



European Commission

Enterprise and Industry
Directorate-General

Future Flexible Mechanisms

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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

Why sectoral approaches?

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

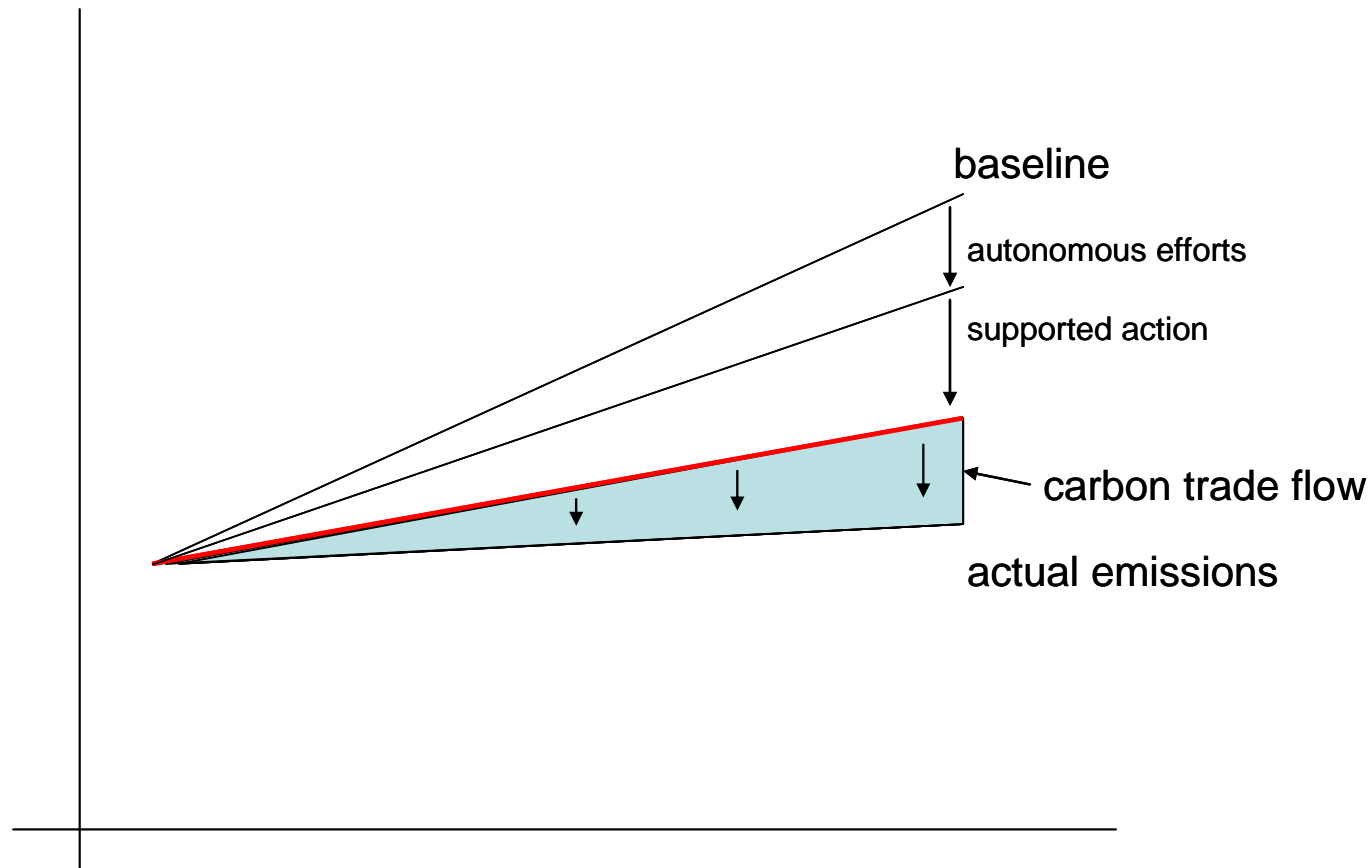
Developing countries

- Engage developing countries in mitigation action without constraining development
- Contribute to technology transfer and diffusion

Business

- 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?



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 direct to business?
- Could current CDM and sectoral crediting coexist in particular developing country?
- How do we ensure the continued engagement of the private sector.



Study Partners

- 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.

Study Process and Progress

- 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

Workshops

- 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