The business response to climate change
Outcomes and implications of the Copenhagen Accord
In November 2009, Ernst & Young released *The business response to climate change: choosing the right path*. In it, we explored the opportunities and risks presented by climate change, how an organization’s response to climate change has become a deciding factor in its performance and the need for a framework to anchor the organization’s efforts.

In this paper, we continue that journey and look at the outcomes of Copenhagen, the business implications of the Copenhagen Accord and the need for organizations to stay on course against a continued background of complexity, change and uncertainty.

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With or without a binding global agreement, organizations need to keep driving forward. They need to meet national and regional legislation. They also need to consider the ever increasing demands of shareholders, investors and other stakeholders, including customers. In an already complex and uncertain environment, organizations need to stay focused and act now.

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The Copenhagen Accord (the Accord) provides a global framework for national governments to formalize their mitigation commitments. It sets a goal of keeping temperature change to below two degrees Celsius, includes a Copenhagen Green Climate Fund to provide financing for developing countries and it launches a technology development and transfer mechanism.

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Organizations will need to keep focused on current and emerging national and regional legislation, and expectations of greater measurement, reporting and verification. They will need to monitor their exposure to carbon markets and the risks of climate change, as well as the continued opportunities of investment in cleantech innovation.

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The Accord sets the tone for ongoing global debate on climate change. It confirms the direction of national policies, and it subtly shifts country dynamics. Organizations that have not yet developed a strategy need to do so now. Global regulation may be less clear but other forces will continue to exert influence.
Stay focused in the absence of a global agreement

For two weeks in December 2009 the world watched as nations gathered in Copenhagen to discuss responses to climate change. Participants and observers alike recognized the immense challenges to achieving consensus. But that did not prevent them from hoping for global alignment around a binding commitment for international action. At the end of the day, most were left disappointed.

The 119¹ heads of state and government, as well as ministers from 194² countries represented at Copenhagen, sought to agree on a post-2012 climate change framework – one that could be readily implemented following the end of the first commitment period of the Kyoto Protocol on 31 December 2012.

The outcome was the Copenhagen Accord (the Accord).³ The Accord was accepted by all developed countries and the majority of developing countries. However, opposition from a few developing countries could not be countered in the limited timeframe. With global consensus beyond reach, the Accord was only “noted” and is therefore not legally binding.⁴

Still, the presence of so many heads of state and government proves that there is political will and commitment to stay the course on what is undoubtedly a long and complex journey. Of equal significance, it highlights key players increasingly working together toward consensus. COP15 may have fallen short of expectation, but it serves to reiterate that the climate change agenda remains a high priority.

The Accord recognizes climate change as one of the greatest challenges of our time with critical impacts. It stresses the need to establish comprehensive plans to reduce the sources of human-induced climate change (mitigation), as well as plans that help moderate the effects of climate change (adaptation) with international support. The Accord also creates an immediate focus for national-level policies from 2010 to 2020, as well as an important focus for companies’ climate change strategies.

With or without a binding global agreement, organizations need to keep driving forward. They need to meet national and regional legislation. They also need to consider the ever-increasing demands of shareholders, investors and other stakeholders, including customers. In an already complex and uncertain environment, organizations need to stay focused and act now. They need to remain focused on current regulations, as well as monitor future national, regional and global regulations. They should be ready to implement a low carbon transition strategy for 2010 to 2020 to optimize opportunities and mitigate risks amid the increase in new regulations.

When developing a strategy, a framework helps to anchor climate change actions in a changing world. The framework in Figure 1 on the following page illustrates how the top layer of vision, direction, goals and planning links to the lower layers of execution, monitoring and measurement through overall program management and continuous improvement. For more information regarding this framework, please refer to Ernst & Young’s The business response to climate change: choosing the right path, available at www.ey.com.⁵

In the Kyoto Protocol, developed countries committed to reducing their greenhouse gas (GHG) emissions to an average of 5% below 1990 levels from 2008–12. The Kyoto Protocol contained no obligations on developing countries and no commitments beyond 2012.

