BRIEFING

European Green Deal Investment Plan

Main elements and possible impact of the coronavirus pandemic

SUMMARY

The von der Leyen Commission launched the European Green Deal as the new growth strategy of the European Union (EU), with a view to promoting the transition to a climate-neutral economy by 2050. Confirming the importance of financial resources for such a major objective, its investment pillar was the first initiative of the strategy to be presented.

The European Green Deal Investment Plan, also known as the Sustainable Europe Investment Plan, aims to contribute to financing a sustainable transition, while supporting the regions and communities most exposed to its impact. By combining legislative and non-legislative initiatives, the plan addresses three aspects: 1) mobilising funding worth at least €1 trillion from the EU budget and other public and private sources over the next decade; 2) putting sustainability at the heart of investment decisions across all sectors; and 3) providing support to public administrations and project promoters to create a robust pipeline of sustainable projects.

The debate on the investment plan is interlinked with the ongoing negotiations on the EU's 2021-2027 Multiannual Financial Framework (MFF), which requires the European Parliament's consent and unanimity in the Council. Parliament, which is traditionally a strong advocate of climate and environmental objectives, has called for an ambitious MFF, with resources commensurate with the goal of facilitating a just transition to a carbon-neutral economy.

Commentators have identified both positive elements and possible weaknesses in the Commission's plan, arguing that it is a step in the right direction but would provide only part of the resources needed to meet the current climate targets for 2030. The impact of the pandemic has raised concerns that decarbonisation strategies could be derailed. However, analysts and stakeholders generally agree on their continued relevance, arguing that green investments from public and private sources must play a central role in any economic recovery plan.

In this Briefing

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Author: Alessandro D'Alfonso
Members' Research Service

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Background

The European Union (EU), which is already considered a pioneer and a frontrunner in the fight against climate change at international level, is expected to further step up its action in this domain in the course of its 2019-2024 institutional cycle. On 11 December 2019, during its first weeks in office, the von der Leyen Commission launched the European Green Deal as the EU's new growth strategy, with a view to promoting and facilitating the transition to a climate-friendly, competitive and inclusive economy. Announced as one key priority in Ursula von der Leyen's political guidelines, the Green Deal provides the roadmap to put Europe on the path to becoming the first climate-neutral continent by 2050, identifying a comprehensive mix of legislative and non-legislative measures that will be put forward and implemented to this end. In addition, it is part of the Commission strategy to implement the United Nation's 2030 Agenda for sustainable development. The idea is to transform the challenge of climate change into an opportunity, boosting the efficient use of resources and further decoupling them from economic growth.

Such a major economic transition requires huge financial investment, including to ensure that the process benefits all parts of society and supports the citizens and regions most exposed to the costs of decarbonisation. Based on the current target of reducing greenhouse gas (GHG) emissions by 40 % by 2030 as compared to 1990 levels, the European Commission estimated that additional investment worth €260 billion each year will be needed to meet this target. Considering that the Green Deal plans to increase the intermediate target, of GHG emission reductions by 2030, to at least 50 %, the resultant financial needs will be even larger. For this reason, one measure planned under the Green Deal is an investment plan to mobilise public and private funding towards the objectives of a just transition to a climate-friendly economy.

A three-fold investment plan

Among the various measures outlined in the European Green Deal, the investment pillar of the strategy was the first to be officially put forward by the Commission, confirming the salience of financial resources in the efforts to move towards a climate-friendly economy. On 14 January 2020, the European Commission published a communication detailing the European Green Deal Investment Plan, which is also referred to as the Sustainable Europe Investment Plan.

The investment plan, which complements other initiatives expected under the European Green Deal, aims to make available and leverage the funding necessary for the transition up to 2030, by seeking to put sustainability at the heart of investment and expenditure both in the public and private sectors. Like the European Green Deal itself, its investment plan is based on a mix of legislative and non-legislative initiatives. Examples of such measures are, respectively, the proposal for a regulation establishing the Just Transition Fund (put forward at the same time as the plan) and the intention to involve stakeholders in an annual Sustainable Investment Summit to monitor progress and explore new avenues for action.

