Public Policy Portuguese Journal
2022, Volume 7, Number 2, pp. 25 - 35
© Universidade de Évora, UMPP - Unidade de Monitorização de Políticas Públicas
www.umpp.uevora.pt

The EU's recovery programme, implemented under a new policy framework

Annette Bongardt
CICP, University of Évora
abongardt@uevora.pt

Francisco Torres
Católica Lisbon School of Business and Economics
ftorres@ucp.pt

Abstract

This article focuses on the European Union's recovery programme from the perspective of its contribution to the Union's objectives. It discusses the changes brought about in terms of the EU budget (size, financing, EU objectives), notably with respect to an EU fiscal capacity, EU own resources and incentives on the revenue side. The recovery programme having been an EU-wide response to the coronavirus crisis, the article considers the interplay between the pandemic and the European Green Deal, and the importance of the latter as the new EU policy framework. Finally it looks at the recovery programme as a crisis exit strategy, also for other crises.

Keywords: EU budget; NextGenerationEU, EU own resources, COVID-19 pandemic, European Green Deal.
JEL classification: H61, H77, I18, O43, O44.

1. Introduction

This article looks at the European Union's (EU) recovery programme from the perspective of its contribution to the Union's objectives. The recovery programme is channelled through the EU's long-term budget and has triggered some important changes in the process.

The recovery programme came into being as an exit strategy, to address the fallout from the Covid-19 pandemic crisis at the EU-level. As we discuss elsewhere (Bongardt and Torres, 2022b) the coronavirus pandemic was the trigger that led to setting up a large EU-level recovery programme, in turn facilitated by the political lessons drawn (in light of rising Euroscepticism) from the way that the previous major crisis, the sovereign debt crisis, had been addressed. However, the coronavirus crisis, which broke in early 2020, did not only lead to more resources. It also had a profound impact on spending priorities. Incidentally, the causes of the coronavirus pandemic could also be linked to the climate crisis and played to the European Green Deal (EGD), which had been presented in late 2019. We argue that while it was the coronavirus crisis context in which the EGD subsequently gained financial means, more importantly and fundamentally, the EGD has become the overarching lens and framework for EU spending.

Neto (2020) analysed the extent to which the COVID-19 pandemic led to a reformulation and re-hierarchization of EU public policy priorities. In this paper, we would like to complement that view, emphasizing a different, although not contradictory, perspective on the relevance of the coronavirus crisis. In our view, the coronavirus crisis was instrumental in that it helped the European Commission

to push for the financial resources that the EGD had been lacking initially. Yet, in fact, the EGD had already changed EU policy priorities, putting carbon neutrality by 2050 as the EU's overarching goal, and resulting in turn in the need for a comprehensive overhaul of all legislation to bring all policies in line with (serving) that overall objective.

This article is organised as follows. The next section examines what changes the recovery programme brought about in terms of the EU budget's size, how the financial perspective is financed, and EU objectives. The recovery programme being an EU-wide response to the coronavirus crisis, section 3 discusses why the pandemic played to the EGD. Section 4 analyses the EGD as a new policy framework. Section 5 addresses the EU's recovery programme as a sustainable exit growth strategy. Section 6 concludes on the recovery programme as a crisis exit strategy, also for other crises.

2. The EU budget and the NGEU: towards own resources and an EU fiscal capacity

The EU budget is a fraction of member state budgets. In contrast with member states' budgets, it is above all used for investment. It follows that the importance and impact of EU spending is closely associated with its functioning as a lever and with its spending priorities (see for instance Neto, 2020).

In the multiannual financial framework (MFF), the EU sets the limits of its spending over a 7-year time horizon. The current long-term budget runs from 2021-2027. The EU budget is based on the principle that expenditure must be matched by revenue. It is funded chiefly from the EU's own resources. It is noteworthy that the current MFF and the NextGenerationEU (NGEU), which is the EU's temporary recovery instrument, are presented as a package. The former corresponds to €1.211 trillion and the latter to €806.9 billion (both in current prices). Taken together, they amount to €2.018 trillion in current prices, which is an unprecedented figure.[50]

As regards the financing of the MFF, currently there are four EU own resources, which are supplemented by other sources of revenue (European Commission, 2021b). EU own resources comprise customs duties on imports from outside the EU (about 13% of revenues); a small part of the value added tax collected by each EU country (about 12% of revenues); a proportion of each country's gross national income (GNI) (corresponding to about 70% of EU budget revenues); and a new own resource introduced in 2021, which is a contribution based on the amount of non-recycled plastic packaging waste in each country (expected to generate € 6 bn per year). Other sources of revenues include items like contributions from non-EU countries to certain programmes, interest on late payments and revenue from competition and other fines, taxes and other deductions on the salaries of EU officials, bank interest, any surplus from the previous year). The EU's own resources account for more than 90% of revenues (European Commission, 2021a).