At the 13th Conference of the Parties (COP13) in Bali, Indonesia in 2007, governments agreed to start work on a new global agreement that would be finalized at COP15 in Copenhagen in 2009.
There will be both risks and opportunities, whether a company’s primary drivers are ever-increasing stakeholder expectations, revenue generation, regulation or cost reduction. Organizations will need to:

- Use well-executed plans to gain competitive advantage, like investing in cleantech.
- Take advantage of available tax incentives, grants and stimulus packages.
- Be aware of increased risks as the harmonization of conflicting reporting standards takes longer than desired; implement systems to track the patchwork of requirements.
- Prepare for potential litigation that may arise from increased regulations, policy and laws around climate change at regional and national levels.

- Remain focused on current regulations, as well as future national, regional and global energy and climate change regulations.
- Execute a low carbon strategy that optimizes opportunities and mitigates risks of new regulations. Efforts will need to focus on:
  - Developing a strategy that is focused on delivering sustainable business in the long term.
  - Identifying and building efficiencies into the entire value chain.
  - Managing sustainable supply chains by taking steps to realize operational efficiencies.
  - Innovating to meet increasing consumer demand for products and services with a lower impact on climate change.
At a glance
Outcomes and implications of the Copenhagen Accord

The Accord recognizes the need to:
- Limit dangerous global temperature change to below two degrees Celsius
- Stabilize, then reduce GHG emissions
- Tackle forestry-related GHG emissions
- Significantly increase investment in climate change mitigation and adaptation
- Support developing countries with financial support – fast start for 2010-12 and targeted funding of US$100 billion per year by 2020
- Support mitigation and adaptation work by launching a technology development and transfer mechanism to enable developing countries to adopt low carbon transition pathways for long-term sustainable development.

What it means for business:
- Expect to see more national and regional legislation focused on 2010-20
- Build robust business processes, controls and systems to monitor and report on GHGs
- Continue to identify opportunities for investment in cleantech innovation
- Closely monitor exposure to global carbon markets
- Assess climate change risk in vulnerable geographic areas and recognize the opportunities.
Key elements of the Accord

The Accord provides a global framework for national governments to formalize their mitigation commitments. Key elements of the Accord include:

- **Limiting dangerous global temperature change.** Negotiators agreed on the need to limit increases in global temperature to below two degrees Celsius.

- **Stabilizing and then reducing GHG emissions.** The Accord seeks agreement on a peak for global and national emissions as soon as possible. It recognizes that the period for peaking will be longer in developing countries. This takes into consideration social and economic development and the eradication of poverty as overriding priorities for these developing countries. Developed and developing countries have been asked to submit emissions reduction targets and mitigation action plans, respectively, to the UN by 31 January 2010.

- Developed countries (Annex I Parties) agree to implement emissions targets for 2020 that extend and strengthen current commitments under the Kyoto Protocol. Emissions reduction targets will be measured, reported and verified in accordance with both existing and new guidelines being considered by the COP.

- Developing countries (Non-Annex I Parties) agree to submit their mitigation action plans to the UN secretariat. They also agree to domestic monitoring, reporting and verification commitments, which will be reported every two years and subject to international consultation and analysis.

- **Tackling forestry-related GHG emissions.** The Accord recognizes the crucial need to reduce emissions from deforestation and forest degradation (REDD), which accounts for approximately 18% of global GHG emissions. Understanding the beneficial role forests play in removing GHGs from the atmosphere, the Accord establishes a REDD-plus mechanism.

- **Investing in climate change mitigation and adaptation.** Developed countries have committed to provide “approaching US$30 billion” to developing countries from 2010 to 2012 to fund action on climate change mitigation and adaptation. Developed nations have also pledged to increase funding to developing countries to US$100 billion a year by 2020 through multilateral, bilateral and private sources. The Copenhagen Green Climate Fund will be responsible for administering a significant portion of the funds. Serving as an operating entity of the financial mechanism of the United Nations Framework Convention on Climate Change (UNFCCC), the Green Climate Fund will support projects, programs, policies and other activities in developing countries related to mitigation. The UNFCCC has not yet announced the details of how the Green Climate Fund will operate.

