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# COP26 AND THE CLIMATE REALITY: IS IT TIME TO MOVE UP A GEAR?

Plenary Meeting of the Club of Three  
London (Institute of Directors), 15 October 2021

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## INTRODUCTION

In October 2021, the Franco-German-British leadership initiative (Club of Three) held its annual Plenary meeting in London. This hybrid event was part of a phased return to normal Club of Three activities after a prolonged and intense period of online discussions during the Covid pandemic.

The 2021 Plenary focused on climate change and the energy transition ahead of the UN COP26 summit hosted by the UK in Glasgow. In the weeks before the summit, the most important since the 2015 Paris agreement, concerns had been raised over the implications that the ongoing energy crisis might have on efforts to implement this

agreement. Increased global demand for energy had led to a sharp spike in oil, gas and coal prices as world economies were beginning to recover. In China, previously closed coal mines were ordered to reopen operations in order to cope with demand pressures. In Europe, governments had felt forced to take immediate steps to mitigate the impact of rising energy prices on low-income households. As this energy crisis was set to continue well into the winter and possibly until spring 2022, could the prospect of more 'gilet jaune' protests in France and their many local equivalents across Europe derail the COP26 narrative for



**Left:** John Murton (speaking), keynote speech



**Right:** Anna Kuchenbecker, Friday morning session

greater climate commitments from major emitters? And would this put the EU Green Deal and planned energy transition at odds with the reality of day-to-day concerns within the European population?

Some 50 senior figures from business, politics, diplomacy, academia and the media in France, Germany, the UK and other European countries participated in the Plenary meeting, which took place at the Institute of Directors in central London. The

discussion was divided into three main themes: international climate actions in an age of great power competition; the realistic path to achieving Europe's low carbon objectives; and what can - and should - be expected from industry.

The event began on the Friday morning with an address by John Murton, the UK government's COP26 Envoy, followed by a first session on the international dimension of climate change.



**Top left:** Norbert Röttgen (speaking via Zoom); **Top right:** Tom Burke (afternoon sessions)

**Bottom right:** Joan MacNaughton and Alexandre Chavarot

## MEETING PARTNERS

This meeting was made possible thanks to:



This was followed by two sessions in the afternoon, and a dinner at the Oxford and Cambridge Club in the evening.

### **KEYNOTE ADDRESS BY JOHN MURTON: EXPECTATIONS AHEAD OF GLASGOW**

In his opening remarks, the UK's COP26 Envoy pointed out that Covid-19 had created a unique situation that had advanced the case for the energy transition. Energy demand had fallen across Europe, was Germany experiencing negative energy prices in the electricity market and renewables were recording very high penetration rates. In that sense, the pandemic was like a postcard of what a low carbon future might look like. It helped to make it possible to convince Europeans that, despite the short-term pressures of the current energy crisis, it was a future worth investing in and within reach. The UK and governments in France, Germany and some other EU Member States, as well as the European Commission, were keen to stress that, far from being the cause, low carbon energy systems were the way of getting out of this crisis in the long run.

European cooperation on climate was working effectively, and as far as the UK was concerned this was a good template for what a future confident relationship with its EU neighbours might look like. European diplomatic efforts had focused on a number of emitters in the developing world like South Africa. Talks between South Africa, the UK, France, Germany, the EU and US had led to a partnership to help decarbonise the African country's electricity system. Eskom, the national power company, has a fleet of coal-fired installations that emits nearly 50% of South Africa's greenhouse gas emissions, and has been hit by chronic power shortages for years. A move away from coal would require significant financial investment which

the European partners were willing to provide as part of efforts to raise the ambition level of Nationally Determined Contributions (NDCs) ahead of Glasgow.

An important difference with the 2009 Copenhagen summit that had dramatically failed was that climate action was no longer seen as a drag on economic growth. Times had changed and many countries now understood that speeding up the energy transition would bring opportunities. This made the negotiations easier.

The main goal for the Glasgow summit was to demonstrate that the Paris agreement worked. One difficulty was that, unlike the 1997 Kyoto treaty, this agreement relied on voluntary targets and untested delivery mechanisms. Its successful implementation would require intensive diplomatic efforts. The UK planned to focus on four main outcomes in Glasgow: deliver on the Copenhagen pledge to provide \$100bn a year for climate action by 2020; demonstrate that progress is being made on adaptation; adoption of long-term mitigation targets to drive low carbon investment; and enhance international cooperation.

