



The Voice of OECD Business

Sectoral approaches

Points for Consideration

I. Introduction

International intergovernmental organisations, including the OECD and IEA, have recently been discussing ideas for sectoral approaches in the context of a post-2012 climate change framework. These proposals include: sector-specific objectives to be adopted by developing countries; emissions trading mechanisms based on sectoral crediting or caps; international support to sharing best technology and best policy practices in priority sectors; and the possibility of multilateral negotiation with a group of countries gathering critical mass in a given sector.

BIAC agrees that sectoral approaches should be considered as a complimentary tool to achieve emissions reductions. While recognising the potential of sectoral approaches, and also recognising the diminishing time that remains to create an effective post-2012 framework, BIAC cautions policymakers that the complexity of sectoral approaches and their implications needs to be borne in mind. The OECD business community therefore calls on the OECD and IEA to develop fact-based and objective understanding of sectoral approaches as discussions on the future climate change agreement are proceeding.

II. Points for Consideration

BIAC outlines herein key issues that the business community feels should be considered by policymakers and industry representatives during policy discussions concerning sectoral approaches.

Defining sectoral approaches

Sectoral approaches offer an opportunity to concentrate on emission intensive industrial branches, but they also pose a number of challenges. First of all, it should be borne in mind that they have a different meaning for different persons and different countries. If such approaches are to be taken towards climate change policy measures, it is essential that there is first a clear and consistent understanding of sectoral approaches.

Cost-effectiveness

BIAC believes that sectoral caps or targets for GHG reductions could undermine or distort the efficiency of national climate change measures and could interfere with long-term

investments and economy-wide policies. A consistent signal must be given to all economic actors, such that the most cost-effective measures are adopted first. The correct carbon price is the one which induces the appropriate aggregate emission reductions. Where these reductions occur should be irrelevant to policymakers, who should therefore refrain from imposing sector-specific targets.

Voluntary private-led sectoral approaches

It should be recognised that a number of private-led sectoral efforts already exist. For example, the Cement Sustainability Initiative under the World Business Council for Sustainable Development is reducing GHG emissions in the sector and has developed and tested a carbon dioxide accounting and reporting protocol, now used by 80% of the global cement industry. Other private-led initiatives, such as those led by the International Aluminium Institute and the World Steel Association, have also led to major achievements. While such approaches are not legally binding commitments, they can contribute significantly to reducing emissions. Through consultation with industry, policymakers should create enabling policy environments that allow such voluntary sectoral initiatives to develop and thrive.

Interdependence

One fundamental consideration is that sectors do not exist in isolation and do not operate independently. Changes in investment in one sector will have impacts on supply chains across the entire economy. In considering sectoral approaches to address climate change, it is therefore important to understand the impacts on supply and value chains and the broader economy.

Competitiveness

Many policy debates have suggested sectoral GHG emissions targets hold potential to address competitiveness concerns. However, different jurisdictions will have differing regulatory and tax regimes which could distort and blunt supposed competitiveness gains from uniform international emissions reductions within sectors. Sectoral approaches primarily address environmental challenges, but should not be considered as an easy way to address competitiveness concerns.

Industry engagement

When policymakers meet to discuss ideas and visions for sectoral approaches, close dialogue with industry is imperative in order to understand the particular needs and characteristics of different sectors. Channelling a representative global business voice to such discussions should be an important prerequisite for determining how sectoral approaches may play a role in a post-2012 framework. BIAC stands ready to contribute the voice of the OECD business community to discussions at the OECD and IEA.

III. The role for OECD and IEA

In BIAC's view, the OECD and the IEA could contribute valuable fact-based guidance for discussions about international sectoral approaches and their potential role in a post-2012 framework. Recent draft papers note that parts of the OECD and IEA are already studying certain aspects of sectoral approaches, and the business community encourages such initiatives.

When carrying out such analysis, the OECD business community notes that the above mentioned points (section II) must be thoroughly considered in order to determine the fundamental aspects for designing sound and effective sectoral approaches, while ensuring against unnecessary policy measures that could be neither cost-effective nor conducive to competitiveness. Furthermore, new analysis could also help to shed light on ways in which voluntary private-led sectoral approaches could be encouraged and further developed in a context of economy-wide market mechanisms for mitigation and adaptation. BIAC stands ready to provide support and input to such new analysis.