

The Durban climate deal: Keeping the show on the road

- Not much was expected from the climate talks at Durban – against such low expectations, it can be counted as a modest success
- The climate change deal keeps the international negotiations alive, and holds out the promise of bringing the US, China and India into a single deal for the first time. But timescales are slow, and levels of ambition remain way below what is needed to achieve the stated aim of limiting climate change to 2°C
- The EU's progressive stance reinforces confidence in the region's commitment to meet its climate change goals even at a time of crisis
- Action at national level will continue to be the key driver for investment, and is happening on a faster timescale than the sluggish international process would suggest

Climate change negotiations over the past years have been characterised by political wrangling, late-night compromises – and ultimately last-minute agreements to kick the can to the following year's conference. Durban was no different, except that this was the end of the line: the Kyoto Protocol faced expiry in 2012. After coming close to collapse, a deal was salvaged in the early hours of Sunday morning, a day and half after the scheduled close of negotiations.

Key elements of the deal are:

- An agreement by all countries to work towards a global climate deal "with force of law" by 2015, to take effect by 2020 (the 'Durban Platform'). The wording on the legal force was the result of a hard-fought battle and it remains unclear exactly what the final compromise means
- The continuation of the Kyoto Protocol structure. Following the expiry of the current commitment period in 2012, a limited number of participants will take on targets for a second commitment period which will run from 2013 to either 2017 or 2020. The new deal will only cover the EU plus a few other nations, representing in total around 15% of global emissions. But as well as appeasing developing countries, the deal will safeguard the existence of key elements of the international climate change infrastructure, particularly the Clean Development Mechanism
- The launch of the Green Climate Fund, a structure that was first proposed at Copenhagen in 2009. The aim is to raise \$100bn per year by 2020 from a range of public and private sources, with the Fund redistributing this to help finance climate change mitigation and adaptation in developing countries
- Technical developments in the Clean Development Mechanism and REDD+ (forestry) mechanism, although these fall well short of fundamental reform

A historic moment?

The US, China and India come together

The most striking element of the deal is that the US, China and India all retreated from their previous standoff by committing to take on legally-binding commitments, breaking down the previous boundaries between developed and developing countries. While little has yet changed from an investor point of view – this is still only an agreement to hold more talks about talks – anything less would have dealt a damaging blow to confidence in climate change as an investment theme.

The decision by EU negotiators to agree to extend the Kyoto Protocol is also a strong signal that the region's commitment to climate change policy remains solid, despite adverse economic circumstances. The move will commit the region to legally binding targets, and is likely to improve confidence in its 2020 goals.

We will also watch with interest the creation of the Green Climate Fund, which has been established to raise and distribute up to \$100bn per year by 2020. Although the details are thus far vague, we are hopeful that negotiators will work with the private sector to develop new mechanisms that can support the flow of investment into low-carbon solutions and into the finance of adaptation measures.

Too little, too late?

Clearly the timescale of the new negotiating track leaves a gap between the end of the first commitment period under Kyoto, which expires at the end of 2012, and the implementation of the new treaty in 2020. This gap is filled by a series of national and regional emissions targets for 2020, which were first submitted by governments ahead of the Copenhagen climate summit. Although they do not have legal force, the targets have a high degree of political authority and on the whole, governments are making efforts to achieve them.

However, the commitments still fall well short of what is required to meet the internationally agreed objective of limiting the global temperature rise to 2°C from its present Business-As-Usual course of up to 6°C. Collectively, these targets get only about half-way to what the science tells us is needed to achieve the 2°C goal. Unless the level of ambition is raised, the world will be committed to a global temperature rise of 3°C or more.

The reports of the Intergovernmental Panel on Climate Change, including the analysis in November 2011 of the implications of climate change for severe weather events, make it clear that change on this scale would have significant implications for life, potentially including extreme heatwaves and droughts, the spread of tropical disease and more severe storms. This will serve to exacerbate existing stresses on

the key resources of water, food and energy imposed by a world of 7 billion people¹. Recognising the inevitability of the changes ahead, F&C will be questioning companies about how they plan to adapt to a world of more extremes of climate and ever tightening resource constraints.

The slow timescale of the Kyoto negotiating track reinforces our previous view that what now matters is domestic politics, not international talks. Identifying the investment opportunities arising from climate change requires a detailed understanding of policies at the regional and local level. F&C's belief is that these opportunities remain significant, with governments globally still committed to reducing emissions and improving the energy intensity of their economies, as well as meeting related goals such as greater energy security.

¹ See also 'Hungry Planet', F&C Viewpoint, June 2011

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