

NOVEMBER 2022

Climate action and the Renewed Social Contract

BRIEFING PAPER



Introduction

Already before the pandemic struck in 2020, a debate was beginning on the weakening of the so-called 'social contract'. The EU economy's 'social floor' and 'environmental ceiling' are riddled with gaps, producing social and environmental costs that someone must pay for.

Scientists warn that we have almost missed the opportunity to prevent catastrophic climate change, prompting a discussion on what we owe future generations. Meanwhile, we continue to exceed our planetary boundaries in everything from food systems and biodiversity loss, to resource extraction and air, water and soil quality.

Frustration and hopelessness have filtered into politics, with either high abstention rates or growing support for populist demagogues promising to tear down a system that many voters feel is not working for them.

In response, a growing number of policymakers, economists and institutions have been discussing ways to renew the social contract, both for Europe and globally.

Friends of Europe is committed to playing its part in promoting the participation of citizens and a broad range of stakeholders in the democratic and civic life of Europe, not least by defining a Renewed Social Contract for Europe. A broad programme of activities in 2022 allowed us to continue steps towards building-up and defining a vision of a Renewed Social Contract for Europe. This included taking a close look at what **climate, energy and sustainability** mean for the social contract.

A Renewed Social Contract should highlight the importance of a whole-of-economy, whole-of-society approach. Building a net-zero society will require action from every stakeholder. Building trust between different groups and interests will be of the essence to achieve this and it will require compromise and consensus-building. This means finding new ways to ensure that the voices of citizens are heard in the wider climate conversation and that citizens see that the transition to carbon neutrality as fair, inclusive and people-centred.

Over the course of 2022, activities focused on the urgent issue of climate action and energy systems' transition, as Russia's illegal invasion of Ukraine added a new sense of urgency. Apart from its disastrous impacts on the Ukrainian people, the resulting scramble for energy security and high energy prices pose a massive challenge to European citizens.

Chronologically listed, the activities were:

- The Future of Carbon Pricing, Policy Insight, 14 March
- Transatlantic Climate Dialogue #1: Tech Solutions for Individual Climate Action, #CriticalThinkingLive, 5 May
- Climate and Energy Summit: Taking the pulse of the climate and energy crises, European Policy Summit, 14 June

- Transatlantic Climate Dialogue #2: Climate Tech for Clean Transport, #CriticalThinkingLive, 7 July
- Transatlantic Climate Dialogue #3: Climate Fintech, #CriticalThinkingLive, 1 September
- Transatlantic climate roundtable at the European Young Leaders (EYL40) seminar in Lisbon with European and American climate entrepreneurs, innovators, public officials and energy industry figures, 10 September
- Towards a European Green Deal-compatible Food System, Policymakers' Roundtable, 28 September

What is the price of the future?

The price of carbon has a significant impact on the speed and extent to which Europe can promote clean technologies and associated life benefits for citizens. However, as a market-based mechanism, it cannot be developed in a vacuum and will always be vulnerable to external geopolitical shocks.

“Carbon pricing is a pillar on the decarbonisation path, and this path has enormous advantages for the security of supply

Beatriz Yordi, Director for Carbon Markets and Clean Mobility at the European Commission Directorate-General for Climate Action

The EU carbon price in 2022 experienced a steep decline following the Russian invasion of Ukraine. At the same time, the prices of electricity and gas soared, leaving many citizens struggling to pay for fuel, as well as raising considerable energy security concerns. EU carbon pricing proposals must, however, remain central to efforts to reduce emissions by at least 55% this decade.

Experts and audience participants at a Friends of Europe carbon pricing event in March set themselves to thinking about the use of emissions trading system (ETS) revenues and the need to tackle the EU ETS free allocations, as well as developing a sustainable transition to a low-carbon economy.

“Carbon pricing is a pillar on the decarbonisation path, and this path has enormous advantages for the security of supply,” said **Beatriz Yordi**, Director for Carbon Markets and Clean Mobility at the European Commission Directorate-General for Climate Action.

