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Policy Brief

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The European Commission on the brink of a green recovery
Will it be able to deliver?

Greening the huge Corona recovery investments and the revised Multiannual Financial Framework is marketed as a once-in-a-lifetime opportunity. The European Commission is keeping its Green Deal ideas at the heart of its Next Generation EU package, but meanwhile the recovery measures of individual Member States are aimed mostly at ensuring the jobs and businesses of the grey economy. Moreover, an east-west divide is emerging over the Commissions' green ambitions. Successful implementation will certainly depend on the steering authority the Commission might acquire.

This policy brief analyses the effectiveness of key steering instruments available to the Commission. And it analyses how this effectiveness is influenced by the political context of the European Council.

A once-in-a-lifetime opportunity for decarbonisation

Is overcoming the economic downturn after the COVID pandemic **the** chance for a sustainable, fair and fossil-free transformation of the European economy and society? Or is greening the economy a nice instrument to dress up the window that views a quick and urgent economic recovery?

To an increasing degree, the opinion being voiced is that globalisation and unsustainable economic growth may not be the root causes of the Corona outbreak, but that efforts to combat the pandemic's devastating impacts on the economy could offer a once-in-a-lifetime opportunity to rethink and redesign assumptions about the social, financial and economic structure of European society.

Crucial aspects of the current European debate are three questions. In the first place, should the European Commission be given a mandate to take (back) a leading role in the recovery, for instance by pursuing a dynamic industrial policy guided by the objective of decarbonising? If yes, the next question is which policy instruments could match that guiding role effectively. And last but not least, the third question is whether a majority of European politicians would have the guts to commit to and support a resilient, sustainable and fair transition that lasts beyond the next general elections in their Member State when they must face growing anti-European national populism and climate-change scepticism.

This policy brief concentrates on these three questions, in particular on the potential effectiveness of the European Commission's proposals in its Next Generation EU package. It starts with an overview of how, at minimum, the Commission has been consistent in advocating a long-term green recovery.

A green, fossil-free recovery or economy first?

In discussions on Europe's COVID recovery over the last two months the focus has been on a short-term 'economy first' recovery. European leaders have argued in particular about the generosity-versus-frugality issue, and on whether Member States should spend the recovery budget first and foremost on structural reforms of their labour market, their fiscal and pension system, or the functioning of the rule of law. It appears that the relevance of a 'fossil-free and green' recovery is alluded to mainly in the public debate outside the (virtual) negotiation rooms in Brussels.

Almost like playing a lone hand, the European Commission has stood out in steadily advocating the urgency of continued priority for its Green Deal agenda as the new EU growth strategy for 2019-2024. Along that line, the Commission presented a first 'Roadmap for Recovery' on 23 April, subtitled 'Towards a more resilient, sustainable and fair Europe'. The European Council did not accept this. It chose different wording for labelling the recovery priorities: solidarity, cohesion and convergence, and adopted a first Euro 540 billion safety net package. The Council called upon the European Commission to '…analyse the exact (recovery) needs and to urgently come up with a proposal that is commensurate with the challenge we are facing'.

This showed that EU Member States allegedly could not (yet) identify common grounds for a 'long-term green' recovery strategy. Only a few gave the impression that they had not forgotten their earlier support for a green transition, but the Council as a whole passed that hot potato back to the European Commission, buying more time to adjust its position and forge consensus with like-minded countries. In the meantime, a large majority[1] of the European Parliament adopted a resolution, stating that 'the recovery strategy should be based on the principles of economic and territorial cohesion, social dialogue and transformation towards a resilient, sustainable, socially just and competitive economy, … calling therefore for (European and national) investments to be prioritised into the Green Deal, the digital agenda and achieving European sovereignty in strategic sectors, with a consistent industrial strategy'.

