

Market Mechanisms in Sectoral Approaches



Rae Kwon Chung

Ambassador for Climate Change

Ministry of Foreign Affairs and Trade

Republic of Korea

Launch a Comprehensive process in Bali Action Plan

Bali Action Plan Decision 1/COP 13

The Conference of the Parties

Resolving to urgently enhance the ultimate objective in full accordance

Reaffirming that economic activities should be consistent with the ultimate objective of the Convention and take into account the need to protect and restore the capacity of ecosystems to sustainably meet the needs of present and future generations,

Responding to the findings of the Panel on Climate Change that warming of the climate system is unequivocal, and increases the risk of more severe and widespread impacts of climate change,

Recognizing that deep cuts in greenhouse gas emissions in developed countries are required to prevent dangerous anthropogenic interference with the climate system, and that such cuts should be made in a just, equitable and agreed-upon sequence of rapid decadal reductions in greenhouse gas emissions, peaking around 2014 and declining thereafter,

1. *Decides to launch a comprehensive implementation of the Convention through a process of dialogue and cooperation in order to reach an agreed outcome and a*

(a) *A shared vision for long-term emission reductions, to be achieved in a just, equitable and agreed-upon sequence of rapid decadal reductions in greenhouse gas emissions, peaking around 2014 and declining thereafter, taking into account social and economic development, and the need to protect and restore the capacity of ecosystems to sustainably meet the needs of present and future generations;*

(b) *Enhanced national/international cooperation, inter alia, concerning:*

(i) *Measurable, reportable and verifiable nationally appropriate mitigation commitments or actions, including quantified emission limitation and reduction objectives, by all developed country Parties, while ensuring the comparability of efforts among them, taking into account differences in their national circumstances;*

(ii) *Nationally appropriate mitigation actions by developing country Parties in the context of sustainable development, supported and enabled by technology, financing and capacity-building, in a measurable, reportable and verifiable manner;*

(iii) *Policy approaches and positive incentives on issues relating to reducing emissions from deforestation and forest degradation in developing countries; and*

(i) Measurable, reportable and verifiable nationally appropriate mitigation commitments or actions, including quantified emission limitation and reduction objectives, by all developed country Parties, while ensuring the comparability of efforts among them, taking into account differences in their national circumstances;

(ii) Nationally appropriate mitigation actions by developing country Parties in the context of sustainable development, supported and enabled by technology, financing and capacity-building, in a measurable, reportable and verifiable manner;

(iii) Policy approaches and positive incentives on issues relating to reducing emissions from deforestation and forest degradation in developing countries; and the role of conservation, sustainable management of forests and enhancement of forest carbon stocks in developing countries;

(iv) Cooperative sectoral approaches and sector-specific actions, in order to enhance implementation of Article 4, paragraph 1(c), of the Convention;

¹ Contribution of Working Group III to the Fourth Assessment Report of the Intergovernmental Panel on Climate Change, Technical Summary, pages 39 and 90, and Chapter 13, page 776.

AWG Conclusions for Sectoral Approaches

◆ AWG-KP 5

- Approaches targeting sectoral emissions could be used by Annex I parties as a means to reach, but not replace, their targets
- Should not “lead to commitments for non-Annex I Parties” (within the mandate of the AWG-KP)

◆ AWG-LCA 1

- Sectoral approaches as one of work programme

◆ Annex 1 & Non-Annex 1 in separate parallel track

Potential and Gap of Sectoral Approaches

- ◆ Major Sectors: great potential for mitigation,
6 Major sectors (Power, Steel, Chemical, Aluminium, cement, Pulp & Paper)
Power : 20% of total emission in developing countries (Schmidt et al. 2006)
- But this potential can be realized only when sectors of Annex 1 and Non-Annex 1 are included in the same package: otherwise “Leakage”
- How to engage Non-Annex1 to join ?
- How to design sectoral approaches based on AWG conclusions ?

Major Parameters of Sectoral Approaches to engage Non-Annex

1

- ◆ Incentives rather than standards or target
- ◆ Need simple Baseline:
- ◆ Standards setting for energy or production efficiency:
 - technically (what criteria, monetary or material terms ?) &
 - politically (agreeing on the level of standard: local or global ?) too complex

Carbon Intensity & Carbon Credit

- ◆ Carbon Intensity of sectors measured in physical terms: tCO₂ per kw of electricity or Ton of Steel etc.
- ◆ If Carbon Credit is given for Carbon Intensity reduction implemented as NAMA in MRV manner: Incentive for Non-Annex1
- ◆ Baseline for Credit: improvement from local carbon intensity in 2012
- ◆ No need to agree on global standard
Example: 1kg CO₂ per 1kw of electricity → 0.5Kg CO₂ per 1kw of electricity

Feasibility of Sectoral Carbon Intensity & Carbon Credit

- ◆ Recognizing carbon credit for improvement of local carbon intensity at base year
- ◆ Carbon Intensity: simpler than energy or production efficiency
- ◆ Carbon Credit: compatible with AWG-LCA conclusions, not as commitment but as a voluntary action based on incentives
- ◆ Minimum technical & political difficulty: avoid agreeing on baseline and standards

Engaging market incentives and sectoral approaches in the form of NAMA (Nationally Appropriate Mitigation Action) implemented in an MRV manner, compatible with Bali Action Plan: cooperative sectoral approaches