Netzwerk Weitblick
Verband Journalismus & Nachhaltigkeit e.V.

SDSN Germany

Report on the online press briefing of 11 May 2020

EU Recovery Fund, Covid-19, sustainable development and climate change

The online press briefing organised by SDSN Germany and Netzwerk Weitblick brought together over 60 representatives from the worlds of journalism, research, business and civil society to present their impressions and expectations with regard to the EU Recovery Fund and discuss them in the context of sustainability and climate-change policy.

Background

The press briefing was held in response to the announcement of the EU Recovery Fund, set up to lift the economy out of the recession caused by the Covid-19 pandemic.
In recent weeks, proposals and criteria have been developed by academia, the business sector and civil society for using the recovery process as an opportunity to transform the economy to make it more sustainable, resilient and equitable going forward.
The design of the EU Recovery Fund and the Multiannual Financial Framework (MFF), that is, the EU's budget, will play a major role in determining progress towards achieving the 17 Sustainable Development Goals (SDGs) of the 2030 Agenda for Sustainable Development and the goal of climate neutrality by 2050 in the EU and globally. The question thus arises as to whether and how the planned measures can be geared to these objectives and to the European Green Deal announced in late 2019.

Set to assume EU Council presidency in mid-2020, Germany has a responsibility to support efforts to orient the EU Recovery Fund and the next EU budget towards the 2030 Agenda for Sustainable Development and the European Green Deal.

The EU has already approved several emergency programmes in response to the Covid-19 pandemic. On 23 April 2020, the European Council endorsed the agreement of the Eurogroup on three safety nets for workers, businesses and sovereigns, amounting to around EUR 540 billion in total. With a view to establishing an additional reconstruction fund, European Council President Charles Michel and European Commission President Ursula von der Leyen had submitted a *joint roadmap for recovery* to the European Commission. In it, they described the transition to a green, digital and circular economy as essential alongside Cohesion Policy and the Common Agricultural Policy ("The European Green Deal will be essential as an inclusive and sustainable growth strategy in this respect").
On this basis, the European Council agreed to establish a special EU Recovery Fund to assist the European sectors and regions hit hardest by the pandemic. The Commission was tasked with conducting a needs analysis and drafting a corresponding proposal. This plan will be linked to the MFF for 2021 to 2027, which is to be adjusted to take account of the current situation. Discussion is ongoing regarding an envisaged investment and spending volume of up to EUR 2 trillion, consisting of budgetary and market funding and set to be pushed in 2021 and 2022 in particular.

This proposal by the Commission is expected to be submitted in the coming weeks to allow the heads of state and government to approve the package at their next meeting (European Council on 18/19 June 2020). In the meantime, two joint proposals have been submitted for the design of a recovery programme, one by France and Germany and the other by Denmark, Sweden, Austria and the Netherlands.

At the same time, negotiations are under way on the EU budget for 2021 to 2027. The planned funds for tackling the corona crisis must thus be viewed in conjunction with the MFF. Both will determine priorities and shape structures for a long time to come. Whether and how the SDGs are achieved will thus be decided to a large extent by the EU Recovery Fund and the MFF.
Against this backdrop, **Prof. Anna-Katharina Hornidge** (Co-Chair, SDSN Germany & Director of the German Development Institute / Deutsches Institut für Entwicklungspolitik (DIE)) made clear in her introductory address that the massive volume of funding in connection with the MFF for 2021-2027 is intended to "ensure that account is taken of environmental and social sustainability in the management of crises, that the UN SDGs are achieved and that the EU Green Deal is designed accordingly".

