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“The European climate policy in the international context”

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Introduction

Since the 1990s climate change governance has increasingly received European attention, becoming part of the broader European foreign policy and of the EU’s pursuit of a role as a global actor and leader. Since Europe is in itself a diplomatic success in reaching a compromise among different interests and a product of multilateralism, the EU’s foreign policy has been shaped by its willingness to reproduce its experience on the global stage. As stated by Commission President José Manuel Barroso, “This is the great European narrative for the twenty first century. We have created a new and better European political order. Now we must use this experience to create a new and better global order”¹.

1. EU international leadership in climate change governance

Climate change governance took on an important role both for EU international and domestic policies. On the one hand the EU, a traditionally fervent supporter for multilateralism and international law as the backbone of global governance, quickly assumed the lead in the fight against global warming. On the other hand, climate change constituted an opportunity for European institutions to reinforce their legitimacy on the domestic level, thereby becoming an important driver of European integration. Moreover, shared and coordinated EU policies and measures tended to strengthen a common EU

¹ José Manuel Barroso, President of the European Commission "50 years of Europe: Honouring the past, inspiring the future", Italian Senate, Rome, 23 March 2007.

interest in internationalizing the related commitments so as to provide a level playing field globally, and thus supported EU's unity.

In its fight against global warming, the EU lead by doing, therefore connecting what was going on at home with what was being advocated at the international level. It adopted a so called directional leadership in order to guide by providing an example of the feasibility, value and superiority of a particular policy solution. As stated in the May 2010 Commission Communication, the EU is now aiming at becoming the most climate friendly region in the world².

The EU has, over time, considerably improved its leadership record. This improvement is then linked to advances in EU domestic climate and energy policies and its role in international politics of climate change.

First, Europe was a fundamental actor in establishing the UN Framework Convention on Climate Change (UNFCCC) in 1992. After the American government decided to withdraw from Kyoto, the EU's diplomatic power was able to retain other countries (e.g. Russia) succeeding in making the Kyoto Protocol to come into force in 2005. Again, Europe's guidance played a key role in the adoption in 2007 of the Bali Road Map, which laid the foundations for the negotiation of a successor agreement to the Kyoto Protocol.

In order to meet its Kyoto target of 8% greenhouse gases (GHGs) emissions reduction by 2012, the EU has implemented a range of policies to combat climate change. One of the main examples of Europe as "climate pioneer" is the creation in 2005 of the world's first regional emissions trading system (the European Emission Trading Scheme - EU ETS), which helps its member states meet the Kyoto targets. This multi-country, multi-sector emission trading system represents also an example of integration among all the EU Member States.

In March 2007, the EU made an autonomous commitment to reduce its GHG emissions by 20% from the 1990 level by 2020 and declared its intention to commit to a 30% reduction in the case of comparable commitments by other industrialised countries and adequate contributions by advanced developing countries. In addition, the European Council agreed to increase the share of renewable sources in the EU energy supply to 20% and the contribution of biofuels in transport to 10% in 2020. It also approved the objective of saving 20% on the EU's projected energy consumption for 2020. This Energy and Climate package³, allowed the EU to come to the 15th Conference of the Parties (COP 15) last December in Copenhagen with a proposal which was designed to encourage ambitious commitments from other developed countries.

² Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions (COM(2010) 265 final). "Analysis of options to move beyond 20% greenhouse gas emission reductions and assessing the risk of carbon leakage" Brussels, 26.5.2010

³ For more information see http://ec.europa.eu/environment/climat/climate_action.htm.

However, the COP 15 delivered only an informal agreement, namely the Copenhagen Accord⁴. It is not legally binding, but it contains at least two important provisions and represents a first step towards a potential Kyoto successor. The first element relates to the long-term goal of limiting the increase in global temperature above 2°C and emission reduction commitments by 2020. The second refers to the proposed amount and allocation of financial transfers from developed to developing world.

