BUSINESS IMPLICATIONS OF THE COPENHAGEN ACCORD

NON-BINDING AGREEMENT PERPETUATES CLIMATE POLICY UNCERTAINTY

VERDANTIX

Helping You Change with the Climate

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EXECUTIVE SUMMARY

Released on December 19, 2009, the Copenhagen Accord is a three page political declaration that is intended to frame future UN climate change negotiations and codify national policies on adaptation and mitigation. Verdantix believes that the most meaningful elements of the deal are the increased potential for US involvement in a global climate change regime, inclusion of developing country reduction plans in global reporting, and larger pledges of financial support for developing countries. But severe limitations of the Copenhagen Accord will perpetuate policy uncertainties. Missing elements include a lack of a deadline to negotiate a successor Treaty to the Kyoto Protocol, no legally-binding GHG emission reduction targets, no coverage of aviation and maritime emissions and no reform of the Clean Development Mechanism market. Smart sustainability leaders need to explain to the CEO that the Copenhagen Accord doesn't mean carbon management plans should be shelved in 2010.

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COMPANIES MENTIONED

Acclimatise, Anglo-American, Deloitte, Dow, Forum For The Future, RWE, WWF

COPENHAGEN ACCORD PUTS FOCUS ON NATIONAL POLICIES

Released on December 19, 2009, the Copenhagen Accord is a three page political declaration that is intended to frame future UN climate change negotiations and codify national policies on adaptation and mitigation. Key points in the political statement include agreements to:

- **Limit increases in global temperatures to 2 degrees centrigrade.** The Accord recognises the scientific view of the Inter-Governmental Panel on Climate Change that greenhouse gas (GHG) concentrations in the atmosphere need to be stabilised to prevent dangerous interference with the climate system. The maximum temperature increase target could be cut to 1.5 degrees centigrade, depending on scientific analysis.

- **Make deep cuts in GHG emissions.** The Accord articulates the need for global and national emissions to peak as soon as possible, recgonising that the time-frame for peaking will be longer in developing countries such as Indonesia and Turky than in developed countries like Canada, Germany and Japan. The Accord contains no country-specific, legally-binding targets for future GHG emissions reductions.

- **Submit quantified economy-wide emission targets by January 31, 2010.** Developed countries (Annex I countries) or groups of developed countries such as the European Union, are required to submit quantitative economy-wide emissions targets for 2020 by January 31, 2010. These non-binding targets need to include the baseline year and the percentage reduction in GHG emissions to be achieved by 2020. Targets submitted to the UN will be based on officially announced national targets (see **Figure 1**).

- **Provide information on national mitigation actions by January 31, 2010.** Developing countries (referred to as non-Annex I countries) agreed to implement mitigation actions and submit a list of actions to the UN by January 31, 2010. These countries, including large emitters like Brazil, China and South Africa, will communicate national GHG inventory reports every 2 years with provisions for international consultation and analysis of the GHG inventory reports and national mitigation actions.

- **Create a mechanism to tackle forestry-related emissions.** Negotiators at the fifteenth ministerial meeting (COP 15) of the Framework Convention on Climate Change (UNFCCC) agreed to establish immediately a mechanism to reduce emissions from forest destruction and degradation (REDD). The REDD mechanism is intended to help mobilise financial resources from developed countries.

- **Boost climate funds from $10 billion a year to $100 billion a year.** Developed countries committed to provide new and additional funding "approaching $30 billion" for the 3 years from 2010 to 2012. The funds are intended to be balanced between spending on adaptation and mitigation projects. There is a further commitment to "mobilise" $100 billion a year by 2020, from national government, multilateral and private sources, to support climate change projects in developing countries.

