



European Green Recovery – Building back better based on the Green Deal

This position paper is the result of the work of the EPA Network's group on Green Stimulus. While it reflects the inputs of all participants of the group, it is only endorsed in this form by the following agencies:

Environment Agency Austria (UBA)

Finnish Environment Institute (SYKE)

French Agency for Ecological Transition (ADEME)

German Environment Agency (UBA)

Irish Environmental Protection Agency (EPA)

Italian National Institute for Environmental Protection and Research (ISPRA)

Natural Resources Wales

Netherlands Environmental Assessment Agency (PBL)

Swedish Environmental Protection Agency (SEPA)

Swiss Federal Office for the Environment (FOEN)

Central recommendations in a nutshell

Building back together

- Link national and European recovery strategies in stimulating them to be greener, more efficient and more effective, using the specific knowledge of the Environmental Protection Agencies (EPAs) and the European Environment Agency (EEA).
- Identify best practice examples and obstacles for the implementation of Green Recovery measures and instruments, establish a process to share experiences between the Commission, EPAs/EEA and Member States.

Green Recovery

- Ensure compatibility of all recovery measures with the European Green Deal through sustainability checks, and reporting and monitoring obligations in Next Generation EU and National Recovery Programmes.
- Explore and use the potential for economic, social, ecological and fiscal benefits by combining green recovery measures with structural reforms.
- Extend funding in the multiannual financial framework for future-oriented programs (climate, biodiversity, education, R&D, eco-innovations etc.).
- Support the process of socio-economic transformation and avoid stranded investments by setting green bailout conditions.

Structural reforms

- Use the introduction of carbon pricing and the removal of environmentally harmful subsidies to generate public funds for the socio-ecologic transformation and to consolidate public budgets.
- Support governments in their efforts to strengthen public investment management and governance, enabling them to deliver an effective stimulus and make public investment sustainable (e.g., increase capacities for planning, public participation, sustainability checks).
- Significantly increase the number of companies included in the revised Non-Financial Reporting Directive, and - in dialogue with progressive companies - the quality and standardisation of data to be reported, in order to support sustainable finance and green markets.

1. Introduction

The Covid-19 pandemic and the measures to contain it are causing unprecedented social and economic disruption in Europe and worldwide. At the same time, climate change and biodiversity loss are challenges for humanity that also need immediate action. Their consequences will affect us all for centuries and the impact will be even more dramatic than that of the current pandemic. Already, the window for meeting the Paris targets is rapidly closing and ecosystems are vanishing at an unprecedented pace. Oceans are under pressure from acidification, eutrophication and accumulation of plastic waste, and resources are wasted.

As with pandemic control efforts, decisive, evidence-based, rapid action is therefore needed to avoid fatal environmental, social and economic consequences. The scientific research is clear: this decade must be used for fundamental changes to our economy and society in order to avoid irreversible changes in the Earth's system, which would have catastrophic consequences. Only then will we be able to achieve the Paris Climate Agreement and the sustainable development goals (SDGs) for 2030,

as well as implement the vision of a climate-neutral, resource-efficient society in accordance with the European Green Deal.

The recovery programmes designed to overcome the economic crisis offer a unique window of opportunity to set the course for this transformation towards sustainability. The challenge of our current situation – with the three major crises of health, sustainability and employment, as well as the economic crisis caused by Covid-19 – can be turned into an opportunity if the immense fiscal means mobilised to overcome the Covid-19 crisis are used to simultaneously bring about socio-ecological transformation. Consistently linking recovery measures to the green transition – in particular through the ambitious design and implementation of the Multiannual Financial Framework and the Next Generation EU instrument – would make use of strong economic multiplier effects which help create jobs in the short and long-term, and increase long-term economic stability. It also saves environmental costs, reduces dependencies on critical resources, increases intergenerational justice, and improves public health and well-being. The positive impacts of green recovery programmes can be further strengthened if national and European efforts are closely linked – a process to which the knowledge gathered in national Environmental Protection Agencies and the European Environment Agency can make a strong contribution.

In the Covid-19 crisis resilience has become the focus of political debate. Protection of ecosystems, climate protection, and a resource-friendly circular economy can do a great deal to increase the resilience of our society. Well-designed green recovery programs, in accordance with the European Green Deal, are key in achieving this goal. However, they will not reach their full potential, or deliver the broad changes we need in order to return to a life within the planetary boundaries, if they do not manage to facilitate changes in investment patterns and innovation towards sustainability through adequate policy mixes. In addition, the recovery programs should provide incentives for behavioral and cultural changes, e.g., by supporting the transformation toward sustainable mobility and housing, offering affordable renewable energy for all, and providing tax and fiscal incentives for sustainable consumption decisions (e.g., regarding food systems). Consistently putting the economic recovery under the guiding principle of a socio-ecological transformation and wellbeing can provide a strong signal and attractive alternatives to the status quo, and help to bring about the more fundamental changes we need. Along this path, it is crucial that we monitor the environmental, economic and social impacts of all measures and readjust them if, when and where it is necessary, as well as ensuring transparency and citizen participation wherever possible.

