

Draft for discussion at  
the Think2030  
conference

**THINK  
2030**

Delivering a sustainable,  
durable, and inclusive  
recovery for Europe

# THINK 2030

Launched by IEEP and its partners in 2018, Think2030 is an evidence-based, non-partisan platform of leading policy experts from European think tanks, civil society, the private sector, and local authorities.

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## **THE REPORT SHOULD BE CITED AS FOLLOWS**

Citation will be added in the final version of the paper

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# Key policy recommendations

## **Pillar 1: focusing near term recovery investments on green infrastructure (near-term)**

- Have an appropriate assessment and tracking methodology in place for the award and use of recovery funds and one which is deemed sufficiently robust by the European Court of Auditors. This should apply not only to the approval of national recovery and resilience plans under Next Generation EU but also to monitor the use of funding under the EU's long-term budget and its consistency with the ambitions set out in the European Green Deal.
- Target stimulus investments at EU and national level towards low carbon and nature restoration investments, including energy efficiency, renewable energy, zero emissions transport, reforestation and wetland restoration.
- Require member states **to link ongoing corporate bailouts with transparent and binding conditions to drive improvements in climate and environmental performance.**

## **Pillar 2: putting the right industrial and economic strategies in place (near to medium term)**

- **Design an industrial strategy aligned with climate and environmental goals** by focusing the **EU's innovation budget** on scaling up of emerging technologies and solutions that will be essential to achieve the EU's long-term climate and environmental goals and by rolling out **green public procurement criteria** and training across Member States.
- Target public innovation funding - such as through the Invest EU and EU ETS Innovation Fund mechanisms and the EIB's new lending policy - in the complex technologies and business models needed to cut emissions in 'hard to abate sectors', such as heavy industry, long-distance transport, aviation and shipping and with the objective of de-risking and gradually crowding in private investments in these areas.
- Broaden the EIB's [updated climate strategy and energy lending policy](#) to capture other types of environmentally positive investments (such as biodiversity and nature restoration) 3). Building on the example of the KfW in Germany, support Member States in putting in place publicly funded institutions with a clear mandate to drive investment in complex green projects and towards regions in need of economic regeneration.
- Put skills policy and a 'Just Transition' at the heart of the EU's economic recovery plan by (i) ensuring a smooth transition from the current national job retention schemes; (ii) encouraging Member States to embed sustainability across national education curriculums and develop sustainability metrics for apprenticeship schemes and tertiary level education courses; (iii) improving co-ordination between the Commission, Member States, regions and businesses – such as through the

Territorial Just Transition Plans - to seek to direct more low carbon investments towards regions that need it the most and where transferrable skills / infrastructure already exist.

- **Use the Commission's Trade Policy Review to fully align the EU's future trade agreements with the EU's climate neutrality ambitions and the goals set out in the Biodiversity Strategy for 2030.** Upcoming trade agreements should promote high environmental standards and growing trade in low carbon goods and services and provide EU institutions and Member States with the flexibility needed to introduce new policy and regulatory measures to meet long-term climate and environmental goals and apply these effectively on all businesses active on the Single Market, including non-EU businesses.

**Pillar 3: a package of policy measures to drive long-term private investment (medium to long term)**

- Approve the 2030 climate target currently proposed by the Commission and reflecting and implementing it without further delay in Member States' National Climate and Energy Plans for 2021-2030. Providing a clear sense of direction is equally relevant for other areas of EU environmental policy such as the Biodiversity Strategy for 2030<sup>1</sup>.
- Set a credible carbon price trajectory in line with net zero emissions by 2050, by reforming the EU ETS in line with the new climate target, which means addressing the number of free allowances<sup>2</sup> and value of carbon under the scheme.
- Complete the decarbonisation of 'low regret' sectors by, for instance, using existing EU directives and regulations to tighten up energy and fuel efficiency standards in buildings and for cars and vans, with a more bespoke approach being adopted for cutting emissions in more complex areas such as large goods vehicles.
- Accelerate the roll out of offshore wind under the Offshore Wind Strategy, through greater co-ordination in grid development and by putting in place transparent criteria in terms of biodiversity safeguards and sound marine spatial planning to make planning requirements easier to navigate.
- Create new market frameworks to grow the demand for ultra-low carbon industrial goods, whilst simultaneously supporting the competitiveness of industry. This could be done by introducing EU-wide product standards, which would mandate gradual improvements to lifecycle resource efficiency and a gradual reduction in the permissible level of embodied carbon emissions in the production of industrial goods such as steel, cement and aluminium. These new market frameworks must work hand in hand with a supportive trade policy which ensure the applicability of

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<sup>1</sup> European Commission (2 June 2020), 'EU Biodiversity Strategy for 2030': [https://ec.europa.eu/environment/nature/biodiversity/strategy/index\\_en.htm](https://ec.europa.eu/environment/nature/biodiversity/strategy/index_en.htm)

<sup>2</sup> The value of the free allowances allocated to installations under the EU ETS in 2018 came up to €11,385 million.

EU regulations and standards on all Single Market participants, including non-EU businesses.

- Drive greater consumer demand for zero emissions and resource efficient products and services by supporting Member States to use fiscal tools such as variable VAT rates and embedding low emissions and resource efficiency criteria within public procurement procedures of the EU and its member States.
- Deliver a sustainable finance framework through: 1) mandatory requirements for all large businesses and investors active on the Single Market to comply with the climate risk reporting requirements of the Taskforce on Climate-related Financial Disclosures (TCFDs); 2) practical investment product definitions or labels to help guide more private investment towards environmentally positive projects; 3) Setting of capital levels to reflect the long-term risks of assets to financial stability, thereby incentivising more Strategic Asset Allocation in environmentally sustainable assets and a transition away from polluting assets.



## Executive summary

The EU faces an extremely challenging set of circumstances. Beyond immediate health concerns, the impacts from the COVID-19 pandemic and the lockdown measures taken in response to it have seen [EU GDP and employment go down by 11.4% and 2.7% respectively in the second quarter of 2020](#)<sup>3</sup>. This has exacerbated existing social and regional inequalities. These impacts have also occurred at a time when the EU already faced growing pressures from climate change and environmental degradation, large public debt burdens in some countries and European citizens re-evaluating the benefits of EU membership.

However, **recovering from this major economic crisis also provides the EU with the opportunity to accelerate the decarbonisation of the economy and to put in place the foundations for a durable, socially inclusive and environmentally sustainable recovery**. To seize this opportunity, the EU and its Member States must learn from the mistakes which followed the 2008 Global Financial Crisis, where most G20 countries failed to transform their economies for the better. The recovery approaches then adopted by many developed economies saw very little focus on investment, an emphasis on cutting public spending and very weak links to sustainability. The result was low productivity growth, high levels of unemployment, high public debt, rising social inequality and a rapid increase in greenhouse gas emissions in the years following the crisis.

In contrast to 2008, **there is now strong economic evidence<sup>4</sup> that stimulating investment in low carbon and nature restoration solutions and aligning the EU's recovery with climate and environmental goals is in the EU's economic interest**. Progress in terms of innovation, market deployment and policy development also mean that there is now a much wider array of investment opportunities in clean technologies and nature restoration solutions than there was back in 2008. This paper draws in particular from [authoritative economic evidence](#) commissioned by the Aldersgate Group<sup>5</sup>, showing how support for low carbon and environmentally restorative projects will deliver high economic growth multipliers in both the near and long-term as well as regionally diverse job creation (section 2).

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<sup>3</sup> Eurostat (8 September 2020) 'GDP and employment flash estimates for the second quarter of 2020': <https://ec.europa.eu/eurostat/documents/2995521/10545471/2-08092020-AP-EN.pdf/43764613-3547-2e40-7a24-d20c30a20f64>

<sup>4</sup> Evidence reviewed in preparing this paper includes reports from the Oxford Smith School for Enterprise and the Environment, the Grantham Research Institute at the London School of Economics, the International Energy Agency, the World Bank and L'institut de l'économie pour le climat.

<sup>5</sup> James Rydge and Dimitri Zenghelis, Grantham Research Institute on Climate Change and the Environment, London School of Economics (July 2020), 'Rebuilding to Last: How to design an inclusive, resilient and sustainable growth strategy after COVID-19': <https://www.aldersgategroup.org.uk/latest#rebuilding-to-last-uk-must-not-go-back-to-the-old-normal>. This report was commissioned by the Aldersgate Group.

The EU also benefits from a context in which the cost of clean energy technologies is [significantly lower](#) than it was back in 2008<sup>6</sup> and there is much stronger business and public support for ambitious action by the EU on climate change and the environment, with [83% of European citizens](#) highlighting that EU legislation has a key role to play in these areas<sup>7</sup>. This comes at a time where despite a lack of leadership from major economies such as the United States and Brazil, recent climate commitments from the likes of China and Japan are creating a more favourable global environment in which the EU can help shape global climate and environmental policy dynamics. Meanwhile, the scientific community is producing ever stronger evidence highlighting the need to accelerate cuts in greenhouse gas emissions and press on with measures to reverse the decline of biodiversity and the natural environment.

**There is therefore a clear economic, social and scientific case for aligning the EU's recovery efforts with its climate and environmental goals. The EU is, on the whole, off to a good start**, with the Commission and European Council having agreed that 30% of funds available under the €750bn Next Generation EU recovery instrument and the €1.1tn EU budget for 2021-2027 will be focused on climate-related activities and that all EU expenditure needs to be at least consistent with the goals of the Paris Agreement<sup>8</sup>. Contribution towards the EU's goals of green and digital transitions has also been highlighted as an important element which the European Commission and Council will consider when assessing the national recovery and resilience plans which Member States are to submit to apply for recovery funding under Next Generation EU.

**However, many question marks remain regarding the scrutiny regime that will oversee the approval of national recovery and resilience plans and determine whether stimulus investments will be genuinely directed towards environmentally sustainable rather than high carbon investments.** Similar concerns apply to how the rest of EU expenditure will be spent in practice. The importance of investing in biodiversity and nature restoration also appears to have been overlooked in the EU's recovery ambition to date. Beyond the initial recovery phase, much detail is still lacking in terms of the EU's long-term economic and industrial strategy as well as its overall policy direction. Clarity in these areas is important as they will have a profound impact on the durability, environmental sustainability and social inclusiveness of the EU's economic recovery.

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<sup>6</sup> International Energy Agency (18 June 2020) 'Sustainable Recovery Plan': <https://www.iea.org/news/iea-offers-world-governments-a-sustainable-recovery-plan-to-boost-economic-growth-create-millions-of-jobs-and-put-emissions-into-structural-decline>

<sup>7</sup> European Commission (3 March 2020), 'Eurobarometer survey': [https://ec.europa.eu/commission/presscorner/detail/en/IP\\_20\\_331](https://ec.europa.eu/commission/presscorner/detail/en/IP_20_331)

<sup>8</sup> European Council (21 July 2020), Conclusions: <https://www.consilium.europa.eu/media/45109/210720-euco-final-conclusions-en.pdf>

**To create solid foundations for a durable, socially inclusive and environmentally sustainable recovery, this paper argues that the EU needs a comprehensive and long-term recovery strategy based on three core pillars** (section 3):

**(i) Pillar 1: Using the funding available under Next Generation EU and other national stimulus measures to make rapid and meaningful investments in low carbon assets and projects to improve the state of the natural environment.** Economic evidence suggests that investments in areas such as energy efficiency retrofits, renewable energy deployment, power grid reinforcements, zero emissions transport, wetland and peatland restoration and reforestation could all be highly effective at getting European economies and employment rapidly going again. They also have the benefit of supporting regionally dispersed employment opportunities, with a low risk of jobs being offshored. However, a robust scrutiny regime will be essential to ensure that stimulus investments are genuinely directed towards activities with a positive climate and environmental impact. (section 3.2).

