

Paris 2015: What's in it for the EU?

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The European Union, together with all countries, is making a second effort to reach a comprehensive global climate change agreement at the United Nations Climate Change Conference (COP21 or CMP11) in Paris in December 2015, after the unsuccessful attempt to do so in Copenhagen in 2009.

At a time when the EU is still preoccupied with recovery from the economic crisis, and is facing geopolitical challenges and a number of conflicts, why should it see the importance of continuing to offer leadership in the field of climate change? And why would such an agreement be important for the EU? In short: "What's in it for the EU?"

This commentary reviews the wider context of the negotiations, looking not only at the geopolitical shifts that have taken place on the road to Paris, but also at the interests of the EU both as far as its domestic climate policy is concerned, as well as its role as a diplomatic 'soft power'.

This paper represents the joint vision of the members of the EU Think Tank Platform for Paris 2015 (TT2015) of why the COP21 in Paris is important to the EU.

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The Platform brings together six of the leading EU think tanks (CEPS, IDDRI, IES-VUB, SWP, PISM and E3G), active in the area of climate change policy, in their desire to catalyse and contribute to the debate in the EU on its strategy and positioning in the 2015 negotiations. More information available on the website: <http://www.ttc2015.com/>

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The road to Paris 2015

The analysis needs to take into account the changes in the international landscape, as well as the evolution of the views, priorities and positions of the EU since the adoption of the Kyoto Protocol (KP) in 1997, and since Copenhagen.

Geopolitical shifts

Since 1997, but also going back to the Rio UN Conference on Environment and Development (UNCED) in 1992, the international economic order and emissions profile have changed significantly, as shown in Tables 1 and 2.

This has translated into a different balance in international relations, including in the negotiations of international agreements. There is increasing sophistication and knowledge about national positions as well as the international negotiating process from the G77 and China, which is reflected in the way in which negotiations are being conducted, as well as through the positions and options that the group is able to put forward.

The emergence since Kyoto of groupings such as the Environmental Integrity Group (EIG), Like-Minded Developing Countries (LMDCs) and the Independent Alliance of Latin America and the Caribbean (AILAC) testifies to the fragmentation and diversification, but also to the growing sophistication and assertiveness among developing countries.

The EU's view of itself, as well as that held by other observers, with respect to climate change, have also undergone significant changes since Rio, Kyoto and Copenhagen. For many years, the EU, with its membership in the KP "club", its Climate and Energy Package, including carbon pricing through the EU ETS, has felt that it had a lock on leadership in climate change.

Table 1. GDP (\$ billions of PPP)

Country	GPD 1997	Share worldwide GDP (1997), in %	GDP 2010	Share worldwide GDP (2011), in %	Δ 1997-2011, share worldwide GDP, in %
Australia	444.15	1.224	877.22	1.175	-4.00
Brazil	1125.57	3.012	2186.54	2.928	-2.79
Chile	133.49	0.368	276.80	0.371	0.82
China	2285.33	6.297	10128.40	13.562	115.37
Germany	1914.29	5.275	2957.38	3.960	-24.93
India	1251.59	3.449	4051.36	5.425	57.29
Indonesia	523.76	1.443	4051.36	1.385	-4.02
Japan	3105.05	8.556	4384.48	5.871	-31.38
Mexico	887.66	2.43	1569.89	2.10	-13.58
Russia	965.11	2.659	2237.41	2.996	12.67
Saudi-Arabia	314.94	0.868	628.93	0.842	-3.00
Singapore	112.40	0.31	293.69	0.39	25.81
South Africa	263.26	0.725	526.95	0.706	-2.62
UK	1273.62	3.51	2223.25	2.977	-15.19
USA	8332.35	22.961	14498.93	19.414	-15.45
EU-27	9124.47	25.143	15283.06	20.464	-18.61
World	36246.70	100	74683.81	100	

Source: IMF World Economic outlook 2012.

