*Danijel CRNČEC**

COVID-19 CRISIS: MORE EU INTEGRATION AND A STEP FORWARD FOR EU ENERGY POLICY AND CLIMATE ACTION?

Abstract. *The article has two aims. First, to analyse the impact of the Covid-19 crisis on EU integration and, second, the impact on EU energy policy and climate action. The analysis relies on the theoretical framework developed by Schimmelfennig, complemented with the analytical approach developed by Falkner. The article establishes that the Covid-19 crisis and the EU's response to it may be seen as a step forward in EU integration. The EU's response has also significantly impacted the trajectory of EU energy policy and climate action by strengthening elements of the European Green Deal and its green transition.*
Keywords: *Covid-19, crisis, EU integration, energy policy and climate action, European Green Deal*

Introduction

Energy policy has traditionally been a national concern. Although the treaties on the European Steel and Coal Community and the Euratom explicitly covered energy issues, for a long time European countries were reluctant to develop a common energy policy. Energy has become a slowly emerging and contested area of the European Union's (EU) competence (Kuzemko and Hadfield, 2016). A gradual development towards elements of a common energy policy only began to materialise after about 1990, along with intensification of the process towards the internal energy market (Matláry, 1997).

Leaders of the EU met in 2005 at Hampton Court to discuss a plan to create a common EU energy policy, which would go beyond energy liberalisation and include energy security and climate change issues. After three energy packages aimed at liberalising the electricity and gas markets, it was the Lisbon Treaty in 2009 that finally introduced an individual chapter on energy, thereby setting the legal basis for the development of a fully-fledged common energy policy based on the pillars of the internal market, energy security and sustainability. Since then, EU energy policy has seen

* *Danijel Crnčec, PhD, Teaching Assistant, Faculty of Social Sciences, University of Ljubljana, Slovenia.*

considerable development as well as 'fusion' with EU climate policy, reaching a climax with the European Green Deal (EGD), the first priority of the von der Leyen Commission (2019–2024) and its aim of EU climate neutrality by 2050 (von der Leyen, 2019a).

The EU has come to operate in permanent crisis mode. Crises are open decision-making situations, entailing the manifest threat and perceived probability of disintegration. Yet, they may also trigger reform activities and lead to more integration. The euro crisis has produced more integration, whereas the migration crisis has not, whereas Brexit has initiated a disintegration process (Schimmelfennig, 2018a; 2018b). The 'crisis conglomerate' (financial, economic and migration crisis) has induced pressures and challenges for EU policies. Beyond changes in discourse, quite a sizeable amount of policy change has been observed in many areas (Falkner, 2016). Whereas the economic crisis has not fundamentally changed the broad policy objectives and preferences of member states, it has influenced the EU's decision-making process and policy outcomes in such a way that has led to a certain decline in ambition in the EU's climate policy (Slominski, 2016).

Given that the Covid-19 crisis represents for the EU a challenge of historic proportions and has already pushed it into an unprecedented economic downturn, the crisis may trigger reform activities and lead to more integration. It is expected that this crisis will prove to be a test of the energy sector's resilience and the EU's commitment to the transition to clean energy and climate neutrality (IEA, 2020). Both of these assumptions lead to the two main research questions in this article, i.e. what has been the impact of the Covid-19 crisis on EU integration generally, and the EU's energy policy and climate action in particular? The article relies on the theoretical framework developed by Schimmelfennig (2018a) to explain the impact the Covid-19 crisis has held for the EU integration. Parallel to this, the basic analytical approach developed by Falkner (2016) is used to assess whether the Covid-19 crisis has led to any changes in the EU's energy policy and climate action in particular and, if so, how significant they have been.