**(ii) Pillar 2: Ensuring the EU and its Member States have the right economic and industrial strategies in place to build a competitive, regionally diverse, net zero emissions and environmentally resilient economy.** This will require having public financing institutions with clear investment mandates to support the EU's transition to an environmentally resilient and net zero emissions economy and tackle regional inequalities. Reforms will also be needed to ensure that education systems and employment support measures across Member States adequately equip the EU's workforce with the skills needed to successfully adapt to the needs of a net zero emissions economy (section 3.3).

**(iii) Pillar 3: Introducing a comprehensive package of policy measures that will grow long-term private sector investment in - and market demand for - environmental and low carbon solutions. This will be essential to ensure that private sector investment does most of the 'heavy lifting' required to support an environmentally sustainable and durable recovery.** This should include clarifying the EU's policy direction through a legally binding climate neutrality objective by 2050, a commitment to at least 55% emission cuts by 2030, increasing the ambition of National Climate and Energy Plans and rapidly developing the nature restoration targets referenced in the Biodiversity Strategy for 2030.

The Commission should also look to strengthen existing EU policy drivers in areas such as carbon pricing, buildings, transport and finance to send clear market signals to accelerate private sector investment and supply chain growth in low carbon and environmental solutions. Fiscal and public procurement policies should also be used to stimulate greater consumer demand for environmentally sustainable goods, infrastructure and services. **The aim for an economic bloc as big as the EU should be to move beyond addressing static market failures to driving dynamic market creation** (section 3.4).

This paper takes the scientific, environmental and health arguments in favour of a green recovery and achieving climate neutrality by mid-century as a given. **The aim of this paper**

**is to focus primarily on the additional economic and employment arguments that support the development of a recovery strategy that is aligned with the EU's climate and environmental goals.** However, important social issues such as those related to regional inequalities and a 'Just Transition' are also considered in this paper.

### Lessons from the 2008 Financial Crisis

Monetary policy resulted in weak productivity and economic growth, limited employment opportunities and rising social inequalities

Recovery packages failed to embody sustainability with only around 16% of stimulus spending classified as 'green'

Despite high level of public spending cuts, levels of public debt remained high while emissions grew at record rate

### Evidence to inform current policy decisions

A recovery strategy based on investment, rather than austerity, is demonstrated to be a more effective way of getting the economy going

Investing in low carbon infrastructure has the distinct advantage of enabling an economic recovery that is regionally diverse

Green projects, such as renewable energy infrastructure, lead to higher numbers of jobs compared with traditional stimulus measures

### Building a comprehensive economic recovery

Rapid and meaningful stimulus investments targeted at climate and biodiversity goals (with robust scrutiny)

Align the EU's economic and industrial strategies and the mandate of its financial institutions with climate, environmental and Just Transition goals

Introduce package of policy measures on supply & demand side to attract long-term private investment towards green infrastructure, goods & services

# Introduction

## Covid-19: a unique crisis

The Covid-19 crisis has had an unprecedented impact on the European Union's economy and society. In the second quarter of 2020, [GDP was down by 11.4% and employment down by 2.7%](#) compared to the previous quarter<sup>9</sup>. These are the sharpest declines observed since Eurostat started its time series statistics back in 1995 and take place in a context where the [global economy is expected to shrink by 6% in 2020](#)<sup>10</sup>.

The arrival of the pandemic and the containment measures which followed in most Member States directly hit supply and demand across several sectors of the real economy, as opposed to first affecting financial sectors as was the case during the Global Financial Crisis of 2008. What's more, the economic downturn immediately exacerbated already existing social and regional inequalities by resulting in a drop in economic activity in sectors such as the entertainment, leisure and hospitality industries. These industries predominantly employ more vulnerable social groups such as the under 25s - who already had precarious working arrangements and benefited from limited existing savings - and workers often located in regions that were already in need of economic regeneration.

The economic crisis is also happening at a time when the EU is facing major environmental challenges such as climate change and biodiversity degradation. As opposed to 2008, the environmental and economic implications of these challenges are now much better understood and public opinion to tackle them is also much higher. In a [recent Eurobarometer survey](#)<sup>11</sup>, 94% of citizens in all EU Member States said that protecting the environment is important to them, with 91% saying that climate change is a serious problem and 83% saying that European legislation had a key role to play in tackling these issues. This has led to calls across many Member States to align ongoing economic recovery plans with efforts to tackle climate change and environmental degradation, with similar calls having been made in countries across the globe.

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<sup>9</sup> Eurostat (8 September 2020) 'GDP and employment flash estimates for the second quarter of 2020': <https://ec.europa.eu/eurostat/documents/2995521/10545471/2-08092020-AP-EN.pdf/43764613-3547-2e40-7a24-d20c30a20f64>

<sup>10</sup> International Energy Agency (18 June 2020) 'Sustainable Recovery Plan': <https://www.iea.org/news/iea-offers-world-governments-a-sustainable-recovery-plan-to-boost-economic-growth-create-millions-of-jobs-and-put-emissions-into-structural-decline>

<sup>11</sup> European Commission (3 March 2020), 'Eurobarometer survey': [https://ec.europa.eu/commission/presscorner/detail/en/IP\\_20\\_331](https://ec.europa.eu/commission/presscorner/detail/en/IP_20_331)

## The EU response so far

The fact that the new European Commission chose the “green transition” to be one of its two central themes for its five-year mandate and published its overarching [European Green Deal](#)<sup>12</sup> ahead of the start of the pandemic have provided a good basis to align the European recovery effort with climate and environmental goals. Despite significant tensions on how to structure the allocation of finance under the €750 billion Next Generation EU (NGEU) recovery instrument, the EU and its Member States have, on the whole, set out a positive ambition by committing that 30% of the funding available under NGEU and the EU’s upcoming budget under the Multiannual Financial Framework (MFF) should be earmarked to proactively contribute to the EU’s 2030 emission reduction target and the objective of climate neutrality by 2050. This comes in addition to a general principle that all EU expenditure should be at least consistent with the goals of the Paris Agreement.

This provides the EU with a potentially significant comparative advantage relative to other countries which do not yet have the structures in place to develop and implement a green recovery strategy and build green investment pipelines.

However, if European citizens are to benefit from a durable, socially inclusive and environmentally sustainable economic recovery, the EU and its Member States will need to make significant investment, institutional and policy decisions in the coming months and years. **Based on extensive analysis commissioned and reviewed by the Aldersgate Group, this paper reviews some of the key lessons that can be learnt from the missed opportunities that followed the 2008 Global Financial Crisis and considers some of the key decisions that policy makers will need to take in the early years of this new decade as part of a comprehensive sustainable recovery plan for the EU.**

This paper takes the scientific, environmental and health arguments in favour of a green recovery and achieving climate neutrality by mid-century as a given. **The aim of this paper is to focus primarily on the additional economic and employment arguments that support the development of a recovery strategy that is aligned with the EU’s climate and environmental goals.** However, important social issues such as those related to regional inequalities and a ‘Just Transition’ are also considered in this paper.

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<sup>12</sup> European Commission (December 2019), ‘A European Green Deal’: [https://ec.europa.eu/info/strategy/priorities-2019-2024/european-green-deal\\_en](https://ec.europa.eu/info/strategy/priorities-2019-2024/european-green-deal_en)



## Lessons from the past

As stated above, the economic crisis resulting from the COVID-19 pandemic is different to the Global Financial Crisis of 2008 in that it has resulted in "a more rapid, severe and whole-sale halting of the economy, yet without systemic failure of any particular industry"<sup>13</sup>. Despite these differences, reviewing how the world economy and European Member States reacted to the last financial crisis can provide valuable lessons to guide the ongoing economic recovery effort.

This section sets out why the recovery effort that followed the Global Financial Crisis ended up being a missed opportunity, highlights some key lessons that can be learnt from 2008-2009 before then setting out the business case for a comprehensive plan that aligns the EU's economic recovery with its climate and environmental goals.

### Recovering from the 2008 Global Financial Crisis: a missed opportunity

The way in which many G20 economies sought to recover from the 2008 Global Financial Crisis was a missed opportunity economically, socially and environmentally.

Beyond the first two years that followed the 2008 Global Financial Crisis, monetary policy (through very low interest rates in particular) was the key tool used to support the global economy. Fiscal policies aimed at stimulating greater investment and demand were in short supply, with governments' focus quickly moving to cut public spending rather than supporting investment.

The result was that the years following the 2008 crisis were characterised by "too much global saving chasing too little productive investment"<sup>14</sup>, resulting in weak productivity and economic growth, limited employment opportunities and increasing social inequalities driven by real earnings stagnation for the majority of earners and insufficient investment in public services. The lack of economic activity also meant that countries didn't receive the higher tax revenues which growth would have provided, which undermined their ability to

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<sup>13</sup> Oxford Smith School of Enterprise and the Environment (May 2020), 'A net-zero emissions economic recovery from COVID-19', Working Paper No. 20-01: <https://www.smithschool.ox.ac.uk/publications/wpapers/workingpaper20-01.pdf>

<sup>14</sup> James Rydge and Dimitri Zenghelis, Grantham Research Institute on Climate Change and the Environment, London School of Economics (July 2020), 'Rebuilding to Last: How to design an inclusive, resilient and sustainable growth strategy after COVID-19', Chapter 3: <https://www.aldersgategroup.org.uk/latest#rebuilding-to-last-uk-must-not-go-back-to-the-old-normal>. This report was commissioned by the Aldersgate Group.

grow their way out of debt. Therefore, despite public spending cuts, the levels of public debt in many countries remained high a decade on after the 2008 crisis.

What's more, **recovery packages after the 2008 crisis "failed to embody sustainability in most countries", with [only around 16% of stimulus spending classified as 'green'](#)<sup>15</sup>. The International Energy Agency [recently observed](#) that the years following the 2008 crisis saw the largest increase in global greenhouse gas emissions ever recorded<sup>16</sup>.** By and large, the recovery strategies put in place by most major economies failed to put the world's largest economies on a low carbon, environmentally sustainable and environmentally resilient pathway.

In a recent macro-economic study commissioned by the Aldersgate Group, Dimitri Zenghelis and James Rydge of the Grantham Research Institute at the London School of Economics [neatly summarised the 2008 response as follows](#): "A recovery based on fiscal austerity driven by spending cuts and weak links to sustainability and resilience failed post 2008 and further locked in the unproductive fossil fuel economy. It led to increased inequality, historically low productive growth, and failed to achieve its objectives, with high levels of public sector debt remaining a decade on."<sup>17</sup>

Increasingly ambitious monetary interventions prevented a deeper depression, but failed to generate a sustainable, inclusive and resilient recovery. Excess liquidity raised asset and property prices, disproportionately benefiting existing wealth holders. At the same time, the pace of new technologies, both digital and related to the net zero transition, exposed new risks and opportunities, which threatened old sectors and markets while stimulating others.

## Key lessons learnt from 2008

As leading economists noted in [a recent paper for the Oxford Smith School of Enterprise and the Environment](#), those countries that resorted to "expansionary policies focused on

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<sup>15</sup> Oxford Smith School of Enterprise and the Environment (May 2020), 'A net-zero emissions economic recovery from COVID-19', Working Paper No. 20-01: <https://www.smithschool.ox.ac.uk/publications/wpapers/workingpaper20-01.pdf>

<sup>16</sup> International Energy Agency (18 June 2020), 'Sustainable Recovery Plan': <https://www.iea.org/news/iea-offers-world-governments-a-sustainable-recovery-plan-to-boost-economic-growth-create-millions-of-jobs-and-put-emissions-into-structural-decline>

<sup>17</sup> James Rydge and Dimitri Zenghelis, Grantham Research Institute on Climate Change and the Environment, London School of Economics (July 2020), 'Rebuilding to Last: How to design an inclusive, resilient and sustainable growth strategy after COVID-19', Chapter 5: <https://www.aldersgategroup.org.uk/latest#rebuilding-to-last-uk-must-not-go-back-to-the-old-normal>. This report was commissioned by the Aldersgate Group.

investment were more effective at restarting economic activity" following the 2008 crisis than those countries relying on "austerity-based policies"<sup>18</sup>.

