

2021 ESPAS ANNUAL CONFERENCE

DAY TWO

Friday, 19 November 2021

Global Trends to 2040: Europe's strategic choices in a more disputed world

How to build back better? Towards a greener, fairer recovery

Moderator

Paweł Świeboda, Director General, Human Brain Project; CEO, EBRAINS

Panel discussion

Heidi Hautala, MEP, Vice-President of European Parliament

Vera Songwe, Under-Secretary-General, United Nations, and Executive Secretary, Economic Commission for Africa

Maria Demertzis, Deputy Director at Bruegel

Mikołaj Dowgielewicz, Director General & EIB Representative to the EU institutions in Brussels

Jacob Funk Kirkegaard, Senior Fellow, Peterson Institute and German Marshall Fund (GMF)

Summary of the session

The modalities of financing the green transition, the need to maintain social justice, and the particular challenges facing Africa were among the themes addressed in a wide ranging discussion on how to build back better, at the 2021 ESPAS conference.

COP26: from awareness to impact

The panel saw grounds for optimism in the COP26 climate change meeting in Glasgow, while it also recognised some setbacks. The outcome was seen as more positive than feared. There were significant pledges - amounting to \$100bn - but still more was needed. The event certainly served to further increase awareness of the challenges ahead. The launch of the [Global methane pledge](#) and the [Just Energy Transition Partnership with South Africa](#) were welcome, as was a greater focus on the disproportionate impact of climate change on the situation of women.

Government commitments on 2030 were missing. The weakening of the commitment to phase out coal power was a notable disappointment. Over time, a robust approach to Carbon Border Adjustment Mechanism can compensate for this. Ultimately, small steps are better than no steps, and international orchestration remains critical to the effort to address climate change.

The tension between short term and long term perspectives is apparent in relation to recent fuel prices rises. In Europe, this has given rise to inflation, which may be short-lived. It can be argued, however, that a spike in fossil fuel prices is good news for Europe, as it makes renewable energy more competitive.

Financing the green transition

The Next Generation EU Fund is a welcome, major innovation. Now it is important now to think beyond the seven year budget planning horizon. The fiscal framework is crucial. Financial intermediaries are needed, and markets will need to engage with long term sustainable financing. On the revenue side, a carbon tax is not intended to generate income year after year. So-called sin taxes on alcohol and tobacco continue to generate income indefinitely, but the goal of a carbon tax is to eliminate emissions; this in turn would reduce revenues to zero.

Will future demand for green capital increase or decrease the price of capital? This is a critical question, but the answer is unclear. Further research is needed. The case can be made that the green transition will not have much effect on the price of capital, based on the fact that interest rates have gone down, steadily, over the past thirty-forty years. The continuation of low rates would benefit sustainable investment.

The EU is in the process of adopting clear criteria to determine which economic activities are environmentally sustainable ([taxonomy](#)). This serves as an incentive for private capital.

Fiscal Transfers, key to a fair transition

Africa faces particular problems in relation to decarbonisation. One is lack of access to low interest rates, even in its better performing economies. Nor is there a premium for green funds over ordinary ones. There are hopes that Africa can leapfrog to renewable energy. One obstacle is the issue of baseload - the need to supply a minimum amount of energy at any given time. In the short and medium term it will be difficult to phase out gas. The EIB has now opened a hub in Kenya, which will inter alia provide expertise and advice in support of investments in sustainable projects.

Business is embracing change

Private businesses know that they will in future have to operate in a net zero economy. This means that will have to change their business model - and they will. One panellist suggested that business could move more green than political decision-makers, and that politicians can do more so that prices accurately reflect environmental impact. Expectations are changing; there is more demand for cleaner, ethical products, and for transparency about compliance with labour and environment standards in the supply chain. Policymakers and the private sector are responding to this.

Conclusion

We will not see an “immaculate decarbonisation.” To master the challenges ahead, we will need to be inclusive and to build consensus. The green transition needs to become a project - and a mission - for everyone.

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Further reading

EPRS, [EU climate action policy](#), March 2021

ESPAS, [Global trends to 2030: challenges and choices for Europe](#), 2019

ESPAS, [Global trends to 2030: Mid-term Update](#), November 2021

IPCC, [Climate Change 2021: The Physical Science Basis](#), August 2021

Jensen, L. [COP26 climate change conference: Outcomes](#), EPRS, November 2021

OECD, [Risks that Matter Survey](#), July 2021

Spinaci, S., [Sustainable finance - EU taxonomy](#), EPRS, July 2020