

CLIMATE CHANGE, ENERGY AND ENVIRONMENT

THE EUROPEAN GREEN DEAL

A game changer or simply a buzzword?

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The European Green Deal is EU's new growth strategy which lays out a holistic policy agenda of how to carry out a complete greening of our economy and society with the ultimate goal of reaching climate neutrality by 2050.



Judging on its vast ambition, the European Green Deal has the potential to complete an ongoing shift in the mainstream economic paradigm towards the green transition and sustainable development.



COVID-19 presents acute challenges for the European Green Deal, but EU leaders can seize the moment by deciding to definitely shape EU's recovery plan from the crisis in agreement with the objectives of the European Green Deal.

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Introduction

On 11 December 2019, the European Commission (hereafter: the Commission) promulgated a communication setting out the European Green Deal (EGD). The perception of urgency to act upon climate change, pollution, biodiversity loss, adverse industrial practices and other forms of environmental degradation has greatly increased in recent years. The EGD reacts to these challenges and adds a new layer of ambition onto EU policies to transform the European Union (EU) into a decarbonized, resource-efficient, green and socially fair continent. This short article plans to shed light on the EGD, to see how it came about, what it consists of policy-wise and what to expect from the roadmap in the future. The EGD has become somewhat of a buzzword in EU circles. There is a catchy sound to it. It is reminiscent of Roosevelt's New Deal, a comprehensive recovery plan following the Great Depression. However, the context of the EGD was radically different when it was initially presented only a few months ago. The EU economy was in full swing, and the time was ripe to rethink the strategic orientation and direction of the European social and economic model now that crisis-mode governance took a back seat. Much has changed since then and the EU is, as of February 2020, experiencing one of the greatest, if not the greatest crisis since its beginnings – a coronavirus (COVID-19) pandemic which put Europe's entire society and economy in the deep freezer.

This brief contribution will cover several aspects of the EGD. The first section introduces the EGD. Second, I will explain the political context leading to the EGD. Third, the essay will reflect on the policy evolution of EGD policies. The politics and policy behind the EGD explain why the Commission chose to frame the EGD as EU's new growth strategy. Next, the essay will scratch beneath the surface of the buzzword and look into the substance of the EGD. Is there more to the EGD than just cosmetics? The final section discusses the effects of the coronavirus pandemic on the ambitiousness of the EGD and the challenges/opportunities that the current pandemic poses to EU's green transition.

1

EU'S NEW GROWTH STRATEGY

The EGD is the successor of the EU's Europe 2020 strategy for smart, sustainable and inclusive growth. The EGD builds on the Europe 2020 strategy and the Commission led by the new President Ursula von der Leyen has the ambition of making it the centerpiece of a new growth paradigm which is slowly taking over at the EU level. As the EU's new growth strategy, it entails a compendium of initiatives, policies and measures aimed at:

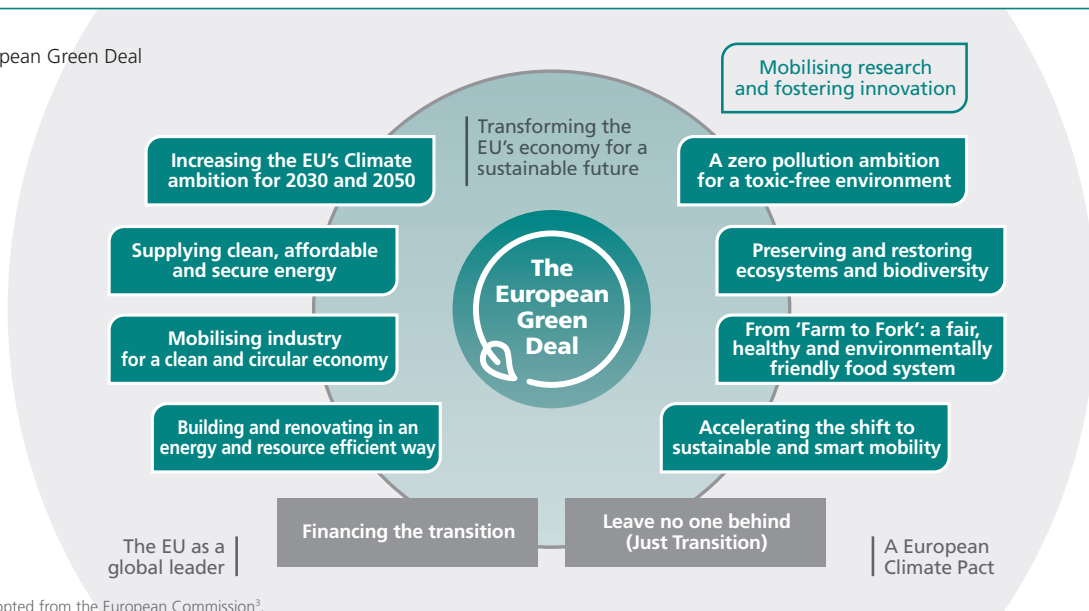
'transform(ing) the EU into a fair and prosperous society, with a modern, resource-efficient and competitive economy where there are no net emissions of greenhouse gases in 2050 and where economic growth is decoupled from resource use'¹.

In other words, the EGD is the EU's response to a worsening climate and environmental crisis, and EU's main instrument to bring to life the United Nation's 2030 sustainable development goals. The EGD is EU's landmark plan for a more sustainable future in which economic growth would not jeopardize the environment and natural resources and will not leave the society's most vulnerable people behind in the green transition. The EGD offers a comprehensive roadmap of how to achieve climate neutrality by 2050. It lays out a holistic agenda which recognizes that it will be paramount to integrate environmental and climate objectives into other

major policy sectors such as transport, energy, construction, agriculture, finance, social policy and industry.

