Sectoral Trading: A UK perspective

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The challenge

- Delivering cap & trade in key sectors in developing countries (DCs).
- Ultimate aim is economy-wide emissions reduction targets in DCs.
- What is envisaged is a market transition, not instant application.
- Negotiable? Part of comprehensive finance deal at Copenhagen.
- Developing country capacity? Institutions and social organisation.
- Need for political agreement in two areas:
  - A1 commitments (emissions reductions) and NA1 action;
  - On the level and nature of A1 support for NA1 capacity building.
- Quantification of action is key: 15-30% BAU reduction by 2020.

The benefits

- Upscaling action through higher levels of aggregation, while streamlining administration.
- Already a trend away from CDM projects to programmatic CDM.
- Own contribution inherent in sectoral cap & trade (not necessarily delivered by crediting).
- *Ex ante* allowances are worth a premium to DCs, as they are free of the uncertainty associated with the delivery of credits.
- For DCs, sectoral trading offers a least cost way of delivering an own contribution.
- Broader context: DC 15-30% reduction on BAU by 2020.

Monitoring, reporting & verification

- MRV is essential: have to quantify action (tonnes of emissions) to have a market.
- Current CDM MRV on a project basis: complex and bureaucratic.
- Improving MRV for sectoral trading has an upfront cost, but will be simpler (higher level) and offer more flexibility.
- It is unpopular with DCs, especially international verification.
- Decisions on target design will highlight governance requirements:
  - Some data needed in advance, to help with target setting.
- Intensity targets a possibility, but MRV more problematic.

Practical implementation

- Scope detailed options now to indentify potential problems.
- Design issues, e.g. the type and stringency of targets;
  - Agreement on targets would follow a period of negotiation;
  - At COP? A Marrakech Accord type process? Another body?
- Targets set by pledge and review? Some formula? Start at 15% against BAU and work up?
- How do we determine equality of effort?
- How are incentives transmitted to the private sector? (more of a problem for crediting?)
- Timing and phasing of sectoral crediting and trading schemes.

Transition timetable

By 2015

- OECD-wide carbon market through linking of cap & trade systems.

By 2020

- Carbon market extended to some economically advanced DCs by introducing national emissions trading;
- Sectoral cap & trade, crediting and sectoral CDM (with or without own contribution) for sectors in other DCs, as appropriate.

By 2050

- Phase out of both project-based and sectoral CDM; all DCs moving through no-lose crediting and trading to national caps.
- Balancing this with respect for existing investments in CDM.

Summary

- Sectoral trading (and crediting) will only be agreed in the context of broader financing discussions at Copenhagen.
- Important to convey the benefits that sectoral trading can offer to both A1 and NA1 countries.
- Action will be needed on MRV; this will need to be accompanied by A1 support on capacity building, market reforms etc.
- Need to resolve the design issues and the process for target setting.
- Sectoral trading is one step on the long-term path to a global carbon market, based on national caps and emissions trading.

Questions

- Views on how sectoral trading might work in practice?
- Could it exist outside the international framework? (cf. recognition for voluntary national cap & trade schemes)
- Process and priorities for improving MRV? What support will be necessary?
- What transition timescales are realistic? Is a transition straight to sectoral cap &trade more sensible?
- How can we start addressing the challenges of negotiation?

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