Making the Green Deal work: a social and environmental programme to lead Europe out of crisis

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INTRODUCTION

With the public health crisis and the dramatic downturn in the economy, the European Green Deal is more needed than ever if the EU is to stay on the path towards carbon neutrality and other sustainability objectives. While the political debate is currently focusing on emergency measures and the safeguarding of jobs, we believe Green Deal should be accelerated rather than postponed or watered-down, as it offers the best framework for linking immediate responses and long-term policy, to ensure that recovery policies serve rather than undermine the social and ecological transition.

Pursuing the Green Deal's ambitious goals could mark a turning point in European history. But this project suffers from many weaknesses and inconsistencies, and needs to be substantially enhanced. It should address the sustainability crisis at its roots while strengthening democracy and fighting against inequalities at the same time. And in order to be implemented, all European policies and governance tools must be adapted to the task. At a time when crisis is forcing the European Union to expand the scope of what is possible in terms of economic policy, the Green Deal must be able to benefit from it. Only then will it become a social and environmental programme capable of answering the civilizational challenge facing our continent.

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**NOTES & STUDIES**

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MAKING THE "GREEN DEAL" WORK: A SOCIAL AND ENVIRONMENTAL ROADMAP FOR LEADING EUROPE OUT OF CRISIS

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The Veblen Institute for Economic Reforms is a non-profit think tank promoting policies and civil society initiatives for the ecological transition. We believe the current economic model is profoundly unsustainable and should be transformed in the spirit of social justice and respect of planetary boundaries.

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SUMMARY OF PROPOSALS

1) Strengthen European democracy
   → Democratise EU decision-making processes
   → Stop deregulation programmes
   → Encourage citizen participation in Green Deal programmes

2) Combat social and territorial inequalities
   → Add social objectives to the Green Deal (unemployment, inequalities, etc.)
   → Increase the ambition and resources of the “Just Transition Mechanism”
   → Deploy the Green Deal and investment projects at territorial level

3) Base the Green Deal on strong sustainability
   → Integrate planetary boundaries and adopt indicators (taking into account the measurement of the EU’s actual ecological footprint)
   → Improve measurement of decoupling and account for rebound effects
   → Focus more on lifestyles, not just technologies

4) Revisit all European policies
   → Adapt competition rules: public procurement and state aid
   → Make trade policy a lever for transition
   → Transform agricultural and food models

5) Massively redirect financial flows
   → Move beyond green finance and make the financial system serve the transition
   → Develop a monetary policy based on environmental conditionality (cross-compliance)

6) Overhaul macroeconomic coordination within the EU
   → Change the budget rules on green public investment
   → Reform the European Semester
   → Create a European standard for green budgeting and increase green budget allocations

7) Adapt all measuring instruments
   → Account for imported emissions
   → Introduce extended national accounts
   → Present an annual report to the European Parliament

8) Increase the European Union’s own revenue
   → Develop new taxes (environmental, financial, property, advertising, etc.)
   → Combat tax evasion more effectively
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1. Introduction: The weaknesses of the Green Deal and how to remedy them

In its European “Green Deal” project presented on 11 December 2019, the new European Commission proposed a roadmap for steering the European economy towards the objective of carbon neutrality in 2050 and, more broadly, towards sustainable development. In particular, it aims to promote a European economy “where economic growth is decoupled from resource use”1. While most of the elements announced in this Green Deal are still to be clarified, the Commission’s ambition to propose a set of “profoundly transformative” measures and to revise numerous European laws and programmes for this purpose must be recognised. As such, this project could mark a turning point in the history of European environmental policies.

The year 2020 marks the beginning of a period of consultation and preparation of the detailed content of the proposals announced. More than ever, European civil society must be involved in this essential debate to increase our chances of meeting climate and environmental challenges. This note aims to contribute to this by analysing the strengths and weaknesses of the project in its current state and suggesting ways of achieving the Commission’s stated objectives.

The European Union’s climate and environmental policy has so far been characterised by a significant discrepancy between relatively high ambition and much more modest concrete progress; for example, the EU is proposing, within the framework of the Green Deal, to revise upwards its climate objectives for 2030, while its current trajectory does not yet permit the achievement of its existing commitments2. This discrepancy is partly explained by a lack of coherence in the European approach to sustainability issues: an incomplete situational analysis of current crises, a fragmented vision of the ecological challenge itself, inadequate means of action and, above all, numerous contradictions between the various European policies. While some policies are steering Europe towards transition, others continue to put obstacles in the way or even to steer the European economy in the wrong direction.

Compared to the previous project, “A Clean Planet for All”, presented in 2018 by the Juncker Commission, the van der Leyen Commission’s Green Deal has the great merit of recognising these inconsistencies and of looking for ways to remedy them. However, detailed analysis of the Communication reveals that it does not far enough and that inconsistencies remain at various levels.

An incomplete situational analysis of the crisis

First of all, it is difficult to further environmental goals by completely or almost completely separating the crisis, as the Green Deal does, from the social and democratic issues that are part of the problem. European societies have been hit by a triple crisis: ecological, social and democratic. These three dimensions are closely interlinked and must be incorporated in solutions from a holistic perspective.

In social terms, the EU’s ability to respond to the ecological crisis will depend directly on its ability to tackle inequalities as effectively, to regulate the economy and to empower citizens. This is the

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only way to ensure the social acceptability of the ecological transition and to maximise its chances of success. Although the Green Deal introduces a “Just Transition Fund” to help the territories most exposed to the economic effects of the transition, the financial amounts proposed in this framework remain insufficient and will have to be supplemented by an investment policy that is much more ambitious than the one announced in the Investment Plan (see next point). Above all, the articulation of the ecological and social dimensions is not simply a matter of distributing funds between a limited number of territories, as the Just Transition Fund does: the ability of Member States to implement support policies for the most vulnerable populations must, at the same time, be increased.

From a democratic point of view, the Green Deal is not really interested in the question of how to involve citizens in this project or how to boost the abilities of our democracies to regulate the economy effectively. The Communication merely stresses the importance of “the participation and involvement of the general public and all stakeholders”, making no mention of citizens’ crisis of confidence in the European institutions or, more importantly, the conflicts that are likely to envelop the pursuit of the Green Deal objectives.

Indeed, the measures that will enable us to achieve ecological transition involve lifestyle changes for all citizens and conflict with a wide range of economic interests. A transition policy presupposes, for example, much more effective regulation of the influence activities deployed by economic sectors and new forms of citizen participation, such as consultations inspired by the Citizens’ Convention on Climate Change established in France.

**An overly technical vision of sustainability**

From a strictly environmental point of view, a thorough reading of the text reveals two problems. Firstly, the Commission seems to be aware that the ecological crisis is not just about climate change, and its project embraces other environmental issues such as loss of biodiversity; yet the proposed responses, and especially the specific objectives, still appear to be strongly climate-focused.

More fundamentally, although the Commission states that its objective is a European economy “where economic growth is decoupled from resource use”, it does not really specify how this decoupling can be achieved in a sustainable way. The Commission even seems to believe that this decoupling is already at work thanks to technical progress, at least as far as greenhouse gas emissions are concerned; we demonstrate below that this situational analysis is highly debatable (see Box 3) and that further efforts are needed in this regard. Furthermore, the Commission does not present any equivalent analysis for biodiversity or the other forms of impact on natural resources, despite its overall stated objectives.

In order to lead the European economy towards this dissociation or decoupling of economic growth from the pressure on natural resources, we believe that the Green Deal will have to focus more intensely on lifestyles and consumption patterns and develop the tools for measuring progress in this area. These aspects are contained in the project but remain secondary to purely technical solutions such as the decarbonisation of industrial processes, the circular economy and digital technology. However, sustainability is measured through final demand and not through the efficiency gains (of material or energy) per unit produced. The Green Deal must therefore be based

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on targets and indicators that measure the “size” of our economic system, understood as a set of material and energy flows consumed in the production and consumption process.\(^4\)

Section 4 below proposes that we reformulate the situational analysis of the crisis based on the key principles of ecological economics\(^5\) such as physical limits, rebound effect, decoupling and strong sustainability. By incorporating these principles, the Commission’s project will be able to take into account the interdependencies between technical systems, public policies and consumption patterns. Unless this complexity is taken into account, environmental policies will not produce the desired effects.

### Insufficient financial resources

The investment plan accompanying the Green Deal announces the “magic” figure of €1 trillion over a ten-year period; but much of this involves reallocating already planned expenditure to the Green Deal rather than mobilising additional financial resources (see Section 2.2.). As such there is no real “additionality” of investments. And, even assuming real additionality, the “magic” sum of €1 trillion is still far less than what is needed. The European Commission has itself recognised this by identifying, in the same document, an annual investment requirement of €260 billion, an estimate taken from the most recent EUCO\(^6\) scenarios used by the Commission to calculate the costs of the investments needed to meet climate and energy objectives. Since the scenario in question is calibrated to achieve the current target (a 40% reduction in GHG emissions between 1990 and 2030), this estimate should, logically, be revised upwards to take account of the ambitions of the new van der Leyen Commission, which proposes a 50% – or even 55% “if possible” – reduction in European GHG emissions by 2030.

However, the real problem lies elsewhere, in the persistent gap between the investment needs indicated by the models and the investments actually made. The sum of 260 billion indicated by the Commission represents the additional annual investments needed to meet the upwardly revised targets for 2018 for reduced energy consumption and renewable energy.

As such, this figure has been added to the investment needs previously identified – the graph below distinguishes between these two categories – but which remain largely unmet, particularly in the area of transport.

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\(^5\) Ibid.

\(^6\) More precisely the EUCO3232 scenario published in 2019, in a final update of the “Reference Scenario 2016” developed for the Commission by the company E3-Modelling. The initial 2016 scenario calculated the investment needs on the assumption that the EU and the Member States would achieve all the targets set in 2014 (reduction of GHGs, reduction of energy consumption, renewable energy share) in 2020. See European Commission (2016), “EU Reference Scenario 2016. Energy, transport and GHG emissions: trends to 2050”.
The underinvestment we are observing is nothing new. The targets adopted in 2014 committed the EU to reducing GHG emissions by at least 40% by 2030 compared to 1990, increasing the renewable energy share to at least 27% of overall consumption, and reducing primary energy consumption by at least 27% compared to 2007 levels. As early as 2016, however, the Commission’s “Reference Scenario” indicated that the EU was not going to achieve these targets due to a lack of necessary investment: by continuing the trend, it could only hope for a 23.9% reduction in primary energy by 2030 compared to 2007, and, of course, this poor result jeopardises the emissions target. In response, the Commission has revised upwards the target for reducing energy consumption – raised to 32.5% by 2030 by Directive 2018/2002 – as well as the level of renewable energies in the European energy mix by 2030 (Directive (2018/2001)). The impact study conducted by the Commission on energy efficiency measures and transport estimated the volume of investment needed to achieve the three 2014 targets at €1.036 trillion. By raising the primary energy consumption reduction target from 30% to 40%, this amount increased to €1.565 trillion per year according to the same study, i.e. 8% of the European GDP and more than a third of the private and public investments made each year in the EU; it therefore seems theoretically possible to achieve.

