# Issues in implementing sectoral crediting mechanisms at domestic level

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# Outline

- Working assumptions
- Various options for domestic implementation of sectoral crediting
- The question of supply and demand

# Working assumptions

- Option for analysis: a ‘no-lose’ (non-binding) sector-wide crediting mechanism
  - Ability to sell credits if national / sectoral performance beats the baseline
  - No obligation to buy otherwise
- Based on an intensity goal
  - X tonnes of $CO_2$.eq per unit of output
    - MWh of electricity, tonnes of cement, primary steel, aluminium, etc.
  - $\text{Credits}_{country}$ = (goal – performance) x output = Y $tCO_2$
  - Credits to individual sectoral actors?
- Credits issued after some form of certification

# Questions

A government agrees to a non-binding sectoral intensity goal

Then what?

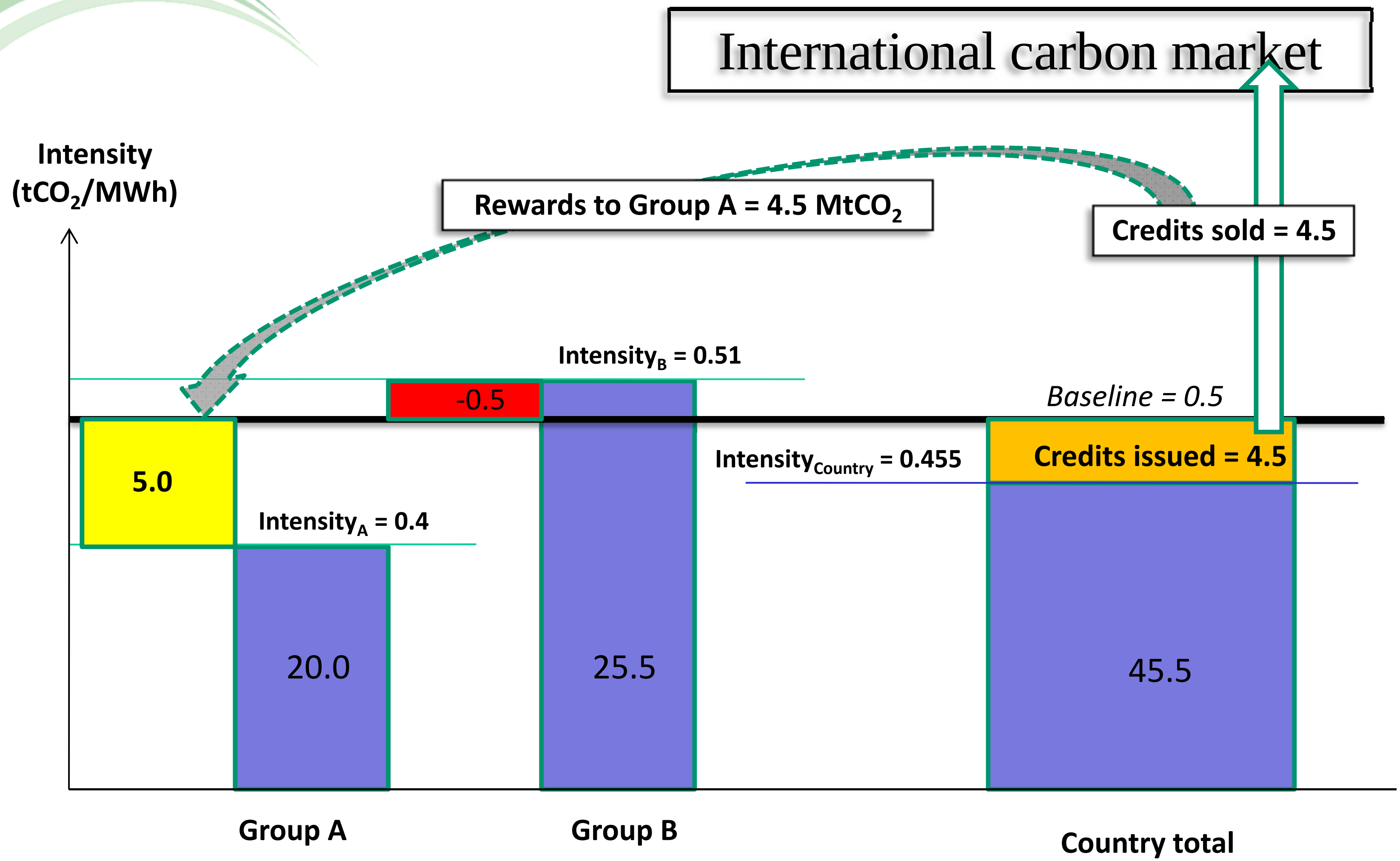
How is change implemented?