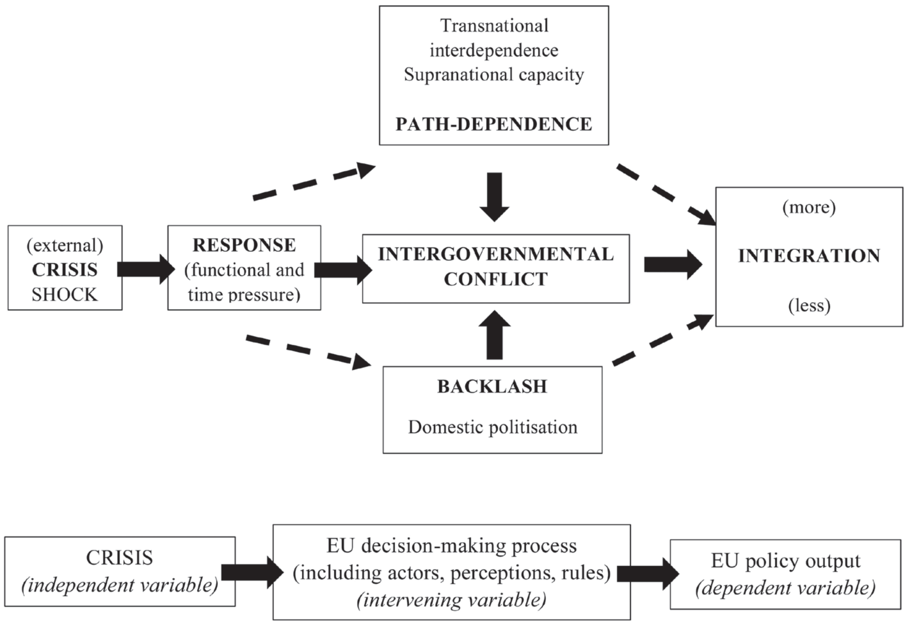
The article begins by overviewing the major theoretical approaches to studying EU integration and integration crises and provides the theoretical framework for the analysis. Then it analyses and explains the consequences held by the Covid-19 crisis for the EU integration, and analyses whether the crisis has in particular impacted the EU's energy policy and climate action.

Theorising EU integration crises and their impact on EU policy process and output

The crises of the last decade have brought with them an increasing body of theory-oriented literature focusing on their impacts on European (dis)integration (e.g. Ioannou, Leblond and Niemann, 2015; Niemann and Ioannou, 2015; Schimmelfennig, 2015; 2018a; 2018b; Jones et al., 2016; Biermann et al., 2019). Moreover, the impact of the 'conglomerate of crisis' (Falkner, 2016) on various EU policies has been researched *inter alia* on energy and climate policy (Slominski, 2016).

Schimmelfennig (2018a) integrated liberal-intergovernmentalist, neofunctionalist and postfunctionalist explanations into a single theoretical framework with the aim to analyse and explain the outcomes of the recent crises on the European integration. In a crisis caused by a shock to the existing regime, states engage in intergovernmental bargaining to find a common solution to the regime failure and to distribute the burdens of the crisis. The outcome is determined by asymmetries of interdependence and bargaining power. Simultaneously, prior integration is subject to feedback processes, whereas neofunctionalism focuses on positive processes of spillover and path-dependence that contribute to the integration, while postfunctionalism stresses the mass politisation of integration whose outcome is backlash and less integration (Schimmelfennig, 2018a) (see Figure 1).

Figure 1: THEORISING EU INTEGRATION CRISES AND THEIR IMPACT ON THE EU POLICY PROCESS AND OUTPUT



Source: based on Schimmelfennig, 2018a and Falkner, 2016.

The theoretical framework starts with liberal intergovernmentalism that is based on assumptions of bounded state rationality and that national preferences mirror (predominantly economic) interests of powerful domestic groups. It explains a common response to a crisis shock by differences in the constellation of preferences between governments and their bargaining powers, and in the severity of commitment problems (Schimmelfenning, 2018a; 2018b).

Governments respond rationally to crises (Schimmelfennig, 2018b), which may be understood as "situations that threaten the EU with disintegration, such as reduction of its membership or the renationalization of its policies" (Schimmelfennig, 2018b: 1578). Whereas crises usually result in asymmetrical externalities, affecting different states differently, they also hold significant distributional implications. Governments rationally pursue their national interest in intergovernmental bargaining by minimising the burden of the crisis and maximising benefits of policy and institutional changes (Schimmelfennig, 2018a: 973). States which are most affected by negative crisis externalities find themselves in a weaker bargaining position and are usually more willing to compromise in order to find a common solution to the crisis shock. On the contrary, states that are the least affected by the crisis typically have a stronger position and are often able to more successfully advocate their preferred solution and extract concessions (Schimmelfennig, 2018b). Consequently, the burdens of a joint response to the crisis are hence also asymmetrically distributed among bargaining governments. Finally, governments rationally delegate competences to supranational institutions to maximise the joint solution to the crisis shock. The more uncertain they are about their domestic actors or other governments trying to revise the agreed solution, the more power they are willing to delegate to EU institutions (Schimmelfennig, 2018a: 973).

