



# Sectoral approaches to climate action

***What role in a future mitigation regime?***

***IEA Day at COP14***

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Disclaimer – The views expressed here are the author's  
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# Outline

- Sectoral approaches: do we have a choice? An illustration.
- A look at countries' recent submissions to the UNFCCC
- How could sectoral approaches be integrated in the next UNFCCC regime?



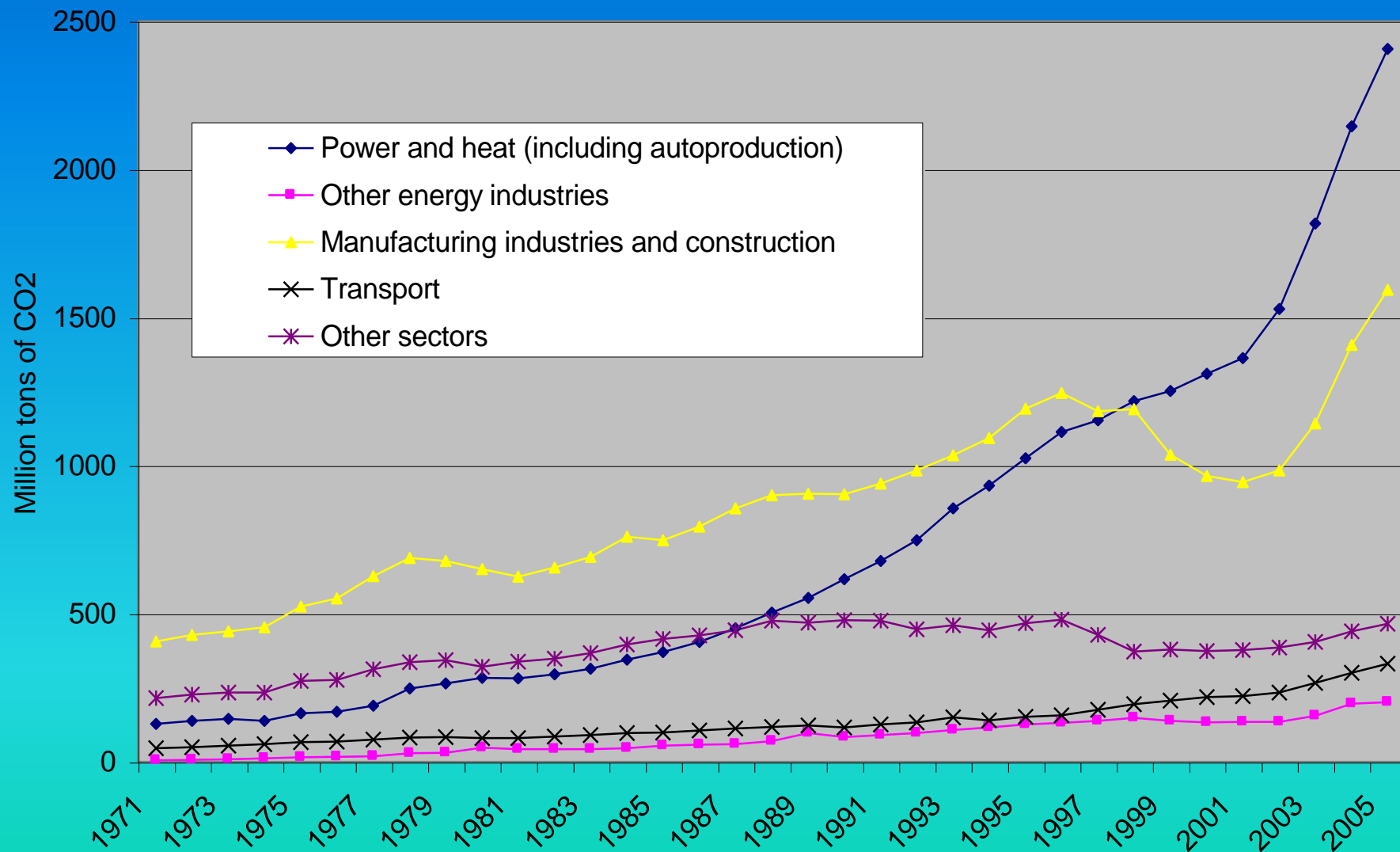
# **“Sectoral approaches: Complementary or dead end?”**

