

SWP Comment

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Back to the Future? International Climate Policy in 2021

New Constellations for the EU's Climate Diplomacy

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In 2021 the international climate policy agenda will need to catch up on much that was not accomplished in 2020. Because of the pandemic, deadlines were postponed and processes slowed down. What is the position of major climate policy powers in early 2021, and what momentum can we expect for international negotiations? The most important impetus this year will come from the EU, the US and China. However, since these three powers are also competitors, the EU and its member states will have to strengthen multilateral cooperation overall so as to push for reaching the Paris Agreement targets, formulate clear expectations, and ensure that all actors remain on equal terms. For Germany and the EU it will therefore be crucial to continue to focus decisively on joint action with partner countries within networks, and to concentrate on core issues with the US. Obvious areas for cooperation with Washington are a joint diplomatic approach for the next international climate conference (COP26), and reconciling climate and trade policy.

The COP26 in Glasgow will be the climate policy focus in 2021. The postponement by one year has given its co-organisers, the United Kingdom and Italy, more time to prepare. Both also hold additional important positions in 2021: Italy chairs the G20, the UK the G7. These and other formats could be used to prepare the COP26. Constructive momentum for the conference also comes from climate-policy announcements being made much more concrete in the EU (Green Deal), the US (regulations) and China (five-year plan). Moreover, sustainable, “green” earmarking of stimulus packages became popular that most coun-

tries have had to pass because of the pandemic, as well as “greening” of the means made available by international financial institutions for overcoming the crisis. The related financial flows will continually have to be monitored for their de facto climate impacts.

2021: A Full Agenda

The Paris Agreement stipulates that its parties have to submit new and more ambitious Nationally Determined Contributions (NDCs) on climate mitigation, adaptation



and finance. By the end of January, 71 countries had provided new NDCs. Long-term climate plans are also due. 36 countries plus the EU have committed to so-called neutrality targets. They determine long-term goals based on Article 4 of the Paris Agreement in which parties commit to “achiev[ing] a balance between anthropogenic emissions by sources and removals by sinks of greenhouse gases [soils, forests, reservoirs — authors’ note] in the second half of this century”.

Some parts of the Paris Rulebook still require a compromise, namely so-called Cooperative Approaches (Article 6 PA) like international emissions trading, and rules on reporting obligations.

This year’s series of meetings in various formats and actor constellations started with the World Economic Forum in Davos and the Climate Adaptation Summit in the Netherlands, both in January. On 22 April US President Joseph Biden plans to hold a World Leaders Summit of the largest industrialised nations. The G7 Summit in the UK is scheduled for June, the United Nations (UN) *High-level Political Forum* for sustainable development in New York for July. The UN General Assembly (UNGA) will meet in September, and the G20 Summit in Italy is planned for October. Climate policy will be at the top of the agenda of these meetings. Simultaneously, negotiations will continue under the UN Framework Convention on Climate Change (UNFCCC, intersessionals from 31 May to 10 June), to prepare decisions for the COP26.

The series of summits will ensure that the attention of heads of state and government will remain high on climate policy despite the pandemic. But civil society will also return to exerting pressure — *inter alia*, because protests can once again be held in the streets. The publication of the first part of the Intergovernmental Panel on Climate Change (IPCC) sixth assessment report, announced for April, will be an occasion for renewed pressure, as will the publication of further parts that are due before the COP26 in November.

Key Players in 2021 Climate Diplomacy

On inauguration day the new US government arranged to rejoin the Paris Agreement. This will bring back momentum to 2021 negotiations and the US will determine the international climate agenda alongside the EU and China. China announced new national climate targets already in September; the US government intends to follow by April. Moreover, industrialised nations face a strong demand by many developing countries for more climate finance, which should also take into account the consequences of the pandemic. Notwithstanding this dynamic, individual G20 countries will oppose the Paris climate agenda, above all Saudi Arabia, Russia and Brazil.