In mid-May, the deliberation process within Member States delivered a French-German proposal for the recovery, and shortly thereafter a reactive non-paper, supported by Austria, Denmark, Netherlands and Sweden. The French-German position chose yet another set of European priorities: resilience, convergence, competitiveness. It emphasised 'the increase of investments in the digital and green transition and strengthening research and innovation, reaffirming the Green Deal as the EU's new growth strategy'. A few days later, the so-called 'frugal-four' non-paper focused on European solidarity and resilience, establishing a temporary (two years) Emergency Recovery Fund aimed at 'ensuring a green transition that underpins the EU's ambitious climate, growth and digital agendas'. In the beginning, most other Member States in the east and the south kept a low profile on the issue, but recently they became more vocal in opposing the green angle of the recovery package.[2]

On 27 May the Commission published its proposal **Next Generation EU**. This repeated the April message that the European Green Deal should define the EU recovery strategy. The Commission wants to revitalise the Single Market, to guarantee an economic level playing field and support urgent investments, in particular in the green and digital transitions, which would

1 505 votes in favour, 119 against, and 9 abstentions.
2 See for instance remarks made by Czech Prime Minister on 17 March 2020 "The Green Deal Should Be Canceled Because of Coronavirus".

hold the key to Europe's future prosperity and resilience. On how to achieve this, the Commission was very clear: the spending of recovery budgets, either gifts or loans, will be guided through the 'revamped long-term EU budget', in line with priorities of the Digital Agenda and the Green Deal (renovation of buildings and infrastructure, circular economy, renewable and clean energy, cleaner transport and logistics, sustainable agriculture), and strengthening the Just Transition Fund to help businesses create new economic opportunities.

Will the greening ambition of Next Generation EU be effective?

Without knowing what priority the Council will give when it meets this summer to the greening of the recovery package, it is nevertheless relevant to analyse the context in which the European Commission is trying to steer the debate on greening the recovery. This policy brief highlights three area of tension in the debate, and focuses in particular on the potential effectiveness of the Commission's proposals:

1. **Public power over market economy**
   The recovery package includes proposals for a full-blown EU-wide strategic industrial policy. On 10 March 2020, just before the COVID crisis in Europe truly set in, the European Commission published its new 'Industrial Strategy for a globally competitive, green and digital Europe'. This strategy set ambitions for achieving a twin transition in the Single Market towards climate neutrality and digital leadership. To ensure the strategy's success, the Commission advocated a familiar[3] type of governance: joining the forces of businesses within and between industrial sectors, Member States, regions and EU institutions. It aimed to create a new European 'industrial ecosystem', bringing together crucial players: academic and research institutes, suppliers, SMEs and larger companies. Building on earlier successes of so-called 'industrial alliances' in batteries, plastics and microelectronics, the Commission prioritised new alliances on clean hydrogen, low-carbon industries, industrial clouds and platforms, and raw materials.

   This EU Industrial Strategy is a crucial element of the EU Growth Agenda 2019-24, which in turn is transferred 'one-on-one' into the Next Generation EU package. As a matter of fact, the proposed recovery policies imply a top-down picking of winners and subsidising them, directly or indirectly, through all of the existing EU instruments and mechanisms.

   The question is to what extent Member States will in the end support (and implement) this top-down European public influence over the future structure of the supply side of the Single Market.

   So far, the impression is that Member States in their first crisis policy responses are mainly focusing on protecting the market position of their own national industries – either by labelling them with wording such as 'our national pride' and/or 'indispensable', or by supporting them with a 'whatever it takes' public budget. Some Member States have established national strategies, aimed at supporting their own industries to develop into 'Europe's best', by competing against European competitors. Examples of this can be seen particularly in the transport and mobility sector, with large support schemes for the automotive and air transport sectors. The Netherlands is an example of the latter, in proposals to Parliament from the Rutte government, boosting the Dutch basic industry sector to 'become the number-one place of business in Europe' and 'to take up a new, leading

3 Compare earlier attempts in the 1980's and 1990's.

role in the greening of (European) industry'.[4] Admittedly, this Dutch proposal underscores the importance of European cooperation, but that seems subordinate to the national ambition of becoming #1 in Europe.

Furthermore in this context, remarks can be heard – but as of yet not very loud – that question the effectiveness of top-down industrial public policies in general. These remarks mirror classical arguments that governments are not able to make the right practical choices about which firms or industries to support, and consequently, that they will make mistakes and waste valuable resources. In addition, these remarks include the proposition that effective industry policies need long-term continuity and that government policy and long-term continuity are by definition contradictory notions.[5]

In summary, the view on unconditional support for a full-blown top-down European industrial policy seems a little blurry. In line with that, the effectiveness of the present recovery package may be somewhat questionable.

