
Energy and the climate in 2017: limited volatility, climate implementation and political uncertainty

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Theme

The main factors likely to shape the energy and climate fields in 2017 are: a relatively contained volatility in the prices of oil and the implementation of increasingly ambitious climate policies in a context of political uncertainty.

Summary

The year 2016 bequeathed Spanish foreign policy some major and pressing challenges in the arena of energy and climate: the swift coming into force of the Paris Agreement, the completion of the rulebook following COP22, the energy and climate uncertainties stemming from Brexit and the Trump Administration, the long-awaited Energy Union Winter Package and an agreement between OPEC and Russia to restrict oil production. Many of these are, in fact, developments that had already emerged by the end of 2016, and thus will to a large extent mark what 2017 brings. The present analysis offers a number of conjectures regarding: (1) the geopolitics of oil prices; (2) the central importance that the evolution of European energy policy will have for Spain; (3) the future of aspirations surrounding the climate; (4) the development and implementation of European and Spanish climate policy; and (5) the opportunities that emerge from the leadership vacuum that the US is expected to leave in international climate talks.

Analysis

The geopolitics of oil prices

Last year it was suggested that, in light of the demand and supply forecasts, the oil market would continue being affected by an excess of supply likely to keep prices low. From among the highly varied forecasts, a range was quoted for a barrel of Brent that went from US\$55.78 (forecast by the US EIA) to US\$37 (forecast by the World Bank), limits that did indeed encompass market movements in 2016, which averaged approximately US\$45. After collapsing at the beginning of the year, the price of Brent crude recovered with the first tentative signals of intervention from OPEC, eventually exceeding US\$50 in the summer. With summer over the price fell rapidly to around US\$45, returning at the end of September with the first serious warnings of production cuts announced by OPEC in Algeria.

At the end of November OPEC reached an agreement, the first in eight years, to cut production by 1.2 million barrels a day, to which a group of non-OPEC producers led by

Russia later added another cut of 558,000 daily barrels (Russia accounting for 300,000, Mexico 100,000 and Oman, Azerbaijan, Kazakhstan, Malaysia, Equatorial Guinea, Bahrain, Brunei and the two Sudanese republics smaller quantities). Prices rose rapidly in response, ending the year at around US\$55 per barrel. The agreement came into force in January 2017 and is valid for six months, extendable for another six. It will be necessary to wait for the end of the first quarter of the year and the data for oil tanker movements to check compliance with the agreement, but various producers, such as Saudi Arabia, Kuwait and Iraq, have made considerable noise about their production cuts during the first weeks of 2017.

The oil price forecasts for 2017 are, as always, highly diverse. Keeping the same sources used in 2016, the range goes from the US\$53 forecast by the US EIA to the US\$55 forecast by the World Bank. Clearly, other forecasts broaden the scope for increases, some even exceeding US\$60, such as those of Merrill Lynch and Bank of America. Other analysts by contrast predict that the rapid response of non-conventional US oil could take price back to below US\$50 towards the end of the year. Among the producers, Gazprom forecasts prices in the US\$50-55 range for 2017, the Saudi Arabian budget for this year assumes equally conservative prices, and Iran is working on the basis of similar ranges. In a survey carried out by Reuters of 28 analysts at the beginning of December 2016, some days after the OPEC agreement, the forecasts ranged between US\$83 and US\$50, and the average was US\$57.

It appears that there are lower expectations of price volatility, with a tightening in the ranges of the forecasts, above all in a downward direction. The significant volatility in the oil price has been described as one of the main failures in the governance of globalisation, so its eventual mitigation is likely to have highly positive geopolitical and geo-economic effects. There are, however, differences in the forecasts regarding the evolution of oil market fundamentals for 2017. The US EIA predicts that oil supply will continue to outstrip demand until at least 2018, barring seasonal peaks in demand during the summer. By contrast, the International Energy Agency (IEA) in its January 2017 Oil Market Report forecasts a rebalancing of the market in 2017 caused by an excess of demand over supply, and the consequent consolidation of prices.

Be that as it may, 2017 dawns with new questions: will the agreements to restrict production be respected, either by OPEC or the non-OPEC countries? Will they suffice for eliminating over-supply or encourage non-conventional US production to a greater or lesser degree than forecast? What will be the impact of the Trump Administration's energy policy? Will there be positive geopolitical surprises like a rapid recovery of production in Libya and Nigeria, not subject to OPEC cuts? Or, on the contrary, could negative developments arise in these and other scenarios?

