



E3G

How can Europe deliver the political conditions for a 2C global deal?

Nick Mabey E3G

July 2008

Introduction to E3G



- E3G is an independent, non-profit European organisation working to accelerate the transition to sustainable development
- E3G is a European organisation with global reach
- Focus on increasing Europe's effectiveness as a global driver of Sustainable development
- Sectoral focus on energy, climate change, diplomacy and security

Three Propositions



E3G

- The political conditions do not exist for a global climate deal
- European leadership is vital, but EU climate politics are vulnerable and need investment
- Europe must immediately focus on shaping its strategic relationships with the US and China, and key decisions by non-environmental actors



- Europe in the World?
- Uncovering the Real Europe
- The Hard Politics of Decarbonisation
- Delivering a Global Deal
- Shaping the US-EU-China triangle

Why Europe?

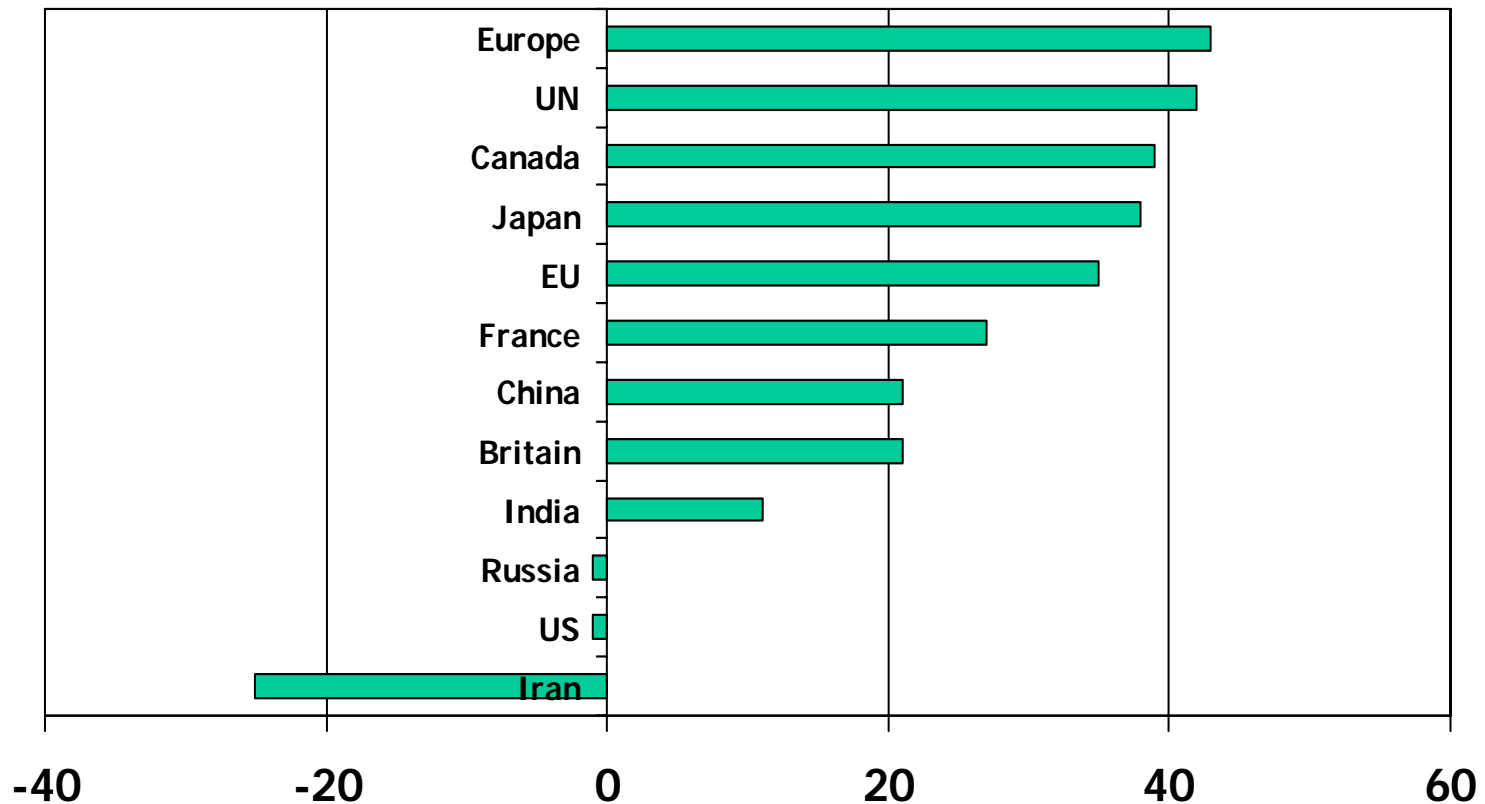


E3G

- Europe is a substantial emitter – 18% of global total
- Europe has taken a global lead in international climate change negotiations
