

THE CANCUN CLIMATE NEGOTIATIONS: WHAT SHOULD ENERGY COMPANIES KNOW?

The 16th Conference of Parties to the United Nations Framework Convention on Climate Change meeting in Cancun resulted in the UN's formal acceptance of the Copenhagen Accord. This can be seen as giving the UN process life as now the Accord is "in the system."

Following the UN decision-making logjam in Copenhagen, which was blamed on the need for every party to agree before a decision, one big development is that the objections of one nation do not, according to the head of the Cancun meeting at least, mean that "consensus" is subverted. If this becomes the "rule", maybe the UN will be more palatable for many nations as a decision-making body. On the other hand, the decisions may be less ambitious and thus the global climate may remain a victim.

Cancun does not dispel many ambiguities on future targets. Assuming continued progress after 2020, it is even possible that the national targets and actions could limit temperature rise to two degrees or less, although most analyses conclude that the targets on the table don't match the scientific and moral imperatives.

Regardless, the implications of the climate process, and the outcomes of Cancun are significant. As previous Energy Edge briefs attest, the targets under the Accord, if taken at face value, make for much steeper goals than under Kyoto, mainly because the U.S., China, and India all have stated targets or "actions". Opportunities and threats to energy companies are a little more tangible.

The world "breathed a sigh of relief", many reports noted, when the "Cancun Agreement" was concluded at six in the morning on December 11 after a full night's negotiation. Over the objections of the Bolivian delegation, "consensus" was declared on two relatively short agreements of 2 and 29 pages apiece that basically brought the Copenhagen Accord into the UN process along with a few other useful agreements and clarifications regarding forestry, market mechanisms, and technology transfer.

What does this mean though, particularly for the energy industry?

As noted in previous briefs on the Copenhagen talks and Accord agreed a year ago (see <http://www.energy-edge.net/ied.htm>), the Copenhagen Accord brings about both a temperature increase target (no more than 2 degrees centigrade) and asks industrialized countries to volunteer emission reduction "targets" and developing countries to develop "actions".

The (non-binding) targets and actions pro-offered have been widely panned for not matching up with the 2 degree target, with both the UN Environment Programme (<http://www.unep.org/climatechange/>) and the "Climate Action Tracker" (<http://www.climateactiontracker.org/>) estimating there is a significant gap between the emission targets and the temperature goal. And the Cancun Accord includes a provision for the 2 degree goal to be revisited in 2015 and possibly replaced with a 1.5 degree goal. Finally, developed countries are urged under the Cancun agreements to increase the ambition of their targets "to a level consistent with" the latest recommendations of the Intergovernmental Panel on Climate Change (IPCC).

Energy Edge does not wish to reject the validity of these two analyses. But assuming continued progress after 2020, Energy Edge's "optimistic" analysis finds it is even possible that the national targets and actions will limit temperature rise to two degrees or less if all targets and actions are met. Energy Edge's range of emission reductions is based on taking the targets and actions at face value and (unlike the other analyses) includes a range of economic growth forecasts. With a low growth economic growth scenario Copenhagen/Cancun could "work" at meeting the temperature goal. And what we found was that the emission reductions to get to this level are pretty ambitious compared to the Kyoto Protocol's targets that are in force right now: up to 18 billion tonnes of CO2 equivalent reductions in 2020 below business as usual, versus less than 1 billion/year under Kyoto. With the possibility of temperature goals tightening, and with calls to push countries to tighten their targets, the structure of the future global energy system will undoubtedly be profoundly different from today's.

Cancun also brought some clarity on a number of issues that impact energy industry players. Carbon capture and storage was given a breath of life in the CDM; now "rules and modalities" must be put in place but the opportunity is greater that CCS will indeed gain credits in the mid-term. This means that now there will be incentives for fossil energy-related climate action in the developing world – and with this perhaps the possibility for coal and gas-related power and industrial activity to contribute more electricity and also more to emission reductions.

Climate finance in developing countries was also clarified, a little. While Cancun did not find new sources, there is impetus to create a structure – a "Green Climate Fund" - for financing climate mitigation (reducing emissions) and adaptation (adapting to climate change) in developing countries. If this progresses the prospects grow that Cancun's ambition of \$100 billion finance in 2020 will happen. Relevant to energy companies, the agreement notes the importance of private sector involvement. How this relates to the fund – and to raising the needed funds – remains in the air.

Overall, though, the key outcome from Cancun – for energy companies and all impacted – is that the UN climate negotiation process remains viable. What viable means is another issue: one oft-quoted statement of a young climate activist: "You have been negotiating all my life - you cannot tell us that you need more time....". [And it is true, that for the past two decades there have been negotiations and the result is that there are still no binding limits that stand a chance of preventing dangerous climate change. On the other hand, the lack of a result – binding targets – from Copenhagen, blamed by some on the view that "consensus" means unanimity in the negotiations – called into question the effectiveness of the UN process. Barring the UN, however, climate agreements are unlikely to be global in scope and more voluntary – and hence perhaps less strong.

The Cancun Agreement is non-binding, and talks continue with the next "conference of parties" to be held in South Africa in a year. Energy companies continue to face an ambiguous future but at least a pathway of sorts has been affirmed. And while the targets outlined may be inadequate for global climatic stability, it is clear that they will likely change the playing field for energy investments.

Karl Schultz AB, M.PI (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.