Environmental policy integration means that sectoral policies are not created independently of each other but should actively seek to contribute to the achievement of environmental objectives and avoid harming other environmental goals. The idea is to streamline policy activities by taking into account environmental issues in a coordinated way so as to reap synergies from all policy areas. Environmental policy integration has been a principle in EU environmental policy in the past and in that sense is not new, however it has not been applied consistently, especially in sectors in which conflicting policy objectives take precedence over environment/climate, such as 'energy security' in energy policy². The EGD intends to achieve a greater commitment and political support to the cross-fertilization between different policy sectors to ensure policy coherence. The EGD does not envisage environmental issues to be simply add-ons in other sectors but to take priority over sectoral objectives. When it comes to finance, the EGD plans to mobilize a total of 1 trillion euros of investment for the green transition as part of a European Green Deal Investment Plan and the Commission wants to funnel at least 25 percent of all EU funding from the EU's structural and investment funds to EGD-related activities.

Figure 1
The European Green Deal



Source: Adopted from the European Commission³.

The EGD's ambition can be broken down into four goals which map out a zero-emissions future in the EU and represent the building blocks of the EGD:

1. Reaching climate neutrality by 2050 with the perspective of agreeing a 50-55% reduction target for 2030. Climate policy integrates both climate mitigation (reducing the effects of climate change) and climate adaptation (adjusting to the reality of climate change, damage control) strategies. Carbon neutrality denotes the state of reaching a net zero carbon footprint. In the more optimistic account of carbon neutrality, zero emissions imply the complete elimination of carbon emissions, that is, zero levels of greenhouse gas (GHG) emissions by 2050. However, even though the EU is committed to minimizing greenhouse gas emissions, EU's net zero carbon footprint is to be achieved by balancing out the emissions produced with emissions that are removed from the atmosphere through the myriad types of carbon offsetting processes such as through using renewables, increasing energy efficiency, afforestation, better land and soil use practices, carbon capture and sequestration technologies, emissions trading etc.

2. Transition from a linear to a circular economy. In a circular economy, economic growth is decoupled from the resources. It denounces the linear model in which resources are simply extracted, processed, used and disposed of. Circular economy envisages the integration of sustainable production, processing and consumption phases so that the life-cycle and durability of materials and products is extended, consumers are incentivized to reuse and repair products so that waste generation is minimized, and products or secondary raw materials are eventually recycled and recovered as inputs in the production of new products. For the circular economy model to work, both the entire sup-

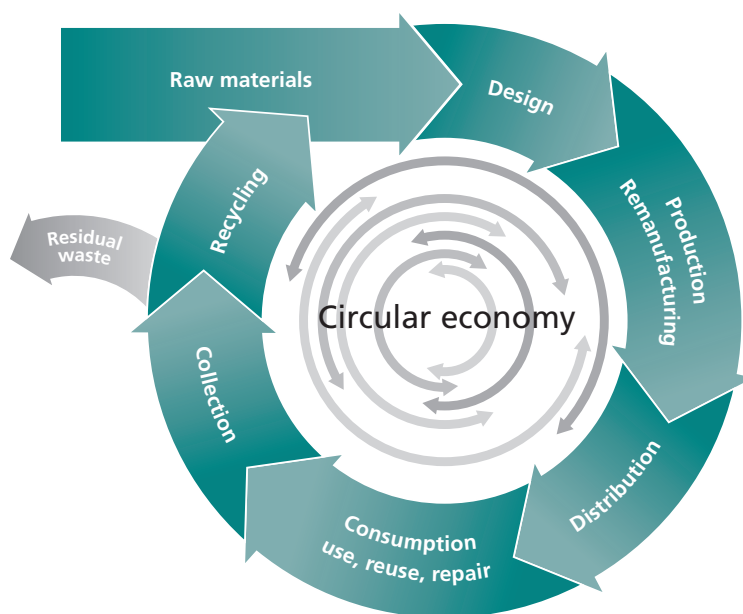
ply chain and consumption patterns need to embrace the principles of sustainable development.

3. Preservation of the environment. The EGD wants to step up existing EU's activities in protecting and restoring the biodiversity of our environmental ecosystems. At the same time, the EGD looks to reduce the levels of pollution, redraw the use of chemicals and pesticides, set new standards for air and water quality and increase the incentives for sustainable and environmentally-friendly practices in agriculture.

4. The EGD proposes a Just Transition Fund which will ease the adjustment path for those regions and sectors which are disproportionately affected by the green transition. For achieving a wide consensus on the EGD, it will be important to bring on board skeptical Member States and regions, industries and populations in the EU whose economic growth and livelihoods heavily depend on fossil fuels. The goal is to 'leave no one behind' and to make the transition as just as possible so that the greening of the economies and the transformation of national economies is supported with additional money and favorable fiscal treatment of green investments. The Just Transition Fund's role will be to enable a just and inclusive ecological transition by making available resources for adjusting industrial practices, re-skilling of workers and protecting those who are exposed to climate change and environmental degradation the most.

The EGD is the most blatant manifestation of the Commission's and EU leaders' highest political support to accelerate a paradigmatic shift in the current economic model and to intensify the green transition. But, how did the EGD come about?

Figure 2
Circular economy



Source: Adopted from the European Commission⁴.