- **Launching a technology development and transfer mechanism.** The Accord agrees to establish a technology mechanism to support mitigation and adaptation work. The technology mechanism will follow a country-driven approach that focuses on national circumstances and priorities.
Outcomes and implications of the Copenhagen Accord

Tax implications

The Accord creates several tax implications that chief financial officers (CFOs) and tax directors should evaluate in assessing tax obligations and opportunities. These include:

1. **Continued uncertainty on environmental taxes.** The absence of a legally binding agreement to abate GHG emissions perpetuates the uncertainty about the timing and process for implementing taxes designed to price GHG emissions. Businesses will need to plan for the reporting and management of more environmental taxes, and the design of systems to deal with these new taxes without that clarity and guidance.

2. **Ongoing complexity in operating across differing tax regimes.** Until a new globally ratified agreement is in place, multinationals will continue to face different tax regimes across the globe, each seeking to place a price on GHG emissions. Regimes may come in the form of national cap and trade, or carbon or energy taxes, or both.

   Additionally, the efforts of the Organisation for Economic Co-operation and Development (OECD) to harmonize taxation of emissions permits may lose momentum. Some multinationals are already struggling with the challenge of non-reciprocal treatment of emissions permits in cross-border transactions. These challenges will multiply as national carbon trading systems evolve and each jurisdiction adopts its own view on how they fit into their existing tax regime. Organizations should examine and evaluate lessons learned from their experiences to date as they plan for continued complexity.

3. **Greater disclosure at national levels.** Commitment to measure and monitor GHG emissions at national levels will increase the focus on the environmental taxes that businesses incur. These may need to be disclosed more fully in both the financial statements and in other forms of reporting required by individual countries. This may require more focus on “above the line” taxes, as well as the need for robust systems and additional staff to support increased disclosure requirements.

4. **Closer monitoring of incentives related to the transfer of technology to developing countries.** Technology transfer may be accompanied by tax incentives in both the developed world and in the developing countries to which the technology is transferred. Businesses will need to keep abreast of emerging tax incentives and take advantage of those that are designed to encourage the shift to more sustainable business models in developing countries.

   Multinationals investing in developing countries will also need to monitor emerging incentives arising from the funds transferred to assist in the decarbonization of these economies. Significant tax incentives are likely in Non-Annex I countries that have committed to reduce the growth of their national emissions, such as China, India and Brazil. Capturing the growing number of tax incentives arising from these initiatives, as well as implementing systems to monitor, evaluate, claim and comply should be a priority, particularly for cleantech solution providers and renewable energy businesses.
Business implications

**The Copenhagen Green Climate Fund**

The Copenhagen Green Climate Fund should provide developing nations access to improved mitigation and adaptation mechanisms. These include substantial financing to reduce emissions from deforestation and forest degradation, technology development and transfer, and capacity-building. Funding for adaptation will be prioritized for the most vulnerable developing countries, like small island developing states (SIDS) and Africa.

Organizations in developing countries will receive financial, as well as technical, support to adopt low carbon pathways aligned with the Accord’s objectives. Multinationals that often face difficulties in already-saturated developed country markets will find new opportunities in developing regions.

Business leaders have been consistent in their message to governments and other influential parties that they require more certainty about the future shape and direction of global and national regulatory frameworks for climate change. Despite the lack of certainty about a global regulatory framework, we see the following business implications:

- **Expect to see more national and regional legislation focused on 2010-20.**
  Although no global target was agreed, the Accord requests that developed countries submit to the UN their GHG emissions reduction targets for 2020. Developing nations are asked to submit nationally appropriate mitigation actions (NAMAs). Both face a submission deadline of 31 January 2010. As a result, we expect to see more national and regional legislation and greater focus on national activities between 2010 and 2020. This means that organizations need to stay alert to both current and future national, regional and global regulations and make sure they remain compliant. Organizations will also need to execute a low carbon strategy that optimizes opportunities and mitigates risks from new regulations.

