December/2011

Durban climate talks

An EEF briefing on the outcome

The manufacturers' organisation

Introduction

This paper sets out what was agreed in the UNFCCC climate talks in Durban during late November and December 2011 on the issues that matter to UK manufacturers.

We assess the political implications of the decisions reached and what that means for manufacturing.

In particular, we look at:

The future of the Kyoto Protocol

Only 16% of global emissions are covered by a second reduction commitment under the Kyoto Protocol, the world's current legally binding deal on climate change.

The EU's commitment remains unchanged from Copenhagen. It "reiterates its conditional offer to move to a 30% reduction by 2020 compared to 1990 levels, provided that other developed countries commit themselves to comparable emission reductions and developing countries contribute adequately according to their responsibilities and respective capabilities.

Canada, Japan and Russia are not taking on new targets. Canada is no longer even referenced in the paper, confirming that the have – as speculated – left the Protocol. The US, of course, was never covered. Australia and New Zealand have not indicated what they would be willing to take on. It is thought unlikely that they will commit, due to their domestic political circumstances.

The text also adds nitrogen trifluoride (NF3) to the group of greenhouse gases already covered by Kyoto.

Political implications

- The architecture of Kyoto will now remain in tact for future negotiations to build on. Arguments in favour for extending the new commitment period until 2020 will focus on the need to prevent any disruption to carbon markets.
- There is nothing new on the table that would justify a reduction in the EU's 2020 target. Nevertheless, this week Secretary of State for Climate and Energy, Chris Huhne confirmed that he and the forthcoming Danish presidency will be pushing for a -30% target to be agreed in Europe.

Implications for manufacturing

- No prospect of a level playing field in the short term.
- Uncertainty regarding further, future emission reduction targets in Europe. If agreed, it is likely this could result in a tighter cap for those installations captured by the EU Emissions Trading Scheme and new measures on energy efficiency.

Reactions

BUSINESSEUROPE's Director General Philippe de Buck said: "It must be recognized that through to 2020 EU companies may still be alone in being subject to legally binding emission reduction commitments."

The International Emissions Trading Association said: "Commissioner Hedegaard may try to claim that a review of the EU 30% is now justified, but it would be surprising if another frontal assault were to win against more cautious heads in Europe. But under an enthusiastic Danish Presidency and warmed by the feeling that the EU is once again the leader, other less frontal approaches may be reinforced."

Nnnimmo Bassey, chair of Friends of the Earth International said: "Rich countries tried to assassinate the Kyoto Protocol and it is now on life support, we have to redouble our efforts in the coming year to revive it."

The Durban Platform for Enhanced Action: A future international agreement

Work will begin next year on a new global deal on climate change. This must be completed in 2015 and come into effect and be implemented from 2020.

Political implications

- A new alliance between the EU, the small island states (AOSIS) and the least developed countries (LDC), including Africa, helped to give legitimacy to the EU's calls for a future agreement which covered all.
- The deal makes the US, China and other advanced developing countries agree on the principle of emission reduction in a legal context. This is a significant breakthrough.
- However, there are many problematic areas. Many important issues have been rolled over to the next meeting and there are some lingering doubts about how secure an "agreement to agree" will be in producing an outcome by 2015, and about whether the last-minute weakening of the EU's proposed 2020 "legal framework" to "an agreed outcome with legal force" may cause problems.
- The issue of what has to be done to keep global warming below 2°C by 2050 has not been addressed. The 40% gap (between emission reductions efforts and what is needed to prevent warming over 2°C) remains.
- Governments are now facing four years of fierce negotiations in particular about each country's reduction target and timeframe.
- The legal text is such that there remains a lot of wriggle room for the emerging economies. We can expect the BASIC countries (Brazil, South Africa, India and China) to keep to their entrenched positions: that they have launched their own ambitious programmes, that historical emissions from developed countries mean they must make significant reduction efforts and that developed countries have largely failed to deliver against their reduction targets.
- What the US agrees to in talks and what it can realistically pass through Congress and into domestic law are two entirely different things. The contribution of the US will largely depend on its domestic political landscape: whether President Obama gets re-elected and regains Congress.

Implications for manufacturing

- There is a glimmer of hope to have a level playing restored in the medium/long term. However, EU governments must not accept that short term pain for manufacturers is acceptable.

Reactions

Heather Ridout, Australian Industry Group Chief Executive, said." While there was some progress at the Durban climate change conference, Australian industry remains starkly exposed for some years,"

Jim Leape, WWF Director General said: "Politicians here in Durban have shown an alarming inability to come to grips with the challenge of climate change. Encouraging words about finding solutions have turned into nothing but hot air."

