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A Test of Resilience: Covid-19 and the Business of Europe's Green Deal

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The impact of the global Covid-19 pandemic is clearly enormous in health, social and economic terms. It has also had an immediate environmental impact which may play out over the longer term, with a number of political repercussions. How resilient is the European Union's Green Deal proving to be? What are the implications for business, policy-makers and other stakeholders to this strategic initiative which seeks to make Europe climate neutral by 2050 strategy? The impact could have global consequences.

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Coronavirus as a sustainability challenge

If the notion of 'business as usual' as we entered the 2020s had any residual meaning, it must surely have lost it in the wake of Covid-19. The impact of the global pandemic is clearly enormous in health, social and economic terms. Even if different countries and regions are experiencing its grim human effects in different ways, depending on the timing and extent of public health responses and their effectiveness, the degree to which social and economic activity has shut down is significant almost everywhere. With the prospect that restrictions are maintained in some form for many months to come, global financial markets are anticipating a depression as severe as in the 1930s, and perhaps even more so in some countries – even taking into account the historic commitments from governments and financial institutions to construct emergency economic survival and recovery packages.

Not unsurprisingly, this has also had a short-term environmental impact, with pollution associated with industrial activity, travel and domestic consumption of almost everything except food, medicine and digital services reducing dramatically, meaning local air quality and visibility in many cities improving and greenhouse gas emissions temporarily dropping. But environmental campaigners are far from celebrating, as unhappy about the human cost and inequalities that are being revealed in this system failure as everyone else, conscious that any solution to the immediate crisis, and effort to avoid repetition, cannot seek to solve one aspect at the expense of the others, when the links between them are so clear.

An important question for Europe in this context is what the impact of these developments has on its recently agreed 'flagship' strategic priority – a European Green Deal, centered on achieving climate neutrality by mid-century, but encompassing a range of other policy measures designed to tackle environmental and human problems ranging from the biodiversity crisis, material over-consumption and pollution and waste toxic to humans and nature alike, through a comprehensive mix of macro-economic, digital, industrial and social strategies that touch on everything from fiscal, trade and competition to consumer, employment and regional policy. De facto, it is Europe's new economic game-plan, styled by the European Commission as its 'growth strategy' and is as at least as important to business as earlier grand plans to complete the Internal Market and even the creation of the Euro.

Inspired by Roosevelt's New Deal as well as lessons drawn from a mix of more recent experiences, including Europe's response to the 2008-9 financial crisis as well the European election results demonstrating public support for more urgent and ambitious action to action to prevent dangerous climate change, it is an undoubtedly bold attempt to demonstrate it is possible to transition to a form of sustainable development which has public support and is also resilient to shocks along the way. Earlier than was hoped or expected, now is clearly its first stress-test, and how it responds is important both in Europe and in across the world given the 'Brussels effect' of EU regulation, the size of its economy, as well as the EU's stated intention for its Green Deal to be a model emulated by other regions.

At this phase in the crisis, there seem to be three distinct ways in which to assess the resilience of the Green Deal itself. They are all somewhat inter-connected, like so many other aspects of these issues:

— Firstly, in relation to its impact on the timetable for the development of Green Deal policies and implementation of existing ones;

— Secondly, in relation to the degree of alignment of the financial recovery package with the Green Deal goals;

— thirdly, in relation to structural impacts of the crisis, and what may be the 'new normal' in the operation of global relations, domestic public opinion and politics, market and consumer behavior in relation to questions of sustainable development and the Green Deal.

Timetables for Green Deal policy decisions and implementation

Given the obvious need for an over-riding focus of governmental and policy-making attention and resources on the immediate health crisis and its rapid extension into an economic one, it is little surprise that decision-making on some elements of the Green Deal have been re-assessed and, in some cases, postponed. The European Commission has published an updated work-plan which delays the planned date of adoption and publication of some initiatives on the grounds that they are less time critical. A small number have been pushed back to 2021, including a strategy on climate adaptation and one on forests, two on maritime and aviation fuels, and one on consumer empowerment. A slightly larger number of initiatives have been delayed by a few months, including important ones on chemicals, biodiversity and a 'farm to fork' agricultural and food strategy. But arguably the ones with most political and economic significance are being maintained – on sustainable finance, a building 'renovation wave' and new climate targets for 2030.

