

Copenhagen and the Politics of “Chaos” - The Fallout for Alberta

Bob Page, PhD

TransAlta Professor of Environmental Management and Sustainability, University of Calgary
Chair, National Round Table on the Environment and the Economy, Ottawa



ISEEE Breakfast Presentation
Petroleum Club Calgary
February 16, 2010

Introduction – Post Copenhagen Scene

- The scenario is a different one – hope I am wrong – but serious risks for Alberta- when everyone is waiting for somebody else – the main features include:
 - There is **no binding agreement** to replace Kyoto.
 - **Voluntary plans** have been submitted by 55 countries to the UNFCC.
 - No country wishes to play all their cards **until the US acts** (no repeat of Kyoto) – this looks unlikely for this year.

Introduction – Post Copenhagen Scene

- **We host** the G-8 and the G-20 and are expected to provide **leadership.**
- We could have a **federal election** at the time strongly influenced by Ontario and Quebec views.
- There is **no national consensus / federal-provincial** disputes and jurisdiction issues.
- Huge investment decisions awaiting the outcome where the carbon price is a huge factor.

Historical Evolution of Global Climate Negotiations – Drivers for Copenhagen

- ❑ Begin in **Toronto in 1988** – Brian Mulroney hosted the world – first large conference and IPCC launched.
- ❑ Continues in **Rio in 1992** – Jean Charest – Rio Declaration & Framework Convention on Climate Change – Best Efforts – Stabilization at 1990 levels by 2000 – Emissions Cuts & Poverty Alleviation – signed & ratified by all (Over 150 countries including US).
- ❑ **Kyoto in 1997** – requires Canada to reduce its emissions by 6% from 1990 – (2008 – 2012 average), Canada ratified this treaty in 2002. It entered into force in 2005 with Russia – US signed the treaty (Clinton) but never ratified (Bush). Canada remains under Kyoto.
- ❑ **Two Streams** at Copenhagen – **UNFCCC** and **Kyoto** – status of Kyoto after 2012 – For Canada **Kyoto Must end!** – Parliamentary Bill – but many opposed this at Copenhagen.

Main Features of the Kyoto Protocol

- **Developed countries** with targets for emissions cuts and **developing countries** without – Copenhagen to bring developing countries in.
- EU -8%, US -7%, **Canada -6%**, **Australia +8%** from the 1990 emissions levels. Only Canada has rejected the targets.
- **Kyoto Mechanisms** – Emissions Trading to play role - for this group the development of the offset concept – Global Carbon Market today.
- **Offsets Capture CO₂** outside company and transfer credits to cover emissions reduction obligations – lower compliance costs.
- **Agriculture and forestry** – two of the key areas but never without controversy – progress on forestry at Copenhagen.
- **Certainty**, permanence, verification, carbon net benefits and liability issues there – food vs. power; (Mexico riots on corn prices) – US stops imports of Brazilian cellulosic ethanol products.

Canadian Situation (1997-2005)

- **Federal-Provincial** Conference at **Regina** before Kyoto – Target is stabilization.
- Ignored in the instructions to the **negotiators**.
- **Public Participation** Processes fail – Tables! 1. East vs. West, 2. manufacturers vs. oil producers, 3. consumer vs. producers.
- **Bush rejection** puts Canada in impossible trade & competitiveness position – **only country** in the Americas with Kyoto obligations.
- Chretien, Martin, and Harper all fail to complete **Kyoto implementation** – Policy impasse.

Canadian Situation (cont)

- **Today we have the following:**
 - Commitment to a **Cap & Trade** system to follow US.
 - **-17 % emissions** cut from 2005 levels by 2020? – 20 MT less than previous target.
 - **Electricity** 90% emissions free by 2020 .
 - Partial release of the **offsets policy**.
 - Very limited **international trading** (10%?).
 - **Uncertainty** for investors or emitters in taking action.
 - **Merging** of Canadian in the US Legislation – but when will it be passed!