Europe: Master Clock for Climate Goals

Shortly before the German presidency of the Council of the European Union ended in December 2020, EU heads of state and government agreed to increase the 2030 climate target to at least 55 percent emissions reductions compared to 1990. This target is part of the Green Deal, which consists of over 50 political projects (incl. protecting biodiversity, climate-friendly mobility, increasing the energy efficiency of buildings, and reforming EU agriculture). The Commission will make legislative proposals to ensure that member states swiftly implement these EU climate projects. The European Climate Law, which Commission President Ursula von der Leyen presented in March 2020, is at the core of climate legislation. It stipulates that the EU will become climate neutral by 2050. Both the European Parliament (EP) and the Environment Council agreed to the proposal with few amendments in October 2020. Negotiations between the EP and member states on final details are to be concluded in March. By June the Commission plans to bring forward 12 legal propositions to make the EU “Fit for 55”.

With a view to its presidency of the upcoming COP26, in June 2019 the UK was the first major industrialised nation to pass a law intended to pave the way for greenhouse gas neutrality in 2050. Brexit means that the UK's NDC, previously negotiated at the EU level, is no longer valid. The UK government announced a new NDC in December, shortly before the Climate Ambition Summit held in Paris: reducing emissions by at least 68 percent by 2030. The target is embedded in the government's ten-point plan for a green reconstruction of the British economy post-Covid. This programme stipulates public investment of 12 billion pounds Sterling (£13.4 bn), and aims to create up to 250,000 "green" jobs. Inter alia, the intention is to develop London into a global centre for "green finance". In 2021 the British government will concentrate above all on hosting the COP and G7. Close cooperation with the EU and Germany will be indispensable to make the negotiations successful.

USA: Another Return

On his first day in office, President Joseph Biden ordered the US's immediate reaccession to the Paris Agreement. His staffing decisions also signal that the US once again wants to shape international climate politics. John Kerry, secretary of state during Barack Obama's second mandate, is the Special Presidential Envoy for Climate and has a seat at the cabinet table.

Biden has declared that climate policy will be one of the top four topics of his term in office and a part of his administration's pandemic recovery package. His executive order, *Tackling the Climate Crisis at Home and Abroad*, makes it a key concern of his foreign and security policy. To restore its international credibility, the US will above all have to formulate an ambitious NDC alongside its climate diplomacy, and implement it rapidly. Analysts from the Rhodium Group have calculated that the US will need to reach a 2030 climate target of minus 40 to 50 percent as compared to 2005 in order for the US economy to attain

net zero emissions by 2050. Biden's plan for a *Clean Energy Revolution and Environmental Justice*, which is supposed to drive the climate-friendly transformation of the economy over the next ten years, is endowed with US\$1.7 trillion. Among other things, it intends to achieve a "carbon pollution-free" energy sector by 2035 and to reach net zero across the US by 2050. The plan also promotes electromobility and energy efficiency of buildings. Biden has further announced that fossil fuel subsidies will be eliminated, US financing of oil and gas projects abroad will be discontinued, and imports will be subject to a CO₂ border adjustment.

However, the national implementation of these measures is not guaranteed, even though the Democrats now have a slim majority of 51 votes in the Senate. To set a new NDC – the current NDC consists of reducing 2005 emission levels by 26 to 28 percent by 2025 – Biden's climate package must quickly gain momentum. In this context, proposing new laws, for example to introduce a carbon price, is politically risky since it would require at least 60 votes in the Senate. *Regulations by the Environment Protection Agency (EPA)* and executive orders by the president will therefore be a key instrument of the new US administration's *Plan for a Clean Energy Revolution and Environmental Justice*.

In order for the US to restore trust with a view to the COP26, it is important to submit an NDC that is seen to be ambitious, alongside swift implementation. In other words, a new NDC has to go far beyond the previous one. Given the energy with which the new US government has gone to work, there is certainly no lack of political will. Climate finance, which is of particular interest to developing countries, was taken up by John Kerry in the Climate Adaptation Summit in January. He announced significant financial support – without giving specifics – for climate adaptation. He also stated that international partners could rely on US help through innovation and with climate data.