The gap between the updated NDCs announced at Glasgow and what is required to keep temperature increases below 1.5 degrees Celsius would be addressed through international alliances in four areas: coal, finance, electric vehicles and forestry. More than 20% of that gap could be tackled by forestry and land use initiatives. The Europe-US-South Africa partnership was a good example of what could be achieved on coal. Pakistan, the Philippines, Kenya and Sri Lanka were other potential targets. On cars, the EU, UK, China and California were leading efforts to phase out combustion engines and represented 50% of global demand for cars.

On climate finance and the \$100bn a year pledge specifically, one British economist pointed out that commitments tended to lack clarity on whether the sums involved would be gifts to developing countries or loans and other forms of financing. An OECD report from 2020 had shown that a significant share of the climate finance flowing from governments in rich nations and development banks was in the form of loans, which environmental groups argued forced low-income countries into debt. Some countries would not move away from coal unless rich nations were prepared to pay for this transition with gift money.

Initiatives like the Glasgow Financial Alliance for Net Zero (GFANZ), which is made up of 450 banks, insurers and asset managers across 45 countries and has around \$90trn of private capital, could have a major impact as their members had committed to align their assets with net zero targets. These were only pledges at this stage but their combined firepower meant that they could really speed up the transition to net zero in developing countries over the next decades.



**Top:** Lord (Adair) Turner (speaking) and Sarah Taylor

**Bottom:** Michael Maclay (speaking) and John Murton

## LIST OF PARTICIPANTS

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**FRIDAY 15 OCTOBER**

**SESSION I – INTERNATIONAL CLIMATE EFFORTS: HOW ATTAINABLE ARE THE COP TARGETS IN AN AGE OF GREAT POWER COMPETITION?**

**Chair:** Norbert Röttgen

**Speakers:** Lord Turner | Ambassador Hinrich Thölken | Isabel Hilton

At international level, climate action risked being complicated by US-China rivalry and renewed great power competition which increasingly dominated all aspects of foreign policy and trade across the world. The Paris agreement would therefore have to be implemented in a global context that was much more geopolitical than when it was conceived. China, which was keen to show its commitment to climate and free trade in Davos in 2017 as Donald Trump took office, had now withdrawn somewhat from the world's centre-stage. Its pledge to reach peak emissions by 2030 and carbon neutrality by 2060 was seen by many in the West as lacking ambition, and it was unwilling to properly engage with the COP process. This was to some extent, some participants argued, a consequence of the very confrontational approach that the US had been taking under the Trump and now Biden administrations.

Attempts by John Kerry, the US Climate Envoy, to separate climate talks with China from the overall environment of US-China relations had not worked. A German participant noted that China was now using its "carbon weight" to influence foreign policy and tame what it regarded as America's aggressive attitude towards its leadership. Climate could not be an oasis amid very tense US-China relations, Chinese climate negotiators insisted. Was China really serious about carbon neutrality? Another German participant was of the opinion that

its leadership was more preoccupied about self-preservation. Its legitimacy was based on its ability to deliver high annual growth rate for the people of China and keeping Chinese manufacturing plants running. These facilities partly relied on electricity from coal-fired power generation, and the decision to ban Australian coal in retaliation for Canberra's call for an investigation into the origins of Covid-19 had turned out to be a serious miscalculation as the global energy crisis hit China.

One of the British participants agreed that Xi Jinping was likely to be more concerned about domestic politics than climate, especially as the 20th Congress of the Communist Party was approaching. However, this did not mean that China was not powering through. The country was building about 120 gigawatts of new wind and solar power per year, which was roughly what the UK planned to have installed for offshore wind by 2050. Battery and electrolyser technologies were also being deployed at a very fast rate. According to a participant, there was no doubt that China could be carbon neutral by 2050 and this was likely to happen even if it did not formally commit to this as part of the COP process. He also predicted that Chinese emissions would in fact peak by 2025-26. Some modellers had even suggested that this could happen as early as 2022. According to another participant, the reason why China had set very soft targets (2030 for

peak emissions and 2060 for carbon neutrality) was because it could then receive international praise for over-achieving them.

