REPORT NOVEMBER 2017

THE FUTURE OF EUROPE AND THE FUTURE OF CLIMATE ACTION

REFLECTIONS AND SCENARIOS FOR THE EU27

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E3G is an independent climate change think tank operating to accelerate the global transition to a low carbon economy. E3G builds cross-sectoral coalitions to achieve carefully defined outcomes, chosen for their capacity to leverage change. E3G works closely with like-minded partners in government, politics, business, civil society, science, the media, public interest foundations and elsewhere. In 2016, E3G was rated the second most influential environmental think in Europe. **www.e3g.org**

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The Institute for European Environmental Policy is a sustainability think tank working with stakeholders across EU institutions, international bodies, academia, civil society and industry. As a non-for-profit organization with over 40-years of experience, we are advancing impact-driven sustainability policy across the EU and the world. **https://ieep.eu/**

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About HBS

The Heinrich Böll Foundation is a catalyst for green visions and projects, a think tank for policy reform, and an international network. The primary objectives guiding our work are establishing democracy and human rights, fighting against environmental degradation, safeguarding everyone's rights of social participation, supporting non-violent conflict resolution and defending the rights of individuals. We work with over 100 project partners in over 60 countries and currently maintain offices in 32 countries. **www.eu.boell.org**

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REFLECTIONS AND SCENARIOS FOR THE EU27

E3G AND IEEP IN COOPERATION WITH HEINRICH-BÖLL-STIFTUNG EUROPEAN UNION

CONTENTS

LIST OF FIGURES

SUMMARY

The European Union is at a reflection point. Following a tumultuous decade of repeated crises, from the financial downturn to the Brexit vote, European leaders and the European Commission have kicked off a debate on the Future of Europe. This will consider the Union's future focus, governance and operation. It should be a moment for innovation for climate governance, as well as for EU governance more broadly.

The EU has achieved considerable progress on climate change. EU GHG emissions have fallen by 23% since 1990, while GDP has more than doubled in that time. The Paris Agreement was a victory for EU diplomacy and an important step towards limiting global emissions.

Yet the EU's efforts to deal with climate change suffer from the same challenges facing the European project as a whole. Europe depends on international action for climate security, but represents a declining share of global emissions and economic output. Radical changes in economic structures and technologies offer new opportunities; but they also present real transitional challenges for the workers and communities affected. Migration and security issues – exacerbated by climate impacts – increasingly dominate European politics. Perhaps most fundamentally, a breakdown in trust in European institutions and their legitimacy undermines climate governance and gets in the way of effective delivery.

Meanwhile, the context for what European climate governance must deliver is also shifting. The EU is still getting to grips with the need to transition to a fully decarbonised economy, the political economy challenges of deep decarbonisation, the need to develop a regime to manage climate risk, and with aligning its own efforts with those of non-state actors such as cities and progressive businesses.

In this context, climate action is a key test for European governance: if the direction of travel agreed in the Future of Europe process does not work for Europe's energy and climate transition it will have failed to meet Europe's biggest societal challenge, and is unlikely to work either for any of Europe's other fundamental challenges. Over the longer term, Europe's security and prosperity depends on a stable climate, successful adaptation and an orderly transition to a decarbonised economy.

This paper evaluates the state of EU climate policy and examines how climate governance fits within the 'Future of Europe' process led by the European Commission. We conclude that European climate governance should be built into the heart of the decisions regarding the future of the EU. This will require reflections on Europe's long-term climate objectives, its international influence, and the integration of climate into economic, social and financial policies.

CHAPTER 1
DRIVERS FOR CHANGE

Context: the Future of Europe process

The Future of Europe process

The EU is currently undergoing a reflection process on 'the Future of Europe'. The impetus for this reflection process has been building up for some time. While the formal process was initiated to coincide with the 60th anniversary of the Treaty of Rome, it also comes after a series of crisis moments facing the EU over the last decade: from the financial downturn in 2007 to crises on Eurozone and Greek debt, Ukraine and Russia, terrorism, refugees and the rule of law. The narrow UK vote to leave the EU in the June 2016 referendum acted as a final trigger. The forces leading to the UK's vote were not just present in the UK alone: EU leaders recognised the need to avoid and set out a renewed direction of travel for the EU-27 as a whole.

EU leaders met in Bratislava in September 2016 to "diagnose together the present state of the European Union and discuss our common future"; while the resulting **Bratislava Declaration**[1] was limited in its ambition and failed to trigger enthusiasm, it recognised the need for a shared agenda for progress and kicked off a dialogue on the future of Europe that will continue through 2017 and beyond.

A **Future of Europe white paper**[2] was issued by the Commission in March 2017. Unusually, this did not set out proposals but rather a set of scenarios aimed at sparking deliberation on Europe's future direction. Following the initial white paper, a series of reflection papers were published to go deeper into specific areas: the **social dimension of Europe;** how can the EU best **harness globalisation**; **deepening of the Economic and Monetary Union**; the **future of European defence**; the **future of EU finances** (see box on page 29 for more details).

In his '**State of the European Union'** speech on 13 September 2017, Commission president Jean-Claude Juncker set out his view for the future of Europe by 2025 and announced several proposals which will be developed by the Commission over 2017/2018. Later that month, French President Macron added to these in its **'Initiative for Europe'** speech calling for the rebuilding of a "sovereign, united and democratic"

[1] "The Bratislava Declaration and Roadmap", European Council, 16/09/2016. Available at: **http://www.consilium.europa.eu/media/21250/160916-bratislava-declaration-and-roadmapen16.pdf**

[2] COM (2017) 2025: "White Paper on the Future of Europe: Reflections and scenarios for the EU27 by 2025". Available at: **https://ec.europa.eu/commission/sites/beta-political/files/white_paper_on_the_future_of_europe_en.pdf**

