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Q&A: WHY EUROPE'S DOMESTIC POLICY CHOICES MATTER FOR PARIS 2015 UN CLIMATE NEGOTIATIONS

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The domestic choices Europe makes this year will send important signals internationally about the credibility of its commitment to decarbonise. While Europe can underestimate its role in setting global norms, many countries still look to Europe as a laboratory for the low-carbon transition. What's more, the example of Europe's structural reforms can inform the kind of robust international climate regime that Europe needs from Paris to guarantee its future prosperity and security.

Our Q&A spells out some of 2015's important European debates, and explains how the decisions Europe makes can help or hamper efforts to secure an ambitious outcome from December's UN climate conference.

Energy Union

What is it? Creating an Energy Union with a forward-looking climate policy is one of the new Commission's headline political objectives. Jacques Delors and former Polish prime minister Jerzy Buzek presented a similar concept in 2009, but it was Polish PM Donald Tusk who pushed it up the EU's political agenda in 2014 as instability in Ukraine threatened Europe's gas supplies from Russia. Although Tusk touted the idea as a way for member states to jointly negotiate gas contracts, there is now political buy-in across Europe for a much broader concept, encompassing multiple policy processes.

Why does it matter? The Energy Union agenda is about strengthening European cooperation on energy, climate and infrastructure, demonstrating how member states can work together to better protect their citizens from 21st century risks. The key choice at stake is about whether Europe pursues a narrow fossil fuel approach to energy security, or uses this political opportunity to reduce its energy dependence and its carbon emissions at the same time.

What to expect: On 25 February the Commission will release a framework strategy based around five 'dimensions': energy security, the internal energy market, energy efficiency, decarbonisation and R&D. It will be accompanied with a detailed list of action points to deliver on these areas and guide the Commission's work over the next 3-5 years. It will likely also include governance principles for Europe's 2030 climate and energy targets.

What to look out for:

> **Incentivising investment in low-carbon infrastructure over risky high carbon projects**. Attracting finance for the Energy Union will be a real test of whether the EU can make the value-case to build the smart, resilient and integrated energy systems it needs to support the low-carbon transition.

> **Will the Energy Union be based around Europe's long-term decarbonisation goal?** Embedding the 2050 goal of 80-95% GHG reductions agreed by EU Heads, and reconfirming the EU's commitment to the higher end of this range, would add weight to global calls for an ambitious Long Term Goal in the Paris agreement.

> **Meaningful measures to put the 'energy efficiency first' principle into practice**. Climate and energy commissioner Arias Cañete has endorsed the idea that before importing more gas or generating more power, we should ask ourselves: "can we take cost-effective measures to reduce our energy use that will also increase our competitiveness?" But we'll need concrete measures in order to rebalance policy and investment choices that can drive serious reforms to boost our energy efficiency.

> Energy market reform highlights the **role of consumers, cities and smart technology providers** in facilitating cheaper, more efficient and secure energy as part of accelerated decarbonisation in Europe. This can activate new constituencies in support of the European low carbon economy.

> Restrictions placed on capacity markets could **stop subsidies to coal.** In fact, Commission VP Šefčovič tweeted about Europe **ending fossil fuel subsidies** at the Riga Energy Union conference at the start of February.

What's the worst case scenario? If political attention and subsidies are channeled into a narrow focus on access to fossil fuels rather than security of energy systems, this could lock in new gas infrastructure and deprive smart sectors with high growth potential from much needed political and policy attention. More broadly, failing to shift beyond the business-as-usual approach to energy security would be a missed opportunity – both to boost renewables and energy efficiency as solutions to Europe's energy dependence and to shift the fossil-heavy focus of EU energy diplomacy on to Europe's low-carbon export opportunities.

What are the key moments?

25 February - Commission Strategy Paper and Roadmap
5 March - Energy Ministers discussion
19-20 March – Heads' discussion of Energy Union at European Council

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2030 Governance

What is it? With Europe moving away from nationally binding energy targets in to EU-wide goals that leaders agreed in October 2014, a new governance system will set out how these headline targets will be delivered in practice.

Why does it matter? The strength of the governance system will determine whether the EU can instil confidence in investors and other countries that it will meet its 2030 targets

What to expect: The European Commission has proposed a system of 'National Energy Plans' as a key plank of the new governance approach. The National Energy Plans should set out each country's goals on emissions reductions, renewable energy and energy efficiency, and should be iterated with the Commission and other countries in the region.

What to look out for:

> Including mechanisms to increase ambition, **operationalising the 'at least' language** agreed by Heads on the 2030 GHG emissions reductions, renewables and energy savings target. Including an upward review provision could strengthen calls for a **ratchet in the Paris deal.** This would oblige countries to increase their ambition over time to get on to a credible path for keeping global temperature rise to under 2°C.

> The governance discussion could provide a useful model for how **countries' Intended Nationally Determined Contributions for Paris are assessed in line with a global 2050 goal or the 2°C obligation**. Debates over how these plans will be **evaluated for risk and stress-tested** (such as through an **EU Energy and Climate Risk Observatory**) could also influence the form of the international climate regime.

