THE COPENHAGEN CLIMATE SUMMIT

A CLIMATE GROUP ASSESSMENT

JANUARY 2010

Introduction

The 15th UN Climate Conference concluded late last month with the ambiguous adoption, or 'noting', of a 'Copenhagen Accord'. This political document was delivered at the end of two weeks of tense and often confusing negotiations. Its exact legal status – and hence its implications - remain the subject of debate and it leaves unanswered many of the difficult questions that have bedeviled climate negotiations for much of the past two years.

Despite this, the Copenhagen Accord represents an important milestone in international efforts to address climate change. For the first time, the US, China and all other major economies have committed to take concrete and verifiable action to reduce greenhouse gas emissions; new money has been put on the table; and a long-term objective – keeping the average global temperature increase to below 2° above pre-industrial levels – has been adopted.

While many details are still to be determined, the Accord contains the seeds for a new, country-driven, 'bottom-up' approach to tackling climate change that could potentially offer an effective route to accelerated global emission reductions. The risks, however, are considerable. In the absence of any internationally agreed medium- and long-term emission targets, backed by a legally-binding agreement, much will depend on whether governments embrace a 'race to the top' mentality or succumb to lowest common denominator climate policies. The next 12-24 months will be critical in determining which path countries choose.

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The remainder of this paper is divided into the following four short sections:

- A summary of the key events during the two week summit
- A brief overview of the core elements of the Copenhagen Accord
- Our assessment of the Accord
- Our assessment of the impacts and implications for the US, China, the EU and India.

Summary of the Copenhagen Conference

Officials arrived in Copenhagen with over 200 pages of draft treaty text covering negotiations under both the Kyoto Protocol and the overarching UN Climate Convention. Their objective was to reduce this stack of papers to a manageable size in order to present climate ministers, and subsequently heads of government, with a limited set of options for final negotiation and adoption.

The hope and expectation was that countries would agree new binding emission cuts for developed countries, either under the Kyoto Protocol or a new agreement, as well as strengthen the Climate Convention by committing developing countries to nationally appropriate mitigation action. Parties were also seeking to reach agreement on issues of adaptation, reducing deforestation and forest degradation (REDD), technology development and transfer, and financing to support climate actions in developing countries.

While negotiators made considerable progress in the first week in significantly reducing the length of the draft texts, they were unable to resolve core deadlock issues. A critical disagreement was over the 'legal form' of a Copenhagen outcome. Developed countries' call for a single new agreement that combined the outcomes from the Kyoto and Convention track negotiations was strongly opposed by developing countries, who stated that they would not allow 'Kyoto to be killed'. This, in particular, reflected their concern that the core principle of Common But Differentiated Responsibilities - under which wealthy nations are required to act first - would be undermined or abandoned.

Ministers therefore arrived for the second week to find considerable gaps still existing between parties. Closed-door ministerial discussions made some progress early in the week but failed to provide a break through. In an effort to make progress, the Danish host and president of the Conference attempted to introduce a 'President's text' in order to ensure that an outcome of some kind was ready for the 120 heads of state to adopt on the final day. Unfortunately, this was seen by many developing countries as a way to circumvent the party-driven process of the negotiations and led to more delay and distrust.

With the arrival of heads of state and little more than 24 hours left of the conference, a select, but representative group of approximately 26 countries met to hammer out a deal. Behind closed doors presidents, prime ministers and their senior advisors worked throughout the final day.

Late in the evening President Obama announced that a deal had been done with China, India, Brazil and South Africa (the so-called 'BASIC' group) on a 'Copenhagen Accord'. Endorsement (often reluctant) from other countries, including the EU, followed. Consensus, however, was not achieved, with a small but vocal group of countries unwilling to accept the outcome.

Wrangling about the status of the Accord continued in the final plenary session through Friday night and into Saturday morning, with anger, weariness and even despair characterizing the exchanges between Parties. Eventually, a combination of minor amendments and a change to chair ensured that a conclusion was reached. The final result, however – a formal UNFCCC decision that "takes note of the Copenhagen Accord" – leaves a certain level of ambiguity about the legal status of the agreement. This may create difficulties when discussions on implementing the Accord begin.

Although a deal was ultimately done, there is widespread recognition that the Copenhagen Accord is neither a perfect nor a final deal – a fact acknowledged by President Obama and other leaders. Indeed, given the lack of detail and the range of crucial elements missing from the Accord, 2010 will be busy and critical year for international climate negotiations if the world is to realistically achieve the kind of emission reductions demanded by the climate science.

