

For business the wider agenda of sustainability has grown in the year since COP16. A journey to a sustainable future is now part of many companies strategic thinking. Current and likely future volatility in commodity costs, shifting stakeholder sustainability priorities and the impact of integrated reporting are recent material changes which are now influencing the debate. Continued uncertainty about the response to greenhouse gas emissions only adds to the complexity business faces.

For more information, please contact:



Duane Newman
Director and South African Lead for Sustainability and Climate Change

Mobile: +27 (0)82 783 5057
Email: dnewman@deloitte.co.za



Peter Oldacre
Senior Manager for Sustainability and Climate Change

Mobile: +27 (0)82 920 4984
Email: poldacre@deloitte.co.za



Nick Main
Global Partner for Sustainability and Climate Change

Mobile: +44 7825 102978
Email: nimain@deloitte.co.uk

Deloitte refers to one or more of Deloitte Touche Tohmatsu Limited, a UK private company limited by guarantee, and its network of member firms, each of which is a legally separate and independent entity. Please see www.deloitte.com/about for a detailed description of the legal structure of Deloitte Touche Tohmatsu Limited and its member firms.

© 2011 Deloitte & Touche. All rights reserved. Member of Deloitte Touche Tohmatsu Limited

Designed and produced by Creative Solutions at Deloitte, Johannesburg. (802570/chr)

Sustainability and Climate Change COP17 - The essence of time

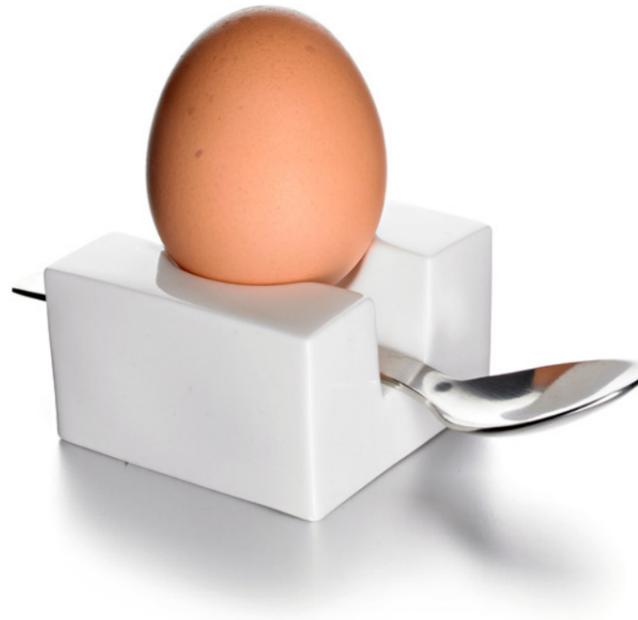


The outlook for the next meeting of the United Nations Framework Convention on Climate Change (UNFCCC) Conference / Meeting of the Parties - COP17/MOP7 - to be held over two weeks from the end of November in Durban, South Africa, has left many uncertain on the way forward.

The end of the first commitment period of the Kyoto Protocol, 31 December 2012, is approaching quickly with none of the global binding agreements that are considered as necessary to support a global response to human induced climate change in place. This is of grave concern, since as well as providing no pathway to a low carbon economy and to limiting temperature increases to below 2 degrees, it has an impact on the carbon markets which underpin the previous vision of technology sharing and an efficient path to reductions.

There was more hope in the outcomes of COP16 which took place in Cancun, Mexico on 29 November 2010 to 10 December 2010 - possibly in direct contrast to the outcomes from the negotiations that broke down in Copenhagen in 2009. But nearly a year on from Cancun, the mobilisation of the outcomes has fallen short of the concrete steps desired, despite there being a concerted effort by some to move the issues forward.

With the first commitment period of the Kyoto Protocol expiring at the end of next year positive outcomes from COP17 need to be generated. Business is realising that it is a key stakeholder with a role to play in the negotiations - business must be part of the solution and the design of mechanisms to engage business surely would benefit from business input. A formal process of business input into the negotiations would be seen as a positive step in the right direction.



Why are the negotiations important?

