



**Fitzpatrick
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Hot Topic

Newsletter 3

Updates from the Global Climate Change Negotiations

HOT Topic is a collaboration between Fitzpatrick Woods Consulting (FWC) and IndustryEdge. The updates are provided by FWC Principal, Tim Woods, based in Poland for the two weeks of the United Nations' climate change negotiations.

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“The Bali Action Plan got the global climate negotiations moving when absolute failure loomed.”

Slow and steady on the surface

But beneath the water, the legs are thrashing around...

There is no comparison between the headline outcomes from Bali in 2007 and Poznan in 2008. The Bali Action Plan got the global climate negotiations moving when absolute failure loomed.

These ‘midpoint’ negotiations in 2008 were never going to do more on the surface than set the scene for the year of negotiations leading up to Copenhagen in December 2009. That was especially the case with the position of the new US administration unclear and the financial crisis continuing to unwind.

But beneath the surface and in the private negotiation rooms, leading countries are manoeuvring and testing positions and keeping their plans and progress hidden from public view.

The really big issues are clear enough.

The biggest is a simplistic and increasingly problematic divide that, on key topics, separates developed countries from developing countries. This manifests itself in two practical ways. First, under the current arrangements, only developed countries must have binding emissions reduction targets. Second, developed countries are also expected to make the major financial contributions to mitigation (emission reduction activities) and adaptation (addressing the impacts of emissions).

Of course, there is some sense to this, especially the provision of funding by those who can most afford to pay. If there is global agreement on climate change and the measures to address it, there is not a lot of choice about this anyway if policy is to become practice.

There are real problems with the binary nature of this divide.

It is difficult to maintain an argument that some countries that were ‘developing’ in 1997 are still unable to make a full contribution to emissions reduction. Think Singapore for a regional example.



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“Why would developed countries make significant emissions reduction or financing commitments?”

It is equally difficult to sustain an argument that countries like China are not already responsible for reducing their own emissions as they continue to grow at a massive pace. This reduction could probably be achieved at very low cost to growth.

At this meeting, the large, rapidly developing countries – China, India and Brazil – have made clear they will not accept any change to the binary divide, especially one that would see them with mandatory obligations.

But if they do not, why would developed countries make significant emissions reduction or financing commitments?

So of course, at the heart of all of this is money.

We are not being cute when we say that in effect, these are trade negotiations with the outcomes having far reaching social and economic outcomes. That is why almost every country in the world is involved. These things are played out by nations, for national interests.

By the end of 2009, expect the national interests to come together enough for a new agreement to take effect from 2012. Do not expect it to shake the earth unless something really significant happens.



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Hot Button Updates...

Here is FWC's assessment of the hot topics we have tracked over the course of the negotiations.

The role of forestry in any post 2012 scheme. Not a lot of time was devoted to forestry in the main sessions, but there continues to be recognition from most countries that forests and the carbon stored in them will play a major role in emissions reductions into the future. Where countries differ is on the best way to achieve this. The issues to be addressed include:

- Recognition of the carbon stored in harvested wood products
- Ensuring that natural disturbances to forest carbon stocks (fire, pests, drought etc) are not counted as though they were human caused emissions
- Establishing definitions and rules that assist to reduce emissions arising from deforestation and degradation in developing countries
- Ensuring the rules around carbon accounting for various land uses are sufficiently flexible to take Australia's specific needs into account

CCS – Carbon Capture and Storage

There are some nations that do not want CCS plants or technologies in their countries, but there is overarching support for advancing this technology. The major opponent is Brazil and while it is speculation, we guess their concerns are related to trying to avoid competition for their burgeoning bio-fuels industry.

Renewable energy

Aside from the conflict between biomass energy and other energy sources outlined above, the lack of impediments to the use of biomass energy at an international level makes this a domestic policy issue. Australia's international role will continue to be arguing for proper accounting treatment of bio-energy feed stocks – like forest biomass.

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**To organise a customised
briefing, contact:**

Tim Woods
Fitzpatrick Woods Consulting
twoods@fitzpatrickwoods.com.au
Australia: (03) 8307 0985
International: (+61) 383 070 985

Robert Eastment
IndustryEdge
robert@industryedge.com.au
Australia: (03) 62 315 677
International: (+61) 362 315 677

Finance

As we have commented before, all options are going to stay on the table into 2009, but progress was made in Poland on funding for adaptation (addressing the impact of emissions). If the decisions here are followed through, the use of pooled global funds will become increasingly regular. The role of private organisations and funding is under active consideration.

Technology Transfer

This is an over-spruiked, ill considered and complex area of policy. The idea is to ensure the lowest emissions technologies are transferred as quickly as possible around the world. But let's consider the issues that need to be addressed:

- Technology is usually owned by companies, not countries. There are serious rights and even sovereign risk issues here
- Technological advantages are the competitive edge for some countries
- Not all best available technologies are held in developed countries. China and the pulp and paper industry is a developing country example with technology
- Avoiding perverse outcomes like loss of capital and jobs from countries that transfer capital to other countries.

This is a tough issue to see resolved within one year.

More Information from the UN Website

For further information on the UN climate change negotiations, check out the UN's website at www.unfccc.int. The site's a little hard to navigate, so if you are looking for detail on a topic, contact:

Tim Woods at twoods@fitzpatrickwoods.com.au

Further Information and Briefings

We understand that some firms will be seeking additional information and specific circumstance briefings as they assess the current state of play.