SECTORAL APPROACHES AND COMPETITIVENESS

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What is at stake ?

- Carbon price signal created by EU ETS

  Increase in production costs, strenghtened by EU ETS review proposals
- Concerns of leakage

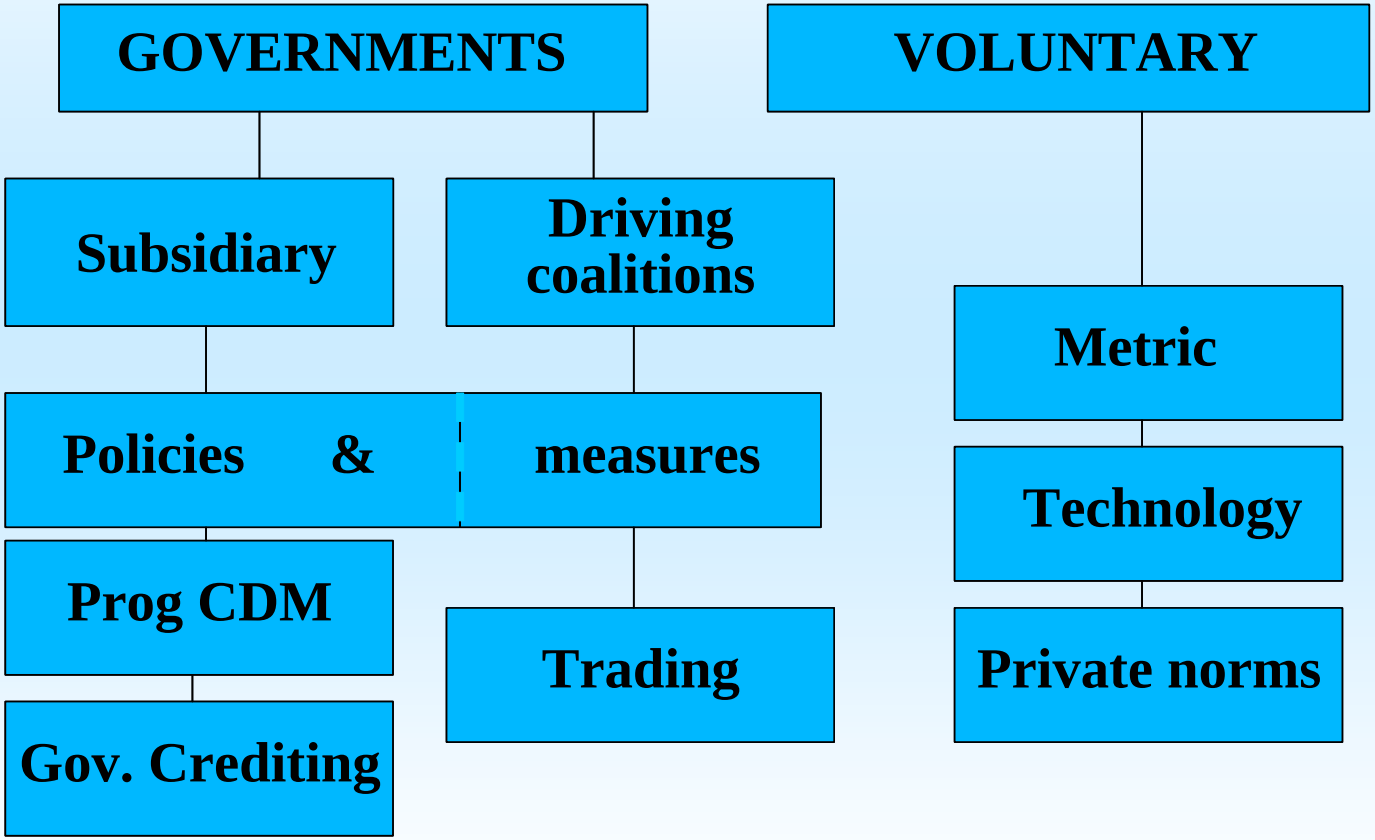
  relocation from regions with strong CO_2 signal towards no or low CO_2 price signal
- Objectives : discuss how SA can contribute to tackle leakage

➔ how can SA contribute to carbon price internalisation ?