- The Conference of the Parties / Meeting of the Parties is the only global negotiations aimed at achieving global reductions in Greenhouse Gas (GHG) emissions. These are the frameworks in which the Kyoto Protocol was negotiated. The first commitment period under the Kyoto Protocol expires in 2012. There is no replacement treaty or second commitment period at this stage - we may only see an international agreement in 2020.
- Climate Change is a global issue - no longer the sole domain of the environmentally conscious. Without a clear and transparent global view and a legally binding agreement on how commitments for reducing emissions are to be shared, it is difficult to expect much progress coming out of COP17.
- The gap between agreements presents opportunities for the development of bilateral agreements. Technology transfer and infrastructure development are motivations for developed and developing countries to participate in bilateral agreements which could make the global issues more complicated.
- Cancun saw funding promises being made from the developed countries to the developing and less-developed countries. A Green Climate Fund to assist the transition to a low carbon economy and mitigate climate change was agreed to at Cancun. Design of the fund is underway and will be presented at COP17 for consideration. Transparency and accountability in the governance of the fund needs to form the cornerstones so as to incentivise private sector investment.
- So far delivery against the \$100Bn promise has been less than overwhelming. Expect a developing country focus on this issue and a demand for new (not relabelled) funds. In the absence of a vibrant carbon market it is difficult to see how this can be delivered.

The impact on business

Country initiatives are now of the greatest significance but are being implemented with widely differentiated design and acceptance. In the USA the Obama Administration's efforts to shepherd a clean energy and climate bill through the Congress are all but abandoned. Yet Australia, China and Japan have seen emission reduction measures pause and change direction but still continue.

Several Chinese cities are experimenting with carbon trading. China intends to gradually develop a national market to trade carbon emissions and to reduce emissions and save energy. As part of this push to reduce carbon intensity, China is also promoting the development of green technologies and products to help manage down the impact of growth in energy intensive industries. The investment isn't being made simply because it's good for the environment - it's also seen as good for the economy. The message for business is that there are new opportunities and markets. Become aware of these markets and other incentives that create strategic opportunity.

However an uncertain outcome will not be good for business. There are significant implications from a mosaic of different regulations and incentives. There will be new opportunities, for example from leveraging 'Innovative Green Finance' which needs to attract more private sector investment. There will be new risks. All of this may require a review of existing business models.

As the meeting approaches there is a sense there is no concise plan to deal with a complex and diverse agenda. The aftermath of the financial crisis has left many countries with different priorities and a reluctance to commit to anything that could place an additional burden on their economies. We should hope for progress towards a mitigation framework with increased ambition for developed countries, flexible plans for those still developing and common measurement and accounting rules to be added to a robust MRV framework.

Business should become a lot more involved in the negotiations. The time to be mere observers has past. If business does not become involved the risk of having no effective global agreement on climate change is high. The only way that this can happen at present is through the country negotiation teams.

Predictions - What can we expect from COP17?

- Instead of strident calls for an all inclusive legally binding climate change agreement, the focus will be on talks to create mechanisms that would allow the progress made at last year's Cancun talks to be realised. International collaboration on stabilising greenhouse gas concentrations needs to be committed to by the parties that previously ratified Kyoto.
- Mechanisms on the table to be discussed are centred on the Measurement, Reporting and Verification (MRV), technology and the governance of the Green Climate Fund.

Mechanism	
MRV	More focus will be given to the issue of Measurement, Reporting and Verification (MRV). This is a fundamental issue for accuracy and usability of the measurement for reductions. Loopholes need to be closed and rigorous discussions undertaken to increase the levels of ambition in developed countries.
Technology	Cancun saw the establishment of a Technology Mechanism and a Climate Technology Centre and Network. Policy, strategy and direct support are conditions respectively. Practicality is the essence of the mechanism which seeks to ascertain partnerships and collaboration between stakeholders. Stress has been placed on the necessity for a mechanism which is adaptable and responsive to national circumstances. Private sector has a key role in enhancing conditions for investment.
Green Climate Fund	Channelling \$100Bn a year in climate related investment from the developed world to the developing world by 2020 would be a triumph for the developing world (although some are signalling it is not enough). A set of instruments to provide a variety of support needs to be put in place. Each instrument should be offered by any number of public and private institutions. Competition between them would be a good way to keep costs down and provide good governance and transparency.

- Significant attention will be placed on the architectural design of the agreements. As of January 2011, 43 countries had submitted a list of Nationally Appropriate Mitigation Activities (NAMAs) to the UNFCCC Secretariat. The extraction of any common rules for design options or metrics for measuring, reporting and verification is, at this stage, complicated.
- Country classification - "developed" versus "developing" - will form a noteworthy debate. The stark difference between Annex 1 and non-Annex 1 countries when the Kyoto Protocol was ratified is less evident today. Agreement on a fair approach to individual countries responsibilities is fundamental to approach the implementation of mechanisms going forward.
- A feeling has developed that the negotiations has lost focus and become bogged down - negatively influencing the progression of adaptation measures. Integration of city planning, infrastructural development and adaptation needs to be brought back onto the Durban agenda. Vulnerable countries' capacity building must become a key implementation issue - in practical terms. Realisation of the inhibiting obstacles for governments and civil society will enhance the ability to achieve measureable and sustainable results.