The EU's sources of revenue have evolved over time.[51] Traditional own resources like customs duties and agricultural levies (tariffs on agricultural goods, notably on sugar) on imports have gradually lost importance. The GNI-based own resource, introduced in 1988 as a compensatory mechanism, has since become by far the most important source of revenue. Moreover, since 1984 and until Brexit, there was a correction mechanism, the 'UK rebate', divided among the other EU member states. In more recent years a rebate on the UK rebate was introduced for a number of net contributor countries, Denmark, Germany, the Netherlands, Austria and Sweden. In spite of Brexit, and the end of the UK rebate, similar corrections/rebates continue for these countries for the period 2021-2027. Although the EU budget should be financed wholly from own resources (art. 311 TFEU), the fact that the financing of the EU budget rests on VAT- and GNI-based contributions from member states sits uneasily, and indeed is in contradiction with, the treaties (Gros and Micossi, 2005). Neither can member states contributions to the EU be likened to a progressive tax, as the poorer member states tend to pay a higher percentage of their GNI than the richer member states (Darvas, 2019; European Commission, 2019). Last but not least, EU taxes have been conspicuously absent as sources of EU revenue. Tax matters are subject to, and held back by, sovereignty reservations. The most recently added EU own resource, an EU levy on plastics, stands out because it broke ground and set a precedent for own resources and European-level fiscal incentives.

More than in previous exercises, the MFF 2021-2027 – together with the other new (truly) own resources proposed at the end of 2021 (see below) – tries to address those issues and to be at the

[50] For a more complete description of the EU budget, see Bongardt and Torres (2022a: chapter 3).

[51] Source: https://ec.europa.eu/info/strategy/eu-budget/long-term-eu-budget/2021-2027/whats-new_en

heart of the EU's economic policy framework (European Commission, 2021c). The NGEU is channelled through the EU budget, especially in the period 2021-2023.[52] The package of the two amounts to close to double the size of the budget for 2014-2020 and constitutes the largest investment package ever financed through the EU budget. Its stated objectives are to address the Covid-19 pandemic's economic and social fallout and help the transition towards the EU's objectives of a modern and more sustainable EU. The challenges to be dealt with are thus manifold, ranging from the (ongoing) health emergency, the need to kick-start the recovery, and future-proofing European economies and societies (more sustainable, digital and resilient), to strengthening the EU's geopolitical role.

With the NGEU, in 2020 the European Union also took a big step towards correcting the absence of an EU, and with it, EMU's, fiscal capacity. In fact, the recovery fund is an important step in the direction towards common bond issuance, which will also be an important instrument for the functioning of EMU.

To finance the NGEU, the European Commission raises funds on the capital markets on behalf of the EU. The timing, volume and maturity of the bonds issued depend on the needs of the EU and member states. The borrowed amounts will then be repaid over a long-term period, until 2058, from future EU budgets. Repayment of EU emission of debts is to occur through taxes raised by the EU itself – the EU will look into introducing new own resources to help repayment – or by the member states concerned, starting after 2027 (which introduces some pressure on member states to agree on EU taxes). The budget of the EU is to function as a guarantee for borrowing in the markets. Thirty per cent of EU emission of debt is to be green bonds, which are to be repaid through new genuine own resources.

The recovery programme is set to change the EU's sources of revenue. It merits to be emphasized that EU taxes open the way for EU incentives on the revenue side, in line with and furthering EU objectives, and that some new own resources serve green objectives and were frontloaded. There is a four-phase approach to new own resources, which comprises first a non-recycled plastic waste based contribution (already implemented as of 1 January 2021), second a carbon border adjustment mechanism (CBAM) and digital levy (to be introduced by 1 January 2023), third a EU ETS-based own resource (extendable to aviation and maritime), and finally working on introducing other new own resources (such as a financial transaction tax).[53] On 22 December 2021, the Commission fleshed out the proposal of three new sources of revenue for the EU budget. The Emissions Trading System (ETS) own resource would direct 25% of the revenues from emissions trading in the EU to the EU budget; of the CBAM own resource, which applies to any product imported from a country outside of the EU that does not have a system to price carbon, like the EU ETS, 75% of what EU countries collect under CBAM should go to the EU budget; and from an own resource based on the reallocated profits of very large multinational companies under Pillar 1 of the OECD/ G20 inclusive framework agreement, member states would contribute 15% to the EU budget.[54]

The new plastic levy and the ETS are EU-level environment policy instruments with a double dividend, conferring on the EU both own resources and means to correct incentives in view to a green transition. The revision of the EU ETS directive for phase 4 (2021-30), to achieve GHG emissions reductions conform to the EU's new 2030 targets, is under way as part of the fit-for-55 package. The CBAM would add another EU-level environment policy instrument. A CBAM would bring in revenue, although is foremost about correcting international competitive distortions ('carbon leakage') at the EU-border, thereby protecting the political and economic viability of the EU's treaty-based polluter pays principle and its crisis exit strategy.[55] The two are interrelated, as an effective ETS exerts pressure towards the introduction and effectiveness of a CBAM.

The NGEU is expected to increase real GDP in all member states, in function of national plans but with additional spillover effects from other countries' plans.[56] The NGEU is also a game-changer

---

[52] See https://ec.europa.eu/info/strategy/eu-budget/long-term-eu-budget/2021-2027/whats-new_en.

[53] https://www.consilium.europa.eu/en/infographics/recovery-plan-mff-2021-2027/ The Commission was to propose additional new sources of revenue like a financial transaction tax, a financial contribution linked to the corporate sector and a new common corporate tax base by June 2024.

[54] That means (European Commission 2021a): "a share of the residual profits of the largest and most profitable multinational enterprises that are allocated to EU Member States following the agreement by the OECD/G20 Inclusive Framework on Base Erosion and Profit Shifting to address the Tax Challenges Arising from the Digitalisation of the Economy (OECD/G20 Inclusive Framework agreement)."

