

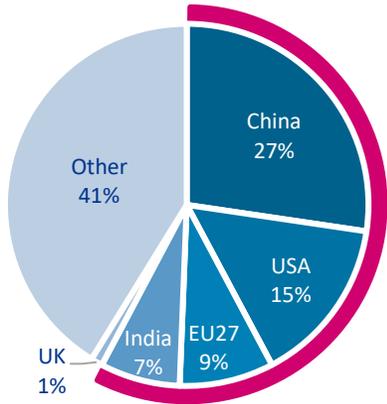
**EU**

**Credibility & Durability Framework**

# Climate Change & National Commitments

The road to COP 26 – National Commitments suffer from credibility and durability risk

2018 CO2 Emissions, % of Global Total



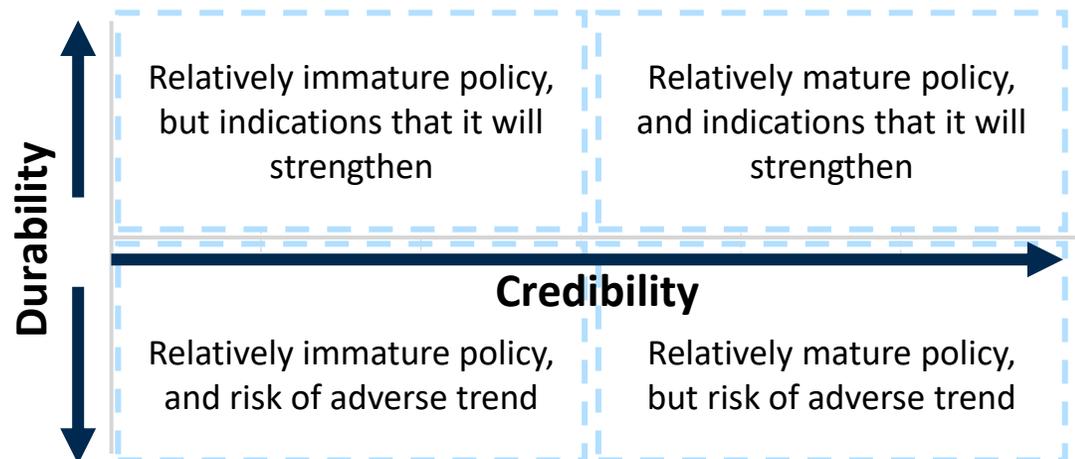
The top 4 global CO2 emitters produce 58% of global CO2 emissions. Their targets are disproportionately important to the global transition. However...

## Future action is uncertain due to national commitments suffering from credibility & durability risk

Baringa's Political, Economic & Policy Risk Team have developed a methodology to assess the credibility and durability of nations' commitments:

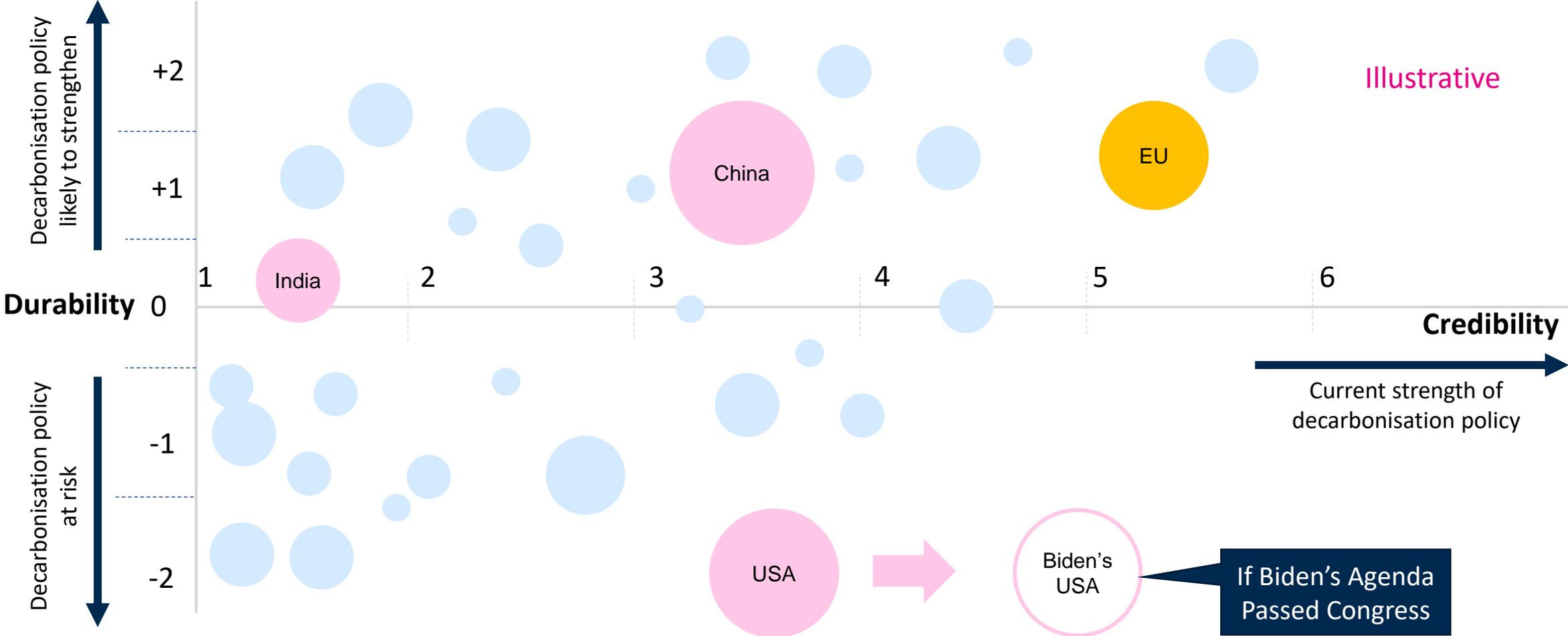
**Credibility:** A measure of policy maturity. How developed is domestic decarbonisation policy in relation to Net Zero.

**Durability:** A measure of the depth and breadth of political support. How vulnerable is the energy transition to political and economic shocks?



