



Center for  
Clean Air Policy

# Engaging Developing Countries through Sectoral Approaches

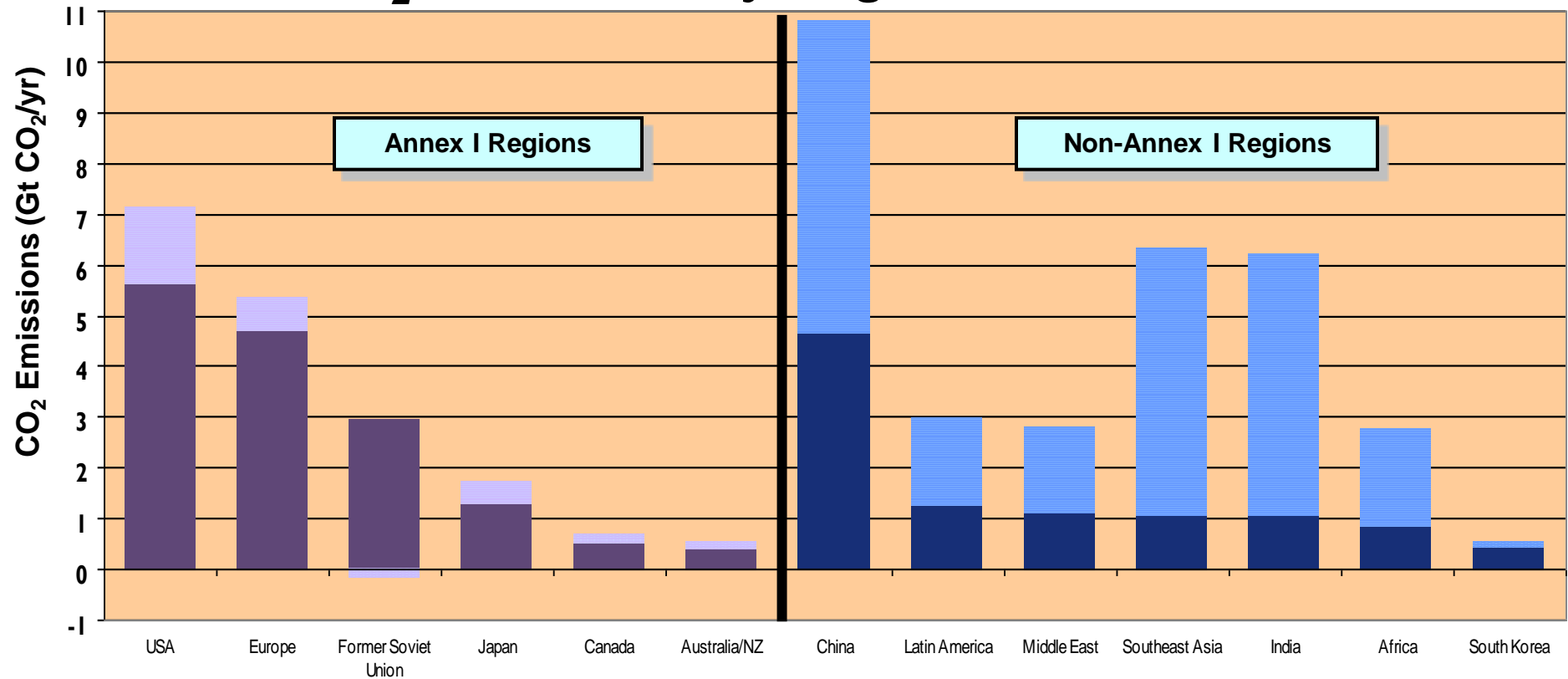
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Center for Clean Air Policy

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CEQ Briefing  
Washington, DC  
November 5, 2008

