Reducing Emissions through Sustainable Transport (REST)

Proposal for a sectoral mechanism for transport

as a means to increase the potential for GHG mitigation in the land transport sectors of both developed and developing countries

Advance Draft - 4 June 2010[1]

> The large mitigation potential and associated co-benefits of action in the land transport sector can be tapped into by a sectoral mechanism that comprises of both funding and crediting elements and that complements existing mechanisms, such as the CDM and GEF.

1 The significant potential for the transport sector to contribute to mitigation actions

International and local climate change mitigation targets being set on all levels cannot be achieved without action in the land transport sector. The sector is responsible for 23% of global CO_2 emissions from fossil fuel consumption and 15% of all GHG emissions[2] and so there is a large potential for the transport sector to contribute to the globally required mitigation effort.

The benefits of sustainable transport are extensive, making mitigation from the land transport sector a highly cost effective means of achieving numerous policy goals. Low carbon transport networks deliver various national and local sustainable development objectives (co-benefits). They can stimulate economies, enhance health and quality of life for populations, and reduce environmental degradation. The implementation of a modern public transport system, for example, creates local jobs, increases opportunities for economic development, enhances accessibility and improves air quality and health.

So far, existing instruments (CDM/GEF) have not stimulated enough actions to tap into potential emission reductions. If adopted our suggestion for a sectoral mechanism for transport will increase mitigation actions in the sector and therefore contribute to the attainment of multiple and diverse local social, economic and environmental goals at all geographic levels from the local to the international.

2 A sectoral approach can help transport to reach its mitigation potential

An approach that explicitly supports climate change mitigation activity in the transport sector would provide a unique opportunity to:

- Tap into the huge potential for the transport sector to contribute to achieving global mitigation targets (and in doing so to help ensure that emissions peak in the next decade)

[1] This paper is a living document and suggestions and improvements from those who are interested are welcome at abinsted@trl.co.uk and will be integrated in an updated version.
[2] OECD/ITF (2010) Reducing Transport Greenhouse Gas Emissions: Trends & Data 2010. Available from http://www.internationaltransportforum.org/Press/PDFs/2010-05-19GHG.pdf.

- Stimulate mitigation ideas and activities in the land transport sector
- Support countries that are taking concrete steps to achieve emission reductions in the sector
- Link international, national and local activities in the sector to realise synergies and enhance consistency
- Use carbon markets (through the use of crediting mechanisms) to mobilise additional financial resources to incentivise mitigation in both developed and developing countries
- Address the inadequacy of current, generic crediting mechanisms and funds (e.g. CDM and GEF) for application in the transport sector, and create a mechanism that addresses specific needs of transport (e.g. the methodological challenges)
- Facilitate diffusion of the most effective and cost-effective technologies in the sector
- Generate numerous economic, social and environmental co-benefits

3 The sectoral mechanism concept

It is suggested that a transport sectoral mechanism is built around the following key features:

- *A. Holistic support* – to allow for both **capacity building** as well as the **implementation** of low carbon transport policies, plans, programmes and projects.
- *B. Simple conditions* to reduce burden on applicants and maximise accessibility to support, whilst creating strong incentives to develop sustainable low carbon transport.
- *C. Flexible design,* consisting of a **fund** element and a **crediting** element

The above three features would be augmented by a diverse range of sources of finance (see Chapter 4). Figure 1 below provides an overview of the main features.

