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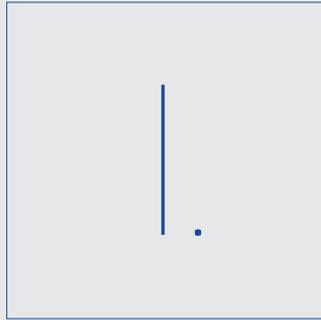
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Greening the European Industry in the post-COVID-19 World

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Introduction

The European Green Deal (EGD) and the New Industrial Strategies for Europe (NIS) were introduced at the beginning of 2020 before the COVID-19 waves seized Europe.¹ Both strategies react to the long-term trends in European economic developments and of global climate change. For the European Union (EU), these trends underline the need for strategies tackling the multiple challenges of decarbonisation, automation and digitalisation. The still ongoing COVID-19 crisis makes such challenges more acute. As a multiple – epidemiological, economic, and social – crisis, it can, however, be turned into an opportunity to solve the long-term challenges.

To make it an opportunity, these strategic plans must gain a political and economic legitimacy across a variety of stakeholders: European labour, small, medium and large capital, and the Member States. Having agreed on the new seven-year Multi-Annual Financial Framework and the Next Generation EU recovery package in July 2020, the Council agreed on earmarking the total sum of EUR 1,8 trillion for green restructuration.² In September 2020, the Commission subsequently announced a more ambitious 2030 target for reducing greenhouse emissions from the former 40% to at least 55% of the Union’s 1990 levels as a part of the EGD. Under the NIS, this urges the green restructuration of European industry. The increasing level of ambition, however, begs the question: how to make it a legitimate, inclusive and thus coherent whole-European recovery strategy, which enables competitive sustainability and resilient industrial conditions in the Member States?

In what follows, we address these questions when discussing the EGD and NIS for the post-COVID-19 world. First, the EGD is discussed to explain how it should be communicated and implemented as a coordinated economic strategy. Second, the NIS is discussed to foreground the opportunities and benefits of the green transitioning. We conclude with the policy recommendations.

Analysis

Enabling rather than Enforcing the European Green Deal

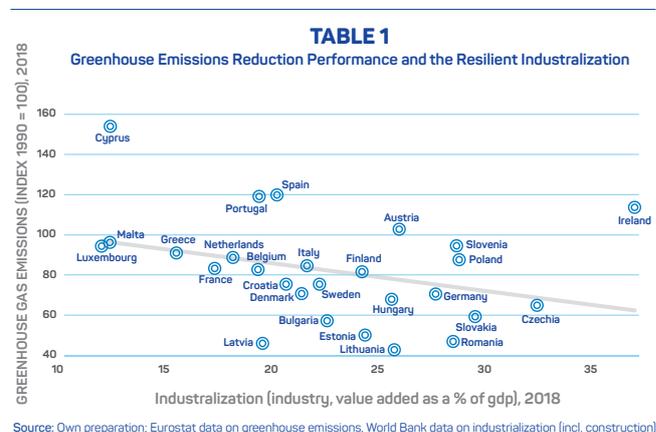
In this section the EGD is discussed in order to explain how to make it an *enabling* rather than an *enforcing* strategy. Explaining that the proposed 55% target is “too much for some & not enough for others” in her first State of the Union address, the new Commission president Ursula von der Leyen acknowledged the differing views on the EGD realization.³ Despite her belief that “our economy & industry can manage this”, the Commission’s main responsibility is now to negotiate a consensus between the capacities of some and the ambitions of others across European economic sectors and Member States. In the post-COVID-19 world, the EGD can become a successful recovery strategy only if being recognized by all states and industries as an *enabling* instrument of their green and just transitions.

As a legitimate grand strategy, the EGD’s implementation should set realistic and also reasoned targets for making “the EU the world’s first climate neutral continent by 2050”.⁴ By doing so, it should learn from the mistakes of the Lisbon Agenda of 2010s and Europe 2020. In their cases, setting and then failing to reach such ambitious targets delegitimized the EU’s economic governance. Announcing the EU’s transition into “the most competitive and dynamic knowledge-based economy in the world”, the Lisbon Agenda had to be renewed in 2005

only to backfire in the global and Eurozone crises a decade ago. The Europe 2020 foregrounded the ‘smart, sustainable and inclusive growth’ but became most notorious for enforcing debilitating austerity policies, especially in Southern Europe.

The Commission should thus welcome the encouragement from like-minded small and middle-sized enterprises (SMEs), large enterprises, and Member States but equally engage with their sceptical counterparts.⁵ By getting the less persuaded voices on board, the EGD’s implementation can fit Europe’s diverse national and sectoral structures much better and subsequently lead to more effective outcomes.

The Visegrád governments of Czechia, Hungary, Poland and Slovakia, which asked the Commission for a more “realistic” approach, are the example of the less convinced stakeholders.⁶ In contrast to most of Western Europe, which consists of predominantly service-based economies, Visegrád countries remain the most industrialized economies in the EU as documented in **Table 1**. Hosting complex manufacturing sectors with origin in the Western core, the Visegrád economies are an integral part of the EU’s production capacities and thus its competitiveness and strategic autonomy. As Table 1 further shows, the majority of the V4 have managed the double task of modernizing their industrial base, while also reducing greenhouse emissions. The strategic industrial sectors (i.e. automotive, electronics) hosted by the V4 are simultaneously those most exposed to the EGD ambitions. To continue their green restructuring, the caution of such stakeholders should be reflected.



