



The European Green Deal, Three Years On: Acceleration, Erosion or Fragmentation?

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► Key Takeaways

- Europe needs to make up for past shortcomings and the yet-to-fully unfold polycrises: this requires a war type mobilization to implement the Green Deal, RePowerEU and save more energy.
- Russian hydrocarbons are brutally out but Europe's reliance on fossil fuels will not vanish anytime soon. Securing competitive gas and liquefied natural gas supplies, fixing the electricity price crisis and maximizing energy savings are now key.
- No regret actions include a Schuman Plan to save and decarbonize industries and foster all low carbon value chains. The external dimension needs a booster and must reflect clear and adjusted priorities.
- With strategic competitors already preparing to pick up our pieces, the alternative is a large destruction of industries, a budgetary meltdown, a deadly fragmentation of Europe and nobody left to save the climate.

Introduction

The European Green Deal (EGD) is the single most defining policy initiative of the Von der Leyen Commission. Since its publication in December 2019, it has become the European Union's (EU) new *raison d'être*: protecting the planet and Europeans from environmental degradation, through a holistic approach to the energy transition, while promoting sustainable growth and a just transition with no social group or territory left behind. The credibility of the EGD was secured by the European Climate Law, which makes the objectives of climate-neutrality by 2050 and a reduction of at least 55% in greenhouse gas (GHG) emissions by 2030 legally binding at the EU level. This has given a strong mandate to the European Commission (EC) to propose an overhaul of European energy and climate policies. The EC has lived up to the task remarkably, resolutely sticking to an accelerated policy and legislative timeline, featuring around 30 strategies and action plans, in addition to emblematic, coherent legislative packages like *Fit for 55*. The European Parliament has also positioned itself as a key stakeholder, finding consensus on overall targets and objectives. While all Member States (MSs) finally subscribed to the EGD ambition and agenda, they remain torn between a discourse that is largely supportive of the energy transition, but which in reality suffers from insufficient implementation efforts and mounting difficulties.

Three years since the EGD set the direction of travel for the EU for the next 30 years, the EU finds itself in the midst of a storm not seen since World War II, coming just after it successfully weathered the Covid-19 pandemic. The war in Ukraine is a tectonic game changer with profound implications that are yet to be fully grasped. For energy and climate policies, these new realities require reviewing many assumptions about the energy transition, energy security, social acceptance, economic competitiveness, and hence, decarbonization strategies and policies going forward.

Achievements so Far: Raising the Level of Ambition and Making the Energy Transition Central

The EGD has managed to become an agenda setter. Energy and climate issues have become a key source of debate and policymaking, especially in sectors which were not explicitly envisaged initially, and they have spilled over into more concrete areas, like EU spending. One of the most symbolic achievements is securing large funding for the energy and climate agenda by including a 37% target under the Recovery and Resilience Facility (RRF), rising to €250 billion out of a total budget of €672.5 billion (in 2020 prices), and a 30% objective for the overall EU budget, to be channeled into climate action. Nevertheless, their implementation on the ground seems to be less

straightforward. For instance, while the EC's Recovery and Resilience Scoreboard¹ estimates climate expenditure to be about 40% of the RRF, the GreenTracker² takes a more nuanced look: about 30% of funds are set to contribute to the green transition, while €54 billion could actually negatively impact it, highlighting that in many cases, the "green" impact of the funds depends on their actual use on the ground.³ More than ever, MSs need to accelerate their efforts to absorb the immediately-available funds under NextGenerationEU and use them for priority investments in the energy transition.

A third essential win of the EGD is the overhaul of EU's legislative framework in the energy field and beyond. Key to this was the publication of the *Fit for 55* package in July 2021, followed by the publication of the *Gas Decarbonization Package* in December 2021. The negotiations on the legislative files in the *Fit for 55* package have continued at a sustained pace, despite the war in Ukraine which has sent energy prices skyrocketing, and has given way to a proliferation of emergency legislative measures taken at the EU level and decided in record time. A speedy adoption of this package of measures, while ensuring coherence and clarity across the files, and ideally by the end of the year, would place the EU in a better position to achieve its decarbonization targets on time.

