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A long way to Copenhagen

Governments took small steps along the road to Copenhagen at the UN Climate Summit in Poznan, which marked the halfway point of negotiations of a new climate deal for the post-Kyoto period. At the previous summit in Bali a year ago, governments unanimously agreed a Bali Roadmap which initiated a series of discussions on carbon mitigation, adaptation, technology transfer and financing. It is hoped that governments can resolve these issues by the end of 2009. Negotiations in Bali were set against the backdrop of the publication of the IPCC's Fourth Assessment Report which called for urgent action on climate change. This time in Poznan, countries were trying to reconcile the need for significant cuts in greenhouse gas emissions with the realities of a major economic downturn.

Although no major agreements were expected from Poznan, even some of the smaller decisions, such as whether to include carbon capture and storage in the Clean Development Mechanism, were postponed. Progress was difficult as countries appeared to be saving all their bargaining chips for the real negotiations next year. However, the meeting did provide negotiators the opportunity to consider some of the many proposals that have been submitted by governments since Bali.

The most newsworthy events of the two weeks took place outside the negotiating halls, in particular:

- Senator John Kerry, representing President-elect Obama, declared that the US is set to lead the world to a successful outcome in Copenhagen;
- In Brussels, EU ministers reached a deal that allows them to hold onto their 20-20-20 target (relating to 20% emissions reductions, 20% renewable energy and a 20% improvement in energy efficiency). Although there wasn't much agreement on how the targets will be achieved, 300 million allowances have been allocated to Carbon Capture and Storage technology; and
- Australia was rumoured to be about to announce an emissions target, and since the summit, the Labour Government proposed a 5-15% reduction on 2000 levels by 2020.

Scientists have stated that the IPCC's assessment was too conservative and have called for greenhouse gases to be stabilised at a maximum of 450 parts per million in order to avoid dangerous impacts of climate change. However, the International Energy Agency has questioned whether it is politically or even technically feasible to achieve this goal. The scale of change required in the energy sector alone is immense, and regulatory uncertainty is now a real barrier to investment, holding back wider scale deployment of low carbon technology.

Directions from the business community

The business community in Poznan is unanimous on the need for greater regulatory predictability and called for all countries to commit to achievable mid and longer term objectives. In the absence of this, companies are unlikely to make the investment in research, innovation, and deployment of low carbon technology. Business also emphasised the importance of the use of market mechanisms to support a cost-effective response to climate change and the need to leverage both public finances and private capital to support technology development and finance adaptation initiatives. Although companies are more

directly impacted by national or regional legislation such as the EU Emissions Trading Scheme, than the UN climate agreements, a robust deal coming from Copenhagen would send a strong, long-term signal supporting investment in low carbon technology.

The Clean Development Mechanism (CDM) is one case where decisions by the UN can have an immediate impact on companies' investment decisions and operations. The concerns about the functioning of the CDM Executive Board are growing acute. Already a significant bottleneck in the process, the Executive Board recently suspended one of the major verifiers adding further uncertainty and delays to the process. Governments in Poznan started a review of the CDM and other market mechanisms, and although the final decisions were postponed, some aspects were significant. Notably there was a call for a faster and more consistent approval process as well as much greater transparency around the decisions made by the Executive Board.

Navigating US policy

There is some optimism that the real negotiations will start once the new US Administration is in place. Barack Obama has already called for a federal cap and trade system and for the US to reduce emissions to 1990 levels by 2020. However, there are question marks about when the US will be in a position to negotiate – possibly not before the summer 2009 – and how well aligned the Administration will be with Congress and State-led initiatives on climate change. John Kerry indicated that the US was ready to re-engage with the UN negotiations, but any international climate treaty would have to be ratified by a 67-seat majority in the Senate. It is unclear whether the Senate would ratify any treaty which includes legally binding emissions reduction targets for the US, even if those same targets have been agreed in US domestic legislation.

The road ahead

Some observers have suggested that the tight timeframe and huge complexity of the negotiations mean that there is the real risk that the final deal might not be agreed until sometime in 2010. Already, there were rumours of an 'emergency' meeting six months after Copenhagen, where countries would finalise the details – particularly the emissions objectives. Also, it seems unlikely that the new climate treaty will have binding emissions reduction commitments for all developed countries on the lines of the Kyoto Protocol. Some countries may take on absolute targets; others may adopt sectoral approaches or emissions intensity goals. Perhaps only a framework agreement will be achieved in Copenhagen, providing the architecture to link national initiatives which are agreed later.

There was little to take away from Poznan that provides a sense of what outcome will be reached in Copenhagen. Those following the negotiations will be watching the developments in the US, both in Congress and the Obama team. The other critical player is China. Fundamentally, success at Copenhagen depends on how far these two countries can move from their historic positions.

Ultimately, although negotiating an agreement seems challenging right now, setting the targets will be much more straightforward than actually achieving them. Regardless of the outcome in Copenhagen, it is the business community that will have to respond to a patchwork of national and regional climate change legislation which will affect investment decisions and markets. The international agreement is the key to setting the pace, ambition and longevity of this legislation which will drive innovation and investment in low carbon technology. We will continue to monitor developments, to help our clients prepare for the new legislative landscape, post Kyoto.

**PricewaterhouseCoopers Sustainability & Climate Change services
Poznan Briefing**

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