



# COP21 – The EU’s second chance

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For the European Union (EU), the efforts towards a global climate agreement are more than just a political priority. Climate change is the guiding theme for many policies and early on the EU had the ambition to be the global leader in the fight against climate change. Consequently, the EU has introduced many far-reaching measures which, on the one hand, successfully reduced carbon emissions and created an environment in which renewable energy could prosper, but inadvertently led to increasing costs and burdens for Europe’s own industry. European leaders and businesses hope that a successful climate agreement in Paris could level the playing field and dissuade European companies from investing in other regions. In this Energy Flash, we will examine how the EU has been preparing for the climate summit and explore the positions of a number of key Member States, including France, Germany, the UK and Poland.

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## The Brussels Consensus

At EU level, the fight against climate change has taken centre stage for a long time and was present in almost all industry and environment related discussions. Backed by a strong consensus at EU level and in many Member States which supported the EU objective of becoming the global leader in the fight against climate change, the EU agreed on far reaching climate targets and introduced stringent measures. For instance, the ETS was reinforced as the central instrument to cut carbon emissions, the EU introduced specific CO<sub>2</sub> reduction requirements for the car sector, and it presented measures to boost the use of renewable energy and increase energy efficiency. Even after the failure of the 2009 climate summit in Copenhagen to reach a binding climate deal, the EU continued to implement its own policies. In the political discourse in Brussels, climate sceptics have been banished to the fringes of the political spectrum and the large majority of policy makers speak out in support of the overall direction of the EU’s climate efforts.

European business also supports an ambitious climate agreement that commits other regions to similar targets as the EU and thereby reduces the competitive disadvantage for European business. BusinessEurope, the EU employers' umbrella organisation calls for an ambitious and legally-binding agreement with measurement, reporting and verification obligations and incentives to create linkable carbon markets.<sup>1</sup> Recently, even the EU's six largest oil and gas companies called for carbon pricing globally.



*This conference is a unique opportunity to accelerate the shift to a low-carbon climate-resilient global economy.*

Miguel Arias Cañete

EU Commissioner for Energy & Climate Action



## A new attempt

With the climate summit in Paris approaching, the EU brought itself into position to again lead the negotiations from the front. In October 2014, EU leaders agreed on new climate targets, namely a binding Greenhouse Gas (GHG) reduction target of 40% by 2030 compared to 1990 levels, a renewable target of 27% and a non-binding energy efficiency target of 27%. The European Commission also managed to publish its proposal for the revision of the ETS in time to have the discussions in the EU institutions in full swing when leaders meet in Paris in early December.

With this homework done, the EU is anxious to make COP21 a success and the Commissioner for Energy and Climate Miguel Arias Cañete called the climate summit a “unique opportunity to accelerate the shift to a low-carbon climate-resilient global economy”. Sources indicate that the European Commission is optimistic and estimates the chances for a successful summit at around 85%. The EU's position for the climate negotiations was adopted on 18 September by the Environment Council and outlines the EU's ambitions.<sup>2</sup>

Overall, the EU expects “an ambitious and legally binding agreement that applies to all parties in a balanced and cost-effective manner. The agreement should also address mitigation, adaptation, finance, technology development and transfer, capacity building, transparency of action and support and containment of ambitious national commitments”.

Among others the EU wants the Paris Agreement to:

- Provide a long-term vision of the needed transformation towards low-emission and climate resilient economies in line with the below- 2°C objective.
- Enable participation of all parties and engagement of non-state actors.
- Contain fair, ambitious and quantifiable mitigation commitments by all parties.

- Contain a review mechanism to strengthen countries' targets every five years in light of the below 2 degrees goal.
- Include a compliance regime which promotes timely and effective implementation.

While these conclusions provide a strong mandate for the climate negotiations, EU Member States disagree on some critical points. For example, they have not yet agreed their respective contributions to the EU's share of the \$100 billion per year that should go into climate finance by 2020. A working draft of the Council Conclusions also shows that there was disagreement among Member States on a number of other issues. In particular, several were opposed to the idea of including a signal that the EU retains the possibility to go beyond its 40% target.

The refugee crisis is adding another angle to the climate debate with a growing realisation that climate change could be one of the reasons for mass migrations.

## All eyes on France

Last September, President François Hollande officially kicked off the COP21 countdown. With the campaign #GoCOP21 and a green carpet to welcome invitees to the Élysée Palace in Paris, the French President and his COP21 team (Laurent Fabius, Ségolène Royal and Laurence Tubiana) set the scene to not only host but take an active role in presiding over the summit in December 2015. “What is at stake is our life”, said the President. Will France shine among peers by its commitment to climate change action?