The Investment Plan is organised along three dimensions, which involve multiple stakeholders:

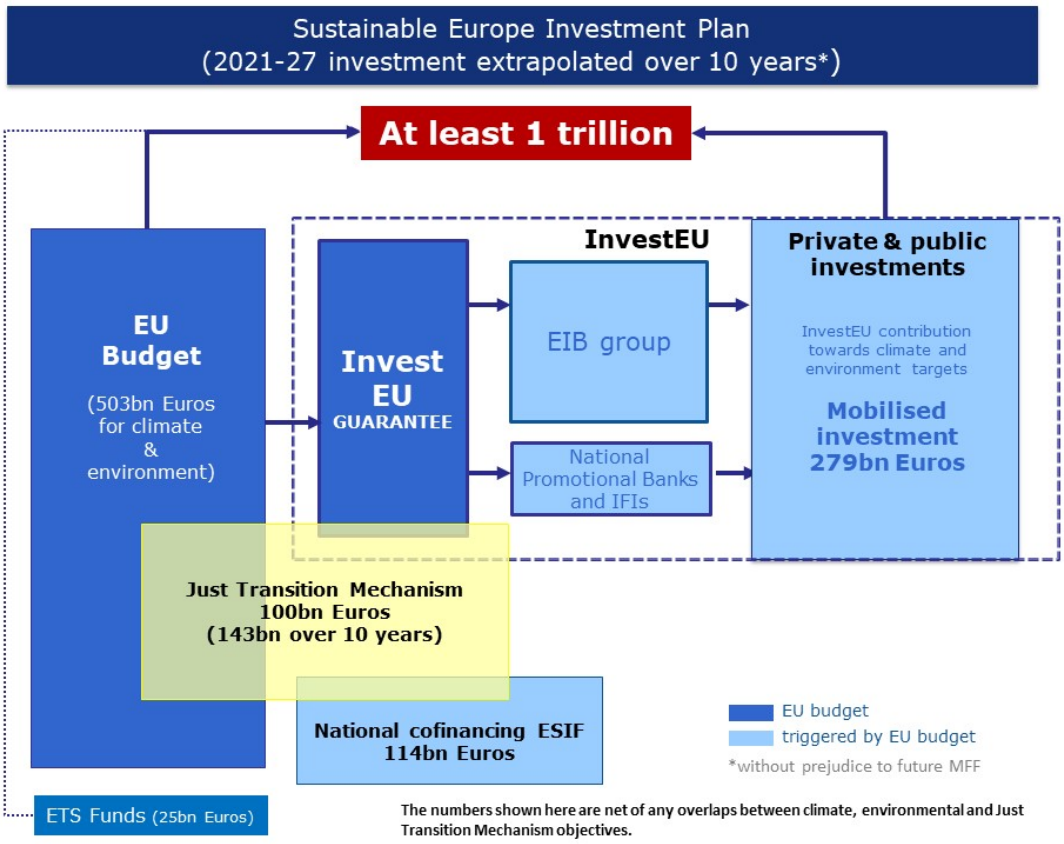
- **Funding**. Over the 2021-2030 period, the European Commission wants to mobilise at least €1 trillion of sustainable investment by increasing the resources devoted to climate action under the EU budget, and leveraging additional public and private financing. Part of the overall resources will be specifically designed to support the regions most exposed to the challenges of the transition.
- **Enabling framework**. The Commission plans to use a mix of regulation and incentives to ensure that sustainability is duly taken into account in investment decisions across all sectors.
- **Support for implementation**. Advisory and technical support will be provided to public administrations and project promoters with a view to creating a pipeline of sustainable projects.

Funding

The mobilisation of financial resources worth €1 trillion over ten years is the component of the Investment Plan that has attracted the most attention so far. Around half of the amount would come directly from the EU budget, while other public and private sources would provide the remainder, mainly through a leverage effect. The European Investment Bank (EIB) should be a key partner in the mobilisation of additional funding, since it is expected to trigger investment amounting of up to around €250 billion (i.e. one quarter of the total) under EU mandates in the framework of the investment plan. Given that the EIB has announced its own target of supporting €1 trillion of climate action and environmental sustainability investment over the next decade, it should be noted that the two targets only partially overlap. Therefore, it can be inferred that, taken together, the European Green Deal Investment Plan and the EIB's target should have the potential to deliver some €1.75 trillion of climate-related finance.

