PricewaterhouseCoopers Sustainability & Climate Change Services

Copenhagen Briefing: Half-time Score and Analysis

13 December 2009

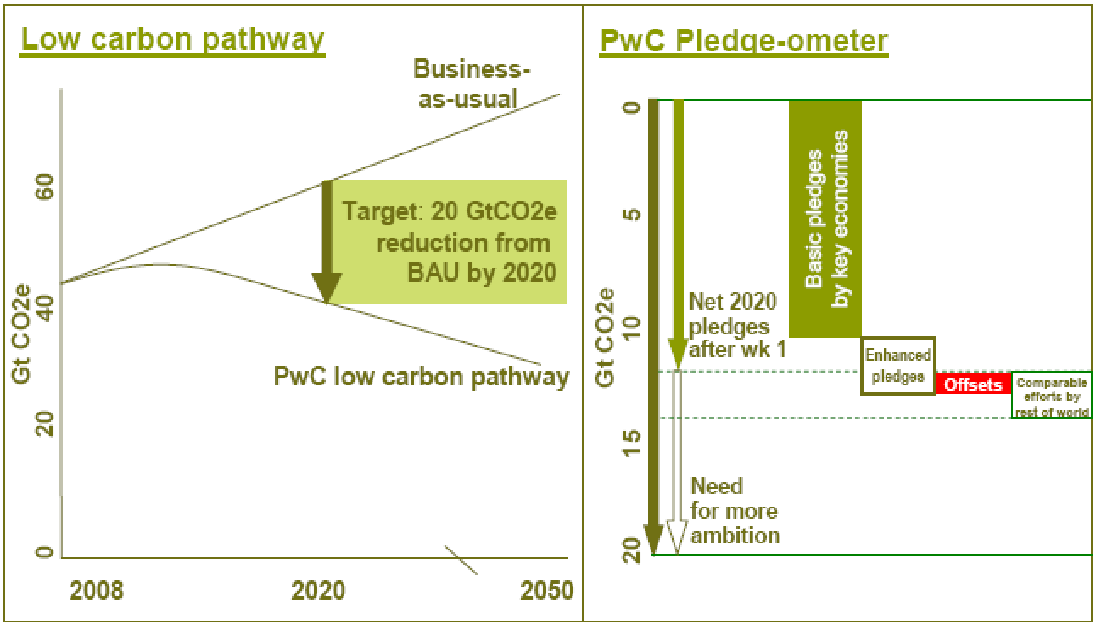
Copenhagen has already secured a place in the record books for numbers of delegates, journalists and observers. Next week another record will fall, when over 130 heads of state and government join the COP. While they will no doubt deliver worthy statements about saving the planet in the high level segment on Wednesday, will they deliver a record deal next Saturday morning? At the halfway mark in the climate negotiations, we assess whether the emissions targets pledged so far are ambitious enough to put the world on a low carbon pathway, and we set out what we see as the essential components of a successful global deal.

On Friday 11th December, the Chair of the working group on Long term Cooperative Action issued a draft document outlining the elements of a deal. Much of the detail and numbers was in brackets (i.e. still to be agreed), but the paper proposed global emissions reductions of 50% by 2050 and targets for developed countries ranging from 25-45% by 2020.

PwC Pledge-ometer: "must try harder"

In our Low Carbon Economy Index report we developed a low carbon pathway which stabilises GHG concentrations at 450ppm and keeps global warming within 2° C. Our target for 2020 is 40 Gt CO_2e per year, consistent with the more ambitious of the three scenarios put forward by Lord Stern earlier this month[1]. We believe that this more ambitious interim target is justified by the latest scientific evidence and by economics – it is important that investment in the next decade does not lock in long-lived higher carbon infrastructure, as this risks stranding capital. The 40 Gt CO_2e target for 2020 compares with business-as-usual (BAU) emissions in our model of almost 60 Gt CO_2e.

Our analysis shows that national policies and pledges made to date should reduce emissions from the BAU projection to 50 Gt CO_2e (with current policies + basic pledges) and 48 Gt CO_2e (including enhanced or conditional pledges, such as the increase from 20 to 30% by the EU)[2], after taking account of cross-border offsets (see below):



[1] "Deciding our future in Copenhagen: will the world rise to the challenge of climate change?" December 2009. Stern's central case is a reduction to 40 GtCO_2e by 2020

[2] The PwC model for both the 50 Gt CO_2e and 48 Gt CO_2e assumes a significant contribution from limiting emissions from land use, land use change and forestry (LULUCF) and the continued role of existing carbon sinks. Specifically, net annual CO2 emissions from land use changes and forestry are around 5.8GtCO2 in 2008, declining to around 1.4GtCO2 by 2020.Current REDD estimates expect it to deliver around 5GtCO2 emissions reduction by 2020. Global absorption capacity of the planet (oceans, forests etc) is around 15 GtCO2 per annum and broadly stable over time.