Who gets the credits?

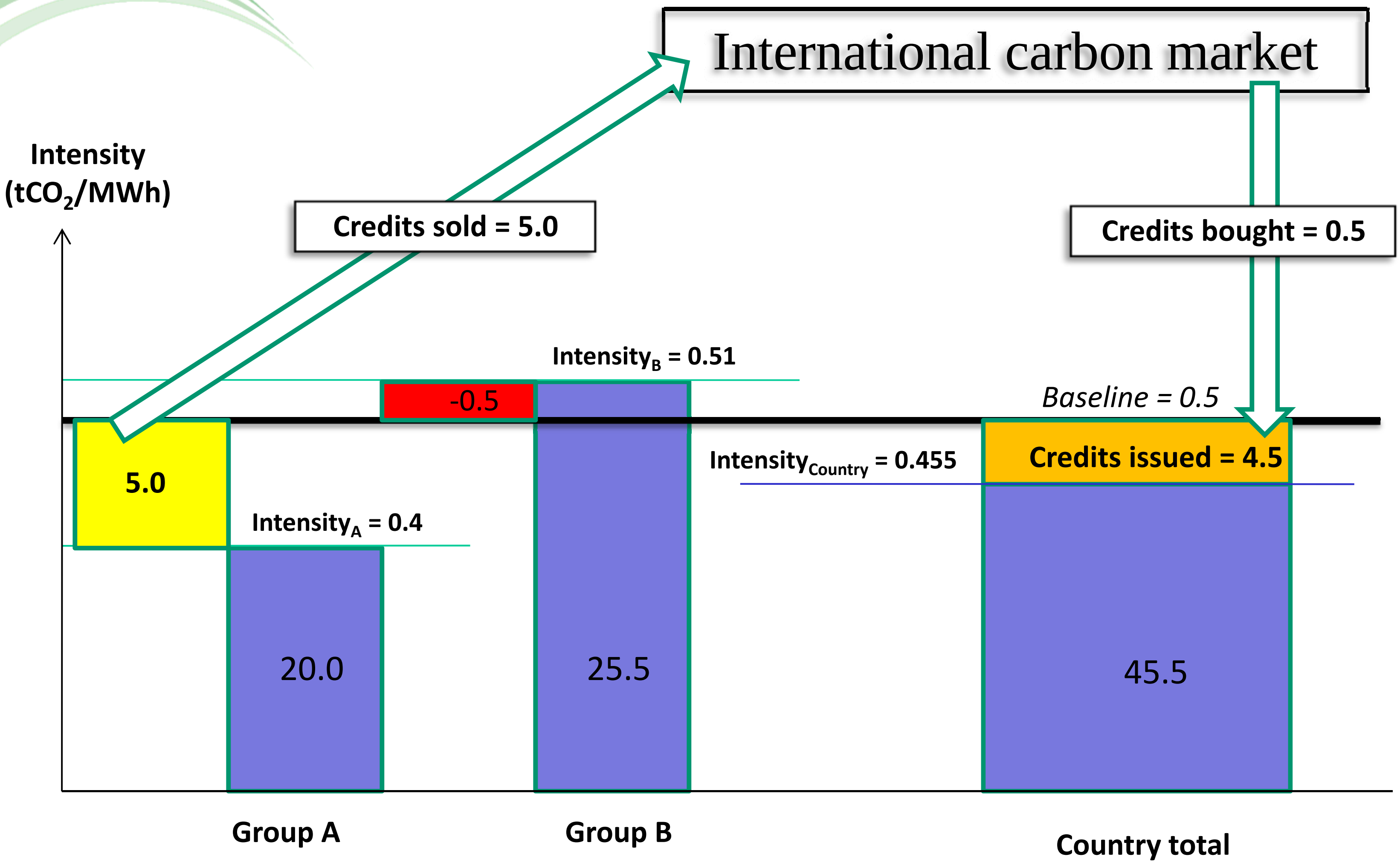
# Options for domestic implementation (1)

- ‘Revenues to government’
  - A domestic policy measure is introduced, mandating performance improvement
    - Renewables development in power
    - Energy efficiency performance standard
    - Subsidies, taxes, ...
  - Government receives credits
    - No direct carbon price signal to agents (plants, companies, ...)
    - ... but they could be rewarded afterwards

