

Drifting Apart: The EU Green Deal in the Age of Rearmament

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Penelope Celario



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Introduction: The Political Economy of Cannibalised Priorities

When the European Commission unveiled the European Green Deal in December 2019, it was explicitly framed as Europe's new growth strategy—a grand socio-economic project designed to achieve climate neutrality by 2050 while bolstering industrial competitiveness, energy sovereignty, and social fairness (European Commission, 2019). The initiative established a legally binding trajectory through Regulation (EU) 2021/1119 (the European Climate Law), committing the Union to cut net greenhouse gas emissions by at least 55% relative to 1990 levels by 2030 (European Union, 2021). The financial architecture underpinning this transformation relied on public earmarking, regulatory incentives, and sovereign leverage, anchored by the EU's Multiannual Financial Framework (MFF) and augmented by

the historic €800 billion NextGenerationEU recovery package (European Commission, 2021).

However, the structural assumptions under which this green political economy was conceived have been shattered by systemic geopolitical shocks. Russia's 2022 invasion of Ukraine, Eurasian energy market disruptions, and heightened structural unpredictability in transatlantic security guarantees under the Trump administration have thrust hard security, territorial defense, and military deterrence to the absolute top of the EU's strategic agenda (Council of the European Union, 2022; Howorth, 2025). As European capitals scramble to rearm, re-establish sovereign defence industrial capacity, and fulfill elevated defense spending commitments, a profound structural tension has emerged between decarbonisation and military preparedness.

While European policymakers maintain that green sustainability and defense readiness are mutually reinforcing elements of "open strategic autonomy," fiscal reality demonstrates a zero-sum competition for limited public funds, state aid capacity, borrowing allowances, and industrial supply chains. Lacking the political consensus required to formally repeal the European Climate Law, European institutions and national governments are resorting to stealth adjustments: stretching baseline definitions in budget earmarks, shifting research capital toward defense technologies, granting legislative waivers to heavy industries, and allowing critical funding instruments to expire without replacements (European Council on Foreign Relations, 2025; Ten Brink, 2026).

A Green Deal Built for a Different World

The Post-2019 Climate Fiscal Architecture

The original fiscal architecture of the European Green Deal was constructed during a period of historically low interest rates, relaxed fiscal constraints, and relative geopolitical stability. In Communication COM(2019) 640, the European Commission outlined an ambitious blueprint covering energy decarbonisation, circular economy, sustainable mobility, agricultural reform, and biodiversity protection (European Commission, 2019). To finance this transformation, European institutions embedded strict green spending targets across the EU budget. In the 2021–2027 MFF and NextGenerationEU (NGEU), the Union committed to directing at least 30% of total budgetary outlays toward climate-relevant objectives (European Commission, 2021). More importantly, the Recovery and Resilience Facility (RRF)—the centerpiece of NGEU providing €672.5 billion in loans and grants—mandated that member states allocate a minimum of 37% of their national Recovery and Resilience Plans (NRRPs) directly to green investments (European Commission, 2021).

For major beneficiary states in Southern and Eastern Europe, these allocations represented the primary engine of public capital formation. In Italy, the *Piano Nazionale di Ripresa e Resilienza* (PNRR) channeled tens of billions of euros into building energy efficiency (the “Superbonus” scheme), rail expansion, renewable integration, and hydrogen research. Similar dynamics unfolded in Spain, Poland, and Greece. The underlying economic model assumed that public green seed money would crowd in private investment, lowering capital costs for clean technologies and facilitating a smooth exit from fossil fuels.

The Fragility of Public Capital Crowding-In

This fiscal construct contained a fundamental vulnerability: it relied heavily on temporary, off-budget borrowing mechanisms (NGEU) and assumed member states would maintain the fiscal discipline required to fund green investments once emergency facilities expired. The entire framework operated under the implicit premise that soft power, normative regulation, and market-driven industrial transformation would remain the EU’s primary instruments of international influence.

The structural flaw in this design became apparent when high inflation, rising interest rates, and soaring energy prices following the 2022 invasion of Ukraine escalated public borrowing costs. As sovereign debt servicing costs rose across Europe, national governments faced immediate pressure to subsidise energy bills for households and energy-intensive industries, drawing resources away from long-term capital investments in renewables. The green transition’s dependence on debt-financed public intervention left it acutely exposed to sudden shifts in political or security priorities.