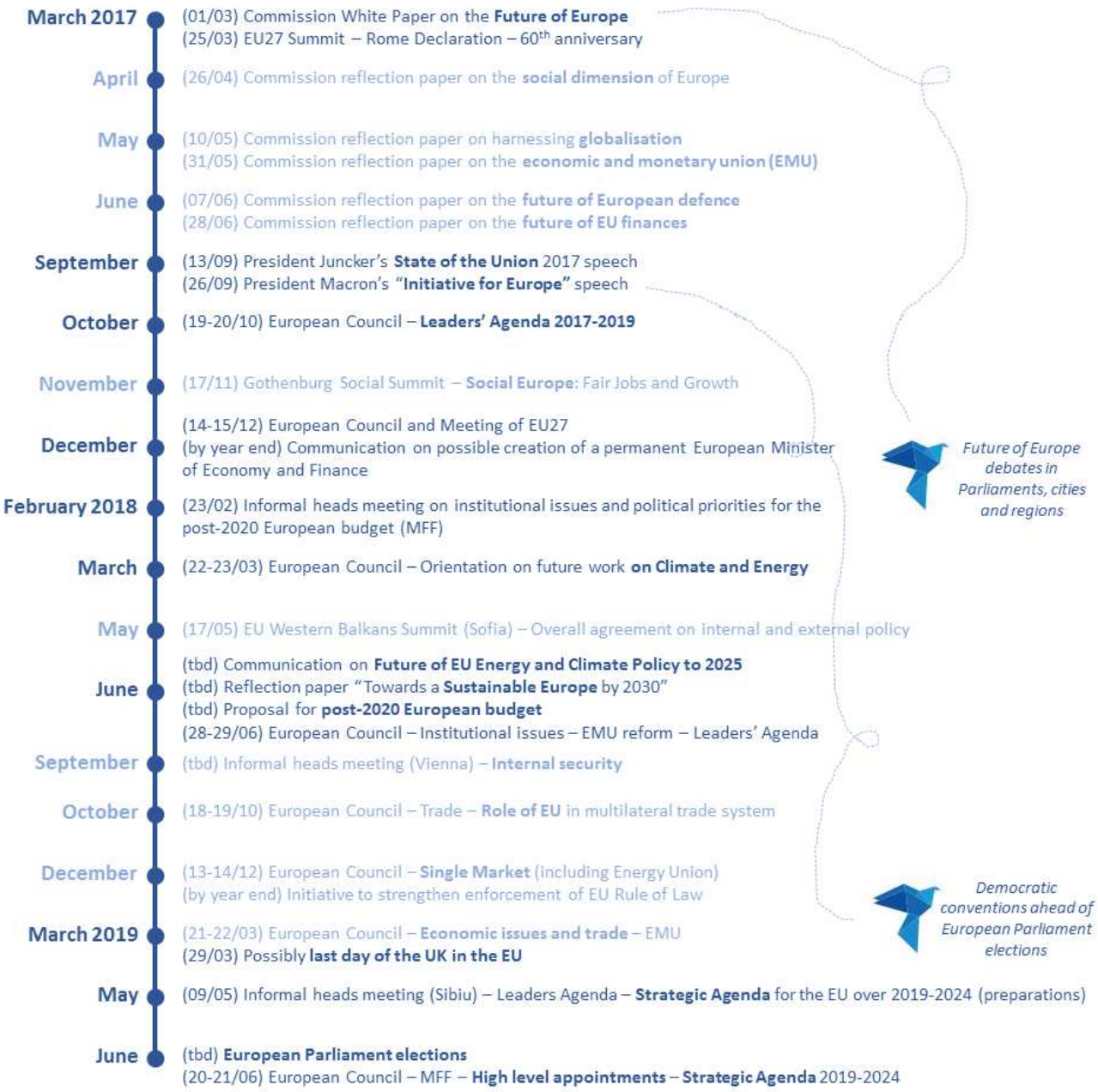
Europe. Both call for continued citizen engagement through 2018 and throughout Europe in the run up to the European Parliament elections of 2019[3].

In parallel, European Council president Donald Tusk proposed in October 2017 his "**Leaders' Agenda**" to guide EU-27 heads of states and governments in delivering on their commitment to maintain European unity and to offer their citizens a vision of an attractive EU they can trust and support.

These intense preparations will close in the first half of 2019, when the EU-27 heads of states and governments plan to take the necessary decisions to build a more united, stronger and democratic Europe, and when European citizens will elect a new European Parliament. **Figure 1** illustrates key steps in the process.

[3]European Political Strategy Center's "Two visions, One direction" **https://ec.europa.eu/epsc/sites/epsc/files/epsc_-_two_visions_one_direction_-_plans_for_the_future_of_europe.pdf**

Figure 1: Timeline for discussions on future of Europe



Source : European Commission, Leaders' Agenda, An Initiative for Europe

Climate change and the Future of Europe process

At first glance, the climate crisis and Europe's energy transition have been rather low profile in the Future of Europe process. This should be surprising: after all, in 2014 the EU committed to a 'resilient Energy Union with a forward-looking climate policy' as one

of five priority areas to 2019; and EU leaders have consistently pointed to climate change as a threat to Europe's prosperity and security.[4]

Climate change has become a critical geopolitical issue globally in the last 18 months. The Paris Agreement – agreed in December 2015 - was amongst the most widely signed and most rapidly ratified international treaties in history. President Trump's announcement that he would take the US out of the Paris Agreement caused global outcry and dominated the G20 and G7 summit agendas.

Yet there are no specific reflection on the serious threats that climate change poses to the security and prosperity of the EU – i.e. climate security - in the Future of Europe white paper. The 'impact on policies' outlined cover areas such as the single market and trade, foreign policy and defence, the EU budget and even uptake of connected cars, but not climate or clean energy. Climate and energy were not the subject of their own reflection paper, and were barely even mentioned in the Bratislava declaration of EU27 leaders.

However, the Future of Europe and the future of climate action are closely interlinked. The decisions the EU makes as part of the Future of Europe process will shape its capability to influence global climate action and successfully deliver its own clean energy transition.

Similarly, Europe needs climate action to be a success in order to secure its own future and to protect its own citizens from climate impacts.

This paper explores the role of climate change and the clean energy transition in the Future of Europe debate, and outlines a way forward for ensuring the Future of Europe is one that succeeds in climate action and the energy transition.

Drivers of change for the Future of Europe

The Commission's white paper identifies four "drivers of Europe's future" that will feed the direction of change. Each of them has considerable relevance to climate governance as well as to the broader functioning of the EU.

Four drivers for the future of climate policy will also be introduced in the following section, each of them having considerable relevance to the future of EU (Table 1).

Table 1: Overview of drivers for change, for the EU and climate policy

Future of Europe
A changing place in an evolving world
A profoundly transformed economy and society
Heightened threats and concerns about security and borders
A questioning of trust and legitimacy

[4] EU Global Strategy: **http://europa.eu/globalstrategy/sites/globalstrategy/files/regions/files/eugs_review_web_0.pdf**

Future of climate

The deep decarbonisation imperative
Increasing political economy challenges
Intensified climate impacts create new inequalities and risks
New actors shift governance landscape

Future of Europe Driver #1: A changing place in an evolving world

The first driver for change is Europe's changing place in the world. Europe's share of global GDP and of global population is shrinking, following rapid growth in China, India and elsewhere. This shapes EU influence in the world: the EU is no longer able to depend on its economic weight alone to ensure its prosperity.

As a result, the EU is profoundly dependent on multilateralism to protect its interests, including stability and 'free and progressive trade'.

Table 2: Europe in the world

EU share of:	
Population	**6%**
Global GDP	**22%**
GHG emissions	**9.6%**[5]
Energy consumption	**12%**[6]

Source : European Commission (JRC, Eurostat)

The same trends can be seen on climate. Europe is a large historical emitter of greenhouse gases (GHGs), but its emissions are falling in both absolute and relative terms, and now represent less than 10% of the global total. This proportion is set to decline further as the EU decarbonises its economy more rapidly than emerging economies.

As a result, the EU's own climate security is dependent on the actions of others. Success on climate action for the EU increasingly means not only reducing its own emissions but influencing global emissions pathways, for example through international climate diplomacy and through developing innovative technologies, business models and regulatory approaches.