The price forecasts reflect different answers to all these questions. If discipline between OPEC and Russia holds, prices could firm up over the course of the first half of the year. An extension of the agreement covering the second six months, added to the seasonal increase in demand in the summer, could help to drive the price towards the upper end of forecasts. Experience shows that OPEC has serious difficulties in maintaining discipline among its members over long periods of time; moreover, the OPEC/non-OPEC deal, which includes non-OPEC countries with little in common, ranging from Mexico to

Brunei, lacks mechanisms for maintaining discipline. In this context, and in light of the fiscal problems constraining many producers and the incentive not to comply with the agreed production cuts, maintaining discipline appears relatively simple for the first half of the year, but less so for the second.

Extending the agreement to the second half of the year would require new negotiating efforts and probably cuts (in response, for example, to the recent growth in Libyan and Nigerian production), plus a new distribution of concessions and obligations. The initial production cuts were announced by various OPEC producers in the first few days of 2017, particularly Saudi Arabia and its Gulf allies. In fact, the Saudi Oil Minister, Khalid al-Falih, announced on 16 January at the World Economic Forum that the agreement might not be extended if prices consolidate production at their current levels, and that he doesn't 'lose sleep' over US producers of shale. At the beginning of February the Director of the National Iranian Oil Company announced in response that Iranian production would exceed 4 mbd by March, without even mentioning the OPEC deal.

In any event, if the agreement is adhered to, it is likely that towards the end of the year the response of the US frackers will restrict the price rise by increasing their output, almost all of it profitable at what would be the higher end of the prices being forecast. If there is any certainty in the Trump Administration's energy policy it is that it no longer puts any hurdle in the way of expanding oil production and fracking, despite the obstacles erected by Obama in the last days of his government. It should be remembered however that what drives US output stems not so much from regulations as the structure of the market and the price vectors, which in the current environment are much more important than the energy policy of the new president, whose impact on hydrocarbons is expected to be limited.

Although to a lesser extent, other producers may also respond with increases in output, such as Latin American and African deep water producers and North Sea output. Indeed, the OPEC/non-OPEC deal excludes some of the largest oil producers in the world, such as Canada and Brazil, and could encourage the oil reforms envisaged by producers such as Argentina. Over the medium term, the producers in the Middle East are aware of the major reserves of non-conventional hydrocarbons in China (their main customer). They also know that if any country can replicate the US fracking revolution, albeit by different means, that country is China. But in the short term, the challenges for OPEC and Russia will be, first, to maintain the production-cuts deal in the second half of the year; and secondly to seek an exit strategy from the agreement to avoid the collapse in prices that has followed every failed attempt to rig the market fundamentals in a lasting way.

As far as the geopolitical risks are concerned, they seem to have been relegated to a secondary role by the scope of the agreement between OPEC and, essentially, Russia. Perhaps one of the least-noticed aspects of the talks among producers concluding in late 2016 is that the prominent role afforded to Russia seems to offer a sort of 'geopolitical insurance policy' against the volatility of oil prices. Russian mediation between Saudi Arabia and Iran in the OPEC negotiations, and the way the conflicts in Syria and Iraq unfold, mitigate the geopolitical risks and demote them to a secondary status.

Russia will also be the focus of US energy policy. The new President and his Secretary of State will need to take decisions on such issues as the continuation or otherwise of sanctions against the Russian oil industry and the nuclear pact with Iran. In the case of the former, it does not seem compatible to lessen sanctions against a country that commits itself to negotiating and fixing production quotas to rig the market fundamentals: it is not necessary to lift sanctions on a state that chooses to sanction itself; or, if they are lifted, at least demand a renouncement of output quotas. In the case of the latter, the OPEC agreement mediated by Russia already restricts the increase of Iranian output, regardless of the Trump Administration's foreign policy considerations and the importance that Russia plays in them. Meanwhile, Russia has recently acknowledged that the advent of Trump could increase US gas exports to Europe and create a new geo-economic rivalry that the Russian government has hitherto discounted.

