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Sustainable Insight

Will Doha deliver a deal?

KPMG client briefing: UN Climate Change Conference 2012 (COP 18)

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This client briefing provides a short preview of the 2012 COP 18 climate talks in Doha, Qatar. In this document, KPMG's member firms revisit where the international political process on climate change got to in 2011 in Durban, South Africa. We also summarize what is on the table at Doha through the lens of what is important and relevant to business.

To conclude, Yvo de Boer – KPMG International's Special Global Advisor on Climate Change and Sustainability – asks whether an international climate deal is still worth fighting for.

What has happened in the run-up to COP 18?

The build-up to COP 18, the 18th Conference of the Parties of the United Nations Framework Convention on Climate Change (UNFCCC) has been low-key and low on expectations.

Climate change remains well down the agenda of many countries. Europe remains embroiled in a sovereign debt crisis that is limiting its desire and ability to lead on climate change, while the world's two biggest emitters, China and the US, have been pre-occupied with leadership transitions in the run-up to Doha.

If low-carbon issues have been global news at all this year, it has been in relation to trade disputes. The US and the EU have taken cases to the World Trade Organization complaining about the dumping of solar technology products by China and, in the case of the US, wind energy products as well. The EU's attempt to include aviation in its Emissions Trading System this year also produced fierce objections from around the world.

Expectations were similarly low for last year's climate meeting in Durban, South Africa, but the stakes were raised because Durban had to deal with the issue of the ending of the first commitment period of the Kyoto Protocol. With the deal on a successor to Kyoto not due to be signed until 2015, there is no similar pressure for COP 18, which is expected to focus mostly on low-profile technical issues. However, among the technical issues, there are some political hot potatoes lurking.

What was achieved at Durban in 2011?

Going into Durban, expectations were set low. The developing countries were insisting that the Kyoto Protocol must continue at all costs, while countries including Russia, Japan and Canada were equally adamant they would not get involved.

The prospects for the Kyoto Protocol looked bleak and this in turn created great uncertainty as to the future of the Clean Development Mechanism (CDM) and Joint Implementation (JI) carbon markets. Yet just as the entire UNFCCC process was in danger of becoming an irrelevant sideshow, delegates surprised many by demonstrating a determination not to leave Durban without a deal.

That deal included a second Kyoto Protocol commitment period, to start from 2013, that would give business confidence that the UN carbon markets would continue. There was also an agreement – from everyone – that a new legal, global instrument to tackle climate change would be agreed by 2015 and implemented by 2020.

It is hoped that by 2015, the global economic situation will have improved and that the publication of the next report from the world's climate scientists, under the aegis of the Intergovernmental Panel on Climate Change, will give further impetus to efforts to conclude a deal.

Important progress was also made on the Green Climate Fund, which aims to mobilize US$100 billion a year to help developing nations cut emissions and adapt to the impacts of a changing climate. In addition, there was also a commitment to develop a common system for measuring, reporting and verifying emissions reductions. This will be vital to stimulating investment because governments and the private sector will want to be able to evaluate the effects of their investments.

However, while Durban made great progress towards a new mandate, it left a time bomb in the form of the wording of the agreement, which calls for "a process to develop a protocol, another legal instrument or an agreed outcome with legal force". No one is quite sure what this means and the lack of clarity is sure to muddy the negotiating process.

What are the key topics of debate at COP 18?

There are three key "gaps" in climate policy that must be filled to help the private sector have the confidence to invest in climate solutions at scale. It is these gaps that COP 18 must start to tackle – and given the interconnected nature of the process, it must tackle them all at the same time.

1. The Kyoto gap

The first gap is the "Kyoto gap" – the new, globally-binding legal instrument to tackle climate change does not come into force until 2020. So the conference needs to put in place a post-2012 commitment period and decide on the length of that commitment period. The EU wants it to run for eight years, which would take it to 2020, while many others want a five-year period.

This is the most urgent matter for delegates to tackle, with the first commitment period ending on December 31, 2012. It is also the one most likely to see concrete progress – the deadline is inescapable and delegates have nowhere to hide from it.

However, the US, Japan, Russia, Canada and now New Zealand have abandoned Kyoto, although Australia has signed up to the second commitment period. It is unclear whether or how this will affect the EU's commitment to the treaty. And if the EU opts out, what is left of the Kyoto Protocol but an empty shell?

Agreement on a new commitment period matters because it gives business certainty about the direction of travel for policy in the long term. Knowing that governments have committed to carbon reduction targets gives companies the confidence to take their own actions to cut emissions. By ensuring the continuation of the UN's carbon markets, it also provides a way for them to invest in carbon reduction at the lowest cost.