In this context, the Paris Agreement takes on a new significance: it is not only Europe's best chance of maintaining climate stability, but also the most successful example of multilateralism in recent years. The EU has a strong interest in ensuring the Paris regime succeeds, in order to defend the global rules-based multi-lateral system.

[5] https://ec.europa.eu/jrc/en/news/global-growth-co2-emissions-stagnates

[6] http://ec.europa.eu/eurostat/statistics-explained/index.php/The_EU_in_the_world_-_energy

Future of Europe Driver #2: A profoundly transformed economy and society

The EU's economy and society are changing. The EU's population is ageing; its social market economy model is increasingly challenged; the recovery from the "great recession" has been slow to develop and uneven in its outcomes and their distribution; and – for the first time since the Second World War – "there is a risk that the generation of today's young adults ends up less well-off than their parents". Automation and digitisation is reshaping the world of work and radically changing the structure of the job market.

The White Paper presents the transition to a clean energy economy as an opportunity to respond to these trends:

> *Europe is committed to an ambitious decarbonisation of its economy and to cutting harmful emissions. And we will have to continue adapting to growing climate and environmental pressures. Our industry, cities and households will need to change the way they operate and are powered. We are already a leader in "smart cities", in the efficient use of natural resources and in the global fight against climate change. Our firms hold 40% of the world's patents for renewable energy technologies.*
>
> - White paper on the future of Europe

This transition also represents a major opportunity for catalysing investment into Europe's economy, with an estimated EUR 180 billion of additional annual investment needed to meet EU energy and climate goals.[7]

However, climate policy is also accelerating change in certain sectors, such as coal mining and vehicle manufacture. This has led to calls for a focus on a 'just transition' with regional economic strategies designed to help communities adapt to these changes.

Future of Europe Driver #3: Heightened threats and concerns about security and borders

The next driver for change noted in the Commission's White Paper is the heightened threats to security and borders. In historical terms, Europe is still remarkably free, stable and secure. However recent terrorism events have had a 'chilling effect'; and the migration crisis has ignited contentious debate within the EU, including on solidarity between its member states.

[7] **https://ec.europa.eu/info/sites/info/files/170713-sustainable-finance-report_en.pdf**

Again, climate change plays a role. Drought and other climate impacts act as a 'threat multiplier' that exacerbates political instability in Europe's neighbourhood and amplify conflict. Climate impacts also directly and indirectly contribute to migration into Europe, and this will deepen as climate impacts intensify[8].

European citizens see climate change as a leading security threat (second only to ISIS)[9], but this is not yet fully integrated into the EU's migration or security strategies.

Future of Europe Driver #4: A questioning of trust and legitimacy

The final driving factor is a questioning of trust and legitimacy. Trust in both national administrations and EU institutions is falling. The EU is blamed for failures but rarely credited for success. Populist movements have seized on a perception of rising inequality, distrust of political elites and fears of immigration, and the idea that 'Brussels is too remote' as a way of driving Euroscepticism.

Climate politics are part of this challenge. Misguided attempts to avoid political tensions are undermining popular and necessary action on energy and climate change. European diplomacy had its biggest success in decades in delivering the Paris Climate Change Agreement. But even though the EU's climate ambition must be increased in order to deliver on the stricter global goals agreed in Paris, the debate on revising the EU climate target for 2030 is frozen due to resistance from some national governments.

This issue matters to Europeans. Without greater and faster emission reductions the world will quickly breach the "safe" level of climate risk agreed in Paris. European leaders rightly want to prioritise policies that make Europe relevant internationally, that their citizens find popular, and that deflate populist political bubbles. New climate and energy solutions, driven by incredible advances in technology and thriving global markets, have much to offer in this context.

Successful climate policies depend on a social licence, but genuinely participative channels for shaping climate action are rare. Subsidiarity concerns have become a key challenge to agreeing climate policy at EU level.

Drivers of change for climate policy

Alongside the broad shifts facing Europe, enhanced climate policy and governance are now required to deliver a broader set of outcomes than previously envisaged. This includes: a shift in focus from incremental emission reductions to deep decarbonisation; a need to respond to political economy challenges arising from the transition; the challenge of new inequalities and sources of vulnerability due to intensified climate impacts; and consideration of new actors in a changing governance landscape.

[8] **https://eu.boell.org/sites/default/files/hbs_time_to_act.pdf**

[9] **http://www.pewglobal.org/2017/08/01/globally-people-point-to-isis-and-climate-change-as-leading-security-threats/**)

Future of climate policy Driver #1: The deep decarbonisation imperative

EU climate policy is designed to achieve a set quantity of emissions reductions at least cost, through tools such as emissions trading. As outlined in the next chapter, it has had some success in doing so. However, it is increasingly evident that delivering short-term emissions reductions at least cost may not be compatible with the least cost pathways to delivering deeper, long-term emissions reduction targets.

Moreover, keeping global warming well below 2 degrees requires going beyond incremental emissions reductions to full decarbonisation of the economy. The Paris Agreement included a commitment to achieve net zero emissions by the second half of the century.

This is a challenge for European governance. It requires significant shifts in every sector of the economy. As a result, the focus of climate policy moves from targeting least cost incremental emissions reductions and dividing the emissions reduction burden, to supporting successful transitions to zero carbon across sectors, countries and communities. The EU will be an important facilitator of this structural change, but it will require different tactics and approaches than previously.

Future of climate policy Driver #2: Political economy challenges becoming more severe as decarbonisation goes deeper

Early stages of climate strategies often focused on the 'low hanging fruit' of emissions reductions that are relatively easy to achieve, often accompanied by investment in upstream research and innovation. In these stages existing companies and economic structures find it relatively straightforward to make marginal emissions reductions, as their core business remains unchanged (see first and second stages in **Figure 2**).

As decarbonisation deepens, however, changes are needed in every sector of the economy – often in ways that challenge the interests or even the continued existence of incumbent actors (third stage in Figure 2). While some take advantage of new opportunities and business models, others seek to protect existing market share, including through lobbying for aid and other protections.

