



E3G

BUILDING THE 2c COALITION: European Climate Diplomacy after Copenhagen

E3G Discussion Paper¹, April 2010

“The EU will strengthen its outreach to third countries. It will do so by addressing climate change at all regional and bilateral meetings, including at summit level, as well as other fora such as the G20. The Presidency and the Commission will engage in active consultations with other partners and rapidly report back to the Council.

Opportunities for cooperation, including with industrialised partners, need to be exploited in areas such as green technologies and norms and verification techniques. Common interests with emerging countries on issues which could create leverage in the climate change debate should be rapidly identified.”

European Council Conclusions 25/26 March 2010²

Summary

- > Despite negative public perceptions the EU was central to delivering the significant progress on action to control climate change in 2009. However, much more is needed to reach the 2C goal. The pledges in the Copenhagen Accord imply perhaps \$4 trillion in additional low carbon investment to 2030; but reaching a robust <2C trajectory would require well over \$10 trillion. More ambition could have been secured from the Copenhagen Summit with better management of the UN process and a stronger EU political strategy; but in the end ambition was mainly limited by fundamental political differences between major economies.
- > Copenhagen showed the difficulties of securing positive international action in the new multi-polar geopolitical context, with its larger number of strategic actors and alliances. Using the Copenhagen deadline to drive progress through a multiplicity of international fora in 2009 raised the profile of climate change, but in retrospect often confused strategic relationships and contributed too little to the final outcome. The EU seems as well adapted as other major powers to navigate these new waters, but has to be more skilful in its climate diplomacy than the “low ambition coalition” in order to achieve its ambitious positive agenda.

¹ E3G is a non-profit organisation working in Europe and globally to accelerate the transition to sustainable development; see www.e3g.org. This note is based on discussions in early 2010 with government and non-governmental experts across Europe and globally. The opinions expressed in this note are E3G's alone.

² http://www.consilium.europa.eu/ueDocs/cms_Data/docs/pressData/en/ec/113591.pdf

- > There are four main area of climate diplomacy which Europe must address: (1) strategy (how Europe defines its overall goals on climate change and integrates these goals with its wider strategic interests); (2) political engagement with third countries (how Europe understands and influences conversations on climate change in other parts of the world); (3) policy towards the international climate regime (how Europe builds effective mechanisms for international cooperation on climate change both within and beyond the UNFCCC); and (4) practical climate cooperation with third countries (how Europe organises itself to deliver practical support for low carbon, climate resilient development around the world).
- > The EU must both work to implement the 3-4C agreement embodied in the Copenhagen Accord and invest in building a winning coalition of partners for delivering a <2C climate regime in the next 2-5 years. Any further delay puts the <2C goal permanently out of reach. Europe is beginning to form its post-Copenhagen policy, with a strong emphasis on engaging third countries and taking a more “realist” approach to climate diplomacy. However, fundamental differences exist between and within European countries on key issues such as the move to a 30% EU emissions reduction target; the future of the Kyoto Protocol; the importance of a binding UN treaty; the right mix of conditionality and incentives; and the role – if any – of border adjustment measures.
- > These policy differences stem from underlying divergences on strategic objectives and perceptions of international politics. Without new processes to deliver closer strategic alignment the EU will be unable to deploy the full weight of Community and Member State resources in support of its collective interests. Closer alignment rests on three critical pillars: improved collective political intelligence; a clearer medium-term strategy for meeting the <2C goal; and stronger strategic conversations on climate change between senior European politicians and officials, including foreign ministries.
- > Clearer political understanding will lead to more robust policy prioritisation. The EU must be able to answer the question of how its policy positions – for example on the future of the Kyoto Protocol -- will help strengthen the progressive international coalition required for a <2C agreement. A choice is needed between a “carrots and sticks” negotiating strategy or a softer approach of using conditional access to finance and other benefits to incentivise stronger action (“conditional bouquets”). Making the right choice

requires better understanding of how other countries view EU positions; at present most developing countries view the EU as being too close to the US. In the absence of a robust medium-term strategy, Europe will be driven by short-term tactical decisions which do not maximise the EU's influence.

