

The Geopolitics of the European Green Deal

Mark Leonard, Jean Pisani-Ferry, Jeremy Shapiro, Simone Tagliapietra, Guntram Wolff

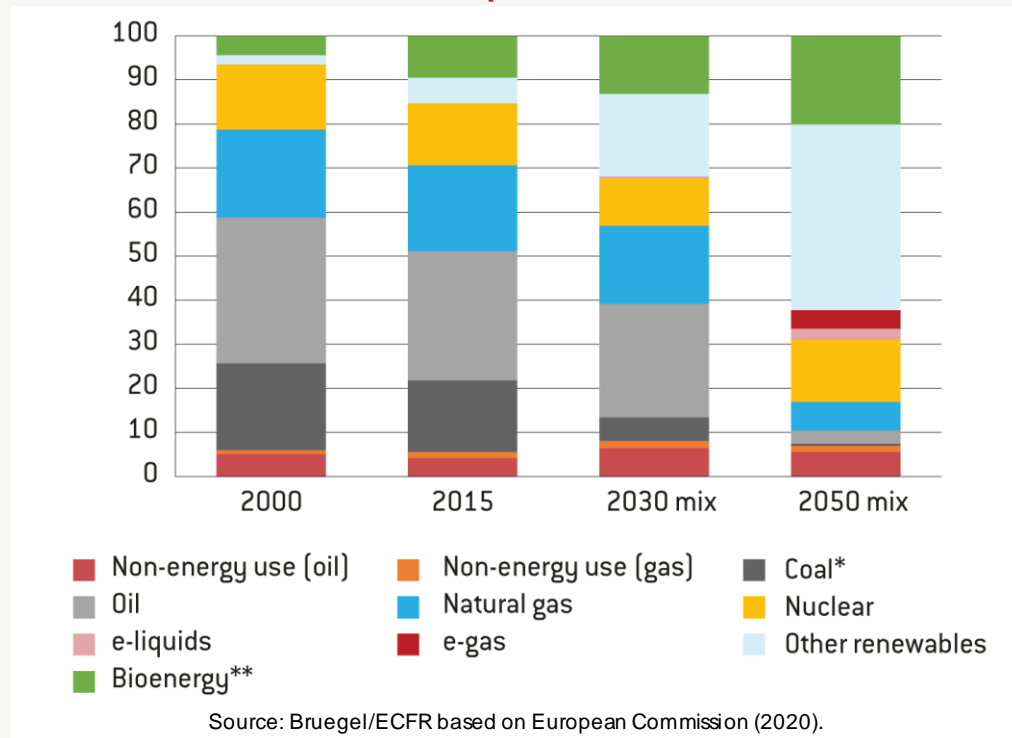
Introduction: the European Green Deal is foreign policy

- By redefining the European economy, the EGD will also change relations between the EU and its neighbourhood and will redefine Europe's global policy priorities
- If the EGD foreign policy component fails, the entire effort will collapse
- Aims of the paper:
 - ✓ Map out the likely geopolitical implications of the EGD
 - ✓ Examine how other key countries (Russia, Algeria, Saudi Arabia, US, China) might understand the EGD and how they are likely to respond to its international implications
 - ✓ Elaborate a foreign policy action plan for the EGD
- Caveat: for the purposes of the paper, we assume that the EGD and its central ambitions of climate neutrality by 2050 and a reduction in emissions by 55% by 2030 actually comes into being

Mapping out the likely geopolitical implications of the EGD

- To make Europe climate neutral by 2050, the EGD has to reshape the way energy is produced and consumed in the EU
- Today, almost three-quarters of the EU energy system relies on fossil fuels. This situation will be upturned by 2050