The *new* Just Transition Fund to complement the *old* funds for speeding up the EGD realization is a good way to ensure stakeholders are not unnecessarily affected in a negative way. If the EGD targets proposed are more ambitious, the volume of investment and simple implementation rules should match them on the same scale. The EU funds have already enabled the double task of European production sovereignty and green restructuration. For doing so, the effective funding in the Member States, including the Visegrád countries, must be guaranteed.⁷ However, the second side of the equation must remain on the agenda, too: the simplification of the funding process. Research suggests that the Commission-led imposition of stiff implementation rules and Member States’ rule-breaking go hand in hand.⁸ Besides the existing conditionalities, the so-called rule of law conditionality can be reasonably applied only with this in mind.

The green transition is manageable only if the EGD fits Europe's diversity rather than being imposed upon it on both country and sectoral levels. If the overall agreement on the 2050 target of climate neutrality is already reached, there should be transparent target-setting which respects the variability of national trajectories in achieving the 2050 goal. Only in this way, the EGD-related targets can be embraced by all stakeholders, while the strategies, such as the NIS, can become an enabling framework for the sustainable and thus politically legitimate green transitioning.

The New Industrial Strategy – Turning the Opportunities into Benefits

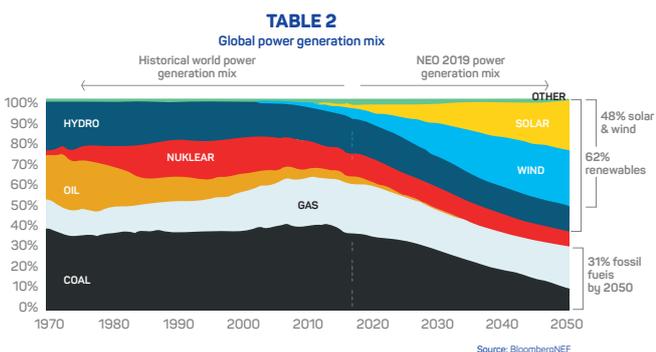
In this section the NIS will be analysed both as an industrial strategy but also a response to changing economic realities and geopolitics; a tool for strengthening multilateralism and EU influence through deepening of the single market thus enabling the EU to achieve a green leadership position.

The NIS emphasizes industry as the cornerstone of the EGD, hinging on deepening the single market through elimination of barriers, harmonization of regulations, and Member State utilization of green supporting packages. The single market has the leverage to enact global standards, enabling the EU to become forerunners in the development of clean technologies and decarbonisation.⁹ Achieving this leadership position will require industry to remain competitive while greening industrial value chains. Thus, the NIS seeks to strengthen global rules on distortive industrial subsidies, a renewed focus on innovation, investments and skills, as well as modernisation and decarbonisation across industries in order to ensure competitiveness in global markets increasingly gravitating towards green value- and supply-chains.

Transformation entails uncertainties, particularly with regards to making it socio-economically sustainable and legitimate. Mitigating these uncertainties is contingent on Member States accessing funding opportunities that have become available as part of the EGD, COVID-19 recovery, among others.¹⁰

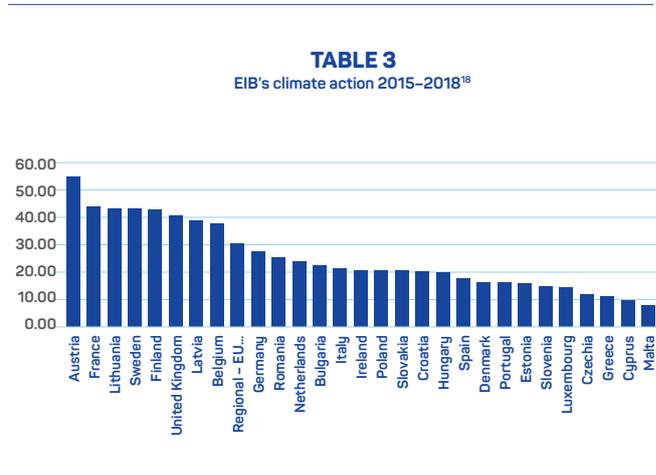
From an industry perspective, heightened 2030 ambitions and 2050 climate neutrality has been internalized as inexorable; from 170 industry leaders endorsing the 55% target¹¹ to business sectors advocating for sectoral EGD's¹², there is a push towards a new economic paradigm revolving around decarbonisation. As our analysis shows, advocacy is driven by economic realities: a changing global energy mix and costs, disruptive structural adjustments to the global economy due to climate change, sustainable financing tools spurring sustainable growth, and the pandemic's economic impact.

Energy costs are integral to economic growth and industrial development. As **Table 2** shows, the global power generation mix is shifting away from fossils and nuclear towards renewables.¹³



Given that fossil fuel dominance has relied on government subsidies¹⁴ that are becoming increasingly economically untenable¹⁵, greening of industry has become integral to future-proofing industrial and economic growth. Alternatively, industries risk losing competitive advantage by being reliant on stranded assets subject to structural disruptions.¹⁶ Economic and industrial growth has thus become intertwined with decarbonisation and investment in renewable energy, making green industrial transformation inevitable. From an industrial perspective, Member States must support the NIS' creation of a stable, predictable regulatory and policy environment, which can spur investments into low carbon growth and new technologies.

The EGD, the European Investment Bank's (EIB) financing green projects¹⁷, Just Transition Mechanism (JTM) and the COVID-19 recovery packages incentivizes Member States to support greening of European industry. Accessing these funds is contingent on Member States pursuing them; revealingly, the Member States more sceptical towards ambitious climate action have not yet taken sufficient advantage of the EIB's support opportunities (see **Table 3**).