2. The ambition gap

The second gap is the "ambition gap" – climate science is increasingly clear on the need to restrict average temperature rises to 2°C and organizations such as the International Energy Agency are equally clear that current commitments will fail to do this. They account for only 60 percent of the amount of cuts required to meet targets and further, urgent action is required to ensure that emissions peak by 2015, UNFCCC executive secretary Christiana Figueres told a press conference in Washington in October.

There is a process in place, known as the Durban Platform and an Ad Hoc Working Group on the Durban Platform for Enhanced Action (ADP), focused on increasing the level of ambition and enshrining that ambition in a new global agreement. This will require new commitments from both industrialized and developing countries.

But the rich countries, laboring under poor economic conditions and pre-occupied with elections, are unlikely to raise their ambitions, certainly not without increased engagement from developing countries. In turn, developing countries are unlikely to increase their commitments without further progress on finance.

Businesses will be watching the outcome of Doha closely to see what new commitments emerge, whether they will mean companies are required to take on more stringent targets and whether new opportunities in low-carbon sectors will be created.

Given comments in recent months from countries ranging from the US to China and Brazil that seem to attempt to water down the Durban agreement, a restatement of the commitment to binding measures would be helpful to businesses seeking to invest in low-carbon measures. Negotiations will have to take account of the fact that Russia, Japan, Canada and New Zealand have opted out of a second commitment period, while the US remains resolutely unengaged in the process having never ratified the treaty.

However, voices of business in all these countries are increasingly highlighting the benefits of being involved in the global process.

The most high-profile example of this was *Business Week* magazine's recent front cover, a picture of a flooded New York street following Hurricane Sandy, with the words "It's Global Warming, Stupid". While acknowledging the complex interaction of climate change and hurricanes, the magazine says: "The only responsible first step is to put climate change back on the table for discussion ... Ultimately, the global warming crisis will require global solutions."

In Russia too there has been momentum for change, with the Russian Union of Industrialists and Entrepreneurs, the Economic Development Ministry and state-owned banks VTB and Sberbank recently calling for the government to rethink its refusal to sign up to a second commitment period.[1]

1 http://www.themoscowtimes.com/special/environment/eng/business-lobbying-for-kyoto-emissions-role.html Accessed 2 November 2012

3. The finance gap

Finally, there is a "finance gap". Yes, an agreement was reached in Durban on the Green Climate Fund (GCF) but negotiators have only just agreed where its headquarters will be – in South Korea – and it is still not clear where the US$100 billion a year will come from. Immediate and significant pledges to the fund would be a welcome outcome at Doha, but given the global economic situation it is not at all clear that this will happen.

There are many questions remaining on the GCF, including what the structure of the fund will be, what its relationship will be to existing financial institutions and how the private sector will be involved. The answers to these questions will determine the appetite of both governments and the private sector to engage with the GCF. Business is waiting for meaningful progress on the Green Climate Fund, which could open up a major new source of developing country projects across the economic landscape, including energy, transport, waste management and other infrastructure development.

Further work is also needed on the structure of Nationally Appropriate Mitigation Actions (NAMAs), and how to link them to funding.

NAMAs are the projects or programs put forward by developing nations to reduce their greenhouse gas emissions, deliver socio-economic benefits to their people and open up opportunities for sustainable growth in their local industries. Designing and implementing such transformational programs effectively depends, to a large extent, on having all parties (government, civil society and the private sector) fully engaged.

The private sector is crucial to implementing NAMA projects and to leveraging public sector funding. Governments need to do more work on creating the right conditions to engage

private companies in the design of NAMA proposals. This will improve the likelihood of proposals being turned into concrete projects that appeal to financiers and corporates and unlock the flow of private investment capital.[2]

The finance situation is complicated by the Ad Hoc Working Group on Long-Term Cooperative Action (LCA), which the Durban agreement stipulated would close down its program of work. Developed countries are in favor of this but developing countries believe the group has unfinished business, particularly in terms of financial commitments from the industrialized nations. It seems likely that the LCA track will come to an end, but that the unfinished business will remain, a reflection of the fact that the concept of common but differentiated responsibilities remains divisive.

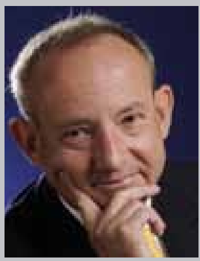
Business can play a key role in putting NAMAs into practice, often with the help of the Green Climate Fund, but until there is more joined-up thinking and the gaps are closed on the Kyoto Protocol, climate targets and funding, then this potential will remain untested.