- **Establish the Copenhagen Green Climate Fund.** This fund will be an operating entity of the financial mechanism of the UNFCCC. The mission of the Climate Fund is to

Figure 1. Unilateral National Commitments To Reduce GHG Emissions

	2020 Target	Baseline Year	Unilateral Pledge Status
Australia	-5% to -25%	2000	Under consideration
Canada	-20%	2006	Under consideration
EU	-20% to -30%	1990	Legislation passed
Japan	-25%	1990	Under consideration
New Zealand	-10% to -20%	1990	Under consideration
Russia	-15% to -25%	1990	Under consideration
Switzerland	-20% to -30%	1990	Under consideration
United States	-14% to -17%	2005	Under consideration

Source: Verdantix, UN

support projects and policies in developing countries covering REDD, adaptation, capacity-building, technology development and transfer.

- **Create a Technology Mechanism to enhance technology transfer.** The technology mechanism will be designed to accelerate the development and transfer of technologies to reduce GHG emissions and to help developing countries with their climate change adaptation efforts. Further details will be negotiated by the UN's working groups.

Accord Increases Probability Of US Senate Approval For Kerry-Boxer

The agreement at Copenhagen is a non-binding political declaration containing just 12 articles covering three pages of text. What, if anything, has been achieved since the Bali Action Plan set the deadline for Copenhagen 2 years ago? Verdantix believes that the most meaningful elements of the deal are the:

- **Increased potential for US involvement in a global climate change regime.** A post-Kyoto global climate deal without the inclusion of the US would be a pointless exercise. Global negotiations tend to move at the speed of the slowest ship and President Obama is slowly manoeuvring the US Senate to pass the "Clean Energy Jobs and American Power Act" in 2010. A non-binding agreement that codifies national commitments and includes voluntary emission reductions of countries like China significantly increases the probability that the Kerry-Boxer legislation will be passed.

- **Inclusion of developing country reduction plans in global reporting.** Under the Kyoto Protocol, developing countries (non-Annex 1 countries) including significant emitters like Brazil, Indonesia, Saudi Arabia and South Korea, were exempt from reporting their GHG inventories and mitigation actions. The Copenhagen Accord for the first time encapsulates a UN agreement that devleoping countries should report their mitigation actions and national GHG inventory reports. Crucially for the US, this includes China's emissions which will be subject to a moderate level of international verification.

- **Larger pledges of financial support for developing countries.** Island states such as the Maldives, at risk of increased flooding due to climate change, and African countries like Sudan that face drought conditions, pushed hard for funding from developed countries. The $11 billion pledged by Japan, $10.6 billion offered by the European Union and $3.6 billion tabled by the US over the period 2010 to 2012 will support action on the ground for both adaptation projects and mitigation programmes. The promise to "mobilise" $100 billion of climate change financing a year by 2020 lacks such clear cash pledges.

Severe Limitations Of Copenhagen Perpetuate Policy Uncertainties

The main achievement of the UN Copenhagen Accord will be securing the passage of the US Clean Energy Jobs and American Power Act in 2010. Due to the limited scope of the Accord and the weak wording of its provisions there is a vast and uncertain range of outcomes for a successor to the Kyoto Protocol over the next 3 years (see **Figure 2**). The most prominent elements missing from the Copenhagen missive are:

- **No deadline for the negotiation of an international Treaty.** The Bali Action Plan, agreed in December 2007, set COP 15 in December 2009 as the deadline to negotiate a successor Treaty to the Kyoto Protocol. Not only did the Copenhagen negotiations not agree on a new Treaty, the declaration did not even set a future deadline to agree a Treaty. This calls into question the grand-fathering of the Kyoto mechanisms beyond 2012 and may result in a lack of continuity in UN-level climate policy in 2013.

- **No internationally-agreed post-Kyoto GHG reduction targets.** The Copenhagen Accord provides an Appendix into which developed countries can write their unilateral commitments to achieve emissions reductions by 2020 based on their own baseline year. The EU will use 1990, the US 2005 and Canada 2006 (see **Figure 1**). This agreement opens the door to more unilateral and bilateral commitments and downplays the value of a UN-negotiated global regime requiring the consensus of all 192 UN members. Legally-binding GHG reduction commitments will be made at the national level.

