

## A new Compass is needed for a Strategic Europe

The Green Deal has changed the political economy of the European Union. What began as a vision to make Europe the first continent to achieve climate neutrality by 2050 has evolved into a driver for green recovery, energy security and prosperity. It sets an unprecedented speed and scale for the deployment of renewable energies, energy efficiency, electric vehicles, heat pumps and building renovation. If well implemented, the Green Deal has the potential to cut gas and oil consumption by a third, reduce energy bills for households and businesses by a quarter and create at least net 475,000 jobs by the end of this decade<sup>1</sup>.

However, a range of geopolitical, social and economic challenges require a stronger response. The forthcoming Heads of State and Government's 'Strategic Agenda' for 2024-2029 can provide a strong direction for addressing them.

### What are the challenges facing the EU?

- **Risk of a "two-speed" transition:** Not all EU countries have the same fiscal capacity to support their households and businesses, create net-zero technology manufacturing, and reach the required scale and speed of implementation. This divergence might lead to deepening economic disparities and fragment the Single Market, unless European coordination and additional investments are significantly scaled up. This is particularly true in the context of a possible EU enlargement.
- **High economic and political cost of the dependence on gas, oil and coal:** The Russian war in Ukraine and the recent escalation of tensions in Nagorno-Karabakh by Azerbaijan emphasise the EU's vulnerability to geopolitical changes. The era of cheap fossil fuels is over. Relying on liquefied natural gas (LNG) is not a viable long-term solution either as it is scarcer, more expensive and polluting. Governments risk exchanging the geopolitical vulnerability for a geoeconomic one: the European economic model would thus become highly exposed to volatile international market prices, worsening the competitiveness of European companies and exacerbating the cost of living crisis for households. .
- **Dependence on China's net-zero industry and growing US competition:** The heavy reliance on China's net-zero technology poses significant risks, such as bottlenecks or disruptions in the supply chain, potentially preventing or delaying the EU's ability to meet its climate goals. Whilst China intends to expand its leading position in the net-zero industry, the US is gaining ground through the Inflation Reduction Act's financial firepower and a strong position in innovation<sup>2</sup>. The energy crisis<sup>3</sup>, risk of supply chain shocks or delays, and a lack of European net-zero value chains have a strong impact on European competitiveness and raise the concerns about a deindustrialisation of Europe.
- **Risk of an unaffordable transition for households:** Upfront costs for purchasing an electric car, a heat pump, renovating buildings, and installing rooftop solar panels are too high for most households. If only the wealthiest parts of the population get access to those technologies, disparities risk to widen within society. Affordability and accessibility of climate-friendly equipment is key to make low- and middle-income households benefit from lower energy bills.

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<sup>1</sup> Strategic Perspectives (2023). Turning the European Green Deal into Reality, Brussels

<sup>2</sup> Strategic Perspectives (2023). A New Zero-Carbon Industrial Era, Brussels

<sup>3</sup> European Investment Bank (2023), 'Chapter 6: The energy crisis and green transition' in 'Investment Report 2022/2023: Resilience and renewal in Europe', Luxembourg: EIB.