The recovery in prices will do something to ease the economic tensions of producer countries, but not enough to avoid the need for continued belt-tightening measures. The political economy characterised by oil prices at around the US\$50-60 mark continues posing serious problems to the governments of producer countries, although it enables more gradualist approaches to the reforms that are needed. It should be remembered that Saudi Arabia has announced a record fiscal shortfall, obliging the regime to cut subsidies, double the price of petrol and reduce civil servants' wages by as much as 20% for high-ranking posts, something unprecedented in the country. The deterioration of the Saudi economy also has implications for Spain, which in 2015 exported more than €3 billion-worth to Saudi Arabia, the seventh-largest market for Spanish exports in that year outside the EU, ahead of Brazil, Japan and South Korea. Venezuela, incapable of halting the decline in its output, is one of OPEC's traditional hawks, but it seems unlikely that the level of prices being forecast will suffice to stem its serious economic woes.

Such difficulties become more acute among producers engaged in costly ongoing conflicts, such as Saudi Arabia itself (with Yemen), Iraq, Libya and Nigeria. Offering forecasts in the case of Libya is virtually impossible, except that any geopolitical impact was discounted years ago. In any event, the most recent news about Libyan output is positive: in January 2017 it stood at almost 700,000 barrels a day, more than double the 300,000 being produced last September. In Nigeria too it is likely there will be a consolidation of the recovery in production as the government's management of problems in the Niger Delta improves. Lastly, Algeria remains in a situation of ongoing deterioration, with its economic and energy reforms semi-paralysed due to the uncertainty over President Bouteflika's succession, but the risks are tending to decline as crude prices stabilise.

From the consumers' perspective, whether they be countries, companies or individuals, it seems reasonable to accept that oil prices as low as those of the last two years could not last indefinitely; and that, as a consequence, national economies, companies' strategies and consumers' decisions will need to adapt to the stabilisation forecast for oil prices. These are likely to remain at levels not too dissimilar to current ones, although perhaps with a certain risk of price rises as the year unfolds. The impact of rising prices was already evident at the beginning of the year with the increase in natural gas prices (partly due to their indexation to oil prices, and partly to the increase in demand caused

by the technical shut-down in the French nuclear industry) and the consequent rise in electricity prices.

Climate change in 2016: an eventful year

2016 was characterised by both positive and negative developments in the climate arena. After the diplomatic climax of COP21 and the ratification of the Paris Agreement by China and the US, the Agreement entered into force ahead of COP22 in Marrakesh, thanks to ratification by the EU, among others. It is the first time in the history of the climate talks that an agreement has come into force less than a year after being signed, which indicates the importance of climate change to the global agenda.

Another positive element that accompanied the Paris Agreement coming into force was the passing of the Kigali Amendment to the Montreal Protocol for the gradual elimination of the use of hydrofluorocarbons (HFCs). Progress has also been made in the transport sector. 2016 saw the approval of the global mechanism for offsetting emissions devised by the International Civil Aviation Organisation (ICAO). For its part the International Maritime Organisation (IMO) has adopted a system for collecting data on ships' fuel consumption and measures related to reducing emissions of greenhouse gases are expected in 2018.

The agreements reached by the international community represent an unprecedented global commitment to a transition towards a low-carbon development model. It is a commitment founded on a decrease in the cost of renewable energies, on better scientific knowledge of the effects of climate change, on business opportunities for the companies that lead the transition towards a low carbon economy, on growing concern about the effects of climate change among the general public and on citizens' demands for climate initiatives on the part of their governments.

The commitment to climate action has also been joined by the international financial industry, which since 2016 has had a report, piloted by Michael Bloomberg and Mark Carney, on voluntary disclosures relating to the climate risks that companies are exposed to and drawn up by the Task Force on Climate-related Financial Disclosures (TCFD) of the Financial Stability Board. Information about exposure to climate risks (and the ability to manage them) will be of immense value to investors and insurers, who will have the information needed to differentiate between investments in businesses that are acquainted with their climate risks and manage them proactively and those that are unaware of them.

The aforementioned progress and commitment indicate that climate action is irreversible, as the international community declared at COP22. However, 2016 was also the first acid test for the Paris Agreement. On 8 November Donald Trump was elected the new President of the US. As the second-largest producer of greenhouse gases, US climate policy is crucial to reducing carbon in the global economy.

