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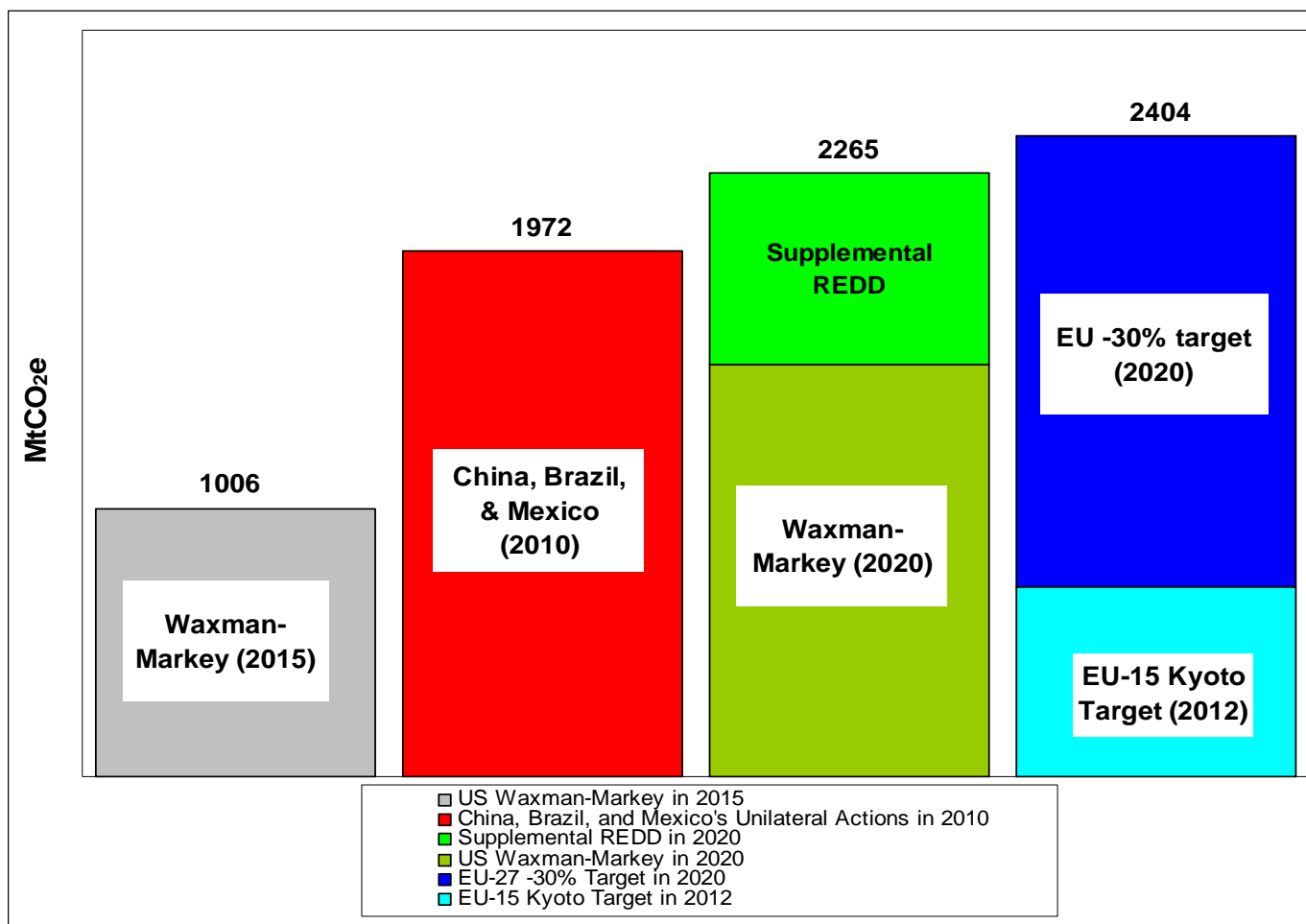
Road to Copenhagen: Introduction to Developing Country Actions

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Center for Clean Air Policy
US Sectoral Workshop
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Overview of Presentation