- ➔ Sectoral approaches are likely to be an essential element of future international mitigation efforts
- ➔ Hence, handle with care in run up to Copenhagen

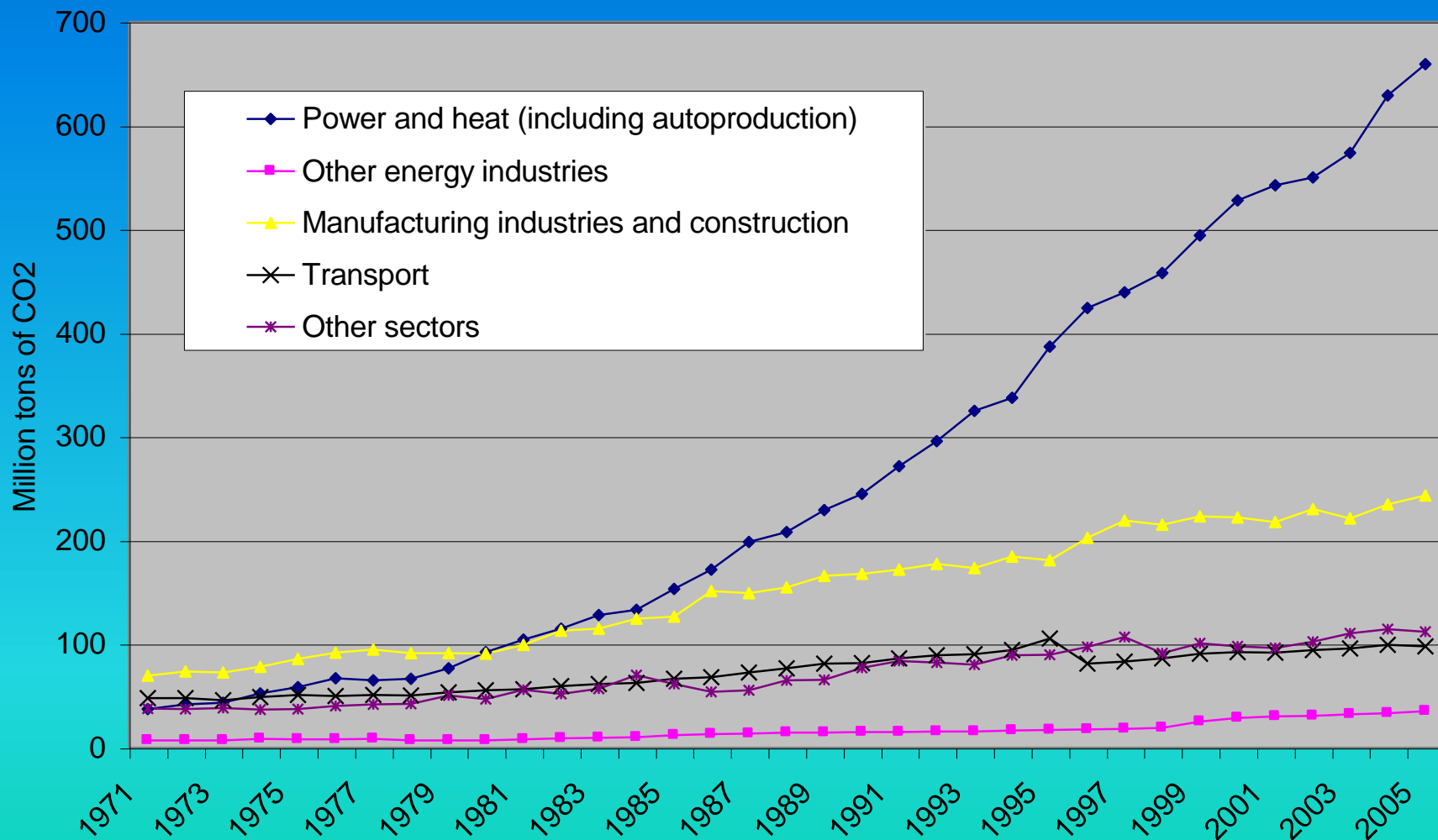


# **Sectoral approaches: do we have a choice?**

# Illustration - CO<sub>2</sub> emissions in China

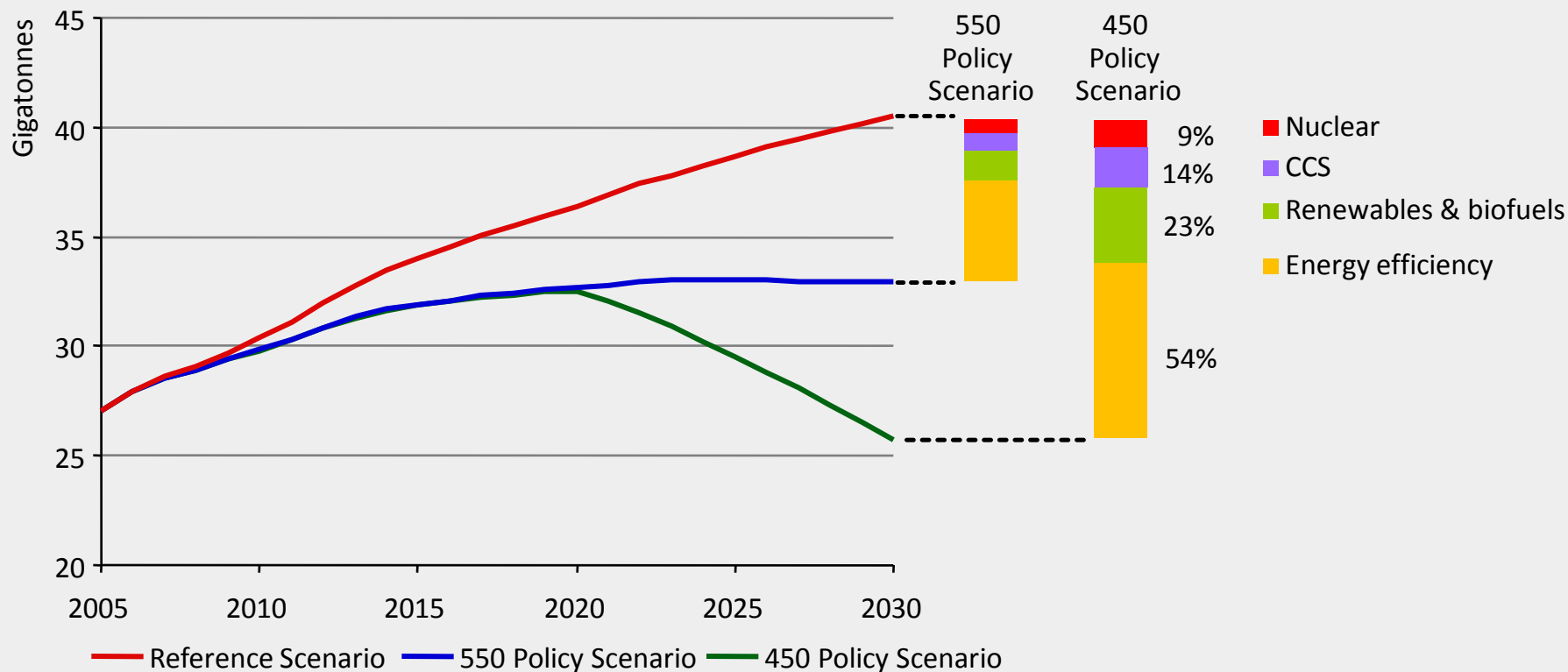