Whereas intergovernmentalism has no specific theory of integration crises, neofunctionalism sees crises as an integral part of the process of European integration with usually positive effects, which have led to an increase in the authority and/or expansion of competences held by EU institutions (Lefkofridi and Schmitter, 2015: 4). Neofunctionalism assumes that integration processes evolve over time and develop their own dynamic. The unprecedented nature of EU integration process leads to difficulties for member states in assessing the costs and benefits of possible actions, which result in incremental decisions over grand designs with marginal adjustments often addressing the unintended consequences of previous decisions (Niemann and Ioannou, 2015: 197). Often deficient and incomplete integration steps, which reflect the lowest common denominator of the member states and their national preferences, result in a progressive integration dynamic driven by spill-overs and path-dependencies (Schimmelfennig, 2018a: 973–974).

Spill-over mechanisms can either be functional (the original objective can only be assured by engaging in further integration), political (national elites perceive that problems can only be effectively addressed with a common solution), or cultivated (supranational institutions become agents of further integration due to the benefits arising from it for them) (Niemann and Ioannou, 2015: 198). Path-dependence works in favour of further integration, despite possibly unintended or even inefficient integration, when the costs of stagnation or disintegration become unattractive. In case factors (like sunk and exit costs, endogenous interdependence, the autonomy, competences and resources of supranational actors, and decision-making procedures) surpass critical thresholds, governments, which are reluctant to enter into new commitments, then agree to more integration out of necessity. Crises tend to reproduce and strengthen integration due to institutionalisation and path-dependence, whereas the agreed solution to the crisis shock can be explained by variation in transnational interdependence and supranational capacity (Schimmelfennig, 2018a: 973).

Postfunctionalist theory of integration argues that the key mechanism which has changed the political climate in the EU "from a permissive consensus to a constraining dissensus" is politicisation (Hooghe and Marks, 2009). Politisation may be defined as "as an increase in polarization of opinions, interests or values and the extent to which they are publicly advanced towards the process of policy formulation within the EU" (de Wilde, 2011: 572). It increasingly characterises integration crises and represents an encompassing process with multiple manifestations and functions, broadening the scope of the actors and audiences involved in EU politics. It has contributed to the growing salience of EU politics, as well as the polarisation and opinions on European integration (ibid.). Postfunctionalism argues that politisation has empowered Eurosceptic parties and mobilised Eurosceptic citizens around national identities, meaning lower support for further European integration, especially when strong politisation occurs. Difference in the integration outcomes of crises may be explained by variation in domestic politisation (Schimmelfennig, 2018a: 975).

Falkner (2016: 221) points out that not only do external shocks redistribute critical political resources, unsettle policy beliefs and bring a de-stabilising effect, but are also an important driver of policy change. Whereas economic effects (e.g. substantial economic downturn) are often immediate, other crisis effects, particularly in public policies, are usually mediated (ibid.). Thus, a basic analytical approach has developed that takes a crisis as an independent variable impinging on the EU's policy process and output (see Falkner, 2016). Namely, crisis (as an independent variable) increases the functional pressures for policy innovation and time pressures, and may impact on EU decision-policymaking processes (intervening variable), including actors and their interests, perceptions and rules and, finally, on the EU policy output (a dependent variable) (see Figure 1). Like with the economic and financial crisis, the Covid-19 crisis is profound and multifaceted and one may expect it to impact in some way every single EU policy domain.

Falkner (2016) uses the lens of neofunctionalism while focusing on the analysis of the spill-over effects of a crisis and the role of path-dependency. A crisis will create a need to act and a sense of urgency (functional problem pressure) in order to steer away from the potential tipping point (time pressure). Therefore, the more urgent and the larger the crisis pressures, the more likely it is that they will lead to a spill-over in the form of policy reform. Spill-over is understood in a narrow sense as when a greater scope of themes as well as a higher level of authority result from reforms (Falkner, 2016: 222, 224). In order to understand the changes the crisis may bring about in different policy areas, Hall's concept of different "orders of change" is used (see Falkner, 2016; Slominski, 2016) (see Table 1).

Table 1: MAIN CONCEPTUAL BUILDING BLOCKS FOR ANALYSING CRISIS-INDUCED POLICY CHANGE

Order of change	Operationalisation
1st order	Policy level: change in settings to adjust existing instruments
2nd order	Policy level: change in instruments or techniques
3rd order	Policy level: New goals or altered hierarchy of priorities
4th order	Paradigmatic change

Source: see Falkner, 2016.

The Covid-19 Crisis: More EU Integration?

The Covid-19 health and economic crisis in the EU originated from an exogenous shock due to the outbreak and spread of the "2019-nCoV" coronavirus in China. At the end of February 2020, the outbreak of Covid-19 was announced in Italy and then rapidly spread across Europe. Italy went into lockdown on 9 March, a series of lockdowns followed in other EU countries, while the EU's external and Schengen borders were closed on 17 March. Economic activity in the EU plummeted. Member states soon agreed that Covid-19 and its economic consequences amounted to the most serious crisis ever faced by the EU since Second World War. The EU has entered its deepest economic recession in its history (European Commission, 2020a), which leads to the first part of the main research question in this article: What has been the impact of the Covid-19 crisis on EU integration?

