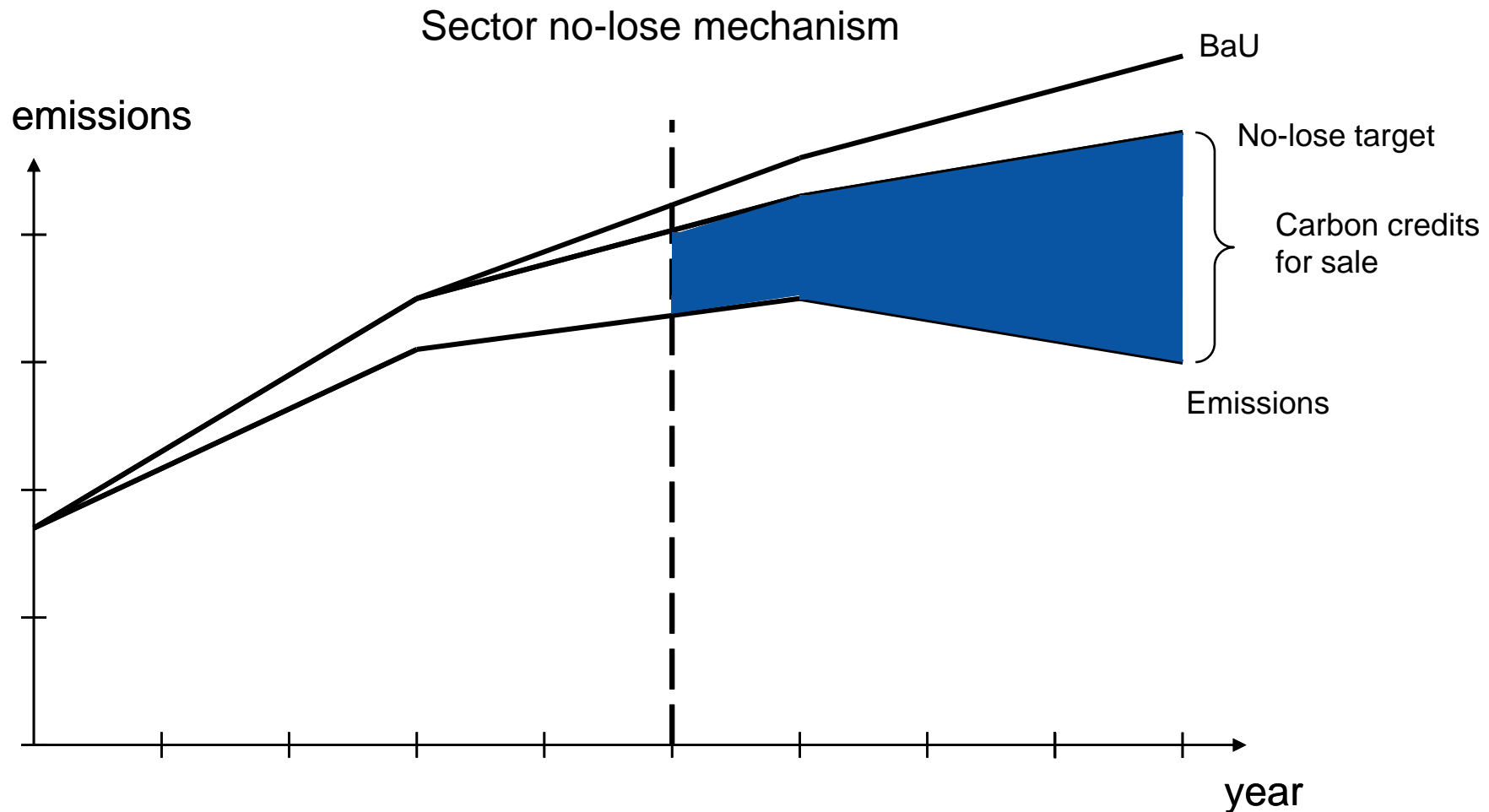


EU proposals on sector crediting – towards a global carbon price?

