

# TACTIX COMMENTARY

## Reading the CoP 11 Tea Leaves

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### INTRODUCTION

The national media coverage of the election campaign succeeded in overshadowing the recent CoP 11 conference, leaving it with slim to superficial analysis. Deservedly or not, the Herculean effort over 12 days by diplomats, bureaucrats, scientists and environmentalists of all stripes from 189 countries was relegated to mid-sections of the daily and evening news.

Given the potential importance of climate change strategies to the structure and competitiveness of the Canadian economy, TACTIX has tried to discern, evaluate and report on what happened at the conference. Many Canadian corporate leaders are justifiably concerned about the scientific, business and political implications of climate change. We hope another perspective on CoP 11's impact on the shape and size of business' investment decisions and profitability models will assist business leaders in planning for the future.

### CoP 11 GOALS AND OUTCOMES

Every country and each delegate had his or her own objectives for the conference. Canada's Minister of the Environment, the Honourable Stephane Dion, staked considerable personal prestige on the line by investing enormous time and effort over many months into forging a broad international consensus at Montreal.

Were Minister Dion's efforts rewarded? From his perspective and that of the Government of Canada, the conference succeeded simply by not failing. This was emphatically underlined by the general reaction of Canadian NGOs, which saluted the conference for keeping the Kyoto Protocol and the climate change movement alive through 2012 in all likelihood. The fact they set the bar at this height perhaps suggests the precariousness and fragility of the international consensus going into Montreal.

As conference chair, Canada set out to achieve the following goals at CoP 11:

- Unanimously adopt the Marrakech accords.

**Succeeded.** These 19 documents comprise the rule book to implement the Kyoto Protocol. They are akin to regulations that accompany legislation; without them, the Protocol lacked precision and structure.

## · T A C T I X ·

- Strengthen the Clean Development Mechanism (CDM) through an improved governance structure and a simpler method to evaluate projects.

**Succeeded.** CDM allows developed countries to earn credits against their reduction commitments by investing in green technologies in developing countries. To provide an impetus, countries committed US\$13 million in 2006-07 in additional funding to CDM.

- Strengthen Joint Implementation (JI) through the establishment of a new international governing body.

**Succeeded.** JI allows developed countries to earn credits against their reduction commitments by investing in green technologies in countries that have also made reduction commitments, such as Eastern Europe and Russia.

- Strengthen the international emissions trading regime.

**Marginally successful.** CoP 11 extended the time lines for emissions trading to 2016, thereby widening the window for investments in new technologies. However, no new rules have been generated to help commoditize emissions or make emissions credits legally binding.

- Establish a compliance / enforcement regime.

**Succeeded / incomplete.** CoP 11 established a compliance regime in which every megatonne of GHG emissions that a country fails to reduce in accordance with its Kyoto undertakings will generate an additional 30 per cent increase in its required emission reductions post-2012. However, no enforcement mechanism was reached.

- Develop a framework for the post-2012 regime.

**Incomplete.** CoP11 agreed to hold workshops to develop a “dialogue, without prejudice to any future negotiations, commitments, process, framework or mandate under the Convention, to exchange experiences and analyze strategic approaches for long-term cooperative action to address climate change... the dialogue will take the form of an open and non-binding exchange of views, information and ideas in support of enhanced implementation of the Convention, and will not open any negotiations leading to new commitments.” The ultra-careful wordsmithing of this official text underlines the difficulties encountered in reaching consensus on the post-2012 period.

## · T A C T I X ·

### COMMENTARY

It is clear the goals going into CoP 11 were to add building blocks, not policy initiatives. The great Kyoto project is still working on the architectural design even while it is laying down foundations. Will additional floors be built on this structure in the years ahead? The answer lies with Kyoto signatories and non-signatories, principally the U.S.

From Canada's perspective, some would argue that our GHG reduction record is sufficiently poor that we were fortunate to be in good international company and escape strong criticism or censure. This view will be aggravated in the remaining years leading up to 2012 because of continuing increases in emissions due to the ongoing resources boom. A joint StatsCan - Environment Canada - Health Canada report, released four days after CoP 11, noted that Canada's GHG emissions rose 24 per cent (1990-2003) and were 32 per cent above the original target. It also observed that Canada's energy intensity (i.e. emissions per unit of economic activity as measured by GDP) fell by 13 per cent over the same period.

All future federal governments will be faced with this same contradiction, i.e. juggling more economic growth at home while proselytizing high moral values abroad. A Conservative government might nuance the vocabulary and the emphases, but the underlying policy balancing act would likely endure. Canadian governments need to keep domestic policy separate from international diplomacy, the former being the key signals as to how vigorously the government intends to strive to achieve its Kyoto commitments and how it intends to go about it.

In hosting CoP 11, Canada took its turn at leading one of a series of UN sponsored conferences, taking the international community one small tentative step towards the far distant goal of stabilizing and ultimately reducing global GHG emissions. In intergovernmental circles and the court of public opinion, Canada gained some diplomatic prestige, at least amongst the signatory nations and NGOs. But the practical consequences for Canadian industry of CoP 11 are indiscernible.

Hosting CoP 11 also provided a bully pulpit for lecturing the Bush administration, which is often cathartic for Canadians, and it gave the Prime Minister the occasion to advance the Liberal Party's credentials in the election.

It is noteworthy that during CoP 11 Canada avoided parallel announcements about domestic policy initiatives to ensure we will meet our Kyoto targets. Despite Minister Dion's assurances, the current Kyoto implementation plan, Project Green, is a work in progress. Its institutional framework has not been developed, its legislative and regulatory implementation timetable is unclear and its operational readiness in the foreseeable future is not known.

## · T A C T I X ·

The government has not released any details about the plan other than draft regulations for Large Final Emitters (LFE) for discussion. Moreover, the government has yet to release its Green Procurement strategy, which could become a useful mechanism for technology demonstration and market development for new technology, despite announcing it 18 months ago.

The measures to streamline CDM and JI are a step in the right direction and they could prove to be of help to some Canadian companies. However, pursuing investments in developing countries remains risky and it is unlikely these programs will fundamentally alter that reality. The take up of these programs may prove relatively small and the contribution to Canada's Kyoto targets is inconsequential. Canada has signed Memoranda of Understanding with a number of countries with respect to the CDM and JI, but there appear to be few projects available for investment at this time.

It is possible that as the end of the first implementation period approaches in 2012, the federal government will move into the international emissions trading market and buy the necessary credits (even though the Martin government eschewed this in Project Green) to avoid default rather than implement more rigorous domestic measures. This assumes the emissions trading market is more robust and reliable than its current state, which could only be characterized as experimental. And it also assumes the credits will be available at a reasonable price.

Or the government may not. While Canada does not enter into international treaties it does not intend to honour, it would be prudent to assess the international context closer to 2012. Canada may well continue to be in good company in failing to meet its obligations and the diplomatic dynamics may lead to other remedies. If many other nations ignore the sanctions of failing to meet their Kyoto commitments or seek a negotiated settlement, Canada may opt to join that movement.

The bottom line for Canadian business leaders: Don't make any business decisions based upon COP 11. The outcome of the January 23rd election will be a more important event. Another minority government and the dynamics of the next Parliament will signal whether Canada might implement more radical domestic policy measures to meet its Kyoto goals – new programs, new tax incentives and new enforcement regulations – instead of continuing to march to disappointment in 2012.