

## EUROPEAN GREEN DEAL - RESETTING THE EU CLIMATE CHANGE AND ENVIRONMENTAL AGENDA

The European Commission has published a bold package of climate change and environmental policies with ambitious aims including climate neutrality by 2050, a zero pollution environment, and a halt to biodiversity loss. The 'European Green Deal' Communication contains a wide range of sector-specific and economy-wide measures to be put in place over the next 2 years. In this briefing we consider some of the key measures proposed.

When new EU Commission President Ursula von der Leyen mentioned in her speech at the Madrid COP 25 climate meeting that the new Commission's number one priority is the "transition to a climate neutral economy by 2050", it was clear that its new climate and environmental policy would be far-reaching. The Commission has now published a Communication on climate and environmental policy labelled the "European Green Deal" (EGD). With this name giving a nod to the US President Roosevelt's 'New Deal' social and economic policies focused on bringing the US out of the Great Depression in the 1930s, it is much more than an update of current commitments. Following increasingly urgent calls to halt climate change and the environmental degradation of the planet, and with no less ambition than Roosevelt's New Deal, the EGD represents a much broader 'reset' of EU environmental, energy, economic and social policy with the aim of achieving the following key goals:

- A climate-neutral economy by 2050;
- Supplying clean, affordable and secure energy;
- A zero pollution and toxic-free environment;
- A push for a global target to halt biodiversity loss; and
- A fair healthy and environmental-friendly food system.

The EGD seeks to mainstream these objectives through the whole EU economy by:

- Ensuring a flow of investment (through EU funding and facilitation of private sector funding) to meet increased climate and energy targets, while using funding also to ensure that there is a socially 'just transition' to these more stringent goals;
- Doing more to mobilise research and facilitate innovation, encourage greener national budgets and implement environmentally positive price signals, e.g. (through eradicating tax advantages for fossil fuels).
- Ensuring that its policies 'do no harm' (a so-called 'green' oath) ensuring that the burden falls fairly on all parts of society.

We look below at some of the key specific measures proposed in the EGD. The full list of measures and timelines are set out in the Appendix to this briefing.

### Key issues

- EU Commission's 'European Green Deal' aims for:
  - A climate-neutral economy by 2050
  - supplying clean, affordable and secure energy
  - A zero pollution and toxic-free environment
  - A push for a global target to halt biodiversity loss
  - A fair, healthy and environmental-friendly food system
- Numerous measures to be put in place over the next 2 years.

### **Strengthened climate targets**

A net-zero emissions goal by 2050 has been EU Commission policy since 2018, aimed at meeting the Paris Agreement objective of limiting climate temperature increase to 2°C (and pursuing efforts to limit further to 1.5°C). Recognising that current EU policies would only lead to a 60% in Greenhouse gas (GHG) emissions by 2050, the EGD now presents some clearer detail around the measures needed to achieve the 2050 goal. It proposes a European 'Climate law' (to be published in March 2020). This would set the goal in legislation to ensure that all EU policy in all sectors contributes to achieving it.

Key to achieving such an ambitious long term target are the interim goals that will spur short and medium term action. The EGD proposes an enhanced 2030 target of at least a 50% (and towards 55%) reduction in GHG emissions (compared with 1990 levels). This is a significant ramp-up from the 40% reduction target contained in current EU legislation under the 2030 Climate and Energy package.

The Commission envisages tightening Member States' GHG reduction targets in all sectors (whether inside and outside the EU Emissions Trading System).

### **Extension of Emissions Trading System**

A key measure to support the climate neutrality goal is a proposed extension to the EU Emissions Trading System (EU ETS). Currently applying only to a limited number of heavy industries, combustion activities, aviation and land-use change, the Commission is contemplating extending it much more broadly, for example to shipping, road transport, and buildings. While such a radical change could lead to significant emission cuts if the carbon price can be maintained at a suitable level, this could add great complexity to the EU ETS and significant administrative burden to asset owners / operators.

The Commission also intends to raise the level of effort on the aviation sector by reducing the level of allowances issued for free to airlines.

