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Perspectives on EU's Post-COVID-19 Green Recovery

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1. Introduction

At the start of 2020, the new EU 'geopolitical' Commission, led by Ursula von der Leyen, envisaged to strengthen the coherence between internal and external EU economic policies in order to build more strategic power in external relations. Its green strategy, framed as European Green Deal, has envisaged that Europe would become the world's first climate neutral continent by 2050.¹ In spite of, or rather due to the pandemic, the Commission has been creative in attempts to turn coronavirus challenges into green (and digital) economic opportunities. This policy note explains the EU's vision of its geopolitics through Europe's climate neutral COVID-19 economic recovery, with particular reference to the European Green Deal policies and the Next Generation EU financial mechanism.

2. The green vision of geopolitical EU

The European Commission's new vision of geopolitical Europe recognised that developments in a number of internal policy areas should be addressed in order to avoid significant geopolitical consequences for the EU.² The EU lags behind in research and technological development including robotics and artificial intelligence, thus risking becoming dependent on the US or China. At the same time, some of its more advanced policies, such as climate change, cyber security, and protection of privacy, pose pressures for EU companies competing abroad. Accordingly, in these policy areas, multilateralism can achieve more efficient results for the EU.

Geopolitical action also requires linking relevant internal policies into a coherent and strategic external EU action. The vision of the EU as the geopolitical power implies investment (financial power) and rules (EU regulatory standards in trade deals) rather than military means (albeit the EU retains external military funding through the Peace Facility).³

A number of 'geopolitical' Commission's internal policies has developed around the EU's goal of climate neutrality, which is to be achieved through the European Green Deal. This EU's green vision for Europe evolves around investment, innovation and creativity. It comes

¹ European Commission 2019

² Politico 2019

³ Damjanovic and de Sadeleer 2020

with financial mechanisms, such as the Green Deal Investment Plan and the Just Transition Mechanism, envisaged to ‘unleash a green investment wave’ by mobilising at least €1 trillion in public and private investment.⁴