China and India: The Highest Emissions but not the Greatest Ambitions?

In 2020 the Chinese president Xi Jinping surprisingly announced that China intended to reach peak emissions before 2030 and be CO₂ neutral before 2060. It remains unclear how these targets are to be reached. The 2030 target has so far not been submitted as an NDC. The new five-year plan 2021–2025, announced for the spring, is expected to contain answers as to how the Chinese government intends to reconcile its growth targets with its climate goals. After all, China is the top global greenhouse gas emitter — even if, from a historical perspective, the US and Europe lead on accumulated emissions.

Beijing continues to rely heavily on coal for electricity generation. China consumes about half of the global coal supply for its coal-fired plants alone. Beijing also participates in investments in coal power plants abroad as part of its Belt and Road Initiative (BRI). Its domestic consumption is the greatest obstacle to reaching ambitious climate targets. For instance, the energy output from its wind and solar facilities would have to be doubled within the next five years to meet the 2060 target.

However, the Chinese government subordinates climate policy to its geopolitical interests, and has thus far not positioned itself as a leader in UN negotiations. On the contrary, encouraged by US foreign policy of the past four years China has retracted promises that it had made as part of the Paris Agreement negotiations. Originally Chinese leader Xi along with the EU and other countries intended to fill the leadership gap left by the US, but no actions followed his speech at the 2017 World Economic Forum. The climate goals announced last September at the UNGA were all the more surprising. This move indicates that Beijing considers climate policy a part of its systemic rivalry with the US and EU. After all, the move at the UNGA created the impression that China was far ahead of the US on climate policy. The EU and US will have

to renegotiate cooperation with China at the UN as well as bilateral and trilateral levels this year.

In its current NDC, the Indian government has not set any climate targets that define an emissions reduction in absolute terms, and, as with China, it is not expected to in the next NDC either. India has been hard hit by the pandemic and combating it has tied up political capacities. However, the Indian government has always been reserved on international environmental commitments, in particular because it sees industrialised nations as responsible for climate change. India's share of global emissions puts it in fourth place. Thus far, the government has focused on the emissions intensity of the economy rather than setting absolute targets. Per unit of gross domestic product, this intensity is meant to decrease by 33 to 35 percent as compared to 2005. By 2040 India's electricity supply from non-fossil sources is to reach 40 percent of the total. Due to the economic consequences of the coronavirus pandemic, India's emissions fell for the first time in 40 years. If this trend (which is mainly based on less coal-based electricity generation) continues, the country is heading towards a share of 60 to 65 percent non-fossil energies. Many G77 countries see India as a role model, and New Delhi is increasingly ring-fencing itself from China's economic influence. It will be important for Europe and the US to exchange with India in the run-up to the COP26 with a view to the G77. Boris Johnson's invitation to India for the G7 summit takes this into account. An EU-India summit is scheduled for 8 May.

Japan and South Korea are joining in; Australia is not

After Beijing published its climate targets, the Japanese government followed suit in October 2020 and declared its intention of making the country climate-neutral by 2050 (according to Climate Action Tracker). Japan's current NDC for 2030 is seen as lacking ambition. However, President Suga has announced that a higher target will be

submitted before the COP26. To reach its 2050 target, Tokyo intends to exploit the US\$708 bn stimulus package. This package includes US\$19.2 bn earmarked for climate measures. The Japanese industry does not want to miss out on the race for environmental technologies. The government is therefore attempting to start long-delayed restructuring towards renewable energy sources, and is investing in infrastructure and innovation.

