Future Flexible Mechanisms

Stephen Pathirana
DG ENTR
Sustainable Industrial Policy
Interests - Opportunities

- CDM - Cheap form of compliance within Europe
- Channelling of finance to competitors overseas.
- Opportunity to finance investment within company
- Market developed around CDM – opportunity for finance community
- Value on carbon
- Engaged private sector
Through an industrial policy lens

• High Level Group for Competitiveness, Energy and Environment.

• Will not achieve a level playing field for industry until there is a global carbon market

• Means- single price for carbon= long term vision
Where are we now?

- EU-ETS
- The beginnings of other national or sub-national trading schemes
- Internationally- offset mechanisms
- Actions
  - Linking of trading schemes
  - developing new international mechanisms- Bridge between offset and global carbon market.
What should new mechanism deliver?

- Developing countries – own actions
- Deviation from business as usual (IPPC: 15-30%)
- Efficiency opportunities
A comprehensive approach to reducing emissions is the first best option …
… but sectoral approaches could be useful tools that:

- Contribute to reducing global emissions by addressing key emitting sectors
- Engage developing countries in mitigation action without constraining development
- Contribute to technology transfer and diffusion
- Tap business expertise and mobilise creativity
- Increase and focus RD&D by enhanced sectoral cooperation
- Help provide specific and verified data for key sectors
- Enable industries in sectors with a high level of international trade to contribute to mitigation action without threatening their business base (carbon leakage)
Sectoral no-lose crediting: what would it mean?

- Baseline
- Autonomous efforts
- Supported action
- Carbon trade flow
- Actual emissions
No-lose sectoral crediting - what would it mean?

- Domestic policy measures in developing country (NAMAS, SD-PAMS)
- The overall performance of sector achieved target
- Credits flow to sector in country
- Limited number of (major) developing countries need to take on autonomous action (Material Participation)
Challenges

• Would credits flow to government or directly to business?

• Could current CDM and sectoral crediting coexist in a particular developing country?

• How do we ensure the continued engagement of the private sector?
• A Consortium of 5 Partner organizations:
  – Center for Clean Air Policy – Europe (CCAP)
  – Centre for European Policy Studies (CEPS)
  – Climate Change Capital (CCC)
  – Institut du développement durable et des relations internationales (IDDRI)
  – Zentrum für Europäische Wirtschaftsforschung GmbH (ZEW)
• Plus in-country consultants and industry experts
Industry & Country Focus

• Four sectors
  – Iron & Steel
  – Cement
  – Aluminum
  – Electric Power

• Three Countries
  – China
  – Brazil
  – Mexico
  – India*

• These sectors and countries are case studies. Study seeks insight as to applicability to other sectors and countries.
• Quantitative analysis
  – Data collection for cement sector progressing well

• Modeling benefits of sectoral approaches
  – Preliminary phase. Full blown analysis will start in October.

• Identify financial incentives that would encourage countries to take additional sectoral actions.
  – Will examine assistance for tech deployment, financial barrier removal, and policy implementation (feed-in tariffs etc)

• Better definition and articulation of each option as they would apply in each country
  – Draft papers on sectoral approaches
• In-country Workshops
  – China workshop took place July 15 and 16, 2008 in Beijing
  – Mexico workshop took place on September 2 and 3 in Mexico City
  – Brazil workshop was to take place end of October, 2008

• Stakeholder Workshops
  – First Industry Stakeholder meeting was held in Brussels September 17 and 18, 2008.
Initial observations- Industry Suitability to Sectoral Approaches

• No “one size fits all” for sectoral approaches
  – Variations within industries
  – Variations across different industries
• Some characteristics suitable for sectoral approaches
  – Relatively uniform product
  – Limited number of co-products
  – Production processes that can be compared
  – Abilities to measure, report, & verify data
• Approach will be sector dependent
Initial observations - developing countries

• Different dialogue to that occurring in negotiations
  – Informal discussions have been positive

• Different countries and cultures will demand different approaches, e.g. China
  – Energy efficiency plan - commit to fit X technology in a sector - challenge for mechanism to translate this into carbon commitment
  – Social policies - structural change, closing inefficient plants

• Up front financing – feature of discussion with developing countries - technology/differentiation