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Design of the post-2012 climate regime: Sectoral approaches for GHG reduction

# New market mechanism
# The implementation perspective

### Top-down, Bottom-Up or In-Between – What Future for the Carbon Market?

Side Event, COP 18/CMP 8, Doha, Qatar, 3 December 2012

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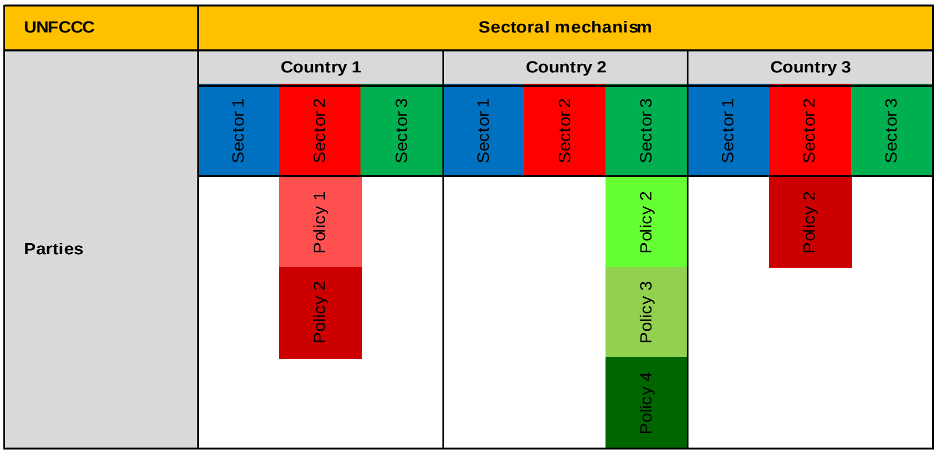
# Terminological confusion

- **Mechanisms or mechanism?**
  - More than one sectoral mechanism at UNFCCC level?




  - Market-based domestic policies (PMR) rather than mechanisms
- **Involvement of the private sector**
  - Not necessarily/constitutive though preferable to leverage private carbon market finance
  - Prerogative of the implementing country

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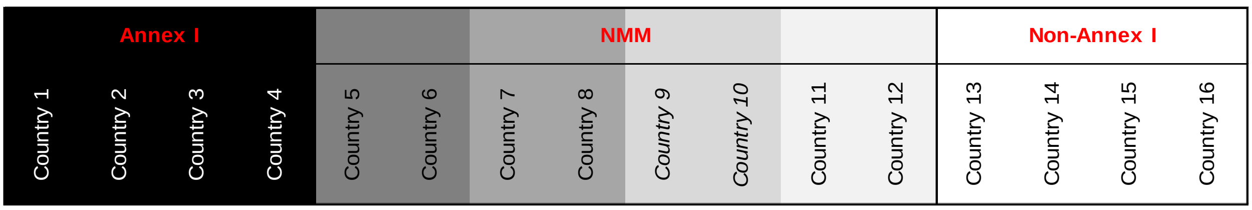
# Aims of the sectoral approach

- **Overcome the flaws of project-based mechanisms**
  - High transaction costs
  - Lack of environmental integrity
  - Limits in addressing all kinds of mitigation measures
- **Enhance the coverage of global carbon market to allow for an increased the level of ambition**
- **Provide the flexibility which is required to take more ambitious targets**
- **Reduce distortion of competitiveness due to carbon leakage**
- **Allow a gradual transition from non-Annex I to Annex I**
- **Dissolve the bipolar world of the Convention and the Kyoto Protocol**
  - Own contributions beyond pure offsetting
  - Graduation through level of ambition
  - Graduation through coverage or type of commitment (binding/no lose)



# NMM versus CDM

- **Cover all activities or installations within a certain sector boundary**
- **Enhance the portfolio of technical mitigations measures**
  - Efficiency, fuel switch, end-of-the-pipe
  - Closure & greenfield investments
- **Increase the mitigation potential**
- **Increase environmental integrity by reducing the risk of leakage**
- **Reduce transaction costs because the determination of a baseline only has to be carried out once**
- **Mitigation activities would only be initiated at activities with the worst emission performance although all activities will be covered**

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# Differences & similarities

| **Issue** | **IET** | **NMM** | **CDM** |
|---|---|---|---|
| Coverage | Economy wide | All acitivites in selected sectors | Selected activities |
| Monitoring | Inventory | Sectoral inventory | Project |
| Verification | ERT | IRT | DOE |
| Economic responsability | Government | Government | Private entities |
| Type of commitment | Binding | Binding/no lose | No lose |
| Type of unites | Allowances | Allowances/credits | Credits |
| Baselines | BAU scenarios | Sectoral BAU secnarios | Hist. emiss., benchm., etc. |
| Thresholds/targets | Absolute | Absolute/indexed | Indexed |
| Development | Ex-ante/top-down | Learning by doing/bottom-up | Learning by doing/bottom-up |
| Purpose | Emission reduction (ER) | Offsetting & ER | Offsetting |

# Governance

- **International coordination**
  - Central ⇔ decentral?
  - Top-down ⇔ bottom-up

  - Direct ⇔ indirect
  - Explicit ⇔ implicit

- **Implicit coordination**
  - Seems to cause less red tape
  - Causes concerns that something should be hided, i.e. weaker environmental integrity
  - May cause a race to the bottom in terms of environmental integrity
  - May actually increase transaction costs since every country would need to assess the environmental integrity of every participating country