The Power Blocks at Copenhagen

1. **The United States** – everyone else will act in relation to their policy – lack of ratification of US Senate – Obama announced target at Copenhagen – G-2 negotiations - -17% from 2005 by 2020 conditional (January 29, 2010).
2. **The European Union** – huge block of 27 nations – has created the Kyoto model - Influence in every direction – now in decline – East vs. Western EU.
3. **Japan, Canada, Australia, New Zealand** and others (Umbrella Group) loose coalitions if interests not always with Canada.
4. **G -77 plus China** – Developing Country Block but India and China the leaders – Brazil, México, South Africa, are all influential.
5. **Other Blocks**
 1. OPEC – oil issues
 2. Small Island States – sea level rise
 3. Latin America or Africa
 4. Issue Blocks which come and go
 5. The United Nations dependent states

The Power Blocks at Copenhagen (cont)

- There were about 40,000 reps of **other non-government** organizations at Copenhagen.
 1. The **ENGO's** are the most influential especially in the EU.
 2. **Corporations** and their organizations (CAPP or IEA)
 3. **Scientific Organizations** (IPCC)
 4. **Cities and Non- National Government** (Alberta & Quebec)
 5. **Trade Unions**
- Lineups so long some never got in / security and frustrated demonstrators.

The Process Problems at Copenhagen

1. **Negotiating Text** – is a chess game with bracketed sections – 10 times the desired length.
2. **National Allocations** – the numbers of tonnes you emit and you have to cut with target – producers lose out – Alberta vs. EU.
3. **The Kyoto Mechanism**
 1. Developing Countries Clean Development Mechanism (**CDM**)
 2. Economies in Transition (Eastern Europe) – **Joint Implementation**
 3. Assigned Amount Units AAU's (**Russian Hot Air**)
4. **The Two Streams** – Kyoto and UNFCCC.

The Process Problems at Copenhagen

5. **Developing Countries** want to be paid \$200 billion per year for action on climate changes or no agreement, emissions intensity to allow for growth (\$30B in 2010-2012 - wealth transfer).
6. **What is a Global Carbon Trading Market** – global, bilateral, regional? – support in decline – Cap and Trade.
7. **Additionality** – additional to what would have happened any way – financial impossible to determine.
8. **Liquidity** (volume) and **fungibility** (range of products) – European price about 13-15 Euros / 20 dollars – more stable than oil or gas world prices.

Issues for Canada

1. **Hostility for not attempting to meet** our Kyoto targets – credibility - not sympathetic to Canadian issues – EU and ENGO target – “Fossil of the Day” – In the media and corridors not the negotiations.
2. The **Kyoto System recognizes only energy consumption** emissions not the emissions for **production** and for exporting - no LCA – EU production emissions in Russian and OPEC totals - Canada absorbs responsibility for all emissions.
3. Canada has **special circumstances** of cold winter, long travel distances, high rates of economic and population growth which will never be recognized.
4. In the negotiations Canada attempted to **achieve recognition for offsets** covering our agricultural soils, bio-energy, and forestry credits – these are our comparative advantage.

Issues for Canada (cont)

5. **Emissions Reporting Systems** - Canada agreed to move from existing **emissions intensity** to an **absolute emissions** reporting and target systems by 2020 – oilsands?
6. **New CCS and other technology** – needed today to meet expected targets but 10-20 years from being available commercially **time gap** between need for action now and delivery of the technology.
7. Canadian emission reduction actions **more difficult and more costly** than US \$40 tonne vs. \$100 tonnes. (Current EU price about \$20 per tonne) – problem for bilateral trading.

Issues for Canada (cont)

8. Worked to achieve international acceptance of the viability of the **CCS technology** critical for Canada, US, Russia, China, etc.
 - Canada becomes world's leader on CCS technology – No agreement in CDM negotiations
9. To achieve our climate goal there must be a clear **carbon price** signal high enough to **change consumer behavior** as well as finance new energy technology or systems - no agreement on global carbon price.
10. Finding alternative areas for emissions cuts (electricity?) to cover oilsands emissions growth.

Why Canada needs a **Global Climate Agreement**

- Many in Canada wished to **see no agreement** in the belief that the issue will just go away. This is **short sighted** and very risky as an international treaty is almost inevitable in time.
- A. If the Copenhagen process fails over the next year or two, then the **Kyoto process** remains in force with its obligation for Canada and increased risk of **trade protectionist** measures for export products with imbedded emissions.
- B. If the Copenhagen process succeeds, the new agreement may lessen the pressure for **carbon border adjustment fees** and other protectionist measures from US and EU, or it may not.
- C. Given the interaction between global, bilateral and domestic climate policy, Canadian investors and exporters need the **certainty of an international agreement** and no residual role for Kyoto.

