

CHALLENGE EUROPE

Yes, we should!

EU priorities
for 2019-2024

OUR
FUTURE

IN
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Making climate neutrality the galvanising heart of a new economic agenda for Europe

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MAIN RECOMMENDATION ▶ The urgency and scale of changes necessary to address climate change require an immediate and enormous collective effort to make the EU climate neutral.

WHAT TO DO:

- ▶ Re-organise for immediate action around the long-term economic goal.
 - ▶ Confirm the ambition to achieve a climate neutral economy by mid-century at the latest, including a European carbon budget and high scale emissions reduction.
 - ▶ Appoint a separate Commission vice-president responsible for climate neutrality and sustainability.
 - ▶ Create an industrial strategy that incorporates climate neutrality and circular economy objectives through more circular value chains and a package of cross-sectoral measures to enable investment and innovation, establish partnerships, infrastructure and necessary governance.
 - ▶ Connect pan-European strategy and people through energy, mobility and buildings.
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Europe's two-fold existential challenge

In 2015, the University of Cambridge Institute for Sustainability Leadership (CISL) published “Rewiring the Economy”, a ten-year plan to lay the foundations for a sustainable economy,

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Tackling this sustainability crisis could be the way to reconnect the EU's core principles and purpose to a genuinely popular idea, one that is rooted in economic innovation and modernisation as much as it is in shared values and common interests.

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built on ten interconnected tasks, delivered by leaders across business, government and finance. Re-reading the case for this and its agenda for action in 2019, it is striking how the basic case for action remains true: that the improvements in quality of life and well-being for billions of people across Europe and the world are unsustainable in light of rising inequality and community breakdown, degrading ecosystems, resource depletion and pollution and climate change.

In just a few short years, the sense of urgency has grown as these developments have accelerated, and the negative impacts have become even more apparent. Any progress seems inadequate to the scale of the task. The 2018 IPCC (Intergovernmental Panel on Climate Change) '1.5 degrees' report was especially stark in its warning that the window of opportunity to avoid dangerous climate change will close by 2030. Even as we become more aware of the extent of our (un)sustainability, we continue to collect, produce, consume and discard as if nothing's wrong. Europe is struggling to keep up with the magnitude of the challenge and to adapt to the need for fundamental change.

In this context, it is an open question how the European elections and the (s)election of a new EU leadership will affect the European Union's (EU) ability to effectively address climate change and its consequences. The likely increase of eurosceptic Members of European Parliament (MEPs) will affect Parliamentary business by making majorities more difficult to secure and Parliamentary opinion less predictable, resulting in a more fragile EU in the years to come. However, a wider coalition of pro-European parties is still expected to predominate in the next politico-institutional cycle, based on a likely enhanced representation of ALDE and the Greens, even if the two largest groups – the European People's Party (EPP) and the Socialists – will no longer be able to form a 'grand coalition' in the European Parliament (EP).

Perhaps the deeper significance of the likely outcome of the 2019 EP elections relates to the broader rejection of the binary left-right thinking and allegiances represented by traditional political parties. In this context, the European election campaign and the debate that has been launched about 'the future of Europe' are much less about institutional introspection or another round of Treaty reform than it is about a search for a new mission. This new mission must be built upon an updated application of the EU's established principles, be even more clearly relevant to the key challenges of the 21st century, and more genuinely popular. It must inspire solidarity and enable progress.

This is why environmental and sustainable development issues are now so crucial. For all its resilience, successes and continuing potential, if Europe's current model of development is proving to be socially and politically unsustainable, the evidence that it is environmentally so is now overwhelming. The urgency and scale of the changes necessary to address

climate change, biodiversity loss and wider ecosystem breakdowns require an immediate and enormous collective effort. Tackling this sustainability crisis could be the way to reconnect the EU's core principles and purpose to a genuinely popular idea, one that is rooted in economic innovation and modernisation as much as it is in shared values and common interests.

Seizing the moment: Building on the current agenda for climate neutrality

Despite widespread concern about the insufficient progress made on the sustainable development agenda, as well as the threat of national populists to the EU's transnational liberal democratic legitimacy, there are some positives, including a legacy from the 2014-2019 institutional cycle which offer hope.

The most relevant is the European Commission's vision and strategy for "A Clean Planet for All" published in November 2018, along with the institutional innovations proposed in its recent assessment of its efforts on the 2030 Sustainable Development Goals (SDGs). In this sense, there are some grounds for cautious optimism that the elections and the next term for the Parliament, Commission and other EU institutions do in fact represent an opportunity.

Surveys, public demonstrations and changing consumer behaviour in Europe are all signalling a growing momentum for real change, and a genuine desire for a new economic agenda, notably in response to climate change. Quite probably, the new EU institutions would take a bigger political risk by dismissing these demands or offering only timid policy response, than by embracing them and taking bold action.