Similarly, the JTM's €1 trillion from the EGD Investment Plan (EGDIP) enables a sustainable and just greening of industry, excluding financing of nuclear plants.¹⁹ Thus, the onus is on Member States to clearly signal their industries that a just transition will utilize these options in order to facilitate a stable environment while simultaneously providing opportunities for labour in sectors that will be disrupted, i.e. re-skilling of work forces.

Given the economic realities of the pandemic and experiences from the previous global financial crisis, greening is inextricably tied to economic recovery; an overview of 196 stimulatory recovery policies implemented in response to the global financial crisis showed that green stimulus policies were advantageous to non-green stimulus policies both in the short and long-term, generating more jobs and higher investment returns.²⁰

The NIS is a natural response to inescapable realities. With the funds available to finance decarbonisation, Member States can turn the EU's climate ambitions into catalysts for post-pandemic economic recovery and green global industrial leadership. However, such ambitions require Member States to embrace the NIS and utilize the support available. Keeping in mind the diverse starting points within the Member States, it is less relevant whether that translates into 50, 55 or higher emissions reduction by 2030 compared to the importance of initiating a sustainable and legitimate transition process within all Member States enabling them to achieve climate neutrality by 2050.

Conclusion and Recommendations

As explored above, the legitimacy and real success of both EGD and NIS rely on reconciling the dilemma between those Member States and industries asking for “ambitious” greening strategies and those Member States and industries demanding “realistic” industrial greening. In the post-COVID-19 world, it is also imperative that the investment opportunities prepared for the realization of these strategies and green recovery are matched with genuine commitment by all stakeholders. Thus, we suggest the following recommendations:

- To make the EDG a politically legitimate and economically sustainable recovery strategy for the continent’s green industrial restructuring, the EU institutions should set realistic and reasoned targets for its gradual implementation. Under the EGD, the various benchmarking, impact assessment, and reporting mechanisms should become more transparent instruments which anticipate the different needs of national and sector adjustments rather.
- For enhancing the European strategic autonomy in its production capacities, the EGD target-setting must remain realistic by matching the ambition of targets selected with the appropriate volume and resources and capacities. It should thus combine both the green restructuring and the continuing competitive resilience of European industry in all Member States and various sectors.
- Member States must strengthen their capabilities in utilizing the available funds towards green and industrial transition, such as the EDG Investment Plan, Just Transition Mechanism, and the European Investment Bank, in order to ensure a sustainable and just transition. Utilizing the European Investment Bank’s advisory capacities to this effect should be prioritized by Member States and more deeply integrated in policy planning.
- A stable regulatory and policy environment for non-nuclear renewables facilitated by the NIS is essential for attracting green investments, and would provide much-needed certainty for industry undergoing green transition. Similar applies to EU Member States, who would otherwise be susceptible to structural disruptions caused by European green transitions at various speeds.

¹ For the European Green Deal, see the Commission webpage: https://ec.europa.eu/info/strategy/priorities-2019-2024/european-green-deal_en#actions; For the New Industrial Strategies for Europe, see the Commission webpage: https://ec.europa.eu/info/strategy/priorities-2019-2024/europe-fit-digital-age/european-industrial-strategy_en

² European Council (2020): Special meeting of the European Council (17, 18, 19, 20 and 21 July 2020) – Conclusions, EUCO 10/20, Brussels: General Secretariat of the Council.

³ Von der Leyen, Ursula (2020): State of the Union Address by President von der Leyen at the European, European Parliament Plenary, Brussels, 16 September 2020.

⁴ European Commission (2020): Committing to climate-neutrality by 2050: Commission proposes European Climate Law and consults on the European Climate Pact, Press Release, Brussels, 4 March 2020.

⁵ Corporate Leaders Group (2020): Business and Investor CEO Letter on EU 2030 GHG Emissions Targets, 18 September 2020, retrievable from: <https://www.corporateleadersgroup.com/reports-evidence-and-insights/pdfs/business-and-investor-ceo-letter-on-eu-2030-ghg.pdf/view>

⁶ Joint letter from the the Visegrad Group /V4/, Republic of Bulgaria and Romania Environment and Climate Ministers to Mr. Frans Timmermans, Executive Vice-President of the European Commission on Impact Assessment (IA) for the European Union’s 2030 climate ambition and the action plan, July 2020, retrievable from https://www.euractiv.com/wp-content/uploads/sites/2/2020/08/V4BGRO-letter-IA-2030_20200712.pdf

⁷ European Commission (2020): Proposal for a Regulation of the European Parliament and of the Council Establishing the Just Transition Fund, COM(2020) 22 final, Brussels, 14.1.2020.

⁸ Fazekas, M. and L. P. King (2018): Perils of Development Funding? The Tale of EU Funds and Grand Corruption in Central and Eastern Europe, *Regulation & Governance* 13:3, pp. 405-430.

⁹ European Commission (2020): A New Industrial Strategy for Europe, COM(2020) 102 final, 10.3.2020, pp. 2-3.

¹⁰ European Commission (2020): Identifying and Addressing Barriers to the Single Market, COM(2020) 93 final, p. 2.