- **No coverage of GHG regimes for international aviation and maritime.** Several years of work on sectoral approaches to emissions reduction, in industries like aviation and maritime that require international governance, failed to get a mention in the Accord. This will add to the confusion and challenges of implementing the EU's cap on GHG emissions from aviation in EU airspace from 2013. The UN's International Maritime Organization will need to pick up the pieces on climate rules for international shipping.

- **No reform of the Kyoto Clean Development Mechanism.** Preparatory work since the

Figure 2. Impact Of Copenhagen Accord On Climate Change Policy Expectations

	Copenhagen Accord	Impact On Expectations
TYPE OF AGREEMENT	Non-binding declaration	No change
DEADLINE FOR TREATY	None	More uncertainty
DEADLINE TO IMPLEMENT	None	More uncertainty
2020 EMISSIONS TARGETS	Codifies national pledge	No change
2050 EMISSIONS TARGETS	Codifies national pledge	No change
CLIMATE AID PLEDGE	$10 billion / year 2010-12	No change
CARBON MARKET REFORM	No agreement	More uncertainty
GLOBAL GHG COVERAGE	Tentative agreement	More certainty

Source: Verdantix

Bali COP 13 meeting on reform of the Kyoto carbon market mechanisms will have to wait for the blessing of the UN. Emissions from land use, land use change and forestry (LULUCF) and the terms of the potential inclusion of carbon capture and storage will be on the back-burner for at least a year. The Copenhagen Accord will not solve the many problematic procedural issues relating to the timely validation of CDM projects and verification of emission reductions.

What Copenhagen Means For Corporate Sustainability Leaders

The Copenhagen Accord needs to be understood as one step in a global and often tortuous negotiation process. The non-binding nature of the agreement and lack of a timetable for implementation pose problems for global firms like Anglo-American, Dow and RWE seeking to update their climate change and sustainability strategies. Verdantix believes that executives responsible for energy and climate change plans should:

- **Focus on national climate policies over the 2010 to 2011 period.** The absence of hard deadlines and a legal commitment at the UN's negotiating table means sustainability leaders should focus on the business implications of national legislation like the carbon tax in France, allowance auctions in the EU Emissions Trading Scheme and the Carbon Pollution Reduction Scheme in Australia. For firms with no involvement in the global carbon market, UN policy will be a low priority for the next 2 years, when compared for instance to immediate actions by the US Environmental Protection Agency.

- **Avoid new investments in the Kyoto-based global carbon markets.** The biggest casualty of the UN negotiations is the global carbon market based on the Kyoto Protocol mechanisms (see Verdantix What Copenhagen Delay Means For Business). Badly defined market rules, insufficient UN staff adminstering the global regime and a depressed carbon price conspire to make this a very high risk market (see Verdantix Green Quadrant CDM Project Developers). The Copenhagen Accord further postpones crucial reform of this dysfunctional market mechanism.

- **Prepare to explain to the CEO why carbon management is still a priority.** Many CEOs will read the negative commentary from environmental NGOs and politicians on the results of Copenhagen and believe its time to scale back carbon reduction plans. Smart sustainability leaders will be ready to explain that the Copenhagen Accord opens the door to US climate legislation as well as carbon regulations in developing countries. What's more, carbon management is primarily about reducing energy costs and building environmental brand value — UN policies rarely figure in the business case.

- **Conduct a climate change adaptation risk assessment in 2010.** Slow progress in implementing global targets for GHG reductions increases the probability of negative climate change impacts on supply chains. Verdantix research with 30 CSR directors in the UK's leading firms found increased appetite for climate change adaptation advice from organisations like Acclimatise, Deloitte, Forum For The Future and WWF (see Verdantix Green Quadrant Environmental NGOs). Sustainability leaders should invest in more detailed climate change risk assessments to identify the most proximate risks.

