

Sectoral Crediting Mechanisms (SCMs): An initial assessment of electricity and aluminium

Jane Ellis and Richard Baron

www.oecd.org/env/cc

COP/MOP Side event
Montréal, 5.12.05



Annex I Expert Group



Presentation outline

- Why sectoral crediting mechanisms (SCMs)?
- Background
- Common SCM requirements
- Aluminium sector insights
- Electricity sector insights
- Conclusions

Background (1)

- Why electricity and aluminium?
- Have examined how SCMs that are rate-based, policy-based or fixed limits could work in each sector

Background (2): three structures 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 terms of t CO₂-eq per unit of output
- *Critical issue: national or international-level baseline?*

Common themes

Electricity

Aluminium

**Baselines
Eligibility
Projections**

- Environmental effectiveness determined by SCM design (e.g. baseline level), rather than its structure (e.g. rate-based, policy-based)

Initial insights: aluminium

- International-level, rate-based mechanism most appropriate
- Focus on primary production
- Issues to be resolved:
 - how to encourage participation? (voluntary agreements exist)
 - boundary definition (include electricity emissions?)
 - data availability for sector projections?
 - role of governments and linkages to national systems
 - fairness / perverse incentives/ leakage to other sectors