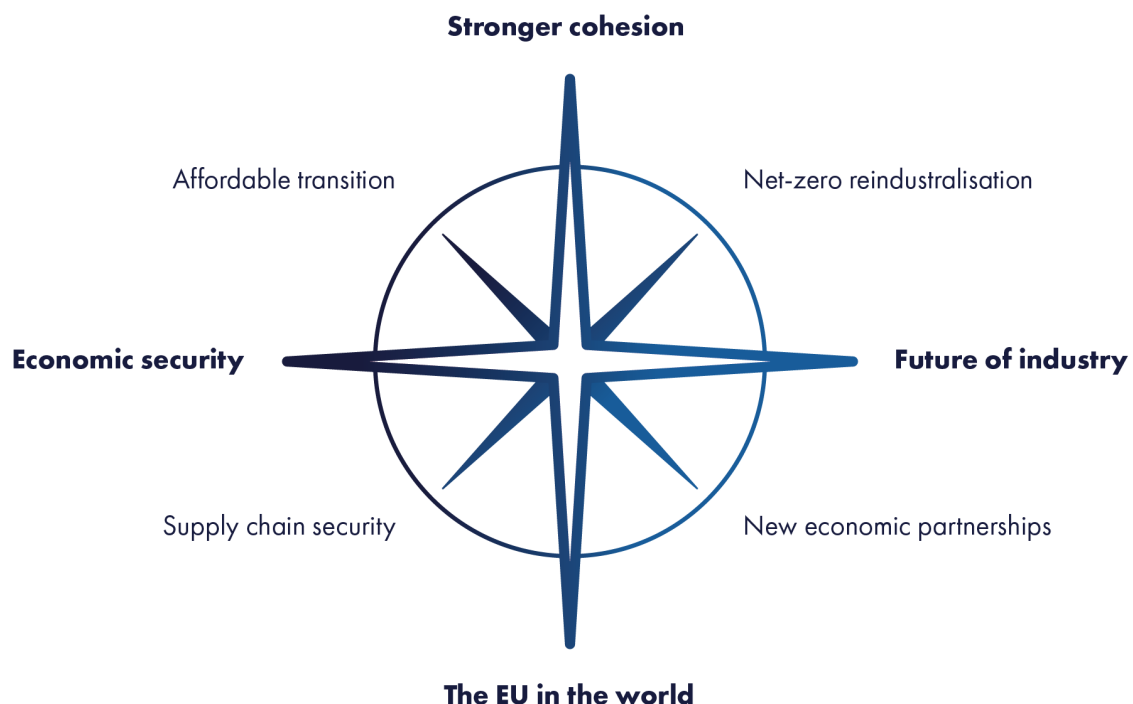




- **Growing climate impacts:** Floods, droughts and fires intensify, causing serious damage to citizens and ecosystems, undermining food security and creating high costs. It's often the poorer regions and citizens that struggle most with the loss and damages linked to extreme weather events.
- **Polarisation of international relations:** The war in Ukraine, growing tensions in the Middle East and a potentially tight race to become US president create a broad range of challenges and uncertainties for leaders to navigate. As many emerging economies are increasingly financially dependent on China, its diplomatic influence is growing as well.
- **Constrained and uncoordinated investments:** The additional annual investment required to achieve the EU 2030 climate target is estimated at around 2% of GDP<sup>4</sup>, with 0.5% to 1% of the GDP being public funding. The end of the Resilience and Recovery Facility risks leaving an important investment gap after 2026. The EU and its members invest as much as the US in achieving net-zero<sup>5</sup>, but Europe's approach lacks coordination and is too complex for companies and households. National and EU investment is spread across multiple programmes and not coordinated between countries.

## A new compass for a more strategic European Union

The Granada declaration fell short of setting out the next steps on the European Green Deal and future of European competitiveness. **Strategic Perspectives believes that a new compass is needed to provide a clear direction of travel for a more strategic Europe in the next mandate.** Four interconnected priorities can increase Europe's resilience and security while make the European economy more competitive and supporting households:



**Building an 'Economic security'** turns into an imperative for the next EU agenda. This concept expands the idea of strategic autonomy and aims to guarantee energy security, a minimum strategic

<sup>4</sup> Bruegel (2023). A new governance framework to safeguard the European Green Deal, Brussels

<sup>5</sup> CAE, GCEE (2023), The Inflation Reduction Act: How should the EU react?





technology production share, and reliable supply chains. The dual dependence on imported fossil fuels and China's supply of net-zero technologies can be addressed in a coordinated European effort. Electrifying heating, transport and industry mainly based on renewable energies is the best economic and security choice. Domestic, reliable and affordable energy will be supplied to homes and businesses. In addition, producing strategic zero-carbon technologies domestically will foster the EU's resilience and build robust value chains. More coordination and funding for a strong net-zero industrial base are the next steps for guaranteeing a sufficient level of economic security.

Strengthening **European cohesion** is a necessity to ensure job creation and the fair distribution of the transition benefits across the continent as well as to achieve European climate targets. The next EU agenda needs to address growing disparities within the European Union and our societies. Increasing the support to low and middle-income households to access climate-friendly technologies will help to face the cost of living crisis. Similarly, creating net-zero industrial sites in regions that face multiple structural changes will generate jobs, create employment security and revitalise economies. In addition, establishing complementary solidarity mechanisms which support low income regions that are strongly impacted by climate impacts will protect vulnerable citizens. All these measures can be supported by a new European financial architecture. The end of the Resilience and Recovery Facility in 2026 and the EU's next multiannual financial framework 2027-2034 provide an opportunity. The future European financial architecture is only fit for purpose if it also anticipates the needs of candidate countries, in the context of a potential EU enlargement.

A **holistic European industrial strategy** is a no-regret to define the future European industrial base and make re-industrialisation the backbone of the EU's net-zero transition. This will create thousands of high quality jobs and attract investment. Innovation, circularity, electrification and resource efficiency can reposition European companies as a leader, setting global standards and opening up lead markets for green products. There is an opportunity to lead on developing highly innovative and resource-efficient batteries, solar panels or green steel for instance. However, strong political engagement and financial support are needed to drive this plan forward, as the market alone will not deliver such a transformation.

Given the geopolitical uncertainties and insecurity about the future US administration, leaders are expected to redefine the **EU's role in the world**. Preserving the rules-based multilateral order, EU enlargement and a new paradigm for economic cooperation with the Global South are worth addressing united. The EU could support countries to reach concrete economic transition and development goals with financial support and closer trade ties in mutually beneficial partnerships. Creating new powerful actors in the net-zero supply chain could offer new export capacity that allows Europe to diversify its supplies, while accelerating the net-zero transition in its partner countries.

## **Building a new political momentum**

A new Leaders' Summit on 9 May can set the tone and priorities for the Strategic Agenda to be adopted in June. The Sibiu Summit in 2019 was beneficial in building momentum and understanding national priorities as well as concerns on climate neutrality for the 2019-2024 cycle. It contributed significantly to inform the European Green Deal after the European elections and to making the climate agenda resilient to the multiple crises the EU has faced since then.