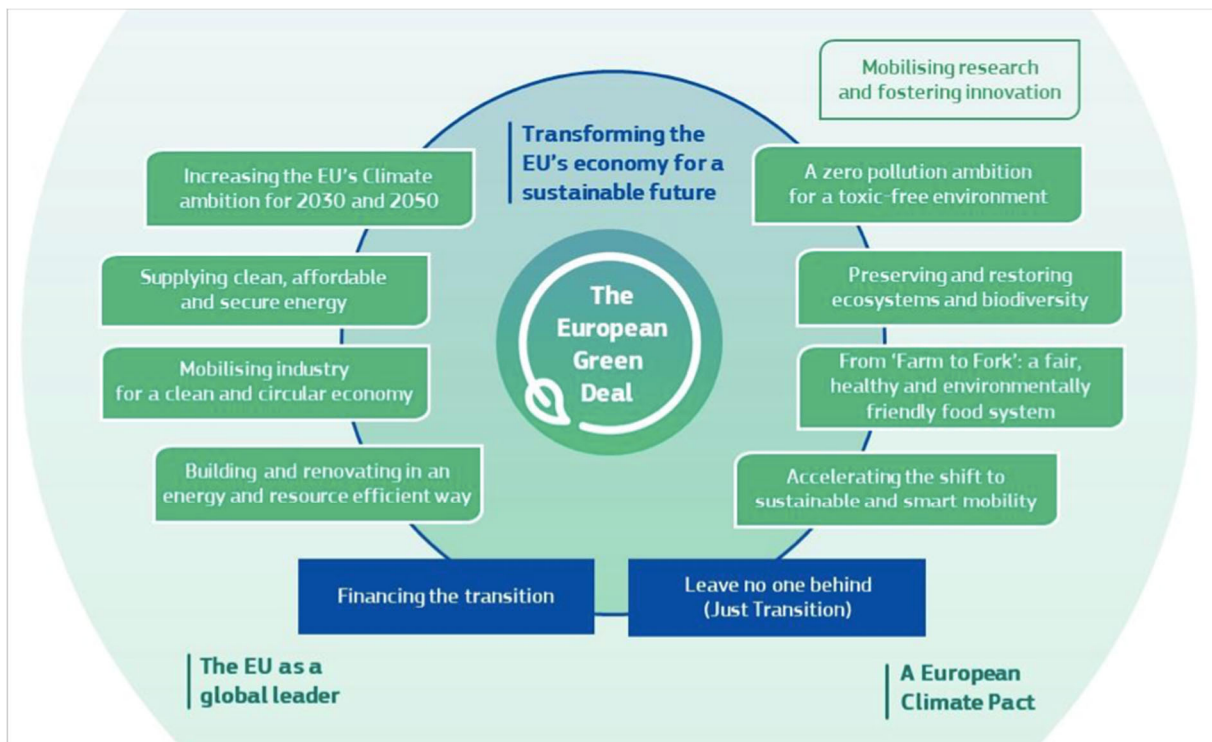


Figure: The European Green Deal. Source: European Commission⁵

In addition to environmental and economic aspects, a new European Bauhaus has been announced as the European Green Deal's creative and cultural element in the Commission's President's State of the Union address.⁶ As further elaborated in her op-ed, new European Bauhaus is envisaged to allow people to 'feel, see and experience the European Green Deal'.⁷ Along the lines of the initial architectural Bauhaus movement of the 1920s, which shaped the social and economic transition to industrial society in Europe, the new Bauhaus is envisaged to support the transition towards a clean society through financing different projects that combine green economy, digitalisation and aesthetics.

Exciting as it conceptually sounds, the European Green Deal should not however, create winners and losers within the EU. This poses a challenge as differences between the Member States involve not only divergences in the level of their green development but also differences in their visions about the extent to which the EU economy should be green. Dreams about the new European Bauhaus of the richer and more sustainable parts of Europe must go hand-in-hand with ensuring sustainable transition of its more fossil-

⁴ European Commission 2020

⁵ European Commission 2019b

⁶ European Commission 2020b

⁷ European Commission 2020c

dependent regions and sectors. No one should be left at the periphery as the unequal distribution of costs and benefits could further fuel ideological wars.

Importantly, the divisions about socioeconomic fairness of green economy go beyond the usual West vs. East – Poland with its high energy dependency on coal being an example. These divisions are also very present within individual Member States, even those that aspire to be global leaders on climate change, exemplified in France’s recent attempts to raise taxes on fuel, which were met with violent gilets jaunes protests. The coronavirus pandemic, with its unequal impacts across European societies and regions has only deepened these divisions, also explaining the disagreements between the Member States and EU institutions about allocating funds towards different goals of the new EU budget.⁸

3. Solidarity and climate action of the Next Generation EU

Solidarity is thus a concept around which the European Green Deal and the financial mechanisms intended to support it – the new EU budget and COVID-19 recovery package – have unfolded. After months long negotiations, Next Generation EU amounting to €750 billion of temporary recovery funds, in addition to the regular EU Multiannual Financial Framework of €1.074 trillion, were agreed in December 2020. The package, worth in total €1.824 trillion will be available for beneficiaries of EU funding in the period 2021-2027. Importantly, a significant portion of the new budgetary package is envisaged to enable the EU to invest in the future towards achieving a greener and more digital Europe.





























	<i>MFF</i>	<i>NextGenerationEU</i>	<i>TOTAL</i>
1. Single market, innovation and digital	€132.8 billion	€10.6 billion	€143.4 billion
2. Cohesion, resilience and values	€377.8 billion	€721.9 billion	€1 099.7 billion
3. Natural resources and environment	€356.4 billion	€17.5 billion	€373.9 billion
4. Migration and border management	€22.7 billion	-	€22.7 billion
5. Security and defence	€13.2 billion	-	€13.2 billion
6. Neighbourhood and the world	€98.4 billion	-	€98.4 billion
7. European public administration	€73.1 billion	-	€73.1 billion
TOTAL MFF	€1 074.3 billion	€750 billion	€1 824.3 billion

⁸ European Parliament 2020; Damjanovic and de Sadeleer 2020b

Table: Multiannual Financial Framework 2021-2027 total allocations per heading. Source: European Commission⁹

At least 30% of the recovery funds will be dedicated to achieving climate change objectives, mostly through the Just Mechanism fund, particularly aimed at supporting energy transition of non-green regions. The fund will finance projects that are climate-resilient, including through re-skilling programs, developing new jobs in green economic sectors and investing in energy efficient housing. With the exception of Germany, the greatest beneficiaries of the fund are Member States of Eastern Europe (Poland, Romania, Czechia, Bulgaria), confirming that an agreement about common EU goals can be achieved if supported by sufficient financial means and larger fiscal transfers to those facing more challenges in the green energy transition.