However, climate investment has never even approached this level: according to the European Investment Bank, the total public and private sums invested in climate mitigation in Europe...
amount to around €200 billion per year, or 1.3% of the EU’s GDP. A massive increase in the volume of investment is therefore needed in order to meet the ambitions defined in 2018, whereas the Green Deal proposes to go further.

These numerical exercises are daunting but in no way signify that the task is impossible: on the contrary, the same impact study observes that “an initial increase in investment in energy efficiency improvements will be largely offset by lower operational costs”11. On the other hand, the massive nature of the investments means that the investment horizon is very long and vulnerable to numerous uncertainties – not least the future fluctuation of fossil fuel prices – which probably explains the low level of private investment. Given the uncertainties of such magnitude, the only apparent way forward is to mobilise much more public investment than is currently planned, and to rapidly change the accounting of “green” public investment within the framework of the European budget rules (see Section 6.1).

Furthermore, a coherent Green Deal must be able to link investment policy to disinvestment policy, using financial regulation (see Section 5.3) and monetary policy (see Section 5.4) to make harmful investments more costly. This also entails putting an end to subsidies for fossil fuels and other climate-damaging industries and to investment protection mechanisms in these sectors (see Section 5.2.).

Inconsistencies between the various European policies

The climate and environmental objectives affirmed in the Green Deal must guide all policies in areas where the EU has exclusive or shared competence: not only transport and energy, for example, but also common market rules, monetary union and trade policy. Failing to mention them, or only doing so in a cursory manner, might suggest that they are neutral with respect to the Green Deal, which is far from the case. Agriculture offers an intermediate case in this respect: a “From farm to fork” programme is mentioned in the project, but the measures currently proposed fall short of the general objectives set out in the Green Deal.

Inconsistent instruments of governance

As for the European policies, all the governance tools at the EU’s disposal – European Semester, impact studies and earmarking of EU budget – must help guide the EU’s efforts to meet the Green Deal’s objectives. The Green Deal announces the reform of the European Semester and opens the debate on the place of “green criteria” in the budget rules (green investments). The Commission also wants to examine the “Green Budgeting” methods used by Member States and announces certain legislative texts. All these avenues must be pursued, but the integration of the Green Deal objectives must go further, including the strengthening of social and environmental assessment methodologies, extended national accounting and the inclusion of new indicators in the assessments carried out regularly by the European Commission.

Now that the outlines of the Green Deal have been unveiled, we need to “consistency test” them and offer proposals for improvements.

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11 Commission Staff Working Document, Impact Assessment, op. cit, p. 66. See also Table 23 on page 67.
2. THE MAIN ELEMENTS OF THE GREEN DEAL

The broad outlines of the Green Deal have been defined in three key documents: the European Commission’s Green Deal Communication, published on 11 December 2019, the Investment Plan and the proposal for a “Just Transition Mechanism”, published on 14 January 2020. Since then, the Commission has also published a proposal for a European climate law and an action plan for the circular economy (see Box 1).

2.1. High-potential measures that remain too vague

The measures announced by the Commission remain very general and will form the subject of legislative work and consultations, the timetable for which is set out in the annex to the Green Deal and extends over the years 2020-2021. As such, the list below gives an idea of the scope of this work but tells us nothing of the level of ambition in each area and sector.

Climate targets for the EU
- Proposed “European Climate Law” reaffirming the objective of carbon neutrality by 2050.
- Increase in the 2030 climate target to greenhouse gas reductions “of at least 50%”, replacing the current target of 40%.
- Revision of climate effort sharing between Member States.

Carbon pricing and environmental standards
- Exploration of a possible mechanism for adjusting the carbon price at EU borders for certain sectors.
- Revision of the Energy Taxation Directive, setting minimum levels of taxation applicable to products used as fuels and for electricity generation.
- Revision of a series of standards and regulations concerning land and forest use, energy efficiency, vehicular CO₂ emissions and renewable energies.
- A possible extension of the EU Emissions Trading System to new sectors such as buildings, shipping or road transport.

Energy policy
- Revision of national energy and climate plans in line with the new EU targets.
- Promotion of a “wave of renovation” in the European construction sector.
- European strategy for the integration of energy networks.
- European strategy for the development of offshore wind turbines.

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12 See the Annex to the Commission’s Communication published on 11 December 2019.
Industrial policy and the circular economy

- Ending the use of single-use plastics by 2030.
- Action plan to “decarbonise” the most energy-intensive sectors, in particular the steel industry, by 2030.
- New action plan to develop the circular economy and recycling.
- Improve the Strategic Action Plan on Batteries.
- Proposed law on the reduction of materials used in production.

Sustainable mobility

- European strategy for “automated and connected multimodal mobility”.
- Financial support for the deployment of electric charging points.
- Increase in rail freight under the Trans-European Transport Network programme.

The Common Agricultural Policy

- Allocation of “at least” 40% of the CAP budget to climate action.
- Allocation of at least 30% of the Maritime and Fisheries Fund to climate action.
- Presentation of a “Farm to Fork” strategy in spring 2020 that will cover “all stages of the food chain”.
- Integration of Green Deal objectives into national strategic plans for agriculture. In particular, the Commission undertakes to define the measures, “including legislative”, necessary to achieve a reduction in the use of pesticides, fertilisers and antibiotics.

Preservation and protection of biodiversity

- Presentation of an EU biodiversity strategy for 2030 by October 2020, followed by specific measures the following year. “The Commission will identify which measures, including legislation, would help Member States improve and restore damaged ecosystems”: the text mentions a possible increase in the land and sea areas protected by the Natura 2000 network, better protection of areas already covered and measures to increase biodiversity in urban areas. Other measures could address pharmaceuticals, chemicals and microplastics.
- Presentation of a “zero pollution” action plan for air, water and soil in 2021.
- “Review” of the risks posed by endocrine disruptors.
- New strategy to protect forests and increase forested areas.
- Measures to promote “imported products and value chains that do not involve deforestation and forest degradation”.

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Box 1. The first published texts remain vague

The proposal for a European Climate Law\textsuperscript{13}, published on 4 March 2020, establishes the principle of a review of the trajectory every five years and an effort to ensure the coherence of European policies. But it still fails to set an intermediate target for 2030 or to ban fossil fuel subsidies. However, its content is likely to evolve during its review by the Council and the European Parliament.

The action plan on the circular economy\textsuperscript{14}, published on 11 March 2020, announces the preparation of new regulations in 2021 to make products more durable (improving their lifespan, combating obsolescence and single-use products, banning the destruction of unsold durable goods, encouraging product-service systems, etc.). It also plans to put in place indicators to measure and monitor “material footprint”. But the overall level of ambition of the text seems to have been lowered. The European Commission has clearly abandoned the idea of setting a quantified target for reducing this material footprint, as initially envisaged in a first version of the document, which was leaked\textsuperscript{15}.

2.2. An undersized Investment Plan

As many observers have already commented, the magic figure of €1 trillion announced in the Investment Plan\textsuperscript{16} falls far short of the requirements for investment in the energy and ecological transition, including those quantified by the Commission itself. It is an investment plan spread over ten years (i.e. €100 billion per year), whereas the Commission estimates, in the same document, that some €260 billion\textsuperscript{17} will be needed annually to achieve the current targets of a 40% reduction in emissions, a 32% share of renewable energy and at least a 32.5% improvement in energy efficiency by 2030. Logically, this estimate should be further revised upwards (to around €300 billion per year) with the increase in climate targets announced by the new Commission, which proposes a 50% (or even 55% “if possible”) reduction in European GHG emissions by 2030, instead of the 40% currently set. However, we need to remember that even this second figure seems very much lower than the total estimates in the impact assessment carried out by the Commission in 2016 (see Introduction).

This first observation is not a criticism of the Commission, whose own financial resources remain, after all, limited: more than half of the sums mobilised come from the EU budget, which amounted to €166 billion in 2019 and represents only 1% of the EU’s gross domestic product. On the other hand, this observation offers one more reason to step up the Union’s action where it is most effective, namely by systematically aligning all European policies, regulations and governance tools to the objective of transition. This is also a reason for involving the European Central Bank and

\textsuperscript{13} Proposal for a Regulation establishing the framework for achieving climate neutrality and amending Regulation (EU) 2018/1999, known as the European Climate Law, published on 4 March 2020.

\textsuperscript{14} European Commission (2020), “Circular economy action plan”.


\textsuperscript{17} Page 1 of the Investment Plan
monetary policy in the financing of the Green Deal (see Section 5.4.), one of the issues that the Commission does not mention.

2.2.1. Uncertain “additionality”

Our second observation is that this figure of €1 trillion does not really represent additional investment; it consists largely of regrouping commitments already made under a new label. Half of the funding comes from the increased “greening” of the EU budget: by increasing the share of the budget for activities supporting climate and environmental objectives from 20% to 25%, the Commission intends to mobilise €503 billion over the period 2020-2030. This target of 25% was already included in the Multiannual Financial Framework (MFF) 2021-2027, the limits of which have been emphasised: firstly, much of the expenditure within this framework, however useful it may be, is not strictly speaking investment; and secondly, the methodology used by the Commission to distinguish between expenditure which contributes to climate objectives and that which does not is unreliable and needs to be reviewed, in particular as regards agricultural subsidies. However, no revision has been announced at this stage.

2.2.2. Optimistic leverage effects

Our third observation is that the Investment Plan more or less implicitly relies on several leverage effects, the realisation of which cannot be taken for granted. The breakdown of the overall amount according to sources of financing shows that the Commission is counting on several additional sources to double the amount provided by the “earmarking” of the Community budget.

- The first leverage effect is based on additional funding from Member States under European programmes. Since part of the EU funds presupposes national co-financing, the Commission estimates that its 25% climate target will, in turn, trigger additional national funding estimated at €114 billion over the period. However, the project does not provide any incentives for States to increase the overall amounts of their investments; so a redirection of existing flows, rather than the “additionality” claimed in the project, can be expected.

- The second expected leverage effect involves the private sector and is based on the European Fund for Strategic Investments, created by the Juncker Plan and renamed “InvestEU”. This fund offers public guarantees to attract private investors to transition projects: endowed with €15 billion of the EU’s own revenue, the fund enables the EIB and other EU financial partners to, in turn, increase their loan guarantees, eventually reaching some €47 billion in public guarantees for investments in eligible projects. These guarantees are then expected to mobilise, via a further leverage effect, around €650 billion of private investment, of which €279 billion would be earmarked for the Green Deal’s climate and environmental objectives. However, experience of the original Juncker Plan prompts doubts, again, about the genuine “additionality” of the projects financed under this framework. While the EIB has already increased the share of climate financing

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18 For the next budgetary period (2020-2027), the EU budget proposed by the European Commission amounts to €1.279 trillion.
19 The multiannual financial framework sets the limits for the annual general budgets of the European Union for a period of five to seven years.
from 25% to 50%, there is, again, a risk that commitments already made will be accounted for again.\footnote{Grégory Claeys & Alvaro Leandro, “Assessing the Juncker Plan after one year”, Bruegel, 17 May 2016.}

- The Just Transition Fund (see Box 2) introduces a third leverage effect: from the €7.5 billion invested by the EU over the period, the Commission hopes to raise at least €50 billion through co-financing from the Member States, the EIB and the InvestEU fund.

