NAMAs, Sectoral Approaches and US Climate Policy

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Economic and Financial Committee/Economic Policy Committee
Joint Working Group on Energy & Climate Change

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Center for Clean Air Policy (CCAP)

- Washington, Brussels, CA, NY and Beijing-based environmental think tank
- Committed to advancing pragmatic and cost-effective climate and air quality policy through analysis, dialogue, and education
- 30-country climate policy dialogue has produced agreements on emissions trading and Clean Development Mechanism design. Current focus is post-2012 climate policy
- Working with key developing countries (Brazil, China, India, Indonesia, Mexico) to design climate policies
- Original consultants who helped design the EU CO_2 emissions trading program

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Outline of Presentation

- Sectoral Study
- Developing Country unilateral action
- What are NAMAs?
- NAMA target setting in Mexico & China
- Technology Incentives and Finance
- US Sectoral, NAMA and Offset Provisions
- State of Play in the Negotiations
- Closing Observations

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The Sectoral Study

- CCAP is leading a “proof of concept” study of sectoral programs in China, Mexico and Brazil
  - » Funded by EC DG-Enterprise
  - » Partners are CEPS, ZEW, CCC, IDDRI
  - » Sectors: electricity, cement, iron and steel, aluminum, oil (Mexico only)
- Key questions/issues:
  - » What data is available (technologies, costs, emissions, fuel use?
  - » Can potential sectoral goals and support needs be set based on the available data? If so, how?
  - » How big an impact can sectoral programs have on global emissions?
- Potential sectoral goals and NAMAs: Mexico’s cement and oil refining sectors, China Cement and Steel Tech Targets

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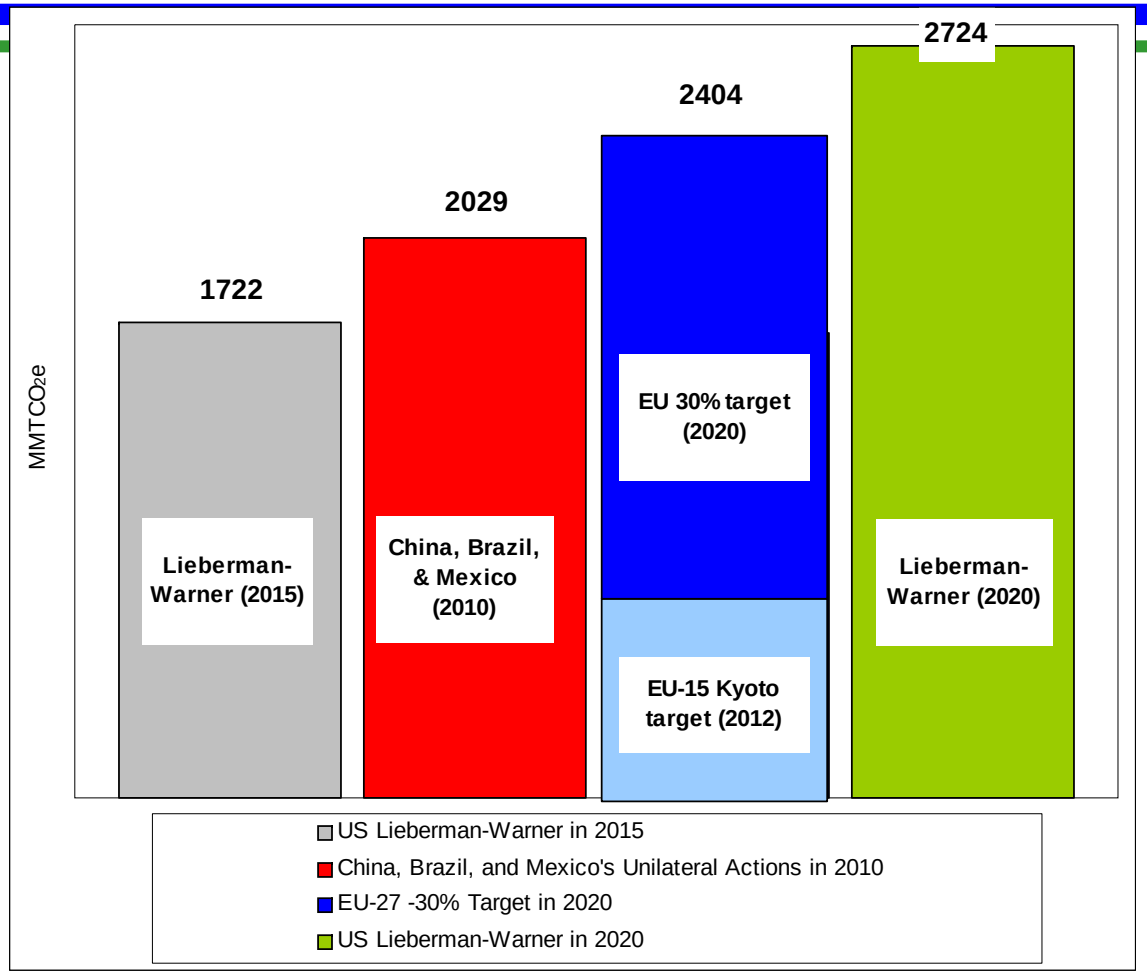
Developing countries are already doing more than many believe



