ENERGY EDGE

ENERGY EDGE POLICY BRIEFING UDATE

THE COPENHAGEN CLIMATE TALKS – WHAT HAPPENED?

21 DECEMBER 2009

The web of policy, technology, and market developments taking place within the energy sector across the world will converge profoundly with the current round of climate negotiations. Energy Edge is preparing a series of client briefings based on its involvement at the climate talks culminating in Copenhagen this December. These briefings will outline some of the most prospective scenarios for how climate policy will impact investment opportunities for energy providers.

The first briefing preceded the Copenhagen Summit and summarized the key issues being debated and outlined the potential outcomes and motivations. Mid-way through an update attempted to identify trends in the talks. Now, following the completion of talks and the release of the "Copenhagen Accord, " Energy Edge's Karl Schultz who attended the Summit considers what happened, and what it means for energy investments and the climate.

In the previous briefings I asked you the reader to "stay tuned." Copenhagen didn't give the clarity many hoped. In fact, between the three scenarios I presented, the Summit resolved fairly firmly into the scenario: "no treaty, and chaos over future climate talks." This means that those with a stake in climate policy (all of us) there is little to go by when considering how the energy markets or climate system are going to look going forward.

What happened? Anyone looking at a newspaper over the past few days will know that 113 world leaders gathered during the last few days of the two weeks of negotiations with nothing on the table to sign. The negotiation process – requiring consensus on all agreements – had failed to come up with targets, timetables, or a firm framework for financing climate mitigation and adaptation in developing countries. So it came down to a discussion between President Obama and Premier Wen Jiabao of China, with India's and South Africa's heads of state witnessing, for a text to be agreed upon. The "Copenhagen Accord" is not legally binding, it doesn't set down concrete emissions targets for any country, it sets no target at all for 2050, it doesn't have UN enforced requirements for monitoring and verification of (non-binding) actions taken in developing countries, and it doesn't set down a deadline for adopting a legally binding international agreement.

What the Copenhagen Accord does do, however, is bring up more questions than answers. But before we get to the questions, what does it say?

- Industrialized countries need to submit their targets by January 31, 2010. While targets were omitted from the final accord text, they are likely to be similar to proposals submitted before Copenhagen. And while this sounds laughable (and it is), these targets are as or more stringent than existing targets.

- A 2 degree C warming limit. How to get there is not at all clear, but this acknowledgement is substantial.

- Developing countries (at least "advanced developing") will submit targets too. These are non-binding, but they are unprecedented in an international agreement.

- The Kyoto Protocol lives after 2012, and with it its market mechanisms. While the world leaders were having their input, at lower levels government delegates and experts were hashing out a whole host of issues regarding the process of the Kyoto Protocol, and made some progress in many areas: reform of the Clean Development Mechanism (CDM), for instance.

- Funds for developing countries are significant. Many studies show that over $200 billion/year is required for poorer countries to afford clean energy and to adapt to the inevitable impacts of climate change; Copenhagen commits about $30 billion over the next three years and aspires to funding $100 billion by 2020. This is not nearly enough, but much more than governments, or carbon markets have provisioned to date.

For many in the energy sector, the outcome is about as bad as it gets. There is little additional information regarding what technologies and fuels to invest in, while existing assets are heavily exposed to carbon pricing – almost everywhere. And what is also apparent is that the U.S. and China made the deal: the rest of the world stood by and watched. Considering the governance challenges that both these countries face, it is hard to feel that the "global imperatives" discussed in my first Copenhagen brief are able to free themselves from national interests: the results are not good for the global commons or the global energy system for that matter.

What are the questions and issues that need to be tracked and how can their outcomes inform energy investments in 2010?

- Who commits to what targets?

- What will the price of carbon trend (and where, for whom and for what) based on these targets?

- What other incentives and penalties will emerge? Taxes on financial transactions, government funded subsidies, "nationally appropriate mitigation actions" and other policies will be clarified.

- Further to the above, will carbon capture and storage qualify for the CDM, will forestry credits oversupply the credit market, how will national and regional trading schemes interact?

- How will climate change, and resources to adapt to climate change play a role in the energy sector? Let's not forget that energy assets are vulnerable to climate change, which seems more worrisome following Copenhagen.

And so the story continues, and intelligent stakeholders are forced to "stay tuned" indefinitely. I don't know how the upcoming year of climate talks will evolve into commitments and actions. The climate negotiation system is on life-support, but the issues are not going to go away. In fact, the failure of Copenhagen may have precipitated an even greater awareness of climate change and call to action.

Karl Schultz AB, M.Pl *(karl.schultz@energyedge.net) has been in the environmental protection field for his entire career and is a recognized thought leader in the field of climate change and emissions markets. Having worked at the EPA for 10 years Karl now advises an array of industry leaders across a broad range of environmental and energy related issues.*

Karl is a Partner at Energy Edge - a UK based consulting firm that focuses on the strategic and tactical implications arising from the changing energy sector.