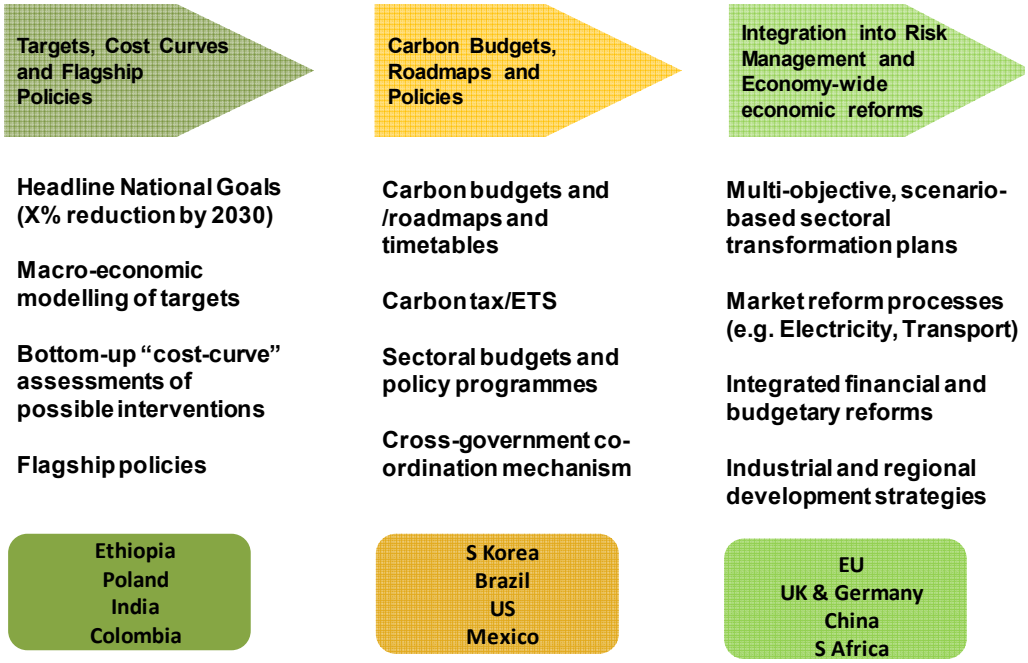
Similarly, changing production models as a result of climate and clean energy policy (e.g. in sectors such as power, automotive, steel and cement) also entail changing employment patterns, adding to changes to the nature of work as a result of digitalisation, automation and globalisation.

In many cases governments and local and regional authorities have extensive 'entanglements' with high carbon industries, for example through dependence on tax take, public ownership or investment, or pension funds.

These political economy challenges mean that climate policy now goes beyond emissions reduction alone, and must focus on successful economic and social

transitions to a new low carbon model. This requires market reforms, financial reforms and low carbon industrial and regional development strategies.

Figure 2: Stages of transformation[10]



Source : **E3G**

Future of climate policy Driver #3: Climate impacts are intensifying, creating new inequalities and sources of vulnerability

Climate change is impacting Europe. Economic losses in Europe from climate extreme weather events are increasing, amounting on average to EUR 13.3 billion a year between 2010 and 2015.[11] European citizens are increasingly aware of climate change, consistently ranking it as one of the biggest threats facing their countries and the continent.[12]

But Europe is not yet sufficiently prepared for these threats. Responses from member states, regions, cities and businesses have been highly variable. While, there are good examples of comprehensive resilience strategies, there also many examples of short term solutions and mal-adaptation.[13] Across the EU, structural failures, lack of funding, capacity and misaligned incentives are preventing adequate action.

[10] **https://www.e3g.org/library/key-political-economy-and-entanglement-issues-of-the-low-carbon-transition**

[11] European Environment Agency (2017), Economic losses from Climate Related Extremes, available **http://www.eea.europa.eu/data-and-maps/indicators/direct-losses-from-weather-disasters-3/assessment**

[12] Pew Research Centre (2016), Europeans Face the World Divided, available **http://www.pewglobal.org/2016/06/13/europeans-see-isis-climate-change-as-most-serious-threats/**

[13] European Environment Agency (2017), Climate Change Impacts and Vulnerability 2016; E3G (2015) Underfunded, Underprepared, Underwater: Cities at Risk

Climate change will have the greatest impact on the poorest and most vulnerable communities, both within Europe and its immediate neighbourhood. This threatens to deepen existing inequalities and undermine Europe's stability and prosperity. In response, the EU will need to develop capacity to build resilience in its own neighbourhood, avoiding cascade risks which threaten Europe's interests.

Future of climate policy Driver #4: New actors are changing the governance landscape

Finally, new actors are increasingly involved in climate action, and this is reshaping the role of EU climate governance.

Competence _ in other words, the authority to propose or adopt decisions) _ over clean energy and climate change policy is not a question of a simple dichotomy between member state and EU responsibility. As a multi-faceted problem, climate change is managed at multiple levels from local to international. In recent years, different actors beyond member states and EU institutions have increased their engagement on climate change.

Thousands of cities have set climate goals, and are often considerably more ambitious than the countries in which they are based.[14] Many companies also set goals of their own: the RE100 group of companies, for example, has committed to procure 100% renewable electricity, and collectively represent power consumption the size of a country like Poland.

This changes the role of EU climate policy: it is no longer only about EU-level instruments and managing effort-sharing between member states, but becomes a task of facilitating, supporting and aligning climate action by a much wider range of actors.

There has already been some recognition of this new role, for example in the EU's support for the Covenant of Mayors, which works to help cities develop and quantify climate and clean energy targets. The proposed Energy Union governance regulation also recognises the importance of alignment, and focuses on supporting member states to develop National Energy and Climate Plans. In many cases, however, action remains highly diffuse, and it is not always clear how interventions by citizens, cities or companies link to EU policy goals.

[14] **http://sustainability.thomsonreuters.com/2017/03/14/in-race-to-curb-climate-change-cities-outpace-governments/**

CHAPTER 2
THE STATE OF EU CLIMATE POLICY

Has the EU helped or hindered?

Addressing climate change in the context of discussions about the future of Europe requires us to consider the evidence about the impact of the EU in the development of Europe's climate action over the last three decades, and to consider its potential future role.

Has the EU helped or hindered climate mitigation efforts? The assessment Baldock et al reached in an IEEP paper[15] in the run-up to the UK referendum on leaving the EU was clearly positive in respect of environmental progress as a whole; and the judgement applies particularly to climate policies.

European policy on climate change has accompanied, and in some cases helped to drive, international negotiations on the subject, beginning with discussions on options for carbon taxes in the run-up to the Rio conference in 1992.

Solidarity or divergence?

However, EU policy has had to deal with the reality that different levels of enthusiasm on climate mitigation exist in different parts of the bloc, with widely differing levels of salience in national political debates. There have thus always been tensions between the most ambitious member states, and those which are more reluctant. To some extent, these tensions mirror the tensions visible on a wider international scale, between developed economy parties keen to make rapid progress and with levels of wealth and existing infrastructure which facilitate such progress; and developing countries which have seen the use of fossil fuels and emissions from other heavy industry as a component in their growth plans to reach the same levels of wealth.

On the adoption of the Kyoto Protocol, the EU's arrangements for delivery of its collective target of an 8% reduction from 1990 levels reflected a significant range of effort from member states[16]. Luxembourg accepted a 28% reduction, and Germany and Denmark both accepted a 21% reduction. In contrast, the less wealthy member states mainly in the south and south-east of the then EU-15 were allowed to increase emissions (Spain +15%; Greece +25%; Portugal +27%) as their economies were projected to grow above EU average rates. Similar approaches have been adopted for subsequent EU targets, with the 2002 enlargement countries taking on the position of the least developed member states, and a pattern of making commitments to address

[15] "The potential policy and environmental consequences for the UK of a departure from the European Union", IEEP 2016, **https://ieep.eu/archive_uploads/2000/IEEP_Brexit_2016.pdf**

[16] See Council Decision 2002/358, Annex B, **http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32002D0358&from=EN**

GDP disparity through effort sharing mechanisms when leaders endorse proposals for EU economy-wide targets in the European Council.