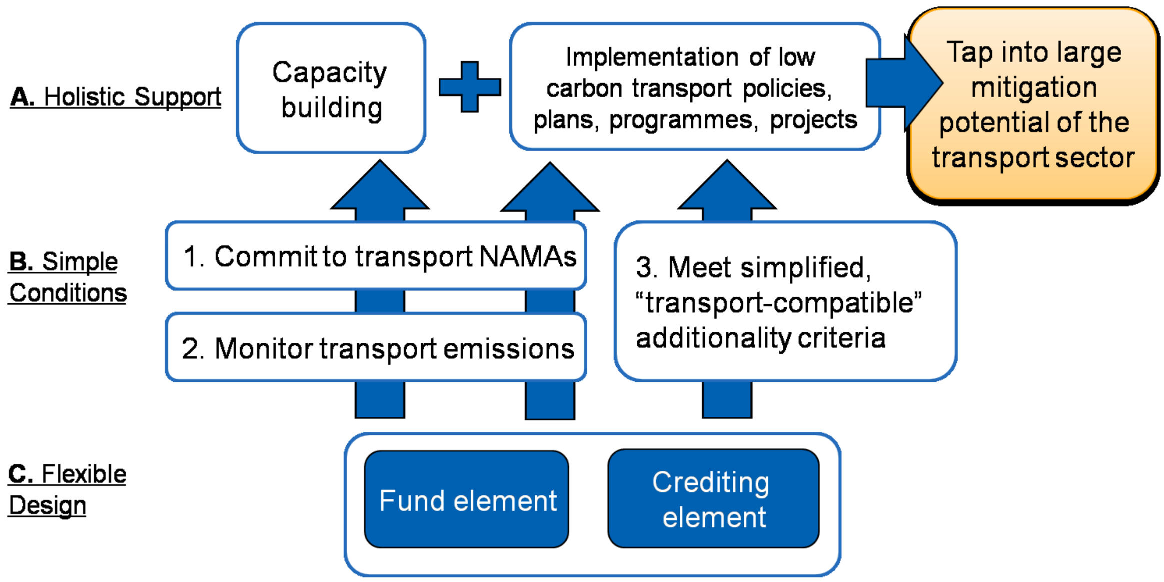

Figure 1 : Components of a sectoral mechanism

3.1 Holistic support

The mechanism outlined above shall provide support for both **capacity building**, as well as for the **implementation** of transport policies, plans, programmes and policies.

- **Capacity building** comprises of technical assistance and the establishment of skills and processes to mobilise policy makers and practitioners to maintain the benefits of sustainable low carbon transport in the long-term. Capacity building could, for example, support the development of long-term sustainable transport strategies and also assist in overcoming barriers and challenges that might be experienced in relation to their implementation. This could include national programmes of sustainable transport investment, the implementation of fuel efficiency standards, and policies that shift travel demand to low carbon modes.

  Rather than limit support to north-south knowledge transfer the approach would seek to encourage south-south transfers by establishing a practice for the sharing of best practices between developing countries. This could result in more appropriate and cost-effective mitigation activities being developed and implemented, and in the long-term has the potential to contribute to the development of formal institutions for developing and sharing capacity within and between developing countries.

- Support for the **implementation** of transport policies, plans, programmes and policies will come from both the fund as well as the crediting arm of the mechanism (see 3.3.). In other words, would-be recipients of support via the transport sectoral mechanism would judge whether their policy/plan/programme or policy would be better supported via a fund, or through a crediting approach and apply accordingly.

  The dedicated fund will provide a predictable source of funding similar in nature to grants given through Official Development Assistance, but earmarked to support sustainable low carbon transport. The crediting element on the other hand will provide potential access to a recurrent source of revenue, as credits are generated for every period that a policy/plan/programme or policy is in place and realising greenhouse gas mitigation.

The above two types of support will be be self-reinforcing, leading to a positive 'multiplier effect.' For example, building capacity at local and national level should also help develop a city or country's ability to better implement low carbon transport policies/plans/programmes/projects, and thereby leverage further funding and/or credits. This in turn could lead to numerous development co-benefits.

3.2 Simple conditions

The requirements for accessing funding should be simple to:

- Increase the accessibility of support via the mechanism
- Maximise its impact on climate change mitigation and development
- Recognise that capacity is relatively low in some developing countries and that barriers to capacity development must be reduced
- Focus resources on developing low carbon transport systems rather than on bidding for funding.

To reduce barriers to accessing the support provided by the transport sectoral mechanism, whilst creating strong incentives for applicants to develop sustainable low carbon transport, it is proposed that support from the **fund** element of the mechanism will be subject to two pre-conditions, namely;

- Developing country applicants agree to NAMAs in the transport sector.
- Developing country applicants agree to monitoring their transport emissions and to establishing a sectoral baseline from which emission reductions can be measured.

This will serve to:

- Catalyse the impact of funding obtained by the sectoral mechanism (by ensuring that additional mitigation projects are conducted in the transport sector, also giving the potential for synergy impacts)
- Increasing the capacity of developing countries to obtain finance from other sources, including the crediting arm of the sectoral mechanism (by ensuring the establishment of processes to monitor emissions from the sector). This will also assist developing countries in their UNFCCC reporting processes.

It will not be possible for all proposed mitigation activities that meet these criteria to obtain funding and so associated appraisal criteria will be developed. Preference will be given to innovative, replicable projects and comprehensive/ sustainable strategies. A list of eligible projects (i.e. those that avoid, shift or improve the carbon intensity of travel demand) will be developed by an expert committee as guidance to applicants.

On the other hand, low carbon transport policies, plans, programmes and projects for which **credits** are to be issued will need to prove that emission reductions are additional. However, the criteria to assess additionality will be developed by transport experts and will be tailored to consider transport-specific circumstances (e.g. data availability), to mitigate the situation under e.g. CDM whereby methodological difficulties constrain the number of projects (and thereby credits) generated by the transport sector.

3.3 Flexible design

As previously stated, the sectoral mechanism concept proposed is a hybrid, combining both a **fund** and **crediting** element.

The **fund element** is a dedicated fund that developing countries can apply to for capacity building support, but also for the implementation of low carbon policies, plans, programmes and policies which are not suited to crediting. It will be a predictable source of finance that will be guided by an independent Expert Panel. This Expert Panel could be similar in nature to the UNFCCC's Expert Group on Technology Transfer (EGTT).