¹¹ <https://www.corporateleadersgroup.com/reports-evidence-and-insights/pdfs/business-and-investor-ceo-letter-on-eu-2030-ghg.pdf>

¹² <https://cefic.org/media-corner/newsroom/marco-mensink-there-is-no-european-green-deal-without-a-strong-european-industry-of-the-future/>

¹³ <https://about.bnef.com/new-energy-outlook/>

¹⁴ Coady, Parry et al (2019): Global Fossil Fuel Subsidies Remain Large: An Update Based on Country-Level Estimates, IMF Working Paper WP/19/89, p. 5

¹⁵ Carbon Tracker (2019), *Apocalypse Now*, Carbon Tracker Initiative, p. 1

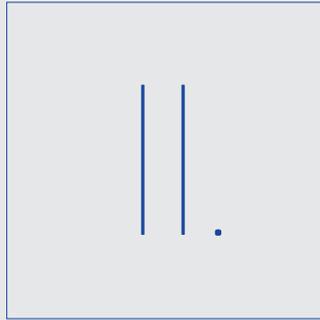
¹⁶ Colas, J. et al (2019): *Climate Change – Managing a new Financial Risk*, Oliver Wyman | IACPM, p. 1

¹⁷ Tankler, A. (2019): *Our Clean Energy Projects*, European Investment Bank.

¹⁸ Roggenbuck, A. (2019), *Briefing Paper | 07 December, 2019, CEE Bankwatch Network*, p.2

¹⁹ European Parliament (2020): *European Green Deal Investment Plan – main elements and possible impact of the coronavirus pandemic*, p. 1

²⁰ Stern, Stiglitz et al (2020): *Will COVID-19 fiscal recovery packages accelerate or retard progress on climate change?*, *Oxford Review of Economic Policy* 36(S1), pp. 8–9



Using Trade Policy to Tackle Climate Change and Protect the Environment

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Introduction

Many recent developments, such as the forest fires in the Amazon, illustrate the growing need to address tensions between resource needs and economic development on the one hand, and sustainable development and environmental protection on the other. Unfortunately, multilateral institutions supposedly governing both environmental protection and international trade are weakening.¹ The fraying global governance means that it is unlikely that efforts to ensure effective environmental protection and the tackling of climate change will instead be primarily undertaken on a multilateral basis either directly by environmental institutions or indirectly via international trade institutions. On the contrary, it seems that multilateral avenues will have to be supplemented by strong unilateral or plurilateral leadership.

The EU is considered as having exercised a leadership role in environmental global governance.² However, the EU alone cannot fill the gap created by the slowing down of international efforts to protect the environment. While in the field of environmental and climate protection it will need to mobilise its partners and deepen existing cooperation with those already inclined. There is also a possibility for the EU to instrumentalise its trade policy to step up environmental protection not only vis-à-vis its trading partners but also internally.³ In the absence of an effective multilateral system of instruments for environmental protection, EU trade policy and related instruments are a viable option to combine the effects of trade liberalisation and improved environmental protection.⁴ The EU is the world's largest trading bloc and the biggest export market for almost a hundred countries. Simultaneously, trade is one of the few fields where the EU has exclusive competences.⁵ As a result and building on its significant purchasing power, the EU can wield a considerable influence on its trading partners, addressing environmental and climate concerns via international trade instruments.

Trade is one of the main EU levers to address the gap created by the slowing down of global efforts to protect the environment. Indeed, trade serves as a mechanism to pull and push global actors that currently undermine multilateral environmental protection efforts.⁶ At the same time, even if the EU sees trade as a crucial instrument to achieve the 2030 Sustainable Development Goals,⁷ the demand by EU Member States for imported goods and services can lead to unsustainable levels and models of production in exporting countries.⁸ Indeed, when accounting not only for emissions from production, but also emissions from consumption, the EU's carbon footprint increases.⁹ This further necessitates the linkage of EU's trade policy with environmental protection. While EU trade policy is neither the only nor necessarily the best policy to step up global environmental protection, updating it appears not only necessary to improve global environmental protection, but also to align it with the European Green Deal (EGD).¹⁰ The EGD's ambitious objectives will hardly be achieved without an updated EU trade policy becoming its external dimension.

Scepticism about linking trade and environmental protection is misguided. Embedding environmental protection firmly into EU trade policy is crucial for European competitiveness. If the EU trades with competitors that do not respect the same environmental protection principles, while requiring European companies to adapt through environmental investments, the EGD will result in a decline

of competitiveness for EU producers, at least in the short term. It could also easily lead to the so-called carbon leakage whereby EU-based businesses move their production to countries with lower climate standards while continuing to export into the EU. The levels of carbon emitted are thus not decreased, only relocated away from EU's territory. All in all, linking EU trade policy with environmental protection can safeguard EU/national policy achievements while serving as an instrument to develop common standards with trading partners.¹¹

Analysis

One of the main trade policy tools that address both competitiveness and carbon leakage are the so-called Border Carbon Adjustments (BCAs). As part of the European Green Deal, the Commission has proposed such a tool, a Carbon Border Adjustment Mechanism (CBAM), to become an integral part of the EU's strategy to achieve climate neutrality by 2050. While the idea of a European BCA has been floated several times in the past, this time it has much clearer delineations and the Commission now has the mandate to propose its detailed design by mid-2021 to the Member States and the Parliament. If agreed upon, its possible introduction could happen as soon as 2023.