Additionally, given the ever more dire energy crises provoked by Russia's weaponization of gas supplies, the core message of the EGD was transformed into a powerful plan to phase out the EU's dependency on Russian fossil fuels. The REPowerEU ambition to deploy more than 700 gigawatts (GW) in new wind and solar energy capacity by 2030 from 380 GW installed by end of 2021 and boost energy savings, has the message right: security of supply goes hand-in-hand with decarbonization in Europe, a massive investment wave is required, and MSs must wake up after years of delaying RES and energy efficiency deployment.

Finally, the EGD features an external pillar. The EU has contributed to maintaining the Paris Agreement alive, and to setting climate neutrality goals as quasi-universal benchmarks. The EU has also tried to maintain climate concerns as a cooperative element in the deteriorating relations with China, but it has failed to convince China to adopt an earlier peak date for its emissions. It has also stepped-up climate finance contributions,⁴ and kick started the Just Energy Transition Partnerships.⁵ The EU has blocked a free trade agreement with Mercosur over poor forest management in Brazil and put biodiversity on equal footing with GHG emissions. It has also taken key steps against "imported deforestation". Importantly, it has supported global energy

1. A platform gives an overview of the progress in the implementation of the National Recovery and Resilience Plans, available at: ec.europa.eu.

2. A joint project between the Wuppertal Institute and E3G, assessing the contribution of 18 EU member states' national recovery plans to the green transition, available at: greenrecoverytracker.org.

3. Green Recovery Tracker, "Taking Stock: Where Are We on Green Recovery at the End of 2021?", December 2021, available at: <https://assets.website-files.com>.

4. Council of the European Union, "Financing the Climate Transition", available at: consilium.europa.eu.

5. M.-A. Eyl-Mazzega, "Addressing the Climate Emergency: Closing 1,000 Gigawatts of Coal Plants by 2035", *Briefings de l'Ifri*, Ifri, April 2, 2021, available at: www.ifri.org.

governance and geared governance towards meeting the concrete needs of emerging economies, such as via the International Energy Agency's (IEA) Association agreements.

Missing and “No Regret” Actions Going Forward

The Internal Dimension: A War-type Mobilization to Implement the Green Deal

A war-type mobilization to implement the EGD is missing at all levels. Governments are dragging their feet on speeding up permitting for RES but have had no second thoughts on speeding up permission for liquefied natural gas (LNG) infrastructure, touring the world to secure new gas deals or reintroducing fossil fuel subsidies. Citizens are claiming their right to affordable energy, but manifestations of NIMBYism or irresponsible use of energy are still present. In the short term, a temporary return to coal is taking place in Europe, with up to 15 GW potentially to be reactivated by the end of 2022, resulting in an increase in EU ETS power sector emissions. The “no regret” actions are:

- Permitting new RES installations. Deploying more than 700 GW of new solar and wind capacities by 2030 is a tremendous challenge from an industrial, economic, raw material, and public acceptance point of view.⁶ Overall, a great majority of EU countries suffer from enormous delays in permitting new RES installations, running up to ten years, despite there being only a two-year requirement in REDII. At the current rate of deployment of 34 GW of RES per year,⁷ the EU would achieve 50% less than its REPowerEU objective. Europe's failure or success on this core mission depends largely to MSs' actions. This is not only a matter of declaring RES and the related grids as being of overriding public interest, which is justified in the name of the climate and security crises. But it is also about committing sufficient human resources, digitalizing procedures and securing a stable policy framework. To support governments, the EC has published new rules to accelerate permit granting across Europe, as well as recommendations and best practices.⁸ What the EC lacks today is a set of clear indicators on permits that every MS should follow and report on, which would increase transparency about capacities rejected, the length of the procedures, the number of people employed in the administrations to work on these issues, as well as what the most common reasons are for projects being rejected. Enhanced technical assistance should be developed for MSs that may not have the necessary expertise to improve their permitting framework.

6. M.-A. Mazzega, C. Mathieu and I. Urbasos, “The EU's Renewables Expansion Challenge Towards 2030: Mobilizing for a Mission Almost Impossible”, *Notes de l'Ifri*, Ifri, May 2022, available at: www.ifri.org.