**A key lesson from 2008 is therefore that a recovery strategy based on investment, rather than austerity, is a more effective way of getting the economy going again and tackling some of the pressing social issues the EU faces.** Whilst it may sound counter-intuitive, such an approach is also more likely to help bring the rising public debt in many Member States under control because well-targeted public-backed investment will generate tax revenues that can then help reduce public debt.

In the short run, this will be derived from the stimulus to economic activity while in the long run, the investment will add much needed productive capacity necessary to expand employment, wage growth and profits. As Dimitri Zenghelis and James Rydge [recently noted](#): "Austerity-based policies have been shown to hamper long-term growth. Stabilising debt/GDP requires growth to boost the denominator and raise net revenues to slow the growth of debt, the numerator. Only by generating growth does public debt become sustainable and easily repayable. The alternative is depression and instability"<sup>19</sup>.

Some of the Member States that recorded the highest number of cases in the first wave of the COVID-19 pandemic and were subject to stringent restriction measures, such as Italy and Spain, already had high levels of public debt and unemployment before the crisis hit. It is essential therefore that the collective EU response to the crisis recognises the urgent need for supportive investment and employment measures in these countries and does not result in further cuts to investment and public spending as this could dangerously exacerbate an already precarious economic and social situation.

## Aligning Europe's recovery with climate and environmental goals: a strong business case

Not only is there considerable economic evidence in favour of an investment-based recovery, there is also a very strong business case for aligning such a strategy with ambitious climate change and environmental goals.

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<sup>18</sup> Oxford Smith School of Enterprise and the Environment (May 2020), 'A net-zero emissions economic recovery from COVID-19', Working Paper No. 20-01: <https://www.smithschool.ox.ac.uk/publications/wpapers/workingpaper20-01.pdf>

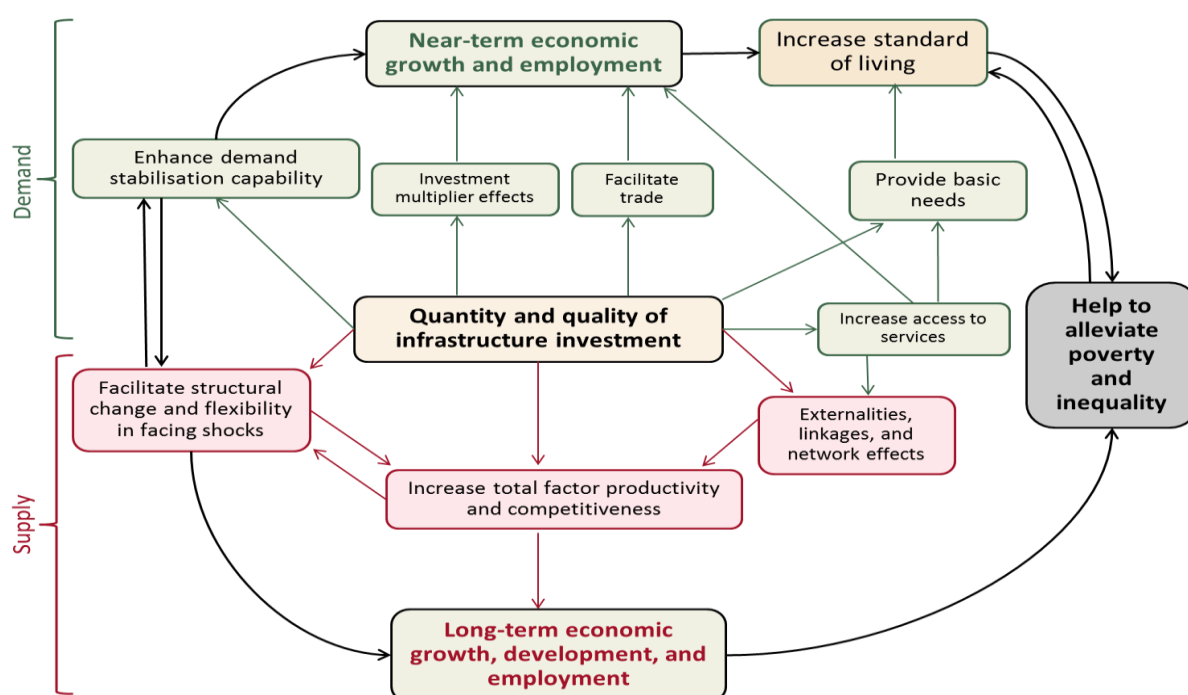
<sup>19</sup> James Rydge and Dimitri Zenghelis, Grantham Research Institute on Climate Change and the Environment, London School of Economics (July 2020), 'Rebuilding to Last: How to design an inclusive, resilient and sustainable growth strategy after COVID-19', Chapter 1.

## Delivering high economic growth multipliers

A durable economic recovery plan for the EU will need to perform well against both near-term and long-term horizons. In the near-term, recovery efforts need to be quick and targeted, so as to help the resumption of economic activity especially in sectors hit the hardest, protect existing jobs and create new ones. In the long-term, a comprehensive recovery plan needs to deliver structural changes that will address some of the biggest systemic challenges facing the EU including long-term competitiveness, regional and social inequality and the rising threat from climate change and environmental degradation.

**There is growing economic evidence showing that supporting investment in activities and infrastructure that are both low carbon and improve the state of the natural environment can deliver significant economic benefits because they deliver strong 'economic growth multipliers' in both the near-term and long-term**, providing high levels of knock-on spending, investment and tax revenues following initial public investment (see Figure 1).

Figure 1: The 'super multiplier': how investment can expand aggregate demand and aggregate supply following an economic crisis.



Source: Llewellyn Consulting (Source: [Webinar brief for RES](#), May 2020)<sup>20</sup>.

<sup>20</sup> Diagram taken from the report from Dimitri Zenghelis and James Rydge for the Aldersgate Group, referenced above.

In the near-term the Oxford Smith School for Enterprise and the Environment points out<sup>21</sup> that “studies evaluating green packages in the wake of the Global Financial Crisis found that green projects, such as renewable energy infrastructure lead to higher numbers of jobs created compared with traditional stimulus” measures. This is because these projects tend to be more labour intensive in the short-run than high-carbon investments”, creating twice as many jobs per dollar as fossil fuel investments”<sup>22</sup>. This was well illustrated in a recent study from Vivid Economics which found that deploying 35GW of onshore wind in the UK by 2035 could create 31,000 jobs, whilst cutting electricity costs by 7%, delivering productivity benefits and supporting a £360m annual export industry<sup>23</sup>.

Environmental and low carbon projects such as energy efficiency retrofits, grid reinforcements or reforestation are also less likely to be offshored abroad, thereby providing greater guarantees in terms of domestic employment, with recent studies suggesting that nature-related employment opportunities are well-suited to absorb workers from sectors that are currently at risk such as entertainment, hospitality and leisure<sup>24</sup>.

A [recent study from Cambridge Econometrics](#)<sup>25</sup> modelled the impact on several European countries of a green recovery plan based on investment in energy efficiency, solar and wind power, accelerating the shift to electric vehicles and tree planting. **The macro-economic modelling showed that such a green recovery programme would have significant impacts on job creation and GDP across Europe** and would for example reduce job losses in Spain by 400,000, whilst growing GDP by 1% compared to business as usual. In Poland, the impacts of such a plan would be even more pronounced and create a high number of jobs that would be sufficient to offset the job losses that followed the pandemic.

When it published its three-year Sustainable Recovery Plan, [the International Energy Agency](#) estimated that 9 million new jobs could be created globally between 2021 and 2023 through targeted investments in renewable electricity, grid reinforcements, electric

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<sup>21</sup> Oxford Smith School of Enterprise and the Environment (May 2020), ‘A net-zero emissions economic recovery from COVID-19’, Working Paper No. 20-01: <https://www.smithschool.ox.ac.uk/publications/wpapers/workingpaper20-01.pdf>

<sup>22</sup> Oxford Smith School of Enterprise and the Environment (May 2020), ‘A net-zero emissions economic recovery from COVID-19’, Working Paper No. 20-01: <https://www.smithschool.ox.ac.uk/publications/wpapers/workingpaper20-01.pdf>

<sup>23</sup> Vivid Economics (2019), ‘Quantifying the benefits of onshore wind to the UK’: [https://www.vivideconomics.com/wp-content/uploads/2019/08/Quantifying\\_the\\_Benefits\\_of-report-.pdf](https://www.vivideconomics.com/wp-content/uploads/2019/08/Quantifying_the_Benefits_of-report-.pdf)

<sup>24</sup> See for example recent study from Vivid Economics (2020), ‘Integrating climate change and biodiversity into the response from COVID-19’: <https://www.vivideconomics.com/casestudy/integrating-climate-change-and-biodiversity-into-the-response-to-covid-19-green-employment-and-growth/>

<sup>25</sup> Cambridge Econometrics (October 2020), Assessment of Green Recovery Plans after COVID-19: <https://www.wemeanbusinesscoalition.org/wp-content/uploads/2020/10/Green-Recovery-Assessment.pdf>

transport, energy efficiency and an accelerated innovation programme in critical technologies such as hydrogen, batteries and carbon capture and storage<sup>26</sup>. Those jobs created during the slowdown are likely to be additional net jobs – that is, they will not displace other jobs given the impact on boosting demand. As the International Energy Agency points out, one of the major differences between 2020 and 2008 is that the cost of clean energy and transport technologies is now significantly lower, thereby making ambitious investments in clean infrastructure far more feasible.

**Stimulating these investments also has the benefit of preventing negative ‘hysteresis’ effects, whereby some key labour skills are under-utilised and then lost due to a prolonged drop in economic activity.** Preventing such a phenomenon is essential to ensure a sufficient supply of skilled labour for the EU’s transition to a net zero emissions and environmentally resilient economy.

In the long-run, low carbon and environmental projects also tend to deliver high long-run multipliers because they become less labour intensive (e.g. maintaining an offshore wind farm doesn’t require much labour), thereby freeing up skilled labour capacity for other economic activities. The dynamic cycles of innovation that follow initial public support for investment in clean technologies tend to also result in technological improvements and cost reductions through “learning-by-doing” – as has been seen with renewable electricity technologies and batteries – thereby delivering cost savings for the whole economy, including energy savings in the case of renewable energy. There is also compelling evidence of significantly greater [spill-overs](#) into other parts of the economy, compared with more mature fossil fuels investments.<sup>27</sup>

**A recent survey of 231 finance ministry and central bank officials as well as senior economists in G20 countries encapsulates well the case for aligning the EU’s economic recovery with ambitious climate and environmental goals** (see Figure 2). The survey showed respondents assessing stimulus policies that had the highest impact on growth as being in many cases those with the highest positive impact on the climate and sustainability. Policies supporting low carbon transport, broadband, clean energy infrastructure, clean technology R&D and low carbon skills investment performed well on both growth and climate criteria, whereas policies such as non-conditional airline bailouts performed poorly. In addition to their environmental benefits, “long-run multipliers of climate-

