



Copenhagen Discord: Bottom-Up Investing in a Global Landscape

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One of the original aims of the Copenhagen Summit was to negotiate an agreement that would be in place when the first commitment period of the Kyoto Protocol expires in 2012. However, against a backdrop of little shift in positions over 2009, denunciations from developing countries in Barcelona in November, and slow progress on US climate legislation, it was quickly acknowledged that there would be no legally binding treaty. In the end, what we got was the Copenhagen Accord, a minimalist agreement made by 29 countries through their Heads of State. From a legal perspective, the United Nations Framework Convention on Climate Change (UNFCCC) parties agreed only to “take note” of the Copenhagen Accord, which in essence means very little: it neither acts upon nor agrees with its content. As a matter of international law, the Copenhagen Accord does not bind the Contracting Parties to the UNFCCC to anything. It amounts to less than the sum of most ambitious deals already agreed upon on the table.

Nevertheless, if looked at as a stepping stone towards an agreement in 2010, then the political declaration was encouraging. With the right signals and with a clear US lead, China could have gone further. Three years ago, the notion of major developing countries taking on mitigation plans of their own, with or without targets, would have been unthinkable. Now that this has been agreed to in principle, the stage is set for eventual targets. The Copenhagen process and the Summit itself have also generated, for the first time, commitments on emissions reductions from the world's two largest emitters, China and the US, and they have both acted to produce proposals for action. These two results also represent an important breakthrough, even though these targets will not be subject to an international compliance mechanism like targets under the Kyoto Protocol.

Because it was informally reached in the margins of the Conference of Parties (COP) to the UNFCCC, the Copenhagen Accord can be regarded as a political declaration of intent from a number of well-identified countries. However, these 29 countries matter. They include all the major emitters (US, China, Brazil, South Africa, and India), and representatives from all UN regional groups (including the Least Developed Countries and the alliance of Small Island States) accounting for more than 80% of global emissions. By contrast, Kyoto Parties account for only 30% of emissions with the US and China notably missing. Additional countries are likely to associate themselves with the Accord.

The approach is more country-driven and “bottom-up” than would have been the case with a comprehensive legally binding treaty. On the one hand, this frees countries to pursue domestic approaches immediately knowing they will be recognized. On the other hand, success depends on the degree to which countries take the lead in a race to develop new technologies rather than succumb to lowest-common-denominator politics.

Some positive proposals did emerge.

1. **Monitoring, Reporting, and Verification.** Agreement was reached for the first time on international monitoring and verification of developing countries’ actions, which subjects all reductions to “international consultation and analysis.”
2. **Developing Country Finance.** The Copenhagen Accord recognized that developing countries must receive significant financial assistance to tackle greenhouse gas emissions (GHGs) and to adapt to those impacts of climate change. Prime Minister Meles Zenawi of Ethiopia, speaking for the African Union, put forward a plan of financial support built on analytical support from Lord Stern. This included the collective commitment by developed countries to provide new and additional resources approaching \$30 billion for the period 2010-2012. Developed countries committed to a goal of jointly mobilizing \$100 billion a year by 2020 to address the needs of developing countries. The funding is expected to come from a wide variety of sources: public and private, bilateral and multilateral, including alternative sources of finance. A “significant portion” of such funding is earmarked to flow through the Copenhagen Green Climate Fund accountable to the COP.
3. **Reducing Emissions from Deforestation and Degradation (REDD).** Parties to the Accord agreed on the need to provide positive incentives to halting deforestation through the immediate establishment of a REDD mechanism, to enable the mobilization of financial resources from developed countries. However, the UNFCCC work on this issue was not finalized, so there is uncertainty about the nature of this mechanism at this stage.
4. **Technology.** A technology mechanism will be established to accelerate technology development and transfer in support of adaptation and mitigation that will be guided by a country-driven approach and be based on national circumstances and priorities. As is the case for the REDD mechanism, there is little clarity on how the technology mechanism will work. It most likely represents the institutional structure that monitors, advises, and guides the allocation of the technology finance to developing countries.
5. **Commitment to a 2°C Target.** There was also reaffirmation of the necessity to reach a deal sufficient to keep a strong likelihood of temperatures not rising above the 2°C target relative to preindustrial times. This was not new, and the partial irony was that

such a commitment would require action significantly more ambitious than anything already on the table.

6. **Mitigation Commitments in Appendices.** Annex I (developed) Parties have committed to implement individually or jointly quantified economy-wide emissions targets for 2020. These fall short of the 2020 target of 44 billion tonnes necessary to have a shot at a 2°C target by several billion tonnes. Non-Annex I (developing) Parties will implement mitigation actions, outlined through national communications every two years. They will be subject to domestic measurement, reporting, and verification. Nationally Appropriate Mitigation Actions (NAMAs) seeking international support will be recorded in a registry along with relevant technology, finance, and capacity-building support.

With the focus on a bottom-up process, it is easy to forget why a global deal is still in everyone's interest. A global accord can give domestic action much greater traction, even if the agreement is limited to a smaller group of major emitters (as with the Accord).