The overall level of investment for the European Green Deal Investment Plan requires an additional clarification concerning its time horizon, which relates to the 2021-2030 decade in line with the fact that current EU climate targets are for the year 2030. However, the EU's next Multiannual Financial Framework (MFF), negotiations on which are based on a 2018 proposal but are the subject of delays in the European Council (see below), is intended to cover a seven-year period from 2021 to 2027. Therefore, the European Commission has calculated the total amount on the basis of the assumption that the following MFF, scheduled to start in 2028, will keep at least the same level of ambition of its predecessor for climate finance during the final three years of the decade.

Figure 1 – Financing elements making up at least €1 trillion over the 2021-2030 period under the European Green Deal Investment Plan



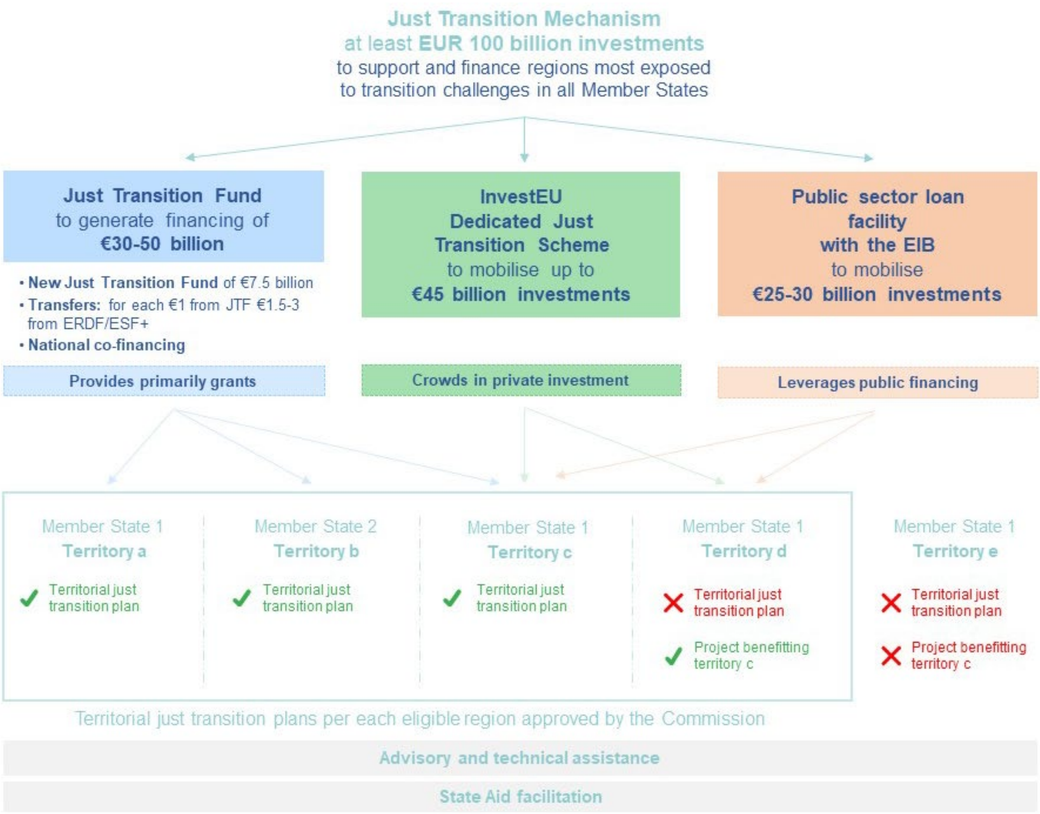
Source: European Commission.

Figure 1 provides more details on how the total figure of at least €1 trillion would be reached. The European Commission specifies that this figure is net of any possible overlaps, taking into account the fact that different sources of finance and/or instruments may interact and contribute to a given project or operation jointly. In descending order of magnitude, five broad categories of sources of climate finance would support a broad range of projects and contribute to the European Green Deal Investment Plan, as follows:

- **EU budget (€503 billion)**. The European Commission has proposed that at least 25 % of the post-2020 MFF resources be allocated to climate-related expenditure (see below), by incorporating climate considerations across numerous funds and programmes of the EU budget. Instruments that should make significant contributions to this objective include: the funds under the Common Agriculture Policy (CAP); the European Regional Development Fund (ERDF); the Cohesion Fund; the Horizon Europe framework programme for research and innovation; the LIFE programme; and the Connecting Europe Facility (CEF). This approach builds on the experience with climate mainstreaming in the current MFF, under which the climate-related objective stands at 20 % of the total 2014-2020 resources. Assessments of the EU methodology for climate mainstreaming have identified both achievements, such as an increased focus on climate considerations across different policies, and weaknesses which include the need to develop a stronger performance framework.[1] The Commission has committed to improve the tracking methodology, while being ready to reconsider the overall objective, if needed, in the light of the expected upward revision of the GHG emission reduction target for 2030.[2]
- **EIB Group and other investment partners in the context of InvestEU (€279 billion).** The proposal for the 2021-2027 MFF includes the creation of the InvestEU programme that would streamline in a single investment scheme the operations currently carried out under the European Fund for Strategic Investments (EFSI) and various financial instruments supported by the EU budget. As such, InvestEU would be the key tool to exploit the EU budget's ability to leverage additional private and public funding for investment in internal Union policies. The Commission has proposed a climate target of 30 % for InvestEU operations, expressing the intention to put in place a tracking methodology and a method for proofing the sustainability of all projects above a certain size. Implementing partners would include the EIB Group, which is expected to play a major role (see above), national promotional banks and international financial institutions. In cooperation with them, the Commission plans to develop financial products targeting environmental, climate and social sustainability under InvestEU.
- **Just Transition Mechanism (€143 billion)**. Focusing on the regions and communities most exposed to the transition challenges, this mechanism would be structured along three pillars (see Figure 2): a Just Transition Fund, endowed with €7.5 billion of fresh money up to 2027 and a novelty as compared to the 2018 Commission proposal for the next MFF; a specialised just transition scheme under InvestEU (see above) to crowd in private resources; and a new public-sector loan facility with the EIB to leverage additional public funding. Particular attention is devoted to territories with high employment in fossil fuel production or with GHG-intensive industries. Under the cohesion policy framework, EU Member States will identify eligible regions and the envisaged transition process until 2030, in territorial just transition plans to be approved by the European Commission. Member States and regions will benefit from technical and advisory support from the Commission through a Just Transition Platform.
- **Member States (€114 billion)**. By design, the European structural and investment funds (ESIFs) such as the ERDF and the European Agricultural Fund for Rural Development (EAFRD) imply a certain level of co-financing from national authorities. This feature means that climate-related measures supported by the EU budget under the ESIFs receive additional funding from Member States.

- **Emission Trading System - ETS (€25 billion)**. The ETS is the Union's carbon market, and encompasses sectors responsible for 45 % of EU emissions. Part of the revenue stemming from auctioning carbon allowances under the ETS is allocated to two funds that finance climate-related projects outside the MFF: the Innovation Fund focuses on demonstration projects of promising low-carbon technologies; and the Modernisation Fund supports modernisation of energy systems, improvements in energy efficiency and just transition in ten lower-income Member States in central and eastern Europe.[3] The figures indicated for these funds are estimates, since their actual resources will depend on the carbon price on the market over the next decade.

Figure 2 – Just Transition Mechanism over the 2021-2027 period



Source: European Commission.

Enabling framework

The European Commission plans to ensure that sustainability is always duly taken into account when it comes to investment decisions, in both the public and private sectors. A mix of initiatives is envisaged to create the appropriate conditions to meet this objective, through legislative proposals and incentives.

With regard to the overall financial system, the EU taxonomy will play a major role in the measures designed to put sustainable finance at its heart. The Commission will adopt delegated acts to implement this unified classification system, recently agreed by the European Parliament and the Council, that helps determine which activities can be considered sustainable. The Commission will also explore how the EU taxonomy, initially designed for the private sector, could be used by the public sector beyond the scope of InvestEU (see above), with a view to promoting synergies. In addition, a renewed strategy for sustainable finance is envisaged, including the creation of an EU Green Bond Standard as a tool to increase public and private finance for sustainable investments.

As regards the public sector in particular, the Commission will provide guidance and appropriate tools to make sustainable investments, taking into account the fact that public entities are key investors in sectors such as infrastructure and public services. In this respect, the Commission will start to include environmental sustainability in its country reports under the European Semester as of 2020, which should help EU Member States identify their sustainable investment needs and match appropriate sources of funding. Other examples of initiatives concern legislative proposals in the field of green public procurement and guidance on the application of the energy efficiency first principle whenever this is relevant to investment decisions.

