

Q&A: Did The Cancun Summit Bring Global Action On Climate Change A Step Closer?

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A set of agreements that are designed to commit all major global economies to reduce greenhouse gases (GHGs) for the first time were reached on Dec. 10, 2010, at the United Nations Framework Convention on Climate Change (UNFCCC) conference in Cancun, Mexico. Standard & Poor's Ratings Services believes the Cancun agreements, which were adopted by 193 countries present at the two-week talks, may lead to progress toward less deforestation, an increased rate of transfer of low-carbon technology to developing countries, and the establishment of a Green Climate Fund that's potentially worth up to \$100 billion per year with the aim of helping developing countries mitigate and adapt to climate change. Importantly, we believe that the Cancun agreements reemphasize the view of signatory countries as to the relevance of global carbon markets as a means of raising climate finance. We also believe that the Cancun agreements expressed support for existing project-based financing solutions such as the Clean Development Mechanism (CDM) established under the Kyoto Protocol, the existing multilateral treaty governing GHG emissions that came into force in 2005.

The Cancun conference adopted what has been described by the UNFCCC as a "balanced package," incorporating important elements of the Copenhagen Accord agreed in December 2009 into the multilateral framework. In our view, this moves climate change negotiations a small step closer to the signing of a global, legally binding treaty designed to tackle global warming (see "Global Efforts To Address Climate Change Are Just Warming Up," published Nov. 17, 2010, on RatingsDirect), which had been the original aim at Copenhagen. Emissions-reduction targets of all countries pledged as part of the Copenhagen Accord were recognized by signatories under the UNFCCC process in Cancun. Signatory countries will now work to draw up a full global treaty covering all of these elements, which could be agreed at next year's UNFCCC talks in South Africa or in 2012.

Questions And Answers

In Standard & Poor's view, what was achieved in Cancun?

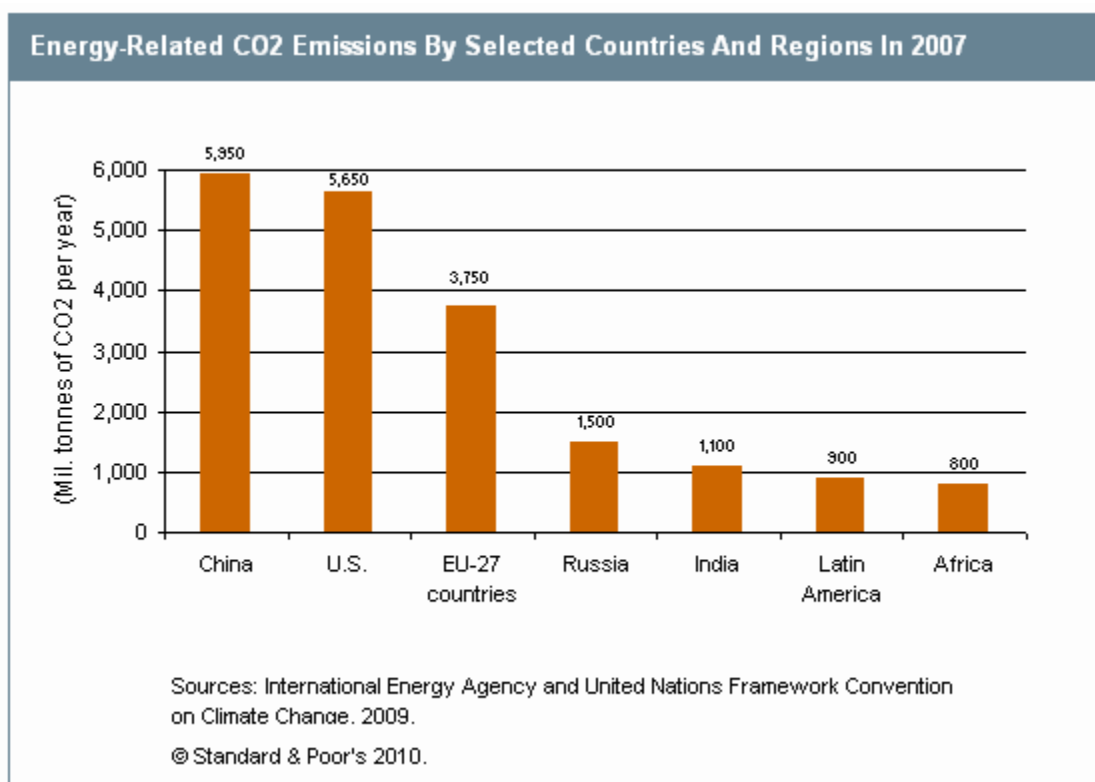
In our view, UNFCCC summit participants agreed to continue negotiations over the coming year with the aim of completing their work and ensuring there is no gap between the first and second commitment periods of the Kyoto Protocol. The first commitment period finishes at the end of 2012, after which, in the absence of an agreement for a second period, there are no legally binding GHG reductions for countries that have signed up to the Protocol.

The emissions-reduction targets and action plans put forward by both developed and developing countries in the Copenhagen Accord (see "Q&A: Successes And Shortcomings From Copenhagen's Climate-Change Conference," published Jan. 12, 2010) have now been recognized by signatories under the U.N. negotiating process for the first time. The details are yet to be finalized, but developing countries will submit to a mandatory regime of international verification for their emissions-reduction targets in return for access to climate finance. This was one of the major barriers to an agreement and it looks to have been overcome after China and India appeared to accept the need for some form of external, independently measured monitoring and verification of their emissions-reduction programs.

We understand that a new Cancun adaptation framework will be established with the aim of facilitating better planning and implementation of adaptation projects in developing countries through increased financial and technical support, including a clear process for continuing work on climate change-driven loss and damage.