However, the idea of a European BCA is highly controversial for many reasons. First, it would be a first time that the EU would be projecting its own climate policy abroad. If the plan of Carbon Border Adjustment Mechanism is followed through next year, it would practically tie EU's climate policy not only with its trade policy, but to some extent its foreign policy. On one hand, this is a desirable development as incoherencies among different policy areas have been criticised as one of the reasons for the weakening of the EU's climate ambition.¹² On the other hand, it is unexplored territory, requiring delicate balancing in order to foster the necessary cooperation as opposed to geopolitical antagonism and retaliation. The objective is to stimulate a race to the top, not trigger a trade war. The EU has long positioned itself as a global leader on climate change. If the introduction of the Carbon Border Adjustment Mechanism goes hand in hand with the planned increasing of the EU's own climate commitments, it might finally become one. The challenge will be to do so within existing free trade frameworks while not undermining the existing multilateral cooperation on climate change mitigation.

This presents the second big challenge of the BCA. It can be perceived as an unfair leverage over trading partners, which clashes with geopolitical legal obligations of the EU, both under the UNFCCC and the WTO.¹³ The Paris Agreement is based on Nationally Determined Contributions and the principle of common but differentiated responsibilities. Each country should decide voluntarily on its emissions reduction provided it is in line with the Agreement's goal. Similarly, under the World Trade Organisation (WTO) principle of Most Favoured Nation, discrimination of products based on their country of origin is not allowed. It is therefore important that the CBAM is designed in a way that focuses on cooperation with trading partners and creation of a global level playing field, as opposed to a unilateral imposition of rules.

In practical terms, the European CBAM would likely be limited to high-emission goods such as cement, steel or iron.¹⁴ More trade policy tools such as tariffs and environmental standards would be

required for other areas such as agricultural and forestry imports. Moreover, the CBAM would have to replace free EU ETS allowances, not complement them, as that would mean that EU's highly emitting industries would be compensated twice, creating an unfair competitive environment and undermining EU's emissions reduction efforts. Furthermore, the CBAM would affect some trading partners more than others. Especially less developed countries with highly emission-intensive imports to the EU, for instance Ukraine, could incur large economic costs from this measure. It would be important for the EU to provide support to such countries to alleviate this extra burden and help them build capacity to transition to low-carbon economy themselves. Upholding the solidarity principle is important, as without it there is no chance of countries collectively preventing dangerous levels of global heating.

CBAM is not a silver bullet for industrial decarbonisation, either at home or abroad, and it must be accompanied by other measures to ensure its efficiency and adherence to international rules. It can, however, play a major role in raising climate ambition around the world and by extension also placating some of the more sceptical Member States that are afraid that EGD would impact the competitiveness of their industries. Moreover, CBAM's symbolic value is high and its effects might already be showing in countries such as China, which has unexpectedly announced its aim to become climate neutral by 2060,¹⁵ only ten years after the EU. It is likely that China's surprising decision was at least partly based on the anticipation of an impending carbon tax on imports by its biggest trading partner, the EU.¹⁶ Race to the top might have already begun before the BCA being implemented.

Conclusion and Recommendations

In the absence of an effective global mechanism to protect the environment, we propose the following policy tools are made available at the EU level to improve environmental and climate protection via trade.

Subsidies: While they in principle distort trade or serve as protectionist measures, some subsidies can be used to improve the environmental impact of trade. The EU should reach an agreement on subsidies, which have positive effects on the environment and set strict rules on or progressively ban environmentally harmful ones. The EU should also reach bilateral/plurilateral agreements on the suspension of trade disputes concerning environmentally-friendly subsidies. Some of the steps to be taken at the EU level may include:¹⁷

- Using the WTO system that classifies subsidies according to their trade distorting impact to classify the environmental impact on agricultural production practices.
- Create pressure in the WTO together with like-minded trading partners across the globe to put into discussion a revision of a waiver to make international trade rules to directly allow subsidies focused on raising environmental protection. The current international trade rules allow for subsidies in several fields such as research or regional development policies and the same should be pressed for in the field of environmental protection.

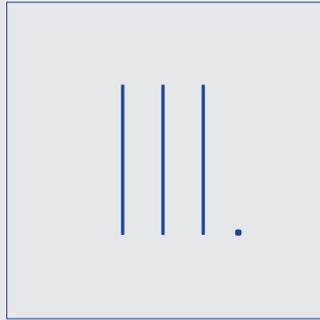
- Tackle fossil fuel subsidies in plurilateral, multilateral and bilateral trade agreements with trading partners.

Non-trade measures such as norms, standards, labelling, and certification: While these measures, unlike the previous ones, do not belong to the traditional pool of trade instruments, they can help raise environmental standards along the production and value chains and thus should belong to the arsenal of effective policy-making to regulate trade activities that have negative effect on the environment. EU-wide norms, standards and certification should be stepped up to ensure compatibility of production systems and value chains, both inside and outside the EU, with environmental protection. In practice, this means building on the experience of EU Timber Regulation, EU Conflict Minerals Regulation, EU REACH regulation and EU Circular Economy Package and developing EU standards and norms for imported products and value chains entering the EU market that have detrimental impact on the environment. Developed standards, norms and certification can then be incorporated into multilateral and bilateral EU FTAs. In terms of labelling, new requirements can be established within a system of "green trade" that would set up rigorous labelling or traceability requirements about production methods and/or carbon footprints, enabling consumers to make more informed purchasing decisions. For carbon and emission footprint, common standards should be developed to calculate the carbon embedded in production and trade. Following that, emission labelling should become mandatory for domestic as well as imported products.¹⁸