In the field of State aid, the Commission plans to revise relevant rules by 2021 to reflect the objectives of the European Green Deal and, in the meantime, apply the current framework with more flexibility in areas that are crucial for decarbonisation efforts.

Support for implementation

The third dimension of the Investment Plan focuses on the creation of a robust pipeline of projects aligned with the objectives of the European Green Deal. Relevant support services are addressed to public administrations and private entities.

Under the Reform Support Programme, EU Member States will receive technical support to design and implement sustainable investment strategies, including for energy efficiency in buildings, and for clean energy. InvestEU (see above) will provide advisory support to project promoters and financial intermediaries in various ways, including a dedicated advisory hub to help with the identification, preparation, development and implementation of investment projects that take sustainability duly into account. In addition, the Commission will develop a 'Sustainable Procurement Screening' instrument to offer tailor-made support to public investors in the implementation of their projects.

The European Parliament and the MFF

Traditionally, the European Parliament is an advocate of ambitious climate and environmental policies at EU level and of endowing the Union with appropriate resources to meet its jointly agreed objectives. Both aspects are relevant in the debate surrounding the European Green Deal Investment Plan, which is interlinked with the ongoing negotiations on the next MFF, the multiannual planning tool that sets the maximum level of resources available for each major category of expenditure in the EU budget over at least five years (usually seven).

The MFF is adopted through a regulation that requires unanimity in the Council following the European Parliament’s consent. In May 2018, the European Commission put forward its proposal for the new MFF that should cover the 2021-2027 period, calling for an agreement to be reached before the 2019 European elections to avoid delays in the implementation of related instruments. Among other elements, the Commission proposed raising the climate mainstreaming objective from the current 20 % of total resources to 25 %. In November 2018, Parliament was ready to start negotiations with Council, having detailed its position in an interim report which included two elements that would jointly increase climate-related expenditure as compared to the proposal. On the one hand, Parliament considered that the overall level of resources should be increased to enable the EU to meet its tasks and objectives. On the other, it considered that the EU budget's contribution to climate-related objectives should be no lower than 25 % of total expenditure over the entire period, and the annual share should reach 30 % as soon as possible, and at the latest by 2027.

The objective of a decision on the MFF before the European elections was not met, on account of difficulties in finding agreement in the Council and the European Council. The first substantial discussion on the MFF in the European Council took place only in February 2020, but showed that Member States’ positions were still distant.

Ahead of the von der Leyen Commission taking office, the newly elected European Parliament confirmed its negotiating mandate in a new resolution in October 2019. The text welcomed Ursula von der Leyen's commitments to new political initiatives, noting that these should receive fresh appropriations on top of the Commission's initial proposal. In the context of the European Green Deal, climate mainstreaming in the EU budget should be further stepped up, with resources commensurate with the goal of facilitating a just transition to a carbon-neutral economy. The call for a further step change towards climate transition included the demand for a new and reinforced methodology for climate mainstreaming, with strong performance indicators and provisions to prevent any financial support for measures harmful to climate.

Following the presentation of the European Green Deal Investment Plan, the European Parliament held a debate among its Members in the plenary session of 14 January 2020. Johan van Overtveldt (ECR, Belgium), Chair of Parliament's Committee on Budgets, criticised the lack of clarity about some sources of funding and possible reshuffling of resources.

Reactions to the investment plan[4]

Stressing how uncertain the estimates for the additional investments needed to meet 2030 climate-related targets are, the Bruegel think-tank argues that the investment plan could manage to leverage a maximum one third of these resources (but more likely less than this), due to the constraints imposed by the limited size of the EU budget. While the investment plan could represent a step in the right direction, some areas that deserve further attention are identified, including necessary improvements in the methodology for mainstreaming climate action in the EU budget. In any case, according to the authors, it will be crucial for the EU to create appropriate conditions for national budgets and the private sector to deliver the remaining investment needs. In this respect, recommendations focus on: reforming the EU fiscal framework to authorise climate-related investment being financed through deficit; and taking decisive action on carbon pricing.[5]

