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#COVID-19
#HEALTH
#GREENDEAL
#CLIMATECHANGE
#SOCIALEUROPE

OVERCOMING COVID-19 CRISES
BY BUILDING A CLEAN AND RESILIENT EUROPE

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Introduction

Covid-19 has already taken tens of thousands of lives and put entire countries on lockdown. It has triggered the worst economic crisis since World War II. In this unprecedented situation this policy brief aims to shed some light on what has already happened and what may happen in the future, yet remaining humble in the face of the uncertainties on the length and magnitude of the Covid-19 health and economic crises.

What is however certain is that **European societies have a choice.** They can choose to follow the path of a single-minded focus on 'returning to normal'[1]. Or they can instead choose to address the major health and economic crises by embracing a forward-looking vision, one that places human and societal resilience at the heart of the continent's Covid-19 response, which will notably impact our energy and mobility systems during and after the crises.

The fact is, getting back to the way things were in 2019 is the wrong objective. In today's context, a return to this 'normal' would actually represent a big step backward. It would be a return to a society neither resilient to pandemics, nor able to protect the very environmental conditions that are essential to our health and security[2].

This policy brief highlights actions the European Union can undertake during each of the three main phases of Covid-19 crisis response: crisis management, economic recovery and fiscal consolidation. It specifically focuses on the energy and mobility tools that can help address the Covid-19 health and economic crises, and that are vital tools to deliver a clean and resilient Europe in the near future.

Phase 01
Get the Covid-19 health and economic crises under control

In April 2020, we are in an uncertain crisis situation lasting for an unknown period of time. The European capacity to get Covid-19 under control depends on the effectiveness of policy and societal responses, viral mutations, our immune systems and the healthcare sector's capacity to deliver and roll out a vaccine. With the World Health Organisation estimating a vaccine may be about 18 months away, we can expect this crisis to last several quarters[3].

What should policymakers do now to support people and reinvigorate economies?

First, save lives. This relies on a range of public health measures beyond the scope of this paper. But we can also help save lives by fighting some causes of respiratory illnesses. For example, air pollution causes 400,000 premature deaths annually in Europe.[4] In the Covid-19 crisis, chronic air pollution has worsened the situation. Europeans continue to suffer from air pollution-related diseases. This contributes to the current burden on hospitals. Also, numerous epidemiological studies underline that air pollution can make people more vulnerable to respiratory diseases[5]. Ongoing research furthermore points out to potential higher Covid-19 death rates among individuals more exposed to fine particular matter[6]. If some sources of air pollution have been reduced by ongoing lockdowns (e.g. use of personal cars), others have barely been impacted (e.g. agricultural spraying, coal-based electricity generation). When phasing out lockdown measures, national and local policy-makers should more than ever implement actions to curb air pollution, including pollution coming from energy and mobility.

Second, save the economy and protect workers. Governments are supporting millions of workers and businesses hit by the economic crisis triggered by Covid-19 with measures like short-time work schemes, which help companies of all sizes, including SMEs. Public authorities should also develop measures targeted for start-ups and big companies:

- **Start-ups and early-stage companies are vital for our resilience** because they help modernize society by offering innovative solutions to our challenges. They are also particularly vulnerable to the current crisis because they do not have the cash reserves, bank relationships and political connections many bigger, older companies enjoy. This is particularly true for clean energy and clean mobility start-ups that already faced specific challenges before Covid-19[7]. The EU and its Member States should ensure that these new clean economy companies have access to the patient capital they need to continue to develop the solutions of tomorrow. This can be done through the European Investment Fund, the European Innovation Council, the European Institute of Innovation and Technology, and comparable national organisations.

- Large, established companies have had ample time to use profits to improve operational resilience and strengthen balance sheets. This is particularly true of oil and gas companies now suffering from low oil prices (see figure 1)[8]. **If oil and gas companies require bailouts** because share buybacks and previous cash dividend payments have left them financially vulnerable, **public authorities should apply tight social and environment conditionality** including no worker layoffs and adoption of meaningful steps toward climate neutrality[9].