According to Eurobarometer, EU action on climate change can count on a lot of (growing) support. It is a policy area where international cooperation is considered obvious and essential to European citizens from all member states. Politicians who dismiss the surge in support for the Youth for Climate campaign, initiated by the Swedish school-girl Greta Thunberg, risk missing the boat. A whole new generation realises that their future is being decided today and they expect their political representatives to take much bolder decisions. The new Extinction Rebellion movement of civil disobedience reflects similar sentiments of frustration and impatience, as its own rapid progress underlines. These are restless times indeed.

These kind of concerns are not exclusive to climate: high-profile campaigns on the extent of plastic production, consumption and pollution, notably in oceans, has struck a chord among European consumers. Local air pollution from cars, power plants or heating systems are driving communities to demand bans on the dirtiest products or processes. Vegan diets and digitally-enabled, less material-intensive life-styles are stimulating demand of new products and services, from new plant-based or insect-derived foods to zero-emission mobility solutions.

Consumers now have alternatives to high-emission power or fuel. There are both desirable and affordable options for power generated from solar and wind sources, and storage. Battery technology's costs have declined so quickly that it is now estimated to be cheaper to own a small electric vehicle than to buy its internal combustion engine (ICE) counterpart. The Union's legislative and regulatory framework, and its financial support, have played a significant role in enabling change. It has facilitated the deployment of renewable energy, the improvement of interconnections between power grids, tightened emission standards for cars and higher levels of investment in energy and mobility innovation, all helping to spur the demand for and supply of new technologies, business models and changed consumer behaviour.

All in all, the economic case for the transition is stronger and clearer than ever. The Commission's own assessment for its 'Clean Planet for All' strategy confirms that the net zero emissions scenarios are those which are most positive for GDP growth, industrial development opportunities, employment increases, health and well-being for its citizens. Also, EU domestic climate action is an essential climate diplomacy asset becoming increasingly important as the EU's economic and environmental weight on the global stage continues to shrink. But it also confirms the enormous investment needs, the uneven impacts of transition across different regions or demographics, and the need for transitional measures for businesses to enable them to compete in the current global market place whilst innovating for the transition. A clear agenda should therefore emerge.

Three priorities for a new economic agenda for a climate neutral Europe

To achieve a net zero carbon ambition, setting priorities is essential. The notion of a 'New Green Deal' could positively resonate with the wider public, by linking the scale, urgency and benefits to citizens to a well-known successful predecessor. The following priorities for innovation could lead the way in the months and years to come.

PRIORITY 1: RE-ORGANISE FOR IMMEDIATE ACTION AROUND THE LONG-TERM ECONOMIC GOAL

Transformational and structural innovation requires both a clear sense of direction and a shared understanding of the necessary pace for success. The essential starting point for the new EU leadership will be to confirm the ambition to achieve a climate neutral economy for Europe by mid-century at the

latest. This should also include defining a European carbon budget, consistent with that objective. To drive immediate investments in innovation and associated actions, there should also be a 2030 target of a 55% reduction in emissions and an immediate action plan for 2020-2025 that sets the EU on the right course. These efforts should be intimately associated to the other 2030 SDGs (Sustainable Development Goals).

A clear political signal should be given by including carbon neutrality and sustainability among the top political priorities of the EU, both in the framework of the European Council's Strategic Agenda likely to be adopted in June 2019, and in the new Commission's Strategic Priorities, due to be confirmed later in the year. With a clear economic focus, these themes should

become central to the activities within the European Semester, with associated reporting and monitoring.

Building on the success of the clustering approach of the current Commission with regards to ensuring a better co-ordination of different DG's input into the implementation of the Commission's strategic priorities, one of the Vice-Presidents (VPs), should be appointed with the responsibility for 'Climate Neutrality and Sustainability', with all relevant Directorates-General (DGs) reporting primarily to him/her. This would be consistent with the options presented by the Commission in its assessment report on progress on the SDGs. The relevant DGs would include those responsible for Climate, Environment, Energy, Transport, Agriculture, Industry and Internal Market, Research and Innovation, Regional and Social Affairs, all of which are closely concerned with the mid-century strategy. There is also a case for the DGs for Competition and Trade to work closely within this cluster. With such a clear organisational priority and authority, short-term initiatives across key areas would then be developed, in line with the "Clean Planet for All" agenda.

PRIORITY 2: AN INDUSTRIAL STRATEGY FOR CLIMATE NEUTRALITY AND CIRCULAR ECONOMY

There is a combination of circumstances that now favours a stronger and more ambitious European industrial strategy, strengthening or even replacing the current approach of coordinating national ones, and it is essential that this is developed and pursued in parallel to the overarching climate neutral economy goal. This strategy should also apply to industries related to Artificial Intelligence (AI), which has huge potential for development and is a crucial potential enabler of more obviously relevant industries from a climate neutrality perspective.