For an assessment of the impact of EU decision-making on Europe's capacity to decarbonise its economy, it is necessary to look first at the system for implementing climate targets, and then at the accompanying systems for energy policy targets.

The state of EU climate policy

The implementation of EU climate targets has, since the development of the EU emissions trading system (ETS), and particularly since the introduction of central control over allocation of allowances in the ETS, been divided into essentially two areas each covered by an EU legislative mechanism: the ETS itself; and the remaining sectors of emissions, which are covered by the so-called Effort Sharing Decision[17] (ESD). These two mechanisms impose very different levels of intervention in national policy-making.

The ETS applies to all major stationary sources of CO_2 emissions, and to aviation emissions since 2012. It was introduced in 2005, following adoption of the directive in 2003[18]. Phase I of the ETS (2005-2007) allowed member states to set their own caps and decide on their approaches to allocation of allowances. Phase II, from 2008-2012 (the first Kyoto Protocol commitment period), saw an increase in the Commission's use of powers to approve or reject member states' caps and allocation plans; and since 2013, a single cap has been set centrally. While the ETS has been largely ineffective in recent years, as a result of an over-supply of allowances in the market, itself a result of reduced economic activity following the 2008-2009 financial crisis, it has, nevertheless, had an important influence in limiting the potential for carbon emissions in those member states which are less committed to climate action. We address below the question of whether alternative options, either in the past or the future, could have allowed, or could allow, faster progress towards decarbonisation targets.

The ESD applies to the sectors of the economy not covered by the ETS, except for sinks and losses of carbon from land use change and forestry (which have been excluded from delivery of the EU's climate targets up to 2020, although a proposal to include them under EU targets from 2021 onwards is currently being negotiated). The ESD sets targets for each member state which are differentiated mainly by their relative GDP per capita, with poorer member states having less ambitious reductions to achieve. In principle, this was expected to lead to wealthier member states paying for (relatively inexpensive) emissions reductions in poorer countries in order to meet their own targets; although in practice this has not happened, as a result of the economic recession making the targets significantly easier to achieve for all member states.

[17] Decision 406/2009 on the effort of Member States to reduce their greenhouse gas emissions to meet the Community's greenhouse gas emission reduction commitments up to 2020, **http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32009D0406&from=EN**

[18] Directive 2003/87/EC

Complementary policies

Both the ETS and the ESD are backed up by a range of EU measures which apply to products and services with a high carbon footprint, including legislation on emissions from vehicles[19], and legislation on energy-using products[20]; but particularly through legislation on renewable energy and energy efficiency. The current Renewable Energy Directive[21] sets targets for member states for the share of energy from renewable sources in gross final consumption of energy in 2020. Again, these targets are modulated to reflect the circumstances of individual member states, in this case using a combination of the pre-existing share of renewable energy in each member state, and the relative GDP per capita. The Energy Efficiency Directive[22] does not set targets for each member state, but does create a common framework for the pursuit of energy efficiency policies, and requires member states to establish, implement, and report on National Energy Efficiency Action Plans (NEEAPs).

The main impact of the system of legislation on climate and energy has been to:

> push member states where climate is regarded as less of priority to take action;

> ensure that more ambitious member states can take more action if they so wish, without it simply leading to a reduction in pressure on the rest of the EU to achieve overall targets; and

> facilitate emissions reduction through EU-wide measures on products and services.

It has also benefited from the wider dynamic of EU environmental legislation, which – by developing a shared approach to areas of interest, with all of the EU moving in broadly the same direction, enables member states to deliver the priorities that their citizens ask for, without the perceived threat of short-term competitiveness handicaps.

Does less Europe mean less climate action?

Would further progress have been possible under a less Europeanised system? A key treaty provision on environmental issues (article 193 of the Treaty on the Functioning of the EU[23]) is that member states may adopt more ambitious standards if they wish, provided they do not interfere with the functioning of the internal market. However, it is arguable that in some cases, EU-wide policy constraints hold member states back. For example, in a system where member states set their own targets for the electricity-generating sector, it would be possible for ambitious countries to set a higher price of carbon, and implement lower (thus more ambitious) caps on ambitions. Implementing carbon taxes at national level, with exemptions for low- or zero-carbon energy, would

[19] For example the regulation on CO_2 emissions from passenger cars (Regulation 333/2014)

[20] Under the Ecodesign Directive (Directive 2009/132)

[21] Directive 2009/28

[22] Directive 2012/27

[23] **http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=celex%3A12012E%2FTXT**

be more straightforward in the absence of EU constraints on state aid. However, member states implementing more ambitious targets could find it difficult to encourage other EU countries to follow their example; assuming that the EU as a whole retained a shared set of emissions targets under international agreements, the main impact of greater ambition from some Member States would be to reduce the pressure for emissions reductions from other countries; and in many cases, they would simply be imposing greater costs on domestic production, with a risk that producers outside the member state would be able to undercut its higher production prices (or would be perceived as doing so).

A further advantage of a coordinated EU-wide system is that it creates greater clarity and predictability of financial flows and investment needs, both in the public and the private sector. In the public sector, climate change has been increasingly mainstreamed into EU spending programmes over recent years, with a target of spending 20% of the EU budget on climate objectives; and increasingly effective mechanisms have been introduced for ensuring that member state investment of EU structural and cohesion funds delivers on climate and other EU priorities[24]. Moreover, the need to meet legal obligations is often a powerful driver for the investment of national funds.

In the private sector, clear messages about the EU-wide direction of travel in terms of energy system decarbonisation provide greater certainty for investments in low-carbon infrastructure, and in specialised associated engineering services (for example, installation of off-shore wind turbines). Clear regulatory standards for products help to drive innovation, which in turn facilitates further tightening of those standards.

In the event of a reduced EU climate action focus, and of greater reliance on unsupported action at member state level, there would on balance be significantly greater downsides in terms of the effectiveness of climate mitigation. Perceived short-term competitive pressures would discourage greater ambition; the impact of greater ambition in those countries opting for it would be dissipated across the EU market, with little counter-balancing benefit in terms of encouraging more reluctant member states to take action; and a reduced focus on EU-wide mandating of low-carbon standards would increase the difficulty of achieving carbon reductions across all member states.

[24] See Nesbit, M, Paquel, K and Illes, A: "Cohesion Policy and Paris Agreement Targets", study for the European Parliament's REGI committee, Brussels 2017.

CHAPTER 3
SCENARIOS FOR THE FUTURE OF EUROPE: WHAT IMPLICATIONS FOR CLIMATE?

The Commission's white paper on the Future of Europe set out a series of five scenarios to help envision future direction of the European project. While none focus on climate explicitly, all have substantial relevance for EU climate policy (Figure 3). Below, we look at the scenarios from the climate policy priorities perspective.