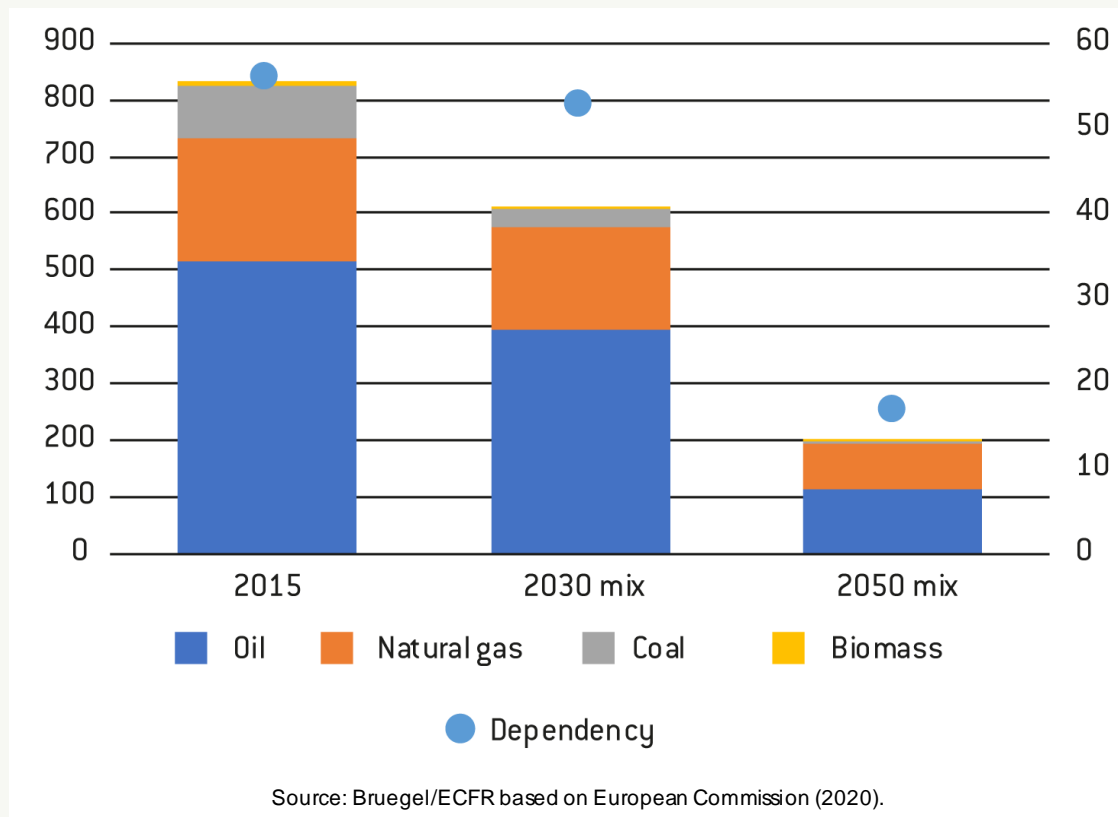
EU energy mix evolution
(55 percent lower emissions in 2030 compared to 1990 and climate neutrality in 2050)



Mapping out the likely geopolitical implications of the EGD

- After 2030, oil and natural gas imports are expected to shrink dramatically, with oil imports down 78-79 percent and gas imports down 58-67 percent compared to 2015

Evolution of EU energy imports
(55 percent lower emissions in 2030 compared to 1990 and climate neutrality in 2050)



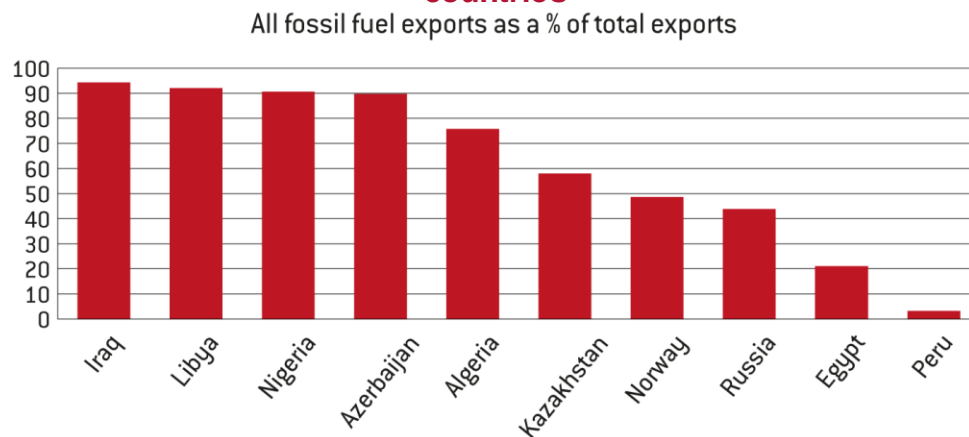
Mapping out the likely geopolitical implications of the EGD

- This profound transformation of the EU energy system is set to have a wide variety of geopolitical repercussions.
- We notably identify four channels:
 - i. Repercussions for oil and gas producing countries in the EU neighbourhood
 - ii. Repercussions for European energy security
 - iii. Repercussions on global energy markets
 - iv. Repercussions on global trade, notably via carbon border adjustment measures