- > Reaching a <2C agreement will require the US, China and other major countries to reassess their national interests on climate change. Firstly these countries must fully understand the risks to national security and prosperity posed by current trajectory towards a 4C world. Secondly, they need to have confidence that shifting to a low carbon economy is both feasible and compatible with their wider development goals. Finally, they must believe that there are economic risks in failing to compete in the growing global low carbon economy. The EU should initiate stronger international discussions in all these areas, for example with security decision makers on the impacts of a 4C world. The fast-start finance pledged at Copenhagen must be used to demonstrate the feasibility of transformational low carbon development models – not just incremental efficiency improvements - and to build the institutional capacity for scaling up climate finance beyond 2012.
- > However, there is little point in having a sophisticated new strategy and aspirations for accelerating transformational investment without the means to deliver it. The EU has a reputation for promising much and delivering little on climate cooperation; this has damaged its political standing *vis-à-vis* the US and Japan. Implementing any new sectoral mechanisms will take at least three years of intensive engagement in key developing countries and serious investment in additional capacity in bilateral, EU and multilateral cooperation institutions. In the face of deep budget cuts across Europe, delivering increased impact will require imaginative institutional reform in Member States and smarter EU cooperation, including through the new European External Action Service (EAS).

Potential Follow-up Areas/Actions:

Climate Diplomacy

- > Discuss climate diplomacy strategy through the existing informal “EU6” Foreign Ministers group (expanded as appropriate), covering areas such as agreeing differentiated roles for specific multilateral fora and bilateral relationships in pursuing EU climate and energy objectives.

- > Fully integrate energy and climate issues into the review of EU-China strategy, emphasising links to trade, investment and commercial policies.
- > Expand EU delivery capacity by prioritising climate change in the design of the European External Action Service and by strengthening the Green Diplomacy Network.

Political Strategy

- > Strengthen EU Track II climate diplomacy, including an aligned public diplomacy strategy to engage key countries on the implications of a 4C world and on broader links between climate change and international security.
- > Develop better political intelligence on critical countries, including a more sophisticated understanding of their “intent to decarbonise”, and improve mechanisms for sharing this intelligence within the EU.

Policy Development

- > Deepen strategic discussion on the longer term political implications of current EU policy positions on issues like the future of the Kyoto Protocol, reform of the Clean Development Mechanism, and clean technology sharing.
- > Work with progressive third countries to define the political deal on climate finance governance, allocation, transparency and accountability.
- > Resolve the EU position on border adjustment measures by 2011.

Practical Cooperation

- > Convene a fast start finance conference in mid-2010 to agree priorities for allocating fast-start finance and laying the foundations to scale up climate finance beyond 2012.
- > Bring together key European implementing agencies for climate finance (e.g. KfW, AFD, EIB) and designers of sectoral mechanisms to discuss the practical barriers to and opportunities for transformational low carbon and climate resilient investment in developing countries.
- > Consider developing specialist cross-government “low carbon / climate resilience cooperation units” to deliver greater impact from fast-start funding, and support the creation of similar capacity in developing countries.

1. Introduction and context

Following a process of reflection on the lessons of the Copenhagen Climate Summit, Europe has begun to articulate elements of its forward strategy. At the Spring Council on 25-26 March European leaders adopted conclusions on climate change which broadly endorsed the strategy laid out in a Commission Communication of 9 March.³ There have also individual Member State initiatives such as the launch on 31 March of “Beyond Copenhagen: The UK Government’s International Climate Change Action Plan”.⁴ One of the emerging themes is the need for more effective European climate diplomacy with third countries – see for example the extract from the Commission Communication Annexed to this paper.

E3G defines climate diplomacy in broad terms to include:

- > **Strategy:** How Europe defines its overall goals on climate change and integrates these goals with its wider strategic interests.
- > **Political engagement with third countries:** How Europe understands and influences national and regional conversations on climate change in other parts of the world.
- > **Policy towards the international climate regime:** How Europe builds effective mechanisms for international cooperation on climate change both within and beyond the UN Framework Convention on Climate Change (UNFCCC).
- > **Practical climate cooperation with third countries:** How Europe organises itself to deliver practical support for low carbon, climate resilient development around the world.

This is a broad agenda requiring effective cross-government coordination on policy and a wide range of government activity from strategic investment and technology cooperation with third countries to high-level diplomacy by Ministers and Heads of Government.

³ http://ec.europa.eu/environment/climat/pdf/com_2010_86.pdf

⁴ http://www.decc.gov.uk/en/content/cms/news/pn10_054/pn10_054.aspx

2. European climate diplomacy before Copenhagen: lessons learned

In the media story of winners and losers, Copenhagen has been widely portrayed as a defeat for Europe and a qualified victory for the US and the BASIC (Brazil, South Africa, India, China). In many ways this is an unfair verdict. None of the major powers got everything it wanted at Copenhagen; China, arguably, suffered as much damage to its reputation as Europe. While Europe may have been “out of the room” when critical changes were made to the Copenhagen Accord, it drove much of the important content including the <2C language, commitments to low carbon development strategies, the \$30 billion fast start finance and the \$100 billion long-term finance. And the two year process leading up to Copenhagen did unlock stronger climate policies in many countries around the world.