7. H. Fox, “Ready, Set, Go: Europe's Race for Wind and Solar”, Ember, July 2022, available at: ember-climate.org.

8. EC Europa, “REPowerEU: A Plan to Rapidly Reduce Dependence on Russian Fossil Fuels and Fast Forward the Green Transition”, May 2022, available at: <https://ec.europa.eu>.

- A structural bottleneck on improving energy efficiency. The 2020 energy efficiency target is likely to have been reached due to unforeseen energy savings related to the Covid-19 recession. Yet again, energy savings are currently largely driven by demand destruction. EU governments must not repeat the 1973 scenario of short-lived energy-saving measures, but work on developing a Japanese-style culture of energy saving. Long-lasting energy efficiency measures depend on massive renovation works. Reducing energy demand through energy savings especially in the tertiary sector and through behavioral changes, while limiting energy demand destruction in industries, is a powerful lever of action. Building skills and the usage of data must be urgently facilitated.
- Decarbonizing end uses through electrification – an impossible mission without power grids and storage. Achieving a reduction of GHG emissions of 55% by 2030, and carbon neutrality by 2050 implies an increased electrification of end uses: according to EU projections,⁹ the share of electricity in final energy demand must grow from 23% to 30-31% by 2030 and to between 46%-50% by 2050. According to the EC, electricity distribution grids will need investments of €584 billion by 2030.¹⁰ The EU needs a dedicated flagship initiative to stimulate investment in electricity grids, like the United States' \$2.5 billion Transmission Facilitation Program (TFP),¹¹ especially given the recent surge of spending on natural gas infrastructures to accommodate increasing volumes of LNG,¹² which risks possibly derailing investments in electricity grids further. A massive effort to ramp up storage investment is also needed, for short- and longer-term solutions, and must take place quickly through regulatory measures and R&D support.
- The industrial policy is making good progress but is not sufficiently beefed up yet. Russia has already turned the EU into a geopolitical actor. Policies by China and the United States, and new competition from cheap energy resource countries, should now turn the EU into a geo-economic actor. The successful multiplication of industrial alliances is particularly notable (battery cells, hydrogen, chips, biomethane, and lately solar power). But many critical issues are still not sufficiently addressed (such as carbon capture and storage, nuclear power, raw materials, and storage solutions). In the very short term, the EU is already dramatically losing its industrial competitiveness due to the high energy prices, which might be further accelerated by other international actors beefing up their own industrial policies in a protectionist manner, and seeking to attract

9. EC Staff Working Document, "Stepping Up Europe's 2030 Climate Ambition", September 2020, available at: <https://eur-lex.europa.eu>.

10. EC Europa, "Digitalizing the Energy System – EU Action Plan", October 2022, available at: <https://energy.ec.europa.eu>.

11. US Department of Energy, "Biden Administration Launches \$2.5 Billion Fund to Modernize and Expand Capacity of America's Power Grid", May 2022, available at: www.energy.gov.

12. According to [S&P](#), 25 new FSRU (floating storage and regasification units) terminals are expected to be installed in the EU in the coming years.

the EU's dying energy-intensive industries. It is time for Europe to develop a Schuman plan to save and decarbonize its industries. Part of the plan should target the further electrification of industries through the deployment of large-scale RES Power Purchase Agreements (PPAs), backed up by government guarantees, especially for small and medium enterprises and enjoying facilitated permitting. Concerning difficulties in electrifying industrial processes, the plan must capitalize on the unprecedented policy, regulatory, R&D and investment effort underway in Europe in developing the hydrogen sector. There the goal in the short run is to replace EU ammonia production based on natural gas with green ammonia, hence securing enough volumes.¹³ Finally, such a Schuman Plan should be backed up by a Reindustrialization and Equalization Fund, complementary to the Modernization and Innovation Funds, financed partly through returning to the EU budget the rebates allocated to a handful of MSs,

and partly through the unused NextGenerationEU loans. Industries eligible for these funds would need to prove that they are at risk of offshoring to countries with lower energy prices; that they face a non-level playing field with peer industries in other countries caused by unmatched government aid schemes; and prove their systemic importance for the EU economy. Supply chain resilience and diversification is another critical issue for EU's industrial policy. The upcoming Critical Raw Materials