Finally, the Commission intends to earmark part of the emissions revenue from the European Trading Scheme (ETS), i.e. €25 billion over the period, for the Green Deal. These revenues will, of course, depend on changes in the carbon price within this system.

\subsection*{2.2.3. Other measures to facilitate public and private funding}

In addition to the financial package itself, the Investment Plan also proposes to review certain elements of European legislation in order to facilitate private financing and provide technical assistance to public administrations and project sponsors. The first component consists of several elements that will be discussed in the following sections.

- Revision of the 2018 Green Finance Action Plan: this includes the Green Taxonomy, which could be used more widely, but also a standard for issuing green bonds (see Section 5.3).
- Integration of environmental criteria in the European Semester (see Section 6.1.1).
- A European standard for the “green budget” (see Section 6.1.2).
- Definition of “green criteria” in the Procurement Contract Code (see Section 5.1.).
- A review of European state aid regulations (see Section 5.1.).

\section*{3. Making the transition democratic and socially just}

The Commission does not seem to have grasped the extent of the social crisis and the mistrust of the European institutions, the political manifestations of which are visible everywhere. As a result, the project is not constructed in a balanced way across all three pillars – environmental, social and democratic – when all three pillars are essential to its success. In order to be effective, the Green Deal should both combat social and territorial inequalities and strengthen the capacity of our democracies to regulate economic life effectively.

\subsection*{3.1. Strengthening European democracy}

While it relies on “the participation and involvement of the general public and all stakeholders”, the Green Deal does not propose any concrete measures to involve citizens in the implementation of this project. Given the scale of the transformations envisaged, however, success will depend on political mobilisation in its favour and, more generally, on strengthening the capacity of our democracies to regulate the economy and preserve social cohesion. Indeed, the measures that will enable us to achieve ecological transition involve lifestyle changes for all citizens and conflict with a wide range of economic interests. A transition policy presupposes, for example, much more...
effective regulation of the influence activities deployed by economic sectors and new forms of citizen participation, such as consultations inspired by the Citizens’ Convention on Climate Change established in France. Without claiming to cover this subject exhaustively, we propose below three types of measures that would boost democratic regulation.

3.1.1. Democratising EU decision-making processes

The democratic deficit in European decision-making processes lies mainly in the work of the European Commission, the activities of the Council and the preparation of detailed implementing measures for legislation by committees of experts (Brussels’ “comitology”\(^\text{22}\)). The disproportionate weight of the lobbies representing the interests of the main economic players tends to alter the content of European public policies. In addition, the lack of transparency at a number of stages in the decision-making process profoundly undermines the legitimacy of the European institutions and feeds citizens’ mistrust. Member States, which bear some of the responsibility in this area, often aggravate the situation by blaming the European Commission.

In this respect, the opacity and lack of democratic control in the conduct of European trade policy, pointed out by large numbers of stakeholders (NGOs, trade unions, consumers, SMEs, researchers, local elected representatives, etc.), appear emblematic. The very unequal access of the various stakeholders to the negotiating teams, which has been widely documented by the NGO CEO\(^\text{23}\), results in an unequal capacity to influence the very content of the agreements and favours the ‘hijacking’ of trade policy by the largest multinational corporations. In fact, although we generally associate trade agreements with the promotion of free trade, they are equally, if not sometimes more, a matter of granting certain economic actors specific rights or economic rents derived from investment protection rules and jurisdictional privilege, extended intellectual property rights, etc. (see Section 5.2.).

In the context of the Green Deal, the European Union must respond swiftly and strongly to these shortcomings, at the risk of encouraging the rise of anti-European movements.

3.1.2. Putting an end to deregulation programmes

The success of the Green Deal will depend on the ability of the EU and the Member States to adopt and enforce effective regulations, whether on product standards, social standards or environmental protection. This ability may be hampered by the European Commission’s other stated objectives, such as “lightening” regulation and “simplifying” standards, as part of the Better Regulation\(^\text{24}\) programme. For example, a coherent Green Deal requires the abandonment of the Commission’s “regulatory offsetting” objectives, i.e. the principle that any new regulation must be offset by the repeal of other regulations whose “cost to business” would be equivalent. Similarly, Member States that wish to pursue a more ambitious environmental or social policy than that of


\(^{23}\) Studies carried out by the NGO CEO have shown that the consultations carried out by the Commission, whether for the Transatlantic Free Trade Agreement (TAFTA), the EU-Japan trade deal or Brexit, give pride of place to the representatives of the largest companies to the detriment of all the other players. For example, 89% of the meetings organised by DG Trade on negotiations with Japan were held with private sector lobbyists, while only 4% were held with public interest groups such as NGOs, farmers’ unions and consumer groups. See for example CEO (2018), “JEFTA: An exclusive trade between EU negotiators and big business”.

\(^{24}\) European Commission (2019), “Main principles of the working methods”.

the EU must be able to do so in practice. Finally, it is important to put an end to the repeated attacks on the precautionary principle, in particular through the promotion of the principle of innovation pushed by economic lobbies and now included in the Horizon 2020 research framework programme.

3.1.3. Bringing the Green Deal closer to citizens

Lastly, one way to bring the Green Deal closer to the citizens of Europe while strengthening its legitimacy is to deploy it as much as possible at territory and local authority level, because it is often at this level that citizen participation can be organised and the most appropriate solutions implemented. The Green Deal, in return, offers the opportunity to propose new tools for tackling regional inequalities and disparities between urban and suburban areas, which have never been greater and continue to grow within OECD countries. The following section proposes several courses of action in this area.

3.2. Combating social inequalities

The theme of social justice appears several times in the Communication, particularly in the introduction, with the notion of “just and inclusive” transition; but this concern only marginally informs the solutions envisaged. The term “inequality” itself is not present in the text, even though social inequalities increasingly overlap with environmental inequalities; ignoring this link risks compromising the very objectives of the Green Deal. On the contrary, we must take seriously the implicit reference to the American “New Deal” of the 1930s, some elements of which might inspire today’s social and ecological transition: in addition to the jobs created by the establishment of the welfare state and public works, the programmes launched by the Roosevelt administration also mobilised workers to rehabilitate land, combat soil erosion and create nature reserves. Today, this historical experience is echoed in citizen demands such as the “One Million Climate Jobs” campaign, launched in 2014.

The social ambition of the Green Deal as proposed by the European Commission is limited to the “Just Transition Fund” (see Box 2 below) which targets the regions most affected by the climate objectives. There are no proposals linking the Green Deal to the fight against inequalities or unemployment (encouraging the reduction and sharing of working time, developing experiments such as “zero unemployment territories” or the State as employer of last resort, etc.), reinforcing

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25 In practice, the increasing use of maximum harmonisation directives and the fight against the alleged “over-transposition” of European minimum harmonisation directives limit the room for manoeuvre of European States that would like to adopt more ambitious measures than those defined at EU level. See in particular NEF, Institut Veblen and FNE (2020), "La déréglementation en France et dans l’UE. Les dangers de la soi-disant meilleure réglementation pour la transition écologique et sociale" [Deregulation in France and the EU. The dangers of so-called better regulation for ecological and social transition]; NEF and EEB (2020), "Reprotecting Europe. The European Green Deal vs. the war on regulations".

26 CEO (2018), "The “innovation principle” trap. Industries behind risky products push for backdoor to bypass EU safety rules".


30 https://www.campaigncc.org
the mechanisms of social protection where it is weakest (for example by adopting a European level unemployment insurance scheme) or encouraging the implementation and upward convergence of European minimum wages.

While social and fiscal policies are not within the EU’s remit, the EU has other tools for linking ecology with social cohesion policies. The Transition Mechanism in particular could play a fundamental role. As it stands, it is instead a “palliative” device, intended to help a limited number of territories in which employment and development depend heavily on the most “carbon-intensive” industrial sectors, particularly those associated with fossil fuels. But there is nothing to prevent it from being transformed into a more ambitious approach: incorporating biodiversity protection in land use planning, speeding up the transition towards local agriculture, helping communities develop renewable energies, implementing mobility solutions, etc. It is also at this local level that most social and solidarity economy actors operate, for whom profitability is not the main objective and who work to strengthen social ties and channel funding towards projects with high social and environmental added value.

The Green Deal could support the transition of territories in several ways.

- By giving a greater role to the national territorial plans established by the “Just Transition Mechanism” (see Box 2 below). The projects funded within this framework must be designed at territorial level and involve a range of local public and private actors (the French ecological transition contracts (CTE) offer a source of inspiration in this respect).
- Through a European programme accessible to local authorities and financed by the EIB/ECB through the issue of specific debt securities.
- By a European Environment Agency with enhanced powers, deployed in the Member States or acting as a direct interlocutor for local and regional authorities, offering both funding and technical assistance.

Box 2. A “Just Transition Fund“ with limited scope

The Just Transition Mechanism is the main tool proposed under the Green Deal to support affected sectors and regions. The proposal for a regulation published by the Commission states that the aim is to help those sectors and regions most dependent on fossil energy sources for employment or economic development. In practice, the aim is to support the “climate transition”: the criterion for allocating funds is given by territorial greenhouse gas emissions and the level of economic development of the regions. This tightening of the objectives around climate is understandable given the low level of financial resources mobilised at this stage, but is contrary to the overall approach the Green Deal claims to be taking.

At the operational level, the Just Transition Mechanism introduces strong cross-compliance through a new instrument, the “territorial just transition plan”, developed by each Member State but assessed and approved by the European Commission. These territorial plans will have to respect the commitments made under National Energy and Climate Plans and support the objective of carbon neutrality. The choice of sectors and territories will be discussed by the Commission and the Member State during the European Semester. As such, from 2021, each Member State will have to present to the Commission a territorial plan specifying, for each territory concerned, the transition process to 2030 and identifying the key social, economic and environmental challenges associated with the transition.
In terms of financing, the “Just Transition Mechanism” proposed by the European Commission has three components:

▪ The Transition Fund itself, endowed with €7.5 billion in new subsidies dedicated to the “economic diversification” of the territories, and to the training and reskilling of workers and job seekers.
▪ A specific programme within the “Invest EU” fund. As explained in Section 2.2., this programme will offer loan guarantees to attract private investors to eligible projects (energy production, transport infrastructure, etc.). Given that part of the fund is already dedicated to climate objectives and that the Commission does not want to open new negotiations on the distribution of the sums, we can nevertheless assume that a portion of the operations already committed will simply be re-labelled “Just Transition”.
▪ Additional lines of credit opened by the European Investment Bank, providing leverage for public investments (energy production, infrastructure, development of cogeneration, energy efficiency measures such as building insulation, etc.).

