
Perspective on Copenhagen

On 19th December, the Copenhagen Accord was “noted” by the UN conference on climate change – neither accepted nor rejected. Compared to pre-summit ambitions, it is a weak agreement which did not meet the key expectation to increase global ambitions to reduce greenhouse gas emissions. Its lack of detail will require further negotiations to become effective and maintains uncertainty for business. However, it should consolidate the pre-Copenhagen emissions reduction pledges by individual nations and maintain some momentum on efforts to tackle climate change.

Summary points

- **The Copenhagen Accord contains some important commitments for international climate change efforts** - These include the goal to limit climate change to 2C; a new and additional funding commitment for developing nations of up \$30bn to 2012 and \$100bn annually by 2020 to be overseen by a Global Climate Fund; binding actions on both developed and developing nations; agreement on international monitoring, reporting and verification of some actions; and the establishment of new international technology collaboration and forestry mechanisms. Perhaps most importantly, this represents the first agreement involving all major nations including the US and China since 1997.
 - **The Accord lacks ambition, is incomplete in many areas and will require further agreement to be effective** - The agreement achieves significantly less than was expected before the summit began. Most obviously, it fails to agree reduction targets or plans by either developed or developing nations – there is only an agreement for unilateral submissions of targets by 31 January 2010. The new mechanisms are described at a high level and require further definition to be effective. Also, the Accord itself is not of legal effect, only having been “noted” by the UN plenary session. There is no timetable or deadline by which to agree a fully documented, legally binding treaty. Whilst there will be further diplomatic efforts to secure meaningful national emission reduction submissions by the end of January 2010 and a fully binding legal agreement in a year’s time, there is no guarantee of success.
 - **Although the Accord has failed to signal to business an advance in global ambitions, climate change will remain an increasing driver for business** - The failure to agree more ambitious collective emissions reduction targets leaves total ambition in terms of global emission reductions at pre-conference levels. Whilst still an advance compared with a year ago, studies suggest this will likely place the world on a path towards a 3+C rise (550+ppm). The Accord’s commitment to a 2C limit on climate change, together with a relatively sizeable funding commitment and new mechanisms, gives hope that global climate change actions will continue to increase. However, the carbon price in Europe fell by ~10% following the conference, indicating a lack of conviction that the EU would raise its target emissions reduction from -20% to -30% by 2020 vs. 1990 levels. For businesses in Europe and the UK, current legally binding targets have already been agreed and will continue. These will require more comprehensive policies over the short to medium term. Climate change will therefore remain an increasingly important driver of business over the next decade. The likely ongoing asymmetry of climate change policy between regions may increase the focus on carbon “leakage” – the migration of business and emissions to regions with less robust climate change policy – and ways of ensuring a level playing field to combat this effect. This may lead to increased efforts by business to ensure transparency and reductions of carbon in their supply chains.
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The Copenhagen Accord was noted on 19 December 2009

At 7.45am on 19th December, the Copenhagen Accord was finally “noted” – not agreed or rejected - by the plenary session of 193 countries of the Conference of the Parties of the United Nations Framework Convention on Climate Change. The document had initially been drafted and proposed by the USA, China, India, Brazil and South Africa late on 18th December. It is not legally binding, but it charts a course for further international efforts on “Long Term Cooperative Action” to tackle climate change and is likely to shape the efforts of climate negotiations over the medium term to 2015. In addition to the main Accord, various ancillary documents were agreed which mandate further negotiations on the extension of the Kyoto Protocol and a potential legally binding treaty on Long Term Cooperative Action – a potential successor to the Kyoto Protocol.

The Accord has been hailed as both a success and a failure. This note lays out what it agreed and did not agree, its significance for climate change and the ongoing international process and its significance for business.

What was agreed and what was not agreed

Although not legally binding, the Copenhagen Accord is “operational immediately” and agrees a number of important matters which should advance global efforts to tackle climate change. However, it also failed to meet the high expectations set for the conference. The Copenhagen conference was particularly focussed on obtaining agreement in three major areas: Emissions reduction targets, Financing, and Governance and Mechanisms. Below we set out what was agreed and not agreed in each area.