# Outlook for Developing Country emissions growth remains substantial

## CO<sub>2</sub> Emissions by Region - 2000 & 2050

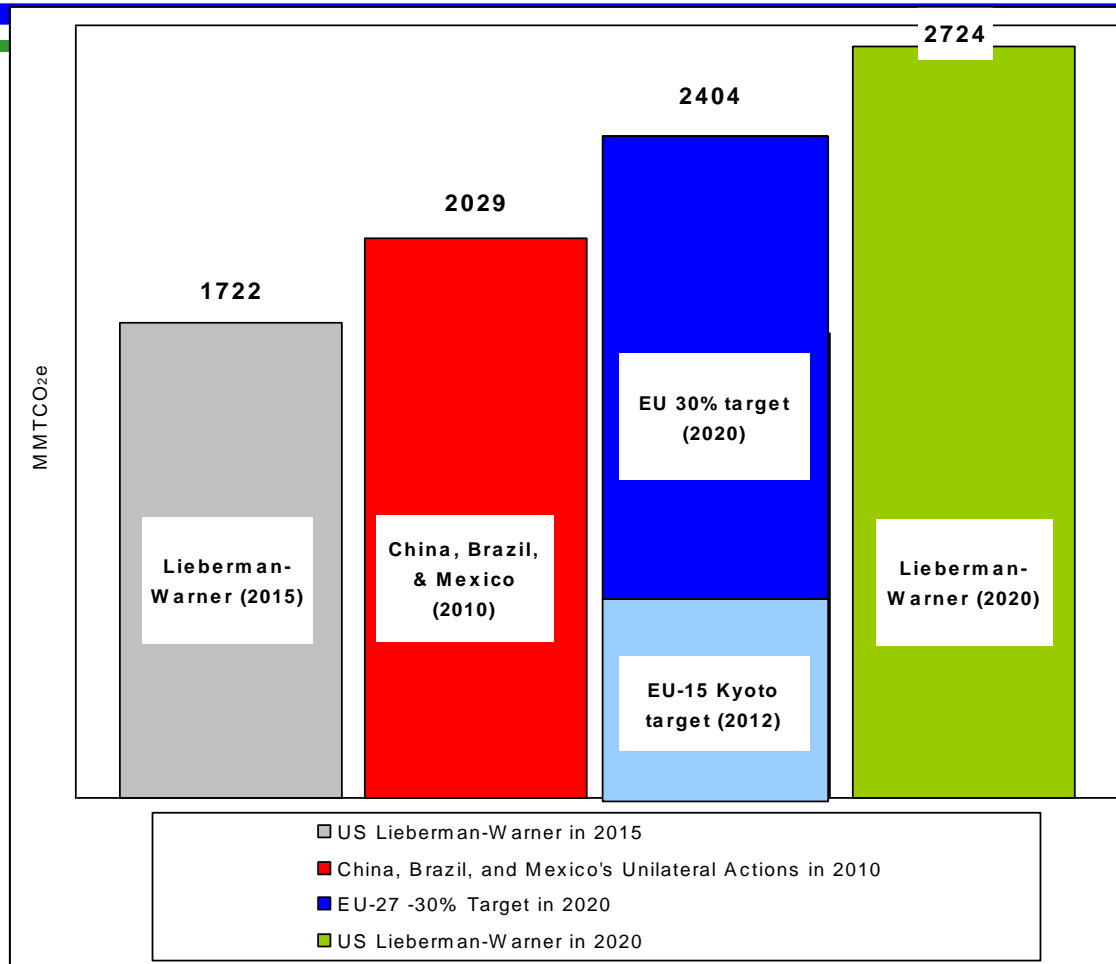


<sup>1</sup> Includes Fossil and other industrial CO<sub>2</sub>.

Source: U.S. Climate Change Science Program. 2007. *Scenarios of Greenhouse Gas Emissions and Atmospheric Concentrations* (MINICAM Results).