Implications for a global deal

- The basic pledges of key economies would leave us some considerable way short of the low carbon pathway – we estimate a cumulative overspend on the global carbon budget of around 50 Gt CO2e by 2020, which is roughly equivalent to the aggregate emissions for the entire world for a year. Put simply, by 2020 the basic pledges would put us one year closer to climate crisis.
- Even with the enhanced pledges, the overspend would be equivalent to more than half a year's global emissions.
- Any shortfall in ambition in the period to 2020 will require more reductions later and could threaten the stabilisation goal
- Pledges come in many forms – absolute caps, intensity targets and reductions from BAU. To make sure the sum of the parts adds up to the whole, we need an effective monitoring, reporting and verification regime.
- Emissions projections are inextricably linked to economic activity. Higher growth in developing nations with intensity targets would imply higher emissions, but strong economies would also be better placed to fund the investment required to transition to a low carbon economy.
- Carbon offsets may to lead to double counting where developing nations take on targets. The growth in offsetting through the carbon markets is a good thing as it provides private sector funding for green investment. But the ambition of the pledges must take account of these offsets. Based on statements made in the US Congress and by the European Commission, we have estimated that annual carbon offsets could number over 1.5 Gt CO_2e in 2020. This compares against a total of only 0.34 Gt CO_2e issued by the CDM Executive Board to date.

Not so secret negotiating texts

Following the leak of 'secret' draft texts, there were reports this week that the negotiations were in turmoil, and that some government delegations were 'outraged' that others were bypassing the formal process to secure a deal. This is the politics of treaty negotiations, and no great surprise. However, it highlights some fundamental issues. While the most important aspects of the eventual deal are the numbers – the emissions targets and funding commitments – the structure of the deal is also critical. Three main options are on the table:

- Developed countries are seeking a comprehensive political deal which would be converted quickly to a legally binding agreement. In this deal, all countries (except least developed ones) commit to measurable actions to limit or reduce emissions. This is a clear shift away from the developed / developing country division currently enshrined in the Kyoto Protocol, on the basis that the EU won't sign up to a new deal without the US, and the US won't sign up without China and India.
- A coalition of the most vulnerable, including small island states and least developed countries from Africa and Latin America, have taken the public position that they won't agree to a weak political agreement. They have called for extension to the Kyoto Protocol as well as a legally binding agreement from the working group on Long-term Cooperative Action (which includes the US and developing countries).
- Major developing countries including China, India, South Africa and Brazil would prefer to retain the developed / developing country divide by extending the Kyoto Protocol and including the US with a comparable emissions pledge. Trying to achieve a broader legal agreement would detract from their primary goal.

So although the devil is in the details of the agreement (emissions targets, the level of funding and its governance, the role of carbon markets and tackling deforestation), the other demon in the corridors – the nature of the final legal structure – also has the potential to trip up the negotiations in the second week.

Follow the money

Long term funding for developing countries to respond to climate change is a critical part of the agreement. In September, the European Commission estimated that developing countries would need to spend €100bn each year on adaptation and mitigation. Of this, 20-40% should come from developed countries, 40% from the carbon markets and the remainder from the developing countries themselves. Prompt start funding has been proposed for the three years 2010 to 2012, and USD10bn for that period (or less than €2.5bn each year) was the placeholder in the 'Danish Text' leaked earlier in the week.

On Friday 11th December, EU leaders agreed to provide €7.2bn (£6.5bn; USD10.6bn) over the next three years. With contributions from other developed countries, prompt start funding of USD20bn or more looks likely. Priorities for initial expenditure will include institutional strengthening and policy development.

Longer term, much higher levels of support will be required, though developed country governments will look to leverage private sector money - a reasonable rule of thumb is that a dollar of public funding can lever at least five dollars of private sector investment. Even the CDM, which is much criticised for being bureaucratic and slow to approve projects, has leveraged $95bn in low carbon projects in developing countries since 2002[3].

Business expectations of COP15

Business expectations of a deal in Copenhagen are crystallizing as we move into the final period of negotiations. The preliminary results of a global business survey by PwC into the role of tax and regulation in delivering climate change policy nationally show a striking convergence of views between Europe, North America and the BRIC economies:

- 89% of business executives globally (98% in the UK), said that the availability of financing within 6-12 months would be a key element of a global climate change deal
- 96% said the deal needs to send a clear signal to support investment in clean technology (Europe 96%, UK 96%, BRIC 95%, North America 96%)
- 88% said setting national emissions targets would incentivise business behaviours and policies (Europe 85%, UK 88%, BRIC 95%, North America 88%)
- 80% globally supported a global carbon market mechanism (Europe 76%, UK 78%, BRIC 86%, North America 80%)

Almost 500 senior business executives from fifteen countries across Europe, North America and BRIC economies responded to the survey. Over 95% feel tax and regulation will have a role to play in achieving targets agreed at the COP, rising to 98% in the UK.

Prospects for the second half

With over 130 heads of state and government expected to make an appearance in the final days of the negotiations, a successful outcome appears inevitable, if only to avoid loss of face for key leaders. Some higher pledges are likely to be tabled, with the possibility of a conditional increase in the EU target from -20 to -30%. However, pledges will still fall some way short of an ambitious low carbon pathway. PwC will continue to audit the numbers to see how the pledges compare with this pathway.

The 'minor' details of the agreement including the particular measures to address deforestation, the governance mechanism for the funding, and approaches to enhance the carbon markets, will probably need to be 'ironed out' later. Success will be dependant on all the major economies continuing to negotiate in good faith and provide enough to keep the island states and least developed countries on board.

The role of China and the US is critical. Intense political activity is likely to continue throughout the week, but at the end of it all, in the early hours of Saturday morning, we expect the politicians to emerge from the final plenary session of COP15 and declare that this is a great day for the global environment. Then the easy part will be over. In the New Year, the priority will be translating this into a legal agreement and delivering on the pledges.

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[3] The World Bank – State and Trends in the Carbon Market

PwC presence at the COP

Several partners and senior staff from the PwC Sustainability and Climate Change network will be in Copenhagen throughout the COP to support the negotiators and the many side events there.