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THE INTERNATIONAL DIMENSION OF THE EUROPEAN GREEN DEAL

HOW THE EU CAN ENABLE A FAIR TRANSITION FOR THE WHOLE PLANET

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SUMMARY

The EU has a commendable story of global leadership on climate, setting the good example through a comprehensive approach and making practical, legally binding commitments to the climate neutrality path. Unlike the US and other global players, with the European Green Deal and Fit for 55, Europe has put its money—and its policies—where its mouth is.

But this story will start to look less praiseworthy if the international implications of Europe's transition are not adequately addressed. The EU is a massive importer of virgin resources that are extracted in other parts of the world, and over-consumes a huge amount of products that are made with high levels of carbon emissions and fresh water. The Union has set a high level of ambition for cutting the carbon emissions from production on its own territory by 55 percent by 2030, which is very positive, but it also has to reduce the environmental impact of production on other continents of the goods and commodities destined for European markets—the emissions and water that are 'embedded' in its imports.

Three international implications of the European Green Deal need urgent attention:

The first is that the replacement of high-carbon technologies in the wealthiest economies in the world, including in Europe, is starting a new mining boom. The decarbonisation drive is very necessary, but it has the effect of pushing up demand for critical raw materials, such as lithium for batteries. This will lead to distributional conflicts if it is not accompanied by a concerted, cooperative approach to managing the supply of these resources. Decarbonisation of the most polluting economies is absolutely essential to prevent catastrophic global warming, but it needs to be accompanied by a comprehensive plan to ensure good governance of natural resources to prevent a new era of extractivism.

Secondly, the EU must address the demand side, addressing the environmental impact of its own consumption, not only the supply side. To reduce its outsourced emissions and ecological damage, the EU economy needs to use resources much more efficiently and move to circularity. The European Commission has put forward good proposals, but they are at risk of slow implementation. In their deliberations on circular economy and sustainability measures, the EU's 27 members and the European Parliament must bear in mind the enormous impact that over-consumption has on Europe's net climate impact globally.

Thirdly, the EU also needs to take account of the impact on its trade partners of cuts to imports and the introduction of green trade barriers for climate reasons. These are important and necessary measures to push down European demand for fuels, raw materials and goods that are unsustainably produced. However, the EU needs to help its trade partners to adapt when their economies have long depended on the export of these products. To smooth the climate transition path is an important new objective for EU development and trade policies, particularly in relations with the Global South.

If the EU wants to show global leadership on the climate transition at COP27 and beyond, it needs to start changing its international relations and internal economic policies to take account of the complexities of the climate transition. Beyond the crucial focus on climate finance to help affected countries to adapt, the EU urgently needs to explore new approaches to its international cooperation and trade partnerships. The EU's leadership will be successful only if it enables other countries to advance on their own paths to sustainability, to achieve a Global Green Deal.

***This analysis draws on joint work by the authors at the Open Society European Policy Institute with The Club of Rome and SYSTEMIQ, published in the* International System Change Compass.**

INTRODUCTION

The European Green Deal was designed primarily for the EU, but it will only achieve its aims if it also supports the transition to sustainability in the rest of the world. The EU's planned cuts in its own greenhouse gas emissions are necessary but not sufficient. There is only one climate, so reductions on one continent will not help if emissions continue to rise in other parts of the world. For example, if Europe switches to electric vehicles but dumps its old cars in Africa to continue being fuelled by hydrocarbons, the damage will continue. Overall, the net impact of Europe's transition so far is to promote global innovation and reduced costs for clean technology. But now it needs to pay more attention to the restructuring of economic relationships – especially trade – that will follow from decarbonisation and the move to a circular economy. This policy brief sets out three aspects of the international dimension that urgently require attention.

