From Negotiation to Implementation: The U.N. Framework Convention on Climate Change (UNFCCC)

Strategic Issues for International Business

International Conference on SF6 and the Environment - Nov. 21-22, 2002
Norine Kennedy, United States Council for International Business
• U.S. affiliate of International Chamber of Commerce and Business and Industry Advisory Committee to OECD

• Advocacy - International policy w/impacts on U.S. business: track, inform, influence

• 300 members

International Conference on SF6 and the Environment - Nov. 21-22, 2002
Norine Kennedy, United States Council for International Business
International Business and Global Climate Change

• Eclectic Overview: UNFCCC 8th Conference of Parties (COP8), Oct. 23 - Nov. 1, New Delhi
• UNFCCC Issues for Business: “The Treaty About Everything”
  – Role of companies
  – Long term issues
• On the horizon

International Conference on SF6 and the Environment - Nov. 21-22, 2002
Norine Kennedy, United States Council for International Business
UNFCCC and U.S. Business (1)

WHY DOES THIS MATTER TO U.S. COMPANIES?

• International rules and frameworks impact/pressure domestic rules and frameworks

• International market access, prices and trade

International Conference on SF6 and the Environment - Nov. 21-22, 2002
Norine Kennedy, United States Council for International Business
UNFCCC and U.S. Business (2)

- Impacts regardless of entry into force
- No single rulebook: patchwork implementation
- Technology innovation & voluntary approaches essential - should be stimulated
- Role (and diversity) of companies still not fully understood
- Long term issues and uncertainty

International Conference on SF6 and the Environment - Nov. 21-22, 2002
Norine Kennedy, United States Council for International Business
As of COP8... (1)

- 96 countries ratified the KP, with 33% of GHG -- 55% required for KP entry into force
- Some key countries will not ratify KP in foreseeable future - Russian swing vote (17.4%)

Kyoto Protocol Entry into force
Will COP9 = COP/MOP #1?

International Conference on SF6 and the Environment - Nov. 21-22, 2002
Norine Kennedy, United States Council for International Business (USCIB)
As of COP8... (2)

• CDM - Cost and complexity, particularly for SMEs
• Discussion of further Commitment Periods - Postponed again
• Technology Transfer - proposed “Enabling Framework” workshop

International Conference on SF6 and the Environment - Nov. 21-22, 2002
Norine Kennedy, United States Council for International Business (USCIB)
Role of Companies in the Kyoto Mechanisms (KMs)

- Companies’ ability to participate in KMs depends on access to emissions credits of various forms (AAUs, ERUs, CRUs, RMUs)
- Kyoto Protocol obligations are on countries, not companies
- National laws and regulations govern a company’s obligations and opportunities, e.g. emissions controls, product standards, access to markets
The Role of Companies in Kyoto Mechanisms (2)

Companies do business in countries in various forms:
- Small, medium, large enterprises that operate in only one country
- Affiliates of multinational corporations (MNCs)
- Joint ventures and partnerships with multiple corporate owners

NOT ALL MNCs ARE OECD-BASED
The Role of Companies in Kyoto Mechanisms (3)

• Eligibility to utilize KMs will depend on national circumstances (e.g. legislation, regulation) that should apply equally to all cos. in a given sector, regardless of the nationality of a co.’s owners

• All cos. doing business in non-Annex 1 countries should be equally eligible to develop CDM projects under national procedures-- both “national” cos. and affiliates of multinational cos. should be eligible to develop “host country” CDM projects
The Role of Companies in Kyoto Mechanisms (4)

- Will/how will companies be able to:
  - **ACQUIRE** credits through national allocation procedures, investments in projects or purchases in markets?
  - **EXCHANGE** credits internally or through markets?
  - **UTILIZE** credits to satisfy domestic emissions obligations?
The Role of Companies in Kyoto Mechanisms (5)

- BUSINESS OPPORTUNITIES AND RISKS
  - For many companies in countries with GHG controls, credits will be required to operate their business
  - The economic and strategic value of credits could be important as an investment for any company, anywhere
The Role of Companies in Kyoto Mechanisms (6)

- For companies investing in JI or CDM projects, consideration of the potential value of credits is part of investment decision
- For operating companies of JI or CDM projects, realization of credits with time will become part of the project’s opportunity & risk
- Acquisitions and sales of credits will subject companies to risk/liability that credits may become invalid or embargoed
- JI and CDM procedures will subject projects to additional time and costs for analyses and information, and risks from approval delays

International Conference on SF6 and the Environment - Nov. 21-22, 2002
Norine Kennedy, United States Council for International Business
The Role of Companies in Kyoto Mechanisms (7)

- Learning to live with “patchwork implementation”
- Competitiveness and trade tensions can be expected...

