

The European Green Deal: Saving the Planet or Protecting the Markets?



by Danila Bochkarev

Europe's energy policy has experienced a dramatic shift as the key focus moves towards climate change and environmental concerns rather than pure market developments. The 2019 European Green Deal aims to turn Europe into the first "climate-neutral" continent by reducing Europe's greenhouse gas (GHG) emissions to net zero by 2050.

These policies are being shaped by the scientifically-proven negative effects of climate change. Rising awareness among European electorates is manifest in the growing presence of Green political movements in local and national assemblies and parliaments. Germany's Greens, for example, managed to gain 8.9 per cent of votes during the 2017 federal elections and 20.5 per cent in the recent 2019 European elections. In the European Parliament, the Greens/European Free Alliance (EFA) group now counts 68 members.¹ This has

increased environmentalist rhetoric and awareness, in turn influencing the policies of other political forces as well (with GHG reduction now being an important item on multiple political agendas).

There are also other – less studied – dimensions of the Green Deal, however, as a number of these policies also have a protectionist angle. Internally, European industries are increasingly challenged by cheaper and dirtier imports of energy-intensive products. Brussels defends the internal market by explicitly connecting production-related emissions and eco-efficiency to product certifications in the EU. Undeniably, these regulations ensure that EU climate efforts are shielded from industrial production in countries with less stringent environmental standards.

This policy, however, also affects developing countries which are

[greens-efa.eu/en/our-group/meps](https://www.greens-efa.eu/en/our-group/meps).

¹ Greens/EFA website: *Members*, <https://www.greens-efa.eu/en/our-group/meps>.

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often unable to produce cheap and environmentally friendly goods. Furthermore, it denies European consumers freedom of choice between “cheap and dirty” items on the one side and “cleaner and local” but also more expensive on the other.

There is also an external dimension. The issue of environmental protection is being used in EU trade negotiations. For example, a number of EU leaders – such as President Macron – have threatened to block “ratification of the EU-Mercosur deal, saying Brazil is violating its international environmental commitments”.² The European Union insists that trading partners “sign up to and meet its commitments under the Paris agreement to get a trade deal”.³ Jair Bolsonaro, Brazil’s president has vividly criticised Brussels’s attempt to export the Union’s environmental standards abroad, labelling the practice as “colonialism”.⁴

More specifically, the EU wants to put a carbon price on all energy-intensive imports including energy and raw materials. This is an attempt to create a level playing field for European and foreign producers and to influence the environmental policies of the third countries.

The consequences of such a move, however, will go beyond climate change. External “green taxation”

might lead to further social unrest and political instability in already fragile states such as Algeria and Libya, for instance, countries that heavily rely on hydrocarbon revenue to finance their budgets.

Pursuing the EU’s climate policy should not come at the expense of economic, social and political stability. Furthermore, under WTO rules (Part 1, Art. XI GATT 1947; Part 4, Art. III GATT 1947)⁵ a carbon tax could be clearly seen as a protectionist measure. The UN Framework Convention on Climate Change (UNFCCC) also states that “measures taken to combat climate change, including unilateral ones, should not constitute a means of arbitrary or unjustifiable discrimination or a disguised restriction on international trade”.⁶

Third countries might retaliate with additional tariffs and trade barriers to even-out the playing field. Also, the carbon tax could open a new front in the trade war between Europe and the United States, as “green taxation” could be applied to the US shale gas sector.

Unconventional gas production in the US is believed to be the major source of GHG emissions in general and methane emissions in particular. A 2018 study concluded that methane leakage from the US oil and gas supply were 60 per cent higher than US Environmental

² Alan Beattie, “Is the EU’s Green Policy Protecting the Planet or European Industry?”, in *Financial Times*, 11 December 2019, <https://www.ft.com/content/0432eb26-15f2-11ea-9ee4-11f260415385>.

³ Ibid.

⁴ Ibid.

⁵ *The General Agreement on Tariffs and Trade*, 1947, https://www.wto.org/english/docs_e/legal_e/gatt47_01_e.htm.

⁶ Art. 3(5), *United Nations Framework Convention on Climate Change*, 1992, <https://unfccc.int/resource/docs/convkp/conveng.pdf>.

Protection Agency estimates.⁷ Cornell University's Robert Howarth estimated that North American shale gas production may be responsible for about a third of the global increase in methane emissions over the past decade.⁸

Yet, Wilbur Ross, the US commerce secretary, has warned Europe that Washington will retaliate should the EU impose a new carbon tax. "If [such measures are essentially] protectionist, like the digital tax, we will react", noted Ross in January 2020.⁹

Such risks will be contained in the event of a Biden victory come November. The Biden team plans to "impose carbon adjustment fees or quotas on carbon-intensive goods from countries that are failing to meet their climate and environmental obligations".¹⁰ However, not only will this depend on the outcome of the elections, but also on the approval of such measures by Congress.

The issue of methane leakage is an important item on the environmental

agenda. The EU now wants to increase efforts to improve reporting standards, measurement, quantification and verification – and do this across the entire supply chain, including by analysing satellite data.¹¹ Given that methane leakage is a (largely) avoidable emission, this is of course a step in the right direction. However, a number of practicalities should be addressed – and discussed – between consuming and producing countries as well. It is important that the EU addresses this problem, in cooperation with the UN and producers and buyers, to make sure outcomes have a tangible effect where they can and are scientifically sound and supported by all sides. This relates both to the measurement/verification mechanisms and to practical enforcement.