1. THE EUROPEAN GREEN DEAL AFFECTS NOT ONLY EUROPE

The EU cannot only measure the emissions and environmental impact of production on its own territory if it wants a sustainable future. It needs a more holistic approach that takes into account **the environmental impacts embedded in Europe's imports**.[1] For example, the EU is setting standards for vehicles produced in Europe to emit less pollution as they drive, but manufacturing them still uses significant amounts of carbon-intensive resources such as aluminium and steel—large shares of which are imported from countries where these resources are made with poor environmental standards and dirty energy.[2]

It's not just about emissions. The extraction and processing of the many resources that Europe imports to sustain its economic system cause biodiversity loss and water scarcity elsewhere in the world. Even if all emissions stopped today, that **environmental damage** will make land uninhabitable and drive conflict in future.[3] For example, EU consumption of rubber imports by the automotive sector contributes to deforestation and biodiversity loss in South East Asia.[4]

1 For definitions and data of production-based and consumption-based environmental impacts, see SDSN, Yale Center for Environmental Law & Policy, and Center for Global Commons at the University of Tokyo (2021), Global Commons Stewardship Index 2021, https://irp.cdn-website.com/be6d1d56/files/uploaded/GCS-Index-2021-Report-2021.pdf, p. 52.

2 European aluminium (2020), Digital Activity report 2019-2020, accessed 27 April 2022, https://www.european-aluminium.eu/activity-report-2019-2020/market-overview/

3 Lazard, O., Youngs R. (2021), The EU and Climate Security: Toward Ecological Diplomacy, Carnegie Europe – Open Society European Policy Institute, https://carnegieeurope.eu/2021/07/12/eu-and-climate-security-toward-ecological-diplomacy-pub-84873

4 Wijeratna, A. (2021), Why Rubber Must be Kept in the EU's Anti-Deforestation Law, Mighty Earth, accessed 27 April 2022, https://www.mightyearth.org/2021/10/25/why-natural-rubber-must-be-kept-in-the-eus-anti-deforestation-law/

A very inconvenient truth is that the EU needs to reduce the overall volume of its aggregate trade in goods and materials to sustainable levels. Physical trade has been growing unsustainably since the 1970s and global material consumption is forecast to double by 2060.[5] Trade policy has been based for centuries on the idea of constantly driving up the overall volume of trade, but at this point in history, trade volumes need to start going down. At present, 50 percentof global physical trade is linked to fossil fuels and 20 percent to mining products, both highly polluting.[6]

Who is driving these trade flows? **Europe and North America are the only continents that are net importers of materials**, when including the total value of natural resources used in the production chain.[7] Their economic systems rely heavily on extraction of resources from abroad. The import dependence of high-income countries on resources from lower income countries is increasing. Conversely, this generates high economic dependence of these lower income countries on the high income countries' demand. Take the example of Bangladesh, where the ready-made garment industry accounts for 84 percent of exports.[8] In 2015, nearly half of Bangladesh's total exports went to the EU28 countries, more than 90 percent being clothing products.[9]

The green transition is not just about substituting one energy technology for another. It has to take into account the broader impact on the whole planet. The race for minerals for green technologies will increase demand for mining, potentially creating a 'wicked solution' to the decarbonisation problem if not well managed. Production of minerals, such as graphite, lithium, and cobalt could increase by nearly 500 percent by 2050 to meet the growing demand for clean energy technologies.[10] Currently known resources or planned mines cover only about 50 percent of the lithium and cobalt and 80 percent of copper needs expected by 2030.[11] That means that the energy transition must be linked directly to resources transition and an overall reduction in demand to the greatest extent possible. Decarbonisation must not start a new era of massive extractivism.

