Reuters Workshop: Climate Change
"What Business wants from Copenhagen"
London, 28 May 2008

Summary Report

By Kirsty Hamilton (Chatham House), Kate Hampton (Climate Change Capital) and Gerard Wynn (Reuters News)

Contributing business and climate leadership groups:

Business Council for Sustainable Energy (BCSE)
Business Europe
Carbon Markets Association (CMA)
Confederation of British Industry (CBI)
Corporate Leaders Group (CLG)
E3G
Eurelectric
Global Wind Energy Council (GWEC)
Institute of Directors
International Carbon Investors & Services (INCIS)
International Chamber of Commerce (ICC)
International Emissions Trading Association (IETA)
International investors group on climate change (IIGCC)
London Energy Brokers' Association (LEBA)
The Climate Group
World Business Council for Sustainable Development (WBCSD)
World Economic Forum (WEF)

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Forward

The Reuters Climate Change Workshop *"A New Kyoto Protocol – What Business Wants from Copenhagen"* brought together 55 participants in leading businesses, including 17 business organisations engaged in the international policy debate around the next phases of the UN climate treaty and its Kyoto Protocol.

The workshop aimed to highlight coalescing business interests by bringing together in one room for the first time the most relevant European leadership groups. The purpose was to add to the context of large, existing initiatives including most recently the WEF/ WBCSD CEO Climate Policy Recommendations delivered at the Hokkadio G8 in July.

This note summarises views as expressed at the May workshop. It does not necessarily reflect the position of all the participants. The report includes on the record quotes made by keynote speakers and other participants.

Gerard Wynn, Reuters News

Executive Summary

The Bali agreement, in December 2007, set an agenda to agree a new global deal by end of next year, in Copenhagen. The starting point for the workshop was that the negotiations are now at a stage where business must articulate preferences to secure an effective post-2012 agreement. This note summarises the issues arising discussion.

A number of key recommendations emerged for policymakers:

- There is strong, widening, deepening support for the crucial importance of a successful Copenhagen deal
- Rhetoric must be backed with action robust enough to convince sceptical investors that governments are serious about climate change.
- Government action can start shifting capital to reflect the science and urgency
- Rhetoric that is not followed through with policy and implementation will add to continuing investor scepticism
- National implementation policies and regulations are vital, as well as government procurement, to foster innovation at all levels
- Competitiveness issues must be properly analysed, for example not to confuse continuing restructuring of western economies with carbon leakage
- 'Losers' must be clearly identified so that effective transition strategies can be developed.
- We need to refocus on the sectors that will produce competitive economies in 2020

All noted the need for a strong effort to raise awareness across the business sector, including a need for more leadership, with a particular focus on bringing more developing country businesses into the debate as well as greater efforts to secure the support of society for activities to reduce emissions.

Keynote speakers

John Ashton

John redefined the core question as how to shift the estimated [IEA] $20+ trillion private sector energy infrastructure investment over the next 20 years or so onto a low carbon pathway. Business needs to articulate what are the policy frameworks at global, regional and national level that will shift investment towards a zero carbon energy system very, very quickly. Business engagement with government is far short of the needed intensity. Business must engage government at global, regional and national level to advocate for effective policies including: technical standards, public investment in infrastructure etc. Without more engagement, decisions will be delayed and panic mode policymaking will result in sub-optimal policies without the right combination of certainty and risk management that business needs. Given that this amounts to a 'major structural transformation' in the economy, the politics has to be right. Copenhagen is an important part of this, but not the only part, as a transformation of this scale will not be delivered only by negotiators at the UN, or through carbon markets alone. The EU, US and China will set technology trends – requiring a strong national political foundation for that shift in those three economies. Public investment can ease concerns over carbon leakage.

James Smith

Climate change was a sub-set of a bigger problem to sustain 9 billion people by 2050. Must cut carbon intensity by 6-8 times globally and by 10 times in the UK to halve GHGs globally and by 80% in UK while maintaining economic growth.

Broad climate policies are needed: carbon markets/ pricing good for optimising current technology but these can't do everything. Also need: standards (eg efficiency in cars, buildings and industrial processes); aid for new technologies (incl CCS); behavioural change (to curb consumption habits).

