

# Sectoral Approaches in the International Negotiations

Sectoral Approaches "Proof-of-Concept" Study  
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- Sectoral approach “concept”
- The issue
- A long-term vision
- The transition
- A proposal

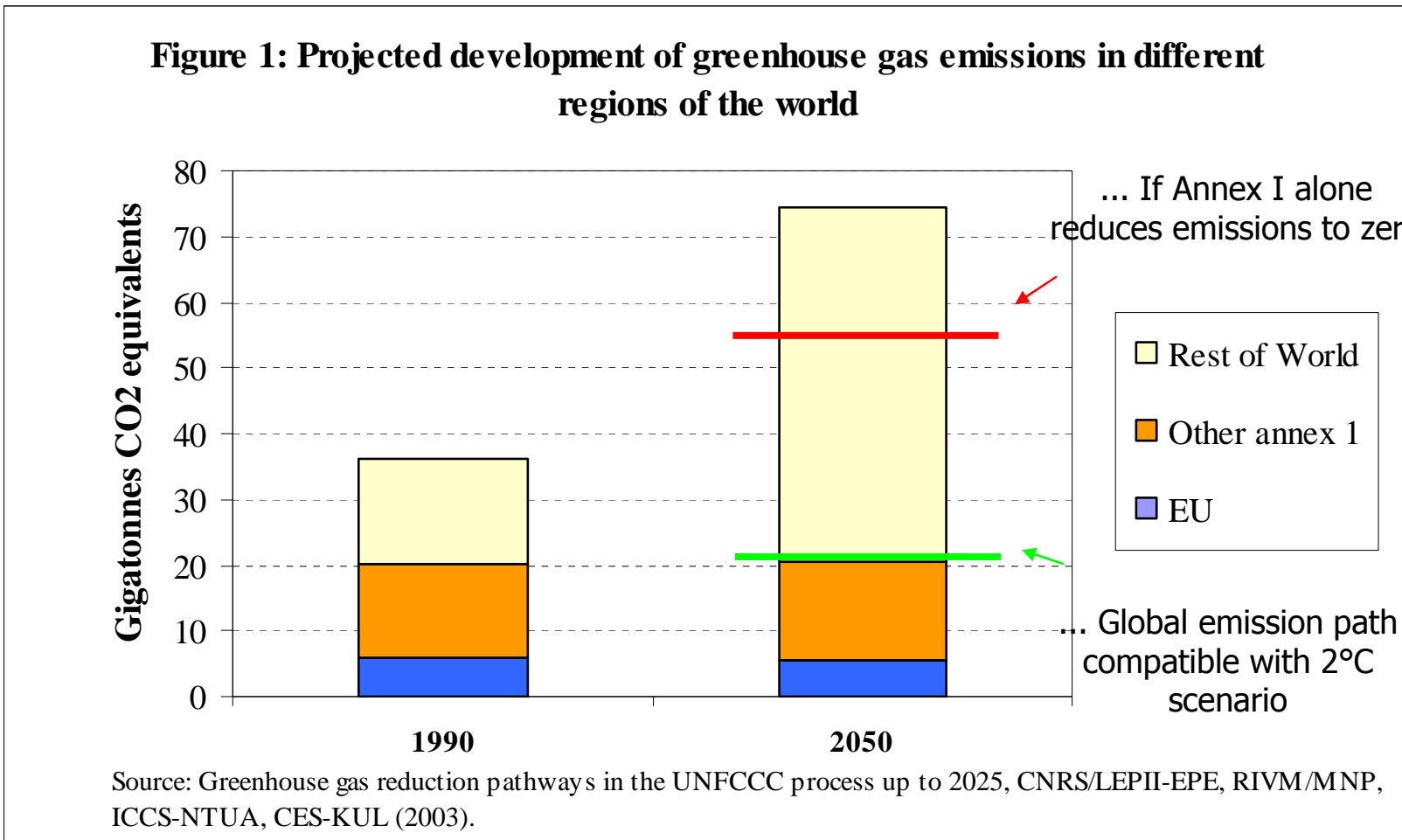


## Sectoral approach “hydra”

- Sectoral market mechanisms – many different concepts:
  - Global sectoral agreements on targets/benchmarks
  - Technology oriented cooperation
  - Market-based mechanisms
- **Focus on sectoral carbon market mechanisms**