Achieving these goals was going to be far from easy. Overseas, the regime in Beijing had successfully built an image of ancient wisdom and serene management. But the reality was far more complex as another participant noted. China's political system was in fact fuelled by ferocious power struggles and ought to be more accurately described as fragmented authoritarianism. The five-year plans designed and agreed in Beijing were often poorly executed in China's provinces where they were confronted by multiple layers of vested interests.

If China continued on its current path, it would come under increasing pressure both internationally and domestically. Failing to peak its emissions before 2030 while the rest of the world decarbonised would isolate China as it would then become by far the largest CO2 contributor with about 40% of global emissions. Under these circumstances, its long-standing argument that, as an emerging economy, it had a right to pollute would no longer be tenable. However, this would only matter to China if it was interested in soft power, which remained to be seen. Perhaps more importantly, environmental and health concerns had risen up the political agenda at home. The 'grow first, clean up later' principle was no longer acceptable and Chinese people expected quality of life improvements.

A powerful tool at the EU's disposal in order to steer China in the right direction was the so-called Carbon Border Adjustment Mechanism (CBAM) proposed by the European Commission in July 2021. The CBAM would effectively place a carbon price on the import of certain carbon-intensive goods from outside the EU, ensuring a level

playing field with other major economies like China. As a German diplomat noted, this mechanism had the potential to become a serious geopolitical instrument by utilising the power of the European internal market, which was to this date the EU's ace card when it came to projecting its influence around the world. But this would depend on how coercive the EU wanted its climate diplomacy to be, and consequently whether it was willing to come up with a meaningful CBAM structure.

In China and other major exporting countries, CBAMs were seen as a protectionist measure. However, there had been recent signs that this view was evolving. In Australia, the main business association was now supporting a 50% emissions reduction by 2030, something that it had previously warned could not be done. This was a testimony to how quickly the energy transition had accelerated over the past year or so, and reflected fears that Australian export would suffer if businesses did not catch with net zero goals. In October, two major Russian steel producers had signed up to a net zero roadmap in anticipation of the EU's carbon border levy. In China finally, policymakers were starting to consider greater alignment between the Chinese and EU Emissions Trading Scheme (ETS) and a more substantial carbon price.



Isabel Hilton, first session (Friday morning)

**FRIDAY 15 OCTOBER**

**SESSION II – EUROPE’S LOW-CARBON TRANSITION: LEAP OF FAITH OR MANAGED PROCESS?**

**Chair: Catharina Hillenbrand von der Neyen**

**Speakers: Edmond Alphandéry | Tom Burke | Ingrid Holmes**

In the EU, the European Commission’s Green Deal and its proposal to cut emissions by at least 55% by 2030 (compared with 1990 levels) and to reach carbon neutrality by 2050 was a very ambitious plan that would lead to major economic and social transformations. There was no doubt about the objective and an increasing number of countries around the world were setting net zero targets. The question therefore was how to manage that process in order to avoid a disorderly transition. According to a French participant, one of the best catalysts to accelerate change was the establishment of a carbon price. The EU ETS had been very successful in driving Europe’s industrial emissions down. But because it only targeted emission volumes, the carbon price was very volatile. After the global financial crisis, it had lost more than 80% of its value. The carbon price today was around €50-60

per tonne. But to ensure that it gradually increased over time in line with Europe’s decarbonisation pathway, the European Commission needed to set a price target for carbon ahead of time. And there was now a consensus that the price tag should be €100/t in 2030. More and more energy firms including Total and BP were making this assumption in their strategic planning. A higher carbon price will help trigger investment in clean energy projects that are today still not seen as economically viable.

The EU will not be able to finance the energy transition on its own. A lot of the investment needed will have to come from the private sector. One of the main challenges ahead however was going to be rebooting the financial sector in order to redirect investments toward low carbon infrastructure projects. A McKinsey study had shown that achieving carbon neutrality in Europe would



**Left:** Edmond Alphandéry



**Right:** Catharina Hillenbrand von der Neyen (speaking) and Ingrid Holmes

require redirecting roughly a quarter of current investments, representing an estimated €28trn over the next 30 years or around €800bn a year. The EU's classification system establishing a list of environmentally sustainable economic activities, also known as EU Taxonomy, had a key role to play in helping financial institutions to redirect their investments to the right projects going forward. What was included in the EU taxonomy would eventually determine how green Europe's future economy will truly be, and there was intense debate within the EU over whether nuclear should be part of it. This was currently not the case and France and other pro-nuclear Member States such as Poland were urging the EU executive to include the technology in a separate guidance document. In Germany, some political parties including the SPD were also keen to recognise natural gas as a transition fuel.

