

How Important is Copenhagen?

A turning point for American business

Next week will mark the most significant gathering ever of the international community to address the issue of human-induced climate change. Known officially as the 15th Conference of the Parties (COP-15), the meeting in Copenhagen from December 7-18 will attract government leaders, journalists, NGOs, and other climate advocates—an estimated 10,000 people from over 190 countries. Rather than having every detail of a new global climate treaty ironed out in Copenhagen, the hope is for the conference to produce general agreement on four political essentials: (1) the degree to which the industrialized world is willing to reduce greenhouse gas emissions, (2) the degree to which the developing world is willing to reduce emissions, (3) the amount of aid from the industrialized to the developing world for climate change mitigation and adaptation, and (4) how the aid financing will be managed.

American business leaders should be asking themselves, "How will the outcome of this conference affect us?" There is no doubt that the future of the American economy will be impacted by the fate of a comprehensive global treaty to limit greenhouse gas emissions. What remains at issue is whether American business will benefit more from a failure at Copenhagen or from a success.

Copenhagen's Impact Already Felt

If the Kyoto Protocol was the dress rehearsal, then Copenhagen is opening night. Many believe that for Copenhagen to be a success it must produce a politically binding agreement that makes compulsory emissions reductions—from industrialized economies and developing ones—inevitable. An eventual treaty must create a global system for trading carbon as a commodity, with liquidity and price transparency. It must provide compensation to those countries that avoid deforestation and thus preserve important carbon sinks. And it must ensure that emission reductions can be verified.

However, despite an unclear outlook for an agreement, the Copenhagen conference



is already influencing government policy. Chinese President Hu Jintao announced at the UN this September that his government will commit to unilateral reductions in greenhouse gases. He promised a decrease in the intensity of emissions "by a notable margin" by the year 2020. The Chinese government also announced a voluntary carbon reduction scheme being set up within China called The Panda Standard.

Most observers believe that both the substance and timing of this announcement was influenced by the upcoming Copenhagen conference. Clearly, China—with an economy that emits more greenhouse gases than any other in the world—is already positioning itself for Copenhagen and beyond. And it is taking away one of the more powerful arguments many Americans have used for inaction—that the Chinese are not taking action either.

In fact, China is taking action on climate change in spite of—or perhaps because of—its other huge environmental problems. It is true that China has a carbon-intense economy - it commissions two new coal-fired power plants every 10 days. Yet at the same time it is retiring one much older and dirtier coal plant for every two it opens. China is also erecting new wind turbines at the rate of one every hour. China is home to the largest solar panel company in the world. It is fast becoming the renewable energy exporter to the world. And by building a renewable energy economy today, China is securing a first mover advantage in a critical 21st Century industry.

About Interraction

Interraction is a network of experts from Science, Engineering, Architecture, Communications, Management Consulting and Law, whose purpose is to bring a unique level of service to organizations in search of comprehensive expertise on climate change and sustainable practices.

Climate Treaty History

The U.S. has some experience with climate treaties. In fact it was the first industrialized nation ever to adopt a treaty dealing with climate change when the U.S. Senate ratified and President George H.W. Bush signed the United Nations Framework Convention on Climate Change in October 1992. That treaty committed the nation to the goal of preventing "dangerous anthropogenic interference with the climate system." While the treaty confirmed the U.S. intention to avoid endangering the earth's climate, it required no action to reduce greenhouse gas emissions.

In the ensuing years, while science made clearer the need for urgent action, the rate of growth of greenhouse gas emissions accelerated. The trajectory of ever-increasing emissions was only reinforced by the failure of the U.S. Senate to ratify the Kyoto Protocol in 1997 with its binding commitments on limiting greenhouse gases. The U.S. eventually abandoned the Kyoto Protocol in 2001.