# EU | PEP Credibility & Durability Index

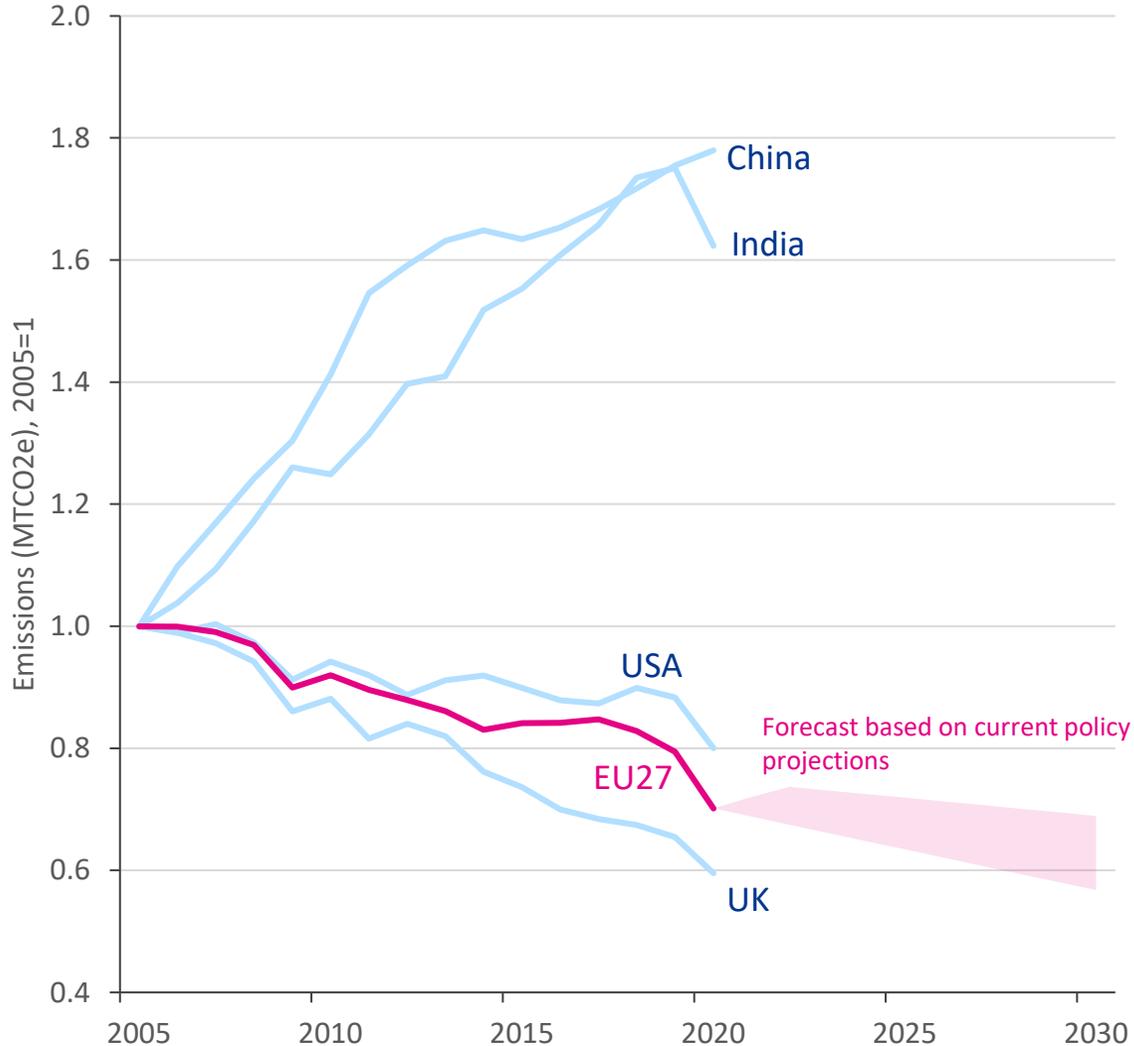
Credibility & Durability is a measure of confidence over whether governments will reach Net Zero



# EU | Climate Commitments & Policies

Proven record of strong commitments and domestic action

## Total Emissions (excl. LULUCF), Indexed to 2005



Source: Climate Action Tracker Forecasts, Baring Analysis

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## EU Emissions Targets

- Net Zero by 2050
- Reducing GHG emissions by at least 55% by 2030, compared to 1990 levels

## Key Policies

### Power Generation

- 40% renewable energy sources by 2040
- Offshore Wind Strategy and ocean energy goal
- Renewable Energy Financing Mechanism

### Transport

- Adoption of sectorial renewable energy targets
- Introduction of CO<sub>2</sub> emissions standards for new vehicles, resulting in all new cars registered as of 2035 being zero-emission
- Increasing the share of zero and low emissions vehicles
- Encouraging a modal shift by strengthening the position of railways

### Industry

- Measures to accelerate deployment of low carbon steel
- Carbon Border Adjustment Mechanism
- Hydrogen strategy with the goal of realising 40 GW of installed electrolyser capacity in the EU by 2030

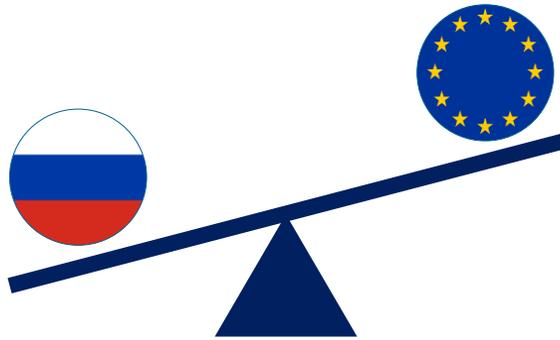
### Buildings

- From 2021, all new buildings “nearly zero energy buildings”
- By 2030, at least 35m buildings to be renovated and renovation rate doubled