Yet, in another sense, Europe was indeed a major loser at Copenhagen simply because it had more ambitious objectives than the other big powers. This is the harsh reality of international relations: blocking outcomes is much easier than delivering them, so if you want to lead on an issue you have to do the diplomacy better than everyone else and face the real risk of failure. In the run-up to Copenhagen, Europe had more detailed policy positions than most others but it did the politics badly. It over-invested in producing 20-page Council Conclusions and under-invested in the essential task of winning friends and influencing people through short, simple messages.

Copenhagen also showed the difficulties of securing positive international action in the new multi-polar geopolitical context, with its larger number of strategic actors and alliances. Using the Copenhagen deadline to drive progress through a multiplicity of international fora in 2009 (e.g. MEF, G20, G8, EU bilaterals) raised the profile of climate change, but in retrospect confused some strategic relationships (e.g. with China) and contributed too little to the final outcome. The EU seems as well adapted as other major powers to navigate these new waters, but must be more skilful in its climate diplomacy than the “low ambition coalition” in order to achieve its ambitious positive agenda.

Changing the received wisdom on what Europe achieved at Copenhagen will be a critical part of restoring European confidence, and building a more coherent and effective forward strategy.

Europe tends to see itself as taking distinct positions – often add odds with other major developed economies; this is not how the EU is generally seen by actors in developing economies. In the Copenhagen process, Europe was widely

perceived in the developing world as siding with the United States, particularly in its position on the future of the Kyoto Protocol (KP). This was partly because Europeans thought public criticism of the US would be counter-productive and therefore chose to deliver tough messages in private. Arguably these tactics worked (e.g. getting Obama to embrace the <2C goal and to attend the final days of Copenhagen). However, a lack of discipline among key European actors in sticking to the agreed Council line on the legal form of any final agreement confused EU positioning and contributed to a distrust of European motives. The EU under-estimated the sensitivity of the KP issue and the risk of driving potential allies like Brazil and South Africa into the arms of China and India.

Europe's alliance-building with vulnerable countries was a qualified success, particularly in putting pressure on China and India. But only a few Member States invested seriously in this – and the positive impact was partially undone by other aspects of Europe's strategy (e.g. handling of the Kyoto Protocol).

Like virtually all observers, Europe under-estimated the extent to which the climate negotiations would be complicated by wider geo-political forces. The BASIC alliance illustrates this clearly: these countries have widely diverging climate goals but are united by growing economic interdependence and a shared desire to challenge perceived Western domination of the multilateral system. Brazil and South Africa, and to a lesser extent India, have effectively prioritised their economic and political relations with China over climate goals.

Opinions remain divided on whether Europe pushed too hard for a firm deadline for a legally binding agreement. It does seem to have under-estimated the sensitivity of this issue for China – the reasons for which remain poorly understood despite intense effort by governments since Copenhagen to unpack the process of Chinese decision making and the rationale for its ultimate strategic decisions.

Opinions are also divided on Europe's negotiating strategy. Should it have put 30% on the table earlier? Or, on the contrary, was it a tactical mistake to put the unilateral 20% on the table before the US and others had made comparable offers? Underlying this debate on tactics is a more fundamental difference of views within Europe about the importance of climate security. Some of those who say Europe should have engaged in hardball diplomacy – that it used the wrong means to secure its stated <2C goal – actually don't see the end as a vital national interest worth fighting for.

Copenhagen showed that there is a low understanding in all governments of how other countries perceive their underlying national interests over climate change, and how these interests interrelate with other strategic priorities. Accurate intelligence on interests, motives, perceptions and internal political dynamics is fundamental to building an effective political strategy in the future, and to strengthening international cooperation on this issue.

3. Beyond Copenhagen: Rebuilding Europe's climate diplomacy strategy

We must start by being honest about where we are. The Copenhagen Accord falls well short of the <2C goal. Based on the current constellation of political and economic forces around the world, it would be wise to base Europe's forward strategy on a principle of "aim for <2C, prepare for 4C". This is not defeatism but rather an honest recognition of current political realities and the need for a strategy that is resilient to worst case scenarios (a familiar principle in national security planning and other areas of diplomacy). In line with this principle we need to be much more serious about the adaptation side of the climate change agenda (including the *political* ramifications of changing rainfall patterns, food shortages, territorial boundaries etc – these are not just technical issues). "Climate resilient development" provides a better overall framing than "low carbon development".