Policies must make low-carbon terms of trade profitable, as Shell's withdrawal from 1GW London Array wind farm (made uneconomic by capital cost inflation) underlined – "The degree of change is too large to be voluntary, it must be core business." Future energy mix must be cheap/ low-carbon/ secure but not necessarily all at once, and will probably include: CSP (concentrated solar power), nuclear, oil sands, biofuels. Shell's investment in oil sands highlighted how not all solutions can't satisfy both energy security and climate concerns.

Shell's energy scenarios suggest energy demand will accelerate, causing economic and environmental strain. Policy can go two ways: 1.) focus on energy supply, leading to delayed, knee-jerk climate response; or 2.) earlier global recognition of climate problem leading to cooperative behaviour including linked carbon markets, cross-sector benchmarks/ standards. Both outcomes imply > 550ppm CO_2, and >3 degrees Celsius global temperature increase.

A stronger response would require mandatory CCS, and possible early scrapping of sub-optimal plants. Future energy will remain > 55% fossil fuel-dependent by 2050, plus renewables, electric/ biofuel/ hydrogen-driven autos (don't know yet which). "Very significant strategic issues" of energy technology choice confront energy companies such as Shell.

Copenhagen will not determine absolute success or failure in climate fight. A deal must include: commitment to change; targets for global energy and CO_2 trends; a policy framework which makes these affordable.

Sir David King

Sir David said policymakers should view cost of low-carbon energy transition in context of avoiding future “resource wars”, eg $3 trillion [Stiglitz] spent in Iraq.
Science has consistently under-estimated adverse impacts of GHGs. CO_2 in atmosphere now at 387ppm, increasing 2ppm/year, versus long-run average 190-260ppm.
Stabilisation at 450ppm is best result from a Copenhagen deal plus immediate political action. But 450ppm implies 20% chance of 3.7 degrees temp rise “disaster”.
Actually need to stabilise at < 350ppm. Energy solutions for 350ppm could include pumping CO_2 from acidifying oceans, don’t know what carbon price would make that economic.
General policy solutions include: much more R&D (£1bln UK energy technology institute “drop in ocean”). Low-carbon sourcing of electricity, especially nuclear, is vital for transport. The challenge for developed countries is to cut carbon emissions by about 80% by 2050, for UK that implies 2050 per capita emissions = India’s per capita today (2.2 t CO_2)
Minimum Copenhagen outcomes include:

- agreement on a long-term CO_2 ppm target;
- agreement on national emissions trajectories (variable by country);
- agreement on a fiscal process - global cap and trade;
- R&D; technology transfer to developing countries particularly Africa.

Kirsty Hamilton

Kirsty outlined the expanding set of businesses looking for clarity and resolution on how government climate policy will evolve, the ambition level both domestically and at international level, and how this will impact on markets they are engaged in –in terms of opportunity and risk. 2020 goals are especially relevant to effort now. Many support clear government action and binding action on emissions reductions. This is now reflected in a strong convergence of views in Bali from many, but not all, business organisations. The business community isn’t homogenous, with different exposure to climate change and its regulations. Business input is particularly important in this first implementation phase of Kyoto Protocol, to ensure national implementation of climate policies emphasises the up-side, not just higher utility bills etc.

Kate Hampton

Kate set out the objective of the event: to test appetite for cooperation across business to formulate cross-sector “bite-sized” messages that are easily digestible by policymakers and identify what decisions need to be taken at national and at UN-level. If business continues an approach of random events/ messages, business will have no impact. Lack of engagement will result in knee-jerk policy, eg unilateral measures weakening opportunities for creation of a global carbon market. Planned World Bank climate investment funds have not benefited from coordinated business input. Issues to resolve include: how sectoral approaches can deliver technology transfer and transformation of the competitiveness debate. Lack of U.S. engagement now gives business time to develop hard proposals to push under next Administration.

Workshop Proceedings

First Session

Workshop participants discussed the following broad questions:

1. How genuine are business commitments? What does business need from government to deploy capital and technology at the necessary scale and urgency?
2. What role will the ongoing U.N. talks play and what are the key elements of a new global deal?

Summary of discussion

- At present businesses are engaging at very different levels with the broader climate issue. This was described as a range from 'believers' to 'cynics', with a large number of companies yet to engage at all. Within the investor community, there is a 'huge' amount of scepticism about the level of political commitment to tackling climate change, in terms of the gap between rhetoric and implementation – a key message for policymakers.
- In more resolution, there is widespread support for continuing the current mechanisms: from an emissions trading perspective this will require caps on emissions; business is only just starting to tackle a broad vision for post-2012
- Sir David King's 'four points' provide a useful starting point – some agreement – from some quarters. But it will require more than emissions trading to bring about the required infrastructure changes, including demand-side efficiency and other technologies.

