The President of the European Commission, Ursula Von der Leyen, has described the European Green Deal (EGD) as the "man on the moon moment" of the EU, which will turn the challenge of climate change into an opportunity for Europe. The ambition is for the EU to be a leader and norm-setter in climate change policies and be carbon neutral by 2050, with ambitious interim targets for 2030. The funds allocated to the EGD by the European budget are substantial: €600 billion, corresponding to 30% of the 2021-2027 budget (€1074 billion) and 37% of the post-Covid recovery fund (€750 billion).

If the EU is successful, the EGD will have major geopolitical consequences. The EU depends on fossil fuels for almost ¾ of its energy mix and has substantial weight in the global energy market – importing 20% of global oil. If European imports were to be substantially curtailed, that would negatively impact its main sources of energy imports, chiefly Russia, Algeria, Azerbaijan, Kazakhstan, Norway and Libya. It would also have an impact on the overall balance of the oil market, depressing prices. That would hurt countries which have a relatively higher cost of production, like Russia, which could find itself priced out of the market, while Saudi Arabia, with a low cost of production, could increase its market share. On the other hand, China would not only benefit from lower oil prices, but also from the increased dependency of Russia on the Chinese market for exports, and from the increased dependency of Europe for imports of rare earths.

The trade implications of the EGD remain a major unknown. A carbon border adjustment mechanism is seen in Europe as a necessary complement to ambitious domestic decarbonization goals. Without such a tariff, European industries could become uncompetitive, and carbon intensive industries would move their production out of Europe. But the mechanism may run afoul of WTO rules, and could easily become a major bone of contention with trade partners of the EU, especially the US, which exports significant amounts of oil, gas, agricultural products, and automobiles to Europe.

Much will depend on how the US, China and Europe decide to manage their relationship on climate. The Biden administration has ambitious climate goals for 2050, which parallel the European goals, as both want to claim leadership for climate. That will put the US in a healthy but potentially contentious competition with the EU. Will the US and the EU prioritize transatlantic cooperation on climate, and agree on a common carbon border adjustment mechanism which could be perceived as primarily targeting carbon intensive Chinese exports? Alternatively, will the US be tempted by an agreement with China that could be less contentious than a negotiation with the Europeans? Or will the EU, wary of a confrontational stance vis-à-vis China at a time when its dependence on rare earths may increase, want to avoid the perception of a "new cold war"?

Both the American and European final positions will be influenced by domestic considerations that may lead to a lowering of the initial ambitions. The experience of France's gilets jaunes movement – which was triggered by a modest diesel tax increase – has not gone unnoticed in other European countries and in the US, and all governments are likely to tread cautiously when taxing carbon use. President Biden as well as the EU are more comfortable highlighting the development of alternative energies, but they probably know that renewables are unlikely to be sufficient to meet the ambitious targets set in Washington and Brussels. As carbon pricing becomes a more pressing issue, the domestic political debate will inevitably intensify.

In Europe, the magnitude of the ambitions of the EGD is not yet reflected in national debates, and differences between countries with diverging interests are likely to grow as the public becomes aware of the consequences. The European Commission has just proposed a "taxonomy" which will define green investments. That is likely to trigger a bitter debate between the supporters of nuclear energy as a green energy – led by France, although the government itself is divided on the issue – and their opponents. For instance, Poland, a coal producer, is also a proponent of nuclear energy, as are other central European countries. Likewise, the role of gas in the energy transition is also a very divisive issue in Europe, made even more sensitive because of its geopolitical implications, Russia and Algeria being two major exporters of gas to Europe. Several EU countries will not want to risk destabilizing Algeria, or further antagonizing Russia.

In the end, the Green Deal raises major international and domestic issues for Europe. On the international front, the commitment of the EU to its lofty ambitions will be tested with each new trade deal it signs, and more importantly with its implementation. The EU-Japan trade deal is the first to include a reference to the Paris Agreement, which creates a legal basis for further action. The EU-Vietnam trade deal – ratified by Vietnam in June last year – also explicitly commits both sides to implementing the Paris Agreement (among other international environmental agreements).

The EGD could also trigger new opportunities for cooperation, for instance with Maghreb countries on developing wind (Morocco in particular), and solar energy (all of the Maghreb) which could provide electricity to Europe. On the domestic front, the €17.5 billion (included in the €600 billion mentioned above) earmarked for the "Just transition fund" is far from enough to alleviate the socio-economic impact of a Green transition. At this early stage, the gap remains large between general support for climate action – which is generally strong in the EU, and support for carbon taxation – which remains weak.

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