The US and Copenhagen

- The greatest factor in breaking the **Copenhagen Impasse** is the **US proceeding** to pass climate legislation in the next six months.
- But this is not a high priority for any legislation.
- If they do pass a bill it will likely be watered down.
 - A. Without provisions for **Cap and Trade**.
 - B. Have it cover the **electricity sector** only.
- This would not meet the requirements for the **Copenhagen Accord** – little progress for the COP XVI is likely at **Mexico City**.

The US and Copenhagen (cont)

- If the federal initiatives fail in the US we will see further **fracturing of the policy process** with state and regional initiatives such as **RGGI and WCI**.
- These impact four **Canadian Provinces** – BC, Manitoba, Quebec, and Ontario – further tensions in the federation – Quebec/Ottawa feud.
- Obama's ability to have **EPA regulate directly** – now being countered by Congressional bill **to veto it** – which has bipartisan support – Obama's recent budget contained \$43 million for EPA to regulate CO₂.

The US and Copenhagen (cont)

- Another major issue for Alberta is the **California Low Carbon Fuel Standard** adopted last month.
- The measure is being **challenged in the courts** by oil refining, trucking, and the Center for North American Energy Security as an “**unconstitutional burden on interstate commerce**”.
- The issue for the oilsands is not the California market where they **sell little product**, but rather the measure is under consideration in 16 other states (WCI, etc.) as well as for inclusion in federal legislation.
- The California Air Resources Board (CARB) has never hidden its dislike for the oilsands and its desire to close them down.

The US and Copenhagen (cont)

- There is still considerable support in the US for a **border carbon adjustment fee** to protect US jobs and competitiveness from products imported from countries with less rigorous carbon regulation.
- This is why **Jim Prentice** is so insistent on the convergence of US and Canadian legislation.
- Several weeks ago when I was in Washington DC, **Senate staffers informed** me this would be required to get bill through – while it was designed to address Chinese imports, it would **sideswipe Canada** as our products tend to be more carbon intensive.
- Another of the points that they made was that the US would **not likely recognize technology fund** as emission reduction – technology fund preferred regulatory compliance mechanism.

The Post Copenhagen Era

- We have some **breathing time** which is a very good thing to get our house in order – but **events may move quickly** in the next few years – G-8 is critical start to Accord – 2011 and beyond.
- We are currently focusing on **environmental integrity deficit** in the eyes of many other nations – while this **perception** is not fair - perception is the **reality** in politics – how do we counter it?
- The Post Copenhagen world sees much **frustration, uncertainty, and potential danger** – **search for scapegoats to blame – Canada?**

Kyoto into Copenhagen

- For many countries, **Kyoto is the foundation** from which **Copenhagen Accord is launched**. We cannot assume **Kyoto is dead** and we are free to **ignore our residual legal liabilities**.
- Parliament has passed **a bill** to implement **Kyoto** but we have no hope of implementing it.
- There is **a structural bias** against **Canada in Kyoto**. We have both **production** and **consumption** emissions (including exported production). EU has mainly **consumption** emissions and their production emissions are in **Russia and OPEC**.
- Canada has the **toughest and most costly** obligations of all members of the G-8 but because of past commitments we have to live with it.

Energy Security/ Pure Geopolitics

- ❑ **Conflict in the US** over the **definition** of energy security – renewables, conservation, and efficiency, lower imports into US or increased oilsands supply.
- ❑ **Energy Security for Russia** – the new **Cold War** of Energy – build energy dependency in EU and China – largest production in the world – across the open Arctic Ocean.
- ❑ **Energy Security for China** – flexibility to allow (1.) continued use of **coal, buying reserves and** (2.) **production** in Alberta, and (3.) **world leader** on renewables technology (wind, solar, etc.) – sell to the world.

Energy Security/ Pure Geopolitics (cont)

- **Brazil huge new deals – Shell and Cosan SA as well as BP and Tropical Bioenergies SA – new leader on cellulosic ethanol – post petroleum era – future of energy – global leaders.**
- **National oil companies – nearly 90% of new petroleum reserves – future in their hands – Alberta an exception – often lost in all the noise.**

What does the Developing World want?