Although there is uncertainty about the steps Trump will take at a federal level, the president-elect's declarations on the climate issue, the appointment of climate-change sceptics opposed to Obama's climate policy, such as the former Governor of Texas Rick

Perry to head the Department of Energy, the Attorney General of Oklahoma Scott Pruitt to lead the Environmental Protection Agency (EPA) and the naming of Rex Tillerson, former Chairman and CEO of Exxon Mobile, as Secretary of State and head of US diplomacy, do not augur well. Indeed, the Trump Administration's recently-published energy plan (*An America First Energy Plan*), outlines in the space of barely one page aspirations to increase domestic energy output, liberate the country from OPEC and drastically cut energy regulations, without even mentioning renewable energy or climate change, apart from affirming the Trump commitment to abandoning Obama's *Climate Action Plan*.

Moreover, the initiatives that were unveiled in the first two weeks of Donald Trump's presidency confirm the fears surrounding the new US government's lack of ambition in the climate field. There are clear signs of a change of direction in US climate policy, such as: the deletion of references to climate change on the *White House website*; the restrictions imposed on communications and publications released by institutions of such acknowledged international renown as the EPA and the plans to dismantle this institution; the repeal of the law that limited methane emissions from oil and gas exploration and production processes; and the signing of two executive orders to proceed with the construction of two oil pipelines (Dakota and Keystone XL).

It should also be remembered that Trump committed himself during his campaign to revoke the *Clean Power Plan*, whereby the US undertakes to reduce emissions released from thermoelectric power plants by 32% by 2030 compared to 2005 levels. It is also likely that Trump will 'cancel' the Paris Agreement, and he seems set to do this soon. But in any event, according to article 28 of the Paris agreement, the US will not be able to withdraw prior to 2019. Finally, it is expected that Trump is unlikely to honour US financial commitments on climate issues.

The response from scientists, activists and politicians has been swift. Various universities in the US and Canada have been storing climate data on private servers since December. A march for science and against post-factual science policies has been organised for 22 April 2017, Earth Day. It is also worth pointing out that there is likely to be ongoing support for climate policy from individual US states and cities. Moreover, the fall in the costs of renewable energies and the competition from other fossil fuels make investments in coal, for example, increasingly less attractive. That said, despite all the initiatives under way to offset Trump and the relatively limited scope of the measures at a federal level, uncertainty is once again haunting hopes for the climate, potentially delaying the transition to cleaner energy.

An additional annoyance for Spain is the prominence of the role that the Institute for Energy Research will play in US energy policy: some readers may remember this 'delightful' Republican think-tank publishing a pamphlet in which it fallaciously concluded that for every post created by renewable energies in Spain, 2.2 had been destroyed in the rest of the economy.

Turning again to the international scene, the domino effect that Donald Trump's electoral victory could have had on international climate talks –with China, among others, potentially reducing its level of ambition and paralysing negotiations– has not transpired.

On the contrary, the international community meeting in Marrakesh sent out a message of unity amid the prospective challenge of climate change. The cause of this retrenchment in the acquired climate commitments may lie in governments' awareness of the transition that has taken place from an international system of dividing up the mitigation efforts towards a situation in which countries and businesses compete for the opportunities stemming from a low-carbon economy.

A good example of the competition for the opportunities arising from a global energy transition has been provided by China in recent years. The exhaustion of an economic model highly dependent on greenhouse gas emissions, with the undesirable socio-economic and environmental consequences that accompany such a model, is giving way to a new economic model in China, underpinned by the country's 13th Five-Year Plan (2016-20). China has set a course towards a model that produces lower emissions, competes for the renewable technologies market and bolsters its international standing as a fundamental player, and increasingly important asset, in the climate arena, among other goals. The figures in the renewable field are overwhelming: in 2016 China more than doubled its installed photovoltaic capacity relative to the preceding year (77GW in 2016, compared to 34GW in 2015) and has a third of the world's wind capacity (more than 145GW of the 433GW installed worldwide in 2015). The alignment of Chinese social, economic and environmental interests is bringing about a change in international climate leadership.

In the European context, one of the potentially destabilising elements for climate policy in 2016 was the UK's decision to leave the EU. Indeed, the uncertainties about the effects of Brexit on the fight against climate change are considerable. Given that the UK and EU climate policies have evolved in a coordinated manner in the past it may be expected that they will continue to be fundamentally aligned in the future, but Europe has lost a skilful negotiator on the international climate scene. Europe has also lost a (generally) ambitious partner on climate issues, something that lends more relative weight on EU climate decisions to member states that are less proactive on the carbon-reduction front, such as Poland and Italy. The effect of Brexit, while not being devastating to the climate process, could alter and delay the European energy transition. The mid- to long-term effects on the European Union Emissions Trading System (EU-ETS) and on the Effort Sharing Regulation (ESR), which impinges on the so-called diffuse sectors (businesses, residential, transportation and agriculture) are also unclear, and the uncertainties seem unlikely to be resolved in 2017.

