

European issues

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Economic recovery and climate: for Europe and the world, two battles to fight at once

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The global economic and sanitary situation has accelerated many States' commitments to fight climate change and, more specifically, the inclusion of climate issues in national recovery plans. Almost a year after the announcement of the Green Deal by the European Commission, and several weeks after ambitious climate announcements made by China and Japan, Europe will be playing an important round in its commitments at the forthcoming European Council on 10th and 11th December.

The next European Council is the very next opportunity for EU leaders to discuss a common greenhouse gas emissions reduction target by 2030. This debate is particularly awaited, as the current target of minus 40%, approved in 2014 by the European Council, could be increased to minus 50% or even minus 55%, in line with the European Green Deal presented in December 2019 by the President of the Commission, Ursula von der Leyen, and reiterated in her speech on the [State of the Union](#) last September. A [joint declaration](#), endorsed by eleven European governments (Denmark, Spain, Estonia, Finland, France, Ireland, Latvia, Luxembourg, the Netherlands, Portugal and Sweden) supports the Commission's proposal for an increased target of minus 55% and its inclusion in the EU's contribution to the United Nations Framework Convention on Climate Change (UNFCCC) by the end of the year.

The carbon neutrality target by 2050 is emblematic of the European Green Deal and the Commission's climate policy scheme, and was already agreed upon by the Member States in December 2019, with the exception of Poland. More recently however, the Council recalled that these objectives - *a fortiori* by 2030, given the time left to attain them - must be combined with an incentive framework for the Member States, in order to guarantee a just ecological transition based on solidarity. At the heart of the dispute over a higher target for 2030 lie the immediate interests of certain Central and Eastern European countries, whose energy transition is less advanced due to an inherited higher share of fossil

fuels in their energy production mix. One of the key points of discussion remains the scale of application of the 2030 target - should the 55% reduction be effective at the level of each Member State, as the European Parliament wishes for the 2050 target? Or can this target be achieved on average at EU level, [as suggested by the Council](#)? Although these countries are already the focus of special attention in the [Just Transition Mechanism](#), their reluctance remains strong and consensus still uncertain. The upcoming European Council December will be essential to ensure the convergence of Member States on the Union's climate trajectory up to 2030, to present an updated collective contribution to the UNFCCC before the end of the year so that the Union can demonstrate a strong, determined position at the COP26 in November 2021.

A EUROPEAN RECOVERY FINANCED BY THE ENERGY TRANSITION?

In Europe, [negotiations over the multiannual financial framework and the European recovery plan](#) have led to the adoption of new own resources. Several of these resources, intended to finance both the recovery plan and specific programmes within the MFF, have a direct effect on the carbon impact of national economies. This is notably the case of the plastic tax, which concerns non-recycled plastic waste, which States will have to pay from January 2021 on the basis of a price of €0,80 per kilogram of non-recycled household and non-household waste. According to the European Commission, this tax

could bring in some €42 billion to the European Union between 2021 and 2027. Still, the main issues at stake are a distinct and coherent integration of such tax into existing national schemes, and its overall cost must be calculated in such a way as to effectively and lastingly reduce the volume of non-recycled waste and the volume of plastic waste in general. In addition to being a budgetary opportunity for the European Union, this tax is in line with the European Green Deal, which aims for 100% reusable or recyclable packaging by 2030. Alongside with the plastic tax, the allocation of a share of the emissions trading system' revenues to the European budget and the ongoing modelling of a carbon border adjustment, for both of which the European Commission will present proposals in the first semester of 2021, complete this set of "green" European resources.

THE TIME FOR CARBON NEUTRALITY

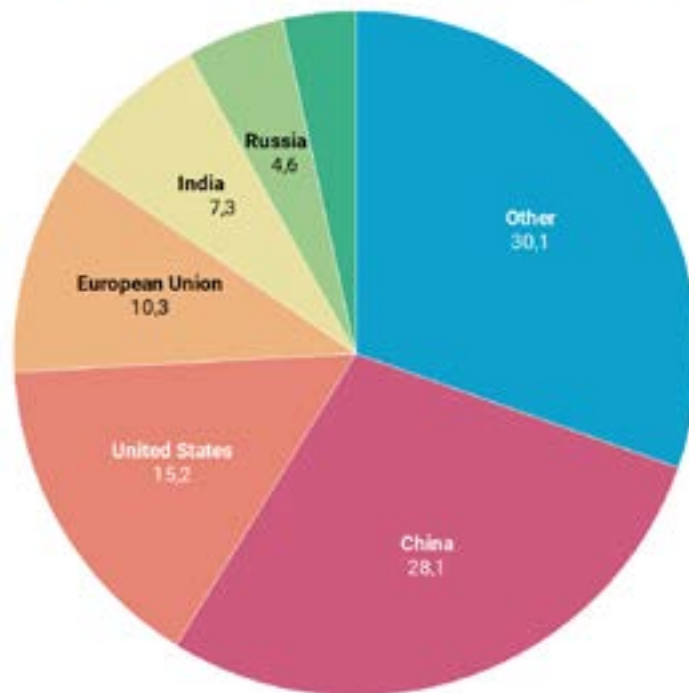
September also set the stage for some of the world's most energy-intensive and GHG-emitting States to announce unprecedented climate goals. On 22nd September, during the United Nations General Assembly, Chinese President Xi Jinping announced that China would pursue [carbon neutrality in 2060](#), and attain its carbon peak in 2030. During his [general policy speech](#) to Parliament last September, the new Japanese Prime Minister Yoshihide Suga affirmed that "the response to climate change is no longer a constraint on economic growth", and that Japan aims to become "a low-carbon society" by 2050, thereby aligning itself with the European agenda.