2

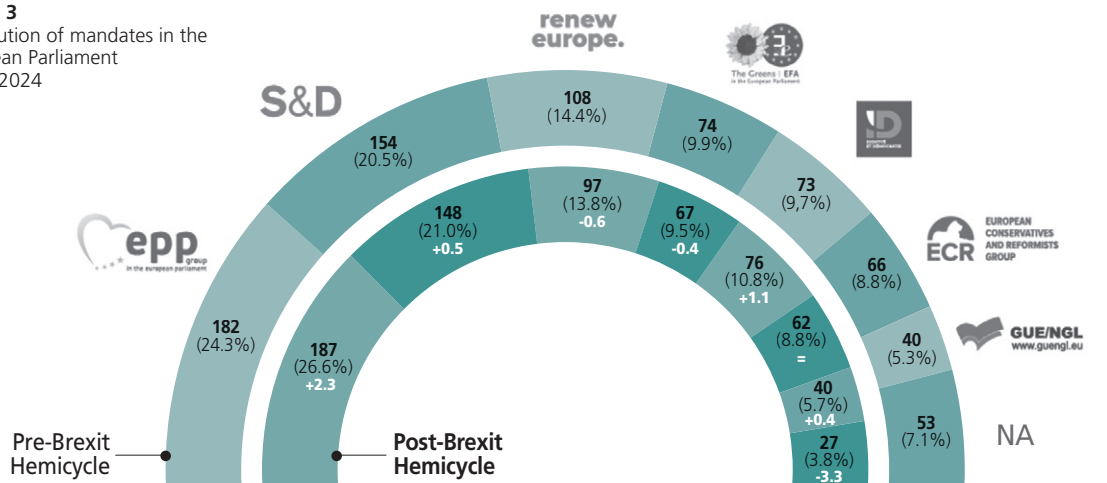
THE POLITICAL CONTEXT OF THE EUROPEAN GREEN DEAL

The political context of the 2019 European Parliament (EP) elections forms the first piece in the puzzle as to why the Commission opted for the EGD as EU’s new growth strategy. In the run-up to the elections, major political groups in the EP, including the European People’s Party (EPP) and the Progressive Alliance of Socialists and Democrats (S&D), announced their lead candidates for the Commission President expecting that the winning group will assume the Commission President post automatically (the *Spitzenkandidaten* process). However, the *Spitzenkandidaten* process backfired after the 2019 EP elections which produced the most fragmented EP ever. The EPP and S&D, while remaining the biggest groups in the EP, lost parliamentary majority, whereas the Liberals/Renew Europe and Greens gained political weight. Manfred Weber, who was lead candidate of the winning EPP and Commission president hopeful, saw his chances of becoming President take a sharp downturn. He was not to the liking of the Socialists, Liberals and Greens, but more importantly, he became victim to French President Emmanuel Macron’s principled reservation towards the *Spitzenkandidaten* process.

Alternatively, the European Council agreed to suggest a compromise candidate, the German Ursula von der Leyen from the Christian Democratic Union. Her candidacy compromised the *Spitzenkandidaten* process and antagonized the EP which had to confirm European Council’s proposal. The ‘winners’ of the EP elections (Liberals/Greens) were

suspicious as to whether she would be capable of translating progressive policies if confirmed. She was aware of the frustration created by her candidacy and was desperate to reassure the ‘kingmakers’ in the EP in the run-up to the vote that she would uphold environmental issues and put the green transition high on the Commission’s political agenda. The fragmented and hostile political landscape forced von der Leyen to cater to the interests of the Greens, Socialists and Liberals in order to receive their support. Nonetheless, she could not afford to retreat too far from the interests of the European Council and its strategic policy guidelines for the upcoming period. The decision to place the EGD at the core of the new Commission’s mission statement represents a politically canny move. The EGD responds to both the EP’s orientation and the European Council’s policy calls for an ‘in-depth transformation’ of EU’s economy and society (see next section). Von der Leyen demonstrated that she would act responsibly to the wishes of both institutions by flagging the EGD in her Political Guidelines for the new Commission and by entrusting the Executive Vice President position in charge of the EGD to a staunch supporter of the EGD, the Socialist Frans Timmermans. In July 2019, she finally won the support of the EP by a razor-thin majority (383 for, 327 against, 22 abstentions). A second, but closely related reason why the EGD became the Commission’s key pitch has to do with the evolution of the green agenda on the EU level over the last several years.

Figure 3
Distribution of mandates in the European Parliament 2019-2024



Source: Adopted from the European Parliament⁵.

3

POLICY DEVELOPMENTS BUILDING UP TO THE EUROPEAN GREEN DEAL

Environmental policy is one of the most propulsive policy areas in the European Union with an ‘extensive array of policies and institutions dedicated to environmental protection and sustainable development’⁶. Over time, the EU has regulated things from air quality to GHG emissions standards in cars to environmental protection in agriculture to waste recycling targets, just to mention a few. Overall, the recent trend in EU environmental policies is rather positive and the 2008 economic crisis has neither significantly altered the ambition of legislative or non-legislative instruments on the EU level nor has it triggered major policy rollbacks in environmental subsectors. In fact, the ambitiousness of policy activity in subsectors such as climate and energy have continued to increase in the aftermath of the 2008 crisis⁷.

