



## BCSE Briefing on Sectoral Approaches to a Post-2012 International Climate Change Agreement

A sectoral approach to an international climate change agreement focuses on industry-specific greenhouse gas emissions reduction targets or goals, rather than a national, comprehensive, and economy-wide agreement to which countries commit to. In theory, only sovereign governments can sign onto an international policy regime, however, in practice, voluntary public-private industry partnerships have begun to emerge as discussions regarding sectoral approaches mature. This briefing will provide an overview of the benefits of and challenges facing the sectoral approach; the different models and policy design options of the sectoral approach; and how the BCSE could possibly position itself and engage the discussion on the topic.

Advocates of the sectoral approach commonly cite three primary benefits or rationale for its implementation:

- Potential to broaden participation, specifically of developing countries, in an international climate change agreement and to improve the Clean Development Mechanism
- Alleviate concerns about international competitiveness and differentiated national targets, by leveling the industry playing field
- Target key problem areas where technological breakthroughs and transfers are needed

For a sectoral approach to work – the sector must lend itself to clear and relatively easy collection of data and information in order to set standards or benchmarks, be open to the sharing of best practices and technology, and engage major companies of developing countries and emerging economies where the most emissions growth and reduction potential lies.<sup>i</sup>

It is important to note that there is no uniform definition of a sector – it can range from a discrete economic activity (such as cement manufacturing) to a broad set of human activities (such as transportation). In addition, a variety of models of sectoral approaches also exist, specifically:

- Transnational, sector-wide agreement – This model is a top-down approach, it may begin as an industry-led approach, but ultimately features a global agreement for a single sector and sets an industry standard, target or benchmark.
- Bottom-up country commitments – In this model each country assesses its industries emissions and differentiates greenhouse gas (GHG) reductions accordingly. This model is often explained in conjunction with voluntary “no-lose” GHG targets where there is no penalty for non-compliance.
- Sectoral carbon finance approach – This model is essentially an expansion of the current Clean Development Mechanism from project-based to sector-based, thus creating an incentive which rewards countries that achieve sector-wide emissions reductions with credits.

There are several ways in which a sectoral approach could possibly be adopted in an post-2012 international climate change agreement, including: **Sector-only** with no comprehensive agreement; **Addition** or the expansion of a comprehensive agreement on a sectoral basis to engage additional countries; **Complementary** or coordination between a sectoral and comprehensive approach with some potential sector and country overlap; **Carve-out** where certain sectors are not included in an comprehensive agreement and addressed directly in a separate sectoral agreement; or **Integration** of sectoral provisions into a comprehensive agreement.<sup>ii</sup>

Furthermore, key policy designs of the chosen sectoral approach may include a focus on:

- Targets – Goals are set as either emissions level or intensity-based targets.
- Policies and Measures – This option provides more indirect ways to shape industry behavior, and may include technology or performance based standards, clean energy mandates, etc.
- Technology Research & Development Cooperation

The most likely candidates of industry sectors suitable for a sectoral approach include: electricity, transport, manufacturing, buildings, consumer goods, land use, construction and extraction. However, this list could vary depending on how the sectoral approach is structured and criteria are evaluated. Key sector criteria that are considered include:<sup>iii</sup>

- Share of global emissions, expected rate of increase and potential for reduction
- Exposure to international competition and vulnerability to carbon leakage
- Uniformity of products and processes
- Concentration of actors
- Economics – adjustment costs, investment horizons
- Ease of monitoring and administration
- Technology and finance needs

An ideal candidate would have a high percentage of global GHG emissions or expected GHG growth but also a substantial emissions reduction potential; a high level of vulnerability to international competitiveness factors; industry homogeneity; high concentration of actors; low economic costs for compliance; lend itself to easy information gathering and management and also possess an openness and ability to facilitate technology cooperation.

There are many factors and decisions to be made in the upcoming meetings of the United Nations Framework Convention on Climate Change regarding the structure and format of a sectoral approach. The sectoral approach may be less effective than a comprehensive agreement in two areas - cost-effectiveness and environmental effectiveness. A comprehensive agreement that covers all sectors is thought to better distribute overall costs, and allow for reductions where the costs are the lowest. A sectoral approach would not have this same distributive potential. The environmental effectiveness may also come into question, as there is both a political imperative that an agreement retains a focus on the shared global environmental responsibilities to control climate change and an economic reality that inter-sectoral substitution effects that run counter to GHG mitigation goals may emerge as a result.<sup>iv</sup>

The challenges to finding consensus on a sectoral approach and agreement model are many. The economic value of a sector may vary in importance from country to country. There is also inherent asymmetry of information between the public and private sectors, which creates difficulty in identifying the optimal environmental and economic solutions. Private actors also lack the legal authority in the international arena to formally commit to an international treaty – however, industry can voluntarily partner with the public sector to implement industry-wide initiatives. It is important to note that there has been success in this area to date with private-public partnerships under the Asia Pacific Partnership on Clean Development and Climate and voluntary international agreements such as the World Business Council for Sustainable Development's Cement Sustainability Initiative.

While the determination on how sectoral approaches may be addressed in the next international climate change agreement has yet to come to consensus, signals coming from the Bali Roadmap (December 2007) and recent UNFCCC meetings in 2008 indicate that sectoral approaches are being seriously considered.

## The BCSE Position

As the Business Council for Sustainable Energy shapes its official position on sectoral approaches, important questions to consider include:

- 1) Which sectors of Council members are best suited and most interested in pursuing a sectoral approach to an international agreement?
- 2) What structure of a sectoral approach does the BCSE favor – specifically, which approach, model of agreement and policy design elements?
- 3) How should the Council meaningfully engage the discussion on sectoral approaches and advocate on behalf of its members?

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<sup>i</sup> Egenhofer, Christian (2008). *Global Sectoral Industry Approaches to Climate Change: The Way Forward*. Brussels: Center for European Policy Studies. P. 2

<sup>ii</sup> Bradley, Rob, et al. (2007). *Slicing the Pie: Sector-based Approaches to International Climate Agreements*. World Resources Institute. P. 9-12

<sup>iii</sup> *Background Note: Sectoral Approaches in a Post-2012 Climate Framework*. March 2008. Pew Center on Global Climate Change.

<sup>iv</sup> Bradley, Rob, et al. (2007). P. 7.

To find cited papers and for more information:

World Resources Institute ([www.wri.org](http://www.wri.org))

Pew Center on Global Climate Change ([www.pewclimate.org/international](http://www.pewclimate.org/international))

Center for European Policy Studies ([www.ceps.be](http://www.ceps.be))

International Chamber of Commerce (<http://www.iccwbo.org>)

- Presentation by Dr. Brian Flannery on “ICC Perspectives on International Sectoral Approaches” (June 2008). Bonn, Germany.

Center for Clean Air Policy ([www.ccap.org](http://www.ccap.org))

- Presentation by Ned Helme. “Sectoral Approaches as Part of the Post-2102 Framework: Overview and Progress Report.” (August 2008). Accra, Ghana.

International Energy Agency ([www.iea.org](http://www.iea.org))

- Summary of International Workshop on Sectoral Approaches to International Climate Policy. (May 2008) Paris, France.