



Center for
Clean Air Policy

Engaging Developing Countries through Sectoral Approaches

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About the Center for Clean Air Policy (CCAP)

- Based in Washington, D.C. and Brussels, Belgium
- Committed to advancing pragmatic and cost-effective climate and air quality policy through analysis, dialogue, and education
- Involved in designing and analyzing climate programs in California, New York, Connecticut, Maine and in key developing countries (China, India, Brazil, Mexico)
- Helped design the E.U. CO₂ emissions trading program
- Running multi-stakeholder dialogues in the U.S. the E.U. and with 30 key countries negotiating the global climate regime after the Kyoto agreement expires in 2012 to find practical climate policy solutions



Engaging Developing Countries

- Trying to address two critical issues:
 - » Ensure that US companies are not at a competitive disadvantage vis-à-vis competitors as a result of US action w/o similar action in other countries
 - » Encourage significant developing country emissions reductions
- Best solution: International cooperation where all countries undertake the same efforts.
 - » Not likely in the near-term, so...
- **How do we accelerate developing country action in the near-term?**



Competitiveness is about specific sectors

- For some energy-intensive industries, climate policies can affect trade dynamics
- Internationally competitive sectors like cement, steel, paper, and aluminum account for roughly 8% of global emissions,* but
 - » are important politically because of fears of loss of competitiveness, GHG leakage, and jobs/plant migration
- Once these sectors are addressed, it will be easier to pass domestic legislation



** Doesn't include emissions from LULUCF; Only direct emissions, which don't account for emissions associated with electricity use in these sectors*

Competitiveness & Developing Country Emissions have become important in US debate

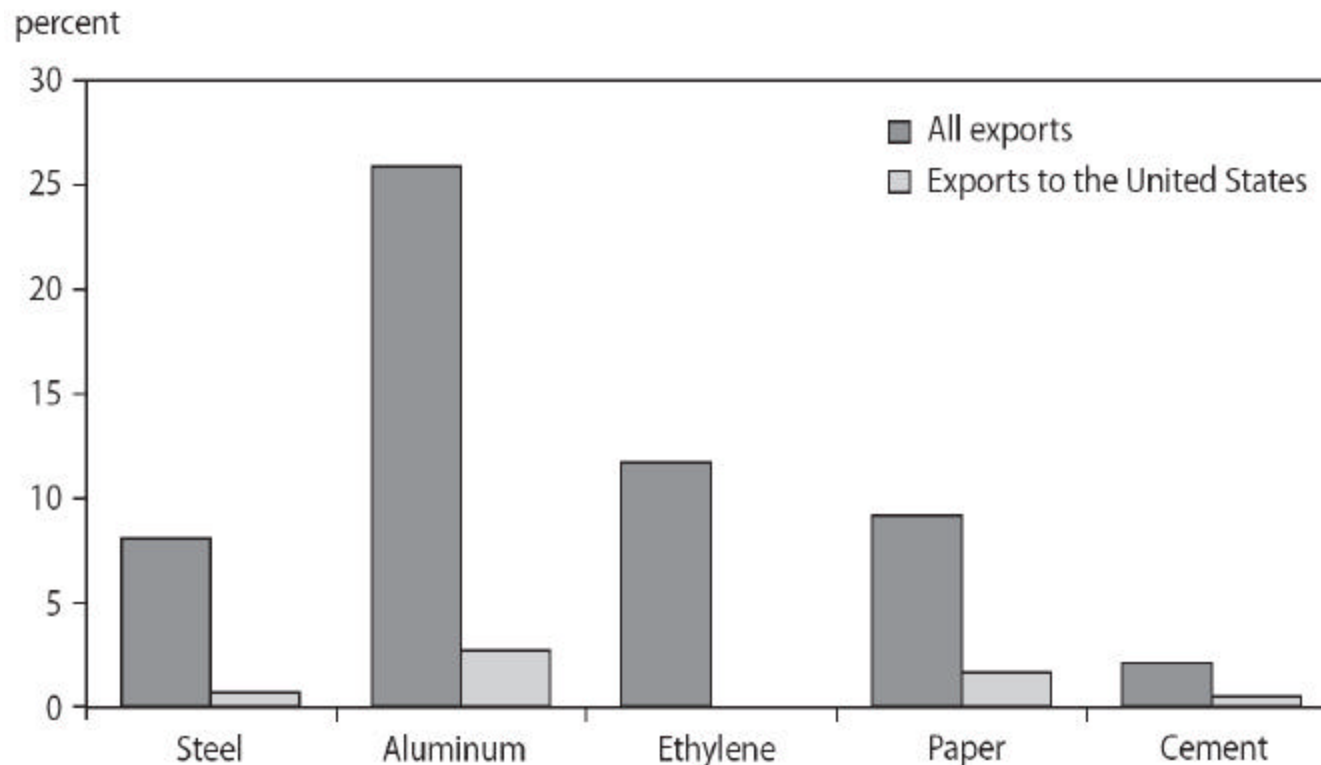
- Senate discussion around Lieberman-Warner Climate Security Act
- House discussion sparked by White Paper from House Energy & Commerce Committee
- Two major options have been raised:
 - » Border adjustments—addressing imports
 - » Free allocation to affected industries