The latter in particular is considered crucial in relation to the next UN Conference of Parties (COP), the decision-making body responsible for monitoring and reviewing the implementation of the United Nations Framework Convention on Climate Change. It's scheduled meeting in Glasgow in November has now been postponed to 2021. The preparation of an impact assessment for the new proposed targets can be undertaken at the planned speed, which had been criticized by some campaigners at the time as being too slow. Publication of a proposal towards the end of 2020 may now fit well with the results of the US Presidential elections, the result of which is less predictable than before the crisis, and can therefore allow for potential diplomatic efforts with both the US and China to be undertaken before the rescheduled COP. Delay might in that instance help the chances of the Green Deal's centerpiece goal of climate neutrality being pursued more successfully at an international level, and therefore increase its resilience – even if that clearly also depends on a degree of international co-operation, collaboration and trust generally that has thus far been noticeably lacking in the response to Covid-19 itself. The bigger question (addressed below) is how much the crisis spurs co-operation rather than competition globally on a whole range of other subjects, including but well beyond climate change.

Perhaps what is more striking than the fact that some initiatives are temporarily delayed, is the extent to which the most time-sensitive and even potentially controversial elements in it have been maintained. Before the Covid-19 crisis fully hit, the European Commission worked at great pace to deliver on President Von der Leyen's commitment to publish the overall strategy within 100 days of taking office, and moreover, also published a proposal for a European Climate Law to embed the 2050 climate neutrality goal into a legally binding process designed to ensure accountability for delivery on the goal over the long-term. It also published a new industrial strategy and a circular economy action plan, both of which have the same climate neutrality goal at their core, along with a clear emphasis on digitalization, central to their approaches. The success in agreeing and publishing these key elements of the Green Deal so quickly has bolstered the sense that there is substance behind the rhetoric, and that the momentum established early on is sufficient to sustain the effort, even now.

Indeed, although there are a small minority of dissenting voices in the European Parliament (EP), the Council of Ministers as well as the Commission, there is a clear sense that even if some decision-making may be delayed, the strategic context for other decisions by the EU looks clearly set to remain focused on the Green Deal. Initiatives supporting this amongst coalitions of Member States in the Environment Council, for example, and amongst all the main EP political groups as well as the prominent Chair of the Environment Committee, strongly suggest that whatever delays there may be in the short-term, the Green Deal approach is proving largely resilient to the Covid-19 challenge to political attention and timings.

This relative resilience is also evident in the way that business associations who have proposed delays to implementation of climate legislation or consultations on new proposals have not been well received or accommodated thus far, other than where activities are directly linked to measures to maintain health or food security – measures phasing out single use packaging may be delayed given their role in food and medical supply, for example. On the whole, even while there is clear recognition that they and their employees face immensely challenging environments, the political focus for the response to their problems is focused most immediately on the economic rescue and recovery packages, not legislative issues, even if this aspect will be kept under review. A similar reaction is evident in the way that suggestions from Poland that the EU Emissions Trading System be suspended or abandoned in light of the crisis, even if arguments over its planned review, and link to a Border Adjustment Mechanism to avoid unfair competition from outside the EU, will no doubt continue.

Aligning the Covid-19 financial recovery packages with the Green Deal

A key second test of resilience for the European Green Deal is how well it shapes the rescue and especially the economic and financial recovery packages which are being put in place. Looking back at the response to the 2008-9 financial crisis, which in large part failed to direct funding towards 'green' investments, then one might assume that an opposition between economy/society and ecology or longer-term sustainability would again re-assert itself – and indeed that is a fear expressed by several prominent policy-makers in the EU as well as elsewhere.

The overriding short-term priority of the European Central Bank (ECB), central banks and treasury departments in the current context has been to maintain liquidity in Europe. Governments urgently need to raise funds, but investors are nervous, so the ECB has naturally been focusing its immediate asset purchases on sovereign debt to ensure that the EU is a safe destination for capital and that investors will get their money back. So, are these asset purchases aligning with the Green Deal?

Even though its new President, Christine Lagarde, has announced an intention to 'green' the ECB, it has in fact so far not committed to align its €750bn PEPP (Pandemic Emergency Purchase Programme) to the EU's recently agreed sustainable finance taxonomy regulation, for example. Nor has the ECB so far coordinated its actions with other institutions such as the European Investment Bank (EIB) to purchase its bonds to finance a large-scale, EU-wide Green Deal investment programme.

The ECB's immediate priority is to reassure investors and the capital markets, who are also looking at other destinations, notably those overseen by the US Federal Reserve and the Peoples Bank of China, so it wants every flexibility. Consequently, the early signs are that these funds are not being wholly aligned to the Green Deal goals. Campaigners have identified oil and gas companies as among those the ECB has added to its balance sheet, acquiring bonds maturing between 2024 and 2034, for example, although the volumes are not reported. The Bank of England likewise recently announced it would buy corporate debt from three European oil and gas majors as part of its Covid-19 stimulus programme, apparently going against the bank's intention expressed in March to exclude fossil fuel.

