

Strategic Implications of the Green Deal for the Eastern Partnership

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01/11/21

An input paper prepared for the third network workshop organized by the Network of Think Tanks on the Eastern Partnership, DGAP, 25 November 2021

1. Introduction

The Green Deal is a very big deal for the EU, comparable in importance to just a few seminal developments such as the completion of the internal market and introduction of the euro. The closest analogue may be the completion of the internal market—both consist of large catalogues of linked legislative and policy moves resulting in radical change in economic structures. However, the Green Deal could have bigger, longer, and sharper economic impacts than the internal market.

Of the six Eastern Partnership (EaP) states, the strongest impacts will be for Georgia, Moldova, and Ukraine—grouped as the “Association Trio”—since their respective Association Agreements and Deep and Comprehensive Free Trade Areas (AAs/DCFTAs) with the EU stipulate alignment on almost all EU energy and environmental laws and policies. The Green Deal will mean a radical upgrading of these policies, raising the questions of whether the AAs/DCFTAs will be similarly upgraded and, if so, whether the EU will provide corresponding funding support to these countries.

There remains, however, uncertainty over how fully the European Commission’s Green Deal proposals will be implemented, with many difficulties to be expected in the negotiations within the EU. On the other hand, the adoption of the objective of climate neutrality by 2050 as a legal commitment suggests that much will change. Furthermore, the ongoing rise in the perceived urgency of action, boosted by the increasing number of extreme weather events attributed to global warming, is only likely to intensify.

2. What is the Green Deal?

The Green Deal was first announced in December 2019 as the flagship initiative of the new European Commission led by Ursula von der Leyen. Its overarching objectives are:

- By 2050, the EU (and “Europe”) to become the first climate-neutral continent
- By 2030, the EU to reduce emissions by at least 55 percent compared to 1990 levels

These hugely ambitious objectives are to be supported by EU legislation and policies either planned, proposed, or introduced. The Green Deal's macroeconomic impact will be substantial over decades to come.¹

While meeting the 2050 objective will depend on many actions to be decided over the next decades, and thus is far from a sure bet, the EU has sought to lock itself into the commitment by passing the European Climate Law in May 2021. The key Article 2 on climate neutrality states:

Union-wide greenhouse gas emissions and removals regulated under Union law shall be balanced within the Union at the latest by 2050, thus reducing emissions to net zero by that date, and the Union shall aim to achieve negative emissions thereafter.

The intermediate target for 2030 of a 55 percent reduction of greenhouse gas emissions compared to 1990 levels is supported by the detailed plan of action in published in April 2021: Fit for 55—delivering on the EU's 2030 Climate Target on the way towards climate neutrality.² (See box.)

Basic components of the Green Deal
<p>Core mechanisms</p> <ul style="list-style-type: none">- Emissions Trading System (ETS). To be revised, cutting allowances, widening sectoral coverage.- Effort Sharing regulation. This will extend the ETS to energy, industrial processes, agriculture, and waste.- Energy taxation. Fuels to be ranked by emission levels and taxes to be revised accordingly.- Carbon Border Adjustment Mechanism (CBAM). An import tariff, based on the difference between the EU's carbon price and that of trading partners, initially for steel, fertilizer, electricity, cement, and aluminium.- Energy efficiency. Existing directive to be revised to achieve a 9 percent reduction in energy consumption.- Energy performance of buildings. Existing directive to be revised to accelerate renovation of buildings.- Renewable energy. Target to be raised from present 32 percent to 40 percent of energy mix.- Conversion of coal regions. Coal-burning electricity power generation to be phased out.
<p>Transport</p> <ul style="list-style-type: none">- Emission standards for cars and vans. Strengthened targets, 83–89 percent reductions by 2040.- Alternative fuels infrastructure. Markets for alternative fuels, accessible recharging and refueling points.- Civil aviation. Sustainable aviation fuels target of 68 percent by 2050, inclusion in the ETS.- Maritime transport. Regulatory framework to increase use of renewable and low-carbon fuels.
<p>Forestry and land use. Target to remove carbon by natural sinks, plant 3 billion trees by 2030</p>

¹ Jean Pisani-Ferry, 'Climate policy is macroeconomic policy, and the implications will be significant', PIIE Policy Brief, August 2021.

<https://www.piie.com/publications/policy-briefs/climate-policy-macroeconomic-policy-and-implications-will-be-significant>

² [https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX percent3A52021DC0550](https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%203A52021DC0550)

Funding

- **Green Deal Investment Plan.** To mobilize €1 trillion of sustainable investments over next decade.
- **Just Transition Mechanism.** €100 billion of funding for most affected regions in 2021–2027.
- **Social climate fund.** Affordable energy-efficiency measures in buildings, low-emission public transport etc.
- **Modernization fund.** €25 billion for “new” member states, funded by auction of 2 percent of emission allowances in next decades.

