



EUROPEAN
COMMISSION

Brussels, 2.3.2016
COM(2016) 110 final

**COMMUNICATION FROM THE COMMISSION TO THE EUROPEAN
PARLIAMENT AND THE COUNCIL**

**The Road from Paris: assessing the implications of the Paris Agreement and
accompanying the proposal for a Council decision on the signing, on behalf of the
European Union, of the Paris agreement adopted under the United Nations Framework
Convention on Climate Change**

1. Introduction

The 2015 Paris Agreement is a historically significant landmark in the global fight against climate change. The Agreement provides a lifeline, a last chance to hand over to future generations a world that is more stable, a healthier planet, fairer societies and more prosperous economies, also in the context of the 2030 Agenda on Sustainable Development. The Agreement will steer the world towards a global clean energy transition. This transition will require changes in business and investment behaviour and incentives across the entire policy spectrum. For the EU, this provides important opportunities, notably for jobs and growth. The transition will stimulate investment and innovation in renewable energy, thereby contributing to the EU's ambition of becoming the world leader in renewable energy, and increase the growth in markets for EU produced goods and services, for instance in the field of energy efficiency.

The Paris Agreement is the first multilateral agreement on climate change covering almost all of the world's emissions. The Paris Agreement is a success for the world and a confirmation of the EU's path to low carbon economy. The EU's negotiation strategy was decisive in reaching the Agreement. The EU has pushed for ambition, bringing its experience of effective climate policy and tradition of negotiations and rules-based international co-operation. The EU became the first major economy to present its climate plan (i.e. Intended Nationally Determined Contribution or "INDC") on 6 March 2015, reflecting the 2030 climate and energy policy framework set by the October 2014 European Council¹ and the European Commission's blueprint for tackling global climate change beyond 2020². The EU has set an ambitious economy-wide domestic target of at least 40% greenhouse gas emission reduction for 2030. The target is based on global projections that are in line with the medium term ambition of the Paris Agreement.

Throughout the Paris Conference, the EU maintained a high level of political coherence. All EU ministers in Paris showed willingness and determination to succeed. The EU acted as one, defending the EU position as agreed by the Environment Council. This allowed the EU to speak with a single and unified voice in all phases of the negotiations, a crucial element for the successful outcome in Paris. Most importantly as part of the EU's climate diplomacy outreach, the EU and its partners built a broad coalition of developed and developing countries in favour of the highest level of ambition. This High Ambition Coalition was instrumental in creating a positive dynamic during the negotiations and getting all big emitters on board the Paris Agreement.

Moreover, the global setting changed completely when compared to Copenhagen 2009 resulting in world-wide bottom up mobilisation of Governments and non-State actors, such as business, investors, cities and civil society. The French Presidency of the Climate Conference and the UN deserve credit for the positive dynamics ahead of Paris and during the conference.

¹ European Council conclusions of 24 October 2014.

² The Paris Protocol – A blueprint for tackling global climate change beyond 2020, COM(2015) 81 final.

The implementation of the commitments under the Paris Agreement requires maintaining the momentum and strong political determination to secure the transition to a climate resilient, climate neutral future, in a socially just manner. Climate change should remain on the political agendas of relevant international fora, including the G20 and G7 meetings. In this respect, the EU will continue its international leadership and its climate diplomacy³.

2. The Paris Agreement – A Global Deal

2.1. Key features of the Paris Agreement

The Paris Agreement sets out a global action plan to put the world on track to avoid dangerous climate change acknowledging that this will require a global peaking of greenhouse gas emissions as soon as possible and achieving climate neutrality in the second half of this century. The Agreement has the following key features:

- It sets out a long term goal to put the world on track to limit global warming to well below 2°C above pre-industrial levels – and pursue efforts to limit the temperature increase to 1.5°C; The aspirational goal of 1.5°C was agreed to drive greater ambition, and to highlight the concerns of the most vulnerable countries that are already experiencing the impacts of climate change.
- It sends a clear signal to all stakeholders, investors, businesses, civil society and policy-makers that the global transition to clean energy is here to stay and that resources have to shift away from fossil fuels; With 189 national climate plans covering some 98% of all emissions, tackling climate change is now become a truly global effort. With Paris, we are moving from action by a few to action by all.
- It provides a dynamic mechanism to take stock and strengthen ambition over time. Starting from 2023, Parties will come together every five years in a "global stocktake" to consider progress in emissions reductions, adaptation and support provided and received in view of the long-term goals of the Agreement.
- Parties have a legally binding obligation to pursue domestic mitigation measures, with the aim of achieving the objectives of their contributions.
- It sets up an enhanced transparency and accountability framework, including the biennial submission by all Parties of greenhouse gas inventories and the information necessary to track their progress, a technical expert review, a facilitative, multilateral consideration of Parties' progress and mechanism to facilitate implementation of and promote compliance.
- It provides an ambitious solidarity package with adequate provisions on climate finance and on addressing needs linked to adaptation and loss and damage associated with adverse effects of climate change. To promote individual and collective action on adaptation, the Paris Agreement establishes for the first time a global goal with the aim to enhance capacity, climate resilience and reduce climate vulnerability.

³ European climate diplomacy after COP21 – Council conclusions of 15 February 2016.

Internationally, it encourages greater cooperation among Parties to share scientific knowledge on adaptation as well as information on practices and policies.

2.2. Ratification and entry into force of the Paris Agreement

Reaching the Paris Agreement has been a major achievement. The EU will remain proactive in the international climate negotiations to ensure that the ambition set by the Agreement is translated in all its implementing elements, such as detailed provisions on transparency and accountability, sustainable development mechanisms and technology mechanisms.

The immediate next step is the signature of the Paris Agreement. It will be opened for signature on the 22 April 2016 in New York, and enter into force when at least 55 Parties representing at least 55% of global emissions have ratified. Early ratification and entry into force is desirable as it would provide all countries with the legal certainty that the Agreement begins operating quickly. The EU should be in a position to ratify the Paris Agreement as soon as possible.

2.3. Medium-term milestones under the Paris Agreement

There are a number of medium-term milestones foreseen in the Paris Agreement. A clear understanding of the specific policy implications of a 1.5°C goal needs to be developed. The 5th Assessment Report of the Intergovernmental Panel on Climate Change (IPCC) was inconclusive on this aspect due to sparse scientific analysis. To address this, the IPCC has been requested to prepare a special report in 2018. The EU will provide input to the scientific work which will be carried out internationally for that purpose. The EU should participate in the first "facilitative dialogue", which will take place in 2018 to take stock of the collective ambition and progress in implementing commitments. In this respect, the EU will take part in the first global stocktake in 2023, which is relevant for considering progressively more ambitious action by all Parties for the period beyond 2030. In this sense, the EU, alongside the other parties, is invited to communicate, by 2020, their mid-century, long-term low greenhouse gas emission development strategies. To facilitate the preparation of these strategies, the Commission will prepare an in-depth analysis of the economic and social transformations in order to feed the political debate in the European Parliament, Council and with stakeholders.

3. How the EU will implement the Paris Agreement

The transition to a low carbon, resource-efficient economy demands a fundamental shift in technology, energy, economics, finance and ultimately society as a whole. The Paris Agreement is an opportunity for economic transformation, jobs and growth. It is a central element in achieving broader sustainable development goals, as well as the EU priorities of investment, competitiveness, circular economy, research, innovation and energy transition. Implementation of the Paris Agreement offers business opportunities for the EU to maintain and exploit its first mover advantage when fostering renewable energy, energy efficiency and competing on the development of other low carbon technology market globally. To reap those benefits, the EU will need to continue to lead by example and by action on regulatory policies

to reduce emissions but also on enabling factors that accelerate public and private investment in innovation and modernisation in all key sectors, while ensuring other major economies press ahead with commitments. The transition to a low carbon economy needs to be properly managed, taking into account the differences in the energy mix and economic structure across the EU. That means also the need to anticipate and mitigate the societal impact of the transition in specific regions and socio-economic sectors.

