

AFTER CANCÚN: TIME TO SHIFT STRATEGY

Velma McColl

Cancún was not Copenhagen. With lower expectations and smart diplomacy, the Cancún Agreements compromised on enough substance to bring 193 of 194 countries to the table for the next round. The UN now has its marching orders: to extend what's working under Kyoto, while building new architecture for greenhouse gas emissions reduction commitments, forestry, financing, technology transfer and adaptation for vulnerable states. A single binding global treaty remains elusive, but pragmatists are carrying the day. Canada need not fear these developments. If we shift attention to our natural strengths in energy, technology and exports, this can work to our advantage.

On était loin de Copenhague à Cancún. De moindres attentes et une diplomatie avisée ont permis d'arriver à des accords sur un nombre suffisant de questions pour assurer la participation de 193 pays (sur 194) au prochain cycle de négociations. L'ONU a maintenant les coudées franches pour étendre les mesures de Kyoto qui ont fait leurs preuves, tout en établissant, sur la base des engagements pris, une nouvelle architecture de réduction des émissions de gaz à effet de serre en matière de foresterie, de financement, de transfert technologique et d'adaptation pour les États vulnérables. Il n'y a certes aucun accord global en vue, mais au moins le pragmatisme a-t-il eu gain de cause. Une évolution dont le Canada n'a rien à craindre. En misant sur ses forces naturelles, c'est-à-dire l'énergie, les technologies et les exportations, il pourrait même en tirer profit.



What a difference a year makes. The contrasts between the climate change conferences last year in Copenhagen and this year in Cancún are stark: while Copenhagen opened with bloated expectations of a global deal to save the planet, Cancún aspired to take another step in the process. The negotiations and media hyper-analysis in Copenhagen ensured maximum chaos. In Cancún, the consultative process built an atmosphere of increasing trust and limited but steady progress.

Rooted in realism, the Cancún meeting under-promised and over-delivered. The new UN Secretary General and the Mexican leadership spent the year lowering expectations, while building a savvy and effective negotiating process. Negotiators were never looking for a comprehensive replacement treaty for Kyoto. Rather, they understood that their role was to advance the greatest possible number of issues in order to guide future progress and prepare for the Conference of the Parties in Durban, South Africa in late 2011 (COP17) and beyond to COP18 in Rio de Janeiro in 2012. Rio will also bring many of these debates full circle, marking 20 years since the original 1992 Earth Summit.

Cancún was less theatrical, with only 12,000 participants compared with Copenhagen's more than 20,000 delegates (and another 20,000 protestors). Whether by design or neces-

sity, logistics dictated that negotiators, NGOs, business and media were often in separate locations and access was tightly controlled. Long bus rides to and from the Moon Palace — the resort that was home to the negotiations — meant that only the heartiest observers undertook the trek each day.

Also, the Mexican government and the United Nations Framework Convention on Climate Change (UNFCCC) established a more traditional multilateral negotiation, which was focused on substance and frank exchanges rather than politics. In Cancún, instead of 120 world leaders, as in Copenhagen, career negotiators and ministers led the discussions. Key countries and the United Nations also understood that Cancún was a make-or-break moment for environmental multilateralism.

However, the progress in Cancún was only made possible by the wake-up call of Copenhagen. It was a symbolic and practical rebooting of the global climate policy system. A collective if unspoken vow emerged from governments and stakeholders that never again would so much political capital and effort be wasted when action on climate change was so urgently needed. It also created space for pragmatists to start winning out over those in search of a perfect deal. As a result, 2010 marked a shift away from

talkers and activists and toward doers and innovators, whether in government, business, NGOs or civil society.

Mexico was a fitting country to lead this shift. From President Felipe Calderón to the impressive foreign affairs minister Patricia Espinosa, through the federal, state and local gov-

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ernments, Mexico was fully engaged and has its act together on climate change. Mexico is one of the transitioning economies that see the response to climate change through several lenses — economic growth, environmental protection, poverty reduction, global competitiveness and a deep cultural connection with nature. As a result, the government has supported, in concert with all political parties, wide-ranging climate initiatives. This is something that neither the US or Canada has been able to achieve.

