

TT2015 Joint Paper

# The EU's INDC and its contribution to a successful deal in Paris 2015

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In this paper, the TT2015 members provide **a comprehensive assessment of the EU's INDC and its strategic implications for the Paris negotiations**. The paper includes separate sections on the INDC's form and content; the role of carbon markets; its role in long-term transformation; climate risk & adaptation; finance; review & update cycles and, finally, transparency of implementation.

**About the EU Think Tank Platform for Paris 2015.** The Platform brings together six of the leading EU think tanks (CEPS, IDDRI, IES-VUB, SWP, PISM and E3G), active in the area of climate change policy, in their desire to catalyze and contribute to the debate in the EU on its strategy and positioning in the 2015 negotiations. More information available on the website: <http://www.ttc2015.com/>

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## Participating Organisations



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# 1. Introduction

In the run up to the Paris climate negotiations, the multilateral community has decided that all countries should submit Intended Nationally Determined Contributions (INDCs). The INDCs represent each country's contribution to the collective effort against climate change. They are part of a new vision for a global climate agreement, including:

- National approaches to climate policy relating to both the national capability to deal with climate change and to the incentives provided by international cooperation.
- Relatively diverse INDC submissions, depending on national circumstances and vision of international cooperation. A comprehensive response to climate change, encompassed in a flexible but important common rules system for INDCs and a common objective of limiting warming to 2 degrees.
- Mitigation as the core of this collective objective, but with an equal role for adaptation, finance, and technology.
- A stable, universal, and dynamic agreement that can progressively create international incentives for countries to submit more ambitious actions over time.

INDCs not only document national ambition, but crystallize each country's vision of the transformation of its economy and society toward a low-carbon and more resilient system. Moreover, each INDC reveals how a country understands the challenge of the global effort to address climate change and what is required of cooperative frameworks like the new Paris agreement. Therefore it is important not only to look at the content of INDCs but also at their wider implications for international cooperation.

In this paper we analyze the European Union's INDC in light of the EU's important role in helping to ensure that an ambitious and successful agreement is reached in December in Paris.

The EU submitted its INDC to the UNFCCC Secretariat on 6 March 2015. Only five parties submitted their INDCs by the end of the first quarter of 2015: Switzerland, Norway, EU, US, and Mexico, followed by Russia and Gabon on the 1st April. Moreover, the European Commission has laid out in a communication in March key issues for a "Paris Protocol".<sup>1</sup> It includes further elements for a Paris Agreement which would be useful in embedding the INDCs in a new framework, strengthening ambitions over time and recognising the need for more financial support for mitigation and adaptation.

In contrast to Copenhagen, the EU is entering the Paris negotiations without an adopted legal framework to implement its 2030 Framework; this will be legislated progressively over the course of the coming years. The European Council agreed in October 2014 to return to the 2030 Framework after the Paris Conference. In this sense, a robust outcome in Paris is highly important for ensuring that the EU 2030

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<sup>1</sup> See European Commission 2015, Energy Union Package, Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee, the Committee of the Regions and the European Investment Bank, COM(2015) 81 final, Brussels 25.2.2015, [http://ec.europa.eu/priorities/energy-union/docs/energyunion\\_en.pdf](http://ec.europa.eu/priorities/energy-union/docs/energyunion_en.pdf)

Framework is legislated effectively. Failure in Paris could pose a significant challenge to this domestic implementation.

The paper is organized as follows. Section 2 provides an overview of the EU's INDC, potential improvements, and the long-term transformation perspective. Section 3 looks into the topic of review and cycles in the context of the Paris negotiations and elaborates how the EU should take it into account regarding its internal decision making process. Moreover, this section details how the EU could champion a more comprehensive approach to transparency of implementation, which emphasizes the need to go beyond a pure focus on GHGs. Section 4 addresses the issues of adaptation and climate risk, finance, and carbon markets as related to the EU INDC. Section 5 concludes.

## 2. Understanding the EU's INDC

### 2.1 The EU's INDC submission – targets and policies

The EU's INDC is to reduce emissions by at least 40 per cent by 2030 compared to 1990 levels, in a linear trajectory from 2021 to 2030, and addressing all sectors and all GHGs not controlled by the Montreal Protocol. The EU's INDC builds upon the agreement on the EU's 2030 climate and energy framework (henceforth referred to as the 2030 Framework) reached by European Heads of State at the European Council in October 2014. The EU's INDC is specific and transparent in its mitigation target, but limited in explaining the policy and analytical basis underpinning the implementation of this target. The EU's INDC refers to domestic emission reductions within the EU, and clarifies that international credits will not be used.

