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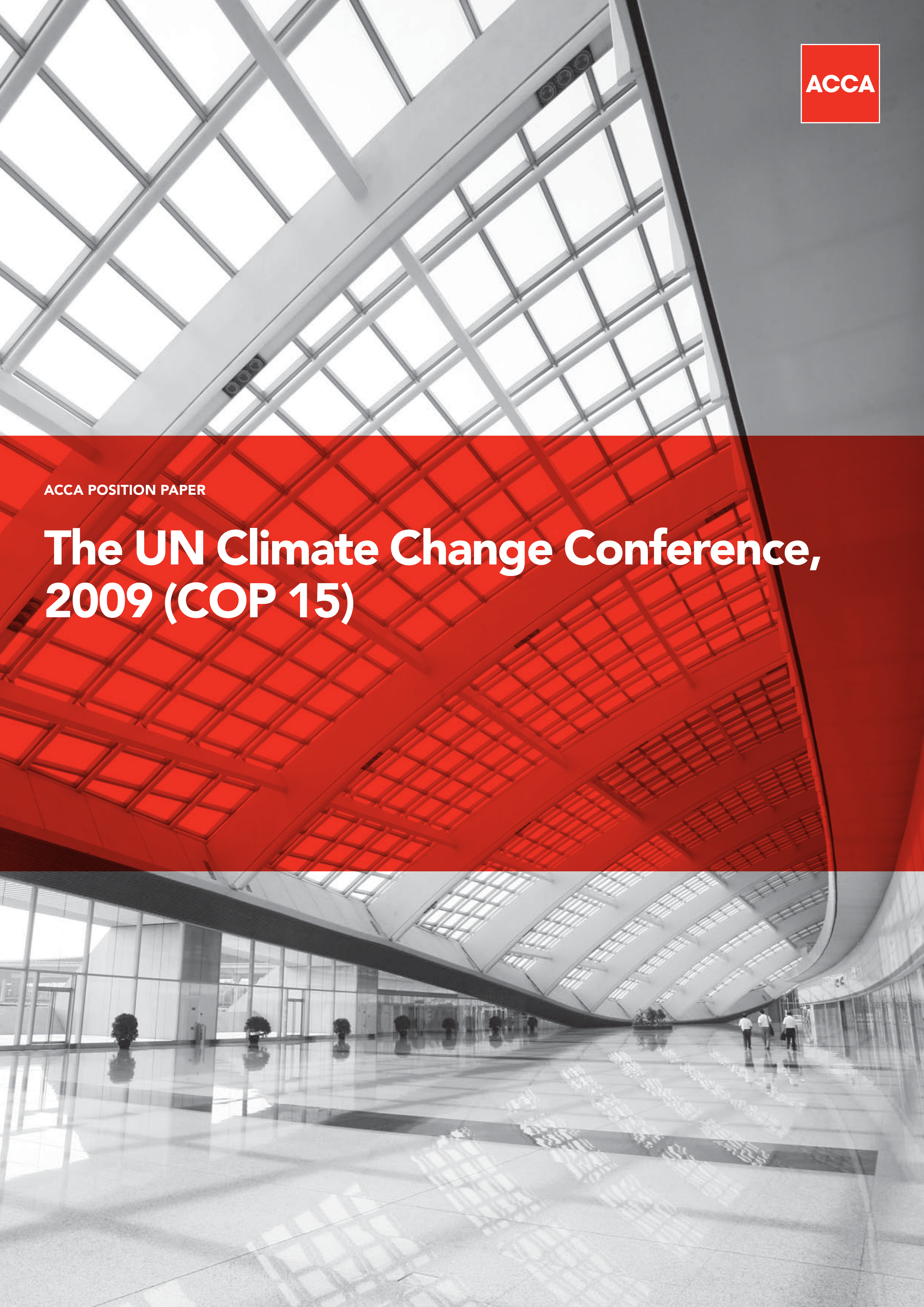

ACCA POSITION PAPER

The UN Climate Change Conference, 2009 (COP 15)

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ACCA's role

ACCA (the Association of Chartered Certified Accountants) is the global body for professional accountants. We aim to offer business-relevant, first-choice qualifications to people around the world who seek a rewarding career in accountancy, finance and management. ACCA has 131,500 members and 362,000 students who it supports throughout their careers, providing services through a network of 82 offices and centres around the world.

