# EU Green Deal – How Should Investors Deal With It?

Introduction

The Communication from the European Commission presented on 11th of December 2019, sets the framework of how to make Europe the first climate-neutral continent, so-called Green Deal ("the Deal"). By 2050, the new European Commission plans to transform Europe's economy by reforming all related sectoral policies and get to zero net carbon emissions.

1. General Overview and Relevant Sectors

The European Green Deal is a roadmap with concrete actions to maximize the efficient use of resources by having a clean and circular economy. Furthermore, its aim is to stop climate change, revert biodiversity loss and cut pollution.
Specifically, it covers the following sectors: transport, agriculture, building industries, and, also, steel cement, ICT, chemicals and textiles. It is clear that the Deal will overhaul ways world's biggest businesses manage their trade relations. The specific instruments that the new European Commission plans to introduce in the upcoming years are presented below.

2. Measures and/or Instruments to be introduced

First, it is planned to set into the legal framework the political ambition of Europe to be the first climate neutral continent by 2050. Within 100 days, the European Commission will present the first European "Climate Law". Accordingly, all relevant climate-related policies will be adjusted. This will include: the Emission Trading System, the Energy Taxation Directive the regulation on greenhouse gas emissions reductions and the regulation on land use, land use change and forestry.

Second, there are series of concrete instruments. One of them is carbon border adjustment mechanism, that will ensure that import prices reflect their carbon content. The problem this mechanism tries to address is dual. On the one hand, it is possible that the production is transferred from EU to other countries with lower ambitions to reduce emissions. On the other hand, EU products can be replaced by imported carbon-intensive products. Another instrument is the Commission's proposal on the value added tax (VAT) rates. It can provide incentives for different sectors and adjust the prices.
Also, through the Farm to Fork Strategy, diverse conferences (e.g. on Biological Diversity to be held in October 2020, in China) and stakeholder consultations, the Commission aims to address the problem of biodiversity loss and extreme use of chemical pesticides, not only European wide but globally. The summits of 2020 in Beijing and Leipzig will be another opportunity to reinforce the partnerships between EU and China.

Third, in order to achieve the 2030 climate targets, the European investment policies should also be revised. It is estimated that additional 260 billion EUR will be required (being 1.5% of 2018 GDP). For this, in early 2020, the Commission will present a Green Financing Strategy. In the same vein, there will be a Just Transition Mechanism focused on the Regions and sectors that are the most depended on fossil fuels and carbon-intensive processes. It will offer additional financial resources to promote low-carbon and climate resilient activities.

Next, the potential impacts on investors will be addressed per sector.

## 3. Effects on outside/inside investors

Generally-speaking, the carbon border adjustment mechanism can impact investors in all sectors, that either choose to transfer their production activities outside the EU for lower-emission policy reasons or those that import products into the EU from industries having high carbon emissions. Potentially, such business entities can encounter adjustment of their import prices, to reflect their carbon content.

Moreover, it can be expected that businesses will be asked to disclose more climate and environmental data so that investors are fully informed about the sustainability of their investments. For this purpose, the European Commission will review the Non-Financial Reporting Directive. There will also be actions to address false ‘green claims’, so as investors should be precautious with their statements and aware that the Commission will have a standard methodology to assess the impact on investment and other business activities on the environment.

With regards to the storage sector, the European Commission will promote the production of batteries made in the EU. In 2020, it is planned that legislation will be proposed to ensure safe, circular and sustainable battery value chain through targeted State Aid. This leads to a provisional conclusion that some of the imports of batteries, for instance from China, might be curtailed.

In the food sector, through the VAT reform, it can be expected that the industries of organic fruit and vegetables will be offered support, so to reflect corresponding environmental ambitions. In addition, the European Commission will identify measures, including legislative, to reduce the use of chemical pesticides, fertilizers and antibiotics. One of them is the use of clear labels for retail investment products and the development of a EU green bond standard to facilitate convenient investments.

In the transport sector, the European Commission is of the view that the EU should stop exporting its waste outside the EU and the rules on waste shipment and illegal exports will be revised. Furthermore, the revised Energy Taxation Directive will probably change the prices of transport in aviation and maritime sectors.

In the energy sector, priority areas are: clean hydrogen, fuel cells, other alternative fuels, carbon capture, storage and utilization. These sectors should expect more intensive funding from the EU. However, the financial institutions of the fossil fuel sector should be prudent in their investments since the Commission proposed to cut off fossil fuel subsidies and review the taxation regimes in aviation and maritime fuels subdivisions. Especially, it will be proposed to extend the European emission trading system to the maritime sector.

In the building sector, the European Commission will enforce more actively the legislation concerning the energy performance of buildings. Investors should ensure that the designs of new and renovated buildings are in line with circular economy as the Construction Products Regulation will be reviewed. Commission's aim is to ensure that the prices of different energy sources provide right signals for energy efficiency. Accordingly, investors can expect a change in prices of sand, gravel and concrete.

In the energy-intensive industries (such as: steel, cement, textiles and chemicals) it is expected that new business models are going to be fostered with minimum standards for products before they will be placed on the market. Moreover, by 2030, the Commission will develop requirements that all packaging in the EU market is reusable or recyclable. As a consequence, the investors in such industries should pay greater attention to investment choices and focus on sustainable financing.

Not only the private sector will be affected, but also the public sector. Another key element for future trade comprehensive agreements is the proposal from the European Commission to make the respect of Paris Agreement as an essential element for conclusion of such international agreements. Therefore, if a Non-EU State wants to conclude a trade agreement with the EU, it should respect the provisions of the Paris Agreement.

To conclude, a more clear picture of these measures will be possible to be drawn within the next three months.

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