The Turning Point: Ukraine, Transatlantic Friction, and the Strategic Compass

The Geopolitical Realignment of EU Priorities

The structural crisis of the European Green Deal was triggered by the convergence of two major geopolitical disruptions: the return of high-intensity territorial war to Eastern Europe and the political fracturing of the transatlantic security umbrella. Russia’s 2022 invasion exposed dangerous energy dependencies that underpinned European industrial competitiveness, forcing the EU to spend over €800 billion in emergency energy subsidies and fossil fuel import diversification away from Russian pipelines toward global LNG markets.

Simultaneously, the re-election of Donald Trump intensified Washington demands for Europe to assume primary financial and operational responsibility for its regional security (Howorth, 2025). The traditional reliance on American hard power to deter external threats while Europe

focused domestic capital on social welfare and ecological transition was no longer viable.

The Strategic Compass as a Fiscal Paradigm Shift

The groundwork for institutionalizing hard security within the EU's budget logic was established in March 2022, when the Council of the European Union formally adopted the *Strategic Compass for Security and Defence*. Framed as the EU's first comprehensive defense strategy, the Strategic Compass set out more than 80 concrete targets to close critical military capability gaps, enhance rapid deployment capacities, strengthen maritime and cyber defense, and secure defense supply chains (Council of the European Union, 2022).

Crucially, the Strategic Compass altered the normative hierarchy of the European Union. While previous European Council conclusions consistently positioned climate change as the existential threat facing the bloc, the Strategic Compass re-framed territorial integrity, military deterrence, and defense industrial capacity as prerequisite conditions for all other Union policies (Council of the European Union, 2022). This document initiated an institutional shift establishing military readiness as an urgent, short-term imperative directly competing with the European Green Deal.

Europe Rearms: ReArm Europe, SAFE, and the Fiscal Escape Clause

The €800 Billion Defense Mobilisation Framework

By early 2025, incremental increases in national military outlays were deemed insufficient to address European defense gaps. In March 2025, the European Commission officially unveiled the **ReArm Europe Plan / Readiness 2030**, an extraordinary framework designed to mobilize up to €800 billion in public and private defense investment by the end of the decade (European Commission, 2025a).

The structural core of the ReArm Europe framework rests on several new financial and regulatory mechanisms:

1. **Security Action for Europe (SAFE) Facility:** A €150 billion joint procurement loan instrument backed by the EU budget to incentivize joint purchases of European-made weapons systems, air defense, ammunition, and military logistics (European Commission, 2025a).
2. **EDIS & EDIP:** Regulatory initiatives forcing member states to procure at least 40% of defense equipment cooperatively and source at least 50% of defense budgets within the EU internal market by 2030 (European Commission, 2025a).
3. **EIB Lending Rule Revisions:** Modifying the European Investment Bank Group's mandate, lifting ethical restrictions on financing ammu-

tion, dual-use tech, and military hardware, thereby freeing up private lending for defense contractors.

The Stability and Growth Pact Escape Clause

To enable member states to fund rearmament without triggering formal EU excessive deficit procedures, the European Commission activated the national escape clause of the revised Stability and Growth Pact for 17 member states in 2025 (European Commission, 2025b). This explicitly allows member states to exceed treaty-mandated deficit thresholds (3% of GDP) by up to 1.5% of GDP annually until 2028 for military capital investments and defense infrastructure (European Commission, 2025b).

While national expenditures on green infrastructure remain strictly bound by fiscal rules, military purchases have been granted structural fiscal immunity. Total defense expenditure across the EU-27 reached €381 billion in 2025—an 11% real-term increase compared to 2024 and a 63% increase compared to 2020 outlays (Council of the European Union, 2026; SIPRI, 2026).

(Data sources: Council of the European Union, 2026; SIPRI, 2026)

Case Study: Italy's Fiscal Re-orientation

Italy provides a clear empirical example of this fiscal substitution in action. Constrained by sovereign debt exceeding 135% of GDP, Italy's defense budget surpassed €30 billion for the first time in 2025, surging by over €2.1 billion year-on-year, with equipment acquisition jumping 20% in 2025 alone (Osservatorio Milex, 2025; SIPRI, 2026).

To finance military expansion while complying with EU fiscal rules, the Italian finance ministry implemented spending freezes and cuts to green transition programs. PNRR funds set aside for railway electrification, local transit decarbonisation, and building retrofits were delayed, scaled back, or reallocated to dual-use infrastructure projects and military transport corridors.