Act needs to put in place mechanisms able to guarantee large supplies of critical raw materials and refined products (mining diplomacy, partnerships, investment vehicles), and explore the opportunities of mining as much as possible in Europe.¹⁴ It must also establish a recycling industry, while making sure that low-carbon technologies produced in Europe are by design recyclable and less intensive in critical materials. The strategy would also ensure strategic stockpiling in the EU of key rare earths notably and common mechanisms for sharing and acquiring those. Finally, action must take place to analyze what degree of protectionism Europe can accept from its partners and for itself (e.g. auctions in the EU could look beyond price as the decisive element, by introducing more criteria related to sustainability, the circular economy, labor rights, local content, etc.).

- The electricity market design to support the energy transition: Ifri's conference on October 11, 2022¹⁵ revealed that whereas the width and depth of change remain to be agreed upon, there is a consensus around the fact that an evolution

13. D.-P. Gherasim, "A Guide to Solve EU's Hydrogen Dilemmas", *Notes de l'Ifri*, Ifri, September 2022, available at: www.ifri.org.

14. V. Donnen, "Vers une ère métallisée : renforcer la résilience des industries par un mécanisme de stockage stratégique de métaux rares", *Notes de l'Ifri*, Ifri, May 2022, available at: www.ifri.org.

15. M.-A. Eyl-Mazzega and D.-P. Gherasim, "The EU's Power System by 2030: Navigating the Crisis and Keeping the Decarbonization Cap (video)", Ifri, October 2022, available at: www.ifri.org.

It is time for Europe to develop a Schuman plan to save and decarbonize its industries

of the electricity market's design is needed to enable investments in flexibility technologies, namely storage, strengthening forward markets and accommodating the specificities of the capital-intensive, long-lead construction times of the nuclear industry. Existing mechanisms like contracts for difference, PPAs, and cross-border transmission rights can be further reinforced. New solutions will also be needed to deliver on the flexibility and long-term investment challenges, and to integrate the expected push towards decentralized, autonomous solutions. The reform shall not only focus on wholesale markets, but also on retail tariffs, with progressive, clearer price signals and smarter consumption. Its grid component will matter too.¹⁶

- Securing a just transition: the EGD promised to leave no one behind – a hard, but critical task for safeguarding the consensus around the energy transition. A recent poll among Czech citizens showed that 52% of them feared the EGD would harm the economy, while a majority do not associate it with improvement in the country's economic situation.¹⁷ High energy prices are fueling energy poverty in Europe and existing territorial disparities (i.e. 30% of Bulgarians are in energy poverty compared to 1.8% in Austria and Finland).¹⁸ These disparities are likely to be reinforced by variations in the capacity of public packages to mitigate the effects of the energy crisis. The Social Climate Fund (SCF) proposed by the EC in the *Fit for 55* package could be part of the solution, but the current positioning of the EU institutions on this file shows a lack of agreement on the vision for what is needed. Also, if the implementation of the SCF depends on the capacity of MSs to organize the redistribution effort towards the most vulnerable citizens, this could prove to be tricky for administrations with insufficient institutional capacity. In the longer term, a lack of skills¹⁹ will be a stumbling block for a just transition. Southern European countries have a real chance to gain competitiveness thanks to their RES potential, but they need to develop a strong skills base. One way of mitigating this is through the French method of “*alternance*” training, meaning that students are offered the opportunity to study and work part-time. Providing students early on with clear information about skills needed and jobs available, and familiarizing them with top-end technologies, could also improve the quality of their future work choices.

16. C. Philibert, “Plus qu’une réforme des marchés, c’est une réforme des tarifs de l’électricité qui peut aider à faire face aux prix élevés”, *Le Monde*, October 2022, available at: www.lemonde.fr.

17. A. Zachová, “Half of Czechs Fear EU Green Deal Will Harm Economy”, *Euractiv*, September 2022, available at: www.euractiv.com.

18. M. Chlechowicz and M. Reuter, “Energy Poverty in the EU”, *Odyssee-Mure*, July 2021, available at: www.odyssee-mure.eu.