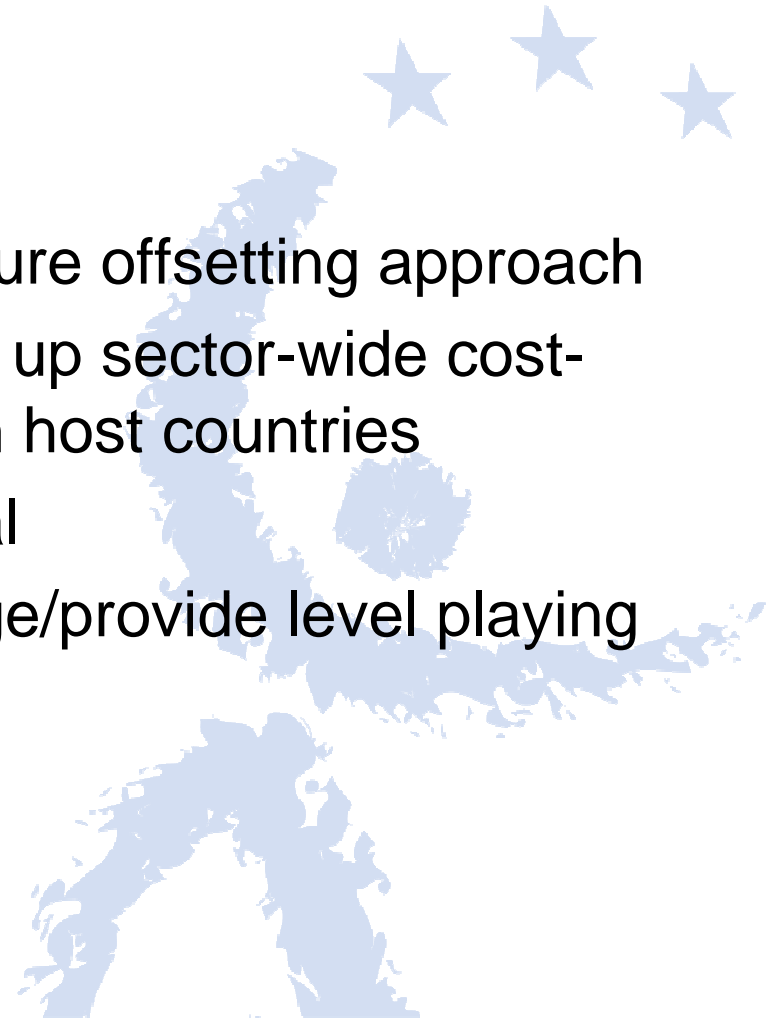
# The issue: "Offsetting" alone cannot solve the climate change problem