Table 2. CO2 emissions per country (in thousands of metric tonnes)

Country	CO2 emissions (1997)	CO2 emissions (2009)	Growth (percentage)
Australia	333,624	400,194	19.9536
Brazil	300,547	367,147	22.1596
Chili	56,171	66,732	18.8015
China	3,469,510	7,687,114	221.5619
Germany	863,975	734,599	-14.9745
India	1,043,940	1,979,425	89.611
Indonesia	278,659	451,782	62.1272
Japan	1,201,632	1,101,134	-8.3635
Mexico	358,383	446,237	24.514
Russia	1,559,238	1,574,386	0.9715
Saudi Arabia	216,239	432,772	100.136
Singapore	69,240	31,896	-53.9341
South Africa	371,328	499,016	34.3869
UK	553,673	474,579	-14.2853
USA	5,501,365	5,299,563	-3.6682
EU-27	4,009,329	3,617,579	-9.771

Source: UN and CDIAC.

But these perceptions have undergone recent changes. The role of China and the US has changed, more recently, through the November 2014 China-US announcement on climate change, but also in general. Both countries are undertaking domestic mitigation measures and have developed an increasing interest, and desire, to show leadership commensurate with their economic clout and geopolitical importance.

In the meantime, the EU's importance and confidence seem to be diminishing, in spite of being a 500 million people trading block and economic power, and its promises, actions and rhetoric to fight climate change.

EU in action

The EU has effectively decoupled economic growth from carbon emissions and is undergoing a profound and irreversible transition. It achieved a 19% reduction in GHG emissions between 1990 and 2013, while its GDP grew by 45%. It has recently introduced its 2030 framework for energy and climate, which calls, among other things, for a 40% reduction to 2030, which would put it on a trajectory to meet its 2050 goal of an 80-95% reduction.

The renewables target of "at least 27%" by 2030 will likely result in the increased importance of renewable-energy production across many EU member states in the next decade. The interconnection target of 15% can be expected to contribute to a continent-wide electricity grid, securing energy cooperation and security. And last, but not least, the energy-efficiency target of "at least 27%", coupled with stronger domestic regulation in France, Germany and the UK, as well as increasing EU efficiency finance, should mean an important contribution to the overall 40% greenhouse-gas reduction target.

The EU is making efforts to "reset" the emissions trading system (EU ETS) and return it to its previous role as a leading tool and an agent of change. The European Commission has issued the Communication on Energy Union, which includes its intended nationally determined

contributions (INDCs) with a 40% reduction (second in timing only to Switzerland) in which decarbonisation plays an important role.

Climate finance, and especially the Green Climate Fund (GCF), is also critical to the trust that is established between Parties ahead of the final months leading to Paris. The EU member states have pledged almost 30% of the \$10 billion pledged so far.

Action vs. rhetoric

Viewed by EU partner countries, the EU's performance during the last five years does not always live up to its rhetoric. The EU's commitment to a higher level of ambition of a 30% reduction in GHGs compared to 1990 levels, which was outlined as a possibility in the 2020 Climate and Energy Package (in the case of an international agreement in Copenhagen) is clearly no longer on the EU's agenda.

In addition, the EU has still not ratified the Kyoto Protocol's Second Commitment Period. There is a point where this delay could further affect the EU's credibility with its partners in the Durban coalition, especially the Small Island Developing States (SIDS) and the Least Developed Countries (LDCs). If this continues, it may have some bearing on the upcoming rounds of negotiations leading to Paris and the levels of trust amongst the negotiating parties.

The EU ETS was initially designed to be the central pillar of EU climate change policy. It should trigger, depending on the timeframe, operational changes, in terms of dispatch order and fuel switching, deployment of new technologies, as well as the development of low GHG technologies.

Reality has turned out to be different, with prices hovering between €6-7/tonne of CO₂, and with the effort to rectify structural design flaws so far unable to deliver. The result seems to be a political compromise that will keep the EU ETS on life support, but unable to deliver what it was meant to do. This has not passed unobserved on the international scene and it is impacting the EU's credibility.

EU climate and energy policy in a changing world

In the context of climate change and energy policy, the world today is very different indeed from the scenarios envisaged in the EU Third Energy Package and the 2020 Climate and Energy Framework. The assumptions included a high price for fossil fuels and a global climate change agreement reached in Copenhagen that would address competitive concerns and rapid de-carbonisation, driven by high carbon prices in the EU ETS.