What is in the Copenhagen Accord?

The Copenhagen Accord is a short, simple document of just over two pages (see www.unfccc.int for a copy). Its structure and content mirror the 'Bali Action Plan', which has guided the Climate Convention (UNFCCC) negotiations over the past two years.

The key points of the Accord are as follows:

- On the politics: acknowledgement of the seriousness of the problem and need for urgent, collective action in line with existing principles (e.g. CBDR[1])
- On the science: endorsement of the IPCC's recommendation that global temperature increase be kept below 2^{o}C.
- On adaptation: agreement that developed countries will provide adequate and predictable financial, technical and capacity-building support to developing countries.
- On developed country mitigation: agreement that Annex I parties will commit to quantified economy-wide emission reductions by 2020 (although with no individual or aggregate targets given), with targets submitted to the UNFCCC by 31 January 2010. These targets, as well as financing to support developing country climate action, are to be monitored, reported and verified.
- On developing country mitigation: agreement that non-Annex I parties will implement mitigation actions that are monitored, reported and verified. These actions are to be submitted to the UNFCCC by 31 January 2010. Action by the poorest and most vulnerable countries is voluntary.
- On Monitoring, Reporting, Verification (MRV): agreement that unilateral developing country mitigation action will be subject to *domestic* MRV'ing with "international consultation and analysis" that respects "national sovereignty"; agreement that mitigation action supported by developed countries will be subject to *international* MRV'ing. Both developed and developing country MRV'ing will be subject to existing and to-be-agreed UNFCCC guidelines.
- On finance levels: commitment by developed countries to provide US$30 billion in short-term financing between 2010 and 2012 and to mobilize US$100 billion per annum by 2020. This will be from public, private, multilateral and alternative sources. Funding will be used for mitigation, adaptation, technology transfer and capacity-building in developing countries.
- On financial architecture: agreement to establish a 'Copenhagen Green Climate Fund' which will receive a significant proportion of the above finance flows. Also the establishment of a 'High Level Panel' to study the contribution of potential sources of revenue.
- On 'REDD plus': agreement that a mechanism to mobilize funds to reduce emissions from deforestation and degradation (REDD) and support conservation is needed.
- On technology: agreement to establish a 'technology mechanism' to accelerate the transfer and development of mitigation and adaptation technologies.

[1] UNFCCC short-hand for 'common but differentiated responsibilities and respective capabilities'.

- On markets: acknowledgement that markets enhance the cost-effectiveness of and promote mitigation actions. Implicit reference to benefits of emissions crediting or trading mechanisms to support low-carbon development in developing countries.
- On review of the Accord: a "call" to assess implementation of the Accord by 2015, with consideration of a 1.5^{o}C temperature target.

Our assessment of the Accord

As noted above the Copenhagen Accord is neither a perfect nor a final global climate deal. It certainly falls short of the kind of comprehensive, ambitious and legally-binding agreement that was envisaged when countries adopted the Bali Road Map in December 2007. The Accord is not without merit, however. There are both good and not-so-good (or missing) aspects to it.

The good bits

- Having the US, China, India and other major developing countries sign up to a joint climate agreement for the first time.
- All of these countries also making unconditional national pledges to either cut or slow the growth of their emissions and/or implement specific measures to achieve this.
- Securing agreement on limiting average global temperature increase to 2^{o}C or less.
- Resolution of the monitoring, reporting and verification issue relating to developing country mitigation action (a previous deadlock issue).
- Developed countries' commitment to provide US$30 billion of short-term funding through to 2012, and US$100 billion per annum of long-term funding by 2020, close to the level many had been demanding.

The not-so-good (or missing) bits

- Lack of a long-term global emission reduction goal (e.g. 50% reduction of emissions by 2050).
- Lack of both individual and aggregate absolute emission targets for developed countries for 2020.
- Lack of relative emission reduction targets for developing countries for 2020 (i.e. deviation from BAU trajectories).
- Absence of any reference to a global emissions peaking date, or even a developed country peaking date, meaning that, together with the above, no clear pathway for emissions has been agreed.
- No mention of a timetable for concluding a legally binding agreement.
- Little or no reference to the need for, and role of, expanded carbon markets and no clarity over the future of the CDM and other market-based instruments.
- The uncertainty created over the future of the UNFCCC process, and particularly the Kyoto Protocol.
- Lack of any obvious mechanism for regularly ratcheting up levels of ambition (apart from the 2015 review).