Figure 1 ▪ Evolution of oil prices in the first quarter of 2020 (USD/barrel)

Phase 02

Ensure the economic recovery helps transform the EU and builds a bridge to our resilient future

To overcome the economic crisis triggered by Covid-19, the European Union and its Member States must **prepare a coordinated fiscal stimulus made of sound public investments** as part of the 'Roadmap for Recovery' the Eurogroup has started to work on.[10] This stimulus will need to be maintained for a few years to avoid repeating the 2010 mistake of abruptly cutting public spending.[11] This mistake stifled the economic recovery after the financial crisis, depressed public investment, and hindered clean energy innovation.[12]

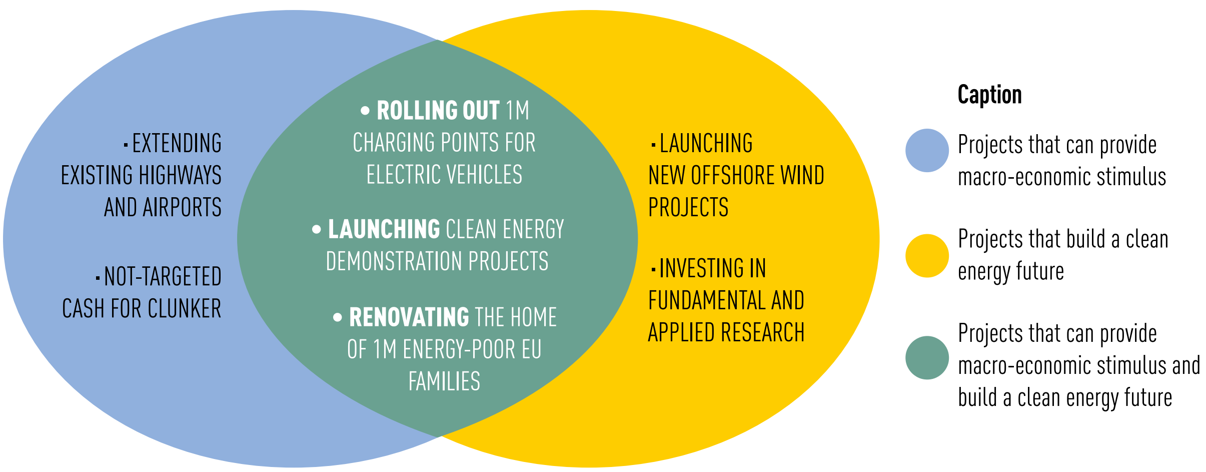
But what kind of fiscal stimulus is necessary? This raises three main questions.

How much money should public authorities invest? It is currently impossible to predict when Covid-19 will be under control, and what its economic impact will be. As former IMF Chief Economist Olivier Blanchard recently put it, we "genuinely do not know which way it will go"[13]. Because so much is uncertain, public authorities should be ready to act and to tailor the size of the stimulus according to the severity of the economic crisis. Decisive crisis management and recovery measures will demand a significant increase in public indebtedness. To ensure all EU countries have the financial means to fight the Covid-19 crises, the EU suspended temporarily the European fiscal rules[14], while the ECB reduced market risks through their Pandemic Emergency Purchase Programme. To bear the fiscal costs of the crisis, there is, nevertheless, a need for innovative fiscal policy instruments that will allow Member States across the Union to cushion the economic fallout and create the conditions for renewed and sustainable economic development[15].

Where should public money go? The answer is simple: the EU and its Member States should substantially increase public investments that (1) provide a macro-economic stimulus in the next few years; and (2) focus on projects that build a bridge to our future (e.g. projects in public health, resilience to climate, clean energy, etc.). Investments in clean energy are critical in this regard, as they can stimulate the economy, fight climate change, and increase the resilience of EU to future oil prices spikes that will hit the economy and spur inflation. The Venn diagram below shows concrete examples of projects in the energy and mobility sectors (*cf.* figure 2).[16]

How to leave no one behind? Recovery programmes should support all workers but should not support all business models, especially those of companies that chose to do business in a way that harms our future, such as coal mining, manufacturing of highly polluting cars like SUVs, services of mass aviation. Public investment should rather contribute to the progressive transformation of companies and the career development of workers. Income security and training schemes can help workers seize new opportunities in sectors that are transforming (*e.g.* electricity companies) and leave sectors that are disappearing (e.g. coal mining). In the most affected regions, such as coal regions[17], the forthcoming EU Just Transition Mechanism can support significant investments to develop new activities that will create new jobs. In addition to employment, the fiscal stimulus should also support European families that are living in poverty, e.g. through clean energy investments that benefit them first[18] (see figure 2).

Figure 2 ▪ Venn diagram of projects that can provide fiscal stimulus and/or build a clean energy future



Phase 03
Addressing public debt with a timely and future-proof fiscal consolidation

Assuming Covid-19 is brought under control in a few quarters, and that a few years of smart public investment trigger a transformative recovery of the EU economy, it will then be time to deal with the fiscal aftermath of the crisis.

Reducing public debt should not be a priority today. For European economies, accumulating extra debt in the early 2020s will remain sustainable – unless we fail to get Covid-19 under control[19] or face unsurmountable, catastrophic climate change. Accommodating policies of the European Central Bank will strongly help in this regard.