### **Carbon tax on imports**

Possibly the most notable proposal in the Communication is a 'carbon adjustment mechanism' at the EU border for 'selected sectors' to reduce the risk of carbon leakage (i.e. higher regulatory standards in the EU leading to production being displaced to outside the EU, or import of products with higher carbon content). This proposal is described as an alternative to existing measures which seek to assist heavy industry in dealing with the increased cost of climate measures (e.g. free emission allowances within the EU ETS or compensation for increased electricity costs). The idea is that, instead of providing positive support to EU industry – essentially lightening the load of EU climate measures – a "border adjusted" carbon tax applies equally to EU industry and to non-EU industry which exports into the EU.

The tax could potentially be linked to EU ETS carbon prices, but is likely to be highly complex to introduce. It is also likely to be characterised as a tariff by the US and could cause further trade tensions (particularly with the US) at a time when trade relations are already strained (e.g. by recent disputes relating to steel and aluminium imports). That is, however, to misunderstand its effect – like other border-adjusted taxes (most notably VAT), its actual effect is to create a level playing-field between EU produced goods and goods produced elsewhere and imported into the EU. Whether WTO rules permit a border adjusted tax of this nature remains an unresolved question. The big challenge will be turning something which most economists would agree is good policy into something which has sufficient political support to overcome the requirement for unanimity in tax measures. Unfortunately at this point we are not sure that is going to be achievable.

### **Supplying clean affordable and secure energy**

The EU Energy Union already seeks to achieve the three goals of clean, affordable and secure energy. The EGD re-inforces these objectives noting that energy efficiency needs to be prioritised with a power sector based largely upon renewable energy sources. Increasing offshore wind production is picked out as an essential element in this effort. A new plan is also proposed for a competitive decarbonised gas market to help in the development of decarbonised gases.

Member States are already required to present their finalised Integrated National Energy and Climate plans to the Commission by the end of 2019 (based on pre-existing climate targets). Through the process of updating these plans, the EU will legislate by June 2021 to require Member States to align these plans to the new climate targets mentioned above in 2023.

The EGD also recognises that major development of supporting 'smart' infrastructure and technology will be required to secure these goals, and specific mention is made of smart grids, hydrogen networks, carbon capture, storage and utilisation (CCUS), and energy storage. The Commission will continue to review the regulatory framework to ensure that it will facilitate development in these areas.

A review of the Commission's Environmental and Energy State Aid Guidelines in 2021 will also be undertaken with a view to facilitating the phase-out of fossil fuels.

### **Circular Economy and Industrial Strategy**

The EGD rightfully recognises the link between industrial development and the green economy and therefore aims to put in place an industrial strategy to help develop areas of the wider economy necessary for the low carbon transition (an approach that the UK, for example, has recently adopted).

As one would expect, an industrial strategy would highlight the need for development of low carbon technologies. It also covers support for sustainable products and services more generally. To this end the EGD announces that a new EU Circular Economy Action plan will be put in place (just four years after the last version). In particular, the strengthened plan will contain a new sustainable products policy which will require all products to be designed based on:

- A common methodology and principles;
- Prioritising reducing and reusing of materials before recycling them; and
- Minimum requirements to prevent harmful products being placed on the EU market.

The Commission would also consider whether there should be a 'right to repair' products. How that would work in detail remains to be seen but the intention is to empower consumers to make the most of their role and purchasing power in the sustainable economy.

Textiles, construction, electronics and plastics would receive particular attention under the sustainable products policy. While there have long been prescribed specifications and requirements for the design of certain products (e.g. energy efficiency of electronic products), introducing strict requirements to all products more generally would represent a landmark change from current practice. The EGD highlights, in particular, the need to deal with built-in obsolescence of devices.

Other specific elements of this wide-ranging policy include:

- Extending existing "extended producer responsibility" requirements (which put responsibility for dealing with waste products upon the producer); and
- Funding support for clean energy technologies such as clean hydrogen, fuel cells and other alternative fuels, energy storage and CCUS, and low carbon industrial processes such as zero-carbon steel making.

The EGD seeks to place 'digital transformation' at the heart of the circular economy given, on the one hand, the ability of digital technologies to assist in pursuing low carbon policies (e.g. through monitoring and control technologies) and, on the other, the need to ensure that the environmental impacts of the digital economy itself are managed (e.g. through the proliferation of data centres).

