Oxfam International Briefing Note

Sectoral Solutions or Carbon Cartels

Will global industry proposals result in a fair and safe climate deal?

21 May 2009

Introduction

Climate change is already affecting the lives of people in the developing world. Increased floods and droughts, rising sea levels, changing patterns of rainfall and falling crop yields are making it harder and harder for poor people to escape poverty. Oxfam is projecting that, on current trends, the average number of people affected by climate-related disasters each year may have risen by over 50 percent by 2015 – to 375 million people – potentially overwhelming the humanitarian system.[1]

The world, and most of all, its people living in poverty, desperately needs a fair and safe deal to tackle climate change agreed at Copenhagen in December. It must be 'safe' in that it keeps global warming as far below 2 degrees as possible – avoiding potentially catastrophic climate change. It must be 'fair' in that industrialised countries – those most responsible for causing climate change and most capable of taking action – take on their fair share of effort in cutting global emissions and helping poor countries to pursue low carbon paths to development and to adapt to climate change which is already unavoidable.

Global business will play a central role, because it can turn political ambition into reality and it can lobby governments to take the radical decisions that are now necessary. The private sector must apply its huge technological, financial and human power in a way that promotes a safe and fair deal. It is in the private sector's interest to have a clear roadmap on which to base its future low-carbon investments. The World Business Summit on Climate Change (May 24–26 2009) could help to deliver on all these counts.

However, an initiative being discussed in the corridors of business power and that will feature at this Summit raises a bright red warning flag – the idea that *voluntary* sectoral approaches are the best way for businesses to cooperate in setting emission-reduction targets and promoting low-carbon technologies.

Independent research commissioned by Oxfam, 'Global Sectoral Industry Approaches to Climate Change: Helping or harming?',[2] sets out the arguments for and against such approaches from the basis of **equity** and **effectiveness**. Based on this research, Oxfam questions whether these approaches will help to achieve a fair and safe deal on climate change.

Global sectoral industry approaches for a post-2012 climate deal

Sectoral approaches have risen rapidly up the agenda of both governments and industry. The UNFCCC negotiations in December 2007 put sectoral approaches on the negotiating table; the Bali Action Plan proposes that *'cooperative sectoral approaches and sector-specific actions'* be a means to *'enhance implementation of'* articles in the UN Framework Convention on Climate Change.[3]

Among a host of industry advocates of sectoral approaches, including: the International Chamber of Commerce; the International Aluminium Institute; the World Steel Association; and the Asia–Pacific Partnership, the World Business Council on Sustainable Development (WBCSD) has emerged as the strongest voice. Following a presentation on the issue at the Poznan negotiations in 2008, the WBCSD, which represents 200 companies in 35 countries, published detailed proposals in April 2009 for industry-led sectoral approaches.[4]

The WBCSD's proposal for Global Sectoral Industry Approaches advocates that business and governments co-operate to set emissions-reduction targets for entire industry sectors – such as cement or steel – at the global level, on a voluntary basis. The WBCSD proposal also outlines how sectoral approaches could support the development and dissemination of low carbon technologies.

Sectoral approaches will make emissions reductions 'more manageable',[5] proponents argue, as well as encourage the involvement of developing countries by offering incentives for cooperation in a global climate regime.

The Oxfam research report, 'Global Sectoral Industry Approaches to Climate Change' focuses on the two key forms of sectoral approach put forward by the WBCSD: approaches that set voluntary emission-reduction targets, and approaches that focus on technology co-operation.

Voluntary sectoral target setting

The independent research report commissioned by Oxfam finds that voluntary sectoral agreements are neither a safe nor fair way to engage industry in developed and developing countries to achieve emissions reductions.

- One of the chief reasons that industry advocates for sectoral approaches is to 'level' the international playing field. Developing countries are wary of this argument, as the imposition of equal restrictions globally would undermine the UNFCCC principle of 'common but differentiated responsibilities'. This is a key principle determining the **equity of the global deal**, requiring developed countries to make the majority of the effort in cutting global greenhouse-gas emissions.
- Industries in developed countries warn that without global sectoral approaches, '**carbon leakage**' – the shift of heavily polluting industry to countries without emission controls – could occur. However, rhetoric on carbon leakage is not supported by the latest research. In fact, the research report argues, 'the argument of carbon leakage is often used to prevent more stringent domestic regulation and/or to create an extra burden for competitors even though the risk of carbon leakage is not relevant.' In the few cases where the risk of leakage may be relevant, sectoral approaches would not be the most effective means of addressing competitiveness concerns.
- The research report also concludes that sectoral approaches undertaken by industry on a **voluntary basis** would offer no guarantee of real emissions reductions. Instead, rich country governments must set and enforce absolute targets for their industries.
- Some industry associations, such as the International Aluminium Institute, advocate that industries in *developed* countries be required to meet **intensity targets** – emissions reductions calculated relative to unit of output. Oxfam believes this would undermine any chance of avoiding catastrophic climate change. Developed countries need to achieve significant *absolute* emission reductions in order to keep global warming below 2 degrees; as a group, they need to cut their emissions to at least 40 percent below 1990 levels by 2020. Intensity targets do not guarantee emissions cuts, and in fact can lead to growth in overall emissions, when industry output increases.
- The research report finds that voluntary sectoral agreements may impose an undue burden on businesses in developing countries, and recommends that in developing countries, energy-intensive industries should be given incentives to reduce their emissions, in the context of what is appropriate for those countries' mitigation plans.