- **Plan for a bumpy ride on global climate policy framework.** The next UN Conference of Parties (COP 16) is due to be held in Mexico City in 2010 between November 20th and December 10th. Even if a Treaty is agreed then, the UN deadline to sign the Treaty is likely to be in March 2012, just 9 months before the expiry of the Kyoto Protocol. Ratification will take much longer — the Kyoto Protocol entered into force on February 16, 2005 a full 7 years and 2 months after being agreed on December 11, 1997.

Sustainability And Climate Change Business Research

Verdantix is the leading provider of business research and strategic analysis to help firms change profitably with the climate. Clients access our research through individual reports, annual subscriptions and multi-client engagements.

Your Business Challenge

We live in an age of inevitability and uncertainty. It is inevitable that climate change will affect your business in the future. But do you know when climate change will have a material impact on profitability? And do you know which climate change factors - regulations, customer perceptions, weather risk, energy costs and competitive actions - will affect your business? Our research helps climate change leaders incorporates, professional services firms and carbon markets to manage the tension between inevitability and uncertainty.

Our Knowledge Service

Verdantix conducts ground-breaking research on the climate change market to help you change with the climate. Our solution combines high quality business research with continuous client needs assessment to deliver a uniquely powerful knowledge service. We help you to successfully manage the tension between inevitability and uncertainty by delivering evidence-based research designed to meet your specific knowledge requirements.

"Equity analysts divide into three groups based on their climate change perspective: believers (30%), skeptics (28%) and cynics (30%). This should influence how CEOs communicate their climate change strategy."
- Verdantix Survey: How Equity Analysts Link Company Valuation and Climate Change (June 2008)

How You Benefit

Our knowledge services help you to:

- Plan effectively for regulations.
- Keep pace with competitive actions.
- Make connections with new customers.
- Inform senior executives with evidence.
- Develop climate change propositions.
- Quickly shortlist suppliers.
- Spot hidden business opportunities.
- Validate your thinking and proposals.
- Speed up business case assessments.
- Track new customer trends.

Help you change with the climate

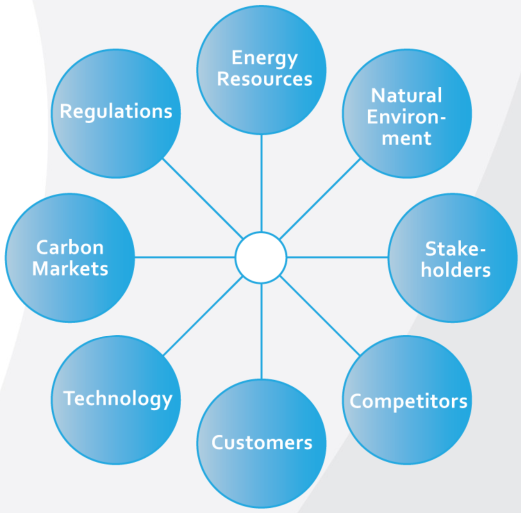
Save you time by leveraging best practices

Save you money by offering cost effective advice

Offer independent thought leadership

Research Plus

The Verdantix research agenda is defined collaboratively with our subscription clients. We call this collaborative approach Research Plus. This element of our service ensures we align our research activities with client needs. Through experience we know that clients find it hard to articulate what they don't know today. It's also a challenge for clients to explain what they will need to know tomorrow. Our Knowledge Needs Tool stimulates thinking, identifies knowledge gaps and prioritizes research projects. The tool is based on Verdantix research into the drivers behind climate change and sustainability risks and opportunities.



Why Choose Verdantix

Unique. Verdantix offers a unique knowledge service for individuals in charge of climate change or sustainability strategy, innovation, projects, products and services.

Cost effective. Our subscription research model shares costs across multiple firms resulting in a much lower price point than consulting.

Connected. We have privileged access to thousands of decision-makers in companies, service providers, academia, governments and financial markets.

Quality. Our research is based on robust methodologies such as the Green Quadrant and Smart Vendors developed by experienced research professionals.

Commercial. The Verdantix knowledge service focuses on providing commercial insights to help P&L owners deliver financial results and win support in budget negotiations.

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