NATO's New Math: The 5% GDP Target and Fiscal Crowding-Out

The Hague Summit and the New Baseline

The fiscal pressure on European climate action reached a structural breaking point at the June 2025 NATO Summit in The Hague. Facing pressure from the United States and NATO's eastern flank, alliance members formally abandoned the historical 2% GDP defense target established at the 2014 Wales Summit (NATO, 2025).

NATO allies adopted a binding commitment to invest **up to 5% of annual GDP** on total defense, security, and resilience by 2035, establishing

a mandatory floor of **at least 3.5% of GDP** strictly for core military capabilities (NATO, 2025).

By late 2025, European allies and Canada increased real defense outlays by 20% year-on-year, with all European NATO members surpassing the old 2% target (Atlantic Council, 2026). However, moving from a 2% GDP military spend to a 3.5% floor requires reallocating an additional 1.5% of GDP annually—demanding the annual diversion of approximately **€280 billion to €350 billion** in public capital away from non-defense budget lines across the EU-27. Because political electorates resist deep cuts to healthcare, pensions, or education, fiscal adjustment falls almost entirely on discretionary capital investment programs—the exact category containing energy transition grants and grid modernization subsidies.

The Accounting Trick: How the MFF Dilutes Climate Funds

The 2028–2034 Budget Proposal and Denominator Expansion

The structural erosion of the European Green Deal is most explicitly visible in negotiations for the upcoming 2028–2034 Multiannual Financial Framework. In July 2025, the European Commission proposed an overall budget ceiling of **€1,984 billion** (equivalent to 1.26% of member states' GNI) (European Commission, 2025c).

While the Commission highlighted that the proposal retained a headline requirement allocating a minimum of **35% of total budget expenditure to climate and environmental objectives**, detailed fiscal analysis revealed a critical accounting shift: for the first time in EU budgetary history, defense, security, and military mobility expenditures were incorporated into the underlying denominator used to calculate the 35% climate share (Centro Italiano per l'Economia Climatica, 2025; European Commission, 2025c).

Under this revised accounting framework, military investments claiming even marginal environmental benefits—such as energy-efficient barracks, synthetic fuel research for jets, or reinforced bridges for heavy tanks—are officially categorized as contributing to the 35% climate target (Centro Italiano per l'Economia Climatica, 2025). As defense expands to 8–10% of the EU budget, the absolute financial volume dedicated to genuine decarbonisation, renewable deployment, and biodiversity protection experiences a sharp contraction, even while headline political percentages appear to increase.

The 2026 NGEU Expiry and the Structural Financing Gap

This budgetary dilution is compounded by an upcoming institutional cliff-edge: the definitive expiration of NextGenerationEU and the Recovery and Resilience Facility at the end of 2026. NGEU was designed as a temporary borrowing instrument, and current treaty arrangements dictate that no new commitments can be made under the facility after December 31, 2026.

NGEU's termination removes over **€100 billion per year** in direct public grants and loans, creating massive shortfalls in green infrastructure and industrial decarbonisation. Despite the September 2024 Draghi Report calculating that Europe requires **€800 billion in additional annual investment** to simultaneously achieve decarbonisation, technological sovereignty, and security, member states have failed to agree on any joint-debt successor instrument for climate (Draghi, 2024; European Council on Foreign Relations, 2025). A year after its publication, less than 12% of Draghi's recommendations were implemented, with clean technology, energy grid integration, and sustainable transport registering the lowest follow-through (European Council on Foreign Relations, 2025).

Death by a Thousand Delays: Legislative and Industrial Slow-down

The Military Carbon Footprint and Science Diversion

Military activities are inherently energy- and carbon-intensive. A 2025 synthesis of eleven peer-reviewed studies published by *Scientists for Global Responsibility* established that for every **€100 billion increase in military expenditure**, an average of **32 million tonnes of carbon dioxide equivalent (MtCO_2e)** is generated in additional lifecycle emissions (Parkinson, 2025). Expanded military activities under ReArm Europe and NATO targets will add an estimated **132 million tonnes of additional MtCO_2e annually** to Europe's balance sheet, offsetting substantial emissions reductions achieved through renewable policies (Parkinson, 2025).

Simultaneously, rearmament causes a misallocation of human and technological capital. The same 2025 study identified a **10% to 25% drop in European patent applications for climate-mitigation technologies** as research capital, engineering talent, and manufacturing capacity were redirected toward defense contractors, munition production, and military aerospace programs (Parkinson, 2025). Advanced foundries and semiconductor lines are increasingly prioritized for defense contracts under national security directives, forcing green technology manufacturers to endure higher input costs and supply chain delays.

