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**Research Report**

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Briefing Paper, No. 21/2015

**Provided in Cooperation with:**

German Institute of Development and Sustainability (IDOS), Bonn

*Suggested Citation:* Brandi, Clara; Bauer, Steffen; Pauw, Pieter; Chan, Sander; Mathis, Okka Lou (2015) : EU climate leadership: five building blocks for ambitious action, Briefing Paper, No. 21/2015, Deutsches Institut für Entwicklungspolitik (DIE), Bonn

This Version is available at:

<https://hdl.handle.net/10419/199762>

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## EU Climate Leadership: Five Building Blocks for Ambitious Action

(Revised version)

### Summary

The United Nations (UN) climate summit (COP 21) in Paris is the most important opportunity for years to come to organise effective collective action at the international level to stabilise global warming at 1.5 degrees Celsius (°C), or at least limit it to a maximum of 2°C; facilitate the transition towards a zero-carbon economy; and mobilise significant financial resources to adapt to climate change, particularly in the most vulnerable countries. The European Union (EU) is in a unique position to contribute decisively to these ends.

With its climate pledge from March 2015, the EU has made explicit what it considers to be a fair offer, in terms of reducing greenhouse gas emissions. However, to further an ambitious and fair deal, the EU should be prepared to offer even more in the key negotiating fora, especially regarding adaptation and finance.

With the negotiations towards COP 21 in full swing and the EU's negotiation mandate fixed, however, the real work will begin after Paris. Five building blocks will be of particular importance to demonstrate European leadership: (1) mitigation, (2) adaptation, including the issue of loss and damage (L&D), (3) climate finance, (4) a framework for non-state climate actions and (5) the building of ambitious alliances.

**1. Mitigation:** The Intended Nationally Determined Contribution (INDC) of the EU and its member states represents an important step in the right direction, but it is not ambitious enough to really make the EU a climate leader. The INDC target of 40 per cent emission reductions by 2030 is based on a scenario of 80 per cent

decarbonisation by 2050. This puts the EU at the lower end of its long-term goal of 80–95 per cent by mid-century. Attaining the 40 per cent target by 2030 does not necessarily enable the EU to reach a goal of 80 per cent by 2050, even if it were on track to reach its 40 per cent target in 2030 – which it is not.

- 2. Adaptation and L&D:** The international community has waited too long and acted too weakly to fully avoid dangerous climate change, meaning more vulnerable countries and populations will be increasingly affected by severe impacts of climate change. Action on adaptation as well as L&D is therefore crucial for COP 21 and beyond, and the EU should be seen as treating these issues with the same priority and urgency as mitigation.
- 3. Climate finance:** Climate finance is the most straightforward way to demonstrate an international commitment to fight climate change and its impacts. To demonstrate resolve and credibility, the EU's contributions for mitigation and adaptation will need to be made in addition to its conventional development finance.
- 4. A framework for non-state climate actions:** The EU has been a frontrunner in promoting greater engagement of non-state and subnational actors in global climate policy. It should thus support a long-term action agenda and policy framework to facilitate and galvanise bottom-up climate actions.
- 5. Ambitious alliances:** Since 2011, the EU has made considerable efforts to revitalise its external climate action and related diplomacy. Paris will be a vantage point to capitalise on new opportunities.

The UN climate summit in Paris (COP 21) is mandated to produce a new global climate agreement. This prospective agreement should be universally applicable and include ambitious long-term goals as well as specific short-term action.

With its INDC, the EU has made what it regards as a fair offer with a view to reducing emissions. The European Commission is aiming specifically for an agreement to reduce global emissions by at least 60 per cent below 2010 levels by 2050, and near or below zero by 2100. The G7's summit declaration, which called for a comprehensive decarbonisation of the global economy within this century, in effect supports this aim.

However, the EU and its member states should exploit the unique opportunity of the Paris climate summit to demonstrate more credible climate leadership. Specifically, the EU should work towards a binding agreement that maintains the possibility to stabilise average global warming at 1.5°C, or at least reaffirms the objective to limit it to a maximum of 2°C; push for the inclusion of an ambitious long-term decarbonisation goal; and lead by example with a commensurate interpretation of its negotiation mandate.

In the context of its negotiation mandate, the EU can help to complete the deal in Paris by offering more in terms of finance and adaptation. Developing countries are not likely to consent to a climate deal without additional substantial efforts to provide predictable and ambitious climate finance, especially with regard to the Green Climate Fund (GCF). Major concessions on adaptation and L&D are also make-or-break conditions for many developing countries towards the envisaged Paris Agreement.

Yet, the real work will begin *after* Paris (see also European Think Tanks Group, 2015). The following five building blocks are of particular importance for EU climate leadership: (1) mitigation, (2) adaptation and L&D, (3) climate finance, (4) a framework for non-state climate actions and (5) ambitious alliances.