2. Criteria for the European Green Recovery

2.1. Green Recovery Measures that Benefit All

Green recovery measures have a multitude of co-benefits compared to measures that serve to reestablish the pre Covid-19 status quo (OECD 2020, WRI 2020): they support the transition to a climate neutral, circular economy, strengthen the long-run competitiveness of the economy and ensure the provision of stable jobs. Further, through improvements in the state of the environment they benefit public health and wellbeing and the stability of our societies. Finally, by addressing the current economic crisis and the climate and environmental crisis at once, they save scarce public funds and reduce fiscal burdens on future generations. Apart from the direct effects, green recovery measures also increase the economic, environmental and fiscal resilience through stabilising the foundations of our natural and economic systems.

To achieve their full potential, recovery measures should meet the following criteria:

High Transformative Potential

Measures with a high transformative potential not only serve the economic recovery, but have strong multiplier effects on the state of the environment, as well as public health and well-being, and reduce future pressures on public and private budgets. Measures to support green innovations, establish green markets, provide green skills or build green infrastructures are among those with a high transformative potential (Hepburn et al. 2020).

Timely and Targeted

To reduce the economic and social consequences of Covid-19, recovery measures need to be implementable and effective in the short-term (timely) and have strong effects on demand and employment (targeted). In particular, small-scale green programs in a broad range of sectors fulfill these criteria, e.g., support measures for renewable energy installations and energy-efficient renovation of buildings, sustainable infrastructure or nature-based solutions (afforestation, greening cities, biodiverse agriculture and forestry etc.).

Contributing to a Just Transition

The consequences of Covid-19 and the environmental crisis affect the various segments of the population differently, with vulnerable groups often being hit most severely. Therefore, recovery measures have to ensure they do not increase social injustice, but positively affect the distribution of income and wealth, and foster public health and social inclusion. Particular attention should be paid to the contribution green recovery programmes can make in reducing energy and mobility poverty. Qualification measures are equally important in preventing a shortage of green skills in the labor market and to give those who lose their jobs in the economic crisis a new professional perspective.

Efficient and temporary

The Covid-19 recovery measures represent a considerable strain on public budgets, limiting future options for national governments and the EU. To reduce the pressure on public budgets, all measures should be efficient, i.e., offering high multiplier effects, as well as temporary, i.e., limited in their duration. (Though exceptions may be warranted for transformative measures that address long-term needs, which could be refinanced through carbon pricing or the reduction of harmful subsidies.)

2.2. Sustainable Recovery Requires Structural Reforms

The 2008/09 financial crisis has shown that green recovery programmes alone are not able to achieve positive long-term effects – either for the economy or the environment – if they are not embedded in structural reforms (Bhattacharya and Rydge 2020, OECD 2020). A broad consensus in science exists regarding the necessity of reforms, e.g., to internalise environmental costs in the decisions of businesses, investors and policy makers, reduce competitive disadvantages of sustainable products, business models and consumption choices (‘provide a level playing field’) and promote eco-innovations and the development of green markets. These measures are part of the European Green Deal and should be implemented in an ambitious manner.

Carbon Pricing and Removal of Environmentally Harmful Subsidies

Introducing effective prices for negative environmental effects – in particular carbon pricing – and the removal of environmentally harmful subsidies are important steps towards “getting the prices right”, i.e., towards fair competition between sustainable and unsustainable modes of production and consumption. Simultaneously introducing the planned carbon border adjustment mechanism to account for globally different levels of carbon mitigation ambitions would ensure a level playing field for EU and non-EU producers in the European market. Low fossil fuel prices in the wake of the

pandemic afford an opportunity for ambitious tax and subsidy reforms, provide a source of much needed revenues, and can help restore fiscal sustainability. These reforms should include challenging areas, such as the common agricultural policy.

Legal Framework

An ambitious design of the legal framework gives important signals, sets limits, and guides companies and consumers in their investment decisions. It allows policy makers to work towards climate and biodiversity targets, as well as fair competition between sustainable and unsustainable business models without requiring public funds. It also helps green recovery measures to achieve their full multiplier potential. Green recovery programs should thus be embedded in a predictable and ambitious legal framework that supports innovation, e.g., regarding emission limits in transport, performance standards in industry or construction, and greening standards in agriculture. This framework should also support innovation in, e.g., transport and energy, as well as promoting sustainable finance and green procurement.

Sustainable Finance and Non-financial Reporting

Promoting sustainable finance is crucial to the mobilisation of private finance for economic recovery and socio-ecological transformation. With the Renewed Sustainable Finance Strategy and the Taxonomy for Sustainable Action the EU has already started to develop the necessary framework. Such measures should be continued, the level of ambition raised, and the EU regulation complemented with national regulations if the objectives of the Green Deal are to be achieved.