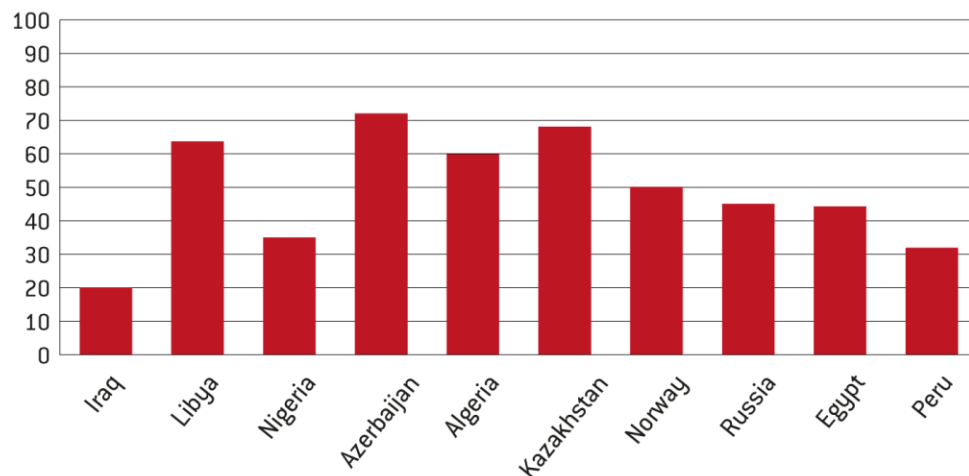
i. Repercussions for oil and gas producing countries in the EU neighbourhood

- Declining EU imports of oil and gas will affect Russia and other suppliers from the MENA region, the Caspian and Central Asia, that base their economies on the fossil fuels rent, and mostly export their fossil fuels to Europe

Fossil fuel exports to EU as % of total exports, selected countries



Fossil fuel exports to the EU as % of total fossil fuel exports

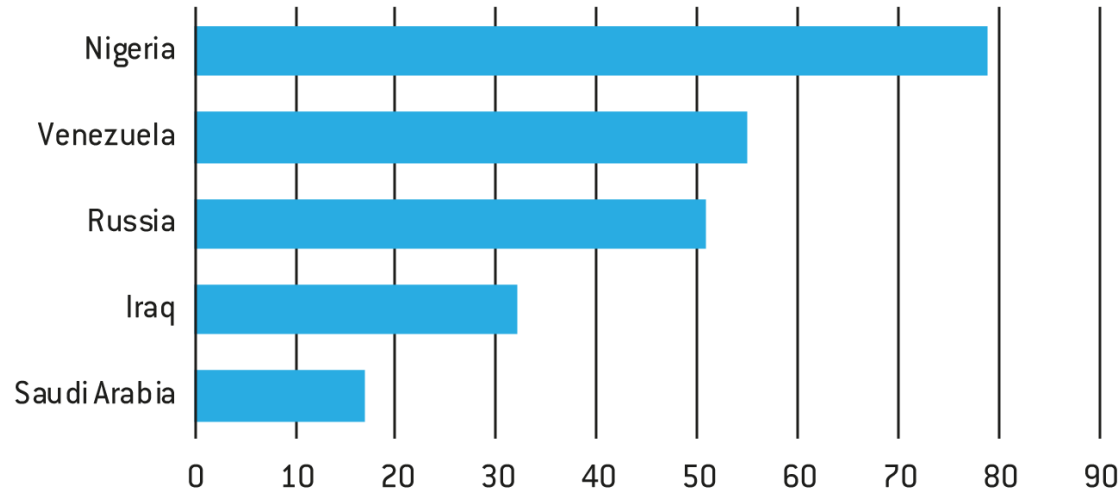


Source: Bruegel/ECFR based on UNComtrade.

i. Repercussions for oil and gas producing countries in the EU neighbourhood

- Oil producers will be affected differently depending on how concentrated they are on oil exports, as well as their break-even oil price

Break-even oil price, selected countries, USD/barrel (2015)



Source: Bruegel/ECFR based on OECD.

ii. Repercussions for European energy security

- EGD will solve Europe's oil and gas security concerns – and also reduce Europe's oil and gas import bill - estimated at EUR 296 billion in 2018
- However, the EGD can also create new energy security risks:

- ✓ Imports of green electricity and green hydrogen

Europe might well resort over the next decades also to the import of solar and wind electricity as well as green hydrogen from neighbouring regions that due to their natural endowment are particularly fit for that purpose. This can lead to new energy security concerns, which will have to be mitigated with diversification.

