Need for institutional framework and procedure for Sectoral approaches under UNFCCC

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Various Perspectives of DCs in Asia: Findings from IGES post-2012 dialogues

- General
  - **Complement**, but **should not replace national** absolute reduction
  - Need for common understanding and institution for **MRV** SA
  - Benefit the Asia-Pacific region, especially in sectors that are…..
    - Important sectors for Asia (e.g., **Steel, Electricity, Aluminium, Cement**)
    - Not covered under the KP (e.g., **bunker fuel, deforestation**)
    - Not suitable for project-based CDM (e.g., **transport, LULUCF**)
  - Considerable attention for Japanese bottom-up SA proposal in….
    - TT
    - but not from historical emissions/CbDR

- Specific
  - Big DCs:
    - **Widening the scope of CDM** through programme/sector/policy CDM, rather than universal standards/benchmarks (India, China)
    - Effective in addressing **industrial competitiveness** in internationally energy intensive sectors (Korea, China)
  - LDCs & SIDS:
    - Concern about sacrificing **environmental integrity** and being left out
  - Other countries
    - Insists on eligibility of deforestation avoidance and wider use of LULUCF (e.g., Conservation of tropical rain forest; Indonesia, Malaysia, PNG, etc.)

Future challenges

- **Common understanding/definition**
  - But flexible as key means for deeper emission reduction
- **Harmonization**
  - National sectoral target/Transnational sectoral target
  - Expansion of CDM into sectoral/Introduction of SA as new mechanism (Relation with CDM : fungibility, discounting of credits)
  - Sectoral crediting market (absolute or intensity?) /Absolute ETS market
  - UNFCCC/non-UNFCCC
- **Additional incentives**
  - Crediting, technology, finance, CB for MRV emission reduction

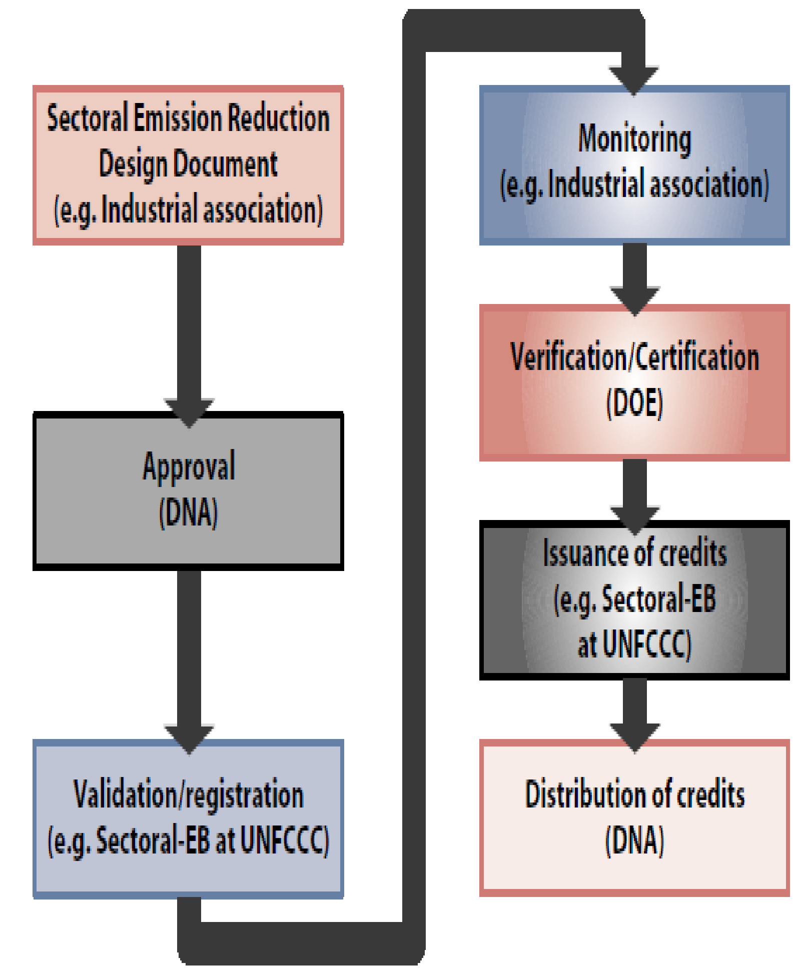
Milestones for Negotiation and International Work

	Negotiation	International Work
-2009	Agreement on basic structure (under or outside UNFCCC)	Capacity building for data accumulation in priority sectors
2010-2012	Negotiation of precise rules and procedures	Data accumulation Development of sector-wide emission inventory and MRV sectoral efficiency indicators (with the support from IEA, APP, IISI, WBCSD etc.) Development of methodologies through pilot-projects
2013-	Implementation of SA	Expansion of sectors and countries to avoid free rider/leakage problems

MRV Commitments and Action for Sectoral Approaches

- **Measurable**
  - Comparability using **efficiency indicators**/benchmark for BAT
  - Approval of Sectoral Emission Reduction Document by DNA
- **Reportable**
  - Monitoring based on validation/ registration by New Sectoral-EB at UNFCCC (or CDM-EB)
  - Reporting through in-depth review of **National Communication**
- **Verifiable**
  - Verification/Certification by DOE leading to issuance of sectoral credits

Figure 2.2 A suggested institutional structure for implementation of sectoral approaches



(Source) Kimura and Srinivasan. 2008. "Sectoral Approaches: Prospects and Challenges" In *The Climate Regime Beyond 2012: Reconciling Asian Priorities and Global Interests*. IGES: 14-34.

Proposal: Establishment of Voluntary market and sector-specific TT funds

- Rules
  - Establish voluntary market under UNFCCC targeting all Parties, linked with absolute Kyoto market
  - Credits from SAs is **not fungible** with Kyoto credits, but **fungible** if it's convertible into absolute reduction
  - Annex B countries can use the surplus credits for their **compliance with the mid-term** target
  - To avoid double counting, CDM is not allowed in the pledged sectors
    - **Exemption** is allowed in continuing CDM by deducing emission reduction from the sectoral target
    - In case of expansion of CDM into sector, CERs from sector-wide absolute/intensity CDM are issued

Proposal: Establishment of Voluntary market and sector-specific TT funds

- Institutional setting
  - **New Sectoral-EB (or CDM-EB) under UNFCCC**
    - Credits from SA issued by Sectoral-EB (or CDM-EB) can be sold in the voluntary emissions market under the UNFCCC
  - **Sector specific TT funds** for non-Annex I countries
    - DCs, of which **pledge & review** was admitted by the Sectoral-EB, can **preferentially** receive sector specific TT funds
    - Based on contribution from Annex I countries/Share of proceeds of the Voluntary marker under UNFCCC/Funds of international financial institutions (e.g., Carbon Partnership Facility, WB Clean Energy Investment Framework)
    - Initially managed jointly by UNFCCC/WB/IEA until operational modalities are fully decided by the COP.