The EU's INDC still leaves room for improvement. Such improvement could be communicated by the EU any time before and, depending on the terms of an eventual Paris agreement, also after Paris, including in the context of a five-year review cycle, as proposed by the EU (see section 3). The EU INDC may be enhanced “vertically” by communicating further details of the implementation of the INDC goal at the EU level and “horizontally” by providing additional information on activities planned and implemented by EU Member States.

Another improvement would be more transparency on its INDC itself. The EU's INDC does not specify how land use, land-use change and forestry (LULUCF) will be included in the overall domestic reduction target. This is to be decided after 2015 (and by 2020). Depending on the accounting methodology used, this could provide a significant source of uncertainty. In particular the lack of early specification increases the risk of slowing down the transformation in other important sectors whose long-lived infrastructure must be largely decarbonized by 2050 (such as buildings and transport).

The “vertical” enhancement of the EU INDC relates to key policies and targets. The EU submitted that it plans to introduce legal proposals in 2015 and 2016 to implement the 2030 Framework. The EU does have in place a well-tested policy framework, which it will need to update and complement with additional elements, particularly in the area of innovation and infrastructure deployment, to reach its 2030 target.

Accordingly, the EU could provide additional information internationally on the EU-wide 2030 targets on renewable energy and energy efficiency and the sub-sector mitigation targets for the EU Emissions Trading System (ETS) and the non-ETS sectors. Table 1 presents some of the key headline targets and policy initiatives that are agreed and/or planned to implement the 2030 Framework and thus the EU's INDC.

**Table 1: Key policy targets and initiatives underpinning the EU's INDC**

Key policy target/initiative	Implementing measures (estimated date of legislative proposal by the European Commission)
<ul style="list-style-type: none"> <li>At least 27% share of renewable energy in final energy consumption by 2030</li> </ul>	<ul style="list-style-type: none"> <li>Renewable Energy Package/new Renewable Energy Directive (2016-2017)</li> </ul>
<ul style="list-style-type: none"> <li>At least 27% improvement of energy efficiency (relative to 2005) by 2030</li> </ul>	<ul style="list-style-type: none"> <li>Reviews of Directives on Energy Efficiency (2016), Energy Performance of Buildings (2016), Energy Labelling and Ecodesign (2015), and Regulations on CO2 and cars/vans (2016-17)</li> </ul>
<ul style="list-style-type: none"> <li>43% GHG emission reduction in ETS sectors by 2030 (from 2005), including increased linear reduction of 2.2% per year</li> </ul>	<ul style="list-style-type: none"> <li>Revision of the EU ETS Directive (2015)</li> </ul>
<ul style="list-style-type: none"> <li>30% GHG emission reduction in non-ETS sectors (from 2005)</li> </ul>	<ul style="list-style-type: none"> <li>Legislative proposals on the Effort-Sharing Decision to allocate binding non-ETS targets to each Member State (2016)</li> </ul>

The EU's INDC horizontal dimension, i.e. the implementation by Member States, could be further substantiated and enriched by providing supplementary information on ambitious targets and measures planned and implemented at Member States' level, such as national renewable energy and energy efficiency targets, mitigation targets (e.g. decarbonisation goals), or best-practice examples of national policies.

**Adding further policy detail to the EU's INDC would provide the opportunity to enhance the transparency and credibility of the EU's mitigation contribution, by showing how the EU intends to reach it and the significant transformations that this requires.**

## 2.2 The EU's INDC and long term targets

The EU's INDC includes the reference to the 2050 EU climate target. European leaders have already agreed in 2009 that the EU's emissions should be reduced by 80-95% by 2050, as the EU's contribution to a collective 2 degrees trajectory. The EU's mid-term target to 2030 is grounded in this longer-term emissions

pathway to 2050, which was developed and analyzed in the Impact Assessment (IA) produced by the European Commission in the run up to political agreement on the EU's 2030 Framework.<sup>2</sup>