2. EU power over Member States' policies

Next Generation EU includes an overview of how the Euro 750 billion recovery package should be spent, but does not, however, set out all the details of the New Growth policies. The Commission's proposal is to 'channel the recovery funds through the European budget'. Spending at Member State level will be guided through existing EU programmes, conditioned by the European strategic priorities of strengthening the digital single market, the European Green Deal and resilience.

An intriguing aspect is the ongoing debate between the Commission and the European Parliament on whether the Commission's aspiration[6] to increase its guiding power over implementation of EU climate policies by Member States are in line with the EU Treaty.

The main recovery instrument will be the new Recovery and Resilience Facility (RRF), specifically designed to fund investments and reforms aligned with European priorities. The RRF will be 'firmly embedded in the European Semester'. Member States will be required to draw up recovery and resilience plans as part of their National Reform Programmes, which will need to include investment and reform priorities related to these strategic recovery priorities. It is worth noting that the RFF is a one-off instrument, meant to support short-term recovery, not a 30-year green transition.

Furthermore, the European cohesion policy instrument will continue to play its role in tackling the most pressing economic and social needs. Here too, the Commission's proposal is to adjust the policy framework to make it more flexible and fully aligned with recovery priorities.

Regarding the Green Deal priority, the Commission has set out an extensive arsenal of (extra) guiding instruments:

> *At EU level*, it includes integration of the UN Sustainable Development Goals (UN SDGs) in the European Semester, a new environmental action programme with a new monitoring mechanism to ensure that the EU remains on track to meet its environmental objectives, and a dashboard to monitor the progress of Green Deal objectives. Also, the Commission will start a debate on how to improve European fiscal governance, by including references

4 See: Kamerbrief met visie kabinet op verduurzaming basisindustrie-2050 (in Dutch).

5 Interview with Dutch Prime-Minister Mark Rutte and economics professor Arnout Boot on Dutch public radio, 29 May 2020 (in programme 'Met het Oog op Morgen').

6 As included in the EU Climate Law proposal COM(2020) 80 final 2020/0036 (COD).

to green public investment in the context of the quality of public finance. This will form a basis for including ways of treating green investments in EU fiscal rules while preserving safeguards against risks to debt sustainability.

At Member State level, the amended 'green' European Semester will monitor policy progress to put sustainability and the well-being of citizens at the centre of economic policy. In particular, it will focus on implementation of the UN SDGs. In addition, the Commission will use the National Energy and Climate Plans (NECPs) instrument to monitor and assess Member States' performance in achieving European climate and energy policy targets, and will recommend additional measures if the level of ambition is not high enough. Furthermore, the Commission strives for a greater use of green budgeting tools in national budgets in order to help redirect public investment, consumption and taxation towards green priorities and away from harmful subsidies. The Commission will work with Member States to screen and benchmark green budgeting practices, to assess the extent to which annual budgets and medium-term fiscal plans take environmental considerations and risks into account, and to learn from best practice examples.

Overall, the European Semester and the NECPs seem to have the most potential as guiding and steering instruments for a green transition. Both already exist, but will be amended. Other highlighted instruments are still under discussion. Questionable is the extent to which Member States will accept the Commission's ambition to increase its 'guiding power' over recovery budget spending, and whether the available steering instruments can be effective.

So far, the monitoring and especially the steering power of the *European Semester* instrument seem rather unimpressive. Evaluations show that responses to and implementation of country-specific recommendations by Member States are limited, and have been weakening over the years.[7]

Ten years of experience have shown that the Semester process is largely dominated by economic policy makers. It is primarily focused on budget discipline rather than on adequate addressing of policy integration towards better policy performance. Greening of the European Semester has been strongly advocated from the beginning, especially by green political parties and non-governmental organisations (NGOs). However, until now greening has not reached the desired level. An important factor here may be that greening adds complexity of interpretation and understanding of the instrument for both authorities and citizens at national and European levels.[8] One way to solve this could be de-siloing policy development and integrating green policies into economic, fiscal and social policies, at both Member State and European levels.

The other steering instrument – *the NECPs* – has existed only since 2019. It uses the same cycle as the European Semester of Member States sending plans to the Commission, followed by evaluation and country-specific recommendations. The focus of the NECPs process is the integration of energy and climate policies against the background of European policy ambitions and targets. Like the European Semester, the process is quite complex, in particular because it deals with the integration of energy and climate policy within five sectors (energy, mobility, food and agriculture, industry, housing).