1. It establishes a common purpose and makes it much easier for politicians anywhere to persuade the public that their efforts form part of a collective global effort.
2. It allows for the diffusion of competitiveness concerns, which tend to be overblown but politically very influential, and establishes conditions for a 'race to the top' on deploying and exporting climate technologies rather than a 'race to the bottom' in avoiding action for fear of job losses.
3. It allows for common methodologies and institutions, and makes emissions reduction more efficient. For example, linking or allowing international access to carbon markets, enables the private sector to cost effectively pick out the most efficient opportunities for emissions reductions, regardless of where they reside geographically.

The UNFCCC remains the primary post-Copenhagen global process, with the main event being Mexico COP in November/December 2010, (though there is talk of increasing the scope of the Bonn "intercessional" scheduled for June). However, given the problems of attaining a strong detailed proposal for action to be drafted from meetings of delegates of 193 Parties, and in view of the fact that strong radical action on climate change cannot easily be constructed on the basis of unanimity, further simplification and consolidation of process is likely to be required. With the Accord to be "operational immediately" and delivering substantial amounts of finance by 2012, the pace needs to pick up quickly.

So what does all this mean for investors? Overall, the Copenhagen outcome provided a weak signal to investors, being widely perceived as a missed opportunity. The Accord omitted firm targets, many of which had already been agreed to in principle. These included 50% reduction of global emissions by 2050 and a peak in emissions by 2020, as well as political reaffirmation

of the commitment by developed economies to reduce emissions by 80% by 2050 (figures all expressed relative to 1990 levels).

Businesses continue to need a clearer sense of direction to commit the substantial investments required to shift towards a low-carbon economy. Energy companies like E.ON and Centrica warned that they would hold off investing the tens of billions of pounds to build expensive new nuclear reactors and clean coal plants at today's carbon price. But broader evidence suggests that the private sector did see Copenhagen as part of a slow but positive forward step. Although the WilderHill New Energy Global Innovation (NEX) Index of clean energy stocks fell in the immediate aftermath of the Conference, shares across a range of sectors rose from December 1 to early January with the NEX rising a further 4.1% in the first week of 2010, before falling back again amidst weak global trading.

In the days immediately following COP 15, the European Emissions Trading Scheme benchmark price (for December 2010 contracts) tumbled by more than 8% to €12.41 and has recovered only slowly since. This doubtless reflected a correction in market expectations, but in the context of recent carbon price trends, the impact seems marginal. However, national policies still present substantial investment opportunities. Deutsche Bank has identified 270 climate policies around the world, including Renewable Portfolio Standards in various US states, feed-in tariffs in Europe, and energy-intensity targets in China—all of which have the potential to drive profitable new markets (Deutsche Bank 2009).

Perhaps most worryingly, from a global business perspective, the Accord failed to broaden access to global carbon markets. Little clarity was provided in respect to new market mechanisms for post-2012, (although the Accord did record a decision to pursue various approaches, including opportunities to use markets to enhance the cost effectiveness of mitigation). This is a major omission as the private sector will ultimately be the main source of international finance and technology transfer. Indeed, focus on bottom-up actions, especially if heralding the end of the Kyoto Protocol, calls into question the practicality of integrating broad global carbon markets. New implementation mechanisms to link carbon markets or allow one-sided access will need to be found, replacing and scaling up the Joint Implementation (JI) and Clean Development Mechanisms (CDM). A single international carbon market is looking less and less likely, with a patchwork of regional price mechanisms likely to emerge instead.

In short, Copenhagen did not provide the step change necessary to forge a critical momentum in favor of low-carbon investments. Doubts about the speed of the global transition to a low-carbon economy will continue to delay clean-tech deployment. But it did at least clarify some key national 'bottom lines' on which progress can now be made. The focus is now country-level action, as governments rebuild trust in the science and make the low-carbon investments tangible by pursuing quick wins such as green stimulus plans, smart energy-efficiency measures as well as carbon pricing, standards, regulations, and carbon technology support. But in the end, global action requires international collaboration. This must acknowledge that US levels of consumption and China's 30-year economic miracle have come at the cost of a rapidly

deteriorating environment. China and the US continue to adopt positions that are unsustainable; they cannot avoid their responsibilities indefinitely.

Reference

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Biography

Dimitri Zenghelis recently joined Cisco's long term innovation group as Chief Economist of the Climate Change practice in the Global Public Sector organization. He moved from heading the Stern Review Team at the Office of Climate Change, London. Previously, he was a senior economist who has spent a year working with Lord Stern on the Stern Review on Economics of Climate Change, commissioned by the then Chancellor Gordon Brown. He continues to act as an external advisor to the UK Government and works closely with Lord Stern at the LSE where he is a Senior Visiting Fellow at the Grantham Institute on climate change. He is also an Associate Fellow at the Royal Institute of International Affairs (Chatham House). Dimitri joined HM Treasury in 1999 providing economic advice for the UK Government as Head of Economic Forecasting and Head of the European Monetary Union Analysis Branch. Prior to joining HM Treasury Dimitri has worked as a consultant with Oxford Economic Forecasting, and was a Senior Economic Advisor for the Liberal Democrats, House of Commons, London.

His university education was at St Hugh's College Oxford and Bristol University. Dimitri is an artist and published photographer, his interests range from architecture to philosophy of science and despite being born with two left feet, he enjoys rock climbing, skiing and nitrox scuba diving.