

NEXT STEPS FOR THE EUROPEAN GREEN DEAL: NAVIGATING ECONOMIC AND SECURITY CHALLENGES, KEEPING A FOCUS ON CLIMATE AND JUSTICE

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Abstract

The European Union (EU) is trying to strengthen its resilience to external shocks while keeping an open economy. The tension between these objectives is evident in the Green Deal Industrial Plan and its two main components, the Net-Zero Industry Act and the Critical Raw Materials Act. A viable EU strategy could focus on de-risking rather than de-coupling from key trade partners and third countries.

Introduction: The European Green Deal and its external dimension

The EU has promoted a European Green Deal (EGD) since late 2019, with the overarching goals of accelerating the energy transition throughout the economy and society, and achieving climate neutrality by 2050. This requires increasing renewable energy generation, energy efficiency and energy saving, and meeting interim targets by 2030 – such as a reduction in greenhouse gas emissions of at least 55% compared to the year 1990.

The EGD has an important external policy dimension. Most notably, it requires reducing fossil fuel imports, protecting the European industry from competitors based in countries with laxer environmental regulation and incentivising third partners to advance their own energy transition.

In 2022, with the [REPowerEU Plan](#), the European Commission gave priority to phasing out imports of fossil fuels from Russia and increasing purchases from producers that are currently seen as reliable (such as the United States (US) and Qatar).

A [Carbon Border Adjustment Mechanism](#), which serves as a tariff on non-EU imports based on their carbon intensity, will be introduced progressively from 2026. The goal is to ensure that EU climate regulations do not put domestic producers at a disadvantage. The mechanism also serves to prevent carbon leakage, which is the transfer of polluting activities outside the Union. The European Commission also plans to adjust trade policy to the pursuit of climate targets, for instance through the inclusion of sustainability criteria in new treaties. These measures may incentivise trade partners to advance their own energy transition, but they may also attract criticism, such as the argument that the EU is pursuing 'green protectionism'.

Old and new dependencies

Disruptions in global supply chains following the Covid-19 pandemic and the breakdown of EU-Russia energy relations in 2022 alerted EU policy-makers to the risks of excessive dependence on external suppliers. Russia's attack on Ukraine exposed these risks as Moscow's confrontation with the EU quickly extended to the energy sector. The EU's difficult search for alternative fossil fuel suppliers, coupled with production cuts by the Organization of the Petroleum Exporting Countries, showed that diversifying the import portfolio is costly and exposes the EU to different vulnerabilities.

Increasing the use of renewables will be essential to reduce reliance on gas and oil producers and tackle climate change. However, renewables will not make the EU energy self-sufficient in the foreseeable future. New external dependencies have arisen, especially with respect to critical raw materials and technologies that are essential for the energy transition – rare earth elements for renewable energy installations, and cobalt and lithium for battery production. Even in an advanced energy transition scenario, domestic energy generation from renewables does not seem sufficient to meet the EU's needs. Hence, the European Commission foresees extensive EU imports of hydrogen from neighbouring countries. Careful planning is therefore required to decrease old and new dependencies without alienating trade partners.

The Green Deal Industrial Plan

In February 2023 the European Commission presented its [Green Deal Industrial Plan for the Net-Zero Age](#). The plan intends to make the EU 'a leading player in the net-zero industries of the future' by underpinning industrial manufacturing of key technologies in the Union. It envisages a simplified regulatory framework, faster permitting process for strategic projects and quicker access to funding. The plan pays special attention to funding Important Projects of Common European Interest (IPCEI) in strategic technologies. Currently, the EU has five large IPCEIs – one in microelectronics, two in batteries and two in hydrogen – but further and smaller projects are expected.

The Industrial Plan is partly a response to state-funded competition from outside the EU. The document argues that third actors' subsidies are 'unleveling the playing field' – a reference to Chinese state aid and possibly to the fiscal incentives foreseen by the Inflation Reduction Act in the US. To compensate for state aid in competing major powers, the Commission intends to relax EU rules on state aid through the Temporary Crisis and Transition Framework (TCTF). Based on the TCTF, state aid can be granted to all renewable technologies, green hydrogen and biofuel storage projects. Two draft legal acts, presented in March 2023, detail the substance of the Green Deal Industrial Plan, the [Critical Raw Materials Act](#) and the [Net-Zero Industry Act](#).

