The European Green Deal and EU's Green Recovery: how green is it?

Nick Mabey, E3G

September 2020

The European Green Deal and EU's Green Recovery – What is Different to 2010?

E3G

1. **Decarbonisation seen as a core driver of European growth -** recovery plans are integrated with the objectives of the European Green Deal and guided by 2050 climate neutrality target. Deep decarbonisation measures are being pursed in parallel to COVID response.

2. **Social inclusion & just transition at the centre of Europe's industrial and climate policy -** Just Transition Fund to support regions most affected by the transition to a low carbon economy.

3. **Integration of European "core interests"** – enhancing "industrial and strategic autonomy" gives an external dimension of the Green Deal to cover issues such as trade, investment, external relations and digitisation.

Decarbonisation, social inclusion and strategic resilience are deeply embedded in EU's recovery. creating <u>potential</u> for whole economy alignment between short, medium and long term actions.

European Green Deal moving forward at same time as COVID Crisis Response

E3G

Pipeline

- EU 2030 target increase and policy (Commission announcment)
- European Infrastructure Policy (in consultation)
- European Sustainable Finance Vision (in consultation)
- EU Energy Diplomacy Guidelines in consultation)

Published

- European Green Deal strategy and action plan (communication)
- Industrial Strategy (communication)
- Circular Economy Action Plan (communication)
- Just Transition Fund (legislation)
- Smart Sector Integration (communication)
- Farm to Fork (communication)
- Climate law and 2050 net zero target (legislation)

Done

- European Green Deal Investment Plan (MFF and NGEU)
- Relaxed state aid rules expedited approval procedures (24h)
- Suspended the Stability and Growth Pact
- Sustainable Finance Taxonomy and Platform (phase 1 delivered)

Deep reforms need to deliver the European Green Deal remain a core EU economic and political project even with focus on responding to COVID

EU Climate Lessons from 2010 Economic Crisis: some good analysis but weak politics & delivery

E3G

	Stabilise	Stimulus/Recovery	Structure
Analysis	Weak understanding of how immediate bank bailouts would support brown investment	Good understanding of value of green infrastructure as a recovery measure	Lack of climate focused recommendations for regulation & structural change until G20 working group
Policy	No analysis of long term impacts on climate of immediate stimulus measures	Green stimulus as an objective but not prioritised – other interest groups had more influence in shaping response	Post-crisis policy responses focused on macro recovery not removing damaging subsidies, regulation, more resilience etc
Delivery	Active rejection of any non-economic policy considerations in delivery of support	Weak pipeline of “shovel ready” green projects and low green expertise in public banks	Climate and transition risks still not effectively integrated into public & private decision making

China vs EU - Recovery Funding and Climate

E3G

China €468 bn vs Europe €522bn plus

China's Stimulus Funds (2020)*
RMB 3.6 trillion
EUR 468 billion

To prioritise investment in "new infrastructure" e.g. intercity rail, 5G, big data, new energy vehicles etc.

Next Generation EU (2021-2023)
RMB 1.9 trillion
EUR 250 billion
(Annualised)

Multi-year Financial Framework (2021-2027)
RMB 1.3 trillion
EUR 180 billion
(Annualised)

30% of the funds from Next Generation EU and from the multi-year budget will be devoted to climate action.

France
EUR41bn

And other member states…

Germany
EUR51bn

Member states' "green" recovery measures e.g. EUR7 billion bailout package for the country's flag-carrier Air France has a requirement to reduce emissions per passenger by half by 2030.

