

The Green Deal in times of polycrisis: Aligning short- term responses with long-term commitments

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Executive summary

Ahead of the EU elections in June, the European Green Deal has arrived at a critical juncture. Faced with an increasingly contested international environment and a seemingly never-ending series of interconnected and intertwined crises, the EU must work to keep the Green Deal on track. This is not optional – achieving climate neutrality is the only pathway towards future European prosperity within planetary boundaries. Navigating this era of “polycrisis” while sustaining momentum in the EU’s green and just transition will be of crucial importance (see Figure 1).

Recent and ongoing crises highlight three key factors to align and unlock synergies between the EU’s short-term responses and long-term goals: EU leadership in facing and dealing with the emergency, inclusiveness in the crisis approach, and sufficient capacities at the European level to act and manage crises effectively and according to Green Deal objectives. Naturally, these dimensions are strongly interdependent; adequate resources will, for instance, enhance EU leadership, and EU leadership can, in turn, bolster capacities.

To leverage these dimensions conjointly, the EU must:

- ▶ **Adopt a Green Deal Contingency Plan and establish an Advisory body on Green & Just Crisis Management** to enhance its ability to steer the European crisis response in line with the green agenda.

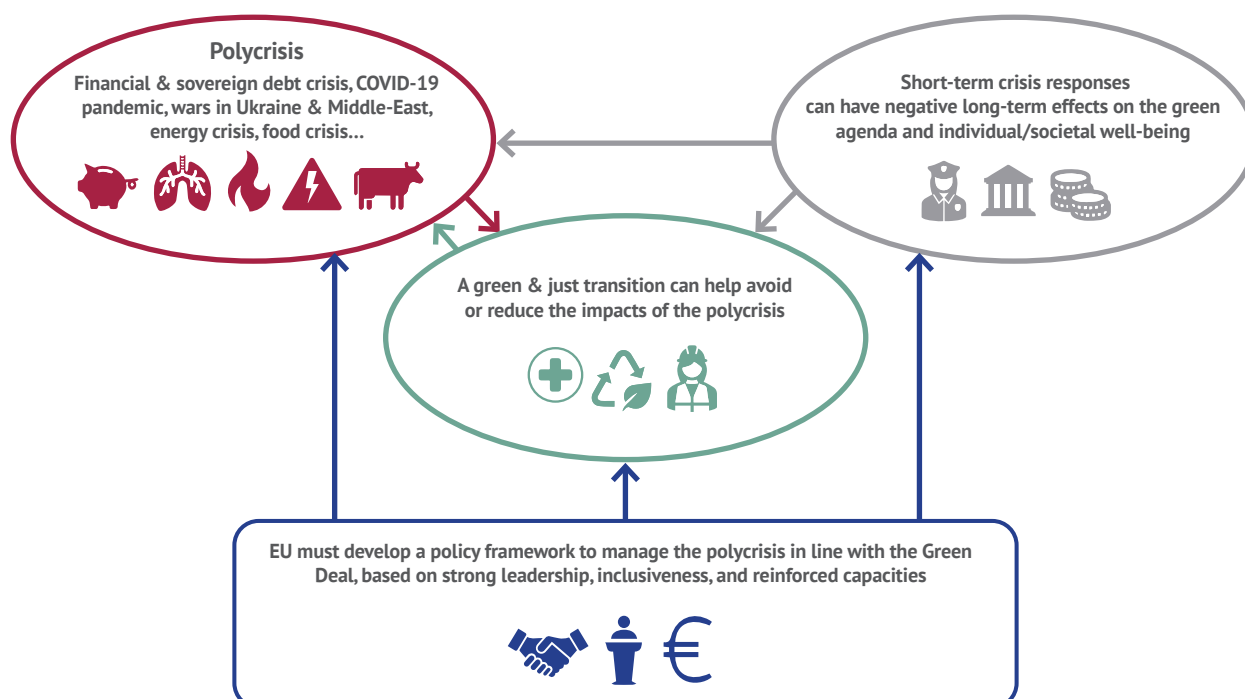
- ▶ **Develop a strategy for communicating the importance of the Green Deal in the age of polycrisis and initiate strategic dialogues** to foster inclusiveness and ownership of the green agenda across various sets of EU stakeholders.
- ▶ **Reinforce EU-level budgetary capacities and mobilise funds for green investment from other sources**, such as national public spending via the European Semester or private capital via the EU’s regulatory framework on sustainable finance.

To address the ongoing energy and food crises in accordance with the Green Deal, the EU should additionally:

- ▶ **Drive forward the clean energy transition by removing existing bottlenecks and speeding up renewable deployment** while also ensuring compatibility with other strategic objectives such as economic security and biodiversity protection.
- ▶ **Strengthen the legitimacy of the greening measures in the agri-food sector in the run-up to the EU elections.** The EU must consider farmers’ concerns over their livelihoods while not succumbing to the populists’ pressures aiming to scrap or dilute EU plans to make our agri-food system sustainable.

Fig. 1

NAVIGATING THE POLYCRISIS IN LINE WITH THE GREEN DEAL



Introduction

With the imminent European elections in June 2024, one can hardly envy the formidable task awaiting the next European Commission. Over the past fifteen years, the EU has experienced a succession of overlapping and interrelated crises – a polycrisis.¹ These range from the global financial crisis in 2008 to the war in Ukraine and its repercussions for global and European energy and food systems. In an increasingly complex and volatile global environment characterised by geopolitical confrontation and geo-economic fragmentation, this proliferation of crises is unlikely to stop anytime soon. To the contrary, a state of continuous, perpetual crisis risks becoming the new normal - a permacrisis.² It is in this context that the Commission needs to find a way to keep the Green Deal alive and tackle the most fundamental of all challenges: the triple planetary crisis of environmental pollution, climate change and biodiversity loss.³

While difficult, aligning the EU’s response to current and future crises with the long-term objectives of the Green Deal is not a matter of choice, but a necessity.

While difficult, aligning the EU’s response to current and future crises with the long-term objectives of the Green Deal is not a matter of choice, but a necessity. The Green Deal’s strategic vision has no serious contenders; it is the most effective strategy for long-term European prosperity within planetary boundaries. Using crises to further accelerate the green transition can also be a considerable opportunity. It can enable the EU to play

a pioneering role and become a model for sustainable prosperity across the globe. This will deliver multiple benefits for EU citizens and businesses and put Europe at the forefront of the global fight against climate change. At the same time, myopic decisions, and insufficient consideration of the implications for the green transition during emergency situations can irreversibly compromise the Green Deal and put the EU on a pathway towards ecological catastrophe.

Managing the polycrisis in line with the green agenda is, therefore, vitally important. By studying the impact of Europe’s responses to past and ongoing crises on the green and just transition, this Discussion Paper will explore how this ought to be done. Specifically, the paper will comprise four case studies⁴:

- 1) The 2008 global financial crisis and the ensuing European sovereign debt crisis.
- 2) COVID-19 pandemic.
- 3) European energy crisis following Russia’s invasion of Ukraine.
- 4) European and global food crisis.

Each of these case studies seeks to explore and understand the reasoning, tools, and methods for short-term EU crisis solutions that keep Europe on track to carbon neutrality by 2050. Based on these lessons, it will formulate horizontal recommendations for the next Commission to improve European crisis preparedness and transform crises into moments and catalysts for positive change in accordance with Green Deal objectives. It will also provide actionable sectoral recommendations to fast-forward the green transition of EU energy and agri-food systems.

1. Lessons from past crises

This chapter will take a closer look at two of the biggest crises the EU faced over the past decades, i.e. the 2008 global financial crisis and ensuing EU sovereign debt crisis and the COVID-19 pandemic. Each case study analyses the impact of the crisis and the emergency measures taken on the green and just transition in Europe. Also considered are the lessons drawn for EU policy to better align short-term crisis responses with long-term climate and environmental goals.

1.1. GLOBAL FINANCIAL CRISIS AND EU SOVEREIGN DEBT CRISIS

The 2008 financial crisis and the 2010-2015 eurozone sovereign debt crisis marked the most serious emergencies the EU had experienced. Both originated in an overinflated and under-regulated financial sector. Uncoordinated, light-touch banking regulation and supervision were largely responsible for the outbreak

and spread of the crisis starting in 2008. Poorly coordinated government bailouts of large banks led to a surge in public debt, ushering in the sovereign debt crisis and an existential threat to the euro. This was particularly felt in the eurozone periphery, where some countries' overblown financial and real estate sectors (Ireland, Spain) or high debt levels (Greece, Portugal) led to debt crises resulting in low growth, high unemployment and social hardship. This was exacerbated by austerity policies, which were imposed by northern creditor states on southern debtor countries, leading to a decline in trust in the EU and a rise in extreme and populist parties. Largely because of the intervention of the European Central Bank (ECB) from the summer of 2012 onwards, the crisis petered out at the end of 2015.⁵

The EU's response and its effect on the green and just transition

The responses to the financial and sovereign debt crises represent a missed opportunity for the green transition. Despite greater EU control on member state spending and stricter rules for banks, no incentives for green investment were set.