5 UNEP and IRP (2020), Sustainable Trade in Resources: Global Material Flows, Circularity and Trade, United Nations Environment Programme, https://www.resourcepanel.org/reports/sustainable-trade-resources

6 UNEP and IRP (2020).

7 UNEP and IRP (2020).

8 Berg, A., Chhaparia, H., Hedrich, S., Magnus, K. (2021), What's next for Bangladesh's garment industry, after a decade of growth?, McKinsey & Company, accessed 11 February 2022, https://www.mckinsey.com/industries/retail/our-insights/whats-next-for-bangladeshs-garment-industry-after-a-decade-of-growth

9 European Commission, EU trade relations with Bangladesh, accessed 11 February 2022, https://ec.europa.eu/trade/policy/countries-and-regions/countries/bangladesh/

10 Hund, K., La Porta, D., Fabregas, T. P., Laing, T., Drexhage, J. (2020), Minerals for Climate Action: The Mineral Intensity of the Clean Energy Transition, World Bank Group, https://pubdocs.worldbank.org/en/961711588875536384/Minerals-for-Climate-Action-The-Mineral-Intensity-of-the-Clean-Energy-Transition.pdf

11 International Energy Agency (2021), The Role of Critical Minerals in Clean Energy Transitions, https://iea.blob.core.windows.net/assets/ffd2a83b-8c30-4e9d-980a-52b6d9a86fdc/TheRoleofCriticalMineralsinCleanEnergyTransitions.pdf

2. A CIRCULAR ECONOMY IN EUROPE PREVENTS HARM ELSEWHERE IN THE WORLD

Europe urgently needs to address the harmful international footprint of its economic model, in terms of embedded emissions, water consumption and biodiversity loss. **The EU has a major responsibility to do this** because it is the world's largest trader of manufactured goods and services and the top trading partner for 80 countries.

The EU is developing important regulations and standards to clean up global production and trade, most notably the Carbon Border Adjustment Mechanism, the Sustainable Products Initiative, the EU taxonomy for investments, the corporate sustainability due diligence proposal, and review of the waste shipment regulation. But these rules need to be accompanied by a rapid move to a circular economy in Europe itself. Europe and North America over-consume virgin resources, causing enormous environmental degradation in the rest of the world, so they need to **decrease their overall material footprint.**

The EU also has a major responsibility at the other end of the value chain, as **it generates and exports large amounts of waste**, with serious health and environmental effects on destination countries. Indeed, waste generation in the EU has been increasing constantly since 2008. It has grown at a slower rate than GDP, but this is partially due to waste-intensive production being increasingly outsourced to other regions.[12] In 2020, EU exports of waste to non-EU countries reached 32.7 million tonnes, an increase of 75 percent since 2004.[13] This is particularly problematic when it leads to lower standards of waste management; for example, despite EU legislation prohibiting it, significant amounts of electronic waste are illegally exported to low income countries that lack capacity for refurbishing, recycling, and dealing with its toxic components.[14]

Despite good progress on several fronts, the European economy is still far from achieving circularity. The proportion of the EU's waste that is currently recycled is less than half of the total waste generated,[15] and the contribution of recycled materials to the overall demand is only 12 percent.[16] More recycling would certainly take some pressure off other regions where virgin materials are extracted. However, recycling itself consumes energy and resources, and does not fully address the problem of demand for materials because recycled waste often leads to lower grade products.[17]

Although resource efficiency has improved dramatically in the last two decades, the drop in the share of resource- and waste-intensive production in Europe, together with increased reliance on imports,

12 European Environment Agency (2021), Progress towards preventing waste in Europe — the case of textile waste prevention, EEA Report No 15/2021, https://www.eea.europa.eu/publications/progressing-towards-waste-prevention-in

13 Eurostat (2021), Where does EU waste go?, European Commission, accessed 27 April 2022, https://ec.europa.eu/eurostat/web/products-eurostat-news/-/ddn-20210420-1

14 Puckett, J., Brandt, C., Palmer, H. (2019), Holes in the Circular Economy- WEEE Leakage from Europe, Basel Action Network, http://wiki.ban.org/images/f/f4/Holes_in_the_Circular_Economy-_WEEE_Leakage_from_Europe.pdf