SA : a serious option after 2012

- Shift in discussion : an options for the core design of a future international agreement
- SA could be easier to negotiate
  - Discussion on sector : technology focused, shared view
  - Main emitters targeted
- Can secure engagement of DC :
  - Realise abatement potential
  - Transfer technology
  - Implementation domestic policies and measures
  - Dynamic to support the engagement

Various types of SA



Voluntary agreements

Motives :

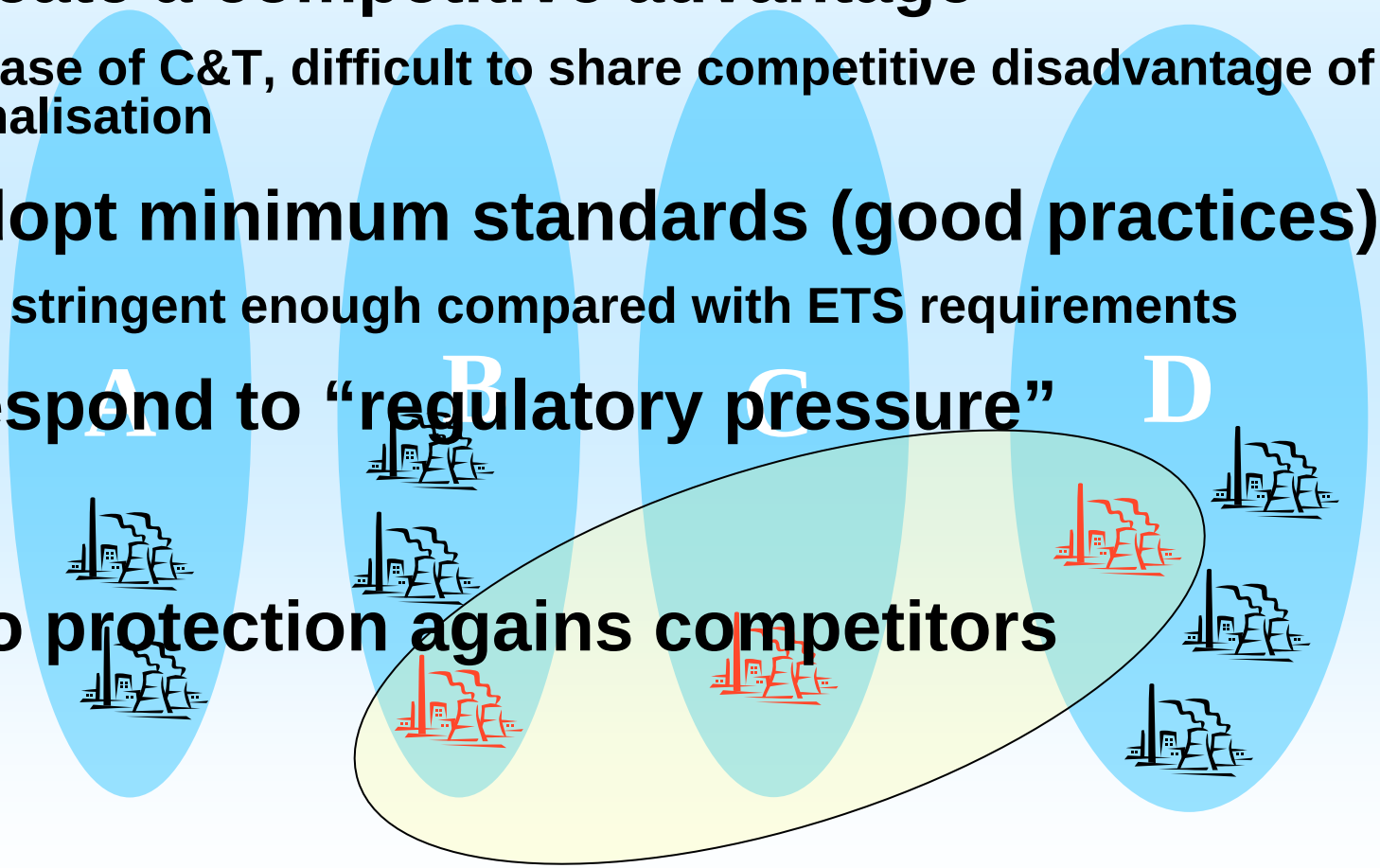
- **Create a competitive advantage**

> In case of C&T, difficult to share competitive disadvantage of price internalisation

- **Adopt minimum standards (good practices)**

> Not stringent enough compared with ETS requirements

- **Respond to “regulatory pressure”**



> No protection agains competitors

Government action (1)

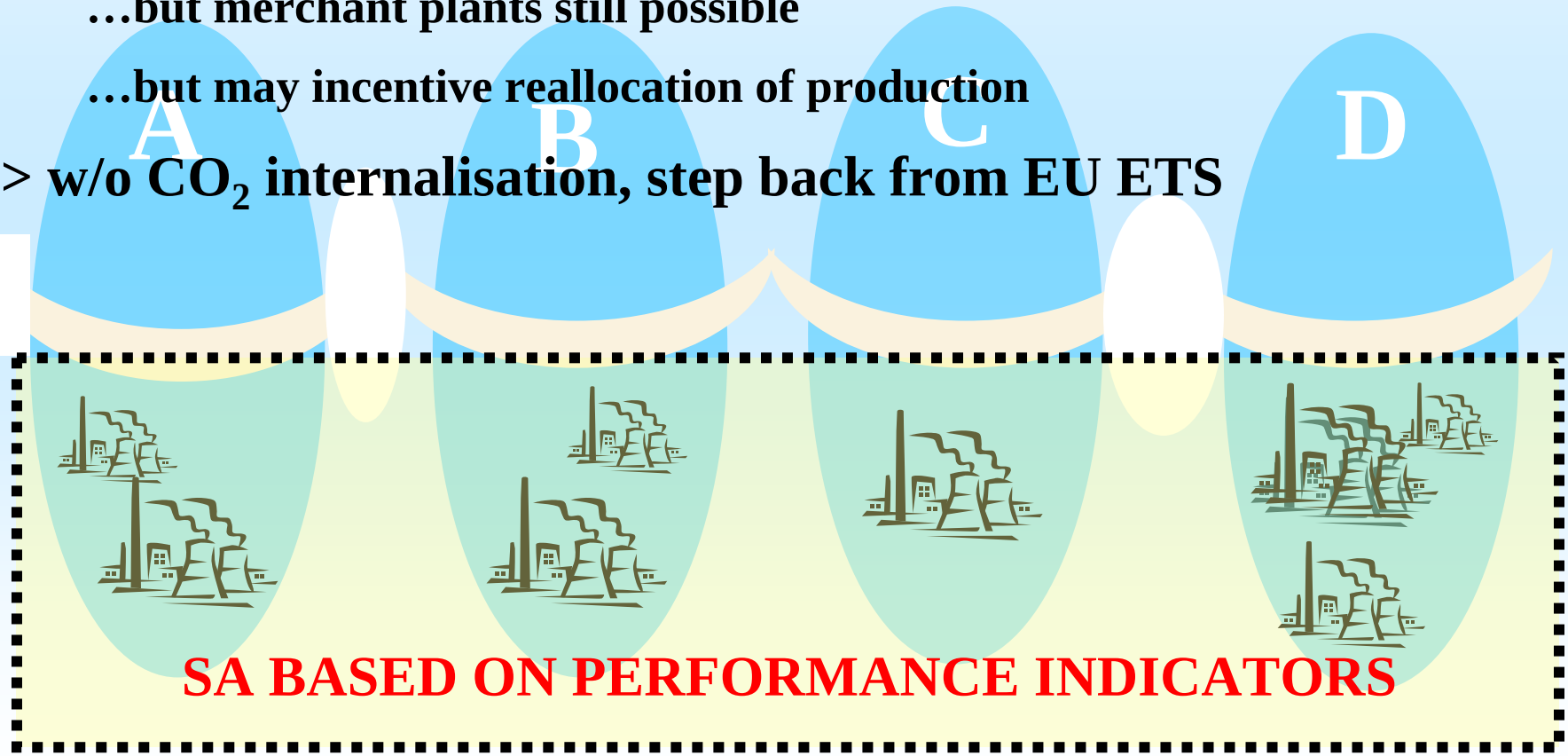
- **Carve out industrial sectors/ performance indicators**