Figure 3: Quotes on climate and energy from the Future of Europe white paper

Future of Europe Scenario	Text on climate change and clean energy
1. Carrying on	"The EU27 continues to focus on jobs, growth and investment by strengthening the single market and by stepping up **investment in digital, transport and energy infrastructure."** "The EU27 manages to positively shape the **global agenda** in a number of fields such as **climate, financial stability and sustainable development."**
2. Nothing but the single market	"Given the strong focus on reducing regulation at EU level, differences persist or increase in areas such as consumer, social and environmental standards, as well as in taxation and in the use of public subsidies. This creates a risk of a "**race to the bottom**"." "The EU as a whole is **no longer represented in a number of international fora as it fails to agree on a common position on issues of relevance to global partners such as climate change,** fighting tax evasion, harnessing globalisation and promoting international trade."
3. Those who want more do more	"A group of countries, including the euro area and possibly a few others, chooses to work much closer notably on taxation and social matters. Industrial cooperation is strengthened in a number of **cutting edge technologies**, products and services, and rules on their usage are developed collectively."
4. Doing less more efficiently	"[EU] focuses on **excellence in R&D and invests in new EU-wide projects to support decarbonisation and digitisation.**" "**State aid control** is further delegated to national authorities. **New standards for consumer protection, the environment and health and safety at work move away from detailed harmonisation towards a strict minimum.**"
5. Doing much more together	"On the international scene, Europe speaks and acts as one in trade and is represented by one seat in most international fora. […]**The EU27 continues to lead the global fight against climate change** and strengthens its role as the world's largest humanitarian and development aid donor. "

Source: European Commission

Scenario 1: Carrying on

Description

In this scenario the EU-27 stick to their current course, including on delivering the current reform agenda. This includes focusing its efforts on strengthening the single market and increasing investment, including in areas such as energy infrastructure and digital. This scenario implies no major change of direction in terms of governance or focus.

Potential upsides for climate

> In this scenario the EU maintains its international role on climate change but continues to be hampered by domestic disagreements over the level of ambition.

> The EU leads continued incremental (but not transformational) modernisation of energy markets, which gradually opens the door to higher proportions of renewables, active demand and digital technologies. Investment in cross-border energy infrastructure supports increasing interconnection between energy markets (but national policy and market differences remain).

> A number of member states drive forward their own climate policy ambitions in parallel to the EU targets, while others stick to the minimum requirements.

Potential downsides for climate

> The EU struggles to increase its climate targets in line with Paris Agreement – with widening divisions between actors. As a result, while the EU is still a voice internationally, it fails to fulfil its potential and is unable to encourage others to raise ambition.

> A partially-reformed ETS stumbles on, but carbon prices are low and the ETS remains ineffective in driving transformational change.

> The EU fails to ensure early investment in infrastructure necessary for longer-term, deeper emissions reductions, leading to increased costs of transition in later years.

> Markets in clean energy technologies grow in the EU, but the EU fails to implement a cohesive low carbon industrial strategy, and fails to ramp up investment in decarbonisation.

> Disruption to high-carbon industries (driven by technological and demographic change as well as climate policy) with no clear transition plans lead to a backlash against climate action in some part of the EU, adding to perceived policy risk among investors.

Scenario 2: nothing but the single market

Description

In this scenario the EU scales back its ambition to only focusing on the single market. There is a strong focus on reducing regulation at EU level. There is little appetite for agreement to expand into new areas, for example new rules on mobility of workers. Deepening divergence in national positions limits the representation of the EU in international fora, and the EU struggles to conclude trade deals with its partners.

Potential upsides for climate

> All markets are based on rules. In theory, provided that markets are designed in the right way, a renewed focus on the single market could assist decarbonisation. Strengthening single market rules could challenge high carbon incumbents, for example by preventing capacity payments to fossil power plants. A more closely integrated internal energy market could facilitate trade renewables. Once initiated, disruptive low carbon technologies could spread more easily.

> In practice, however, climate upsides from this scenario are likely to be limited.

Potential downsides for climate

> This scenario is most likely to be associated with deregulation and a roll back of climate policy. There is a risk of a 'race to the bottom' on environmental standards, and of an emerging regulatory gap at EU level. Targets are weakened or ignored, the Commission has little legitimacy to act against member states which fail to meet them, and there is growing divergence between countries.

> The EU is no longer a strong force in international climate negotiations, and leadership relies on individual countries. Without a proactive EU, other countries are less likely to move.

> The social dimension of climate policy is left out, exacerbating transition challenges. There is no effective response to climate risk at EU level. The EU rolls back its spending on clean energy research, development, and demonstration, which in turn undermines EU industrial leadership in these areas. A failure to focus on deep decarbonisation leaves the EU ill-equipped to meet future climate targets.

Scenario 3: Those who want more do more

Description

This scenario describes a 'multi-speed' Europe where one or several "coalitions of the willing" emerge to work together in specific policy areas. This includes instituting legal or budgetary arrangements in these domains, as has previously occurred with Schengen and the Eurozone. Other member states have the opportunity of joining over time.

Potential climate upsides

> This scenario provides a clear opportunity to bank increased climate ambition rather than making everyone go at the same pace. This means that countries such as France and Sweden, who have signalled their intention to raise climate ambition, would be able to do so; and that such actions could be additional to current efforts.

> Transformational regional approaches are developed to take advantage of low carbon opportunities. Cross-border initiatives, such as the North Seas Countries' Offshore Grid Initiative[25], are formalised and expanded.

Potential downsides for climate

> The biggest risk of this scenario is a further loss of consistency on climate and clean energy policy across the EU. Already progress in the clean energy transition is uneven across Europe, with investment levels varying widely between countries; a multi-speed approach to climate policy would exacerbate this. Further divergence in climate policies would also put the internal energy market under even greater strain

> A related concern is the risk of empowering countries who are lagging behind to do even less on climate. If some countries commit to going beyond EU targets, for example, others may feel less accountable for delivering the agreed EU-wide target.

Scenario 4: Doing less more efficiently

Description

This sees the EU scale back its focus to a limited number of policy areas, but it becomes more effective at reaching agreement and delivering on stated goals. In this scenario the EU steps away from areas in which its added value or competencies are limited – regional development, public health, social policy and state aid are listed as examples. However, the EU continues to deepen its work in areas such as innovation, trade and security.

Potential climate upsides

> As a fundamentally cross-border issue, climate is an area with clear EU added value, and could become an area of increasing EU focus and action in this scenario.

> Deepened EU competencies on innovation, trade and investment can become more closely aligned with the EU climate agenda.

> Doing things 'more efficiently' is almost by definition a good thing – in climate and other fields.

Potential downsides for climate

> As with the "nothing but the single market", doing less could potentially include doing less on climate and clean energy. There is no consensus on where the EU should focus its efforts. Climate change has become a divisive topic for some

[25] **https://www.entsoe.eu/about-entso-e/system-development/the-north-seas-countries-offshore-grid-initiative-nscogi/Pages/default.aspx**

member states, and was left out entirely from the Bratislava Declaration on the future direction of the EU, with energy getting no more than a passing mention.

