

## **Kyoto, the US, and business**

The Kyoto Protocol will enter into force on February 16th, and become international law: international law which is applicable to the 141 countries that have signed and ratified the treaty, but not to those who haven't, most significantly the United States, and Australia.

Reporters, the general public, the business community, and perhaps most significantly, the financial community, have started to respond to the fact that a carbon-constrained global economy will at long last become a reality.

Carbon, or more specifically the lack of carbon, in the form of carbon-dioxide emissions reductions, has become a tradable commodity. The volume of carbon dioxide traded rose in 2004 from 25,000 tons in January to 600,000 in July, 1,000,000,000 tons in September, and 670,000 tons in the first five days of October, immediately following the Russian ratification of the Protocol announcement on 22<sup>nd</sup> October last year.

It is estimated that by 2007, allowances worth up to 15 billion Euro will be traded compared with just over 100 million Euro in the past twelve months – and those estimates are likely to go up dramatically in the near future. Russia is expected to earn at least 10 billion Euros for the period 2008-12 from emissions trading and other flexible mechanisms in the Kyoto Protocol.

It's ironic that the notion of 'tradable permits' is in fact an American invention, pioneered in the effort to reduce acid-rain causing emissions in New Jersey, among other places, back in the late 80s and early 90s. But, now that there will be a global market in carbon, harnessing the power of market forces to achieve emissions reductions targets in the most economically efficient manner.

American companies, who in some ways would have more to gain than their European and Japanese counterparts, can't participate. American firms operating in 'Kyoto' participating countries will have to follow stricter rules but they will not be able to count emissions cuts at their US plants toward their overseas targets, something they would have been able to do if the Bush administration had not opted out of Kyoto in 2001.

Worse yet, while the European, Canadian, and Japanese partners and subsidiaries of American companies will on the one hand be REQUIRED to participate in general efforts to reduce emissions, they will not be able to do the kind of intra-company trading which BP, for instance, has used so effectively. In other words, they will have to draw a strict firewall between their US and non-US operations in relation to their carbon emissions. This of course also goes for companies like BP with enormous plant and infrastructure in the US...credits

generated on the west side of the Atlantic will NOT be allowed to be introduced into either the European or the global market.

How this will all pan out in practice remains to be seen, but one possible outcome is that the market will shy away from even the subsidiaries of US companies (or non-US companies with large US operations) in 'Kyoto' countries for fear that their emissions credits may be 'contaminated' by conflating them with whatever is going on domestically in the US.

While the McCain Lieberman Bill placing caps on emissions from power plants is not likely to pass the US Congress in 2005; it seems almost inevitable that it, or something like it, will need to be agreed soon. A plethora of state and regional initiatives for carbon emission reductions are already underway or in preparation, and the business community will demand a uniform national standard sooner rather than later; and ultimately, they will seek integration with the global market.

The business community, and the world as a whole has a clear vested interest in one, clear, global system for protecting the climate, for agreeing emissions reduction targets, and for carbon trading and emissions reductions. That was the message at the joint World Business Council on Sustainable Development / Greenpeace seminar in Johannesburg:

<http://archive.greenpeace.org/earthsummit/wbcsd/>, and that's the message now.

Finally, and perhaps most importantly, the (made in America) objectives of the market mechanisms that characterize the Kyoto Protocol have a twofold objective:

- a) to achieve the required reductions in the most economically efficient manner possible; and
- b) to drive the technological innovation in the private sector that will ultimately bring us the engineering innovation and experience which will make the transition to a low carbon and ultimately carbon-free economy as smooth as possible.

The early movers in these markets for renewable energy, energy saving and energy efficient devices, systems and technologies are already reaping substantial financial and societal benefits. With the introduction of the clear incentives in the Kyoto system over the next few years, it is expected that those benefits (and markets) will expand exponentially.

But the companies that are reaping these rewards are called Vestas (DK), Gamesa (Spain) Sharp, Toyota, Honda, Kyocera (Japan), AEG (Germany), Renault, Peugeot (France), Fiat (Italy), and even Shell and BP (NL and UK). They are NOT named Exxon, Ford, General Motors, Chevron/Texaco or Westinghouse, BHP, etc.

It seems inevitable that the US will join this global market eventually. The question is how much of a head start does it want the rest of the world to have?

As of 2 February 2005, 141 states and regional economic integration organizations have deposited instruments of ratifications, accessions, approvals or acceptances: [http://unfccc.int/files/essential\\_background/kyoto\\_protocol/application/pdf/kpstats.pdf](http://unfccc.int/files/essential_background/kyoto_protocol/application/pdf/kpstats.pdf)