- ❑ **Sudan** and the **New Holocaust** in Africa!
- ❑ **Since Rio in 1992** – promised funding never arrived – bitterness.
- ❑ **Failure of CDM** in areas like Africa.
- ❑ **Economic downturn** and **aid budgets cut**.
- ❑ **Small island** states and **sea level rise**.
- ❑ **Desertification** in sub-Saharan Africa – water for life and crops – refugees and political instability .
- ❑ **Proposed funding of \$30B** over 2010-2012 and up to \$100B a year 2020 – genuine or blackmail and how will the money be used? Accountability vs. National Sovereignty.

The Actual Cuts Proposed

- By Feb 1, 2010 **55** Nations representing **78%** of global emissions submitted their voluntary plans.
- **Australia** : 5% to 25% reduction from 2002 levels – 25% in the event of vigorous global deal.
- **Canada** : 17% reduction from 2005 / link to US.
- **EU** : 20% reduction below 1990 – move to 30% if others offer similar cuts.
- **Japan** : 25% reduction if all major economies.
- **New Zealand** : 10% to 20% below 1990 with global agreement
- **Norway** : 30/40% below 1990 levels.
- **US** : 17% below 2005 levels.

The Actual Cuts Proposed (Developing Countries)

- **Brazil** – 36.1 to 38.9 below BAU for 2020.
- **Indonesia**– 26% below BAU for 2020.
- **China** – 40/45% below rate of 2005 GDP. No mention of Accord.
- **India**– 20/25% below rate of emission intensity by 2020 – no mention of Accord.
- Is this a **coherent system** which can be converted into a legally binding agreement? Probably not, but it is a start to draw in developing countries.

Conclusions: International

1. **The Copenhagen process is flawed and dysfunctional.** Effective decisions are almost impossible through the "Consensus" process. Small group led by Venezuela and Sudan create barrier. New process required which allows voting approval by 75% of the parties. President Calderon (Mexican host of COP XVI) will propose such a scheme.
2. Even with the above reform there is need for an **increased role for the G-20 to be hosted by Canada** in June and South Korea in November. We are expected to play a leadership role.
3. Delay opens the way for new industry **based voluntary international environmental standards (ISO 14,000 series)**. UN has signed a MOU with ISO to promote these standards. They are particularly useful in the developing world with limited regulatory capacity. Canada leading this effort.

Conclusions: International

4. In the longer term there is need to **convert the emissions based Kyoto system into a sector based technology standards system** so economic growth is not penalized.

5. The Copenhagen Accord calls for a **quick start \$30 billion fund (2010-2012) to be gradually increased to a \$100 billion per year by 2020.** There are serious accountability and governance issues with this large transfer of funds given some of the potential recipients.

Conclusions : Domestic

1. Copenhagen result was **good for Canada and for Alberta energy sector**. Minister Prentice took a responsible position with regards to future commitments. The time delay in international action gives Canada period to work out common North American policy. We welcome important change with developing country participation. But the future status of Kyoto obligations awaiting legally binding accord.
2. Canada's **focus for the immediate future must be on the US** with only a secondary role for Copenhagen which will only begin to proceed when US Congress passes the legislation. Canadian trade needs require compatibility between Canadian and US environmental legislation.
3. In its negotiations with the US on **energy security, environmental compatibility, and trade access** Canada needs to have the option of an **alternative market** for oilsands product. US does not believe Canada will slow oilsands growth as a negotiating tool. We must proceed resolutely with the **Enbridge Northern Gateway Pipeline** to the Pacific project so there is the **real option of an alternative Asian market** for our product.

Conclusions : Domestic

4. Alberta industry need to help the federal government with the public perception of oilsands. We are losing this battle in the US. We need something dramatic and substantial to erode the "dirty oil" campaign. I would suggest a **CAPP led Climate Code of Carbon Stewardship** which would be similar to the Chemical Industry's Responsible Care program devised after the public outcry of the late 1980's over chemical spills. There would be **targets and schedules** beginning with "intensity" and evolving after 2015 into "absolute" emissions. There would these targets for all new projects and offset requirements for existing. The oilsands product would meet **Life Cycle Assessment** standards for the median emissions of all imported crude into the US.
5. A new AOSTRA style **national partnership of industry, universities, and government** to design, test, and implement the new CCS technology for oil and gas as well as electricity. We start now on the technology we need for the 2020's and build on the existing projects with their government funding. Create a new vision of fossil fuels in a carbon constrained world. We make Alberta the world leader on this new technology. We seriously weaken the arguments of our critics and the chances of trade barriers.