The effectiveness of climate mitigation policy depends largely on shifting capital from high carbon to low carbon infrastructure investment. Staying below <2C will require additional investment in the order of \$10 trillion between now and 2030, and an overall shift of nearer \$25 trillion from high to low carbon infrastructure.⁵ The Copenhagen Accord implies perhaps \$4 trillion in additional investment to 2030: a significant sum, but not enough. In the minds of investors, the world has broadly embraced the concept of a low(er) carbon economy – just not one consistent with <2C. Investors are confused over the timing of the low carbon transition and how to assess the viability of the next generation of long-lived energy infrastructure; in some regions – including parts of Europe – this uncertainty is helping chilling investment and consequently raising energy security risks.

⁵ https://www.iea.org/journalists/ministerial2009/birol_opening.pdf

The EU must both work to implement the 3-4C agreement embodied in the Copenhagen Accord and invest in building a winning coalition of partners for increasing ambition toward a <2C climate regime in the next 2-5 years. Any further delay puts the <2C goal permanently out of reach.

If we accept these realities, the next step is for Europe to have an honest conversation with itself about what it wants – i.e. about the importance of climate goals relative to other European interests. At present there is a clear divergence both between countries and within them on this issue. As a consequence, whatever the official rhetoric, the rest of the world simply doesn't believe that Europe is betting on a <2C world. Europe's domestic policy isn't redirecting capital at an adequate rate and therefore doesn't support its stated foreign policy goals. The preparation by 2011 of Europe's long-term (2050) low carbon growth strategy offers a chance to re-examine this.

Next, Europe must determine how to get what it wants from the rest of the world. It has done plenty of internal thinking on climate *policy* goals. What it needs above all is an effective *political* strategy to deliver these policy goals, including a real understanding of where other countries are coming from and the most effective levers of influence. Many of these levers (e.g. trade policy) lie outside the remit of environment ministries so this needs to be a broad-ranging discussion, strongly driven by foreign ministries which have an overview of country positions. Ahead of the planned leaders-level discussion at the European Council in September, interested Member States should do some serious preparation. This could include discussion among smaller groups of countries such as the six whose Foreign Ministers co-signed a letter on climate change last September (Denmark, Finland, France, Spain, Sweden, UK), expanded as appropriate.⁶

The EU-China relationship would be a good place to start the discussion. This is the most concrete example of where Europe needs to integrate climate goals into a hugely important and complex bilateral relationship.⁷ A review of the EU-China strategy is underway directed by Baroness Ashton; this provides a clear opening for a concrete discussion of how climate change should be reflected in bilateral relations. Europe is already directing over €1 billion per year to China through CDM projects and modelling suggests these flows could

⁶ <http://www.regeringen.se/sb/d/3212/a/131527>

⁷ http://www.cer.org.uk/pdf/pb_mabey_china_nov09.pdf

reach €20-30 billion by 2020. How much impact is this investment having on China's strategic choices? How can Europe make better use of other levers such as liberalising trade in climate-friendly goods and services? How to ensure that Europe rather than the US or Japan becomes China's "partner of choice" in setting global standards for electric vehicles?⁸

The EU is beginning to redefine its post-Copenhagen policy agenda but ongoing divisions on tactics reflect fundamental differences, between and within European countries and institutions, on strategic objectives and perceptions of international politics. Without new processes to deliver strategic alignment the EU will be unable to deploy the full weight of Community and Member State resources in support of its collective interests.

Rebuilding Europe's climate diplomacy strategy needs to start from an honest discussion of European interests and is likely to require internal realignment of those interests. Sustaining momentum will require the positive engagement of new stakeholders in the internal European debate, including the national security community. Europe needs a smarter political strategy to influence other countries and win their support for its policy positions, backed by new types of diplomatic machinery. European countries should continue to share lessons on best practice in this area through the new European External Action Service, the Green Diplomacy Network⁹ and other channels.

4. Doing the politics better: Understanding and influencing conversations on climate change around the world

Why did China reject Europe's push for a deadline to turn the Copenhagen Accord into a legally binding agreement? Explanations differ and we must have the humility to accept the limits of our current understanding of other countries' "strategic intent". In other areas of diplomacy – e.g. in relation to Iran's nuclear aspirations – we invest enormous time and effort trying to decode "the other". We need to start doing this more seriously on climate change.