Reductions from BAU

Source: CCAP, updated

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NAMAs Background (cont.)

- International debate centers on three types of NAMAs:
  - » Unilateral
  - » Conditional
  - » Credit-generating
- Goal of this approach is to produce developing country emissions reductions that are not offsets –DCs' contribution to climate protection
- 6-10 large developing countries are responsible for 80-90% of DC emissions in key sectors

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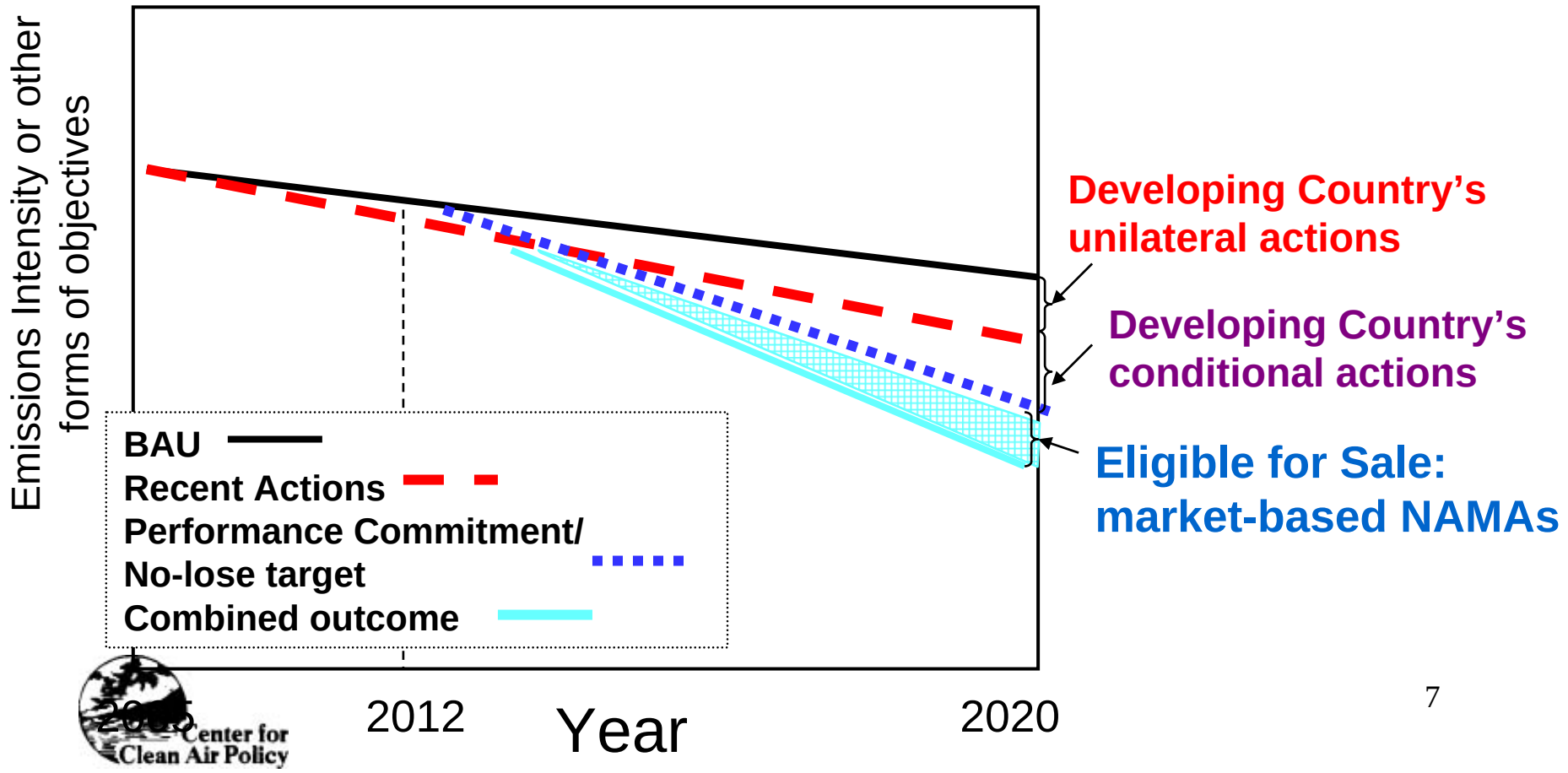
Developing country contribution to GHG mitigation: three categories of NAMAs