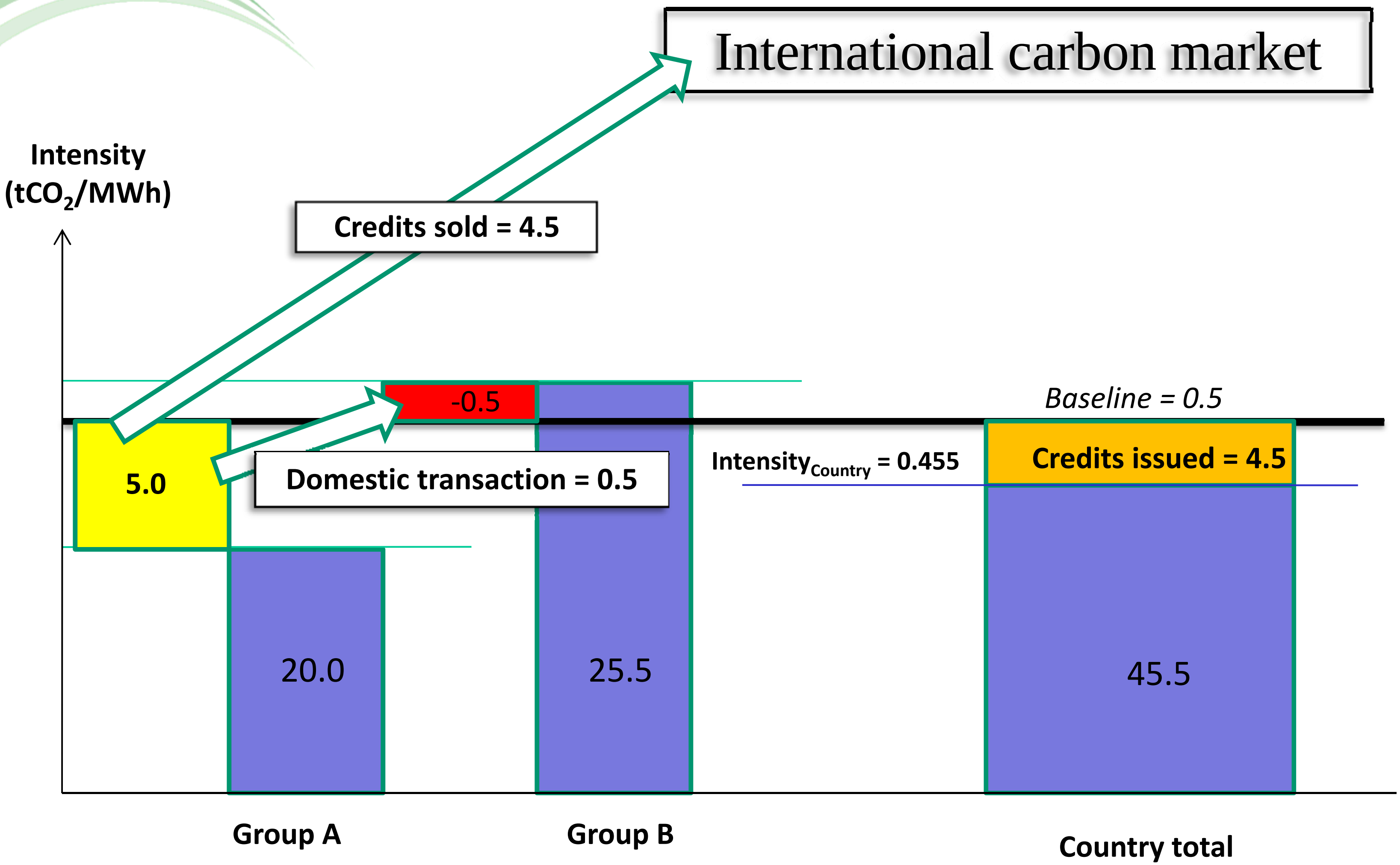
# Options for domestic implementation (2)
## *revenues for sources in compliance*