- Europe has implemented the most far reaching domestic climate policies
- European public has consistently placed climate change at the top of its priorities

Europe is seen as the region of the world having the most positive influence on global affairs

Influence in the World
(Net rating: "Mainly Positive" minus "Mainly Negative")



Source: "How The World Sees Europe", Public Opinion Poll, Globescan 2006

Europe's low carbon transformation is critical to global efforts



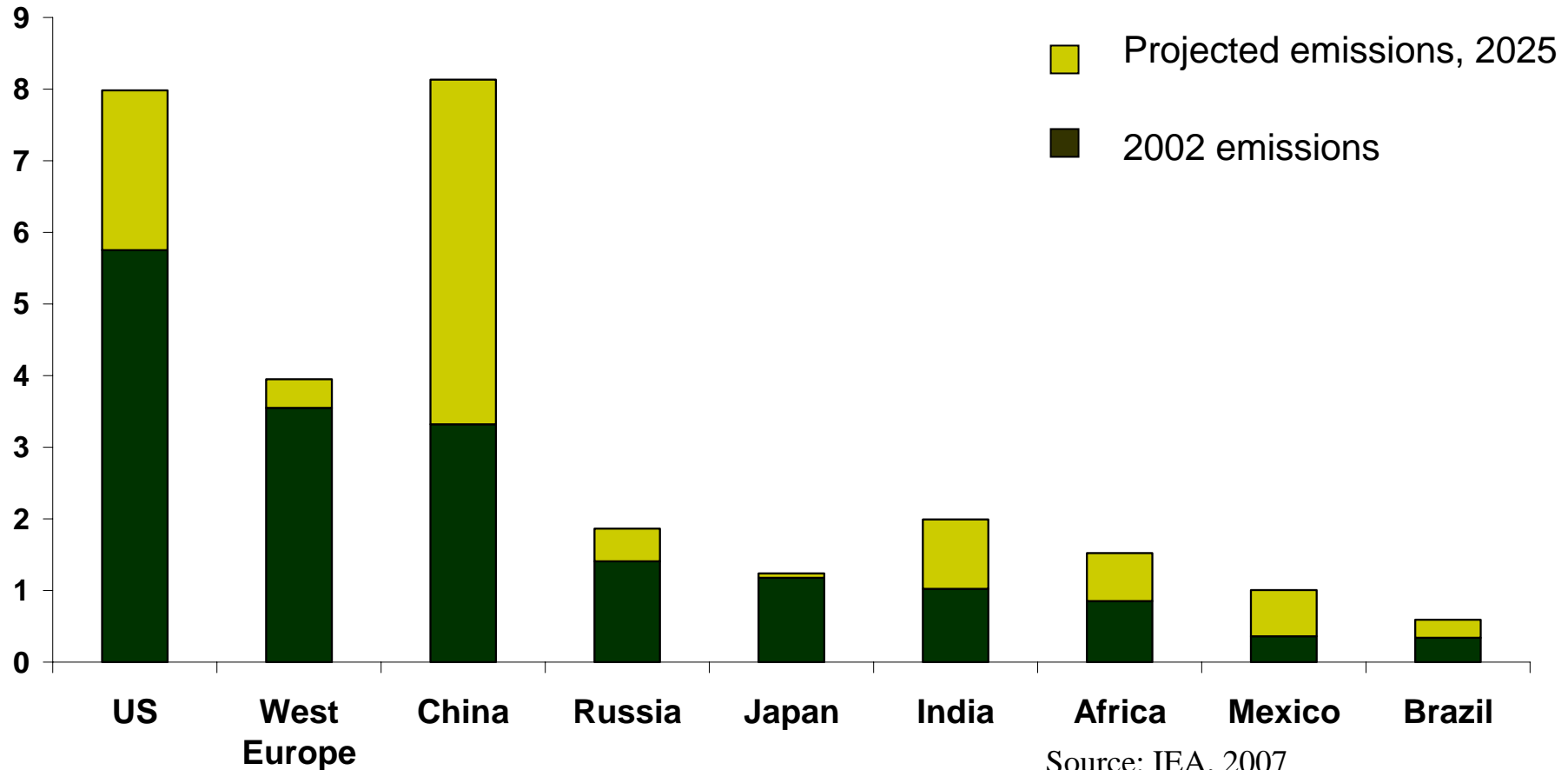
- Europe is the first major emitter to fully commit to shift to a low carbon economy in the next 4 decades
- Europe needs to forge consensus between its North, South and East and so is in some ways a microcosm of global climate politics
- European commitments – including the ETS – have been crucial in forming expectations in global business that action on climate will happen and will result in the creation of real markets
- European progress is being watched in US, China and India and success will be crucial to ambitious action in those countries