In addition to these three core components, the Commission’s action plan involves dedicating a portion of the Cohesion Fund and the European Regional Development Fund to activities eligible for the “Just Transition” programme. These Structural Funds must provide amounts between 1.5 and 3 times higher than those of the Transition Fund itself.

4. Supporting the Green Deal using the principles of ecological economics

The Green Deal’s approach to environmental sustainability deserves critical discussion on at least two points. Firstly, despite its stated ambition to address all problems associated with sustainability, its situational analysis and the resulting solutions focus too intensely on climate change. Secondly, and even more fundamentally, the Green Deal is making an implicit bet on “green growth” (called “sustainable growth” or “economic growth decoupled from resource use” in the Commission’s text) based on a very partial analysis of the decoupling of economic growth from pressure on natural resources.

4.1. Deepening the notion of sustainability

The environmental crisis is not just about climate change. The Green Deal explicitly acknowledges this by mentioning other issues such as loss of biodiversity, yet its objectives are strongly focused on climate. But the principal and cross-cutting objective of carbon neutrality is not supported by other such clear objectives relating to biodiversity protection and the depletion or degradation of some natural resources. And most tools are calibrated to take climate issues into account but not others. For example, the Just Transition Fund is, in reality, a Just Climate Transition Fund.

4.1.1. Integrating the concept of planetary boundaries

In its situational analysis of sustainability, the Commission could draw more inspiration from the natural sciences, which have introduced the notion of physical planetary limits, highlighting the fragility of the ecosystems and biophysical cycles that ensure the reproduction of natural resources and on which we depend for our very survival. A frequently cited model in this context is the nine
planetary boundaries developed by a team of researchers led by climatologist Johan Rockström. It reveals that at least four of the planetary boundaries have already been or are about to be crossed: climate change, biodiversity, land-use change, and the nitrogen and phosphorus cycles. The advantage of this model is that it reveals many threats to sustainability that remain largely invisible in economic calculations and impact assessments, including those carried out by the European Commission.

The fact that limits have been exceeded is now well known, including to representatives of the European institutions. Hans Bruyninckx, Executive Director of the European Environment Agency, notes that “Europe’s environment is at a tipping point. We have a narrow window of opportunity in the next decade to scale up measures to protect nature, lessen the impacts of climate change and radically reduce our consumption of natural resources.” Similarly, the recent report of the Intergovernmental Science-Policy Platform on Biodiversity and Ecosystem Services calls on the international community to give the issue of biodiversity as much importance as that of climate change: “Nature is declining globally at rates unprecedented in human history – and the rate of species extinctions is accelerating, with grave impacts on people around the world now likely.” But these findings have not actually been incorporated into the Green Deal.

**4.1.2. Factoring in the EU’s true ecological footprint**

The Green Deal project focuses on the environmental impact of production activities across Europe and does not adequately take into consideration the wider impacts associated with its citizens' consumption. In setting its carbon neutrality target, the Commission should be looking not only at emissions from production within the EU but also at imported emissions. More broadly, sustainability objectives must take into account all types of territorial and imported impacts resulting from the lifestyles of Europeans, including deforestation, depletion of resources or the export of waste to third countries. These points are touched on briefly in the text but in a very vague way. On all these subjects, the Commission should set quantified objectives, specify how they are to be applied to the imported and exported impacts associated with European consumption, and indicate what tools will be used to reduce and monitor these impacts.

**4.2. Changing consumption patterns**

The Green Deal reflects an overly technical view of the problems we face, as if technological progress alone were sufficient to remove the limits associated with planetary boundaries. By integrating the notion of planetary boundaries as mentioned above, the Commission would naturally be prompted to question the limits of “sustainable growth” in order to achieve the ambitious objectives it has set itself, in particular that of carbon neutrality. Without denying the importance of the greening of production processes and technical innovations, the significance that this project gives to the circular economy and to digitisation, for example, seems excessive in

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31 The best known model was proposed by Swedish climatologist Johan Rockström and has nine boundaries: climate change; biodiversity loss; freshwater use; ocean acidification; chemical pollution; land use change; nitrogen and phosphorus cycles; atmospheric aerosol loading; and ozone depletion. See for example W. Steffen, K. Richardson, J. Rockström, et al. (2015), “Planetary boundaries: Guiding human development on a changing planet”, Science, 13 February 2015.


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view of their actual potential within the ecological transition, which, ultimately, is rather limited. While lifestyles are maintained, investment in supply (“decarbonisation“ of industrial processes) reduces the pressure on resources but does not solve the fundamental problem of the physical limits of the planet, and efficiency gains do not exempt us from needing to seek solutions for ecological sobriety and adapt our lifestyles. However, the project has very few concrete objectives that are directly related to habits and lifestyle.

4.2.1. Decoupling is insufficient to meet Green Deal objectives

The Commission starts from an excessively optimistic assessment of our ability to “decouple” economic growth from the pressure on natural resources, including the capacity to absorb pollution and waste produced by economic activities. This debate is crucial because it concerns the potential of “green” technologies to reduce the negative effects of economic activities, and to reduce them far enough that they respect the physical boundaries discussed above. But it is also a difficult debate since it involves relating monetary data (most often GDP and its growth) to a wealth of physical data: not only greenhouse gas emissions but also land use, consumption of non-renewable resources, production of solid waste, quantity of energy consumed, etc.

For each type of resource, research distinguishes between relative decoupling and absolute decoupling: with relative decoupling, environmental pressure continues to follow trends in GDP but increases more slowly than the latter; with absolute decoupling, the two curves are truly independent, so that pressure on resources can decrease while GDP continues to increase. Whether we are talking about the consumption of natural resources or compliance with the Paris Climate Agreement, relative decoupling is not enough: we must succeed in significantly reducing the pressure on resources. Empirical research shows that we are not succeeding, or not succeeding fast enough, to meet climate and environmental targets: there is no genuine decoupling observed that meets the challenges.

Box 3. The decoupling bet

Decoupling of GDP and GHG emissions

The European Commission limits the discussion to the decoupling of GDP from GHG emissions. It is based on the observation that, between 1990 and 2018, the EU has reduced its GHG emissions by 23% while recording a 61% growth in GDP. This is why the Green Deal is currently being presented as a “new strategy for growth”. However, there are two problems with using these data to conclude the decoupling of GDP growth from an increased ecological footprint.

- Firstly, the Green Deal’s stated GHG reduction target only concerns emissions generated on European soil. This does not make much sense as the decline in emissions from OECD countries is largely attributed to the relocation of polluting economic activities.

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34 EU GHG emissions are calculated by the European Environment Agency on the basis of inventories prepared by Member States, which have different methodologies (although they are considered consistent). In accordance with the emissions accounting methodology proposed by the UNFCCC following the Kyoto Protocol, this figure gives the greenhouse gas emissions in the territory for all sectors except maritime transport, excluding land use change and biomass.

35 Ibid.
When imported emissions are taken into account, the differences can be significant. According to a study by CGDD and I4CE, for example, a 22% reduction in CO₂ emissions from energy combustion between 1990 and 2016 is achieved by limiting the scope to emissions produced by activities within the EU; if we take imported emissions into account, the reduction is only 17%. Similarly, Wood et al. (2019) have produced two estimates of the reduction in total GHG emissions achieved by the 28 EU member countries between 1995 and 2016: this reduction amounts to 13% when only territorial emissions are taken into account, but falls to 8% when imported emissions are included in the calculation.

This result is not surprising and reflects the EU’s status as a net importer of emissions: according to this study, one third of the EU’s total GHG emissions footprint comes from emissions incorporated in imports. This proportion is likely to increase further with the Green Deal’s plan to digitise the European economy: the territorial reductions achieved through digitisation in Europe will be offset by the increase in emissions due to the intensification of industrial and extractive activities abroad.

Secondly, regardless of the scope selected, it is not possible for this emissions reduction trajectory to achieve the current objective of a 40% reduction by 2030, a target that is in any case insufficient to limit the rise in temperatures to 2°C. A fortiori, the current rate of emission reduction is absolutely not compatible with the objectives set by the EU in the Green Deal. As an example, the consultancy firm Carbone 4 estimates that, as of Thursday 5 March, France has emitted all the greenhouse gases it could release in one year if it were to comply, today, with the carbon neutrality target it has set itself for 2050. To put it another way, the effort suggested in the Green Deal would involve moving from an annual rate of emission reduction that has been around 0.7% on average for the EU over the period 1990-2017 (excluding the crisis years of 2008 and 2009) to 4.3% per year from 2020 to 2050.

Decoupling of GDP and material consumption

The problem is even more acute when it comes to material and resource consumption. Domestic material consumption also appears to show a form of decoupling (down 7% in the EU between 2000 and 2018 while GDP increased by 30%). However, the material footprint indicator, which accounts for all material consumed, including indirectly through imported manufactured goods, shows on the contrary a continuous increase between 1990 and 2010.

This impasse can be explained by two types of difficulties that are not addressed, or only marginally, in the Commission’s project.

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39 Jour du dérèglement : à compter de jeudi 5 mars, la France a une dette climatique [Deregulation Day: from Thursday 5 March, France has climate debt], Le Monde, Wednesday 4 March 2020.
40 E. Laurent (2020), op. cit.
41 Ibid.
On the one hand, there are the strictly technical difficulties, such as the well-known limits of recycling plastics and metal alloys: the potential of the circular economy is, in reality, limited\textsuperscript{43}. It is therefore on extremely fragile scientific grounds that the Commission is basing its optimistic bet on green growth, as evidenced by the importance accorded to the circular economy and digital technology\textsuperscript{44}.

On the other hand, the Green Deal does not even mention the rebound effects\textsuperscript{45} that can significantly reduce, or even cancel out, the energy and material savings achieved through technical progress. In this respect, two main categories of rebound effects are often distinguished: direct effects, where efficiency gains cause a reduction in the price of the resource and consequently an increase in its demand; indirect effects, where the same efficiency gains increase purchasing power, which is passed on to other products whose environmental impact may be worse. These effects, and the indirect effects in particular, are very difficult to identify and to incorporate into public policy. But, by completely ignoring them, the Green Deal encourages us to seek technical and digital innovations that are often useless and the environmental impact of which may ultimately prove negative\textsuperscript{46}.

4.2.2. Focusing indicators and objectives on usage

Environmental sustainability is measured first and foremost through final consumption; efficiency indicators (amount of primary energy and material consumed per unit of production) are only intermediate indicators that say nothing about the overall “size” of the economy in relation to planetary boundaries. The focus on consumption naturally leads to a range of indicators incorporating ecological sobriety, such as:

- product lifespans for the main categories;
- the proportion of journeys in the EU made by public and eco-friendly transport in urban areas;
- the share of food consumption provided by sustainable agriculture;
- reduction targets for imported emissions, etc.