The picture is far grimmer when national practices are observed. Some Member States have been less enthusiastic in taking forward the green agenda domestically and have largely resorted to inactivity⁸. EU’s recovery from the economic and sovereign debt crisis, the waning of the migration crisis and closing of the Brexit saga have raised hopes that the EU might finally embark on a more ambitious environmental path post-2020, especially in light of heightened environmental awareness and the urgency to act on issues such as climate change. Precipitating events of the last years, such as President Trump’s decision to retreat from the Paris Agreement, youth activism by Greta Thunberg, the Fridays for Future movement and a series of global manifestations of the threat of climate change have certainly helped to create the necessary impetus for the EU to reinvigorate its role as a global leader-by-example in environmental and climate policy.

In terms of policy, the EGD has been brewing for quite some time. The last decade has seen an intensification of different environmental initiatives in the Commission which matched together and culminated in an integrated and comprehensive growth strategy, the EGD. Policy developments which have predated the EGD and which have served as an inspiration for the EGD can be decomposed into two components – 1) new policy objectives and ideas; and 2) concrete policy action. With respect to EGD’s headline policy objectives – to reach climate neutrality by 2050 and to transform the linear economy (take, make, dispose) into a climate-neutral and circular

economy (recover, recycle, reuse), the foundations for this transformation were already laid in the 7th Environmental Action Programme⁹ of 2013, the First Circular Economy Action Plan¹⁰ of 2015, the Clean Energy for All Europeans Package¹¹ and in the Commission’s Long-Term Strategy for a Climate-Neutral EU¹² of 2018. These documents acknowledged the importance of a cross-sectoral integration of climate and environmental issues. Moreover, all of them mark an explicit attempt to promote key policy concepts such as zero-emission, zero-waste, circular economy, and clean mobility. Finally, the confirmation that the EU was ready for a U-turn from the existing economic growth model came when the European Council adopted the ‘New strategic agenda 2019-2024’¹³ on 21 June 2019. EU’s heads of state and government provided ample strategic policy guidance to EU institutions on how to construct the green transition. The document acknowledges how much of an ‘existential threat’ climate change is and pleads for urgent action on the EU level. Ultimately, the strategic agenda lists ‘building a climate-neutral, green, fair and social Europe’ as one of the four main priorities to steer the work of EU institutions in the future years. It also recognizes that climate and environmental objectives should not solely be taken into account in other policy sectors but should supersede sectoral objectives and complement them. Most importantly, EU leaders affirmed that achieving climate neutrality will require hefty adjustments of the economy and society:

‘The EU can and must lead the way, by engaging in an in-depth transformation of its own economy and society to achieve climate neutrality.’

At the level of policy action, the EU has recently recorded some legislative activity on the circular economy and significant preparatory work on sectoral policies (plastic, food waste, critical raw materials, construction etc.), just to mention one aspect of green transition agenda which paved the way for the EGD. The Waste Package¹⁴ of May 2018 stands out in that regard as a major step forward in regulating the waste management phase in the product lifecycle. Some of the most noticeable achievements of the package include common recycling targets for municipal and packaging waste, phasing out of landfilling and minimum financial or organizational requirements for extended producer responsibility (EPR) in managing pack-

aging waste after the consumers have used a product. The EGD extends the planned legislative activities to different sectors and other phases of the product lifecycle.

From what has been said in this and the previous section, it seems that the emergence of the EGD at this moment in time was possible only by the simultaneous overlap of multiple streams which came together in 2019 – the problem, policy and politics stream. First, by 2019, the perception that climate change and environmental degradation needed to be addressed urgently, penetrated deep into mainstream political thinking. Environmental topics started becoming salient and were treated as a matter of urgent policy action. Second, at the policy level, the momentum for a comprehensive EGD was gradually building in the last decade. There has been a sustained evolution of EU's legislative and non-legislative activities in the field of circular economy, clean mobility, waste policy, sustainable agriculture, resource-efficient construction, consumers rights and other areas. Over the years, the Commission has been laying out the tracks for a more ambitious and integrated environmental agenda. Policy ideas which were already developed finally gained momentum. Lastly, the issues of green and digital transition became hot topics at the level of political discussion in 2019. There was willingness to 'talk green' and discuss environmental and climate issues at the highest political level. Also, the political circumstances in the EP have changed drastically in favor of the Greens who gained more political leverage. Von der Leyen was well aware of the need to balance between the wishes of EU leaders who nominated her and the policy priorities of the Greens and the Liberals (Renew Europe) which had the power to vote her nomination down. She was in desperate need of a strong programmatic statement which would pacify the EP and simultaneously signal responsiveness to the European Council. Von der Leyen submits in the Political Guidelines for the Commission 2019-2024 that the policy interests of the EP and the European Council served as a beacon in her strategic thinking:

'I have consulted far and wide and have inspired myself from my discussions with the political groups in the European Parliament, as well as from the European Council's Strategic Agenda for 2019-2024.^{15'}

Charging the Socialist Frans Timmermans to manage the EGD portfolio increased the credibility to the story. Timmermans' nomination garnered broad support in the EP and he has heralded the EGD vigorously ever since. Luckily, there was a functional overlap between the European Council and the EP on the topics of the green transition, which helped the Commission services to push for the EGD. Arguably, the problem, policy and politics streams were then coupled by a window of opportunity that was just opening. With the expiry of the Europe 2020 strategy, the danger of the EU slipping into a state of strategic vacuum in the period beyond 2020 became real. At the same time, the expiry of the Europe 2020 strategy cre-

ated a window of opportunity for the Commission services to develop a fresh growth strategy, with respect to the guidance in the European Council's strategic agenda for 2019-2024, and to push it high on the agenda of the then candidate for the Commission President, Ursula von der Leyen. The EGD then became the perfect amalgamation of the three streams coming together, facilitated through the opportunity structure that was created by the expiry of the Europe 2020 strategy. I now turn to the meat of the EGD – the specific policy elements of the new growth strategy.