Discussion detail

1. Business commitments and leadership – While there are a number of business leaders and initiatives saying useful things, there is no real leadership in terms of thinking about what needs to happen, where business needs to get to, and how to get there. Indeed there is very little business understanding of real risks around climate change and what strong implementation policy will mean: Board discussions generally respond to immediate term issues rather than the long term goal of decarbonisation.

International and domestic implementation policy needs to achieve the conditions that result in every company conducting a strategic discussion about significant emissions reductions. However, lack of strategic understanding, at present, means business is not always well placed for making sensible suggestions back to government, particularly at the resolution of UN text.

The main drivers for engagement on climate change at present are energy prices and executive leadership. One categorization of company response to climate change was described in terms of impact on bottom line:

- Believers – expect an impact on profitability now (utilities, some energy intensive industries)
- Skeptics – expect impact in 2-5 years
- Cynics – not expecting climate to bite in a business context

Another take on this is that there is business engagement but not uniformly, for example not much attention within the SME community. Although awareness and commitment is increasing, there are 60,000 international companies operating across borders, and it will require a lot of movement (B2B) to get them all engaged. This will be brought about as climate is understood as a real bottom line issue. Other issues delaying traction on climate change included: different business interests; different mandates from shareholders & investors; lack of internal resources.

In this context government needs to increase confidence that they are serious about this issue – there is a 'huge' amount of scepticism amongst investors about level of political commitment. EU political commitment to the 2020 climate goals were described as appearing 'pretty fragile'. Political players needed to reinforce political commitment as the credibility of the EU position was very important.

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Feeding through to business, policies have to have traction at company level - real costs, and penalties, to be a 'bottom line issue'. At present investors and business aren't sure what the policy debate means. Business needs to be able to make a sensible argument internally for confidence in the direction of policy and government action.

There is a need for broader engagement and support from society on climate change if business is going to deliver on this agenda, this is particularly relevant at present with high energy and commodity prices. The CBI statistic that 60% of emissions are consumer controlled is relevant, particularly in areas where consumer behaviour or choice is seen as the primary driver.

Climate change itself will play a role: 'voters' in high income but marginal climates eg new Australian commitment plus Californian leadership were brought about by partly by climate impacts (water crisis) affecting people and business.

Quotes:

Mark Kenber (The Climate Group) -- *Business leadership is not consolidating. There is little understanding of climate policy, and of implementing a solution. Companies are largely incapable of making thought-through suggestions and contribution to Kyoto text therefore becomes fairly meaningless.*

Seb Beloe (Henderson Global Investors) – *It's difficult to see what policy costs will be, so (investors) discount the debate. The proportion of overall costs attributed to energy is never going to be a massive part of the cost base*

Tom Burke (Rio Tinto/ E3G) – *Companies have lots of different reasons to engage: eg they have a functional role for that, or a charismatic leader. There's a mis-match in capabilities and expectations (between policymakers and business respectively). It's a dysfunctional business-government conversation. Business assumes governments can solve it*

2. Views on the international regime: The UN deal should be take into account the science: at least one set of participants had no disagreement with Sir DK's 4 point agenda of global and national emissions trajectories, as well as cap and trade plus regulation, and technology transfer. Without a decent Copenhagen agreement national and regional efforts could unravel. Investors said Copenhagen needs to produce long, loud, legal policies, or 'effective, efficient, equitable' as Sir Nicholas Stern put it. Need a long-term vision, and a clear, enforceable, economically self-sustaining regime which can survive national politics.

The general view was to build on what is there already –

- Don't lose the carbon market and its mechanisms.
- Deep emissions caps are paramount for emissions trading, particularly for post-2012, to stimulate demand – this means agreement on emissions caps in Copenhagen. Continuity and certainty around the instruments (rather than certainty on price) is very important.
- CDM reform is necessary, incl more training/capacity. As CDM evolves (to programmatic or sectoral approaches?) a critical factor will be rules to implement it
- Besides cap and trade also need: regulation, standards, fiscal reform, cleantech
- R&D: this is currently 'compliance engagement', and needs to shift into more long term engagement, requiring more incentives
- Sector agreements, there is interest in this, however for some it is more a 'possibility as a second best' that should fit into a framework with a robust top-down cap
- What is tech transfer? There is a need for definition – currently there are conflicting messages from governments
- Need policy coherence – long term target plus the implementation roadmap to get there – too much uncertainty around risks of new technologies eg CCS

The technology transfer debate needs to feed in to political process, current political conversation on the issue has nothing to do with the real commercial world. Business can help come up with something that works in the real world. Given the pivotal force of the US within this arena, can the business community engineer B2B conversations between the US, EU, Chinese business?