Channeling private funds into sustainable investments requires investors to have a clear understanding of the impacts of a company's operations on the environment, the risks involved in unsustainable business practices, a company's dependencies on the state of the environment and the opportunities afforded by sustainable production and consumption. The current revision of the Non-financial Reporting Directive should ensure that high quality information regarding these aspects will be available for most European businesses within a few years. In this process the EU Climate Taxonomy can make a significant contribution toward necessary standardisation and facilitate market participants' alignment with a common reporting standard. Further, establishing an Environmental Accounting Standard, as envisaged in the Green Deal, would enable investors to easily evaluate the reported information by allowing non-financial data to be integrated into financial accounts and be put in relation to a company's financial performance.

Eco-Innovations and Green Markets

The transformation to a sustainable and competitive economy and a resilient society depends strongly on green innovations. Therefore, supporting research and development, fostering green innovations and building green markets are crucial for a stable and sustainable recovery. To push forward this process, green recovery measures, such as additional public funding for R&D or demonstration projects, should be combined with structural reforms that increase the competitiveness of green goods and services.

Beyond the initial innovation, establishing markets for green goods and services is a frequent obstacle to their success. Joining forces through European alliances to support R&D and green innovations, and establish regulatory frameworks that support the formation of green markets (e.g., a mandatory EU Eco-Label Directive) should therefore be a priority.

Green Infrastructures

Investments in green infrastructures – in transport, energy, water, agriculture or nature-based solutions – have strong economic and environmental multiplier effects (Bhattacharya and Rydge 2020, DIW 2020). They form the basis for sustainable modes of production and consumption, increase the competitiveness of sustainable business models by reducing market distortions, and create a high number of jobs per Euro invested. This extends to digital infrastructures which enable sustainable solutions, such as telecommuting or virtual mobility. Therefore, they should be at the heart of green recovery programs and combined with structural reforms, e.g., programs that take account of long-term investment needs and a shift of public funding from brown to green infrastructures.

Nature-based solutions

A strong focus on nature-based solutions contributes simultaneously to overcoming the economic crisis and tackling the dramatic loss of ecosystems and biodiversity. On the economic side, they are on average labor-intensive, employ low-skilled workers and are quick to implement (WRI 2020). In the longer term, they can be the most cost-effective solutions for water filtration, erosion and nutrient runoff control, carbon sequestration and ecosystem conservation. Therefore, they are very suitable for green recovery programs. On the environmental side, they can be applied in the industries that are responsible for the vast majority of nature loss: agriculture, infrastructure and building, extractives and energy. Supporting nature-based solutions has a highly positive cost-benefit-ratio and also offers a great range of economic opportunities that pave the way to a more resilient development in the long run (OECD 2020).

Local and regional governance

The building of green infrastructures, renewable energy installations, nature-based solutions and many other recovery measures depend on the ability of local and regional authorities to timely deliver planning services, approvals and permissions. Public participation processes, which ensure that citizens experience the benefits of the green transition, also require significant resources at the local level. Regional and local authorities should therefore be provided with the necessary means to allow green recovery to be carried through all layers of government, although pandemic-induced additional costs and tax deficits have put local budgets under pressure and limited the authorities' room for maneuvering.

3. Instruments for Greening the Recovery

To address the risk of public funds being invested in stranded assets which cement the unsustainable status quo, all recovery measures should be in line with the Paris Agreement, the EU Biodiversity Strategy, the Green Deal and the SDGs. This can be ensured through several instruments:

Sustainability Checks

Any measure should undergo a mandatory pre-implementation sustainability check to ensure consistency with the European Green Deal, and to rule out significant environmental damage (no-significant-harm principle). Applying *ex-ante* criteria for exclusion (like fossil fuel-based technologies and infrastructures) would facilitate and speed up this check.

Green conditions for company bailouts

In the industries most affected by the pandemic massive company bailouts have taken place and may still take place in the months to come (aviation, tourism etc.). These bailouts (as well as large public loans) need to be tied to green conditions, defining environmental reporting and management

requirements and stipulating ambitious sustainability goals to be reached by the company in the short to medium-term. Further, the effects of bailouts need to be weighed against the effects that would be achieved with the same funds if used for other measures.

Reporting and Monitoring

Full transparency is an effective tool to ensure recovery funds are used in accordance with programme objectives. Reporting information on all final beneficiaries, as requested by the European Parliament (EP 2020), would provide this transparency, increase authorities' accountability and thus contribute to the credibility of the recovery effort.

Recovery programmes are built in the face of strong uncertainty. It is therefore essential to monitor their environmental, economic and social effects to ensure full implementation and compliance with sustainability principles. Experience gained from this monitoring process should be shared between member states to identify best practice as well as barriers and options for improvements.

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