⁸ http://www.energy.gov/news2009/documents2009/US-China_Fact_Sheet_Electric_Vehicles.pdf

⁹ http://ec.europa.eu/external_relations/environment/gdn/index_en.htm

As a first step we must stop thinking about other countries as monolithic entities with a clear and unified sense of their national interests. Just as Europe's climate goals are heavily contested between Member States and within them, so the same internal divisions exist in the US, China and other major economies. Europeans tend to find the US internal dynamics easier to understand, and are therefore more sensitive to them. But how much diplomatic effort did we invest in understanding the assumptions, internal political bargains and "red lines" of China, India, Russia and others?

We need a better "tool-kit" to understand other countries including political mapping techniques to position the key domestic decision-makers according to their level of influence and level of support for ambitious climate policy. We also need a framework for decoding each country's "intent to decarbonise" which goes beyond headline numbers such as percentage emissions reductions or carbon intensity targets. Other useful indicators could include public and private R&D in low carbon technologies and infrastructure investment plans. Developing these indicators requires both an understanding of the country's political economy and appropriate technical expertise.

Getting behind the negotiating positions of other countries can form the basis for more sophisticated European influencing strategies. Take India, for example. Europe is unlikely to get much return from investment in more discussions with veteran Indian climate negotiators in Delhi. But it can influence them indirectly by working with modernising forces – e.g. business leaders and state governments in Southern India, or the Indian diaspora in Europe – to reframe the India debate on climate change.¹⁰ Europe can also work with Bangladesh, Maldives, Nepal and other progressive countries to break the link between the "right to develop" and the "right to pollute". And it can work to engage with charismatic, modernising leaders like the Environment Minister, Jairam Ramesh.

Key questions that need to be answered for each country include:

- > What do key decision-makers really believe about the costs and benefits of responding to climate change? Where are decisions made?

¹⁰ For an example of a successful "rebranding" exercise that changed the way India defines itself see the Incredible India campaign: http://www.campaignindia.in/news/theideaworks_sells_incredible_india_at_davos

- > What is the current configuration of domestic forces (e.g. business, trades unions, media, NGOs)? How must these forces be reconfigured to create the political conditions for greater ambition?
- > What are the key drivers of change? What messages (“narratives”) and messengers are most persuasive?

Both Europe and the US have had some success in reframing climate action as an economic opportunity rather than a burden, using the “Green New Deal” prosperity narrative. This probably did more than anything else over the past two years to influence thinking in China. However the competitiveness debate in the EU, US and Japan is still dominated by incumbent high carbon industries rather than low carbon innovators – despite the latter’s greater importance to Europe’s economic future - and this negative influence could be exacerbated by imposition of border adjustment measures.

Framing climate policy as a form of insurance against catastrophic security risks is also a potentially powerful narrative. “Climate security” is being discussed widely across Europe and the United States, but there is scope to intensify this dialogue with China, India and others. National security actors have a long history of studying “worst case scenarios” and using them as the basis for decisions of a similar size and timescale as climate mitigation – e.g. setting defence budgets at levels needed to deliver the right capabilities in 20-30 years time.¹¹

“Track II” diplomacy has been used for years by the security community to decode the negotiating positions of other countries and build the trust needed to deliver global public goods through international cooperation. A range of informal dialogues exist on climate change but they are mainly restricted to officials and experts from the environment community – or foreign policy think tanks with often a superficial knowledge of climate issues. E3G is working with partners to develop a more structured approach to Track II dialogue on climate diplomacy that explores these issues in depth without losing the wider strategic foreign policy context.

¹¹ For some examples of security community discussions in this area see <http://www.e3g.org/programmes/climate-articles/delivering-climate-security-cop15-side-event-report/> and <http://www.e3g.org/programmes/climate-articles/what-does-the-security-community-need-from-a-global-climate-regime/>

5. European policy towards the international climate regime: building the effective multilateral cooperation within and beyond the UNFCCC

While we may broadly agree on the inadequacies of the Copenhagen outcome, there are differing views on how best to ratchet up the level of ambition. Some suggest that the Copenhagen Accord gives us most of the elements we need and that UNFCCC negotiations are unlikely to deliver anything much better in the near future. We should therefore focus on implementation, working through smaller groups such as the MEF where necessary, and avoid getting bogged down in vain efforts to secure a comprehensive, legally binding international agreement. Others suggest that a binding agreement is both (a) negotiable and (b) necessary to secure higher ambition as countries will not commit to individual elements of the package in isolation.

On the “binding” issue, it is important to separate arguments about what is necessary from arguments about what is possible. And, as noted above, it is important to avoid jumping to conclusions about other countries’ “red lines”. “Binding” means different things to different people. Ultimately what is important is a system that provides enough certainty and credibility to shift long-term investment decisions. Some of this certainty can perhaps be delivered through UNFCCC COP decisions. Some may need to come from changes at the domestic level, e.g. a stronger Environmental Protection Agency to regulate CO₂ in India.