The EU Green Deal was undoubtedly very comprehensive in terms of which and how low-carbon technologies will be rolled out, and how they will be financed by 2050. For participants from industry and the investment community, this was not going to be a leap of faith. The main technologies required to decarbonise Europe were already being deployed, the necessary finance could be mobilised, and detailed roadmaps were in place. But as one participant noted, although physics trumped politics, politics always trumped economics, and no matter how strong the economic case for the EU Green Deal was, its implementation was going to cause political frictions. If it was going to succeed, the von der Leyen Commission needed to provide the missing detail on how it planned to manage the great social transformations that were to come. The Commission's Social Climate Fund using revenues from the EU ETS to support low-income households had been proposed to

address this. But critics argued that it would not be sufficient to mitigate the negative impact of rising energy bills on the poorest part of the European population. In particular, plans to extend the ETS to transport and buildings, and the impact this would have on energy prices for consumers, were met with increasing resistance across Europe including within the European Parliament, as the energy crisis took hold and some countries faced a winter of discontent. Immediate measures taken by governments in order to provide some relief to the poorest households, including direct income support, were costly and had had a very limited effect.

One participant from the UK was of the opinion that fears about the scale of the challenge from a social point of view were somewhat exaggerated. A close look at the data available showed that job losses in sectors like the automotive industry and oil and gas would be offset by new employment opportunities in buildings, batteries and other low carbon technologies. However, another participant stressed that these macro-economic arguments hid the complex implications that the energy transition would have for entire communities unless a comprehensive plan on how to manage these social transformations was laid out. Failing to do so would lead to more 'gilets jaunes' revolts and their many potential European equivalents, on a bigger scale.



**FRIDAY 15 OCTOBER**

**SESSION III – EUROPEAN INDUSTRY’S LOW-CARBON TRANSFORMATION:  
CATCHING UP OR AHEAD OF THE GAME?**

**Chair:** Juliet Davenport

**Speakers:** Frank Demaille | Matt Hinde | Jean-Pascal Cl  men  on

The final session was dedicated to European industry and in particular its efforts to decarbonise the energy sector. The past two years had been marked by announcements of major shifts towards a low carbon future from some of the largest oil and gas companies. This indicated that the oil majors, at least in Europe, were fully on board with net-zero objectives set by governments and were being proactive in the way they intended to contribute to these objectives. At the same time, it was also a response to much wider changes happening across the entire industry, with the rapid deployment of electric vehicles and plans to decarbonise electricity grids.

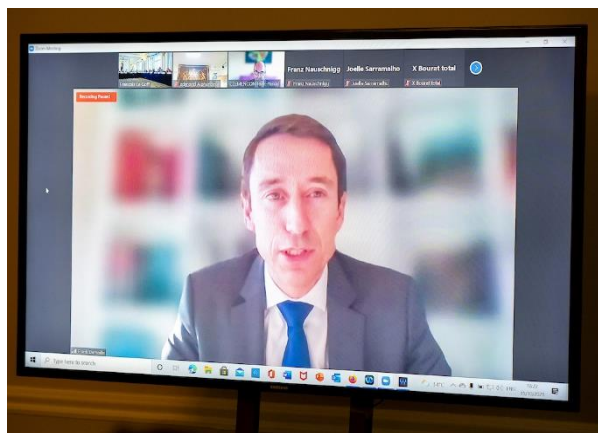
In May 2021, French company Total had rebranded as TotalEnergies to signal that it was now a multi-energy company investing in hydrogen, biomass, wind and solar power

alongside oil and gas. By 2030, it planned to reduce its petroleum products from 55% in 2020 to 30%. Power from renewables would reach 15% of its offering while hydrogen and biomass would represent 5%. Gas production, including biomethane, would increase to 50%. TotalEnergies was going to install 100 gigawatts of renewable energy by the end of the decade, which was more than France’s entire fleet of nuclear power plants, at a cost of \$60bn. This new capacity would mainly consist of offshore wind due to acceptability issues with onshore projects. In the transport sector, the company wanted a strong presence in the charging stations market in order to maintain the same position it had today with the sale of gasoline. Recognising gas as a bridge fuel and having a strong carbon price were key to achieving these plans.



