



COPENHAGEN: OPPORTUNITIES MISSED – BUT THE DIRECTION IS A LITTLE CLEARER

It would be foolish to be anything other than dispirited by the outcome of the Copenhagen COP. But expectations had been allowed to rise too high. In fact, from a business perspective the major impact of the negotiations was always going to be in terms of market sentiment in response to general signals, rather than a new set of legal requirements. Sentiment is important, but the hard facts – political and scientific - remain as they were, and while the responses of Governments and the UN have once again disappointed there are some elements in this latest attempt to grapple with the facts which do indicate some steps forward for the market to chew over.

Firstly, Heads of State are engaged and negotiating. This is no longer just an issue for Environment Ministers, or even Environment and Industry Ministers: it has become recognized as one of the defining issues of our time for world leaders. Secondly, the few biggest polluters are lining up as the key parties for future negotiations. Indeed, a precedent appears to have been set in terms of getting a political deal first and turning it into a formal global framework later. This may offend the UN, and posturing by certain developing countries still threatens success, but such an approach broke a deadlock that would otherwise still remain. Thirdly, and most importantly, the developed world is beginning to put serious money on the table just as the advanced developing countries put forward plans for ambitious domestic mitigation efforts— some conditional on funding, many regardless of the state of the final UN deal. Both sides now recognize that there is no other way to engage the other, and thereby move forward with climate action, without such commitments. This is a critical move forward.

Against this, two steps backwards have to be recognized: a retreat, hopefully temporary, from quantified emissions reduction numbers into vague notions of future temperatures; and a resumption of the approach of

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listing national pledges, even if subject to a degree of common monitoring, leaving comparability and equity in the eye of the beholder and perhaps not to be seriously considered until 2015.

The three steps forward should make businesses and investors more sure than ever that national and regional carbon constraints will keep on coming. But the two steps backward reduce the likelihood of aggressive demand worldwide for carbon reductions over the next 10 years. The EU has apparently decided to stick with -20% (2020 on 1990), though that surely needs analysis and a Council decision; Messrs Rudd and Hatoyama will have some difficulty in deciding where to pitch their new targets; there is no additional pressure on the US system to be more ambitious than -17% (2020 on 2005). In other words, no extra primary carbon market activity as a result of these two weeks' work.

If any businesses thought the Copenhagen negotiations would fill in the carbon price number in their investment cases, they have been shown to be naïve. The process continues, and firm demand numbers for the five to eight years after the current Kyoto period are still likely to emerge. But at least for now businesses are going to have to form their own judgments about those prices and any new regulatory constraints. They can however see that there will be substantial public funds available around the world, and that despite the rhetoric of some G77 negotiators the major developed country paymasters will expect a lot from the private sector.

The questions of modalities for that private sector involvement remain equally frustratingly unresolved. The Copenhagen Accord itself includes a reference to markets. LCA discussions about the future of the Convention continue, rather than dying as was possible. So the prospect of sectoral or NAMA crediting as a new market mechanism is still a good one, though we have plenty of time now to work out how private investors and financiers can make it actually function. The various Copenhagen discussions on improving the existing private sector financial mechanisms, in particular the CDM, made some progress and showed a wide acceptance of the need for reform and response to some of the worst muddles of the last six months or so. But cynical and misguided vetoes for a variety of mainly self-



interested political objectives continue to strangle the rate of progress, and the most important points have merely been shunted into the future. Businesses were already wondering whether, between regulatory sclerosis and uncertain demand, the CDM still offered opportunities worth taking. They will now, more than ever, be looking to expected US national demand for offsets to fill in their business plans.

Cutting carbon is still the smart business objective, whether the carbon is in existing operations, new technologies or international projects. But Governments have missed a good opportunity to convince more of the private sector. The commercial risks of getting the timing wrong have in no way been lessened by Copenhagen. The lesson of the last two weeks is that economic fundamentals, including domestic carbon pricing that is firmly established through national law, ought still to drive business propositions. An international injection of increased demand remains a strong possibility over investment timescales but still has to be treated as an upside rather than a given.

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