These two announcements are particularly significant for several reasons. Firstly, because China and Japan are two of the world's leading economies, but also the world's first and sixth largest CO2 emitters.

CO2 emissions by country

% of world

Other China United States European Union India Russia Japan



Robert Schuman Foundation - Source: BP Statistical Review of World Energy 2019

Secondly, because in different ways, China and Japan are two world leading industrial powers, and these commitments should have significant impact on their national industrial strategies and public investment policies. China and Japan's economic power of influence and industrial outreach will soon have an impact on their partners, whether they are already engaged in a similar process, such as the European Union, or whether they are *de facto* affected, in the realm of trade and diplomatic relations. Some key sectors at the heart of the global energy transition, such as batteries manufacturing and industrial applications for a circular economy will be subject to increased competition, both in terms of research and innovation efforts, and in terms of drastic cost reductions, production massification and the quest for bigger market shares.

For Japan, this announcement raises particularly high energy stakes, given that the decline in nuclear power after the Fukushima disaster in 2011 has mechanically led to an increase in national emissions, whether from natural gas or coal. As far as China is concerned, the European Union, thanks to the strength of its climate strategy and its direct involvement in bilateral climate negotiations, has played a significant role in the 2060 goal announcement. Such statement created immediate enthusiasm around the world, given China's massive carbon footprint. But the carbon peak milestone set for 2030 raises multiple questions. From a domestic point of view, China has indeed experienced [exponential growth of its "clean" electricity production capacity](#), notably through solar power, and it has undertaken the construction of numerous dam projects, at an increasingly rapid pace since the 1990s and with a yet under-evaluated environmental impact. At the same time, China continues to finance and build a significant number of coal-fired power plants and carbon-intensive infrastructure, with more coal plant projects approved in 2020 than in 2018 and 2019 combined.

Abroad, China carries on with the Belt and Road Initiative in which energy plays a significant role, estimated at around two-thirds of the total volume of realised and announced projects, along with

other types of infrastructure like rail, road and port infrastructure. For instance, the Global Interconnection Initiative presented in 2015 by Xi Jinping involves the development of a global electricity network using very high voltage lines on unprecedented distances. Fossil fuels also play an important part in the projects led by China through the BRI, with at least \$50 billion committed to financing coal-fired power plants since 2013. China's ability to meet its carbon roadmap is a key issue on which all terms and conditions have yet not been outlined. China's investment policy beyond its borders, its domestic carbon footprint aside, is another key issue, and the question must be asked as to how China will implement its international strategy since it is [financing 70% of the coal fired power plants under construction in the world](#).

There is an undisputable momentum for countries to accelerate their energy transition. Some countries like [Germany have indeed been criticised](#) in the past for having paid a high price for being among the "first movers" in the transition, without completely achieving their goals or resolving profound dysfunctions in their energy systems. Yet the energy transition has grown fully integrated into countries' political and financial strategies. It's no longer about waiting for others to take the lead, but seizing the opportunity of the transition before it costs more than it pays.

In any case, these announcements are the expression of a colossal ambition on the side of world's economic powers, and a drastic change in their perception of the energy transition. The realisation that the world economy and the opportunities for growth are shifting towards "low-carbon" activities and technologies is a new source of political and economic opportunism. It is no longer illogical to invest in the transition: on the contrary, it has become a *pragmatic arbitrage*, which raises profound questions on the right political and technical methods and tools to fight climate change, from a systemic perspective.

BEYOND THE CORONAVIRUS

These objectives were announced under the uncertain circumstances of the post-coronavirus recovery. In

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the medium term, the conditions under which the world economy will recover will directly influence the trajectory of CO2 emissions. The positive relationship between global GDP and CO2 emissions is well known, as illustrated by the temporary reduction in emissions experienced between 2007 and 2009 as a direct consequence of the financial crisis and the reduction in global energy demand. Two considerations can guide our understanding of the link between recovery and climate change in the medium and long term.

On the one hand, the attempt to deeply reform our economies, forcefully formulated by several national governments and many members of the European Parliament, is partly based on the recent experience of lockdown, the momentary interruption of the economy and the highlighting, by contrast, of some of its operational dysfunctions. This is reflected in a number of proposals, such as forbidding a number of short-haul flights or even making State aids to the aeronautical sector conditional on commitments to

take part in the fight against climate change. This is also the case for the recent public support to the railway sector, in the shape of night trains or freight transport, at both national and EU level, with a view to reducing the share of CO2 emissions associated with passenger, road and air freight transport. We should also mention the effort to quantify and reduce the environmental externalities of our economies, notably through the prism of financial standards, such as the European Taxonomy.