Supported by this type of indicator, stated objectives should also target the transformation of final demand, by:

- combating the planned obsolescence of products, with product life cycle standards;
- raising standards for broad categories of everyday consumer products, so that the most polluting models are banned where alternatives exist (typically, the most fuel-inefficient private vehicles);

\textsuperscript{44} Centre d’analyse Stratégique (2011), “Pour une consommation durable” [Towards sustainable consumption].
• increasing the share of rail and inland waterways in total freight transport;
• amending the common market rules to support local production where the social and environmental balance sheet calls for it, and reducing the share of supplies from global value chains;
• combating soil artificialisation, as set out in national biodiversity protection plans, and limiting the use of mitigation banks.

Such targets and indicators only appear on the fringes of the Green Deal, whereas they should form the basis of the Green Deal. And, symptomatically, the Circular Economy Action Plan published by the Commission on 11 March fails to set out obligations and quantified targets for reducing the EU's overall material footprint47.

Box 4. The ecological balance of the “all-digital age”

While the environmental impact of digitisation is briefly mentioned in the Green Deal, no concrete measures are proposed to reduce it or at least to limit its growth. The Commission sees the digital transition primarily as a source of productivity gains and increased competitiveness. It therefore considers digital technology as a central element of the solutions to the ecological crisis48, as evidenced by the strategy presented by the Juncker Commission in 2018. From electricity transmission and distribution networks to agriculture and industry, from home automation to connected cities and automated transport, no field of activity is exempt from this.

While the energy efficiency gains made possible by these innovations may be significant, they must not be a pretext for the all-out digitalisation of the European economy. Indeed, recent figures on the environmental costs of digital technology worldwide, for all uses, reveal49:
• how energy-intensive it is – accounting for 4.2% of the world’s primary energy consumption in 2019. This percentage could be multiplied by 2.5 between 2010 and 2025;
• the emissions produced – accounting for 3.8% of GHG emissions and an estimated 5.5% by 2025;
• its contribution to the depletion of scarce natural resources.

These figures invite us to qualify the belief that the digital transition is the right solution in all circumstances. Firstly, there is no assurance that efficiency gains always exceed the associated environmental costs50. Secondly, the spectacular growth of this sector (with a 48-fold increase in the

48 “Digital technologies are a critical enabler for attaining the sustainability goals of the Green Deal in many different sectors” (p. 10).
50 Eric Vidalenc (2019), op. cit.
number of connected devices worldwide between 2010 and 2025, according to forecasts\(^{51}\)) contrasts sharply with the slowdown in energy efficiency gains and calls for serious reflection on the moderation of digital practices. Instead of increasing already strong competition for rare earth metals, the Green Deal could encourage European industry in a transformation towards a low-tech model, based on simple, moderate innovations and stimulated by legislation aimed at extending the shelf life of products and combating planned obsolescence\(^{52}\).

5. ALIGNING ALL EUROPEAN POLICIES

The Commission rightly states that “all EU actions and policies will have to contribute to the European Green Deal objectives”. However, the project skims over, or quite simply remains silent on, many areas of EU competence that affect the chances of a successful ecological transition. Worse still, certain policies aggravate the crises to which the Green Deal is aiming to respond, and risk compromising its objectives. In what follows, we confine ourselves to identifying the main areas of exclusive or shared EU competence that have been overlooked or only partially incorporated.

5.1. A common market that integrates ecological and social objectives

A historic cornerstone of European integration, the common market establishes an area of free movement of capital, goods and services and, to a lesser extent, of people, while respecting the principle of free and fair competition and favouring “an efficient allocation of resources” (Article 120 TFEU). It gives the European Union two powerful levers for implementing the transition: the definition of standards (technical, safety, environmental, etc.) and the definition of competition rules that regulate not only the activities of European companies but also the sectoral policies of the Member States. However, this construction remains incomplete, and many perverse effects – such as the impact of the free movement of capital on tax competition within the EU\(^{53}\) – undermine the capacity of Member States to implement ambitious social and environmental policies.

In terms of the pursuit of the Green Deal objectives, one major obstacle relates to the competition rules governing the single market. These rules suffer from the same problem as the economic

\(^{51}\) GreenIT (2019), op. cit.

\(^{52}\) The introduction of the offence of planned obsolescence in 2015, the victory for the Halte à l'obsolescence programmée (Stop Planned Obsolescence) association in its legal action against Apple on 7 February 2020, and the adoption on 11 February 2020 of Law No. 2020-105 of 10 February 2020 on combating wastage and the circular economy, which addresses these issues albeit with a limited degree of ambition.


Economic policy, 17(35), 449-495 and Henri Sterdyniak, “L’impôt sur les sociétés peut-il survivre à la mondialisation et à l’intégration européenne ? [Can corporate tax survive globalisation and European integration?]” 

theory behind them\textsuperscript{54}, namely a definition that is in many ways biased and incomplete of what constitutes “unbiased and fair” competition. Despite a lively debate on negative externalities, most social and environmental costs do not appear in the economic calculations of businesses and consumers, or in the Commission’s impact assessments, where the effect on well-being of a particular regulation is measured mainly by the resulting volume of consumption.

In this respect, at least the Green Deal Investment Plan opens the debate on two key areas of the common market: public aid and public procurement.

5.1.1. Revision of state aid guidelines

In 2017, state aid for environmental protection and energy efficiency amounted to around 0.4% of European GDP according to the European Commission, a figure that is constantly increasing and that must be compared with the European budget (around 1% of EU GDP). It is therefore a powerful lever for action despite the fact it remains constrained by the overall regulatory framework: in order not to be considered a distortion of competition, Member States must convince the Commission that state aid is essentially limited to correcting a market failure. In other words, public intervention in the market sector is a priori considered sub-optimal, and the regulatory framework restricts the role of public action to the transmission of the “proper incentives” to agents to the extent that the market does not already do so.

Within this limited policy framework, Member States have a certain margin of manoeuvre to pursue social or environmental objectives, and this margin of manoeuvre has gradually been widened. For example, in 2014, the Commission revised its state aid guidelines on support for renewable energy and environmental protection. Between 2014 and 2016, 95% of state aid for renewable energy and 81% of aid for other purposes, such as aid for SMEs, regional development or the promotion of innovation, was validated by the Commission\textsuperscript{55}.

The Green Deal Investment Plan wants to go further and announces a review of the state aid rules on facilitating the implementation of transition policies by Member States. Pending this review, which is scheduled for 2021, the Commission undertakes as of now to interpret the rules in force “flexibly” in relation to State aid for the following purposes: “decarbonisation” of production processes, renovation of buildings, installation of heating networks, closure of coal-fired power stations, and support for the circular economy. This shift in favour of ecological transition is welcome, even though the scope of action is restricted to a limited list of objectives (Member States may remain more constrained in areas not listed, such as public transport development or support for local agriculture).

In view of the low percentage of state aid refused and given that previous promises of “increased flexibility” in eligibility criteria been made in the past, we might wonder about the actual scope of this new commitment. Surely the main obstacles to public action in this area are located upstream, in the form of “regulatory self-censorship” that limits the use of this tool to the situations least risky for the States? Indeed, the research shows a form of self-censorship resulting from fear that a private company may challenge certain public policies before the European Court of Justice on

\textsuperscript{54} Antonin Pottier (2016), “Comment les économistes réchauffent la planète [How economists are warming up the planet]”, Seuil.

the grounds that they would distort competition. In addition, recourse by foreign investors to investment arbitration mechanisms provided for in investment protection agreements could also increase, as evidenced by recent cases against the revision of Spain's renewable energy support policy after the financial crisis.

5.1.2. Public procurement rules

The Commission will propose introducing “minimum mandatory “green” criteria or targets” (p. 13 of the Investment Plan) in the regulation of public procurement; these criteria would be applicable to public procurement in certain sectors, to access Community funding or in legislation defining product standards. “Such minimum criteria will ‘de facto’ set a common definition of what a ‘green purchase’ is, allowing collection of comparable data from public buyers, and setting the basis for assessing the impact of green public procurements”, explains the Communication (p. 12). This is a step in the right direction, but why limit the incorporation of mandatory environmental criteria to certain sectoral initiatives instead of including them in the Procurement Contract Code as they are? Furthermore, the notion of “minimum criteria” may cause concern: does this mean that criteria more ambitious than this lower limit could be considered an infringement of competition rules? Above all, it remains to be seen whether “green” criteria will really be binding; for the time being, the Commission is merely “encouraging” national public authorities to incorporate them into their internal regulations.

Finally, the Commission notes that, in order to define “green criteria” in a credible way, life cycle analyses should be used “where possible”, but merely calls on companies in the sectors concerned to develop reliable methodologies in this area. This is just one example of a general problem that we will discuss in the last section: a coherent Green Deal requires a review of governance instruments and impact measurement tools.

OUR PROPOSALS

To go further, a European “Buy Sustainable Act” should more clearly encourage national and local companies to transform their production models while promoting local employment and the sectors most aligned with climate and environmental objectives. Instead of multiplying exceptions with uncertain effects within an overall framework that is hostile to public intervention, a “Buy Sustainable Act” would involve a general revision of public procurement law with the following conditions.

- A general stepping up of social and environmental criteria: the consideration of these criteria when selecting a service provider must be systematic and compulsory, not voluntary.

- A reversal of the hierarchy of norms within the existing regulatory framework: competition rules must no longer prevent States or communities from adopting more stringent standards on environmental protection and the fight against climate change.

- An opening up of the same regulatory framework to criteria other than environmental protection, such as corporate tax responsibility, product recycling rate, local content requirements (on employment, suppliers, etc.).

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56 Ibid.
These proposals presuppose a connection with those on external trade policy (see next section), as the latter limits the ability of the EU and Member States to change internal market rules. This is why any commitments made in trade agreements that would prevent the inclusion of additional criteria for tender selection (tax responsibility, location content requirement, etc.) in the European directive on public procurement should be prohibited.

5.2. A trade policy at the service of transition

EU trade policy tends to treat the promotion of trade and investment as an end in itself and to neglect the issue of the impacts generated by the activities concerned on society and the planet. It is seen as a tool for stimulating the economy, in particular by offering European companies a relay for growth in more dynamic markets outside the EU. In the absence of any real decoupling of GDP growth and pressure on natural resources (see Box 3), this approach contributes directly to the increase in GHG emissions and other negative environmental impacts. In the case of France, the government’s 2018 Report on Wealth Indicators reports a doubling (+99%) of imported carbon emissions between 1995 and 2016, while emissions from domestic activities decreased by 20% over the same period (1995-2017). This growth in import emissions explains why the overall carbon footprint of the French has increased by 20%. According to the same report, “the economies of major exporting countries generally have higher GHG intensities than France”. The phenomenon we are observing is therefore simply the relocation of the most GHG-emitting operations to carbon havens\(^58\) rather than any genuine change in consumption and production patterns.