In addition, the next commitment period of the Kyoto Protocol will likely be 2013-17. This mismatch of commitment timelines has the potential to create confusion and other challenges around emission reduction targets and processes. Organizations need to be clear on the timeline of their own climate change strategy and how this links to the next Kyoto Protocol commitment period.

- **Build robust business processes, controls and systems to monitor and report on GHGs.** There are no internationally agreed standards for measurement, reporting and verification (other than CDM and JI). Measurement, reporting and verification obligations will be fueled by local, national and regional agreements and legislation. A proliferation of standards without the benefit of an international framework will pose significant challenges for businesses, especially multinationals.

  Measurement helps to manage emissions more effectively and can act as a catalyst to change behavior. Many businesses already measure and disclose information on their carbon emissions, but the quantity and quality of data can vary significantly. The importance of disclosing accurate data should not be underestimated. Accurate data is increasingly being demanded by investors, policymakers, customers and other stakeholders to inform their decision-making about engaging with a particular business.

  Organizations that have begun to measure, report and verify will need to accelerate their thinking around sustainable business practices. Those that have not begun to measure and report need to start thinking about what they need to do to start. This includes building robust business processes, controls and systems to monitor and report on GHGs. The role of independent assurance organizations, which can work both nationally and internationally, will undoubtedly be important in maintaining the integrity of the commitments made under the Accord.
• **Continue to identify opportunities for investment in cleantech innovation.** The Accord establishes a shared vision for a world in which the demand for energy will require additional sources of traditional energy, as well as new technologies to support economic growth while stabilizing and then reducing GHG emissions. Cleantech companies (this includes the renewable energy sector) should stay aligned with the UN's newly created technology mechanism.

Despite the lack of progress at Copenhagen, cleantech development (renewable energy generation, equipment to support renewable energy generation, battery and other energy storage applications) continues to expand. Globally, clean energy investments reached US$115 billion by the end of the third quarter of 2009.7 Opportunities continue for investors, emerging companies and large corporations. Regulations like renewable portfolio standards and government programs – designed to encourage the adoption of these technologies – remain in place and may increase in the months ahead.

A confidence boost in capital markets based on the continuing prospects of cleantech companies could result in increased levels of equity investment. We are also seeing corporations increase their use of cleantech innovations, which indicates growth, partnerships and even consolidation within the industry.

From the public sector, global stimulus packages focused on promoting cleantech industries were expected to provide over US$300 billion in direct spending and incentives in 2009.8 Finally, we expect finance to pursue additional opportunities in developing markets where infrastructure projects are new builds rather than refurbishments. In these markets, cleantech opportunities will likely outpace those in developed countries.

The opportunities are significant but they are not without challenges. The debt markets – particularly for initial plants and projects using early stage technologies – are challenging at the best of times. Accordingly, organizations need to continue to use larger proportions of equity in these transactions. This causes investor concern about whether they can achieve appropriate risk adjusted returns for these investments, and that may cause some companies to fail.

Another challenge involves national, regional and local carbon regulation that enables cleantech companies to compete more effectively with traditional energy sources. As policy-makers debate how these regulations will impact the traditional energy industry, development of affected cleantech technologies may slow.

Despite these challenges, cleantech innovation remains an important solution to the challenge of climate change. Business leaders should monitor the new opportunities from the UN's new technology transfer mechanism and continue to take advantage of global stimulus packages.

• **Closely monitor exposure to global carbon markets.** Carbon funds, trading houses, banks and compliance buyers should monitor carbon market developments closely. They should also consider their exposure under a range of regulatory scenarios, impacts on carbon markets and implications for their strategy for meeting emission targets. Prices for carbon emissions futures fell 8% in opening trade on the first trading day after the announcement of the Accord.9

The international carbon market is intended to keep investments up in developing countries and costs down in developed countries, which is good for technology and financial transfers. Organizations need to build scenarios to explore the potential impacts of different regulations on carbon prices and implement decision tools that will allow them to execute effectively on strategic decisions. As well, they need to optimize carbon asset portfolios by understanding the relative costs of abatement for different options – on a post-tax basis and on a risk-weighted basis – to facilitate appropriate investment decisions. It is also important to compare opportunities, costs, regulations, and risks across, for example, a range of countries, to fully develop strategies, rather than operate solely within national boundaries.
Business implications