**Left:** Matt Hinde (speaking) and Juliet Davenport

**Right:** Frank Demaille (final session)



Hydrogen also had a very important role to play. Although it was currently ten times more expensive than natural gas, particularly green hydrogen, this fuel was seen as versatile energy carrier that could store, move and deliver energy produced from other sources. ENGIE wanted to be a European leader in the production and storage of green hydrogen and was investing in a number of projects aiming to reduce the cost of this technology. In the Netherlands, it was building a 100 MW electrolysis unit which would increase to 1.85 GW by 2030. ENGIE's green hydrogen production would reach 4 GW by the end of the decade. It also planned to have 1 TWh of installed storage capacity and over 100 refuelling stations for heavy duty vehicles.

As far as power grids were concerned, plans for large North Sea interconnectors had the potential to make a significant contribution towards European net-zero goals. North Sea Link, a 1.4 GW undersea power cable between the UK and Norway, had recently begun operations. Ultimately, National Grid estimated that around 200 GW of renewable energy could come from the North Sea, distributed via interconnectors. But this would only be realised if the UK, Norway, the Netherlands and other North Sea countries were able to cooperate effectively. They all faced similar challenges, notably lengthy planning permission processes. Just for the East Coast of England alone, around 100 landing points would be needed, each one requiring planning permission. Through international cooperation, this figure could be reduced to 35, considerably accelerating the development of these large infrastructure projects as a result.

Brexit had had a detrimental effect on cross-border electricity trading. The UK had now left the EU's market coupling mechanism through which UK and EU interconnectors were previously managed. But the UK-EU

Trade and Cooperation Agreement was a good basis for future joint energy projects and although there had been EU threats to cut energy supplies to the UK over the Northern Ireland protocol, industry remained hopeful that politics would not jeopardise the otherwise very good prospects for cooperation in the North Sea. North Sea interconnectors were a win-win for UK and the EU when it came to 2050 net-zero objectives.

**The Club of Three's 2021 Plenary meeting ended with an off-the-record discussion over dinner at the Oxford and Cambridge Club, entitled "Where Are We Three",** during which participants took stock of the relationship between France, Germany and the UK. The discussion was led by Charles Grant (Director of the Centre for European Reform), August Hanning (former State Secretary, German Ministry of the Interior), and Anne-Elisabeth Moutet (French commentator and columnist at The Telegraph). Topics included the German election results and upcoming coalition government, post-Brexit Britain, and France's presidential elections in 2022.



Charles Grant speaking during the dinner discussion

## CONCLUSION

Despite the ongoing energy crisis, there were no signs of a slowdown in efforts to decarbonise Europe. On the contrary, many governments were keen to accelerate the energy transition as a way of getting out of this crisis. Industry was fully on board and gearing up to play its part in achieving net-zero objectives by 2050. There was clarity on which technologies were needed in order to get on the right path, and how to finance their deployment. In that sense, the EU Green Deal was a very comprehensive plan. What was missing however was a detailed vision of how the social transformations that would come with the switch to a low carbon economy were going to be managed. Failing to do so would lead to a disorderly transition with ‘gilets jaunes’ revolts on a bigger scale.

Globally, European cooperation on climate was working effectively, and as far as the UK was concerned this was a good template for what a future confident relationship with its EU neighbours might look like. In Europe, North Sea supergrids were also an area of promising cooperation post-Brexit, and one that could make a significant contribution to European net-zero objectives.

Even though China was unwilling to engage with the COP process, some believed that it could actually achieve its own climate goals early. The EU’s Carbon Border Adjustment Mechanism was a powerful tool to steer other large emitters in the right direction, and it seemed that countries like Australia, Russia and China were starting to consider aligning their policies with the EU to avoid paying a carbon tariff for their exports.