ACCA has been actively involved in the unfolding debate on sustainability and corporate social responsibility (CSR) since 1990. Our position is outlined in the policy document published in August 2008: *Going Concern? A Sustainability Agenda for Action*.[1] We also produce a quarterly e-newsletter covering international climate change news, *Accounting & Climate Change.*[2]

Accountants are playing an increasing role in the accounting, compliance and reporting requirements of Corporate Social Responsibility and have considerable expertise in these areas. ACCA champions the extension of corporate reporting to include the social and environmental aspects of a business and has launched awards for sustainability reporting in Australia/New Zealand, Hong Kong, Malaysia, Pakistan, Singapore, South Africa, Sri Lanka, the UK, and the US/Canada.

ACCA's position paper on COP 15 focuses on the four key areas where we have the most expertise:

- climate change and the global economic downturn
- a global carbon market
- the inclusion of all big emitters
- business and climate change.

1. http://www.accaglobal.com/pdfs/technical/tech-gc-001.pdf
2. http://newsweaver.co.uk/accatechnical/index000343003.cfm

Executive summary

COP 15 is the latest in an annual series of UN meetings that have taken place since the 1992 Earth Summit in Rio, aimed at coordinating international action against climate change. In 1997, the COP 3 talks resulted in the Kyoto Protocol, which came into force on 16 February 2005 and was the first serious attempt to regulate the greenhouse gas emissions that drive global warming.

The goal for the COP15 United Nations Climate Change Conference is to establish an ambitious global climate agreement for the period from 2012 when the first commitment period under the Kyoto Protocol expires.

ACCA supports the international climate change negotiations and their objectives and advocates the adoption of a follow-on agreement to the Kyoto Protocol at the UN Climate Conference in Copenhagen. Without internationally binding regulations, effective action to tackle climate change will not take place. Taking into account the necessary ratification phase, the conference in Copenhagen is the last opportunity to reach a follow-on agreement that can enter into force by 2012.

The challenge facing negotiators at Copenhagen is significant. Recent projections from the Intergovernmental Panel on Climate Change (IPCC) warn that unless action is taken to cut greenhouse gas emissions, global warming will exceed the danger level of a 2°C increase. According to the IPCC's worst-case scenario, climate change could reach dangerous levels as early as 2050. Unprecedented action is required nationally, regionally, and internationally to address this.

Compounding the situation further, many countries are suffering economically due to the global financial crisis. Governments around the world will be tempted to see jobs as their immediate priority, rather than tackling climate change. ACCA encourages world leaders to view the financial crisis and climate change as intertwined challenges and to continue to prioritise tackling climate change, even in difficult economic times. We should use the opportunity afforded by the financial crisis to invest in low-carbon growth that will be the foundation of long-term sustainable economic prosperity, specifically by investing in energy-efficient technologies and renewable energy and in creating lower-carbon growth and green jobs.

A new climate change agreement must consist of a shared vision to combat climate change and contain a clear regulatory framework that is valid, ideally until 2030 or 2050.

The level of effort and commitment from developing countries will need to reflect their national circumstances, but they too will need to take action, with appropriate support from developed countries, to put themselves on track to a low carbon economy. Recent research suggests that by 2020 emissions in developing countries as a group needs to be roughly 15% to 30% lower than projected 'business as usual' levels.[1]

Emerging economies, including China and India, believe it is the responsibility of established industrialised nations such as the UK and US to set an example in cutting carbon emissions. However, the US points to the fact that it has been overtaken by China as the world's largest emitter of carbon dioxide. Yet the US has historically emitted far more emissions than China, and on a per capita basis Chinese emissions are significantly less than those of the US. China is also unwilling to contemplate emissions cuts at a time of rapid economic growth, taking the position that it refuses to be penalised for the West's excesses. This issue needs to be resolved before meaningful carbon cuts can be agreed to. For Kyoto's successor to succeed, both the US and China have to sign up to it.

Governments should agree to establish a reformed and expanded global carbon market; however, any steps towards a global carbon market must be taken alongside robust monitoring, reporting and verification arrangements.

Business has a key role to play in tackling climate change and governments and supranational bodies should take steps to support them, by, developing a portfolio of fiscal instruments designed to internalise sustainability impacts in international trade treaties and reviewing the incentives provided by SME corporate taxation systems to increase the propensity of the SME sector to invest in cleaner technology.

Finally, leaders should focus on designing markets which promote technological and behavioural responses and to create laws and regulations that protect the environment without damaging trade and economy. Good laws create market opportunity – we need incentives for positive action.