Negotiation of environmental multilateral treaties: While not primarily part of the EU trade policy toolbox, a new environmental multilateral treaty would serve the purpose of stepping up global environmental protection, although it is likely achievable only in the long term. Existing multilateral environmental agreements that regulate environmental trade-related restrictions and authorisations¹⁹ could be improved and extended to new fields by a new comprehensive treaty. At the same time, the EU should use its diplomatic efforts to revive the stalled negotiations of the plurilateral Environmental Goods Agreement to ensure tariff reduction on important environment-related products. Should they fail, a similar approach may be used for bilateral agreements or even unilateral actions. One of the problems of the negotiations lies in how to classify goods according to their environmental friendliness. The EU should develop its own systems of such classification to be used for bilateral or unilateral actions.²⁰

Carbon border adjustment mechanism: It is necessary that this mechanism is developed in cooperation with EU's trading partners and is not undermining the principles of the Paris Agreement and the WTO. It should replace other measures designed to prevent carbon leakage and protect competitiveness, such as free ETS allowances or energy costs compensation. The revenues from this mechanism should be used solely for the purpose of further modernisation of European industries and reductions of emissions. Alternatively, they could be used as international climate finance, helping EU's trading partners decarbonise faster. This measure should be coupled with the phase out of EU's fossil fuel subsidies and support for fossil fuels abroad as they would go directly against the aim of the CBAM.

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- ¹ The United States (US) notified its intention to withdraw from the Paris Agreement on climate change to the Secretary-General of the United Nations on November 4, 2019. The 2019 United Nations Framework Convention on Climate Change (COP25) summit failed to agree on ambitious climate actions and binding goals. At the same time, the multilateral trading system is under pressure not only as a result of the stalled Doha round but also due to the blockage of the US of the appointment of members to the WTO Appellate Body, leading to the virtual dysfunction of one of WTO's main elements.
- ² Pascal Lamy et al., "Time to Green Eu Trade Policy: But How?," (Paris: Jacques Delors Institut, 2019).
- ³ Make no mistake, the future EU's role in both the trade and the climate regimes should still be driven by the principle of multilateralism. However, while the EU should attempt to sustain a rules-based multilateral order that insulates economic relations and global problems from geopolitical competition, recently a number of actors at the international stage are willing to weaponise various instruments to achieve geopolitical goals. For instance, Russia instrumentalise energy supplies and disinformation, Turkey migration, China state capitalism, Saudi Arabia energy resources and the US the dollar and European dependence on the transatlantic security alliance. This unwillingness to separate the functioning of the global economy from political and security competition underlines the argument that the EU – next to promoting multilateral and plurilateral efforts to step up environmental protection – could make increasingly make use of its trade policy to strengthen global environmental protection.
- ⁴ Lamy et al, Susanne Dröge and Felix Schenuit, "Mobilising Eu Trade Policy for Raising Environmental Standards: The Example of Climate Action," (Berlin: Stiftung Wissenschaft und Politik, 2018), Jana Titievskaja, "Using Trade Policy to Tackle Climate Change," (Brussels: European Parliamentary Research Service, 2019).
- ⁵ In a recent ruling, the Court of Justice of the EU highlighted the EU's exclusive competence also in the field of sustainable development issues in trade agreements, providing further legitimacy to the EU's approach to link environmental protection and its trade policy. See Court of Justice of the European Union, "The Free Trade Agreement with Singapore Cannot, in its Current Form, Be Concluded by the EU Alone", Press Release no. 52/17.
- ⁶ Johan Bjerkem, "Eu Trade Policy: Global Enforcer for the European Green Deal," (Brussels: European Policy Centre, 2019).
- ⁷ DG Trade, "Sustainable Development," (Brussels: European Commission, 2020).
- ⁸ Marianne Kettunen et al., "An Eu Green Deal for Trade Policy and the Environment: Aligning Trade with Climate and Sustainable Development Objectives," (Brussels: Institute for European Environmental Policy, 2020).
- ⁹ Based on the Consumption-Based Accounting inventory method (CBA), the EU imported 1317 Mt CO₂ from abroad in 2015, while domestically it produced 3479 Mt CO₂. This means that the EU's total emissions were 40% higher than reported, when accounting for the imports. See Paola Fezzigna et al., "Revising Emission Responsibilities through Consumption-Based Accounting: A European and Post-Brexit Perspective," Sustainability 11, no. 2 (2019).
- ¹⁰ Bjerkem, Lamy et al.
- ¹¹ D. Rajagopal, "A Synthesis of Unilateral Approaches to Mitigating Emissions Leakage under Incomplete Policies," Climate Policy 17, no. 5 (2017), Dröge et al.
- ¹² See for example: Perrine Fournier, "Trading in Incoherence? Eu Trade Policy Needs Improving to Give Forests, Communities and the Climate a Fair Chance," (Brussels: Fern, 2017).
- ¹³ Johanna Lehne and Oliver Sartor, "Navigating the Politics of Border Carbon Adjustments," (Brussels: E3G, 2020).
- ¹⁴ Ibid.
- ¹⁵ Matt McGrath, Climate Change: China Aims for 'Carbon Neutrality by 2060' (2020 [cited 30 Septebmer 2020]); available from <https://www.bbc.com/news/science-environment-54256826>.
- ¹⁶ European Commission, Countries and Regions: China (2020 [cited 30 Septebmer 2020]); available from <https://ec.europa.eu/trade/policy/countries-and-regions/countries/china/>.
- ¹⁷ Kettunen et al, Lamy et al.
- ¹⁸ Dröge et al, Lamy et al, Kettunen et al.
- ¹⁹ Such as the Convention on International Trade in Endangered Species of Wild Fauna and Flora (CITES) or the Rotterdam Convention on the Prior Informed Consent Procedure for Certain Hazardous Chemicals and Pesticides in International Trade.
- ²⁰ Lamy et al, Dröge et al, Kettunen et al.