For the energy sector, the timescales for achieving emissions reductions are a key issue, particularly around planning and infrastructure, and changes to infrastructure modes eg towards a more decentralised system – these decisions are near term. There is also the question from investors as to who will pay for infrastructure, CCS especially.

There is a lack of strategies amongst businesses that are engaged on climate change policy:

- business needs to know what the rules they want and be able to articulate that to governments, including into the negotiations, and deliver it with a political strategy
- What are the other tools, beyond emissions trading? At present, there are not many other areas that business easily understands and can collectively agree on.
- Engaging businesses from developing countries is a key plank of moving forward

Quotes

Mark Kenber (The Climate Group) – *We mustn't lose the market mechanisms*
Anthony Hobley (Norton Rose/CMA) – *We need continuity. We have to move to specifics, beyond that we want a carbon price, a carbon market*
Bill Kyte (Eurelectric) – *Don't expect a US position until the back end of 2010, unfortunately for Copenhagen*
Steve Sawyer (GWEC) – *Political conversation on technology transfer has nothing to do with the real world; business needs to come up with something that works in the real world, a market solution*
Henry Derwent (IETA) – *Many businesses cannot say they want tough caps but phrasing and coalition building can help*

Second Session

Workshop participants discussed the following broad questions:

1. What role can business play in transforming the competitiveness debate? What winners, losers could a new industrial policy create?
2. What are the key political opportunities and milestones between now and Copenhagen?

Summary of discussion

- Competitiveness impacts of climate policy are an important and real *political* issue and therefore need to be tackled
- Challenges include: border adjustment measures won't work, but must deal with free riders; must not (deliberately) confuse carbon leakage with natural shifts in industrial competitiveness
- Engaging emerging economies and their business sectors is a key part of 'unblocking the logjam' for a deal.

Discussion detail

1. Competitiveness -- There was a general view that competitiveness is 'overstated' – descriptions ranged from 'unproductive' debate, to not clearly substantiated, quoting carbon leakage as 'a slogan without numbers'. There are 'vast data gaps', while 'carbon leakage' and 'competitiveness' are terms used interchangeably and this needs to be unpacked – what is the real issue: is it about jobs, profits or carbon leakage? Carbon issues need to be separated from broader social/economic shifts.

For example, any shift of business activity to China is not necessarily a climate issue, there are many other factors. There is also the fact that investors are increasingly expecting well managed businesses to have a strategy on climate change: raising the question of whether there is a different message going to the Board on this issue versus the one to politicians.

Competitiveness is an important and real political issue and therefore it needs to be tackled head on, and on the basis of being properly defined and accurately analysed. There will be winners and losers and this needs to be managed directly, saying what will be done to assist the losers in the transition.

Border adjustment measures won't work and risk undermining the progress towards an international agreement. But having said that at some point you need to deal with free riders. Competitiveness debates are different in the US and EU. The politics of competitiveness should tackle the forward-looking question of which sectors will be the competitive ones in 2020-2025?

The carbon intensity of products imported from China can be cut through supply chain standards in the North. The greatest leverage for business is national influence: national governments are more sensitised to business views. The debate needs to shift to long term frameworks, standards, the role of government procurement: innovation at all levels is the real issue.