3. The geopolitical context

The global geopolitical context sees a deepening cleavage between the community of liberal democratic states and the main authoritarian powers. For the EU, this means first of all confrontation with nearby Russia, especially over the in-between states and above all Ukraine. For the United States, meanwhile, a cold war confrontation with China is top of the agenda.

The EU and Russia seem locked into a process of mutual normative distancing. The deepening cleavage is currently being played out over Belarus. The EU had to support, at least rhetorically, the pro-democracy protests following President Alexander Lukashenko’s falsified election in August 2020. This pushed Lukashenko into increased dependence on Russia, as evidenced by the September 2021 signing of a wide panoply of integration measures under the umbrella of the Union State between the two countries. EU member states directly neighboring Belarus, notably Lithuania and Poland, have been building physical border barriers, provoked by Lukashenko’s weaponizing of the flow of refugees from Afghanistan and Iraq through the country’s territory into the EU.

The latest deepening of Washington’s confrontation with China is the Australia-United Kingdom-United States (AUKUS) defense pact, which deliberately raised the stakes in the military standoff with China, as marker of the intention to balance China’s growing military capability.

These tense geopolitical developments came at a time when the whole world was preparing for the COP26 climate summit in Glasgow in November. The EU and the United States aim at decisive global action at the COP26, with both taking up leading positions. They know that their huge climate policy commitments will come to nothing, and their huge investments wasted, unless enough of the rest of the world acts similarly. This in turn means finding conditions under which China and Russia will adopt comparable climate commitments, and in particular how this can be done given the geopolitical cleavage between the two sides. China’s government has been sending clear messages that cooperation over climate policy would have to go with a less confrontational US policy.³

³ <https://www.carbonbrief.org/daily-brief/climate-experts-fear-aucus-will-dash-hopes-of-china-emissions-deal>

One can debate whether this kind of position is just diplomatic bluff. At some point, the damage of uncontrolled global warming to China's domestic interests stand to become its unconditional domestic policy priority. The same might be true for Russia, although it cites climate change as delivering big benefits for its agriculture and opening up the prospect of becoming a global food superpower, replacing its declining role as an energy superpower. How the trade-offs between climate action and geopolitical competition may play out is highly uncertain. Given the sharpness of the United States' current confrontation with China, it seems unlikely that any new climate deal between the two countries will be possible in the foreseeable future.

This is the tense environment in which the possible geopolitical implications of the Green Deal for the EaP states will play out.

4. Implication for the Eastern Partnership states

The EU sees its Green Deal not only as a project for internal economic and societal transformation, but also as an instrument of global climate diplomacy, having appointed an ambassador-at-large, Marc Vanheukelen, for this purpose. The Green Deal offers ideas and lessons of experience for many countries, as well an argument with which the EU may press others.

The Green Deal can also be much more for the EU's immediate neighborhood—namely an instrument for further advancing the integration of the wider European space, including the European Economic Area, the Western Balkans, the EaP states, and Turkey.

So far the most explicit reference to the implications of the Green Deal for the EaP states has been in the joint staff working document of the European Commission and the European External Action Service ahead of the December 2021 EaP summit. The document proposes that the EaP states:

strengthen climate policies and green investment in line with the European Green Deal, to reduce carbon footprint and move towards climate neutrality by 2050. This includes mainstreaming climate and environmental policies into all sectors of the economy, including energy, transport, construction and the food chain; discouraging further investments in fossil-fuel-based energy; promoting agro-ecological practices to preserve marine and terrestrial ecosystems by reducing the use of chemical pesticides, veterinary medicines and fertilisers; and improving environmental governance.

This language is at simultaneously comprehensive in coverage and lacking in operational detail. It is also presented as applying to all six EaP states, notwithstanding the differences among them. At the opposing ends of the spectrum, for example, Ukraine has declared its intention to join the Green Deal while President Lukashenko has announced the withdrawal of Belarus from the EaP.

The Green Deal is most relevant for Georgia, Moldova, and Ukraine, which are implementing their AAs/DCFTAs with the EU. The elements of the Green Deal most directly related to the contents of the AAs/DCFTAs are the recasting of the EU directives on energy efficiency and renewables. Climate policies received so far only superficial references (in the AAs/DCFTAs). Any bid to join the Green Deal across the board will require major policy decisions and very costly new commitments. The EU recognizes the costs for itself with major funding proposals, with special emphasis on the need to help the lowest-income member states and households at risk of poverty absorb the impact.