At first, anti-crisis policy was dominated by short-term fixes to enable ailing banks to stay afloat and indebted sovereigns to continue debt servicing rather than more effective long-term solutions which could have laid the foundations for a greener and more resilient economy.

Systemically major banks were bailed out to safeguard financial stability, without creating incentives for green investments, while indebted member states were provided with credit through rescue funds just sufficient to avoid defaults but not enough to resolve the crisis.⁶ Financial assistance by the so-called troika was conditional to strict austerity programmes, which involved a reduction of social welfare spending and public investment of any kind.⁷

Despite greater EU control on member state spending and stricter rules for banks, no incentives for green investment were set.

Only in the summer of 2012, when the sovereign debt crisis reached its climax and the survival of the euro was at stake, did member states finally agree to a more long-term solution for the hazards emanating from financial institutions: the creation of a European Banking Union. Subsequently, banking supervision was centralised at the ECB, successfully enforcing stricter capital buffers and risk ratios. This has turned out to be successful in increasing the overall resilience of the European banking system.⁸ Indeed, the European banking system has remained stable during the COVID-19 crisis and

the economic turbulence following Russia's full-scale invasion of Ukraine, as well as after the crash of Silicon Valley Bank and Credit Suisse in 2023. By playing an important role in preventing further banking turmoil, stricter EU-wide banking regulation and supervision have therefore contributed to less severe social repercussions of recent crises in comparison to the eurozone crisis.

But apart from not completing the banking union with strong European resolution and deposit insurance mechanisms, a shortcoming of the reforms was the lack of incentives for banks for long-term green investment. While this was not essential to resolve the financial and sovereign debt crises, it may have diverted more private finance towards renewables, with disproportional growth, sustainability, and energy security dividends, which could have made the EU more resilient in recent crises. Instead, no sustainable finance provisions were put in place to encourage the private funding of green transition projects and technologies, despite the strong negotiating position of states *vis-à-vis* banks during the bailouts. Bank lobbies, which claimed environmental, social, and corporate governance (ESG) requirements to be too intrusive and stifling, had a stronger resonance at a time when the provision of sufficient bank lending was seen as pivotal for the rebound of the European economy.

In the fiscal sphere, budgetary discipline was viewed as a long-term condition for the stability of the euro by the Union's leading creditor states. It was also entrenched in legislation through a set of reforms between 2010 and 2012, which shape the EU fiscal framework to this day. Enforcement of the Stability and Growth Pact which limits deficits to 3% and overall debt to 60% was made stricter and more automatic, while the fiscal compact required member states to inscribe a fiscal break into their constitutions. The introduction of the European Semester increased surveillance of national budget discipline but did not provide incentives to direct national spending towards green industry and social sustainability. This was clearly a missed opportunity, as this enhanced oversight over national fiscal policies could have served as a lever to incentivise member states towards greater investments in green initiatives.

Altogether, these reforms stifled important investment in the future. Even in countries that had ample fiscal space such as Germany, balancing the budget, i.e. the so-called "schwarze Null" took precedence over investment, not least into the green transition. Subsequently, green investment decreased while the dependence on (Russian) fossil fuels was barely reduced at all. Total wind and solar additions fell in Europe following 2011, only recovering to that year's rate in 2019.⁹ For example, in 2010, subsidies for solar power were reduced in Germany.¹⁰ This contributed to the end of the solar boom of the 2000s which had seen the EU leading production of solar panels worldwide with a share of 30%.¹¹ It heralded the decline of the European solar industry¹² as China massively increased its subsidies in solar power and other green industries, outpricing European producers. Between 2007 and 2020, Chinese domestic green investments increased from \$20.9 billion to \$161.2 billion.¹³

The neglect of green industries in the EU was certainly conditioned by a lack of a sense of urgency with respect to the climate crisis and the transition to green energy. While green energy programmes in many member states were reduced in the framework of austerity, there was no Green Deal mainstreaming climate objectives on the European level at the time. Neither was the green energy transition seen through the prism of strategic autonomy, mainly due to the belief in Russia's reliability as a cheap provider of gas in some key member states.¹⁴ Moreover, there was no understanding that green stimulus policies are particularly growth enhancing.¹⁵

The social costs of austerity were huge, causing social hardship, unemployment and low growth. This led to a decline in trust in the EU and a rise in extreme and populist parties, which have been critical of green investment and measures to fight climate change. But it was also ineffective. Eventually, neither the rescue funds nor the fiscal reforms proved suitable to alleviate the sovereign debt crisis. Only the massive bond buying programme of the ECB and the promise of its then President Mario Draghi to do everything necessary to save the euro in 2012 led to the decrease of sovereign bond yields and the eventual ebbing away of the crisis.

The ineffectiveness of the reforms of the fiscal framework made during the sovereign debt crisis became abundantly clear again at the beginning of the COVID-19 pandemic, when sovereign debt interest rates of Southern member states like Italy sharply rose again and when the ECB had to step in anew with bond buying until the stimulation programme of NextGenerationEU based on common financing and large-scale green investments was agreed on.

Lessons learned from the financial and sovereign debt crises

The EU's handling of the financial and sovereign debt crises has held important learnings for the future. Firstly, timely, swift, and coordinated European action is key to fighting a crisis effectively. The piecemeal and hesitant approach in both the financial and sovereign debt crisis were key reasons for their longevity. The greatest successes of EU anti-crisis measures involved supranational action, such as the bond buying programme of the ECB and the establishment of a single banking supervisor, which would ensure the enforcement of stricter European banking regulation across member states. However, both were only possible at the height of the crisis in 2012, when the very existence of the euro was under threat.

Moreover, fiscal discipline clearly proved inadequate in leading the eurozone out of the sovereign debt crisis and in creating a resilient and green economy in the long run. Austerity led to seven years of low growth and social hardship in many EU countries, while outside Europe, countries like the US recovered much more quickly. This has gone hand in hand with Europe falling further behind in productivity and key technologies and industries compared to the US and green supply chains

and technologies with respect to China. The absence of a larger European green transition agenda, which could have informed the EU crisis response certainly played a role in this, as did the complacency about the stability of the liberal free trade order. The subsequent decline of the European solar industry and the concomitant rise of China as a green industry superpower, showed that such short-sightedness may create path-dependent dynamics that may be hard to reverse.

There is significant evidence that expansionary fiscal policy in a slump can help economies break the vicious circle of declining demand and supply and prevent the loss of capital and skills due to underutilisation.¹⁶ Fiscal injections during such slowdowns have been found to generate multipliers as high as 1.5–2¹⁷ or even 2.5.¹⁸ Those can help stimulate growth and facilitate debt repayment by higher tax incomes and improve lending conditions by increasing investor confidence.

Timely, swift, and coordinated European action is key to fighting a crisis effectively.

Such effects are particularly strong in the case for green public investment, as green stimulus policies often have advantages over traditional fiscal stimulus. Investments in renewable energy, green construction projects and clean energy infrastructure create larger short and long-term multipliers than investments in fossil fuels, for example, with particularly beneficial effects on employment and efficiency.¹⁹

European policymakers have learned this lesson, at least during the COVID-19 crisis when the decision to create the Recovery and Resilience Facility (RRF), 37% of which was earmarked for green investments, played an important role in calming sovereign debt markets, and has likely helped European economies rebound in 2021. Moreover, the need for more investment was recognised by the Juncker Commission, which put in place the European Fund for Strategic Investments (EFSI) in 2015, aimed at boosting long-term economic growth and competitiveness in the EU. However, investment volumes have been too little and not targeted enough, especially in green industries and renewables.

Moreover, apart from the escalating climate crisis, Russia's invasion of Ukraine and an increasingly tense geo-economic environment with competition over strategic value chains have proven the importance of green industry for the economic security of the EU.²⁰

1.2. COVID-19 PANDEMIC

In late 2019, COVID-19 emerged and spread rapidly across the globe. On 11 March 2020, the World Health Organization declared a global pandemic. Within the first two years, more than 450 million cases were reported worldwide, with more than 100 million in the EU/European Economic Area (EEA).²¹ In response to the pandemic and to protect the health of their citizens, EU member states imposed strict lockdown measures with severe economic and social impacts.

