



# Sectoral approaches and the carbon market

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Based on Baron, Buchner, Ellis (2009)

[www.oecd.org/env/cc/aixg](http://www.oecd.org/env/cc/aixg)



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Annex I Expert Group  
on the UNFCCC

# Outline

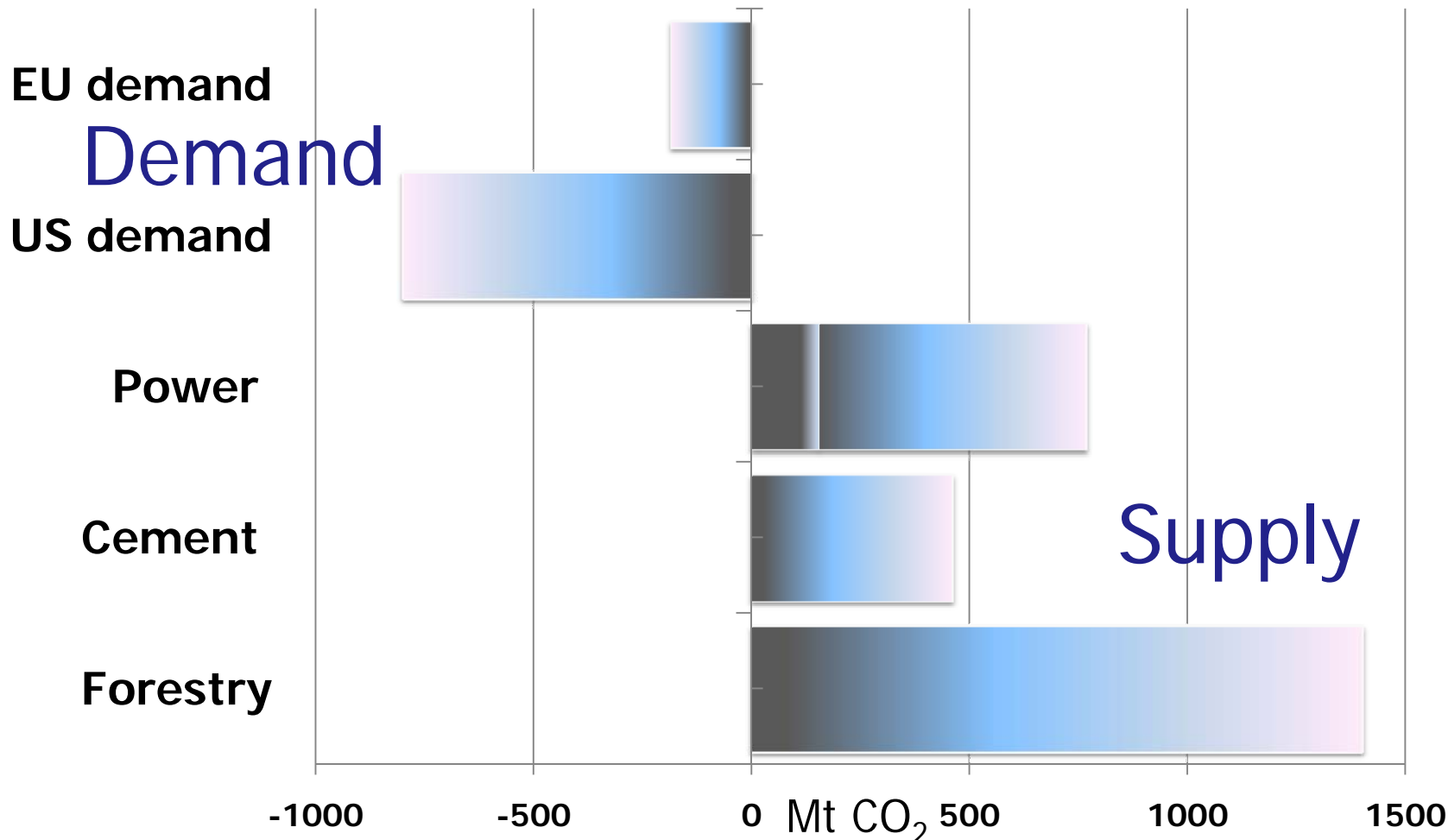
- **What are sectoral market mechanisms?**
- **Potential credit supply and demand**
- **Who gets the incentives?**
- **Transition issues**
- **Conclusions**