Business leaders need to closely monitor changes in the price of carbon. Taking an international perspective will be important for organizations, as these changes will influence the global carbon market. Supply and demand will be materially affected by new mechanisms for REDD and sectoral crediting; new national regulations such as those in the US, Australia, Japan, and changing rules in the EU; and any new rules for CDM and JI projects. Each of these changes will have an impact on the international carbon price. US cap and trade legislation passed in the House of Representatives allows for international offsets at a scale that would materially influence supply/demand dynamics. Effective organizations need to continually re-evaluate their carbon management strategies against changing carbon prices.

- **Assess climate change risk in vulnerable geographical areas and recognize the opportunities.** Policy-makers are increasingly concerned about the immediacy of negative climate change impacts in the most vulnerable regions. That means organizations that operate in those regions need to be equally concerned. Examples include island states like the Maldives, Pacific Island nations and sub-Saharan Africa. Enterprise risk assessments need to ensure rigorous assessment and management of the physical impacts of climate change on supply chains and other business activities. Multinationals will need to continue to review climate change initiatives and risks if they have operations in countries facing significant climate change risk, as well as in countries like Brazil and Indonesia where there are tangible commitments to reduce growth of emissions.

In addition, business leaders need to identify products and services that address the climate change adaptation market. Developed country governments, many running large public deficits for the next four to five years, expect private industry to play an ever-larger role in investing in climate change initiatives. Innovation in cleantech segments, like water efficiency technologies, flood defenses and crop science, will meet the needs of countries seeking technology for climate change adaptation.

Organizations should assess and plan for the risks of climate change as well as recognize the opportunities it can bring.

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**CDM reform discussion**

Lack of agreement on post-2012 arrangements extends the uncertainty for international carbon trading mechanisms. These include the CDM, which defines the market rules for organizations located in developed countries to invest in GHG emission reduction projects in developing countries.

During COP15/CMP5, participating Kyoto Protocol countries met to discuss enhancements to the validation and verification processes of potential CDM projects. A draft CDM document issued in Copenhagen offers further guidance, as well as streamlined procedures, new funding and a new appeals procedure. This new draft is intended to provide greater transparency to stakeholders for decisions made regarding potential CDM projects.10
The US is making significant advances on climate change policy, yet faces obstacles

The US does not currently have any national or international commitments to reduce GHG emissions. The Accord breaks down some of the barriers to the passage of US climate change legislation through the Senate. However, the passage of such legislation in 2010 should not be viewed as a certainty. Other hurdles remain. These include:

- **A US election year.** Many senators in the US will stand for election in 2010. With constituents raising concerns such as health care, the state of the economy, unemployment and the implications of a second stimulus bill, climate change reform may not be as high on the agenda.

- **Views on global warming by the US voting public.** Recent polls suggest that the voting public views global warming as the least of all major concerns of Americans, and a significant percentage are still skeptical about the cause of global warming.\(^1\)

- **The recession.** Unemployment in the US remains a significant concern. Opponents of climate change legislation argue that the bill threatens jobs in the US and moves them to other countries.

- **Political uncertainty.** There can be no guarantees that anyone will vote along party lines or that votes will not change once provisions are amended or removed as the political negotiations begin.

- **China, India and Brazil.** Many US anti-climate change politicians do not have full confidence in the commitments made by these countries to reduce and accurately report their GHG emissions. Without a firm agreement on limitations, it is questionable as to what impact the Accord will have on US legislation.

The Accord on its own is unlikely to change perceptions in sufficient numbers in the US to get the needed votes for passage of legislation in 2010. If the Cap and Trade bill fails in the Senate, the Environmental Protection Agency (EPA) is likely to implement its rule to cap stationary sources of CO\(_2\). However, like most EPA actions under the Clean Air Act (CAA), this is likely to run into litigation on several fronts. This may mean that any EPA action can be accepted, rejected, modified or delayed by the courts.