15 European Environment Agency (2021), Waste recycling in Europe, accessed 27 April 2022, https://www.eea.europa.eu/ims/waste-recycling-in-europe

16 European Environment Agency (2019), The European environment — state and outlook 2020, https://www.eea.europa.eu/soer/publications/soer-2020

17 European Environment Agency (2021).

have created only the illusion of a more circular economy.[18] **The environmental impacts of European consumption are outsourced to other countries**. For example, more than 90% of the water and land use, and more than 75 percent of greenhouse gas (GHG) emissions related to textileconsumption in the EU occurs outside of Europe.[19] Outsourcing often means lower environmental standards. While almost half of EU steel is produced using steel scrap, which has a lower carbon footprint than virgin steel production, this share is considerably lower for non-EU regions (about 28 percent).[20] By importing almost a quarter of the steel it uses, the EU effectively outsources large parts of its embedded GHG emissions, which happen in the producing countries.[21]

The proposals from the European Commission's Circular Economy Action Plan would go a long way in addressing some of these effects, notably by introducing sustainability requirements for products placed on the EU market. But Europe will not automatically slow the growth in its resource demand if it has no intentional focus on reducing the EU's absolute material footprint at home and abroad.

Essentially, Europe needs to shift away from a system that links jobs and growth to industrial production output, and that values material possession and consumption. Instead, it should work towards **an economic system that satisfies human needs through access to (rather than ownership of) more durable, healthier, and more efficient goods and services**.[22] For example, instead of persuading individuals to own cars, the automotive sector could offer citizens a range of diverse, ecological, shared mobility services, reducing their environmental footprint and gaining in flexibility, quality of air, and infrastructure.

18 European Environment Agency (2019).

19 Christis, M. et al. (2019), Textiles and the Environment in a Circular Economy, European Environmental Agency and European Topic Centre Waste and Materials in a Green Economy, https://www.eionet.europa.eu/etcs/etc-wmge/products/etc-wmge-reports/textiles-and-the-environment-in-a-circular-economy

20 Hoffmann, C., Van Hoey, M., Zeumer, B. (2020), Decarbonization challenge for steel, McKinsey & Company, accessed 28 April 2022, https://www.mckinsey.com/industries/metals-and-mining/our-insights/decarbonization-challenge-for-steel

21 International Trade Administration (2019), Steel Imports Report: European Union, USA Department of Commerce, https://legacy.trade.gov/steel/countries/pdfs/2019/q1/imports-eu.pdf

22 Systemiq, The Club of Rome (2020), System Change Compass – Implementing the European Green Deal in a time of recovery, https://www.systemiq.earth/wp-content/uploads/2020/11/System-Change-Compass-full-report_final.pdf

3. WIN-WIN PARTNERSHIPS WITH THE COUNTRIES AFFECTED BY LOWER EU DEMAND FOR RAW MATERIALS AND HIGHER IMPORT STANDARDS

The EU must make sure that the transition in Europe not only reduces its own international environmental footprint, but also avoids short- and mid-term negative impacts on its trade partners and creates **opportunities for them to achieve their own environmental and social policy goals and continue trading with Europe**. The EU's Global Gateway initiative offers a promising start in this regard, but other policies also need to incorporate these goals.

A range of short- and mid-term tensions could emerge during Europe's green transition. In some cases, the flows of certain imports from trading partners might drastically decrease or stop entirely, potentially leading to a significant loss of jobs (e.g. in Bangladesh's textile industry as demand for fast fashion goes down). In other cases, such as the decline of EU fossil fuel imports, job losses and economic downturns in the primary exporting countries (including Russia, Algeria, Iraq, Kazakhstan, Libya, Nigeria, Saudia Arabia, Qatar, but also Australia, Norway, and the United States)[23] will create problems, but so too will the significant geo-political shifts that will result.