During the event, suggestions emerged on the way forward for carbon pricing and the wider climate and energy debate, particularly in a whole-economy, whole-society

stakeholder contract. These included: ringfencing ETS revenue for member states to help them tackle social aspects of the energy crisis; continuing with the sustainable transition as a means to decouple Europe from Russian fossil fuels; ensuring a price corridor to mitigate sharp price rises; removing the system of free allocations with the introduction of the Carbon Border Adjustment Mechanism; and ensuring that the environmental benefits of green hydrogen are properly rewarded.

Transatlantic talk

A series of three thematically linked events over the course of 2022 looked at EU-US relations in the context of developing successful climate change policies and clean, innovative technology. This Transatlantic Climate Dialogue series underlined the role played by innovation and by a new generation of young entrepreneurs. The United Nations estimates that if 1bn people take practical action in their own lives, they could reduce as much as 20% of global carbon emissions. Climate tech can enable consumers and citizens to gain a better understanding of our individual carbon footprint and empower everyone to take climate action.

A first policy debate looked at technology and climate action for individuals, including through real life case studies. These were food sharing app Olio (UK), carbon footprint calculating and neutralising app Klima (Germany), and emissions tracking and offsetting app Joro (US).

The session found that the impact and potential of these and other climate-action apps was enormous for citizens, most of whom carry apps in their pocket, but that challenges remain. These include: the behavioural challenge of encouraging people to manage their carbon emissions in the way that they manage finance; a diversity challenge to include women and people from diverse backgrounds in technology development; and the challenge of ensuring consistency and standardisation across products.

A subsequent session on clean transport recognised that reimagining and decarbonising transport is essential for addressing climate change in everyday life. Technologies examined here included EV trading batteries trading platform EG Cling Systems; Vianova, which allows cities, public transport operators and other mobility providers to exchange information on traffic and kerbside management; and BusUp, which helps companies and employees deal with the high economic and environmental cost of commuting.

Key challenges identified to enable technologies to benefit citizens and promote green markets across the digital divide included: promoting employee benefits; sharing data; developing second-hand markets, transitioning to sustainable aviation; and harmonising legislation.

Finally, the Transatlantic Climate Dialogue series looked at financing a clean energy transition. To meet the objectives of the Paris Agreement, we need to invest around \$3tn to \$5tn annually for the next 30 years and climate fintech can play a significant role in making that happen. This session looked at the vibrant ecosystem of start-ups,

focusing on finance processes related to climate adaptation and mitigation.

Challenges identified at this final session included overregulation of small companies, a lack of harmonisation between countries and markets, and the difficulty of raising awareness of small fintech companies. EU policymakers were asked to take a flexible approach, so that acceptable risks can be taken while consumer protection is still high, and to ensure fair rules for companies of all sizes in the EU.

This series of events culminated in a hybrid high-level roundtable held on the occasion of the European Young Leaders (EYL40) meeting in Lisbon. Young entrepreneurs that participated in the Transatlantic Dialogue series were joined by EYL40, as well as policymakers and experts from the US, Canada and the EU. The discussants considered ways to build transatlantic synergies and learn from each other's experiences.

Beyond the urgent need for Europe, the US and others to work together to harmonise regulations for new technologies, it was highlighted that the key to the involvement of citizens in climate action is a change of narrative: we need a new discourse that is less about the punishment of people for their actions and more about common endeavour, benefits of the transition and building a better future. To take full advantage of the energy transition, Europe and the US need a workforce with the right skills and policymakers must encourage this development.

A year of crisis and opportunity

“ We should treat consumers as adults in the room

Laura Cozzi, Chief Energy Modeller at the International Energy Agency

The landmark 2022 Climate and Energy Summit took place just two months after the Russian invasion of Ukraine and a subsequent further steep increase in gas and oil prices. This came at a moment when most measures to slow the spread of the coronavirus had been lifted around Europe, leading to a resurgence in economic activity and consumer demand, with all the associated emissions. The latest Intergovernmental Panel on Climate Change (IPCC) report had also just been published, warning that the Earth's surface temperature will increase by 2°C by 2050 if there is no immediate and drastic reduction in greenhouse gas emissions.

“We should treat consumers as adults in the room,” said **Laura Cozzi**, Chief Energy Modeller at the International Energy Agency. The EU should encourage member states to help consumers improve energy efficiency and reduce their energy demand. “This is an area where we are completely off track.”