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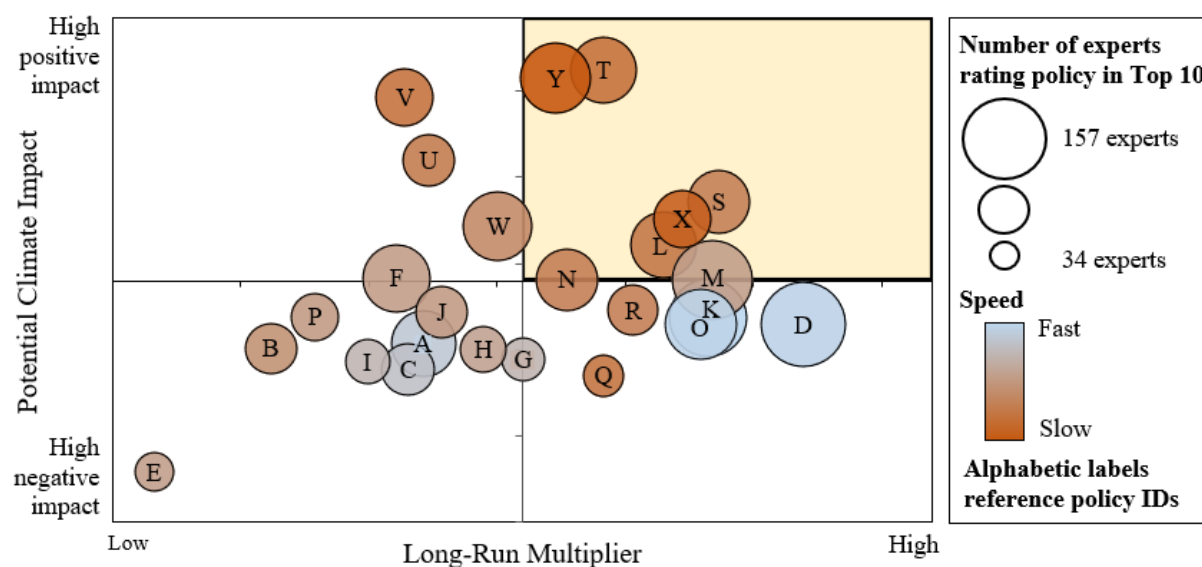
<sup>26</sup> International Energy Agency (18 June 2020), ‘Sustainable Recovery Plan’: <https://www.iea.org/news/iea-offers-world-governments-a-sustainable-recovery-plan-to-boost-economic-growth-create-millions-of-jobs-and-put-emissions-into-structural-decline>

<sup>27</sup> Philippe Aghion et al. (February 2016) *Carbon Taxes, Path Dependency and Directed Technical Change: Evidence from the Auto Industry*; Grantham Research Institute on Climate Change and the Environment (October 2017) [Knowledge spillovers from clean and dirty technologies](#)



positive policies were found to be high, reflecting strong return on investment for government spending in promoting innovation and expanding capacity.”<sup>28</sup>

Figure 2: Survey of 231 finance ministry/central bank officials/senior economists April 2020<sup>29</sup>



A	Temporary waiver of interest payments	N	Worker retraining
B	Assisted bankruptcy (super Chapter 11)	O	Targeted direct cash transfers or temporary wage increases
C	Liquidity support for large corporations	P	Rural support policies
D	Liquidity support for households, start-ups and SME's	Q	Traditional transport infrastructure investment
E	Airline bailouts	R	Project-based local infrastructure grants
F	Not for profits, education, research, health inst. bailouts	S	Connectivity infrastructure investment
G	Reduction in VAT and other goods and services taxes	T	Clean energy infrastructure investment
H	Income tax cuts	U	Buildings upgrades (energy efficiency)
I	Business tax deferrals	V	Green spaces and natural infrastructure investment
J	Business tax relief for strategic and structural adj.	W	Disaster preparedness, capacity building
K	Direct provision of basic needs	X	General R&D spending
L	Education investment	Y	Clean R&D spending
M	Healthcare investment		

Source: Hepburn et al. 2020

## Tackling regional inequalities and delivering benefits across Europe

At a time of high social and regional inequality, investing in low carbon industries and infrastructure and nature restoration projects also has the distinct advantage of enabling an economic recovery that is regionally diverse, thus helping tackle the urgent issue of regional inequality.

<sup>28</sup> James Rydge and Dimitri Zenghelis, Grantham Research Institute on Climate Change and the Environment, London School of Economics (July 2020), 'Rebuilding to Last: How to design an inclusive, resilient and sustainable growth strategy after COVID-19', Chapter 5.

<sup>29</sup> Diagram taken from the report from Dimitri Zenghelis and James Rydge for the Aldersgate Group, referenced above.

For instance, in France, the nascent offshore wind industry is seeing projects being developed off the coast of Brittany, Normandy, Pays de Loire and the Oléron, with a General Electric factory based in Saint-Nazaire providing some of the turbines. In the UK, investments in offshore wind to date have resulted in new projects being developed, factories being built and skilled jobs being created in parts of the UK that were in urgent need of economic regeneration, such as the Isle of Wight (MHI Vestas) and the area around Hull in the North of England (Siemens).

When it comes to energy efficiency, a [recent study from the Buildings Performance Institute of Europe](#)<sup>30</sup> showed that an accelerated roll-out of energy efficiency measures in homes and buildings across Europe would deliver **benefits in terms of job creation and reduced energy costs that would be most pronounced in Southern and Eastern European Member States**, where levels of unemployment and the proportion of income spent on energy costs are both higher relative to other parts of the EU. Around 25 new jobs would be created in Southern and Eastern European Member States for every €1million spent on energy renovation investment compared to an average of 18 new jobs for the EU as a whole. Importantly, this report and other studies carried out on the impacts of energy efficiency retrofit programmes<sup>31</sup> show that these tend to stimulate decentralised economic activity, skills investment and job creation across regions and in a way that particularly benefits small and medium-sized businesses. . Again, the positive economic impact of such measures would be higher at times like the present when output is below trend.

**The decarbonisation of heavy industry also offers opportunities in terms of competitiveness and job creation across many European regions.** In the Netherlands, the [Dutch Climate Agreement](#) on Industry unveiled in June 2019<sup>32</sup> aims to accelerate emission reductions in five regional industrial clusters and put the “big twelve” Dutch industrial companies in a position of competitive advantage in the transition to a net zero emissions economy. A similar picture can be observed in regional clusters in Germany and parts of Eastern Europe. A good example comes from the [Hungarian lignite-fired Matra Power Plant](#)<sup>33</sup>, which is now being converted into a renewable energy industrial cluster (solar power and biomass), with the particular objective of stimulating low carbon investment and job creation in a region with high levels of unemployment. Looking ahead, the [Re-Industrialise](#)

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<sup>30</sup> Buildings Performance Institute of Europe (June 2020), ‘Building Renovation: a kick-starter for the EU recovery’: [https://www.renovate-europe.eu/wp-content/uploads/2020/06/BPIE-Research-Layout\\_FINALPDF\\_08.06.pdf](https://www.renovate-europe.eu/wp-content/uploads/2020/06/BPIE-Research-Layout_FINALPDF_08.06.pdf)

<sup>31</sup> See in particular Verco and Cambridge Econometrics, ‘Building the Future’ (October 2014): <https://www.e3g.org/docs/Building-the-Future-The-Economic-and-Fiscal-impacts-of-making-homes-energy-efficient.pdf>

<sup>32</sup> Dutch Climate Agreement on Industry (June 2019): <https://ispt.eu/news/the-dutch-climate-agreement-on-industry/>

<sup>33</sup> EIT Climate KIC (2019), ‘Matra Power Plant Case Study’: <https://re-industrialise.climate-kic.org/case-studies/casestudy-matrapowerplant/>

[programme led by EIT Climate-KIC<sup>34</sup>](#), which is currently focused on the Silesia region in Poland and North Rhine Westphalia in Germany, is a positive example of an initiative to support the transition of high carbon emitting industrial regions into hubs of clean industrial innovation.

When it comes to nature restoration, most of the potential for restoring peatlands, floodplain and coastal wetlands, old growth/natural forests tends to be located in rural, and often remote and disadvantaged regions of Europe, with the advantage of being particularly quick to get off the ground and absorb workers from industries hard hit by the pandemic such as the entertainment, hospitality and leisure sectors.

## The risks and opportunities ahead

The economic and social benefits set out above come in addition to the clear scientific case for taking rapid action to tackle the intensifying threat of climate change and reverse environmental and biodiversity degradation. With major global biodiversity and climate summits on the horizon, pursuing an economic recovery that is in line with ambitious environmental and climate goals would, from a diplomatic and trade perspective, also put the EU in a position of strength to show leadership at these summits and raise ambition and action.

The EU therefore faces clear risks and opportunities. The risk is that following good initial intentions and despite a broadly positive framework provided by the European Green Deal and the Commission's initial plans for economic recovery, EU institutions and its Member States gradually lose sight of their initial vision and repeat the mistakes of the past. In a context where economic and social hardship could rapidly intensify, the risk is that EU actors (and in particular Member States) fail to seize the opportunity to make the necessary investment and policy decisions that will transform the European economy for the better and instead continue to support the current economic model with all its economic, social and environmental flaws.

On the other hand, the EU could build on its positive start and seize the opportunity to push through stimulus investments and policy decisions that will develop sector expertise in rapidly growing global markets, provide durable employment opportunities, tackle social and regional inequalities and deliver significant environmental benefits. EU leadership has the strong potential to encourage other major nations to follow similar recovery approaches and the more ambitious positioning of major emitters such as Japan and China create some interesting partnership opportunities in this regard. Seizing such an opportunity will require the EU and its Member States to implement a comprehensive and long-term economic recovery plan, as set out in more detail in section 3.

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<sup>34</sup> EIT Climate KIC (2019), Re-Industrialise initiative: <https://www.climate-kic.org/areas-of-focus/sustainable-production-systems/our-initiatives/re-industrialise/>

# Seizing the opportunity: the EU needs a comprehensive recovery plan to 2030

## The EU and its Member States need a comprehensive plan

In order to put the EU economy on the pathway to a successful and durable recovery, the EU needs to put in place a comprehensive recovery plan for the years ahead, which will need to be backed up by corresponding plans at a Member State level. As set out in chapter 2, such a plan needs to perform well against both near-term objectives – by getting economic activity and employment rapidly going again – and long-term objectives, by helping deliver the necessary changes on the ground which will strengthen the long-term competitiveness of the EU economy, tackle regional and social inequalities, ensure a just transition, and create the foundations for a net zero emissions and environmentally resilient economy.

A comprehensive recovery plan needs to be based on three core pillars:

- (i) **Pillar 1:** pushing through a programme of near-term, targeted stimulus investments that are aligned with the EU's climate and environmental ambitions and subject to a robust scrutiny regime;
- (ii) **Pillar 2:** ensuring the EU and its Member States have the right economic and industrial strategies in place to build a competitive, regionally diverse, net zero emissions and environmentally resilient economy; and
- (iii) **Pillar 3:** putting in place a package of policy measures that will drive long-term private investment into ultra-low carbon and environmentally resilient infrastructure, goods and services.

The latter will be particularly important to ensure that following initial injections of public spending, private sector investment can increasingly do most of the 'heavy lifting' in helping transition the EU towards a resilient and net zero emissions economy.

These three key pillars are considered in turn below.

## Pillar 1: A programme of stimulus investments aligned with climate and environmental goals

Getting the economy and employment going again in the near-term and laying positive foundations for an environmentally sustainable recovery requires **a programme of targeted stimulus investment projects which are aligned with the EU's climate and environmental ambitions**. This requires not only committing to aligning stimulus investments with climate and environmental goals at a high level – which the EU has already

done to an extent in terms of setting the ambitions of NGEU and the MFF – but also **ensuring that sufficiently robust processes are in place to scrutinise the actual implementation of that stimulus spending and its alignment with these goals.**

As explained in section 2, low carbon and natural capital investments can deliver important economic and social benefits in both the short and long-term, including by being labour intensive in the near-term when spare employment capacity is high and being more productive in the long-term when there is less spare capacity on the job market. Reports from the [Aldersgate Group](#)<sup>35</sup>, the Smith School for Enterprise and the Environment, the London School of Economics, Cambridge Econometrics<sup>36</sup>, the World Bank and the International Energy Agency<sup>37</sup> all cite the following types of projects as good examples of economically effective stimulus investments, which can deliver rapid and regionally spread out job creation opportunities that are less likely to be offshored abroad:

- Energy efficiency building retrofits;
- Clean energy infrastructure and electricity grid reinforcements;
- Roll-out of broadband and smart connectivity infrastructure across all regions;
- Public transport, electric vehicle roll-out and charging infrastructure;
- Projects to improve the state of the natural environment including reforestation, urban green infrastructure, peatland restoration, wetland restoration, delivering net gains in biodiversity and other nature-based solutions that reduce and absorb greenhouse gas emissions;
- Corporate bailouts that are tied to clear expectations in terms of improved climate and environmental performance. The €7bn Air France bailout agreed by the French Government provides an interesting example here, albeit the climate conditions attached to the bailout are in practice rather vague and not legally binding<sup>38</sup>.