In relation to other multilateral frameworks such as the Nuclear Non-Proliferation Treaty and the UN Convention on Human Rights, Europe has made a strategic decision to push for stronger rules in full knowledge that these may take years to achieve, or never be achieved at all. One reason is that this puts Europe on the right side of the argument and cements useful alliances with like-minded countries. In the case of climate change Europe has set <2C as the strategic goal and needs a strong political alliance with progressive countries to break the deadlock in the negotiations and lay the foundations for strengthening action in the future. **The key test of Europe’s policy positions is whether they strengthen or weaken the progressive international coalition for a 2C regime.**

Europe’s position on the Kyoto Protocol is one of many levers that could either strengthen or weaken the progressive coalition. Other levers include:

- > contributions to REDD¹² and/or the UNFCCC Adaptation Fund;
- > the decision to raise Europe's 2020 emissions reduction target to 30%;
- > reform of CDM to ensure greater geographical balance and an increased share of overall carbon market flows to political allies in Africa, Latin America, SE Asia etc;
- > developing sectoral mechanisms with emerging economies;
- > focusing fast start mitigation finance on building capacity for innovative and transformational policies rather than “cheap tonnes” of carbon reduction;
- > standard-setting for clean, efficient technologies which raises barriers to developing country exports unless they comply;
- > using levies on shipping and aviation bunker fuels both to address competitiveness fears (by raising international transport costs) and to generate climate finance for developing countries.

The risks and benefits of border adjustment measures will also be revisited in 2010 as part of discussions about moving to a 30% target. Many countries are looking afresh at these measures in the aftermath of Copenhagen and there is fresh impetus in some quarters,¹³ but the level of support across European industry and unions remains generally lower than in the US.

Europe's pre-Copenhagen negotiating posture is sometimes portrayed as a form of unconditional philanthropy – or, in the words of one official, “offering bouquets to everyone and getting nothing back”. This is not a description that would be recognised by negotiators from most other countries, who generally see the EU as a relatively progressive but also traditionally self-interested international actor. But within Europe there is a growing consensus on the need for more “realist” climate diplomacy, especially with the BASIC countries. Views diverge on whether this means a “carrots and sticks” negotiating strategy – which is often linked to an emotional desire to “punish” recalcitrant countries - or a softer approach of using conditional access to finance and other benefits to incentivise stronger action (“conditional bouquets”). **There is a need for deeper strategic discussion of how the policy levers can best be**

¹² Financial and other support for efforts by developing countries to reduce emissions from deforestation and degradation

¹³ <http://www.euractiv.com/en/climate-environment/italy-joins-french-calls-for-eu-carbon-tariff-news-450643>

integrated into a political strategy which maximises incentives for countries to join the progressive coalition.

What does seem clear is that climate finance – both for mitigation and adaptation - is the key to building the progressive coalition in 2010. The dilemma is simple. If the money is not delivered, and seen to be delivered, political support for climate action in the South will be undermined. But if the money is wasted then public support in the North for helping developing countries, already fragile, will be further eroded. We need to find a way of talking about the “global deal” on climate finance that resonates with public opinion in both the South and the North. There are lessons we can learn from international cooperation on public health issues and other development experience.¹⁴

6. European climate cooperation with third countries: delivering practical support for low carbon, climate resilient development.

Developed countries have agreed to annual climate finance flows in the order of \$10 billion by 2012, rising to \$100 billion by 2020. This will require rapid scaling up from current levels and a shift away from incremental project-based cooperation towards the transformation of entire sectors and economies. How can Europe deliver what it has promised on the quantitative side while also retaining a focus on quality?

Europe’s fast start finance strategy needs to balance at least three objectives:

- > Rapid delivery of funds in 2010 to *build trust* with developing countries
- > Delivering transformational and sustainable results to demonstrate *value for money* to EU taxpayers and consumers from 2010-2012.
- > Building robust and transformational models and effective developing country *capacity for scaled-up finance and cooperation beyond 2012*

Much of the money for 2010 has already been programmed but a debate is needed now on priorities for 2011 and 2012. This is not a debate that can be left to development agencies alone. There needs to be a political focus on supporting progressive countries and a strategic focus on building the right kinds of capacity in the right places. To balance the three objectives and keep