> ensure large coverage, eliminate competitiveness concerns…

…but merchant plants still possible

…but may incentive reallocation of production

> w/o CO_2 internalisation, step back from EU ETS

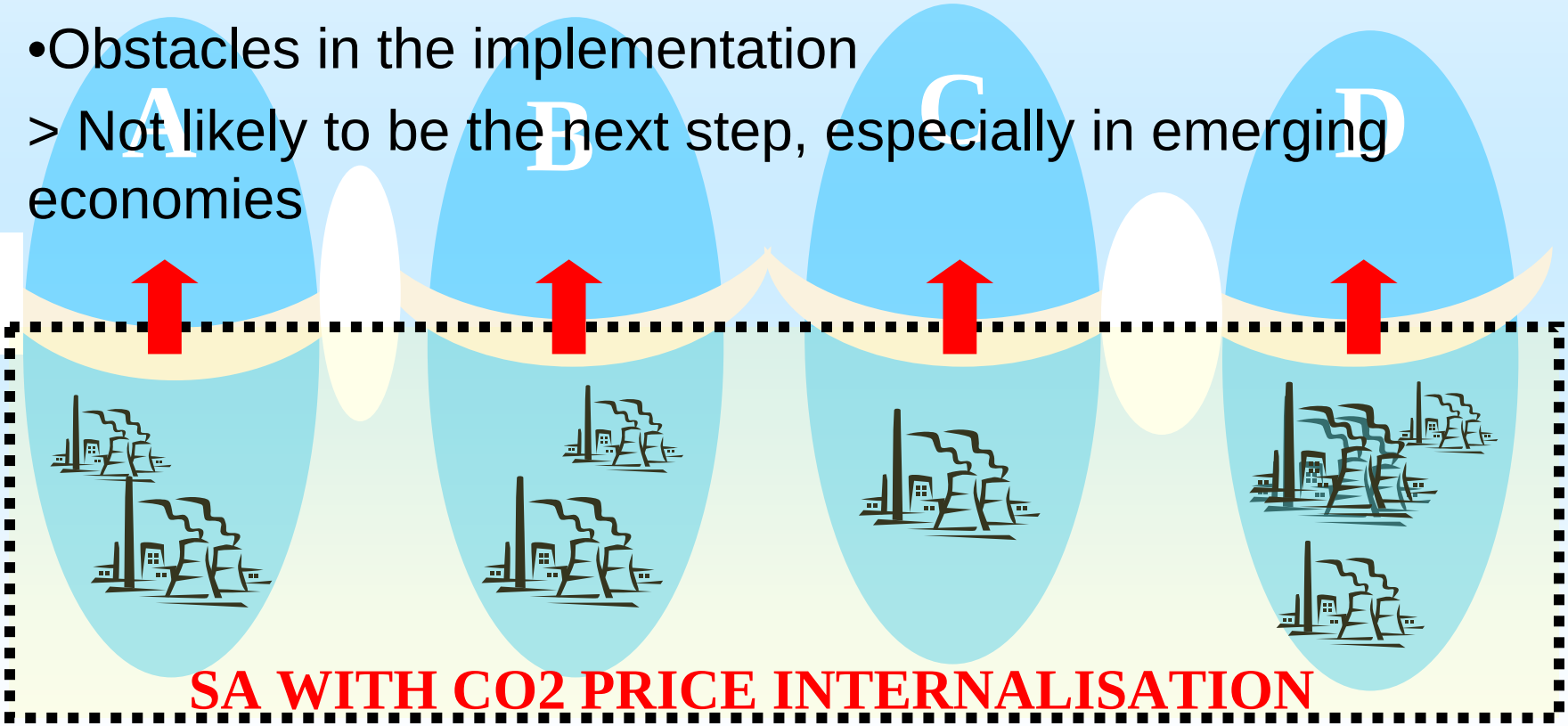


Government action (2)

•Optimal design based on sectoral agreement ensuring price internalisation (C&T, taxes…)