Before Copenhagen, in the 2020 package, the EU agenda was seen as a win-win scenario for the EU, with its energy deficit and high fossil-fuel imports. The EU agenda aimed for an increasingly sophisticated renewable energy industry that could lead to an industrial renaissance, exports and jobs, while providing leadership with the 'soft power' of ideas from the high moral ground of global environmental protection.

Reality has turned out to be rather different, however, even if not necessarily always negative in terms of climate change. The economic crisis, a different energy scenario, driven by shale gas in the US, much lower economic activity and increasing geopolitical conflict in the EU neighbourhood have all negated some of those assumptions. Fossil-fuel prices turned out to be much lower than expected, carbon prices in the EU ETS collapsed and there was no Copenhagen agreement.

This new reality has made it increasingly acceptable, if not fashionable, to question the rationale for the EU domestic and international positions and the leadership that it had offered. It must therefore come as no surprise that the issue of energy security has become much more

visible and central. In addition, competitiveness has been increasingly tied to the EU's domestic energy and climate policies, carbon leakage (with its trade and investment component) and its stance on the 2015 climate change negotiations.

What's in it for the EU in 2015?

Soft power

Climate change is one of the areas where the EU is showing international leadership, which includes caring for the welfare of the planet and of developing countries, which are the most affected by climate change. The EU climate policy narrative, which includes financial assistance for adaptation and mitigation actions in developing countries, is therefore an important ingredient to its status as a soft power, supporting multilateral approaches in particular towards sustainable development and external cooperation.

The EU, through France, is the host of the Paris conference, and as for all hosts, this brings the obligation to show leadership. Delivering a successful climate summit in Paris has ramifications for the overall UN system.

With climate change seen as an important and pressing matter by populations and the political class in a number of countries, a climate change treaty under the multilateral system will boost the credibility and influence of the UN and the whole multilateral system.

Demonstrating that the multilateral system is capable of addressing such complex challenges as climate change, in the context of large-scale geopolitical shifts, is of great importance for the future of global governance. Multilateral agreement on climate change can be an example of a balance between great-power politics and the continuation of multilateral rules and frameworks. Inventing this 'new multilateralism' is crucial for the EU, which cannot play in great-power politics in the same way as China or the US.

Finally, there is the issue of security and geopolitical conflict, which is an increasingly important dimension of climate change and one that is currently acknowledged by many security experts. For the EU, with potentially massive migration challenges, this is an increasing concern. A multilateral agreement on climate change provides the foundation elements for a more just and prosperous society, and helps contribute to addressing the security and geopolitical concerns of the EU.

But the case cannot rest solely on the merits of the EU 'providing leadership', as a component of the EU's 'soft power' approach alone. The justification for EU leadership must be provided through the concrete deliverables that a multilateral agreement will mean for the EU - deliverables that will bring concrete and tangible benefits.

Given that European society sees climate as both a significant danger and a challenge, it feels that it is in its own interest to take action to address it. The oft-cited 'cost of inaction' is in itself a compelling case for action, but what can international leadership and an international agreement bring?

Transition to a low-carbon economy and sustainable energy

The EU has started what seems like an irreversible transition to a low-carbon economy and sustainable energy, and various member states have reached different stages of this progression. International conflicts, including the situation in Ukraine, have served to highlight some real, or perceived, vulnerabilities of the EU in terms of diversification and energy security. This also shows the increasing need for efficiency and innovation to keep EU industry competitive. The February 2015 Commission Communication on an Energy Union has highlighted strongly the connection between energy diversification and transition to a

low-GHG economy and the Paris 2015 climate change agreement. The Energy Union documents recently put forward by the European Commission put energy at the centre of EU priorities, in the context of climate change concerns and constraints.

The 2015 agreement should ensure that the main trade competitors of the EU will also have to make commitments and take action, either at the national level or with respect to their energy sectors. An international coordinated transition to a more sustainable energy matrix will favour the EU, as it is unlikely that it will be able to compete on energy prices and will reduce the disruption to supply.