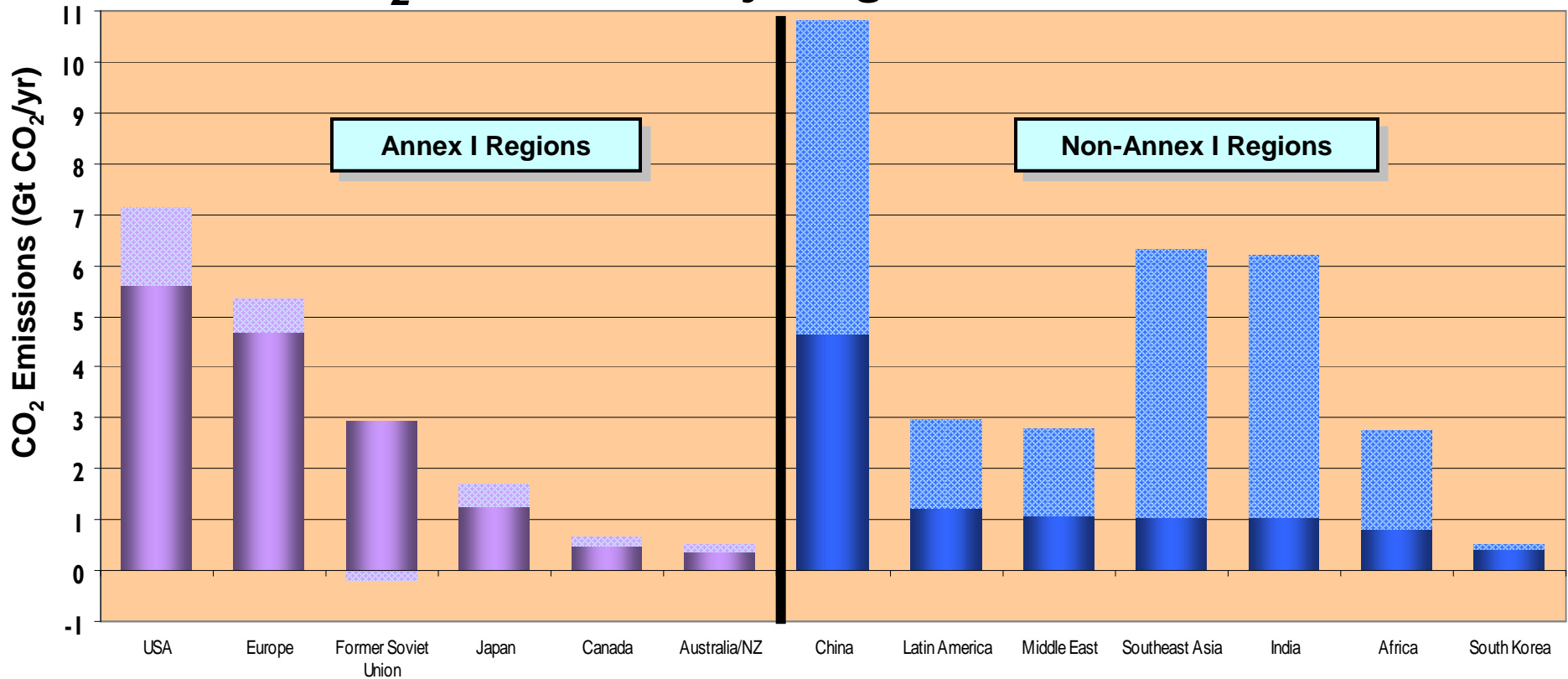
- Discuss expectations for the international climate negotiations leading up to Copenhagen and likely next steps in reaching a global agreement
- Explain the likely role of developing countries in the Copenhagen agreement, including:
 - » NAMAs
 - » Financing
 - » Sectoral crediting
- Discuss some key issues that will need to be addressed over the course of the negotiations.
- Introduce CCAP's sectoral study and lessons learned for implementation.