...And developing countries are already doing more than many believe



Reductions from BAU

Source: CCAP, updated

# International Policy Context

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- Bali Action Plan calls for verifiable “Nationally appropriate mitigation actions by developing country Parties in the context of sustainable development”,
- Supported and enabled by verifiable technology, financing, and capacity-building support from A1 countries
- Roadmap envisions a menu of options that developing countries can elect to pursue including tech transfer, CDM, sectoral approaches, and reductions from deforestation (REDD)
- Also envisions a range of financing from A1 including expanded carbon market mechanisms (based on tougher A1 targets) and new financing beyond ODA

# US Policy Context

- Trying to address two critical issues:
  - » Ensure that US companies are not at a competitive disadvantage vis-à-vis competitors as a result of US action w/o similar action in other countries
  - » Encourage significant developing country emissions reductions
- Best solution: International cooperation where all countries undertake the same efforts.
  - » Not likely in the near-term, so...
- **How do we accelerate developing country action in the near-term?**

# Border Adjustment & Output-Based Allocations

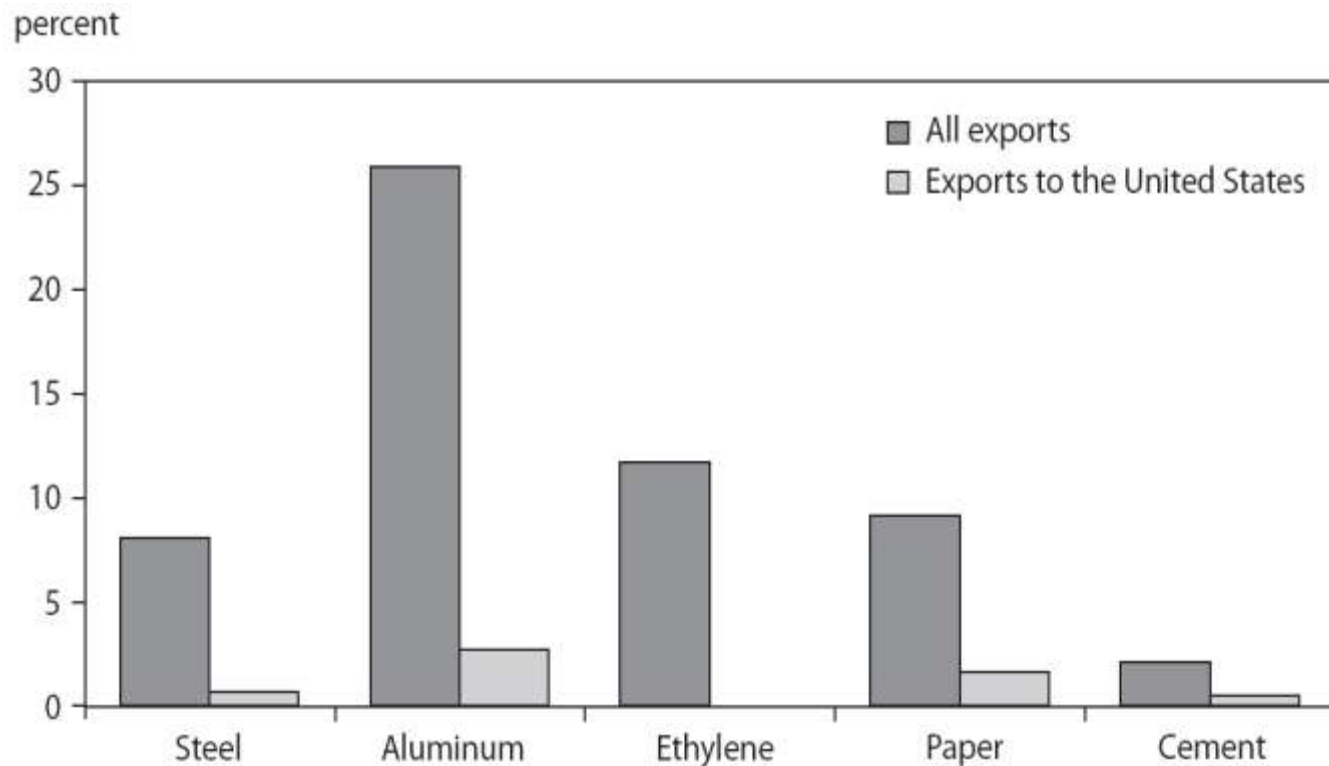
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- Border allowance purchase requirements and output-based allocations could level the carbon playing field
- BUT, they may not prevent job shifts due to labor costs, tax policies or other factors
- AND they will not create incentives for developing countries to reduce their domestic emissions

# Developing country production is often largely to meet growing domestic demands

## Chinese Exports as a Share of Domestic Production, 2005



Note: Chinese ethylene exports to the United States are negligible.

