

WHAT COMES AFTER THE EUROPEAN GREEN DEAL?

**Recommendations 2024-2029:
Executive Summary**

By the Independent Tripartite
High Level Groups
on EU Policy Innovation

Executive Summary¹



To ensure welfare, competitiveness and resilience, governments and the European Commission need to work together to improve macro-economic conditions in the EU and the efficacious functioning of its single market. Therefore the transition to a climate-neutral and circular economy requires to give equal importance to the economic, social and ecological dimensions of sustainability. This demands more systemic thinking and innovative methods of policy design, cooperation and implementation.

Three mega challenges need to be addressed: controlling the costs of the European Green Deal for enterprises and citizens alike; avoiding transition failures; managing the transition with methods appropriate for its complexity.

The **climate investment gap** is larger and the transition costs are higher than originally estimated. A Climate Transition Fund will be needed to facilitate investments in key economic sectors, to ensure cohesion in the Single Market and protect citizens' welfare. Cross-border and trans-European projects to make the energy system more integrated and efficient should be a priority. (p 10-13)

Transition failures can be avoided by (1st) setting stable, coherent and predictable transition targets, needed because of the high capital expenditure. This demands public-private sector specific consultations and removal of regulatory barriers hindering decarbonisation. (2nd) Aligning demand and supply is necessary to provide incentives for successful market creation. The high investment risks require public guarantees, preferential loans and public sector equity investments for more financial security to radically new climate-neutral technologies. (3rd) Special social support measures and consumer incentives to use energy-efficient and low-carbon technologies should be developed under a common EU framework to avoid citizens' backlash. (p 14 – 16)

Better transition can only come through **innovation of EU governance methods**. The European Commission and the Council should upscale foresight, strategic awareness and agility, impact assessment using OECD guidelines and reliable financial data, and regulatory scrutiny. This can best be done by an independent agency serving both institutions. Blending of decision making methods and more flexible use of budgets will increase efficacy too. (p 17 – 25)

The three most important levers for the transition are finance, research and trade.

A **better allocation of resources** can be done through (1st) a systematic climate investment monitoring at EU level, assessing the necessary investments to reach its climate targets for 2030, 2040, 2050, regardless of their source (public or private) and identifying sectors in need of more funding (investment deficit) or overfunded (investment surplus). (2nd) An EU climate investment target (as a percentage of GDP) should be incorporated into EU economic governance and used as an indicator for EU economic governance and EU funds allocation by the new EU climate transition fund. (3rd) The existing EU “sustainable finance” framework should be completed with an equally ambitious EU “transition finance” framework: a clear and unequivocal definition of transition finance, applicable in practice via corporate finance instruments at entity-level (debt and equity). (4th) The existing Taxonomy Regulation must be more granular, clearly distinguishing sustainable assets (green category), transition activities (amber category) and environmentally-harmful activities (red category). (5th) An EU standard for transition bonds in addition to the

³ Summary based on the recommendations produced by the independent tripartite High Level Groups (HLGs) on Policy Innovation. The work builds upon a series of discussions and reflexions with businesses, academics and public officials strictly conducted under Chatham House rules and chaired by Esko Aho (Forestry & Biomaterials), Peter Altmaier Chairman (Trade Policy Innovation), Phil Hogan (Biosphere Economy Innovation), Tobias Krantz (Systems Innovation), Pier-Carlo Padoan (Financing Sustainability Transition), Andris Piebalgs (Clean Energies & Supply Security), Mamphela Ramphele (Africa-Europe Partnership), Ivan Rogers (Neighbourhood Interdependencies), Vassilios Skouris (Citizenship Innovation), Nout Wellink (Governance Innovation). Each idea expressed in the main document and in this summary is not necessarily shared by all members and chairs, but the document is based on a broad consensus, summarized by the executive director.

existing EU green bond standard and sustainability-related corporate disclosures based on a common methodology can ensure quality reporting, to be assessed and scored by a single European body, acting as an EU rating agency. (6th) Enable transition finance through prudential capital requirements for banks, a green lending facility, and a green public guarantee scheme. Completion of the Capital Markets Union is essential. (7th) Phasing-out fossil fuel subsidies and review the EU carbon pricing framework, namely the Emissions Trading System (EU-ETS) and the Carbon Border Adjustment Mechanism (CBAM). (p 27- 34)

Research policy and funding efficacy are an equally important lever for transition to climate neutrality and for bolstering Europe's resilience and security. (1st) A comprehensive systems based approach and focus on fundamental research is essential to optimize research investments costs, ensure dual use, and align competitiveness with sustainability. Completion of the European Research Area and effective trans-national cooperation with business and researchers is crucial for blending of scientific disciplines and developing market potential. (2nd) Systemic inefficiencies should be resolved and new private sector funding should be facilitated, in particular through completion of the Capital Market Union. (3rd) The existing Innovation Principle should guide policy and regulatory scrutiny and to strengthen technology infrastructures. (4th) Robust impact assessments must provide in-depth analyses of expected and actual policy outcomes, ensuring efficient research commercialization, a key role for public procurement, and fostering an innovation ecosystem throughout the single market. (p 35 - 46)

The third lever is an **overarching trade policy**, key for economic security and social prosperity. (1st) The EU trade policy should be a horizontal framework that coordinates the vertical clusters of other policies and their extra-territorial impact, coordinated also with the EEAS for geopolitical aspects. Trade policy must account for comprehensive partnerships and be an instrument for economic diversification, innovation and competitiveness. (2nd) Traditional Free Trade Agreements and the newer Sectorial Trade and Innovation Agreements are both needed for competitiveness and market expansion, innovation and productivity growth, technology transfer and knowledge exchange. (3rd) Europe's interest is not less trade liberalisation, but a transformation of global trade governance to deal effectively with the downsides which can affect countries and large groups of people, ensuring that globalisation serves the people. (4th) The multilateral rules based trade system must be reformed to preserve it, in the interests of Europe and of countries striving towards the SDGs, and to be a forum to negotiate trade agreements and resolve the trade problems. (p 47 - 59)

Three policy sectors stand out for the climate transition: energy, agriculture and forests.