Sources of finance for the fund would need to be explored in more depth but could include:

- Kick-start finance provided by developed countries in the context of the Copenhagen Accord
- Dedicated "Transport Window" in the future climate fund (i.e. the Copenhagen Green Climate Fund)
- Earmark proceeds from the auction of aviation ETS credits

On the other hand, the **crediting element** will:

- Provide an incentive for developing countries to scale-up and replicate climate change mitigation activities in the land transport sector
- Stimulate the development of MRV methodologies that work for the transport sector.

The mechanism will effectively 'buy' credits related to transport projects. Credits can be bought at any stage of the project, including at its inception when the finance from credits can provide start-up financial assistance or support further development of the methodology. At later stages of the project the mechanism could buy the CERs/VERs generated. CERs generated from projects that are eligible under the CDM could also be sold on the market.

Initially, the fund element of the sectoral mechanism would buy the credits generated by these schemes, and these would be auctioned on the voluntary market to essentially create a pilot carbon market for the transport sector[3]. This crediting element could be the first step towards the effective development of a robust carbon market, which in the long-term has the potential to be integrated into an international economy-wide mechanism.

The fund could help to provide the credits up front, which contrasts with the CDM where projects must be completed before credits are awarded. This would serve to reduce uncertainty and to increase the number of mitigation projects that could be supported.

In order to participate, developing countries would need to develop a transparent procedure for developing, reviewing and approving baselines. The availability of guaranteed revenues should they establish such a procedure would act as an incentive to do so. The development of such procedures would also make it easier for developing countries obtain finance from a wider range of sources, including existing financial mechanisms such as CDM, GEF and CIF.

4 Design options to be addressed in consultation with stakeholders

A sectoral mechanism must be closely aligned to the needs and requirements of developing country Parties. It is therefore proposed that the following sectoral mechanism design elements be given close consideration and be developed in consultation with those who would benefit from its provisions. Key design options to be discussed include:

- The source and scale of revenue for the fund – there are numerous options that can be considered, including kick start funding provided in the context of the Copenhagen Accord, a transport window under the Copenhagen Green Climate Fund, auctioning of aviation ETS credits, cap and trade of bunker fuel emissions, and the voluntary market.
- Governance of the mechanism – the governing body will have wide ranging implications, and need to be decided upon in view of wider developments under the UNFCCC negotiations. Transparency and accountability must be ensured to build trust between developed and developing country Parties.

[3] To ensure that these credits are generated in a way that supports sustainable development, they could be assessed against Gold Standards. See http://www.cdmgoldstandard.org/

- Relationship of the mechanism to current mechanisms – the sectoral mechanism will not replace the CDM or GEF, for example, but to optimise its impact it should be designed to maximise complementarities and synergies.
- Scope of the mechanism – notably whether the entities eligible for purchasing credits should be limited to the transport sector, and whether the mechanism should be opened to both public and private sectors.
- The likely call for parallel approaches in other sectors, and how a transport mechanism may interface with others.

5 Recommendations

A sectoral mechanism for the land transport sector that can provide financial (both funding and crediting) and capacity building support would provide developing country Parties with a means of achieving their policy priorities in relation to climate change mitigation but also wider sustainable development goals.

Developing eligibility criteria that require Parties to also develop parallel land transport projects and establish processes that support the leveraging of finance from other external sources and the development of capacity to do so is also likely to have a catalytic impact on the development of land transport sectors. The ultimate aim is to stimulate mitigation activities in the land transport sector to tap into its large mitigation potential. The mechanism seeks to achieve this by linking funding with the needs of developing countries.

There is a need for the transport sectoral mechanism concept and the benefits of adopting such an approach to be communicated at an international level. This will require the support of a Party to propose the mechanism. The Bridging the Gap initiative will therefore discuss with and support Parties to the UNFCCC to include a supporting paragraph in the text of the AWG-LCA. This could read as follows:

> *'Parties shall pursue sectoral approaches and sector-specific action to enhance action on mitigation and its associated means of implementation in the transportation sector.'*

This should be located in Chapter I ('Enhanced action on mitigation and its associated means of implementation') of the text[4] that has been developed by the chair of the AWG-LCA to facilitate the negotiations to be conducted in Bonn in June 2010. The text contains a number of paragraphs that provide the opportunity for the need for a sectoral approach to mitigation in the transport sector to be emphasised. The agricultural sector is, however, the only sector apart from forestry that is explicitly mentioned in the context of sectoral approaches (paragraph 21 and chapter IX). The authors propose that explicit mention is also made to the transport sector to support the development of a transport specific mechanism.

In future, the idea of the transport sectoral mechanism could be "translated" into short paragraphs of key elements that could be part of an annex or basic document for the expert panel that establishes the financial mechanism of the UNFCCC.

[4] UNFCCC (2010) Text to facilitate negotiations among Parties. Available from http://unfccc.int/resource/docs/2010/awglca10/eng/06.pdf.