Critical raw materials

Developing a low carbon industrial sector and deploying renewables on a vast scale requires large quantities of Critical Raw Materials (CRMs). A raw material is considered critical when it is of high importance to the economy and to modern technologies (such as semiconductors) and its supply involves considerable risks, for instance due to insecure transportation routes and the unreliability of available producers. The EU publishes a list of CRMs every three years. The EU was more than 95% dependent on foreign supplies for 17 out of the 27 CRMs included in its 2020 list (Menkhoff and Zeevaert, 2022).

The Critical Raw Materials Act sets benchmarks for domestic EU production capacity along the supply chain of CRMs: at least 10% of the EU's annual consumption for extraction, 40% for processing and 15% for recycling.

Increasing domestic extraction will likely involve the relaxation of environmental regulations to allow for highly polluting mining activities. Supply diversification measures were also included: not more than 65% of the EU's annual consumption of each strategic CRM at any stage of processing can come from a single third country. China would be impacted heavily by these targets as it is a key CRM supplier to the EU and has more than 80% share of the European market across the solar industry supply chain (Yang, Hancock and Pitel, 2023).

Tech industry for the low carbon transition

The Net-Zero Industry Act proposes that the EU's manufacturing capacity of strategic net-zero technologies reaches at least 40% of the Union's deployment needs by 2030. Such technologies include solar photovoltaic, onshore and offshore renewables, heat pumps and geothermal energy, batteries and storage, electrolyzers, carbon capture and storage, sustainable alternative fuels, biogas, grid technologies and advanced nuclear power technologies.

Strengthening manufacturing capacity in these sectors involves facing competition from suppliers with lower production costs and a stronger position in global supply chains. In addition to state aid and simplified approval procedures, the EU will make use of trade defence instruments and of the Regulation on Foreign Subsidies, introduced in January 2023 to investigate subsidies granted by third countries. It will also apply the EU framework for screening foreign direct investments and the International Procurement Instrument to support EU companies in accessing procurement markets in third countries.

Economic and environmental dilemmas

In the business sector, responses to the Green Deal Industrial Plan and its two proposed Acts have been mixed. For instance, while the battery industry has welcomed plans to support domestic production, stakeholders in the solar industry worry that local content sourcing will have a strong impact on prices and competitiveness, as estimated prices for EU-made panels are more than a third higher than their Chinese equivalents (Milne, 2023).

Furthermore, easing regulations for mining CRMs in Europe can have a negative impact on biodiversity, as a majority of the EU's known reserves are located in or near protected areas (Zimmermann, 2023). Environmental campaigners argue that some mining projects can cause serious water and soil pollution and lead to deforestation and biodiversity loss. At the same time, if adequate standards are respected, mining within the EU could be scrutinised better and avoid worse pollution in the Global South.

The EU's present focus on securing access to CRMs and to green hydrogen in the Global South runs the risk of causing a negative response from actors in these states. In some countries, these EU plans can be seen as perpetuating disadvantageous trade patterns. Potential partners such as Morocco and Egypt appear more interested in domestic low carbon industrialisation than in supplying resources and renewable energy for decarbonisation in Europe. To avoid accusations of green colonialism, the EU needs to develop partnerships aimed at decarbonisation and socio-economic development in both the EU and partner countries (Quitow, Renn, and Zabanova, 2022).

A just transition

The focus of EU strategies on external energy policy and domestic resilience should not sideline the question of energy justice. In order to earn broad societal support, which is fundamental for its success, the EGD must include a strong social dimension. In its current form, however, the Green Deal Industrial Plan prioritises almost exclusively the creation of an investor-friendly competitive low carbon economy. As some researchers have noted, the Commission's Communication on the Industrial Plan has no links to the European Pillar of Social Rights (TEPSA, 2023). In contrast, the US Inflation Reduction Act includes explicit social conditionality, binding tax incentives to investors' compliance with wage and apprenticeship requirements.

The low carbon transition in the European energy and industrial sectors will require extensive retraining of labour and restructuring of the economy, particularly in regions that are heavily dependent on the fossil fuel economy. While the Just Transition Mechanism aims to address these issues, it is important that funds are allocated to projects involving workers and companies negatively affected by the transition.

To be successful, the EGD must keep a focus on high environmental standards and pay more attention to social justice. Moreover, as climate change can only be tackled adequately if all major polluters are committed, the EU should work towards preserving a cooperative multilateral framework that supports decarbonisation on a global scale.

A successful transition requires a comprehensive and inclusive approach

Europe's low carbon transition involves challenges of various nature, ranging from the security of supply to environmental, economic and social questions. In the current context of growing geopolitical competition, the EU is prioritising security issues and supporting the reshoring of strategic industry.

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