Legal framework
So far, the Green Deal has been a priority of the European Commission. While the deal provides a political framework, it is still rather abstract at this early stage and could move down the priority list as a result of the crisis. The implementation of the Green Deal is currently being formulated step by step in its individual areas of transformation and agreed between the member states and the European Parliament as part of a series of negotiations.
As explained by **Prof. Christian Calliess** (member of the German Advisory Council on the Environment (SRU) and Professor at the Freie Universität Berlin) in his input, the announced EU Recovery Fund could offer an opportunity if the funding is deployed in a sustainable manner with an eye on the future. From his perspective, the EU is well prepared to do so: The integration clause of Article 11 of the Treaty on the Functioning of the European Union states that "Environmental protection requirements must be integrated into the definition and implementation of the Union's policies and activities, in particular with a view to promoting sustainable development". Environmental policy must therefore form an integral part of all other policies in the interests of sustainability. According to Calliess, the European Green Deal is essentially an "expression of this implementation and a legally binding mandate for action. It allows the EU to gear economic development and economic recovery to the interests of sustainability on an integrated basis. Consequently, the EU has practically been given a legally binding mandate to make environmental policy an integral part of the Recovery Fund in the interests of sustainability," said Calliess. If the EU Recovery Fund is not aligned in this way, then there is a chance that the stipulations of the EU Green Deal and the commitment undertaken by signatories of the Paris Climate Agreement to limit the global temperature rise to between 1.5 and 2 degrees Celsius may not be implemented at all. Calliess also stated that it is in the interests of future generations to achieve the SDGs. Additionally, he explained that, if the financial resources, likely to be considerable, deployed by the EU Recovery Fund and the MFF are brought into alignment with the EU Green Deal, then this could create a major opportunity for progress.

Economic impact of the crisis/investment fund
Looking at the current economic situation, **Prof. Ottmar Edenhofer** (Director of the Potsdam Institute for Climate Impact Research) pointed out in his input that the supply shock created by the lockdown could result in weak demand, which would necessitate larger fiscal stimulus packages. He explained that the macroeconomic environment was fundamentally different to that of the 2008/9 financial crisis, as seen in particular in the high debt levels in the EU and beyond. He continued that the effectiveness of fiscal stimulus packages would be limited by the specific structure of the debt and that there was a risk of placing too great a focus on primary, short-term fiscal multipliers.

This could lead to long-term misallocation for certain infrastructure (roads, bridges, fossil fuel power plants), pushing climate impact and distribution effects into the background in large part. Prof. Edenhofer said that this could already be seen, for example, in emerging economies, where coal-fired power stations have been commissioned or recommissioned as part of fiscal stimulus packages.

He thus called for a long-term investment fund for which a long-term bond (of up to 50 years) should be issued: "This firstly allows account to be taken of debt. However, for this bond to lead to real economic investment, the fund should subsidise loans in the area of sustainability and climate-change mitigation and offer shares that require a lower return on equity. This is necessary as, in large parts of Europe, especially outside of the emissions trading context, we barely have any credible, long-term carbon pricing systems". Edenhofer continued: "Policy-makers should now implement a minimum price in European emissions trading. The crisis poses a risk of emissions trading losing its steering role".

Debt / European and international solidarity

The funding deployed globally for stabilisation and recovery purposes is largely mobilised through capital markets or by international and European financial institutions. This is serving to intensify debt problems in many places, whether in industrialised nations such as those of the EU or in emerging economies and developing countries.

Prof. Ulrich Volz (Associate Professor, SOAS University of London and Senior Researcher, German Development Institute / Deutsches Institut für Entwicklungspolitik (DIE)) therefore proposed that the EU heads of government should agree to issuing Corona bonds in order to finance the EU Recovery Fund. "If individual member states continue to consolidate their fiscal positions when debt sustainability is unstable, then this will lead to major problems," explained Volz.

He pointed out that the G20 have already agreed a debt moratorium for the world's 77 poorest nations and said the EU should push for an international legal framework that enables government debt to be restructured and debt relief granted, thus enhancing the load-bearing capacity and responsiveness of the affected countries.

Sustainable finance / Role of the financial sector

In the EU Recovery fund, as in the EU Green Deal, the mobilisation of private capital market funds is to play a key role. It is thus extremely important to gear the framework for mobilising and deploying private capital to sustainability criteria.

According to **Kristina Jeromin** (Vice-Chairperson of the German Government's Sustainable Finance Committee and Head of Group Sustainability at Deutsche Börse), it was clear even before the crisis that the "financial system needed to be re-purposed into a formative instrument to allow it to develop its efficacy for sustainable business models in the macroeconomic system through its cross-cutting function".

Jeromin now sees the challenge as one of meeting needs at short notice, for instance, in order to prevent insolvency, but without losing sight of medium- and long-term goals. Consequently, loan conditions could be linked to SDGs, for example, by means of appropriately designed repayment bonuses or 1.5 degrees Celsius benchmarking for the issuing of loans.