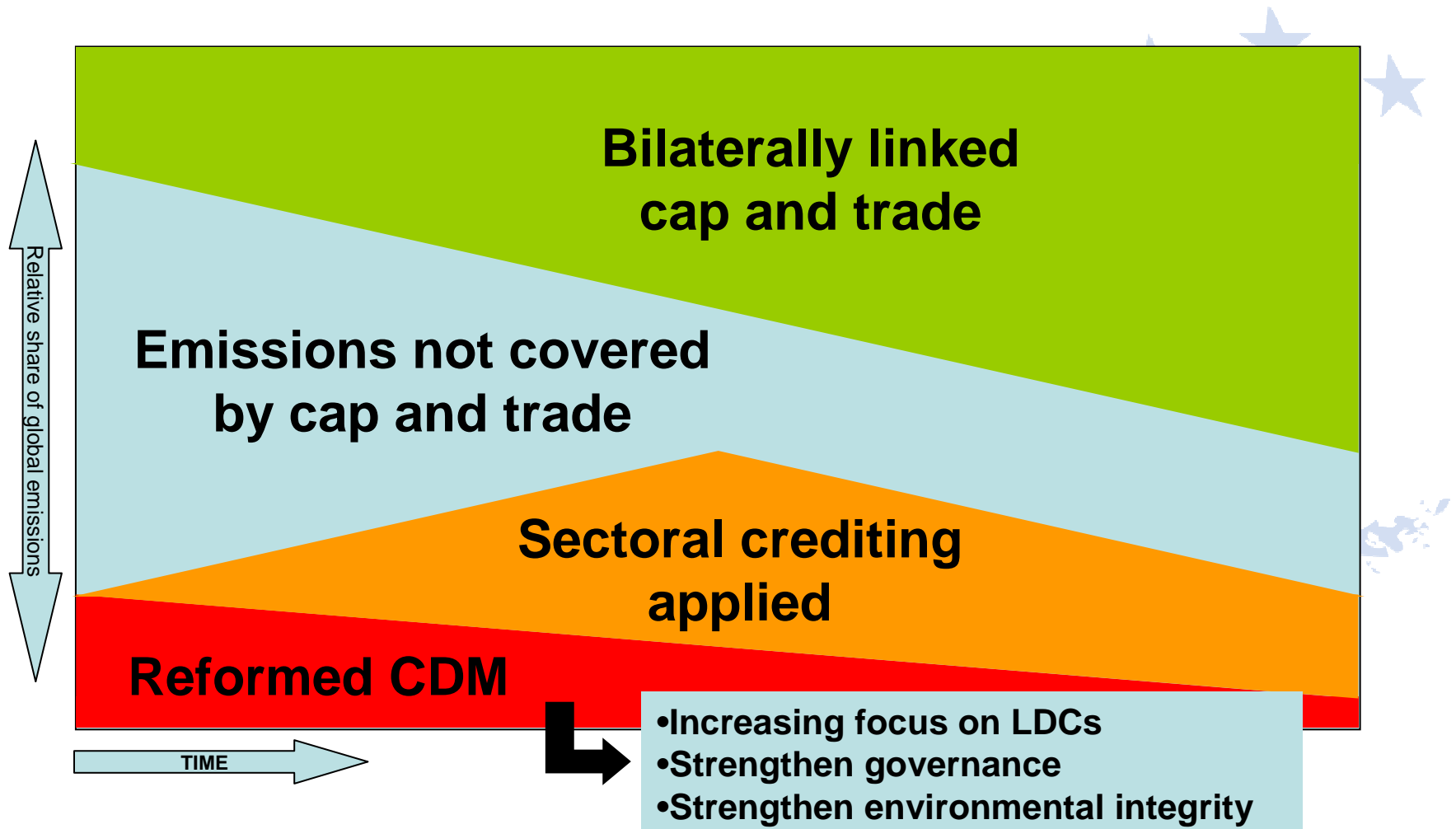


## The issue: Another approach rather than incremental improvements needed

There is a need to:

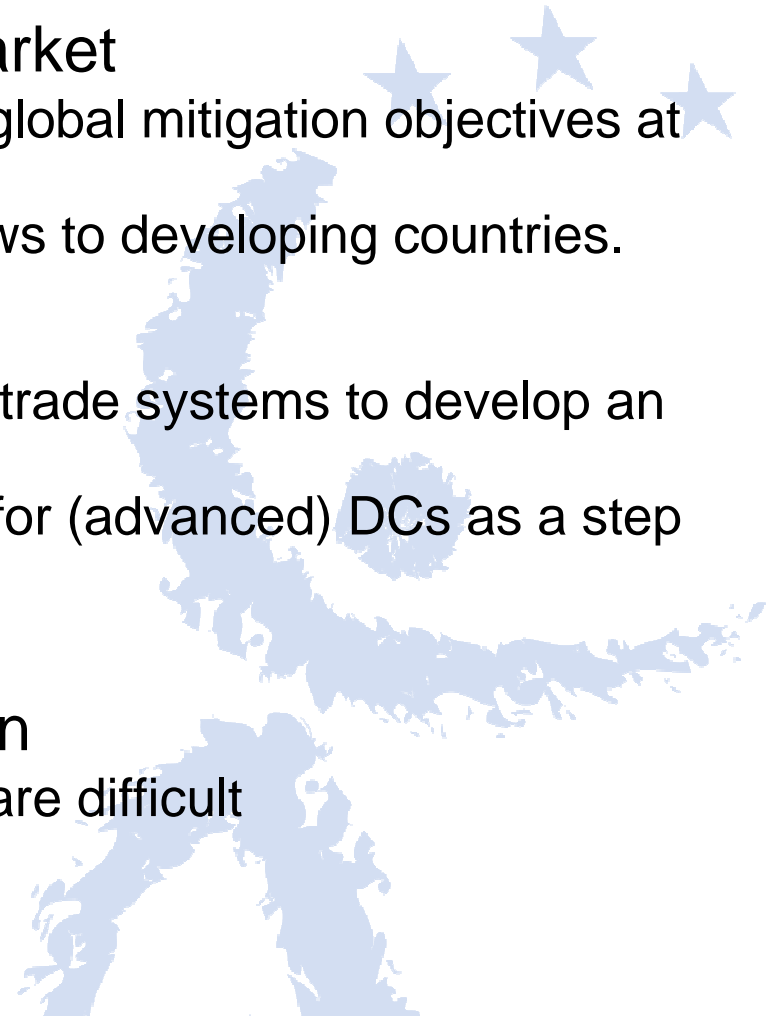
- Scale up the effort
- Gradually move away from pure offsetting approach
- Provide incentives for setting up sector-wide cost-effective mitigation policies in host countries
- Leverage more private capital
- Reduce risk of carbon leakage/provide level playing field
- Reduce transaction costs





# A vision: Concrete steps forward

- Build an international carbon market
  - To drive investments and achieve global mitigation objectives at least cost
  - To generate important financial flows to developing countries.
- Concrete steps
  - Link compatible domestic cap-and-trade systems to develop an OECD-wide market by 2015
  - New sectoral market mechanisms for (advanced) DCs as a step towards cap-and-trade systems
  - Reform and better focus the CDM
- Cancun should anchor this vision
  - But UNFCCC negotiations on this are difficult