4

SUBSTANCE BEHIND THE EUROPEAN GREEN DEAL: WHAT IS ALL THE FUSS ABOUT?

The substantive policy pledges in the EGD can be grouped into the following flagship areas:

Climate policy. Achieving climate neutrality by 2050 lies at the heart of the EGD. All Member States except Poland subscribed to net zero GHG emissions by 2050 at the December European Council summit meeting¹⁶. The Commission has already proposed a Climate Law which seeks to enshrine this EU-wide goal into legislation and looks to review the existing targets for 2030 to align them with the 2050 ambitions (50-55 % GHG emissions reduction by 2030 compared to 1990). The Climate Law will introduce a monitoring system according to which the Commission should periodically assess the ambition and adequacy of EU and national action in order to ensure that the EU collectively and Member States individually are on track to meet their obligations by 2050. Besides the climate goals, the Commission has proposed to revise existing climate-related policies. For instance, it has suggested to revise the EU Emissions Trading System (ETS) – the EU's cap-and-trade system for GHG emission allowances, to include new sectors into the scheme in addition to aviation, energy-intensive industries and power generation plants. Furthermore, the Commission will propose a carbon border tax which should prevent energy-intensive industries from third countries with less strict climate regulations to gain a competitive edge over EU industries. It should also demotivate EU industries from transferring production outside the EU ('carbon leakage'). A new strategy on adaptation to climate change is also in the Commission's pipeline. Another important element of climate policy are climate change mitigation and adaptation measures. The Commission is determined to adopt a new climate adaptation strategy to increase the resilience of local infrastructures and building, especially in the outermost regions and islands which are on the frontline of climate change. Many of these issues, including the revision of the ETS, carbon border tax and the exact methodology of monitoring the implementation of the Climate Law are still highly contentious.

Decarbonized energy. Accounting for more than 75% of GHG emissions, the EU is increasingly looking to shift the tide and accelerate the decarbonization of the energy sector by prioritizing clean energy and renewables instead of fossil fuels. The EGD envisages a 'clean energy transi-

tion' which would see the proportion of renewables, the degree of energy efficiency and deployment of smart energy solutions grow by a much larger scale than today. The EU will build on the existing Energy Union agenda to create an integrated (interconnected) internal market for renewable energy and continue financing the construction of cross-border smart infrastructures, lack of which has thus far led to great losses of renewable energy that was being produced but could not be stored, transported and consumed. In the next period, the EU will invest more into new smart technologies including carbon capture, energy storage, hydrogen networks and smart grids. The Commission is also exploring how the Energy Taxation Directive could be amended to better contribute to EU's climate objectives and eradicate tax benefits for fossil fuels. One particular concern is to ensure that the clean energy transition does not wear heavily on consumers and citizens. The issues of energy poverty and affordability of clean energy stand out in that regard.

Circular economy and clean industry. The first Circular Economy Action Plan of 2015 has already given a strong impetus for the transition from a linear to a circular business model. Activities have focused on setting up rules and criteria for minimizing the use of resources, extending the lifecycle of products and materials and incentivizing the reuse, recovery and recyclability of materials. These include a monitoring framework with indicators for each phase in the lifecycle of products, new requirements for the sustainable design of packaging to facilitate the reuse and recycling, a plastic ban on some single use products to reduce maritime litter, stricter landfill targets and recycling targets for municipal and packaging waste and an extended producer responsibility to cover the cost of cleaning up and recycling certain plastic items. The new Circular Economy Action Plan that was announced in 2020 sets out an ambitious legislative agenda which significantly broadens the scope of products to be requested to reduce their carbon footprint and abide by sustainability principles in the production process. From a consumer perspective it is interesting to note that the Commission wants to enshrine into legislation the 'right to repair' for electronic and ICT products in particular, which would enable consumers to extend the lifespan of their products, prevent premature obsolescence practices and reduce waste.

Resource-efficient buildings. Around 75% of all buildings in the EU were constructed before any of the EU's legislation on energy efficiency kicked in. Energy performance of buildings has an important role in the EGD. The Commission plans to beef-up existing and make available new financial instruments to kickstart a strong 'renovation wave' of all public and private buildings in the EU – schools, hospitals and social housing in particular. Increasing the energy efficiency through a renovation wave would be part of a broader initiative to create integrated smart (digital) systems in building and housing, bringing together sustainable materials, renewable heating, water efficiency systems and other elements to increase energy and resource efficiency on the one hand, and decrease the carbon footprint and waste on the other.

Eco-friendly mobility. The Commission plans to boost the EU's transition to sustainable mobility by setting new emissions standards and investing in multimodal mobility and clean alternatives. The goal is to suppress the negative effects of pollution and congestion on human health and the environment. To reduce urban pollution and accelerate the transition to carbon-free transport, the Commission will propose stricter air pollutant and CO₂ emissions standards for vehicles. Financial support will be provided to further build the necessary recharging and refueling infrastructure for hybrid and electric vehicles. Car scrappage schemes will be encouraged and loans for public and private entities are planned through the European Investment Bank to incite the shift from combustion-engine vehicles to sustainable alternatives.

