



ENVIRONMENTAL DEFENSE FUND

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## **Sectoral Approaches in a New Global Framework: An Exploration of Guiding Principles**

The latest science indicates that absolute global emissions must begin to decline in the next decade to keep open the option of avoiding dangerous climate change. Given this scientific reality, economy-wide caps and absolute emissions reductions across sectors in major emitting countries are essential to ensuring the transition to low-carbon economic growth. While sectoral approaches could, in principle, help as a transitional tool to build capacity in developing countries, any proposals for sectoral approaches in a new global framework should be evaluated against the following tests:

1. Are the emissions reductions sufficiently broad in scope and ambitious in depth to enable the world to keep open options for preventing a 2°C increase in global average temperature?
2. Does the framework welcome the participation of all major emitters, while recognizing differences in national circumstances, without yielding to pressures from some industrial sectors that seek to escape absolute emissions caps?
3. Does the framework avoid such pitfalls as intensity targets, technology performance standards, inter-sectoral leakage, and unenforceability, any of which could foreclose options for limiting warming to 2°C by failing to ensure absolute emission reductions?

### **Some Weaknesses of Proposed Sectoral Approaches**

- Intensity (or “specific”) targets, i.e., limits on emissions per unit of economic output, are unlikely to prevent a 2°C increase because they do not guarantee absolute, total, emission reductions. They also send the wrong market signals, allowing countries to *increase* absolute emissions as long as energy efficiency improves. Further, intensity targets cannot be traded in carbon markets without destroying the integrity of a global cap and trade system. This means an intensity target approach cannot harness the power of markets to drive innovation, reduce emissions, or reduce compliance costs.
- Sector-specific technology performance standards are also unlikely to prevent a 2°C increase because they also do not guarantee absolute reductions. Further, such standards could force governments to pick technology winners and losers rather than make technologies compete in the market. They can also advantage current players and disadvantage newcomers and entrench existing technologies, hampering the development of entirely new sectors, technologies, and products based on renewable and zero-carbon energy.

- Sectoral approaches could increase compliance costs. Companies within industries tend to face similar abatement costs. Trading across sectors broadens the scope of abatement and compliance opportunities and lowers costs for capped sectors. On the other hand, restricting trading to within sectors decreases compliance flexibility and drives up costs.
- If sectoral approaches become an end result instead of a short-term transition, they could discourage countries from adopting nation-wide cap and trade systems.
- Sectoral approaches are vulnerable to inter-sectoral leakage between capped and uncapped sectors. A country could cap some sectors while inadvertently shifting emissions to other sectors, leading to no absolute global benefit to the atmosphere.
- Industry commitments alone would be unenforceable. From a legal perspective, industrial sectors do not have the capacity to make treaties. A sectoral approach would need to be agreed upon by national governments.

### Guiding Principles for Sectoral Approaches

Sectoral caps should not replace national caps for industrialized countries. For developing countries:

- Sectoral approaches should be designed with a clear end date, as a short-term building block towards reducing emission trajectories, ideally through an economy-wide cap and trade system. They should be implemented with clear incentives to build capacity to monitor and verify absolute emission reductions and enable major emitting economies to adopt and implement absolute emissions reductions by 2020, at the latest.
- Sectoral approaches should not use intensity or specific targets or technology performance standards. Instead, if used, an approach should encourage steep absolute reductions from business as usual (BaU). Further, they should not be used merely to address competitiveness concerns of certain industrial sectors.
- Sectoral caps should cover sectors that together represent a majority of a country's emissions, are not likely to "leak" to uncapped sectors, and enable developing countries to more rapidly transition to low-carbon economic growth consistent with their national interests.
- Sectoral caps should be legally binding, tightly monitored and enforced, lead to real, measurable, and verifiable absolute emission reductions, and be supported by rigorous penalties for non-compliance.

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