Source: Carbon Trust

*Includes RMB 1 trillion from increase in fiscal deficit ratio, RMB 1 trillion treasury bonds and RMB 1.6 trillion increase in local government bonds quota

EU's Green Recovery: More Governance Needed

E3G

Four building blocks of a green recovery: (1) clear objective, (2) sustainable financing source, (3) spending criteria, and (4) governance model

Goal

- **A recovery that will deliver on the climate objectives set out in the European Green Deal**: (1) net-zero emissions by 2050 (2) economic growth is decoupled from resource use; (3) no person and no place is left behind

Financing

- €750bn Next Generation EU recovery fund
- EU's €1.1trn seven-year budget (Multi-year Financial Framework)
- New EU "own resources" from digital tax, EU ETS, etc.
- Public finance institutions (EIB, ECB, EBRD)

Spending criteria

- 30% climate mainstreaming target
- "Do no harm" principle
- Sustainable taxonomy test

Governance

- To be agreed… (see Appendix)

How to invest in the right projects in the right place?

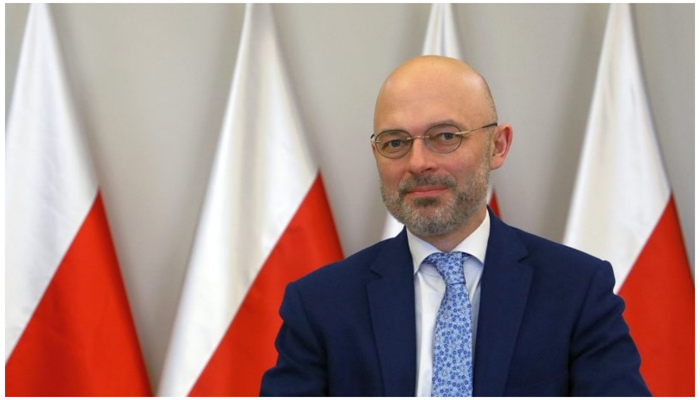
E3G

“Green” conditions and tools are attached to the financing of the green recovery in the EU and the European Green Deal.

Ring-fencing	30% of the Next Generation EU (€750bn recovery fund) and EU’s multiannual financial framework (EU’s €1.1trn seven-year budget) will be devoted to climate action.
“Do no harm”	Assessment of impact of proposals to ensure policy choices are made efficiently with minimum environmental, social and economic costs, in line with the objectives of the Green Deal.
Sustainable taxonomy test	Investments must be in line with the EU Sustainable Finance Taxonomy, a framework for classifying sustainable investments.
Just Transition Fund	A €10 billion fund to support EU regions most affected by the transition to a low carbon economy.

All EU member states are gearing up for the green recovery – even Poland

- **74% of the electricity in Poland was produced by coal power plants.** The Covid crisis impacted the already-troubled coal mining industry, triggering temporary closures of many state-run mines. Post-Covid, competition from renewables will further increase the pressure on coal.
- Poland is seeking to mitigate the effects of its reliance on coal. **Poland supports the EU's ambitions regarding achieving climate neutrality by the entire Union until 2050. By supporting this goal, the country will have full access to the EU Just Transition Fund**, thereby ensuring the funding for the transformation of its power system and for regional just transition strategies.
- In 2020, Poland has announced:
  - €2 billion from the EU, Norway and national funds towards facilitating green investments
  - Development of offshore wind energy in Poland
- **Poland is planning to double its solar installations to 1.3 GW in 2020 and it has updated its 2040 climate goals announce amid Covid.**



Climate Minister Kurtyka
"The current pandemic has reinforced our belief that the path of transformation leading towards low and zero emissions is absolutely correct."

Green recovery will accelerate EU industrial transformation: German Automobile Sector

E3G

- New car sales in Germany plummeted 61% in April 2020 year-on-year, **yet unlike in 2010 the German government did not provide major incentives to boost sales of conventional diesel and petrol vehicles, but doubling the purchase incentives for electric vehicles.**
- Automakers and the auto parts manufacturers in Germany recognise the need to invest in more climate friendly products in response to changing consumer preferences, stronger emissions standards and the need to meet European climate goals.

Automakers	Auto parts manufacturers
• **Volkswagen moves ahead with its plans to transform its domestic production lines amid Covid-19**. • The company has invested €1 billion to convert its plant and train workers in the northern town of Emden to produce 300,000 electric vehicles per year by 2022.	• Schaeffler, Michelin, Brose and Bosch have joined forces with local city councils and trade unions to form a **"regional initiative of automobile transformation"** in the Bravaria region of Bamberg. • The initiative facilitates stakeholders to work together to access recovery funds and adapt to the structural change of the industry caused by economic and climate policies.