South Korea also followed suit and in late 2020 announced an NDC with emissions reductions of 24.4 percent as compared to 2017. By 2025 at the latest the government plans to declare a more ambitious goal for 2030, enabling CO₂ neutrality by 2050. After the 2009 financial and economic crisis, South Korea had stated that it was committed to establishing a Green Economy. The South Korean Covid stimulus package also has a green focus: the so-called Korean New Deal (K-New Deal) is worth US\$135 bn, almost half of which is intended for creating green jobs. Along with investments in future technologies and infrastructure, the K-New Deal includes a target of CO₂ neutrality by 2050. Critics point out that the K-New Deal is grey rather than green, inter alia because it also promotes fossil fuels such as LNG along with renewable energies. A significant part of the plan, they claim, is based on the as yet unproven competitiveness of hydrogen in the transport sector.

Australia, on the contrary, has a government that is critical of more ambitious climate targets. It has not raised its NDC. Australia is the world's largest exporter of LNG and its second-largest exporter of coal. The Australian government under Prime Minister Scott Morrison openly represents coal industry interests and objects to strict international climate rules. Even the devastating heat wave and fires of 2020 have not made the Australian government more cooperative on international climate policy, despite public protests for more climate protection. Canberra's climate policy seems particularly contradictory given its plan to establish itself as one of the world's largest

hydrogen exporters. Along with Germany, Australia is currently examining supply chains for green hydrogen.

EU Starting Points for the International Climate Process

Commission President von der Leyen wants to position the EU as a geopolitical actor. Climate policy is an integral part of this effort. However, the EU's objective of asserting itself amidst the US-China power rivalry, as well as multipolar developments, partly conflicts with well-worn climate diplomacy. The EU cannot push for a swift implementation of the Paris Agreement without the two largest economies, the US and China. Just as important is the integration of other G20 countries, especially Brazil, Australia, Saudi Arabia and Russia, and the many G77 countries. Otherwise the climate projects of the Green Deal cannot succeed by 2030. The US announcement of fully rejoining multilateral climate policy is therefore auspicious. However, given the Green Deal and the leading role that the EU has shouldered in the past few years, it is imperative that the EU positions itself clearly vis-à-vis all partners. After all the Biden administration also lays claim to being a climate-policy superpower.

Positioning vis-à-vis China and the US

In the past, the EU has successfully cooperated on climate policy with China, for instance when the People's Republic developed emissions trading along the European model. However, overall relations between the EU and China have deteriorated during the past two years. Furthermore in the UN climate negotiations, Beijing has reverted to claiming the status of a developing country, so as to avoid having to apply, for example, international standards for measuring greenhouse gases.

For the EU and US the issue of transparency is non-negotiable; it will once again be one of the crucial themes in the COP26 talks. However, with its Green Deal the EU

can now set new priorities in its climate diplomacy — not just at the UN level, but also in direct exchanges with Beijing. These include making progress in climate protection also through trade initiatives and the development of new technologies. The Commission has suggested it will relieve European companies, which face rising costs because of the new 2030 climate target, from competitive pressure caused by imports. A so-called Carbon Border Adjustment Mechanism (CBAM) is part of the Fit-for-55 package and is supposed to charge imports according to their carbon content. A considerable part of imports that would be covered by it, for instance cement or steel products, come from China. The CBAM plans could increase Beijing's domestic efforts to broaden its emissions trading and even define an absolute emission cap, so as to reduce or even entirely avoid EU import charges. Again transparent data are an indispensable tool in this respect.

Vis-à-vis China, the EU and its member states have to find the right balance between cooperation and competition. With the US, they will have to rapidly explore the most productive options for cooperation with a view to the COP26. The new US government's decisiveness in devoting itself to climate policy will fan the competition between the three big players over new ideas, technologies and international leadership beyond 2021.

It will be difficult, however, to proceed jointly on the CBAM. The Commission and member states are demanding that WTO rules be met. Without carbon pricing in the US — which will not happen on the national level in the foreseeable future — the Biden administration will have to employ executive orders and trade rule exemptions to bring a border adjustment in line with international trade law — unless it decides to ignore WTO rules entirely. It would therefore be preferable to link EU-US climate cooperation with new approaches to trade cooperation, and leave enough time for thorough investigations into a border adjustment.

