

## Shifting Climate: Where to from Copenhagen?

By Harvey Bell

It was always going to be difficult to get a binding agreement from the Copenhagen Climate Change summit. The political and economic landscape around the globe has changed significantly since the Kyoto Protocol was agreed in 1997.

It has been claimed that Kyoto also came close to failure but for the efforts of some determined officials the night before the final session when a communiqué was prepared. Without any knowledge of its authorship but aware that the alternative was failure, the politicians signed up to it and then went on to claim Kyoto as a success.

Since then it has been widely acknowledged that there were many anomalies and inconsistencies that were supposed to be dealt with at Copenhagen – but weren't. Amidst a fallout of criticism UN boss, Ban Ki-moon, saw things differently from most global leaders. In a statement issued by his press office, Ban said the two-week meeting had a “successful conclusion with substantive outcomes.”

It can only be assumed that the basis of the optimistic view was ‘the accord’ struck by the United States, China and other emerging powers. This amounted to a target of limiting global warming to a maximum two degrees Celsius over pre-industrial times. However these were only words because there was no mention of how this would be achieved.

The Copenhagen ‘accord’ also held out the prospect of \$100 billion in annual aid from 2020 for developing nations. However again there was no attempt to identify where this money might come from. This all meant that the fundamental issues such as emissions cuts and funding on emissions reduction technologies for developing nations were pushed into the future.

<b>Greenhouse gas (GHG) emissions including Land use, land use change &amp; forestry (LULUCF)</b>				
<b>Country</b>	<b>Mt CO<sub>2</sub></b>	<b>Ranking</b>	<b>Share</b>	<b>Total</b>
China*	7187.0	1	16.84%	16.84%
USA	6814.3	2	15.97%	32.81%
EU – (27)	5049.2	3	11.83%	44.64%
Brazil	2841.9	4	6.66%	51.30%
Indonesia	2041.9	5	4.79%	56.09%
Russia	2005.4	6	4.70%	60.79%
India*	1866.1	7	4.37%	65.16%
Japan*	1356.2	8	3.18%	68.34%
Canada	803.8	9	1.88%	70.22%
Mexico*	683.4	10	1.60%	71.83%

*This table shows the top ten emitters responsible for nearly 72% of the world's total emissions. The NZ contribution to GHG emissions is in the region of 0.2%, well under the margin of error.*

### Conclusion about Copenhagen

Basically, it didn't happen; there is no agreed successor to the Kyoto Protocol. If the agenda had had a backstop position to roll the Kyoto Protocol over to CP2 (from 1 Jan 2013) that could well have been agreed while efforts were made to get a totally new agreement. However these issues may be academic because there would seem to be a more fundamental problem with the climate change

response framework – credibility. There have been warnings about fraudulent trading in carbon credits with Europol (the EU's equivalent to Interpol, based in The Hague) estimating that up to 90% of all carbon market volume in some EU nations was related to fraudulent activities.

The recent near melt-down of the (ancient, by comparison) financial markets should be a timely reminder that the checks and balances required for trading a total contrivance such as a 'carbon credit' are extremely onerous, probably to the point of being impossible to implement. Without a central register and constant independent verification, the basis of certified carbon credits will always be an issue. The cost of a register and verification would be enormous and who would pay?

The question then is: has the current framework or a similar successor got any chance of delivering on its stated aims for GHG emissions reductions? I fear not.

### **The New Zealand Situation**

The Climate Change Response Amendment Act was rushed through late last year because it was deemed that having it in place, ahead of most other countries who ratified the Kyoto Protocol, was going to enhance NZ's negotiating position in some key areas (mostly around the Kyoto forestry rules) at the December (2009) Copenhagen summit. High on this agenda was "off-setting" ie the ability to replace harvested pre-1990 forests with a new forest thus unlocking value from higher value use land. The problem is that no other country in the world has any interest in this so it will get no traction.

One of the features of the amendments to the Emission Trading Scheme ("ETS") was to bring NZ into line with the then proposed Australian scheme. The major difference was that Australia was not including agriculture in its ETS (neither has any other country) while NZ has, (albeit starting in 2015 accounting initially for just 10% of the emissions and increasing by 1.3% pa).

The first knock to this strategy was when the Australian Prime Minister couldn't get parliamentary support for his climate change legislation. In fact the leader of the Australian opposition lost his leadership position as a result of his support of this legislation. The latest thinking from Australia is that there is still no way of getting majority support.

The failure at Copenhagen was another blow to NZ because we now have no internationally agreed rules after 31 December 2012. This means we still have a high degree of uncertainty about the future and there will be no ETS related investment in the short term as a result.

We now also have to face the likelihood that the USA will not legally bind itself to reducing its GHG emissions, making it all rather pointless for the rest of us.

### **Forestry and its opportunities**

One of the claims about the amending legislation was that it was going to provide the framework to engender the confidence the forestry sector needed to undertake new plantings. Because of animal generated methane, mitigation is the only way NZ can ever achieve any meaningful reductions in net GHG emissions so new forest planting is essential.

Energy and transport are to come into the ETS on 1 July 2010 thus theoretically providing a market for tree-sequestered carbon. However in order set a maximum price of carbon credits through to 2013, the government has offered to allow emitters to pay it \$25 per tonne. The reality is likely to be that AAU's in the global market place will cost less than that so the government's offer will not be accepted. The net result is that there is no market at \$25 or more for the foreseeable future for NZ tree related carbon credits.

While having willing buyers is obviously fundamental, the price is a concern because our analysis shows that \$25 is the minimum required to kick-start a carbon farming operation. For example, with a cost of funds of 7% pa, annual sequestration averaging 20 tonnes pa (for a mix of commercial and permanent trees), a present value of establishment costs, fencing and silviculture at \$4,500 per ha, the pay-back is 15 years – a long time for an unproven derivative such as a carbon credit.

In light of the previously mentioned forest planting in China (and other projects around the world), there can be no confidence in the profitability of commercial forestry over the next 30 to 50 years. This means that including any net returns from harvesting to justify an investment is at best highly speculative.

In summary on the 'opportunities' front resulting from the Emissions Trading Scheme, the prudent advice must be to warn against going into any new forestry planting projects at this time without a long term (reputable) buyer in place for the resulting carbon credits.

The current framework cannot be fixed. I believe that there will be pressure for like-minded governments around the world to work together to devise a new mechanism embodying the principles of the UNFCCC<sup>1</sup> in terms of GHG emissions reductions.

The focus will be on achieving competitive advantage for products with verified carbon footprint certification rather than across the board cost impositions. Exporters, for example, would look to input suppliers with the lowest carbon footprints to minimise their overall mitigation requirements if a zero footprint is the goal. And forestry will have a very important part to play in this model.

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<sup>1</sup> United Nations Framework Convention on Climate Change