A coordinated transition to a sustainable energy system can accelerate innovation and lower the costs of transition for all. It can also help to ensure that the commercial aspects of such a significant shift in the global productive system have a basis to be managed, including ensuring that global markets for climate-friendly goods are open and fair, and that participating countries benefit from reduced technology costs and positive international spill-overs from a global transition.

The transition needs to be sustainable and show balanced environmental progress and economic sustainability, including stability in energy markets. The EU cannot do this alone and will benefit from an international climate change agreement

Carbon markets

Europe's low-carbon economy, worth €2.9 trillion and growing at 4% per year, is producing employment and much-needed economic growth. Europe's economy and future prosperity depends on a global low carbon future. Europe's leadership on climate action has given it strong commercial positions in global green technology markets. Europe sees an ambitious global climate agreement in Paris as critical to maintaining this economic success.

An inclusive and ambitious Paris Agreement is essential for underpinning the growth of open and rules-based global markets in low carbon and green goods, services and investment from which all countries can benefit.

International cooperation in many fields to combat climate change has been one of the fundamental tenets of EU climate change policy. This is making carbon pricing, through a well-designed and liquid carbon market, possible at the domestic and international level. The EU ETS was designed and continues to be presented by the EU as the central pillar of its climate change policy. Thus it needs to be embedded in the international system also after 2020.

The EU ETS has served as the central hub of an international market in a number of jurisdictions, through the Clean Development Mechanism (CDM) and Joint Implementation (JI). However, the EU never intended, nor is it able, to absorb through its EU ETS all international units of reduction created through such systems.

The EU had always prioritised the creation of a global carbon market, which promotes linking with other cap-and-trade systems, and can address competitive concerns, by ensuring that carbon-pricing mechanisms, and a comparative carbon price, emerge in other jurisdictions.

This could be accomplished under the provisions of the KP, but there is no similar framework to help create linkages post-2020. A 2015 agreement can provide the accounting transparency, and assurance of quality in international transfers to address environmental integrity, minimise the overall cost of compliance and deal with competitive concerns.

Competitiveness and carbon leakage

An international agreement can first and foremost bring transparency and comparability to the actions undertaken by competitors. Currently there are asymmetrical climate change policies around the globe, which are the result of climate change policies in a few jurisdictions (e.g. the EU) that impose a cost that is higher than that imposed through policies implemented by its trading partners. Carbon Pricing Mechanisms (CPMs) are just one manifestation of such policies.

While the EU was alone for a while, that is no longer the case. California, Quebec, the US Regional Greenhouse Gas Initiative (RGGI), as well as other CPMs in Mexico, the Republic of Korea and South Africa have emerged. China is preparing for one of the largest CPMs within the next years.

Each jurisdiction with a CPM is concerned about the effects on its industrial competitiveness, and how to mitigate the risk of carbon leakage. Different carbon-leakage risk-mitigation measures are proposed, with free allocation being a common denominator for the time being. This trend will continue; no one will want to lower the 'insurance' that it provides to its industry, or lose the political peace that it buys. However, national barriers and exemptions through free allocation are not a long-term solution, if the goal is similar to the EU's 85% decarbonisation by 2050.

The 2015 agreement can be the foundation for an international cooperative agreement to address competitiveness concerns. It is unlikely that there will be provisions to that effect in the Paris text, but the transparency provisions will make further discussions leading to the next round of commitments much more feasible. The EU is amongst the parties who will benefit most from such an approach.

Reflections

In a changing geopolitical landscape, the EU relies on soft power. While the EU's position as a leader is not as unrivalled as it used to be, an effective, credible and ambitious climate agreement after 2020 would help to preserve this position. This includes bringing the UN negotiations in Paris to a successful end and playing an active part in designing a long-lasting international agreement.

The EU is moving fast to decarbonise its economy and would benefit from a global agreement that can help address its real concerns regarding competitiveness and the transition to a low-carbon economy and sustainable energy. International cooperation provides a good basis for developing a necessary condition, but it is not sufficient; the introduction of carbon pricing would be also greatly facilitated by the existence of an international framework and global climate change agreement.

The case for EU leadership and ambition needs to be reiterated and made clear in order to ensure that the leaders, the political class and the public at large continue to be supportive. Good global citizenship and self-interest are not mutually exclusive arguments, and both need to be emphasised.