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Sectoral approaches: panacea or dead-end street?

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Sectoral mechanisms



- **Proposed as a solution for scaling up the CDM**
- **Would simplify calculation of emission reductions and additionality determination**
- **Should reduce possibilities for gaming with baseline setting**
- **On the table:**
 - **Sectoral trading**
 - **Sectoral crediting**
 - **Sectoral NAMAs**



Sectoral trading

- **Host country defines sectoral target**
 - Reviewed & approved by COP
 - Substantially below BAU, absolute target
 - Covers **all / the largest entities/installations** within sectors
- **Allocation** of emission allowances to countries according to target
- **Country implements national policies/NAMAs**
 - May include national ETS (but: markets maybe too small!)
- **Country can buy and sell in IET**



Sectoral trading



■ Problems

- No incentive for private industry to invest or to transfer technology
- System would suffer from time needed to approve required legislation & possible lack of enforcement

■ Proposed solutions

- Define a clear revenue split between governments and companies of covered sectors, e.g. 10-90
 - Direct incentive for national/international private investment
 - But: requires installation specific monitoring
- Allow direct IET participation of companies



Sectoral trading - industry



- **Voluntary** decision by government
- **Absolute** emission targets on **installation** level
- **Mandatorily** covers “**all**” installations within sector to avoid intra-sectoral carbon leakage (but: de-minimis approach)
- **Allocation** of allowances to **all installations**
- **All installations** can **trade with each other** and **internationally**
 - **Access** to international carbon market **directly** or via **public “aggregators”**



Sectoral trading: **pro** + **con**



- **Clear price signal to plant operators (industry system only)**
- **Allows fast transition to national emissions trading**
- **Only sensible for sectors with medium-large number of large emissions sources**
 - **Too few sources: No liquidity**
- **Inter- and intrasectoral leakage possible**
- **Target approval is cumbersome**
- **High data requirements**



Sectoral crediting



- **Host country defines sectoral baseline**
 - to be reviewed & approved by COP / intern. body
 - substantially below BAU, absolute / intensity based
- **Country implements national policies / NAMAs**
- **Credits may be issued for sectoral emissions reductions**
 - ex-post crediting
 - no-lose target
- **Supervision by COP / “a body”**
- **Rules wide open**



Sectoral crediting: **pro+con**



- Can use both absolute or intensity targets
- Government can use many different policy instruments
- Risk of hot air due to ex-ante target negotiations
- How are data collected?
- How is the incentive transmitted to the owners of installations?
- Requires efficient and unbiased host country government



NAMA crediting



- **Regulation**
 - Efficiency standards
 - Technology mandate
- **Subsidy**
 - Feed-in-tariff
 - Investment support
 - R&D support
- **Emission tax**
- **Information instruments**
 - Labels

**Remember
rejection of
policy CDM
at 2005
COP!**



NAMA crediting: **pro+con**

- **Government can use many different policy instruments – decides on most effective approach**
- **Not all policy effects are verifiable**
- **Additionality determination is tricky – what to do with side benefits (externalities)?**
- **MRVability**
- **Same incentive / governance problems as with sectoral crediting**



Panacea or dead-end street?



- **Baseline / cap setting**
 - Data quality and availability
 - One-time decision for the whole compliance / crediting period
 - High uncertainty in future projections
 - Intensity-based?!
- **Host country regulatory context**
 - Domestic market mechanisms viable?
 - Correct / sufficient incentives for companies
- **Monitoring and verification**
 - Too many installations - costs!
 - Confidentiality issues
 - Institutional capacity



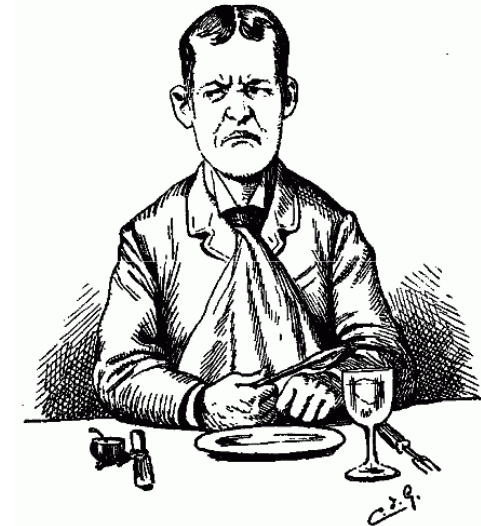
Panacea or dead-end street?



- **Sector definition / boundary**
 - **Small installations (India, China...)**
 - **Large installations are frequently world class already**
 - **Very different technologies / efficiency levels**
 - **Complexity versus inclusion**
- **Trading when there are too few installations / companies**

Options “à la carte”?

- Rational decision might be **high flexibility**
- Allow an “à la carte” choice of mechanisms
 - Retain the CDM where it has been **successful**
 - Introduce **sectoral / NAMA crediting** in sectors with **many dispersed sources** but **strong emissions growth**
- **Double counting** needs to be **prevented**
 - Fungibility with CDM could be solved similarly as in JI





Options “à la carte”?



- **Rational decision might be high flexibility**
 - **Private large industrial emitters: CDM**
 - **Public large industrial emitters: sectoral crediting**
 - **Large, consolidated, homogeneous industrial sectors: sectoral trading**
 - **Large housing estate developers: CDM**
 - **Small house owners: NAMA crediting**



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Thank you for your attention!

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Sectoral trading



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