Mexican action at home also gave it credibility around the world, allowing it to bridge differences between North and South, developed and developing countries. With a sustained diplomatic effort throughout 2010, the Mexican leadership was able to rebuild trust among the parties and, despite some rocky meetings leading up to Cancún, build a transparent negotiating process that allowed more progress than skeptics expected.

They also had a smart ground game. As if to exorcise the “ghost of Copenhagen,” Mexico repeated an almost daily mantra — “there is no Mexican text,” thus avoiding the toxic role that the secret Danish text played a year before. Foreign Minister Espinosa, the UN conference president, ensured that proposals and developments from the negotiations were released regularly through open “stock-taking sessions” to all stakeholders. Also, they cleverly paired up developed and a developing country ministers to

tackle a handful of difficult issues, broadening the team of countries seeking solutions.

Throughout the process, there were two negotiating tracks — one to extend and perpetuate the Kyoto Protocol (but excluding the US and developing countries from targets) and

one to create a new post-2012 arrangement, with all countries making emissions reduction commitments and building a different type of policy and implementation architecture.

The post-2012 track included adaptation, forestry, technology transfer and financing; ways to quantify “common but differentiated” targets for developed and developing countries; the contentious issues monitoring, reporting and verification; the already committed fast-start financing (\$30 billion over the next three years); and a \$100 billion annual Green Investment Fund to be created by 2020.

These two tracks symbolize an historic and philosophical split, with the Kyoto track associated with developed countries (minus the US) taking the majority of the responsibility, while the long-term, post-2012 track sought to bring developed and developing countries into one agreement. In Cancún, these philosophical differences were far less loaded than in Copenhagen, and were less exclusively focused on the US, China, India, Brazil and South Africa. Part of the struggle is that in the 15 years since Kyoto was created, the planet’s emissions profile has changed substantially, and today the nations in the Kyoto Protocol account for only 27 percent of global emissions. That kind of coverage doesn’t say “we’re all in this together” over the long term.

The inclusion of China, India and other advancing countries in post-2012 targets and international reporting was a critical sticking point for the Umbrella

Group countries (Russia, Canada, the US, Australia and Japan). Japan changed the tone on the first day of the conference by refusing to sign on to a second commitment period under the Kyoto Protocol. This announcement was based on a decision of the Japanese cabinet and was therefore non-negotiable, deflating expectations that an extension of the Kyoto Protocol was possible, and forcing parties to consider different options.

The ALBA group (Bolivia, Venezuela, Ecuador, Nicaragua and Cuba) blocked UN recognition of the Copenhagen Accord 12 months earlier, but their influence had waned by Cancún. The largely socialist block of countries stuck together on some issues, but other strong Latin voices (including Mexico and Brazil) served to hold their influence in check. By the final day, Bolivia was isolated, and Espinosa had the agreement of 193 of 194 nations. In the wee hours of December 11, she simply gavelled over Bolivia’s objections, refusing to give one country a veto over the will of the collective. She summed it up by stating that “consensus does not mean unanimity,” and moved forward. As a testament to its masterful handling of the negotiations, Mexico had the overwhelming support of environmental, business and other stakeholders as well as national governments and global agencies.

The Cancún Agreements now establish a set of early wins and new institutional arrangements that will be launched in 2011. Emissions commitments advanced under the Copenhagen Accord by developed and developing countries will now be formally “anchored” in the new UN agreement; and international monitoring, reporting and verification will be a part of the agreement for all parties, although there may be different levels of review for different countries.

There was an extensive forestry package to prevent deforestation in developing countries; an adaptation committee and funding to support and

engage the most vulnerable states; and a global technology transfer network and committee will be established to increase the level of exchange and export of clean technologies between developed and developing countries. Progress and recommendations on these mechanisms will be reported on in Durban.

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On financing, the fast-start financing of \$30 billion will proceed, and a Green Climate Fund will be designed over the next year with the World Bank as the interim administrator.

In general, the international carbon market was reinforced by a confirmation that the standardized accounting and mechanisms for global emissions reduction units will be sustained. The role of market mechanisms will be the subject of considerable debate in the lead-up to Durban.

