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Cement Sustainability Initiative

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New market mechanisms to promote mitigation actions

Summary

Bottom-up country-led mechanisms are a realistic and effective path forward for climate change mitigation. Sectoral approaches fit well at a country- or regional level, as they can build on national priorities and leverage existing emissions reduction efforts (e.g. India is developing an energy-efficiency based trading system, and China is testing various tools at provincial level). With different mechanisms in different countries, it is important that measurement, reporting and verification (MRV) practices are globally harmonized or at least comparable to ensure that financing mechanisms can be linked internationally in the future. The role of the UNFCCC would be to develop a global MRV system to register, report and verify emissions reductions from national and regional systems.

Introduction

The WBCSD Cement Sustainability Initiative (CSI) has been an active contributor to the UNFCCC process since many years. Following a call for the proposal of new methodologies for the Clean Development Mechanism (CDM) at the COP 10 in Montreal in 2004, the CSI submitted a new methodology based on standardized baselines in 2009. In the same year, the CSI also presented its work on sectoral approaches. Modeling different policy options, the CSI showed that a combination of different sector-specific policies and measures in different countries could result in effective and cost-efficient CO₂ emissions reductions.

Today, the CSI takes the opportunity to respond to the invitation in articles 79-81 and 83-85 of the CoP17 decision of the Ad hoc Working Group on Long-term Cooperative Action under the Convention (AWG-LCA), inviting observer organizations to express their views on new market mechanisms. The views expressed here concern new market mechanisms for the industry and power sector. They complement the WBCSD's submission on a flexible linking framework with a sectoral perspective.

Objective of Market Mechanisms

Market mechanisms should provide effective and efficient incentives for entities in the industry and power sector to improve their CO₂ emissions beyond a business-as-usual pace of improvement. They should effectively influence business decisions, leading to investments and operations that are more energy and CO₂-efficient than business-as-usual. Emissions reductions should be measurable and verifiable.

A market mechanism provides rules that favor the most energy and CO₂-efficient products and producers. By doing this, it must be compatible with free trade and fair competition, and it should prevent leakage of production (and related emissions) from jurisdictions with carbon constraints to jurisdictions without (appropriate) constraints.

Sovereign and UNFCCC Market Mechanisms

Currently, the UNFCCC recognizes three market mechanisms: Emissions Trading between Parties, the Clean Development Mechanism, and Joint Implementation.

The Emissions Trading Systems such as in the EU and New Zealand are regional and national market mechanisms for legal entities in the industry and power sector. These are “sovereign” market mechanisms. The UNFCCC Emissions Trading mechanism enables the international linking of those sovereign systems, CDM and JI.

In the current climate policy environment, country-led *sovereign* market mechanisms are the most realistic and effective path to emissions reductions. Apart from the already existing systems in the EU and New Zealand, systems are under development or implementation in countries such as Australia, USA-California, Canada-Quebec, India¹, South Korea and several provinces and cities in China.

New *UNFCCC* market mechanisms could mean that the UNFCCC installs a new or improved framework and mechanism where existing and new sovereign market systems are integrated and linked.

Success factors

All successful markets are grounded in practical economic realities. New market mechanisms must provide a real business and financial incentive leading to business decisions that reduce CO₂ emissions and they must take account of realities such as funding capacities.

The type and the emission reduction ambition of the sovereign market mechanisms should be differentiated as a function of the socio-economic development of the regional economy.

Industrialized countries can take on targets to improve CO₂ emissions per tonne of output as well as absolute emissions from the aggregated covered sectors (such as Cap & Trade Systems). Emerging economies and fast growing developing countries can take on emissions intensity goals, without necessarily decreasing absolute emissions (such as Intensity Based Trading Systems). Least developed countries should be able to take on voluntary commitments with the possibility to generate offsets (such as baseline and credit trading systems, or CDM with standardized baselines).

For market mechanisms to be successful they should be tailored to the characteristics of different sectors. All reduction levers available in a sector should be included. Incentives and obligations should be targeting the legal entity / operator that has the power to take decisions on investments and operations.

Sectoral market mechanisms

A sectoral market mechanism can be applied at regional or national level: It includes sectoral targets that provide the opportunity to earn emissions reduction credits and tradable emission rights by reducing emissions below agreed benchmarks.