Our overall assessment is that Accord represents an important political step, which, if implemented with ambition and in a spirit of cooperation, has the potential to unlock real and significant action at both national and international levels. However, this is conditional on immediate, concrete and ongoing commitment from all major economies beginning in early 2010.

Countries need to demonstrate that they are in a race to the top, not a race to the bottom. Filling in the gaps noted above would be a good starting point. The first critical signal will be the commitments and actions that countries are required to submit to the UNFCCC by January 31st. Other key events to look for include the successful passage of effective energy and climate legislation in the US during the first half of 2010, and early confirmation of the sources and precise levels of ‘fast-track’ financing from developed countries.

At present, the pledges made by Annex I parties and the large developing countries fall short of the emission cuts recommended by climate scientists and, as a consequence, the pathway to the 2° target explicitly referenced in the Copenhagen Accord. A five billion ton emission shortfall in 2020 (comparable to the EU’s total current annual emissions) is likely even if all the major emitters commit to their most ambitious current pledges. International discussions over the coming year will need to focus on how to bridge this gap. The agreement in Copenhagen to extend the mandates of both the Convention and Protocol negotiating groups for another year provides the fora for these discussions to take place. Countries may also look to the G20 and Major Economies Forum (MEF) to make additional progress.

What does this all mean for business?

The Accord’s implications for business are also somewhat ambiguous. On the positive side, all major countries have committed to introduce and/or strengthen their national climate plans and legislation, which is the key driver for business investment. However, the lack of detail and missing elements in the Accord are unlikely to provide the long-term certainty that many businesses had been seeking from Copenhagen. The shift away from a top-down Kyoto-style approach to a more bottom-up ‘pledge and review’ structure also raises questions about the expansion of an international carbon market and indeed the Kyoto Protocol itself.

Although the Accord explicitly mentions emission targets for Annex I Parties under Kyoto, there is no guarantee that countries such as Canada, Japan or Australia will sign up to a second commitment period – especially as they can now join the US in making bottom-up pledges under the Accord. The EU has also stated that there is no point in having one set of rules for one group of developed countries and another set of rules for another group.

If the Accord does herald the end to the Kyoto Protocol (which developing countries unequivocally believe it does not) then this raises additional questions about the future of both the CDM and Joint Implementation mechanisms. The Accord only makes passing reference to market mechanisms, although developed countries are clearly interested in using them. If a second Protocol commitment period does not eventuate as a consequence of the new direction taken by the Accord, then a means to maintain both the CDM and JI mechanism will need to be found under another framework.

Clearly then, the adoption of the Accord throws up a number of uncertainties concerning the flexibility mechanisms that have been the main success stories of the Kyoto Protocol. Countries will need to address these uncertainties as quickly as possible in order to provide certainty to existing carbon markets.

However, the shift to a national-led, bottom-up approach could also be to the benefit of business. If the Accord catalyzes greater *immediate* domestic action – because countries are no longer waiting for an international agreement to be finalized – then markets for low-carbon goods and services are likely to grow sooner and faster than would otherwise be the case.

What does this all mean for the UNFCCC process?

As one commentator noted, the US-led Accord has “changed the geometry of the international climate architecture”.

The difficulty of reaching agreement over the two weeks of the conference, despite the various solutions that were on the table, demonstrated the inadequacies of the UN process. The fact that the Accord was ultimately brokered by the US, China, India, Brazil and South Africa also raised questions about the EU’s ability to lead and influence major international negotiations. However, the EU is unlikely to be alone in analyzing the implications of the geopolitical shift evident in Copenhagen.

The major players may now look to the G20 and Major Economies Forum as the vehicles for delivering the objectives of the Accord. While these fora would exclude the vast majority of the world’s countries, they would also avoid the procedural difficulties associated with the UNFCCC while still covering the vast majority of the world’s emissions. If a way could be found to ensure the interests of smaller countries, particularly the poorest and most vulnerable, were still addressed, then this plurilateral[2] approach could well prove to be more effective in addressing climate change.

This would not be a straightforward shift to make, however. There is considerable resistance, in particular from smaller countries, to abandoning a system that establishes representative governance systems and, which guarantees an equal right to speak and to support or block a given outcome. Poorly designed parallel processes that are seen to undermine rather than complement or facilitate more inclusive systems may in themselves become an obstacle to effective global action. Countries must be careful that this does not happen.

[2] A plurilateral agreement is an agreement between more than two countries, but not a great many, which would be multilateral agreement.

