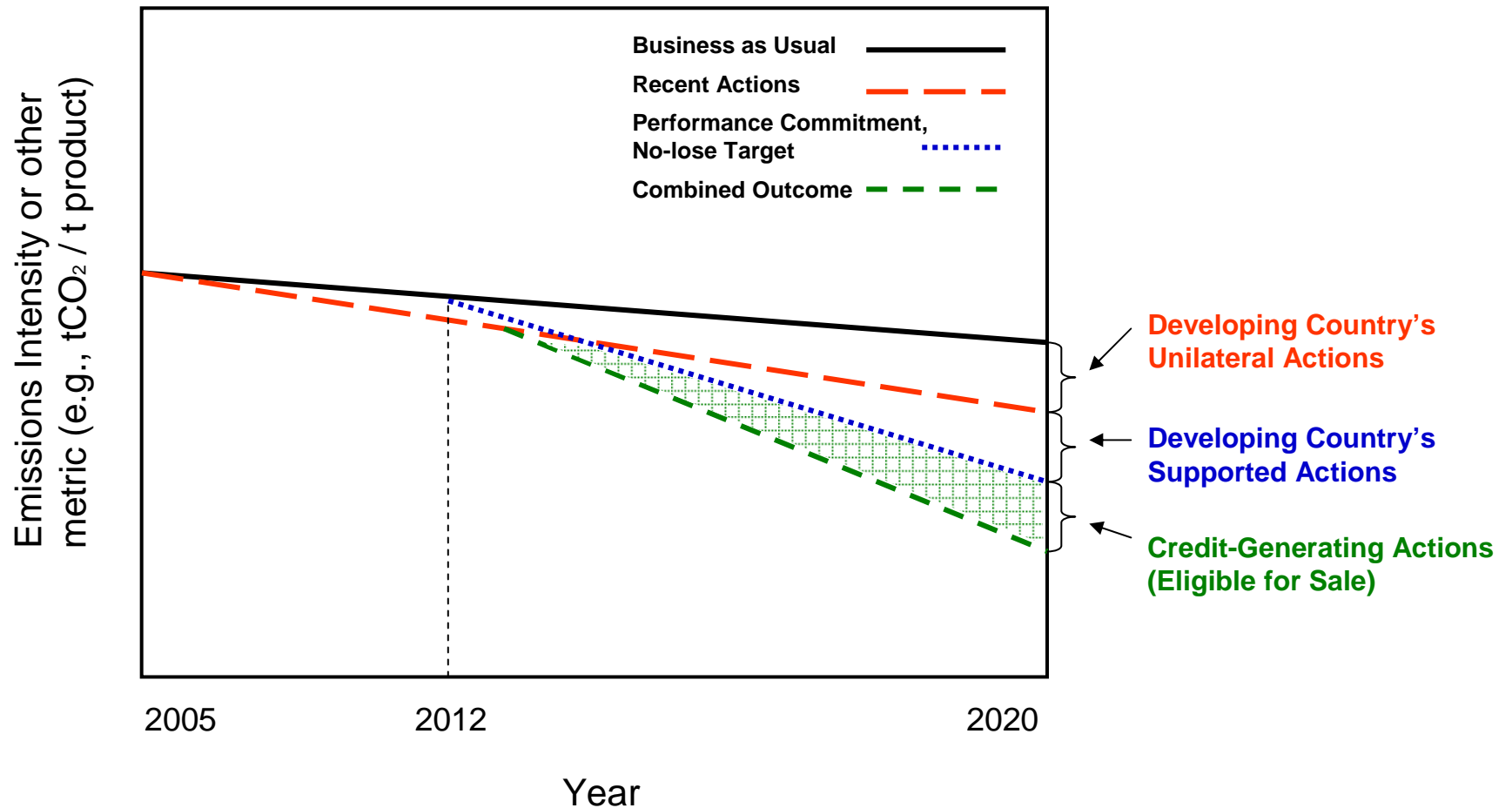
The Sectoral Study: Policy Goals

- Sectoral NAMA approaches are designed to build on existing DC actions and encourage:
 - » Scaling up developing country emissions reductions that contribute to protection of the atmosphere
 - » Scaling up financial and technology transfers to DCs from developed countries
 - » Levelling of the playing field in key internationally competitive sectors