Quotes:

Anthony Hobley (Norton Rose/CMA) – *If businesses are well-managed and know this (climate policy) is coming you'll be a winner.*

Craig Bennett (Corporate Leaders Group) – *There's not a lot of sympathy for losers but a recognition they exist, how can help*

Ian Emsley (International Chamber of Commerce) – *I am concerned that recommendations (of little sympathy for losers) wouldn't resonate well in the U.S., Europe*
Henry Derwent (IETA) – *Carbon leakage matters to politicians so forget academic debate (how serious) and tackle it. If the solution is sectoral targets then we need to get into the detail of that*
Nick Campbell (Business Europe) – *Border adjustment measures won't work.*

<u>2. Steps to Copenhagen</u> -- There are some obvious key moments over the next 18 months; including:

- Poznan ministerial UN climate session, including WBCSD "business day"
- US elections, which will open political space that many different sets of interests (including those not interested in a global deal) will try and shape
- Danish business meeting, Copenhagen, May 2009
- The 2009 Italian G8 Presidency

Engaging emerging economies, and their business sector is a key part of 'unblocking the logjam', B2B strategies could be an important dynamic in the politics at the national level. A question is also whether private investors/private sector can engage constructively around the international, World Bank-administered climate funds (UK, US, Japan), with little business role so far

Quotes:
Bill Kyte (Eurelectric) – *What we need is a simple message to take to the Board, 3 bullet points. Then you can move forward – a simple message (to policymakers) what you need to deliver for us to deliver*
Craig Bennett (CLG) – *We need 4-5 clear, common messages*
Tom Burke (Rio Tinto/ E3G) – *If we want more coherence, we need to recognise the effort. There's a fantastic under-commitment of resource*

Appendix 1 – List of participating groups

Name	Company/ business group
Ian Emsley	Anglo American & International Chamber of Commerce
Nick Campbell	ARKEMA SA & Business Europe
Kate Levick	Carbon Disclosure Project
Paul Dawson	Citigroup
Kate Hampton	Climate Change Capital & INCIS
Rhian Kelly	Confederation of British Industry
Johannah Christensen	Copenhagen Climate Council
Craig Bennett	Corporate Leaders Group
Bill Kyte	E.ON & Eurelectric
Alexis Krajeski	F&C Management Limited
John Ashton	Foreign and Commonwealth Office
Steve Sawyer	Global Wind Energy Council
Seb Beloe	Henderson Global Investors
Tenke Zoltani	IDEAcarbon
Charlotte Steel	Impax Asset Management
David Boomer	Institute of Directors
Henry Derwent	International Emissions Trading Association
Stephanie Pfeifer	International Investors Group on Climate Change
Emma Howard Boyd	Jupiter Asset Management
Anthony Hobley	Norton Rose & Carbon Markets Association
Tom Burke	Rio Tinto & E3G
James Smith	Shell UK Ltd
Sir David King	Smith School of Enterprise and Environment
Mark Kenber	The Climate Group
Kirsty Hamilton	UK Business Council for Sustainable Development
Adam Ognall	UK Social Investment Forum
Claude Fussler	UN Global Compact
Lila Karbassi	UN Global Compact
Arne Mogren	Vattenfall AB
Lynette Thorstensen	World Business Council for Sustainable Development
Randall Krantz	World Economic Forum
Dominic Waughray	World Economic Forum

Appendix 2 – Internal business discussion

Business has extensive opportunities to feed into UN debate, however negotiators are not picking these up. Business needs to define a coherent simple set of messages, out of the 'babble of initiatives' to ensure governments understand what is required if capital is to flow – in the near term – in a low carbon direction, as well as support momentum towards Copenhagen.

Some issues/ options to be resolved for business working together

- Someone needs to take ownership of this process going forward
- International business needs to be influenced. Who is the best messenger? Representativeness: sectoral, geographical (WEF, WBCSD, International Chamber of Commerce)
- However don't want just lowest common denominator – smaller group that is more visionary may be important
- Need a 'core of coherence' set of 3-5 norms that we can use repeatedly
- Business could look to the 'Climate Action Network' model of cooperation (through which the NGO community work together on international policy)
- Lack of strategic vision within business community needs to be overcome (we are currently too narrowly focused, reactive, short term)
- Need to move beyond generality to specifics on key issues (concrete proposals for the negotiations) – e.g.:
    - Carbon markets: continuity and evolution, what institutions etc
    - Public funds, tech transfer, enabling environments
    - Competitiveness: clarity on winners and losers, transition policies, reframing as innovation
    - International standards
- Options for more cooperation
    - ICC Finland has a process to involve emerging economy industry groups
    - Some international groups also have chapters or members in emerging markets – such as Global Wind Energy Council's Chinese members
- Key opportunities
    - Engage US business around international norms in order to influence new Presidential team
    - WBCSD business day in Poznan
    - Copenhagen Climate Council event in May
    - WE NEED ADDITIONAL, TIMETABLED BUSINESS ACTIVITIES