By insufficiently integrating ecological and social factors, trade rules encourage unsustainable patterns of production and consumption, and promote the development of activities that generate environmental damage and serious human rights violations\(^59\).

As such, despite the sustainable development objectives announced in the “Trade for All” strategy adopted by the European Commission in 2015 and the very positive assessment made by the outgoing team\(^60\), the European Union’s trade policy is not compatible with its international social and environmental commitments. In particular, it contributes to the creation of new obstacles to ecological and social transition by reducing States’ room for manoeuvre in many areas. However, more robust environmental rules within European territory can only be incorporated into a solid pact with producers if equivalent requirements are applied to products imported into the EU.

The inclusion of certain aspects of trade policy in the Green Deal is, in this respect, an implicit admission of the current lack of coherence. But the situational analysis is incomplete in that the exercise essentially consists of promoting the positive effects of trade agreements on the

\(^{58}\) By analogy with tax havens, this concept refers to countries where deficiencies in climate regulation could attract the highest emitting activities in international value chains.

\(^{59}\) For example, between 2005 and 2013, more than half of the listed companies in the UK, Germany and France were involved in human rights controversies; see IPIS (2014), “The Adverse Human Rights Risks and Impacts of European Companies: Getting a glimpse of the picture.”

\(^{60}\) “Based on the European Commission’s Trade for All strategy, the EU’s trade policy is already contributing to sustainable development in the EU and in third countries. Fair and rules-based trade can contribute to the global uptake of climate-friendly technologies, facilitate the energy transition, and help secure supplies of the necessary raw materials, including those used in low-carbon technologies.”, 28/11/2018 - COM (2018) 773 - A Clean Planet for All - A European strategic long-term vision for a prosperous, modern, competitive and climate neutral economy.
environment without seeking to mitigate their negative effects. And the European Commission’s proposals are limited to two measures.

As a first step, the Commission is proposing to work on a carbon border adjustment mechanism for certain sectors to reduce the risk of carbon leakage, if differences in ambition levels between countries persist. This proposal is a recurring issue in public debate. In France, it is strongly supported by the government and was again advocated by all candidates at the last European elections. However, it by no means has the support of all other member countries. Additionally, the implementation of this instrument certainly poses many issues, not only technical (how to measure the carbon content of targeted products), but also legal (compatibility with WTO rules in particular) and political (risk of retaliatory measures by third countries). Its main purpose would be to create the necessary conditions for stepping up the pressure on economic actors to actually achieve emission reduction targets. This would include reforming the EU emissions trading system to end the distribution of free allowances and introduce other measures to boost the carbon price rise that began in 2018. In order to convince third countries of the merits of this instrument, at least part of the revenue should be used to help finance climate change initiatives in developing countries. However, the carbon border adjustment mechanism, if implemented, will not solve all the environmental and social problems related to trade policy.

The Commission also endorses the French Government’s proposal to make the Paris Agreement on climate an essential element of future trade agreements. However, the actual scope of such a provision could be very limited; the EU Court of Justice ruling on the EU/Singapore agreement already gives the EU the right to suspend a trade agreement in its entirety in the event of a breach of the section on sustainable development or of a massive violation of human rights. In practice, this option has never been seriously considered, partly because the terms of the social and environmental clauses are too vague and partly because suspending an entire trade agreement appears far too radical a sanction. Furthermore, the Commission’s proposal does not mention the countries that formally remain in the Paris Agreement but do not implement it effectively. Finally, the Commission proposes only to include it in what it calls “comprehensive” agreements, which does not apply, for example, to the ongoing trade negotiations on goods and conformity assessments with the United States. Above all, it proposes only to start with negotiations beginning in 2020. All these weaknesses have prompted the Veblen Institute and the Nicolas Hulot Foundation to propose a more effective solution: to insert into all trade agreements currently in preparation special clauses detailing the commitments of the Paris Agreement (or other international agreements) to be adhered to and defining graduated sanctions according to the seriousness of any violations recorded, so that sanctions can be triggered almost automatically rather than being solely dependent on the political will of the States in question.

Since the bilateral trade agreements currently under negotiation are establishing the framework for economic exchanges for decades to come, this is no longer the time for a gradual ‘greening’ of individual chapters, while we continue to encourage the trading of goods and services that are harmful to the environment. There is an urgent need to transform trade policy from top to bottom, from the way agreements are negotiated to their final implementation, including the choice of partners and the tools put in place to make commercial benefits conditional upon compliance with a minimum set of social and environmental rules. Conducting such a reform involves suspending

the ratification of recently finalised agreements (CETA, agreements with Japan, Singapore, Vietnam and Mercosur) and declaring a moratorium on the twenty or so negotiations under way (with the United States, Australia, New Zealand, Indonesia, Mexico, Chile, Tunisia, Uzbekistan and an investment protection agreement with China\(^{63}\)), in order to initiate the process of completely redefining trade policy.

**Box 5. Exiting the Energy Charter Treaty (ECT)**

The ECT is an international agreement that came into force in 1998. It now has 53 members from across Western Europe and Central Asia to Japan. The EU in its own right and all its Member States except Italy are signatories.

Originally designed to secure the EU’s energy supply after the demise of the Soviet Bloc, it aims to encourage and protect investment and trade in energy materials, products and production equipment. Above all, the treaty offers investors in this sector the opportunity to use arbitration tribunals to challenge state decisions that harm their interests. This mechanism is very favourable to investors, allowing them to demand compensation, not only on the investments made but also on the expected future profits.

In fact, it is the treaty that has generated the most investor-state disputes, as well as some of the most costly disputes in the history of investment arbitration. Some 130 cases under the ECT provisions are known to date, of which 67 are still pending and 83 are disputes between investors and EU countries (i.e. 64%). Some of the most emblematic disputes include the two claims made by Vattenfall against Germany (challenging the environmental rules imposed on a coal-fired power plant and then the decision to phase out nuclear power), Rockhopper Exploration’s claim against Italy (following the ban on offshore drilling) and Uniper’s threatened complaint against the closure of a coal-fired power plant in the Netherlands. The countries most frequently attacked are Spain (48) and Italy (12) and the countries from which the most active investors in terms of lawsuits originate are the Netherlands (26), Germany (24) and Luxembourg (23).

In a report published in February 2020\(^{64}\), Yamina Saheb, former head of the Energy Efficiency Unit at the ECT International Secretariat and author for the IPCC, gives a harsh assessment of the implementation of this treaty, which she considers simply incompatible with the fight against climate change.

- On the basis of accumulated foreign direct investment (FDI) in ECT member countries in January 2020, the potentially stranded assets protected by the ECT since its entry into force would be in the order of €879 billion (without major changes to the Treaty, and these assets could reach €2.15 trillion by 2050).
- Over the period 2013-2019, 61% of the investments protected by the ECT were in the fossil fuel sector.
- The cumulative emissions corresponding to the intra-European investments protected by the ECT are estimated at 30 Gt, which is equivalent to the remaining European carbon budget between 2018 and 2050 to avoid exceeding 1.5°C.
- Ending all existing fossil fuel contracts protected by the ECT since its entry into force could cost taxpayers at least €523.5 billion. Failure to reform the ECT could increase this cost by up to €1.3 trillion by 2050 (42% of which would be paid by European taxpayers).

\(^{63}\) The detailed list of ongoing negotiations is available at this [link](#).

\(^{64}\) Y. Saheb (2020), op. cit.
On the basis of this observation, Yamina Saheb recommends ending the protection of investments in fossil fuels under this treaty or, failing this, considering an exit from the treaty accompanied by an agreement to repeal the sunset clause that protects investments already made for a period of twenty years after the unilateral withdrawal of a signatory country. Such an exit should if possible be coordinated between at least the EU and EFTA countries, which account for 80% of FDI in the EU and are covered by the ECT.

**OUR PROPOSALS**

– **Democratise trade policy** by ensuring transparency and real democratic control throughout the negotiation and implementation of agreements.

– “**Put trade back where it belongs**”, i.e. apply the principle that the implementation of binding multilateral rules to combat climate change, protect biodiversity or ensure respect for human rights by companies may have an impact on trade flows.

– **Require compliance with a minimum set of environmental and social requirements** in return for access to the European market.

– **Promote multilateral and cooperative reform of WTO rules** (often incorporated in bilateral agreements) that have had the effect of limiting the capacity of States to establish ambitious public policies on social or environmental issues (promote social and environmental traceability throughout the value chain, redefine the notion of product 'likeness' in order to make unincorporated processes and production methods - PPMs - discriminatory and deployable in establishing the differentiated treatment of products, broaden existing general exception clauses, protect the precautionary principle, etc.).

– **Target much more precisely the goods for which trade preferences should be granted**, based on the “green” (and if possible “brown”) taxonomy or other technical benchmarks for qualifying environmental impacts, and link the granting of trade benefits to compliance with product sustainability criteria.

– **Integrate indicators such as the monitoring of imported emissions and the protection of biodiversity** to assess the relevance of the various trade agreements under consideration and the quality of their implementation.

– **Halt the expansion of investment arbitration and remove investor-state dispute settlement clauses from all existing trade or investment protection agreements**. The EU could start by ending the protection of investments in the fossil fuel sector by leaving the Energy Charter Treaty, which has been the most widely used treaty in disputes against Member States.

– **Use regulatory cooperation to step up the protection of environmental and human rights** and ensure genuine democratic oversight of this mechanism.

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65 Veblen Institute and FNH (2019), “Making trade serve the ecological and social transition”.
5.3. Financial regulation beyond “green finance”

Banking and financial regulation only appears in the Green Deal from the very specific angle of the tools proposed to develop “green finance”, as if the structural functioning of the financial system as a whole were neutral from the point of view of the project’s stated climate and environmental objectives. Yet we know that this is not the case: what, in 2015, the Governor of the Bank of England, Mark Carney, called “the tragedy of the horizon” signals a persistent gap between the long-term nature of necessary investments and the short-term nature of financial speculation. Systemic reforms are necessary to reduce the short-termism of a globalised and poorly regulated financial market, symbolised by the growth of index funds, the weight of “too big to fail” megabanks and high-frequency trading. Rather than asking what kind of financial regulation could better serve the objectives of environmental and social transition, the Green Deal focuses on the expected funding sources, arriving at the “magic” figure of €1 trillion (see Section 2.2.).

The Green Deal only refers to financial regulation to suggest revising the regulatory tools already included in the “Action Plan on Sustainable Finance” adopted by the previous Commission in March 2018. These tools essentially aim to build an information chain that makes it possible to judge whether a financial product labelled as “green” is actually “green”, leaving it up to the markets to direct financial flows according to the preferences of savers and investors. These include the “green taxonomy”, “green” performance indexes, and the integration of environmental, social and governance (ESG) criteria into corporate reporting, ratings from rating agencies, prospectuses for investors and financial advice for savers.

