

European Dialogue on the Energy & Climate Challenge

IDDR - CEPS - FEEM

1. Background and objectives of the Dialogue

Addressing climate change will require significant efforts from both developed and developing countries, which will only be possible by the diffusion of existing technologies but also the development and the massive deployment of new and breakthrough technologies worldwide. This will require re-orientating investments towards low carbon development pathways.

Climate change and climate policy requires a holistic approach, facing and addressing economic, social but also foreign policy implications. It supposes a real change in trajectory – from high-carbon to low-carbon – posing an unprecedented challenge not only for environmental diplomacy but even more so for economic, finance, development and foreign policy. All countries face short-term issues that tend to blur the long-term vision. Global recession halting investment, geopolitical challenge linked to energy security, inertia in socio-economic organisations to foster change, to name but a few. The specific (decentralised) nature of the EU with slow and complicated decision-making processes and its fragile internal market poses its own and additional challenges.

A *political* agreement on the basic framework of a climate change regime post-2012 remains within reach in Copenhagen. This agreement would go some way in developing a new shared vision on how the world wants to tackle the climate change challenge. If successful, this agreement will set national – and thereby by extension developed countries – goals for emission reductions and mid term commitments for developed countries and provide scaled up financial support to developing countries to enable their transition to low carbon growth in the context of their sustainable development. While such a agreement will constitute no more than one, although an important step towards firm global commitments, it will be a major step towards framing future national policies in developed and developing countries, including the EU.

At the European level, in the continuum of anticipated action on climate, the EU Climate Energy Package has been adopted in April 2009. By requiring a reduction of GHG emissions by 20% in 2020 and an increase of renewable energy in final consumption by the same target, it constitutes the cornerstone of the block's climate policy. A "satisfactory" international agreement would also lead to an increase of the EU GHG emission reduction target to -30% as compared to 1990 levels provided that efforts are comparable for other developed countries and that developing countries deviate significantly from their emission baseline, which should be an incentive for the international community to embark into ambitious collective action in the long term.

A global shift towards low carbon growth raises challenging questions. Although the EU adopted a comprehensive Climate and Energy Package last year, there are still a number of important issues to be considered in order to complete a fully integrated EU policy on energy and climate that would enable a real shift towards low carbon growth. A new initiative by the "Institute of Sustainable Development and International Relations" (IDDR), the Centre for European and Policy Studies (CEPS) and the Fondazione Eni Enrico Mattei (FEEM) attempts to provide deep insights into these questions to high-level representatives of the EU, Member States' most concerned ministries, leading public and private financial institutions, key industry sectors, think tanks, and other non- governmental organizations. This builds upon the highly successful four sessions European Dialogue that has been held in 2008/08 ahead of the European Climate and Energy Package, where similar high-level stakeholders have actively taken part in shaping up European climate and energy policy.

This new initiative will aim at assisting policymakers and stakeholders:

- In determining strategies to achieve internal EU greenhouse gas reduction targets that can simultaneously address energy security and competitiveness concerns while positioning EU industry to reap financial rewards from being early movers (e.g. developing the future technology);
- In developing EU preferred post-2012 options for an efficient international cooperation on climate change.

As for the previous Dialogue four sessions of 1.5 days are planned to be held in different EU capitals throughout 2010 and 2011.

2. Key issues to be addressed:

A successful EU policy will require some sort of coordinated or in some areas, harmonised medium- to long-term EU approach to climate change, energy, and finance policy, development and other. Co-ordination or harmonisation in some areas most likely will allow the EU to positively move forward to “decarbonise” its economy while uncoordinated efforts risk making the achievement of the EU’s climate targets politically, technically, or economically more difficult. A lack of coordination may undermine the internal market, thereby leading to a less efficient resource allocation. Key to the European discussions will be strategies that move the interwoven issues such as climate, energy, trade and investment, the internal market, including capital markets or transport forward in an efficient sequence and in coordinated fashion. **The Dialogue will attempt to create a shared vision and understanding among its participants on the long-term issues and possibly point to strategies to meet short, medium and long-term targets.** This shared understanding will provide the foundation upon which a series of concrete and pragmatic issues for EU policies will be examined. To this purpose, each session will select the key topics to be analysed in-depth: before digging into a sectoral analysis that will eventually be widened with intersections with international policies (climate, trade, development...) the Dialogue will explore the wider context and challenges.

- EU Energy Policy: Over recent decades, European energy policies have mainly been driven by the liberalisation agenda to create, organise and implement European wide energy markets. With the “end” of this process about to be reached, new dimensions have arisen. Energy security in several forms (e.g. energy sources/mix, geopolitics, systems reliability and ageing infrastructure) but also mandates for energy efficiency (for security and macroeconomic reasons). European energy policy is facing changing paradigms with associated uncertainties ensuing for domestic policy and international relations. As a response, the EU has released a strategic “Second Strategic Energy Review” (2SER) on the November 13th 2008 aiming to deal with dependency and interdependence on imports, infrastructure development, energy efficiency, and promote a unified EU external policy. This New EU Energy Policy faces several interrelated challenges:

