

Sectoral Approach and Incentives

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Advantages of sectoral approach

- Government understand emission trends, reduction potential, and marginal cost
- Generate large volumes of credits
- Reduce competitiveness concerns
- address rapidly growing emissions in sectors
- High feasibility for non-Annex I Parties
- local and regional socio-economic and environmental benefits

Emission Trends

- Rapidly growing in non-Annex I and some sectors
 - ; power generation, transportation in non-Annex I parties
 - ; Higher than that of Annex I parties
 - ; per capita GHG increase rapidly
- Accumulated emission is more important than annual emission
 - ; accumulated effect of GHG on global warming
 - ; when non-Annex I exceed Annex I ?
- Per capita GHG emission in non-Annex I is lower than that in Annex I

Competitiveness concerns

- Competitiveness concerns coming from uneven carbon constraint
 - ; leading to leakage problem
- Some sectors are sensitive to competitiveness
 - ; globally traded, energy-intensive sectors
 - ; aluminium, cement, iron and steel, chemical
- Leakage is not so serious ?
 - ; mitigation cost is not so high
 - ; industrial structure develop over long time

Framework of post-2012 regime

- Objective

 - ; stabilize concentration of GHG

 - ; participation of non-Annex I parties in global GHG reduction

- Annex I parties keep current framework

 - ; Kyoto Protocol to set country-wide emission limit

- Incentive-based sectoral approach for non-Annex I parties

 - ; sectoral crediting mechanism is feasible

- Two tracks in post-2012 framework

 - ; Sectoral approach is supplement to current framework,
not complement

Options of sectoral approach

- Intensity-based SA for non-Annex I parties
 - ; support the growth, partially
- policy-based SA contribute to sustainable development
 - ; choose their own policies
- Fixed limit SA is similar to Kyoto Protocol type
 - ; non-Annex I Parties not prefer

Type of sectoral approach

- Non-binding SA for non-Annex I parties

 - ; incentive, no penalty

 - ; however, binding for some sectors

- International-level SA for competitiveness-sensitive sectors

 - ; eg, aluminium, cement, iron and steel, chemical

- national-level sectoral approach for domestic sectors

 - ; electricity, transportation, buildings

Level of target to reduce GHG

- Target at market or economic potential of GHG reduction
 - ; government remove market failure
- Target at b/w economic and physical potential
 - ; high cost for some non-Annex I parties
 - high MAC beyond economic potential
- Target considering national circumstances
 - ; target set by country for international SA
 - ; institute or expert group review target

Sectors for SA

- Criteria to select sectors
 - ; Growth of GHG emission or share of global GHG emission
 - ; concentration of actors
 - ; International exposure
 - ;homogeneity of products
- International SA
 - ; aluminium, cement, iron and steel, chemical
- National SA
 - ; power generation, transportation, buildings

Binding SA for some sectors

- To resolve competitiveness concerns
- binding target for some sectors in non-Annex I parties
 - ; non-incentives, binding for both Annex I and non-Annex I parties
 - ; minimize the number of sectors
 - one or two sectors with high exposure to int'l competitiveness
 - ; sector(s) with high intra-, low inter-sectoral competitiveness
- in-depth study to select sectors

Demand for credits

- oversupply of credits disturb SCM
 - ; oversupply of credits from non-stringent baseline or target
 - ; price of credits much lower than cost of credits
 - ; high cost for non-Annex I parties, not willing to participate

Demand for credits

- Ensure demand for credits
 - ; price to compensate cost partially
 - ; flexibility to complementarity in Marrakech accord
 - ; flexibility in regional demand for credits
 - e.g, limit for the use of CER(6% of `AAU ?) in EU ETS
 - ; international or public carbon fund buy credits
 - ; set floor price for credits
 - ; integrate credits into CER

Conclusions

- sectoral approach contribute to post-2012 regime
 - ; non-Annex I parties to participate in global GHG reduction regime
- non-binding, incentive-based SA for non-Annex I
 - ; current framework for Annex I parties
 - ; sectoral crediting mechanism for non-Annex I parties
- binding international SA for some sectors
 - ; binding for both Annex I and non-Annex I
 - ; however, one or two sectors applied

Conclusions

- Target considering national circumstances
 - ; each party set target
 - ; international institute or expert group review target
- Demand for credits
 - ; ensure some level of demand for credits
 - ; flexibility in complementarity and regional demand
 - ; international carbon fund buy credits
 - ; floor price for credits
 - ; integrate credits into CDM(CER)

Thank you

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