19. C. Naschert, “Skills Shortage Imperils Global Energy Transition”, S&P Global Market Intelligence, September 2022, available at: www.spglobal.com.

The External Dimension: Much Remains to Be Done

First, the climate leadership role is no more about ambition and goals, but about concrete progress and spectacular implementation records. With some coal bouncing back (even if temporarily), and the EU siphoning off spot LNG supplies globally and depriving emerging economies of them, GHG remain in positive territory. Meanwhile, gas exploration is being reconsidered, and closing energy-intensive industries or building visible infrastructures leads to social opposition. In short, it is hard to convince anybody today that the EU has a recipe for a smooth and painless energy transition. EU climate-based conditionality policies will struggle to be legitimate, and a new question is also whether the EU's partner which have not sided with the West against Russia can still be eligible for EU financial support.

The EU has not laid out clear, effective goals for its policies towards North Africa and Sub-Saharan Africa, the Indo-Pacific and Latin America. For example, in Sub-Saharan Africa the challenge is to avoid a future large lock-in of emissions due to new

Climate leadership is no more about ambition and goals, but about concrete progress

desalination, steel, cement, petrochemical production needed to fuel growing urbanization and the expansion of the middle class. The EU's external Green Deal policies risk being reduced to becoming a hydrogen import strategy. While it is vital to continue efforts notably to import ammonia, much greater attention should be paid to the insufficient progress in sustainable electrification and access to clean cooking,²⁰ and a priority should be to expand clean

electrification in all parts of the world.²¹ Yet, the EU's neighborhood also offers huge prospects for energy transition interconnectivities, way beyond hydrogen.

With its Organisation for Economic Co-operation and Development (OECD) partners, the EU's goal should be to work on resilient and sustainable value chains for critical raw materials, alliances for green steel production, building up recycling industries for clean technology equipment, reducing plastic demand and waste, rolling out clean hydrogen value chains, preserving biodiversity, financing mitigation and adaptation abroad, improving water management and making cities more sustainable. The EU should also continue pushing for efforts to set up a global CO₂ pricing mechanism.

The EU is yet to wake up fully to the new reality of green protectionism and subsidies, as seen in the US Inflation Reduction Act. All MSs should fully recognize the extent of strategic rivalries building up along low carbon value chains, standards and investments. Global companies are looking for secure and profitable investments, and

20. C. Philibert, "Cuisinez branché ! La cuisson électrique pour le développement soutenable de l'Afrique subsaharienne", *Briefings de l'Ifri*, Ifri, February 2022, available at [ifri.org](https://www.ifri.org)

21. H. Le Picard, "Nouveau paradigme de l'électrification en Afrique subsaharienne. Comment les systèmes hybrides décentralisés changent-ils la donne ? ", *Notes de l'Ifri*, Ifri, September 2022, available at [ifri.org](https://www.ifri.org)

the EU may increasingly not be their territory of preference, as a cheap euro is offset by complex legislation, high energy costs and policy fragmentation and uncertainties. The time is therefore ripe to beef up eco-design legislation, Environmental, social, and governance (ESG) norms on imports and to continue improving and enlarging the Carbon Border Adjustment Mechanism (CBAM), in the knowledge that it is a useful, yet imperfect and insufficient tool. A Buy European Act should be at the core of thinking. At a minimum, the EU must ramp up its mineral strategy to match efforts by Japan or the United States.²²

Last but not least, the EU needs to revisit its gas demand projections in light of the current energy crisis and the European answers agreed, while taking into account key milestones fixed by the European Climate Law. In the likely absence or continued steep reduction of Russian gas, such an exercise will allow to calculate how much LNG will be needed in Europe and to put an end to mixed signals. Based on such projections, to lower its exposure to spot prices, the EU could decide on a share of gas imports to be secured via long-term contracts, potentially using the Energy Platform. One of the unspoken hurdles is what happens if Russian pipeline gas comes back once Putin is gone, possibly with large discounts through Belarus and Ukraine? Many consider that this gas would quickly find buyers and could deter diversification. This requires a clear signal right now: there would only be short term, joint purchases at a fixed price set by the EU, with the differential to other sources filling EU's budget and financing industries, clean technologies, or Ukraine's reconstruction.