# Illustration - CO<sub>2</sub> emissions in India



# Reductions in energy-related CO<sub>2</sub> emissions in the climate-policy scenarios

World  
Energy  
Outlook  
2008

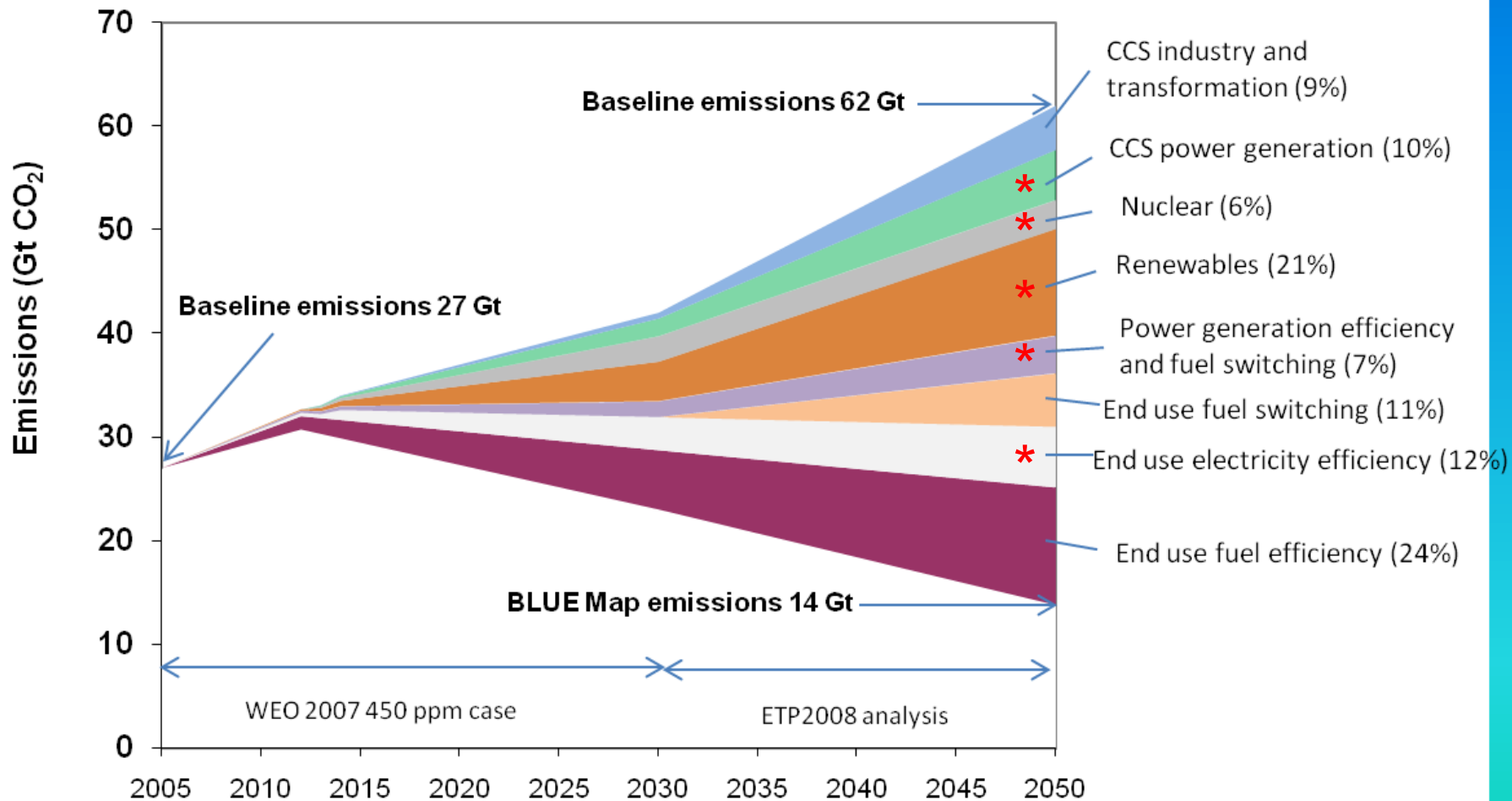


***Getting the power sector on track is essential***

***While technological progress is needed to achieve some emissions reductions, efficiency gains and deployment of existing low-carbon energy accounts for most of the savings***



# Electricity (supply and use) should be a priority for action



Source: IEA(2008), Energy Technology Perspectives 2050.