A Bumpy Road to a Common EU Response

By the end of March, a series of fiscal national and EU measures had been approved to help ailing sectors and finance the economic recovery. Further, the Commission and member states had started work on a bigger European economic response package. In the early stage of the crisis, four steps were taken to ensure a safety net of liquidity, i.e. the unprecedented suspension of the Stability and Growth Pact, relaxation of state-aid rules, redirection of EU structural funds, and extension of the European Solidarity Fund. In April, the Eurogroup agreed on three safety nets for jobs and workers, businesses and member states (EUR 540 billion). Along with the fiscal stimulus, the European Central Bank (ECB) also intervened by launching a new-corona-bond-buying programme to buy public and private debt (worth EUR 750 billion). Finally, it was agreed by EU institutions and the member states that a recovery plan was needed to kick-start the EU economy.

A recovery plan soon became the main bone of contention between the member states as well as EU institutions. Namely, the form of the recovery plan and the sources for its financing have become fruitful grounds for hard intergovernmental bargaining, on how the benefits of the recovery and costs of the burden of the crisis should be distributed among EU countries.

Already by 17 March, the Italian Prime Minister was urging the leaders of EU countries to take extraordinary measures and do "whatever it takes" to support the economy, including the issue of "corona-bonds" (Fortuna, 2020). Nine eurozone countries asked for a common debt instrument to mitigate the economic damage caused by Covid-19. The potential mutualisation of debt on the EU level had already been proposed during the 2010–2012 sovereign debt crisis (Eurobonds), yet agreement proved impossible due to the strong resistance of certain countries (e.g. Germany, the Netherlands). The leaders clashed over the issue during a virtual summit on 27 March with the Northern countries rejecting the idea and insisting on using the ESM. Finally, the leaders agreed to "do everything necessary to meet this challenge in a spirit of solidarity" (European Council, 2020a, para 12).

At the end of April, the Commission circulated a proposed roadmap for recovery, which included a European Recovery Fund to be financed from the EU budget. A central and priority role in relaunching and modernising the EU economy, via Marshall-Plan-type investment support, should be played by the green transition and digital transformation (European Commission, 2020b). Leaders of EU countries agreed to work towards establishing a recovery fund, but have remained divided on almost every issue, from the nature of the tool to its size and ways to finance it. On 19 May, the French president and the German chancellor announced their joint proposal for a EUR 500 billion EU recovery programme to be given in the form of grants.

Germany's U-turn from its past support for loans indicated a possible breakthrough. Still, the 'frugal four' countries (Austria, Denmark, the Netherlands, Sweden, later also joined by Finland) presented their counterproposal for an EU recovery fund, to be based on the "Loans for Loans" principle, i.e. unlike grants, the money would have to be repaid (Grűll, 2020).

Finally, on 27 May the Commission presented a new proposal of the next Multi Financial Framework 2021–2027 (MFF) boosted by a EUR 750 billion fund called Next Generation EU (NG EU), an emergency temporary recovery instrument to kickstart the post-Covid-19 recovery.

Hard Intergovernmental Bargaining over Distribution of the Burden of the Crisis

Evidently, the leaders of EU countries were far apart, with one of the most difficult negotiations in the EU history still ahead of them. Main divisions concerned the size, shape, scope, as well as conditionality of the recovery programme. After 5 days of hard bargaining in July (17–22), a compromise was reached on the next MFF and NG EU. The whole negotiations process and the final deal reflect the expectations of intergovernmentalism.

Governments calculated the costs and oriented their negotiation positions to the least costly option. A majority of member states held similar structural positions compared to the previous economic crisis, with the notable exception of Germany. Its U-turn on its past rejection of any debt mutualisation enabled a significant step towards the final compromise on NG EU. This change in Germany's position may be seen in terms of the enormous negative economic externalities of the Covid-19 crisis and their potential to distort the single market, particularly crucial to Germany's export-oriented economy.

The final agreement adopted by the leaders of EU countries strongly reflects the demands of those governments that were the least willing to compromise. The 'frugal four' were given larger rebates (also the German contribution was reduced) and succeeded in rebalancing the ratio between grants and loans. Hungary and Poland succeeded in watering down the idea of linking adherence to the rule of law with payments. An 'emergency brake' on the possible freezing of payments in case of a serious deviation was introduced to accommodate the Netherlands' demand for greater control. The Franco-German cooperation was crucial in sealing the deal, whereas the most affected states (Italy, Spain etc.) were willing to compromise the most, still being better off than not having a deal. At the end, almost all leaders hailed the outcome as "historic".