The Protocol went into effect in 2005 when Russia ratified the treaty. The implementation experienced start-up difficulties especially in the allocation and exchange of CO₂ emissions credits—a system known as cap-and-trade. Kyoto's defenders pointed out that the treaty was always envisioned as a dress rehearsal, a learning experience for real climate action in the future. As flaws surfaced they could be corrected. In hindsight, the biggest flaw could not be corrected—i.e. the absence of binding emissions reductions on both China and the U.S. No global climate treaty would ever be effective without the participation of the world's two largest emitters. China and the U.S. together are responsible for 40% of global greenhouse gases.

As Copenhagen approaches, other greenhouse gas emitters in the developing world are also adopting new attitudes toward action on climate change. India is spending less time pointing fingers at the West, and more time looking inward, seeking to verify its own initiatives to mitigate the problem. Saudi Arabia is leading research into renewable energy with one of the most sophisticated solar laboratories in the world at King Abdullah University. The Saudis hope that in a matter of a few decades exports of solar energy will exceed that of oil.

Impact on American Business

If the view of the American Chamber of Commerce is representative of its members, then American business believes a cap on CO2 will hurt the economy and threaten competitiveness. The Chamber is currently lobbying the U.S. Congress against passage of a climate bill, and trying to influence the White House against signing on to binding agreements at Copenhagen or beyond. A failure at Copenhagen is the preferred outcome for the Chamber because its aim is to maintain a cheap supply of energy to the U.S. economy. Cheap fossil fuels enable more economic activity in the short-term, but delay the impetus for building a clean-energy economy in the long-term—something the rest of the world has already begun. Many U.S. entities would like to see a success at Copenhagen because their aim is

to build a sustainable, globally competitive American economy for the 21st century. This view is held not just by wind-turbine and solar panel companies. Three major electric utilities (PG&E, PNM Resources, and Exelon) and two major consumer products makers—Apple and Nike—recently quit the U.S. Chamber of Commerce because of its stance on climate change.

If Copenhagen succeeds in getting the U.S. to sign on to a strong political agreement, the result could be a kick-start for the American clean-energy sector. An eventual global agreement capping carbon would make the price of using coal, oil and natural gas more reflective of the true cost to society. It would incentivize energy efficiency and the early adoption of clean energy technology. It would make clean renewable energy more price competitive, and steer investment capital to these technologies as price uncertainty diminishes and the gap between the costs of carbon-based and non-carbon-based fuels narrows.

Copenhagen Quotations

There are a wide range of opinions as to the importance of this meeting in Copenhagen. These two quotes give a sense of that range.

“Copenhagen (is) the world’s last chance to stop climate change

before it passes the point of no return.” – *EU Environment Minister Stavros Dimas.*

“Let’s not make (Copenhagen) the be-all, end-all and say if it doesn’t happen that we’re doomed. We can come back in two to four years’ time.” – *Steven Chu, U.S. Secretary of Energy.*

Very different levels of urgency are emanating from the European and American governments. Regardless of which view prevails, two things remain clear: 1.) the latest scientific observations tell us that climate change is happening faster than earlier predicted, and 2.) the longer the U.S. waits to begin building a clean-energy economy, the further behind we will find ourselves.

A final quote:

“The nation that leads the world in creating new energy sources will be the nation that leads the 21st century global economy. America can be that nation. America must be that nation.” – *President Barack Obama*

The leaders of American industry must ask themselves, what makes it more likely that America will be that nation, a Copenhagen conference that succeeds, or one that fails?

commentary

Copenhagen is an event with great symbolic importance and, like all such events, is burdened with even greater expectations. As shown by the quote Andrew offers above from Steven Chu, the U.S. government is busy managing those expectations. Regardless of whether Copenhagen inspires or disappoints, however, the U.S. appears to be inexorably marching

toward greenhouse gas regulation, either through comprehensive federal legislation or a crazy quilt of regional, state, municipal and judicial action. Companies and investors are well-advised to pay attention to this march toward regulation, since it will redistribute the risks and opportunities of business unlike any other environmental program in decades.

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