> Although better enforced, 'common standards are set to a minimum'. The EU may be less likely to set ambitious standards for efficient products, vehicles and buildings.

> State aid control becomes transferred to national authorities. While this could create some opportunities for deeper support to low-carbon champions, it is more likely to increase the risk of powerful incumbents in high carbon industries, such as coal, seeking subsidies to prop up their business models and freezing out lower carbon alternatives.

> Rolling back action on regional development means the EU is less able to respond collectively to the social challenges of the clean energy transition, including helping communities reliant on high carbon industries adapt. This leads to deeper opposition to climate policies in regions likely to be negatively affected by the transition in the short term.

Scenario 5: Doing much more together

Description

The final white paper scenario sees a considerable expansion in EU capacities and remit. In this scenario 'there is consensus that neither the EU-27 as it is, nor European countries on their own, are well-equipped enough to face the challenges of the day'. As a result 'cooperation between all member states goes further than ever before in all domains'.

Potential upsides for climate

> This scenario opens the prospect of the EU expanding its remit on climate action into new areas, for example on low carbon industrial strategy, and supporting the communities which are most exposed to climate impacts. The EU becomes better equipped to manage the structural transformations needed for deep decarbonisation.

> The international role of the EU on climate change also strengthens: 'the EU27 continues to lead the global fight against climate change and strengthens its role as the world's largest humanitarian and development aid donor'.

Potential downsides for climate

> In this scenario where the EU expands its capabilities, it is not clear how well aligned EU climate action will be with that of cities, companies and member states. This could limit the effectiveness of additional action.

> No indication is given on how agreement will be reached, given existing divisions in EU climate politics.

The 'Sixth Scenario'?

Description

Several proposals for a sixth scenario have been put forward by groups concerned that the initial five scenarios do not reflect the full set of choices facing Europe.

Friends of the Earth Europe and SDG Watch initiated a Sixth Scenario based on sustainability, which has been supported by a large number of civil society organisations. This includes 'full implementation of the Paris Agreement by decarbonising our economy, enhancing energy efficiency and accelerating the just and sustainable transition to clean and affordable renewable energy, based on the principles of climate justice, in order to limit global warming to 1.5°C'.[26]

Similarly, the European Greens/EFA have produced a Sixth Scenario based on 'Freedom, Security, Democracy and Human Rights'.[27] This includes a set of transparency and governance reforms and wider citizen participation in EU policy.

Potential upsides for climate

The main contribution of these scenarios is a focus on the fundamental values and aims of the European project. They remind us that climate action and broader sustainability are core to the prosperity and security of European citizens. This suggests that the Future of Europe debate is as much about what the EU aims to achieve as how it operates.

Potential downsides for climate

While these scenarios paint a picture of an EU focused on sustainability, it is not clear how to get there. The underlying tensions and governance dilemmas driving the other scenarios remain unaddressed.

[26] **http://www.ifoam-eu.org/sites/default/files/ngo_policy_6th_scenario_position_20170620.pdf**

[27] **https://www.greens-efa.eu/en/article/news/greens-efa-call-on-junker-and-commission-to-rethink-direction-of-europe/**

CLIMATE AS A CROSS-CUTTING THEME

Following the initial Future of Europe white paper, the European Commission also published a series of reflection papers to examine specific issues in more depth. While climate was not highlighted as an explicit issue, each paper offers important reflections on how the Future of Europe will intersect with climate governance.

The social dimension of Europe[28]

The first reflection paper is on the Social Dimension of Europe. The paper recognises that living standards in Europe are high by international standards, with comparatively high levels of social protection. However this prosperity is unevenly distributed between countries and regions, and Europe has been slow to recover from the economy crisis and many citizens fear for the future. The paper points to new social risks and a need to modernise welfare and lifelong learning systems.

The social challenges facing Europe go far beyond the changes underway in energy and climate. The low-carbon transition is yet another driver of change, but it also creates considerable opportunities for people to find employment in new sectors, and for regions and companies to occupy new economic niches.

Incorporating a 'just transition' into EU climate policy will be crucial, but also limited by an important challenge: EU powers in social policy are limited compared to those of member states, local and regional authorities.

Harnessing globalisation[29]

The reflection paper on 'harnessing globalisation' assesses the changing face of globalisation and what it means for European citizens. It considers globalisation and global trade to have been a positive force for change and an important contributor to prosperity, in both Europe and internationally. However it recognises the limitations of the current model of globalisation: in particular the unequal distribution of its benefits; and the pressure that lower standards abroad can put on the EU's social, environmental and taxation policies. This has led to opposition to globalisation in many regions and in parts of the political spectrum in member states.

The paper shows that environmental protection and the fight against climate change can provide new opportunities for EU businesses, and can contribute to maintaining Europe's global influence even while Europe's proportionate share of global economic activity declines. The Paris agreement will offer a competitive advantage to industries that have already reduced their carbon footprint, and also

[28] **https://ec.europa.eu/commission/publications/reflection-paper-social-dimension-europe_en**

[29] **https://ec.europa.eu/commission/publications/reflection-paper-harnessing-globalisation_en**

acts as a great leveller since it will ensure that all countries contribute to CO2 emissions reductions. The paper shows that finalising the rulebook for implementation of the Paris agreement should be a priority, and questions whether the EU should do more to build environmental protection – potentially including standards on climate change – into international trade agreements.

Deepening of the Economic and Monetary Union[30]

The third reflection paper focuses on 'deepening of the Economic and Monetary Union (EMU)' and reflects on the future of Eurozone governance. Even though the paper does not link to climate change specifically, it is clear that climate and Eurozone governance share challenges, insofar as they must deliver on a shared goal, tackling issues of common interest going beyond national borders, with a very diverse group.

The future of European defence[31]

The fourth paper addresses the question of the future of European defence. While Europe has experienced 70 years of peace – the longest such period in its history – the paper calls for a 'European step change in the security and defence field' to respond to new geopolitical threats and vulnerabilities. Climate change is recognised as a driver of conflict and instability around the world, and energy security as a key liability.

The paper suggests that by 2025 the EU should create a more cohesive 'security and defence union'. This focuses primarily on coordination of military capabilities and opportunities such as joint procurement. The corollary of a 'security and defence union' is a more unified and consistent EU foreign policy – including on energy and climate - to address risks at source.

The future of EU finances[32]

In contrast to the other reflection papers focusing on broad global trends, the 'Future of EU finances' reflection paper focuses on the budgetary implications of the five scenarios.