Nevertheless, the final budget agreement falls short of the initial Commission's ambitions, which envisaged €40 billion for Just Transition fund in the Next Generation EU, as well as its earlier Green Deal investment estimates.¹⁰

	Under NextGenerationEU	Under MFF 2021-2027	Total	Share
 Belgium	95	71	166	0.9%
 Bulgaria	673	505	1,178	6.7%
 Czechia	853	640	1,493	8.5%
 Denmark	46	35	81	0.5%
 Germany	1,288	966	2,254	12.9%
 Estonia	184	138	322	1.8%
 Ireland	44	33	77	0.4%
 Greece	431	324	755	4.3%
 Spain	452	339	790	4.5%
 France	535	402	937	5.4%
 Croatia	97	72	169	1.0%
 Italy	535	401	937	5.4%
 Cyprus	53	39	92	0.5%
 Latvia	100	75	174	1.0%
 Lithuania	142	107	249	1.4%
 Luxembourg	5	4	8	0.0%
 Hungary	136	102	237	1.4%
 Malta	12	9	21	0.1%
 Netherlands	324	243	567	3.2%
 Austria	71	53	124	0.7%
 Poland	2,000	1,500	3,500	20.0%
 Portugal	116	87	204	1.2%
 Romania	1,112	834	1,947	11.1%
 Slovenia	134	101	235	1.3%
 Slovakia	239	179	418	2.4%
 Finland	242	182	424	2.4%
 Sweden	81	61	142	0.8%
 EU 27	10,000	7,500	17,500	100.0%

⁹ European Commission 2020d

¹⁰ EU Observer 2020

Table: Just Transition Fund – Allocations per Member States (EUR million, 2018 prices). Source: European Commission¹¹

The major portion of the Next Generation EU recovery package are grants and loans available to Member States to mitigate the social and economic impacts of the pandemic but also to support structural reforms and investments (Recovery and Resilience Facility). The proportion of the funds assigned to each Member State was determined primarily in view of the extent of the impact of the coronavirus crisis. To access the funds, Member States must develop national implementation plans, which must align with the EU's political vision of structural reforms, including digitalisation and climate neutrality. The compliance of these plans with green and digital goals will be achieved through a technical mechanism called European Semester, which coordinates economic and fiscal policies across the EU and ensures budgetary and fiscal discipline.¹²

While Member States (and not the EU funds) will receive the highest portion of the Next Generation EU package, the mechanism of distribution linked to the European Semester gives power to the Commission to influence Member States' economies towards developing digital skills and 'green' jobs.

Recovery and Resilience Facility (RRF)	€672.5 billion
<i>of which, loans</i>	<i>€360 billion</i>
<i>of which, grants</i>	<i>€312.5 billion</i>
ReactEU	€47.5 billion
Horizon Europe	€5 billion
InvestEU	€5.6 billion
Rural Development	€7.5 billion
Just Transition Funds (JTF)	€10 billion
RescEU	€1.9 billion
TOTAL	€750 billion

¹¹ European Commission 2020d

¹² European Commission 2021

Table: Conclusions of the European Council of 21 July 2020. Source: European Commission¹³

Another important compliance mechanism is the agreed rule-of-law mechanism attached to the allocation of EU funds in the new budgetary package.¹⁴ Under the new regulation, whose legality is yet to be reviewed by the Court of Justice of the EU, the qualified majority of the Member States, on the proposal from the European Commission, will be able to block the distribution of funds in cases of breaches that directly impact the financial interests of the EU.¹⁵ This mechanism has been created with a view to enhance the scrutiny of the EU with respect to Member States' compliance with the rule of law and the principle of democracy.