[55] Still, as Fuest and Pisani-Ferry (2020) point out, the revenues from the ETS alone would be largely sufficient to repay the NGEU debt.

[56] https://ec.europa.eu/info/business-economy-euro/recovery-coronavirus/recovery-and-resilience-facility_en

(Fabbrini, 2022), as it empowers the Commission to raise the necessary funds and to transfer them to the member states, notably also in the form of grants. For Christie et al. (2021), common EU borrowing under the auspices of the NGEU is important as a signal to financial markets in the Covid-19 crisis. It provides some member states with an additional option to borrow on cheaper terms and to invest collectively in common priorities (such as the green and digital transitions) in order to aid the recovery and sustainable growth.

Taxation and spending decisions at the central level are of course a very important feature of any federal system. The changes triggered by the recovery programme contribute to rebalancing the economic and monetary union sides through an EU – and more importantly an EMU – fiscal capacity. Although set up as a temporary facility (once this fiscal role for the EU is meant to be one-off to respond to the pandemic crisis) this new capacity may well stay to protect the Union from the effects of this and other crises. As it happened, in early 2022, only two years after the beginning of the coronavirus pandemic, the next crisis had already arrived, caused by the Russian aggression on Ukraine. It is likely to affect many additional EU policy areas (notably defence, energy, agriculture). That makes it even more important that, through an enhanced EU fiscal capacity, the NGEU contributes to promoting integration and created dynamics in favour of economic and environmental sustainability (Bongardt and Torres, 2022a).

Beyond having a stabilization function, a European budget could also promote convergence in the Eurozone, which would require a stable revenue stream. In fact, the EU has moved in that direction with the EGD and the NGEU and the new own resources. It took a small but rather crucial step in the direction towards common bond issuance, which will also be an important instrument for the good functioning of EMU.

Buti and Papaconstantinou (2021) hold that 'the economic policy response to the Covid pandemic broke new ground, in terms of its ambition, the tools used, and its institutional characteristics'. They argue that the evolving understanding of macroeconomics, the nature of the crisis and policy learning help explain the different response compared to previous crises.

The Commission is working towards the swift implementation of new own resources, motivated by twin concerns (European Commission, 2021b). Most obviously, to address the need to repay the borrowing, complementing member states' contributions to the EU budget. Beyond that, they are meant to better align the sources of revenue regarding EU objectives, namely combatting climate change and ensuring fair taxation in an ever more digital economy. The first new own resource, a contribution based on non-recycled plastic packaging waste introduced already in 2021, was a case in point, a step towards the circular economy.

The key arguments in favour of new sources of revenue have been to introduce more diversified and resilient types of own resources, which more directly relate to the EU competences, objectives and priorities; to help address new challenges, through additional benefits alongside new income streams; to add more proportionality, fairness and to further stabilise the EU budget, while reflecting the fluctuations in member states' economic cycles; and, not least, to reduce the weight of the GNI-based own resource in the EU budget, whose predominance contributes to the (mis-)perception that national contributions are a mere cost factor.[57] In fact, member states contributing more to the EU budget than they receive directly actually pay less on average than other Member States in percentage of their wealth (gross national income – GNI), while they are among the biggest beneficiaries of the single market and EU integration (in 't Veld (2019a; 2019b).

Fundamentally, European new own resources contribute to public goods by addressing market or regulatory failure. The ETS-based resource, CBAM and the plastic waste levy address pollution (pricing in environmental damage), whereas a financial transaction tax, a digital levy or a share of reallocated profits of multinationals (profit shifting) aim to overcome (national) regulatory failure. Those new own resources are hence put at the service of efficiency concerns (notably including the environment) and also have a social value.

As Buti and Papaconstantinou (2022) point out, there is a demand and supply issue to European public goods. The increased need for European public goods, notably health protection, calls for increased supply of public goods, built on mechanisms for own resources that are linked to economic activity at the EU level. Yet, while there is demand for more European public goods, changing political incentives and institutional dynamics are a precondition for increasing their supply and finance. Eurobarometer data (Spring 2019/Spring 2021-Fieldwork: June/July 2021) suggest that there

[57] See https://ec.europa.eu/info/strategy/eu-budget/long-term-eu-budget/2021-2027/revenue/next-generation-eu-own-resources_en.

is a strong majority of Europeans in favour of a common policy across diverse policy areas, which range from free movement to defence, energy, trade, health, foreign policy, even migration and asylum. Support for some of them – notably health, following the EU's response to the Covid-19 pandemic, but also defence and security, energy and migration and asylum, which were already quite prominent in the attitudes towards common policies – has grown. The importance of common policies has risen significantly in 2022 with the Russian invasion of Ukraine– they have become a matter of urgency.