The climate cannot afford to see Europe fail to meet its own objectives, and needs it to drive global politics and markets



- Europe in the World?
- Uncovering the Real Europe
- The Hard Politics of Decarbonisation
- Delivering a Global Deal
- Shaping the US-EU-China triangle

Though Europe's additional projected emissions are small relative to global trends

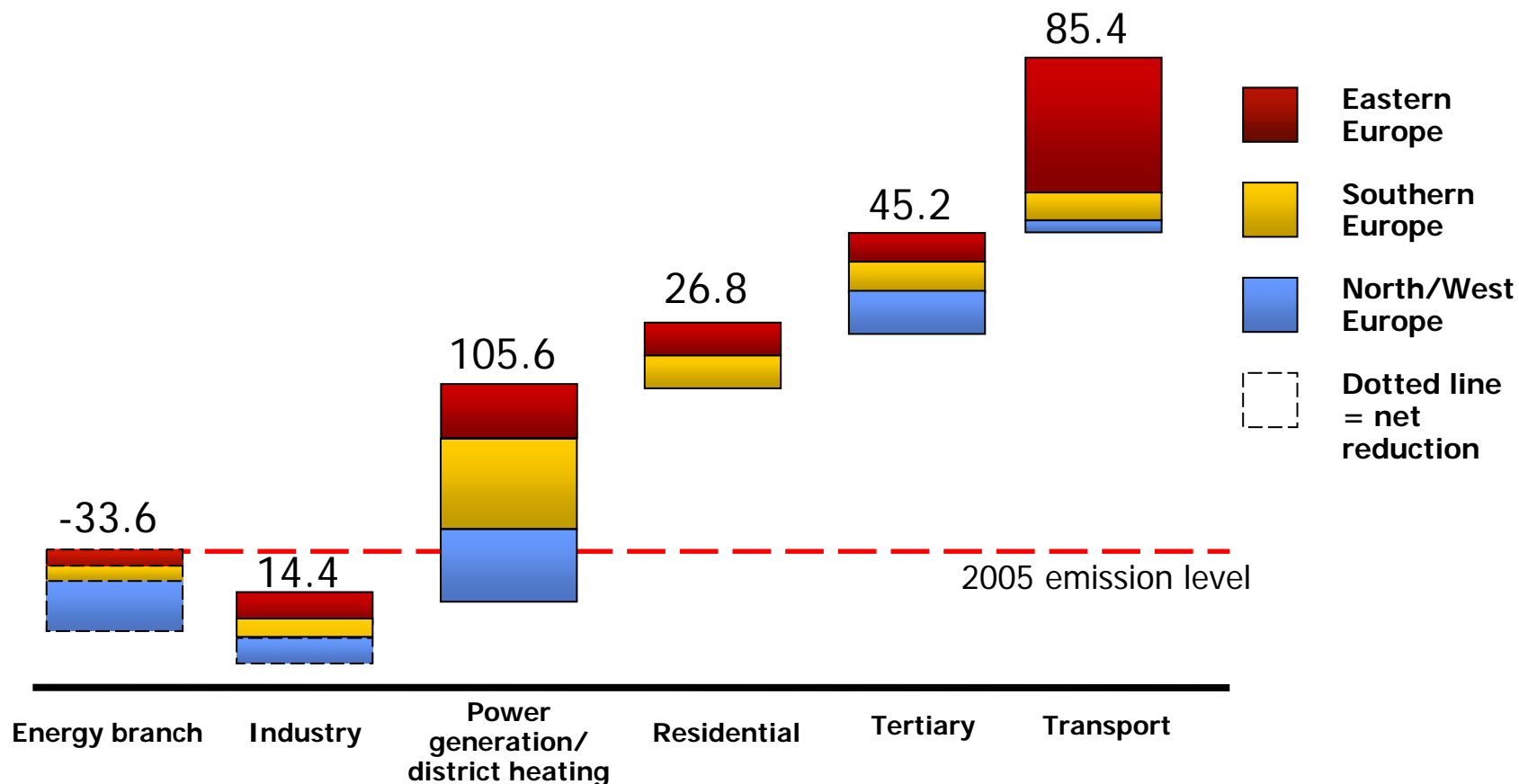


Source: IEA, 2007

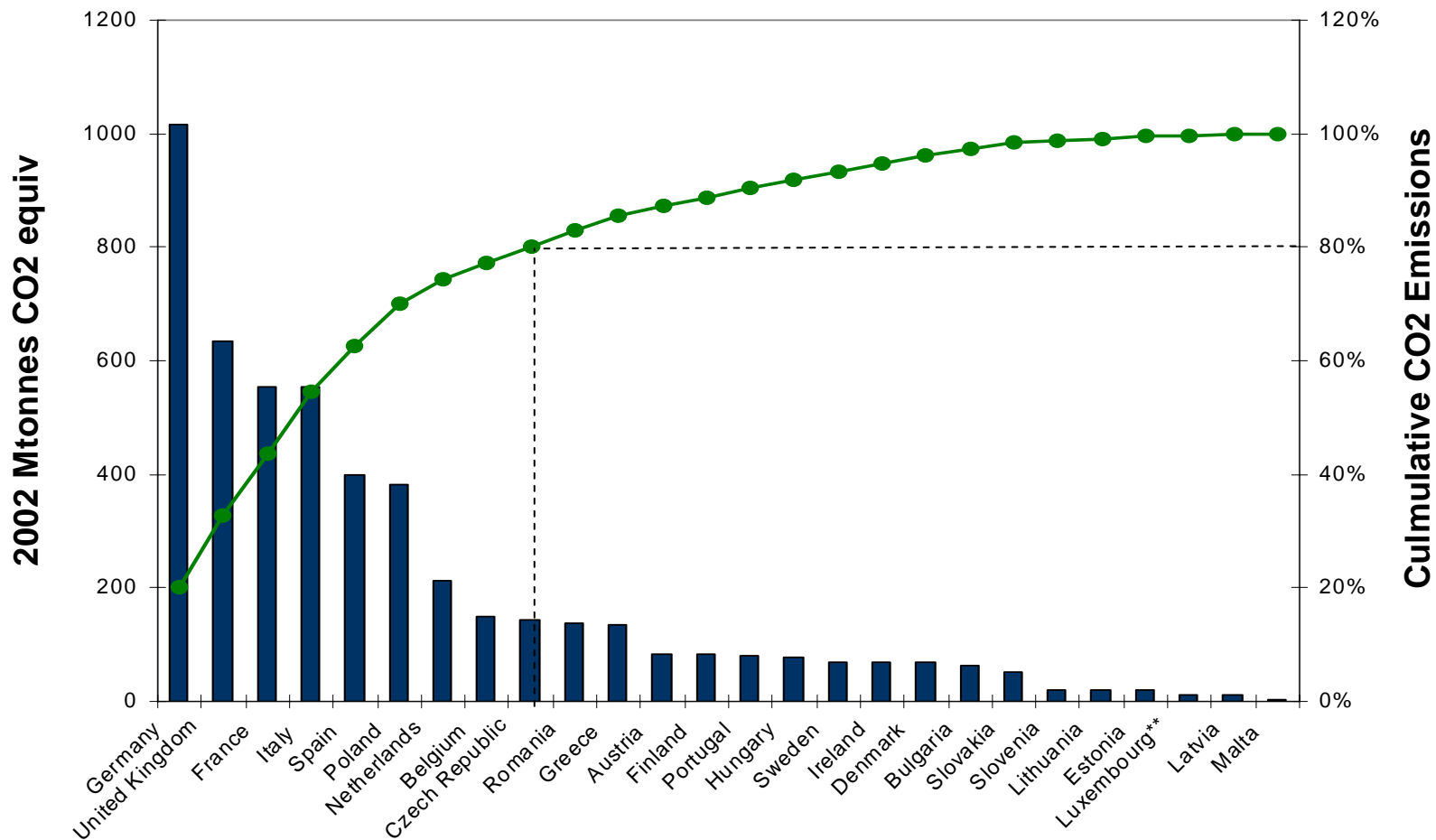
Environmentalism