Source: Peterson Institute & World Resources Institute, 2008, *Leveling the Carbon Playing Field*.

# Whatever strategies we use have to...

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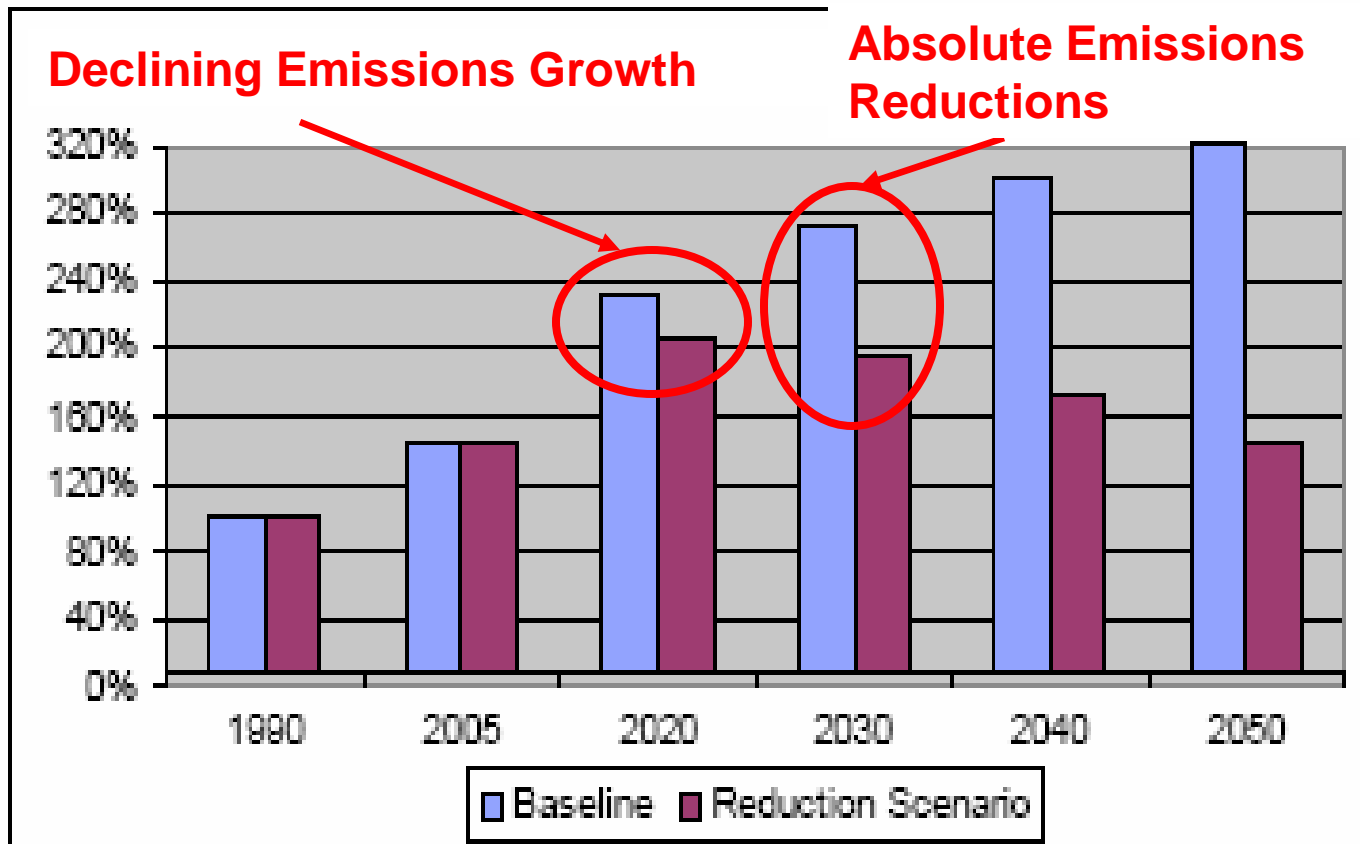
- Reduce the rate of growth of developing country emissions