The EU's response and its effect on the green and just transition

In contrast to the global financial crisis (see 1.1), the impact of COVID-19 on the Union's pathway towards a green, just transition was much more positive. The policy and financial response to the pandemic accelerated activities aiming to realise the green and digital transitions, as well as providing an opportunity to close the gap between EU member states, in terms of their climate ambitions but also their investment capacities.²²

The lessons of the global financial crisis were taken into account: Germany, which, during the global financial crisis, had been able to provide far more support for its industry than any other EU member state, had demonstrated the vulnerability of the Single Market to such an economic imbalance. As a result of this experience, arguments in favour of a European central fiscal capacity were met more receptively in the wake of the pandemic. Furthermore, rather than exacerbating the economic repercussions of the pandemic through fiscal austerity, countercyclical measures including strategic investments were undertaken to support economic recovery. NextGenerationEU, with the RRF at its centre, offered €723.8 billion in grants and loans to support reforms and investments, with the Recovery and Resilience Plans (RRPs) aiming to mainstream climate action and environmental sustainability by allocating 37% of their spending to the EU's climate ambitions and 20% to the digital transition. Within the RRF, the emphasis was placed on projects, which promoted sustainability, energy efficiency and the overall reduction of greenhouse gas emissions.²³ Furthermore, it addressed the need for resilience and adaptation by supporting investments in infrastructure that enhance resilience to climate-related challenges, strengthened by developing conditionality for green investments.²⁴

The Green Deal, with its long-term perspective, has served as a powerful tool to align the EU's short-term crisis response measures with its long-term objective of climate neutrality.

The pandemic witnessed an increased public awareness of the importance of resilience which supported an increased emphasis on sustainable practices and building or strengthening systems (e.g. economic systems, healthcare) that could better withstand future shocks. This understanding of the link between policy areas and the vital importance of planetary health to societal well-being was substantially enhanced by the momentum created by the "Fridays for Future" climate movement, which had played such a significant role in the months before the pandemic. The 2019 European election was marked by its emphasis on climate policy and saw unprecedented success by green parties across the EU.

The timing of the outbreak of the pandemic – coming so close to the commencement of the 2019-2024 EU legislature and at a moment of relatively favourable political conditions in key member states such as Germany and France – played a decisive role in the eventual centrality of the ambitions of the Green Deal in the pandemic response. With the new von der Leyen Commission presenting its priorities in November 2019 with a clear emphasis on climate ambitions, the policy agenda for the following four years had been broadly agreed upon. With the pandemic occurring so soon after this, and due to the speed of reaction required by political leaders to handle the severe consequences, the framework provided by the newly defined political priorities offered a compass for action. Had the crisis occurred near the end of the legislature or before the finalisation of the priorities for the mandate, ensuring such a unified response around a clear set of objectives may have been considerably harder.

Lessons learned from the COVID-19 pandemic

The crisis demonstrated the links between health and the environment and, indeed, the ambitions of the European Green Deal. The pandemic reinforced the interdependence between human, animal and plant health and the need to promote a more holistic planetary health approach to ensure future crisis preparedness. At the institutional level, this resulted in the adoption of a One Health approach and the establishment of a One Health Directorate within the Commission's Directorate-General for Health and Food Safety (DG SANTE), demonstrating awareness of the importance of pursuing a cross-sectoral approach in response to health and environmental crises. Nevertheless, the emphasis placed on health policy in the months following the outbreak of the pandemic has declined as other crises have since occurred. As a result, there has been insufficient political attention given to the lessons that should be learnt from this crisis as political attention has been diverted elsewhere. This has resulted in structural issues being left unaddressed and necessary reforms not being fully implemented, leaving the EU and member states in a suboptimal position should a similar crisis occur in the future.

The Green Deal, with its long-term perspective, has served as a powerful tool to align the EU's short-term crisis response measures with its long-term objective of climate neutrality.

Taking this long-term view in policymaking with the compass of sustainable well-being would help to move us away from the current cycle of permacrisis where short-sighted reactions too often have negative future consequences. With increased focus on upstream interventions that prioritise planetary health, it is possible to avert economic, social, and environmental harm before it occurs. This reduces the need for expensive downstream short-term sticking plaster interventions to patch up social inequalities and environmental damage. The decision to use the RRF designed around the ambitions of the Green Deal to support reforms and investments in green and digital technologies and capacities, meant that, even in a period of acute crisis, the initial overarching policy agenda of the 2019-2024 legislative mandate still remained central in the activities and investments of member states.

Aligning the EU's financial instruments and providing the capacity for common borrowing to underpin and reinforce long-term political priorities was a pivotal step in the EU's COVID-19 response and marked a departure from the previous red lines in EU debates over fiscal integration or cooperative financial mechanisms. It gave unified direction to the investment decisions of member states and provided the fiscal room for manoeuvre to

those member states which would otherwise have been unable to invest in the aims of the twin transitions. Without this support, divergence between member states would deepen and the ultimate aim of achieving a just, green transition will not be realised.

The experience with NextGenerationEU is also highly likely to inform the EU's response to future crises. An EU fiscal capacity would improve euro area macroeconomic stabilisation and allow the provision of common EU public goods — whether they are in support of the green transition or rather in response to common security concerns.²⁵ In contrast to the RRF, however, such a facility should not be structured to be *a priori* redistributive. This would create too many political obstacles and raise fears of a permanent “transfer union”. To move the debate forward, it must be reframed away from the “North/South” and “creditor/debtor” dichotomies of the eurozone crisis and towards the EU's joint challenges. Allocations from this fund should be based on shares of gross domestic product or measures of investment needs, which are much more evenly distributed across the Union. Furthermore, a proportion of centrally raised funds should be allocated to EU-level and cross-border programmes, such as industrial policy initiatives.²⁶

2. Managing the crises of today: European energy crisis

In 2022, Russia's invasion of Ukraine and its weaponisation of the EU gas supply triggered an unprecedented energy crisis in Europe. The abrupt cut-off of Russian gas supplies to several EU member states in May and June 2022 – further compounded by other factors such as the shutdown of multiple French nuclear reactors due to defects,²⁷ and severe summer droughts across Europe hampering EU hydropower generation²⁸ – led to a perfect storm on European energy markets and made analysts fear for the worst.

Luckily, however, doomsday scenarios did not materialise. Europe came through the winter of 2022-2023 relatively unscathed, without any of the predicted gas shortages. Mild weather but certainly also policy-driven changes were at the basis of this success.²⁹ European gas and electricity prices have now declined to pre-war lows. Meanwhile, EU gas storages are at record levels³⁰ and the share of Russian gas in the EU's energy mix has declined from over 40% before the war to less than 10% now.³¹ As such, the energy crisis has entered a less acute phase, with the risk for similar price shocks as those seen in 2022 markedly lower.³²

However, there is no room for complacency. An effective mix of policy incentives at the EU and national level will need to ensure that the shift away from (Russian) fossil fuels is swift and smooth, in line with the overarching

objectives of the Green Deal and without creating any new unwanted dependencies on third countries such as China for critical raw materials and clean tech products.

As such, it appears an opportune time to take stock of what has been achieved so far. This chapter will analyse the extent to which the European crisis response has been aligned with long-term goals. It will highlight positive developments where the EU and/or member states have been able to expedite the clean energy transition in Europe, but equally consider some areas where steps in the opposite direction have been taken.

2.1. THE ENERGY CRISIS AS SHOCK THERAPY FOR THE EU'S CLEAN ENERGY TRANSITION

Various elements point to the success of the EU in advancing the green transition in response to the energy crisis. The roll-out of renewable energy sources significantly accelerated across Europe and played a vital role in absorbing the Russian supply shock. Solar generation saw spectacular increases in the EU, growing by a record 24% in 2022 to account for a 7.3% share in total EU electricity production (up from 5.7% in 2021).³³ This “solar surge” was supported by resolute policies at the EU and member state level.

Launched by the European Commission in May 2022 as the EU's post-invasion energy strategy, REPowerEU heralded renewable energy as a crucial pillar to end the dependence on Russian fossil fuels.³⁴ REPowerEU raised the EU's overall renewables target to 42.5% by 2030 "with an additional 2.5% indicative top-up that would reach 45%".³⁵ It also focused on speeding up permit-granting procedures for clean energy by declaring certain types of renewable projects as being in the overriding public interest and by creating so-called "acceleration areas" for renewables deployment.³⁶ These measures have proven significant in tackling slow administrative processes, a major obstacle to the clean energy transition in the EU.³⁷

Member states further bolstered these efforts at the European level by similarly revising their renewable aspirations upwards. Germany, Portugal, and several others increased their 2030 targets³⁸ – even Poland, with a 70% share of coal in its power mix, now hopes to produce 47% of its electricity from renewables by 2030.³⁹

The roll-out of renewable energy sources significantly accelerated across Europe and played a vital role in absorbing the Russian supply shock.