Incremental emissions are growing fastest in Eastern/Southern Europe and the power, transport and building sectors

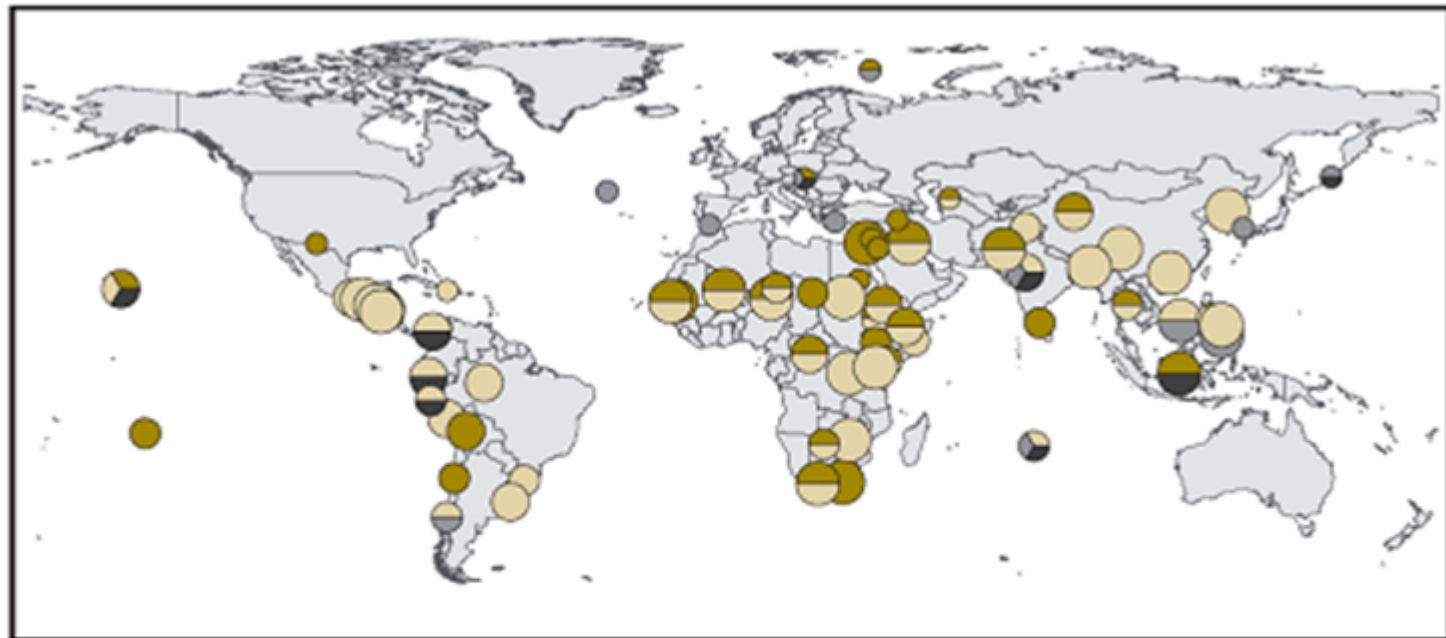
Incremental emissions by sector and region 2005-30 (Mt CO₂)



Nine Countries produce 80% of EU CO2 Emissions, but not all the politics!



