Istituto Affari Internazionali

Making or Breaking the Green Deal: Consensus, Strategic Inter-dependence, Investment

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For her second term as European Commission President, Ursula von der Leyen announced a plan that held the line on the Green Deal,[1] the initiative she successfully launched five years ago. While much of the 2030 legislative climate agenda is now in place, decision-makers are tasked with complex responsibilities. The first priority will be maintaining the consensus on the transition while decarbonisation is being implemented. Over the past years, most greenhouse gas (GHG) emission reductions occurred in Emissions Trading System (ETS) sectors (mainly in the power sector) while in non-ETS ones, such as transport and buildings, reductions have been relatively small, and agriculture remains largely untouched. The Commission will also have to work on the post-2030 legislation and provide better guidance to member states on climate adaptation policies, which despite their indispensable local dimension, would benefit from a stronger EU role.[2] A second priority concerns creating a clean industrial ecosystem and adjusting the internal and external markets accordingly. Von der Leyen has promised a Clean Industrial Deal within the first 100 days of her mandate, which is expected to support European industrial competitiveness also through a new European Competitiveness Fund. Third, investment: decarbonisation will progressively impact sectors where the abatement cost is higher – requiring greater money while the end of NextGenerationEU draws near. Working effectively on these macro-priorities, among all else, is what will make or break the Green Deal.

[1] Lorenzo Colantoni and Margherita Bianchi, *Green Deal Watch No. 14* (May-September 2024), p. 6, https://www.iai.it/en/node/19001.

[2] Simone Tagliapietra and George Zachmann, "Memo to the Commissioner Responsible for Climate Policy", in *Bruegel Memos*, 4 September 2024, https://www.bruegel.org/node/10235.

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IAI COMMENTARIES 24 | 78 - DECEMBER 2024

ISSN 2532-6570

IAI COMMENTARIES 24 | 78 - DECEMBER 2024 ISSN 2532-6570

Strengthening consensus: Fragmentation is not an option

Political and economic circumstances across the bloc are different compared to the previous institutional cycle. In the past three years, the Russian invasion of Ukraine increased spikes in energy prices that hit citizens and industries across the Union. High inflation, which only recently returned to 2.2 per cent in the Eurozone[3] and low economic growth across the EU exasperated the population, which in several cases blamed the "Brussels' green agenda", as did many populist parties that capitalised on the citizens' frustration. Security and defence have overcome the climate crisis as a priority for voters,[4] especially in northern and eastern Europe, and the transition is increasingly contested as it starts impacting citizens and industries. Several member states have elected right-wing and/or nationalist governments (among them, Netherlands, Finland, Italy, Portugal, Sweden, Slovakia, and Austria soon, with the Czech Republic and Romania probably soon to follow), some of which show obstructive attitudes towards the Green Deal. France and Germany – engines of EU politics and integration – are weaker than ever. In the meantime, the second von der Leyen term officially kicked off: in the new Commission setup, she will likely have the final word on the most important industrial, climate and energy decisions given the greater fragmentation of climate and energy portfolios within the executive.[5] Time will tell whether this is good or bad news. Hopefully, a future Commission's Citizens' Energy Package[6] will help better involve and inform citizens about the transition, shaping a green social contract that might better sustain the transition.

The world itself is way different than five years ago. The securitisation of supply chains brought about tougher competition and tensions between superpowers (namely China and the US), emphasising Europe's vulnerabilities. Trump's re-election and his America First approach might constitute another problem for the EU, which has limited leverage to counter his 'energy dominance' vision and avoid a growing EU-US energy price gap in the short term. The EU may also face a slowdown of its decarbonisation efforts in the long-term as a result of US policy impulsiveness.[7]

The way the international system is transforming is difficult to capture entirely, including the growing distrust between the Global North and the Global South, multilateralism being increasingly under pressure and the stronger influence of the BRICS.

[3] Eurostat, "Annual Inflation Up to 2.2% in the Euro Area", in *Euro Indicators*, 18 December 2024, https://ec.europa.eu/eurostat/en/web/products-euro-indicators/w/2-18122024-ap.