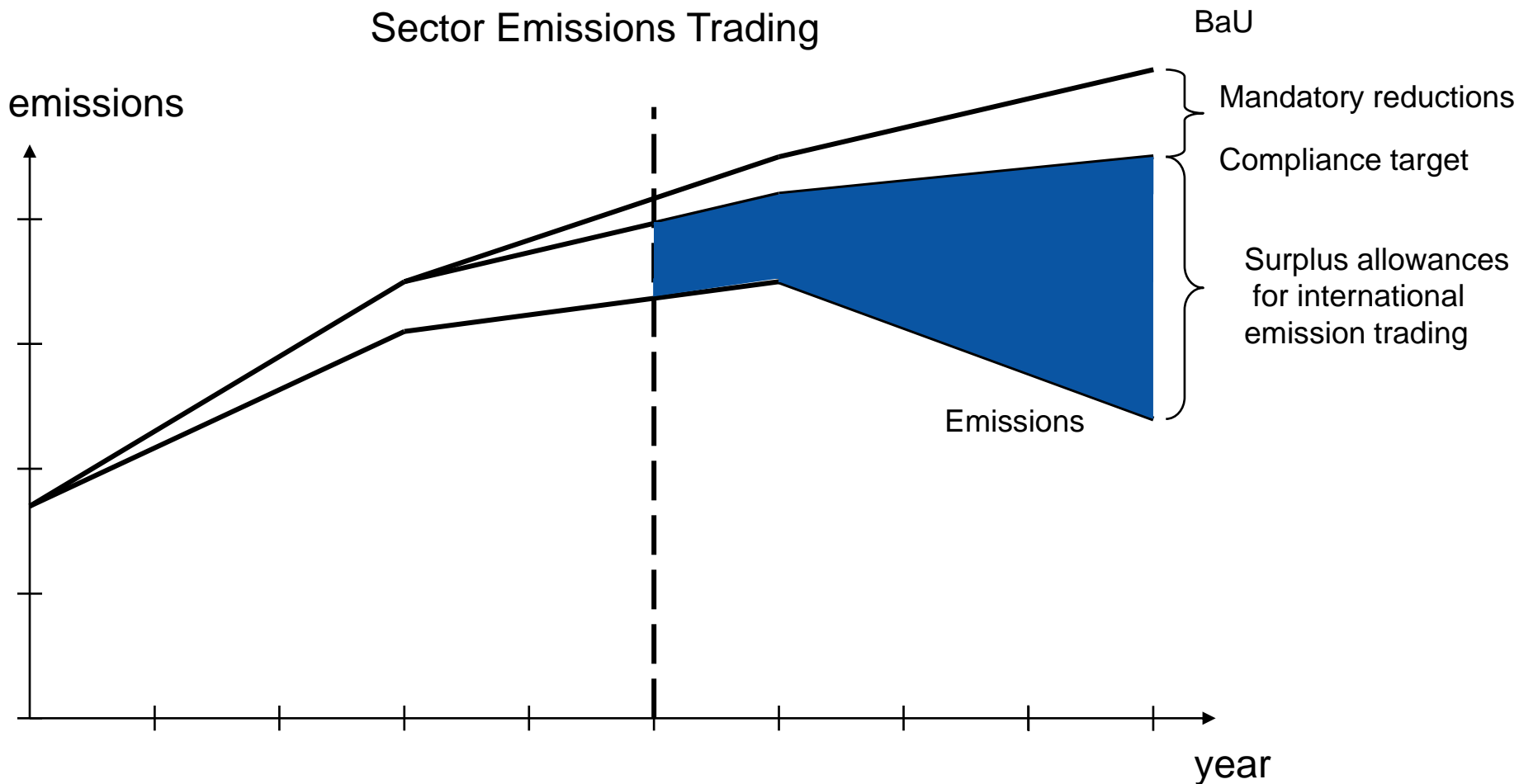
Lars Zetterberg, IVL

EU proposal on sectoral approaches

- Sectoral no-lose mechanism
- (Sector CDM)
- Sector Emission Trading



- Target sufficiently below BaU
- No penalty for not reaching target: "no-lose"



- Mandatory reductions
- Tradable units are issued ex-ante

Multiple objectives of CDM today:

- Provide cost-effective means for Annex I to achieve targets
- Harvest low cost reductions in developing countries
- Promote sustainable development in DC:s
- Finance adaptation measures
- Engage developing countries in climate policy