Original Ideas for Sector Approaches

- Transnational
 - » All countries meet international benchmarks
- Carbon Finance (Sectoral CDM)
 - » All facilities in sector included
 - » Not just standardized baselines
- Bottom-up
 - » Annex 1 finance, technology and capacity-building assistance provided to encourage action and to increase ambition of sector crediting baseline

Bottom-up Sectoral Approach



Evolution of Concept in International Negotiations

- Sectoral approaches and Nationally appropriate mitigation actions (NAMAs) were both included in Bali Action Plan
- Negotiations over two years has separated supported NAMAs and sectoral/NAMA crediting
- Major DCs have endorsed NAMAs and opposed sectoral crediting
- China yesterday endorsed coexistence of project-based CDM and supported NAMAs, while A1 countries have preferred phase out of project CDM in favor of sectoral crediting

NAMAs and CDM

- Differences w/ traditional CDM:
 - » Unilateral and supported NAMAs produce reductions that reflect a DC contribution to protection of the atmosphere, do not produce offsets
 - » NAMAs affect larger sets of facilities within a sector while traditional CDM is project-specific – poor performers are ignored in traditional CDM (w/ exception of “programs of activities” CDM)

NAMAs & CDM: Paying Twice?

- Where project-specific CDM coexists w/ supported NAMAs, risk that A1 pays twice: once up-front for NAMA program and again for specific projects
- One solution is to “wall off” existing CDM projects from calculation of DC performance in meeting no-lose target
- Problem is new CDM projects in same sector as a NAMA – private sector will prefer CDM projects which could lead to failure of DCs to meet no-lose NAMA targets
- Ultimate solution may be buyer-country policies barring project-specific CDM in key sectors coupled with the incentive of significant up-front financing for NAMAs