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# Gradual linking

- **Without sufficient international rules which ensure environmental integrity countries would have to assess the integrity of other countries GHG mitigation policies before recognising its units**
- **Club approach: to ensure environmental integrity, countries would need to agree to recognise further countries only at mutual consent**
  - Country A and B agreed to mutually recognise units
  - Country A may recognise units of country C only if country B agrees
  - Country C may recognise units of country D only if countries A & B agree, etc.
  - Similar to other international accession rules (WTO, EU, etc.)
- **May result in fragmented markets (two or more clubs)**
- **Units with different qualities may not be fungible**
- **Gradual reduction of fragmentation would take time**

# Sector definition



| GREENHOUSE GAS SOURCE AND SINK CATEGORIES | |
|---|---|
| **Total (Net Emissions)** [1] | |
| **1. Energy** | E. Prescribed Burning of Savannas |
| A. Fuel Combustion (Sectoral Approach) | F. Field Burning of Agricultural Residues |
| 1. Energy Industries | G. Other |
| 2. Manufacturing Industries and Construction | **5. Land Use, Land-Use Change and Forestry** [1] |
| 3. Transport | A. Forest Land |
| 4. Other Sectors | B. Cropland |
| 5. Other | C. Grassland |
| B. Fugitive Emissions from Fuels | D. Wetlands |
| 1. Solid Fuels | E. Settlements |
| 2. Oil and Natural Gas | F. Other Land |
| **2. Industrial Processes** | G. Other |
| A. Mineral Products | **6. Waste** |
| B. Chemical Industry | A. Solid Waste Disposal on Land |
| C. Metal Production | B. Waste-water Handling |
| D. Other Production | C. Waste Incineration |
| E. Production of Halocarbons and $SF_6$ | D. Other |
| F. Consumption of Halocarbons and $SF_6$ [2] | **7. Other *(as specified in Summary 1.A)*** |
| G. Other | |
| **3. Solvent and Other Product Use** | **Memo Items:** [4] |
| **4. Agriculture** | **International Bunkers** |
| A. Enteric Fermentation | Aviation |
| B. Manure Management | Marine |
| C. Rice Cultivation | **Multilateral Operations** |
| D. Agricultural Soils [3] | **$CO_2$ Emissions from Biomass** |

# Coverage

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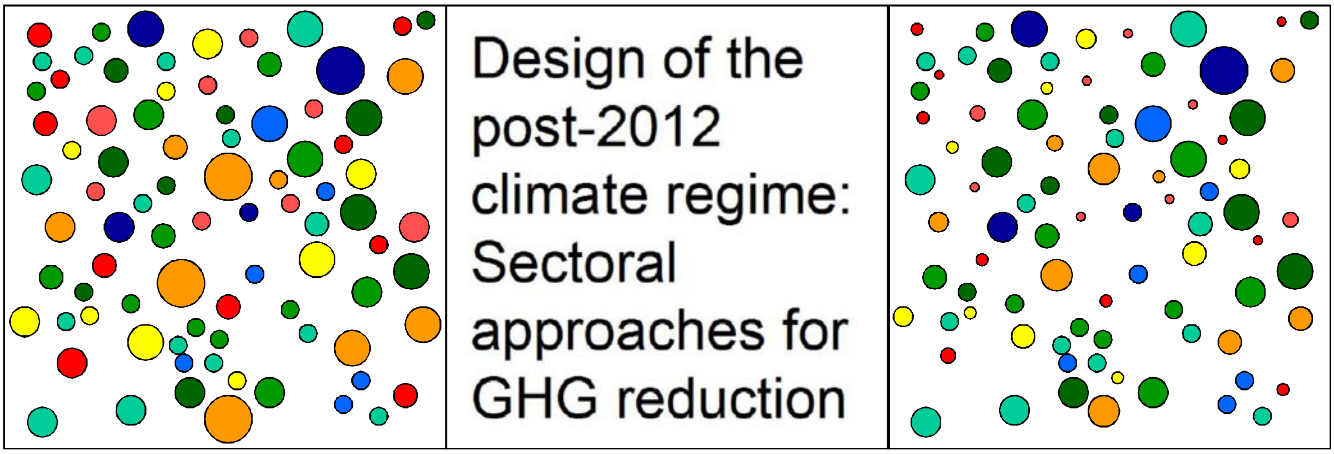
- **Sector definition**
  - IPCC 2006 guidelines as default
  - Deviations possible if justified
  - Domestic regulation may only address a (substantial) share of the sector, category or sub-category (IPCC 2006 GL)
  - De minimis provisions are not required

- **Monitoring, reporting & review (MRR)**
  - Monitoring: implementing country
  - Reporting: implementing country
  - Review: Independent Review Team (IRT)

# Summary & Conclusions

- **Still a lot of confusion and differences in understanding of terminology and concepts**
- **Domestic market-based policies and an international coordination mechanism need to be clearly distinguished**
- **NMM is closer to IET than to CDM**
- **Governance**
  - Global carbon markets: international coordination required
  - Global climate policy: unilateral action possible
- **Modalities & procedures**
  - Several details still need be agreed
    - Sector definition
    - Baseline & threshold determination
    - Etc.
  - Solutions available based on 10 years of experiences with international carbon markets




## Thanks for your attention!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