Key elements of such an industrial strategy for Europe would include measures on mainstreaming circular economy across all industries, the electrification of processes and carbon neutral infrastructure development – and how to finance of all of this rapidly. An industrial strategy should also consider activities in the context of circular value chains, and include not just resource and energy intensive industry segments (such as materials extraction and processing of steel, cement and chemicals) but also major associated manufacturing or construction industries (including mobility, infrastructure and buildings, as well as bio-economy, food, nutrition, and health value chains). Opportunities stemming from the pervasive and enabling role of big data are evident, as is the potential

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Key elements of a climate-friendly industrial strategy for Europe should include measures on mainstreaming circular economy across all industries, the electrification of processes and the development of carbon-neutral infrastructure – and ideas on how to finance of all of this rapidly.

for industrial leadership in Europe in a wide range of different areas.

A policy agenda for advancing this kind of strategy includes an integrated package of cross-sectoral measures which would seek to:

- ▶ Enable investment in innovation at the early stage deployment and at the scaling up of zero emissions process technologies.
- ▶ Establish industrial partnerships to develop world-leading industrial combinations of companies, investors and other stakeholders – such as the batteries alliance.
- ▶ Lead and mainstream market development through public procurement, a wide-ranging revision of existing or new standards for products, processes and services, additional fiscal incentives.
- ▶ Integrate energy market design and development with industrial priorities and clusters.
- ▶ Develop infrastructure, including for a minimum capacity of carbon capture and storage linking industrial clusters with energy distribution and off-shore storage.
- ▶ Adopt possible interim measures to ensure fair trade with competitors through border adjustments.

PRIORITY 3: CONNECTING A PAN-EUROPEAN STRATEGY WITH LOCAL COMMUNITIES THROUGH ENERGY, MOBILITY AND BUILDINGS

As a complement to the ongoing and further development of the clean energy and mobility packages, there is still a need for more initiatives in the areas of energy, mobility and buildings.

Institutional innovations that could help in the next period include a European Parliament Standing Committee on the

European Energy Transition and an Energy Transition Support Service to help member states develop and implement their national plans. Both services could help to ensure rapid and effective operationalisation of the new legislation and regulations. Flagship initiatives with clear and understandable goals could be launched by the Commission to that end, too. An example would be to deeply renovate 1 million buildings by 2025.

In addition, a bigger push to accelerate experimentation and the take-up of new technologies and services that have public support would constitute a ‘bottom-up’ economic strategy, in which companies and entrepreneurs could play a leading role along with researchers, public administration and civil society actors.

The High-Level Panel of the European Decarbonisation Pathways Initiative has proposed that a significant budget from Horizon Europe could be allocated to the development of a number of ‘Transition Super-Labs’ for this purpose. These are conceived as real-life laboratories where systemic innovation for fully climate neutral economies can be undertaken, notably in locations where such transitions could be particularly difficult. These might include mining-industrial complexes, conventional agricultural regions or metropolitan areas, with funding coming from a range of different sources in addition to those from Horizon Europe.

This would also become an important element of a fully developed regional strategy to ensure a ‘just transition’, given how each local will be impacted differently by the transition to a carbon-neutral economy. Public support throughout the extended period of significant structural change is paramount. A dedicated strategy to mitigate the social implications of these rapid structural transformations should also be envisaged, based on a concerted process of upstream and ongoing stakeholder discussions. This must result in a range of

actions, with an appropriate mix of short-term remedial measures and long-term legislation on vocational education and

training, and on targeted investment in regional development.

Conclusions

Tackle the environmental and sustainability crisis at the EU level could be the way to reconnect the EU's core principles and purpose to a genuinely popular idea, one that is rooted in economic innovation and modernisation as much as it is in shared values and common interests.

The new EU leadership would take a bigger political risk by dismissing these demands or offering only timid policy response, than by embracing them and taking bold action. The economic case for the transition is stronger and clearer than ever, whilst the costs of delayed or inadequate action both obvious and even higher.

The notion of a 'New Green Deal' could positively resonate with the wider public, by linking the scale, urgency and benefits to citizens to a well-known successful predecessor. Three key areas for intervention include institutional organisation, industrial strategy and engaging local communities in innovation.

The essential starting point for the new EU institutions will be to confirm their ambition to achieve a climate neutral economy for Europe by mid-century at the latest. To demonstrate that this is an absolute priority, one of the Commission's Vice-Presidents should be made responsible for 'Climate Neutrality and Sustainability'.

Key elements of a climate-friendly industrial strategy for Europe should include measures on mainstreaming circular economy across all industries, the electrification of processes and

the development of carbon-neutral infrastructure – and ideas on how to finance of all of this rapidly. In addition, research instruments should be devoted to achieve a better understanding of the impact of this transition, for instance by way of real-life laboratories as suggested by the High-Level Panel of the European Decarbonisation Pathways Initiative.

The priorities of the new EU leadership should reflect the fact that environmental and sustainable development issues are pivotal. The urgency and scale of the changes necessary to address climate change, biodiversity loss and wider ecosystem breakdowns require an immediate and enormous collective effort. In the next politico-institutional cycle, the EU and its member states need to collectively live up to the challenge – now is the time to act.