A [recent study from Vivid Economics](#)<sup>39</sup> noted in particular that among green stimulus measures, the highest potential resides in natural capital investments through direct government spending in rural and urban settings (nature-based solutions and urban green

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<sup>35</sup> Aldersgate Group (June 2020), *'Seize the Moment: building a thriving, inclusive and resilient economy in the aftermath of COVID-19'*: <https://www.aldersgategroup.org.uk/latest#low-carbon-projects-are-a-key-solution-to-jobs-inequality-and-resilience-concerns>

<sup>36</sup> Cambridge Econometrics (October 2020), *Assessment of Green Recovery Plans after COVID-19*: <https://www.wemeanbusinesscoalition.org/wp-content/uploads/2020/10/Green-Recovery-Assessment.pdf>

<sup>37</sup> All previously referenced

<sup>38</sup> Transport and Environment (2020), *'Air France's bailout climate conditions explained'*: <https://www.transportenvironment.org/publications/air-frances-bailout-climate-conditions-explained>

<sup>39</sup> Vivid Economics (2020), *'Integrating Climate Change and Biodiversity into the response to COVID-19'*: <https://www.vivideconomics.com/casestudy/integrating-climate-change-and-biodiversity-into-the-response-to-covid-19-green-employment-and-growth/>

infrastructure), with corporate bailouts conditional on delivering net neutral or net positive impacts on biodiversity performing strongly as well.

On the whole, the EU and its Member States have made positive sounds in terms of aligning stimulus investments with climate and environmental goals. The European Commission's initial recovery plan published in May showed support for aligning stimulus investments with climate and environmental goals, by for instance calling for greater investment in energy efficiency, renewables, electric vehicles and clean technology innovation in areas such as green hydrogen and zero emission vehicles. As discussed in more depth in section 3.3.1 below and mirroring the approach taken for the MFF, the European Council Conclusions in July 2020<sup>40</sup> also confirmed that 30% of funding under the €750bn NGEU recovery instrument must be directly linked to achieving the EU's 2030 climate target and the 2050 climate neutrality objective, with the rest of the funding needing to be at least consistent with the goals of the Paris Agreement.

The [Renovation Wave](#)<sup>41</sup> published by the Commission in October 2020 now commits to doubling the renovation rate of existing buildings in the next 10 years, whilst improving energy efficiency across the bloc to reduce associated emissions. This could equate to 35 million buildings renovated over next 10 years, creating 160,000 new jobs in construction sector.

However, some important question marks remain regarding the implementation of the EU's approach to near-term recovery. It is unclear what assessment and scrutiny methodology will be used to assess the national recovery and resilience plans which Member States will submit to access funding under NGEU over the next three years. Outside of five high-level principles published by the [EU Expert Taxonomy Group on Sustainable Finance](#) in July 2020<sup>42</sup>, there are no clear criteria in place to ensure that national plans approved under NGEU either actively contribute towards or at least do no harm to the EU's climate and environmental ambitions.

The development of clear and transparent scrutiny criteria needs to be addressed urgently to ensure that upcoming stimulus investments are genuinely aligned with the goal of building a modern, net zero emissions and environmentally resilient economy. Failure to do so could result in a situation where some national plans promote investments in high carbon projects which are not aligned with the EU's goals and which could also quickly become stranded assets and poor value for money for the European taxpayer.

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<sup>40</sup> European Council (21 July 2020), Conclusions: <https://www.consilium.europa.eu/media/45109/210720-euco-final-conclusions-en.pdf>

<sup>41</sup> European Commission (14 October 2020), 'Renovation Wave': [https://ec.europa.eu/commission/presscorner/detail/en/ip\\_20\\_1835](https://ec.europa.eu/commission/presscorner/detail/en/ip_20_1835)

<sup>42</sup> EU Technical Expert Group on Sustainable Finance (July 2020), 'Five high-level principles for recovery and resilience': [https://ec.europa.eu/info/sites/info/files/business\\_economy\\_euro/banking\\_and\\_finance/documents/200715-sustainable-finance-teg-statement-resilience-recovery\\_en.pdf](https://ec.europa.eu/info/sites/info/files/business_economy_euro/banking_and_finance/documents/200715-sustainable-finance-teg-statement-resilience-recovery_en.pdf)



The Commission's [Recovery Plan for Europe](#)<sup>43</sup> and the July 2020 Council Conclusions also had some important omissions, by for instance making little mention of investments to improve the state of the natural environment and reverse the decline in biodiversity. This is despite the Commission having recently published a [Biodiversity Strategy for 2030](#)<sup>44</sup> in which it highlighted that there was an annual €20bn financing gap for biodiversity projects. It will be important alongside the 30% funding earmarked for climate action as part NGEU and the MFF that sufficient funding is also put forward to plug the biodiversity financing gap.

## Pillar 2: Aligning the EU's economic and industrial strategies with environmental resilience and climate neutrality

Beyond the near-term stimulus investments referenced above, the EU's – and its Member States' – economic and industrial strategies and the mandate of their financing institutions need to be clearly aligned with the objective of creating the foundations for an economy that will be resilient, socially inclusive and environmentally sustainable over the long-term.

Three areas of action need particular attention: finance, industrial strategy and skills.

### Financing a sustainable recovery

Tackling the major regional inequalities currently prevailing in the EU and ensuring a durable and sustainable recovery from COVID-19 represents a major investment challenge. The last decade has seen growing private financial flows in areas such as power sector decarbonisation and the transition towards zero emission vehicles. However, **important market barriers remain to attract greater private sector investment in the complex technologies and business models needed to cut emissions in 'hard to abate sectors'** such as heavy industry, heating, agriculture and long-distance transport. A similar observation can be made regarding investments in solutions to restore and improve the state of the natural environment, where the absence of clear revenue streams currently hampers greater flows of private investment.

From a regional perspective, parts of the EU that are in need of economic regeneration – such as old industrial clusters –, could potentially become major hubs of low-carbon activity as they tend to have transferrable infrastructure and skill sets that could be of use in the

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<sup>43</sup> European Commission (27 May 2020), 'A Recovery Plan for Europe': [https://ec.europa.eu/commission/presscorner/detail/en/ip\\_20\\_940](https://ec.europa.eu/commission/presscorner/detail/en/ip_20_940)

<sup>44</sup> European Commission (2 June 2020), 'EU Biodiversity Strategy for 2030': [https://ec.europa.eu/environment/nature/biodiversity/strategy/index\\_en.htm](https://ec.europa.eu/environment/nature/biodiversity/strategy/index_en.htm)

low carbon economy. This is well illustrated by the Re-Industrialise initiative run by Climate-KIC (discussed in section 2)<sup>45</sup>, which is looking to support several European regions such as Silesia (Poland) and North-Rhine Westphalia (Germany) to make this transition from high emitting - and often declining - industrial clusters to hubs of low carbon innovation driving local job creation. However, such transitions are unlikely to occur without the support of strong institutions.

Targeted public funding and in particular public-backed financial institutions will have an important role to play in tackling these market barriers and regional development challenges. As discussed in more depth in section 3.4.6 below, it is essential that both at the EU and Member State level, public funding and publicly supported financial institutions have a clear mandate to directly invest in - and help drive greater private investment towards - innovative and complex low carbon and environmental solutions as well as towards regions in need of economic regeneration. Germany's publicly funded development bank, KfW, provides a good example here. It has [successfully issued €26bn of green bonds since 2014](#) (with €8.1bn of issuances in 2019 alone)<sup>46</sup>, helping drive greater investment in energy efficiency and renewable energy projects. It is also worth noting that growing number of economists are now calling in the UK for [the establishment of a National Investment Bank, with circa €20bn of paid-up capital and](#) a clear mandate to support investment in complex low carbon and environmental projects and to "level up" inequalities between regions<sup>47</sup>.

With this in mind, the European Investment Bank's [updated climate strategy and energy lending policy](#)<sup>48</sup> is to be welcome. The EIB has committed to align all its financing with the goals of the Paris Agreement by the end of 2020, ending the financing of fossil fuel projects by the end of 2021 and focusing its upcoming investments – of circa €1tn by 2030 – on clean energy innovation, renewable energy and energy efficiency. This is an important move but this approach needs to be broadened to capture other types of environmentally positive investments (such as biodiversity and nature restoration) and should be replicated across other public financial institutions at a national level as well as across the EU's budget.

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<sup>45</sup> Climate KIC (2020), 'Re-Industrialise Programme' : <https://re-industrialise.climate-kic.org/>

<sup>46</sup> KfW (August 2020), 'Green Bonds': [https://www.kfw.de/PDF/Investor-Relations/PFD-Dokumente-Green-Bonds/Green-Bond-Presentation\\_SEC-Filing-2020.pdf](https://www.kfw.de/PDF/Investor-Relations/PFD-Dokumente-Green-Bonds/Green-Bond-Presentation_SEC-Filing-2020.pdf)

<sup>47</sup> James Rydge and Dimitri Zenghelis, Grantham Research Institute on Climate Change and the Environment, London School of Economics (July 2020), 'Rebuilding to Last: How to design an inclusive, resilient and sustainable growth strategy after COVID-19', Chapter 6: <https://www.aldersgategroup.org.uk/latest#rebuilding-to-last-uk-must-not-go-back-to-the-old-normal>

<sup>48</sup> European Investment Bank (14 November 2019), Updated Climate Strategy and Energy Lending Policy: <https://www.eib.org/en/press/all/2019-313-eu-bank-launches-ambitious-new-climate-strategy-and-energy-lending-policy>

As discussed in section 3.2, the [European Council Conclusions of July 2020](#)<sup>49</sup> confirmed that 30% of the funding under the €750bn NGEU recovery instrument and the EU's €1.1tn long-term budget for 2021-2027 will be spent on climate-related investments and that "as a general principle, all EU expenditure should be consistent with Paris Agreement objectives." The Conclusions also make the point that contribution towards the EU's goals of green and digital transition will be an important element when the European Commission and Council assess the national recovery and resilience plans which Member States must submit to access recovery funding under NGEU.

In theory and in light of previous EU budgets, this is a positive development. However, whether funding earmarked for climate change under NGEU and the MFF will be genuinely directed to climate friendly investments will depend in practice on the Commission (and in the case of NGEU, the Council) having an appropriate assessment and tracking methodology in place and one which is deemed sufficiently robust by the European Court of Auditors. This should be seen by the Commission and Council as an absolute priority. The same point applies to the rest of the funding under NGEU and the MFF, where careful scrutiny will be essential to ensure that at the very least, the rest of EU expenditure 'does no harm' to the EU's climate neutrality goal and - importantly - other key environmental objectives enshrined in strategies such as the EU Biodiversity Strategy for 2030. Enhanced scrutiny of public spending could also be strengthened by tasking a particular department in the European Commission to declare whether public spending is at least consistent with or actively contributing towards the EU's climate and environmental goals.

Continuing to reform the EU's Common Agricultural Policy to provide greater support to agri-environment schemes that help restore the state of the natural environment (such as in terms of soil health and quantity) and mitigate climate change is a good example of another key area in need of continued funding reform. The CAP, the objectives in the Biodiversity Strategy to bring nature back to agricultural land and the Farm to Fork Strategy will all need to be better integrated in order to drive public and private investment into environmentally responsible and restorative agricultural practices.

## An industrial strategy aligned with climate and environmental goals

An effective recovery also requires the EU to mainstream its climate and environmental goals across its industrial and economic policy. The [Commission's Communication on a new Industrial Strategy for Europe in March 2020](#)<sup>50</sup> outlined a positive vision to align the EU's industrial strategy with the Green Deal and digital modernisation.