Impact and Implications for Key Countries

THE UNITED STATES

Generally, the Copenhagen Accord should have a positive impact on the domestic US process. President Obama demonstrated to his home audience that he was not prepared to give away US economic interests and secured an agreement that included action by all major emerging economies. Many Senators believe that without agreement on emission reduction targets, financing and monitoring at the international level, domestic action to address climate change would be in vain. For the first time, the Copenhagen Accord reached a partial consensus on all three of these issues - which should increase Senators' confidence that if they pass climate legislation, a truly global effort will to follow.

The emission reduction targets proposed by the US in Copenhagen are completely in line with what is being debated in the US Congress. However, President Obama's commitment to contribute to the US$100 billion needed by 2020 to address climate change in developing countries is unprecedented, and will no doubt spark a heated debate in Congress, which must approve any international funding. By committing to a figure that is in line with what is needed, Obama made sure that this debate will start from the right point - challenging Representatives and Senators to re-evaluate their concept of what financing is needed to address this issue on a global scale.

In the meantime, for the US to make good on its commitment to contribute to a US$30 billion Fast Start Fund, President Obama will need to get Congress to approve the US$1.2 billion for this purpose in his 2010 budget, and then get a figure closer to US$3 billion approved for 2011.

For US businesses, while details on things like CDM reform and a new crediting program for REDD did not emerge from Copenhagen, the Accord - combined with the finalization of the EPA's "endangerment finding" - provides more certainty that a price on carbon in the US is forthcoming. Copenhagen showed that the US is committed to a global deal and to providing financing to ensure that all parties are a part of that deal.

That said, there is still a long road ahead. And once again, the US Senate holds the balance of power in America's response. Ambitious legislation that enshrines the targets put forward by the White House for 2020 and the deeper cuts contained in current proposals for 2030 will send a clear signal – domestically and internationally – that the US is truly taking on a leadership role and will cement the progress made in Copenhagen. Together with specific measures to support energy conservation and clean technology, this legislation would unleash the innovative power of US businesses and generate as yet unseen scale to international carbon and clean energy markets. Failure to pass such legislation, though, risks creating a global policy stalemate that may be difficult for the world to resolve.

CHINA

China is likely to be content with the outcome from COP15, but also disappointed with the lack of detailed progress made across the wider negotiating process. Although criticized by some developed countries for undermining the level of ambition in the Copenhagen Accord – a charge it has strongly rebutted – China has unquestionably established itself as an equal to the US in shaping the post-2012 global climate architecture.

Unlike many other developing countries, China's criterion for success at Copenhagen was based more on maintaining its own core positions than extracting concessions from other Parties. In this regard it largely achieved its objectives.

Before Copenhagen, China faced considerable pressure from developed countries to pledge deeper emissions cuts compared to business-as-usual. However, in the absence of wider ambition (particularly from the majority of developed countries themselves) China's pre-conference commitment to a 40-45% carbon intensity target was not seriously challenged or critiqued and, depending on the evolution of the Chinese economy, may turn out to be a very challenging goal.

Other 'successes' for China from Copenhagen include the agreement to continue the two-track negotiation process, and the defense of its core position on the sensitive issue of 'MRV' (i.e. ensuring differentiation in MRV'ing for unilateral versus supported mitigation action). The ambiguity of the MRV text, however, leaves room for further disagreement with the US and other developed countries as discussions continue in 2010.

On the sensitive subject of financing, China is likely to be satisfied with the commitment by developed countries to provide both short and long-term funding. Alternative proposals had called for contributions from all countries (LDCs[3] excluded). China has indicated a willingness to contribute some level of international financial but, importantly for China, this will be on its own terms and on a voluntary basis.

Perhaps the most influential outcome in the long term, however, will be the emergence of the 'BASIC' group of countries and China's de facto leadership of it. Copenhagen effectively marked the end of the 'G77[4]+China' negotiating group within international climate negotiations, a fact underlined by the BASIC group's role in drafting the Copenhagen Accord. China's invitation to other BASIC members to meet in late January to coordinate positions is a clear indication of how it wishes to see the international climate architecture evolve.

The Chinese government's position for 2010 climate talks, however, is still to look for a meaningful and constructive global agreement that is based on the two-track negotiating process, basic principles of the UNFCCC and Kyoto Protocol, as well as the Bali Action Plan.

[3] LDCs: Least Developed Countries
[4] The G77 is a group of 130+ developing countries which operates across the UN system.