EU Climate Vulnerability has yet to Strongly Impact Climate Politics



Conflict intensity

- Diplomatic crisis
- Protests (partly violent)
- Use of violence (national scope)
- Systematic/collective violence

Conflict cause

- Water
- Land/soil
- Fish
- Biodiversity

Europe suffers from the weaknesses of top-down leadership on climate



- Europe's leadership on climate change – despite broad public support – has been top-down and is somewhat brittle.
- There is no pan-European popular movement on climate, and civil society capacity to deliver public opinion and policy implementation is patchy.
- Debate in UK, Germany and France is at very different stages – economic interests are resistant in power, automotive, air travel and heavy industry.
- “Competitiveness” worries are rife – especially in France, Italy and Poland.
- Critical non-environmental policies in energy, transport, industry, research and taxation are still not prioritising climate change



- Europe in the World?
- Uncovering the Real Europe
- The Hard Politics of Decarbonisation
- Delivering a Global Deal
- Shaping the US-EU-China triangle

European climate change programs are net positive economically; its all about the winners and losers



- Efficiency gains mean that for 20% target climate programs are net positive in all countries
- Germany has most aggressive target
 - €3 bn pa government budget spend
 - €36 bn pa savings from energy efficiency
 - €18 bn spent on renewable energy support
- Europe is saving over 1% of GDP pa in oil import costs because it has higher vehicle stds than the US
- General acceptance from Unions that climate policies will create an overall increase in employment (around 1.5% by 2020)

Three Crunch Areas (more to come!)

