

Towards a greener, fairer recovery: Perspectives from the 2021 ESPAS Conference

Summary

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.

Background

The European Parliamentary Research Service (EPRS) co-hosted the [ESPAS conference](#) on 18-19 November 2020. **Paweł Świeboda**, eBrains (moderator); **Heidi Hautala**, (Greens/EFA, Finland) Vice-President of the European Parliament; **Vera Songwe**, Under-Secretary-General, United Nations, and Executive Secretary, Economic Commission for Africa; **Mikołaj Dowgiałewicz**, European Investment Bank; **Maria Demertzis**, Bruegel; and **Jacob Funk Kirkegaard**, Peterson Institute and German Marshall Fund (GMF); took part in a panel entitled 'How best to build back better? Towards a greener, fairer recovery.'

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 US\$100 billion – 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 welcomed, 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 a carbon border adjustment mechanism can compensate. 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 price 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. 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. '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? While this is a critical question, 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 30-40 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

While the science leaves little room for doubt on the planetary impact of climate change, there are large gaps in our understanding of the economic impacts. We also lack a full understanding of global economic interdependence. How should the impact on welfare be addressed, across borders? Can the drive decarbonisation be insulated from populist opposition?

Fiscal transfers have a key role, particularly at the national level. Regional disparities within individual countries are a growing problem, and there will be upheaval. Green transfers will be necessary, both for social justice and for political stability. Reform of EU fiscal rules can ensure a framework that allows this.

The view from Africa

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 European Investment Bank 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 in future they will have to operate in a net-zero economy. This means they will have to change their business model – and they will. One panellist suggested that business could become 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. Policy-makers and the private sector are responding to this demand.

Conclusion

The panel concluded that 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.

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