Sectoral Programs in Mexico — Implementation

- Working w/ Mexico, CCAP developed potential sectoral intensity targets for oil refining and cement sectors
- In Poznan, Mexico announced that it will pursue a trans-sector cap-and-trade program to include the electricity, oil, cement, and iron and steel sectors
  - » Initiation slated for 2011 (iron and steel may be later)
- Hard caps for the 2011-2020 period will be derived from the sectoral emissions intensity goals and expected production levels and be adjusted in subsequent periods
- Mexico is also putting some complementary policy reforms (NAMAs) in place:
  - » Energy Reform – provides more budgetary flexibility for PEMEX and permits some degree of private investment
  - » New law that allows CFE to consider externalities in its pricing decisions and gives CRE more control over contracting terms with independent power producers

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Technology-based NAMAs in China

Three general types of technology-based NAMAs:

- Sector-wide technology upgrades
- Accelerated retirement of older and inefficient facilities
- Advanced step-change technologies, e.g. CCS

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Technology-Based NAMAs

- Define penetration goals for techs (or equivalent performance)
- Easier to MRV and implement than emissions intensity goals
- Fits w/ Chinese 5 yr plans & development plans
- Links technology goals with emission reduction goals
- But no carbon price signal

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Technology Finance Assistance to Encourage Stronger Actions

- Technology & finance assistance could be provided:
  - **To overcome financing barriers**
  - **To reduce the cost of policies (e.g. feed-in tariffs)**
  - **To build first-of-a-kind advanced technologies which are not cost effective today**
  - **To accelerate deployment by bringing 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 sectoral 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
  - » Norwegian Finance Minister has proposed use for international programs including adaptation, technology, and reducing deforestation
  - » Waxman-Markey (ACES) bill uses such an approach for int'l forestry, technology and adaptation
    - – 5% of allowances set aside to achieve 10% additional global redux

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U.S. ACES Financing for NAMAs?

- The ACES provides financing for international adaptation, clean technology and RED.
  - » Adaptation and Clean Technology each receive 1% of allowance value in 2012-2021; 2% in 2022-2026, and 4% in 2027-2050.
  - » RED receives 5% (more if needed to meet targets) in 2012-2025; 3% in 2026-2030; and 2% in 2031-2050.
  - » A total of roughly $4-6 billion (US$2009)* per year between 2012 and 2020.
- ***Tech and RED financing are for additional reductions achieved by NAMAs, not for offsets***

* Assumes allowance values from the USEPA's core ACES scenario, based on the version of the bill reported on 6-23-09.