Politisation and Contestation Remain High

The Covid-19 crisis and the EU's recovery plan have been highly politicised. Similar to previous economic crisis, much attention was paid to the monetary and fiscal measures, which belong to the 'core state powers' and usually result in highly politicised integration politics (Schimmelfennig, 2018a). The Covid-19 crisis was also extremely politically salient because it was primarily a health crisis holding the potential to affect every individual EU citizen, either directly with the coronavirus itself or indirectly by the containment measures imposed and their grave economic consequences.

The Covid-19 crisis has also been highly contested. The initial response of EU countries was lacking in solidarity and was heavily criticised by Commission President von der Leyen, as well as by members of the European Parliament. Moreover, EU citizens were in the majority (57%) dissatisfied with the solidarity in Europe and (69%) wished like to see greater EU involvement in resolving the Covid-19 crisis. Many believe the EU has not lived up to its responsibilities in its response to Covid-19, with dissatisfaction being particularly acute in the most affected countries of Italy, Spain and Greece (European Parliament, 2020a; Krastev and Leonard, 2020).

In the initial phase of the Covid-19 crisis, health issues and medical equipment dominated the contestation in national and EU politics, whereas along with the gradual relaxation of the lockdowns and containment measures the issue of the economic recovery rose to the fore, reinforcing the intergovernmental distributional conflict among the governments. They were reluctant to compromise on issues that would be hard for them to sell at home. Consequently, politisation of the crisis means the final agreement adopted by the leaders of EU countries contains many concessions.

Transnational Interdependence and Supranational Capacity as Catalysts of the EU's Response

The Covid-19 crisis and ensuing economic downturn have been marked by increased transnational interdependence. Global demand, supply chains, labour supply, industrial output, commodity prices, foreign trade and capital flows have all been affected. The economic recovery is expected to be incomplete and asymmetric across the member states. Further, due to the strong interdependencies amongst the member states, an incomplete recovery in one of them might spill-over to all others, thereby dampening economic recovery everywhere (European Commission, 2020a).

The economic recession following the Covid-19 crisis is thus bringing all of the member states together, despite differences in their growth strategies. Importantly, it was Germany's U-turn and its proposal with France that significantly contributed to the introduction and adoption of an extensive recovery instrument (NG EU). Parallel to this, the 'frugal four' (joined by Finland) in the end accepted mutualisation of the debt (albeit, they extracted important concessions). The negative economic externalities of the Covid-19 crisis have been too enormous with the potential to cause significant distortion of the single market, making it in the interest of all the member states to adopt an unprecedented economic recovery plan.

In addition to increased transnational interdependence, supranational capacity has played an important role. The ECB has been significant for strengthening the common EU response to the economic downturn. Already very early on it announced "there are no limits to their commitment to the euro", thus echoing the words of Mario Draghi in 2012 to do "whatever it takes" to preserve the euro (Valero, 2020). At the same time, the ESM, which was set up as an international financial institution by member states of the euro area to help them in severe financial distress, established Pandemic Crisis Support to provide loans to euro area member states.

Outcome: The Covid-19 Crisis Has Resulted in EU Integration

Summing up, the EU has been able to respond to the Covid-19 crisis, which has seen a deepening of the EU integration. Next to the unprecedented fiscal stimulus (suspension of the Stability and Growth Pact, relaxation of state-aid rules, emergency safety nets), the ECB has also monetarily intervened to a record extent. In Mario Draghi's manner of doing "whatever it takes", the ECB created the Pandemic Emergency Purchase Programme (PEPP), which in June 2020 was increased from the initial EUR 750 billion to a total EUR 1,350 billion and extended until at least the end of June 2021 (ECB, 2020).

Moreover, member states agreed on an unprecedented recovery effort under the NG EU instrument, which will authorise the Commission to borrow in capital markets on behalf of the EU. A similar measure was on the table during the sovereign debt crisis (Eurobonds), but failed to receive support. Despite the notion that NG EU should be temporary to boost the financial power of the EU budget, the agreement has been hailed as "historic" by many EU leaders. The funds borrowed (EUR 750 billion) may be used for loans (EUR 360 billion) and for expenditure (grants) (EUR 390 billion).