Sustainable agriculture. The Common Agricultural Policy (CAP) of the EU already integrates environmental concerns. Farmers must observe EU laws on environmental, public and animal health, animal welfare and land management in order to receive support ('cross-compliance'). The CAP also provides financial incentives for farmers to attain climate and environmental objectives. For instance, 30% of all direct payments in agriculture are allocated to 'green direct payments' which reward farmers for implementing sustainable practices. Farmers receiving green payments need to diversify their crops, include grasslands in their agricultural land and dedicate 5% of their arable land to advance biodiversity. The CAP also makes available rural development funding for switching to organic farming. With the EGD, the Commission wants to integrate environmental and climate objectives in the entire food chain – from production, storage, processing and packaging of food to consumption. To that end, the Commission will introduce an ambitious 'Farm to Fork' Strategy which seeks to 'transform European food systems into a global standard for sustainability'¹⁷. The action plan of the Farm to Fork Strategy draws an ambitious course of legislative changes. Particular attention will be paid to GHG (methane) emissions reductions in farming and provisions to reduce the use of pesticides, fertilizers and antibiotics. The focus will be on developing precision farming (resource efficiency, lower costs and reduced emissions). Food waste reduction targets will be

proposed. Also, legislative actions will promote sustainable food consumption, including through sustainable food labelling for consumers to make better informed choices. Lastly, the new system will offer farmers extra income for carbon capture practices (i.e. afforestation, sustainable land use). Depending on the support of EU's heads of state and government, the new CAP for 2021 to 2027 will also have to allocate at least 40% of the budget to climate action.

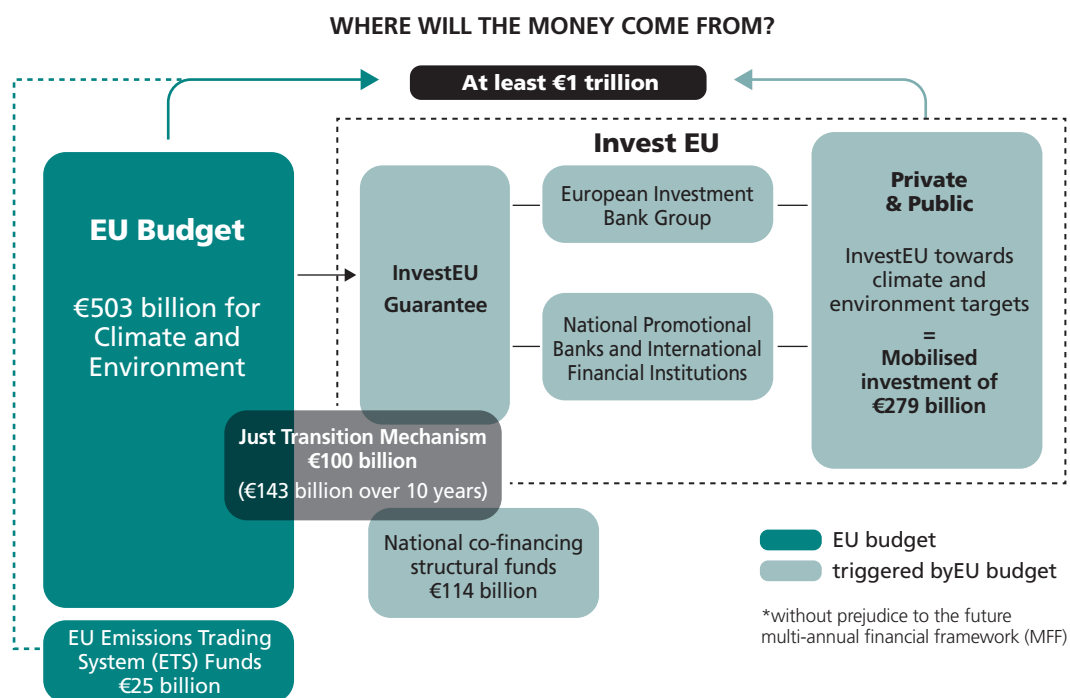
Biodiversity and pollution. Climate change, unsustainable land and sea use practices and exploitation of natural resources have a widely negative impact on biodiversity. The Biodiversity Strategy which is soon to be announced will propose new measures of how to preserve biodiversity and restore ecosystems. The pollution of air, water and soil are equally worrying, and the Commission plans to address the sources of that pollution, particularly related to harmful effects from industrial plants. The Commission will revisit air quality standards and chemicals use, propose stricter monitoring and review measures to make industrial plants compliant with climate, environmental and circular economy policies.

Clean technologies. The EGD recognizes that the green transition goes hand in hand with the digital transformation. In order to reap the benefits of the EGD to the fullest, digital technologies and the use of artificial intelligence are considered crucial in developing smart and integrated systems. Smart solutions will be the key facilitators of achieving sustainable development in all sectors, from farming to housing, energy, circular economy, transportation, biodiversity and pollution monitoring/management. The benefits of mainstreaming smart solutions in all policy sectors are enormous and can enable, for instance, the optimization of energy and resources usage, monitoring of air and water pollution, precision farming, storage of energy, creation of zero-emission vehicles, smart traffic control etc. The new Commission regards innovative and sustainable technologies as 'critical' to uphold the ambition of the EGD and will direct financial resources under the Horizon Europe program to support research and development on environmentally-friendly technologies.

Education, social policy and employment. The required level of workers' adjustment to the green and digital transformation will be unparalleled. The EU seeks to financially support national governments through EU funds to support workers' transition to sustainable, green jobs as part of the modernization of the economy. This shift will require re- and up-skilling of existing workers and retraining of workers in carbon-intensive industries which will be phased out. On the other hand, technological advancements and rapid changes on the labor markets will force governments to invest far more into lifelong learning and to modernize the education system more quickly in order to match the demand for green jobs. The European Social Fund will be a major source of funding to support the ecological transition.