Border Adjustment

- The border adjustment provision in the Lieberman-Warner Climate Security Act could level the carbon playing field
 - » assuming it meets WTO requirements
- BUT, it may not prevent job shifts due to labor costs, tax policies or other factors
- AND it will not create incentives for developing countries to reduce their domestic emissions

Developing country production is often largely to meet growing domestic demands

Chinese Exports as a Share of Domestic Production, 2005



Note: Chinese ethylene exports to the United States are negligible.



Source: Peterson Institute & World Resources Institute, 2008, *Leveling the Carbon Playing Field*.

Whatever strategies we use have to...

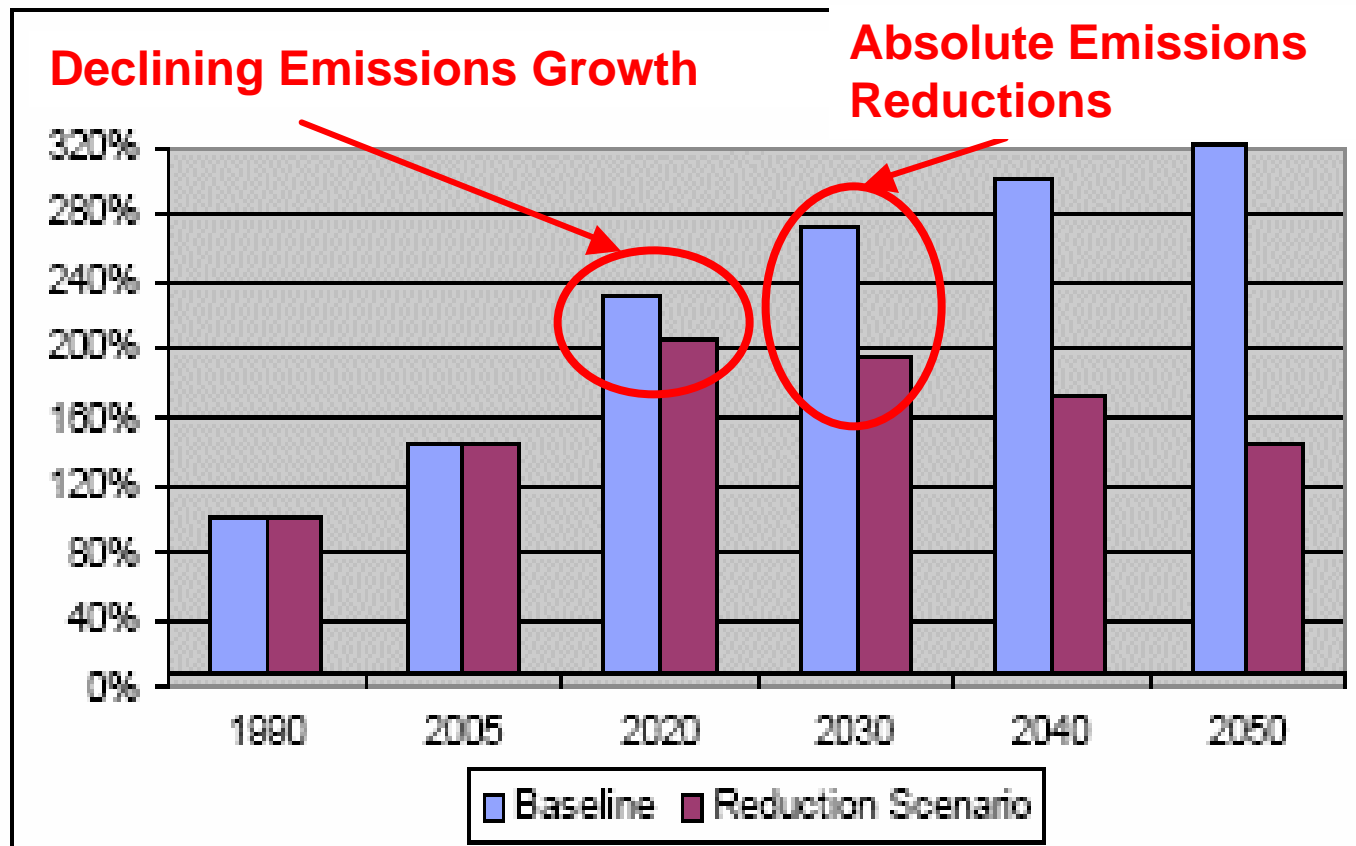
- Reduce the rate of growth of developing country emissions