Energy decarbonisation impacts the whole economy and society. (1st) It can be achieved through a diverse set of technologies adapted to diverse contextual conditions, through the wide application of the "technology openness" concept in EU policy-making, ensuring that the market, with policy support, decides where the various technologies needed in the transition are deployed. (2nd) The financial and social costs require the private and the public sector to contribute to financial efforts and at EU level, the creation of an EU low-carbon Fund and of an EU Clean Tech Fund to support Member States. Coordinated efforts should be deployed to finance interconnections, but also for supply chain diversification. (3rd) Energy storage technologies, both for short-duration and for long-duration, are crucial for facilitating the widespread adoption of renewable energy sources. (4th) Investments in vocational training are important but also creative strategies to attract qualified work force from third countries, and more flexibility in labour market rules. (5th) Governments should take the lead by investing in improving efficiency within the public sector, setting a precedent for others. (6th) Particular attention is required for scarce access to critical raw materials/electronics and how to ensure their circularity; environmentally acceptable mining technologies and practices; threats to key energy infrastructure and cybersecurity. (p 61 - 74)

A **paradigm shift in agriculture** is needed. (1st) Priority must go to entrepreneurship, with a farmer-centred approach, and to nutrition, to reduce the environmental footprint. Both provide the population with healthy and affordable food, which requires a more inclusive systemic policy approach, involving both the downstream and upstream parts of value chains. (2nd) Agricultural transition and farmer incomes need evidence-based mitigation plans, identifying the trends impacting farmers' earnings through research exploring the impacts of the Farm to

Fork and biodiversity strategies and anticipating potential risks, and integrating sustainable livestock practices. Farmers' financial stability while transiting toward more sustainable practices is fundamental. (3rd) This can be done by prioritizing regenerative agriculture and accurately assessing its value and how to reward the beneficiaries, by a shift from micromanaging farms to solution-providing approaches inspired by agile management principles, creating leaner, more effective monitoring practices and regular evaluation, by accelerating digitalization and precision agriculture. Therefore the budget should be shifted towards grants or soft loans for high-tech equipment. (4th) A Food System Innovation Investment Fund will empower rapid testing and up-scaling of innovative solutions, integrating technology and stimulating consumer acceptance. A Food System Observatory should measure the impact of food policies holistically, implementing True Cost Accounting of food and externalities to bridge the price gap between healthy and unhealthy diets. This agricultural policy can promote public health. (p 75 – 84)

The **crucial role of forests** in Europe's transition to a climate-neutral, circular bio-economy must be better recognised. (1st) A holistic and coherent forest policy is needed to deal with their complexity and regional differences, and to utilize scientific knowledge for tailored approaches. (2nd) Sustainable wood supply is strategic for the bioeconomy; from bioenergy to construction, textiles, pharmaceuticals, and more. (3rd) Significant research investments, public-private partnerships, collaboration between SMEs and multinational corporations, and innovative financing mechanisms are essential to combine protecting natural forests, expanding planted forests and plantations, restoring degraded landscapes, and enhancing fibre production. (4th) Forest diversification will enhance resilience and biodiversity. Regulatory standardization across the EU and a synergistic relationship between agriculture and forestry are needed. (5th) Policies should align with rural-urban dynamics and increase urban forestry. They should include a public health axis to help mitigate risks from ecosystem disruption. (p 85-95)

Improving Global Presence.

African countries and the Neighbourhood stand out as feasible options for a strengthened EU geopolitical role. Both require a change of mindset and a search for equitable and fair, mutually beneficial approaches, taking into account the needs of the countries as they see them.

(1st) With **Africa** the challenge consists to adapt policy making and implementation to the asymmetries in the institutional set-up and the bilateral relations of Member States and to involve business in order to ensure compatibility with market realities. (2nd) Funding needs to shift from inefficacious development policies (except humanitarian aid) to investment and trade. This alone will help structural transformation in agriculture, manufacturing and services, facilitate self-propelling economic growth in its expanding consumer markets, and benefit the European economy too. The potential of sustainably managed forests for a bio-economy, and network improvement and cooperation in the energy sector are needed for local supply as well as for exports. (3rd) Improving infrastructure will facilitate intra-African value chains. Trade facilitation measures supporting regional market integration and the African Free Trade Area and carefully considering impact of EU policies can help upscaling of SMEs in Africa and to connect them to global value chains. (p 97-106)

In the **Neighbourhood** a paradigm shift should be made. (1st) Countries not on a pathway to membership should experience that the EU takes more account of specific conditions and needs, as they perceive them, and is willing to design together mutually beneficial outcomes and through meaningful dialogues with business and civil societies from the neighbouring countries. (2nd) As a preliminary step, one could select two economic domains, such as food systems and energy, where the interests and opportunities appear asymmetric, and build engagement with businesses from there and here. (3rd) As with other countries, the impact of EU legislation requires consultation upfront and in many cases support for local adjustment policies.

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