The political battle over the EU's new climate plan is just beginning

A report published by the Intergovernmental Panel on Climate Change on 9 August has been described as a 'code red for humanity'. The report came less than a month after the European Commission outlined a new climate action plan that it hopes will lead to a substantial drop in emissions. **Patrick Bayer** *and* **Federica Genovese** *write that the new plan is much needed, but major political struggles lie ahead.*

On Wednesday 14 July, the European Commission unveiled a new climate action plan of an unprecedented scale. The draft, if passed into law, will force virtually all sectors of the EU economy to accelerate the shift away from fossil fuels in order to cut pollution by at least 55% from 1990 levels by 2030. The plan conveys a big sense of urgency, but how realistic this may be heavily depends on national and cross-European politics.

What are the pieces of the EU plan and how do they fare compared to past climate policy?

The European Commission's "Fit for 55" package comprises 13 legislative proposals, some of which update existing legislation to make policies compatible with the EU's increased climate ambition of net zero emissions by the middle of the century, while others are new proposals. Deep decarbonisation sits right at the heart of the package, which seeks to get the EU's economy ready for a green transition. Given the scale of the challenge, the Commission's plan covers a lot of ground and instruments.

A critical piece of the plan is the "beefing up" of the EU Emissions Trading System (EU ETS). The EU ETS operates as a cap-and-trade system, in which policymakers set an emissions cap that limits the overall number of emissions and allows regulated firms to trade permits. A cornerstone of EU climate action and the second largest carbon market globally after China's recently launched system, the Commission's new plans propose to both tighten the cap for already regulated sectors, such as power generation and industrial production, and to broaden sectoral coverage to transport and building emissions.

How exactly this is going to happen is still unclear, but the announcement alone sent carbon prices above €55 per ton of carbon. While the EU ETS has shaved off more than a billion tonnes of CO2 from the EU's carbon footprint, higher prices and broader sectoral coverage will accelerate the phase-out of fossil fuels. Including transportation emissions in the EU ETS would make for a radical shift in electrification demand.

The EU's multi-pronged approach to drive down transport emissions, roughly a quarter of the EU's total, is to layer the inclusion of the transport sector into carbon markets on top of existing reduction targets under the Effort Sharing Regulation. This is flanked by requiring the use of greener (and more expensive) fuels in aviation and shipping through the ReFuelEU Aviation and FuelEU Maritime programmes and banning combustion engine cars from 2035. With said reforms, the European Commission aims to adjust the cap to the EU's target of cutting emissions by 55%, a higher target than most larger countries have set up. Evidently, the ultimate goal of the EU's ambitious climate action is to foster green industrial policy.

The proposed Carbon Border Adjustment Mechanism (CBAM) may also turn out to be a potential minefield. The idea is simple. In order to protect Europe's industrial base, imports into the EU from countries without or much weaker carbon regulation will be taxed at the border to avoid unfair price competition. Such a policy might successfully minimise the risk for carbon-intensive production to be relocated to countries with little appetite for ambitious carbon regulation. However, the jury is still out as to whether this will be compatible with international trade laws, much of which will depend on the design of the policy.

The political struggles ahead

Legislating these reforms won't come easy as year-long negotiations lie ahead. The reform of EU carbon markets as well as a tougher stance on transport and building emissions, including from home heating, are likely to provoke strong political opposition.

For one, the struggles will occur within EU countries and will involve firms and sectors, who will bear the brunt of the costs of the energy transition. Importantly, though, recent research shows that firms do not unequivocally oppose climate regulation. Indeed, firms may be supportive of it as long as it protects their profits or puts competitors at a disadvantage. But large firms will have a lot to lose and will likely engage in delaying tactics or threats of relocation. A strong stand by the EU institutions against powerful companies is probably worth the fight, but this is perhaps unlikely given the current state of the union and the mixed messaging in the Covid-19 recovery plan.

Also, with lots of the proposed policies affecting everyone's daily lives, enacting the European Commission's proposals will also need buy-in from the general public. Yet, as several of these policies will make it more expensive to run appliances, drive cars, and heat homes, compensation of the losers from the green transition will be critical. Anticipating the adverse distributional consequences, the EU has earmarked more than €70 billion in the Climate Action Social Facility to mitigate the cost of ambitious climate policies for vulnerable citizens. These funds will come from revenue generated from auctions of carbon permits in the EU ETS, but it is up for debate as to whether they will be enough to hedge the economic resentment and social anxiety that tend to spark upheavals across the continent.

Because of the size of the programme, it also remains to be seen how much the Commission will be able to sustain a conversation about (carbon) taxation in view of fuelling the green transition. Political science research has shown that the general public can accept carbon taxes with the right framing. However, taxes are incredibly partisan, just as climate change framing is. In Europe, where polarisation is less intense than in the US, anti-establishment parties have capitalised immensely on both the political backlash against taxes and Europe's fiscal directions. Much of the struggle lies down this path.

Finally, the Commission's climate ambitions will likely gain more momentum depending on political events abroad, in particular in the United States, where the idea of a Green New Deal was first seeded. The direction that the US debate on Biden's American Jobs Plan and the infrastructure bill will take will likely determine the calibre of the Commission's ambition in pressing for the legislation outlined above. Recent events like the floods in Germany and the evidence presented in the latest IPCC report are very clear: countries around the world need to increase their climate ambition. The EU's ambition to lead by example signals great determination, but delivering on this intent will not be easy.

Note: This article gives the views of the authors, not the position of EUROPP – European Politics and Policy or the London School of Economics. Featured image credit: Karsten Würth on Unsplash

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