## 1. Mitigation

### The EU's domestic climate policy

Credible climate leadership must be underpinned by adequate domestic policies and actions. In 2014, EU leaders, after intricate discussions among member states, adopted the "2030 climate and energy framework", which builds on the 2020 framework and sets three key targets for the year 2030: at least 40 per cent cuts in greenhouse gas emissions (from 1990 levels); at least a 27 per cent share of renewable energy in the energy mix; at least a 27 per cent improvement in energy efficiency. In March 2015, the EU was the first major economy to submit its climate pledge (INDC) to the UN, including a domestic emissions-reduction target of at least 40 per cent by the year 2030 relative to 1990 levels. The EU should demonstrate greater ambition domestically in order to actually reach this target.

In the context of the EU Emissions Trading System (ETS), which is meant to account for half of the 40 per cent reduction target, a number of well-known challenges persist. Currently, the price of EU ETS emissions allowances is too low to provide effective incentives for decarbonisation; it is not clear yet whether the recent reform proposal from the Commission will lead to substantive increases in carbon prices. Moreover, some reductions are achieved by carrying over the accumulated surplus of allowances that were created during the global financial and economic crisis rather than by additional reductions.

The Commission has also included emissions of the Land Use, Land-Use Change and Forestry (LULUCF) sector in the EU's INDC and its 40 per cent reduction target, which differs from the 2020 framework. Including LULUCF in the 2030 target entails the risk of diluting the ambition of the European INDC, above all because of methodological challenges with a view to accounting rules, and because of the concern that carbon sequestration in the LULUCF sector could be used to offset emissions in other sectors (e.g. energy and transport).

In 2015, the Commission released its strategy for a European Energy Union with a forward-looking climate change policy. The EU's credibility at the international level is closely linked to its ability to realise the Energy Union's decarbonisation goals. To this end, the EU should move towards phasing out fossil fuel subsidies: they distort prices to the detriment of decarbonisation, inhibit the spread of greener technologies and burden national budgets.

- The EU should soon raise the ambition of its 2030 emissions target to make it consistent with a decarbonisation pathway towards a *maximum* of 2°C. This would suggest a 55 to 60 per cent reduction target by the mid-2030s. Ideally, the EU should pledge to decarbonise Europe by mid-century rather than within the second half of the century.
- The Commission should push for specific sectoral decarbonisation strategies regarding buildings, energy, transport and the like. The EU could significantly enhance its leadership if member states were to be seen as ratcheting-up their domestic ambitions for post-2030 pledges.
- The EU ETS could still prove to be the backbone of EU climate policy, but it needs reforming. The Commission should incorporate experiences and lessons from other regions, notably from California and China. The current market stability reserve is too little too late: excess allowances should be permanently eliminated rather than just temporarily back-loaded.
- The EU should clarify how its approach to LULUCF will not dilute the EU's ambition. Natural greenhouse gas sequestration through LULUCF should augment the 40 per cent target; it should not be included in an aggregate

target. At the very least, the EU needs to reduce uncertainties regarding its LULUCF accounting to avoid setting negative precedents for key LULUCF countries. Even as reducing emissions from deforestation is the cornerstone of climate policy in these countries, this should not provide them with a pretext for inaction regarding their energy and transport sectors.

- An Energy Union that is seen to be making headway in achieving an ambitious renewables target by 2020 would underscore the EU's position as a pioneer on climate protection. Moreover, the EU should increase efforts to phase out fossil fuel subsidies and employ SMART (specific, measurable, ambitious, resourced and time-bound) targets to do so at the European level and across member states.

#### Dynamic and ambitious INDCs: Assessment & review and contribution cycles

Without an effective mechanism for assessment and review (A&R), INDCs risk becoming a collection of pledges with limited accountability that provide inadequate incentives for countries to become more ambitious over time. A&R helps to track the implementation of INDCs and to develop more ambitious future INDCs in consecutive "contribution cycles". A mechanism for the upward adjustment of ambitions ("ratcheting up") is also needed to prevent "backsliding", and to avoid a recurrence of protracted renegotiations.

In its negotiation mandate, the EU stresses the importance of a dynamic ambition mechanism with strong rules to warrant transparency and accountability. Accordingly, the EU should advocate a strong A&R mechanism to further a dynamic and flexible development and implementation of INDCs.

- Nationally determined targets must be backed by multilaterally agreed and transparent, robust rules for A&R. In effect, countries need to be held accountable to their pledges and be rewarded for becoming more ambitious over time. A meaningful A&R is thus not just about checking whether countries have done their homework; it should also help them to do their homework better in successive cycles (see van Asselt, Saelen, & Pauw, 2015).
- In line with its negotiation mandate, the EU should insist on specified "contribution cycles" to ensure that INDCs are no one-off effort but evolve into a continuous and dynamic mechanism in which each country regularly provides an updated (and more ambitious) INDC, for example, every five years.
- In advocating the notion of "contribution cycles" or other approaches for a dynamic and flexible ambition mechanism, the EU should facilitate self-differentiation that circumvents the entrenched "firewall" between developed and developing countries (i.e. Annex I / non-

Annex I countries under the UN Framework Convention on Climate Change (UNFCCC) of 1992).