Emissions reduction targets – agreed

- To recognise the goal to limit global greenhouse gas emissions to ensure that the increase in global temperatures is below 2 degrees Celsius
- Deep cuts in emissions in accordance with the IPCC Fourth Assessment - which would indicate a peak in emissions by 2015 and a reduction by 2050 of 50-85% vs. 1990 levels
- Developed nations (Annex 1 parties to the Kyoto Protocol) must submit emissions reduction targets for 2020 by 31 January 2010
- Developing nations (non-Annex 1 parties to the Kyoto Protocol) must submit plans for reductions in emissions compared to “business as usual” by 31 January 2010 (frequently referred to as Nationally Appropriate Mitigation Action plans or NAMAs)
- Least developed countries and small island developing states may undertake actions in accordance with their submissions voluntarily, rather than compulsorily

Emissions reduction targets – not agreed

- No explicit 2050 global target for emissions reduction (i.e. for all nations collectively)
- No 2050 or 2020 target for emissions reduction by developed nations
- No guidelines on the format or proposed metrics for the emission reduction plans of developing nations (i.e. the NAMAs)
- No penalties for a failure to submit emission reduction targets or plans by 31st January 2010, or a failure to meet those targets

Financing – agreed

- Developed nations to provide new and additional funding of up to \$30bn over the period 2010-2012 (i.e. \$10bn per year) for climate change mitigation and action by developing nations, including tackling deforestation

- Developed nations to further increase this funding to an annual amount of \$100bn by 2020
- Funding to come from a variety of sources including public and private, multilateral and bilateral – which can be taken to mean that some will be through the carbon markets (such as the Clean Development Mechanism), some via a new forestry mechanism and some via government grants either made collectively or bilaterally

Financing – not agreed

- How the additional funds – whether the \$30bn or \$100bn - will be raised and the burden allocated between developed nations – although at least a proportion is likely to be raised and distributed via a carbon market offset mechanism such as the current Clean Development Mechanism
- How the funds can be accessed by developing nations – although this will relate to whether or not developing nations are achieving their goals under their NAMAs – see below under “Mechanisms agreed”
- The governance structure of the new Copenhagen Green Climate Fund which will oversee the additional finance

Governance and Mechanisms – agreed

- Monitoring, Reporting and Verification (MRV) of actions:
 - Mitigation actions by developed nations will undergo international MRV
 - Mitigation actions taken by developing nations which are the subject to international support (i.e. funding) will also undergo international MRV – a new provision that ensures some robustness to these actions
 - Other mitigation actions taken by developing nations are only subject to national reporting every 2 years (i.e. no international MRV)
- A Technology Mechanism “to accelerate technology development and transfer in support of action on adaptation and mitigation that will be guided by a country-driven approach and be based on national circumstances and priorities” – this is likely to be a reference to the Technology Collaboration centres concept advocated by the Carbon Trust and others and mentioned in earlier papers, although the wording is not clear
- A mechanism for Reduced Emissions from Deforestation and Degradation (REDD) to enable financial support to save tropical rainforests
- A new Copenhagen Green Climate Fund which will channel a significant proportion of the agreed additional funding
- An assessment of the implementation of the Accord to be completed by 2015

Governance and Mechanisms – not agreed

- No monitoring, reporting and verification of actions which are not internationally funded, which means that many actions of the richer developing nations such as China which may not receive international funding will not be subject to external scrutiny
- No further expansion of the international carbon markets – only agreement to continue to discuss this as part of the extension of the Kyoto Protocol – although in other documents there is emphasis put on the requirement to establish benchmarks to enable more programmatic CDM – i.e. the approval of emission reduction projects on a faster basis
- Little clarity as to the nature of the Technology Mechanism, REDD mechanism or Copenhagen Green Climate Fund, which will require further definition to be operative
- Importantly, no timetable for a legally binding treaty to follow the Copenhagen Accord, indicating that greater certainty is not guaranteed

The significance of the Copenhagen Accord for Climate Change and the international process

The Copenhagen Accord achieves some breakthroughs for international climate change, which demonstrate an underlying will to tackle climate change, in particular:

- Recognition at UN level that the goal is to contain climate change to a maximum rise of 2 degrees Celsius. This had already been agreed by the G8 and G20, but not the UN
- Funding for developing nations up to \$100bn by 2020 – although still not seen as enough by many developing countries
- Binding emissions reductions by both developed and developing nations – albeit that the level of these commitments is unilaterally determined and yet to be submitted. These will include the first commitments by the US since signing the Kyoto Protocol – which it then failed to ratify, and the first official reduction commitments by developing nations such as China, Brazil and India
- International MRV of actions by developing nations that receive international support
- Establishment of important new mechanisms (the Technology Mechanism, REDD and Copenhagen Green Climate Fund), although the precise nature of these provisions is unclear

However, the failure to agree more detail demonstrates the fundamental difficulty of multilateral climate change negotiations. The most concerning failures for agreement include:

- No agreement on the exact level of 2050 emissions cuts – which indicates an aversion to any absolute limit on emissions. This most likely reflects developing nations' concern not to be limited to any specific reduction target
- No agreement on targets for emissions reduction by 2020 for either developed or developing nations. The process allows unilateral submissions of targets and reduction plans by nations, which implies there is no minimum standard of emissions reduction target and very likely means targets will be volunteered at the lower end of pre-conference announced targets
- No deadline set for turning the Accord into a more substantive and legally binding treaty

The lack of clarity will inevitably require more climate change negotiations over the coming months and years

- The immediate focus of diplomacy will be the submission by countries of their reduction plans by 31st January 2010. This will no doubt trigger significant efforts by the nations to “bid up” rather than bid down the level of contributions made by nations to cut emissions. The key question will be whether such reductions are consistent with a 2C limit on climate change. Earlier analysis of individual nations' announced targets has indicated that the lower end of current announced targets would put the world on a 3+ degrees Celsius trajectory (550+ppm CO₂e), not a 2C, 450ppm CO₂e trajectory¹
- Despite the Accord being “operational immediately”, significant further detail will be required for it to function properly. In particular the mechanisms by which the financing for developing countries can be accessed, together with the REDD mechanism and Technology collaboration mechanism will need to be fleshed out
- Further work will be required to determine whether and how the provisions of the Kyoto Protocol will continue – including the expansion of the international carbon markets (i.e. the Clean Development Mechanism)

¹ See Project Catalyst briefing paper: “Taking stock – the emission levels implied by the current proposals for Copenhagen” 7th December 2009, www.projectcatalyst.info

- Much attention will turn to the US to see whether or not Congress passes the American Clean Energy and Security Act in 2010 and adopts legally binding emission reduction targets for the first time. Other nations, such as Japan, Canada and Australia will similarly undergo a domestic process to agree domestic emissions reduction

What does the Copenhagen Accord mean for business – globally and in Europe and the UK?

The Accord has failed to signal an advance in global ambitions to reduce emissions, but does maintain some momentum on efforts to tackle climate change.

- The failure to agree new targets will almost certainly mean that global ambition does not advance beyond pre-summit levels, which will not serve to increase business confidence to invest in addressing climate change
- Despite its unambitious and incomplete nature, the Accord does demonstrate the underlying will of all nations to seek to tackle climate change, including the goal to limit climate change to a maximum 2C rise
- All nations – whether developed or developing, will now take actions to reduce emissions. Given that some developed nations (e.g. US, Japan and Australia) and most developing nations had no formally recognised targets, this will inevitably push more markets towards a low carbon economy and lead to an overall expansion for the clean technology sector. Many businesses and investors may have already anticipated this, so the Accord may not be truly “additional”, but rather consolidates this position

The Accord’s real meaning will be determined primarily by domestic commitments made over the next month. In Europe and the UK, targets have already been set in law but a more comprehensive policy response will be required to ensure delivery

- Each developed country must submit its target for emissions reduction for 2020 by 31st January 2010, which leaves inevitable uncertainty of outcome until then
- It is doubtful that the EU will indicate its willingness to increase its target from a 20% to 30% reduction in 2020 emissions vs. 1990 levels which would in turn trigger the UK to increase from a 34% to 42% reduction in emissions in 2020 vs. 1990 levels. This doubt was supported by the reaction of the European carbon markets which dropped ~10% following the announcement of the Copenhagen Accord
- The UK’s Committee on Climate Change noted that the scale of the challenge for the UK to meet even its 34% reduction target was very significant and that a “step change” in policy response is required to meet it
- Therefore, business in the UK and Europe should expect an increasingly proactive and comprehensive policy environment which aims to deliver significant reductions in emissions over the next decade. Particular emphasis will be placed on ensuring a reasonably high carbon price (e.g. >€20/tCO₂), and a drive to deliver renewable energy targets, together with stricter standards on buildings emissions and transport
- Despite an advance in global ambitions, business in the UK and Europe should find that climate change is increasingly a business driver that brings opportunities for those that respond early, but risks for those that respond late
- Given the continuation of an “asymmetric” approach to climate change policy, with some regions taking a more robust approach than others, there will be increased focus on the issue of carbon “leakage” - the migration of business and emissions to less robust climate change policy regions - and the need to manage the importing and exporting of goods and materials with associated embedded carbon emissions. The



asymmetry of policies and standards may also increase the benefits to business of being able to accurately report on the emissions in their supply chain and to confirm to their customers that the carbon emissions contained in their international supply chains are still being reduced

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