



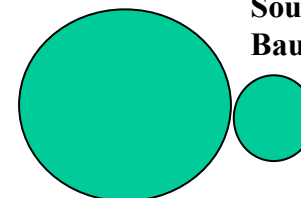
# **Sectoral Crediting Mechanisms for Greenhouse Gas Mitigation:** *Institutional and Operational Issues*

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New work from the Annex I Expert Group  
UNFCCC SB 24, 17 May 2006

# Outline of the Paper

Source:  
Baumert, 2006



- **Definitions and scope**
- **Insights from existing mechanisms**
- **Operational issues for baselines**
- **Requirements to make SCM effective**
- **International governance issues**

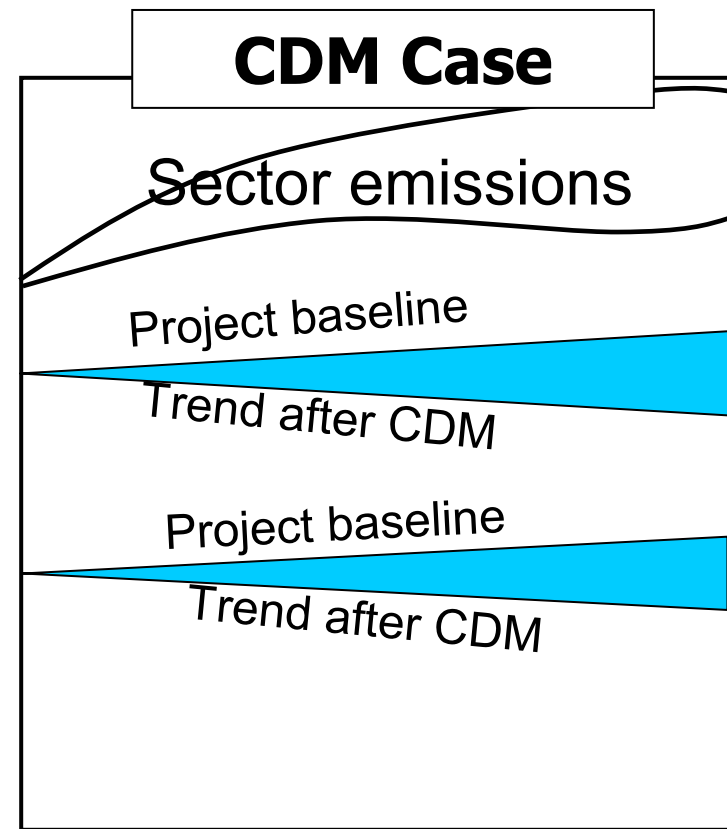
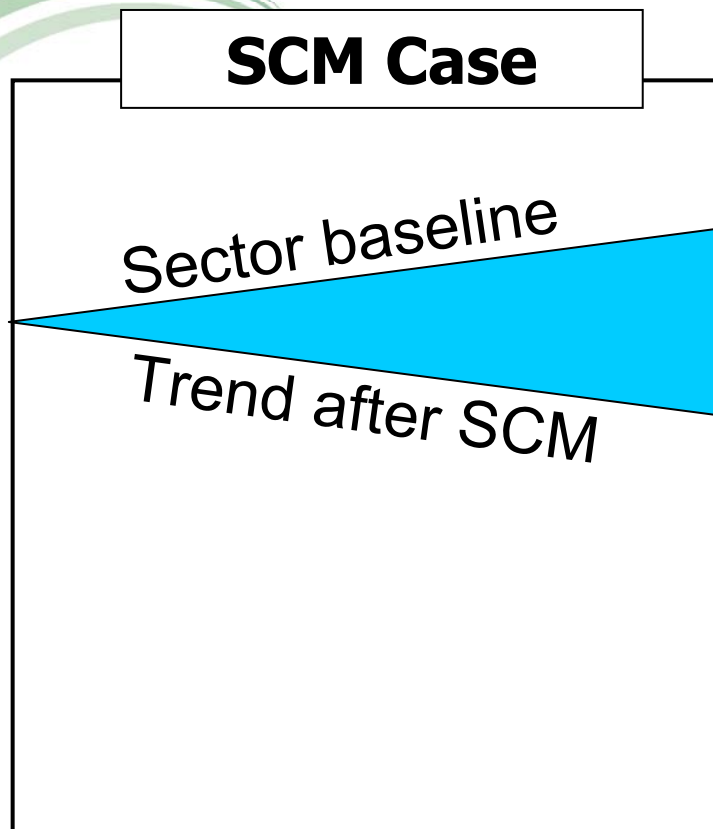
## **This presentation:**

