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*In Copenhagen*

## ANDERSON'S NOTEBOOK: What is U.S. Industry to Make of Copenhagen?

COPENHAGEN—American industry is present in force here in Copenhagen and engaged on many levels.

On the most general level, U.S. industry is here to try to impact the outcome of the conference, however nuanced the impact may be. They generally feel that a political agreement, even if not legally binding, would send a signal to the private sector that it should continue its significant investment in lower-carbon technologies and energy systems. They also continue to look for reassurances about intellectual property protection in any agreement that may emerge as the Conference nears its final hours. Finally, they are watching closely for tariff and trade barrier implications for global commerce.

But the question I am most asked is—what is industry to make of the proceedings? Will the Conference and any agreement it produces allow a company to improve its greenhouse planning or to shape things to come in the United States?

My first answer is that as important as the 15th Conference of the Parties is geopolitically, it is hard to see how it guides the individual corporate planner or even industry collectively in its strategies with Congress.

But a closer look shows some very interesting things.

The timing of action in the U.S. Congress and the in COP has pretty much constrained President Obama to the emissions rollback goal of 17 percent below 2005 levels, with steeper cuts over the next few decades. This is a more modest beginning than the Administration (and our allies and critics) might have wished. The President undoubtedly feels bound, politically if not otherwise, by the range of 17–20 percent set out in climate bills pending before Congress.

But this development signals to U.S. industry that any federal legislation may not bite hard, at least at first. However, as an executive with a major U.S. company told me yesterday (Dec. 16), it must buy huge quantities of electricity. Of course it would not apply directly, but a 17–20 percent carbon dioxide emissions rollback for the company in a cap-and-trade scheme would be bankrupting, at least unless allowances—and particularly international and domestic offset—become available at reasonable prices. And other than the most general framework, Copenhagen will not give the kind of certainty on emissions offsets or any other major investment-driving issue that his company is looking for.

But the example of offsets raises the whole question of climate finance in what may be its most acute form.

**U.S. Legislation Sensitive to Pricing.** An SAIC study presented to our delegation yesterday showed that the leading U.S. legislative proposals are very sensitive to offset pricing and availability. For example, the House's Waxman-Markey bill without its offsets provisions might raise the price of an allowance threefold, from about \$30 to about \$90 per ton of carbon dioxide equivalent ($CO_2e$) by 2020. Ten years later, the ratios are the same but the costs quite large: about \$60 a ton versus over \$180 a ton.

The Waxman-Markey bill passed the House allowing half of all offsets to be obtained internationally. The Kerry-Boxer bill in the Senate would be more restrictive on the portion of offsets that could be obtained from international projects, thus forcing offsets costs even higher because more of them would have to be purchased domestically.

In this scenario, another company I counsel worries about the inherent unreliability of emissions offset performance, particularly international offsets (will the actual carbon offset occur as promised?). And so also is taking a longer, harder look at the Environmental Protection Agency's so-called "regulatory options," which the company now feels it neglects at its peril. Why? At

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the very least, regulatory certainty, the devil it knows, might be better than the uncertainty of a new system.

**Draft Agreement on REDD.** Regarding the all-important international offsets, U.S. companies and the other NGOs that have been at work on it for years looked on with great interest yesterday as a short consensus draft on a framework for reducing emissions from deforestation and forest degradation (REDD) in developing countries made its appearance.

The draft agreement is likely to go forward for high-level consideration and likely inclusion in the final agreement, first because deforestation and degradation are responsible for a large share of global greenhouse gas emissions, about 20 percent (agriculture and forestry 31 percent together), and second because inclusion seems necessary to get the heavily forested tropical nations to sign any final accord.

Under the draft, countries would have to develop ''REDD-ready'' legal infrastructure, but ''sub-national'' programs—at local governmental levels, even ad hoc project levels—might also be acceptable. Other inclusions that are still being debated cover establishing baseline inventories of forest resources, ''leakage'' of logging into areas not covered by REDD agreements, reporting and verifying forest protection efforts, and providing aid and recognition of their rights to indigenous populations who live in or near forests.