An early indication of Chinese intentions and ambitions for 2010 will be the January 31st deadline for submissions on national mitigation actions under the Copenhagen Accord. Based on the Premier Wen's speech in Copenhagen, China's commitments are likely to include its 40-45% carbon intensity reduction pledge for 2020 (over 2005 levels); its 15% primary energy supply target from nuclear and renewable energy sources; and a target to increase its forest cover. Commitment to reduce energy intensity, building on the 20% improvement target in China's current 11th Five Year Plan, is also likely to feature.

China has implied that these actions represent a floor, rather than a ceiling, to ambition. From an environmental and political perspective, it will be vital that this is the case. Other major emitters will need to show similar commitment.

The clear signaling in Copenhagen that China is committed to taking these actions unilaterally is encouraging, not least because it underpins growing business confidence that a new, potentially vast market for low-carbon goods and services is set to emerge. Whether these initial commitments will actually result in the kind of emission reductions demanded by the climate science remains to be seen, but the sheer scale of any low-carbon development in China is likely to have repercussions on the speed and cost of new technologies globally. This can only be a good thing.

EUROPEAN UNION

The EU – being cautious of the risk of being blamed for having no agreement at all – reluctantly endorsed the Accord, which was largely negotiated without it.

There is clear disappointment with the result in Europe, as expressed by Commission President Barroso: "This was the first experiment in working together, there are important points that have been agreed - after all it is an agreement. But the level of agreement is honestly not what we have been hoping for."

That said, EU Member States seem to be divided in their interpretations of the outcome. The Swedish EU Presidency called the agreement "a disaster" while German Chancellor Merkel hailed the outcome as a "step, albeit a small one towards a global climate change architecture".

The lack of a timeline to reach a legally binding agreement next year is a major shortcoming for the EU, believing it endangers a timely follow up of the Kyoto Protocol in 2013. However, this is very unlikely to influence the roll out and development of internal EU and Member State climate policies. Climate and energy officials in the UK, for example, have been clear that from a domestic perspective at least it is business-as-usual in Britain.

The big question now is whether the EU will raise its ambition to a unilateral 30% reduction target when Parties communicate their pledges in the annex of the Accord on January 31st. Many economic studies and reports show that meeting this target would require very limited extra domestic effort by the EU. There would also be clear benefits for the EU economy, though there is also opposition to this target in a number of newer Member States and influential business sectors.

The timing of the next council meetings is not in favour of the deadline to communicate the pledges. The informal environment minister's council is unlikely to be able to decide this when it meets in late January ; the first Heads of State council meeting is planned for the beginning of February.

The other critical issue that climate ministers and officials will need to address early in 2010 is the EU's international negotiating strategy. The absence of the EU from the final round of negotiations between the US and the BASIC group was a diplomatic failure. It underscored the EU's current inability to match its much vaunted climate leadership and economic weight with real political influence and power.

The EU needs to find ways to regain an effective and influential role in shaping the international climate architecture. A combination of new 'carrot and stick' policies and measures is probable. The use of border tax adjustments (i.e. 'carbon tariffs), for example, is one possible 'stick' that has previously been suggested. This controversial measure continues to have support in certain quarters but faces strong opposition in others.

INDIA

To date the outcome from Copenhagen has received little domestic attention in India as other political events have dominated national headlines. The Copenhagen Accord currently provides little political ammunition for either the government or the opposition parties, minimizing the level of parliamentary debate.

India, however, is likely to be satisfied with the overall outcome from Copenhagen, despite having expressed disappointment with the level of ambition actually achieved. The Copenhagen Accord does not compromise on any of India's fundamental negotiating positions – for example, its opposition to binding emission reduction commitments for developing countries, and its stringent support for the continuation of the Kyoto Protocol. Furthermore, as a member of the BASIC group of countries, India has firmly established itself as one of the major players in the new political order, at least on climate change.

The agreement to a 2^{o}C temperature target and the absence of any global emission reduction or GHG concentration figures also favors India. In the past India has been anxious to avoid these latter targets, fearing that they could be applied to India in the future. Other areas with good or satisfactory outcomes for India include 'REDD plus', financial support, and the flexibility mechanisms (CDM and JI).

Moving into 2010 and beyond, India will be aiming to build on its optimistic expectations from domestic technological innovations plus international technology transfers, as well as the financial support committed by developed countries.

The government has yet to make any announcement on the commitments and action plans it will be submitting by January 31st. The central elements of the National Action Plan on Climate Change, first released in 2008, and including the recently published Solar Mission, will most likely form the basis of any submission made by India. Ideally, India's commitments will include the 25% carbon intensity target it pledged before Copenhagen.

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