1. M.G.J. Den Elzen and N. Höhne, 'Reductions of greenhouse gas emissions in Annex I and non-Annex I countries for meeting concentration stabilisation targets', *Climatic Change*, 2008.

Climate change and the financial crisis

A key challenge is that as the financial crisis lengthens, there is an increased reluctance by countries to commit resources to climate change policies and taking measures which (in the short-term) may harm the competitiveness of domestic industries. Indeed, the current economic downturn has substantially delayed low carbon economy plans, with governments now pre-occupied with the recession and focusing on fiscal stimulus measures. The phenomenal financial bailout has prevented any large scale investment in climate change mitigation and the low carbon energy sector. The economic downturn may lead to a decline in direct investments and reduce the rigour of future climate change legislation and environmental taxes to protect the competitiveness of industry.

However, the simultaneous challenges of climate and economy have led to a unique opportunity to re-build the global markets with systems sympathetic to climate change. The trillion dollar banking sector bailout is proof that governments can work together, quickly, to help resolve global catastrophes, and we have already seen some countries invest smartly to create jobs, foster innovation and help their economies convert to low carbon ones.

In the light of the scale of the financial crisis and of the opportunities outlined above, the 'green' lobby and others were disappointed with conclusions of the April G20 Summit, pointing especially to the weak language and lack of concrete commitment to environmental measures including low-carbon recovery projects. WWF, for example, stated in their response that:

> *"Today's meeting was a huge missed opportunity for the G20 leaders. They failed to position sustainability at the core of their efforts to restructure the world's economy".*[2]

Indeed, none of the $1.1 trillion stimulus package was allocated for environmental investment, and no other environmental agreements were made. We recognise that leaders did not want to preempt COP 15. However, in spite of this, ACCA is concerned at the lack of concrete proposals to invest in a low-carbon economy coming out of the G20 summit.

In addition to this, ACCA is concerned that without a coordinated strategy to tackle the financial crisis in a sustainable way, the possibility still exists that the stimulus and recovery packages may lock us into the root causes of climate change. Action being taken to tackle the financial crisis presents a huge opportunity to show that we are serious about pursuing a sustainable, low-carbon, climate resilient future.

ACCA RECOMMENDS

- While politicians struggle to retain votes and work economies out of recession, it is crucial that they acknowledge the climate crisis as well. Acting early, as key policy documents, economic forecasts and project proposals are urging, will raise our chances of diverting catastrophe at a reduced financial and environmental cost, while building a strong low carbon economy.

The fight against climate change must remain a priority even in difficult economic times. This provides a golden opportunity to encourage investment in a low-carbon economy, specifically in energy-efficient technologies and renewable energy and in creating lower-carbon growth and green jobs. Developing a global framework to address climate change needs to be a collaborative effort between government, business, scientists and society, to promote a common understanding across all stakeholder groups.

2. http://www.wwf.org.uk/what_we_do/press_centre/?2926/WWF-Response-to-G20-Communique

A global carbon market

ACCA has a particular interest and expertise in the area of carbon accounting and carbon markets. The accountant has a pivotal position within an organisation in making a vital contribution towards climate change policy and its implementation. Accountants take on roles in various areas such as, evaluating the returns on low-carbon investment proposals, advising employers and clients on emissions trading regimes, developing organisation-relevant carbon and GHG KPIs, and providing disclosure of information through annual reports and accounts. In the future, it will be the role of accountants to represent carbon-related actions in financial accounting terms in the annual reporting process.

An international climate change agreement must aim to minimise competitive distortions on the markets through a globally uniform price for greenhouse gas emissions. One way of doing this would be through a global carbon market. More and more developed countries, including the US, Japan, Australia and New Zealand, are planning to introduce emissions trading systems similar to the EU ETS.

ACCA believes that a new international climate change agreement in Copenhagen should establish carbon markets as a central part of the package of policy instruments. To date, however, carbon markets have not delivered the scale of investment needed at the pace required to avoid dangerous climate change. This is due to the lack of strong, long-term price signals at levels that are necessary for companies and investors to commit to long-term investments in low-carbon solutions.

A well-functioning global carbon market would have the benefit of allowing emissions reductions to be achieved at a lower cost. It would set a cap on total emissions, thereby providing greater certainty about the environmental outcomes that can be achieved and establish a price signal that will provide certainty to the private sector.

However, while developed countries have the regulatory capacity and emissions data to allow them to set sufficiently robust targets and set up trading schemes now, developing countries are not yet ready to participate in full cap and trade schemes. Transitional market mechanisms and technical support are needed to help developing countries engage more fully in a global market in the future.