She said that an SDG bond would also be conceivable at EU level. Jeromin added that, while the toolkit of sustainable finance had been developed before the crisis, it is not yet taking effect.
In addition to mobilising and deploying financial resources, she said that it was also vital to shape framework conditions in the right way, for instance, when it came to promoting sustainable projects, sustainable infrastructure and sustainable industry. Finally, in Jeromin's estimation, it is crucial to transform the real economy, with the financial sector needing to play a supporting role here.

Perspectives from society and business
Klaus Milke (Honorary Chairman of Germanwatch) pointed out that 2020's status as the year of climate action is coming under significant pressure as a result of the corona crisis. Milke now sees a need for "more resilience, recovering better", that is, the question of how resilience and recovery can be achieved within the meaning of the 2030 Agenda for Sustainable Development and the Paris Climate Agreement.
"The European Green Deal is not simply a matter for Europe, but rather could play a key role for the whole world," said Milke. He added that, if the EU were to succeed in strengthening its ambitions, then this could also send out a key signal to countries such as China, India and Brazil. The EU-China summit scheduled for September is highly significant in this context as well.

As part of the year of climate action 2020, the States Parties to the Paris Climate Agreement are called upon to present their Nationally Determined Contributions (NDCs). Germany will play a key role in sending out signals in regard to the climate plans when it assumes presidency of the Council of the EU from July. At what is most probably this year's most significant climate conference, the recent Petersberg Climate Dialogue, German Chancellor Merkel welcomed "the proposed interim target of reducing emissions in the European Union to 50 to 55 percent by 2030 compared with 1990 levels". Milke stated that the Council presidency must thus be used to link the corona economic programme with the climate goals in order to approve the EU's 55% target for 2030 this year.

Helena Marschall (climate activist, Fridays for Future) pointed to the fact that a number of member states already support the 55% target, but that Germany had not yet made a definitive commitment to this reduction. She said that the raising of ambitions for this year agreed in the Paris Climate Agreement also require Germany to submit new, revised plans. According to Marschall, it is not sufficient for Germany to simply drive the ambition for the EU; it also needs to upscale measures within its own borders for achieving the 1.5 degrees Celsius target.
With regard to the economic programmes, she observed that the first phase was focused on ensuring liquidity and that arrangements for state emergency aid were made without specifying any environmental conditions. She stated that this now needed to change in the subsequent second phase and was not least a duty of generational justice. She said that her generation in particular would feel the effects of current decisions and investments further down the line if unsustainable futures were cemented with debts that would have to be paid by her generation.

Offering a business perspective, **Sabine Nallinger** (Managing Director, Foundation 2° – German Businesses for Climate Protection) addressed the business statement recently published by 68 companies in which they call for "economic programmes to be brought into line with the objectives of climate-change mitigation". She saw it as positive that "many companies from energy-intensive sectors (including chemicals, steel, commerce and building) that have to deal with major challenges and investments have signed the statement".

Nallinger said that many companies had taken major steps forward in the last year or two in terms of climate-change mitigation and changed their business models, markets, suppliers and investments accordingly.
From a business viewpoint, she considered it important to promote innovative technologies, including the expansion of the hydrogen economy, e-mobility, renewable energies and modernisation of building stock.

Nallinger concluded by underscoring just how decisive the meeting of EU heads of state and government on 18/19 June is for the design of the forthcoming measures and thus also for their impact on sustainability and climate-change mitigation. She said that it was necessary to set the right priorities at the meeting for the recovery programme, but also for key framework conditions such as carbon pricing and the EU Emissions Trading System.

Report by **Janina Sturm**, 25 May 2020
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Further information:
Report on the virtual meeting of SDSN Germany on 3 April 2020 to discuss the consequences of the Covid-19 pandemic for sustainability and climate-change policy

2019 Europe Sustainable Development Report by SDSN and IEEP

About the organisers:

Netzwerk Weitblick, Verband Journalismus und Nachhaltigkeit e.V. is a service for media professionals addressing the inter-ministerial and cross-cutting topic of sustainability. Members come from German-speaking countries and work in their countries and overseas for employers including ARD, Deutschlandradio, Frankfurter Allgemeine Zeitung, Handelsblatt, Süddeutsche Zeitung and Tagesspiegel.

Website: https://www.netzwerk-weitblick.org/ Twitter: @nw_weitblick

The **Sustainable Development Solutions Network Germany** was founded in April 2014 by leading German knowledge organisations as part of the global SDSN. Over 30 leading knowledge institutions, interest groups and foundations work together as members and partners of the network.

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