These renewed national ambitions were not paid lip service. In 2022, up to twenty member states achieved new records for solar power.⁴⁰ Through effective policies such as net-metering – obligating power companies to fairly compensate households for rooftop generation – the Netherlands was able to raise the share of solar in its electricity mix to 14% (up from 9% in 2021 and a mere 1% in 2015), becoming the top solar member state in the EU in 2022. Greece quickly rose to second place on the solar leaderboard by modernising and simplifying permit-granting. Specifically, it established a new one-stop service under its Ministry of Environment and Energy to oversee the entire licensing process and an integrated digital platform to connect all relevant public bodies and improve and streamline the communication with investors.⁴¹

Positively, Europe's "renewable revolution" coincided with a structural decline in European gas demand. Substantial energy-saving efforts by citizens and companies were at the basis of this reduction, with demand cuts equivalent to those seen during the most severe COVID-19 lockdowns.⁴² These should mainly be attributed to soaring prices, urging households and industry to drastically reduce energy consumption to cope with cost-of-living challenges (in the case of households) or exploding production costs (in the case of industry).

Energy efficiency measures also played a pivotal role in these demand cuts. Member states introduced various financial incentives for energy-efficient home upgrades, such as retrofits and insulation, heat pump installation, and the replacement of old domestic appliances with newer models. This was not without success – 2.8 million heat pumps were installed across Europe throughout 2022, accounting for a 1.4 billion cubic metres drop in natural gas use in the buildings sector that will carry over into the coming years.⁴³

It is worth highlighting that the lasting decline in EU gas consumption has not occurred in tandem with a similarly structural increase in European coal demand. EU coal power generation did grow by 6.7% in 2022, but this was predominantly due to the shortfalls in nuclear and hydro generation during the summer months, not to fill the gap in Russian gas supplies.⁴⁴ In any case, this increase was merely a temporary measure in extraordinary circumstances; the last four months of 2022 already saw coal generation below 2021 levels.⁴⁵

2.2. THE EU'S "DASH FOR GAS" AND SURGING FOSSIL FUEL SUBSIDIES

Unequivocally, the EU has made progress in its move to clean energy since Russia invaded Ukraine, but depicting an all too positive picture would be misplaced. While energy savings, energy efficiency measures and new renewable capacity have all been crucial in weathering the storm, the diversification of energy imports has also played a major part. EU imports of (mainly US) liquefied natural gas (LNG) drastically increased in 2022 – rising by as much as 60% – and compensated for the lion's share of the shortfall in Russian gas supplies.⁴⁶

The EU's "dash for gas" has not been without consequences. Developing countries such as India, Bangladesh, and Pakistan were priced out the global LNG market, turning them to other, dirtier forms of fuel to satisfy their growing energy needs.⁴⁷ This development risks derailing the energy transition of these fast-growing economies, previously counting on LNG as a transition fuel away from coal-fired power.

Moreover, the rush for gas has resulted in a frenzy of new LNG import terminals being announced by member states, with minimal cross-border coordination. This lack of coordination risks resulting in a huge LNG import overcapacity, far exceeding future LNG demand projections in the EU and thus becoming "the world's most expensive and unnecessary insurance policy".⁴⁸

Equally concerning are the recent LNG deals pursued in parallel to this infrastructure build-out. In October last year, European majors Total, Shell and ENI all signed 27-year agreements to import LNG from Qatar into the EU, with deliveries starting in 2026.⁴⁹ Not only do these contracts run beyond the EU's mid-century goal of climate neutrality, soon they might also make little economic sense. According to the International Energy

Agency, an “unprecedented surge” in new LNG export capacity from 2025 onwards is likely to create a serious supply glut on the global LNG market.⁵⁰ In other words, European buyers might soon face much more favourable prices on spot markets than they currently do under these long-term agreements.⁵¹

In addition to the EU’s rush for gas, Russia’s invasion of Ukraine and the ensuing energy crisis have prompted an unsettling upsurge in fossil fuel subsidies across Europe. To shield households and companies from soaring energy prices, member states put a wide range of financial benefits and compensation mechanisms in place. Apart from being poorly targeted and therefore costly – an estimated \$350 billion was spent by EU governments in 2022 alone⁵² – these often amounted to direct or indirect subsidies to fossil fuel consumption. By keeping gas, electricity, and petrol prices artificially low, these measures distorted price signals to consumers, thus reducing incentives to save energy or switch to cleaner alternatives.⁵³

An example is the so-called “Iberian exception”, the price cap on gas used in power generation in Portugal and Spain that was approved by the Commission under EU state aid rules in June 2022.⁵⁴ While the cap lowered both wholesale and retail electricity prices on the Iberian Peninsula,⁵⁵ the measure had some unintended and much less desirable consequences. Namely, not only did the price cap induce a truly massive spike in gas demand in the Spanish power sector (a +50% year-on-year increase in 2022) – arguably the absolute opposite of what emergency interventions in response to the Russian supply shock had to achieve – it also led to booming electricity exports from Spain to France, effectively resulting in Spanish subsidies for cheaper electricity in France.⁵⁶

To finance the amalgam of national subsidies and limit the excess profits earned by energy producers during the crisis, measures were also taken at the EU level to redistribute the windfall gains in the energy sector to consumers, such as the inframarginal revenue cap agreed by the Council in September 2022. This mechanism allowed member states to cap the revenues at €180/MWh for power producers using so-called inframarginal technologies to generate electricity (e.g. renewables, nuclear) until June 2023.⁵⁷ As member states were granted considerable discretion in the implementation of this cap – giving them the possibility to apply a cap above the benchmark agreed at the European level, use further measures to curb revenues of producers, or to differentiate between technologies – it has led to significant fragmentation and regulatory uncertainty on the internal energy market.⁵⁸ This, in turn, risks slowing down new investments in renewables, as also stated by the Commission in a report last year.⁵⁹ Nevertheless, the Council proposed to extend the inframarginal revenue cap until June 2024 as part of the electricity market design reform⁶⁰ (first announced by Commission President von der Leyen in June 2022),⁶¹ going directly against the Commission’s assessment. However, the mechanism is not included in the text provisionally agreed between the Parliament and the Council in December 2023.⁶²

2.3. LESSONS LEARNED FROM THE ENERGY CRISIS

Like the COVID-19 pandemic, the European energy crisis again highlights how vitally important an overarching EU strategy is to ensure that short-term measures align with the Green Deal’s long-term objectives. Through REPowerEU, the Commission successfully framed the large-scale deployment of renewables not only as the sole guarantee for a clean energy future, but equally as a geopolitical tool, a “weapon” to end the EU’s dependence on Russian fossil fuels. By introducing this logic of war in the clean energy transition, REPowerEU instilled a sense of urgency in member states that instigated ambitious and resolute policies to supercharge the roll-out of wind and especially solar power.

The energy crisis also underlines the power and effectiveness of price signals and financial incentives in changing consumer behaviour as demonstrated by the extreme reduction in gas demand among European households and industry, or the surge in rooftop solar generation in the Netherlands following the introduction of net-metering. It also points to the adverse effects and unintended consequences when policy interventions distort these, as national support measures such as the Iberian exception have illustrated. This is not an argument for a *laissez-faire* approach, but for targeting support to where it is needed during times of crisis to ensure a socially just instead of a wasteful and counterproductive crisis response. That many of the support measures have ultimately amounted to direct or indirect fossil fuel subsidies underscores the need – in the absence of political willingness to discuss EU-level taxation – to reinforce European governance of and climate mainstreaming into fiscal policies.

Through REPowerEU, the Commission successfully framed the large-scale deployment of renewables not only as the sole guarantee for a clean energy future, but equally as a geopolitical tool.

Another lesson is that a common crisis response at the European level can help to minimise the opportunity cost for EU climate goals when facing trade-offs with other objectives. Importing additional LNG is a necessary piece of the puzzle in an attempt to compensate for the sudden shortfall in Russian gas supplies in the short term, but EU-wide coordination of investments in new LNG import infrastructure would have significantly reduced the risk of overcapacity and carbon lock-in compared to the amalgam of national approaches we have now.

Furthermore, the EU has to consider the external implications of its responses to crises from the outset. Europe's rush for LNG pushed developing countries in other parts of the world out of the LNG market and made them turn back to coal. If Europe continues to disregard the effects of its policies on these countries, it risks losing crucial partners – fast-growing economies still overwhelmingly dependent on fossil fuels (cf. India, with a 55% share for coal in domestic energy consumption in 2022)⁶³ – in the global fight against climate change. Achieving climate neutrality in the EU will amount to very little when this has come at the expense of the green transition in third countries.