Debt reduction will be easier to achieve in the 2020s than in the 2010s. This is because EU countries currently borrow money at very low – or even negative – interest rates. Moreover, if public authorities choose to help companies by acquiring equity, they can pay back the debt by selling shares when market prices have recovered, as the United States did with its stakes in banks after the financial crisis.[20]

Nonetheless, EU countries will have to adopt fiscal policies to stabilize and reduce public debt levels in the medium-term. In the transition to a clean economy, this offers risks and opportunities. One risk is starting fiscal consolidation too soon – i.e. reducing public support while the economy is still recovering. A second risk is cutting strategic public spending essential to building resilience, especially research and innovation. National governments wanted to do this two months ago by cutting Horizon Europe, the EU's research and innovation programme[21]. As part of the EU doctrine on fiscal consolidation and the European Semester, EU countries should target at least 3% of their GDP as investment in research and innovation, and ensure that green investments are not cut in ways that prevent a country from achieving climate objectives or improving climate resilience.

Timely fiscal consolidation should start with those sectors that currently do not pay their fair share of taxes. This includes digital sectors[22] as well as many polluting sectors. For example, aviation pays no taxes on the fossil fuel it burns and most plane tickets are VAT-exempt[23]. The European Commission should introduce legislation ensuring a level playing field between aviation and other transport modes – e.g. a VAT regime on all plane tickets and taxes on kerosene equalling those on diesel or electricity. To ensure a just transition, those measures should be phased-in gradually in the coming years. The EU carbon market should also be reformed by introducing a carbon floor price that protects businesses from price volatility, as this was successfully achieved in the United Kingdom.[24] Finally, with historically low oil prices there is now a stronger case to revise the EU energy taxation directive to ensure that European fossil fuel taxation can help deliver a clean and resilient Europe.

Conclusion

In the last century, we Europeans endured much worse than the current Covid-19 crisis. Back then, we designed new tools that helped us build a better future, including our welfare states and our European Union. Now, this moment calls upon us to once again renew the European way of life. We must rise to meet this moment. We can start by managing the crisis in a forward-looking way; implementing a transformative economic recovery programme; and ensuring that fiscal consolidation contributes to a just, brighter and cleaner future. If we succeed, European societies will become more prepared and more resilient to the health and climate crises of the 21st century.

Notes de fin

1. On Thursday 26 March 2020, the leaders of national governments digitally gathered at the European Council stated that they wanted to "to get back to a normal functioning of our societies and economies". European Council Conclusions, 26 March 2020, p.6.
2. In this brief we build on the concept of 'adaptive resilience', which describes "the ability of a system to undergo anticipatory or reactionary reorganization of form and/or function so as to minimize [the] impact of a destabilizing shock". In this logic, a system, that goes back to its pre-crisis state is not necessarily viewed as resilient. See Ron Martin, "Regional economic resilience, hysteresis and recessionary shocks". Journal of Economic Geography 12(1) 1-32, 2012.
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7. Thomas Pellerin-Carlin, 'Invest in the clean energy future we want: ten recommendations to accelerate clean energy innovation', Jacques Delors Institute, January 2019.
8. Bassam Fattouh, Andreas Economou, 'Oil Supply Shock in the time of the Coronavirus', Oxford Institute for Energy Studies, 30 March 2020.
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14. Andreas Eisl, 'Fiscal policy-making in the time of coronavirus', Jacques Delors Institute, March 2020.
15. See for instance: Sebastian Grund, Lucas Guttenberg, Christian Odendahl, 'Sharing the fiscal burden of the crisis: a Pandemic Solidarity Instrument for the EU', April 2020.
16. The Jacques Delors Institute will develop this topic in a forthcoming joint publication with Pascal Lamy, Geneviève Pons, Lucas Guttenberg, and other contributors.
17. Thomas Pellerin-Carlin, Monika Oczkowska, 'Just Energy transition: A reality test in Europe's Coal regions, Jacques Delors Institute', Jacques Delors Institute, May 2019
18. Thomas Pellerin-Carlin and Jean-Arnold Vinois, 'Making the Green Deal a European Success – Coalition, Narrative and Flagships', Jacques Delors Institute, February 2020.
19. Olivier Blanchard, 'Whatever it takes – Getting into the specifics of fiscal policy to fight COVID-19', Peterson Institute for International Economics, 30 March 2020.
20. See for instance the case of the US Federal Government bailout of AIG. US Treasury Department, Citizens' Report for the fiscal year 2013, 2013, p.vi.
21. Science Business, 'Michel budget plan tries to limit Horizon Europe cuts to €3B', 17 February 2020
22. Pola Schneemelcher, 'Digital Tax – where do we stand?', Jacques Delors Centre, Policy Brief, May 2019.
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24. Charlotte Roig-Ramos, 'Booming prices on the European Emission Trading System – from market oversupply to carbon bubble ?', IFRI, October 2018.

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