- *Description of main options*
- *Baseline issues*
- *Governance questions*

# Definitions and scope

- **Starting point: an interrogation**
  - ◆ **Could a crediting mechanism be broadened to *whole sectors* to encourage more GHG mitigation and sustainable development?**
  - ◆ **A way to address competitiveness concerns?**
- **How would this work?**
  - ◆ **A country can decide to enter a GHG crediting framework on the basis of *the total of a sector's emissions***
    - **Different from CDM projects with a consolidated baseline, where crediting is still gauged on a project, not sector, basis**
  - ◆ **A baseline is needed for the sector as a whole**

# SCM versus CDM projects



 Credited reductions

# Three Options for SCMs

- **Policy-based**
  - ◆ Evaluate and credit reductions pertaining to well-identified policies
- **Fixed limits**
  - ◆ Fixed caps on sectors' (and installations') emissions
- **Rate-based**
  - ◆ Baseline set in tCO<sub>2</sub>-eq per unit of output
  - *Baseline: national or international?*
  - *Critical choice: what level of disaggregation?*
  - Account for various processes, fuel mixes, etc?*

# Issues common to all 3 options

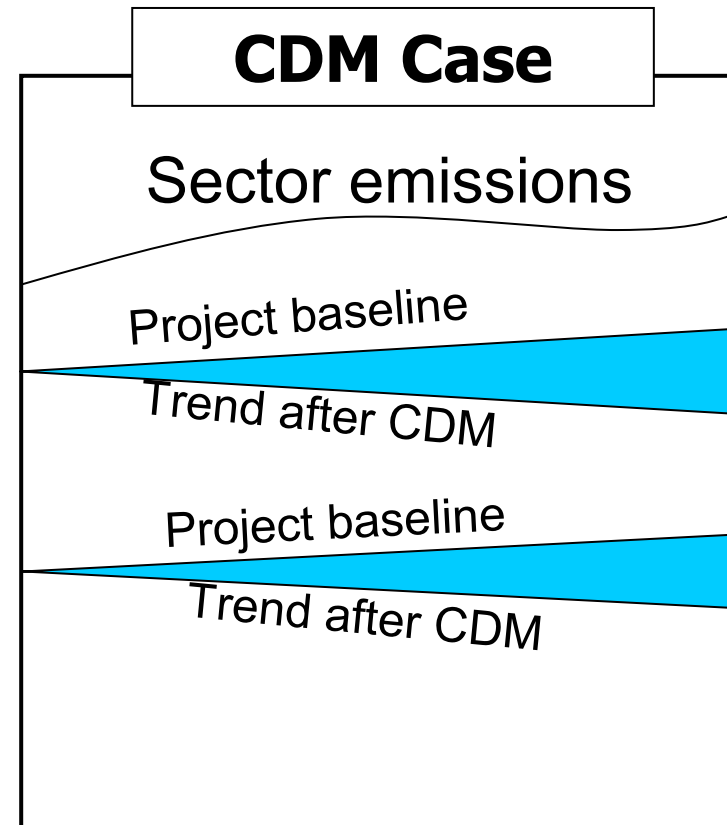
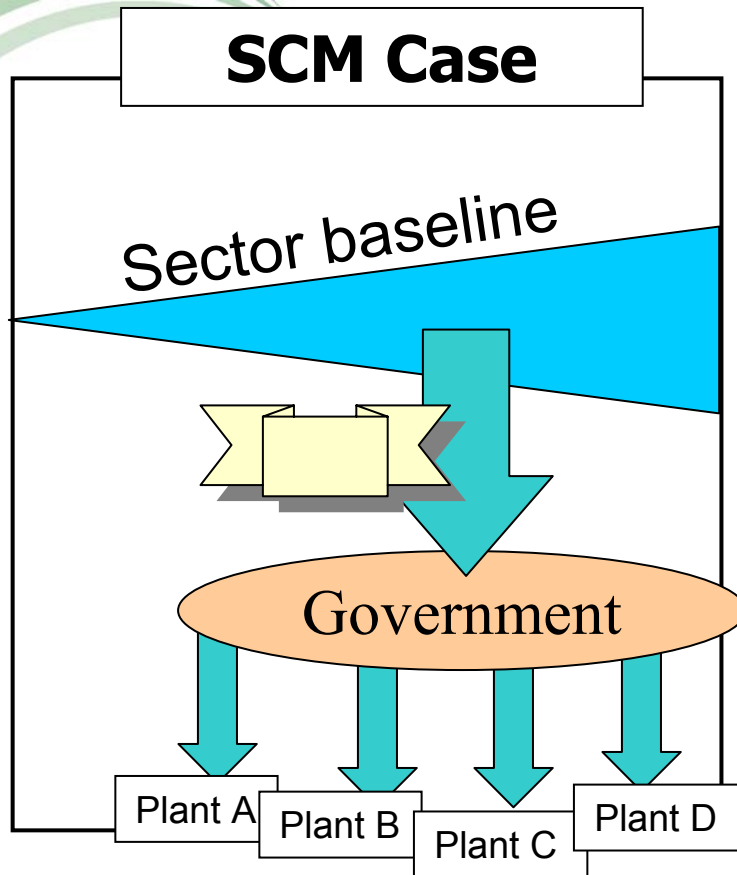
- **SCM requires a clear definition of the sector boundaries and eligibility**
  - ◆ **Types of activities, size of installations, geographic scope, GHG coverage**
- **Baseline setting requires data on a sector-wide scale**
  - ◆ **Assess present conditions and project future growth/technology developments under business-as-usual conditions**