AND

- Lay the foundation for absolute emissions reductions

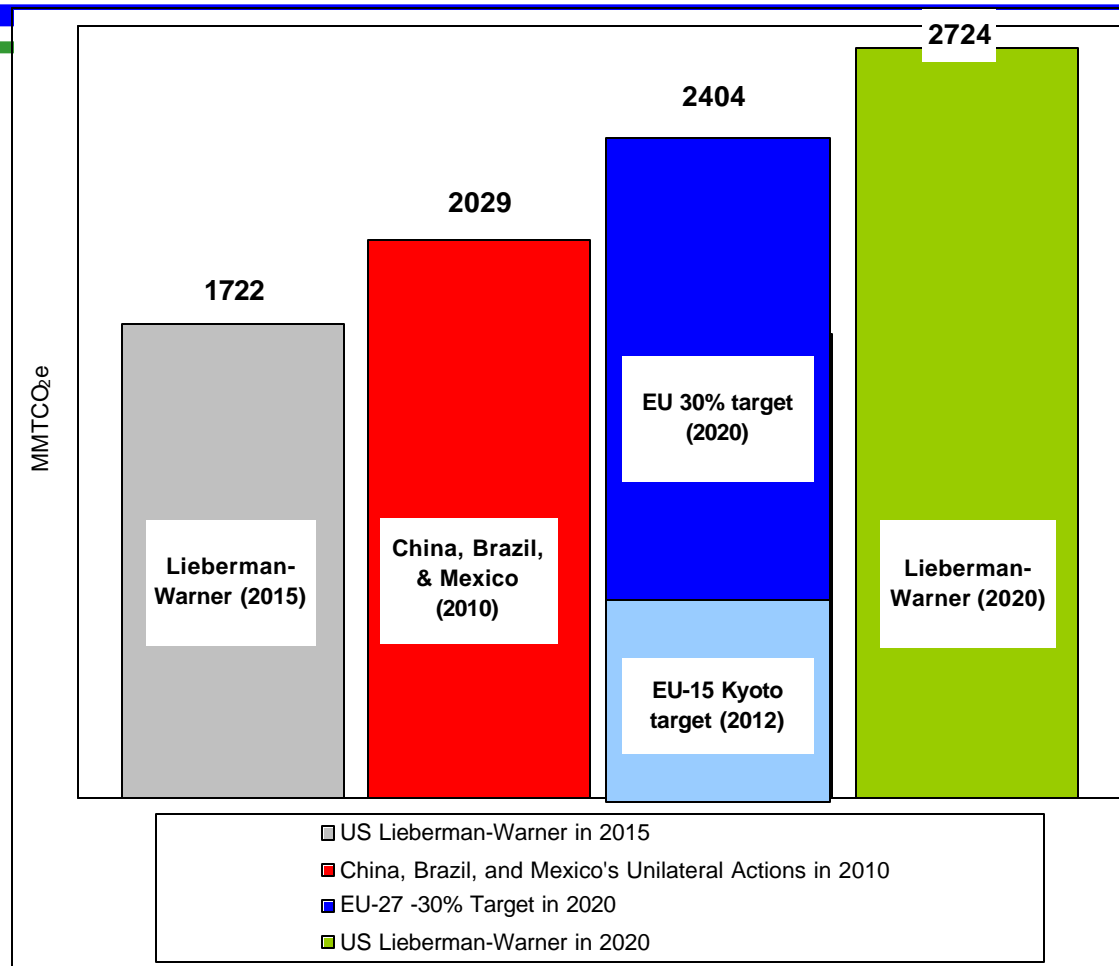
Scenario for Developing Country Emissions

- EU analysis of 50% chance of staying below 2°C
 - » Developed countries 32% reduction below 1990 by 2030; 60% below 1990 in 2050