How Can Democracy Re-invent itself in the Digital Age?

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Introduction

Digital technologies have changed our societies, economies and democracies globally. Particularly, the shift in technological capability in the 21st century has enabled new opportunities, created global internet titans (primarily from Silicon Valley startups), introduced new ways to solve problems and ushered in the information age. We are experiencing a rapid rate of information and digital transformation which is becoming increasingly unregulated. Governments are failing to keep pace with the rapid advancement¹ allowing for external threats to exploit them and undermine democracy. However, as authoritarian actors take advantage from this lack of regulation and seek to undermine the democratic values that structure our society,² the endurance, resiliency, stability and strength of today's democracies is constantly being tested. As the global pandemic exacerbates the ways in which digital technologies are being harnessed, democracies are struggling to keep pace with the hyper-paced digital evolution while maintaining the values on which our society has been built. We argue, in this microstudy, that we should secure the values of liberal democracies emanating from European enlightenment and humanism instead of continuous securitization of technology in the face of possible terrorist or cyber-attacks.

This microstudy does not aim to present new technologies as malign in nature, rather to analyse the way and for what purpose these technologies are used by global powers, and to what extent it might be for political manipulation. If left unchecked, global challengers like China and Russia will continue to use the digital space to not only limit the rights of their citizens, but seek to undermine the fabric of democracy in other parts of the world. The ongoing non-violent tacit conflict between Russia, China and the West is more about which values, or more precisely which normative framework behind the exercise of political power, will lead humanity into the future. Disinformation campaigns should not be seen as limited actions to reach certain goals but as a continuous pressure on people with an objective to deconstruct the basic principles of open and free societies. Beside the political motives, companies leading the technological advances will also continue to outpace regulations for the sake of profit. Companies need to follow a more ethical compass based on humanistic values that align with the political principles of the West. This is especially vital as they have the capacity to be used to disrupt fundamental democratic principles ranging from upholding election integrity and freedom of speech to ebbing the harmful impact of mass information and disinformation aimed at undermining these principles.

The Analysis: Pros and Cons of Digital Disruptors

Over the last century, digital technologies have disrupted the very core of our societies. Since the advent of computers, a multitude of digital platforms have been the catalyst and 'megaphone' for societal good. From climate activism, the #MeToo campaign, Black Lives Matter and the ongoing fight for rights in Hong Kong – digital disruptors have created a space for activists and protesters to gain global traction in order to drive change. On the contrary, the Arab Spring was perceived as a wave of revolutions throughout MENA area enabled by newly emerging social networks raising people's voices and thus perceived as instruments of democratization.

However, recent years have seen a wave of disinformation, conspiracy theories and simplification of political argument in public debates

that has illuminated the dark side of digital technologies. The issue democracies are still grappling with is how to regulate technologies enabling virtual social space and preserve the core democratic value in freedom of speech and humanistic principles while maintaining digital autonomy, privacy and basic freedoms. We believe that this challenge should not be approached by entities such as Facebook's "Supreme court for content" but by democratically directly elected (cosmopolitan democracy model) or at least appointed by democratically elected entities (current UN General Assembly model) to possess proper legitimacy. Here we should stress on the distinction between democratic legitimacy achieved by democratic elections, which point on democracy as a political system, and democratic values, which are more about humanistic and cosmopolitan principles forming a democratic normative framework. We cannot seek plain democracy as the legitimate way forward but should stress on values that these democracies must follow. Hungary and its efforts to form "non-liberal democracy" is point in the case.

We need new means on how to govern technological invention and technology operation. Technology will not always bring positive change but will alter our societies in unpredictable ways. Regulating each manifestation of technology affecting established social dynamics is not only impossible but keeps us in the trap that technology is what makes society. Anthony Giddens³, echoing other scholars in the field of Science and Technology Studies, have argued that both society and technology are mutually constituted. Our task here is to define where the technology should bring us, and we would be surprised that this question is clearer in authoritarian than democratic societies.⁴ The new wave of ethical security studies proposes some ideas that ethics and our perception of good should guide us, however, even in a practical world people like Tristan Harris, who was designing products for the technology titans, realized that their goal should not be to have billions of people addicted to Facebook's wall, but that technology enables people to flourish.⁵

The fact that democracies do not necessarily focus primarily on the normative layer of technology may account for the growing libertarian argument that governments should let corporations do their job as profits remain the best measurement of good business. Critics of corporations are at times denounced as radical leftists; however, the principal problem is that corporations (or their board) are not elected and thus lack democratic legitimacy. Thus appointing a "Court of content" by them does not change anything from the perspective of legitimacy. They can constantly gain more power on the global scale, pipe their profits to tax havens and operate technologies directly influencing societies irrespective of national borders. Their political influence simply goes global regardless the will of the elected representatives. Corporations also have become significant sources of funding in some states⁶ causing governments to shift from being a political representation of the society to the governor of state assets on financial markets. Is this still a social contract? The argument that corporations have to become more responsible is gaining track in the EU. For example, as any other globally powerful entity, the introduction of digital tax should become an agent of certain normative framework or we will feel the adverse effects of these technologies. Especially as they can be determinantal to the advancement of emerging and existing democracies not only through their usage by authoritarian powers or democratic deficit by corporations, but also given the loss of the values on which democracies stand.