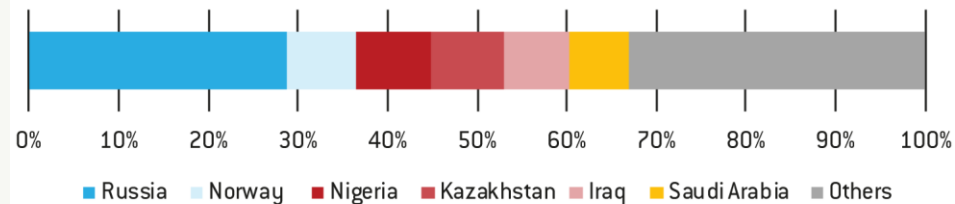
- ✓ Imports of minerals and metals underpinning green technologies

Some of these minerals and metals are either geographically concentrated in a few resource-rich countries, or treated and processed in China and other few countries. Europe itself has no significant mining and processing capacities of these critical raw materials. The import of rare earths from China is probably the most critical issue in this area. All this entails dependency risks.

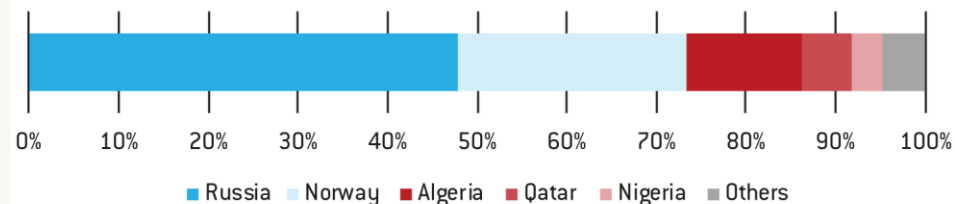
ii. Repercussions for European energy security

EU imports of oil and natural gas by main trading partner, 2018

Oil

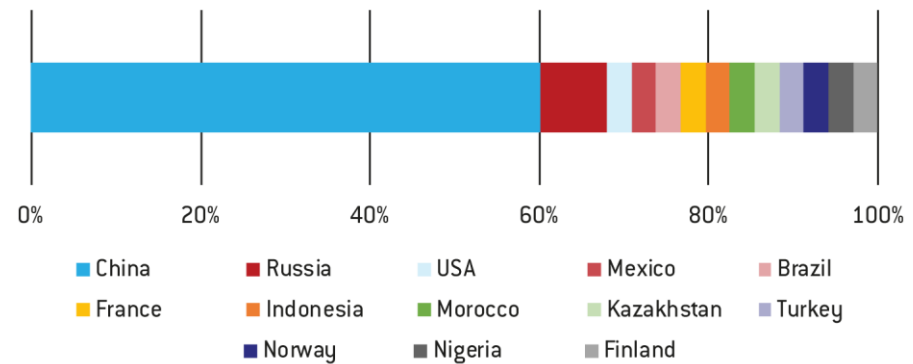


Natural gas



Source: Bruegel/ECFR based on Eurostat (2020).