# Options for domestic implementation (3)
## *Government assumes liability*



# Options for domestic implementation (4)
## *Domestic trading*

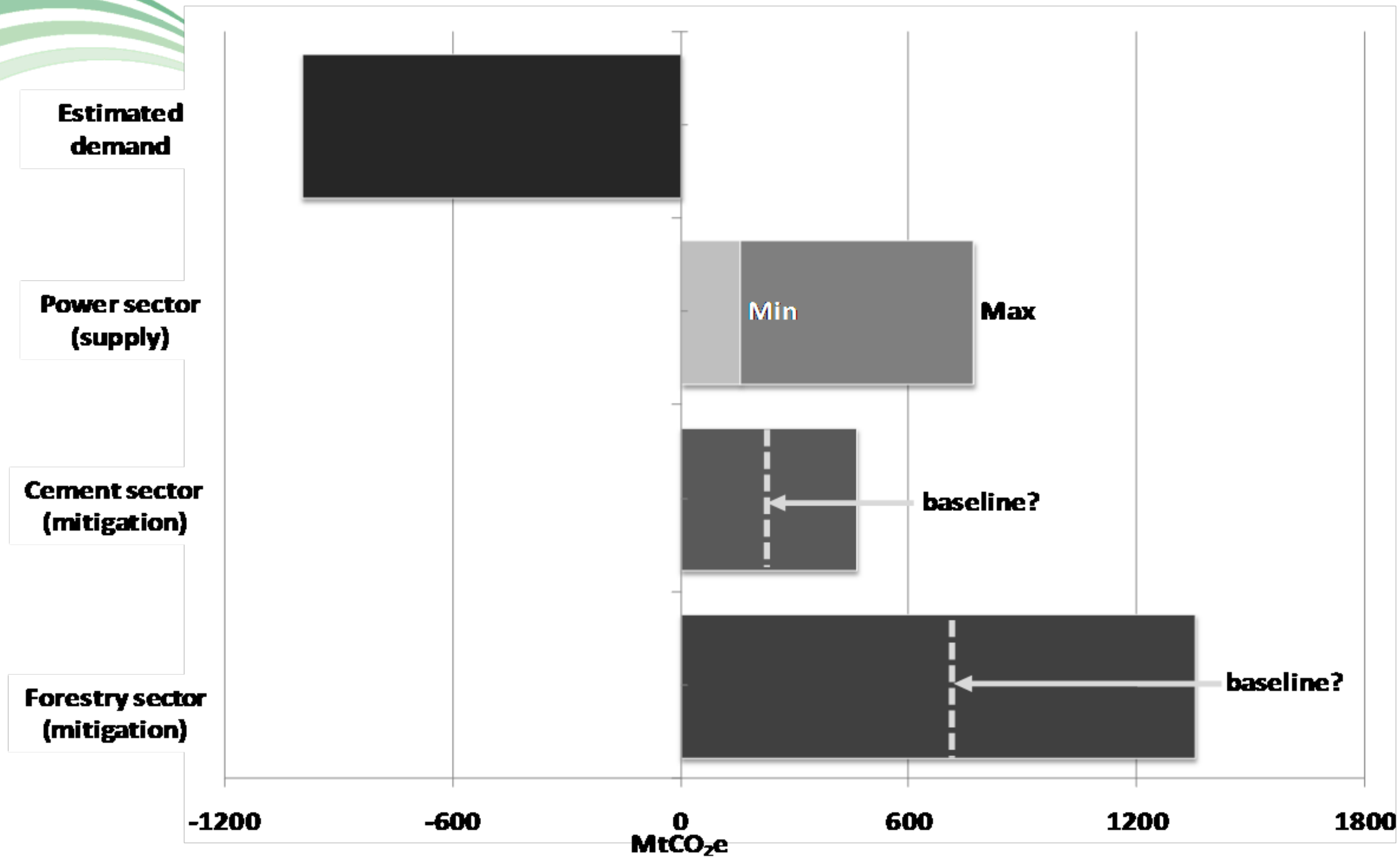


# Lessons from illustrations?

- Getting the market signal to individual sectoral players may not be straightforward
  - Can the carbon finance effectively flow to trigger investments?
- Sectoral objectives ought to be backed by clear options for domestic implementation – the 'market' won't do it all.
- How much could existing domestic CDM institutions help?

➔ Sectoral crediting, to be effective, implies active development of domestic policy

# Supply and demand




Sources: See Baron, Buchner, Ellis 2009

## Related dimension: How do we move beyond offsets?

# Summary

- Sectoral intensity goals for crediting imply serious effort in domestic policy terms
- How will carbon finance fit in this picture?
- Possible supply/demand issue?
  - Link to the baseline setting discussion and the contribution of crediting to global reductions, beyond offsets