Because the EU's taxonomy rules have only just been adopted, it is perhaps not that realistic to expect the ECB to apply them immediately and in the middle of a major crisis. But another European financial institution, the European Investment Bank (EIB) already has strict lending criteria, and the ECB is already buying EIB loans. Accelerating the purchase of EIB bonds would help green the PEPP and increase the EIB's lending capacity without requiring the shareholders—the 27 Member States—to increase the capital base or provide back-up guarantees. Will the ECB do this?

Another test of resilience will come from other financial schemes, of course. EU finance ministers recently provisionally agreed on a €540bn 'recovery plan' and the European Commission will set out its own recovery plan with associated funding, including this, the EIB's funds and the EU's budget (known as the Multi-annual Finance Framework). The Commission has also committed to generating €1 trillion of climate and energy finance over the next decade under the Green Deal.

National governments understandably want to invest as much as possible to get the economy going again as soon as possible—and for many of them, where the funds go is less important than the political imperative to respond to urgent calls from large and politically significant business sectors and many employees. A key question is whether there are enough viable 'green deal' projects for the Commission and other EU institutions to be able to identify as valid recipients of funds and which are also aligned to Green Deal imperatives.

For the Commission, one very practical test of commitment to this will be whether it significantly increases the number of experts in DG Regio (The EU's Directorate-General for Regional and Urban Policy) , EASME (the EU's Executive Agency for Small and Medium-sized Enterprises), in the EIB and elsewhere, to provide more technical assistance to project developers—with special attention on the delivery of 'shovel-ready' projects identified in each Member States' National Energy and Climate Plans. Existing EU industry, climate and related strategies provide many areas that are candidates – from buildings renovation for energy efficiency and zero emissions heating and cooling, renewable energy project installation and grid upgrading, electric vehicle manufacturing and charging infrastructure, batteries manufacturing and energy storage more widely, advanced biofuels, hydrogen and CCS (carbon capture and storage) infrastructure development, and reforestation initiatives, which all present significant jobs and economic growth opportunities, if fundable individual projects from within these areas can be presented rapidly.

These are the sorts of issues which the European Parliament and the Council of Ministers, especially those coalitions who are seeking to ensure the strongest alignment of the EU response to the Covid-19 crisis to the Green Deal, will be seeking to monitor and check. At this stage, it is too early to be definitive, but the political commitment that is evident on Green Deal strategic goals and importance is not yet being applied to the detailed decisions about asset or debt purchases by the Central Banks, or to the disbursement of funds. There will be clearly be significant scrutiny – but if it is after the fact, that will be too late, so the test or resilience comes much sooner than later in this area nonetheless.

Covid-19 and the political economy of sustainable development in Europe and globally

The probable longer-term structural disruption to the economy, citizen-consumer behaviours and expectations and international relations caused by Covid-19 all have repercussions for the Green Deal, some potentially positive, some negative. There are a number of structural impacts and fundamental arguments and assumptions which are being tested, and depending on how these play out, they will reveal the true level of resilience of the Green Deal.

Many of these are already being debated in the context of recovery packages and associated policy responses, of course, and while it is still too early to draw definitive conclusions, other than that we shall not be returning to a pre-Covid-19 state of economic and political discourse, there are a number of key issues to watch, as set out below.

In light of the difficulties to source key health-related products to help manage Covid-19, from hand-santizers and Personal Protective Equipment (PPE) to ventilators and testing equipment, one of the first reactions from European politicians, including from Thierry Breton, the European Commissioner for Industry, has been to question whether health-related supply chains have become over-extended and over-reliant on too limited a range of suppliers. Even without political intervention, to become more resilient to such shocks, companies in Europe as well as elsewhere are likely to review their supply chains with a view to making them more resilient at the expense of efficiency – expanding the range of sources and physically shortening value chains, perhaps re-localising or re-shoring certain activities.

These measures could spur progress towards material efficiency and greater circularity and draw attention to the role of embodied carbon in traded products, as well as give impetus to the logic of EU industrial strategy to focus on where domestic value chains can be supported in the transition to climate neutrality. The greater emphasis on resilience over efficiency in economic planning by companies and policymakers in general sits relatively well within the Green Deal strategy – as long as it does not tip over to autarchic approaches which undermine the international spread of new technologies, making investment-cases more difficult.

The investment case for further fossil-fuel development certainly seems to be impacted by the 'perfect storm' affecting the industry as a result of the combination of the international difficulties to agree supply-side reductions and the enormous and rapid demand-side reductions from less travel. Even if the dramatic negative prices briefly witnessed are an outlier, the possibility of an enduring negative impact on the price of oil is clear, and affects investment in new exploration and production as well as other existing resources, notably US shale, where debt levels make the position of many companies precarious with such low prices. Such investments may well look less resilient in light of the shock and longer-term energy transition.