3.1. Fostering the enabling environment for low carbon transition

Energy Union Transition

EU's commitment to a clean energy transition is irreversible and non-negotiable. The Energy Union priority aims at *"moving away from an economy driven by fossil fuels, an economy where energy is based on a centralised, supply-side approach and which relies on old technologies and outdated business models, to empower consumers and (...) to move away from a fragmented system characterised by uncoordinated national policies, market barriers and energy-isolated areas"*⁴. The Energy Union Project, with all its dimensions, provides a broader framework within which the EU can provide the right enabling environment for the energy transition. According to the International Energy Agency, the full implementation of the climate plans will lead to investments of USD 13.5 trillion in energy efficiency and low-carbon technologies from 2015 to 2030, an annual average of USD 840 billion. The main impact of these climate plans is not only to scale up investment, but also to rebalance it across fuels and sectors, and across supply and demand. Among others, investments in renewables will be almost three times the investments into fossil-fuel power plants, while investment in energy efficiency (led by transport and the buildings sectors) is expected to equal in scale investments in other parts of the energy system.

Innovation and competitiveness

The Paris Agreement gives a clear and ambitious direction of travel for low carbon innovation. At the margins of the Paris conference, 20 of the world leading economies launched "Mission Innovation" to reinvigorate public and private clean energy innovation, to develop and deploy breakthrough technologies and achieve cost reductions. The EU wishes to join this initiative given that the EU budget for low carbon related research under Horizon 2020 has already effectively been doubled for the period 2014-2020, and the EU has committed to invest at least 35% of Horizon 2020 into climate-related activities. Furthermore, the future research, innovation and competitiveness strategy for the Energy Union will tap into the synergies between energy, transport, circular economy, industrial and digital innovation. This should lead to greater competitiveness of present and future European low carbon and energy efficiency technologies.

⁴ "A Framework Strategy for a Resilient Energy Union with a Forward-Looking Climate Change Policy – COM(2015)80 of 25 February 2015.

Investment and capital markets

Shifting and rapidly scaling up private investment is essential to support the transition to a low emission and climate resilient economy, and for avoiding the "lock-in" of high emissions infrastructure and assets. EU funds will play an important role for mobilising the markets⁵. Investment support in the context of the Investment Plan for Europe, focussing on actions to remove barriers to investment in the European Union, as well as possible funding provided by the European Fund for Strategic Investments (EFSI) should promote emissions reduction and energy efficiency investments in the Single Market. The Investment Plan for Europe already has a promising track record in this area⁶ and its full potential needs to be explored. The Commission has recently launched the European Investment Project Portal (EIPP) which will be fully operational shortly. Its purpose is to attract investors to viable and sound investment projects in Europe. Energy stakeholders are encouraged to send their projects to the EIPP in order to provide a comprehensive overview of projects for potential investors. As a matter of priority, the Commission will speed up technical assistance for stakeholders to establish, in 2016, schemes to aggregate smaller energy efficiency projects, hence building a critical mass. These schemes should provide investors with better investment opportunities in energy efficiency and make capital better accessible for national, regional or local energy efficiency platforms and programmes. They will include strengthening technical and project development assistance in the context of the European Investment Advisory Hub (EIAH) set up by the Commission and the European Investment Bank to help public promoters to structure their projects and to promote financing schemes with standard terms and conditions, notably in the area of buildings.⁷

Financial institutions are key partners in this transition process. Well-functioning cross-border capital flows and integrated and sustainable capital markets are also important for this transition to happen. The measures already taken or under preparation in the context of the establishment of a Capital Markets Union⁸ are essential in this context. To ensure such a transition - within the Single Market and beyond- the European Central Bank as well as national central banks, the European Investment Bank and the European Bank for Reconstruction and Development, the Green Climate Fund, and other international finance institutions like the World Bank but also national development banks can play a helpful role. In response to a request by the G20 in April 2015 to review how the financial sector can take account of climate-related issues, the Financial Stability Board (FSB) established a task force on climate-related financial disclosures, whose aim is to help market participants better understand climate-related risks and better manage those risks. The G20 has recently set up a

⁵ EUR 114 billion have been programmed from the reformed European Structural and Investment Funds (ESIF) for climate-related actions over the 2014-2020 period. The programming has been carried out in a wider partnership with the relevant stakeholders. The resulting amount is 25% of ESIF showing strong commitment to climate-actions and exceeding the targeted 20% for the overall EU budget. The support goes beyond funding opportunities as it includes strong regional cooperation, capacity building and technical assistance components.