Finally, as exemplified by the introduction of the inframarginal revenue cap at the height of the energy crisis, panic-induced crisis measures may harbour national reflexes with the associated risk for internal fragmentation. Such fragmentation tends to only make things worse and risks depriving the EU of what is undeniably its biggest asset – the Single Market. While crises may provide a window of opportunity for broader reforms at the EU level, the initiation of such reforms in the midst of a crisis may also further exacerbate that fragmentation, as evidenced by the attempt of the Council to extend the inframarginal revenue cap as part of the electricity market reform despite its detrimental effects on the internal energy market.

2.4. RECOMMENDATIONS FOR THE EU'S CLEAN ENERGY TRANSITION

- ▶ The EU and its member states must **align measures to address the energy crisis with the objectives of the Green Deal**. Possible negative implications of crisis measures for the clean energy transition need to be carefully considered and mitigated to avoid locking EU energy systems into fossil fuels for years or even decades ahead.
 - **National emergency interventions** to shield households and businesses from soaring energy prices need to be **targeted at vulnerable consumers and the worst affected businesses and focus on subsidising demand reduction** rather than on subsidising energy/fossil fuel consumption, as is often the case now.
 - **Crisis measures have to be coordinated at the European level** to avoid fragmentation of the internal energy market and ensure a more predictable regulatory environment for renewable energy developers.
 - It is important for member states to work together and with the Commission to **phase out costly, counterproductive fossil fuel subsidies in a socially just manner**, and shift these funds to fiscal incentives that help to achieve rather than directly undermine the strategic objectives of European energy policy.

- Developing an **integrated European approach towards LNG infrastructure** would stop unnecessary investments in new import terminals. This will prevent a significant regasification overcapacity in the EU, with a swath of stranded LNG assets as the likely result.
- **LNG supply agreements that stretch beyond 2035 cannot be tolerated in the EU**, especially in light of the expected supply glut from 2025 onwards that may allow for much cheaper LNG purchases on spot markets than are currently offered under long-term contracts.
- The EU must **strengthen climate and energy cooperation with the third countries affected by the European dash for gas** by supporting them financially and through other means in deploying renewable energy sources and a just transition away from coal. This cooperation can also include reselling or re-renting floating LNG import capacity to these countries at favourable conditions to reduce the share of coal in their power mix.
- ▶ The EU must **drive forward the clean energy transition by removing existing bottlenecks and speeding up renewables deployment** while also ensuring compatibility with other strategic objectives such as economic security⁶⁴ and nature protection.
 - The EU needs to **develop a green industrial policy to ensure that the clean energy transition in Europe does not rely on any excessive external dependencies** for raw materials and/or clean tech. This policy should not be modelled after the US Inflation Reduction Act but instead focus on the EU's competitive advantage: creating and regulating competitive markets – for critical raw materials, clean tech products and skills for the net-zero economy.
 - The EU must continue its efforts to **accelerate national permitting procedures for renewable energy projects and grids**. These efforts should not be focused on allowing national authorities to bypass the requirements of other European (e.g. environmental) legislation, but rather on the modernisation, digitalisation and cross-border harmonisation of procedures, *inter alia* through capacity-building and the exchange of best practices between national administrations. The acceleration of permitting procedures should **not come at the expense of biodiversity and nature protection**.

3. Managing the crises of today: Global and European food crisis

Europe is witnessing a food crisis, manifested in rising costs of agricultural production, rising food prices and political upheaval, and driven by geopolitical, sustainability and socio-economic factors. Other regions of the world, namely in Asia and Africa, face food shortages, which can result in malnutrition and famine. In 2023, around 345 million people are facing acute food insecurity worldwide – more than double compared to 2020.⁶⁵ The food crisis in Europe poses a significant challenge to the livelihoods of its citizens and undermines the green transition since short term-food security gains priority over the long-term objectives of the Green Deal as will be explained further.

The contemporary food inflation and shortages are mainly driven by Russia's invasion of Ukraine. As Ukraine is a major exporter of food and animal feed to Europe and the world, the war has crippled global food supply chains, which were already disrupted by the COVID-19 pandemic. As part of its war efforts, Russia is weaponising food by damaging Ukraine's food exports. In July 2023, Russia decided to leave the Black Sea Grain initiative⁶⁶ agreed in July 2022 between the United Nations, Türkiye, and Russia to facilitate exports of food from a war-torn Ukraine. Moscow has taken further steps to limit Ukraine's food exports via a naval blockade and by attacking Ukraine's Danube ports. Russia is also leveraging its position as a major exporter of fertilisers and grain to gain influence in dependent countries.

Notwithstanding the impact of the Russian war, the green backlash also reflects a lack of a common understanding about the importance of the Green Deal and of a consensus on the measures needed to green European agriculture.

Climate-induced droughts and floods, soil degradation and biodiversity loss, undermine Europe's and global food production and security in the long run.⁶⁷ In return, agriculture is responsible for around 10% of EU greenhouse gas (GHG) emissions and nearly 70% of these come from livestock.⁶⁸ The Union's measures to green its agri-food sector are put forward under its Farm to Fork strategy and, to a certain extent, under its Common Agricultural Policy (CAP) and its massive €387 billion budget⁶⁹ for supporting farmers and rural development for 2023-2027. How the EU responds to

the current crisis and uses its CAP funds matters because it may affect long-term efforts to make our agri-food system sustainable while ensuring food security.

The Russian invasion contributed to a wider green backlash in the EU mainly due to farmers' concerns that greening measures would further increase the costs of agricultural production and undermine the livelihoods in rural communities. Since 2022, farmers have been staging massive protests across Europe, such as in the Netherlands, Germany, and France. In the run-up to the European elections in June 2024, farmers' protests are echoed by the rise of pro-farmer attitudes at the EU and member state level, which are sceptical of the green transition in the agri-food sector.⁷⁰ Concerns over the proposed EU-Mercosur agreement – allowing imports of beef from Latin America – imports of Ukrainian foodstuffs and reduced share of subsidies in case of Ukraine's future EU accession⁷¹ contribute to the ongoing political upheaval. Notwithstanding the impact of the Russian war, the green backlash also reflects a lack of a common understanding about the importance of the Green Deal and of a consensus on the measures needed to green European agriculture.

This chapter will take stock of the measures taken by the EU to tame the current crisis and how these measures relate to the objectives of the Green Deal and achieving food security. It will look at the recent measures to overcome the impacts of the Russian war on the agri-food system while considering the EU's broader commitments to make the European agri-food system more sustainable.

3.1. EU RESPONSES TO A WAR-DRIVEN FOOD CRISIS

The EU is currently abstaining from imposing sanctions on Russia's food and artificial fertilisers, in order to help avoid further damage to the global agri-food system.⁷² In 2022 the Union has also increased the funding of global efforts to fight against food insecurity by €210 million, totalling €8 billion for 2020-2024.⁷³ Given the severity of the food crisis, scaling up support for sustainable food resilience projects in developing countries and facilitating global transport of food to those in need, in collaboration with international organisations such as the World Food Programme and Food and Agriculture Organisation, becomes more important than ever.

In May 2022, the EU introduced the Solidarity Lanes initiative aiming to facilitate EU-Ukraine connectivity for grain exports by removing barriers to trade and supporting transport infrastructure improvements. Thanks to this initiative, Ukraine managed to export more than half of its grain since the start of the war.⁷⁴

However, in April 2023, facing growing pressure from farmers at home, Hungary, Poland, Romania, and Slovakia introduced unilateral trade restrictions for Ukraine's grain, which negatively affects Ukraine's exports and its ability to finance the war efforts. Subsequently, the EU agreed to the temporary trade restrictions lasting until 15 September 2023. However, Poland, Hungary and Slovakia continued with their unilateral restrictions afterwards, despite Ukraine's commitments to strengthen controls of its food exports. While re-routing of Ukraine's agri-food from the EU to the global markets is possible, it is logistically and financially difficult at the moment.⁷⁵

Arguably, the unilateral restrictions are at odds with EU rules – trade being an exclusive EU competence – but also with international trade law. Import restrictions undermine the Union's support to Ukraine and aggravate the existing food shortages and affordability. If grain from Ukraine cannot reach the food market in the EU and beyond, this can augment pressures to intensify farming at home, which can increase climate and environmental impacts of the agriculture sector. The fact that a significant share of Ukrainian grain imports are used for animal feed (e.g. maize)⁷⁶ demonstrates the importance of shifting to plant-based food diets with a lower carbon footprint compared to animal-based food. The collapse of the Black Sea Grain Initiative highlights the need to ease trade barriers in some member states and invest in rerouting Ukraine's agri-food from the EU to global markets.⁷⁷

The collapse of the Black Sea Grain Initiative highlights the need to ease trade barriers in some member states and invest in rerouting Ukraine's agri-food from the EU to global markets.