Credit-Generating NAMAs and CDM

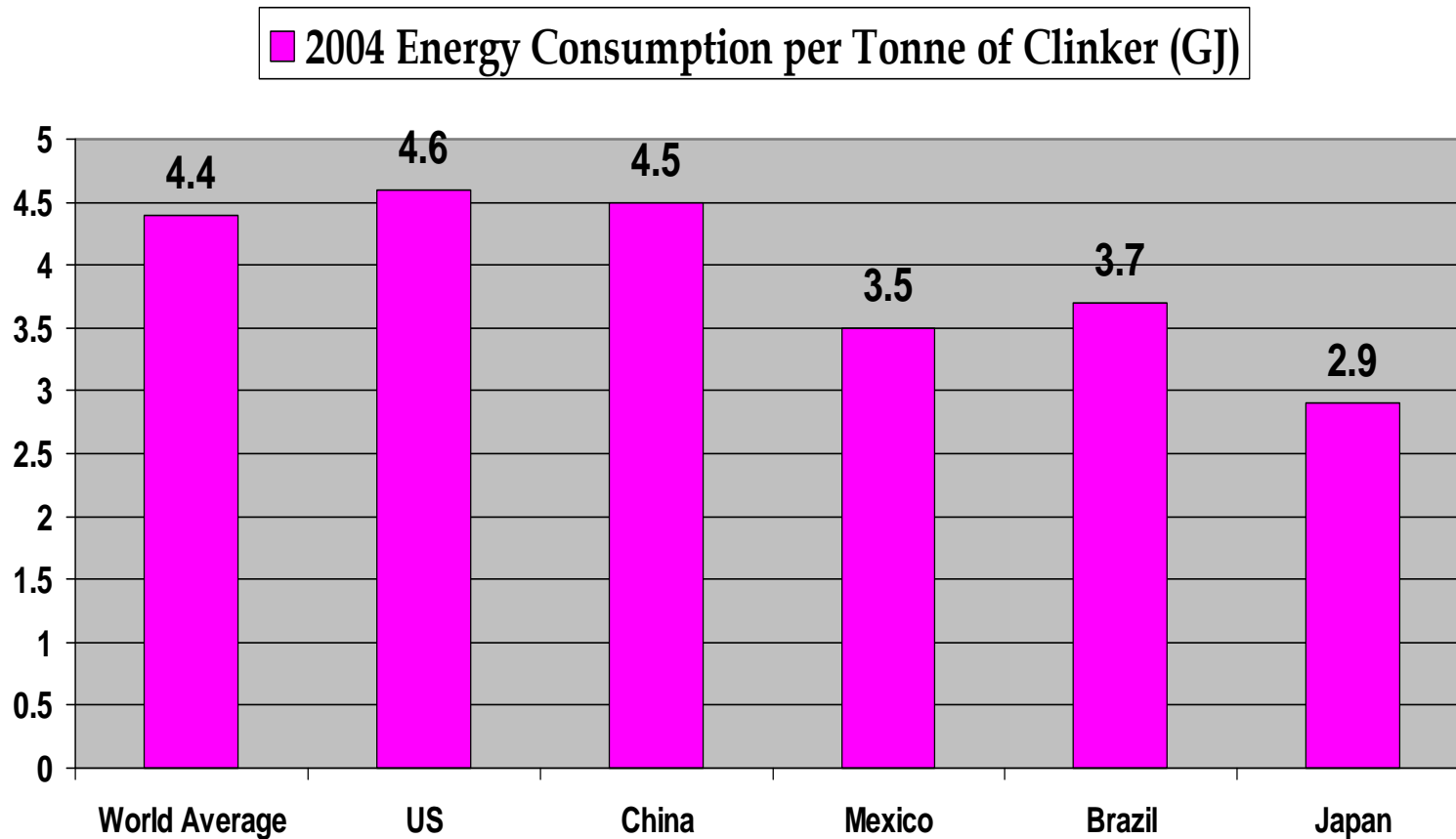
- Credit-generating NAMAs can generate more CERs and investment if incentives are well designed
- Key is to insure full return to private sector players who beat the crediting baseline – tradable intensity std does this
- Companies beating sector-wide std receive CERs, companies failing to meet std must purchase intl credits and turn these into DC govt. at end of year

Nested Approach to NAMA Decisions

- Decisions on support for NAMAs and crediting baseline require coordination
- Parties need to know level of up-front support they will receive for supported NAMAs at same time as they discuss level of ambition for NAMA or sector-wide crediting
- Governing body can receive advice from expert panels on baselines and from operating entities on finance but needs to make both decisions

Competitiveness: Some DC Industries Are More Efficient than Those in Developed Countries

Cement Sector Energy Efficiency



Can NAMAs Help Level the Playing Field in Competitive Sectors?

- Potential for carbon leakage and competitive impacts lies in developed country industries facing an economy-wide carbon price currently or in the future while DC industries likely will not
- Sectoral NAMAs can help reduce this risk
- This can be also be mitigated by free allocation of allowances by A1 countries to facilities in competitive sectors
- CDM projects and sectoral crediting can both be subsidies to competitors, supported NAMAs are generally not

Conclusions

- The NAMAs concept has supplanted the sectoral approach in the negotiations
- Sector-wide NAMAs can lead to significant emission reductions in DCs that can be a contribution to protection of the environment and can ease competitiveness concerns in developed nations
- Sectoral crediting is a battleground in the negotiations as is the future of the traditional CDM
- Bottom-up approaches allow policy to be tailored to local conditions and to resolve local policy barriers
- Political reality of actions in DCs is same as in developed nations – a complex policy negotiation

Thank you!

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and

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