Filling the gaps: a sign of progress

In an ideal world, COP 18 would decide the outcomes that COP 21 in 2015 needs to decide, giving negotiators two years to put in place an agreement. It seems unlikely. Yet as recently as last year, the entire structure of multilateral climate negotiations was under threat so, while much remains to be done, the fact that we are now talking about filling the gaps in the structure is a sign of real progress.

2 For further information on KPMG's model for effective NAMAs see the Embarking on the *Low-Carbon Journey: National Mitigation Actions as green growth vehicles in developing nations* (KPMG International, 2011) and *Financing the Growth of your City* (KPMG International, 2011). Both publications can be downloaded from kpmg.com/sustainability

Viewpoint



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Should we give up on an international climate treaty?

Progress towards an international agreement on tackling climate change has been painfully slow, dogged by fundamental disagreements between the countries involved and exacerbated by the financial crisis. Little is expected of the upcoming COP 18 meeting in Doha – so is it time to abandon the idea of a climate treaty altogether?

Why not give up and focus on national and regional efforts to tackle climate change?

After all, negotiating a global deal is a slow, frustrating business. Not only is climate science constantly evolving but the 197 countries that will meet in Doha often have diametrically opposed interests and points of view. Blocking progress is ridiculously easy.

Many of the differences between countries revolve around the concept of historic responsibility. This is the idea that industrialized countries got rich on the back of emitting greenhouse gases so they should act first, and developing countries should be allowed to develop before being called upon to limit their own emissions.

The lack of commitment from much of the industrialized world to accept this burden has contributed to a certain obstructiveness among developing countries. The rich countries are not just reluctant to pay to tackle climate change in poorer countries – they are unwilling to commit resources at home as well. Pre-occupied by the financial crisis, most countries have not seen tackling climate change as something that is in their national interest.

Nonetheless, a global deal remains worth fighting for. Governments, businesses and civil society all have much to gain, for four key reasons.

The biggest benefit would be for the very national and regional efforts mentioned above. A global deal would bring a robustness and a consistency to climate policies in individual countries. The Montreal Protocol tackling ozone-depleting chemicals, signed 25 years ago, is a case in point. While countries can make changes on their own, acting together can be much more effective.

A more consistent policy framework would bring a second benefit. With a legally-binding global agreement in place, businesses and investors will know that the direction of travel is not going to change regardless of day-to-day events. Only then will they have the clarity and security they need to make the long term technology investments that can tackle climate change. Making the wrong assumptions because long-term policies are unclear can lead to costly mistakes in the form of stranded assets, particularly in the field of energy.

Thirdly, a global agreement would create transparency, allowing the efforts of one country to be measured against another and helping to ensure that tackling climate change in one place does not simply move harmful activities to other countries.

Finally, it would also bring an element of standardization so that all countries would know they are fighting the same battle under the same rules. It would also mean that compliance with these rules would be overseen by civil society groups that could hold parties to account and ensure that countries deliver on their obligations.

The impacts of climate change have started to become clearer in developing and developed countries alike. Many governments are starting to recognize that, it is in their interests to act now, regardless of who is responsible for historic emissions and who is to pay for reducing future emissions. The increasing frequency and severity of extreme weather events like Hurricane Sandy are beginning to bring the issues into sharper focus for many.

And progress is being made. Following the 2009 climate change talks in Copenhagen, countries responsible for more than 80 percent of global emissions developed targets to cut or limit the growth of their emissions. The ambitions for last year's meeting in Durban were low, yet it produced major achievements. These included kick-starting the US$100 billion per year Green Climate Fund and setting in train a second commitment period for the Kyoto Protocol.

More importantly, though, the Durban meeting also started the international community down the road of all nations working together subject to one legally binding instrument to cut emissions. And crucially, this outcome was evidence of a new spirit of determination within the international community, with delegates refusing to close the conference until an agreement was signed.

But for the agreement to succeed, the benefits of green growth need to be clearer to everyone. Political consensus is important to building a strategy that will survive electoral changes, but the business community must also play a central role. The private sector is going to do most of the heavy lifting when it comes to green growth, so it is important that it makes the case effectively for low-carbon investments.

While it's important that all countries are committed to action to cut emissions and that those actions should be real, measurable and verifiable, it's also clear that many countries will need help from the international community to do so. That help should be subject to the same stringent accountability requirements as the emissions-cutting actions themselves. The best way to achieve this is through an international treaty – yet another reason that such a treaty is worth fighting for at Doha this year.

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