It is especially important to keep politics out of this discussion. A number of environmentalist NGOs suggest using "methane tax" as a tool to engineer policy changes in the third countries. For example, the Environmental Defense Fund (EDF) proposes that a methane fee should be based – at least in the early stage – on the country's average methane footprint.¹² This is because the main suppliers (to Europe) are national oil companies, which tend to dominate the sector in their home countries and, therefore, a majority of methane leakage originates from these

⁷ Ramón A. Alvarez et al., "Assessment of Methane Emissions from the U.S. Oil and Gas Supply Chain", in *Science*, Vol. 361, No. 6398 (13 July 2018), p. 186-188.

⁸ Robert W. Howarth, "Ideas and Perspectives: Is Shale Gas a Major Driver of Recent Increase in Global Atmospheric Methane?", in *Biogeosciences*, Vol. 16, No. 15 (August 2019), p. 3033, <https://doi.org/10.5194/bg-16-3033-2019>.

⁹ Chris Giles, James Politi and Gillian Tett, "US Threatens Retaliation Against EU Over Carbon Tax", in *Financial Times*, 26 January 2020, <https://www.ft.com/content/f7ee830c-3ee6-11ea-a01a-bae547046735>.

¹⁰ *The Biden Plan for a Clean Energy Revolution and Environmental Justice*, <https://joebiden.com/climate-plan>.

¹¹ European Commission, *Presentation - Workshop: Strategic Plan to Reduce Methane Emissions in the Energy Sector*, 20 March 2020, <https://europa.eu/!fn89vN>.

¹² See Poppy Kalesi contribution to the Eurogas webinar on "Pathways to Methane Emissions Reduction", 26 May 2020, <https://eurogas.org/event/lets-meet-online-event-pathways-to-methane-emissions-reduction>.

dominant suppliers. According to the EDF, such a move will send a signal to the whole country to reduce its methane footprint and lead to a tightening of environmental regulations.

Not only is this proposal politically ambiguous, it also punishes companies investing heavily in reducing their GHG emissions – like conventional gas producers – while other industries in the same country with higher emissions drag the country's "export carbon footprint" up. This approach of collective responsibility should be avoided. Furthermore, it is sometimes difficult to distinguish between different emissions sources, both natural and man-made, especially if they occur in the same location.

European energy companies and even energy exporting countries are recognising (with some delay) new climate realities and even proposing energy transition plans. For example, the methane footprint of Norwegian energy company Equinor was around 10 per cent of the industry average according to the annual report released in 2019.¹³ Russia's Gazprom has also stressed it has a low methane footprint exceeding the best performers in Europe.¹⁴

An independent audit of Gazprom's greenhouse gas emissions was conducted by KPMG in 2018. In 2017,

¹³ Equinor, *2019 Annual Report*, March 2020, p. 93, <https://www.equinor.com/en/investors.html#annual-reports>.

¹⁴ Gazprom, *PJSC Gazprom Environmental Report 2019*, June 2020, p. 57, <https://www.gazprom.com/f/posts/72/802627/gazprom-environmental-report-2019-en.pdf>.

the company's emissions reached 112.15 million tons in CO₂ equivalent, a decrease of 12.9 per cent from 2013 at roughly the same production levels.¹⁵

Even in the US, where the issue of the shale sector's methane footprint has been debated, the industry and the country itself have made progress in reducing GHG emissions. "While the European Union may feel the need of a carbon tax, why should we be penalised as the United States when we are leading the world in CO₂ reduction, because we don't have a tax in place?" – noted Shawn Bennett, deputy assistant secretary at the US Department of Energy.¹⁶ This point of view might be shared by other energy-exporting countries.

Fighting climate change is an important policy objective but it should not be linked to protectionist mechanisms or become a tool for an artificial (energy/resource) dependency avoidance. Furthermore, decision makers in Brussels should consider potentially adverse effects of the proposed international measures on stability and growth in emerging countries. New measures could undermine state budgets in already fragile contexts, potentially creating new internal and

¹⁵ Gazprom, *Gazprom Becomes First Russian Energy Company to Conduct Independent Audit of Greenhouse Gas Emissions*, 13 June 2018, <https://www.gazprom.com/press/news/2018/june/article435686>; and *Gazprom Reduces Greenhouse Gas Emissions in 2019*, 10 June 2020, <https://www.gazprom.com/press/news/2020/june/article506967>.

¹⁶ Julian Wettengel, "US Keeps Wary Eye on EU Carbon Border Tax Plans", in *Clean Energy Wire*, 23 March 2020, <https://www.cleanenergywire.org/node/6223>.

external tensions that will also come at a cost for EU interests.

Striking the correct balance between a climate sustainability and social stability is a key challenge facing the EU's environmental policies, including the European Green Deal. The energy transition process should be jointly managed by the EU and energy exporters while based on a gradual decarbonisation of their businesses via the application of intermediate – economically and technically – realistic targets. This process should avoid politicised priorities or short-term protectionist measures and instead aim to produce realistic, well-calculated, inclusive and economically efficient climate solutions.

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