

## Copenhagen's true effect yet to be seen

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By Mike Scott

Published: January 17 2010 09:27 | Last updated: January 17 2010 09:27

The Copenhagen climate summit in December is widely held to have been a fiasco that set back the cause of tackling climate change.

"Elements of Copenhagen were farcical," says Steve Waygood, head of engagement and SRI at Aviva Investors. "Everyone was very disappointed at the outcome."

But clean technology shares were largely unaffected, according to Clare Brook, fund manager of the IM Whbe Sustainability Fund. While the Nex index of clean energy stocks stumbled in the immediate aftermath of the conference, Ms Brook says shares across a range of sectors surged from December 1 to early January and the Nex rose a further 4.1 per cent in the first week of 2010.

The Copenhagen Accord is the vaguest possible document, but it does recognise the need to contain temperature rises below 2°C, the threshold above which scientists suggest there will be dangerous climate change. There is a pledge of an extra \$30bn of "quick start" financing for developing countries by 2012; a target of \$100bn from developed countries to finance mitigation and adaptation by 2020, and a commitment to tackle deforestation. What is lacking is any detail about how any of this will be achieved or any legal obligation on anyone to live up to their commitments.

It was always unrealistic to expect a legally binding treaty to emerge, says Ian Simm, chief executive of Impax Asset Management, an environmental and clean tech investor.

"But the fact that the US, China, India, Brazil and others came to the table with concrete proposals is a massive leap forward," he says.

Assuming that all nations stick to the initiatives they have announced, 85 per cent of the world's emissions will be subject to some kind of target, says Alessandro Vitelli, director of strategy at carbon markets consultancy Ideacarbon.

In addition, the fundamental drivers for the clean technology sector remain unchanged.

"Interest in these markets is driven by the need to manage investment risks and the opportunities available. Climate change is one part of a broader environmental agenda," says Will Oulton, head of responsible investment at FTSE.

It also ties in with concerns around energy security and increasing population to provide a strong background for investment in the clean technology sector.

One area that clearly did suffer from the outcome is the carbon markets, which saw carbon prices fall on the news coming from the Danish capital, although they have since rallied as a result of the cold weather in northern Europe.

While the EU has committed to continue its emissions trading scheme beyond 2012, the UN's **Clean Development Mechanism** has no such long-term certainty at the moment, says Mr Vitelli.

The lack of long-term clarity will hinder carbon prices and thus the long-term investments needed to decarbonise the global economy, according to Richard Gledhill, head of climate change services at PwC.

However, many investors contend that it is not the carbon price that is driving investment but national policies. Deutsche Bank has identified 270 climate policies around the world ranging from Renewable Portfolio Standards in a number of US states and Feed-in Tariffs in Europe to energy intensity targets in China.

In addition, much of the stimulus money that was allocated to green themes such as energy efficiency and smart grids has not yet been spent and will start to feed through in 2010.

"This stuff is happening without a global framework and I see nothing to suggest that any of these programmes are going to go away," says Tom Murley, head of renewable energy at Hg Capital. However, he concedes there will probably be less investment in emerging markets that rely on the CDM. "Most investment will go to western Europe, the US and China."

One positive of the absence of any concrete measures emerging from COP-15 is that there is nothing with which

opponents of the US's planned cap and trade bill can attack President Obama as he tries to introduce climate legislation, Mr Gledhill points out.

It remains far from certain he will be successful in passing a climate bill this year, but the President has a big weapon in his armoury – the decision taken last year to allow the Environmental Protection Agency to regulate greenhouse gas emissions because they are a danger to human health.

Business will put pressure on Congress to introduce legislation because they see it as preferable to regulation, which "is likely to be more costly and less flexible for business," says Nick Robins, head of the climate change centre of excellence at HSBC.

The investment community is now waiting for the end of January, when governments that signed up to the Copenhagen Accord are due to outline their emissions reduction commitments.

A strong signal there could be the start of a change in the view of how effective the Copenhagen summit was.

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