



# After Copenhagen

## Qualified failure, notable achievements

Financial Services

The Copenhagen summit on climate change failed to reach the binding agreements many had hoped for. Nevertheless, there were significant achievements, and the drive towards a low-carbon future received renewed impetus. Particularly notable was the commitment of the global business community to the process. Alan Buckle, Global Head of Advisory, KPMG in the UK and Barend van Bergen, Associate Partner, KPMG in the Netherlands discuss how the business world now needs to engage directly with the implications.

The long-anticipated 2009 United Nations Climate Change Conference (the 'Copenhagen Summit') took place in Copenhagen in December 2009. Much media commentary on the outcome has played on the 'failure' of the conference to meet its stated objectives. But a considered assessment suggests that significant progress was made in a number of respects. To put this in context, it is important to appreciate how Copenhagen fits into the continuing international process of climate change mitigation.

Two years ago in Bali, representatives from over 180 countries began negotiations on a binding successor to the Kyoto Protocol to the United Nations Framework Convention on Climate Change (UNFCCC), and agreed a timetable leading to a framework for climate change mitigation beyond 2012 to be finalized in Copenhagen. The Copenhagen conference thus embraced both the 15th Conference of the Parties to the UNFCCC and the 5th Meeting of the Parties to the Kyoto Protocol.

In the event, as has been widely reported, the Copenhagen negotiations failed to produce a legally-binding international treaty. In hindsight, this was always going to be a massive challenge, requiring unanimity among representatives of nearly 200 nations and the resolution of fundamental differences of perspective between developed and developing nations. Indeed, there is some doubt whether such a conference is now the most effective method of taking the international process forward over the coming months.

Despite this failure, a group of five major nations (the United States, China, India, South Africa and Brazil), encouraged by the direct intervention of US President Barack Obama, announced that they had reached a 'meaningful agreement'. Subsequently dubbed the Copenhagen Accord, this was 'taken note of' by delegates on the last day of the conference. The precise legal status of this accord remains unclear, and it is not even certain whether all participants endorsed or will endorse it. Nevertheless, the UN Secretary General Ban Ki-moon welcomed it as an 'essential beginning'. Intensive discussions are now under way to build on the Copenhagen Accord in preparation for the next UN Conference in Mexico at the end of this year.

The Accord addresses six key issues:

- developed countries had to submit emission reduction targets for 2020 by January 31 (although no global target has been established). The US has offered to reduce emissions 17 percent below 2005 levels, by 2020
- developing countries must submit details of their adaptation and emission reduction plans by the same deadline
- developing countries' initiatives will be checked every two years, while respecting the sovereignty of their national governments

- a fund of US\$30 billion has been created for 2010-2012, with a target of US\$100 billion by 2020
- a transfer mechanism has been established to speed up the development of mitigation and adaptation technologies
- the next review will take place in 2015.

Behind this superficial summary, however, lie more fundamental achievements. The most significant is that the leaders of all the major economies, including the US and China, are now committed to and involved in the process. For the first time, leaders of the major CO<sub>2</sub>-emitting nations have accepted the majority scientific view that the increase in global temperature should be limited to less than two degrees Celsius compared with pre-industrial levels. Over the last year or two the scientific basis for the theory of anthropogenic global warming has come under increasing criticism; the debate has received new impetus in recent months with allegations of manipulation of data, corruption of the peer review process and improper political interference. Nevertheless, the fact that the world's leading political figures are now publicly committed to this objective is especially significant.

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The second key achievement is that hard, specific targets, both for emissions reductions and for funding, are now on the table. The US has proposed emission-reduction targets rising from 17 percent compared with 2005 levels by 2020 to 42 percent by 2030 and a massive 83 percent by 2050. China has always opposed absolute reduction targets because of its need to continue industrialization. However, it has now promised to cut the carbon intensity of its economy by 40 – 45 percent by 2020. This means that although China's emissions are still likely to double by 2020, the growth in its emissions should slow significantly. As noted above, to accelerate progress towards mitigation and transparency on implementation, developed countries have committed themselves to providing US\$100 billion dollars by 2020 to address the needs of developing countries. This funding will come from a wide variety of sources, public and private, bilateral and multilateral, including alternative sources of finance.

From a business perspective, the third major achievement of note is that the international business community is now more than ever engaged with the climate change process. At times, and in its side events, the Copenhagen conference seemed more like a meeting of the World Economic Forum than a UN meeting. Over 1000 senior business leaders took part, and a discussion panel featuring a number of Fortune 500 chief executives (including those from Coca Cola, Unilever, GDF Suez and Alstom) was heavily over-subscribed.

While the precise pathway to a low-carbon future has still to be defined, the momentum to achieve it is now unavoidable. The business world now needs to consider seriously the implications for its own strategies and operations. One of the most obvious areas to tackle is the direct impact of operations on companies' own carbon emissions and contributions to the overall environmental impact. There are still many opportunities to pursue in the areas of good-housekeeping, operational efficiency and CO2 reductions. In the medium and longer term, achieving the Copenhagen targets will require mechanisms for carbon pricing and regulatory frameworks, which have yet to be developed. However, research on CO2 abatement technologies suggests that up to half of them can deliver positive economic returns as well as limit CO2 emissions. These are the areas where

businesses should start focusing now to determine which strategies best match their own operational configuration.

Financial services businesses are increasingly confronted with the implications of climate change. We observe among clients around the world that the subject is steadily moving up their agendas. They recognize that climate change poses both risks and opportunities, with strategic and financial implications for their businesses. The insurance industry has been slightly more engaged than some sectors due to the nature of their business, and the direct impact of climate change, such as increasing extreme weather. However, for those sectors not as advanced, and planning to confront these challenges, there are three steps they should take:

- obtain clarity on the opportunities (banking, insurance, investment and trade - e.g. energy-efficiency, renewable energy, carbon management and adaptation)
- manage risks: from the direct and indirect risks on your business
- be transparent: disclose what you are doing (direct impact on buildings/operations but more important indirect impact via your services and products). The public want to know what organizations are doing.

Whether or not the next 12 months sees the creation of a global, legally binding agreement on climate change, the journey to a low carbon economy will still continue. Following Copenhagen, the implications should now be high on all chief executives' agendas.

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