

## COP21: What's in it for Europe?

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Countries have agreed to negotiate a new climate treaty by 2015, in Paris. While there are signs of convergence and commitment to a deal, much work remains to be done. The EU has long been aware of the importance of global climate change to future prosperity and security. Moreover, the EU has invested considerable domestic and diplomatic capital into ensuring a strong response to climate change, at home and abroad. The EU took the perceived 'failure' of Copenhagen very hard.

This narrative of 'failure' around Copenhagen is wrong. Copenhagen achieved significant, but insufficient, progress. Countries are implementing an ever increasing number of climate policies, motivated by climate change, international talks, and domestic concerns such as energy security. But climate change is a long-term issue: there is no single elegant solution. Continued rounds of negotiation will be needed into the future. The real failure of Copenhagen was the damage done to the international credibility of the process and to domestic policy, particularly in the EU which had so invested in both in 2009. Moreover, the situation is significantly different to 2009: there is greater convergence in the talks and greater action domestically.<sup>1</sup> Nonetheless, much remains to be done.

Another perceived failure in Paris in 2015 would deal a grave blow to multilateralism and the EU's reputation as a diplomatic actor. In addition, the EU has real domestic stakes in a coordinated transition to a low-carbon economy, even if we put aside for a moment the real and present danger of global climate change.

On still shaky internal foundations, the EU is being buffeted by external forces. These reveal to what extent the EU's economy and energy system are unsustainable. The crisis in the Ukraine has revealed its continuing exposure to external energy suppliers, and the greater geopolitical vulnerability that this brings.<sup>2</sup> Energy and commodity imports continue to weigh on EU households and on the EU's trade balance. The emergence of low-energy-price regions such as the US and the Middle East has put pressure on EU manufacturing in some sectors (even if the impacts are often greatly exaggerated<sup>3</sup>).

The difficult truth is that there is no easy way out. A transition to a sustainable, secure, competitive energy sector is needed. The EU's challenges of resource security, external competitiveness and geopolitical relevance should therefore be seen in concert. The EU cannot compete in terms of

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<sup>1</sup> See for example: Spencer, T. (2011), "The Durban Mandate: A Small Tectonic Shift?", IDDRI; and Spencer, T. (2013), "2b continued ... The outcomes of the Warsaw Climate Conference and implications for Paris 2015", IDDRI; and IDDRI and SDSN, "Pathways to Deep Decarbonization: 2014 Report".

<sup>2</sup> Sartor, O. et al (2014), "The EU's 2030 Climate and Energy Framework and Energy Security", Climate Strategies and IDDRI.

<sup>3</sup> Spencer, T. et al (2014), "Unconventional wisdom: an economic analysis of US shale gas and implications for the EU", IDDRI.

resource self-sufficiency, nor product price, nor geopolitical hard power. It must compete on efficiency and innovation, and project its interests via cooperation.

It is in this context that the Paris COP21 should be seen. This conference should be seen as having three central strategic objectives for the EU.

1. Securing an effective and fair response to global climate change, as a key moment in an on-going process.
2. Facilitating greater efforts to shift to a sustainable global energy system, reducing pressures on global fossil fuel prices and accelerating the development of alternative energy technology resources, which the EU needs for its own transition.
3. Demonstrating a capacity to find multilateral solutions to global challenges, of which climate change is the arch-example. In a world of increasing great power politics, failure in Paris would deal a grave blow to multilateralism and to the EU (and to the climate agenda!).

Fortunately, two of the other great power blocks, China and India, are in a similar position, at least with respect to certain key characteristics. Although differing in many ways from the EU, India, China and the EU are all resource-poor, densely populated regions, for which resource security is a long-term issue of premier importance (see table 1). These three huge regions therefore have a major stake in the transition to a sustainable energy system, and a sustainable economy more broadly.

**Table 1: indicators of resource self-sufficiency for China, India and the EU28<sup>4</sup>**

Indicator	China	India	EU	USA
GHGs, excluding LULUCF, 2011 (% of world total)	24.1	5.7	10.4	14.9
GDP, PPP, 2013 (% world total)	15.9	6.6	17.1	16.5
Net fuel imports, 2013, (% GDP*)	- 3.35	- 6.12	- 3.15	-1.42
Net commodity imports, excluding fuels, 2013, (% GDP*)	- 3.85	0.34	- 0.12	0.15
Population density, people/km <sup>2</sup> (and rank)	144.58 (72 <sup>nd</sup> )	421.14 (22 <sup>nd</sup> )	119.61 (89 <sup>th</sup> )	35.55 (181 <sup>st</sup> )
Oil import dependency rate (%)	61	76	89	47

