

## **“The EU ahead of Cancun: what policies to keep the pace towards a lower carbon future?”**

### **Report of the breakfast debate on September 28, 2010**

After a short introduction by Mr. Decorte, chairman and board member of Shell Belgium, who set the framework of this “working breakfast”, Viscount Davignon, Chairman of Egmont, gave the floor to the three panelists.

#### **Mr. Paul Magnette, Belgian Minister of Energy and Climate**

Mr Magnette underlined that climate issues are not very high any more in the official agenda. After the disappointment of the Copenhagen conference - where expectations had been unrealistically high (at least on the European side) - an anticlimax succeeded to the initial enthusiasm. But let’s not forget that some results have been achieved.

As it is already clear that an international binding agreement will not be reached in Cancun, expectations for major outcomes remain low and the parties are already preparing for the next round. But it would be a mistake to consider that Cancun, which will probably be an important technical roundup, won’t achieve anything. In two areas, namely **forestry and climate finance**, progresses have been registered at Copenhagen and should be implemented as a result of the Cancun conference. These two areas particularly should be an important **confidence building element** in the dialogue with the developing countries.

The potential move from the EU beyond its current target of 20% greenhouse gas emission reductions by 2020 is a central issue in the definition of our common position. The option of moving to a **30% target** had already been put forward in Copenhagen, mainly as a European tactical move to influence other parties to take similar commitments. Yet, this strategy is not likely to work as a political tool outside the EU borders.

However, **the move to a 30% target would have significant impact within the EU and should be supported as such.**

Firstly, the instability caused by the economic recession has greatly undermined the realisation of the renewable energy and energy efficiency targets of the EU. The move towards the 30% target could bring emissions reductions into line with the targets required.

Secondly, it would boost investments in the development of green technologies. As competing economies like China, Japan and the US are rapidly embracing the race to compete in new green technologies, it is central for the EU to boost its incentives for innovation. Yet, the current 20% target is insufficient to drive us through the low-carbon transition. Therefore, if the EU wants to keep its front-runner position in the fight against climate change, it should move to a 30% reduction target as soon as possible. It is the only way for the EU to impress on the rest of the world. According to the Minister, while the civil society is already convinced of the need of such a move, the support of industries is still lacking. This is not due to skepticism but because of a lack of predictability on the regulatory and carbon market framework. To ensure consensus on these issues, M. Magnette would be supportive of a **roundtable on Energy** with the representatives of industries, trade unions and NGOs that could open the way towards a new Energy and Climate Agreement within the EU.

Mr Jos Delbeke, Director-General for Climate Action, European Commission

Mr. Jos Delbeke pointed out that the current international context is not ideal for the establishment of a new global climate agreement. The global economic recession, the doubts about the climate science, the changes in the world governance with the increased weight of the G20 and emerging countries like China, India and South Africa, as well as the disappointing developments in the US have led to a lack of political will on the climate front.

Nevertheless, he believes in the capacity of some important players to implement rapidly their commitments. China, for instance, is seriously considering the adoption of an emissions trading scheme. Its programs regarding energy efficiency, renewable energy and forestry are also very impressive. This **new awareness** exists also among the other BRICS and beyond (South Africa, Australia).

The worry lies with **the strong Chinese and Indian political reluctance to commit themselves in a legally-binding global climate agreement**. Here, there is a role to play by the EU in the development of partnerships and bilateral relations while keeping its front-runner status in the green technology race. On this latter point, it should focus more on tomorrow's technologies than excelling in old ones (e.g. developing new long life batteries more than developing the best energy efficient petrol cars). As the EU is at risk of losing the race to compete vis-à-vis countries like China, Japan and the US, Mr. Delbeke encourages a voluntary move from the EU towards a 30% reduction target. Such a move is about taking opportunities for the long-term.

Regarding Cancun, Mr. Delbeke agreed with Mr. Magnette that the conference should focus on some realistic deliverables, insisting on **fast-start financing** as a way to restore credibility vis-à-vis some developing countries (e.g. the promised € 7,2 billion fund for forestry). As for

the preservation of the Kyoto Protocol post-2012, the scenario could be envisaged by the EU but a wider debate is needed. Given that the EU legislation is much more ambitious than the Kyoto Protocol, the acceptance of such an option would entail the leverage of real commitments from the other big emitters.