# Why are we, internationally, looking at sectors?

- Since Kyoto: from 'simple' country caps (-and-trade) to the actual complexity of specific mitigation policies
  - Whether market-based or else, useful lessons can be drawn from Annex I progress on various policy areas
  - See G8 best practice work and concrete recommendations on energy efficiency
- Most developing countries not ready for country-wide goals
  - In the meantime, GHG accumulate in the atmosphere
- Competitiveness concerns – uneven carbon constraints
- Some will need sector-specific support to act early
  - Best policy practice
  - Training (see Asia-Pacific Partnership on efficiency of existing plants)
  - Targeted financial support
  - Carbon market



# SA under the UNFCCC at present



# What Parties talk about, when they talk about sectoral approaches

- Evaluate mitigation potentials / help to set mitigation objectives / not replace targets for Annex I Parties
- Enhance UNFCCC article 4.1.c (incl. technology transfer)
  - Sector-specific technology information, technology assessment
- Enhance mitigation in developing countries through bottom-up approach
  - Binding or non-binding sectoral goals
  - Transfer of best policy practice
- Link to, scaling up of, the carbon market
  - Sectoral crediting, no-lose sectoral targets
  - Baselines: standardisation (but no to a global standard)
- Trade-related aspects
- And mention specific sectors



# Views on SA from Accra submissions

- China: no to benchmarks, standards, etc. but calls for larger finance incl. via carbon markets. Review of EST on basis of cost, reliability, obstacles
- India: no common standards, cooperative R&D, IPR cost, standards on certain products and practices, voluntary energy efficiency programmes (pledge)
- S. Africa: Register of actions. Toolbox of support instruments, SD-PAMs → No-lose
- S. Korea: Registry for NAMA (nationally appropriate mitigation actions): crediting to provide finance



# **Options for integrating sectoral approaches into the UNFCCC**

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***ANNEX I EXPERT GROUP ON THE UNFCCC***

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# **Sectoral approaches to mitigation under the UNFCCC**

- **Raise issues, and study opportunities for integration of SA in UNFCCC regime (by COP 15)**
- **Three angles to explore integration**
  - ◆ **Domestic sectoral approaches**
  - ◆ **Technology issues**
  - ◆ **Transnational initiatives, agreements?**
- **Analysis considers:**
  - ◆ **UNFCCC legal texts**
  - ◆ **Coverage / eligibility**
  - ◆ **UNFCCC implementation issues**
  - **Suggestions for minimum elements for COP 15**

# Domestic sectoral approaches

- **Options on the table**
  - ◆ **NAMAs (1bii and iv) / sectoral crediting (AWG, 1biv) / non-binding – no-lose – target (AWG, 1biv) / sector-wide commitments – with trading (1bii,iv,v)**
- **Suggested elements for COP 15 decisions**
  - ◆ **Trading: what type (offsets? credits? caps), how much, for whom (countries/sectors), for how long?**
  - ◆ **Eligibility: selection criteria for sectors/countries?**
  - ◆ **Link to NAMAs, esp. for crediting?**
  - ◆ **Pilot phase: data, gearing up for target setting**
  - ◆ **Process:**
    - **Set a date for submission of sectoral objectives**
    - **Or work on an institutional framework to review sectoral proposals as they come (*à la* CDM executive board)**

# **Sector-based technology cooperation**

- **Starting point: a sectoral framework to address technology cooperation (1biv of B.A.P.)**
  - ◆ **How to organise sector-specific technology support (i.e. funding and other forms of support)**
    - **Convention funds, new ones, World Bank CIF?...**
    - **Selection of activities: should Parties decide to prioritise technological support based on:**
      - ◆ **GHG mitigation potential size, risk of carbon lock-in ...**
      - ◆ **Cost-effectiveness (seek more or less similar cost of CO<sub>2</sub>/GHG mitigation)**
      - ◆ **Existence of market barriers (win-win outcomes)**
      - ◆ **Geographical balance**
    - **Sectoral expert groups (e.g., Technology and Economic Assessment Panels of the Montréal Protocol)**