Main suppliers to the EU of critical raw materials
Average from 2010-2014

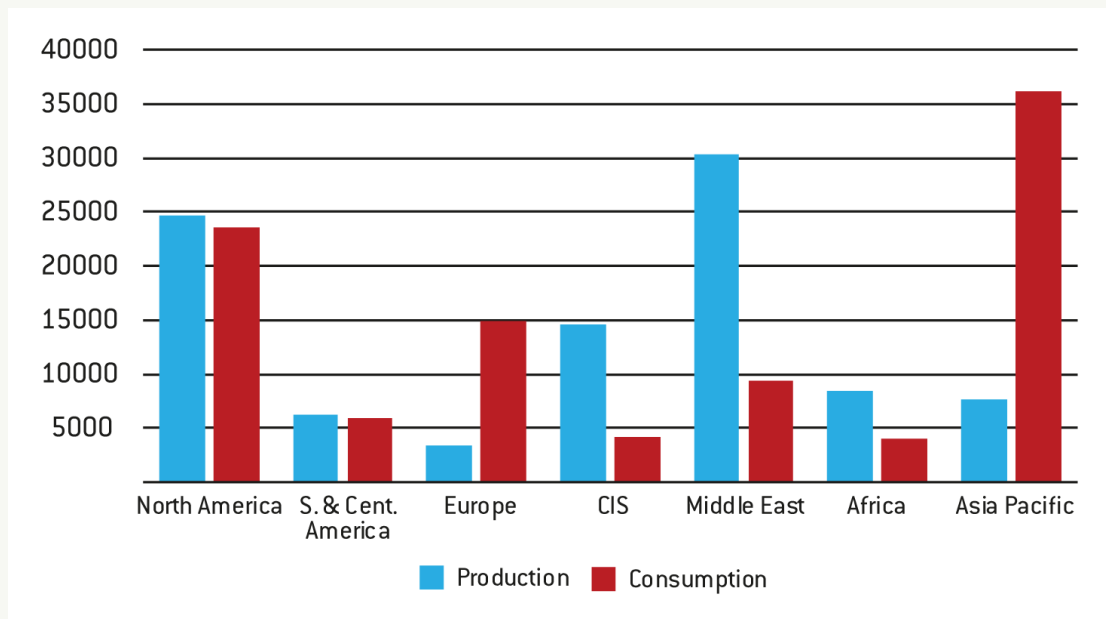


Source: Bruegel/ECFR based on European Commission (2017).

iii. Repercussions on global energy markets

- Europe is the first oil importing region in the world
- The fall in oil demand resulting from the EGD will have an impact on the global oil market, notably by depressing prices
- This has implications for global oil producers. Just as an example, already at the current oil price of USD 40 per barrel, Saudi Arabia's budget deficit is at 12% of GDP

Oil balance by region, 2019

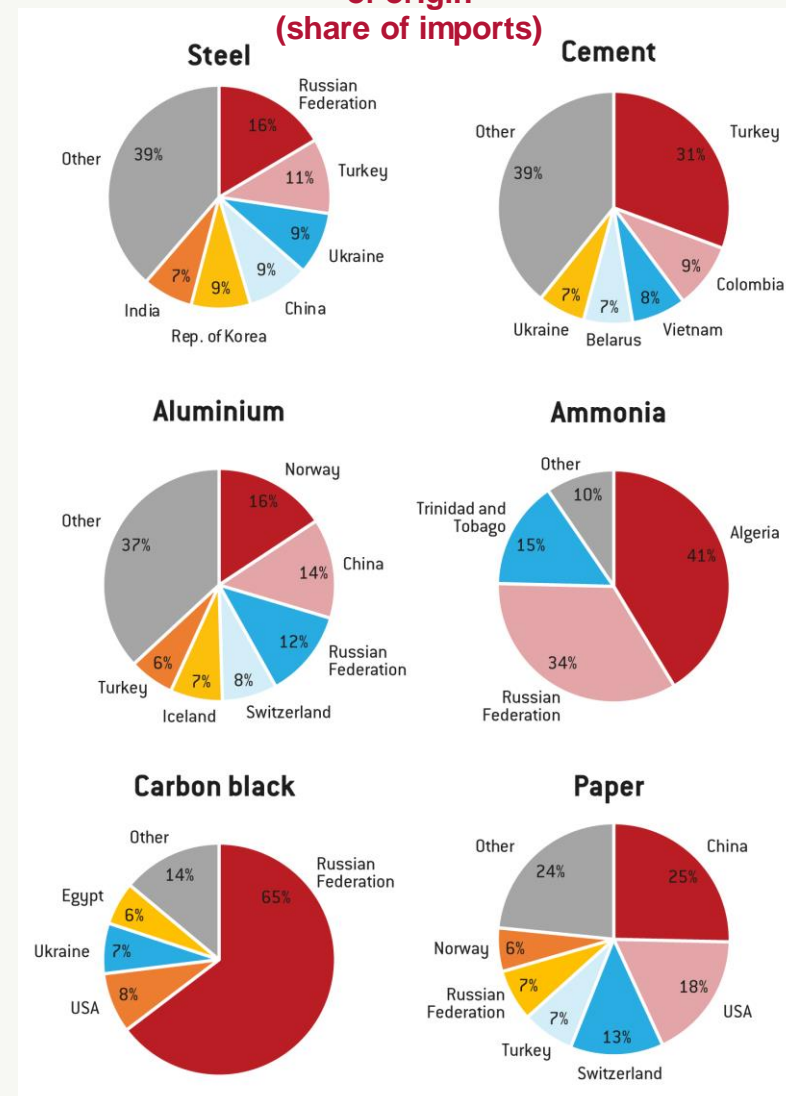


Source: Bruegel/ECFR based on BP Statistical Review of World Energy (2020).

iv. Repercussions on global trade, notably via carbon border adjustment measures

- CBAM can be implemented without endangering the multilateral trading system
- Geopolitics is key. International reactions to the introduction of CBAM are likely to be profoundly diverse
- Pro-climate countries are likely to be supportive of the initiative, and replicate it
- Countries that export emissions-intensive goods to Europe are likely to oppose it

EU27 imports of carbon-intensive goods by country of origin (share of imports)



Source: Bruegel/ECFR based on UN Comtrade. Note: trade data for 2018.