By minimising the cost of global reductions, the carbon market would allow developed countries to take on much more ambitious targets and provide significant financial flows to emerging economies, enabling them to build their capacity to engage with a global market.

The European Commission has stated that by 2015 it wants to link the EU ETS to other carbon trading systems with the aim of including emerging economies by 2020. ACCA supports this development of a global carbon market as part of a global future climate change strategy, to encourage emissions reductions in a cost effective way, and to provide large flows of finance to developing countries, with two caveats.

ACCA RECOMMENDS

- The EU ETS must only be linked with systems that are robust, in order to avoid undermining the integrity of the scheme.
- A global carbon market must be completely measurable and verifiable, with clear requirements for monitoring and reporting as per the Bali Roadmap, including the production of regular emissions inventories by both developed and developing countries. An effective compliance system must be developed to enable transparent and verifiable comparison of the climate change efforts of the different countries.

However, in spite of all they can achieve, carbon accounting markets are not cure-all, as the Stern Review3 highlights:

> *"Carbon pricing alone will not be sufficient to reduce emissions on the scale and pace required."*

Additional regulatory measures are essential in order to speed up the diversion of investment from high to low carbon energy technologies in a time-frame that matches the urgency of the climate change threat. No single policy or measure will be able to address the magnitude and scale of the climate challenge.

3. HM Treasury, *The Stern Review on the Economics of Climate Change,* http://www.hm-treasury.gov.uk/stern_review_report.htm

Including all big emitters

Climate change is largely a result of emissions by wealthy economies over the past century. But developing countries, especially in Africa for example, are facing enormous burdens to adapt to the impacts. It is also likely to be they that suffer the most and earliest. A balanced agreement between developed and developing countries is therefore more important than ever in forging a meaningful international treaty in Copenhagen to restrict emissions.

CHINA AND THE US

Until now, the key missing players in climate change negotiations have been the two countries responsible for almost half of the world's greenhouse gas emissions – the US and China.

China ratified the Kyoto Protocol, but being a developing country, is not bound by it to limit its greenhouse gas emissions. Its commitment is to deliver accounts of its emissions to the UN. However, in 2007 China overtook America as the world's leading carbon emitter4, (although per head of population, its pollution remains relatively low). Indeed, China's emissions are expected to continue increasing due to the country's heavy reliance on coal. All of this means that:

- It is essential that China be represented in any new agreement.
- It is also in China's interests to participate, as some areas of the country stand to be severely impacted by the impacts of climate change.

As Todd Stern, US Special Climate Envoy said of China:

> *"Certainly no deal will be possible if we don't find a way forward with China".*[5]

China points to the historical responsibility of the world's wealthy countries for past emissions and argues that, as long as it is facing low incomes, low per capita emissions and low energy use per capita, then it has a right to develop and move towards attaining Western living standards.

China refuses to commit to mandatory emissions-reduction targets before the world's wealthy countries take the lead in addressing global climate change. It calls on affluent countries to pay for emissions limitations in China and other developing countries. In addition though, it points to its impressive improvements in energy efficiency and coal-plant cleanliness in recent years, and increasingly ambitious commitments to invest in renewable energy sources.

In America, Congress and two US presidents refused to accept the Kyoto Protocol, because it imposed no pollution limits on China or other developing countries. As the world's largest per capita emitter, the US has a vital role to play and has to show leadership to fight global warming both at home and abroad.

Without the participation of these two significant emitters there can be, no meaningful agreement and Copenhagen cannot succeed.

OTHER EMERGING ECONOMIES

In spite of the West's 'carbon debt', action by developed countries alone will not be enough to tackle climate change, as emerging economies such as Brazil, China and India become increasingly significant emitters of greenhouse gases.

Although emissions per person are much lower in developing than developed countries, they are likely to grow exponentially if allowed to follow a 'business as usual' approach. According to the IPCC, if no action is taken, increases in emissions in developing countries will account for the majority of global emission growth in the future (around 70% by 2030), and even if developed countries reduce their emissions to zero the world would still considerably exceed 2°C of warming.[6]

Developing countries will therefore have to make appropriate contributions to limiting the increase of their emissions by means of binding targets. However, in advance of Copenhagen, emerging economies are taking the position that the developed world, led by the US and the EU will have to pay the largest share of the bill and help finance clean technologies for developing nations.