# Transnational sectoral approaches

- **Options? Performance goals / common baseline methodology / international technology cooperation**
  - ➔ **Some common methodology applying to sectors?**
  - ➔ **Some international negotiation over a sector's emission trajectory or policy?**
- **Embedded in UNFCCC, or negotiated elsewhere?**
  - ◆ **Effective negotiation with a critical mass  $\neq$  all UNFCCC Parties**

## *Can existing initiatives help in discussions of SA?*

- ◆ **Industry groups: aluminium, cement, iron & steel**
- ◆ **Performance data (energy and CO<sub>2</sub>)**
  - **Elaboration of CDM methodology based on int'l data (Cement Sustainability Initiative)**
- ◆ **Bring data and identify data gaps / mitigation potentials / build support for SA from bottom up.**

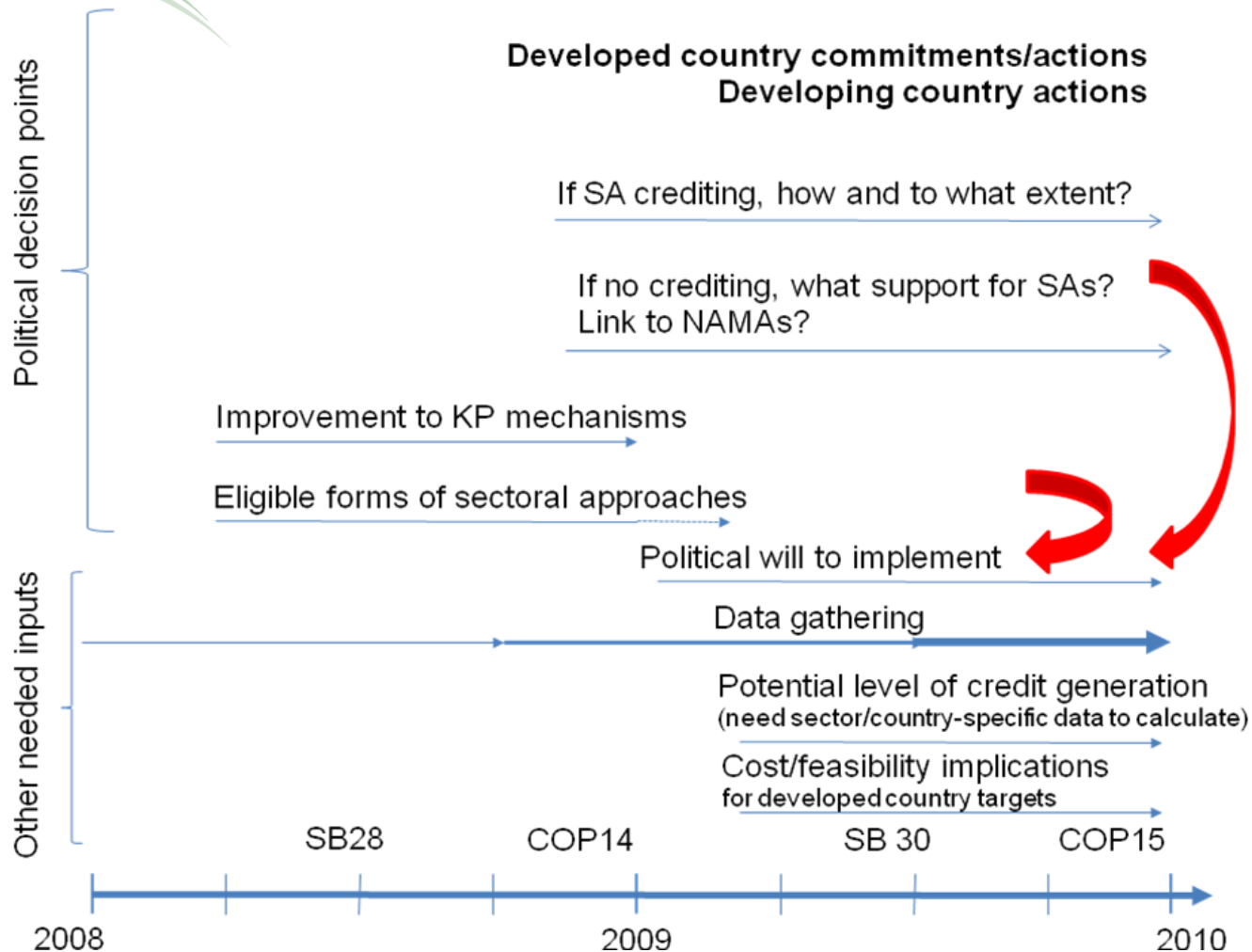
# Transnational sectoral approaches (2)