Tools to enhance market transparency will not be sufficient to meet the objectives of the Paris Agreement, which, despite its narrow focus on climate issues, serves as a benchmark in that it commits signatory countries to make financial flows “consistent with a pathway towards low greenhouse gas emissions and climate-resilient development”. We’re a long way from that. Firstly, the funding available for the ecological and energy transition remains far below the sums needed (see Section 2.2.). Secondly, the financing of polluting investments and fossil fuels has not stopped since the signing of the Paris Agreement.

OUR PROPOSALS

- Refashion financial regulation on the principle of radical uncertainty. In view of the irreversible nature of the changes linked to climate disruption, we advocate a change of approach to climate and environmental risk management, namely financial regulation based on the precautionary principle. These risks are systemic in nature and require a new approach to risk, where the question is not so much how to put a figure on the financial value at risk as to be aware of the long-term risks for the economy and society as a whole, and to act accordingly.

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66 In a speech delivered at Lloyd’s of London on 29 September 2015
67 Article 2.1, paragraph C: “Making finance flows consistent with a pathway towards low greenhouse gas emissions and climate-resilient development.”
– **Introduce a “climate/environmental buffer” of additional capital in EU regulatory capital requirements.** The macro-prudential provisions introduced in the Basel III Agreement in 2010 introduced a counter-cyclical buffer to adjust the capital requirement to the financial cycle (time dimension of systemic risk) and a systemic surcharge to adjust the capital requirement to the systemic dimension of certain banking groups (cross-sectional dimension of systemic risk). By considering climate risk as an additional dimension of systemic risk, we propose the creation of an “ecological buffer”, which would be added to the risk-weighted capital ratio or the leverage ratio (capital/total exposure) and which would evolve with the degree of alignment. Its “thickness” would depend on the distance of the financial sector from the defined decarbonisation targets of bank balance sheets. The buffer would initially be at its maximum (threshold to be set by the competent authorities) and could then be reduced as progress towards the objectives is achieved.

– **Introduce a climate/environmental leverage ratio**. On the basis of initial work carried out by some European central banks, it seems that it is already possible to use the European NACE two-digit nomenclature to identify the most greenhouse gas emission-intensive assets. It therefore seems possible to divide banks' balance sheets into climate risk classes, from “green” to “brown”. An alternative option would be to set up a leverage ratio with a minimum threshold adjusted to climate risk classes. This capital requirement would be in addition to those currently in force and would increase with the level of exposure of the bank's balance sheet to climate risk. This provision would be more modular than the ecological buffer, since it could vary significantly from one establishment to another depending on level of exposure. However, its implementation would be more dependent on advances in taxonomy.

– **Broaden the scope of the green taxonomy to make it a “brown and green taxonomy”,** i.e., a tool that can also be used to identify activities with negative environmental impacts. This extension could be operational as early as 2021, based on the methodologies used by the first climate-related systemic stress tests, developed in recent years by some European central banks.

- **Review IFRS accounting standards to identify those that induce procyclical biases in the investment strategies of banks and insurance companies.** For example, research has highlighted the negative impact of IFRS 9 or, for insurance companies, IAS 39 and IFRS 4, which tend to increase investment volatility. More broadly, the impact of fair value accounting on the weighting of capital should be reduced where it penalises certain types of long-term assets such as assets financing infrastructure projects.

– **Strengthen the European directive on non-financial reporting** to require large companies, banks, insurance companies and institutional investors to publish an environmental balance sheet analysing the environmental impacts and risks related respectively to their economic activities and

69 From a technical point of view, it seems more simple to start with the climate assessment alone in order to apply the first measures from 2020 onwards, without waiting for other criteria to be integrated into the assessment methodology used by regulators and supervisors. However, this integration is necessary.

70 Idem.


72 On this subject, see for example Dominique Plihon & Sandra Rigot (2018), “Pourquoi manque-t-on d’investisseurs à long terme ? [Why is there a shortage of long-term investors?], Centre d’Économie de Paris Nord (CNRS), Revue d’économie financière, No. 130, 2nd quarter 2018.
the financial securities held in their portfolios. For companies operating in the most polluting sectors, annual balance sheets should include, in particular, indicators of industrial conversion such as the share of income from different activities.

– **Strengthen the legislation on European Supervisory Authorities**, which, in cooperation with the competent national authorities, must validate the attribution of “green finance” labels (such as Ecolabel) to financial products, and validate the methodologies used in this field.

– **Strengthen legislation on rating agencies** to make it mandatory to systematically include environmental scores in all ratings.

– **Propose a lighter regulatory framework to support cooperative and limited-profit modes of governance** that explicitly recognise objectives other than return on equity (ethical banks, socially responsible investment funds, funding platforms dedicated to social economy projects, etc.).

– **Increase the EIB’s financing capacity through enhanced coordination with the European Central Bank** (see next section).

### 5.4 A monetary policy based on ecological cross-compliance

Just as the European Commission published its Communication on the Green Deal, the European Central Bank (ECB) announced the launch of a review of its monetary policy strategy, specifying that “environmental sustainability” would be one of the issues discussed.

The link between the Green Deal and monetary policy review seems obvious, and the active involvement of the ECB in the implementation of the Green Deal is vital, from both a financing and a financial regulation perspective. The Commission has therefore missed an excellent opportunity to put forward its vision of the relationship between the Green Deal and monetary policy, acting as if the latter were neutral with regard to the success of the Green Deal, while the ECB itself is making changes in this area.

While the statutory independence of the ECB does introduce a significant difference between monetary policy and the other policies analysed in this section, independence does not signify an absence of dialogue with other European institutions, or the refusal of joint reflection on the challenges to be met and the objectives to be pursued. On the contrary, Article 127 of the Treaty on the Functioning of the European Union states that, without prejudice to price stability, the ECB shall support the objectives of the European Union. And the monetary dialogue with the European Parliament shows that a constructive exchange is entirely possible within the framework of the current Treaties.

As a European institution, the ECB is legally obliged to comply with the Paris Agreement on climate. As it stands, the contradiction between its policy and the EU’s climate objectives is blatant: the ECB is simply reproducing the current state of the market while other European policies aim to actively “decarbonise” the economic fabric of Europe. We have shown this with respect to the Corporate Sector Purchase Program (CSPP), which has mainly benefited the largest companies operating in the most polluting sectors\(^{73}\). This is the result of the principle of “market neutrality” as defined and applied by central banks, i.e. the idea that monetary intervention should not have the effect of

changing the structure of the economy. In doing so, the ECB is contributing to the worsening of the ecological crisis through, for example, its purchases of corporate bonds, which mainly benefit sectors that are high emitters of greenhouse gases. This principle of “market neutrality” should be redefined in the light of the debate on the climate and environmental crisis: a monetary policy that does not take into account the factors contributing to this crisis is anything but neutral.

As such, many elements already exist to enable the EU to define, within the framework of current treaties, a monetary policy that actively supports the Green Deal. Such a policy would mark the beginning of fiscal and monetary coordination within the euro zone and even at EU level (via EIB refinancing). We shall confine ourselves, here, to restating the fundamental principles and outlining the primary avenues to be explored.

OUR PROPOSALS

– Strengthen public financing capabilities over the very long term (40 years and more), to meet the investment needs estimated by the European Commission itself, in particular to address the problem of chronic under-investment in energy efficiency and transport (see Section 2.2). The ECB is the only institution that can do this through targeted refinancing, and it can do so by opening specific refinancing programmes for the EIB and other public development banks within the EU.

– As part of the targeted refinancing of the EIB and national development banks, provide for specific programmes for the “Just Transition Fund” (see Box 2) to facilitate the financing of programmes prepared jointly by local and regional authorities and national authorities within the framework of the “Territorial Transition Plans” (see Section 3.2.).

– As a basis for the targeted actions proposed in the following points, the ECB needs to integrate and improve methodologies recently developed by research and some central banks (systemic stress testing on climate risk, environmental impact assessment, carbon footprint, green and brown taxonomy, etc.).

– Using the assessment tools mentioned in the previous point, modify refinancing costs and adjust the risk/return profile of assets according to their environmental rating, via the two components of monetary policy, namely refinancing and asset purchases on the financial markets

    ▪ As far as bank refinancing is concerned (programmes such as LTRO, TLTRO, etc.).
        ☑ Modify the eligibility criteria and haircuts applied to eligible collateral (Collateral Eligibility Framework);
        ☑ Modulate interest rates according to the environmental impact of the assets deposited on the ECB's balance sheet;
        ☑ Create new reserve requirements depending on how “brown” banks’ balance sheets are.

    ▪ For asset purchases on the secondary markets.
        ☑ Make the publication of a GHG balance an established eligibility criterion for any new purchase or reinvestment of CSPP (corporate bond) revenues, with any purchase of securities being conditional on the presence of a GHG balance (for companies in the most emitting sectors, this information should include industrial conversion indicators such as the proportion of revenues from different activities);
Direct the reinvestment of CSPP revenues to reduce the proportion of the most GHG-emitting sectors in the portfolio. This realignment must be progressive and follow a timeline that anticipates an eventual exit from these sectors.

As regards asset ratings, the services of rating agencies that have not transparently integrated non-financial analysis in the rating of securities issuers should no longer be used.

Make public all climate/environmental impact assessments carried out by or on behalf of the ECB relating to the ECB’s monetary operations. Include a presentation of these studies in the annual report to the European Parliament.

5.5. A sustainable Common Agricultural Policy

The European Commission specifically targets agriculture and food as a key element of the Green Deal. Agriculture is indeed responsible for 10.8% of GHG emissions in Europe, according to the European Environment Agency, and its dominant industrial model is a major cause of the environmental crisis. At the same time, the agricultural sector is very much affected by the consequences of the crisis, and alternative modes of production – agroecology, organic farming, etc. – are an important source of solutions. In this respect, Europe also has an instrument to drive change: the Common Agricultural Policy (CAP), which represents 36% of the EU budget. All aid provided under the CAP must support the objectives of the Green Deal.

This debate on the necessary reform of the CAP is not new, but it is progressing very slowly. According to the collective “Pour une autre PAC” (For another CAP), previous attempts have not resulted in any fundamental change to its role of supporting large intensive farms and overproduction intended to flood foreign markets. The share of the CAP Pillar 1 budget linked to environmental requirements has been assessed as very ineffective. According to the European Environment Agency, between 2005 and 2018, emissions from the sector decreased by only 2 MT CO2 and “member countries do not expect any significant change in emissions over the next decade”. Whether the Green Deal will make a difference in this respect remains to be seen.

Negotiations on the next budget period have been well under way since the previous Commission and the new Commissioner in charge of the dossier, Janusz Wojciechowski, had from the outset excluded any cross-compliance in the distribution of direct aid under the first “pillar” of the CAP (which represents around 80% of the subsidies distributed to farmers).