•Obstacles in the implementation

> Not likely to be the next step, especially in emerging economies

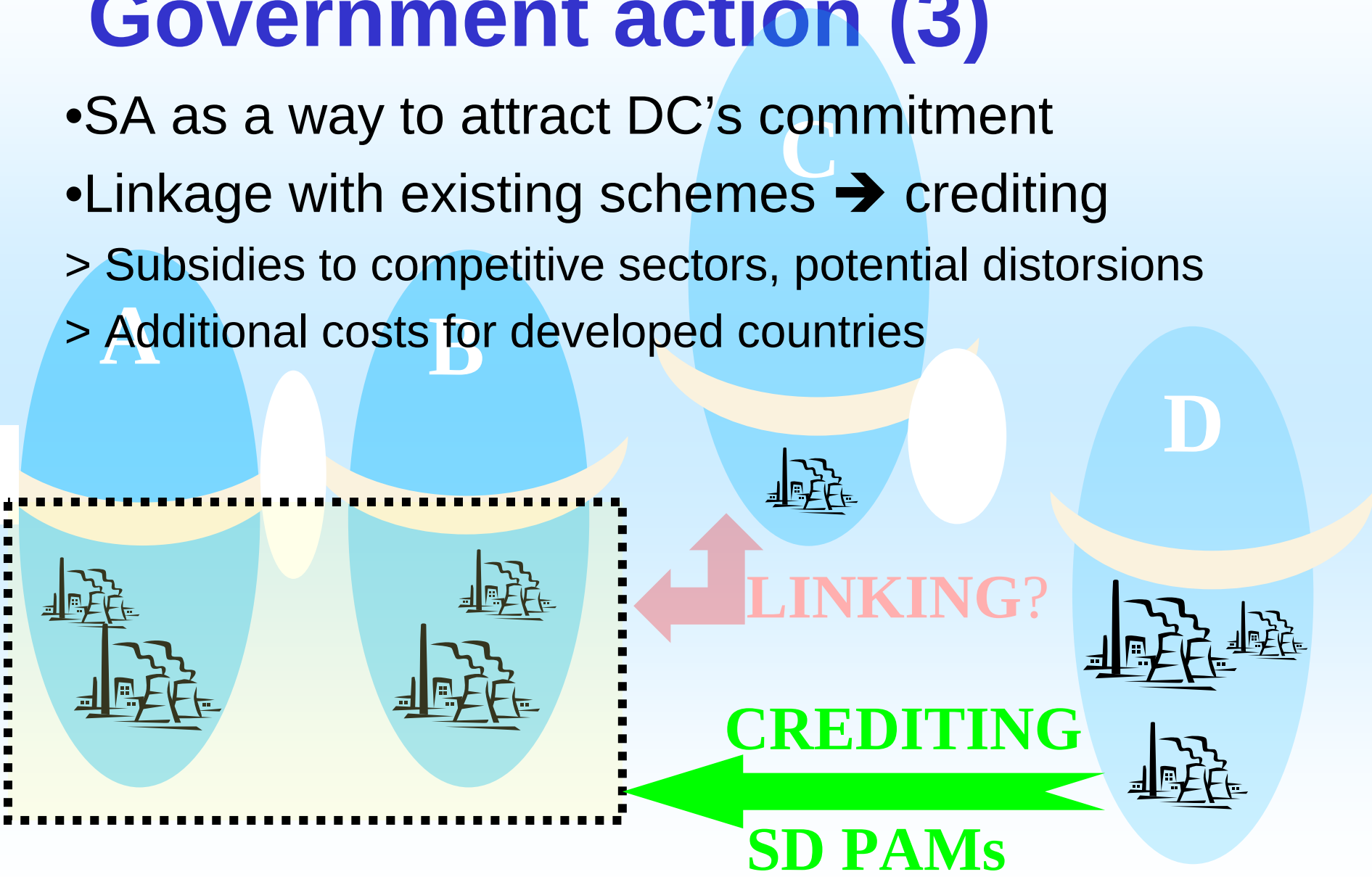