Economy-wide and sectoral targets for 2030 should be coherent with long-term decarbonization objectives to 2050 and beyond. In practical terms, the long-term vision is therefore helpful to frame the evaluation and elaboration of INDCs. Firstly, it provides a crucial aspect to assess the adequacy of INDCs relative to the global 2 degrees objective. Secondly, it allows the identification of the crucial transformations and the enabling policy conditions required to reach deep emissions cuts in the long-term to 2050 and beyond. Especially, the inertia of the socio-economic system has to be taken into account. The Impact Assessment to the 2030 Framework identifies a number of crucial policy challenges that must be addressed by 2030 if the EU is to reach its long-term objective. These include:

- Developing the infrastructure and technology for carbon capture and storage (CCS)
- Developing the infrastructure, technology and promoting the modal shift required for decarbonizing transport.
- Deep retrofits of the existing building stock.
- Promoting the interconnection of the EU energy system between Member States, in particular in the electricity sector to enable the joint management of renewables (the so-called Energy Union)

**Two implications can be drawn from this for the Paris agreement. Firstly, the long-term perspective can provide a key reference point for understanding the adequacy of INDCs in the light of the 2-degrees objective. Secondly, understanding the potential adequacy of INDCs requires looking beyond GHG emissions as the only indicator and policy focus.**

## 3. Embedding the INDCs in a broader global framework

### 3.1 Review and Cycles in the International Negotiations

One of the key points of the UNFCCC negotiation currently is how INDCs will be revised and updated over time, including potential elements for their review of adequacy.

A core element of the European Commission's communication for a Paris agreement is a regular review cycle, to be established in Paris and allowing a progressive increase in the ambition of multilateral efforts against climate change. The European Commission proposes "to ensure dynamism by providing for a global review, to be conducted every five years". In a new regime with INDCs – that is voluntary pledges based on national ambitions, with different target years, base years and types of targets – the agreement on a regular review would ensure that UNFCCC member states are obliged to re-evaluate their national climate policy agenda in the light of an ongoing process of international cooperation. The review therefore

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<sup>2</sup> available at: <http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:52014SC0015&from=EN>

implies ex ante and ongoing commitment to the UNFCCC process, which would need to find support by all UNFCCC parties.

However, the draft negotiating text for a Paris agreement (as part of the ADP working group under the UNFCCC) mentions different options for a review cycle. Indeed, this part of the negotiation text shows that different views remain between Parties on the scope, periodicity, and modalities of a potential review cycle. Table 2 summarizes some of these contentious points.

**Table 2: contentious points around review and cycle**

Issue	Brief description
Scope	Will future INDCs and the review cover only mitigation, or also adaptation, finance and technology?
Purpose	Will the future review focus on the adequacy and fairness of new INDCs, or only their transparency? Will it operate at an aggregate global level, or will it review the adequacy of individual INDCs, if so against what criteria?
Periodicity	Will cycles take place every 5 or 10 years? Or will the agreement have a fixed, one-off periodicity, i.e. to 2030?
Modality	Who will conduct the review? Countries? The UNFCCC? An ad hoc body?
Responsibility	Will the responsibility to revise/update INDCs remain 'nationally determined', or will multilateral determinations or recommendations start to play a stronger role?

If the proposal of the European Commission finds the consent of the EU Member States, the EU needs to consider carefully during the UNFCCC negotiations how it responds to the different questions around review and cycle.

**The objective for the Paris negotiations should be to gain the support of other countries for instituting in the Paris agreement a dynamic cycle of contributions and review in order to progressively increase ambition. A compromise will most likely have to be found among the different elements listed in table 2, and the EU will have to adjust its own internal climate policy agenda accordingly.**

### 3.2 Review and Cycles in the EU's Decision Making Process

Far-reaching decisions on climate policy take some time in the EU. The first policy discussions concerning the 2030 Framework were launched in 2010, and it subsequently took four years before the headline targets for 2030 could be agreed in 2014. There is no doubt that the existence of an international deadline (the Paris negotiations) helped to force agreement.

Given this inertia of the EU's internal decision-making processes, it is important that the EU and its Member States start thinking upfront what implications the concept of a five-year review cycle in international negotiations could have on policy decision processes in the EU. If EU Member States agree to push for a five-year cycle, the EU itself will have to establish an internal way of creating the momentum for a regular update of its mitigation ambitions. With a five-year cycle, the EU would probably need agreement on its INDC for 2025 and it would need to go beyond 2030 on a regular basis.