3. THE INTERPLAY BETWEEN THE PANDEMIC AND THE EUROPEAN GREEN DEAL

In the 2008-09 financial and the 2010-13 sovereign debt crises, sustainability and green growth had already been objectives of the EU's economic agendas (the Lisbon and the Europe 2020 strategy, respectively). At the time, the EU largely wasted the opportunity for a green crisis exit. It would have been feasible even in the presence of financial restraints, through existing instruments (regulation), with a view to incentivising sustainable behaviour and investment (Begg et al., 2015; Bongardt and Torres, 2016). In 2020, the outbreak of the pandemic and the ensuing crisis caught the EU at a time when the EGD's long-term sustainability and climate neutrality objectives had just been launched. The EU faced the need to deal with the pandemic's economic and social fall-out, which it treated as an emergency, a treatment that the climate had not received.[58]

The EU's response to the pandemic crisis was initially foremost to a public health crisis, in a second stage also as an economic crisis. As the latter was perceived as posing a particular challenge for EMU, the most effective way for the EU to address the economic consequences of the pandemic crisis was through its euro area framework (Bongardt and Torres, 2020a). This time, the EU acted on the lessons learnt during the sovereign debt crisis, intervening earlier and forcefully at the EU level. The immediate response to the economic impact of the crisis was largely built on and developed within the governance structure of the euro area. The institutions put in place in reaction to the pandemic debt crisis notably include the European Stability Mechanism (access to finance costs of the pandemic), ECB measures (the Pandemic Emergency Purchase Programme, PEPP), budgetary rules (activating the Stability and Growth Pact's general escape clause), the unemployment reinsurance scheme SURE (Vanhercke and Verdun, 2022).

As argued in Bongardt and Torres (2022b), the Covid-19 crisis provided the missing link between the EGD's long-term objectives and conducive short-term policies.[59] The pandemic crisis was, and continues to be, an acute crisis within the context of a larger environment and climate crisis. Using economics terminology, both public health and the environment have public-good characteristics, with potentially large and longer-term benefits that are not internalized. The crisis context opened the opportunity to correct market failures (climate change being the largest) and promote the shift to sustainable production and consumption patterns that would benefit public health but also the environment/climate and consolidate a sustainable model of development. In the pandemic crisis, decision-makers acted on science-based policy advice, to an extent that has not happened in the climate crisis (Bongardt and Torres, 2020a).

The European Commission, which regained its leadership that it had somehow lost to the European Council in the previous (financial and sovereign debt) crises, saw that the EGD could be framed as an exit strategy for the pandemic crisis (European Commission, 2020a). The EU's efforts to ensure a future-oriented sustainable, even, inclusive and fair recovery were therefore centred on the EGD – termed the EU's recovery strategy – and on investment.[60] Moreover, the EU's response to the pandemic also supplied resources , in fact, representing the EU's largest ever stimulus package, with a large part of the recovery funds earmarked for the green transition (European Commission, 2020a).

The pandemic crisis was thought to be a short-term symmetric shock, albeit with asymmetric effects on member states. As discussed above, funding of an unprecedented scale – the MFF 2021-2017 plus the NGEU – was made available. The NGEU set out to address at the same time the economic and

[58] Regardless of the scientific evidence and need for urgent action (WMO, 2020; IMF, 2020). The IMF (2020) warned against a rapidly closing window for halting temperature increases at safe levels, urging a shift to a sustainable and fair growth path through a combination of carbon pricing and an initial green stimulus.

[59] See for instance European Commission (2020b).

[60] https://ec.europa.eu/commission/presscorner/detail/en/ip_20_940

social dislocation from the pandemic crisis and to focus on sustainable investment and reforms, notably green and digital. When fleshing out the Eurogroup proposal of a recovery fund, the European Commission (2020a) seized the opportunity to further European integration (EU fiscal powers) and simultaneously green objectives.

The EGD has created some dynamics in favour of environmental and climate sustainability at various levels. At the EU level, examples include: calls for rethinking the previous Commission's reform proposal for the common agricultural policy (CAP); efforts to create an EU green finance taxonomy to guide investments; a review of trade policy; fossil energy declared as incompatible with recovery fund support.[61] The ECB has also taken a pro-active stance: its strategy review enables it to consider more deeply how it can continue to protect its mandate, strengthening the resilience of monetary policy and the ECB's balance sheet in the face of climate risks (ECB 2021a, 2021b). At the national level, examples include a strong cross-party consensus for the creation of a ministry of ecological transition in Italy in 2021 to encompass the EGD and recent court rulings in various member states – the Netherlands, France, Germany and Belgium – on the need to protect citizens' rights in face of climate change.

In conclusion, the Commission made use, rather skilfully, of its agenda-setting capacity in the pandemic crisis. It framed its Green Deal as an exit strategy and to equip itself with funds to accelerate the green transition, of which a significant part is dedicated to the recovery from the pandemic for 'green' objectives. This was possible because the EGD narrative extended to the pandemic, having demonstrated the need for the EU to lead the green (and interrelated digital) transitions and make its societies and economies more resilient. And with the NGEU recovery plan, the tool to seize the opportunity was created. Moreover, through an enhanced EU fiscal capacity, it contributed to promote integration and created dynamics in favour of sustainability. The recovery fund was also an important step in the direction towards common bond issuance, which will also be an important instrument for EMU's sustainability. Although the NGEU set up as a temporary facility, it contributes to balancing the economic and monetary union sides through an EU fiscal capacity.

4. The importance of a new policy framework

The objectives of the European Green Deal are to achieve net zero emissions of greenhouse gases (GHG) for the EU as a whole by 2050, decoupling economic growth from resource use and transforming the EU into a fair and prosperous society, with a modern and resource-efficient and competitive economy (European Commission, 2019b). Doing so requires above all cutting emissions, investing in green technologies and protecting the natural environment. There is continuity as the EGD's objectives follow up on the previous European economic agendas, that is, the Lisbon and Europe 2020 strategies, in that the European economy and society are to become sustainable by transforming potential threats (climate and environmental challenges) into economic opportunities (sustainable growth) and by making the transition just and inclusive.[62] However, the EGD introduces an overarching (climate neutrality) sustainability lens to all policies and on the economy and society - this is a paradigm change.