**Dr. Graeme Sweeney, Executive Vice President CO2, Shell International.**

As global welfare requires energy, demand will increase. In order to keep pace with the growing energy demand, **fossil fuels and nuclear will remain the main sources of energy for the next decades**. Of course, alternative supply and more efficient energy use will become increasingly important. Simultaneously, the environmental needs will push us towards a decarbonized economy. Key concerns for success are about timing and value for money! As such, three things are to be considered:

- As the reserves of **gas** are much bigger than expected, this energy represents a huge opportunity to reduce emissions in the 10 next years.
- The carbon capture and storage (**CCS**) technology has to be developed in the long term. While, it is important to invest in CCS today in order to validate the technology, it is not yet to be deployed as it remains too expensive.
- **Biofuels** have a great potential for emission reductions and represent the best opportunity to decarbonize transports.

All these developments will be done irrespective of governments' decisions. However, **an international agreement is necessary for the development of a functioning global carbon market**.

Mr Sweeney also insisted on the fact that we should not lack of ambitions regarding the delivery of some achievements in Cancun, especially in forestry which represents 20% of mitigation potential in the medium term. It is also important to keep the CDM effective and to implement a verification process.

He also supports the move towards the 30% target in the EU as a means to improve the low price-signal. Regarding this latter issue, he raised the option of a floor price.

Debate:

**Mr. Etienne Davignon** launched the debate with two crucial questions:

- The first one related to the negative outlook of the national public opinions on the EU and on the need to "re" legitimize its policies.

To this, Mr. Delbeke answered that the EU climate action is supported by 90% of citizens in the EU. This should facilitate the EU to speak in one voice although it is still not the case.

Mr. Magnette added that he had a pragmatic view of EU integration. Member States follow their interests not their ideologies. A **pragmatic approach** speaks to the political Authorities once they are convinced of the necessity to act together.

- The second question underlined the current dilemma between developed and developing countries regarding the adoption of a global climate agreement, which prevents the industry to develop in a predictable context.

Mr. Delbeke answered that due to the huge gap in emissions per head between the developed and developing countries, it was difficult to move away from the principle of common but differentiated responsibilities. Nevertheless, the impact of emissions of emerging countries like China (first world polluter with the US) is too high not to be considered.

Mr. Magnette replied that an international agreement is important for the climate change issue and pointed out the **difference of cultures** between developed countries which need legal certainty and developing countries which ask to be trusted when they commit for voluntary pledges. This has also an impact on the credibility of the UN system.

Mr. Sweeney added that the economic crisis has triggered a lack of appetite for financial, economical and political risks which undermines the rapid transition towards a low-carbon society. However, we should not be too pessimistic on the US and Chinese involvement. Although they won't accept any binding agreement which would not be on their terms, they are acting in their own way, which - though different than the EU's one - could also deliver significant results (as the US Environmental Protection Agency). This shows that awareness is present and that the EU should be ready to act **in a flexible and pragmatic way**. He added that we shouldn't forget the importance of **India** in this framework.

- Regarding the current lack of predictability, a participant asked for the development of more **regulatory policies** relative to market instruments.

Mr. Delbeke answered that the Commission was increasingly looking at tailored solutions in order to improve the efficiency of the instruments. He also underlined that, as a market instrument, the ETS was significantly contributing to the achievement of the Kyoto target.

According to Mr. Magnette, regulation is one of the best instruments, especially in terms of energy efficiency. It has proven to be more efficient than mere "codes of conduct". This instrument should be developed and negotiated with companies and trade-unions, not against them. In Belgium, the federal Agency of Environment supervises a range of products beyond what is already regulated.

- Another question was raised on the need to implement horizontal measures in order to ensure the coherence between the different EU instruments.

M. Delbeke underlined that this is already the case in the field of energy, where we progress towards an integrated approach. For him, coherence is both an EU and international issue and he hopes that the Mexican Government will be able to discipline the idealistic group of countries led by Venezuela during the Cancun conference.

**Mr. Davignon** concluded that effective solutions to the climate issue are complicate but doable as long as a pragmatic path is followed.

To ensure that progress, the EU has to reinforce its own internal coherence, strengthen its legal capacity and demonstrate its legitimacy to the public opinion.