A review of the EU 2030 climate policy ambitions is already embedded in the European Council's Conclusions of 23rd October 2014, which state that the EU's 2030 reduction target is "at least" 40 per cent. The EU's INDC also states the "at least" 40 per cent reduction. According to the October 2014 Conclusion, the European Council would revert to the issue after the Paris UNFCCC-Conference.<sup>3</sup>

While according to the EU Treaties climate legislation follows the normal legislative procedure including "qualified majority voting" in the Council of Ministers, the European Council clarified in October 2014 that it would "continue to give strategic orientations as appropriate, notably with respect to consensus on ETS, non-ETS, interconnections and energy efficiency". Changes of EU climate and energy policy headline targets towards 2030 could again require consensus amongst the Heads of States and Government in the European Council, where individual member states could block such consensus. The consensus was chosen due to internal conflicts around energy solidarity, reforming the EU's ETS, upscaling the 2020 reduction target and on the new climate goal for 2030.

Beyond the political obstacles, however, and given the many details of the legislative process as well as the Lisbon Treaty rules, the implementing legislation on energy and climate for the 2030 Framework including proposals on the ETS, energy efficiency, renewables, and the internal energy market (expected in 2015-2017) will be decided upon by the normal legislative procedure in the EU. It includes qualified majority voting in the Council of Ministers and full involvement of the European Parliament.<sup>4</sup>

**The EU will need to consider how its domestic policy processes can be organized such that it could contribute to a five year cycle. This could include revision clauses. Policy initiatives intended to extend EU climate policy (e.g. beyond 2030) should also begin early enough in order to enable the EU to develop a contribution for subsequent cycles of collective action.**

### 3.3 Transparency of Implementation of INDCs

It can be assumed that the diversity of future commitments under the INDCs will be similar to that of the pledges that followed the Copenhagen Accord. Indeed, their design is fully determined by the party, subject to a number of high-level guidelines to ensure the transparency and accountability of the INDC. INDCs can also include adaptation, finance and technology, although it is not yet clear whether these elements would be subject to a mechanism to ensure the transparency of implementation. Clearly, collecting such data among the 196 Parties to the UNFCCC is a challenge.

The EU has always emphasized 'transparency' as an important element of the international climate agreement. Transparency of implementation is vital to:

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<sup>3</sup> See [http://ec.europa.eu/clima/policies/2030/index\\_en.htm](http://ec.europa.eu/clima/policies/2030/index_en.htm)

<sup>4</sup> See European Council Conclusions, 23rd October 2014, Energy Union Communication. SN 79/14; [http://www.consilium.europa.eu/uedocs/cms\\_data/docs/pressdata/en/ec/145356.pdf](http://www.consilium.europa.eu/uedocs/cms_data/docs/pressdata/en/ec/145356.pdf)

- Create trust among parties by allaying the strong perception that climate policy is a zero sum game with parties that take advanced mitigation action at an (economic) disadvantage vis-à-vis free-riders.
- Facilitate domestic implementation of INDCs because of the knowledge that parties have gained through target and policy definition for their INDC, and associated data collection.
- Enhance, over time, policy diffusion between countries.

The importance that the EU places on this issue internationally is in part derived from its importance in domestic EU policy implementation. To ensure that objectives under the Kyoto Protocol or the EU's 2020 pledge under the Cancun Agreement are met, the EU and its Member States, too, face challenges of policy design and tracking.

Transparency is a key element to ensure the effectiveness of national climate policy making. The transparency mechanism of the Paris agreement should generate the basic information and data necessary to understand a country's progress towards its INDC. This will have to include GHG emissions, but also non GHG indicators. For example, understanding a country's progress on decarbonization requires looking beyond GHGs, at the transformations taking place within the different sectors of the economy.

However, it is not clear that the implications of expanding reporting frameworks beyond GHG indicators have been fully integrated into the transparency discussion under the UNFCCC. This is also reflected in EU discussions on the so-called governance mechanism, which is supposed to track Member State progress towards the EU's 2030 target.