Nevertheless, those two provisions are not new for the European agenda being of earlier EU proposals. For instance, the 2°C target was first established in 1996 by the EU during preparations for the Kyoto negotiations, and has been reaffirmed subsequently in various Environment Council and European Council conclusions⁵. While, already in September 2009 the EU proposed to finance mitigation and adaptation measures in developing economies.⁶

Finally, the EU has the objective to reduce emissions by 80-95% by 2050. The targets – already mentioned by the G8 leaders in the L'Aquila meeting (July 2009) - would be included in a 2050 roadmap for a low-carbon economy, which the Commission will set out in spring 2011⁷.

2. Europe's leadership at stake

The Copenhagen Conference represents a warning shot for the EU leadership position in the climate change context. Both the failure in reaching a legally binding, comprehensive and operative agreement and the presence of new actors in the climate change arena – namely USA and developing countries – were symptomatic of a loss in EU power.

While Europe still represents a benchmark in the global response to climate change and its policies still do exert influence, after Copenhagen its leadership role has been challenged. It is widely recognized that the EU played a marginal role at the summit, especially in the definition of the Copenhagen Accord. As a consequence, this informal agreement does mirror only in some aspects the EU's position. The reactions of European leaders to the Copenhagen outcome illustrate such disappointment. "The level of ambition is not what we were hoping for," offered José Manuel Barroso, head of the EU Commission, while Swedish Prime Minister Fredrik Reinfeldt, whose country held the rotating European Union Presidency at that time, said that the Accord "will not solve the climate pressures, the climate threat to mankind".⁸

⁴ United Nations Framework Convention on Climate Change, 2009, Draft decision -/CP.15 Proposal by the President Copenhagen Accord, at <http://unfccc.int/resource/docs/2009/cop15/eng/107.pdf>.

⁵ European Commission (2008). "Emission Pathways, Mitigation Options and Costs. The 2°C target. Information Reference Document", July 2008 at http://ec.europa.eu/environment/climat/pdf/brochure_2c.pdf

⁶ Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions (COM(2009) 475/3). "Stepping up international climate finance: A European blueprint for the Copenhagen deal", Brussels.

⁷ Euractive "Commission plans climate targets for 2030, 2050", 15 September 2010.

⁸ Expatica "Europe laments 'lack of ambition' in climate deal", 20 December 2009

The list of EU objectives not achieved is long. First, efforts to reach a global, comprehensive and operative agreement were replaced by non coordinated and informal domestic pledges, discrepant to the ambitious and globally agreed long-term goal of 2°C. Second, aviation and shipping were not mentioned as proposed by the EU⁹. Third, no robust monitoring, reporting and verification procedures were agreed. Finally, the section on technology transfer looked unclear and, more relevantly, no mention was made of emissions trading. In particular, the absence of any language on reform of the Clean Development Mechanism (CDM) and the lack of specificity concerning carbon finance mechanisms in general – be they only for REDD or technology – have led to uncertainties even about the future of the EU ETS.

In addition, for the first time, international negotiations are witnessing a new multi-polar geopolitical context with a large number of strategic actors and alliances. This also defines a change of leadership: the coalition behind the Copenhagen Accord includes key emerging economies (so called BASIC – Brazil, South Africa, India and China), which were able to muster a united front and to speak with one voice (especially after the creation of the IBSA - India, Brazil and South Africa), and the United States. A common opposition to Europe's agenda emerged and under these new circumstances the EU appeared to be not only disorientated but also at the margin, losing its primacy position as a perceived leader which mainly shifted in favour of the USA and partially to China. The EU will therefore have to shape its future strategy according to this new context, clearly defining its stance towards the USA, BASIC, and ALBA countries, which were responsible for the non-binding character of the agreement..