Finally, the leaders of EU countries agreed that the own resources system will be reformed with new own resources being introduced. As a first step, a new own resource based on non-recycled plastic waste should be introduced and apply as of 1 January 2021. Further, the Commission should put forward proposals in a carbon border adjustment mechanism, a digital levy, a revised ETS scheme (possibly extending it to aviation and maritime), and other own resources (which may include a Financial Transaction Tax) (European Council, 2020c).

Despite the lowest common denominator of the member states and their diverse national preferences on how to address the negative economic consequences of the Covid-19 crisis, the crisis has created a progressive integration dynamic driven by a functional spill-over, i.e. the economic consequences of it could only be optimally addressed by further integration, and political spill-over, indicating that governments believe that only a common solution is able to properly address the economic downturn. To a certain extent, also a cultivated spill-over was present as the Commission was an agent of further integration, which would bring certain benefits to it in the form of more competences and in acquiring an important role in the process of allocating funds (e.g. the Commission's allocation criteria, review of the national recovery and resilience plans, consistency with the country-specific recommendations of the European Semester).

Covid-19 Crisis: A Step Forward for EU Energy Policy and Climate Action?

Energy policy and climate action prior to the Covid-19 crisis

The area of energy formed part of the European integration since the outset. However, national differences mean there has not been any rationale to develop a common energy policy for a long time. Only in October 2005 did the leaders of EU countries agree to create a common EU energy policy. The year 2009 may be considered a "watershed moment for the EU energy policy" (Szulecki, 2016: 550) with the adoption of the Third Energy Package and the Lisbon Treaty, which finally introduced the Energy chapter and thereby a treaty basis for a common energy policy.

In March 2014, shortly after the European Council agreed on the 2030 climate and energy framework (including the 2030 climate and energy targets), a proposal on Energy Union was presented by Polish Prime Minister Tusk. It was taken over by the new incoming Juncker Commission and fully reshaped, soon becoming a buzzword and a Commission priority.

At the end of 2018, the Council and the Parliament agreed upon more ambitious EU 2030 energy targets than initially agreed by the European Council in 2014 (headline target on energy efficiency of at least 32.5%, and at least a 32% share of energy from renewable sources). Simultaneously, the Commission set out its long-term strategy and vision that can lead to achieving net-zero GHG emissions by 2050. In March 2019, the Parliament endorsed the net-zero GHG objective and urged the member states to do the same, while also supporting an update of the Union's nationally determined contribution (NDC) with an economy-wide target of 55% domestic GHG emission reductions by 2030 compared with 1990 levels (European Parliament, 2019a). In December 2019, the European Council endorsed the objective of achieving a climate-neutral EU by 2050 (without Poland) (European Council, 2019).

The new von der Leyen Commission introduced the EGD as its first political priority and a new growth strategy, which is to become “the first comprehensive plan to achieve sustainable development in any major world region” (Sachs, 2019). The Commission announced a bold set of (47) legislative and non-legislative actions that should be undertaken in 2020 and 2021 in order to implement the elements of the EGD (European Commission, 2019a):

i) a set of transformative policies (*inter alia*, increasing the EU’s climate ambitions for 2030 and 2050, decarbonising the energy system, and energy efficient building and renovating);
ii) mainstreaming sustainability in all EU policies (*inter alia*, green finance and investment, and a just transition);
iii) strengthening the EU as a global actor; and
iv) the involvement of public and stakeholders (European Climate Pact).

Following adoption of the energy chapter in the Lisbon Treaty, EU energy policy has experienced considerable development, as well as ‘fusion’ with EU climate policy. Creation of the Energy Union and its governance mechanism gave it, along with climate action, an important impetus. They also set the grounds for the new von der Leyen Commission to promote the EGD as its first priority for 2019–2024, and the pivotal piece of its vision of Europe leading “the transition to a healthy planet and a new digital world” (von der Leyen, 2019a). In order to accomplish this, the EU has decided to mainstream climate action across the entire EU budget.

Already in 2014–2020, the EU agreed to make at least 20% of EU expenditure climate-related. Moreover, for the EU long-term budget 2021–2027, in May 2018 the Commission proposed to strengthen climate mainstreaming in all EU programmes by contributing at least 25% of EU expenditure to climate action (European Commission, 2018: 13). Earlier that year, the ‘Green Growth Group’ countries called for a target of at least 20% climate mainstreaming, better reporting, and transparency (Joint Statement, 2018), while the European Parliament backed a significant rise in climate-related spending to “reach 30% as soon as possible and at the latest by 2027”. Further, the European Parliament called for “the establishment of a comprehensive fund in order to support a just transition” (European Parliament, 2018, paras 6 and 86).