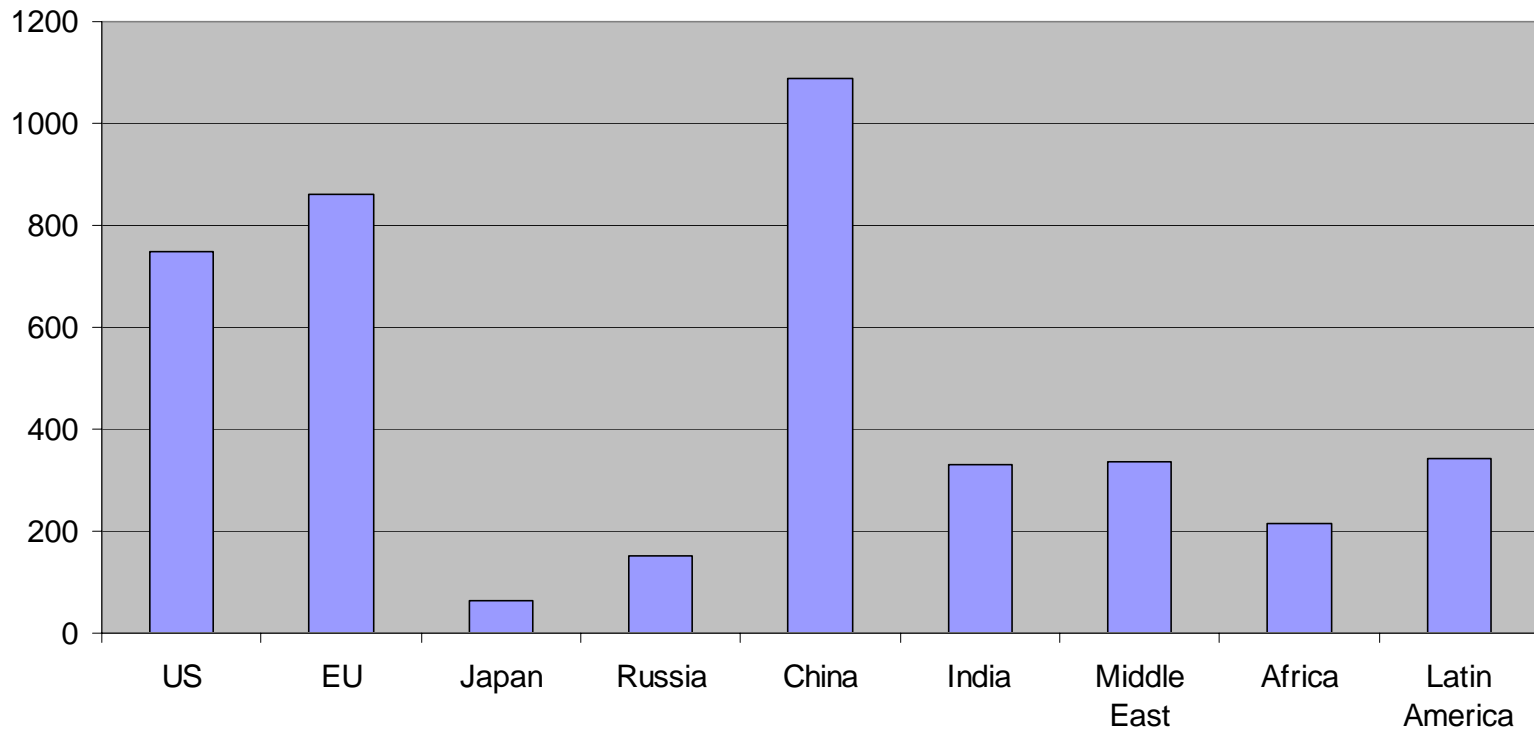


E3G

1. Power: Energy Security and Prices
2. Energy Intensive Industries: Jobs and Globalisation
3. Co-ordinated European Budgets/Spending: Sovereignty and National Interests

1. More than half of current European generation capacity will need to be replaced by 2030

New Electricity Capacity 2005-2030 -GW





The Return of Dirty Coal?

- Even with renewables targets and nuclear “renaissance” 50-70% of new EU capacity to 2035 will be fossil fuel
- Carbon price logic would increase gas share but energy security politics are driving investment in coal. German and Poland have committed to coal at the highest level. UK, NL, Denmark, Italy, Greece, Bulgaria are also all building coal.
- No credibility that decision makers will close dirty plants in the future – political imperative to keep the lights on
- Grassroots anti-coal campaigns growing in UK and Germany. Public opinion split, and CCS slowly emerging as a political issue.



2. Energy Intense Industries

- Most active political debates in Europe are about the possible impact of auctioning on the relocation of energy intensive European industry.
- Lightning rod for other issues and linked to broader competitiveness concerns; Italy increasingly vocal due to textiles
- Strong pressure from France, Germany and Poland to issues free allowances and/or BTA; conflicts with Senate Bills?
- Real economic impact small; 9% of Chinese exports to EU in energy intense sectors (3% for US). Russia is biggest threat but in Kyoto.

Domestic EU politics could result in very negative outcome – US-EU interaction high on this issue

3. Sovereignty issues limiting EU action to drive low carbon innovation and infrastructure



- EU is developing ambitious plans for low carbon R&D, deployment and infrastructure e.g. CCS; Smart Grids
- Member State plans not adequate to drive scale of change or deliver EU network infrastructure e.g. CSP links to Africa; CO2
- No EU budget for this until 2015. Budget review difficult; French bid to increase agricultural subsidies for food security.
- Finance Ministers reject mandatory EU use of auction revenues; undermines EU ability to offer coherent international support

Need to build public coalitions supporting a shift in EU budget and other funds to support a global low carbon transformation

Capacity to drive change and win political battles on implementation is very weak



- US \$160m pa Foundation funding for climate change (plus \$300m to Gore); new European Climate Foundation €10m pa for climate. In UK only 6% of environment funding goes to climate change!
- Critical gaps in winning political battles:
 - Pan-European climate change public mobilisation
 - Economic expertise in Brussels - competitiveness
 - Eastern Europe - efficiency, coal and renewables
 - Southern Europe – transport, infrastructure, housing
 - Transport everywhere!
- Need to accelerate building of civil society and thinktank capacity in Europe to lay foundation for next stage of decarbonisation

- Europe in the World?
- Uncovering the Real Europe
- The Hard Politics of Decarbonisation
- Delivering a Global Deal
- Shaping the US-EU-China triangle

European Perceptions



E3G

- Political conditions for an effective Global Deal to stabilise at 2C in 2009/10 do not exist
- Some type of deal will be done as high-level political momentum is unstoppable
- Critical issue is raising the ambition of a deal; requires moving politics in major countries