Where will all the money come from to finance the activities of the EGD? The Commission has come up with a European Green Deal Investment Plan in the size of €1 trillion (Figure 4). The main pillar of the investment plan consists of a projected €503 billion from the EU budget which have to be agreed by heads of state and government pursuant to the ongoing negotiations on the 2021-2027 Multiannual Financial Framework. Member States will top up the €503 billion with an extra €114 billion in required national co-financing. The Commission is hopeful that the rest will be leveraged on the financial markets as the money from the EU budget will serve as a guarantee for the European Investment Bank Group, the National Promotional Banks and international financial institutions. The guarantee will enable these institutions to raise capital on the markets to then provide loans for public and private investments into higher-risk climate and environmental projects. The European Investment Bank has already promised to increase the target for climate-related lending from 25% to 50%. Additional funding could flow in from new sources of revenue such as taxing non-recycled plastic packaging waste or from allocating a proportion of revenues from the EU Emissions Trading System. These initiatives on the revenue side are yet to receive political backing by EU leaders. A far greater concern for the EGD has come in the form of the ongoing coronavirus pandemic. The pandemic has raised questions over how the financial pledges and rhetorical commitments of EU institutions to the EGD will fare once EU leaders start shaping the contours of EU's recovery from the economic slump.

Figure 4
European Green Deal Investment Plan



*The numbers shown here are net of any overlaps between climate, environmental and Just Transition Mechanism objectives.

Source: Adopted from the European Commission¹⁸.

5

BUMPY ROAD AHEAD: IS THE COVID-19 PANDEMIC A CURSE OR A BLESSING FOR THE GREEN TRANSITION?

The COVID-19 pandemic has turned the continent's economy and labor markets into stand-by. From an environmental perspective, the coronavirus crisis has produced some short-term benefits for the environment, but also some negative unintended consequences. More importantly, it has raised many questions on the EU's commitment to the EGD in a post-corona future.

Positive short-term consequences of the pandemic can mainly be attributed to the radical economic slowdown due to a widespread lockdown of non-essential businesses and social distancing measures which forced the working population to resort to tele-work. Levels of pollution in urban areas have spiraled down owing largely to the shutdown of industrial activities and absence of traffic congestions. One of the negative unintended consequence of the corona-crisis is the return to single-use plastics and consumer-level waste generation which are evocative of the 'throwaway culture'¹⁹. Scientifically unfounded concerns over food hygiene have made people and businesses turn to packaged and plastic-wrapped food and single-use disposable plastics. Unnecessary stockpiling of edible food and products which stay uneaten on the one hand, and recourse to non-perishable food on the other hand, have generated more food waste, directly colliding with EGD's flagship policies.

As per the EGD, the current crisis has left many stakeholders wondering about the status of the EU's new growth strategy in a post-pandemic EU. Some argue that the EGD will be scrambling for funding against the more traditional policies (cohesion and agriculture) as the fight for scarce resources from the EU budget is likely to intensify. The EU budget was meant to be the main catalyst of the EGD. Only a few months ago, the Multiannual Financial Framework 2021-2027, which is the EU's seven-year budget and is currently being negotiated between Member States, seemed to offer a golden opportunity to finally espouse the green transition despite the existing fault lines between the frugal Northern countries and 'Friends of Cohesion' countries. Now, the COVID-19 pandemic risks only deepening the existing political rifts.

It is now obvious that the asymmetric fiscal position between the richer and poorer EU Member States will see the former emerge from the crisis more easily, whereas the latter will experience a more protracted economic crisis.

Such an outcome is worrying for the prospects of the EGD as many of the countries hit hard by the 2008 economic crisis showed a tendency to sideline environmental issues during their recoveries from the crisis. The EGD might then face a setback on the national level as well. Some of the net-recipient countries have already backtracked on their tacit commitment to the EGD, citing the coronavirus as a justification. The coronavirus pandemic will therefore, for sure, intensify the mismatch in economic thinking between the rich and the poor Member States in the post-pandemic era.

In reality, the coronavirus crisis has disrupted the work of the Commission on the EGD. Many essential initiatives from the EGD have already been postponed in the Commission's work program, including the 'Farm to Fork Strategy' and the 'EU Biodiversity Strategy for 2030'²⁰. The pressure to marginalize the EGD is also on the rise. Many business and trade organizations have tried to use the opportunity to ask for some of the ingredients of the EGD and other existing environmental provisions to be postponed²¹, including stricter GHG emission standards, the ban on single-use plastic, the reform of the EU Emissions Trading System (to extend trading to the maritime sector) and environmental protection standards.

Others have tried to firmly cement the EGD's position in the Commission's upcoming Recovery Plan from the pandemic. For instance, some EU Member States like the Netherlands have advocated for a Green EU recovery²² from the coronavirus, floating around ideas on how to ensure that expenditures and investments remain firmly anchored in the EU's push for climate neutrality and circular economy. In essence, wherever the money comes from at the end and regardless of whether it will be disbursed as loans or transfers, the idea is that expenditures by governments, corporate bailouts and investment decisions should be guided by environmental objectives and principles. More specifically, activities which will be financed in the corona-recovery phase should significantly contribute to at least one of the five environmental objectives²³ and ought not harm any of the remaining objectives. Such reasoning is based on the EU green finance taxonomy²⁴ which was politically agreed between the Council and the EP in December 2019 and which sets out technical criteria for economic activities to be considered environmentally friendly or 'green'.

