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What Does the Failure of COP-6 Negotiations Mean for Business?

After two weeks of intense negotiations by delegations from around the world, the Sixth Conference of the Parties (COP-6) adjourned without an agreement on the next steps for implementing the Kyoto Protocol.

Several countries worked behind the scenes to restart the negotiations, arguing that an agreement could be reached. However, these efforts were for naught. The next formal round of discussions is scheduled for July 2001, following the Bush administration's request for a two month delay to allow it more time to prepare.

Many participants of COP-6 acknowledge that countries were very close to agreement when negotiations broke off. However, the failure to strike a deal, combined with political uncertainty within the European Union and the uncertain negotiating position of the new U.S. administration, has slowed the Kyoto process.

ICF Consulting believes that these delays are only temporary, despite likely demands by the Bush administration to address developing country participation and adverse economic impacts on the United States.

The global business community is undoubtedly frustrated by the lack of a clear set of ground rules and many countries are anxious to resolve these matters and proceed with the steps necessary to implement an international agreement, either the Kyoto Protocol or its substitute. Although implementation will require difficult compromise, the desire to reach an agreement will eventually prevail.

One critical fact of the Kyoto Protocol often overlooked is that it simply establishes the first commitment period of 2008-2012. All countries recognize that, to avoid "dangerous anthropogenic interference with the climate system," other commitment periods will eventually be necessary. Establishing rules for a longer term objective will lead to a negotiated deal that gives countries direction for initial steps. Concerns over carbon sinks and domestic versus international actions will then become less critical.

ICF Consulting expects that a key component of any international agreement will be emissions trading. The science and economics are consistent—emission reductions in one part of the world have the same environmental benefit as those in another location. All emission sources need to be considered and market mechanisms allow reductions to be pursued most cost-effectively. For example, many countries, such as the United Kingdom, are considering implementing domestic emissions trading systems.

ICF Consulting expects that rules will be established that allow companies to receive credit for reducing emissions beyond national boundaries. There will likely be restrictions, however. For example, when negotiations broke off at COP-6, countries wanted to exclude carbon sinks from the Clean Development Mechanism, i.e., emission reduction credit would not be granted for forestry and agriculture-related actions in developing countries. Similarly, there will be continued pressure for countries to focus on domestic actions.

Businesses should assume that events at COP-6 have only *temporarily* slowed the momentum for an international agreement on emission reductions. Times are still opportune for evaluating the risks and opportunities for one's business posed by international concern over climate change. ICF Consulting recommends that businesses continue to evaluate current and projected emissions levels; internal and external actions to reduce exposure; and the effect on the bottom line.

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