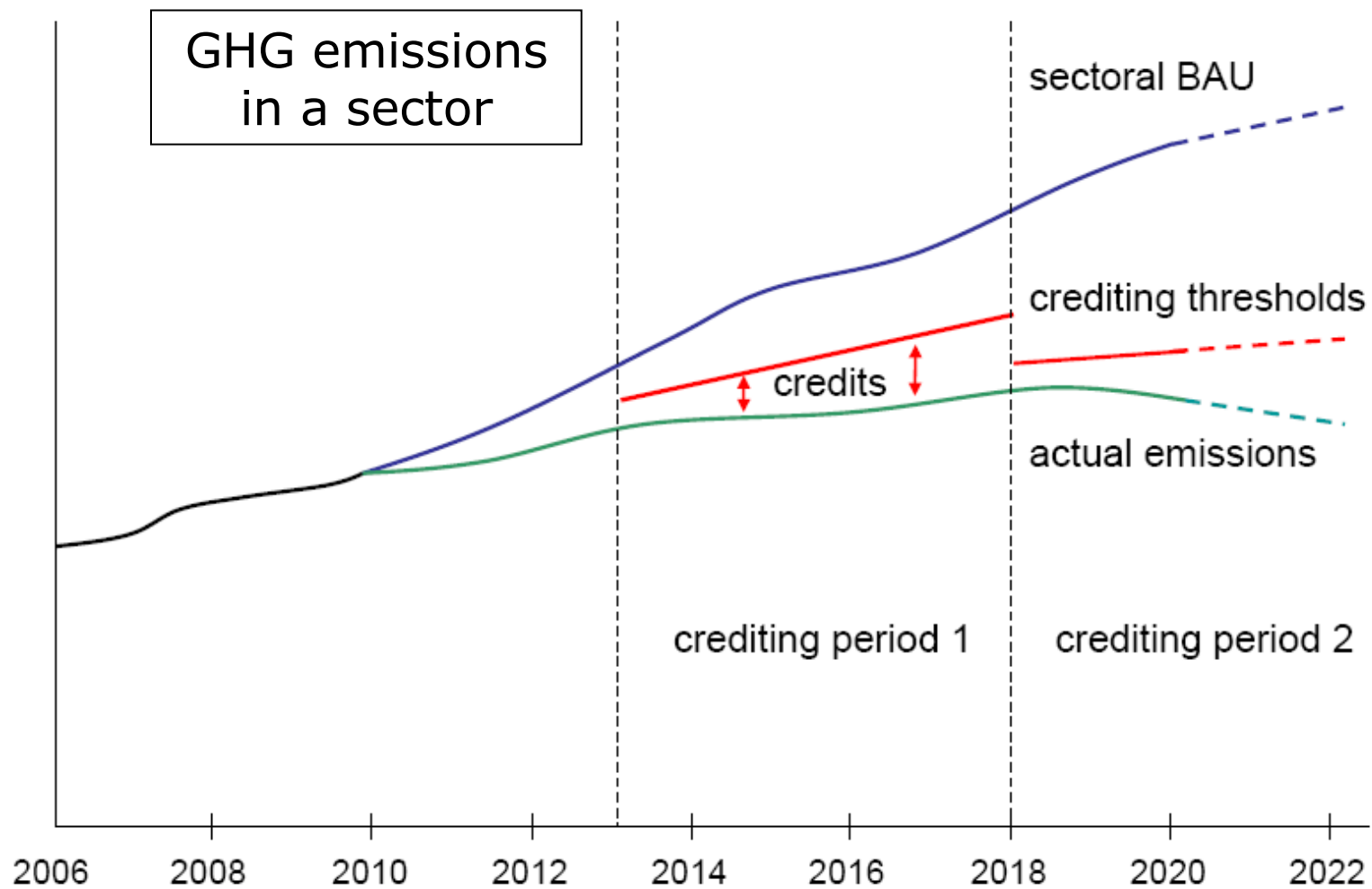
## A vision: Offsetting via sectoral crediting to cap-and-trade

<b>Offsetting</b>	<b>Crediting</b>	<b>Cap-and-trade</b>
CDM	SCM	ETS
Project-based Single installation	Sector-based Multiple installations	Multi-sectoral arrangement
Voluntary participation	Voluntary participation, mandatory for installations in sector	Mandatory coverage
Every tonne reduced from baseline can be monetised	Credits beyond agreed baseline, more ambitious than business as usual emissions	Allowances sold only after some reductions done, full pricing with auctioning