Although carbon legislation could stall in Congress, businesses (power and utilities in particular) should not stop their efforts to reduce carbon emissions as individual state action is likely to continue.
China’s role in climate change negotiations has changed

While China was not required to commit to an emissions reduction target in Kyoto, it has been the major beneficiary of the CDM. Over 36% of total CDM projects are registered in China. These projects have an expected annual reduction of over 200 million metric tons per annum for that country. India is next in line to benefit, with 24% of total CDM projects. According to IHS Global Insight, China’s real GDP grew close to four times in size from 1997 to 2009. As a result of its rapid economic development, it is now the world’s largest emitter of CO2.

There is an expectation that China needs to play a role in reducing its emissions growth to help global emissions peak as soon as possible, in line with goals to limit temperature increases to less than 2 degrees Celsius. China has proposed a target to slow the growth of its GHGs, based on an intensity measure linking GHG emissions and GDP. But like India and other developing countries, it has resisted pressure to adopt binding total emissions targets and international monitoring, reporting and verification requirements.

The international carbon market will be watching to see if China decides to limit the export of Certified Emission Reductions (CERs) to meet its domestic mitigation goals. Its decision will have impacts on international investment, the international carbon price and potentially on technology transfers.

As its manufacturing dominance continues to rise, China is seeking to maintain a balance between sustaining its unprecedented economic growth and achieving reductions in national GHG emissions per unit of GDP. China will play a significant role in international climate change negotiations for the foreseeable future.
Stay on course, stay relevant

From the outset, participants and observers alike recognized the obstacles hampering global consensus at Copenhagen. Many, however, hoped for far more than COP15 achieved. The Accord may not be a globally accepted, legally binding agreement, but it does set the tone for ongoing global debate on climate change, confirms the direction of national policies and has subtly reshaped the playing field.

Since many countries have already set reduction targets, national regulations may drive activity faster than global targets. Organizations that have not yet developed a strategy should begin doing so now. Despite the lingering uncertainty, climate change will continue to be an increasingly relevant business issue in the decade to come, for governments and businesses alike.
The parties to the UNFCCC have met annually from 1995 in COPs to assess progress in dealing with climate change. The timeline below shows significant events from 1992 to 2012.

### UNFCCC timeline

<table>
<thead>
<tr>
<th>Year</th>
<th>Event Description</th>
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<tr>
<td>1992</td>
<td>Rio Earth Summit</td>
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<tr>
<td>1994</td>
<td>UNFCCC comes into force</td>
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<tr>
<td>1997</td>
<td>Kyoto Protocol (COP3) establishes legally binding obligations for the period 2000–2009 for developed countries (Annex I)</td>
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<tr>
<td>2001</td>
<td>US rejects Kyoto Protocol</td>
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<td>2005</td>
<td>Kyoto Protocol comes into force</td>
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<tr>
<td>2007</td>
<td>Bali Action Plan (COP13) set deadline of 2009 to discuss further commitments for industrialized countries and elements of long-term cooperative action to meet agreed goals</td>
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<tr>
<td>2008</td>
<td>Start of the first commitment period of the Kyoto Protocol</td>
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<tr>
<td>2009</td>
<td>Copenhagen Accord (COP15) sets target of limiting temperature rise to below 2°C, but carries no legal force</td>
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<tr>
<td>2010</td>
<td>January 31st Deadline for Annex I countries to submit quantified economy-wide GHG emissions reduction targets for 2020; deadline for non-Annex I countries to submit mitigation plans</td>
</tr>
<tr>
<td>2012</td>
<td>End of the first commitment period of the Kyoto Protocol (December)</td>
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2 Ibid.
4 The Copenhagen Accord was “noted” by participants of COP15 and the Conference of the Parties serving as the Meeting of the Parties (CMP5) in Copenhagen.
7 Ernst & Young, “Cleantech insights,” November 2009.
8 Ibid.
12 http://cdm.unfccc.int/Statistics/Registration/NumOfRegisteredProjByHostPartiesPieChart.html.
14 “China Real GDP, Annual,” IHS Global Insight.
Glossary

Adaptation. Action that helps moderate the effects of climate change (e.g., constructing barriers to protect against rising sea levels, or converting to crops capable of surviving high temperatures and drought).