What is the future of the Kyoto Protocol?

Standard & Poor's understands that no real progress was made on attempts to renew the Kyoto Protocol, the 1997 treaty that limits GHG emissions from developed countries (except the U.S., which never ratified it) and provides funds to developing nations' governments. However, Cancun participants agreed to keep working on the issue at the next global warming summit scheduled to take place in Durban at the end of 2011, despite objections from the governments of Canada, Japan, and Russia, among others. These countries' objection to the second commitment period of the Kyoto Protocol is, we believe, based on the fact that the Protocol imposes mandatory commitments on nations currently responsible for only 27% of global GHG emissions, yet puts no binding targets on the U.S. and China, the world's current top emitters (see chart).



What progress was made in terms of global carbon markets, in Standard & Poor's opinion?

We understand that the Cancun conference decided that the Kyoto Protocol's CDM carbon offsetting scheme would be strengthened and extended to become part of any post-2012 scheme, despite ongoing uncertainty over the future of the Protocol itself. In particular, carbon capture and storage (CCS) projects will be eligible to earn credits under the CDM scheme for the first time, and registration processes will be streamlined with the aim of ensuring faster approvals for other emissions-reduction projects. In our opinion, improvements to the CDM process are likely to drive more investments and technology into emissions-reduction projects in the developing world that are approved under the regime as environmentally sound and sustainable.

Due to the significant amount of regulatory uncertainty, specifically in the U.S., we believe that there has generally been a lack of willingness in the private sector to invest in measures to reduce GHG emissions both in developed and developing countries. In our view, without a strong policy in place, the capital flows intended to finance the world's

transition to a low-carbon economy are unlikely to materialize.

What progress was made on mobilizing private finance?

One of the main accomplishments of the Cancun summit, in our view, was an agreement to develop a Green Climate Fund to channel finance and transfer technology to poorer countries from the developed world. The Fund will function with the oversight of the UNFCCC, and will feature a board with equal representation from developed and developing countries. The World Bank will serve as the interim trustee of the Fund.

Pledges made by summit participants toward the Fund include \$30 billion in so-called "fast-start" finance from industrialized countries to support climate change action in the developing world up to 2012, with the intention to raise up to \$100 billion per year by 2020. These commitments were originally made in the Copenhagen Accord last year and have now been hard-coded into the UNFCCC text agreed in Cancun.

However, we understand that the source of these funds has still not been determined. Equally unclear, we believe, is the method by which to engage private sector finance on a large scale, especially institutional investors. Nevertheless, we think the acceptance by developing countries that such finance can come from a variety of sources--public; private; and bilateral and multilateral, including alternative sources such as special taxation measures (see below)--may allow for more flexibility and the involvement of private financing.

In the run up to the Cancun summit, we understand that the world's largest global investors released a statement calling on the U.S. and the international community to come together to take action on global climate change. Led by organizations such as the Institutional Investors Group on Climate Change and the Investor Group on Climate Risk, the statement was signed by 259 investors from North America, Europe, Asia, Australia, Latin America, and Africa. Collectively, the signatories to the statement handle assets amounting to more than \$15 trillion--more than one-quarter of global capitalization. This investor group has asked governments to enact both national and global policy to stimulate greater levels of private investment in low-carbon technologies that play a key role in solving climate change.

What did the summit achieve with regard to reducing deforestation?

The destruction of the world's forests reportedly accounts for around 20% of GHG emissions worldwide, placing forestry at the top of the agenda for the negotiations in Cancun. In our view, significant progress was made in setting up rules and a sustainable mechanism for reducing emissions from deforestation and forest degradation (REDD+), including a \$5 billion pledge from developed countries for tackling deforestation. Levels of forestry to be regarded as sustainable, along with the development of national action plans and monitoring methods for forest protection, were also agreed.

Is global taxation still considered a possible way forward?

Shortly before the summit in Cancun, a high-level U.N.-commissioned advisory group on financing (AGF) issued a document proposing several global taxation schemes that were discussed at the conference. These, and several other financing proposals, appear to have gained traction at the conference. They include a tax on global aviation and shipping paid directly to the U.N., and a similar tax on banking and financial transactions also paid straight into the U.N. body responsible for redistribution to developing countries to pay for climate change mitigation and adaptation. However, how these schemes might be implemented in practice is yet to be determined.

Will all these initiatives help to achieve a peak in emissions and a capped increase in global temperature by 2050?

Although there was no agreement on the time line for GHG emissions to reach a peak--apart from recognizing that the time frame will be longer in developing countries--an overall target of 2 degrees Celsius (2 Deg C) for the average global temperature rise by 2050 (versus pre-industrial levels) was officially accepted by all participants at the Cancun summit. This was also the agreed target in the Copenhagen Accord last year. Two Deg C is the level generally deemed necessary by the scientific community to prevent adverse consequences arising from climate change.

However, a study issued last month by the United Nations Environment Programme (see footnote) shows that pledges made under the Copenhagen Accord and officially recognized in the Cancun agreements will likely deliver less than two-thirds (60%) of the emission reductions regarded as being needed to tackle climate change and stop temperatures rising by more than 2 Deg C. Even so, we believe that the Cancun agreements, while not achieving all the goals that the organizers had aimed for, can still be viewed as evidence of a continued commitment of the 193 participants to work toward a global agreement on climate change.

Footnote

The Emissions Gap Report: Are the Copenhagen Accord Pledges Sufficient to Limit Global Warming to 2° C or 1.5° C? For more details, see <http://www.unep.org/publications/>

The authors would also like to acknowledge the contribution of Matthew McAdam to this article.

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