## 2. Adaptation and L&D

The EU has repeatedly acknowledged that ambitious action to prepare for – and respond to – the effects of climate change is key. Adaptation and L&D are of utmost priority to many of the EU's partner countries, and likely to be essential prerequisites for a substantive Paris Agreement. Ultimately, adaptation and L&D are a matter of climate justice. The longer the international community waits to act ambitiously on mitigation, the more vulnerable countries and populations will be affected by the impacts of climate change.

- The EU should argue for treating adaptation with the same priority and urgency as mitigation in the Paris Agreement and related decisions.
- The EU should be open to explicitly include L&D in the Paris Agreement or else advance a substantive designated decision by COP 21.

## 3. Climate finance

Substantive progress on climate finance will be a make-or-break condition for the Paris Agreement. Developing countries expect ambitious, predictable and accessible finance for adaptation and mitigation, not just from 2020 onwards, but also in the short term. The annual US\$ 100 billion target that developed countries have pledged to contribute from 2020 onwards may or may not be reached, depending on which kinds of financing flows are counted.

The EU needs to be creative: the fall in oil prices has cut the fossil fuel bills of EU citizens and companies by billions of euros since 2014. This provides space for additional fuel or carbon taxes, the revenues of which could be used towards the US\$ 100 billion target. Ultimately, only a predictable and ambitious amount of public finance – especially in the context of agreed multilateral channels such as the GCF and the Adaptation Fund – will increase trust among developing countries.

Moreover, those negotiating climate finance will need to consider the context of the 2030 Agenda for Sustainable Development (i.e. means of implementation towards the Sustainable Development Goals) and the Addis Ababa agreements regarding financing for sustainable development. Developing countries expect commitments made in the context of the prospective Paris Agreement to be complementary and additional.

This could be achieved *inter alia* by scaling-up finance for low-carbon innovation and technology transfer and with a view to knowledge-sharing and capacity-building for climate adaptation, especially in vulnerable countries.

- Climate finance monitoring, reporting and verification (MRV) needs to be transparent, with developing countries

having their say about appropriate standards and criteria. The EU should propose regular needs-assessments and a regular review of its (public) climate finance.

- At the same time, EU climate finance must not create perverse incentives. It should warrant that developing countries' INDC pledges are not exclusively conditional to the provision of external climate finance.
- The EU should continue its efforts to improve transparency regarding the additionality of climate finance. To this end, member states will have to find a common understanding of what qualifies as additional and new public finance.

#### 4. A framework for non-state climate actions

The EU already promotes greater engagement of non-state and subnational actors in international climate policy to complement (insufficient) international action. Yet, without corresponding long-term efforts and institutional backing, "bottom-up" contributions can hardly be expected to live up to their potential (Chan et al., 2015).

- The EU should promote a comprehensive approach that facilitates the necessary ambition, experimentation and transparency. A comprehensive framework for climate actions requires clear criteria for tracking, verifying and acknowledging ambitious non-state and subnational climate actions.
- The EU, its member states and, ultimately, parties to the UNFCCC should seek agreement regarding clear and SMART criteria to encourage robust and credible non-state and subnational climate actions.

#### 5. Ambitious alliances

The EU has called on other states to make ambitious climate commitments. Yet, the EU must not wait for others to show resolve in demonstrating ambitious and credible action.

- Building on its new Climate Diplomacy Action Plan, the EU should build alliances with ambitious partners across the North-South divide. EU climate diplomacy efforts should be continued beyond Paris to help foster the increasing levels of ambition in partner countries. With a view to COP 22 in Marrakesh in 2016, the EU should support the French government in the pursuit of a Paris-Marrakesh Action Agenda that builds on the current Lima-Paris Action Agenda.
- As the new European Global Strategy will take shape in 2016, the EU should seize the opportunity to better integrate climate change into its foreign policy strategies and ensure sectoral coherence in line with the 2030 Agenda, especially with a view to climate, energy and trade policies.

Overall, the EU should use the coming months to exhibit global climate leadership: fostering effective collective action to keep global warming well below 2°C; organising the transition towards a zero-carbon global economy; and mobilising sufficient climate finance in the spirit of a climate-smart and just global partnership for sustainable development. Ultimately, climate change remains a transformational challenge that needs to be confronted with sustainable development.

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*With financial support from the Federal Ministry for Economic Cooperation and Development (BMZ)*

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