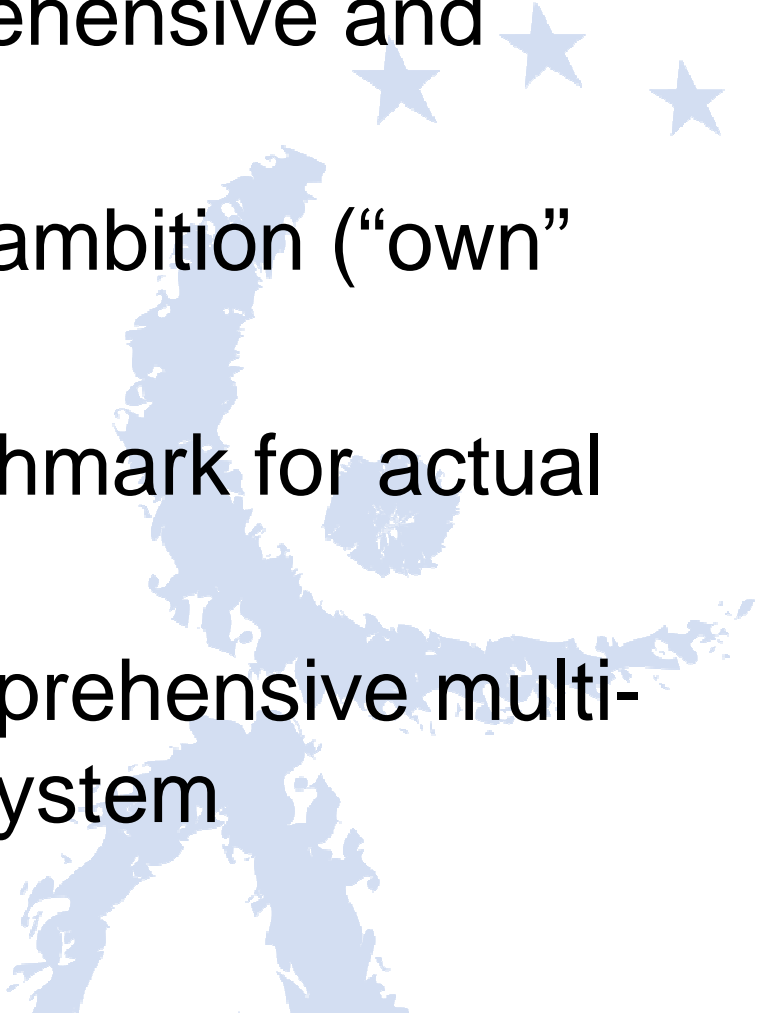
## The transition: Proposals on the table

- EU: sectoral market mechanisms
- New Zealand: NAMA crediting and trading
- Korea: NAMA crediting
- Similar concepts, differences in:
  - coverage (reductions or also removals)
  - scale (sectors or also sub-sectors/multiple sectors)
  - governance (who approves crediting baselines, issues credits)

# The transition: How would sectoral crediting work?



## The transition: Sectoral crediting mechanism as a stepping stone

- Introduce a more comprehensive and broader price signal
  - Increase environmental ambition (“own” contribution)
  - Crediting against a benchmark for actual reductions
  - Facilitating move to comprehensive multi-sectoral cap-and-trade system
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## The transition: Key features of sectoral crediting

- **Focus on power and internationally competing sectors (carbon leakage)**
- **Focus on economically more advanced developing countries**
- **Monitoring accuracy**
  - Possible to start with large installations (e.g. >300MW installed capacity for power sector)
- **Enable scaling up of carbon markets**
  - Less cumbersome than project-based CDM

- **Crediting threshold at sectoral level**
  - Earns credits against an ambitious emission threshold
  - “no lose” – no sanctions if the emissions are above the crediting threshold
  - Initially intensity based if large data uncertainties
  - Eventually absolute emission threshold
- **Possible options for setting crediting threshold:**
  - in relation to actual and verified emissions collected for one or two years prior to SCM implementation
  - fixed percentage below estimated BaU or a dynamic percentage related to the level of development of a country or sector
  - ...

## A proposal: Piloting action

- The EU should use its ETS legislation as an incentive to:
  - work with interested developed and developing countries towards sectoral mechanisms, whose credits could then be recognized for use in the EU ETS;
  - dependent on progress, develop and propose strict measures for improving the quality requirements for credits from project-based mechanisms.
- Need for practical experience and pilot programs at limited scale to test how such mechanisms could work most effectively

- **Issue:** Offsetting alone will not give the long term solution to climate change
- **Vision:** making the international carbon market fit for the future
- **Transition:** establishing sectoral crediting mechanism has the potential to stimulate policy action
- **Proposal:** learning by doing to create confidence



**More information on EU climate policy:  
[http://europa.eu.int/comm/environment/climat/home\\_en.htm](http://europa.eu.int/comm/environment/climat/home_en.htm)**