*What is at stake is our life.*

François Hollande

President of France



By recently announcing the intention to put an end to export credits for coal-fired power stations without Carbon Capture and Storage (CCS), turning its back on the exploration of what is estimated to be one of the largest shale gas reserves in Europe, and trying to move away from nuclear, the pillar of its energy mix, energy security and environmental strategies, France is at the cusp of its very own “Energiewende” or transition.

In July 2015, half way on the road to Paris and after stakeholder consultations, draft bills, heated parliamentary debates and four successive ministers at the head of the Ministry of Ecology, Sustainable Development and Energy under the Presidency of François Hollande, MPs finally adopted the Energy Transition Law.

Its scope matches the ambitions to make it “the most advanced law in Europe and beyond”. Targets by 2030 include: a reduction of greenhouse gas emissions by 40% compared to 1990 levels; an increase in the renewable energy's share of final energy consumption from 14% today to 32%, and a slash in the share of fossil fuels in primary energy consumption by 30%. Provisions to push for a truly circular economy, fight against energy poverty and promote clean transport and smart metering are also part of the bigger picture.

<sup>1</sup> BusinessEurope. On the road to Paris. A Global Deal Is Our Business

<sup>2</sup> Council of the European Union, Preparations for the 21th session of the Conference of the Parties (COP 21)

One of the most radical elements (compared for example with the German “Energiewende”) is the introduction of an increase in the French carbon tax. Currently at 14.50 €/t, the plan would be for it to rise to 56€/t in 2020 and eventually reach 100€/t in 15 years.

A very controversial point, Royal had to find a compromise in implementing Hollande’s 2012 election pledge to limit the share of nuclear-generated electricity from 75% today to 50% within the next decade. Finding a satisfactory solution to the “nuclear dilemma” has proven challenging. In practice no new reactors (i.e. Flamanville) are to be built without prior decommissioning of older ones (i.e. Fessenheim), the reality is that timing, technical, financial and social issues encountered by state-controlled EDF and AREVA will not make this an easy task. To be continued.

The current development of the decrees determining the exact terms of the law, including decisions on budget will be the first reality check. If all goes well, the law is expected to enter force in 2016 after the Paris Summit in December.

Determined to effectively lead by example, the French Government will play a key role as facilitator among all parties to the negotiations. It will be another opportunity to shine in the international arena – a much needed political points two years ahead of the Presidential elections. Also the smaller coalition member, the Ecologist Party positions itself in the context of COP21, reproaching François Hollande to disregard environmental concerns. The party hesitates between a return to Government and a more independent position.

## The German turn

Chancellor Merkel’s G7 declaration to achieve full decarbonisation of energy production by the end of the century stood out at ‘her’ summit in Germany. But experts are sceptical as to whether Germany is able to deliver on its own promises.

The national goal, as reconfirmed this summer, is to reduce CO2 emissions by 40% by 2020 versus 1990 and is therefore more ambitious than the European target. Ironically, Germany - in the middle of its much acclaimed “Energiewende” or energy turn-around - has opted to include coal in its energy mix for some time to come. Earlier this year, Germany’s Energy Minister Sigmar Gabriel, who also acts as Social Democrat party leader (the junior partner in the grand coalition) failed with his proposal to limit CO2 emissions from lignite power plants, which would have made it less profitable. But strong interests were at stake: rising energy costs and fear of significant job losses in lignite states. Instead, a more costly compromise was reached which will at least see some old plants shut down or switched to capacity reserve. However, the public debate around this political decision demonstrates that the German Government can no longer avoid tackling the phasing out of lignite and coal.



**We have to do everything to make the Paris conference a success.**

Angela Merkel  
German Chancellor



Not an easy task, given that natural gas that would be an ideal complement to renewable energy, is either becoming scarce in its conventional form or faces fierce public opposition when its extraction requires hydraulic fracturing. Hence Germany’s dependence on gas imports is bound to increase.

Germany is driving its “Energiewende” forward, while the rest of the world is watching on the sidelines to ascertain whether a strong industrial state is able to completely exit from nuclear and coal and serve as the role model for others. Political decision makers have packaged a number of measures which need to balance costs and risks while still struggling with massive subsidies for fossil energy sources that limit the competitiveness of renewables. The strategy is centred around CO2 reduction and overall efficiency gains; an intelligent “electricity market 2.0” design, providing for free pricing; supply security and cost efficiency, complemented by a capacity reserve and power grid expansion to open up major bottlenecks, in particular in the North-South direction. Not at all a trivial task, but Germans are also acutely aware of the opportunities for German businesses in world markets. The Paris conference may give policy makers an additional push for their initiatives. However, experts are not optimistic given the progress of negotiations so far. Chancellor Merkel, once dubbed the “Climate Chancellor”, will be measured on her success in Paris.

## Poland – stay coal!

Polish President Andrzej Duda made clear that Poland will continue to fully exploit its coal resources. This will bring the country on collision course with the EU’s energy and climate agenda despite the ambitious COP21 negotiation position.