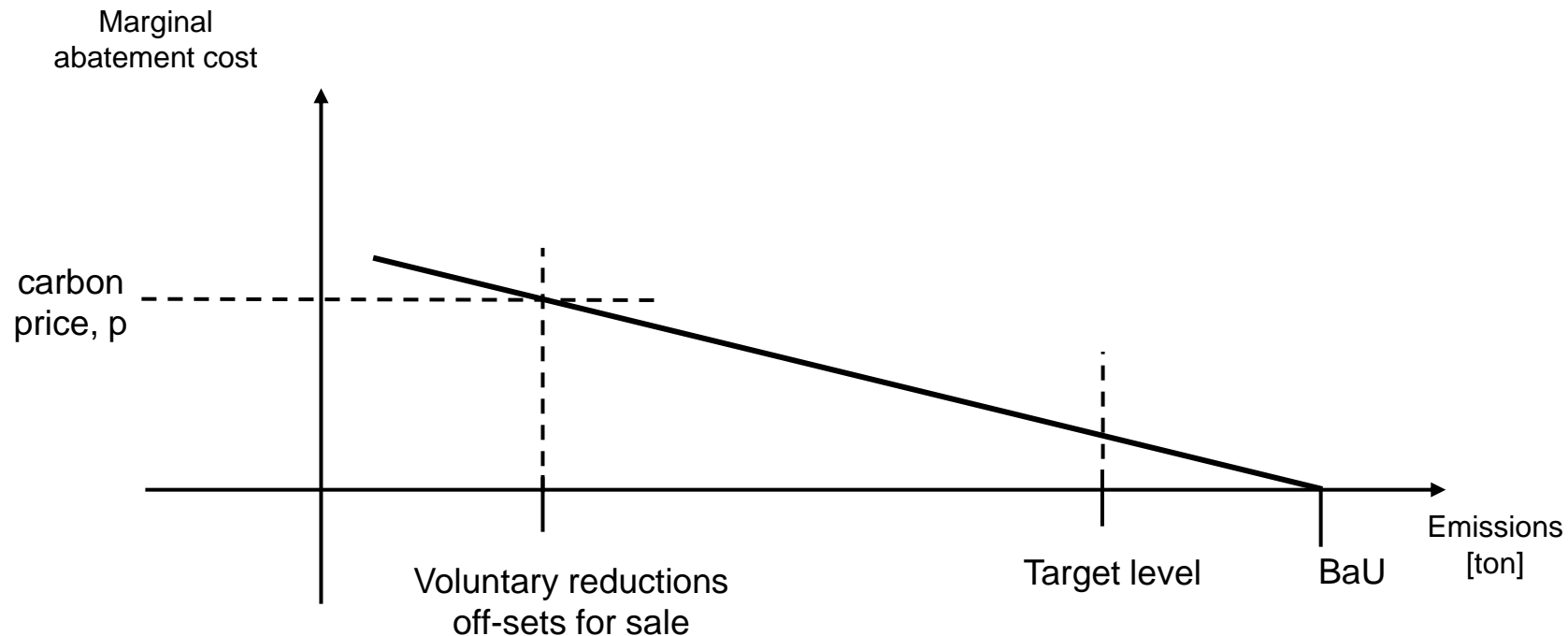
With the EU proposal:

- significantly scale up finance for mitigation action in DC:s
- significantly strengthen DC:s engagement in mitigation action
- reduce potential emission leakage by capturing all sectoral emissions

Issues for investigation:

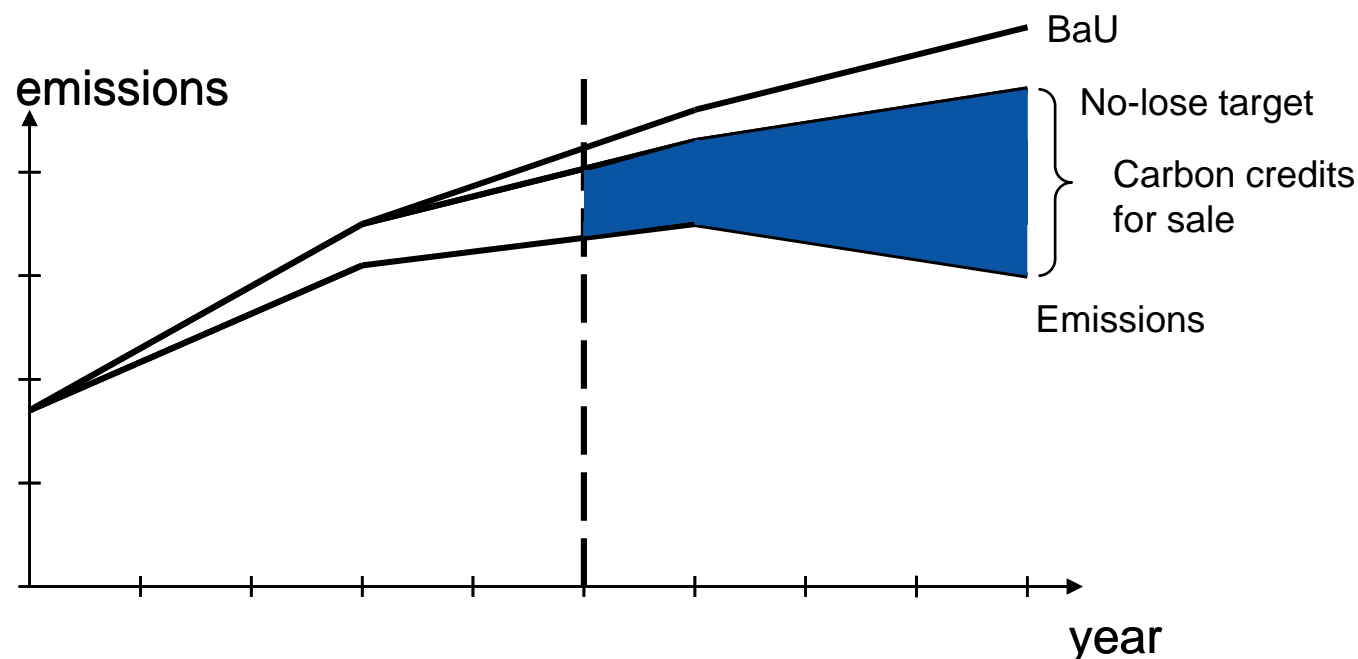
- can SA introduce a **sector wide carbon price** in developing countries?
- potential pitfalls?
- reduce competitive distortion?

1. Can a carbon price be created in a DC by off-sets?



- Yes. The credits will be valued at the price offered by the buyer
- The incentives for emission reductions is the international demand for offsets.
- EU will be an important buyer, along with others (Japan, USA), voluntary credit markets

2. Target setting: an issue of allocation of assets, of burden sharing



Slack target:

- Hot air
- Risk of carbon price fall
- Large rent transfer Annex I to DC

Strict target:

- Renders few off-sets
- High off-set price
- Little compensation to DC:s and little incentive for action

Large values at stake – risk of gaming

3. Targetting sectors

If the objective is to reduce **competitive distortion**, target sectors with:

- High carbon related costs
- High trade intensity

Studies for Sweden, UK and Germany indicate the following sectors:

- **Iron and steel**
- **Cement and Lime**
- **Refined petroleum**
- **Fertilizers**
- **Pulp- and paper**
- **Aluminium**

4. Indirect effects – electricity

- increased electricity price is in many sectors the major carbon related cost increase in the EU
- this is an argument for directing sectoral agreements to electricity production

5. Does EU industry like it?

Introducing a carbon price in DC:s creates a level playing field.
Applause?

Swedish industry: *"Why should we pay our competitors to become more carbon efficient?"*

- Rent transfer seems to be a mayor concern
- Similar reaction when EU ETS was introduced
- A real concern?

Conclusions

- In addition to "traditional" objectives, off-sets can be a way of introducing a sector wide carbon price in developing countries
- The international demand for off-sets is the driver. EU and US will have important roles
- Target setting will be a contentious issue, influencing:
 - off-set volumes
 - off-set price
 - rent transfer
- If competition is an issue, certain sectors should be targeted
- Annex I industry have concerns of rent transfer

END