GHG Mitigation: Developing Countries Are Already Doing a Lot



... But Outlook for Developing Country Emissions Growth Remains Substantial

CO₂ Emissions by Region - 2000 & 2050



Expectations for the International Climate Negotiations

On the road to Copenhagen (December 2009)

- » Global agreement on the basic policy architecture for both developed and developing countries for actions beginning in 2012

After Copenhagen (2010-2011)

- » Parties will negotiate the specific details required for implementation of the policy architecture

Key difference between Copenhagen and Kyoto: Developing Country Actions

- Kyoto Protocol:
 - » Developed countries accepted absolute compliance obligations.
 - » Developing countries sold voluntary and project-based emissions reductions to offset developed country emissions via the Clean Development Mechanism (CDM).
- Copenhagen agreement:
 - » Developed countries accept more aggressive compliance obligations and provide international finance to developing countries.
 - » Large developing country emitters adopt nationally appropriate mitigation actions, or NAMAs, including sectoral approaches for energy intensive industries.

The Sectoral Study

- CCAP is leading a “**proof of concept**” study of sectoral programs in China, Mexico and Brazil (w/ parallel efforts in India & Indonesia)
 - » Funded by EC, Hewlett Foundation, BP Foundation, UK Special Programme Fund
 - » Partners are CEPS, ZEW, CCC, IDDRI
 - » Sectors: power, cement, iron & steel, aluminum, oil (Mexico only)
- Key questions/issues:
 - » What data is available (technologies, costs, emissions, fuel use?)
 - » Can potential sectoral goals and financing needs be determined from the available data? If so, how?
 - » 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