The Trio states may initially take a favorable political position in principle over joining the Green Deal and only later confronting the questions of which elements to join, to which degree, and over what time horizon, and which elements to leave aside as being premature or excessively onerous (for example, establishing an emissions trading system).

Of the Trio states, **Ukraine** is by far the most concerned by the Green Deal, especially because of its heavy carbon-emitting industries, steel and coal-burning electricity plants, and declared intention to join the EU in the objective of climate neutrality by 2050. It has already established by far the most developed policy dialogue with the EU of all EaP states, with a joint task force initiated in February 2021: the Dialogue on the EU Green Deal and Ukraine's Green Transition. The second meeting of the task force was held in September 2021, when it was agreed to create a financing platform for funding Ukraine's green transition and to coordinate national and international resources. Ukraine has an interdepartmental working group on joining the Green Deal. In February 2021, Deputy Prime Minister Olha Stefanishyna confirmed Ukraine's intention to join the European Battery Alliance and the European Clean Hydrogen Alliance.

While these are positive steps, the elephant in the room is Ukraine's grossly polluting, coal-burning electricity sector. The challenge here is on the scale of Poland's experience in trying to phase out its coal-burning power stations.⁴ The EU is providing massive funding for Poland's planned exit from coal, but this still encounters fierce political resistance in the country. Ukraine's biggest power stations are Europe's biggest polluters, accounting for more toxic dust emissions than the whole of the EU.⁵ In September 2021, Ukraine's government approved a concept for the transformation of the country's coal regions (25 territorial communities, with a total population of 850,000), with a first pilot transformation project planned for 2022. This is a positive beginning but a fully developed plan, with cost estimates and corresponding funding commitments, remains to be worked out.

⁴ Center for Environmental Initiatives Ecoaction, *'The economic implications of phasing out coal in Ukraine by 2030'*, https://en.ecoaction.org.ua/wp-content/uploads/2021/07/2021_07_Economic_implications_ua-s-3.pdf

⁵ Center for Environmental Initiatives Ecoaction, *'Ukrainian coal-fired power plants are outranking the dirtiest power plants in Europe'*, ecoaction.org.ua

The sharpest element in the Green Deal is the proposed Carbon Border Adjustment Mechanism (CBAM), from which Ukraine seems not to be exempt, unlike the European Economic Area states. Lacking an effective carbon price internally, and with heavy industrial investments currently operating in the targeted sectors, key Ukrainian industries could be hit hard by CBAM tariffs unless the government implements seriously its coal transformation plan, with the development of an adequate internal carbon price.⁶ The status quo will be unsustainable. Either the EU and Ukraine take a big step forward together with the Green Deal and Ukraine's green transition or the proposed CBAM could deliver a negative economic and political shock, undermining the foundations of Ukraine's European orientation. This reveals a possible paradox in which the EU's bold and internationally promoted climate strategy could, if administered in a narrow manner, also cause unintended damage to its geopolitical interests.

The EU is also underlining, as at the second task force meeting with Ukraine, the need for rapid implementation of the wider range of environmental policies according to commitments under the AA/DCFTA, including in waste management, industrial emissions, biodiversity, and forest management.

For Georgia and Moldova, the scale of the problem is much smaller, and not only because of the size of their economies.

Georgia is rich in hydroelectric power and is interested in increasing its exports of this clean energy. However, the potential large-scale expansion of hydroelectric power with new investments is subject to serious environmental hazards and opposition from the most affected communities. In addition, Georgia has much to do to improve its energy efficiency, especially in household residences, and in boosting wind and solar renewables. In this regard, the Green Deal is setting the bar higher than the AA/DCFTA and EU funding would be needed to support more ambitious targets in the country.

For **Moldova**, the Green Deal comes at a time when a new president and government are attempting to implement a radical reform orientation and credible pro-European pledges. Energy policies have already introduced steps toward enhanced energy independence from Russia, with new gas and electricity connections with Romania. EU support for Moldova's green transition would solidify the country's strategic European orientation. The same wider environmental agenda as for Georgia and Ukraine applies to Moldova, given the commonalities in their AAs/DCFTAs and their membership of the European Energy Community.