AND

- Lay the foundation for absolute emissions reductions

# Scenario for Developing Country Emissions

- EU analysis of 50% chance of staying below 2 C
  - » Developed countries 32% reduction below 1990 by 2030; 60% below 1990 in 2050



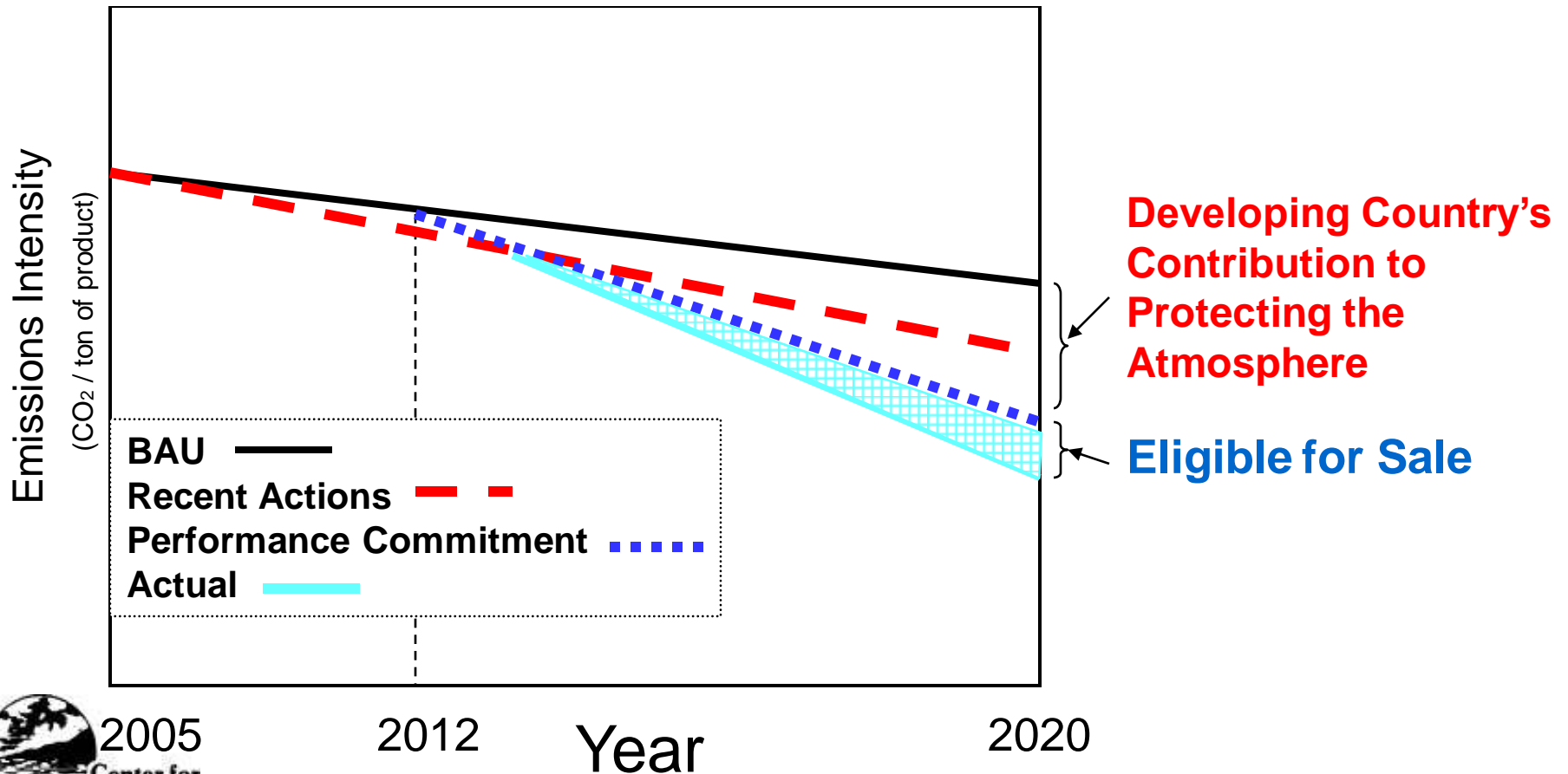
Source: European Commission, 2007

# Various options for reducing developing country emissions have been debated

- Since 2002, CCAP's Dialogue w/ senior climate negotiators has debated various forms of developing country actions
  - » Absolute economy-wide targets w/ an allowance for growth ("growth caps")
  - » Economy-wide intensity targets
  - » Sustainable Development Policies and Measures
- None of these approaches has gained significant support from both developing and developed countries for a variety of reasons

# Sectoral “Performance Goals”

- Emissions reductions beyond the performance commitment are eligible for sale



# Technology Finance Assistance to Encourage Stronger Actions

- Technology & finance assistance could be provided:
  - » To build first-of-a-kind advanced technologies which are not cost effective
  - » To accelerate deployment by bringing down the cost of advanced technologies
  - » As incentive for participating developing countries to establish more aggressive “performance goals”
- To receive incentives, developing countries would have to meet “performance metrics”, such as adopting binding national emission reduction programs

# Sources for Technology Finance

- Countries could provide financing by setting aside a portion of allowances or auction revenues in domestic trading systems, e.g.,
  - » German Parliament has earmarked 30% of auction revenues
  - » European Commission has proposed that at least 20% of auction proceeds should be used for CCS deployment, int'l EE/RE, and measures to avoid deforestation.
  - » Norwegian Finance Minister has proposed use for international programs including adaptation, technology, and reducing deforestation
  - » Lieberman-Warner bill uses such an approach for int'l forestry

# Advantages of a Sectoral Approach

- A bridge strategy for the next commitment period (between 2012 – 2020) to encourage further developing country actions. It could set the stage for eventual hard caps in developing countries.
- Creates strong technology finance incentives in key internationally competitive sectors (e.g. steel, cement, electricity) to:
  - » deploy advanced low carbon technologies (such as CCS that are not market ready and cost effective) in developing countries
  - » Encourage developing countries to set more aggressive emissions reduction targets than in their current laws and regulations.
- Creates opportunities for leading US companies to gain access to growing new markets (create jobs at home)
- Moves toward leveling the playing field for carbon in internationally competitive sectors

# Updates on China and Mexico

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- China
  - » Prefers technology-based targets
  - » Political concern over social cost
- Mexico
  - » Plans to implement sectoral approach
  - » CCAP is developing sectoral intensity targets for PEMEX (oil sector) and cement sector that will be presented in Poznan

# Technology Deployment Incentive in Chairman's Amendment to Lieberman-Warner

- Section 1337 creates International Clean Energy Deployment Fund to “promote and leverage private financing for the development and international deployment of technologies” to reduce GHG emissions
- Funded through: (1) appropriations of \$2 billion for FY09-11; and (2) auctioning 0.5% of allowances from 2012-2017
- Creates multi-federal agency Board to distribute funds to nat'l gov'ts., regional/local gov'ts, NGOs, or private entities for:
  - » Capacity building programs
  - » Funding for technology programs including in transportation, coal, energy efficiency, renewables, industrial and buildings
- Eligible countries have to:
  - » Make a binding commitment, pursuant to an int'l agreement, to actions that produce measurable, reportable, and verifiable GHG mitigation OR
  - » Have in force binding national policies and measures that are capable of producing measurable, reportable, and verifiable mitigation.

# Conclusions

- Addressing competition is critical to a climate solution in US & EU
- A border adjustment or output-based allocation could level the carbon playing field, but will not cause developing countries to significantly reduce emissions
- A promising option to accelerate developing country emissions reductions is a performance-based sectoral approach
  - » It could:
    - Create jobs and opportunities to access new growing markets
    - Deploy advanced technology in developing countries faster than the world has done previously
    - Establish a bridge strategy until absolute emissions reduction cuts in developing countries are more realistic