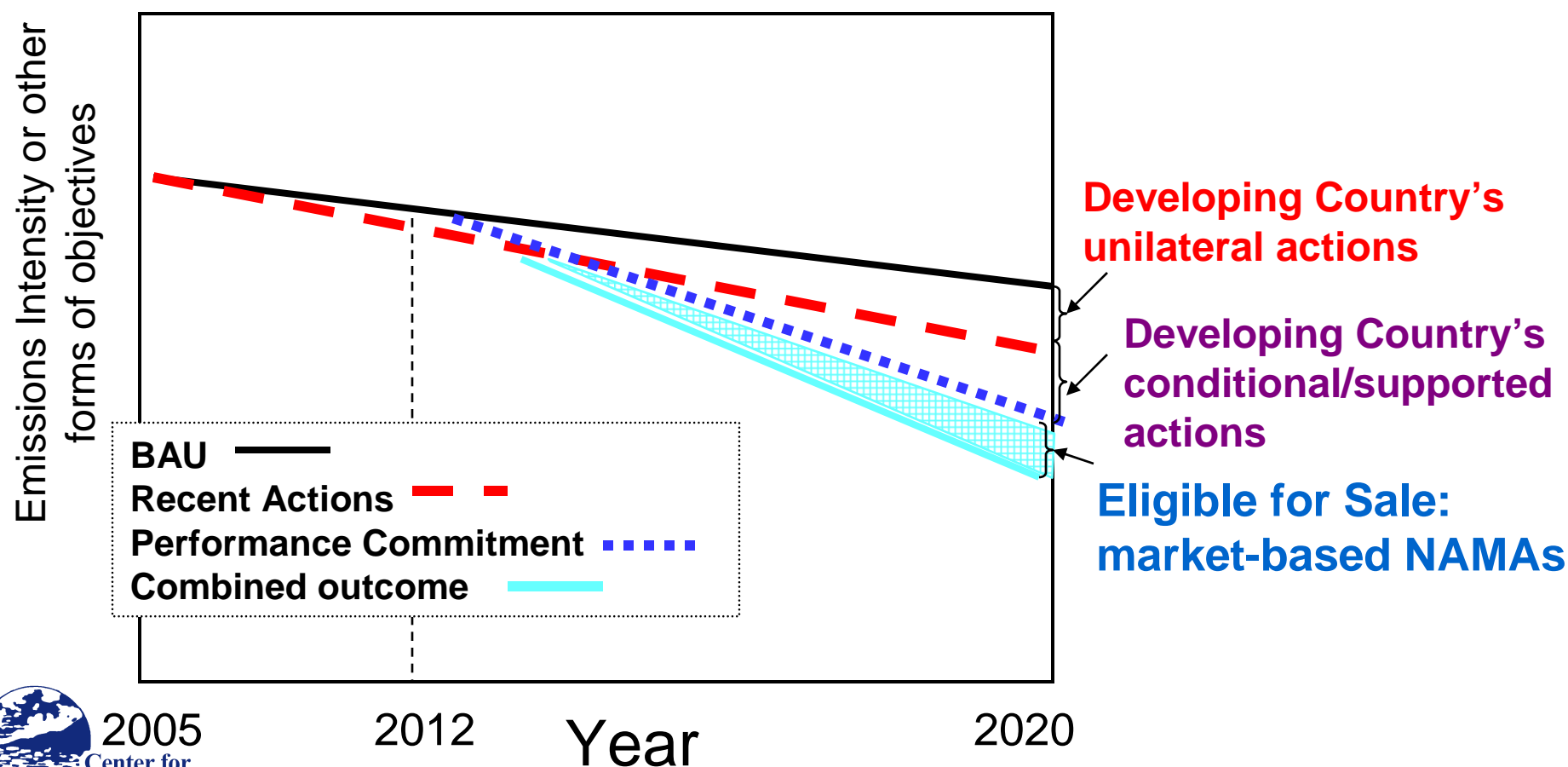
Broad Sectoral Approach Lessons

- Sectoral approaches should:
 - » have clearly defined objectives
 - » build on ongoing unilateral mitigation actions
 - » produce material participation and material emission reductions across sectors and countries
 - » support national sustainable development strategies
 - » be flexible and take national and local circumstances into account (e.g., with respect to sector boundaries)
 - » produce technological innovation and transfer
 - » offer sufficient incentives to both governments and industry in both developing and developed countries

Background on NAMAs

- International debate centers on three types:
 - » Unilateral;
 - » Conditional or cooperative; and
 - » Credit-generating.
- Goal of unilateral and conditional NAMAs is to produce developing country emissions reductions that are not offsets – DCs' contribution to climate protection.
- 6-10 large developing countries are responsible for 80-90% of DC emissions in key sectors.

Developing country contribution to GHG mitigation: three categories of NAMAs



Conditional/Cooperative NAMAs vs. Credit-Generating NAMAs

- Conditional/cooperative NAMAs provide up-front finance while credit-generating NAMAs provide carbon credits after the reductions are achieved
- Unilateral and conditional NAMAs are designed to allow developing countries to capture “the low hanging fruit” as their contribution to protection of the climate
- Credit-generating baselines are designed to offer higher cost reduction options to the carbon market as offsets
- Conditional NAMAs can create a “race to the top” as some proposals from different developing countries compete for up-front financing

Conditional NAMAs vs. Credit-generating NAMAs (2)

- Emphasizing sectoral crediting to the exclusion of conditional NAMAs could invite a “race to the bottom” where the incentives for host countries and the private sector is to set weak baselines to maximize credit generation, as has existed to a degree with the CDM.
- The big challenge for conditional NAMAs is how to generate enough public finance to provide the needed incentives while sectoral crediting can leverage larger private sector carbon market sources
- The no-lose target of conditional NAMAs is not necessarily the crediting baseline for sectoral crediting