Strengthening the EU's Energy Policy and Climate Action

The Covid-19 crisis and its harsh economic consequences have induced pressure and an EU policy response that could, as initially anticipated, hold important implications for EU energy policy and climate action, which leads to the second part of the main research question, i.e. What has been the impact of the Covid-19 crisis on the EU's energy policy and climate action?

The Commission initially failed to introduce in its updated state-aid rules any specific green requirements for firms receiving government support during the Covid-19 crisis, except for publishing information on how the aid received supports the green and digital transformation. The decision to grant state-aid to support green and digital innovation and investment was left to member states (European Commission, 2020d). The Commission then tabled a revised proposal for the next MFF boosted by a new EUR 750 billion emergency recovery instrument (NG EU). All of the money should be channelled through EU programmes "to accelerate the twin green and digital transition", respecting the green oath of "do no harm". It should be guided by priorities identified in the European Semester, Integrated National Energy and Climate Plans (NECPs) and Just Transition Plans. The proposal included a target of at least 25% of recovery spending contributing to climate action, as well as that the investment be guided by a sustainable finance taxonomy to ensure alignment with the EU's long-term ambitions (European Commission, 2020e: 4 and 6).

The agreement adopted by EU leaders on the MFF and NG EU in July brought about important implications for the EU's energy policy and climate action. Both the MFF and NG EU should help to transform the EU through its major policies, particularly the EGD, the digital revolution, and resilience. The EU should be set on a path towards a sustainable and resilient recovery, supporting the twofold – green and digital – transition. Member states should prepare national recovery and resilience plans setting out their reform and investment agenda for the years 2021–2023, which should be assessed by the Commission. Effective contribution to the green and digital transition should be a prerequisite for a positive assessment (European Council, 2020c: paras A2, A18, A19, 18).

Climate action should be mainstreamed in policies and programmes, and an overall climate target of (at least) 30% should apply to the total amount of expenditure from the MFF and NG EU. It should be reflected in appropriate sectoral targets, complying with the objective of EU climate neutrality by 2050 and contributing to achieving the new EU 2030 targets, which should be updated by the end of the 2020. EU expenditure should as a general principle be "consistent with Paris Agreement objectives" and the "do no harm" principle of the EGD, including the use of an effective methodology for monitoring, reporting and relevant measures in case of insufficient progress (European Council, 2020c: paras A21, 18).

Thus, member states took two steps forward compared to the Commission's initial proposal on the MFF 2021–2027, i.e. the overall climate target of EU spending was increased from 25% to 30%, and the funding amount was considerably increased to include funds from the NG EU. Thereby, instead of 25% from the Commission's initial proposal of EUR 1.1 trillion (MFF), (at least) 30% from EUR 1,824 trillion (MFF & NG EU combined) should be devoted to climate action.

Third, a Just Transition Mechanism, including a Just Transition Fund (JTF), should be created to address the social and economic consequences of reaching climate neutrality by 2050 and the EU new climate 2030 target. The JTF should have at its disposal EUR 10 billion under the NG EU and EUR 7.5 billion under the MFF, i.e. a total of EUR 17.5 billion. Access to the JTF should be limited to 50% of national allocation for member states (i.e. Poland) that have yet to commit to implement the objective of achieving a climate-neutral EU by 2050. The other 50% should be made available upon the acceptance of such a commitment (European Council, 2020c: paras A14, 18, 100).

The own resources system should be reformed and new own resources introduced. Initially, a new own resource based on non-recycled plastic waste should be introduced (by January 2021). Later on, the Commission should propose a carbon border adjustment mechanism and a digital levy (to be introduced by January 2023), a revision of the ETS scheme (with possible extensions to aviation and maritime) and, in the course of the next MFF, also other own resources (which may include a financial transaction tax) (European Council, 2020c: paras A29, 145–150). The 2030 targets should be updated by the end of 2020, whereas expenditure from the MFF and NG EU should help in achieving the EU's new 2030 targets (European Council, 2020c: paras A21, A29).

During bargaining on the MFF and NG EU, the leaders of EU countries adopted some harsh compromises for climate action. The total budget of the JTF fell from the proposed EUR 40 billion to EUR 17.5 billion, as the 'frugal four' pushed for less by way of grants than initially proposed. Despite a significant cut, the JTF might nevertheless be more than two times greater than in the initial proposal.

Climate conditionality, whereby only states which have committed to implement the objective of achieving a climate-neutral EU by 2050 would be entitled to the JTF funds, was diluted. The final compromise was that countries which have not committed to the objective of climate neutrality (i.e. Poland) could still have access to 50% of the national allocation.