Mr D.S. Rawat, secretary general of The Associated Chambers of Commerce and Industry of India said: "India has been facing increasing international pressure to mitigate its GHG emission. Transitioning to a low-carbon economy presents multiple opportunities to India."

Bill Hare, Director of Climate Analytic said: "What remains to be done it to take more ambitious actions to reduced emissions, and until this is done we are still headed to over 3°C warming."

The Green Climate Fund: raising funds for climate aid

A new fund to support developing countries to limit or reduce their greenhouse gas emissions could start work as early as late 2012. But how the fund will be financed remains a mystery.

Political implications

- Germany (€40m) and Denmark (€15m) have pledged money to the fund, but most countries say they are waiting until it is up and running. NGOs have expressed concerns over the lack of clarity in securing the promised money.
- A few of the options being discussed to raise capital include a levy on shipping fuel or aviation emissions or a tax on financial transactions. The US however has immediately blocked discussions on a tax on transactions and this is now thought to be a "non-runner." A bunker fuel tax appears to be the most favoured current option.
- Some developing countries are skeptical of the role of private finance in meeting the $100bn a year. They fear that this will limit the projects which can attract finance.
- Secretary of State for Climate and Environment, Chris Huhne, this week said he saw the role of public money was to fund adaptation measures but that the private sector could invest in mitigation. UK ministers point to the Capital Markets Climate Initiative, which brings together international financiers and policy makers to drive green economic investment in emerging economies and identify how current barriers to new investment can be dismantled. It is gaining support from the OECD, World Economic Forum and the World Bank.

Implications for manufacturing

- Potential increased shipping or aviation costs in future if a levy on shipping fuel or aviation emissions is pursued

Reactions

Ian Sullivan, campaigner at Oxfam, said: "We cannot allow the Green Climate Fund to wither on the vine. Governments must identify significant and predictable sources of money for the Fund without delay, such as a tiny tax on financial transactions and a fee on emissions from international shipping."

Technology transfer: facilitating global deployment of low-carbon technology

The conclusion of the talks kick-started the search for a host for the Climate Technology Centre (CTC) to promote technology transfer between developed and developing countries.

The CTC's work will be guided by the Technology Executive Committee - a global hub of expertise on technology. It will be assessing and synthesising information on technology research, development and deployment, evaluating global technology needs as well as examining the policy implications, opportunities and barriers for advancing technology development.

Political implications

- After opposition from developed countries, there is no mention of Intellectual Property Rights. Developing countries have argued that patent restrictions will hinder the flow of green technologies from industrialized countries. It is likely that the Technology Executive Committee will be lobbied on this issue.
- CTC will institutionalize technology transfer as a key element of the international response to climate change

Implications for manufacturing

- The Committee should prove a powerful voice in getting barriers to market addressed for those technologies which could reduce emissions of greenhouse gases.
- Intellectual property rights remain protected but could be under threat in the medium to long term.

Reactions

Silvia Ribeiro, Latin America director of the ETC (Erosion, Technology and Conservation) Group, Mexico, said: "Critique of monopoly patents on technologies, and the environmental, social and cultural evaluation of technologies, has been taken out [of technology transfer proposals]. Without addressing these fundamental concerns, the new technology mechanism will merely be a global marketing arm to increase the profit of transnational corporations."

The Carbon Market: The Clean Development Mechanism and other market mechanisms

The main issues for the Clean Development Mechanism (CDM) at Durban were around whether it would continue if there was no successor to Kyoto agreed and whether carbon capture and storage (CCS) should be included as one of the tools in the CDM. Decisions in Durban also set the foundation for the adoption of new market mechanisms.

The CDM allows for carbon offsets to be generated through carbon-reduction projects in developing countries to be sold in developed countries. Market mechanisms allow cuts to be made where they are cheapest to do so.