Strategic Financing of Cooperative NAMAs

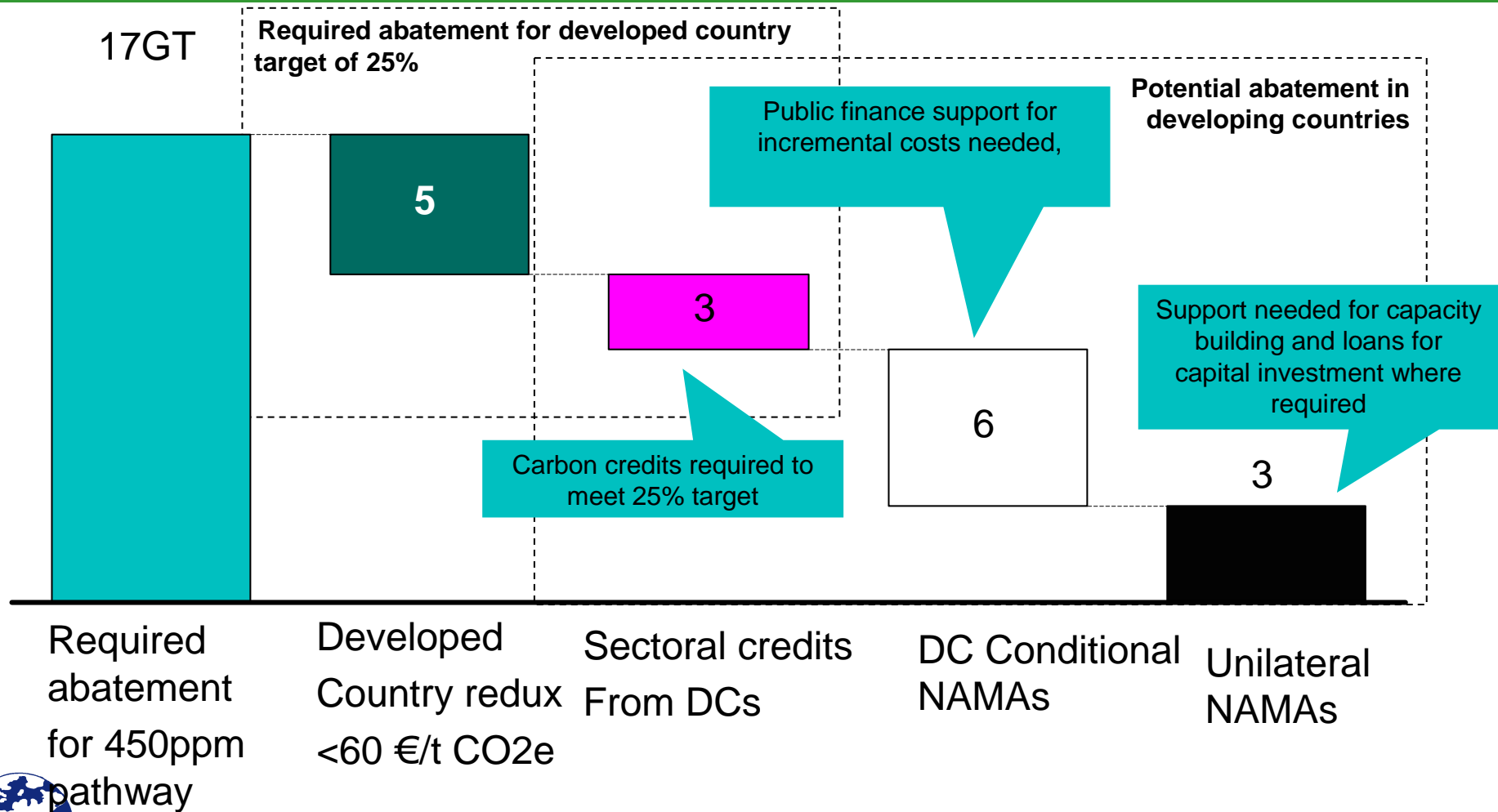
Financing should leverage domestic and private sector funds, not simply pay for incremental costs. Examples include:

- Capacity building
- Financing for “first-few-of-a-kind” advanced technologies
- Financing to help overcome domestic barriers, for example:
 - » Creation of new lending institutions or Special Purpose Entities
 - » Financing for intellectual property insurance
- Flexible financing tools such as loans, guarantees, grants, etc.
- Financing for policy implementation, for example, to write down the costs of a feed-in tariff for renewables

Criteria for Prioritizing NAMAs – Raising the Bar on Developing Country Performance