Source: European Commission, 2007

...And developing countries are already doing more than many believe



Reductions from BAU

Source: CCAP, updated



Various options for reducing developing country emissions have been debated

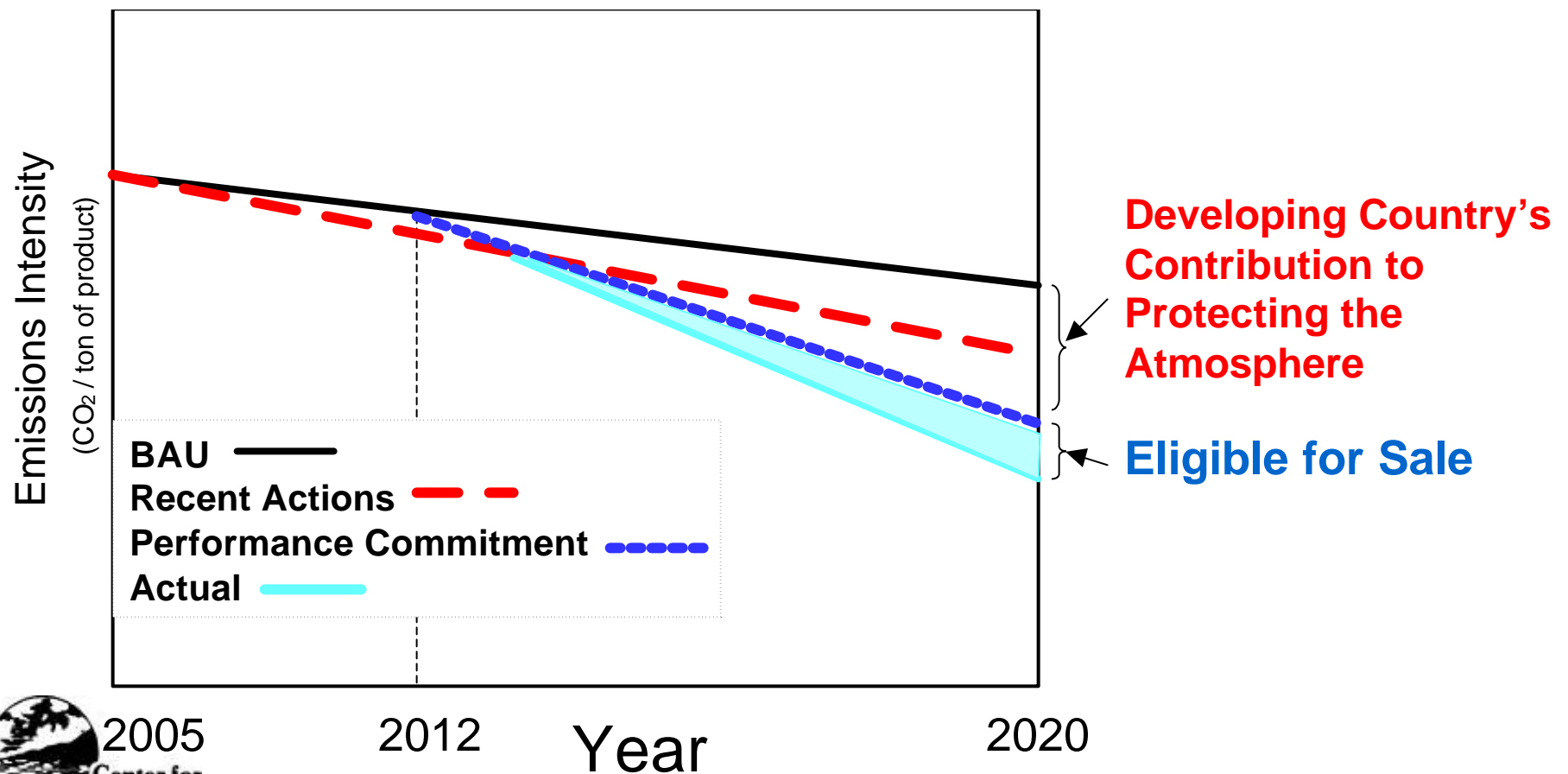
- Since 2002, CCAP's Dialogue w/ senior climate negotiators has debated various forms of developing country actions
 - » Absolute economy-wide targets w/ an allowance for growth ("growth caps")
 - » Economy-wide intensity targets
 - » Sustainable Development Policies and Measures
- None of these approaches has gained significant support from both developing and developed countries for a variety of reasons

A promising approach...