Political implications

- NGOs have been dismayed about the inclusion of CCS in the CDM saying it would give the green light to new coal plants in poor countries. They will be fighting to get these conditions to be as restrictive as possible.
- Rules on CCS projects are likely to ensure that only countries where there is specific domestic legislation on CCS can qualify. Liability is a key issue. The question remains about who should bear responsibility for the stored CO_2 (and any subsequent leakages in the life time of the project).
- CCS financing has been a thorny issue. There is a risk of the need for external financial support, i.e. governments, to get these projects up and running.
- Inclusion of CCS in the CDM should provide additional political impetus to get back on track and broaden the UK's stalled demonstration programme
- The decisions reached thus far will have a *de minimis* impact on carbon prices. The issue of oversupply of credits and weak demand from Europe remains the elephant in the room. The situation leaves the price of carbon at risk from further political intervention.
- Discussions around new carbon markets are likely to be politically charged. Some parties remain fundamentally opposed to new market mechanisms; others think that they should be available only in the context of a new Kyoto Protocol commitment period, whilst many more are concerned about the potential negative impacts of a fragmented offset market going forwards.
- Other political sticking points include definitions over the activities to be covered, setting relevant thresholds, the choice of instruments to be used and the mechanism for distributing benefits.
- Pilots assessing new market mechanisms will be carried out via the World Bank's Partnership for Market Readiness, a grant-based, capacity building trust fund that provides funding and technical and technical assistance for the collective innovation and piloting of market-based instruments for greenhouse gas emissions reduction.

Implications for manufacturing

- The inclusion of CCS in the CDM has been welcomed by many, particularly energy intensive industries, as it could help scale and demonstrate the viability of the technology for industry.
- The design of new market mechanisms will be crucial to ensure that there are no competitive distortions. Provided it was correctly designed, it could prove to be a powerful tool to help energy intensive industries collectively reduce their emissions over a similar timeframe.
- Inclusion of CCS in the CDM opens up the possibility of greater export opportunities countries or companies that can develop a lead in the technology.

Reactions

Global CCS Institute CEO Brad Page said: "This is a critical development, given that many CCS projects in coming decades will have to be in developing countries if we are to meet climate targets, yet until now there had been no ready access to capital for the development of such projects,"

The International Emissions Trading Associations said: "The doubts over the continuation of the CDM are at least laid to rest, since it is no longer necessary to finish the argument about its dependency on continuing Kyoto targets. If it was only that doubt which was holding new CDM projects back, they can start moving – though demand was and remains the key issue."

In a statement Greenpeace said: "UN approval increases the risk that new coal power plants will be built, with a dangerous carbon dioxide legacy left for future generations. It is illogical that this technology could now get financing under the CDM."

Emissions from specific sectors: Maritime, aviation and those from other sectors.

Much of the discussion around international sectoral agreements focussed on two sectors at Durban: aviation and shipping.

Political implications

- Although sector agreements were not decided on, the continued consideration of a framework for sector agreements pave the way for setting these up.
- On maritime emissions, the IMO has confirmed that it will continue to explore options this year so a decision can be rapidly agreed on.
- Aviation is a particularly political-charged area. The EU has been pushing for a global response to aviation in part because of push-back to their plans to include the sector in the EU ETS. It has received strong opposition from countries outside the EU, notably China, India and the USA. India has stated that they are preparing to take legal action against the EU if it goes ahead and includes aviation. China's aviation body, meanwhile, have urged their members not to cooperate with the EU's scheme. There are growing fears about the potential backlash from these countries if the EU presses ahead.

Implications for manufacturing

- Aviation/shipping prices likely to increase in the medium and long term
- The text provides some a glimmer of hope for other sectors – such as steel and cement – to develop their own sectoral agreements to help level the playing field for these internationally traded goods.

Reactions

IATA director-aviation environment Paul Steele said: "The danger of a trade war is still possible with Russia, China and India … while a bill is making its way through Congress to prevent US carriers from taking part."

IMO Secretary-General Efthimios E. Mitropoulos said: "The IMO should continue, through next year's two sessions of the Marine Environment Protection Committee, its work to progress its debate on market-based measures so that it can, through meaningful and inclusive negotiations, bring its action plan on climate change to a completion in a reasonably short time."

About us

EEF is dedicated to the future of manufacturing. Everything we do is designed to help manufacturing businesses evolve, innovate and compete in a fast-changing world. With our unique combination of business services, government representation and industry intelligence, no other organisation is better placed to provide the skills, knowledge and networks they need to thrive.

We work with the UK's manufacturers, from the largest to the smallest, to help them work better, compete harder and innovate faster. Because we understand manufacturers so well, policy makers trust our advice and welcome our involvement in their deliberations. We work with them to create policies that are in the best interests of manufacturing, that encourage a high growth industry and boost its ability to make a positive contribution to the UK's real economy.

Our policy work delivers real business value for our members, giving us a unique insight into the way changing legislation will affect their business. This insight, complemented by intelligence gathered through our ongoing member research and networking programmes, informs our broad portfolio of services; services that unlock business potential by creating highly productive workplaces in which innovation, creativity and competitiveness can thrive.

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