The recognition of climate change as the biggest medium to long-term challenge facing the EU paved the way for limiting global warming as the priority objective. Yet, reaching carbon-neutrality presupposes also deeply transformative policies and environmentally sustainable growth. The EGD enshrines a set of policy initiatives that span a wide range of policy areas, from clean energy, sustainable industry, building and renovation, farm to fork (sustainable food system), eliminating pollution, sustainable mobility and biodiversity. Moreover, the EGD is an integral part of the plan to implement the United Nations 2030 Agenda and its sustainable development goals (SDGs). It features an action plan for implementation, a climate law to turn political carbon neutrality commitments into a legal obligation, and a just transition mechanism to smooth the transition in the most affected regions. The necessity for change is based on scientific evidence on multi-faceted environmental damage and challenges (among others, climate change, loss of biodiversity, ozone

[61] Of course, the EGD is at an early stage and faces implementation challenges, as illustrated by the controversial implementation of the Green taxonomy regulation through implementing acts.

[62] For a comprehensive analysis of Lisbon and Europe 2020 strategies see Bongardt and Torres (2020b). For Europe 2020 headline indicators, see Eurostat.

depletion, water pollution, waste pollution, and urban stress). It stresses inter-generational justice (in the interest of the young generation) and economic opportunity (a new growth strategy).

While the incoming Commission tabled an ambitious plan to transform Europe into the first carbon neutral continent. The EGD did not come with new EU competences that could help implementation. Nor was it clear whether the envisaged financial allocation was adequate for a green transition (Siddi, 2020). Policy coordination would take place within the established and apparently unchanged governance framework, involving a mix of policies.

The pandemic crisis is part and parcel of a wider picture of the consequences of man-made environmental degradation of the planet. It may be yet another zoonotic disease, which crossed over from animals to humans (The Lancet, 2021). If so, it is not an isolated incident, but rather the latest of many that already occurred in this millennium.[63] As scientists remind us, the emergence of zoonotic diseases is inextricably linked to habitat destruction and the loss of biodiversity and facilitated by unsustainable mass animal farming and globalization practices, which facilitate rapid and wide spreading and do not factor damages in. As the Secretariat of the Convention on Biological Diversity (2020) pointed out, the world has failed to meet a single target to stem the destruction of wildlife and life-sustaining eco-systems in the last decade.

From an economics standpoint, markets fail if environmental damages are not properly accounted for (with all the difficulties that direct regulation or pricing of natural resources and their use pose in practice) or when there are no markets for a good. It is hence not least due to efficiency considerations that climate and biodiversity need to be integrated into economics and decision-making (Stern, 2007; Dasgupta, 2021).

As argued in Bongardt and Torres (2022b), the pandemic crisis establishes a conductive link between the short-term (the pandemic) and the long-term (EGD objectives). It plays to the EGD's economic rationale and policy priorities. That way, the pandemic has worked towards reinforcing the EGD. Policy responses may build on policy linkages, such as synergies between addressing climate change and Covid-19 (causes, policies) and also complementarities (digital transition). Moreover, environmental and social lessons learnt contribute to enhance preparedness to change unsustainable patterns of consumption and production in line with the EGD and long-standing EU priorities (digital, fair and sustainable economy).

The EGD's long-term carbon neutrality and sustainability objective calls for no less than a profound transformation of the European economy and society in the coming decades. The substantial acceleration in the emission cuts targets for 2030 brings implementation needs forward in time, increasing pressures for policy action in the shorter term. As a result, the task to review all policies and legislation to ensure consistency (objective, pathway) became even more demanding: it increases pressures on all economic sectors to contribute already in the shorter run, within a holistic sustainability rationale (of which the circular economy and the farm to fork strategies are an expression).

Russia's invasion of Ukraine at the end of February 2022 magnified the challenges facing the EU. It added a host of challenges, most immediately in regard to energy security (of fossil energy sources, but also uranium), but affecting many other areas too, with emphasis on defence and trade patterns (supply chains, food security). The war in Ukraine has put in sharp evidence the EU's (and some member states') dependency on few suppliers, in this case Russian gas, oil and coal, but also uranium, as well as insufficient progress made on European energy networks (a potential buffer) and on the transition to renewables. The issues raised therefore affect what were branded bridge technologies – gas and nuclear – to carbon neutrality. Other things equal, that fact should be expected to lead to an acceleration of the shift to renewables, a domestic energy source and climate-friendly, which furthermore create local jobs (a win-win situation).

The Commission needs to review all relevant policy instruments, proposing, if needed, their revision, as to make sure that all EU policies contribute to the net zero objective and that all sectors (economy, society) play their part. With a view to implementation, it is entitled to issue recommendations to member states whose actions are inconsistent with the climate-neutrality objective, which those would have to take into due account or otherwise explain their reasons for not doing so.[64] Still, the gain in implementation power is subject to strict conditions and conditioned

[63] Apart from the various recent viruses, most recently monkeypox, there are also vector-based diseases, which are associated with climate change, and antimicrobial resistance, which is linked with the overuse of antibiotics, notably in factory farming.