It was not all some wanted, and it may not satisfy U.S. industry's desire for certainty. But it was an impressive achievement in the contentious Copenhagen environment. An ambitious proposal to set a goal of reducing global deforestation by 50 percent by 2020 fell by the way. So did two fallbacks: halting or reversing deforestation by 2030, or reducing deforestation 25 percent below current levels. The draft does not commit developed nations to specific levels of aid, although a previous draft sought $22—$36 billion through 2020.

**Fast-Start Funding.** This issue folds into the much larger one of the ''fast start'' funding I wrote about on Monday.

Much of fast start funding will be slated for Africa if a wide range of Copenhagen parties have their way, including a large sum for African forests. (For more expert analysis on this, click here.)

The United States, the United Kingdom, Australia, France, Japan, and Norway pledged $3.5 billion to get any approved REDD agreement up and running. And just this morning, Secretary of State Hillary Clinton said the United States would join with other industrialized countries in providing $100 billion per year by 2020 to help poorer developing nations adapt to the effects of climate change.

U.S. companies here are very concerned that an agreement may emerge that tilts the level playing field of international competition, either directly or by nontariff barriers to fair trade. Waxman-Markey would impose tariffs on imports of energy-intensive products from countries that do not require equivalent (and expensive) reductions on greenhouse gas emissions. Extra allowances also go to energy intensive industries, such as steel.

It is not clear how this will play out in Copenhagen, but it is the reason my first Notebook piece focused on China. China is the key. China seems to be moving toward more transparency and publicly announced domestic legal commitments to roll back emissions.

China and the other key developing economies of India, Indonesia, and Brazil are moving in the right direction, it seems to an increasing fraction of U.S. businesses present here. Whether China will move far enough to affect a few votes in the U.S. Senate remains to be seen.

**'Explosion' of Requirements, Opportunities.** This week, U.S. industry is here to learn more about the explosion of requirements and opportunities presented at all levels of government in the United States and abroad below the national level. Several years of federal inaction and proactive state-local efforts have complicated the picture for U.S. industry as least as much as has Washington or Copenhagen.

I wrote about this yesterday and will not dwell further on it.

It may seem curious that industry would have to come all the way to Copenhagen to learn what it needs to know, but the sharing of strategies and details with other units of government worldwide offers a unique window into present and proposed measures in the United States.

Business is in Copenhagen this week because it also is a technology trade fair of enormous proportions. The new businesses and products that define the emerging green economy are on full display. Moreover, not a day passes without a major announcement of a new collaboration between companies, or between companies and governments, all over the world.

For example, last night I attended the partnership announced between Denmark's giant container ship company, Maersk, and the Carbon War Room, an NGO teed up by British investor and Virgin Airlines founder Richard Branson. Technologies on the boards for energy-efficient marine transport stretch and explode the limits we thought existed on engine systems for ships.

Industry is here to interact with the federal government in ways not necessarily open to it under the current strictures of Washington. Taking contact ''offshore'' is not a panacea, but certainly the change of venue has proven valuable this week, as it has to other NGOs who have trooped here by the thousands. In fact, industry and all other NGOs are quite upset with plans to exclude all but 90—yes, 90—individuals from the Bella Center during the last two critical days of the conference. But, the enforced networking in other unrestricted venues has only increased as a result.

**New Ideas for Regulators?** Finally, I have saved what is perhaps the most important reason U.S. industry has chosen to attend Copenhagen in numbers and it may appear to contradict my remarks about the search for certainty.

Some of the most astute business observers of emerging climate law are here because they are well aware that the basic framework of cap-and-trade, its ''nitty gritty,'' is being thought out in great detail far in advance of adoption in either an international framework or in U.S. legislation.

Copenhagen is a bazaar of ideas for regulators, as strange as that may seem. I spent the morning today down in the alphabet soup of acronyms among national and international specialists. The EU specialists and U.S. specialists-in-waiting for implementing cap-and-trade are here learning from each other in ways the digital world cannot satisfy.

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Looking well down the road, it is quite clear that compliance beneath the shrinking cap on emissions that will eventually be adopted worldwide will create an international enforcement bureaucracy (not to mention banking system) effort that will rival Interpol—not its dark side, but the efficiency of international communication in which it excels.

By Frederick R. Anderson

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