As an immediate response to Russia's invasion, the EU has taken measures to reduce the pressures of the ensuing food crisis on its consumers and farmers. The Union has established a European Food Security Crisis preparedness & response mechanism (EFSCM) with a group of experts advising on how to improve food security.⁷⁸ In its recommendations, the EFSCM recognised the importance of crop rotation both for food security and greater sustainability.⁷⁹ However, for the period 2022–2023, the EU introduced temporary derogations of some environmental conditions for farmers, envisaged under the CAP to boost food productivity on the European farmland. Farmers were allowed to grow crops on a fallow land which was initially intended to support nature restoration efforts. The CAP rules requiring annual crop rotation were also suspended, enabling farmers to continue growing crops with higher yields.

There is no official impact assessment of the effectiveness of these derogations to increase food productivity. However, it is clear that such derogations, even if temporary, hamper the EU's efforts to manage its land, soil and agriculture in a more sustainable way. There is also evidence that fallow land tends to have low productivity as such but does provide critical habitat for biodiversity and ecosystem services central for maintaining agricultural production in the long run.⁸⁰ Restoring biodiversity and ecosystem services on these lands will take years which, in turn, jeopardises the EU's food security further.

On a more positive note, the EU has adopted guidelines on food donation which should facilitate the distribution of unsold food to those in need in accordance with the Union's food health and safety standards.⁸¹ French law from 2016 did already forbid supermarkets to destroy unsold food products and forced retailers to donate food instead.⁸² In 2023, the German government, launched a pact on the reduction of food waste with 14 major retailers and wholesalers aiming to direct donated food towards food banks.⁸³

3.2. GREEN BACKLASH IN THE AGRI-FOOD SECTOR AND SUSTAINABILITY CHALLENGES

Green backlash in the agri-food sector was marked by resistance to the green measures in the agri-food sector put forth by the Commission. Beside the derogations discussed in the previous section, the Nature Restoration Law aiming to restore at least 20% of degraded areas by 2030 and all degraded sites by 2050 became even more contentious as the Commission's proposal envisaged new requirements in the agriculture sector on nature restoration. Although the proposal was weakened and stripped of mandatory nature restoration requirements on farmland, it barely passed the vote in the European Parliament in July 2023. The adoption of the proposed Sustainable Use of Pesticides Regulation, aiming to reduce by 50% the use and risk of chemical pesticides in the EU by 2030, was rejected by the European Parliament in November 2023. The Sustainable Food Systems Law, a landmark legislation envisaged by Farm to Fork, was initially scheduled for the third quarter of 2023. However, it is unlikely that this law will be proposed by the Commission as it does not appear in its 2024 Work Programme.⁸⁴

The Commission released proposals at the end of January 2024 to extend derogations concerning protections for sensitive products against Ukrainian foodstuffs imports,⁸⁵ and exemptions on fallow land rules.⁸⁶ Moreover, in a meeting between Belgian farmers' representatives and key EU leaders, President Von der Leyen pledged⁸⁷ to tackle agricultural challenges through the Strategic Dialogue on the future of EU agriculture,⁸⁸ officially launched in January 2024. Whether this dialogue will help overcome the existing divisions on the EU's agri-food agenda remains to be seen. These meetings were followed by the Commission's release of 2040 climate targets

with weakened ambitions for the agricultural sector compared to an earlier draft, including the removal of a 30% emissions cut for the sector.⁸⁹

Even without the ongoing green backlash, the EU's ambitions in the agri-food sector are not fully aligned with Green Deal objectives. This is notably the case with climate and environmental conditionalities that farmers need to meet to receive subsidies under CAP 2023-27. For example, the requirement to leave 4% of fallow land for biodiversity is in contrast with a 10% requirement under the European Biodiversity Strategy. Strategic Plans developed by member states to implement CAP often fall short of the Green Deal ambitions or focus on meeting the bare minimum.⁹⁰ There are currently no carbon reduction targets for the agri-food sector. The EU's Emissions Trading System (ETS), granting limited allowances to industry and energy sector to emit GHG, does not apply to the agri-food sector.

CAP subsidies fund industrial livestock farms despite their major climate and environmental footprint, EU's import dependence on animal feed,⁹¹ health impacts of consuming red meat,⁹² and the fact that animal feed requires land which could be used to grow crops for human consumption instead.⁹³ Despite the overall trade benefits of the proposed EU-Mercosur trade deal, it would also facilitate imports of beef while antagonising the European farmers. Aforementioned developments appear to be in contrast with the Farm to Fork Strategy, which envisages a move towards more plant-based food diets.⁹⁴

It should be noted that what the Union does – often with the help of CAP – has implications beyond its borders. When the EU subsidises uncompetitive dairy and livestock production and consumption, it distorts the market vis-à-vis plant-based food. When the EU dumps its surplus of heavily subsidised dairy and meat products onto the developing world, it deprives, for instance, farmers from low-income countries of their livelihood and ability to compete on the global market.⁹⁵

3.3. LESSONS LEARNED FROM THE FOOD CRISIS

The EU's responses to the immediate food crisis brought by Russia's invasion of Ukraine, demonstrate the importance of aligning the short-term measures with long-term commitments. The war ultimately strengthened the discourse that puts emphasis on food security and productivity while downplaying the long-term commitments on greening the Union's agri-food sector. Moreover, fragmented conceptions of food security hampered a joint EU response, as evidenced by unilateral import restrictions of Ukraine's grain.

Although the CAP and Farm to Fork Strategy offer a vision, objectives, and measures to make the European agri-food sector more sustainable, the overall policy framework falls short of meeting the ambitions of the Green Deal. The fact that the current, limited, sustainability requirements in the agri-food sector are encountering opposition is a major cause of concern. Failure to green the agri-food sector not only hampers

EU's sustainability objectives, but also undermines food security in the long run.

Although connected to the Russian war, the ongoing green backlash appears to be a symptom of a deeper misunderstanding and polarisation between policymakers, farmers and civil society regarding the legitimacy and adequacy of green measures in the agri-food sector. Reasons for this lack of mutual understanding could be related to the lack of adequate communication between policymakers and farmers on the importance of the green transition and what it entails. Furthermore, the CAP was historically about providing income support to farmers where the largest share of the CAP goes to large agri-food businesses.⁹⁶ Climate and environmental requirements were phased in later and still remain to be fully integrated into conditionalities for farmers' subsidies. Consequently, it becomes more difficult to find a solution that works for all Europeans while bearing in mind the overall objectives of the Green Deal. Lastly, if anti-green sentiments are captured by populist and Eurosceptic parties in the run-up to the European elections, the Green Deal and the European project itself may receive a fatal blow, with negative effects on the agri-food sector in the long run.

Failure to green the agri-food sector not only hampers EU's sustainability objectives, but also undermines food security in the long run.

Concerns over farmers' livelihoods in the wake of rising inflation and new sustainability requirements need to be taken seriously. Furthermore, food producers differ in terms of scale and type of agricultural production while around one third of the EU's budget is allocated to farmland and rural areas. If the farmers protest despite the subsidies they get from CAP, the question arises if the CAP funds are efficiently used to ensure that EU's agri-food sector is crisis-proof and sustainable, and that the livelihoods of the most vulnerable farmers are protected. Beyond financial considerations, there appears to be the need for a broader dialogue on the importance of greening the agri-food sector to ensure that EU long-term commitments are not crippled by potential new crises in the future. The strategic dialogue launched by the Commission in January 2024 can serve that purpose, provided that it unfolds on a continuous basis – before and after the elections – in an inclusive way and across the EU while being coupled with an effective EU communication strategy on why the greening of agriculture matters.

When compared with the EU's response to the energy crisis following the Russian invasion of Ukraine (see chapter 2), the need of more action to align short-term responses with the long-term commitments in the agri-food sector becomes even more apparent. Although far from perfect, EU measures to address the energy

crisis basically did not challenge the Union's ambitions to achieve the clean energy transition and climate neutrality. The EU's response to the food crisis, on the other hand, appears to be more burdened by short-termism and a lack of strong commitment to meet the objectives of the Green Deal.