[64] Such a delegated act (article 290, Treaty on the Functioning of the EU (TFEU)) empowers it to amend or supplement legislation.

by national competences (example: energy and amending national GHG emission trajectories). The achievement of the new target will hinge significantly on the efficacy of future harder soft governance approaches (Knodt and Schoenefeld, 2021).

Whereas the implementation of the EGD essentially relies on the existing governance framework, there are some important changes and developments, which were induced by the climate or the pandemic crisis.

To start with, the Annual Sustainable Growth Strategy (ASGS) replaced the previous Annual Growth Strategy. The Commission regards the ASGS as a paradigm shift in EU economic policy, away from economic growth as an end in itself. The ASGS puts the EGD and the SDGs at the heart of the European Semester (European Commission, 2019a). The EGD serves as a broader economic narrative based on a notion of 'competitive sustainability'. The SDGs will be mainstreamed into EU policies with a view to addressing the trade-offs between sustainable development goals and the environmental dimension and other (economic, employment, social) policies (Sabato and Mandelli, 2021). It is explicitly pointed out in the ASGS 2020 that the Commission now adopts a wide (economic, social, environmental) sustainability lens rather than a narrow one which was previously the custom. It emphasizes the multi-faceted role that environmental policies can play with regard to a sustainable economic recovery and employment growth, be it through resource efficiency and the circular economy but also others like environmental fiscal reform, including shifting the burden from labour (a good) onto environmental pollution (an inefficiency). The latter may be compelling but face sovereignty reservations, notably the unanimity-voting requirement in tax matters (article 113 TFEU). Still, as we argued above, the Commission very ably linked EU taxes (own resources) with member state financial contributions should those own resources not materialize, thereby providing member states with an incentive to find agreement on those taxes.

Due to its association with the RRF, the European Semester is undergoing important changes. Those changes may give rise to a mutually beneficial relationship between signalling in the Semester process and reinforced governance (Moschella, 2020). Still, the implementation of the EGD takes place only to a smaller extent within the Semester. In the past efforts had been made to green the Semester, which also took the form of green country-specific recommendations (CSRs). In the Environment Council of 17 March 2022, ministers were still holding discussions on greening the European Semester.

The RRF provides funds for a green transition with conditionality attached for their disbursal.[65] The result is a hardening of soft governance (Knodt and Schoenefeld 2020; Vanhercke and Verdun, 2022). Also, it is the member states that draw up their national plans. That change addresses the issue of member states needing to take ownership of reforms. It is however balanced by the need to meet binding climate and digital goals.

Climate and energy regulations in the single market context assume particular importance for the implementation of EGD goals. Like the environment, climate and energy are areas of EU shared competences. The two policy areas are interlinked, as (fossil) energy sources are a chief contributor to global warming. Governance through energy and climate regulation implies that national plans will meet EU recommendations on top of the Semester (Matthews, 2020).

Still, the fact that in some policy areas unanimity voting applies (the case of the energy mix or taxes) may undermine implementation or enforcement vis-à-vis member states, unless ways around can be found (example: policy linkage).[66] The 2018 governance regulation for the energy union marks a shift in the direction of hardening soft governance (Knodt and Schoenefeld 2021). In its Fit-for-55 package, the Commission proposes to base energy taxation on energy content (Tagliapetra 2021).

Last but not least, note that the issue of the most efficient policy mix between the ETS and regulatory measures in the field of renewables and energy efficiency is demanding. For instance, for carbon pricing to function properly, other policy instruments have to be devised so as not to interfere with, or distort, the price signal.

[65] The idea to link funds to reforms at the member state level had been already launched in 2013 but was abandoned.

[66] Measures covered by the EU's environmental competence are subject to qualified majority voting (Art.192 TFEU), while those falling under energy competence are subject to reservation of sovereignty and unanimity (article 194:2 TFEU).

5. The EU's recovery programme as a crisis exit strategy

Already in the previous (sovereign debt) crisis, a sustainable growth strategy with structural reforms at the national level became viewed as a pre-condition for a credible crisis exit strategy and a durable recovery, with a view to higher potential growth (Draghi 2015 and 2016) and therefore for dealing with legacy costs and for successful crises exit.

Growth that is sustainable – not only economically (which also implies less dependency on non-reliable sources) but also environmentally (requiring the internalization of environmental damages and resource depletion and of long-term, inter-generational effects) –offers an exit strategy not only for the sovereign debt but also the pandemic and security crises and moreover adds to the wider benefits from EU integration. As Begg et al. (2015) argued against the background of the sovereign debt crisis, EMU could be sustained with high-quality growth that respects longer-term budgetary challenges. In regard to budgetary constraints, it is noteworthy that a fiscal stimulus as such is unlikely to result in quality growth, unless it deals with the causes of competitiveness problems and provides the right incentives. This applies also to any non-intended stimulus such as the increase in defence expenditures and the rise in expenditures to address the manifold consequences of the war in Ukraine, humanitarian aid, etc. Incentives for growth can be provided not only through the level but also and perhaps more importantly by means of the composition of expenditure and incentives on the revenue side, notably taxation (Giavazzi and Wyplosz 2016; and Begg et al. 2015; Bongardt and Torres, 2016a; Draghi, 2016). In addition, regulation (market rules) can be used to foster private green investments without incurring fiscal expenditure. Taxes carry a double dividend in that they discourage inefficient behaviour and provide receipts for the state. As we discussed above, the EU has heeded many of those lessons.