Core Global Deal Elements



E3G

- Developed countries 25-40% reduction by 2020
- Emerging economies “significant deviation from BAU”
- Legally binding – m, r and v
- \$100 bn extra finance for mitigation (including forests); \$50-\$100 bn for adaptation (new money).
- Innovation agreement and technology deal

Walk Softly and Carry a Big Carrot



E3G

- Europe has traditionally “paid” to create the space for global climate agreements
- Setting the level of ambition and shape of the playing field it has taken a soft power approach
- As the politics of climate change action begin to bite at home this will change
- Europe will become more serious and more hard-nosed in driving a bargain - and walking away if need be?

Need to Win Four Battles on Political Framing



- **Climate Security:** climate stability is a vital national interest which requires outcomes to be delivered and strategic interests to be reevaluated
- **Shared Dilemma:** all countries are vulnerable to uncontrolled climate change. All countries will have to make radical changes from BAU to control climate change
- **Economic Opportunity:** climate change is an opportunity to modernise the economy, increase energy security, create jobs and gain new markets.
- **Climate Justice:** climate justice is firstly about the unfair distribution of 25% GDP in impacts, and then allocation of 3-5% GDP in mitigation costs

Four Areas where Europe needs to know what it wants



- **What does Europe need from the US?** Complementary international actions to a minimum 25%; 2030 domestic target; funding and technology commitments.
- **What does Europe need from China and India?** energy intensive sectors; international monitoring; policy reform; trade linkage.
- **How much will Europe pay for a Global Deal?** Discussions around €20bn from carbon mkt plus €10-30bn grant finance
- **What is Europe's bottom line on ambition?** A deal which doesn't aim for plausible 2C scenario will be rejected; compromise will be a framework agreement not decreased ambition?

- Europe in the World?
- Uncovering the Real Europe
- The Hard Politics of Decarbonisation
- Delivering a Global Deal
- Shaping the US-EU-China triangle

Building the US-China-EU Triangle



E3G

- US, China and EU are the core of the global climate deal
- Success will be determined by interests outside the environment area:
 - Geo-political relations: Olympics; US re-engagement
 - Security: relative balance of energy and climate security interests; military perception of threat in US.
 - Economics: perceived threats to economic interests from greater cooperation
- Issues of trust and intent paramount

Need EU-US cooperation on strategic approaches to Five Policy Issues



- Win the 2C vision (however expressed)
- Agree complementary expectations of US action
- Align expectations of m,r,v action by China and India – and m,r,v finance/tech to support this.
- Agree ambitious cooperation on R&D and the IPR/technology diffusion issue
- Joint solution to energy intense industry that avoids a trade war and drives sectoral transformation (especially in demand)

Delivering Climate Security requires Strategic Choices in the EU-China Relationship



- Increased finance to help drive Chinese low carbon transformation
- Agreement on new approaches to investment and technology cooperation, including IPR
- Closer energy relationships with major consumers, including China, less with producers
- Closer cooperation on tackling instability in energy suppliers, especially in Africa.

Driving Chinese Decarbonisation



E3G

- To meet decarbonisation targets Europe will need to transfer €10-15bn per annum to China from around 2012. Mixture of carbon market transactions and grant/loan financing

EU will need to build public support for such a stronger bilateral relationship. China will need to commit to international accountability and monitoring.

- EU can benefit from low cost low carbon products made in China; incentives to increase trade liberalisation but EU heavy industries will need a deal on Chinese competition in steel, cement, AI
- Chinese firms will decarbonise China but will need more know-how and expertise through liberalisation of foreign investment in low carbon sectors e.g. construction. Balance of public and private benefits of IPR change for low carbon products.

Climate change must counterbalance concerns with competitiveness in the EU-China economic relationship

What the EU needs to Deliver



E3G

- Building a global low carbon regime requires levels of cooperation beyond any other area of policy
- Window of opportunity for EU to shape debate in next 8 months – before new US President
- Premium on shaping debate and clever bilateral diplomacy – need an EU Special representative on Climate Change by September 2008?
- EU must deliver the climate package in 2008 – and also develop a clear offer on finance and technology in early 2009 – which has broad public support in the EU by 2010