On the other hand, the probable weakening of advanced economies leaves the risk of a significant increase in public debt and high levels of public deficit over several years. According to the OECD, the GDP outlooks by the end of 2020 are very uneven among countries, with an average of minus 7.5% in the euro zone versus plus 1.8% for China. These prospects should be more harmonious by 2022, with world average growth of 3.7%.

An uneven economic recovery across regions

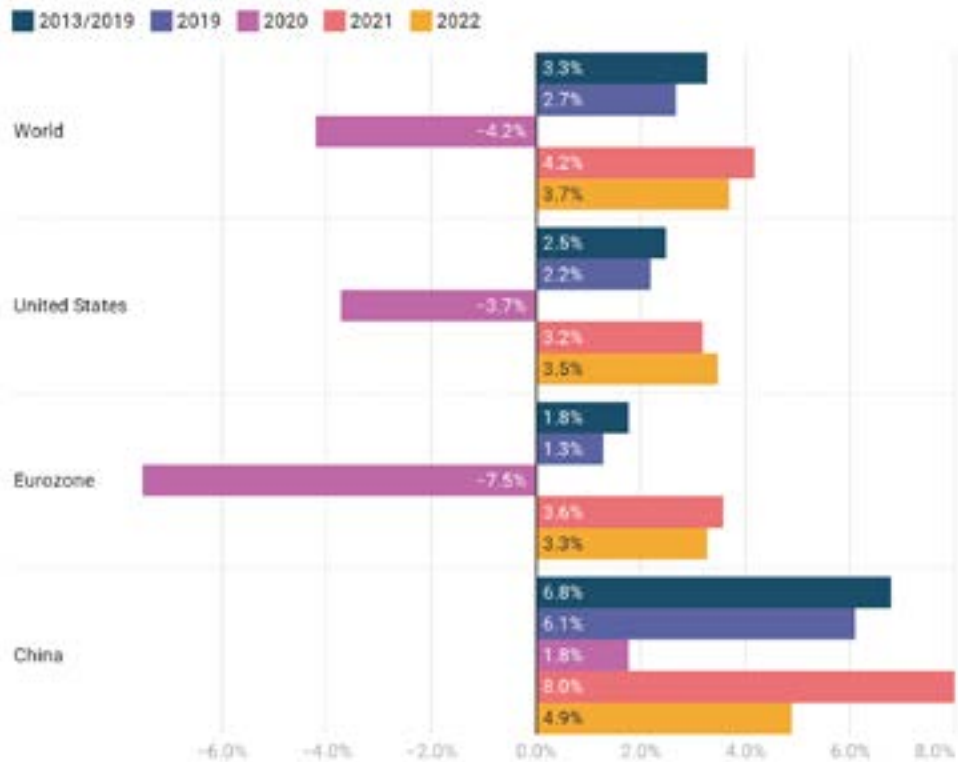


Chart: Robert Schuman Foundation • Source: OCDE

The level of socio-economic inequalities is also expected to increase, with the prospect of mass layoffs, business bankruptcies and loss of household purchasing power. As an example, the French recovery plan devotes more than a third of its envelope (€36 billion) to "cohesion" funding, i.e., committing funding at a local scale, for instance in favour of lifelong training policies, notably in innovative and sustainable sectors, and infrastructure financing, in order to reduce the impact of the coronavirus crisis on social and regional inequalities.

Social issues have become inseparable from the ecological transition. The joint fight against social inequalities and climate change are two priorities which, if pursued together, could be mutually enriching. This is notably the promise of the "renovation wave", a European initiative aimed at massively renovating residential and non-residential buildings. Notwithstanding the conditions for an environmentally efficient renovation policy, the development of skilled and long-term jobs in this sector directly contributes to local economic development, as well as to the reduction of energy poverty and of energy demand in Europe. These interconnected spheres are one of the keys to a fair ecological transition throughout Europe.

Moreover, the post-coronavirus weakening of European industrial and economic network raises the question of an increased and lasting dependence on non-European economies. This is precisely one of the lessons of the crisis: in terms of both health and energy, Europe has supply dependency levels

that need to be reduced and mitigated. The choice of industrial sectors in which to invest in order to relocate certain links in the value chain – such as research, production, or recycling – is the subject of significant debate at the Commission, as in the case of clean hydrogen or batteries.

In this respect, 2021 will be a crucial year for Europe, on the fields of economic recovery as well as accelerating and anchoring the energy transition in this new and uncertain environment. These considerations will be all the more strategic as COP26, under the double patronage of the United Kingdom and Italy. The forthcoming COP could indeed mark the return of the United States to the negotiating table, in the face of indispensable and pro-active China. The month of November 2021 will be an opportunity to assess the results of the Paris Agreement so far, to renew and enhance national commitments and, above all, to define the precise roadmap for transforming these intentions into tangible actions.

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