An analysis by the CEPS think-tank gives a mixed picture of the investment plan, saying that the €1 trillion amount announced by the European Commission is significant but unable to transform the European economy, since it represents less than 1 % of the EU's gross domestic product (GDP). In addition, the authors stress the importance not only of the total volume of resources but also of how they are allocated, criticising the emphasis that the Commission put on the former. The article draws attention to the possible 'waterbed effect' in a cap-and-trade scheme such as the EU Emissions Trading System (ETS). The waterbed effect means that government support to sectors covered by a cap-and-trade scheme could result in shifting emissions to other producers within the scheme rather than reducing them overall. According to the authors, this effect has been only partially offset in the ETS through the introduction of a supply adjustment mechanism in 2019. For this reason, they recommend prioritising investment in research and innovation, and coupling that in ETS-covered sectors with the cancellation of emission certificates.[6]

Both ahead of and since the presentation of the investment plan, various analysts and commentators have stressed that for the European Green Deal to succeed it must ensure a just transition and support those most exposed to the costs of decarbonisation, including through fiscal transfers.[7] According to the European Policy Centre (EPC) think-tank, the EU should facilitate and promote citizens' and businesses' contribution to the transition by means of governance and economic incentives.[8] A policy brief published by the Egmont Institute for International Relations notes the political sensitivity of the proposed Just Transition Mechanism, arguing that the main challenges it faces are: its focus on national allocations and energy production as well as limited involvement of the private sector and stakeholders. The recommendation to address these challenges is that the concept of just transition be streamlined across all the initiatives under the European Green Deal, with a view to making it benefit all parts of European society.[9]

As regards climate finance from private sources, an advisor to hedge funds deems the investment plan to have the potential to accelerate further the sustainable finance market in Europe.[10]

Focusing on the external dimension of the European Green Deal, an opinion piece published by the *Financial Times* examines how to make EU financing of climate action outside the EU more effective. The authors recommend streamlining relevant resources that are currently managed separately by the Commission, the EIB, the European Bank for Reconstruction and Development and individual Member States. They support the idea, proposed by the High-Level Group of Wise Persons on the European Financial Architecture for Development, of channelling support through a single facility, such as a European Climate and Sustainable Development Bank, which could increase the overall leverage and efficiency of measures, while reducing their transaction costs. Such a facility would be in charge of the European Green Deal Investment Plan outside the EU.[11]

The impact of the Covid-19 pandemic

The outbreak of Covid-19, declared a pandemic by the World Health Organization (WHO) in March 2020, has brought about significant uncertainty, triggering the announcement of economic stimulus packages with a view to mitigating the social and economic impact of the public health crisis. With the focus of public attention of course shifting to the pandemic, analysts have expressed the fear that this could complicate the fight against climate change at a time when rapid progress is needed,[12] and warned that significant climate-related challenges will not disappear, calling for the establishment of a concrete international agenda of measures to implement by 2030, involving both the public and private sector.[13] In the EU and more widely, questions are now being raised as to just how big an impact the pandemic will have on climate action.

Against this background, some 15 foundations from the F20 platform for climate action and sustainable development have addressed an open letter to Commission President Ursula von der Leyen, demanding that the implementation of the European Green Deal be speeded up and serve as the blueprint for economic stimulus measures. Laurence Tubiana, CEO of the European Climate Foundation and an architect of the Paris Climate Agreement, warned against the risks of reducing the resources devoted to climate action in a downturn, stressing that they should be further enhanced instead.[14]

An article published by the Peterson Institute for International Economics (PIIE) stresses the central role that public and private investment under the European Green Deal must play in any recovery strategy. Drawing attention to the tumbling oil price, the author recommends that the EU and its Member States keep fossil fuel prices for consumers at pre-crisis levels through higher levies as a measure crucial to their decarbonisation efforts. The objective would be two-fold: on the one hand, the public sector would have extra revenue to fight the pandemic and its consequences; on the other, the move would prevent the drop in oil price from reducing the attractiveness of green investments such as those in renewable energies.[15]

An EPC commentary notes that the pandemic threatens to have a negative impact on the EU's efforts to fight climate change. In the Council, Member States are traditionally divided on climate issues and, in times of crisis, the balance could shift in favour of the group less committed to climate action, resulting in delays in the implementation of the European Green Deal. The author considers that, despite the alarming effects of the pandemic, the window of opportunity for climate action is still open, but the aspects related to a just transition should be taken into account even more than before, given that the pandemic may hit EU Member States unevenly.[16]