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<sup>49</sup> European Council (21 July 2020), Conclusions: <https://www.consilium.europa.eu/media/45109/210720-euco-final-conclusions-en.pdf>

<sup>50</sup> European Commission (March 2020), Communication on a New Industrial Strategy for Europe: [https://ec.europa.eu/info/sites/info/files/communication-eu-industrial-strategy-march-2020\\_en.pdf](https://ec.europa.eu/info/sites/info/files/communication-eu-industrial-strategy-march-2020_en.pdf)

However, for it to be effective, this vision will need to be backed up at the Member State level and will need to be fleshed out by key measures such as:

- **Focusing the EU's innovation budget**, through programmes such as Horizon Europe and InvestEU, **on funding to accelerate the scaling up of existing and emerging technologies and solutions that will be essential to achieve the EU's long-term climate and environmental goals** and support European businesses in becoming globally competitive providers of low carbon goods and services. A lot of the solutions to deliver the EU's climate neutrality goal exist in some form already and in many cases, the role of innovation will be to accelerate the scaling up and market deployment of these solutions rather than drive the search for entirely new ones (see section 3.4);
- **Continuing to develop a Green Public Procurement Policy across all EU institutions and critically, work with Member States to roll out green public procurement approaches and training across national public institutions.** With [public procurement accounting for around 13.3% of EU GDP](#)<sup>51</sup>, public procurement can send very strong market signals that can grow the demand for low carbon, resource efficient and environmentally sustainable goods, services and infrastructure;
- **Developing low-carbon skills strategies at the EU and Member State level** to ensure the existing and future workforce are equipped to benefit from the employment opportunities involved in the transition to an environmentally resilient and net zero emissions economy (see section 3.3.3);
- **Supporting the competitiveness of European businesses in hard to abate sectors whilst driving their decarbonisation in line with the climate neutrality goal.** Beyond public funding support for critical innovation, European businesses in sectors that are sensitive to global competition will require clear EU market signals – and a supportive trade policy – that grow the demand for low-carbon products and services and ensure that any imported goods, products and raw materials introduced on the Single Market have to abide by similar climate and environmental standards as those manufactured or produced domestically (see section 3.4.4).

## Putting skills policy and a 'Just Transition' at the heart of the EU's economic recovery plan

Given the huge social and regional disparities within the EU, European regions need to be better empowered both politically and financially to put in place effective strategies that will deliver a just transition to competitive low carbon economies. Empowering regions –

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<sup>51</sup> European Commission (5 November 2019), Public Procurement Indicators 2017: <https://ec.europa.eu/docsroom/documents/38003>

and ensuring they have robust and transparent governance processes in place – is important as local decision makers are often better placed to identify key local challenges, infrastructure needs, potential growth opportunities and skill priorities.

Beyond political empowerment, public funding will play a key role. It is encouraging that the size of the EU's Just Transition Fund – the focus of which is to support key regions and sectors for whom the transition to net zero emissions will be more difficult - will be increased for the upcoming 2021-2027 budget period. However, [European Commission President Von Der Leyen's disappointment](#) at the European Council's decision in July 2020 to reduce the levels of funding initially allocated by the Commission in this area suggests that this is a sensitive area of EU policy that will need to be regularly reviewed to ensure it is adequate: "As you know, I would have liked more. But this week's agreement ensures a 125% increase in the size of the Just Transition Fund, now worth €17.5bn"<sup>52</sup>.

**Critically, putting the EU on a pathway towards a socially inclusive and durable recovery requires the EU and its Member States to put in place comprehensive low carbon skills strategies** to ensure that the current and future workforce is equipped to take on the employment opportunities inherent in the transition to a net zero emissions and environmentally resilient economy. This needs be carefully embedded in the national recovery and resilience plans which Member States need to put together to receive funding under NGEU as well as in the Territorial Just Transition Plans that regions will need to produce in order to access finance under the EU Just Transition Fund.

As comprehensively set out in a recent report from the London School of Economics, a comprehensive approach to skills following the COVID-19 pandemic should include:

- (i) **ensuring a smooth transition from the current job retention schemes** that were temporarily put in place by many Member States to support employment in the early stages of the pandemic. Measures that should be considered across the EU include providing employment incentives to employers (such as through human capital tax credits), with a particular focus on the continued employment of young people who have been disproportionately impacted by the crisis. In the present context of high unemployment rates, investing in near-term retraining and reskilling schemes will also be another important tool to equip the existing and upcoming workforce with the skills required in a low carbon economy;
- (ii) **encouraging Member States to embed sustainability across national education curriculums and develop sustainability metrics for apprenticeship schemes**

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<sup>52</sup> Speech by President von der Leyen at the European Parliament Plenary on the conclusions of the Special European Council Meeting of 17-21 July 2020 (23 July 2020): [https://ec.europa.eu/commis-sion/presscorner/detail/en/speech\\_20\\_1396](https://ec.europa.eu/commis-sion/presscorner/detail/en/speech_20_1396)

**and tertiary level education courses.** This is essential to ensure that the entire education systems in Member States equip students with the necessary concepts around environmental sustainability as well as real life skills (project management, science, technology, maths etc.) that are or will be essential in many low-carbon industries;

- (iii) **improving co-ordination between the Commission, Member States, regions and businesses to seek to direct more low carbon investments towards regions that need it the most** and where transferrable skills / infrastructure already exist. This could be an important area of focus as part of Invest EU, the EU's Just Transition Fund, the stimulus investments under NGEU and the EU-industry partnerships which are currently being developed such as the [Battery Alliance](#)<sup>53</sup> and the [Clean Hydrogen Alliance](#)<sup>54</sup>.

The UK provides a good case in point here: greater collaboration between national government, local authorities, businesses and educational institutions have helped bring significant offshore wind manufacturing and skills investment in regions of the UK in need of economic regeneration (such [as the Humber and the Isle of Wight](#))<sup>55</sup>. A similar approach is being considered for the UK's industrial decarbonisation strategy, where most of [the potential 'low-carbon industrial clusters'](#) are located in regionally diverse regions in need of economic regeneration such as Teesside, Humberside, Merseyside and South Wales<sup>56</sup>.

### Pillar 3: Putting in place a comprehensive package of clear policy signals to drive long-term private investment

As argued in a recent report from the French [Institut de l'économie pour le climat](#)<sup>57</sup>, private sector investment is ultimately going to have to do an important part of the 'heavy lifting' in the long-term if the recovery effort is to be economically sustainable. This, in turn, requires clear public policy signals which stimulate supply and drive greater market demand

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<sup>53</sup> European Commission (2020), 'European Battery Alliance': [https://ec.europa.eu/growth/industry/policy/european-battery-alliance\\_en](https://ec.europa.eu/growth/industry/policy/european-battery-alliance_en)

<sup>54</sup> European Commission (2020), 'Clean Hydrogen Alliance': [https://ec.europa.eu/growth/industry/policy/european-clean-hydrogen-alliance\\_en](https://ec.europa.eu/growth/industry/policy/european-clean-hydrogen-alliance_en)

<sup>55</sup> See Aldersgate Group (November 2019), 'Time to deliver: Building a competitive and inclusive green economy': <https://www.aldersgategroup.org.uk/latest/page:2#general-election-2019-next-five-years-crucial-to-deliver-climate-and-environmental-goals>

<sup>56</sup> UK Government (2019), 'Clean Growth Grand Challenge, Industrial Clusters': [https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/803086/industrial-clusters-mission-infographic-2019.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/803086/industrial-clusters-mission-infographic-2019.pdf)

<sup>57</sup> L'institut de l'économie pour le climat (April 2020), 'Investir en faveur du climat contribuera à la sortie de crise': <https://www.i4ce.org/wp-core/wp-content/uploads/2020/04/I4CE-Investir-pour-le-climat-sortie-de-crise-COVID.pdf>



towards low carbon and environmentally positive solutions, thereby creating a business case for private investors.

We look below at seven key areas of urgent policy intervention, mainly focused on climate policy.

## Providing the EU economy with a clear long-term sense of direction

A key element of providing market clarity for the EU economy is by setting clear long-term environmental and climate objectives in law. When it comes to climate change, this must include EU Member States rapidly agreeing a climate neutrality goal by 2050 under the [Climate Law](#)<sup>58</sup> and rapidly increasing interim climate targets to provide a credible pathway to get there.

In particular, as recently advocated by the Aldersgate Group and other business organisations, **it is essential that Member States act on the Commission's recommendation to increase the EU's 2030 emission reduction target to at least a 55% cut below 1990 levels and make such a decision well before the COP26 climate summit in 2021.** This is both deliverable as well as essential for the EU to be on a cost-effective and credible trajectory towards climate neutrality. In a context where major low-carbon infrastructure projects and profound changes to business models and supply chains can take 5 to 10 years to oversee and where infrastructure can have a lifespan of several decades, policy makers must appreciate that **2030 is essentially 'tomorrow' in terms of investment cycles and that in many cases, the 2050 climate neutrality goal is not far off behind.**

**With this in mind, tightening EU ambitions will need to be reflected and implemented in Member States' National Climate and Energy Plans for 2021-2030.** These plans are an essential tool for driving co-ordinated investment and policy progress across the EU and their inherent ambition and content will become increasingly important in the years ahead. The Commission will need to increasingly engage with Member States to ensure they are introducing the necessary policy drivers to complete the decarbonisation of the 'low regret' sectors discussed below and begin to tackle emissions in harder to abate sectors.

**Providing a clear sense of direction is equally relevant for other areas of EU environmental policy such as the [Biodiversity Strategy for 2030](#)<sup>59</sup>.** This Strategy set out encouraging and comprehensive ambitions for 2030, both in terms of nature protection (with the goal of protecting a minimum of 30% of the EU's land and sea area and integrating

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<sup>58</sup> European Commission (2020), 'European Climate Law': [https://ec.europa.eu/clima/policies/eu-climate-action/law\\_en](https://ec.europa.eu/clima/policies/eu-climate-action/law_en)

<sup>59</sup> European Commission (2 June 2020), 'EU Biodiversity Strategy for 2030': [https://ec.europa.eu/environment/nature/biodiversity/strategy/index\\_en.htm](https://ec.europa.eu/environment/nature/biodiversity/strategy/index_en.htm)

ecological corridors) and nature restoration (such as restoring areas of degraded and carbon-rich ecosystems). For these ambitions to be seen as credible and taken seriously and for them to be underpinned by concrete policies, it will be essential that the Commission and Member States rapidly follow through in developing the range of legal instruments referenced in the Strategy.

## A credible carbon price trajectory in line with net zero emissions by 2050

Putting the EU on a credible pathway to net zero emissions requires one of its flagship policies – the EU Emissions Trading Scheme (EU ETS) – to have a carbon price trajectory that is both predictable and sufficiently high so as to be compatible with net zero emissions by 2050. It will also be important for the EU ETS to continue expanding in terms of the scope of sectors covered by the scheme, by for instance including global aviation and shipping.

Following important reforms (such as the introduction of a Market Stability Reserve), [Phase 4 of the EU ETS](#)<sup>60</sup> is set to deliver emission reductions by 2030 of around 43% below 1990 levels for those industrial activities covered by the scheme, with a carbon price of around €28 per tonne as of early September 2020. **If the EU increases its 2030 climate target – as strongly suggested above – it will also need to make corresponding revisions to the emission reduction ambitions, number of free allowances<sup>61</sup> and value of carbon under the EU ETS.**

For context, the [High Level Commission on Carbon Prices led by Joseph Stiglitz and Lord Nicholas Stern](#)<sup>62</sup> argued in 2017 that global carbon prices would, depending on country specific needs, need to reach \$20 to \$50 per tonne of CO<sub>2</sub> in 2020, rising to \$50 to \$100 per tonne by 2030, with the appropriate price for the EU likely to be towards the upper end of both brackets. This recommendation was made in the context of keeping global average temperature increases to below 2°C, as opposed to the more ambitious 1.5°C that the international community is now seeking to pursue.