The summit offered several key insights on the way forward. Speakers and audience members said, for instance: that EU and national policymakers must capitalise on the speed and solidarity shown in response to the Ukraine crisis to develop Europe-wide climate action. EU coordination is needed to help member states speed up permitting processes for clean energy infrastructure. Industry needs incentives and structures from both public and private investors to bring actions in line with

public climate change policies. The EU and industry should focus on deploying low-carbon technologies that are already on the market and offer huge emission reductions in sectors such as buildings. Public and private investors must consider the emissions reduction potential of all new and emerging clean technologies at an early stage and remain mindful that costs can fall quickly. Some degree of EU-level intervention could help bring energy prices closer to the costs of long-term production and reduce market volatility, in part by rethinking market design. Energy producers and policymakers should make it easier for consumers to undertake the behavioural changes needed to cut household emissions and energy use.

Feeding the world sustainably

A Friends of Europe event in September encouraged holistic thinking about the food chain. Participants were invited to explore ways in which the EU can enable a more resilient and independent agri-food system for citizens, while achieving a sustainable and just transition to climate neutrality.

“No one can doubt the considerable consensus that our food system is economically, socially and environmentally unsustainable

Faustine Bas-Defossez, Director of External Impact at the Institute for European Environmental Policy

Some 99% of the food and drink sector consists of SMEs. Event speakers and participants agreed that these companies need to work towards sustainability at a reasonable pace. Participants shared the perspective that the transition towards sustainable food systems must continue, despite the pressures of rising energy and food prices.

“No one can doubt the considerable consensus that our food system is economically, socially and environmentally unsustainable,” said **Faustine Bas-Defossez**, Director of External Impact at the Institute for European Environmental Policy.

Every stakeholder, from EU institutions to national member states, from the private sector to academics and NGOs, shared their support for the EU’s Farm to Fork Strategy and the Green Deal as key building blocks of the transition towards sustainable food.

The importance of further collaboration among all stakeholders was stressed. Further suggested areas of focus moving forward and of particular relevance to a Renewed Social Contract included: putting in place an EU structural system to tackle crises efficiently across borders; stimulating the digital transition in the agricultural sector, as well as in the food and drink sector; and finding the right incentives to encourage industry to change, while promoting actions such as VAT reductions or exemptions to support the less wealthy.

Citizens at the centre

A Renewed Social Contract must be built for and with citizens. A series of panel debates gave these citizen voices chance to be heard.

Headline topics of concern to citizens included the role of natural gas and nuclear energy in the transition to green energy and whether the EU can achieve energy sovereignty or have an ethical energy policy. There was disagreement over the ideal EU energy mix. As one citizen said: “We are just cutting the branch of the tree we sit on by closing nuke stations, fighting cheap gas.” Another commented: “Those who think gas or nuclear should be part of a transition simply don’t understand principles of ecological sustainability, nor the urgency of the matter.” Food waste, water use and public transport were also debated by citizens around Europe.

A focus group report in the middle of 2022 asked for ideas from 100 citizens across 22 European countries. Participants felt that the climate crisis is now clearer than ever. There was disagreement over how much influence individuals can have on carbon emissions. Few participants believed that governments listen to citizens when it comes to climate issues.

Conclusion

No easy answers emerged from a year of conversation with EU citizens, policymakers and other stakeholders. There was, however, agreement that a range of cross-society initiatives are urgently needed in the face of the climate crisis. These range from using revenue from the ETS to help manage social aspects of the energy crisis, to developing EU and national incentives for industries to bring their actions in line with public climate change policies, to stimulating the digital transition in the agricultural sector, and to ensuring that women and people from diverse backgrounds are more involved in the development of innovative technologies.

At the same time, as conversation with young citizens in particular showed, their lack of trust in the current leadership in Europe is clear. Both governments and industry are felt to be ignoring the concerns of citizens or acting too slowly in the face of a global climate crisis.

A Renewed Social Contract is, therefore, an opportunity to unite Europeans through a whole-of-society approach to fighting climate change, with clear benefits for citizens.

Friends of Europe

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Friends of Europe is a leading think-tank that connects people, stimulates debate and triggers change to create a more inclusive, sustainable and forward-looking Europe.

