State of the EGD
Reflection Note – 15 April 2021

The European Green Deal (EGD) is approaching a key moment since it was officially released in December 2019. So far, companies, investors, Member States and other stakeholders have only been able to sense the general direction of the EGD and its components, without much clarity when it comes to the real substance.

In this context, the process is changing from exploration and preparation to delivery and the actors involved are starting to realize the real consequences and potential effects of the legislative developments. The “fit-for-55 package” will undoubtedly represent a fundamental milestone, where the EGD will reach a considerable level of maturity.

The Climate Law which is the backbone of the European Green Deal is a prime example. Just two months ahead of the release of the fit-for-55 package, a consensus is yet to be reached with regards to key issues in the legislative proposal. An unlikely but still possible victory of the EU Parliament on a 60% emissions reduction target would have a tremendous impact not just in the legislative proposals to be unveiled in June, but also on the feasibility of a sustainable transition for a number of Member States. Similarly, other key issues, such as the establishment of an EU carbon budget, or the inclusion of carbon sinks in the accounting of the 2030 emission reduction target remain unclarified.

The EU Taxonomy Regulation is another case in point, where stakeholders have gone from the awareness of the development of a classification system and the establishment of a list of environmentally sustainable activities, to a more concrete but still incomplete understanding whether their activities will be in fact taxonomy compliant (mainly through the legislative development of the Delegated acts on Mitigation and Adaptation).

CBAM is a key issue in the EGD and the “fit for 55” package. The European Parliament “Own Initiative” has shown that free allocation and its relationship with CBAM, as a complementary or alternative measure, will be one of the key issues and the extent to which this is important to many in industry.

The debate around natural gas is another important issue, with gas seen as a bridging solution for some countries. However, natural gas represents today a grey area in the EU. While the December 2020 EU Council conclusions recognized a role for natural gas as a transitional source of energy, other pieces of legislation such as the one stablishing the Just Transition Fund have excluded it from the scope of financing.

In the Taxonomy Regulation its status is still unclear, and the delegated acts on mitigation and adaptation will shed more light on this issue. In terms of the Recovery and Resilience facility, the situation is even more complex. In February, the European Commission issued a technical guidance document on the “Do not Significant Harm” principle as it applies to the recovery funds aimed at preventing funds from going to projects that may impact the environment negatively.

When it comes to fossil fuels, investments are not deemed compliant with this principle, however spending on gas will be allowed where it is needed to facilitate a transition to cleaner energy in coal-reliant countries. This is simply another example of the uncertainty Member States and Investors are facing regarding a key technology for a sustainable transition in certain parts of Europe, while at the same time, the clock is ticking, and investments will have to be made quickly.

These were some examples where the EGD discussion is becoming more concrete. If this was not complex enough, the EGD and transition process has been impacted by the pandemic which has created the need to act fast to bring the EU economy back to life. Investments are needed and they are in the order of trillions, not billions.

In this context, the EGD was always defined by the European Commission as the growth strategy of the European Union. The MFF 2021-2027 stablishes a 30% binding climate expenditure target. Now additional funds will be directed to make the recovery green. The Recovery and Resilience Plans, which are at the core of the Recovery and Resilience Facility (main component of Next Generation EU) define a 37% binding target for climate expenditure, putting even a higher pressure on the EGD maturity process.

The development of the EGD needs to be seen as an ongoing process. The European Commission ambition is irrefutable, but it has to manage an EGD process that is complex, with a higher level of ambition and with enormous resources allocated to it, and on an accelerated schedule. In this effort, which represents a historical change on scale and timetable that has not been tried before, ensuring that the parts are well coordinated, that there is capacity at the member state level to absorb the change and deploy the resources, is absolute must.
The June package will need to consider all this.