Stricter standards for imports into the EU, e.g. through the Carbon Border Adjustment Mechanism (CBAM) and the Deforestation Regulation, could become *de facto* trade barriers for lower-middle-income countries, despite developing countries' exports into the EU accounting for just a small proportion of the CO2 embodied in final EU demand.[24]

The EU needs to develop policies that address many different implications, depending on levels of export-dependence by product, sector and exporting country, and the ramifications of a decline in EU imports according to the overall condition of the exporter's economy. The good news is that just as the tensions linked to EGD implementation will take a range of forms, there is a correspondingly broad array of potential solutions:

- Natural capital accounting and payments for ecosystem services – operationalised to guarantee a fair price to resource- and biodiversity-rich countries.
- The creation of investment incentives, guarantees, and start-up funds that ultimately lead to a much improved ratio of private-to-public green investment in lower-middle-income countries.
- Technology transfer to assist countries currently dependent on raw resource export to produce greener products higher up the value chain.
- Assistance to those countries aiming to diversify their economies away from exports of fossil fuels and virgin resource and towards digital cooperation, educational and vocational exchanges, and other sustainable economic activities.
- Clean energy partnerships, for example to produce green hydrogen, in order to create revenue streams but also to build capacity in lower-income countries.

23 European Commission, From where do we import energy?, accessed 28 April 2022, https://ec.europa.eu/eurostat/cache/infographs/energy/bloc-2c.html

24 Lowe, S. (2021), The EU's carbon border adjustment mechanism- How to make it work for developing countries, Centre for European Reform, https://www.cer.eu/sites/default/files/pbrief_cbam_sl_21.4.21.pdf

- Temporary exemptions from the CBAM linked to levels of economic development (with safeguard provisions tied to surges in imports from an exempt country as a result of 'carbon leakage'), and a reinvestment of CBAM revenues into greening affected economies and industries in low-income countries.[25] [26]

The challenge is to find the appropriate policy mix through which to minimise transition-related disruptions for trade partners. It will require significant forethought and deep cooperation precisely because that mix will be so trade-sector and country-dependent. But while the list of potential tensions linked to the EU's decarbonisation is real, those tensions are resolvable. Some can even be converted into mutual opportunities.

Ultimately, this means designing a new model of international partnerships and associated means of assistance that will contribute to lower-income countries' efforts to leapfrog the 'dirty' stage of economic development.

The EU has a moral responsibility to make this effort, given its historical impact on the planet through industrialisation and colonialism. To fail to do so threatens the green transition as a whole by exacerbating the sense of North-South injustice, and leaving economic problems to fester in countries that will have to undergo costly adjustments for the global green transition to succeed.

25 Lowe, S. (2021).

26 Cornago, E. (2022), The EU emissions trading system after the energy price spike, Centre for European Reform, https://www.cer.eu/sites/default/files/pbrief_ets_EC_4.4.22.pdf

CONCLUSION

Europe's role in the world will suffer if the European Green Deal simply replaces one era of extractivism with another. The 21st century model cannot be a continuation of that of centuries past, of poor countries having no option but to dig up their raw materials for export—and live with the toxic waste and depleted nature that result—in order to build beautiful, green, and clean cities in the Global North. This model would be unjust, politically unsustainable, and would not deliver the emissions reductions and bio-diversity needed for the planet to be habitable in future. The global transition must be served by the European Green Deal if it is to deliver on its great promise.

For that to happen, the EU needs to move rapidly to a circular economy that consumes much less energy and virgin materials. The EU responded to Russia's invasion of Ukraine with rapid moves to change its energy system. To prevent future crises caused by environmental degradation in many parts of the world, Europe needs to move equally rapidly to address its over-consumption of resources that are depriving communities of water and destroying bio-diversity.

But the EU has to reduce its demand while helping its trade partners to manage their own transitions to sustainable economies. Europe must become greener, and it must help the rest of the world to do so too, which means it needs a holistic set of policies that recognise and address the international implications of the European Green Deal. That will create a net positive for the global transition.

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