- Possible criteria:
 - » Cost effectiveness
 - » Materiality (size of reductions)
 - » Transformational policies
 - » Solid MRV
 - » Other?
- Tension may exist between nationally appropriate (sustainable development) and international criteria
- Tension between predictability/certainty desired by DCs and “race to the top” competitiveness element desired by Annex 1
- Could potential for finance slow unilateral actions by DCs?
- Some NAMAs like capacity building should be funded in all DCs and based on other criteria than the ones proposed above

Project Catalyst Assumes bulk of 2020 reductions are financed by Developed Countries



Sectoral Crediting and the Offsets Market

- Key internationally competitive sectors (cement, steel, oil refining, pulp & paper, chemicals) in major developing countries will be under new “sectoral crediting” framework.
- Under sectoral crediting framework, only reductions below sectoral targets or cap may earn offsets.
 - » Maximum potential number of offsets will be less than under CDM-for-all framework.
 - » Expected that many of the lowest cost options will be used to meet unilateral and conditional NAMAs.
- Sectoral crediting provides a mechanism for expanding the scale of offset production.
 - » No need to justify additionality and offset quality on a project-by-project basis.

Future of the CDM

- Both U.S. legislation and European Climate Package propose elimination of CDM for major developing countries in key internationally competitive sectors
- CDM will remain an option for least developed countries and some smaller or less competitive sectors.
- Changes are underway to streamline CDM crediting procedures and improve certainty for future investments.
- CDM investments will also be affected dramatically by restrictions imposed on domestic trading systems by developed nations like the US and Europe
 - » We saw this after Marrakech when afforestation/reforestation CDM projects were not allowed in the EU ETS

Priorities for Copenhagen

- » Annex 1 targets based on principles of comparable effort
- » Annex 1 aggregate financial commitments for technology/mitigation, adaptation & REDD
- » Range of developing country aggregate actions
- » NAMA architecture & financing mechanism
 - Combination of Mexican green fund and Norwegian auction proposal
 - Definition of eligible activities
- » NAMA matching mechanism
- » REDD mechanism
- » Capacity building
- » Shared political vision

Issues to be settled in 2010-11

- Specific negotiations to match up-front funding with NAMAs
- Decisions on sectoral crediting baselines for key DCs
- Country-specific funding levels for adaptation and least-developed country mitigation
- The “Accords” – the technical rules
- Implementation of any new financing entities

Schedules: A Way to Buy Time for Agreement beyond Copenhagen?

- Australia and the US have suggested creation of schedules or annexes where developing country NAMAs and developed country financial commitments (as well as other elements) could be recorded as part of the Copenhagen package in 2010-11 to be ratified
- Can this buy time for the process, yet still keep us on the global track for a robust agreement for the 2012-20 period?

H.R. 2454 Recognizes Emerging International Framework

- Sector agreements recognized as a valid form of mitigation commitment.
 - » Prevents application of the border allowance purchase requirement and considered in determining the phase-out of rebates.
- Financing provided to developing countries to encourage widespread implementation of mitigation actions.
 - » 1% of allowance value initially, rising to 2% in 2022 and 4% in 2027 (~\$0.6 billion in 2015; \$3.6 billion in 2030).
- International offsets issued on a sectoral crediting basis for emerging economies with higher emissions or development and for sectors subject to the US cap.

Take Away Points on Developing Country Actions

- Emerging international framework asks developing countries to adopt unilateral actions and conditional actions that contribute to global mitigation goals.
- Conditional actions are dependent on international financing, especially technology finance.
 - » Technology finance is a tool to raise the bar on developing country performance.
- Working towards a more streamlined approach for earning offsets via sectoral crediting and CDM.

Key Issues

- How do we ensure that NAMA finance negotiations in 2010-11 produce material reductions?
 - » Hard financing commitments from developed countries needed to start the negotiations.
 - » Use financing strategically to overcome barriers and leverage investments.
 - » May be desirable to prioritize key sectors and countries and undertake simultaneous negotiations.
- How do we ensure that NAMAs will include actions in power and energy intensive, trade-intensive industry sectors?
- How do we ensure that developing country actions are enforceable?
- How do we ensure protections for intellectual property?
- What processes are being considered to support availability of offsets via sectoral crediting?

Thank You

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