The budget negotiations have put the concept of solidarity on test, demonstrating that it lacks a clear definition, which thus leaves much room for politicisation in determining its content. As the EU's fundamental principle and value, in this case solidarity has eventually prevailed over politics, emphasising the importance of its practical aspects: the effective coordination of Member States' actions toward the common goals – set in achievable rather than idealistic terms. A recent Council's agreement on the Union-wide 2050 climate change neutrality, which is to be pursued collectively rather than individually through European climate law, is one such example of solidarity.¹⁶

The final outcome of the budget negotiations is thus a workable intra- and inter-institutional compromise, which provides the most ambitious financial program in EU's history. An important part of the compromise is not only the funding but also the new, even more ambitious, climate change targets to cut greenhouse gas emissions by 55% by 2030, compared to 1990 – an increase from an earlier reduction target of 40%.¹⁷

4. The green new skies in Europe and beyond

Given the successful outcome of the budget negotiations, the EU might have more financial power, but it will still be constrained by internal institutional setup in the decision-making and implementation. Some aspects of the European Green Deal might be more easily achieved given the high level of EU policy integration (agriculture and food safety, environment and climate change) while others might be hampered by the unanimity requirements (adoption of tax arrangements).

Importantly, new revenues for repaying the recovery package borrowing rely on measures linked to digital and green reforms. A new levy on non-recycled plastic packaging waste has already been introduced from 1 January 2021. The new tax is collected through Member State contributions, thus leaving them the choice how to implement the new tax on the national level. These contributions will be calculated on the basis of the weight of non-

¹³ European Commission 2020d

¹⁴ European Parliament 2020b

¹⁵ Gros 2020

¹⁶ Council of the European Union 2020

¹⁷ Deutsche Welle 2020

recyclable plastics packaging that each Member State places on their market, with the rate of €0.8 per kilogram or €800 per metric ton. Given that non-recyclable plastics packaging concerns 40-60% of all plastic placed on the market, the new levy is intended not only to raise the new revenue for financing the EU recovery package, but also to incentivise Member States to adopt innovative recycling technology for plastic packaging and move to circular economy.¹⁸ By mid-2021, the Commission envisages to put forward additional proposals for raising revenues – through a carbon border adjustment mechanism, a digital levy, and the modifications of the EU Emissions Trading System. This is to be complemented by a Financial Transaction Tax and measures related to corporate sector (financial contribution and a common corporate tax base), which are to be proposed as new sources of revenue by June 2024.¹⁹

On the creative side, in January 2021 the Commission launched the design phase of the new European Bauhaus initiative to encourage the creation of collaborative ideas that will combine design, sustainability, accessibility, affordability and investment in delivering the European Green Deal. This initial stage will be followed later this year by call for proposals to implement new ideas in at least five places in EU Member States, with the support of EU funds.²⁰

In the global context, the EU will have to ensure that European companies do not compete at a disadvantage thanks to higher standards at home. Convincing others about the benefits through soft ideas such as the New European Bauhaus is certainly part of the strategy. ‘Geopolitics of mutual interests’,²¹ or rather multilateralism led by the EU, seems to be the main pathway for the EU in creating ‘environmental level playing field’ although it will most likely face the implementation challenges in the world that is extensively becoming divided along the ideological lines and political realism. The EU places great hopes in renewing transatlantic partnership that will work towards the same goals, including the protection of our planet and setting the technological and trade standards.²² On the other hand, the EU competitors will also seek an advantage in pursuing the climate agenda, with Boris Johnson declaring an ambitious UK target of at least 68% reduction in greenhouse gas emission by 2030 in order to boost post-Brexit economic growth.²³

And what if the European Green Deal leads to the transformation of Europe ahead of others? Could the consequent benefits be turned into EU’s geopolitical advantages? While the geopoliticisation of the European Green Deal could perhaps sound contrary to more traditional green approaches, it could lead to important advantages for Europe. The EU’s

¹⁸ European Commission 2020e

¹⁹ European Council 2020; European Commission 2020d

²⁰ European Commission 2021b

²¹ Euractiv 2020

²² Politico 2020

²³ UK Government 2020

leading position in the global race towards decarbonisation would give the EU more normative power in setting the regulatory standards for clean technology. The move towards the renewable energy could also make the EU less energy dependant on foreign sources and thus generally more independent from foreign interference.

Ambitions are high while realities unavoidable. Europe's post-COVID-19 strategy will be even more about the ways in which the EU works at home in order to achieve its goals abroad. The EU might not have the perfect record in following through with the practical realisation of its ideas. But European ideas, even when lofty, have been avant-garde in influencing new waves in international thinking and creative designs. As noted by the European Commission's president: 'if we manage to combine sustainability with good design, then the European Green Deal will be given a boost – even beyond our borders'. Time will show whether the European Green Deal can live up to its ambition – in Europe and beyond.

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²⁴ Damjanovic 2020

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