Government action (3)

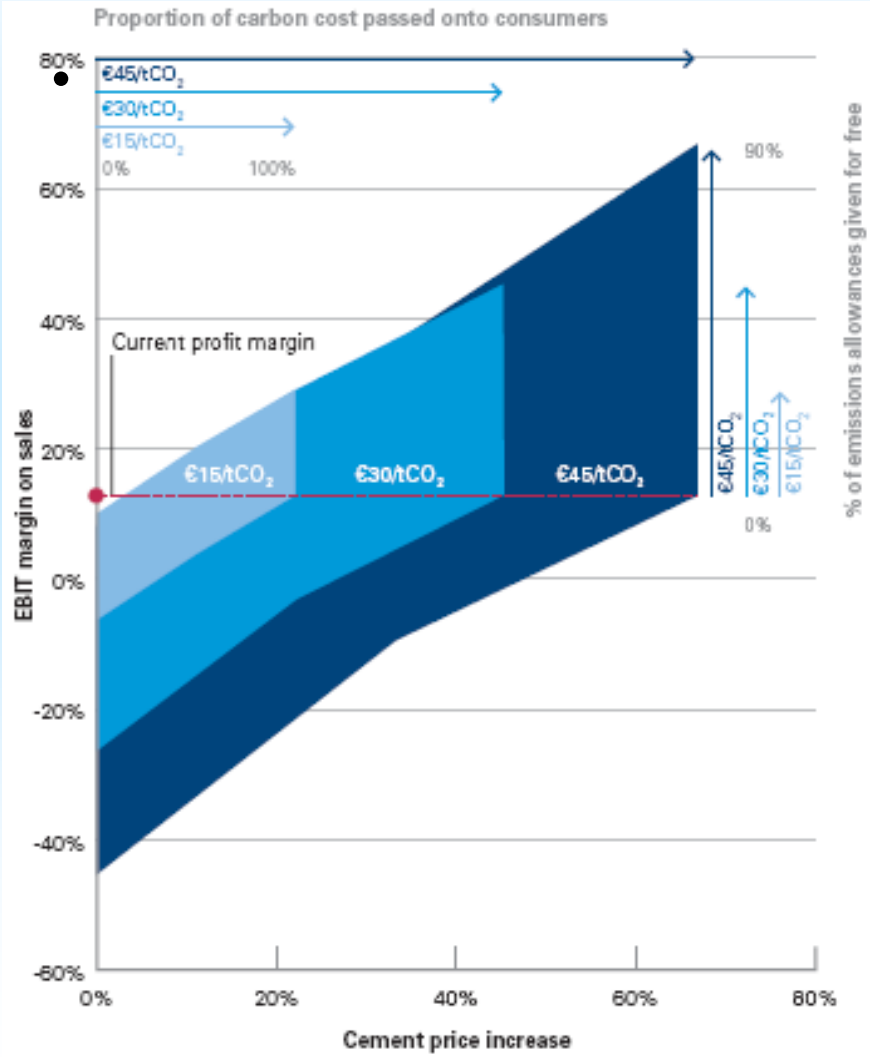
- SA as a way to attract DC's commitment
- Linkage with existing schemes ➔ crediting