The agreement confirmed the Copenhagen Accord target of limiting global temperature rise to 2 degrees centigrade, but also provided for a review in 2015 about whether the science supports moving that limit to 1.5 degrees centigrade as requested by the most vulnerable countries.

There was a good deal of compromise this year, although several tough and, some would say, insurmountable issues were deferred to 2011 and beyond. Cancún effectively blurred the line on the form of any future agreement, but debate over extending Kyoto will continue. It cannot continue indefinitely, since the protocol originally only covered the 2008-12 period. However, the form of the Cancún Agreements shifts away from the top-down design of Kyoto toward a more flexible and perhaps effective

bottom-up approach. This was necessary to get China, the US and many other countries into the tent.

No matter how successful Cancún was, significant challenges lie ahead for achieving a comprehensive global deal. However, there is a centrifugal force of policy innovation and prag-

matists focused on accelerating low-carbon outcomes and the delivery of more resource-efficient products and services. That momentum is now independent of individual governments and the UN system. It is also becoming part of bilateral trade agreements between many countries, particularly the US. It is now part of the competitive environment for many businesses.

Any new global climate deal assumes significant financial investment, within countries, between countries and from business, requiring the transformation of energy, transportation and industrial infrastructure systems around the world. As we are discovering, this is actually a more difficult challenge for countries like the US and Canada, with their established capital stocks than it will be for countries that are building from scratch and are able to access — at lower cost — the most efficient technologies. In other words, there is added cost for developed countries to change their systems.

Here in Canada, we need to shift away from a one-dimensional debate over greenhouse gas emissions regulations and examine how these emerging global energy and climate change policies will affect our competitiveness over the next 10 to 40 years — from now to 2020 and from then to 2050.

First, and this has been said before, climate change and energy are two

sides of the same coin. For Canada, building a true clean energy superpower will require that we move beyond political gridlock over climate change rules and create a clean energy strategy. As several articles in this issue of *Policy Options* eloquently and extensively argue, it is time to move forward on an integrated policy. The breadth and depth of voices and increasing interest from federal and provincial governments is encouraging. And — perhaps more importantly than we would like — we have to get our own house in order to make an effective case to the US for a shared continental energy strategy.

The Canadian debate on energy and climate has become myopic, placing undue attention on the oil sands as the only litmus test for progress. It helps explain why the new environment minister, Peter Kent, sparked controversy by leading with a defence of the oil sands. He appropriately read public concern and took the issue head-on. But Canada's long-term interests lie elsewhere.

Yes, the oil sands will be developed — and the industry understands acutely and is responding, as the forestry industry did in the late 1990s, that they must improve their environmental performance and resource efficiency to compete and maintain public confidence. However, Canada must now improve its performance across our resource economy and manufacturing base to allow us to compete in North America and export our products and services globally. There is a bigger game afoot.

Second, we need to recognize what other countries are doing and where they invested. It is worth comparing stimulus spending in various countries against the necessary investments in low-carbon futures.

Figure 1 illustrates — by country — how much was spent on green initiatives like energy-efficient buildings transportation, low-carbon vehicles, water treat-

ment, and energy infrastructure as a proportion of each country's total stimulus package. Canada spent roughly 8 percent, the US closer to 15 percent, China approximately 35 percent, the EU above 65 percent and South Korea closer to 85 percent. For China and the US this represents more than \$330 billion in green investments on technologies and infrastructure. And South Korea is betting the farm on green. These investments are not all domestic. They are also targeted to develop export technologies that Canada may well end up buying in the future.

Although most people are skeptical about China's credentials in emissions reductions, it is important to remember that with the rapid expansion of the Chinese economy, China understands that energy efficiency and resource productivity — doing more with less — are actually successful economic strategies. Its development and deployment of clean technologies is unprecedented.

The US spent part of its economic stimulus package to invest in and stimulate green growth. Over the first two years, funds have been invested in a wide range of green energy and technology sectors, using a range of fiscal tools. Despite the paralysis that has accompanied the cap-and-trade debate, these investments have bipartisan support and will continue.