Together with this, EU leadership is also challenged by a deficiency affecting its negotiations stance, which is characterized by the lack of a unified representation. This is due to the EU's particular nature (a multiple actor) and to the "mixed competences" of both the EU/EC and its member states in managing the EU's external policy on climate change. As a consequence, both the European Community (the European Commission) and the individual member states are represented in international climate negotiations and, even though they largely act jointly and are recognised as unique actor, national representatives could express different and contrasting opinions. The absence of domestic coordination fundamentally weakens – as re-emerged in Copenhagen – EU negotiating capacity and credibility, both of which require speaking with one voice. Moreover, securing Europe's unity will be fundamental in the new context, where new actors are likely to try to divide the EU, which remains a multiple actor with potentially centrifugal issues and forces to face. Finally, the EU has been challenged by different progress and commitments in implementing domestic climate policy in individual EU member countries.

⁹ Transport and Environment "EU proposes global aviation and shipping targets for Copenhagen." 16 November 2009.

3. After Copenhagen: focusing on the right combination¹⁰

The Copenhagen Accord contains at least two important element of success and represents a first step towards a post-2012 agreement. The first relates to the long-term goal of limiting the increase in global temperature above 2°C and emission reduction commitments by 2020 that have been informally extended to non-Annex I countries. The second refers to a fast track fund that will consist of \$10 billion per year from 2010 to 2012 (totalling \$30 billion). Also, if there is sufficient and transparent mitigation action from developing countries, developed countries have committed to mobilise, jointly, \$100 billion dollars a year by 2020 for supporting mitigation and adaptation measures.

With regard to emission reduction commitments, by the end of January 2010, developed and developing countries, representing more than 80% of global GHG emissions, had put forward their GHG reduction targets. Even if only the EU has adopted the legislation required to guarantee delivery of its 2020 objective¹¹, those commitments should be informative on future climate policies. For this reason, a first step of any analysis of post-Copenhagen climate policy must start from an assessment of the likely level of GHGs emissions in 2020.

On the one hand, Annex I countries have used either 1990 or 2005 level as a base year for their pledges. Additionally, some Annex I have announced two targets conditional on other regions collectively taking aggressive action to reduce GHGs emissions. Those targets are distinguished between a Low and a High Commitment level (LC and HC henceforth)¹².

On the other hand, Non-Annex I countries have generally taken a more flexible approach: a group of countries has expressed the intention to reduce emissions below the Business as Usual (BaU) scenario (Indonesia, Mexico, South Africa, South Korea, etc.), while China and India has used an intensity target.

The analysis of Annex I and Non-Annex I mitigation targets, using scenarios produced with the WITCH model¹³, reveals that they will have a moderate, although non-negligible impact on global emissions in 2020. In particular, emissions will increase by 26%-22% with respect to 1990, but will be 13%-16% lower than in the BaU scenario. This reduction is particularly remarkable in years in which emerging economies will be responsible for the greatest share of global GHGs emissions.

In addition, comparing the HC with the LC case, the additional contraction of emissions would be modest: total emissions would decrease only by an additional 1.55 Gton CO₂-eq with respect to the

¹⁰ based on Carraro Carlo and Emanuele Massetti (2010). "Beyond Copenhagen: A Realistic Climate. Policy in a Fragmented World", FEEM Working Paper No. 136, October 2010.

¹¹ In other developed countries, like the USA, legislation is still under discussion.

¹² For those countries that have an intermediate level of commitment we consider only the two extremes.

¹³ For a detailed description of the WITCH model see: Bosetti, V., E. Massetti and M. Tavoni (2007). "The WITCH Model. Structure, Baseline, Solutions." FEEM Working Paper 10.07 Bosetti, V., E. De Cian, A. Sgobbi and M. Tavoni (2009), "The 2008 WITCH Model: New Model Features and Baseline", FEEM Note di Lavoro N. 085.2009

BaU. Two thirds of the additional effort would come from Annex I countries. Focusing on the European target, by moving to the -30% would contribute with 0.56 GTON CO₂-eq, half of Annex I effort, but scarcely noticeable at global level. Indeed, policy makers and negotiators should avoid harsh confrontations on the level of commitment because moving from low to high pledges does not really affect emission reduction. Equivalently, unilateral moves to a HC target – like the one proposed at EU level – does not appear to be effective in controlling global warming. Future negotiations should therefore focus on developing countries actions instead of EU and Annex I targets' ambition.