> Developing a coherent rules-based system to integrate energy and climate governance would showcase Europe's assets for climate diplomacy: **institutional innovation, principles of transparency and accountability, and a continued commitment to decarbonisation**.

What's the worst case scenario? Weak governance mechanisms would undermine confidence in the EU delivering its 2030 targets, stalling investment and providing ammunition for the high-carbon lobby set on undermining the credibility of multilateral climate action. We need clarity on the many unanswered questions: how enforceable will these national plans be? What will be included in these plans? What happens if the national plans don't add up to the overall EU targets? Additionally, a lack of formal provisions to overreach these targets would make the 'at least' language meaningless.

What are the key moments?
25 February – key principles will be included in the Energy Union strategic framework
15-16 April – informal energy council discussion
September – potential Commission communication

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Investment Package

What is it? The new Commission has announced a new European Fund for Strategic Investment to leverage €315 billion of investment to stimulate Europe's economy. Energy efficiency, broadband and modernising transport systems have all been mentioned as priority investments to drive growth in Europe – but with vast numbers of competing projects, will low-carbon make it to the top of the list?

Why does it matter? How Europe decides to channel this major investment will be one of the clearest short-term indicators of Europe's commitment to decarbonisation. Prioritising low-carbon investment to drive growth would put the main message of the 2014 New Climate Economy report into practice: that countries of all income levels can build lasting economic growth while taking action to reduce the immense risks of climate change.

What to expect: The fund has the potential to drive hundreds of billions of euros of investment in the EU. Member states have identified viable low-carbon projects with over €624bn investment value, but project selection will be determined by investment guidelines drawn up by the fund's steering board and investment committee. MEPs and ministers have a chance to shape what is considered a good value investment in the legislation being discussed up to June, but the Commission and the EIB will play key roles in advising investment choices.

What to look out for:

> The criteria that determine project selection will be key. The fund's advisory board should **consider the high risk of stranded assets in high-carbon infrastructure,** and use the EIB emissions performance standard to disqualify high-carbon projects that are incompatible with Europe's climate goals. In particular this would **demonstrate Europe's credibility internationally in phasing-out coal.**

> If the fund successfully **leverages private sector investment, it can provide a 'beyond subsidies' model** useful for generating international climate finance.

What's the worst case scenario? Large-scale investment in roads, airports and fossil fuel infrastructure **locks in high emissions in Europe** and **empowers high-carbon interests in European political debates**. Any new coal investments in Europe would seriously **undermine efforts to accelerate a global coal phase-out**. The short-lived benefits of high-carbon investments, and the relatively small impacts on employment, would also damage public faith in the stimulus package to deliver European growth

What are the key moments?
Legislation to set up the European Fund for Strategic Investments will be negotiated by the Council and the European Parliament up to end of June. The fund plus its advisory investment hub are intended to be operational by July, and to start be able to select and fund projects proposed by member states and the Commission mid-way through the year (or earlier via the EIB).

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Emissions Trading Scheme reform

What is it? In an attempt to strengthen the EU's carbon market and raise the carbon price, the Commission last year proposed setting up a Market Stability Reserve (MSR) to by tackle the current surplus of allowances. This is expected to be followed with a further reform to tighten the emissions reductions pathway.

Why does it matter? Today's carbon price in the ETS is not high enough to drive even the most basic of abatement i.e. coal-to-gas switching. The ETS is theoretically the cheapest way to cut emissions; if Europe doesn't make the ETS start driving emissions reductions we could end up with a multitude of overlapping national climate policies that makes European decarbonisation more expensive, more bureaucratic and might not actually cap European emissions.

What can we expect? The first stage is what kind of Market Stability Reserve ministers and MEPs agree on by June. The Commission is then expected to propose a review or measures aimed at more structural reform of the ETS by the end of the year.

What should we look out for?

> A strong MSR, starting as soon as possible and cancelling backloaded and unused allowances, would still only gradually draw down the surplus. PointCarbon estimate that the strongest MSR proposal would raise the carbon price to €20 by 2020.

> What happens with the EU ETS determines how other schemes develop internationally. With China's ETS starting in 2016 and Obama's EPA rules encouraging ETS start-ups and linkings, international partners will be following progress in the EU.

> Efforts to improve the use of ETS revenues to fund credible low-carbon energy modernisation and just transition schemes, rather than coal power plant life-extensions, could productively inform international **climate finance discussions with a focus on realigning financial flows.**

What's the worst case scenario? With no MSR, the carbon price could crash. Another price crash would likely involve member states going their own way, and more versions of UK's Carbon Floor Price would proliferate. While some nations would cut emissions faster, many would be left behind, undermining Europe-wide decarbonisation.

What are the key moments?
24 February - European Parliament's Environment Committee vote on MSR

If most groups agree on a compromise, this proposal goes to trialogue with the Council, the Parliament and the Commission. Discussions with the Council would likely happen during March/April. A quick decision by the Council could see it rubber-stamped by the Parliament in May or June, with the carbon price immediately climbing. However, disagreement in parliament's Environment Committee would see the proposal go to plenary, and could delay Council agreement until September.