



***Sectoral approaches
to GHG mitigation
Exploring issues for heavy industry***

Richard Baron, IEA

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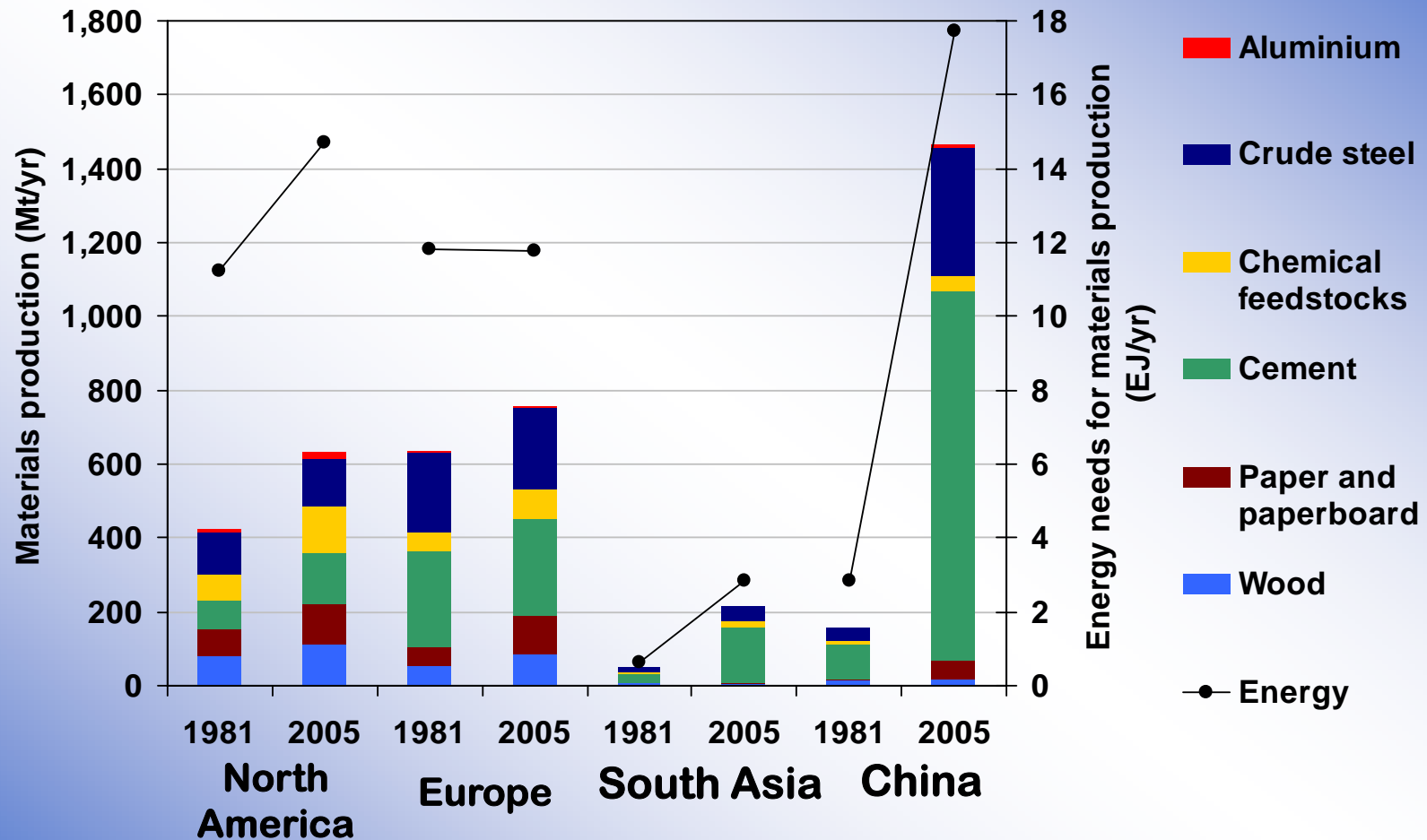


Sectoral approaches: why?