For a sectoral market mechanism to function, a sectoral database is needed to collect accurate and verified information on CO₂ and energy performance of industrial installations. On this basis, sectoral performance metrics can be developed, expressed as an improvement objective towards a business-as-usual trajectory. While the performance metrics should ideally be the same globally, the values attributed to performance

¹ India: Perform, Achieve and Trade (PAT) system

improvements can be set nationally / regionally, in accordance with the technical and economic capabilities of a country or region.

Sectoral market mechanisms require strict measurement, reporting and verification (MRV) standards. Ideally, these standards should be globally harmonized, or for the least compatible and comparable. If national / regional standards diverge, this would lead to concerns over the environmental quality of credits.

The role of the UNFCCC

The development and implementation of sectoral market mechanisms are a matter of national or regional sovereignty. Parties also have the sovereignty to agree on bilateral agreements enabling linking of their systems and fungibility of emission rights and credits.

However, in order to enable a multinational and global framework, they all require an international registry where the national and regional systems are registered and where resulting emission reductions are registered and reported. The development and operation of such a global registry system should be under the guidance of the Conference of the Parties and the UNFCCC.

The UNFCCC can also develop an international system to enable the linking of different carbon markets beyond bilateral agreements. This would work by setting up common standards to define credits and set verification requirements, including criteria for the accreditation of agencies by Parties.

A recent decision by the UN CDM Executive Board (at its 65th meeting) to adopt voluntary guidelines on sectoral standardized baselines, including a positive list of additionality projects, seems to have been inspired by the methodology submitted by the CSI in 2009². However, by setting the benchmarks for additionality and baseline at the 10% best performing installations in the sector, these guidelines set the ambition so high that the potential to create a material volume of eligible credits will be insufficient to provide adequate incentives for operators. The CSI can only reiterate its comments that the market mechanisms must be grounded in economic realities, meaning that the achievement of ambitious environmental integrity is inherently coupled with the realization of appropriate business incentives.

Example: Cement sector

Under the leadership of the CSI, the cement sector has developed a common MRV methodology (“The Cement CO₂ and Energy Protocol”³), and a global database on CO₂ and energy performance for the sector (“Getting the Numbers Right”, or GNR database⁴), covering close to 60% of global cement production (excluding China, and close to 30% including China), and with a level of data verification of above 80%. The CSI can thus facilitate the data collection and management to establish national and regional benchmark levels.

The WBCSD and IEA have developed together a global technology roadmap for the cement sector up to 2050, assessing the technical feasibility of the various levers for emissions reductions in cement production. A national roadmap for India is currently under development by the CSI and other partners. This work can help assess the future reduction potential of the industry at both global and national levels.

² NM0302, “Emission reductions in the cement production facilities of Holcim Ecuador S.A.”

³ www.wbcscdcement.org/co2protocol

⁴ www.wbcscdcement.org/co2data

In the future, the CSI is interested to engage in pilot initiatives to work out country-specific approaches, to support capacity building for emissions monitoring and reporting, and to develop tools to incentivize emissions reductions.

About the Cement Sustainability Initiative (CSI)

The Cement Sustainability Initiative is a global effort by 22 major cement producers with operations in more than 100 countries. Collectively these companies account for about one third of the world's cement production. All CSI members have integrated sustainable development into their business strategies and operations, as they seek strong financial performance with an equally strong commitment to social and environmental responsibility. Since its creation over 10 years ago, the CSI has focused on understanding, managing and minimizing the impacts of cement production and use by addressing a range of issues, including: employee health and safety, CO₂ and other airborne emissions, quarry management and land stewardship, water, use of fuels and raw materials, and sustainability with concrete.

www.wbcspcement.org

About the World Business Council for Sustainable Development (WBCSD)

The World Business Council for Sustainable Development is a CEO-led organization of forward-thinking companies that galvanizes the global business community to create a sustainable future for business, society and the environment. Together with its members, the Council applies its respected thought leadership and effective advocacy to generate constructive solutions and take shared action. Leveraging its strong relationships with stakeholders as the leading advocate for business, the council helps drive debate and policy change in favor of sustainable development solutions.

The WBCSD provides a forum for its 200 member companies – who represent all business sectors, all continents and a combined revenue of more than \$7 trillion – to share best practices on sustainable development issues and to develop innovative tools that change the status quo. The Council also benefits from a network of 60 national and regional business councils and partner organizations, a majority of which are based in developing countries.

www.wbcspd.org