Many industries such as the aviation and the automobile sectors have already requested state aid. Environmental activists and MEPs, on the other hand, have suggested that state support must avoid perpetuating current business practices and should not be unconditional. Instead, a clear system of conditionality should be applied so that any distribution of loans and grants depends on future commitments to decarbonize economic practices²⁵. Currently, the Commission does not have the authority to impose green conditions on state aid that governments provide to businesses. It is in the governments' hands to decide whether green strings will be attached to grants and corporate bail-outs, and whether financial help will depend on sticking to commitments and policy objectives of the EGD. Eventually, the Commission will consider revising EU state aid rules in the future to ensure that the post-coronavirus economic transformation does not go off the beaten path envisaged with the green and digital transition²⁶.

Ultimately, the degree to which the EGD will deliver on its promises in the next decades will largely depend on the ability of EU leaders to jointly agree on and stick to a Recovery Plan from the COVID-19 pandemic that is shaped to fit the green transition. A group of 17 countries, including France and Germany, have co-signed an op-ed piece²⁷ urging the Commission and other countries to put the EGD at the pinnacle of the post-coronavirus recovery plan and not lose sight of the 'persisting climate and environmental crisis'. The EGD, they argue, offers a blueprint of how to rebuild the economy and transform the economy into a more sustainable, responsive, resilient and carbon neutral system. The EGD stands in stark contrast to calls from industry to sideline environmental issues in order to tackle the economic fallout more easily:

'We should withstand the temptations of short-term solutions in response to the present crisis that risk locking the EU in a fossil fuel economy for decades to come.'

The European Council has provided the necessary political impetus for continued commitment to the EGD despite the pandemic. For starters, the European Council has expressed clear support for the EGD in the ongoing coronavirus pandemic in its March 26 summit conclusions:

We should...start to prepare the measures necessary to get back to a normal functioning of our societies and economies and to sustainable growth, integrating inter alia the green transition and the digital transformation, and drawing all lessons from the crisis. This will require a coordinated exit strategy, a comprehensive recovery plan and unprecedented investment.^{28'}

The European Council has now mandated the Commission to come up with a Recovery Plan which would firmly integrate the green transition and digital transformation. The Commission plans to announce the Recovery Plan in late May alongside a new proposal for the Multiannual Fi-

ancial Framework. Commission President von der Leyen reassured that one of the priorities would be to 'generate recovery, build resilience and guide our economies along the paths of the green and digital transitions in a fair manner'²⁹. Regardless of the EU leaders' reassuring rhetoric, Member States will eventually have to put the money where their mouth is if they intend to seriously pursue the green transition.

In a situation in which governments are scrambling to keep businesses alive and to prevent workers from being stranded, environmental concerns are left on the back burner of governments. Other pressing issues like controlling the health emergency and kickstarting an economic recovery take precedence. Just to be clear, public health concerns are indeed the number one priority at the moment for virtually every government in the world for good reason. But one should not lose out of site that the COVID-19 crisis is just the humanity's Round 1, as one recent caricature from *The Economist*³⁰ aptly reminds us. The climate crisis is looming in the background and waiting for its turn to continue the boxing match.

The EU should not be caught off guard. Expectations of having our lives return to normalcy in the post-COVID period are illusive. Back to normal means back to a world which is still heavily affected by sudden and extreme shifts in weather conditions, more intensive droughts, storms and floods than ever before, pollution and poor air quality, food waste and other environmental catastrophes which unfold in front of our eyes. The only difference between COVID-19 and climate change is experiential. The climate crisis is equally urgent and pressing, yet the human reaction today is not as dramatic and direct as the situation warrants it to be. This is because humans tend to discount the future benefits of fighting climate change against the costs incurred by acting today. The tendency to disregard what might happen sometime far in the future, twenty or thirty years down the road, leads to inaction and complacent inertia. In reality, the climate and environmental crises are not going anywhere. The post-corona recovery plan will have to acknowledge this reality and keep the EGD high on the political agenda.

Conclusion

So, is the European Green Deal the big next thing, a game changing strategy for EU's future which will fundamentally change the way we think and go about the economy, the environment and society? To be fair, we will know the answer to that question only in retrospect, ten or twenty years from now, once there is a solid empirical basis to evaluate which direction EU environmental policy has taken. But, if one is to judge on the basis of ambition – the new policy goals which have been formulated, the proposed legislative density, the level of intended integration of environmental concerns into different policy sectors, the size of financial firepower to back the EGD, the scope of action and intensification of monitoring activities - then the EGD certainly has the potential to move mountains. But much will depend on the ongoing negotiations on the Multi-annual Financial Framework and the extent to which EU leaders will be able to seize the opportunity offered by the coronavirus pandemic in order to definitely shape the EU's recovery from the crisis in line with the objectives of the EGD.

At the same time, as it was shown, the EGD does not inaugurate a quantum leap at the EU level with regard to the deal's paradigmatic cocoon. Notwithstanding, the EGD does constitute a culmination of an incremental process of changing leaders' and citizens' hearts and minds on the importance of adapting our economic and social activities in agreement with environmental objectives. The EGD could eventually stimulate a paradigm shift in national capitals in different policy (sub-)sectors into which environmental concerns still haven't penetrated enough. Whether Member States will be willing to match the EU's level of ambition with domestic policy activism is still a mystery in the current circumstances. The Commission, the EP and the pace-setting countries will be hoping to avoid yet another post-crisis period marked by lack of ambition, disregard for the environmental *acquis communautaire* and policy indifference on the national level.

ENDNOTES

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