The issue that EU level fiscal instruments still require voting by unanimity in the Council of the EU can, at least in the shorter term, only be addressed indirectly; the linking of EU taxes and member state contributions is a way to do so. Member states are free to impose taxes or cut subsidies at the national level but they are reluctant to do so if that implies competitiveness (cost) disadvantages in the internal market. The need to respond to the Russian invasion of Ukraine with sanctions, notably on fossil energy sources imported from Russia, may also align member states' preferences. It may create a consensus to accelerate the green transition as to wind down energy dependence on Russia. Still, in the transition there is a risk of locking in fossil energy from other sources (example: building permanent terminals for liquefied natural gas). And the strategic use by member states of their veto power can of course not be excluded.

Besides being a source of revenue, the use of economic instruments (like taxes and transferable emission licences) that have dynamic efficiency properties promotes innovation and provides least cost abatement of pollution; as such they are very much in tune with the EGD's goals of (green) growth. The abolition of incentive-distorting inefficient subsidies (negative taxes), like the ones on coal, reduces government expenditure and improves the state of the environment by lowering carbon emissions (a win-win outcome).

The pandemic crisis and now the security crisis (Russia's aggression on Ukraine) have tested the EU and the process of European integration, by ways of their profound economic impact yet they have also come with social and environmental lessons. By putting in sharp evidence weaknesses in a wide range of areas, from the vulnerability and shortcomings of global supply chains, cities (from housing to public spaces), transport systems, agricultural practices, to the digital sector, they showed the need for and potential of comprehensive and sustainability-oriented reform in the EU. The ECB has also pledged to align its policies with the Paris objectives as quickly as possible, so that all the actions that it takes in the pursuit of its primary mandate will contribute to the greening of the euro area economies and not undermine incentives to accelerate the green transition (Schnabel, 2021). Last but not least, the EGD seems in line with citizens' preferences and also features the right priorities (green growth, inclusive and digital) as the best exit strategy from the pandemic crisis and as a response to the energy crisis.

6. Outlook

This article looked at the recovery programme, implemented under a new policy framework, the European Green Deal. While the pandemic crisis lingers on, the EU is already presented with the next crisis, triggered by Russia's invasion of Ukraine, which affects many additional policy areas. Like the pandemic crisis before, the current security crisis has the potential to bring the green transition

forward. Still, the issue of unanimity voting requirements continues to present a formidable obstacle. The sovereignty reservation on energy sources has held back energy policy as far as the EU's energy mix is concerned. However, the war and its fallout seem to have led to some preference convergence that might allow for a faster exit from fossil fuels cum acceleration towards renewables. With a view to reducing dependency, EU leaders agreed to phase out Russian gas, oil and coal imports as soon as possible, as part of (unheard of) economic sanctions. The unanimity-voting requirement also presents an important obstacle to EU taxes and incentives on the revenue side. As discussed above, to the extent that EU taxes are part and parcel of the EU's refinancing effort of the RRF and will have to be substituted by increased member state contributions if their approval failed, member states have an increased incentive to agree on those taxes. The ones important for a green transition were furthermore frontloaded.

ACKNOWLEDGMENTS

We would like to thank Paulo Neto for the invitation to integrate the Focus Group of the project "Recovery Monitoring - Proposal of a Conceptual Model and Methodology for Monitoring the Economic and Social Recovery of Portugal in the Covid-19 Pandemic and Post-Pandemic Context. The first author conducted this study at the Research Center in Political Science (UIDB/0758/2020), University of Minho / University of Évora, supported by the Portuguese Foundation for Science and Technology and the Portuguese Ministry of Education and Science through national funds.

REFERENCES

Begg, Iain, Annette Bongardt, Kalypso Nicolaïdis and Francisco Torres (2015), 'EMU and sustainable integration', Journal of European Integration, Vol. 37 No. 7, pp. 803-816.

Bongardt, Annette and Francisco Torres (2016) 'EMU Reform and Resilience in a Re-Dimensioned EU'. Journal of Economic Policy, Vol. XXXII, No. 3, Dec., pp. 575-596.

Bongardt, Annette and Francisco Torres (2020a),"Lessons from the Coronavirus crisis for European integration", Intereconomics, Review of European Economic Policy, Vol. 55, 3, pp. 130-131.

Bongardt, Annette and Francisco Torres (2020b), "The Lisbon Strategy and Europe 2020", Oxford Research Encyclopedia of Politics, Oxford: Oxford University Press.

Bongardt, Annette and Francisco Torres (2022a), Lessons on the Political Economy of European Integration – Selected Topics, Lisbon: Universidade Católica Editora.

Bongardt, Annette and Francisco Torres (2022b), "The European Green Deal: More than an Exit Strategy to the Pandemic Crisis, a Building Block of a Sustainable European Economic Model", JCMS: Journal of Common Market Studies, Vol. 60(1), 170-185.

Buti, Marco and George Papaconstantinou (2021), "The Legacy of the Pandemic: How Covid-19 is Reshaping Economic Policy in the EU, CEPR Policy Insight 109, April.

Buti, Marco and George Papaconstantinou (2022), "European public goods: How we can supply more", VoxEU.org, 31 January.

Dasgupta, Partha (2021) 'The Economics of Biodiversity: The Dasgupta Review'. February. Available at www.gov.uk/official-documents

Draghi, Mario (2015), "Structural Reforms, Inflation and Monetary Policy". Introductory speech, ECB Forum on Central Banking, Sintra, 22 May.