# EU | Contemporary Issues and Risks

Performance varies across member states as economic and political conditions differ

## Russian Energy Dependency

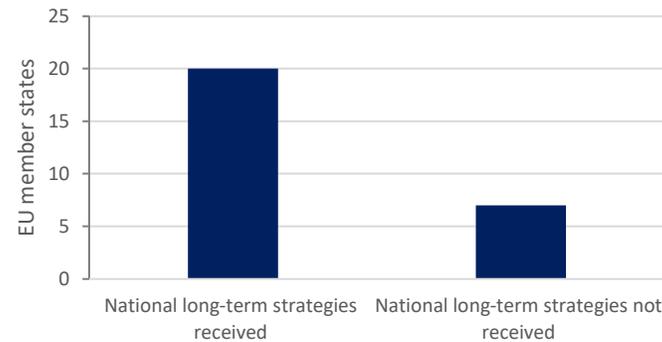


Source: Eurostat

- The EU is currently highly dependent on Russia for its energy requirements. In 2019, 27% of the EU's crude oil imports, 41% of its natural gas imports came from Russia.
- In the midst of a European gas crisis, Russia has been accused of intentionally withholding supplies. The current crisis could accelerate plans to decarbonize the economy for security reasons.
- The European Green Deal will significantly reduce the EU's reliance on Russia as renewable energy becomes a more dominant energy source.
- This will have wider foreign policy implications and provides a potential opportunity to redefine the EU-Russia relationship.

## Non-compliance risk

EU reception of long-term national climate-related strategies

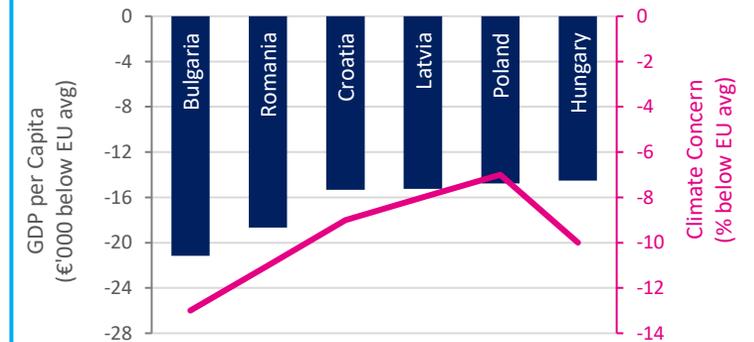


Source: European Commission

- The EU has struggled in recent years with the enforcement of its decisions on member states, including over democratic infringements in Hungary and Poland.
- Recently, Poland refused to halt actions at a disputed coal mine despite an EU court penalty, arguing that it would put the country's energy security at risk.
- 7 EU member states have yet to publish national long-term strategies to meet their Paris Agreement commitments and the energy union objectives- despite a legal requirement to do so by 1 January 2020.
- There is also a risk that they aren't ambitious enough to meet EU targets, as is the case with Germany's planned and Poland's potential coal phase-out.

## Fiscal Concerns

Strong correlation between nations' GDP per capita and climate concern



Source: European Commission, Eurostat

- The EU's Just Transition Mechanism provides targeted support to mobilise at least €100 billion over 2021-2027 to alleviate the socio-economic impact of the energy transition in the most affected regions.
- Nevertheless, reaching Net Zero by 2050 and the 2030 GHG emissions reduction target will still require significant funding from national governments.
- This may prove to be difficult for the less prosperous EU members, and could be compounded by potentially lower motivation for action due to comparatively lower citizen concern with climate change in those countries.

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