# Baseline setting at sector level

- **National/international**
  - ◆ Little homogeneity in processes, even in homogenous products
- **All plants, new plants only?**
  - ◆ Consider sectoral dynamics: would a coverage of new plants be most cost-effective?
- **A common international *framework* for baseline setting rather than a single international *baseline* level (e.g. tCO<sub>2</sub> per unit of output)**
- **Policy-based SCM could require ex-post baseline evaluation**
  - ◆ Emissions within a sector can be affected by many factors other than a specific policy: all observed reductions may not be credited
- **Once baselines are set, crediting may be less cumbersome than on a project-by-project basis**
  - ◆ Governments responsible for the management of credits at domestic level

# Can SCM work?

## *SCM versus CDM projects*



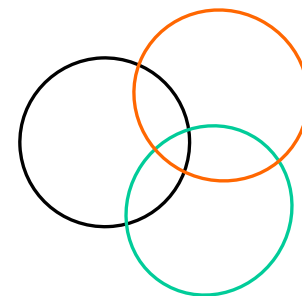


# Can SCM Work? (2)

- **Policy-based SCM**
  - ◆ Can crediting trigger policy implementation?
  - ◆ Should all GHG-reducing policies be creditable?  
Where should the line be drawn otherwise?
- **Administrative feasibility of a sector-wide crediting mechanism**
  - ◆ Data gathering: prerequisite for baseline setting
    - Slippery slope: each plant is different for a reason...
  - ◆ Monitoring and review of emissions (and output, for a rate-based SCM)
  - ◆ Enforcement?
- **Fixed limits SCM**
  - ◆ Questions on new sources, etc. similar to those raised by cap and trade systems

# International Governance Issues

- **Links to existing mechanisms (CDM, including programmes of activities)**
- **How would baselines be negotiated?**
- **Role of international industry federations?**
- **Who would supervise SCM internationally?**
  - ◆ **Role for competition authorities to ensure fair trade?**
- **Crediting may exacerbate competitiveness concerns in some sectors**
  - ◆ **Crediting some industry in non-Annex I countries**
  - ◆ **while “taxing” emissions from similar industry in Annex I countries**



# Without concluding...

- **Sector definitions and baseline setting unlikely to be trivial**
  - ◆ **Data**
  - ◆ **Competitiveness concerns related to the crediting aspect of the approach**
- **New administrative duties for host countries**
- **Moving crediting to a much larger scale raises new concerns**
  - ◆ **Additionality**
  - ◆ **Scale of credit supply must be matched by a large market for generated credits – requires emission reduction commitments that can absorb such supply**