⁶ Overview of Investment Plan projects in low carbon and energy efficiency:

http://ec.europa.eu/priorities/sites/beta-political/files/sector-factsheet-energy_en.pdf

⁷ State of the Energy Union 2015.

⁸ Action Plan on Building a Capital Markets Union, COM(2015) 468 final.

study group to analyse green finance related issues (GFSG). At European level, the European Systemic Risk Board has published a report on the transition to a low-carbon economy and the potential risks for the financial sector⁹.

Carbon pricing and fossil fuel subsidies

Carbon pricing is an essential element to foster a global level playing field for the transition – these can take form of emission trading, as in the case of the EU, taxation, or other economic and/or fiscal instruments. The EU should increase its efforts in sharing its own experiences in this area with all countries that need to start putting a price on carbon. This will continue to include countries like China and South Korea that are setting up emissions trading systems, as well as a broader range of countries, including all major economies that are deploying renewable energy technologies and improving their energy efficiency policies. While the Paris Agreement is a game changer in the sense of being global, the nationally determined level of effort by countries differs, with a risk of competitive disadvantage for industries if an uneven playing field will remain. The strategic decision by the European Council to preserve the free allocation regime beyond 2020 and the proposed carbon leakage provisions for the EU emission trading system strike the right balance at this point of time, but should be kept under review in the coming decade.

The outlook of carbon and energy pricing is further complicated by the current low oil price situation. This can provide a good opportunity not only to introduce carbon pricing but also to remove fossil fuel subsidies, which, according to the International Energy Agency, amounted worldwide to USD 548 billion in 2013. Such subsidies are the biggest obstacle to innovation in clean technologies, as is recognised in the G20 and G7 calls for the elimination of fossil fuel subsidies. The forthcoming EU energy prices and cost report will look at the latest situation in this respect.

The role of cities, civil society and social partners

Catalysing multi-stakeholder action from civil society – citizens, consumers, social partners, SMEs, innovative start-ups and globally competitive industries is another prerequisite for the transition. The Paris conference and the Lima-Paris Action Agenda, an initiative of the Peruvian and French COP Presidencies aimed at, bringing together an unprecedented number of non-State actors together on a global stage to accelerate cooperative climate action in support of the new agreement. The EU is uniquely placed to mainstream the low carbon transition through all sectors and levels of governance.

Smart cities and urban communities are the place where a big part of the future transformation will actually happen. Work at city level and urban policies will therefore be intensified in 2016, including on supporting actions developed by the integrated and global Covenant of Mayors and the setting up of a "one stop shop" for local authorities. This should allow local authorities to better contribute to the EU's low carbon transition and will provide European

⁹ https://www.esrb.europa.eu/pub/pdf/asc/Reports_ASC_6_1602.pdf

companies with worldwide opportunities to use their competitive edge in innovative technologies for smart cities.

Climate Diplomacy and Global Action

Climate action is a major strategic foreign policy challenge with implications for EU external policy making in, for example, development aid and cooperation, neighbourhood and enlargement policies, international scientific and technological co-operation, trade, economic diplomacy and security. Maintaining the positive momentum from Paris will require sustained political and diplomatic mobilisation at global level.

As agreed by the Council¹⁰, in 2016 climate diplomacy will need to focus on i) maintaining climate change advocacy as a strategic priority, ii) supporting implementation of the Paris Agreement and the climate plans, and iii) increasing efforts to address the nexus of climate change, natural resources, including water, prosperity, stability and migration.