**The EU could champion a more comprehensive approach to transparency which goes beyond GHGs. Potentially, the EU's proposal for a review mechanism (see section 3.2) could include a detailed review of progress in decarbonization at the aggregate and sectoral level internationally (not for individual countries), drawing on broader datasets and stakeholder engagement than is currently the case under the UNFCCC transparency system.**

### 3.4 Carbon Markets

The EU's INDC does not include use of international credits in order to reach the announced at least 40 per cent emission reduction by 2030. The rationale for this is twofold. Firstly, as described above (section 2.2.) the EU's 2030 target is viewed as a milestone on a trajectory to long-term decarbonization, which necessitates that a certain level of transformation is reached in key sectors in order to unlock long-term emissions reductions. There has long been a concern in the EU that excessive use of offset credits could slow down this transformation. Indeed, the experience with the EU ETS to date has shown that a large quantity of offsets can mute the decarbonization signal. Related to this is the risk that the EU could have seriously undermined the environmental credibility of its INDC, if it simply had allowed international credits, with possibly worse implications for alliance building. Secondly, there is a concern that the EU's

previous commitment to the CDM has not delivered the benefits in terms of greater international cooperation from key beneficiaries such as China.

However, it seems likely that the EU remains open to a link between ETS systems that cap emissions from entire sectors, as compared to merely project-based offset mechanisms. The EU has long been a supporter of such international linkages between ETS, and of so-called new market mechanisms. This is also consistent with existing EU positions and documents, such as the EU submission to the Durban Platform (ADP) and the general interest that the EU has shown in linking its EU ETS to other ETS around the world.

The experience of the EU with linking ETS is ambiguous, however. On the one hand, linking can have important political economy benefits, in terms of reducing concerns about industrial competitiveness. In the European Commission's Communication for the Paris agreement, the door has been left open for linkages to other schemes if it were to increase its target beyond 40 per cent. However, on the other hand, it is clear that linking requires very significant institutional capacities to organize the alignment of allocation, rules, and MRV. Such a degree of institutional organization is difficult to envisage between most jurisdictions, with the exception of highly integrated jurisdictions such as the EU. Furthermore, the importance of dynamic efficiency needs to be weighed against the static efficiency of a harmonized carbon price. In other words, carbon markets should be considered as an important tool that must align with long term decarbonization, and which should be considered within a portfolio of other complementary mitigation policies.

The following EU-related issues are relevant for the role of carbon markets as part of the Paris agreement, in particular as a way of implementing INDCs:

- The EU remains committed to carbon markets as one important policy tool for decarbonization. Technically speaking, the EU could envisage linkage to other ETS-like carbon market instruments under its current 40 per cent target.
- The EU needs recognition of the capacity to implement objectives jointly in order to support its domestic carbon market and bubble approach to international commitments.
- Carbon-market linked funding flows and projects have long been a pillar of the EU's vision of international cooperation. In the context of an apparent retreat from support for such crediting mechanisms, the EU may wish to reexamine what kind of approaches it could take to supporting greater international cooperation. See section 4.

### **3.5 Perception of the EU offers: are they fair?**

The Lima Call for Climate Action developed at COP-20 agreed that governments may communicate “how the Party considers that its intended nationally determined contribution is fair and ambitious, in light of its national circumstances, and how it contributes towards achieving the objective of the Convention as set out in its Article 2”.<sup>5</sup>

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<sup>5</sup> See para 14 in the Lima Call for Climate Action  
[http://unfccc.int/files/meetings/lima\\_dec\\_2014/application/pdf/auv\\_cop20\\_lima\\_call\\_for\\_climate\\_action.pdf](http://unfccc.int/files/meetings/lima_dec_2014/application/pdf/auv_cop20_lima_call_for_climate_action.pdf)

Fairness is a complex and all-encompassing aspect of the negotiations on climate change. Having chosen to submit a mitigation-centric INDC, the EU judges its fair share based upon its mitigation contributions, not other elements such as rules, finance and adaptation. The EU has accepted the premise that developed countries should do more immediately as part of their common but differentiated responsibility and respective capability (CBDR&RC). The INDC submission points out that the target of ‘at least 40%’ emissions reductions represents “significant progression” beyond its 2020 commitments, and will become domestically binding.

The structural outcomes of this target are not trivial. They imply significant transitions in Europe’s economy toward decarbonisation, and are in line with the IPCC recommendations that “developed countries as a group, to reduce its emissions by 80-95% by 2050 compared to 1990”.<sup>6</sup> Nevertheless, several Member States and non-state actors (notably the UK, and the Dutch consultancy Ecofys) have argued that a higher target of 50% would be required to demonstrate fairness from Europe<sup>7</sup>. This is notably in light of other ambitious actions being considered in countries such as China.