- CCAP has developed a promising approach: “Sectoral performance goals” in developing countries coupled with return for incentives for technology
 - » Developing countries have begun to engage on this option and it’s part of the Bali Roadmap

Sectoral “Performance Goals”

- ? Emissions reductions beyond the performance commitment are eligible for sale



Technology Finance Assistance to Encourage Stronger Actions

- Technology & finance assistance could be provided:
 - » To build first-of-a-kind advanced technologies which are not cost effective
 - » To accelerate deployment by bring down the cost of advanced technologies
 - » As incentive for participating developing countries to establish more aggressive “performance goals”
- To receive incentives, developing countries would have to meet “performance metrics”, such as adopting binding national emission reduction programs



Sources for Technology Finance

- Countries could provide financing by setting aside a portion of allowances or auction revenues in domestic trading systems, e.g.,
 - » German Parliament has earmarked 30% of auction revenues
 - » European Commission has proposed that at least 20% of auction proceeds should be used for CCS deployment, int'l EE/RE, and measures to avoid deforestation.
 - » Norwegian Finance Minister has proposed use for international programs including adaptation, technology, and reducing deforestation
 - » Lieberman-Warner bill uses such an approach for int'l forestry

Advantages of a Sectoral Approach

- A bridge strategy for the next commitment period (between 2012 – 2020) to encourage further developing country actions. It could set the stage for eventual hard caps in developing countries.
- Creates strong technology finance incentives in key internationally competitive sectors (e.g. steel, cement, electricity) to:
 - » deploy advanced low carbon technologies (such as CCS that are not market ready and cost effective) in developing countries
 - » Encourage developing countries to set more aggressive emissions reduction targets than in their current laws and regulations.
- Creates opportunities for leading US companies to gain access to growing new markets (create jobs at home)
- Moves toward leveling the playing field for carbon in internationally competitive sectors

Technology Deployment Incentive in Chairman's Amendment to Lieberman-Warner

- Section 1337 creates International Clean Energy Deployment Fund to “promote and leverage private financing for the development and international deployment of technologies” to reduce GHG emissions
- Funded through: (1) appropriations of \$2 billion for FY09-11; and (2) auctioning 0.5% of allowances from 2012-2017
- Creates multi-federal agency Board to distribute funds to nat'l gov'ts., regional/local gov'ts, NGOs, or private entities for:
 - » Capacity building programs
 - » Funding for technology programs including in transportation, coal, energy efficiency, renewables, industrial and buildings
- Eligible countries have to:
 - » Make a binding commitment, pursuant to an int'l agreement, to actions that produce measurable, reportable, and verifiable GHG mitigation OR
 - » Have in force binding national policies and measures that are capable of producing measurable, reportable, and verifiable mitigation.



International Clean Energy Deployment Fund (cont.)

- Board is to use the funds in a manner that:
 - » Best promotes participation and investment by the private sector;
 - » Is consistent w/ US commitments under int'l climate agreements; and
 - » Achieves the greatest emissions reduction with the lowest practicable cost
- Form of assistance includes:
 - » Grants, concessional loans, cooperative agreements, contracts, loan guarantees, etc.
 - » Funding for int'l clean technology funds supported by multilateral institutions
 - » Development and export promotion assistance programs
 - » Int'l technology programs of the Dept. of Energy



Conclusions

- Addressing competition is critical to a climate solution in US & EU
- A border adjustment could level the carbon playing field, but will not cause developing countries to significantly reduce emissions
- A promising option to accelerate developing country emissions reductions is a performance-based sectoral approach
 - » It could:
 - Create jobs and opportunities to access new growing markets
 - Deploy advanced technology in developing countries faster than the world has done previously
 - Establish a bridge strategy until absolute emissions reduction cuts in developing countries are more realistic

Next Steps

- CCAP won a major grant from DG Enterprise to “prove” out sectoral approach concept.
- Quantitative analysis and capacity building
 - » Baseline forecasts
 - » Technology benchmarks
 - » Mitigation cost curves
 - » Workshops
- Policy elements needed to operationalize in a post-2012 framework

Next Steps: Industry & Country Focus

- Four sectors
 - » Iron & Steel
 - » Cement
 - » Aluminum
 - » Electric Power
- Three Countries
 - » China
 - » Brazil
 - » Mexico

Engagement with Industry

- A key element of the success of the project will be ensuring that industry is engaged, both industry in the specific countries where projects are being carried out, as well as global industry organisations.
- Outreach efforts to European industry and institutions via workshops and other means.

Coordination with other projects

- There are several other related projects:
 - » Cement Sustainability Initiative
 - » International Iron and Steel Institute
 - » IAI's Aluminium for Future Generations initiative
 - » Energy efficiency project for EII in China financed by the Commission.

Questions?

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