7 Darvas, Zsolt M; Leandro, Álvaro (2015). The limitations of policy coordination in the euro area under the European Semester. Brussels: Bruegel.

8 Zeitlin, Jonathan; Vanhercke, Bart (2018). '"Socializing the European Semester: EU social and economic policy co-ordination in crisis and beyond"' *Journal of European Public Policy*. 25 (2): 149–174.

At this time, it is still too early to judge the effectiveness of the instrument; the first cycle is still ongoing. All Member States sent the first concepts of their plans to the Commission in December 2018. They were required to send their first final plans by the end of 2019. Luxembourg and Ireland have not as yet delivered, while Germany sent its plan only on 10 June 2020.

In the meantime, the Commission has evaluated the draft NECPs. Indications are that among northwest Member States there is some consistency of ambitions towards European climate and energy policy targets. Whether that is the case in east and south Europe is 'questionable'. However, the evaluation shows substantive gaps in policy implementation, particularly on renewable energy targets and on energy efficiency. The Commission has emphasised that 'setting ambitions is not enough'.

In line with the above remarks, better alignment of national and European policy development and de-siloing economic, fiscal and energy policies might be the keys to enhancing the effectiveness of the NECP process.

An added complication in the effectiveness of both Semester and NECP instruments for the European Single Market recovery is that Member States have set out – or are setting out – recovery strategies at national level. Of course, these include setting priorities in response to the most urgent national needs to avoid or diminish short-term economic and social damage. A quick scan shows that high 'green' ambitions fade somewhat into the background; for example, an abasement in planned CO_2 tax levels in the Netherlands, and German support for the traditional car industry. How understandable this short-term oriented national mechanism might be, it definitely complicates European ambitions to steer the spending of recovery budgets towards long-term strategic priorities that aim to disrupt existing economic structures.

In summary, on this second aspect, we should not expect too much from the practical feasibility of available instruments and the effectiveness of the proposed policy steering by the Commission.

3. The politics of a green recovery

The above-mentioned leads our attention to a third element that could determine how 'green' the recovery package will be: the political context. The simple argument that before the COVID crisis the EU Council (almost) reached consensus on the need for and urgency of the long-term Green Deal transition no longer seems enough. The choice of the European Commission in its Next Generation EU proposals for a long-term vision with disruptive consequences for the existing economic structure is politically very courageous, and almost just as unprecedented as the crisis itself.

Judging from an analysis of recent media coverage of the crisis recovery debate, the greening of the EU economy and society towards 2050 does not seem to be a major consideration for any political majority, either in Brussels or in national capitals. The key question is to what extent the furious debate on 'generosity versus frugality' will leave room – in the view of the Commission and the European Parliament – for other crucial long-term aspects of the recovery strategy, such as the digital agenda and the Green Deal. So far, the signs are not very hopeful. The political energy in the debate in the European Council seems almost fully absorbed by negotiations on where national economic and budgetary self-determination ends and where the need for European cooperation begins. It is clear that current domestic political relations within Member States are playing a crucial role in the debate. With 27 opinions, complexity is high, and even higher due to the dynamics of upcoming general elections in seven countries (Romania, Lithuania, Czechia, Cyprus, Netherlands and Germany).

European Council members will each have to judge for themselves whether a Council compromise on the recovery package (and the extended MFF) could be supported 'at home', and to what extent it would serve continuity in support of the political agenda of their own government. More than a few national governments, particularly those with upcoming elections, will need to take into account societal opposition forces, not the least of which are the nationalistic and EU-critical parties, some of which are also sceptical about climate policies. It is not that difficult to predict that the outcome of the complex Council negotiations will be a compromise with remedies for short-term crisis issues at Member State level. Strategic issues for the longer term, such as the Green Deal transition, will probably – at best – be part of the compromise, but only in general terms. Decisive action on the details of the Green Deal package, such as the precise definition of the Commission's steering mandate and criteria for determining whether Member State investments actually fit 'into EU programmes', will most likely be postponed and/or delegated to Councils of EU Ministers dealing with the specific policy portfolios.

In summary, analysis of the political context in which the European Council must negotiate raises serious doubts about the effectiveness of the greening ambitions in the Commission's recovery package.

About the Clingendael Institute
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