Draghi, Mario (2016), "On the Importance of Policy Alignment to Fulfil Our Economic Potential". 5th Annual Tommaso Padoa-Schioppa. Brussels Economic Forum, Brussels, 9 June.

European Central Bank (2021a) 'Climate change and central banking', keynote speech by Christine Lagarde, President of the ECB, at the ILF conference on Green Banking and Green Central Banking, Frankfurt, 25 Jan.

European Central Bank (2021b) 'The ECB's monetary policy strategy statement', 8 July.

European Commission (2019a) 'Annual Sustainable Growth Strategy 2020'. COM(2019) 650 final, Brussels, 17 December.

European Commission (2019b) 'The European Green Deal'. COM(2019) 640 final, Brussels, 11 Dec.

European Commission (2020a) 'Europe's moment: Repair and prepare for the next generation'. COM(2020) 456 final, 27 May.

European Commission (2020b) ‘Tackling pollution and climate change in Europe will improve health and well-being, especially for the most vulnerable’. Press corner, 8 September. Available at https://ec.europa.eu/commission/presscorner/detail/en/IP_20_1571 EC (2021a) ‘EU climate action and the European Green Deal’.

European Commission (2021a) ‘EU climate action and the European Green Deal’. Available at https://ec.europa.eu/clima/policies/eu-climate-action_en

European Commission (2021b), The EU’s 2021-2027 long-term budget & Next Generation EU: facts and figures, Directorate-General for Budget, Publications Office, 29 April. Available at: https://data.europa.eu/doi/10.2761/808559

Fabbrini, Federico (2022), “The Legal Architecture of the Economic Responses to COVID-19: EMU beyond the Pandemic”, JCMS: Journal of Common Market Studies, Vol. 60(1).

Fuest, Clemens and Jean Pisani-Ferry (2020), ‘Financing the European Union: new context, new responses’, Policy contribution 2020/16, Bruegel.org, 11 September.

Giavazzi, Francesco and Charles Wyplosz (2016), “EMU: Old Flaws Revisited”. Chapter 2 in Governance of the European Monetary Union, edited by Erik Jones and Francisco Torres, 723-737. London and New York: Routledge.

International Monetary Fund (2020), ‘Mitigating climate change – growth- and distribution-friendly strategies’, chapter 3, World Economic Outlook: A long and difficult ascent. Washington, October, pp. 85-113.

in ‘t Veld, Jan (2019a), “Quantifying the Economic Effects of the Single Market in a Structural Macromodel”, DG ECFIN European Economy DP 94.

in ’t Veld, Jan (2019b), “The economic benefits of the EU Single Market in goods and services”, Journal of Policy Modeling, 41, 5, pp. 803-818.

Knodt, Michèle and Jonas Schoenefeld (2020), ‘Harder soft governance in European climate and energy policy: exploring a new trend in public policy’. Journal of Environmental Policy and Planning 22:6, 761-773.

Knodt, Michèle and Jonas Schoenefeld (2021), ‘How “harder soft governance” might help deliver the EU’s new 55 per cent emissions reduction target’. LSE EUROPP blog, 27 January.

Matthews, Allan (2020), ‘The Commission’s climate law proposal: what it says and how it might be improved’, 11 March. Available at http://capreform.eu/the-commissions-climate-law-proposal-what-it-says-and-how-it-might-be-improved/

Moschella, Manuela (2020), ‘What role for the European Semester in the recovery plan?’, Economic Governance Support Unit (EGOV) Directorate-General for Internal Policies PE 651.377, Oct.

Neto, Paulo (2020), “EU cohesion policy post-2020, European Green Deal and Territorial Agenda 2030. The Future of the Place-Based Approach in the New EU Policy Framework in the Context of Covid-19”, Europa XXI, Vol. 38, pp. 33-50.

Sabato, Sebastiano and Matteo Mandelli (2021), ‘Integrating the Sustainable Development Goals into the European Semester: a governance conundrum for the von der Leyen Commission?’. In Vanhercke, B., Spasova, S. and Fronteddu, B. (eds) Social policy in the European Union: state of play 2021 (Brussels: ETUI and OSE), pp. 109-128.

Schnabel, Isabel (2021a), “Climate change and monetary policy”, Finance and Development, IMF, 31 August.

Schnabel, Isabel (2021b), “From market neutrality to market efficiency”, welcome address at the ECB DG-Research Symposium ‘Climate change, financial markets and green growth’, Frankfurt am Main, 14 June.

Secretariat of the Convention on Biological Diversity (2020), ‘Global Biodiversity Outlook 5’, Montreal. Available at https://www.cbd.int/gbo5

Siddi, Marco (2020), ‘The European Green Deal. Assessing its Current State and Future Implementation, Finish Institute of International Affairs, WP 114.

Stern, Nicholas (2007), The Economics of Climate Change, Cambridge: Cambridge University Press.

Tagliapetra, Simone (2021), ‘Fit for 55 marks Europe’s climate moment of truth’. Bruegel Blog, Brussels: Bruegel, 14 July.

Vanhercke, Bart and Amy Verdun (2022), ‘The Covid-19 crisis and the future of socio-economic governance in the EU’, JCMS: Journal of Common Market Studies, Vol. 60(1).

World Meteorological Organization (2020), United in Science 2020, under the direction of the United Nations Secretary-General. Available at https://public.wmo.int/en/resources/library/united-science-2020