Finally, it has to be stressed that the agreement of the leaders of EU countries on the next MFF and NG EU is far from final. Namely, besides the Council also the Parliament (as a budget authority) is to participate in the budget process and must consent to the MFF regulation under TFEU (Art. 312).

Yet, the Parliament has heavily criticised the agreement and pointed out, *inter alia*, that it does not accept the leaders' political agreement on the MFF 2021–2027 (European Parliament, 2020b: para 3). It has warned that cuts to the MFF, including cuts to programmes supporting the transition of carbon-dependent regions, run counter to the EU's objectives and the EGD. Further, the Parliament has stressed it will not consent to the MFF without an agreement on reform of the EU's own resources system, and also that it intends to negotiate targeted reinforcements of flagship EU programmes, including programmes relating to climate transition (like the abovementioned JTF) (European Parliament, 2020b: paras 10, 13, 14). The Parliament has stressed the need to also include in the legislation a biodiversity-related spending target of 10%, as well as the need to enshrine the 'no harm principle' and gradually phase-out fossil fuel subsidies (for both the MFF and NG EU). The Parliament has in addition demanded a legally binding MFF mid-term revision by the end of 2024, which would have to also concern the implementation of the climate and biodiversity targets (European Parliament, 2020b: paras 15, 17).

The position of the Parliament, which has proven to be an important green actor in the past, clearly indicates that it will insist on (further) strengthening the elements of the green transition in the MFF and NG, especially of the JTF and on the introduction of new own resources, also very relevant for climate action (ETS revision, carbon border adjustment mechanism).

Conclusion

The article has had two aims. First, to analyse the impact of the Covid-19 crisis on EU integration and, second, the impact on the EU's energy policy and climate action. The analysis relied on the theoretical framework developed by Schimmelfennig (2018a), complemented with the analytical approach developed by Falkner (2016).

First, the analysis showed that the crisis has resulted in momentum allowing for an important leap in the integration. The extent of the negative economic consequences of the Covid-19 crisis, along with their potential to distort the single market, could have led to disintegration had the member states, lacking capacity for unilateral action, not found a common response. Covid-19 has created significant pressure on EU institutions and on the member states, leading to hard intergovernmental bargaining over distribution of the recovery benefits and the costs of the burden of the crisis among EU countries. The analysis confirms the relevance of effects of the prior integration on transnational interdependence (Schimmelfennig, 2018a), which has created a strong impetus for finding a common response to the crisis. Parallel to this, there has been a critical supranational capacity as certain actors have autonomously decided to contribute extensive resources to the common response (e.g. the ECB) as well as to mitigate the intergovernmental distributional conflict (e.g. the Parliament). As a result, the EU's response to the Covid-19 crisis has followed a logic of path dependency, like in the euro crisis (Schimmelfennig, 2018a).

Second, the EU response to the Covid-19 crisis, as materialised in the agreement on the next MFF and NG EU instrument, has impacted the political discourse by strengthening the political priority of the EGD and its green transition. Compared to the pre-crisis proposal on the MFF, the Covid-19 crisis has created additional pressure for further policy change leading towards a more decisive and ambitious EU energy policy and climate action. It has strengthened the momentum initiated by the new von der Leyen Commission when introducing the EGD as its first priority. Despite functional and time pressures to deliver immediate results, and some less favourable elements of the July agreement on the MFF and NG EU, the attention of the leaders of EU countries has remained on the EU's long-term challenges (green and digital transition) contrary to the earlier economic crisis (Slominski, 2016). Significant weight was given to the arguments of not only states as climate front-runners, but also of EU institutions (the Commission, the Parliament), stressing that the energy transition and accomplishment of climate neutrality is indispensable and should be(come) the key building block of the EU's recovery efforts. A new instrument (NG EU) (2^{nd} order policy change) holding significant implications for energy policy and climate action should be created. A higher target should be adopted on climate-related spending (3^{rd} order policy change), covering both the MFF and NG EU, resulting in a considerably larger scope of funds for climate action. The latter should be mainstreamed in all EU policies and programmes. Sectoral targets should comply with the objective of EU climate neutrality by 2050 and contribute to achievement of the new EU 2030 targets. It has been confirmed that these should be updated by the end of 2020. Moreover, the Parliament has clearly signalled that its red lines in its negotiations with the Council on the MFF will include a further strengthening of its green elements.

To conclude, the Covid-19 crisis and the EU's response to it have seen the introduction of unprecedented fiscal and monetary measures, an agreement on the mutualisation of the debt, as well as on the need to reform the EU's own resources system, thereby representing an important step forward in

EU integration. The EU's response has also significantly impacted the trajectory of the EU's energy policy and climate action by appreciably strengthening green elements of the EGD.

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