- **Energy Security versus energy efficiency?** With the dependency of about 70% of EU’s energy needs on external sources over the next 20-30 years, geopolitical tensions related to energy sourcing, energy security and investment choices will continue to be prominent in EU debates. Though the Package does not include any binding commitments towards energy efficiency measures, it remains an important issue particularly in that it is likely to severely influence the overall primary energy requirements and correlated investments in energy infrastructure, the final energy consumption patterns and the implementation of the renewable energy policy. Most likely a legally binding energy efficiency target would increase predictability.
- **Fostering sound low carbon investments in a liberalised market.** With major investments needs expected in the coming decades (around 1 trillion euros over the next 20 years) to meet growing demand and replace ageing infrastructure, companies and private sector financial institutions are beginning to consider and develop strategies for these investments. The consistency of investment choices (energy efficiency, a diversified renewable portfolio, nuclear, clean coal) may be rendered more complex by the liberalisation process, sovereignty concerns and national positions on energy issues.
- **Technology policy.** For some companies investment need coupled with a carbon constrained world means developing and demonstrating technologies early in order to be in a position to sell the technology competitively both within the EU and externally, thus creating jobs and furthering the EU’s competitive advantage in advanced technology. The EU’s energy policies, research and development, and subsequent investment choices and industry development could, therefore, play a crucial role in shaping the EU’s technological advances, employment creation, and competitive position in the world economy for decades to come. To these respects, key technologies must be addressed, including: carbon capture and storage, a diversified renewable energy portfolio and smart grids.

- **Post-2012 climate policy towards a low carbon economy:** The EU is developing a post-2012 climate policy strategy embodied by the Climate and Energy Package adopted in 2009. As fully addressing climate change will require a long-term sustained effort, the EU's strategy will need to be developed to mobilize near-term improvements while simultaneously laying the groundwork for long-term emissions reductions. What set of policies and measures deliver these twin objectives will be critical question in this debate. Key to this discussion will be three elements.

- **Consistency of domestic and EU policies towards a low carbon pathway.** What pathways are technically feasible (in terms of technology, demand side management, etc.) in the medium and longer term? What are the cross-sectoral consistencies and inconsistencies of both national and EU policies? What are the synergies with the recovery plans? What will be the implications to move to a 30% target for the various sectors? Where do the trade-offs stand between domestic reduction and offsets?
- **Instruments to foster a low carbon economy** Power production and industries are covered by the EU ETS raising crucial issues surrounding the proper incentives deriving from the market design (such as benchmarks, auctioning...) and the resulting price signal. In non-ETS sectors, Member State design a set of policies and measures. Shifts in transportation modes, urban organisation, consumption patterns, increasing energy efficiency in buildings will prove key for these sectors to substantially contribute to the overall target. What kind of policy and measure relevantly address these sectoral challenges? How do we adequately foster harmonisation across Europe (eg on carbon tax)?
- **Implementation:** What are the social preferences that may condition the implementation of energy and climate political choices? What are the processes to deal with public acceptance? How would these approaches be effectively implemented?

- **Interlinkages with international policies:** paving the way to a green economy inevitably crosses European borders to affect international policy.

- **Articulating EU and international policies.** Ambitious domestic policies have international implications. Therefore, the capacity of the EU to endorse ambitious climate change policies depends on the progress of climate change action at the international level, the development of other national visions on climate change policies, related to competitiveness issues, credibility of domestic action or financial support to developing countries. Such "consistency" is necessary to ensure political acceptance of European climate strategy and policies.
- **Cross-cutting policies:**
The current role and capacity of the EU in the international arena will strongly affect its capacity to implement efficient energy and climate strategies. Other policies are interrelated to the climate change debate and will both affect and be affected by those policies (to be scrutinised: relations with policies on trade, budget, agriculture...).
- **EU support and cooperation with developing countries.** What role developing countries can play to mitigate climate change and how can the EU support their efforts through financial, technological and capacity building support. What opportunities does the EU's development policy provide to leverage the energy and climate target? Are these policies consistent with the promotion of cooperation and development? What are the opportunities for technology co-development, knowledge transfer, new market emergence?

3. Partners and Supporting Researchers

Modelling analysis, issues papers ahead of the meeting, and presentations will be conducted in support of the Dialogue deliberations. The team will draw upon its own analysis, where possible, and will seek to bring to the Dialogue process the best analysis from outside researchers to help focus the Dialogue on concrete proposals and analysis.

CEPS, IDDRI and FEEM will co-partner the effort. To ensure that the research, policy development, and dialogue components of this project encompass the broadest range of perspectives and inputs, the team will also conduct this project by utilizing the expertise of other research institutions such as

Climate Strategies, and others (e.g., the Netherlands Environmental Assessment Agency and International Institute for Applied Systems Analysis) as consultants or by drawing upon their analysis. Although the objective is to keep the number of participants limited, the Dialogue aims to be inclusive, provide space for the different actors.

4. Agenda

We plan to conduct three sessions in 2010, expected to take place in March, June and October

The first session could be devoted to the EU ETS and implications on the system if a decision is passed to move to a 30% emission reduction goal. On the basis of Copenhagen outcome and its implication at the EU level, the implications for the different sectors will be explored as well as the articulation with the other dispositions of the package (in particular renewable energy targets, energy efficiency). The international impacts would be addressed through the issue of border adjustments/competitiveness derived from the Copenhagen agreement.

Drafts of agendas, speakers and participant lists will be provided separately.