*N.B. A negative number indicates net imports, a positive number net exports.*

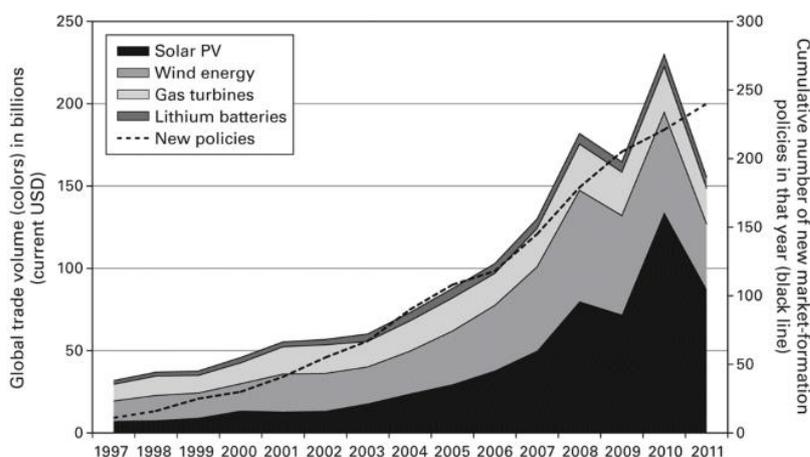
This transition needs to be global in the following sense: global coordinated action can help to strengthen and accelerate the development of clean energy solutions, and reduce the pressure on scarce fossil fuel resource. We should not let the current boom in unconventional fossil fuel production in the USA lull us into a false sense of security. In all likelihood, prices will remain high and volatile without stronger policy action in key countries on efficiency and clean energy.<sup>5</sup>

<sup>4</sup> IDDRI based on CAIT, UNCTAD, World Bank and BP Statistical Review of World Energy, 2014

<sup>5</sup> Oil prices are projected to average 113\$ in real terms between now and 2040 in the EIA's reference case. See EIA, World Energy Outlook, 2014.

The self-supporting links between wider, more coordinated global action can be seen in figure 1 below. Domestic policies support new clean energy technologies, and in turn create wider, more innovative markets for these technologies, driving down costs. It is interesting to note that clean energy technologies began to take off after the negotiation of the Kyoto Protocol, showing the importance of global coordination to the development of these technologies and the policies required to support them.

**Figure 1: global trade in clean energy technologies (left axis) and domestic market-formation policies for clean energy technology (right axis)<sup>6</sup>**



This raises the question of how can the EU interest other major players, in particular China and India, in its own domestic policy direction? Put more directly, why should China and India care about what the EU does on climate, given that the EU makes up about 10% of global emissions (see table 1 above)? A first answer is that the EU continues to matter as the world's largest market, as shown in table 1 above. Standards set in the EU shape world markets, trade flows, and the comparative advantage of global companies.

The second response is that the EU remains a significant technology innovator, of the kinds of technologies that China and India will require to overcome their own resource constraints. EU countries made up 32% of global clean energy technology patents in 2007-9, ahead of the US (19%) and China (1.7%).<sup>7</sup> Commentators often point to the case of Solar PV to make the argument that the EU cannot convert this technology leadership into competitive advantage. This takes a reductionist view of what constitutes a 'green technology'. If we take two other examples of 'green technology', wind power and efficient gas turbines, the EU retains a net export balance in 2013, globally and vis-à-vis China.<sup>8</sup> We therefore need a more nuanced debate on the green comparative advantage. Two things are however clear. Firstly, the EU's role in global technology innovation and diffusion is an important lever in the geopolitics of sustainable development. However, it cannot be taken for

<sup>6</sup> Gallagher, K. (2014), "The Globalization of Clean Energy Technology: Lessons from China", MIT Press.

<sup>7</sup> Glachant, M. (2013), "Greening Global Value Chains", OECD.

<sup>8</sup> IDDRI based on Comtrade.

granted, and requires that the EU's domestic policy include a strategy on technology development consistent with the long-term development and climate challenges that it faces.

These then are the stakes for the EU at COP21. The EU's economic future rests with innovative and efficient products. It is only here that the EU has and can maintain comparative advantage. And these innovations are required to shield the EU economy from the shocks of global competition and tight supply for key resources, in which the EU is structurally poor. Secondly, the EU's place in the world depends on increasingly tenuous multilateral cooperation (and an effective management of the EU's internal economic and social challenges). Both are far from assured. A strong outcome for COP21 would support both agendas.

A strong commitment to the EU's 2030 Climate and Energy Framework can send two important signals. Firstly, to domestic economic actors, that the EU's economic future lies in clean and efficient production and consumption. Secondly, internationally to the EU's negotiating partners, that the EU's internal market and technology policy will drive in this direction. COP21 is a core tool to put the EU's economy on a more sustainable long-term footing, to ensure the global critical mass that this requires, and to secure a stronger place in the world. Of course, one should not be naïve; but it would be short-termist and narrow to overlook the strategic importance of the Paris meeting in 2015 for the EU. The EU's interests and the interests of the global climate are closely intertwined.

This raises the question of the EU's strategy for COP21. What should it focus on? The EU has traditionally been an important player, but more for establishing the early, overall expectations for the negotiations than for cutting final minute deals (the Durban COP in 2011 was an exception). The EU needs to focus strategically on key issues, where it can extract movement from the US, China and India. One of these is clearly the role of a strong mechanism to review implementation of commitments. Here the EU could put forward a strong proposal for a more robust independent review of implementation.