[4] European Union, *EP Spring 2024 Survey: Use Your Vote - Countdown to the European Elections*, April 2024, https://europa.eu/eurobarometer/surveys/detail/3272.

[5] Lorenzo Colantoni and Margherita Bianchi, *Green Deal Watch No. 14*, cit., p. 7.

[6] European Commission DG for Energy website: *16th Citizens Energy Forum*, https://energy.ec.europa.eu/node/6229_en.

[7] Nathalie Thomas, "Hurricane Trump Will Blow Europe's Wind Power Recovery Off Course", in *Financial Times*, 6 November 2024, https://www.ft.com/content/b24a1bd3-6e14-4007-ac44-89509608a97a.

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These tensions threaten both Europe's industrial competitiveness and clean tech leadership ambitions as well as its very path to climate neutrality. Rising fragmentation at the international level may lead to higher costs for accessing low-carbon materials or may complicate the implementation of key regulatory measures such as the carbon border adjustment mechanism (CBAM) or the Regulation on Deforestation-free Products (EUDR), thus slowing down the transition. With the EUDR already in peril,[8] the implementation of the CBAM will test the EU's capability to manage the international consequences of its climate measures. It is thus key that fragmentation is avoided at least internally, and that the EU enhances its tools and institutions adequately.

Around the world, measures like CBAM have also been perceived as European moral grandstanding – a trend that might ultimately alienate consensus on the transition. It is thus imperative that EU decision-makers pay stronger attention to how initiatives are perceived in third countries. The same applies to clean tech supply chains,[9] where it is essential that the EU better engages with emerging and developing economies supporting them in moving up from extraction to higher added value activities, in order to create more economic opportunities in partner countries. Building consensus is more important than ever: rising nationalism worldwide threatens the advancement of climate action and, paired with misinformation, creates further distrust and stalemate in essential talks such as COPs.

Increasing competitiveness and building strategic inter-dependence

Mario Draghi's report on the future of EU competitiveness[10] – quoted in all mission letters to Commissioners having key roles in the advancement of the Green Deal – clarifies that decarbonising industry is essential for Europe's prosperity. The report suggests avoiding a total repatriation of clean tech production (either impossible or too expensive), or fully relying on cheap imports; rather it goes for a 'mix and match' approach depending on the sector. The EU should thus consider: (a) what the components of a clean and strategic supply chain are; (b) what internal integration instruments and external partnerships are required; and (c) how to finance all that. This means thinking strategically about where Europe has lost its comparative advantage, what is critical for the bloc's security and what the infant industries to monitor are, to then define a combination of trade and industrial policies ranging from accepting imports to near/re-shoring some supply chains to setting up trade protections.[11]

[8] Philip Blenkinsop, "EU Lawmakers Seek Change to Deforestation Law and Approve Delay", in *Reuters*, 14 November 2024, https://www.reuters.com/business/environment/european-parliament-approves-one-year-delay-eu-anti-deforestation-law-2024-11-14.

[9] Theophilus Acheampong, "Developing Green Value Chains: Collaborating for a Mutually Beneficial EU-Africa Partnership", in *IAI Commentaries*, No. 24|62 (October 2024), https://www.iai.it/en/node/19065.

[10] Mario Draghi, *The Future of European Competitiveness*, September 2024, https://commission.europa.eu/node/32880_en.

[11] Sander Tordoir et al., "Draghi's Plan to Rescue the European Economy: Will EU Leaders Do

IAI COMMENTARIES 24 | 78 - DECEMBER 2024 ISSN 2532-6570

Crafting the external dimension of the EU's industrial policy is particularly delicate. Flexibility here is key. On the one side European values favour an open international environment. On the other, the bloc must strengthen its ability to adjust to external shocks, be them political (such as sanctions, supply manipulations, etc.), economic (for instance, price volatility, trade barriers), environmental (natural disasters), industrial (low public and private investment), social (demographic trends, resistance to infrastructure, lack of skills), technological (disruptive innovations). This non-exhaustive matrix of potential external shocks would apply differently to the different technologies or materials needed by the EU: critical raw materials, solar photovoltaic, wind, electrolysers, batteries, heat pumps, and more, thus further complicating the picture.