- **CO₂ Emissions are growing rapidly: UNFCCC Parties seek ways to trigger more greenhouse gas reductions**
 - ◆ Rapid growth in GHG-intensive industry in emerging economies
 - ◆ A focus on sectors could reveal the win-win potential of CO₂ reductions – e.g. energy efficiency
 - ➔ Sectoral approach as a way forward to reduce CO₂ for selected activities and countries?
- **Competitiveness concerns of trade-exposed energy-intensive industries in some IEA countries**
 - ◆ CO₂ reduction measures (will) trigger costs and create an less level playing field
 - ◆ Cement, iron & steel, aluminium



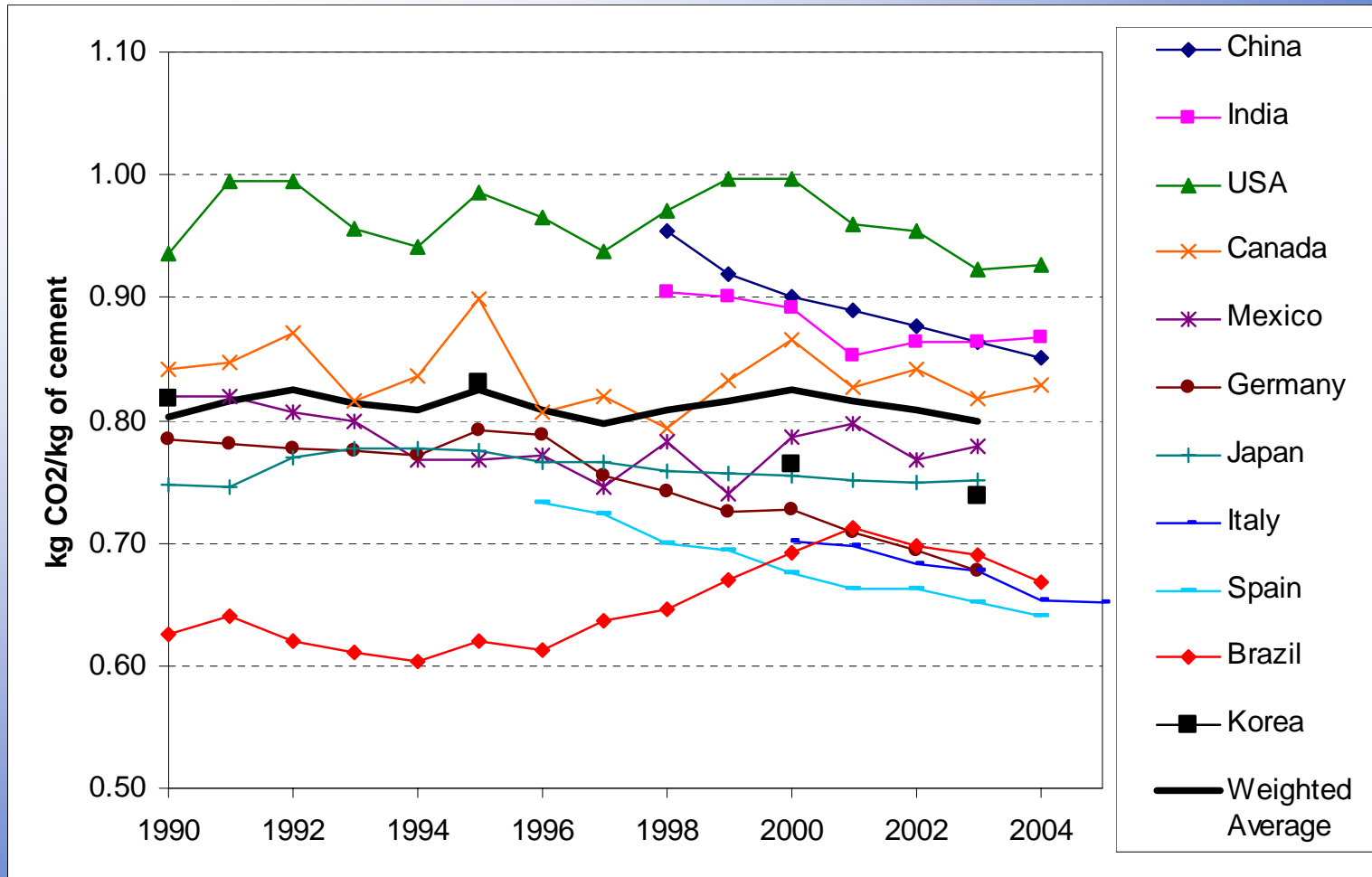
Regional industry growth



Source: IEA, 2007, *Energy use in the new millennium*.



CO₂ emissions per tonne of cement



Note: Country averages, include process and energy-related CO₂ emissions.

Source: IEA, 2007, *Tracking Industrial Energy Efficiency and CO₂ Emissions*.



Typology of sectoral approaches (SA)

- ◆ **Existing initiatives: transnational sectoral approaches**
 - E.g. International Aluminium Institute sustainability goals (incl. PFC reductions); WBCSD Cement Sustainability Initiative; International Iron and Steel Institute
 - ◆ Data gathering → seeking best practice → offer policy options
 - ◆ In some cases, R&D towards innovative technologies (IISI)
 - ◆ Governments not involved so far
 - Public-private: Task Forces under the Asia-Pacific Partnership on Clean Development and Climate (APP)
- ◆ **Considered: sector-level action under the UNFCCC**
 - Country-level, sectoral objective with GHG crediting
 - ◆ “No lose” sectoral target (CCAP) / non-binding sectoral target
 - Sustainable Development Policies and Measures



Instrumenting sectoral approaches

● Sharing best practice

- ◆ Industry benchmarks (e.g. x tCO₂ per tonne of y)
 - Sector-wide goal at international level or
 - Country-specific goals based on common methodology
- ◆ Government policies (see IEA G8 mandate)

● Incentives

