



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

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- 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

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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**

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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

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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

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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?**

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As of COP8... (2)

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

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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**

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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

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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**

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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 ?

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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

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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**

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The Role of Companies in Kyoto Mechanisms (7)

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

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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**

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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 intense business**
- **New facilities siting, expansion of existing plants**
- **Competitiveness implications - national implementation policies**

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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**

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Business Perspective: Regulatory Certainty

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

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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**

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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)**

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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**

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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.**

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Some Parting Thoughts on....

Sustainable Development
and ...

Climate Change

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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**

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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

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