The desire to assess the fairness of the EU and other countries’ INDCs is important, and understandable. However, one must also keep in mind that there is no one agreed method to determine fairness, and so the desire to determine fairness should not distract from other considerations countries take when advancing their own INDCs, and in turn when judging other countries’ INDCs. In particular, having an emission-centric focus on fairness may undermine or cloud the importance of assessing an INDC on the basis of how it underpins and enables a country to realistically and ambitiously embark on a deep decarbonisation pathway. In the absence of agreed criteria on fairness and adequacy, the transformational capacity of INDCs, in the light of long-term emissions constraints, can be a key complementary criteria to judge action (see section 2.2 on long-term targets).

## 4. Adaptation and Finance

### 4.1 Adaptation and Climate Risk

The EU chose not to detail its adaptation policies in its INDC. Given the importance of adaptation to the EU’s traditional allies such as the Independent Association of Latin America and the Caribbean (AILAC) and the Least Developed Countries (LDCs), such a decision risks alienating countries with which the EU could build a coalition for greater ambition in the design of the Paris agreement. The EU will therefore need to consider how it can come up with an attractive position on adaptation.

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<sup>6</sup> See European Union Council Conclusion 2014

[http://www.consilium.europa.eu/uedocs/cms\\_data/docs/pressdata/en/envir/145508.pdf](http://www.consilium.europa.eu/uedocs/cms_data/docs/pressdata/en/envir/145508.pdf)

<sup>7</sup> For the UK, see:

[https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/253209/UK\\_Analysis\\_of\\_EU\\_2030\\_GHG\\_Targets\\_FINAL\\_TO\\_WEBSITE.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/253209/UK_Analysis_of_EU_2030_GHG_Targets_FINAL_TO_WEBSITE.pdf) For Ecofys, see: <http://www.ecofys.com/en/blog/what-is-a-fair-contribution-of-the-eu-to-the-2c-limit/>

A first step would be to address the gap of understanding about the value added an international framework and a response to the challenge of adaptation could have. Adaptation actions are highly contingent on local conditions and capacities, and require, above all, adequate national policies and institutional arrangements. Nonetheless, there are international spillovers to (mal)adaptation, and elements of value added that an international framework can bring: dissemination of best practice and lessons learned; cooperation on specific issues such as drought resistant crops or early warning systems, and regional responses to shared risks and challenges. The UNFCCC cannot provide all elements of this response, but it can help to provide an impetus and direction as well as track progress and share best practice.

At present the UNFCCC is not functioning as a climate risk management institution. In addition, other institutions that address global policy spheres and risks which are exacerbated by climate change are not seriously considering how current emissions trajectories will impact their mandates. A climate risk management approach could be translated into a specific offer from the EU on adaptation for the Paris agreement.

- Political recognition that the world is entering an age where we will have to cope with a changing climate whilst continuing to mitigate. 1.5°C of warming is already locked in<sup>8</sup> and the international community will have to identify clear processes for managing climate impacts.
- Providing a framing that recognizes the need to optimize both mitigation and adaptation and establishing a qualitative link between the adaptation threshold to be planned for and the 2-degrees objective.
- Establishing a channel to better inform the climate science community of the decision makers scientific needs.
- A process for global risk assessment that can facilitate prioritisation of reform across international institutions.
- An adaptation specific funding offer for the negotiations on financial support under the new agreement.

## 4.2 Mobilization and Provision of Finance

Many of the EU's allies require some signals of predictability on the levels of international climate finance available. The Lima decision on the INDC did not encourage countries to outline finance offers under their INDC. This decision was part of a contentious debate.

The EU's reluctance to reveal its cards on finance in 2015 is likely linked to two reasons. Firstly, the focus in the negotiations has been on the capitalization of the Green Climate Fund (GCF), and the 100 billion USD commitment of developed countries to be achieved in 2020. Therefore, EU officials and Ministers have not yet broached the issue of finance for the post-2020 regime. In the array of international summits

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<sup>8</sup> See <http://www.worldbank.org/en/news/feature/2014/11/23/climate-report-finds-temperature-rise-locked-in-risks-rising>

this year, it is likely that decisions regarding the levels of climate finance after 2020 will take place in parallel to the discussions on finance in relation to the UN sustainable development agenda.