3.4. RECOMMENDATIONS FOR A GREEN AND JUST AGRIFOOD TRANSITION

- ▶ The EU must **strengthen the legitimacy of the greening measures in the agri-food sector in the run-up to the EU elections**. The EU must take into account farmers' concerns over their livelihoods while not succumbing to the populists' pressures aiming to scrap EU plans to make our agri-food system sustainable.
 - The EU's **strategic dialogue with farmers on the future of the EU's agri-food system** must aim to reach an agreement on the long-term green agri-food transition. This dialogue should comprise high-level meetings and farmer-led panels building on the experience from the citizen-led Conference on the Future of Europe. The discussions should take place at the EU, national, regional, and the local level. Besides farmers and agri-food associations, the EU must include other relevant stakeholders – consumers, industry, retailers, waste managers, NGOs – in the discussion.
 - Following the 2024 European elections, the EU must **adopt all the measures envisaged under the Farm to Fork Strategy**, including the Sustainable Food System Law and the Regulation on the Sustainable Use of Pesticides. In case of further opposition, the EU should demand from concerned stakeholders – governments, political parties, farmers and associations – to the proposal of alternative instruments to achieve the set objectives in a cost-effective way.
 - The EU should **use post-2027 CAP to support the just transition in the agri-food sector**. The EU must identify which types of farmers are the most vulnerable to the economic, environmental, and regulatory pressures, with particular attention given to small farms. Support provided to vulnerable farmers should be tailored to both greening their practices and making their businesses more competitive, such as focusing on organic farming and local food production. Targeted support becomes even more urgent in the wake of Ukraine's future EU accession which may reduce the average share of CAP subsidies per farmer in the EU.
- ▶ The EU must **put in place measures to overcome the food crisis** brought by the Russian invasion while ensuring long-term sustainability and food security objectives. The EU must ensure that its responses to the food crisis are aligned with the long-term objectives of the Green Deal.
 - The EU must **abstain from introducing any new derogatory measures that jeopardise climate and environment for the sake of increasing food productivity in the short term**. In case derogatory measures are necessary, they must be justified in accordance with pre-agreed rules and in consultation with farmers, experts and civil society.
 - **In case derogatory measures are applied, the EU must devise measures to off-set climate and environmental impacts of more intensive farming**. CAP funds could be used to encourage the off-setting measures. In case of a lack of compliance, CAP beneficiaries should receive less subsidies.
 - **The EU and Eastern European member states imposing unilateral restrictions on Ukraine's grain must reach a compromise to allow Ukraine to export its foodstuffs**. The EU should consider how funds from CAP, possibly also from the RRF and state aid, could be re-directed to provide additional support to farmers in Eastern European member states who face pressures from food imports. In case unilateral restrictions continue, the EU should consider taking member states involved to the European Court of Justice. The EU should also suspend CAP subsidies to such member states until they reverse their unilateral restrictions.
 - The EU must **ban the destruction of unsold food and make it mandatory for retailers to donate surplus food** to those in need. The EU should introduce harmonised standards on food safety that can facilitate the scaling-up of food banks. The EU should consider the rules for the introduction of smart digital tags that can react to weather conditions and show the real-time quality of food compared to the expiry date on the product.
 - The EU must **invest more into strengthening food resilience and sustainability in regions facing food insecurity**. It must provide additional financial support to enable food transport from Ukraine to other countries in the world plagued by famine and malnutrition. The post-2027 CAP should be devised to minimise the risk of its adverse impacts on food resilience in third countries.
- ▶ The EU must **ensure that the agri-food sector is aligned with the EU's climate and environmental objectives**. This would not only help achieve the ambitions of the Green Deal but also help reduce climate and environmental pressures on agriculture and strengthen food security in the long run.
 - The EU must **make the 2040 climate target legally binding including clear commitments for the agri-food sector to help achieve a 90% reduction of greenhouse gas emissions by 2040**. In consultation with farmers, governments and civil society, the EU should introduce mandatory carbon reduction targets in the agri-food sector. The EU should consider including the agri-food sector under

the Emissions Trading Scheme after 2030, with a priority given to the livestock sector, including importers of animal-based products.

- The EU should **consider replacing CAP with a Common Food Policy after 2027** to fund the green transition of the agri-food system in a holistic manner – from farm to fork. Investments would be streamlined to support: sustainable food production, including plant-based food with reduced usage of chemicals, water, and fuel; promoting sustainable and healthy food diets in the retail food service and household sectors; and reducing food losses and food waste across the agri-food supply chain. Such investments would be coupled with the uptake of innovative solutions, namely digital tools to enable a sustainable, fair, resilient, and competitive agri-food sector.
- The EU must **achieve a shift to plant-based food for human consumption** as envisaged by the Farm to Fork Strategy and reduce emissions from livestock. CAP must stop supporting industrial livestock farming after 2027. The EU should develop the rules on green public procurement that will give priority to plant-based food. It must invest in research and innovation, education and promotion campaigns that can help scaling up plant-based alternatives to animal-based food. The EU should also envisage aforementioned programmes and pre-accession support for Ukraine and other candidate countries.
- The EU must **align post-2027 CAP measures on nature protection with the European Biodiversity Strategy** including the share of the farmland designated for nature restoration.

4. Discussion of findings and key policy recommendations

4.1. DISCUSSION OF FINDINGS

The findings confirm that there is a strong rationale for the EU to take action and ensure a stronger alignment of the current and future crisis responses with the EU's green and just transition. Indeed, the decline of the European solar industry in the 2010s and the subsequent dominance of China have showcased the potential path dependencies of a disregard for the green agenda during times of crisis.⁹⁷ Furthermore, austerity measures taken during the European sovereign debt crisis have demonstrated how insufficient consideration of social objectives can lead to a rise in populism and societal polarisation. This increasing polarisation is far from trivial, as highlighted by the ongoing green backlash and the rise of Eurosceptic parties in the run-up to the European elections. On the other hand, crises do not necessarily have to result in backsliding on EU climate and environment goals. As shown by Europe's response to the COVID-19 pandemic and (to some extent) the energy crisis following the Russian invasion of Ukraine, resolute action at the European level and by member states can be highly effective in dealing with crises and transform these into powerful catalysts for the green transition.

Resolute action at the European level and by member states can be highly effective in dealing with crises and transform these into powerful catalysts for the green transition.

As the findings show, **leadership** at the EU level has proven crucial in ensuring effective crisis management and aligning crisis responses with the objectives of the Green Deal. The launch of the Green Deal by the Commission shortly before the outbreak of the COVID-19 pandemic, steered Europe's crisis response towards contributing to the green transition. Where the lack of a similar strategic vision at the European level during the eurozone crisis caused the opposite effect, the alignment with the green and just transition was now at the centre of EU crisis management. This is, for instance, exemplified by the mainstreaming of climate action in the Recovery and Resilience Facility (RRF), where national Recovery and Resilience Plans were required to allocate more than a third of spending to green action. Likewise, REPowerEU helped accelerate the roll-out of renewables as a key tool to absorb the Russian energy shock.

Nonetheless, findings show that EU leadership in times of crisis is not a given, which can, in turn, hamper net-zero ambitions under the Green Deal. For example, a lack of coordination at the European level led to a patchwork of national emergency interventions during the energy crisis, diminishing consumer incentives to save energy and switch to sustainable alternatives. The EU's prioritisation of short-term food security over sustainability in response to the Russian invasion also reveals how the EU's Green Deal commitments can easily be shattered without foresight and preparedness to manage potential crises.

Furthermore, EU leadership falls short of breath in aligning crisis responses with the Green Deal without ensuring **inclusiveness**. EU concessions in the aftermath

of farmers’ protests demonstrate how the lack of a common narrative about the importance of the green transition and effective communication about related benefits and trade-offs, can lead to a backlash despite ambitious EU commitments under the Green Deal. Failure to overcome national asymmetries (e.g. the divergent degrees of dependence on Russian gas in the energy sector) can also prove to be detrimental. As mentioned, the initial stages of the energy crisis following the invasion of Ukraine and the pandemic were characterised by a strong nation-first reflex.⁹⁸ To use the words uttered by former Italian Prime Minister Mario Monti in the midst of the sovereign debt crisis, member states will therefore only act in joint fashion if this is considered to be in their “enlightened self-interest”.⁹⁹

Lastly, leadership and inclusiveness need to be complemented by strong **capacities** to manage the crises in line with Green Deal objectives. Supranational action such as the bond buying programme of the ECB for instance proved vital at the height of the EU sovereign debt crisis in 2012. During the COVID-19 pandemic, common borrowing as part of NextGenerationEU provided member states with the fiscal manoeuvre to considerably mitigate the severe social and economic damage. While the full results of the RRF are still to be assessed, this instrument is coupled with strong commitments to drive the green investments.

Notwithstanding the need to further develop EU crisis management capacities, findings confirm that capacities prove to be insufficient without a strong commitment to direct them towards the green transition.

The introduction of the European Semester strengthened supranational surveillance over member state fiscal policies, yet nothing was done to leverage this newfound authority as a tool to install incentives for greening national public spending. EU’s efforts to create a banking union did not include sustainable finance provisions even though public authorities found themselves in a strong bargaining position vis-à-vis banks to push through stringent reforms after the bailouts.

In conclusion, much more work remains to be done for the EU to successfully align short-term responses with long-term commitments. Along such efforts, the EU must realise its leadership potential, improve its inclusiveness, and strengthen its capacities. In the run-up to the European elections and afterwards, the EU must consider how to use these assets to achieve the green transition and safeguard the well-being of all Europeans (see Figure 2).