Annex I Parties. Generally referred to as developed nations, these include the industrialized countries that were members of the OECD in 1992. They also encompass countries with economies in transition (the EIT Parties), including the Russian Federation, the Baltic states, and several Central and Eastern European states.


Clean Development Mechanism (CDM). A mechanism under the Kyoto Protocol through which developed countries or companies can earn credits (CERs) by investing in GHG emissions reduction or removal projects in developing countries. Investing countries or companies can use CERs to offset their own emissions.

Certified Emission Reductions (CERs). A greenhouse gas trading credit, under the United Nations’ CDM program. A CER may be earned by participating in emissions reduction programs - e.g., installing green technology in developing countries. Each CER is equivalent to one metric ton of carbon dioxide.

CMP. Conference of the Parties serving as the Meeting of the Parties (CMP). The meeting of the countries participating in the Kyoto Protocol. The sessions of the COP and the CMP are held during the same period to reduce costs and improve coordination between the Convention and the Protocol.

CMP5. Conference of the Parties serving as the Meeting of the Parties held in Copenhagen in December 2009.

CMP6. Conference of the Parties serving as the Meeting of the Parties expected to be held in Mexico in late 2010.

COP. Conference of the Parties. The annual meeting of the countries party to the UNFCCC.

COP15. The 15th session of the Conference of the Parties held in Copenhagen in December 2009.

COP16. The 16th session of the Conference of the Parties, which is scheduled to take place in Mexico in late 2010.

First commitment period of the Kyoto Protocol. The period from 2008–12 when Annex I countries must fulfill their GHG reduction obligations as agreed in the Kyoto Protocol.

GHGs. Greenhouse gases are natural and industrial gases that trap heat from the earth and warm the surface. The Kyoto Protocol restricts emissions of six GHGs with different warming potential: natural (carbon dioxide, nitrous oxide and methane) and industrial (perfluorocarbons, hydrofluorocarbons and sulphur hexafluoride). The emission of these gases is often expressed in terms of carbon dioxide equivalent (CO₂e), the amount of CO₂ that would cause the same amount of warming.

Kyoto Protocol. A Protocol attached to the UNFCCC, which sets legally binding commitments on the reduction of GHG emissions by industrialized countries. Adopted in 1997, it required industrialized countries to reduce their combined emissions to 5% below 1990 levels during the five-year period from 2008–12. However, it did not legally come into force until 2005.

Mitigation. Action that will reduce the sources of human-induced climate change. This includes action to reduce GHG emissions or remove GHG emissions from the atmosphere.

NAMA. Nationally appropriate mitigation actions is a term introduced in the Bali Action Plan to recognize mitigation efforts undertaken by developing countries.

Non-Annex I Parties. These are primarily developing countries. The COP recognizes certain groups of developing countries as being especially vulnerable to the adverse impacts of climate change. These include countries with low-lying coastal areas and those prone to desertification and drought. Others (such as countries that rely heavily on income from fossil fuel production and commerce) feel more vulnerable to the potential economic impacts of climate change response measures. The COP emphasizes activities that promise to answer the special needs and concerns of these vulnerable countries, such as investment, insurance and technology transfer.

REDD. Reducing Emissions from Deforestation and forest Degradation provides developing countries with financial incentives to preserve forests.

REDD-plus. A broadening of REDD that enables developing nations to seek greater incentives if they conserve forests, adopt sustainable environmental management programs or plant new trees.

UNFCCC. The United Nations Framework Convention on Climate Change is one of a series of international agreements on global environmental issues adopted at the 1992 Earth Summit in Rio de Janeiro. The UNFCCC aims to prevent “dangerous” human interference with the climate system. It came into force on 21 March 1994 and has been ratified by 194 countries.
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