As part of the Green Deal, the “From Farm to Fork” strategy is to be presented in spring 2020, and the Commission has announced a postponement of the implementation of the new CAP to 2022. This is a positive decision: current negotiations must be genuinely put on pause, to give the CAP

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75 https://pouruneautrepac.eu
77 EEA (2020), “National action across all sectors needed to reach greenhouse gas Effort Sharing targets”.
79 “Le “Green Deal” européen cherche encore sa cohérence [The European “Green Deal” is still seeking coherence]”, Médiapart, 27 November 2019.
time to integrate climate and environmental objectives. At the present stage, however, many elements are still to be clarified or scaled up.

- The Green Deal introduces a commitment to devote 40% of the overall CAP budget to climate action. Clearly, this will not be enough to achieve the overall goal of carbon neutrality if the remaining 60% works in the opposite direction.

- The Commission points to the need to reduce the use of chemical pesticides, fertilisers and antibiotics, but seems to have abandoned a quantified target in this area.

- The inclusion of precision agriculture – based on the use of data collected using field equipment (GPS, connected weather stations, etc.) or remote detection (drones, satellites, etc.) – as a form of sustainable practice along with agroecology, agroforestry and organic farming deserves at least an in-depth discussion.

- Another point relates to the very unequal distribution of added value within agricultural sectors: the Commission certainly recognises the importance of this issue, but does not put forward any measures to increase the added value of farmers at the top of the chain.

- Lastly, the Green Deal insists on prohibiting access to the European market for imported foodstuffs that do not comply with the relevant environmental standards in the EU, echoing the debates that have taken place in France and other member countries on trade agreements such as the CETA or Mercosur. However, the Commission is not announcing any change in this area and, as such, does not seem intent on promoting mirror clauses to guarantee European producers and consumers genuine reconciliation between production standards and standards applicable to imported products. For the time being, only the ban on the use of hormones in animal husbandry is mirrored by a parallel ban for imported products, but this is not the case for animal meal, the administration of antibiotics as growth promoters or the use of banned pesticides.\(^80\).

**OUR PROPOSALS**

- Make the “green payment” (30% of the direct aid paid under the “first pillar” of the CAP) conditional on sustainability assessments carried out at farm level, using the most rigorous methodologies in this area.\(^81\).

- In addition to “green payments”, at the very least increase the cross-compliance associated with direct aid per hectare under the “first pillar” (70% of the CAP budget), by gradually reducing aid to the types of farms that contribute most to climate change and the collapse of biodiversity. To go further, aid per hectare, which provides an incentive for the growth of farm size, should be replaced by other instruments that allow better account to be taken of farms’ environmental performance.\(^82\).

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\(^80\) On the use of antibiotics as growth promoters, a regulation was adopted by the European Parliament in 2019 but is not yet in force.

\(^81\) For an example of such a methodology, see Frédéric Zahm et al. (2019), “Évaluer la durabilité des exploitations agricoles. La méthode IDEA v4, un cadre conceptuel combiné dimensions et propriétés de la durabilité [Assessing the sustainability of farms. The IDEA v4 method, a conceptual framework based on the dimensions and properties of sustainability], Cahiers Agricultures, no. 28/5.

– Increase the proportion of the CAP dedicated to climate and environmental action under the Multiannual Financial Framework 2021-2027.

– In order to combat the environmental damage caused by certain agricultural activities more effectively, existing taxes should be increased and new ones created. For example, gradually increase nitrogen taxes to discourage intensive nitrogen use and introduce an “over-fertilisation” tax for farms that consume the most nitrogen (mineral and organic). In addition to acting as a deterrent, these measures will increase the overall share of the CAP devoted to environmental action and will increase the EU’s own resources for financing the agricultural transition from the CAP.

– Introduce a progressive European property tax, to be added to existing property taxes and levied by national authorities.

– Review all performance monitoring indicators to ensure that they are based on the best available science and are consistent with the indicators of the Sustainable Development Goals (SDGs), the Convention on Biological Diversity (CBD) and the Paris Agreement.

– Identify and reduce the international impacts of the CAP, particularly in the Global South, in order to avoid carbon leakage (and other environmental impacts), negative land-use effects and market distortion.

6. ADAPTING GOVERNANCE INSTRUMENTS

The European Commission is paving the way for the reform of governance tools for driving the energy and ecological transition outlined in the Green Deal. As in the case of the European policies discussed in the previous section, we believe that this approach is necessary but should go further; outside the European Semester, the Green Deal objectives must permeate all aspects of governance, right down to the choice of the indicators and methodologies used in impact assessments. The following are the main elements that should be subject to a general review in the light of the political objectives of the Green Deal.

6.1. Overhauling macroeconomic and fiscal coordination

6.1.1. Reforming the European Semester

The European Semester was introduced in 2010 to improve the coordination of fiscal and economic policies within the EU. It currently covers three areas of coordination: “structural” reforms, which must be aligned with the “Europe 2020” strategy; fiscal policies, which must comply with the Growth and Stability Pact; and the prevention of macroeconomic imbalances within the European Union. The Green Deal proposes to include environmental and social indicators in these areas: an essential measure, but one whose effectiveness will depend on the relevance and nature of the indicators chosen and their place in the general scheme of the European Semester. Given that this mechanism for monitoring national fiscal years will become a tool for steering the Green Deal, environmental and social data should be given the same priority as economic data and, as far as possible, include indicators measuring changes in practices and consumption patterns (see Section 4.2.).
Furthermore, in order to uproot the technocratic nature of the prevailing evaluation process itself, it must be made more transparent and open to the participation of civil society.

6.1.2. Creating a European standard for “green budgeting”

“Green budgeting” is already practised by several EU Member States. The Green Deal proposes to draw up a European standard in this area to share best practices. The Commission should be aiming not only for a standard for defining “best practice”, including the identification of brown spending (which contributes to climate change and biodiversity loss) but also a roadmap for gradually increasing the “green” share of national budgets and decreasing the “brown” share.

6.1.3. Supporting the ‘greening’ of the EU budget

The EU budget is a key lever in the operational implementation of the Green Deal. However, the targets announced remain unambitious: in terms of spending, the Commission is proposing a 25% target “for climate mainstreaming across all EU programmes“. Furthermore, in its proposals concerning the Common Agricultural Policy for the period 2021-2027, the Commission states that at least 40% of the overall CAP budget and at least 30% of the Maritime and Fisheries Fund “would contribute to climate action”. To actually apply the concept of the “green oath” (the “do no harm” objective) which it introduces in its Communication, the Commission should carry out a comprehensive review of EU expenditure in order to identify, and seek to reduce, spending that is harmful to the environment. All EU funds should be subject to systematically applied rules on environmental cross-compliance.

6.1.4. Increasing the EU’s own revenue

Increasing the EU budget is hardly mentioned in the Green Deal. It is, however, urgently needed to finance the ecological and social transition. To increase revenue, the Commission proposes a tax on non-recycled plastic-packaging waste and the use of 20% of the revenues from the auctioning of allowances through the European Emissions Trading System. Both proposals are interesting but seem quite limited in relation to the funding needs identified.

In order to move beyond the unanimity rule in tax matters, the most committed countries could start by implementing new tools within the framework of enhanced cooperation, as envisaged for the Financial Transaction Tax (FTT). In addition to this necessary FTT, other proposals may be required, including:

- a European tax on advertising;
- a progressive European property tax, to be added to existing property taxes and levied by national authorities;
- or an “over-fertilisation” tax on the most nitrogen-intensive farms.

Another point under discussion concerns the carbon border adjustment mechanism; the Commission is careful not to mention at this stage what use could be made of the revenue. If the European Union wants to be credible vis-à-vis its international trading partners, some of these revenues should be used to support initiatives to reduce greenhouse gas emissions in developing countries.
6.1.5. Changing the budget rules from 2020

In order to strengthen the financing capacity of Member States, the Commission is opening the door for discussion on accounting for green public investments under budget rules. This debate is, of course, essential for understanding how to deal with sustainable investments within EU tax rules, but the level of ambition remains low and the Commission notes that “safeguards against risks to debt sustainability” must be preserved.

Faced with the urgency of the current health and economic crisis, the EU Heads of State and the Commission have just proved that they can act quickly by announcing, on 10 March this year, a temporary relaxation of the budget rules and rules on state aid to businesses. However, the Green Deal requires a structural and targeted review of the transition objectives, not just emergency measures to mitigate the immediate effects of the crisis. For the time being, this revision remains relegated to the “next steps” of the Green Deal; the European Commission refers for broader debate the improvement of fiscal governance in Europe. The process envisaged risks postponing this crucial debate and wasting Member States' time when they could already be benefiting from the option to borrow on extremely favourable terms to make such investments.

6.1.6. Combating tax avoidance more effectively

In the European Union, the annual loss of tax revenue resulting from multinational companies' strategies to artificially shift their profits is very conservatively estimated at between €50 bn and €70 bn. In this area, the Council is blocking the proposals advocated by the European Parliament to require full country-by-country transparency of companies' activities. That is why the text proposed by the European Commission after the Panama Papers scandal of 2016 has still not been adopted. However, it seems vital, ultimately, to demand public country-by-country reporting from multinational companies, similar to the reporting that has been required from European banks since 2013. In addition, the European Union should work urgently on common rules for calculating the corporate tax base to end tax competition between Member States and on gradual convergence of corporate tax rates to prevent them from falling even further. Finally, the EU should take much more resolute action against tax havens within the EU. In return for increased tax revenues, member countries might be more inclined to increase their contribution to the EU budget.

6.2. Developing measuring instruments

A factor that aggravates the inconsistencies in European environmental policy is the evaluation tools used, particularly the choice of indicators. The trade policy example demonstrates the imbalance between the significance given to economic indicators compared with other indicators in the impact studies carried out by the European Commission. But the problem is more general: all EU measurement tools must incorporate the principle of “strong sustainability”, according to

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which the economic, environmental and social dimensions of well-being are complementary and not substitutable.

6.2.1. Introducing extended national accounts

In order to provide the European Semester with reliable data on biodiversity protection and pressure on natural resources, the EU should initiate the implementation of an extended European standard of national accounting, i.e. a multi-criteria national accounting system to measure the state of physical resources in each member country, with standardised and mandatory standards at EU level, and the integration of this into national biodiversity protection plans.

6.2.3. Accounting for imported ecological impacts

The European objectives on reducing greenhouse gas emissions must relate not only to territorial emissions but also to imported emissions, otherwise compliance with territorial commitments may result in a shift of polluting industrial activities to third countries. Furthermore, measurement of imported emissions needs to be improved by factoring in differences in technology in third countries and emissions from land use and land-use change.

More generally, all imported ecological impacts (deforestation, resource depletion, etc.) should be more rigorously measured and accounted for in order to reduce them as well.

6.2.3. Adopting an annual report on the social and environmental state of the EU

The monitoring of environmental policies in the EU is currently based on the biannual audit conducted by the European Commission (Environmental Implementation Review). This review should become annual and lead to an annual report by the European Parliament on the social and environmental state of the EU, similar to the annual report on wealth indicators published by the French government, which also contains sections on poverty, income inequality, life expectancy, etc.

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