During the United States Presidential elections in 2016, the US experienced election interference to an unprecedented degree. Unfortunately, the US is one of long list of countries that have experienced electoral tampering from malign actors utilizing weaknesses in the digital platforms including but not limited to; the spread of disinformation aimed to undermined democratic society, injecting alternative explanations, lowering legitimacy of political system, and providing alternative anchors for political system legitimacy and stability. As policymakers and institutions struggle to adapt to these constantly evolving threats, democracies are witnessing a surge in domestic actors using the “Kremlin playbook” to further nationalistic and populist rhetoric and undermine core democratic values.

Seen to most liberal democracies as a free, open, interoperable, secure, and resilient⁷ global network, the internet has transformed into a platform to further democratic principles. Meanwhile, authoritarian regimes or ‘digital dictators’ have used it to surveil, censor, and suppress the rights of their people but also to export their influence. As digital authoritarianism⁸ spreads, it also highlights how authoritarian regimes have used the digital space to their advantage and have in some cases, shown dominance in technological advances and exports. For example, China is leading in AI-driven surveillance technologies and is ready to export the whole architecture to support other authoritarian regimes. Russia has demonstrated their cyber prowess with state-sanctioned hacking and disinformation campaigns⁹. These cases highlight the ways in which technology can benefit both democratic governance and digital authoritarianism. If the Western style of democracy wants to preserve the meaning of freedom, they need to become the global regulators of the digital space. The case of GDPR and the recent statement by European Commissioner Jourová that if US wants to do business in EU then it should implement a similar law, proves how a regional power can become a global regulator.¹⁰ We argue that this can be done by using technologies as projectors of value based open societies with normative framework derived from enlightenment, humanism and cosmopolitan ethics.

Conclusion and Recommendations: Why and how should democracy re-invent itself?

The legitimacy of the democratic system since the WWII has been defined geopolitically rather than normatively. Liberal democracy in the Western part of the world melts with neoliberal democracy, making capitalism as legitimate as humanism. This is why corporations do not necessarily represent the value set of the country they from which they emerge.

However, as the technologies developed by corporations cross these boundaries, it is exactly these corporations that have the power to encode cosmopolitan ethics in their product design. In this perspective, Facebook’s “Supreme Court” might bring some good, but the decisions will still lack the democratic legitimacy.

□ There are two options: one, the entity will become democratic on a global scale (cosmopolitan democracy); or two, the corporations will be successful enough that the democratic states will use the normative framework based on cosmopolitan ethics as a unifying instrument between them to draw the desirable direction of the democratic political system. The latter approach means foreign policy of a cosmopolitan responsible state in the current international organizations, prominently the United Nations.

As science provides us with precise data that guides sound decision-making, for example the case of climate change forecasts, technologies can become the instruments to execute the necessary policies.

- We should clearly see when technology has positive implications and when it causes negative disruption. The normative framework is nothing else than a complex value set clarifying dilemmatic situations such as the fine line where freedom of speech online ends and where hate speech begins.
- As corporations become significant global political actors, the democratic entities must be courageous enough to force them to follow the same principles of humanism on which Western society is based.
- Governments should enforce taxation where businesses exercise their business, which is exactly the reason of the digital tax introduced across European area but without consensus on the European level.¹¹
- As democracies are forced to become more cosmopolitan given the technological evolution, they should bring their values on the global scale to secure themselves through advocating humanism and cosmopolitan ethics.

Overall, the consensus that legitimate power lies in democratically elected entities and that these entities are those who are expected to promote and advocate core values is critical in any future regulation of technology. However, since the technologies span across borders, the next form of democratic entity needs to be cosmopolitan in nature.

- Since cosmopolitan democracy still looks too utopian, we propose semi-cosmopolitan technology governance embraced by liberal, humanistic and cosmopolitan values that will unite those who wish to preserve societies that are based on a normative framework and shine the light on authoritarian powers or populist politics.
- The “Supreme court of content” needs an adopted global declaration, or even a constitution, of cosmopolitan ethics by democratic states in order to work properly.

¹ Sheila Jasanoff, *States of Knowledge: The Co-Production of Science and Social Order* (Routledge, 2004).

² DL Byman and KM Pollack, “Let Us Now Praise Great Men: Bringing the Statesman Back In,” *International Security* 25, no. 4 (2001): 107–46.

³ Anthony Giddens, *The Constitution of Society* (Polity Press, 1984)

⁴ Alexander Wendt, “The Agent-Structure Problem in International Relations Theory,” *International Organization* 41, no. 3 (1987): 335–70

⁵ <https://www.tristanharris.com/>

⁶ Norway’s Oil Fund has \$1 trillion in assets, owning 1,4% of all listed stocks in the world.

⁷ <https://www.newamerica.org/cybersecurity-initiative/reports/idealized-internet-vs-internet-realities/>

⁸ <https://freedomhouse.org/report/freedom-net/2018/rise-digital-authoritarianism>

⁹ Mueller report, see: <https://edition.cnn.com/2019/04/18/politics/full-mueller-report-pdf/index.html>

¹⁰ https://ec.europa.eu/commission/presscorner/detail/en/STATEMENT_20_120

¹¹ Zygmunt Bauman, Didier Bigo and five other philosophical icons have argued after the Snowden’s revelations that what we witnessed was not only a plain massive global surveillance by western democratic states with participation of global corporations that emanated from them, but a massive failure of their security institutions that should be securing these democratic values, not violating them. Zygmunt Bauman et al., “After Snowden: Rethinking the Impact of Surveillance,” *International Political Sociology* 8, no. 2 (2014): 121–44, <https://doi.org/10.1111/ips.12048>.