## Completing the decarbonisation of ‘low regret’ sectors

To put itself on a credible pathway to a sustainable recovery, the EU will need to use existing policy drivers to help drive the full decarbonisation of ‘low regret sectors’ such as

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<sup>60</sup> European Commission (2020), *Overview of EU Emissions Trading Scheme*: [https://ec.europa.eu/clima/policies/ets\\_en](https://ec.europa.eu/clima/policies/ets_en)

<sup>61</sup> The value of the free allowances allocated to installations under the EU ETS in 2018 came up to €11,385 million.

<sup>62</sup> High Level Commission on Carbon Prices (2017), launch of new report: <https://www.carbonpricing-leadership.org/news/2017/5/25/leading-economists-a-strong-carbon-price-needed-to-drive-large-scale-climate-action>

power, buildings and light-duty surface transport where the technological solutions required to cut emissions are broadly known but more policy interventions are required.

In 2018, the EU's greenhouse gas emissions were [around 23% below their 1990 level](#)<sup>63</sup>. This was in part due to the EU making good progress over the last decade in slashing power sector emissions through a greater deployment of renewables, fuel switching from coal to gas, carbon pricing reforms and energy efficiency efforts. However, as the International Energy Agency points out in its [European Union 2020 report](#)<sup>64</sup>, progress to cut emissions in transport, heating and cooling has been "below expectations", with trends in buildings and transport emissions suggesting that the EU is not currently on track to meet its overall 2030 greenhouse gas emissions target (which itself needs to be increased to put the EU on track for net zero emissions).

In its [recovery plan](#)<sup>65</sup>, the Commission rightly identified building renovation, clean mobility and public transport (in particular rail) as priority stimulus investments. **Beyond targeted investments, the EU should use its existing policy drivers** – such as the Energy Efficiency Directive and suite of CO2 emissions performance standard regulations in the automotive sector – **to tighten up energy and fuel efficiency standards in buildings for cars and vans, with a more bespoke approach being adopted for cutting emissions in more complex areas such as large goods vehicles.** As Dutch engineering consultancy [BuroHappold](#) noted in a study for the Aldersgate Group, **these policy levers are extremely effective at sending clear market signals that will drive private sector investment and innovation across the Single Market**<sup>66</sup>.

When it comes to the power sector and renewable energy, the Commission's upcoming [Offshore Wind Strategy](#)<sup>67</sup> should seek to improve co-ordination and deliverability of off-shore wind deployment across Northern Seas in order to help deliver the 400GW of off-shore wind capacity that are likely to be needed to get the EU economy to net zero emissions. Accelerating innovation in areas such as innovative grid and logistic technology and fostering greater co-operation between Member States and with the UK on the continuing

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<sup>63</sup> Eurostat (2020), 'EU Greenhouse Gas Emissions Statistics' as at 2018 : [https://ec.europa.eu/eurostat/statistics-explained/index.php/Greenhouse\\_gas\\_emission\\_statistics\\_-\\_emission\\_inventories#Trends\\_in\\_greenhouse\\_gas\\_emissions](https://ec.europa.eu/eurostat/statistics-explained/index.php/Greenhouse_gas_emission_statistics_-_emission_inventories#Trends_in_greenhouse_gas_emissions)

<sup>64</sup> International Energy Agency (2020), 'European Union 2020': <https://www.iea.org/reports/european-union-2020>

<sup>65</sup> European Commission (26 May 2020), 'Recovery Plan for Europe': [https://ec.europa.eu/info/live-work-travel-eu/health/coronavirus-response/recovery-plan-europe\\_en](https://ec.europa.eu/info/live-work-travel-eu/health/coronavirus-response/recovery-plan-europe_en)

<sup>66</sup> BuroHappold Engineering (December 2017), 'Help or Hindrance? Environmental regulations and competitiveness', a report for the Aldersgate Group: <https://www.aldersgategroup.org.uk/blog/more-than-red-tape-environmental-regulations-can-drive-growth>

<sup>67</sup> European Commission (2020), 'EU Strategy on Offshore Renewable Energy': [https://ec.europa.eu/energy/topics/renewable-energy/eu-strategy-offshore-renewable-energy\\_en](https://ec.europa.eu/energy/topics/renewable-energy/eu-strategy-offshore-renewable-energy_en)

roll-out of interconnection capacity and co-ordinated offshore grids will be essential to complete the cost-effective decarbonisation of the power sector.

**An accelerated roll out of offshore wind will also require clear and transparent criteria to be put in place in terms of biodiversity safeguards and sound marine spatial planning and for these to be aligned and carefully co-ordinated with the EU's climate and energy goals.** This will be important both in terms of minimising environmental impacts at the project level and avoiding actual delays to project deployment. Greater co-ordination across Europe regarding the rights of different sea users will also be important to ensure the timely and cost- effective deployment of the EU's offshore wind infrastructure.

### Scaling up innovation and creating new market frameworks for 'hard to abate' sectors

There are a range of other 'hard to treat' sectors, such as large good vehicles, shipping, aviation, heating, agriculture and heavy industry where cutting emissions relies on business models and technical solutions that have not yet been fully developed as well as important modal shifts. For these and within the framework of the Green Deal, the Commission needs to take a two-pronged approach, based on (i) trialling critical technologies at scale and (ii) introducing market mechanisms that will accelerate emission cuts in hard to abate sectors and grow the demand for net zero emissions infrastructure, products and services, whilst at the same time supporting EU businesses from imports that do not comply with similar climate and environmental standards.

In terms of innovation, the EU should focus in the near-term on trialling the following technologies and business models at scale to fully understand their potential to cut emissions and the regulatory framework required to support wider market deployment: energy efficiency, carbon capture use and storage, the production and use of hydrogen (relevant for heavy industry, large good vehicles and heating), the potential renewable electrification of production processes in some heavy industries, sustainable biofuels for aviation and shipping and environmentally restorative methods of food production.

The [Hydrogen](#)<sup>68</sup> and [Energy Systems Integration Strategies](#)<sup>69</sup> provide a welcome recognition of the key areas of innovation and market deployment challenges facing the EU, such as with respect to the production and use of renewable hydrogen. These strategies need to be followed up by sufficient public funding support – such as through the Invest EU and

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<sup>68</sup> European Commission (8 July 2020), 'EU Hydrogen Strategy': [https://ec.europa.eu/commission/presscorner/detail/en/FS\\_20\\_1296](https://ec.europa.eu/commission/presscorner/detail/en/FS_20_1296)

<sup>69</sup> European Commission (8 July 2020), 'EU Energy Integration Strategy': [https://ec.europa.eu/commission/presscorner/detail/en/FS\\_20\\_1295](https://ec.europa.eu/commission/presscorner/detail/en/FS_20_1295)

EU ETS Innovation Fund mechanisms and the EIB's new lending policy - to deliver sufficiently large scale trials to inform future policy development.

Beyond innovation, early sight of market deployment measures will be key so that industry players can understand early on how new business models and production processes will be incentivised in the long run. **In areas such as heavy industry, EU-wide product standards - which gradually drive down the permissible level of embodied carbon emissions in the production of industrial goods such as steel, cement and aluminium and improve whole lifecycle resource efficiency – could help create growing market demand for resource efficient and low carbon industrial goods.** Critically, if supported by a consistent trade policy, these standards could also help support the competitiveness of European businesses by ensuring that all imports arriving on the Single Market have to abide by the same product standards. This could provide an effective complement or alternative to the Commission's current proposal in the Green Deal to put in place a system of carbon border adjustment measure.

As mentioned above and as part of the [Commission's Trade Policy Review](#)<sup>70</sup>, the EU's future approach to trade policy and trade agreements must provide EU institutions and Member States with the flexibility needed to introduce new policy and regulatory measures to meet long-term climate and environmental goals and to apply these effectively on all market participants on the Single Market, including non-EU businesses. Given its leadership in climate and environmental ambition and the size of the Single Market, the EU is in a strategic position to use trade policy as a way of promoting better environmental standards globally and growing trade in ultra-low carbon good and services. **A trade policy that is consistent with climate and environmental goals is essential to the credibility of the EU's targets, the competitiveness of European businesses in the transition to a net zero emissions economy and to maximise export opportunities in ultra-low carbon goods and services.**

## Rolling out the EU's Circular Economy Action Plan

Through its engagement in the EU Life+ funded [REBus project](#)<sup>71</sup>, which supported around 30 business trials on the circular economy, the Aldersgate Group saw first-hand how business models that drive greater resource efficiency can deliver significant carbon emissions and cost reductions in addition to material savings. Based on [the results of the pilot projects](#) - which involved both small and large businesses in a wide range of sectors such as furniture, telecoms and construction - it was estimated that a scalable adoption of resource efficient business models across the EU's key economic sectors could, by 2030, deliver an

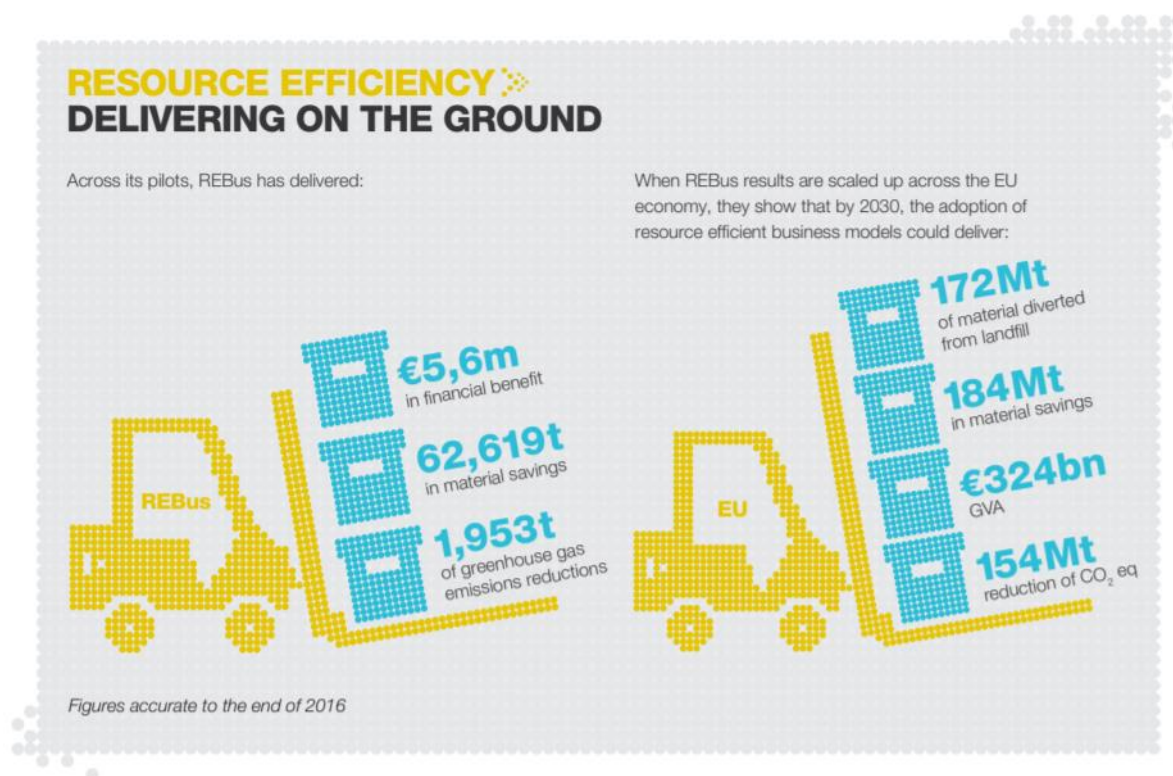
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<sup>70</sup> European Commission (July 2020), 'Consultation on Trade Policy Review': [https://trade.ec.europa.eu/consultations/index.cfm?consul\\_id=266](https://trade.ec.europa.eu/consultations/index.cfm?consul_id=266)

<sup>71</sup> European Commission EU Life + REBus programme : <http://www.rebus.eu.com/>

increase of up to €324bn in gross value added, a reduction in carbon emissions of up to 154MtCO<sub>2</sub> equivalent and up to 184Mt of material savings<sup>72</sup> (see Figure 3).