In Canada, we have spent down the stimulus and are facing five years of deficit with less to go around. So while we wait for the US to develop their climate policy, we must realize that there are global competitiveness risks if we fail to invest where we can. As US Army chief of staff General Eric Shinseki stated, "If you don't like change, you're going to like irrelevance even less."

Third, the debate and detailed policy design to fund both domestic and international climate action will be with us for decades. And there is growing, diverse and global support for the creation of a price on carbon. The call has been echoed by the World Bank, the International Energy

Agency and the multinational business community. These voices understand that carbon pricing policies — whether through carbon taxes, cap and trade or other fiscal tools — will be driven domestically, but that a global system of parity or arbitrage will be necessary to create a level playing field for globally traded goods and services.

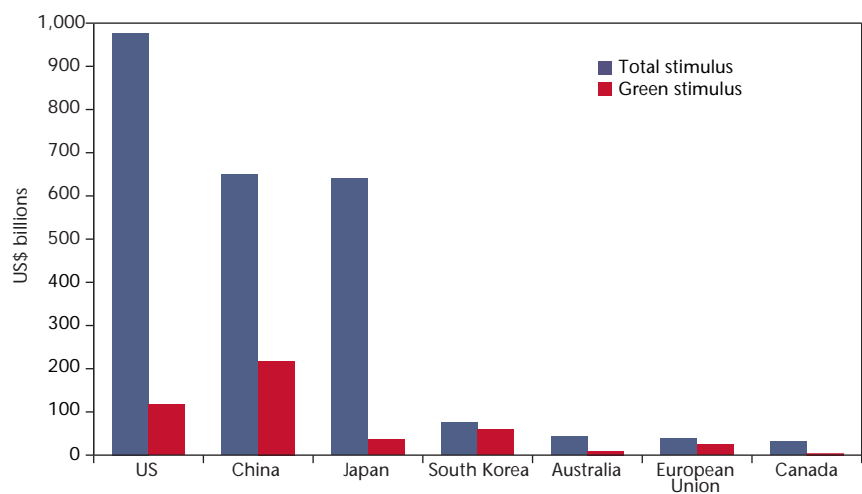
The UN High Level Group on Climate Change Financing, which was led by the prime ministers of Norway and Ethiopia, released its report late last year. The report maps out ways to "mobilize" \$100 billion per year in global financing for countries dealing with the worst impacts of climate change, essentially creating a form of global climate equalization. The report calls for a variety of funding sources, including carbon markets/auctioning emissions allowances (\$30 billion), fees from international aviation (\$10 billion), and the elimination of global fossil fuel subsidies (\$10 billion). A price on carbon is central to these revenues. The remaining \$50 billion would come from government revenues and the private sector. The concepts in the report are sparking controversy, but since these funds will be critical to any future global climate deal, the debate is unavoidable.

More and more businesses, particularly multinationals, are already building carbon costs into their investment scenarios. In Cancún, business took an active interest in the stability of Kyoto's carbon market mechanisms, including concerns that a future without a long-term global agreement may negatively impact the price for carbon. Under the Kyoto Protocol, tradable emissions reduction units were created and they have facilitated the growth of emissions trading markets, particularly in the European Union. The creation of these international emissions units is also what supports a set of global investment projects.

As a recent *Economist* editorial eloquently put it, *economics is clearly moving beyond the carbon-tax-alone position on climate change, which is a good thing. If the world is to reduce emissions, it needs technologies that are both green and cheap enough to be attractive to economically stressed countries and people. And a carbon tax alone may not generate the necessary innovation.*

However, it also acknowledges that both options create major political problems, as we have seen in North America in the last few years.

FIGURE 1. WHICH COUNTRY HAS THE GREENEST STIMULUS?



Source: Adapted from the *Financial Times*, March 2, 2009.

Finally, there is the need to recognize opportunity when it comes knocking. In Canada, in spite of the evidence that the clean-technology sector has enormous domestic and export potential, there is no comprehensive policy. This sector has surprisingly strong performance in each region of the country.

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Although it is diverse, it can be broadly categorized into five key areas: water and wastewater, power generation, recycling and waste, energy efficiency, and process/resource efficiencies.