As far as European leadership on climate issues is concerned, the situation that arose in 2016 recalled in some respects, all things being equal, the one seen in 2001 when the US failed to ratify the Kyoto Protocol, sowing doubts about the future of the international climate regime. Then, Europe took the lead in the international talks that culminated in the protocol coming into force in 2005. As happened on that occasion, the vacuum the US will create in the international climate talks in 2017 could present a new opportunity for Europe to resume its executive leadership role, this time accompanied by, among others, the other members of the High Ambition Coalition, the Climate Vulnerable Forum and China –on this occasion it will be more difficult for Europe to lead on its own, in part due to the Brexit effect and to the need to reconfigure the European project–.

Foreign policy, energy and climate change: European energy policy and the Winter Package

2016 was an important year for European energy policy, with the approval at the end of November of the Energy Union's Winter Package. Apart from its somewhat unfortunate name, which the Commission is trying to replace, without great success, with the slightly more palatable Clean Energy for all Europeans (in line with the UN Sustainable Energy for All initiative), the package represents, together with the evolution of oil prices, the other major challenge of 2017 for member states' energy policies, the companies in the sector and European consumers. The new energy package is a significant transition in the orientation of Europe's foreign energy policy and the Energy Union itself, which may be summed up by the formulation "'from Tusk to Musk'. The Energy Union came into being as an initiative linked to Donald Tusk, the then Polish prime minister and now president of the European Council, aimed at encouraging the diversification of European gas imports from Russia following the succession of Ukrainian gas crises.

By contrast, the Energy Union Winter Package seems to replace the geopolitical strategy of reducing Europe's dependency on Russian gas imports with one of diversifying its sources of energy towards renewables and reducing reliance on fossil fuels, including natural gas. Its support for renewable energies, especially decentralised ones and electric vehicles, as well as their pan-European regulation and the fostering of intra-European flows of renewably-produced electricity, seem to offer a prospect that differs from that originally envisaged by the Energy Union. The Winter Package thus seems to have more in common with the tech vision of Elon Musk and the plans of his company Tesla than the geopolitical ambitions initially set out by Donald Tusk.

It is unavoidable for Spain to participate actively in this conceptual shift in EU energy policy, which now not only covers the traditional aspects of the secure continuity of supply of hydrocarbons, but also increasingly the geopolitical aspects of the evolution of renewable energy sources, including exchanges of renewably-generated electricity, both within the EU and with its neighbours. A detailed analysis of the Package is impossible given its breadth, and therefore the paragraphs that follow are restricted to highlighting the opportunity it represents for Spanish foreign policy.

The Winter Package entails that the foreign energy policy of the new government will continue being focused in 2017 on the electricity aspects of the Energy Union. This dimension affects top-priority issues for Spain's European energy policy, ranging from interconnections to the treatment of renewables and cross-border electricity flows, and including the situations of cities and islands regarded as peripheral and the governance of the Energy Union itself. Member states are obliged to submit Integrated Energy and Climate Plans covering 10 years to reach the 2030 targets: for example, how to reach the 15% electricity interconnection target, contribution to the 27% renewables target and 30% efficiency target (assuming the proposal is approved by the Commission), and how to improve the energy security situation. The government will need to submit a draft of its plan to the Commission on 1 January 2018, when a process of planning, monitoring and programmed communication will get under way in parallel with the Paris Agreement.

But the European legislative process in the Parliament and Council begins much earlier, in the first months of 2017 and augurs problems. It is likely that Parliament will demand

more ambitious commitments (for example, 40% in efficiency and a more ambitious renewables target) and the Council will focus on the aforementioned agreed targets. The way energy policy is handled, the commitment to consumers and self-generation could also be sources of controversy. From the foreign policy perspective, the government will continue emphasising interconnections with France, but will need to make them manifest in the aforementioned Integrated Plan, which will mark out the rules of the game for the Spanish electricity sector over the course of a decade.