### **A new Biodiversity Strategy**

The EGD proposes ramping up action on biodiversity loss, with a new Biodiversity Strategy by March 2020. Internationally, the Commission wishes to boost global action on biodiversity loss by proposing global targets for biodiversity protection. Looking inward, the Commission will consider increasing the coverage of protected sites within its Natura 2000 Network, and new measures to help Member States restore damaged ecosystems. A new EU Forest Strategy would also be prepared, focusing on helping Member States to protect and restore their forests.

### **Zero-pollution environment**

The EGD contains a proposal for a 'zero pollution action plan' to be prepared in 2021. While this seems a worthy objective, the particular measures to accompany it seem a little more targeted and/or pragmatic, for example: Measures to address pollution from micro plastics, chemicals and pharmaceuticals, and a review of pollution control measures for industrial installations.

Of particular note are plans to align air quality standards more closely to World Health Organisation standards – this could result in some considerable tightening of air quality standards for some substances.

The Commission will also prepare a chemicals strategy for sustainability in Summer 2020 aimed at better protecting against human exposure to chemicals and the substitution of more hazardous chemicals.

### **Financing the transition**

The Commission establishes the EGD as a key element of its plan to implement the United Nations 2030 Agenda and the Sustainable Development Goals. In this context, the EGD focuses on the need for a 'Just Transition' to ensure that regions and sectors most affected by the transition to the green economy will have access to funding from the EU budget and from the European Investment Bank (which recently announced a major increase in its climate-related funding plans).

Given the estimated €260 billion annual investment needed to finance EU 2030 climate and energy targets, the EGD highlights the particular role of private sector finance and capital, noting that a renewed sustainable finance strategy will be published in the Q3 2020. There is little new in the EGD on private finance to those who have followed recent development of the EU Sustainable Finance Action Plan (See our publication [Growing the Green Economy](#)), except to note that the Commission will review the Non-Financial Reporting Directive during 2020 with a view to ensuring that investors are fully appraised of the sustainability of their investments.

### **Final Comment**

The Appendix to this note shows the sizeable ambition of the EGD through a large list of required actions which permeate all sectors of the EU economy, although the detail remains to be fleshed out over the next two years. Achieving this major work programme without affecting the health of the economy, will require the Commission to make unprecedented efforts to adopt a joined-up approach to ensure that each initiative is effective, cost-efficient and that the environmental, social and economic impacts fall fairly through society. The EGD proposes a 'green oath', requiring each legislative initiative to be accompanied by an explanatory statement setting out how it 'does no harm' and that the proposal is framed in the most effective and least burdensome way. In the circumstances, this seems a sensible add-on to the current practice of producing 'impact assessments' for initiatives.

With a new Commission and a new reset of climate and environmental policy for the EU, it can only be hoped that political willingness and drive among Member States matches the level of ambition shown in the EGD.

The Commission's 'European Green Deal' Communication (Com 2019/640 final) and associated documents can be found at this [link](#)

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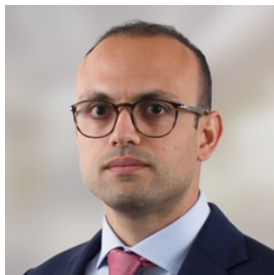
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**Appendix - Key actions in the EGD\***