As regards the second positive Copenhagen outcome, financial transfers have to be correctly addressed in order to provide pertinent aid.

The analysis also identified what is feasible and explored the potential impact of the Copenhagen Green Climate Fund (CGCF henceforth) on emissions in 2020, assuming different allocation of funds in mitigation.

A first analysis reveals that diverse combination of Annex I and Non-Annex I efforts will not produce similar results. If Annex I countries have a low commitment and Non-Annex I countries follow their BaU pattern of emissions, there are 4.5 - 6.9 GTON CO₂-eq of mitigation potential in Non-Annex I countries at a cost below 30\$ per Ton of CO₂-eq¹⁴. Higher effort to reduce emissions in Annex I countries – at constant level of effort in Non-Annex I countries – reduces the amount of mitigation that can be financed via the CGCF because the demand for offsets increases. Also higher effort from Non-Annex I countries, – at constant level of effort in Annex I countries – reduces the amount of available mitigation projects that can be financed by international donors. With the level of emissions submitted to UNFCCC by Non-Annex I countries, there would be no mitigation opportunities below 10\$ per Ton of CO₂-eq.

High pledges and international financing of mitigation can be substitute and the same mitigation target can be achieved by a different combination of domestic pledges and international funding of mitigation. Given the present climate deadlock, the financial provisions of the Copenhagen Accord could compensate the lack of more energetic action on the domestic mitigation side. Figure 1 gives illustrative examples of the possible combinations between financing and domestic mitigation actions:

- Panel A shows the level of emissions with the HC pledge and no funding of mitigation in Non-Annex I.
- Panel B considers a LC pledge plus 50% of the CGCF for mitigation. With support of international finance it would be possible to more than compensate the lack of high commitment in domestic mitigation effort.

¹⁴ The mitigation mix includes energy efficiency measures, fuel switching, a new mix in electricity generation, reduction of non-CO₂ gases and avoided deforestation.

- In Panel C, both Annex I and Non-Annex I countries commit to the low end of the pledges and Annex I countries devote 50% of the CGCF to mitigation.
- In Panel D the only difference is that Non-Annex I countries do not make any voluntary domestic abatement effort. Comparing Panel C and D the resulting level of emissions would be practically identical. The reason being that the cost of abatement measures increases due to the competition of domestic and internationally sponsored mitigation projects.

Future negotiations should devote much more attention to discuss opportunities to reduce emissions starting with what has already been established in the Copenhagen Accord. Given the above described mitigation's potentials, climate negotiations should therefore direct efforts on the right combination between national commitments and financial aid instead of focusing on domestic targets.