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US Technology Financing is Contingent on NAMAs

- Developing countries eligible for financing if they have:
  1. Entered an international agreement to take action to produce measurable, reportable and verifiable GHG reductions (or if they already have measures in force that can produce such actions);
  2. **Developed** a nationally appropriate mitigation strategy that seeks to achieve "substantial" reductions relative to business-as-usual emissions; **and**
  3. Robust compliance with and enforcement of agreements on intellectual property rights for clean technology.
- Least developed countries do not need to meet the above criteria for capacity building assistance.

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RED and Technology Offset Provisions in W-M

- USAID Administrator identifies countries and sectors where offset credits are only available on a sectoral basis (absolute not intensity std)
  - » Countries with high GHG emissions or comparatively greater levels of econ devel
  - » Sectors facing compliance obligations in US
- RED offsets permitted only in countries and subnational areas that meet specified criteria

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State of Play in the Negotiations

- EU, Japan, NZ have placed principal emphasis on sectoral crediting NAMAs while DCs emphasize conditional NAMAs/up-front $
- Conditional NAMAs can create competition among DCs to propose stronger NAMAs – “race to the top”
- Emphasizing sectoral crediting to the exclusion of conditional NAMAs invites the opposite – battles over additionality of sectoral baselines, incentives for weaker sectoral baselines

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Closing Observations

- LCDS are seen by DCs as overarching requirements which will slow decisions on and financing of NAMAs
- Sectoral crediting advocates argue that crediting is needed to insure private sector engagement and financing – this ignores the fact that NAMAs are national policies that will encourage direct private investment
- Conditional NAMAs also offer a way for developed nations to help achieve global reductions beyond their national targets at a lower global cost than setting tougher national targets

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Closing Observations (2)

- To get a ratifiable treaty by 2010/2011 we will need to know the size and scope of developing country actions
- How do we insure that NAMA finance negotiations in 2010-11 produce material reductions if many countries submit NAMAs/climate plans/strategies?
  - » Prioritize NAMAs/countries? – concentrate first on a specific list of key sectors/NAMAs that produce significant emissions reductions (e.g., electricity, C&T) and on specific developing countries

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Key Questions

- US and Australia have suggested creation of an appendix/annex/schedule where agreed-on developing country NAMAs with developed country finance could be recorded as part of the Copenhagen package in 2010-11.
  - » This could buy time for agreements on conditional NAMAs to be added to the Copenhagen package, improving chances for ratification? Would these be nationally binding? Internationally?
- What existing institutional structure(s) under the UNFCCC could do NAMA matching with finance to fast-start the process in 2010?
- Should decisions on crediting baselines be done by the same entity that matches NAMAs and financing?

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Thank you!

For more information:

www.ccap.org

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Sectoral Actions Sufficient to Avoid/End the Border Adjustment

- Unless the Copenhagen agreement is “internationally binding” and meets other negotiating objectives, border adjustment measures will begin in 2020.
  - » Applies to countries and sectors where 85 percent or fewer US imports have not met action standards.
    - – There are exemptions for LDCs and de minimus emitters and importers.
  - » Action standards specifically include “sectoral actions” and having equal or better energy or carbon intensities.
- The border adjustment measures end once more than 85 percent of US imports for a given sector meets the standards for action.

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Sectoral Actions do not Eliminate Compensation to US Industry

- Temporary output-based rebates for energy-intensive, trade-exposed industries.
  - » Rebates compensate 100% of sector average intensity through 2025.
- As a default, rebates will be phased out after 2025 (reduction of 10 percent per year ending in 2035).
- Phase-out can be delayed or slowed by President, but cannot be sped up in the event of sectoral or other forms of international action.

- ➢ Possibility for WTO rule violations as rebates may continue even when most other countries are acting.

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The American Clean Energy & Security Act Embraces Sectoral Agreements

- "It is the policy of the United States to work proactively under the UNFCCC, and in other appropriate fora, to establish binding agreements, including sectoral agreements, committing all major greenhouse gas-emitting nations to contribute equitably to the reduction of global greenhouse gas emissions."

-HR 2454 EH, Section 765

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