¹⁴ See for example work by European think tanks through the EDC2020 project: <http://www.edc2020.eu/8.0.html>

institutional options open for the post-2012 period, fast start finance should be directed through multiple delivery channels – even if this involves higher transaction costs in the short-term. European countries should take a strategic approach to deploying resources through bilateral programmes and multilateral channels including UN funds, the Global Environment Facility, and the multilateral development banks. **In the short term there is a strong case for proactive bilateral cooperation in order to ensure rapid delivery of high impact, high quality initiatives, with perhaps a shift towards more multilateral funding as capacity in these institutions and developing countries increases.**

Europe has agreed to make an initial report on its fast start finance plans at the UNFCCC meeting in Bonn in May/June, followed by annual reports thereafter. This commitment to transparency is important and Europe should press for a similar approach from Japan, the US and others. **There would be value in regular ongoing discussion of Europe's fast start finance strategy, from both a political and technical perspective, in the run-up to Cancun.**

On the issue of capacity, institutions such as KfW (Germany), Agence Francaise de Developpement and to a lesser extent the European Investment Bank (EIB) have experience of supporting developing country projects in energy efficiency and renewable energy. However they are not yet fully geared up for some of the more complex forms of international cooperation we will need in the coming years, e.g. complex joint public-private technology demonstration projects like NZEC (EU-China Near Zero Emissions Coal initiative). There is much interest in Europe in moving from CDM projects to sectoral programmes of cooperation for industries like cement and steel, but experts believe such programmes will take at least three years and substantial resources to get off the ground. What are the critical next steps and who has the capacity to deliver them?

These issues should be examined in greater depth by experts from EIB, KfW, AfD and other existing institutions. **Tight government budgets will put pressure on bilateral development agencies over the coming years, so this is a good time to be exploring ways of achieving more with less.** For budgetary reasons the grant element of future funding is likely to be lower than previously expected, implying a bigger role for innovative financing instruments (e.g. public-private funding; loans; risk sharing mechanisms) and carbon market finance. European experience shows that understanding the

financing support needed for low carbon investments is often more complex than economic models would suggest¹⁵. A group chaired by Michel Camdessus, former Managing Director of the IMF, recently proposed a new “European Bank for Cooperation and Development” to carry out some of the external functions currently performed by the European Investment Bank, European Bank for Reconstruction and Development, and European Commission.¹⁶

The critical bottleneck in many practical cooperation processes is not the availability of finance, but the ability to develop a pipeline of transformational, cross-sectoral programmes which are “investable” by the public and private sector. For example, work by E3G, Chatham House and Chinese partners on Low Carbon Zones in China has shown the need for highly active “brokering” organisations to turn credible conceptual ideas into practical proposals.¹⁷ Such organisations need to be able to deliver a wide range of policy change, institutional and regulatory proposals and viable business models. An interesting non-governmental example is the Embarq project supported by the Shell Foundation to help implement bus rapid transit systems in large cities.¹⁸

Stronger institutional capacity needs to be built in developing countries, perhaps through social venture models such as the Global Green Growth Institute currently being established in South Korea.¹⁹ However this will take time and it is also important that European governments increase their own capacity to engage in practical cooperation. Current capacity differs greatly across different European governments and development institutions. **In some countries there may be value in developing cross-departmental units which would pull together expertise from development, foreign, trade, energy and environment ministries and combine this with commercial, financial and technical expertise to establish “low carbon / climate resilience cooperation units”.** A similar approach has been adopted in the UK and other countries to implementing post-conflict stabilisation and reconstruction²⁰. Such units should be able to deliver more

¹⁵ See <http://www.e3g.org/programmes/climate-articles/financing-the-uks-low-carbon-transformation/>

¹⁶ <http://www.europeanvoice.com/article/imported/radical-reforms-to-european-lending/67318.aspx>

¹⁷ The Jilin Low carbon Zone roadmap can be found at

http://www.chathamhouse.org.uk/files/16194_r0310_lowcarbon.pdf. An outline of a technology focused low carbon zone in Nanjing is given at; <http://www.e3g.org/programmes/europe-articles/feasibility-study-on-eu-china-low-carbon-technology-and-investment-demonstr/>

¹⁸ http://www.shellfoundation.org/pages/core_lines.php?p=corelines_content&page=embarq

¹⁹ <http://www.unep.org/greeneconomy/PresidentLeeofKorea/tabid/3389/language/en-US/Default.aspx>

²⁰ See <http://www.stabilisationunit.gov.uk/>

impact with fewer resources, especially if European governments sponsored joint initiatives in key countries such as India and China.