European public finance institutions must drive the green and fair recovery.

- To achieve EU´s 2030 climate targets, it needs approximately **€260 billion per year** . The bulk of it needs to be met by other funding sources other than the recovery packages.
- **Public finance institutions should use tools that it has at its disposal to ensure investments are in line with climate and broader sustainability objectives.**

European Investment Bank

€ 7.5 billion COVID response for Europe and the world

EIB is EU's lending arm, has positioned itself as "EU's climate bank". **It has promised to align all financing activities with the goals of the Paris Agreement from the end of 2020** and phase out support to energy projects reliant on unabated fossil fuel by the end of 2021.

European Central Bank

€1.1 trillion of quantitative easing to stimulate the eurozone economy

It has not yet indicated clear policies to avoid supporting high carbon industries. The ECB is in the process of reviewing its monetary policy strategy (due mid 2021). The strategy presents an opportunity to assess whether the ECB should be more proactive in greening its asset purchases.

The Green Deal and EU's Strategic Autonomy

E3G

Trade, industrial strategy, innovation, strategic resilience and digitisation are at the core of the European Green Deal and EU's growth strategy.

The External European Green Deal

- **On Trade and Competitiveness: "***Trade policy can support the EU's ecological transition"*; Carbon Border Adjustment Mechanism to be developed by 2021 in discussion with trading partners.
- **On Digitisation:** *"Use technology to help Europe become climate-neutral by 2050".*
- **On Industry & Innovation:** *"Achieving a climate neutral and circular economy requires the full mobilisation of industry."* Major focus on innovation funding to develop EU H2 technology and markets.
- **On supply chain resilience: "***Access to resources is also a strategic security question for Europe's ambition to deliver the Green Deal."*; action plan on critical raw materials in development.

E3G's Benchmarks for a Green, Fair and Resilient European Recovery

E3G

1. **Avoid Brown Stabilisation**: use EU taxonomy to prioritise corporate support to low risk sectors. Positive "no harm" stress test required for stabilisation and stimulus measures that support sectors outside green taxonomy.
2. **Move Money Where it is Needed:** Increase funding through major EIB issuance of new green bonds for public and central bank purchase. Distribute & leverage across Europe by greening existing 100 national development banks.
3. **Prioritise Fast Start Distributed Investments** (focus on Eastern & Southern EU)
   - Efficient appliances upgrades and small scale solar energy support
   - Social housing energy efficiency funding on concessional terms.
   - Scrappage scheme for highly inefficient vehicles & support for ultra-efficient cars and electric vehicles.
   - Support for nature restoration investments & agricultural climate resilience include EU-backed for farmers extreme weather insurance.
4. **New Infrastructure Investment**
   - Direct support to urban resilience, EV charging networks and smart power & heating/cooling systems.
   - Enhanced regional just transition funds focused on areas such as battery and clean energy production.
   - Investment in 5G networks and circular economy management systems.
   - Support for enabling investment in integrated North Seas Grid to support major offshore wind power expansion.
5. **International Alignment & Cooperation**: align increased all European external financial actions and support - including export credit agencies – with EU taxonomy and Paris Goals. Work with major partners including China & Japan to align investment rules.

Some good initial progress but too early to give comprehensive verdict; data and metrics under development

The Green Recovery has five strategic implications for EU-China relations

E3G

1. **Managing the "Level Playing Field" through the recovery:** both China and the EU are investing heavily in fast growing green industrial sectors through recovery programmes. Similar investment in 2010 led to serious trade tensions e.g. on solar panels. EU and China will need to pre-emptively manage the conversations around subsidies, trade and IP especially in key sectors such as electric vehicles and hydrogen. **This should include discussions on carbon border adjustment mechanisms**.