International Conference on SF6 and the Environment - Nov. 21-22, 2002
Norine Kennedy, United States Council for International Business
Long Term Considerations for Investments (1)

• Many energy investments require major costs, long lead times: financing, cost recovery & pricing affected by long-term considerations

• Even procedures for decision making can be contentious and costly-- for all stakeholders

• Risks, e.g. of stranded assets, infrastructure bottlenecks, limited power capacity, high costs
Long Term Considerations for Investments (2)

• Viability of long-lived investments with cost-recovery bases beyond 2012

• The availability of energy supply and associated infrastructure to support business, esp. energy intensive business

• New facilities siting, expansion of existing plants

• Competitiveness implications - national implementation policies

International Conference on SF6 and the Environment - Nov. 21-22, 2002
Norine Kennedy, United States Council for International Business
Regulatory Uncertainty & Kyoto: Need to Discuss Long-term **Now**

- Business routinely deals with uncertainty in all investments and addresses these, e.g. through design, financing, diversification, insurance
- Uncertainty exists already surrounding implementation of Kyoto’s 1st commitment period; companies do not yet know:
  - Their emissions obligations
  - The potential supply of emissions “credits”
  - Cost of emissions “credits”
- Kyoto Protocol provides **certainty** of new negotiations for the period after 2012, but **uncertainty** as to process or outcome

International Conference on SF6 and the Environment - Nov. 21-22, 2002
Norine Kennedy, United States Council for International Business
On the one hand: Some feel that regulatory certainty would allow business to plan and, where possible, adjust.

On the other hand: Certain but poorly designed regulations put a drag on society, may prove to be unworkable, or lead to exemptions.
Business Perspective: Regulatory Certainty

Regulatory certainty can never be guaranteed-- new information may require new approaches.

• Business desires:
  – Stable regulatory framework, with due regard for the consequences of too rapid change and fluctuation;
  – Cost-effective approaches that minimize trade barriers;
  – Clarity on regulatory process
  – Opportunity to contribute information, views

International Conference on SF6 and the Environment - Nov. 21-22, 2002
Norine Kennedy, United States Council for International Business
On the Horizon for the UNFCCC and Kyoto Protocol

- Compliance regime: binding consequences/enforcement
  - Implications for companies in non-compliant countries
- Consideration of 2nd commitment period (by 2005)
  - New (more stringent) Annex 1 Party commitments
  - Expanded EU, implications for Joint Fulfillment (Bubble)
  - Covered gases, Global Warming Potentials
  - Sinks
  - CDM post 2012
- Ways to promote global participation
  (US, developing countries)

International Conference on SF6 and the Environment - Nov. 21-22, 2002
Norine Kennedy, United States Council for International Business
Developing Issues for Business…

• Strategies for emissions trading and project investments now and for post 2012

• Implications of possible changes in covered gasses and GWPs

• Evolution of CDM, JI, and Emissions Trading

International Conference on SF6 and the Environment - Nov. 21-22, 2002
Norine Kennedy, United States Council for International Business
Bigger Issues on the Horizon

- Climate related efforts on other fronts: UNEP, WSSD, EU, etc...
- Trade/WTO tensions and conflicts: How to head off disputes that no-one will win?
- Experience with carbon trading and CDM: what will be learned by doing?
- Technology innovation, cooperation, dissemination: OECD to non-OECD cos.

International Conference on SF6 and the Environment - Nov. 21-22, 2002
Norine Kennedy, United States Council for International Business
Some Parting Thoughts on…

Sustainable Development and …

Climate Change

International Conference on SF6 and the Environment - Nov. 21-22, 2002
Norine Kennedy, United States Council for International Business
Climate Change and Sustainable Development: What?

- Energy for developing countries, while still addressing climate change concerns
- Technological innovation, dissemination & cooperation
- Promoting trade, avoiding trade barriers & disputes
- Cost effective policies -- including voluntary approaches -- flexible to new scientific findings
- A global cooperative approach based on free and open markets, investment and entrepreneurship

International Conference on SF6 and the Environment - Nov. 21-22, 2002
Norine Kennedy, United States Council for International Business
Climate Change and Sustainable Development: How?

• More substantive consultative relationships with UNFCCC and participation in workshops and discussions
• WSSD “TYPE 2” Partnerships and other voluntary initiatives
• Commercial relationships with JVs and SMEs

International Conference on SF6 and the Environment - Nov. 21-22, 2002
Norine Kennedy, United States Council for International Business