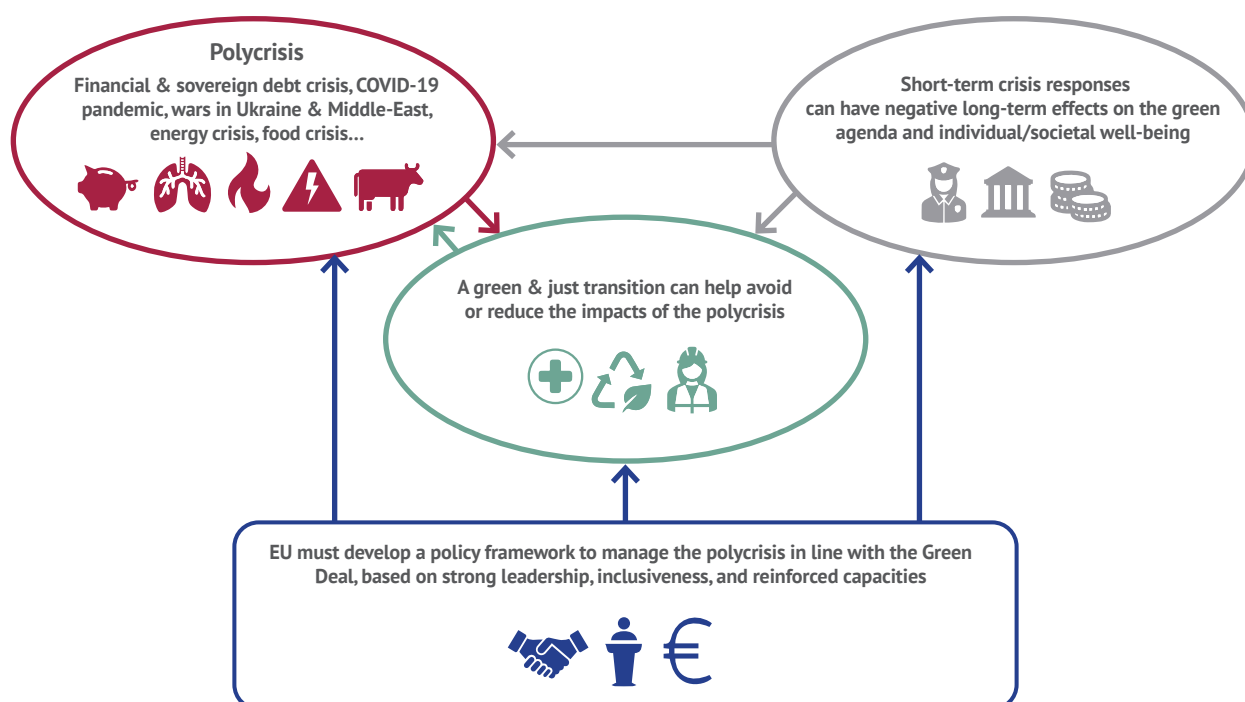
4.2. POLICY RECOMMENDATIONS FOR GREENER EU CRISIS MANAGEMENT

Leadership

- Considering the urgency posed by climate change, biodiversity loss and environmental pollution, the Green Deal must continue to serve as the overarching strategic vision for EU policymaking in the age of polycrisis. At the beginning of its next mandate, the Commission should **launch a Green Deal Contingency Plan**, a foresight exercise assessing the main challenges, issues and risks and the expected

Fig. 2

NAVIGATING THE POLYCRISIS IN LINE WITH THE GREEN DEAL



implications for the EU's green transition. This Contingency Plan would also consider the necessary measures to meet these challenges head on while keeping the Green Deal on track. Equally, it would explore potential synergies to use the polycrisis to accelerate the green transition and to employ the Green Deal to minimise the adverse effects of crises and help avoid a permacrisis. While taking a long view with the objective of climate neutrality by 2050 in mind, this Contingency Plan should focus especially on the next five years and must be updated at the beginning of each institutional cycle.

- ▶ The EU would do well to **consider establishing an Advisory body on Green & Just Crisis Management**. The Advisory body would be tasked with forecasting and scenario building for Green Deal objectives in light of ongoing and possible future crises and improving the crisis preparedness and resilience of the EU's green and just transition. In the event of a major international crisis, it would develop guidelines to align EU-level and national responses with climate goals and maximise the synergies and minimise the trade-offs between short-term effectiveness and the green agenda. The Advisory body would complement and help mainstream the green agenda into the activities of existing mechanisms for crisis governance at the European level, such as the Integrated Political Crisis Response mechanism of the Council, the EU Civil Protection Mechanism, the Single Market Emergency Instrument, and the European Food Security Crisis preparedness & response mechanism (EFSCM). Its composition would include a standing body of representatives of the Commission and external experts. Integrating nexus thinking¹⁰⁰ – overcoming policy silos and supporting inter- and intra-institutional collaboration to enable truly multidimensional, holistic crisis responses – this standing body could be flexibly expanded with representatives of other DGs, additional experts, and/or relevant stakeholders depending on the needs of the crisis at hand.
- ▶ The EU ought to **endorse management of the polycrisis as one of the key topics to be addressed by the next Commission's Executive Vice-President in charge of the Green Deal**. The Executive Vice-President should have one or more officials designated to address the question of polycrisis when working on the implementation of the ambitions of the Green Deal.

Inclusiveness

- ▶ The EU needs to **develop a strategy for communicating the importance of the Green Deal in the age of polycrisis**. The strategy would help inform Europeans about the socio-economic benefits of the green transition and the costs of inaction. It should communicate clearly, consistently and concisely regarding the uncertainties, trade-offs and costs related to the green transition and how these

are distributed across society and the economy. In encountering crises, the strategy should – where possible – focus on communicating the concrete benefits and short-term relief of personal choices and actions that businesses and citizens can take in line with Green Deal objectives.

- ▶ The EU should **initiate strategic dialogues with representatives of member states, regions, cities, consumer associations, industry and NGOs**. These strategic dialogues would aim to address the fundamental concerns and socio-economic challenges of people and businesses concerning the green transition in the age of polycrisis. They would build on the lessons from the ongoing strategic dialogue on the future of EU agriculture and Conference on the Future of Europe. Together with aforementioned communication strategy, the dialogues will help cultivate a shared assessment of the polycrisis and foster a joint narrative across the Union for pioneering the green and just transition. In reacting to crises, this common understanding will make it easier to formulate collective responses and align the enlightened self-interest of EU member states, citizens and companies with the green agenda.

Capacities

- ▶ With the RRF ending in 2026, the EU should **start the debate on a follow-up mechanism to maintain and ideally reinforce its budgetary capacities to navigate the polycrisis in line with net-zero ambitions** immediately after the EU elections. The endless succession of overlapping crises and the structural, long-term need for investment in the green transition justifies a permanent instrument. This could be financed via a new round of joint borrowing. Instead of being *a priori* redistributive and directed mainly towards national projects like the RRF, this instrument should take a much more European approach with a focus on strategic projects with a clear cross-border dimension. The EU should keep the lessons from previous initiatives in mind, such as the European Stability Mechanism and the (failure of the) Strategic Technologies for Europe Platform (STEP). When implemented, the Green Deal Contingency Plan (see *supra*) can help in steering these investment flows in the right direction.
- ▶ In addition to bolstering financial firepower for the Green Deal at the European level, the EU must also seek to leverage funds from other sources. The **green agenda must be mainstreamed into the European Semester** to ensure a stronger alignment of national fiscal policies with EU climate objectives. Equally, **work must continue on the sustainable finance agenda** to mobilise and leverage private investment in the green transition.

4.3. CONCLUSION

This Discussion Paper underscores the critical need for the EU to reorient its crisis management strategies towards the green and just transition. Past experiences, whether during the European sovereign debt crisis or more recent challenges like the COVID-19 pandemic and the energy crisis, have highlighted the imperative of aligning short-term interventions with the EU's long-term commitment to sustainable prosperity. Leadership emerges as a pivotal factor in this endeavour, as demonstrated by the efficacy of initiatives like the Green Deal in steering crisis responses towards environmental objectives. However, such leadership must be bolstered by inclusiveness, ensuring that diverse stakeholders are engaged and informed about the benefits and trade-

offs of green policies. Moreover, strong capacities are essential to translate leadership and inclusiveness into tangible action, emphasising the need for robust financial mechanisms and strategic planning.

The path to better and greener crisis management requires a multifaceted approach that leverages these three aspects – EU leadership, inclusiveness, and capacities – in tandem. By embracing the recommendations above and remaining steadfast in its commitment to sustainability, the EU can navigate crises more effectively and advance the global agenda for environmental stewardship and social justice. In managing the crises of today and tomorrow, the EU must, therefore, seize the opportunity to forge a resilient and sustainable path forward for the benefit of current and future generations.

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