2. **Strengthening & Reforming Multilateral Institutions**: COVID has shown the need for strong cooperative global institutions but also raised political and financial challenges to their operations. Delivering a green, fair and resilient global recovery will require EU & China to align on major reforms in 2021 on areas like **debt restructuring/management, resilience, health/vaccine cooperation and the evolution of global climate governance**.

3. **Maintaining Open Global Markets:** COVID has exposed many countries' vulnerability to external disruption of critical resource and goods supplies. Both European and Chinese governments are formulating policies to ensure critical supplies and components are available and diversified. These **strategic resilience policies may undermine maintenance of open markets unless actively managed and aligned in a cooperative way**.

4. **Developing Clean Economy Standards:** scaling up the clean economy at the pace needed by the recovery will benefit from the development of aligned international standards in areas such as sustainable finance, clean technologies and data/digital technology. **Europe and China could collaborate on shaping and driving new international standards in critical areas**.

5. **Relations with Third Countries:** Europe and China are both strong global exporters and investors in third countries and have active official cooperation programmes. **Europe and China could aim to maximising synergies and cooperation on investment priorities in third countries in key sectors** like energy, transportation, agriculture and forestry

About E3G

E3G is an independent climate change think tank accelerating the transition to a climate safe world.

E3G builds cross-sectoral coalitions to achieve carefully defined outcomes, chosen for their capacity to leverage change. E3G works closely with like-minded partners in government, politics, business, civil society, science, the media, public interest foundations and elsewhere. In 2018, for the third year running, E3G was ranked the fifth most globally influential environmental think tank.

More information is available at www.e3g.org

Governance for a recovery

E3G

Understand the baseline

- The business-as-usual scenario that the investment is going to change

Set goals

- Set milestones and goal for each tranche of the money to measure effectiveness

Report

- Regularly report the outcomes and challenges for future learning

- **Review and reset:** if things go off track there should be a mechanism to recalibrate the baseline and goals

Knowledge management: System to share best practice to accelerate change and improvement

Independent monitoring: monitor the spend and achievements against the set goals. Ensure comparability of monitoring across projects

Stabilisation phase remains brown. EU backs green stimulus. Members States less clear.

E3G

Stabilisation Phase

- Policies fairly uniform across Europe (e.g. short term income & SME support) signalling a desire to avoid mass unemployment and expensive costs to restarting the economy.
- Potential no-strings corporate support, including for high carbon industries: e.g. mining in Portugal; airlines being considered in Norway, France, UK; liquidity for energy and infrastructure clients from European Bank for Reconstruction & Development.
- No clear policy from ECB or other central banks to avoid supporting high carbon industry, but some discussion of only targeting viable businesses which would include many in high carbon sectors.

Stimulus Phase

- **EU level** sees the European Green Deal as core stimulus package. European council: "restore *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. We invite the President of the Commission… to start work on a Roadmap accompanied by an Action Plan".*
- Member States approach to stimulus unclear as yet as most still focused on COVID response & stabilisation.
- Some (minor) push back from politicians against green deal & concerted attempts by industry to delay implementing new regulations.

Weaknesses in European Climate Investment

E3G

- Renewable energy investment especially in distributed systems and Eastern Europe
- Energy efficiency for public, residential & commercial buildings off-track especially in poorer countries.
- Transport sector decarbonisation stalled with high polluting vehicles resold into Eastern Europe
- Large-scale industrial investment and regeneration needed in fossil dependent regions
- Western European countries received 80% of the renewable energy & energy efficiency funding from previous EU-level stimulus funding
- Underinvestment in climate adaptation & resilience especially in vulnerable Southern countries
- Most agricultural subsidies not aligned with environmental aims. Underinvestment in nature based solutions to climate mitigation and adaptation.
- Public support for trade and investment support outside EU not consistently aligned with Paris goals

Main gaps in European green investment landscape are in distributed investments especially in harder to invest regions in Eastern and Southern Europe. Multiple barriers beyond capital cost & availability to delivering social inclusive recovery and transitions.