As an export-driven nation, small- and medium-sized enterprises (SMEs) play a pivotal role in our economy. In 2009, almost 30 percent of Canada's GDP resulted from exports, compared with 12 percent in the US and 19 percent in Japan. Of this, SME exports represent 30 percent, or approximately \$134 billion.

We need to recognize that Canada's clean-technology SME's are super-charged exporters and make an important contribution to resource efficiency, jobs, growth and environmental performance. Today, Canadian clean-technology SMEs are nine times

more likely to be exporters than the average Canadian SME. Since 2000, the proportion of SME's exporting has declined from 11 to 9 percent in 2007. The opposite is happening with clean-technology SME's: here the proportion of companies exporting has increased from 73 percent in 2007 to 81 percent

in 2009 (figures 2 and 3). By conservative estimates, in 2009, 50 percent of Canadian clean-technology revenues of \$2 billion were exports.

During the recession, clean-technology companies achieved year-over-year growth rates of 47 percent in 2007-09, and they are planning to grow at 117 percent annually during 2010-12. Almost all of Canadian clean-technology SME's are targeting global markets, and almost half are competing globally for market leadership. The US has taken notice of our export-driven clean-technology SMEs and is conducting a review of its own clean-energy export strategy. If we're being noticed internationally, then perhaps we can do more at home to capitalize on the opportunity.

Canada will need to participate more actively in global climate negotiations over the next few years. Cancún created a new set of mechanisms that link financing, technology and climate change, and they all have implications for energy. Since we aspire to being a clean energy superpower, we need to shift our approach to ward these emerging realities.

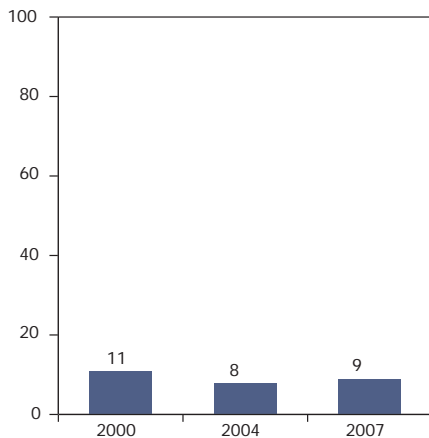
Movement in the four areas identified above — an integrated Canadian energy policy, targeted green investments, carbon pricing and clean technology — would go a long way to stimulate economic growth and create jobs. This type of approach may also be more successful as we work to engage the US in a continental strategy.

The financial crisis has driven home the reality that we live in an interdependent world. Over the last two years, we have worked together on, debated and agreed on a set of international mechanisms that allow both sovereign independence and protect a global system. If only we could dispassionately bring these principles to the international climate change debate, not for altruistic reasons but out of enlightened self-interest.

There is a wise Chinese proverb that says that the best time to plant a tree is 20 years ago and the second best time is today. Rather than waiting any longer, perhaps Canada can plant a forest of trees in recognition of our natural advantages in resource productivity, technology, innovation and talent. Then, regardless of the pace and scope of US or international climate policy, Canada can maximize its future economic opportunities, rather than continue to defer to an outdated trade-off. The world needs more Canada — including our natural resources — but only if we compete while being mindful of these changing contexts.

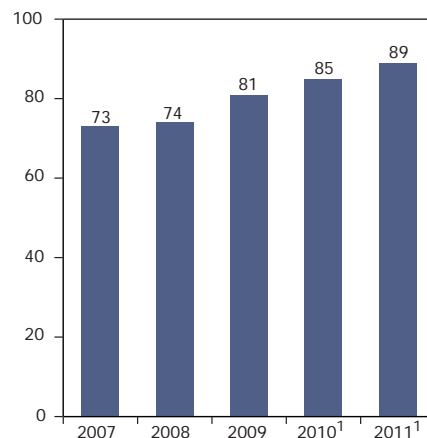
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FIGURE 2. PROPORTION OF ALL CANADIAN SMEs EXPORTING, 2000, 2004, AND 2007



Source: Industry Canada, CIBC.

FIGURE 3. PROPORTION OF CLEAN TECHNOLOGY COMPANIES EXPORTING, 2007-11



Source: Analytica Advisors.
¹ Figures for 2010 and 2011 are estimates.