- If Parties were to move towards transnational discussions on sectors, short-term decisions on integration could include:
  - ◆ Short-list relevant sectors
  - ◆ Organisation of sectoral expertise (TEAP)
  - ◆ Core elements for negotiation (baselines, technology cooperation, ... trade aspects)
  - ◆ Nature and reach of agreement (% of global output)

## Notes:

1. **IAI** (aluminium) and **worldsteel** have expressed doubts about multilateral negotiations over their sectors. Cement (**CSI**) is more positive about a transnational approach.
2. Competitiveness concerns linger on.

# Cross-cutting issues





# Role(s) of the carbon market

- Options abound on how to harness the carbon market:
  - Sector-wide CDM, sectoral crediting, no-lose, sectoral caps, intensity-based or not
- Offsetting vs. crediting: how to evolve away from CDM?
- How do the options bring incentives to countries / domestic agents?
  - CDM → project developers/installations have a clear incentive (CDM project cycle notwithstanding...)
  - Sectoral targets: sector-wide performance is the sum of efforts by individual installations: free-riding problem.

## Role(s) of the carbon market (2)

- Uncertainty on **supply** (CDM + sectoral + ... ?) and **demand** (developed country commitments) – and back
  - Merely a political issue ('show me the level of your ambition, I'll show you mine')
  - ...or also about details of instruments/incentives. Magnitude and nature of incentives *should* matter.
- Limited (or lack of) data / eligibility / likely timing of entry of various sectors/countries in the market?



# SA: beyond carbon markets

- Share policy best practice to improve energy efficiency
  - IEA's 25 concrete recommendations on EE to G8
  - What support could be provided to enhance energy efficiency policies
- Share best practice in industry as well
  - Asia Pacific Partnership task forces on aluminium, cement, steel
- Pool technology R&D resources: easier to partner over a (much needed!) technology evolution
  - World Steel Association *CO<sub>2</sub> breakthrough programme*
- ➔ 450 or 550 ppm are out of reach without a CO<sub>2</sub> price
  - SA as a transitional step / bringing an incentive / broaden the price signal , building on emerging global carbon market

# Going forward: Integration in an agreement by Copenhagen?

- Numbers on sectors / countries by COP15?
  - Unlikely for most – esp. w/o agreement on precise format of SA, or differentiation of actions
- Areas for decisions by COP15?
  - Principles for SA?
    - ◆ Role of carbon market, other support, eligibility sectors/countries?
  - Processes?
    - ◆ A registry structure (format) to record 'pledges'?
    - ◆ Pilot phase → data gathering ...
    - ◆ Deadline for submissions of SA pledges/goals by developing countries?
    - ◆ Process for evaluation of submissions, as they come? Sectoral expert groups?
    - ◆ Role of technology support?
- Political factor still unknown: developing countries' interest in pledging clear action at sector level?



**Thank you**



# Other possible considerations on SA in UNFCCC negotiations

- Differentiation of countries or actions What implications for a sectoral approach to mitigation?
  - Differentiate by type? SD-PAMs → ... → Sectoral targets
  - Differentiate by level of international support ?
- Support mitigation in developing countries / sectors via carbon market or other means?
  - Economically attractive for 'donors'
  - Verification = Intrusiveness
  - Countries to pledge actions: will they go beyond these pledges with SA?
- Competitiveness/leakage issues: 'elephant in the room' or can be handled with *ad-hoc* measures?