Overall, the Green Deal is opening up for the Trio states the possibility to upgrade their AAs/DCFTAs to a geopolitically significant degree, albeit with some risks. The state of their

⁶ International Renaissance Foundation, *'The European Green Deal – Opportunities and Threats for Ukraine'*, August 2020. https://www.irf.ua/wp-content/uploads/2020/09/web_european-green-deal_2020_en.pdf

AA/DCFTA relationships with the EU is one of limited progress in implementation of the agreements and open disappointment that the EU is not offering more positive integration prospects politically. If the CBAM hits their exports, any one of them could slide into aggravated political instability in the wider context of heightened tension between liberal democracies and authoritarian regimes, and between the EU and Russia in particular.

For **Armenia**, there could be interesting prospects in the Green Deal. Its Comprehensive Economic Partnership Agreement (CEPA) includes in its annexes commitments to align with EU energy and environmental standards. While these provisions have not yet been implemented, they provide a legal basis on which a more ambitious approximation of the Green Deal might be fashioned, if the EU were willing to provide financial support. This opens up a conceivable hybrid geopolitical model for Armenia, in which the Russia and the EU have complementary roles. Following the second Nagorny Karabakh war in 2020, Russia now occupies the strategic security space even more strongly than before in the South Caucasus. The EU may deepen its influence in the economic and normative regulatory space, notably for the climate-energy-environmental nexus of policies, but Russian economic interests in key sectors, especially energy, will remain a limiting factor.

For **Azerbaijan**, the prospects for an outcome similar to the one for the Trio states or to the one for Armenia look remote, with its geopolitical orientations context now heavily marked by a strategic alliance with Turkey. However, the Green Deal, if much of the rest of the world does something comparable, will in due course have a severe negative impact on all petro-states like Azerbaijan, which already face the need to build more diversified and climate-friendly economies. The case for clean fossil fuel through its conversion into hydrogen should be of great interest to Azerbaijan, with the EU able to help on the technical front.⁷ Azerbaijan's national priorities to 2030 include becoming "a country of green growth," which could lead to some degree to a reinvigorated relationship with the EU with a focus on the environment.

As for **Belarus**, which has withdrawn for the EaP, a variation on the Armenian hybrid model might be conceivable for at some point. But this would have to follow an Armenian-type "velvet revolution," which today seems to be a very remote possibility. On the contrary, as mentioned above, Belarus has recently signed up to measures to deepen integration with Russia.

While they are beyond the scope of this paper, Turkey is one of the other major polluters in the EU's neighborhood facing Green Deal issues similar to Ukraine's.⁸ On a smaller scale, so do the Western Balkan countries, especially Serbia and Bosnia and Herzegovina.

⁷ M. Leonard, J. Pisani-Ferry J. Shapiro, S. Tagliapietra and G. Wolff, *The geopolitics of the European Green Deal*, ECFR, February 2021.

⁸ A. Aydintasbas and S. Dennison, *New energies: How the European Green Deal can save the EU's relationship with Turkey*, ECFR, June 2021.

5. Conclusions

The Green Deal is a huge initiative for the world's ongoing set of climate policies and it is comparable to only a few other milestones in the EU's development. It will naturally occupy the basis for the EU's global climate diplomacy, sharply motivated by the COP26 conference currently underway in November 2021. Many speeches from the European side, addressed to the rest of the world, will flow about this impressive model. However, the risks of failing to implement the Green Deal, when political resistance to the disruptive transformation builds up, will also remain.

For Georgia, Moldova, and Ukraine, the Green Deal offers contrasting scenarios. In one, their joining it could provide major new momentum to their European aspirations. This profound environmental program would improve the lives of their citizens more vividly than many of the measures of their AAs/DCFTAs, with radical improvements ranging from air quality to the heating and modernization of residential accommodation. It would also translate into a strategic upgrade of their relationship with the EU. This would depend, however, on significant financial support from the EU, bearing in mind what it has found necessary for its own internal implementation. In another scenario, the three countries' early inclination to join the Green Deal could be overcome by their awareness of the unavailability of adequate EU funding or, worse, of the possibility of the CBAM inflicting economic damage on them, notably on Ukraine.

For Armenia, Azerbaijan, and Belarus, the implications of the Green Deal are less vivid. For Armenia, association with it might open up interesting prospects to enhance the CEPA and to move to a more progressive hybrid regime between Russia and the EU. For Azerbaijan, growing awareness of the need to diversify its economy beyond hydrocarbons could lead to a fresh opening with the EU.

The sensitivity of these contrasting scenarios is greatly heightened by the growing geopolitical confrontation currently at play between liberal democracies and authoritarian regimes. The EaP states find themselves sandwiched more and more uncomfortably between the EU and Russia. If the EU has the will to strengthen its geopolitical position in this context, it has the means to do so by instrumentalizing the Green Deal to consolidate the European orientations and integration at least of the Trio states.