4. Netherlands Environmental Assessment Agency, June 2007

5. Todd Stern speaking in Beijing after climate talks with the Chinese government, 7 June 2009

6. The Intergovernmental Panel on Climate Change Fourth Assessment Report, *Mitigation of Climate Change*, 2007

ACCA believes that it is vital that the Copenhagen agreement provides support to developing countries for both coping with and acting on climate change. A high priority for Copenhagen should be to put in place the finance needed to support action by developing countries on both mitigation and adaptation.

In terms of new technologies, the world's poorest and most vulnerable developing countries will need support. To this end, financial mechanisms, including human, regulatory and energy infrastructure. Other actions, such as implementing intellectual property rights, policies that reward innovation, and the sharing of technological know-how, will also be important.

ACCA RECOMMENDS

- Although a significant amount of public funding will be required to help poorer countries adapt to climate change, much of the funding for reducing emissions is likely to come from the private sector, and it will be essential that leaders put in place measures that encourage this investment.

- Dissemination of climate change technology is promoted through a myriad of channels, such as technical assistance and capacity building programs, private investment, joint ventures, licensing and local supply relationships, partnerships between research organisations and companies, etc. It is essential to stimulate these mechanisms, if goals are to be met.

- Public funds are required to support developing countries in the fight against climate change, to help them acquire climate-friendly technologies and for measures to adapt to climate change. These funds, such as the Global Environment Facility (GEF), the Adaptation Fund, the Climate Investment Fund (CIF) and the Special Climate Change Fund (SCCF) already exist and do not have to be set up especially. The main focus should be on improving their functionality, efficiency and transparency.

- The willingness of developing countries to implement reliable and verifiable measures for low-emission development should be a precondition for financial support.

Business and climate change

Business has a key role to play in tackling climate change, both in terms of investing in and developing low - carbon technologies and in improving its own energy efficiency, especially in terms of transport, buildings and production. It is encouraging that of the top one hundred companies in each of Europe, the US, the UK and Rest of World, 93%, 73%, 88% and 69% respectively produce some form of sustainability report. In addition, 67% of the Fortune 500 produces one7. Despite the influence of the Global Reporting Initiative (GRI) Guidelines and initiatives such as the Carbon Disclosure Project (CDP) and the World Business Council for Sustainable Development – World Reporting Initiative Protocol (WBCSD-WRI Protocol), however, public reporting is not yet sufficiently standardised and concerns remain regarding the comparability and credibility of many published reports.

In addition, most businesses are unlisted companies or non-incorporated entities and the vast majority of these have not participated in any form of public sustainability reporting. This is something that needs to be addressed, as the combined impacts and performance of these entities is very significant.

ACCA RECOMMENDS

- Governments should continue to urge organisations of all sizes to produce appropriately structured carbon reports. Supranational bodies should recommend public sustainability reporting, based on the GRI guidelines.

- As part of their wider CSR programme, environmental regulators should work with international accounting standard setters to develop a universally applicable climate change reporting standard for organisations of all sizes.

- Cost internalisation via the tax system is generally seen as anti-competitive. Therefore, supranational bodies should take steps to develop a portfolio of fiscal instruments designed to internalise sustainability impacts in international trade treaties. Governments should accelerate the debate about the mix of policy instruments concerning creation of incentives, regulation and the limits to voluntary action.

- Governments should review the incentives provided by SME corporate taxation systems to increase the propensity of the SME sector to invest in cleaner technology and should produce guidance to help SMEs measure their key environmental and social impacts.

7. www.CorporateRegister.com June 2007

Conclusion

The window of opportunity to tackle climate change is shrinking fast. To limit the global temperature increase to no more than 2°C, action to cut emissions on a global scale needs to start now. Delaying will not only have catastrophic environmental and social consequences, it will also increase the costs of the subsequent action that will be needed to reduce emissions.

Building a low carbon economy has to be a shared global priority, involving partnerships between governments, businesses and consumers. The developed world cannot solve climate change without the developing world, and governments will struggle to meet their targets unless the business community takes the challenge of tackling climate change seriously and is given the regulatory structure it needs to take action.

That said, the US and the EU must take the lead on the climate change negotiations, and work with emerging economies and developing countries to stabilise temperatures.

Finally, the pursuit of indiscriminate economic growth at the cost of everything else cannot continue, and ACCA recommends that governments respond to the recession by implementing measures that will encourage environmental investment and, ultimately, a more sustainable approach.

ACCA will continue to engage with and lend our expertise to governments around the world in order to assist in finding effective solutions to climate change.

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