7. Conclusions and next steps

Much was achieved at Copenhagen but the result highlighted the large gap between the current political ambition of major economies and what the science says is needed to preserve global - and European – climate security. The EU will not achieve its objective of delivering a robust <2C international climate change regime without a significant investment in strategy, diplomacy and delivery.

The move to a more fragmented, complex and bottom-up regime is not just due to the weakening of the UN process, but is also the result of the growing focus on *implementing* climate action. This is a sign of success, not failure. To maintain momentum and coherence in this new complex arena, the EU will need to redouble its efforts to maintain alignment around its political objectives. Europe must ensure the diversity of Community and Member State assets and influence remains an advantage rather than a weakness.

Progress will not require more policy coordination meetings between environment ministries, but rather deeper discussions on politics, policy and implementation between a wider and more diverse group of government and non-government actors. While challenging given current spending constraints this is entirely achievable. Climate change is still a rather “thin” area of international discussion compared to issues such as trade, security, and energy.

In the short term the following areas appear to be priorities for further discussion and action in support of Europe’s post-Copenhagen strategy:

Climate Diplomacy

- > Discuss climate diplomacy strategy through the “EU6” Foreign Ministers group (expanded as appropriate), including agreeing differentiated roles for specific multilateral fora and bilateral relationships in pursuing EU climate and energy objectives.
- > Fully integrate energy and climate issues into the review of EU-China strategy, emphasising links to trade, investment and commercial policies.

- > Expand EU delivery capacity by prioritising climate change in the design of the European External Action Service and by strengthening the Green Diplomacy Network.

Political Strategy

- > Strengthen EU Track II climate diplomacy, including an aligned public diplomacy strategy to engage key countries on the implications of a 4C world and on broader links between climate change and international security.
- > Develop better political intelligence on critical countries, including a more sophisticated understanding of their “intent to decarbonise”, and improve mechanisms for sharing this intelligence within the EU.

Policy Development

- > Deepen strategic discussion on the longer term political implications of current EU policy positions on issues like the future of the Kyoto Protocol, reform of the Clean Development Mechanism, and clean technology sharing.
- > Work with progressive third countries to define the political deal on climate finance governance, allocation, transparency and accountability.
- > Resolve the EU position on border adjustment measures by 2011.

Practical Cooperation

- > Convene a fast start finance conference in mid-2010 to agree priorities for allocating fast-start finance and laying the foundations to scale up climate finance beyond 2012.
- > Bring together key European implementing agencies for climate finance (e.g. KfW, AFD, EIB) and designers of sectoral mechanisms to discuss the practical barriers to and opportunities for transformational low carbon and climate resilient investment in developing countries.
- > Consider developing specialist cross-government “climate resilience cooperation units” to deliver greater impact from fast-start funding, and to support the creation of similar capacity in developing countries.

E3G, April 2010

Annex: Extract from European Commission Communication – 9 March 2010

Reaching out to third countries

Negotiations in Copenhagen clearly demonstrated that progress in the UN was conditional on the willingness of countries to act. An active outreach programme by the EU will be key to promoting support for the UN process. The objective will be to obtain a better understanding of the positions, concerns, and expectations of our partners on key issues; and to explain clearly what the EU requires of an agreement in terms of its ambition, comprehensiveness, and environmental integrity. It will seek to encourage immediate action to follow up on the Copenhagen Accord and facilitate convergence on action-oriented decisions to be agreed in Cancun. This should also provide valuable opportunities to intensify bilateral dialogues on domestic climate change developments and for the EU to offer support on domestic action. The Commission will undertake this outreach in close contact with the Council and its Presidency.

The Union and its Member States should continue to pursue the negotiations within the framework of the UN. A stronger role for the Commission will help ensure that the EU speaks with one voice. Building upon the lessons of Copenhagen, we must engage in a discussion on how best to increase the efficiency and leverage of the EU in international negotiations.

In addition, the Commission would encourage and assist the European Parliament to engage fully with parliamentarians from key partner countries.

The outreach activities must happen at all levels and with all the important stakeholders. Bilateral as well as multilateral meetings, including a number of summits and ministerials, are scheduled for 2010. These will be complemented by regional and ad hoc meetings to ensure that partners from all regions of the world are reached, including vulnerable countries, and that the EU increases its understanding of their concerns and ambitions. In informal and formal, existing and new dialogues preparing Cancun and the immediate implementation of the Copenhagen Accord parties must continue to identify key issues and possible compromises in the negotiations. The Commission, supported by EU delegations of the European External Action Service, will engage actively in all these activities. It will do so in close cooperation with incoming Mexican and South African Presidencies of the Conferences in 2010 and 2011.