The second rationale is due to classic negotiation tactics, which views all policies as a zero sum game, as opposed to measures that can rebuild the much needed confidence and trust. This is understandable; however, at some point the discussion on finance in the Paris agreement will inevitably have to be broached this year. The current lack of discussion on this issue risks creating misaligned expectations and hence challenges for Paris.

It is in the EU's interest to articulate the provision of financial support it will deploy upfront and early for the following reasons:

- 2015 is an opportunity to create synergies between climate and development to protect European investments both from climate impacts and ensure that new donors are progressively brought into a system of norms and transparency. As the largest donor and biggest single market, the EU has the power to shape the global norms on both development and finance.
- If well prepared, a clear and targeted finance offer could help the EU to rebuild alliances and put pressure on areas of the negotiation that it views as crucial (such as the ambition of the agreements rules and cycles of contribution). To avoid frustrating its allies further, floating the contours of the finance deal early will secure traction and avoid 'hard balling' the negotiations
- Crafting political traction from European investments creates a strong case domestically to public and media regarding the case for sustainable development finance.

**The EU could push for a number of specific outcomes on finance for the Paris negotiations.<sup>9</sup> The first could be a recognition that addressing climate change requires redirecting large sums of investment through appropriate national and international policies. Here public funding is an important catalytic element, but it is very small as compared to the total required investments and must be focused where it is needed most.**

**Secondly, the Paris agreement should recognize that policy from a whole range of actors (bilateral and multilateral development banks, national and international regulatory institutions) needs to be aligned in order to ensure that this investment takes place. The Paris agreement should thus increase the pressure to ensure the 'climate coherence' of the financial system, and public funding flows in particular.**

**Finally, the EU could support a specific goal for public funding, in particular for adaptation.**

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<sup>9</sup> See ACT 2015, Aligning Finance to Deliver Climate Ambition and Climate Resilience in a 2015 Climate Agreement: [http://act2015.org/ACT\\_2015\\_Aligning\\_Finance\\_to\\_Deliver.pdf](http://act2015.org/ACT_2015_Aligning_Finance_to_Deliver.pdf)

## 5. Summary and Conclusions

The EU's INDC submitted to the UNFCCC is intended to show the EU priorities for the international climate regime after 2020. Nevertheless the INDC itself and related issues that are negotiated for the Paris agreement need further efforts in the coming months. This paper highlights the following:

- Adding more policy detail to **the EU's INDC** would provide the opportunity to enhance the transparency and credibility of the EU's mitigation contribution, because the EU would show how it intends to reach its target and how significant the required transformation would be.
- For the Paris agreement, the inclusion of a **long-term perspective** can provide a key reference point for understanding the adequacy of INDCs in the light of the 2-degrees objective. This should include other indicators than only GHG emissions.
- The EU needs to consider carefully during the UNFCCC negotiations how it responds to the different questions around **review and cycle**. The objective would be to gain the support of other countries for instituting in the Paris agreement a dynamic cycle of contributions and review in order to progressively increase ambition.
- The EU needs to consider how its **domestic policy processes** can be organized such that it could contribute to a regular (five-year) cycle. This could include revision clauses. Policy initiatives intended to extend EU climate policy (e.g. beyond 2030) should also begin early enough in order to enable the EU to develop a contribution for subsequent cycles of collective action. The EU could champion a more comprehensive approach to transparency which goes beyond GHG emissions. Potentially, the EU's proposal for a review mechanism could include a detailed review of progress in decarbonization at the aggregate and sectoral level internationally, drawing on broader datasets and stakeholder engagement than is currently the case under the UNFCCC transparency system.
- On **climate adaptation** issues, a political offer is needed from the EU for the Paris negotiations. This includes the recognition of the actual range of climate change challenge which goes beyond mitigation, plus the goal to optimize both mitigation and adaptation along the 2-degrees objective.
- There is a strong case for an adaptation-specific funding offer for the Paris agreement in particular. The EU should push for a number of **specific outcomes on finance**. These include recognition that addressing climate change requires redirecting large sums of investment through appropriate national and international policies and that policy from a whole range of actors (bilateral and multilateral development banks, national and international regulatory institutions) needs to be aligned in order to ensure that this investment takes place. Also, the EU should increase the pressure to ensure the 'climate coherence' of the financial system, and public funding flows in particular. Finally, the EU could support a specific goal for public funding, in particular for adaptation.