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# Decoding Copenhagen: What the climate summit means for business

**McKinsey's Jeremy Oppenheim analyzes the impact the recent climate conference will have on businesses and economies around the globe.**

**The failure of nations** to sign a legally binding agreement at Copenhagen's climate summit last December has left much of the business community confused about exactly how to interpret the meeting's wider economic implications. In this video interview, Jeremy Oppenheim, a director in McKinsey's London office, explains the policy shift that Copenhagen heralded as the climate change agenda moved from being a narrow issue for environmental ministries to a broad-based economic subject for heads of state. He also untangles the changes and challenges businesses and nations should expect to confront in light of the summit. McKinsey Publishing's Tom Kiely conducted the interview.

## Decoding the climate summit in Copenhagen

What happened at Copenhagen, through all the noise, was that the agenda shifted from being about narrow environmental policy to being about broad-based economic transformation and a commitment by nations across the world—but, particularly, the biggest economies and the biggest emitters—to begin the process. And it will be a multiyear, multidecade process of economic transformation.

Notwithstanding all the noise and the difficulty of negotiating, these heads of state substantively engaged in drafting the Copenhagen Accord. They put themselves almost in the chair of the negotiators to draft the final text. And, without exception, they have committed their countries, at least on paper, to a real shift in the way in which they look at economic activity.

## Global action in the wake of Copenhagen

For Europe, the real conversation that is playing out in a very exciting way is around looking very far to the future, to 2050, and to the kind of economic model that we will need to have if we're going to broadly decarbonize the whole economy in Europe.

Decarbonizing the European economy means, essentially, two things. It means electrifying almost all economic activity: all of transport, much of industrial activity, everything other than agriculture, in effect. And then, it means taking the entire power sector and decarbonizing it through a mix of dramatic expansion in renewables, very significant ongoing reinvestment in nuclear, and then, for the residual fossil fuel part of the power sector, applying carbon-capture-and-storage technology.

From Africa and from a number of the less developed countries—and you go all the way up to an Indonesia, in terms of economic development—the conversation is, in part, about how to take advantage of the green assets that they have. And so, the real debate that's now playing out in those economies is how to take the climate change agenda and use it as a positive discontinuity, leading to much more productive agricultural and land use patterns.

So you've got economies, in a sense, at the other end of the spectrum, and then, just to complete the picture, there is an absolutely critical group of countries in the middle: the middle-income, rapidly developing, rapidly industrializing countries. And the real question for those economies is, "How do they continue their path of rapid economic industrialization without, at the same time, becoming ever more energy intensive and ever more carbon intensive in their production patterns?"

The key driver of decarbonizing these economies will be the speed with which they move from relatively low-value economic activities—which are, themselves, very energy intensive—toward much higher-value, more service- and knowledge-based activities.

### The impact on businesses

The first piece to bear in mind is that carbon prices will be important, but they will not, in my view, drive the overall transition to a low-carbon economy. So we need to understand what the other drivers are likely to be. And, for me, there are two other drivers that are much more likely to be influential. The first is that there are good reasons to believe that energy prices will remain structurally higher than they were five, ten years ago. And that, itself, will be a significant potential driver—both of energy efficiency, but also of a shift toward renewable forms of energy, since the higher energy prices are, the more renewables are, in a sense, "in the money."

That's one big driver. The second big driver is policy. And what we're seeing in almost every economy is a much more granular, detailed set of policy interventions. We see those in the power sector; you certainly see it in the transport sector; you see it in urban planning and building codes. So I think we'll see quite a portfolio of these policy interventions. My hypothesis is that a number of them will prove to be, frankly, pretty inefficient. But they will be there, and they will create, in effect, very strong signals to shift and reallocate capital over time. There are going to be big opportunities, let's be clear. Any transition of this nature will create winners and will create losers. We are going to enter a phase of creative destruction that will cut across multiple sectors.

I think, for me, there are two things that businesses should pay particular attention to. One is just in terms of their own portfolio choices: how to get the timing right. There's a real challenge of, one the one hand, going too slow and just waiting until the policies have fully matured before making capital reallocation positions; and, on the other hand, the risk of going too fast. Just thinking through speed and pace of asset and capital reallocation—under what will be conditions of real uncertainty—is going to be a challenge.

And then, the second thing: if I have a concern, a real concern about this agenda, it is that as policy interventions play out, they will translate into the risk of real protectionism.

Some of that protectionism will be very overt, in the form of trade protection masquerading as climate action. Other forms of protectionism will be much more implicit, through highly differentiated local standards that benefit local players. And, for some local players, that will be a good thing. But it will, frankly, raise the costs of the transition. And it will raise the costs for businesses who want to play globally. So, actions that business can take to encourage efficient policy action and to discourage the voices of protectionism will be essential to the way in which this transition unfolds.



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