In terms of climate finance, the EU and its Member States are committed to scaling up the mobilisation of climate finance in the context of meaningful mitigation actions and transparency of implementation, in order to contribute their share of the developed countries' goal to jointly mobilise USD 100 billion per year by 2020 from a wide variety of sources, public and private, bilateral and multilateral, including alternative sources of finance. Current trajectories for EU development assistance will substantially contribute to reaching the EU's share of the USD 100 billion goal. In the context of the Multiannual Financial Framework 2014-2020 the EU has undertaken to ensure that 20% of its overall budget is directed to climate-relevant projects and policies. In the context of external expenditure, this more than doubles the amount of climate finance for developing countries and could represent as much as EUR 14 billion in climate spending. An increasing share of these resources will be invested in adaptation and facilitating innovation and in capacity building.

In order to assist developing countries in delivering on their climate plans as of 2020, support programmes (such as the Global Climate Change Alliance+) will be strengthened. In this context the synergies between climate action, the Addis Ababa Action Agenda and the 2030 Agenda with its Sustainable Development Goals need to be exploited fully. This also includes EU participation in the Africa Renewable Energy Initiative. In the framework of enlargement and neighbourhood policies, the EU will continue its political dialogue and support to partner countries. Particular emphasis would be placed on capacity building.

Ongoing bilateral and multilateral negotiations on liberalising trade in green goods and services should be accelerated to facilitate the global action to mitigate climate change and to create business opportunities for European companies. The EU should also continue its leadership in promoting ambitious outcomes in the context of the negotiations in the International Civil Aviation Organisation (ICAO) and the International Maritime Organisation (IMO) to address greenhouse gas emissions, as well as under the Montreal Protocol negotiations.

¹⁰ Council conclusions on European climate diplomacy after COP 21.

3.2. The 2030 energy and climate regulatory framework

After the Paris climate conference, all countries need to turn their commitments into concrete policy actions. In October 2014 the European Council set the 2030 climate and energy policy framework for the EU setting an ambitious economy-wide domestic target of at least 40% greenhouse gas emission reduction for 2030, as well as renewable energy and energy efficiency targets of at least 27%¹¹. The Paris Agreement vindicates the EU's approach. Implementing the 2030 energy and climate framework as agreed by the European Council is a priority in follow up to the Paris Agreement.

The Commission has already initiated this process by putting forward a proposal to revise the Emissions Trading System (ETS), covering 45% of the EU's greenhouse gas emissions. The Commission will present during the next 12 months the key remaining legislative proposals to implement the agreed 2030 regulatory framework domestically in a fair and cost-efficient manner, providing maximum flexibility for Member States and striking the right balance between national and EU level action. As the next step, the Commission is working on the preparation of proposals for an Effort-Sharing Decision and on land use, land use change and forestry (LULUCF). The Commission will also propose legislation to set up a reliable and transparent governance mechanism and to streamline the planning and reporting requirements related to climate and energy for the post-2020 period.

Moreover, the Commission will present the necessary policy proposals to adapt the EU's regulatory framework in order to put energy efficiency first and to foster EU's role as a world leader in the field of renewable energy in line with the European Council conclusion of October 2014. This includes a new energy market design to place consumers at the centre of the energy system, enabling demand response and enhancing flexibility. In addition, this year the Commission has already launched the Energy Security Package to address without delay the new challenges to the security of supply posed by the developments in the international energy context.

4. Conclusion

On the road to Paris and in Paris the EU has been at the heart of the High Ambition Coalition of developed and developing countries. To effectively secure the transition to the low carbon economy, the EU needs to keep up this ambition, internally and internationally:

- The Paris Agreement should be signed and ratified as soon as possible. The proposal to sign the Agreement is attached to this communication.
- The EU needs to consolidate the enabling environment for the transition to a low carbon economy through a wide range of interacting policies, strategic frameworks and instruments reflected under the 10 priorities of the Juncker Commission – in particular the Resilient Energy Union with a Forward-Looking Climate Change Project.

¹¹ The energy efficiency target will be reviewed by 2020, having in mind an EU level of 30%.

- The EU's 2030 energy and climate change regulatory framework needs to be swiftly completed in line with the European Council conclusions of October 2014. The forthcoming legislative proposals should be fast-tracked by the Parliament and the Council.
- All Parties will need to be ready to fully participate in the review processes under the Paris Agreement designed to ensure the achievement of the goal of keeping climate change well below 2°C and pursuing efforts towards 1.5°C.