However, a low oil price also reduces the cost advantages of shifting to renewable and net zero emissions sources, so the investment case is also challenged for them, absent other support. From a Green Deal perspective, and particularly climate neutrality, therefore, the key question is whether the longer-term disruption to the market and its industry spurs restructuring and innovation rather than embedding existing models for longer. The role of public policy, subsidies and fiscal policy may well be the determining factor in deciding which is the case, so the political resilience and its manifestation in decisions on these issues will be key to the way this plays out here too.

The role of government in these decisions is obvious – and perhaps equally so is the extent to which the Covid-19 crisis has necessitated a much greater degree of state intervention from governments in Europe as well as elsewhere in order to manage health and economic impacts of the crisis. This has several consequences of direct relevance to the Green Deal. In some areas of the economy, there is a strong likelihood that companies are rescued by governments and in doing so the State takes partial or even full ownership of them – that could be the case for airlines, for example, but also a range of other companies that may now be active in sectors of the economy determined to be strategic for the country concerned, or indeed the EU as a whole. Such sectors could extend beyond travel to energy and digital infrastructure and services, to food and health, and include segments of activity from extraction and processing through to manufacturing and post-consumer materials management. The greater role for state intervention in all of these areas could facilitate its ability to determine the pace and scale of investments, the direction of innovation and public engagement in support of the Green Deal.

Beyond the greater formal ownership stake which governments are likely to have in some companies and parts of the economy, the other consequence of the Covid-19 crisis has been to legitimize the role of the state in many more aspects of not just the economy and healthcare provision, but also social life and public behaviour. The legitimization of a greater role for the state and the public interest than in the recent past could have a significant impact in enabling a more interventionist approach to many things, but this could certainly include the Green Deal. But rather than necessarily result in a simple shift in the left-right dichotomy between state and market, in light of the remarkable extent of voluntary civic engagement in the response to covid-19, an interesting possibility of a new narrative could also open up.

The short-term imposition of lifestyles with much less travel, working from home, a new appreciation of who really are 'essential workers', and enjoying quieter streets, cleaner air and more time to spend thinking about what really matters to us could be profound – and in the context of a Green Deal which anticipates the need for potentially significant changes in behaviour, also highly relevant. Academic literature has already begun to speculate whether an 'Overton' window of political opportunity might enable social values and the role of civil society to play a much more significant role in addition to those usually ascribed to the state and the market, and in the process elevate interests in health, wellbeing, environment, community, equality and other things in life which people value in addition to material gains. Such issues are relevant to the Green Deal's potential appeal to the general public, beyond its ability to prevent climate change or biodiversity loss, or even its intention to generate interesting and rewarding jobs in new growth industries. None of this is a given of course – but a return to pre-Covid-19 economic and cultural assumptions seems highly unlikely. It will be important to look both at real behaviour as well as polling evidence as this becomes available.

The geo-political implications of the crisis for the Green Deal seem to be equally profound – if even more uncertain given the difference in approaches to government taken by different countries around the world already. From a global perspective, failure of the WHO to ensure an effective co-ordinated approach to the public health crisis is symptomatic of the underlying challenge being posed by the rise of a mix of nationalism, populism and authoritarianism to an international rules-based order based co-operation and shared public interests and humanitarian values. It may also exacerbate the extent of outright competition, distrust and even breakdown in relations, if the US-Chinese tension is any indication. That may in turn focus more public attention on arguments around differences between the way countries evolve in their use and monitor digital communication technologies, and the role of democratic forms of accountability on government action in this area, as each competes to win a global narrative battle on whose approach is superior. Given the declared objective of the EU to act as a model of development for others, and its liberal-democratic, rules-based and collaborative approach to achieving it, it is clear to see that the Green Deal's resilience could face a severe challenge from these developments.

Conversely, if precedent from other international crises is a guide, the experience may spur more focus on the need for effective global institutions to facilitate international responses to collective problems such as Covid-19, but also those of climate change and other environmental issues at the heart of the EU's Green Deal. The EU would appear to have a strong interest in pursuing this and building a new international consensus based around a new interpretation of the UN's core values.

But before it does, the EU will need to be sure that its own approach does itself not reflect the tendency towards narrow and short-term national interests overcoming those of the wider regional and long-term interest. The EU's own difficulties in responding in a well c-ordinated and effective way to the health crisis, let alone its initial response to the economic challenge shows how far it needs to go to build up solidarity and trust between its own members at present. It has historically overcome such crisis by developing new capacities to act together rather than turning inwards – and its challenge is to do that again this time. In the context of the Green Deal, it is quite possibly its success in this and related international geo-politics which will determine the resilience of the Green Deal more than anything else. The Green Deal seems to be proving its resilience in other ways, and the crisis of Covd-19 may turn into an opportunity to accelerate many of the structural changes it seeks – but only if the EU practices what it preaches about collaboration for the common good at home first.

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