- ◆ Improve economic and energy performance (win-win energy efficiency potentials)
- ◆ Potential credits under Clean Development Mechanism (Kyoto Protocol)
- ◆ Extending GHG crediting to a sector basis



Criteria to assess future sectoral approaches

- **Environmental effectiveness**
 - ◆ Leads to a meaningful environmental outcome?
- **Fairness**
 - ◆ Set a more level international playing-field in relevant industries – where CO₂ policy drives a wedge in cost-competitiveness
- **Cost-effectiveness**
 - ◆ Does not create large differences in cost of CO₂ reductions – avoid ‘carving out’ sectors
 - ◆ Paves the way for an economic signal on CO₂ emissions



Further analysis needed

● Technical issues

- ◆ Data: availability, international comparability?
- ◆ Quantify the potential for CO₂ reductions via sectoral approaches in emerging economies
 - Heavy industry, power generation

● Institutional issues

- ◆ Capacity to move from the project-level approach of the CDM to a broader sector-level approach?
- ◆ Integration of international sectoral agreements in the existing climate policy frameworks?
- ◆ Carefully consider implications of massive increase in GHG credits under sectoral crediting




In closing

- **Sector-level GHG mitigation needed, of course**
 - ◆ ‘Sectoral approaches’ only raise the profile for some more exposed activities
 - ◆ Question: are sectoral approaches the most effective vehicle to get there? Wait and see...

- **Sectoral approaches in the climate negotiation – Two scenarios:**
 - ◆ “Permafrost”
 - Negotiations remain focused on country-level emissions *à la* Kyoto Protocol – SA contribute indirectly
 - Accept sector-wide commitments as interim step for non-AI.
 - ◆ or “Sea-Change”
 - A bottom-up, sector-specific discussion
 - UNFCCC not familiar with this approach (with LULUCF being an exception)



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RICHARD BARON, WITH JULIA REINAUD,
MATT GENASCI AND CEDRIC PHILIBERT
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