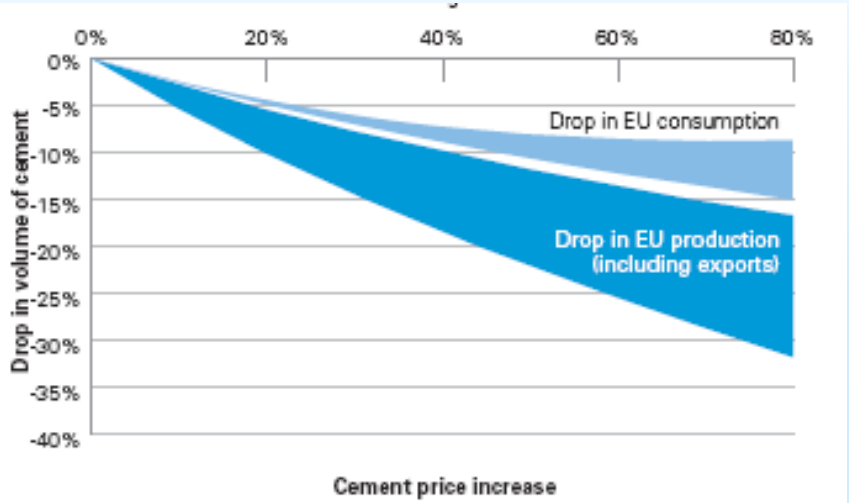
> Subsidies to competitive sectors, potential distorsions

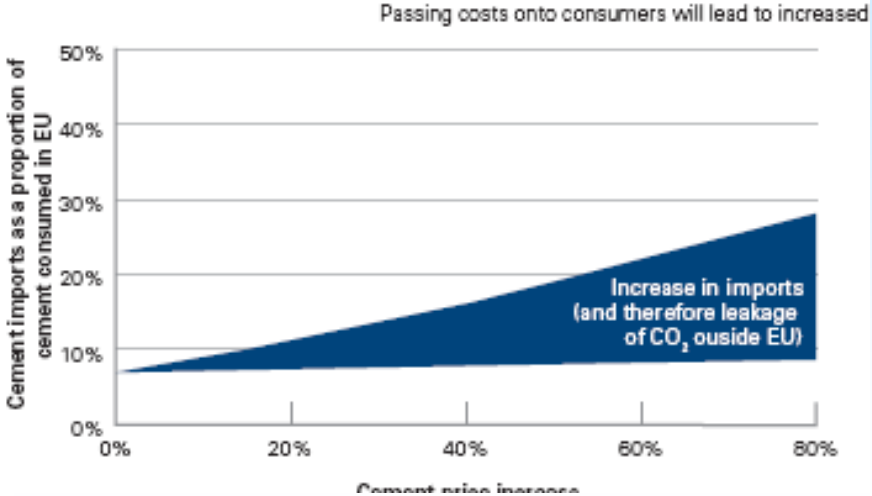
> Additional costs for developed countries



Industry drivers







Tackling leakage with SA (1)

- Leakage at stake if price difference is sustained (Hourcade 2008)
- In the longer-term : sectoral agreements involving government may increase confidence that CO_2 prices will be internalised

➔ Anticipation of carbon regulation

Tackling leakage with SA (2)

- On the short-run basis, ways to mitigate the cost impacts :
  - Tax border adjustment in the case of a bilateral agreement
  - Free allocation output-based allocation (production dependant)

In conclusion

- Voluntary agreements are not likely to address leakage concern
- Governmental-led sectoral agreements offer better opportunities
  - Transfer to attract countries to participate
  - Adjustments
- SA a good tool if increases confidence of a future carbon price internalisation