The whole of this process offers Spain a major opportunity in terms of its standing abroad. Possibly for the first time in many years, Spain finds itself in 2017 in a position to contribute constructively and creatively to European energy policy. The new government finds itself with a restructured sector that is freed from the burden of the tariff deficit, with a substantial international reputation, and with a climate policy that is firmly anchored in the Paris Agreement. It seems an ideal moment for raising the pitch of Spanish foreign policy in the energy arena, particularly in Europe. It is important for both the government and the various political parties to be able to overcome their differences at the domestic level, with consensus emerging such as those related to energy poverty and climate change, in order to focus more attention on the international dimension of energy, at least in the European context. To extend an earlier idea, there is a gulf from Tusk to Musk that may prove to be particularly fertile for Spanish energy interests.

Closely linked to the preceding point, 2016 ended with a joint declaration, agreed on the sidelines of COP22 in Marrakesh, on a roadmap for sustainable electricity trading between Morocco and the EU, signed by the host country, Germany, Spain, France and Portugal. Its aim is to facilitate the exchange of renewable electricity and electrical integration with Morocco. Over the course of 2017 an implementation deal will need to be agreed, the signing of which has been set for COP23. Also in December of last year, at the meeting of Energy Ministers of the Union for the Mediterranean (UfM) in Rome, a 'regional improvement framework' was agreed for Euro-Mediterranean energy cooperation. This enables the implementation of joint projects across the three Euro-Mediterranean platforms of gas, electricity and renewables.

The Elcano Royal Institute has consistently emphasised the external benefits for Spanish foreign policy of this type of structural agreement and of establishing an attractive narrative for them. This enables the country to be perceived as Europe's and Morocco's comrade in their energy transitions, complementing Spanish advocacy for the interconnections while strengthening energy relations with Morocco. It would be advisable to extend this capacity for cooperation to countries such as Algeria, where Spain could contribute in a major way to establishing a more attractive narrative for Euro-Algerian energy relations. Spain can also rely on other European initiatives, such as the aforementioned UfM platforms for gas, electricity and renewables, and strengthen the activity and visibility of its foreign policy in the energy arena.

European climate change in 2017: implementation and design

Internally, Europe will continue working throughout 2017 on projects to reform the European emissions trading system (EU-ETS), the ESR and the dossier on land-use, land-use change and forestry (LULUCF), which are in a highly advanced stage.

On 15 February the European Parliament will vote on the EU-ETS reform, the main aim of which is to give a clear long-term pricing signal to the decarbonisation market for emission-intensive industries participating in the European emissions rights market. To this end it is necessary to modify the Market Stability Reserve and put forward measures that incentivise the decarbonisation of emission-intensive sectors while avoiding the risk of 'carbon leakage'. As far as the ESR is concerned, the Commission's proposal involves a share-out among the member states of the emissions reduction target for the so-called diffuse sectors (a target that involves an emissions reduction of 30% by 2030 compared to 2005 levels). The proposal relating to ESR is subject to changes both in the European Parliament and the EU Council of Ministers, which also have to come to an agreement in order for the Commission's proposal to prosper. In the context of LULUCF, the Commission's proposal consists of the member states adopting a legally-binding commitment until 2030 to offset emissions generated by land-use, land-use change and forestry.

Meanwhile, Germany holds the presidency of the G20 until the end of 2017. Two of the priorities of its presidency are the implementation of climate commitments acquired within the framework of the Paris Agreement and the reconciliation and alignment of climate and energy policies as prerequisites for ensuring economic growth.

Domestically, Spain formally ratified the Paris Agreement at the beginning of 2017. Its implementation and the raising of ambitions are now the principal challenges that remain. In this context it is expected that Spain will begin work in 2017 on designing the heralded Climate Change and Energy Transition Law, an Act that is expected to regulate existing and future measures (with 2030 and 2050 in mind) for the fight against climate change. The forthcoming legislation will need to address the complex task of combining the target of the virtually complete decarbonisation of the economy with the demands of the business sector: a sector looking for rules that are predictable and comparable at an international level, as well as economic support that is sufficient to avoid loss of competitiveness in sectors at risk of carbon leakage (off-shoring) vis-à-vis European and international companies.