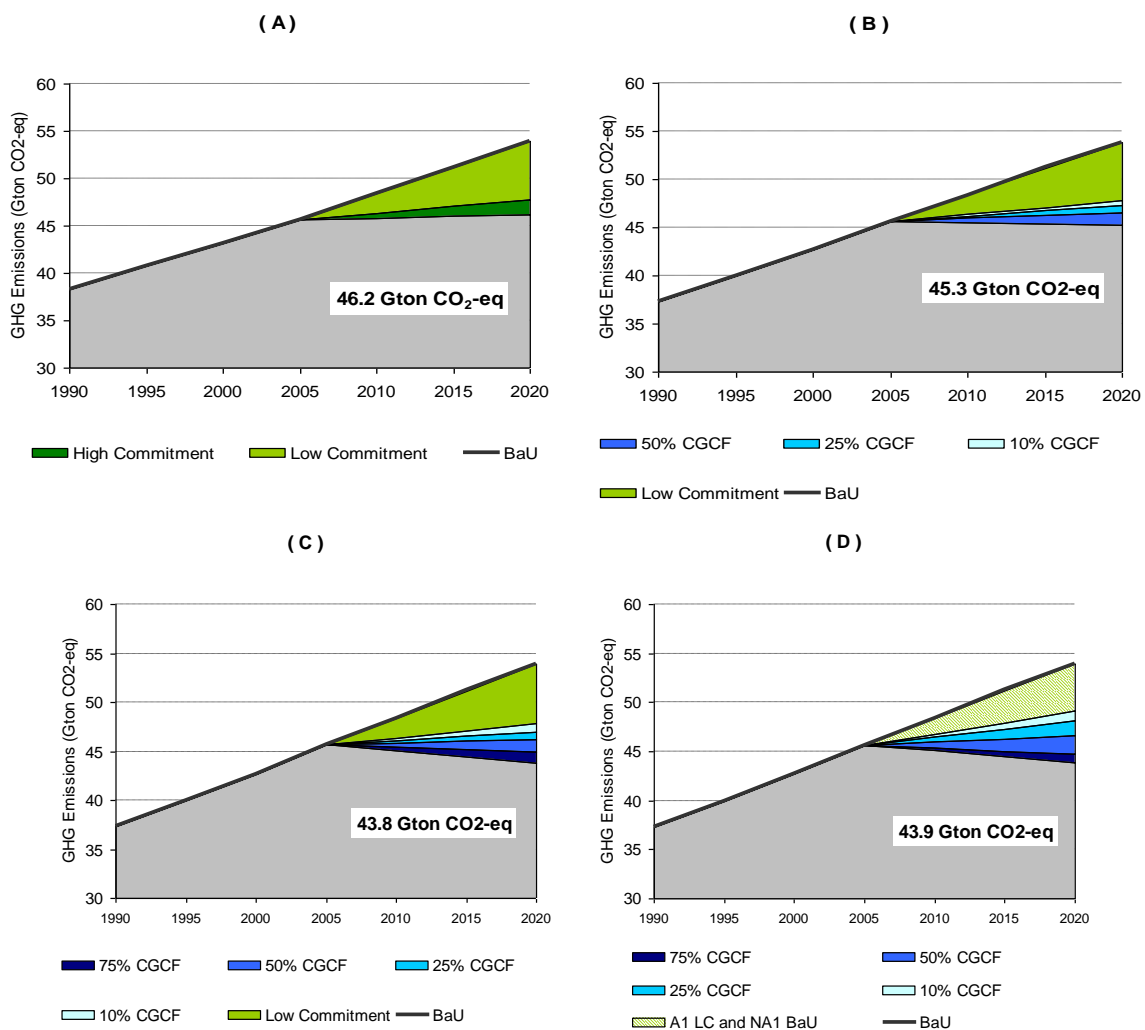


Figure 1. Different combinations of Copenhagen commitments and international funding of mitigation in Non-Annex I countries (Panels).

Source: Carraro and Massetti (2010).

4. What Europe at Cancun?

The first challenge for the 16th Conference of the Parties (COP 16) in Cancun (29 November - 10 December 2010) is to turn the Copenhagen Accord and the related decisions into a working architecture on adaptation, mitigation, technology and finance.

The starting point should be the two abovementioned elements of success of Copenhagen.

In addition, some gaps have to be addressed such as (i) the role of market-based instruments; (ii) the provisions against carbon leakage; (iii) second commitment period of the Kyoto Protocol; and (iv) divergences between developed and developing world. The uncertainty related to those issues may bring the EU back to the centre of the international negotiations in indicating a new strategy.

First, a well-functioning carbon market could be an excellent driver for low-carbon investments, allowing to achieve global mitigation objectives in a cost-efficient manner. In addition, if well-designed, it can create important financial flows to developing countries. In this context, the EU ETS could serve as a prototype for a future international market, since the 30 states involved constitute a heterogeneous example of sovereign countries¹⁵. Indeed, many of the problems encountered and already addressed by the EU ETS may be similar to those that will emerge in the future on the international level. A concrete step in this direction is both to link compatible domestic cap-and-trade systems to develop an OECD-wide market by 2015 and to reform CDM as proposed by the EC¹⁶.