While some Member States such as Czechia and Poland have suggested that the coronavirus crisis should put the European Green Deal on hold or lead to a suspension of the ETS, EU institutions have reconfirmed their commitment to the objective of the transition to a climate-friendly economy. On 26 March 2020, the joint statement of the members of the European Council on the EU response to the coronavirus outbreak mentioned that the measures to get back to sustainable growth and the normal functioning of societies and economies should integrate, inter alia, the green transition. Reacting to the postponement of the 2020 United Nations Climate Change Conference (COP 26), Frans Timmermans, Executive Vice-President of the European Commission for the European Green

Deal, stated that the Commission will continue its intensive work on climate issues. As previously planned, the Commission has launched a public consultation on the upward revision of the GHG emission reduction target for 2030, that aims to make the road to climate-neutrality in 2050 more gradual.

The European Environment Agency (EEA) is planning to assess the impact of the pandemic on production and consumption patterns once the crisis is over. However, EEA Executive Director Hans Bruyninckx already noted that, in the absence of fundamental transformations of production and consumption systems, any emissions reductions triggered by such a major crisis are likely to be temporary and come at an extremely high price for society. For this reason, he stressed the continued relevance of the European Green Deal, the strategy to reduce emissions gradually and permanently, and the importance of ensuring a just transition with appropriate support for those most affected. Focusing on the investments that will be mobilised to alleviate the economic impact of the current crisis, he called for these to be aligned fully with the EU's long-term sustainability objectives, and confirmed the EEA's intention to be a strong partner in the implementation of the European Green Deal.[17]

Another open question is the design of the next MFF, for which an agreement has not yet been found. The MFF is set as a percentage of the EU's gross national income (GNI): 1 % for the current programming period, which included the United Kingdom. The same applies to the revenue side of the EU budget, through an own resources ceiling currently set at 1.20 % of EU GNI. The proposed figures for 2021-2027 expenditure, which were cut in the February 2020 compromise proposed by the European Council President, on which Heads of State or Government failed to reach agreement, are based on pre-pandemic estimates of EU GNI.

The expected reduction in EU GNI as a result of the crisis could shrink the MFF and, in turn, its components devoted to the European Green Deal Investment Plan if negotiations focus on unchanged percentages of EU GNI and there is not enough headroom under the own resources ceiling in a downturn. Commission President Ursula von der Leyen has declared that the MFF and the EU budget should serve as the EU's 'Marshall Plan' for economic recovery in the wake of the pandemic. She announced that the European Commission will update its proposal accordingly, but confirmed priorities such as decarbonisation. According to the *Financial Times*, Commissioner for budget and administration Johannes Hahn would like to have the own resources ceiling, which is an important factor in the assessment of the Union's creditworthiness, temporarily raised from 1.20 % to 2 % of EU GNI.[18]

Environment ministers from 13 Member States (Denmark, Germany, Greece, Spain, France, Italy, Latvia, Luxembourg, the Netherlands, Austria, Portugal, Finland and Sweden) have signed an opinion piece calling for the European Green Deal to be central in the economic strategy to recover from the consequences of the pandemic. On 14 April 2020, Pascal Canfin (Renew, France), Chair of the European Parliament's Committee on the Environment, Public Health and Food Safety (ENVI), launched an informal 'green recovery alliance'. Signatories include Members of the European Parliament from different political groups, business and trade union associations, and non-governmental organisations, who support the integration of the fight against climate change as key element of economic recovery plans.

The European Parliament has long been pushing for a bigger MFF, based on estimates of the resources necessary to carry out the tasks assigned to the EU in each policy area (see above). Following the failure of the European Council's February 2020 meeting on the MFF, Parliament's negotiating team reiterated this position, stressing the need for a political vision and calling for an ambitious compromise based on agreed common objectives for a stronger Europe. In a March 2020 debate on the MFF, Members of the European Parliament strongly criticised the cuts envisaged in the compromise put forward by the European Council President in February 2020, including in view of the current coronavirus crisis.

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ENDNOTES

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eprs@ep.europa.eu (contact)

www.eprs.ep.parl.union.eu (intranet)

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