It is highly likely that after the parliamentary elections, scheduled for the end of October, Poland will do everything possible to protect Europe’s largest coal sector. Poland perceives ambitious climate targets not only as harmful to its competitiveness, but above all a threat to its energy security.



**Our country’s interest is to ensure and maintain its energy sovereignty. Our primary raw materials are hard coal and lignite. Poland’s economy and the energy sector is based on coal. And so it should**

Andrzej Duda  
President of Poland



Especially after the outbreak of the Ukraine/Russia crisis in spring 2014, the Polish government put much emphasis on energy projects, completing Poland’s first LNG terminal, increasing storage capacities and continuing the exploration for unconventional energy sources. By 2020, investments in the enhancement of Poland’s energy security are expected to amount to € 28 bn.

Therefore, conservative Polish politicians will perceive that a binding climate agreement will undermine the interests of the Polish coal

sector, which is responsible for supplying almost 90% of Poland's electricity. The Law and Justice party, which is expected to win the general election scheduled for 25 October, even admits that a failure of the COP21 summit is in Poland's interest, as it might open the possibility of re-negotiating the EU's climate targets.

Consequently, the current government, run by liberal-conservative Prime Minister Ewa Kopacz from the Civic Platform, is under immense pressure to reconcile Poland's objectives with the EU's climate ambitions. Kopacz, while seeking voters' support, is balancing Poland's generally constructive approach in EU negotiations and its hard line in energy and climate questions.

Evidence is the EU's agreed negotiating position for the climate talks in Paris. Thanks to Poland's negotiating efforts, some changes in the final text have been introduced to more easily justify the outcome back in Warsaw and not run into public criticism in the middle of an election campaign. Pursuing a 'climate-resilient sustainable development' goal keeps the options open for Poland to develop clean coal and carbon capture and storage (CCS) technologies.

The Paris climate conference will be a test for Poland's newly sworn-in government and recently elected President in terms of its capability to cooperate for a global cause, not only with its EU partners but also more broadly with the international community. Balancing the success in tackling one of the most pressing global issues against its national interest will be the challenge for Poland.

## The United Kingdom – A mixed bag

The UK government has clearly stated its support for COP21's objectives and commitment to the EU's climate pledge. However, the UK's influence and determination to secure a deal may be called into question given the new Conservative government's approach to domestic energy policy.

Amber Rudd, UK Secretary of State for Energy and Climate Change and lead UK negotiator at COP21, has stated plainly that Paris represents a solid opportunity for the international community to collectively reach a binding agreement.



A good deal in Paris is everybody signing up - we need to make sure it's as big a tent as possible.

Amber Rudd  
UK Secretary of State for Energy and Climate Change



Ms. Rudd assumed her position as leader of the Department of Energy and Climate Change (DECC) in May 2015, following the Conservative Party's victory in the General Election.

The Conservative's victory and the removal of the Liberal Democrats from the coalition who previously held the DECC has resulted in a solid shift in energy policy. That said, this shift has not appeared to dampen the UK's commitment to securing a deal in Paris.

During her first few months in office, Ms. Rudd acknowledged the UK's leading efforts on the climate change agenda and pledged to continue them. "The UK has been a leader in this area ... I am picking up the baton and will run with it," she said in June.

The UK has an ambitious track record for tackling climate change. In 2008, the Climate Change Act established a target for the UK to reduce its emissions by at least 80% from 1990 levels by 2050. However, the latest report from the Committee on Climate Change demonstrates that the UK is unlikely to meet the interim carbon budget targets which were set to ensure steady progress to the 2050 target.

The challenge for Amber Rudd and the UK government is both stark and urgent: as the UK's energy infrastructure ages, the government needs to secure investment in new energy infrastructure while also reducing carbon emissions and keeping consumer bills low. To meet the challenge, and therefore the carbon targets set out in the Climate Change Act, the energy mix needs to evolve and a clear plan established regarding the types of energy generation that are required (renewables and hydrocarbons), and in what quantities and proportion. Such clarity will reduce the risk associated with large infrastructure projects, bring down the cost of borrowing, attract greater investment, secure the UK's energy security and meet decarbonisation targets.

In some respects, the UK government has sent clear signals. For example, they recently announced a £2bn loan guarantee for the new-build nuclear plant at Hinkley Point in order to reassure banks that lending to the project is safe.

Simultaneously, however, the government has muddied the waters by appearing to withdraw support for clean energy. In its first three months, a tax exemption for renewable energy was removed, the subsidy for onshore wind ended, and the Energy & Climate Change ministry and Green Investment Bank budgets reduced.

Clarity around domestic UK energy policy may be forthcoming in the run-up to Paris. However, the current state of the sector remains a strong cause for concern. While the UK government brings its own house in order, belief in its determination to influence the talks will be weakened.

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