# Sectoral Market Mechanisms

- Objectives:
  - ◆ Broaden mitigation from projects to sectors
  - ◆ Use carbon market price signal as incentive
- Sectoral crediting: *ex post* credits, e.g. based on a 'no lose' target (intensity-based or fixed)
- Sectoral trading: *ex ante* allocation to country/sector
- Could generate significant revenue ...
- ... and could also require significant host government involvement (MRV, allocation)

# Potential supply and demand

(please see paper for caveats)

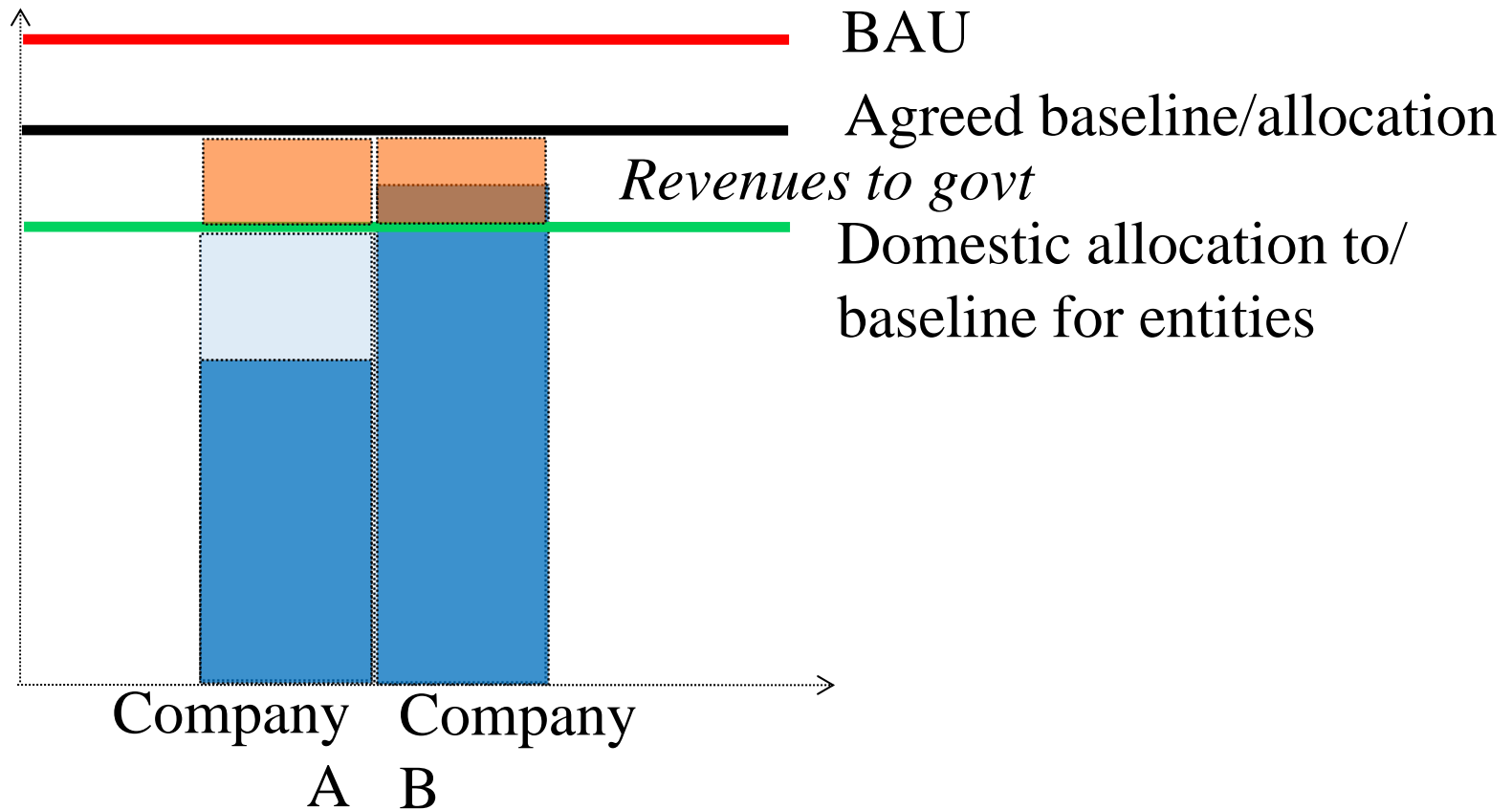


# Incentives: who gets what?

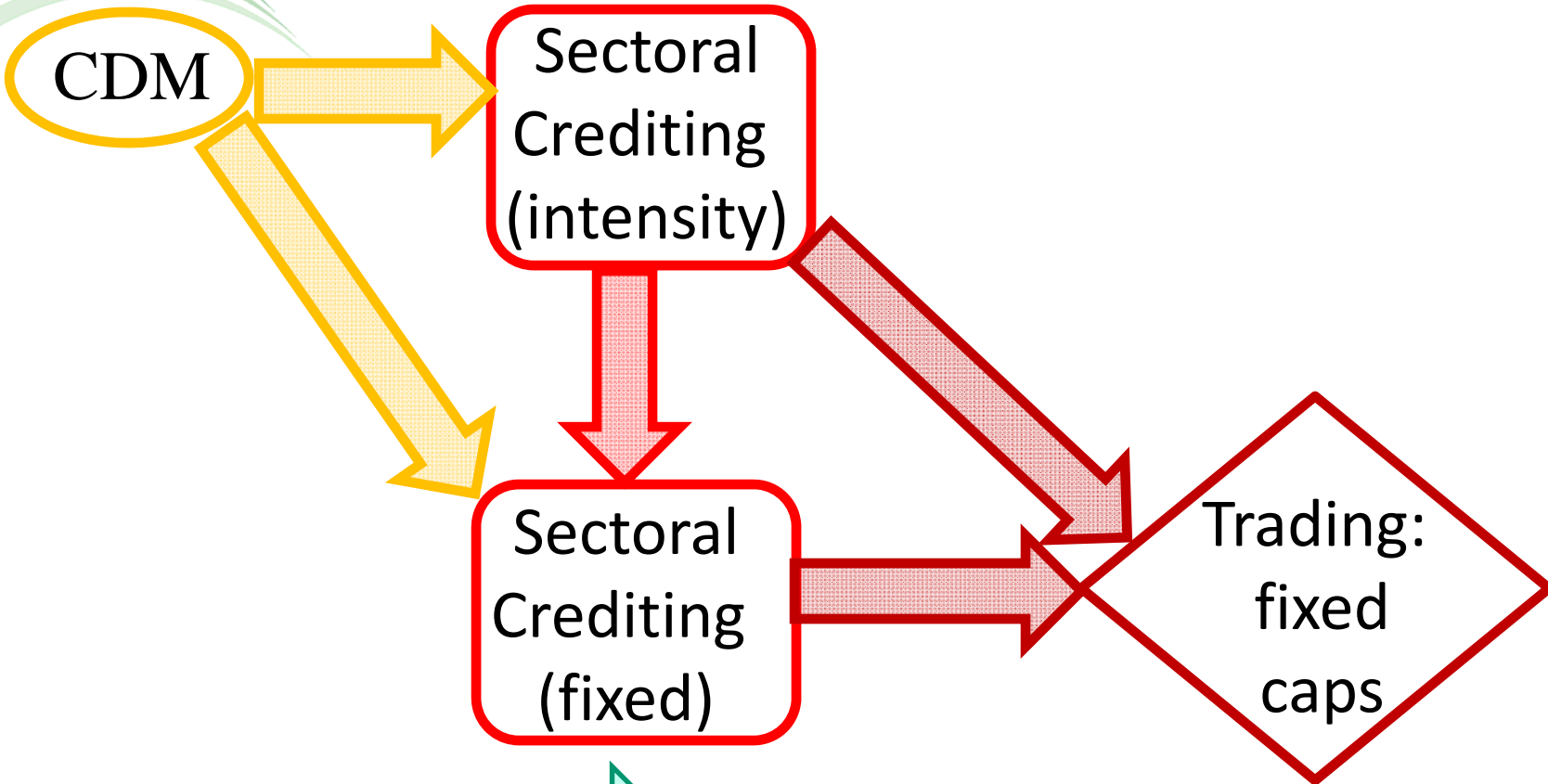
- Will depend on international guidance, e.g. how baselines are set/approved
- ... and national implementation:
  - ◆ Allocation/incentives: do governments pass on 100% of the C market incentive?
  - ◆ Liability (sectoral trading): who, if over-emissions?

# Illustration

Emissions



# Transitioning from CDM



Shorter-term transition

Longer-term transitions



# Conclusions – sectoral market mechanisms

- Very large supply potential ... so care needed in setting baselines/eligibility, role of offsets
- Can have significant policy/institutional implications for host government
- Detailed design features impact:
  - ◆ Strength of carbon signal to entities
  - ◆ Liability (or not) of government
  - ◆ Competitiveness effects
- Need to consider long-term aims and how SA fit