<b>Actions</b>	<b>Indicative Timetable<sup>1</sup></b>
<b>Climate ambition</b>	
Proposal on a European 'Climate Law' enshrining the 2050 climate neutrality objective	March 2020
Comprehensive plan to increase the EU 2030 climate target to at least 50% and towards 55% in a responsible way	Summer 2020
Proposals for revisions of relevant legislative measures to deliver on the increased climate ambition, following the review of Emissions Trading System Directive; Effort Sharing Regulation; Land use, land use change and forestry Regulation; Energy Efficiency Directive; Renewable Energy Directive; CO <sub>2</sub> emissions performance standards for cars and vans	June 2021
Proposal for a revision of the Energy Taxation Directive	June 2021
Proposal for a carbon border adjustment mechanism for selected sectors	2021
New EU Strategy on Adaptation to Climate Change	2020/2021
<b>Clean, affordable and secure energy</b>	
Assessment of the final National Energy and Climate Plans	June 2020
Strategy for smart sector integration	2020
'Renovation wave' initiative for the building sector	2020
Evaluation and review of the Trans-European Network - Energy Regulation	2020
Strategy on offshore wind	2020
<b>Industrial strategy for a clean and circular economy</b>	
EU Industrial strategy	March 2020
Circular Economy Action Plan, including a sustainable products initiative and particular focus on resource intense sectors such as textiles, construction, electronics and plastics	March 2020
Initiatives to stimulate lead markets for climate neutral and circular products in energy intensive industrial sectors	From 2020
Proposal to support zero carbon steel-making processes by 2030	2020
Legislation on batteries in support of the Strategic Action Plan on Batteries and the circular economy	October 2020
Propose legislative waste reforms	From 2020

1. The Commission's work programme for 2020 will provide further clarity on the timing of relevant actions announced for 2020

Actions	Indicative Timetable <sup>1</sup>
<b>Sustainable and smart mobility</b>	
Strategy for sustainable and smart mobility	2020
Funding call to support the deployment of public recharging and refuelling points as part of alternative fuel infrastructure	From 2020
Assessment of legislative options to boost the production and supply of sustainable alternative fuels for the different transport modes	From 2020
Revised proposal for a Directive on Combined Transport	2021
Review of the Alternative Fuels Infrastructure Directive and the Trans European Network – Transport Regulation	2021
Initiatives to increase and better manage the capacity of railways and inland waterways	From 2021
Proposal for more stringent air pollutant emissions standards for combustion-engine vehicles	2021
<b>Greening the Common Agricultural Policy / ‘Farm to Fork’ Strategy</b>	
Examination of the draft national strategic plans, with reference to the ambitions of the European Green Deal and the Farm to Fork Strategy	2020-2021
‘Farm to Fork’ Strategy Measures, including legislative, to significantly reduce the use and risk of chemical pesticides, as well as the use of fertilizers and antibiotics	Spring 2020 2021
<b>Preserving and protecting biodiversity</b>	
EU Biodiversity Strategy for 2030	March 2020
Measures to address the main drivers of biodiversity loss	From 2021
New EU Forest Strategy	2020
Measures to support deforestation-free value chains	From 2020
<b>Towards a zero-pollution ambition for a toxic free environment</b>	
Chemicals strategy for sustainability	Summer 2020
Zero pollution action plan for water, air and soil	2021
Revision of measures to address pollution from large industrial installations	2021
<b>Mainstreaming sustainability in all EU policies</b>	
Proposal for a Just Transition Mechanism, including a Just Transition Fund, and a Sustainable Europe Investment Plan	January 2020
Renewed sustainable finance strategy	Autumn 2020
Review of the Non-Financial Reporting Directive	2020
Initiatives to screen and benchmark green budgeting practices of the Member States and of the EU	From 2020

Actions	Indicative Timetable <sup>1</sup>
Review of the relevant State aid guidelines, including the environment and energy State aid guidelines	2021
Align all new Commission initiatives in line with the objectives of the Green Deal and promote innovation	From 2020
Stakeholders to identify and remedy incoherent legislation that reduces the effectiveness in delivering the European Green Deal	From 2020
Integration of the Sustainable Development Goals in the European Semester	From 2020
<b>The EU as a global leader</b>	
EU to continue to lead the international climate and biodiversity negotiations, further strengthening the international policy framework	From 2019
Strengthen the EU's Green Deal Diplomacy in cooperation with Member States	From 2020
Bilateral efforts to induce partners to act and to ensure comparability of action and policies	From 2020
Green Agenda for the Western Balkans	From 2020
<b>Working together – a European Climate Pact</b>	
Launch of the European Climate Pact	March 2020
Proposal for an 8 <sup>th</sup> Environmental Action Programme	2020

\* Reproduced from the Annex to the Communication from the Commission to the European Parliament, the European Council, the Council, the European Economic and Social Committee and the Committee of the Regions - The European Green Deal. Brussels, 11.12.2019. COM(2019) 640 final