As far as the outstanding tasks are concerned, in its most recent environmental performance review the OECD recommends that Spain increases the 'greenness' of its tax system, withdraws subsidies for diesel and reduces the fiscal pressure on employment. It also emphasises the importance of integrating and coordinating environmental policies across the various institutions, as well as the need to improve the transposition of European regulations. The OECD notes the importance of the transport sector in the country's total output of greenhouse gases (24% of emissions in 2014), and underscores the opportunities for emission-reduction in this sector, for example through electrification. Measures in the field of energy efficiency, the development of renewable energies and opportunities in the construction sector are also mentioned as areas where there is scope for improvement.

In terms of foreign policy in the climate arena, the vacuum created by the Obama Administration's departure from international climate talks and the reconfiguration of the EU in the wake of Brexit provide Spain with an opportunity to increase its presence and leadership on the international climate stage. In this it can rely on the backing of the Spanish public, because once again, as they have been doing since 2011, Spaniards have identified climate change as the **second most important issue** in foreign affairs after the fight against jihadist terrorism.

The tools available to the government to increase the Spanish presence on the global climate stage include, among others, institutions such as the Ibero-American Network of Climate Change Offices (RIOCC), which has the potential to be replicated in other geographical areas, and climate-related funding. Such funding will amount to **€900 million annually by 2020** if the commitments announced by the government are kept. The additional nature¹ of the funding, as well as the inclusion of the recipients' requirements in managing the funding, will help to reinforce Spain's image as a country that is committed to international mechanisms of climate solidarity.

Conclusions

2017 poses some major challenges for Spanish foreign policy in the energy arena. First, the majority of forecasts point to a stabilisation of oil prices at a level not dissimilar to those that currently prevail, although everything will depend on how united OPEC manages to remain in a year that its members are likely to perceive as eternal. This represents a wake-up call from the positive supply-side impact that has benefitted the Spanish economy in the last two years and was never going to last indefinitely, something Spain has already experienced in the form of rising electricity prices in the first few weeks of the year. In addition, the partial recovery of prices eases the tensions among such important suppliers for Spain as Algeria, Nigeria and Saudi Arabia, although it does not reduce the need to continue with economic reforms and fiscal tightening.

The second major external energy-related challenge of 2017 will be to contribute to the debate about the new European electricity and renewables package, and draw up the Spanish plans that the new regulations require. It is also important to maintain a proactive capability on the Euro-Mediterranean energy stage: making headway on a new renewable exchanges project with Morocco and clearing up doubts about the third electrical interconnection; contributing with ideas for renewing the European energy relationship with Algeria; and, in general, trying to raise the commitment and visibility of EU energy initiatives.

But apart from these major energy vectors, 2016 and 2017 are also years of change in the micro-geopolitics of energy to be resolved between new entrants and incumbents, and between the former and consumers (and 'prosumers', whether existing or potential). Conceptual factors carry more and more weight in consumers' decisions and technology

¹ In other words, that climate funding is in addition to official development aid, rather than siphoning off funds from development projects for the fight against climate change. See <https://www.odi.org/sites/odi.org.uk/files/odi-assets/publications-opinion-files/9296.pdf>.

broadens their options. One of the milestones that passed virtually unnoticed in 2016 was that, according to International Energy Agency, 2015 saw a turning point for renewable energies, which in terms of installed capacity overtook coal for the first time.

The Trump administration will be seen in action in 2017 and the early decisions indicate a 180-degree about-turn in US climate policy. The international financial sector will benefit from a guide, namely the Task Force on Climate-related Financial Disclosures (TFCFD) report, to providing information about climate risks and their management, information that will have an increasing impact on investors and insurers. In the EU, resolute headway will be made on reforming the ETS, the ESR and the dossier on LULUCF, shaping the route to be taken by European climate policy in the medium term. Negotiations will begin in Spain to lay the groundwork for the Climate Change and Energy Transition Law, with the 2030 and 2050 horizons in view. Another eventful year on the climate front is thus to be expected.

Apart from the major EU targets in the field of energy and climate policy for 2030 (27% in renewables, 30% efficiency –if the Commission’s proposal is accepted– 40% decarbonisation and 15% interconnections), in 2016 it emerged that in 2017 Google will become 100% renewable, beating both Apple and Facebook to this prize; and that Tesla, not content with entering the solar roof and large battery markets in 2017, wants to build a million cars in 2018. It is not easy to specify exactly when the tipping point will come in the transition towards a low-carbon economy, but perhaps 2016 and 2017 are likely candidates.