Another reason behind the current competitive gap suffered by the EU then is related to high energy prices. Energy poverty is still a significant concern in Europe, worsened by the crisis and disproportionately affecting vulnerable consumers.[12] The Draghi report underlines the need to curb the volatility of gas prices to reduce the energy bill of both European companies and consumers (but above all for energy intensive industries). According to the report, the EU should also strengthen its joint gas purchasing activities to make best use of its collective bargaining power and reduce its exposure to volatile spot prices. Many of the proposed solutions on the gas and electricity market have been however already discussed: e.g., the marginal pricing system and some dossiers have been recently agreed upon, such as the electricity market design[13] – it is thus unlikely they will be renegotiated in the short term.

Given Europe's lack of hydrocarbons, unlike the US, bringing down energy prices also hinges on moving forward on the transition. The EU and capitals around the bloc will need to work on the remaining flows of Russian imports. Traditional energy security will remain a strong concern in 2025: imports from Middle East and North Africa countries have experienced disruptions in 2024 due to infrastructural problems and political tensions. In particular, the crisis in the Middle East following 7 October 2023 has affected global trade in liquefied natural gas, especially Qatar's exports to Europe. Energy security will be indeed high on the political agenda of Poland, which is preparing to take over the presidency of the Council of the EU on 1 January.

Raising money to the challenge

Investment is the Achilles heel of the Green Deal. It is no mystery that expanding the utilisation of renewables means an increase in batteries, grids and digital solutions; that electric

Whatever It Takes?", in *CER Policy Briefs*, September 2024, https://mailings.cer.eu/node/11105.

[12] Samuele Livraghi and Mara Oprea, "Energy Poverty in the EU: Current Situation and Pathway to a Better Future", in *RiEnergia*, 20 March 2024, https://rienergia.staffettaonline.com/articolo/35453/Energy+poverty+in+EU:+the+current+situation+and+a+pathway+to+a+better+future/Samuele+Livraghi+e+Mara+Oprea.

[13] Lorenzo Colantoni and Margherita Bianchi, *Green Deal Watch No. 14*, cit., p. 7.

vehicles require charging infrastructure or that houses need retrofitting – and the list could go on. As the post-Covid funding from NextGenerationEU stops, the EU will need to find another solution. Whether the bloc will have the political consensus to create such a structured investment plan is a huge question mark. The Draghi report itself calls for a huge investment push (some 750-800 billion euros per year to keep up with competitors) alongside reforms in key sectors and a stronger European integration to industry decarbonisation. Funds to engage in a just transition externally – through sustained climate finance and compensation mechanisms – are equally vital.

Hopefully, in 2024-2029 there will be a fast and orderly implementation and advancement of the Green Deal. However, given the current circumstances, a "pragmatic" way forward is to be expected from the Commission, Parliament and member states, where some delays in the implementation of the Green Deal may happen or some tactical steps back may be made to avoid a radicalised opposition.[14] Such a scenario would allow to stick to the fundamental objectives and budget enough money to accompany the green transition in those sectors that need it most, but could also result in a slower implementation. A more worrying scenario would be a clear watering down of the implementation acts for the 2030 legislation and the lack of proper enforcement, paralleled with no real advancement on post-2030 legislation.

As Donald Trump begins his second term as US president, Europe's role as a climate leader will acquire even greater importance. Despite the initiatives presented in July by the Hungarian rotating presidency, the delicate period between legislatures has not allowed so far for the abovementioned conversations to happen adequately. The real work will start in January 2025: the ability to address these weaknesses will indeed be a defining feature of the EU's role in the global energy transition.

19 December 2024

[14] Sylvie Goulard and Aure Keraron, "The Future of the European Green Deal: Three Potential Scenarios", in *IEP@BU Articles*, 16 September 2024, https://iep.unibocconi.eu/node/760.

ISSN 2532-6570

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ISSN 2532-6570
IAI COMMENTARIES 24 | 78 - DECEMBER 2024

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