In all five scenarios, the European Commission has identified sustainability as a pillar for future EU finances, along with competitiveness, solidarity and security. In fact, even in the scenarios considering a drastic reduction of EU scope and funds, climate change and energy are considered as a priority. One of the main reasons is the overarching principles of EU added value that the Commission wants to uphold: every euro spent in the EU budget must demonstrate its value in terms of delivering public goods more effectively at European level; the EU

[30] **https://ec.europa.eu/commission/publications/reflection-paper-deepening-economic-and-monetary-union_en**

[31] **https://ec.europa.eu/commission/publications/reflection-paper-future-european-defence_en**

[32] **https://ec.europa.eu/commission/publications/reflection-paper-future-eu-finances_en**

budget should be focused on achieving the objectives set out in the treaties, and providing for public goods. Policy areas at the EU level such as climate and energy are considered an example of this added value, as well as an opportunity for the EU to increase its own resources through environmental taxation, carbon pricing or emission levies on polluting cars. Finally, the text hints at opening the debate on linking allocation of EU funds to the delivery of bolder climate action.

The paper calls for "stronger coordination between external and internal policies (…) including the implementation of the Sustainable Development Goals (SDGs) of the UN 2030 Agenda and the Paris Agreement" and raises a number of key choices in this regard. The paper however fails to address some of the current inconsistencies of the EU budget, including continued spending on high-carbon projects alongside the current commitment to climate mainstreaming and to spending 20% of the EU budget on climate related investment.

CONCLUSIONS

The Future of Europe process has so far involved a wide-ranging review of the issues, options and challenges. Five scenarios for the Future of Europe have been developed, and climate policy looks very different in each of them.

Climate change will not go away, so will feature prominently in the unfolding of any of the scenarios. However some of the scenarios – particularly 'nothing but the single market' – would substantially erode the EU's capacity to act in this field and would leave it ill-equipped to deal with the full scale of climate action (e.g. including the social dimension).

To be successful, and trusted, the EU needs to develop a shared sense of purpose in tackling key societal challenges. Climate change and the energy transition, as areas which by their nature demand a cross-border response, can provide that sense of purpose, provided they are put right and centre of the reflection on the way forward.

A way forward could focus on the following approaches:

1) Establish climate as a common objective and set a collective long-term goal

Establishing an explicit long-term decarbonisation objective would provide a clear framework for short-term climate targets and legislation, and a yardstick against which their adequacy could be judged. It should also increase investors' certainty and thereby reduce financing costs; and help build Europe's credibility towards its international partners.

Building climate action into a renewed statement of the EU's legitimacy, ambition, and purpose would create even greater legitimacy for early, ambitious action, and greater private sector security that low carbon choices and investments would be rewarded by EU action over the longer term.

2) Enhance the EU's international influence on climate

The climate diplomacy landscape has changed significantly since the adoption of the Paris Agreement. The US have retreated from diplomatic and economic cooperation across the globe whilst China has stepped up efforts to become a major diplomatic actor. The EU remains "a" but not necessarily "the" leading clean economy.

The EU's influence over other economies in the realm of climate will largely depend on the credibility of its domestic actions and its ability to renew its climate diplomacy strategy.

3) Integrate a social dimension into climate policy – and integrate climate further into regional development policy

The low-carbon transition is one among a range of coming challenges affecting the European economy: automation, digitalisation, globalisation, etc, are affecting the

quality and quantity of jobs in the EU. Whilst the low-carbon transition creates considerable opportunities for people to find employment in new sectors and for regions and companies to occupy new economic niches, some carbon intensive jobs will be lost, and the costs and benefits of decarbonisation policies will affect different generations unequally.

To address this complex set of challenges, the EU and its member states will need to actively manage this transition: first by actively promoting debate and policy experimentation on these questions, but also by considering the role of EU cohesion policy in delivering a 'just transition' for European workers and regions impacted by the low-carbon transition, and aiming to seize the employment and wider social benefits of investment in energy efficiency on the residential sector.

4) Integrate climate more directly with finance

Decarbonisation depends on, and contributes to, a stable fiscal outlook. Mobilising finance for more sustainable investments is essential to translating the European Union's climate change, environmental and sustainable policy goals into tangible results.

The EU needs a comprehensive, overarching EU strategy on sustainable finance to change the financial ecosystem and better align capital flows with a pathway to sustainable development and growth. In turn, renewable sources reduce exposure of the EU economy to external shocks from carbon fuel prices, creating greater economic and fiscal predictability.

5) Manage climate risks

EU climate adaptation policy currently consists of a voluntary approach (under the 2013 adaptation strategy) which encourages Member States to adopt national adaptation strategies and sets out a range of policy areas where further action was needed.

But a step change in action is now needed. From the extreme heat waves and forest fires that have raged across Southern Europe to violent storms in Poland, flash floods in Italy and landslides in Switzerland, 2017 was dominated by events that have surpassed previous records and were described as 'unprecedented. A greater focus on improving preparedness for and management of risks associated with global warming is vital to ensuring the future economic and social development of communities throughout the EU.

6) Empower cities and non-state actors, and harness their commitment to drive deeper EU-wide decarbonisation

EU-level climate and energy policy has increasingly been complemented by action at local and community level, including that facilitated by the Covenant of Mayors.

Greater efforts need to be made to incorporate local-level action in the EU's overall approach, in order to benefit from policy experimentation; to ensure that local

commitments can add to (rather than displace) action at EU and national level; and above all to ensure a greater sense of local ownership of, and commitment to, decarbonisation strategies.

7) Reform the EU budget

There is currently a huge investment gap in the low-carbon transition in the EU. Recent Commission estimates show that an extra €177 billion is needed annually from 2021 onwards to reach the 2030 climate and energy goals[33].

The EU budget ("multi-annual financial framework) has fundamental influence on the level of public investment delivered to all sectors of the economy and subsequently on the volume of private capital invested. The next budget, covering the post-2020 period, will shape what the European economy will look like in 2030 and 2050. It will need to be radically reformed and targeted to support the transition to a sustainable, strong and low-carbon economy , with a focus on delivering measurable results in terms of mitigation and increased resilience.

8) Recast the role of the EU as accelerating, and managing, the transition

Generally, European leaders will need to become better at explaining what the EU is for, and what it does for its citizens. If a US president can say that "A strong, united Europe is a necessity for the world because an integrated Europe remains vital to our international order"[34], so should European heads of states and governments.

So far, European climate policy discussions have often been treated as a zero-sum game among member states or among industry sectors, with insufficient attention focused on the scope for European action to facilitate faster, more effective, and fairer decarbonisation. This needs to change. European leaders must communicate that European climate policy isn't about sharing the burden of decarbonisation. The EU's climate policy keeps Europeans safe and its economy prosperous by accelerating and managing the low-carbon transition, and preparing Europe for the global economy of the future.

Summary

The approaches set out here overlap with each other to a large extent. Taken together, they have the potential to create a framing narrative for a renewed EU with an unambiguous, publicly supported sense of purpose, and a focus on areas where the EU not only *can* add value, but is essential to delivering the change that European populations want. They are also focused on maximising the opportunities of the future, rather than maintaining the systems and structures of the past. We put them forward as a contribution to the discussion on Europe's future governance, and look forward to debate on their potential to contribute to our collective future.

[33] **http://europa.eu/rapid/press-release_IP-16-4217_en.htm**

[34] President Obama, April 2016, Hannover Messe