Fossil Fuels and Carbon Markets Remain Sticking Points

Any progress in international climate protection will depend on whether hesitant countries can be pulled along. The most important projects of the EU, the US and documented in many NDCs, focus on the reduction of fossil fuel consumption. While for emerging economies such as India this seems to be mainly a question of timing and costs, for fossil fuels exporters (incl. Iraq, Australia and Russia) a drop in demand is not an appealing prospect. However, when the world's leading oil exporter Saudi Arabia chaired the G20 in 2020, it emphasised the role that carbon capture and storage technologies play in climate mitigation, and the government wants to follow the German example in expanding renewable energies. In this respect, it is to be expected that at the COP26 parties will again address technological issues, the costs of climate policy for these producer countries, and the impact on investment. Germany's and the EU's hydrogen strategy is one starting point for identifying new cooperative pathways. This will require, among other things, international standards to guarantee that "green" hydrogen really is produced in a carbon-free manner (see SWP Comment 2020/C 32).

Investment in climate-friendly energies and carbon sinks will depend to a large degree on a breakthrough at COP26 about the governance for international trade in emissions certificates. High standards will have to be agreed upon for such trading systems in order to avoid double accounting and defraud on the substance of verified emission reductions. For this, the EU will need US support. Strict quality requirements are resisted by those countries hoping for new revenues from certification and little control. Moreover, Brazil has successfully blocked any agreement so as to secure its substantial income from emissions certificates during transition from the old trading system set up by the Kyoto Protocol.

Last but Not Least: Building Confidence in the UN Process

EU climate diplomacy will be called upon to convince developing countries that they can trust the UN process — and the US's climate action — despite the consequences of the pandemic. Washington's complete reversals in the past on both compliance with agreements and financing climate action have led to doubts as to whether the US is a reliable long-term partner at all. In 2021 Europe's negotiators will most likely find themselves in a situation where they need to ask poor countries to trust the new US climate policy.

The most recent *UNEP Adaptation Gap Report* estimates that developing countries will need US\$70 bn per year for adaptation to climate change. It considers a fourfold increase by 2030 to be possible. The pandemic has emptied public coffers. In his first international appearance at the Climate Adaptation Summit, John Kerry was not yet able to commit the US to any specific financial support for poor countries. Neither was China. Germany pledged €220 million in additional support. Yet the issue of financing will once again determine whether real progress is made at COP26; due to the pandemic, demands will be more vocal this year. Talks at the G-formats could also be used to improve financial room for manoeuvre for developing countries' assistance. For example, aid could be freed up by reducing subsidies for fossil fuels. Beyond that, collective debt relief linked to climate policy objectives could be envisaged.

Conclusion

With the US rejoining international climate policy, progress in implementing the Paris Agreement seems once again possible. New dynamics between the US and China, including in trade policy, will have an impact on the summits that are planned for 2021.

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After the first phase of the US climate policy offensive, the EU and its member states will need to define their position and pursue their own priorities. Closer cooperation on new technologies and the introduction of the EU's CBAM are under discussion. The EU should also press ahead with long-term climate and energy initiatives with other partners.

For four years Europe, almost on its own, managed to drive forward international climate policy as one of the most important multilateral issues — albeit with only sluggish progress. Some of the Green Deal projects will have to be reevaluated as part of the new positive dynamic. However, if the EU wants to safeguard its strategic position in the long term it will undoubtedly have to assert itself as an actor with its own claims, positioned between the US and China, and as a partner for the many developing countries. In climate policy, the EU should therefore focus not only on more intensive cooperation with the US and, where possible, with China. It should also ensure that the playing field stays level and that it clearly sets out its own interests within the negotiations.

Recommended Further Reading

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SWP Research Paper 6/2020, June 2020

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voxeu.org, 10 December 2019

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Saudi Arabia T 20 Policy Brief, October 2020

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