A foreign policy action plan for the European Green Deal

Action to manage direct geopolitical repercussions

Manage repercussions on neighbouring oil and gas exporting countries

Improve the security of critical raw materials supply and decrease dependence on China

Manage the geopolitical implications of carbon border adjustment

Action for global leadership

Become a global reference and standard-setter for the energy transition

Export the European Green Deal

Promote Global Coalitions for Climate Change Mitigation

A coalition for the permafrost

A coalition for CO2 emissions removal

Promote a global platform on the new economics of climate action

#1 Manage the impact of the Green Deal on neighbouring oil and gas exporting countries

- Managing the impact of the EGD on neighbouring oil and gas exporting countries is important to the EU as the EU cares about the stability of the neighbourhood
- A dedicated effort is needed to support economic development
- First, this need to be tailored-made on each individual partner country, to fit the specific context and focus on the most promising local competitive advantages
- Second, this need to be based on a strong engagement of the private sector and financial institutions

#2 Improve the security of critical raw materials supply and decrease dependence on China

- Securing access to critical raw materials underpinning green technologies is key to safeguard the implementation of the EGD and to ensure «Europe's strategic autonomy»
- Two are the key actions that the EU should undertake in this field:
 - ✓ *Supply diversification.* This entails both developing domestic supply and diversifying import portfolio
 - ✓ *Increased recycling volumes and substitution of critical materials.* Increasing the cost competitiveness and efficiency of sorting and recycling technologies represents a priority. In this field, the EU can provide support on both research and innovation (e.g., Horizon Europe) and technology demonstration (e.g., Innovation Fund).

#3 Manage the geopolitical implications of carbon border adjustment

- As Sapir and Horn (2020) suggest the best way to develop a CBAM is to involve both EU stakeholders and foreign partners in the development of the mechanism
- Institutionally, this would also entail discussing it at the WTO level and within the framework of the Paris Agreement, so that the initiative is not perceived as unilateral – and even as protectionist
- Such a multilateral process might significantly reduce the geopolitical risks associated with CBAM, and ultimately pave the way for its smooth introduction
- At the minimum, an EU-US agreement seems necessary to be able for the EU to implement a CBAM credibly

#4 Become a global reference and standard-setter for the energy transition

- The EU can become a global reference for the energy transition. One of the biggest strengths of the EU is its internal market of 450 million people. Requiring compliance with strict *environmental regulations* as a condition to access the EU market represents a strong incentive to exporting countries to green their production processes
- EU can become a standard-setter for the nascent *hydrogen market*. By promptly developing a benchmark for euro-denominated hydrogen trades, the EU could create the basis for an international hydrogen market based on EU standards
- EU can become a standard-setter in *green bonds*. Considering the current relatively small size of the green bond market, its expected rapid growth, the EU's substantial share (45% of 2019 issuance), and investors' need for standardization, the EU could well be a front runner in the field and become a global standard-setter

#5 Export the European Green Deal

- The EU produces less than 10% of global GHG emissions. This implies that to have an impact on global temperature levels, the EU needs to push the EGD beyond its borders.
- Two are the main instruments the EU could use to do so:

- ✓ The EU budget and Next Generation EU

The EU has pledged to devote 30% of MFF spending and 37% of NGEU spending to climate. Between 2021 and 2027, around €600 billion of ‘fresh’ EU resources will be made available for the green transition. The EU should devote 10% of these resources earmarked for climate action – i.e., €60 billion – to export the EGD to neighbouring countries and beyond

- ✓ The EU development policy

- Triple dividend: climate policy, industrial policy, foreign policy

#6 Promote Global Coalitions for Climate Change Mitigation

- The EU should initiate and lead a Global coalition for the permafrost, aimed at funding research to better assess the current status of the problem and at funding measures to urgently contain the permafrost thaw, such as restoring grassland by both reducing forests and increasing large animal herds grazing
- The EU establish a Global coalition for CO₂ emissions removal aimed at promoting international cooperation in the field. The EU should use trade, development and financial policy to pursue this agenda