Navigating the Coming Months out of the Crises and Coming on Track for 2030

In the short term, what matters for the EU is the ability to avoid gas, electricity and oil price crises at the same time, which, to make things even worse, risk being coupled with a physical supply crisis. EU governments are making incredible efforts in various areas (savings, extra profit taxation & redistribution, price breaks) yet they must find a solution to ensure a better level of protection of electricity markets from tensions in the gas markets, and cut demand further via energy saving measures, rather than demand destruction. Social redistribution measures are key and must be a pillar of the response to the crises, but targeted approaches should be used to avoid nurturing inflation and overconsumption. The remaining leeway for further public debt should be used for public investment in long-term structural policies and assets.

The EGD is now much bigger than just being a plan to improve our well-being, foster economic growth and address climate change. It is a condition for energy, economic and climate security, and can again become a driving force for the rest of the world. But the EU will need to communicate better on the concrete achievements of the EGD, to muster societal support and cooperation. The future of the EU also depends on

22. V. Donnen, "Vers une ère métallisée : renforcer la résilience des industries par un mécanisme de stockage stratégique de métaux rares", *Notes de l'Ifri*, Ifri, May 2022, available at: www.ifri.org.

the ability to withstand the poly-crises over the longer term as otherwise, the deep political rifts in Europe will hardly ever heal, and the EU will enter an age of insecurity and deeper, systemic crises. Hence, the leitmotiv is now to plan cost-efficiently, in a more coordinated manner, to seek complementarities rather than blocking neighbors and to accelerate everywhere.

The jury is still out as to whether the EGD is on track or not to deliver on its many objectives and promises. Decarbonization is the solution and there is really no choice about this. But implementation is now central, so realism and flexibility are now required, getting rid of the worst beliefs or ideas and fighting greenwashing reflexes to be credible.

The erosion of the EU's internal energy market is happening in terms of its design and regulation and policy responses by Member States. There are serious signs of political fragmentation illustrated in the tensions between France and Germany, Germany and Poland, the EU and Hungary for instance. Nevertheless, while policy responses so far are not perfect, the journey undertaken in Brussels over the past three years, and especially in the past six months, is breath-taking. The coming months will be critical, as will be solidarity measures if activated – most crucially energy savings. The EU can seize the opportunity to define a model that will better respond to the challenge of deep decarbonization and address the urgencies without going off-road.

In the quasi-absence of Russian piped gas, 2023 is not bound to be extra tough if additional steps are taken. For the first time, everyone in Europe is called upon to participate actively in the energy resilience effort. There is a huge opportunity to translate this into a new mobilization for the energy transition. It is in this context that MSs need to stop looking for short-term gains that put them on a track to failing long-term – if subscribing to new debt at the European level today may not be the priority as long as NextGenerationEU monies are not fully used, the time has come for those countries which enjoy rebates to show a sign of solidarity and responsibility by transferring that money back to the European budget. Time is no more for frugality and tit for tat games but for massive and concerted action, as the threats are daunting and the costs of needed transformation rising.

Finally, the current crises require thinking about future crises and being better prepared. One could be caused by our inability to reach our 2030 targets. The question is: what happens if we only achieve 60% of the set targets? If we have not been able to build the transmission and distribution power grids needed? If there is too little prospect in bringing down the costs of hydrogen and ramping up volumes? If we have a system of massive, permanent subsidies that creates new dividing lines between those who can afford them for the time being, and the others? And if we have also provoked major imbalances in the rest of the world, failing to help close much coal-fired power generation, and letting others develop a new narrative about the energy transitions that demonstrates the (ir)responsibility of the West?

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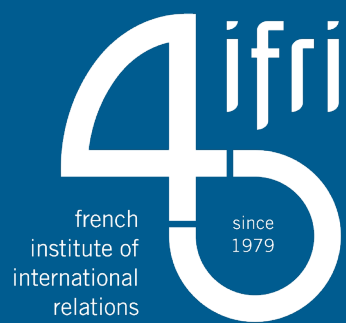
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