The research report concludes,

> '... concerns about the equity and effectiveness of voluntary sectoral industry targets outweigh their potential advantages. For reasons of enforcement in particular, sector-based regulatory measures should be imposed and enforced by national governments, to create effective incentives for technology development.'

Sectoral industry technology co-operation

On the other hand, industry sectoral approaches for cooperating on the development and transfer of technology do have the potential positively to engage businesses in both developed and developing countries, the research report finds. Sectoral industry technology cooperation could be a useful tool in mobilising resources of the scope and scale necessary: the UN has estimated that developing countries will need around $100bn a year in funding for mitigation, including technologies to help reduce emissions.[6] However careful attention must be paid to the detail of any such agreements in order for them to be 'safe' and 'fair':

- The approaches must be **governed in a fair and representative way**, so that they are not used solely for opening up new markets for rich country businesses. Sectoral technology approaches must rather make allowances for the national and local needs of developing countries, including the needs of the energy-poor.
- Industry lobbyists call for the scaling-up of the **Clean Development Mechanism** from a project-based to a sectoral level, to facilitate technology co-operation. However the CDM to date has significant flaws. It has failed in terms of its effectiveness, mostly because of the lack of 'additionality' in many CDM projects ('additionality' means the planned reductions would not occur without the additional incentive provided by CDM credits). Meanwhile only a small proportion of CDM projects have invested in a low-carbon energy infrastructure. Oxfam believes the CDM must be reformed, if it is to function as a suitable mechanism for sectoral approaches, and better provisions made to measure, report and verify emission reductions and financial flows. The research report concludes, 'additional mechanisms for providing technology finance in the developing world, such as a climate fund, are key to scaling up technology development and transfer through sectoral approaches.'
- Industries in developed countries have a keen interest in accessing low-cost credits to **offset** their own emissions, through increased investment in technology projects in developing countries through the CDM. However, the goal of keeping the increase in global average temperature well below 2 degrees requires substantial emission reductions *in developed countries*. This is also a fair means of burden sharing, given historical responsibilities for greenhouse-gas emissions.
- Current proposals for technology-oriented sectoral approaches skirt the issue of **intellectual property rights**, and yet these are key to the whole issue of equity. Oxfam believes intellectual property rights must not be used as a barrier to the transfer of technology. Developing countries should be able to use and spread the best available technology to adapt to climate change and to prevent further damage. Therefore they should not have to rely solely on open source technologies, but also be able easily to access patented technologies in a flexible and affordable manner.

Conclusions and recommendations

Climate change currently poses the single biggest threat to human development and the eradication of global poverty. By the end of this year, governments must agree a fair and safe climate deal in which industrialised countries – in line with their responsibility for causing climate change and their capability to act – take the lead in cutting global GHG emissions and commit to finance adaptation and low carbon development in poor countries.

Global business must play a central role because it can turn political ambition into reality, and it can lobby to create the political space for governments to take the radical decisions that are now necessary. To do so credibly, the private sector must apply its huge technological, financial and human power in a way that promotes a safe and fair deal, rather than undermines it.

As far as current proposals for sectoral approaches are concerned, the jury is still out: the opportunities are there, but so are the risks – particularly with respect to voluntary agreements. Oxfam encourages the global business community to consider carefully whether sectoral industry cooperation will ensure that the principles of a 'safe and fair' global climate agreement are upheld. This requires:

- Developed country industry to be subject to national, enforceable and absolute targets.
- Fair and representative governance of agreements to ensure that they provide for the needs of the energy-poor in developing countries and are not used solely to open up developing country markets for developed country business.
- Provisions to ensure that intellectual property rights are not used as a barrier to the transfer of technology.
- Reform of the CDM in order to ensure it is able to deliver real, additional emissions reductions, and related to this, better provisions to measure, report and verify emission reductions and financial flows.

Notes

[1] Oxfam International (2009) 'The Right to Survive in a Changing Climate', Oxford: Oxfam International.

[2] Hereafter referred to as the research report: J. Meckling (2009) 'Global Sectoral Industry Approaches to Climate Change: Helping or harming?', Oxfam International Research Report, Oxfam International.

[3] UNFCCC (2007) 'Bali Action Plan', FCCC/CP/2007/6/Add.1*, Conference of the Parties on its Thirteenth Session.

[4] WBCSD (2009) 'Towards a Low-Carbon Economy: A Business Contribution to the International Energy and Climate Debate', World Business Council for Sustainable Development, www.wbcsd.org

[5] WBCSD (2009) *op. cit*.

[6] UNFCCC (2007) 'Investment and Financial Flows to Address Climate Change', UNFCCC.

This paper is part of a series of papers written to inform public debate on development and humanitarian policy issues.

For further information on the issues raised in this paper please e-mail advocacy@oxfaminternational.org.

The information in this publication is correct at the time of going to press.

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