Figure 3: Findings from the EU Life + REBUS project and implications for the EU Economy by 2030



With approximately 80% of a product's long-term environmental impact being determined at the design stage, it is essential that upcoming EU policy interventions focus on the early stages of the product lifecycle. The Commission put forward a new and promising [Circular Economy Action Plan](#)<sup>73</sup> in February 2020. A priority going forward should be to implement the Commission's proposals for a "sustainable product framework". In particular, based on the EU's considerable expertise in eco-design regulations, the Commission should broaden the remit of product standards so that these focus not only on the consumption stage but also increasingly shape the long-term durability and repairability of a product and the re-usability of its key components.

<sup>72</sup> Aldersgate Group (January 2019), 'Beyond the 2019 EU elections: maintaining momentum on resource efficiency': <https://www.aldersgategroup.org.uk/latest/detail:beyond-the-2019-elections-maintaining-momentum-on-resource-efficiency>

<sup>73</sup> European Commission (February 2020), 'Circular Economy Action Plan': [https://ec.europa.eu/environment/circular-economy/index\\_en.htm](https://ec.europa.eu/environment/circular-economy/index_en.htm)



Accelerating the shift towards a more circular economy also requires stimulating greater consumer demand for resource efficient products, which is considered in the next section.

## Driving greater consumer demand for zero emissions and resource efficient products and services

Incentivising long-term private investment in ultra-low carbon and resource efficient infrastructure, products and services also requires a comprehensive approach to make these affordable and accessible to consumers. This is particularly the case where environmentally sustainable infrastructure and products have a higher upfront cost than their more environmentally damaging alternatives but offer better environmental and economic performance over their lifetime. There are a wide range of fiscal tools and pricing mechanisms that can be used here, from tax adjustments to upfront grants.

For example, the Commission can permit Member States to reduce the rate of value added tax (VAT) on the provision of low carbon and resource efficient goods and services to boost demand. Within the limited flexibility currently provided by the EU VAT Directive, Sweden introduced a 50% reduction on VAT on the repair of items like bicycles, leather goods and white goods and is also enabling citizens to reclaim up to 50% of labour costs from their income tax for fixing home appliances<sup>74</sup>. This flexibility should be extended across the VAT regime where doing so can help make the upfront cost of low emissions and resource efficient products, infrastructure and services financially more attractive to consumers than more polluting and less efficient alternatives.

Public grants can be another effective way in guiding and accelerating a shift in consumer behaviour towards low emissions goods or services where there is an important upfront cost differential or perceived 'hassle' factor which is deterring consumer demand. Grants to support consumers with the upfront costs of electric vehicles and energy efficiency renovation works can be particularly effective if clearly signalled in advance and available for sufficiently long and predictable periods of time.

**Public procurement is another highly effective tool to steer consumer demand towards low emissions and more resource efficient products, infrastructure, and services.** With public procurement representing more than 13% of the EU's GDP, embedding low emissions and resource efficiency criteria would have an immediate effect on the business models of large companies procuring goods and services to the public sector, with knock-on impacts on the wide range of businesses in their supply chains. The European Commission has already begun developing its own Green Public Procurement Policy criteria, with a particular focus on resource efficiency. However, **an effective green public pro-**

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<sup>74</sup> Aldersgate Group (January 2019), 'Beyond the 2019 EU elections: maintaining momentum on resource efficiency': <https://www.aldersgategroup.org.uk/latest/detail:beyond-the-2019-elections-maintaining-momentum-on-resource-efficiency>



**curement framework cannot just take place at the level of EU institutions and requires in-depth collaboration with Member States** to integrate these criteria in national procurement policies, ensure these are sufficiently compatible between Member States and put in place comprehensive training schemes for public sector employees.

## Delivering a sustainable finance framework

Private sector investment will be essential to fund the EU's long-term recovery and its transition to a net zero emissions and environmentally resilient economy. In addition to the role of targeted public funding in helping 'crowd in' private sector investment in complex and innovative low carbon and environmental projects (discussed in section 3.3.1), **the overall architecture of the financial system needs to be far more aligned with climate and environmental goals.**

To achieve this, the updates being considered as part of the consultation on the [EU's renewed Sustainable Finance Strategy](#)<sup>75</sup> need to promote better and more systematic reporting of climate-related risks, clear definitions to guide private investment towards sustainable activities and incentives to de-risk investment in environmental and low carbon projects relative to high carbon or environmentally damaging projects.

The Commission's Action Plan to date has focussed on legislative changes that incentivise capital allocation to sustainable activities ("financing green"). **In developing its Renewed Strategy, the Commission must also focus on creating the conditions that incentivise companies to commit to the transition to a sustainable, net zero emissions economy.** It must ensure that it is the role of financial market participants to challenge companies to make credible and ambitious plans for this transition and to then use their stewardship activities to hold companies accountable for those plans.

The EU's approach to sustainable finance shouldn't focus solely on "green" and "brown" infrastructure as this ignores the vast majority of the market that lies in the middle. In sectors where zero emission technologies are not yet available, the Commission's Renewed Strategy needs to adopt a "transition approach" by incentivising the transition from high carbon to the best possible forms of lower carbon investments available. This will be essential to shift financial markets as a whole onto the sustainable footing that they need to have to deliver the EU's climate neutrality goal.

To put such an approach into practice, the Commission could lead on a number of steps in the coming years. First, building on existing requirements in the Non-Financial Reporting Directive and the [Commission's Guidelines on Non-Financial Reporting](#)<sup>76</sup>, **the Commission**

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<sup>75</sup> European Commission (April 2020), 'Consultation on the EU's renewed Sustainable Finance Strategy': [https://ec.europa.eu/info/consultations/finance-2020-sustainable-finance-strategy\\_en](https://ec.europa.eu/info/consultations/finance-2020-sustainable-finance-strategy_en)

<sup>76</sup> European Commission (June 2019), 'Guidelines on Non Financial Reporting': [https://ec.europa.eu/info/publications/non-financial-reporting-guidelines\\_en#climate](https://ec.europa.eu/info/publications/non-financial-reporting-guidelines_en#climate)

**should introduce mandatory requirements for all large businesses and investors active on the Single Market to comply with the climate risk reporting requirements of the Taskforce on Climate-related Financial Disclosures (TCFDs)**, a measure which the [Aldersgate Group has recently urged the UK Government to adopt](#)<sup>77</sup> and promote at the upcoming COP26 climate summit. As part of this, the Commission should build on the work of the [World Benchmarking Alliance](#) and back at scale free public league tables ranking companies' climate disclosure reports, sector by sector. This could include creating transparency on the use of sustainability ratings by credit rating agencies. Such an approach would allow investors to have a transparent and easily comparable perspective on the exposure of businesses to the physical risks from climate change and on how seriously they are taking the climate and environmental transition.

Second, following the Taxonomy Regulation and the final report of the Technical Expert Group setting out a list of "sustainable activities", **the Commission should move to develop and implement practical investment product definitions or labels to help guide more private investment towards environmentally positive projects**. This could also be strengthened through the introduction of an [EU Green Bond Standard](#)<sup>78</sup>, which the Commission is currently considering as part of its Renewed Sustainable Finance Strategy. In sectors where low carbon alternatives to current technologies do not yet exist, the Commission should also support standards to guide investors towards interim solutions which can deliver environmental and climate benefits relative to current mainstream solutions. Requiring or encouraging businesses to report their investments and turnover against product definitions and labels being developed under the EU Taxonomy could be a helpful way of monitoring where the necessary shift in investment patterns is taking place across different industries.

Third, as recently highlighted in a [report by Aviva](#)<sup>79</sup>, a major factor in institutional investors' decisions about what to invest in is based on the amount of capital they must hold against each investment. **If European regulators set capital levels to reflect the long-term risks of assets to financial stability, thereby incentivising more Strategic Asset Allocation in environmentally sustainable assets and a transition away from polluting assets, the largest investors in the world would move money in a more sustainable direction at no cost to governments**. Similar measures could be used to incentivise banks to shift their lending practices towards environmentally sustainable assets that pose less risk to financial stability.

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<sup>77</sup> Aldersgate Group (October 2019), 'Using TCFDs to manage climate risks': <https://www.aldersgate-group.org.uk/latest/page:2#mandatory-climate-risk-disclosure-essential-to-get-to-net-zero>

<sup>78</sup> European Commission (2020), 'European Green Bond Standard': [https://ec.europa.eu/info/business-economy-euro/banking-and-finance/sustainable-finance/eu-green-bond-standard\\_en](https://ec.europa.eu/info/business-economy-euro/banking-and-finance/sustainable-finance/eu-green-bond-standard_en)

<sup>79</sup> Aviva (2020), 'A Marshall Plan to Save the Planet: how governments and investors must work together to finance the Global Goals': <https://www.aviva.com/content/dam/aviva-corporate/documents/social-purpose/pdfs/marshall-plan-for-the-planet.pdf>

## Conclusion

The EU currently faces an unprecedented situation, whereby it has to simultaneously address the significant health, social and economic impacts arising from the COVID-19 crisis, which have come to exacerbate pre-existing economic difficulties and regional inequalities. This is happening at a time where the EU also faces rising challenges from environmental degradation and climate change and where citizens in some Member States have been rethinking the case for EU membership.

To recover durably from the crisis and show its relevance to European citizens, the EU must not repeat the mistakes from the past and avoid the unproductive, socially divisive, high carbon and non-transformational recovery that took place after the 2008 Global Financial Crisis. Instead, the EU must put in place a recovery package that is fully aligned with its long-term goals of having a competitive net zero emissions economy and one where biodiversity loss is reversed.

The EU is, on the whole, off to a good start, with the Commission and the Council having stated a clear intention to align an important part of the funding available under NGEU and the MFF with the EU's 2030 climate target and its 2050 climate neutrality objective, with the intent that all EU expenditure should be consistent with the goals of the Paris Agreement. However, important question marks remain regarding the scrutiny regime that will be put in place to ensure that EU funding can deliver positive change on the ground. The EU also still has much work to do to ensure that its economic and industrial strategies and its overall policy direction can guide and accelerate long-term private investment towards the low carbon and environmentally resilient infrastructure, goods and services that the EU urgently needs.

Going forward, **a durable, socially inclusive and environmentally sustainable recovery will only be possible if the EU and its Member States agree to a comprehensive plan of action based on three pillars:**

- pushing through a programme of near-term, targeted stimulus investments that are aligned with the EU's climate and environmental ambitions and subject to a robust scrutiny regime;
- ensuring the EU and its Member States have the right economic and industrial strategies in place to build a competitive, regionally diverse, net zero emissions and environmentally resilient economy; and
- putting in place a package of policy measures that will drive long-term private investment into ultra-low carbon and environmentally resilient infrastructure, goods and services.

This is a very challenging and uncertain time for the EU and its Member States. There are significant risks ahead but the COVID-19 crisis is also a unique opportunity for EU institutions and Member States to demonstrate the relevance of the European project to their citizens.

### Lessons from the 2008 Financial Crisis

Monetary policy resulted in weak productivity and economic growth, limited employment opportunities and rising social inequalities

Recovery packages failed to embody sustainability with only around 16% of stimulus spending classified as 'green'

Despite high level of public spending cuts, levels of public debt remained high while emissions grew at record rate

### Evidence to inform current policy decisions

A recovery strategy based on investment, rather than austerity, is demonstrated to be a more effective way of getting the economy going

Investing in low carbon infrastructure has the distinct advantage of enabling an economic recovery that is regionally diverse

Green projects, such as renewable energy infrastructure, lead to higher numbers of jobs compared with traditional stimulus measures

### Building a comprehensive economic recovery

Rapid and meaningful stimulus investments targeted at climate and biodiversity goals (with robust scrutiny)

Align the EU's economic and industrial strategies and the mandate of its financial institutions with climate, environmental and Just Transition goals

Introduce package of policy measures on supply & demand side to attract long-term private investment towards green infrastructure, goods & services