Second, Europe has already tried to address the issue of carbon leakage. In fact, if from one side, climate actions have been envisaged by Europe as an economic opportunity: the “Green New Deal”, especially after the financial crisis. On the other side, the presence of regional differences in climate mitigation policies around the world has given more importance to competitiveness and leakage concerns. Both refer to the risk that in the absence of sufficient global effort, domestic action leads to a shift in market share towards less efficient installations elsewhere, thereby resulting in increased emissions globally. This leaves the floor to the debate over protective measures, focusing largely on carbon-based border tax adjustments. In particular, the EU climate policy underlines the need of monitoring the risk of carbon leakage and putting in place measures to counter it¹⁷. Such measures could be (i) giving support to energy-intensive industries via free allowances; (ii) adding to the costs of imports to compensate for the advantage of avoiding low-carbon policies; (iii) taking measures to bring the rest of the world closer to EU levels of effort.

¹⁵ Olmstead, Sheila M., and Stavins, Robert N. "An Expanded Three-Part Architecture for Post-2012 International Climate Policy." HKS Faculty Research Working Paper Series RWP09-036, December 2009.

¹⁶ Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions (COM (2010) 86). “International climate policy post-Copenhagen: Acting now to reinvigorate global action on climate change”, Brussels 9.03.2010.

¹⁷ Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions (COM(2010) 265 final). “Analysis of options to move beyond 20% greenhouse gas emission reductions and assessing the risk of carbon leakage”, Brussels, 26.5.2010.

Third, in the last Bonn talks, the European Union said that it was open to considering a second commitment period under the Kyoto Protocol, as part of a wider, more rigorous and ambitious agreement. However, this will be possible if certain conditions, founded on the urgent need for environmental integrity and effectiveness of international action, are met. Particularly, Annex I countries that did not ratify the Kyoto Protocol and other major emitters will have to take on their fair share of the global emission reduction effort in the context of an ambitious, legally binding global agreement and that the environmental integrity of the Kyoto Protocol would need to be addressed appropriately.

Finally, Europe, in order to take back its leadership, will have to define its stance towards the USA, BASIC, and ALBA countries, which led to the outcome of the Copenhagen Accord. In defining its international climate policy post-COP15 the EU has implicitly reaffirmed the (strategic) power of diplomacy and persuasion in driving its relationship with other countries of the world, and is therefore willing to return to and enhance its traditionally diplomatic stance. The EU stressed the need to increase its diplomatic efforts towards a fuller understanding of the negotiation positions of countries belonging to other regions of the world. Increased dialogue will constitute the means to further mutual understanding and gain broader participation together with a stronger level of ambition in other countries' climate policies¹⁸. Since the EU is a product of multilateralism in itself, and has historical connections with many developing countries, it is a natural candidate for bridging the gap between developed and developing countries that characterizes the reaching of a common deal.

The Lisbon Treaty should then make it easier for the EU's international climate policy to have broader outreach, not only in relation to the US, BASIC and ALBA countries but also the rest of the world, playing an important role in divergences between developed and developing worlds. In particular, the establishment of a High Representative and the European External Service - while not eliminating the importance of national foreign services - should improve the persuasive power of European diplomatic efforts and protect against divisive forces, especially after the rise of new actors in the international climate arena. COP16 will constitute the first test for presenting an EU speaking with one voice, a chance that should not be missed.

In conclusion, recognizing how different and often irreconcilable interests among countries are, in case of a "Cancun failure" the EU – while keen to adopt a legally binding agreement - has already proposed a plan B in order to avoid a vacuum in the outcome of the meeting. If necessary, it will sustain a less ambitious, but presumably more realistic, step-by-step approach to further the negotiations at global level¹⁹. Reducing the ambitiousness of the outcome, the EU would continue to lead in the road toward a global agreement without losing momentum. Such an approach implies that

¹⁸ Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions (COM (2010) 86). "International climate policy post-Copenhagen: Acting now to reinvigorate global action on climate change", Brussels 9.03.2010.

¹⁹ *ibid.*

the EU will abide by its commitments, but will also require parallel moves from other industrialised nations. In this logic, Cancun is envisaged as an important step, with substantial results building on the balance found in the Copenhagen Accord, but the final result could be achieved only at the UN climate conference in South Africa at the end of next year.