Legislative Backtracking of 2025–2026

Faced with rising energy costs, industrial pushback, and geopolitical uncertainty, European institutions executed a series of incremental legislative retreats throughout 2025 and early 2026:

1. **Emissions Trading System II (ETS II) Postponement:** Extending carbon pricing to building heating fuels and road transport was officially delayed by one year to 2028, depriving the Social Climate Fund of early

revenues designed to protect low-income households (European Environment Bureau, 2026).

2. **Automotive Fleet Target Averaging:** Binding 2030 tailpipe emissions targets for automobile manufacturers were modified to introduce a flexible three-year compliance averaging window, allowing automakers to delay clean electric vehicle deployment without incurring immediate financial penalties (European Environment Bureau, 2026).
3. **Deforestation and Due Diligence Waivers:** Compliance deadlines under the EU Deforestation Regulation (EUDR) and Corporate Sustainability Due Diligence Directive (CSDDD) were repeatedly extended under the banner of competitiveness reduction (Ten Brink, 2026).
4. **CAP Environmental Flexibilities:** Environmental cross-compliance rules within the Common Agricultural Policy (CAP) were indefinitely relaxed to bolster food security and calm agricultural protests across member states.

Individually, each regulatory adjustment was defended as a pragmatic administrative calibration. However, when analyzed in aggregate, they represent a systematic legislative deceleration, slowing the EU's exit from fossil fuel dependence (Ten Brink, 2026).

Strategic Pathways: Protecting Climate Action in an Age of Hard Power

If the European Green Deal is to survive as an operational economic reality rather than a purely symbolic legal text, European policymakers must fundamentally re-frame the political economy of decarbonisation to align with the new security landscape:

1. **Re-Framing Decarbonisation as Energy Sovereignty and Hard Defense:** Distributed renewable energy generation, decentralized heat pumps, localized battery storage, and smart microgrids are inherently more resilient to physical attack, cyber-sabotage, and foreign supply blockades than centralized fossil networks or LNG terminals. Framing green investments as hard infrastructure defense—reducing the EU's remaining €300 billion annual energy import bill—allows policymakers to justify green outlays under national security exemptions.
2. **Expanding Fiscal Escape Clauses to Net Green Capital Investment:** If defense capital outlays up to 1.5% of GDP are granted immunity under the national escape clause of the Stability and Growth Pact, net public green capital investments contributing directly to the EU's binding 2030 climate targets must be granted equivalent fiscal protection.
3. **Establishing a European Dual-Resilience Sovereign Bond Facility:** To bridge the massive funding gap created by the 2026 expiration of NextGenerationEU, the European Union should issue joint sovereign debt through a new European Dual-Resilience Facility. This off-budget facility should issue EU-backed sovereign bonds specifically dedicated to

financing projects that deliver simultaneous climate and security benefits, such as grid fortification, raw material stockpiling, and zero-carbon dual-use logistics.

Conclusion: Standing in Name, Hollow in Substance

There will be no formal legislative repeal of the European Green Deal; its core commitments remain legally codified in the European Climate Law. However, legal enshrinement is not real-world execution. The substantive content of Europe's climate commitments is being steadily hollowed out through **budgetary substitution** (incorporating defense spending into MFF climate targets), **institutional expiry** (the termination of NGEU at the end of 2026 without a successor), and **legislative deceleration** (incremental delays in ETS II, fleet emissions, and agricultural standards) (European Council on Foreign Relations, 2025; Ten Brink, 2026).

The core policy challenge facing European governance is no longer whether the European Green Deal survives in name, but whether, by 2030, its institutional core will have retained enough capital, capability, and political authority to deliver the decarbonised, resilient economy it promised—or whether it will remain as a hollow administrative shell in a rearmed, warmer, and vastly more volatile continent.

The reallocation of scientific and industrial capacity away from decarbonisation generates a compounding drag on the green transition that goes well beyond what any budget line can capture. Meanwhile, the legislative record of 2025 tells its own story. The start of the Emissions Trading System II was delayed by one year to 2028, and binding car emissions targets for 2030 were replaced with a three-year averaging window. Each adjustment is defensible in isolation. Taken together, however, they slow the structural exit from fossil fuel dependence at precisely the moment when acceleration is required (European Environment Bureau, 2026). Despite formal reassurances that the Green Deal remains intact, analysts have noted that its institutional scaffolding is being quietly dismantled (Brink, 2026).

Conclusion: standing in name, hollow in substance

There will be no formal repeal of the European Green Deal. Its core commitments remain legally enshrined in the European Climate Law, and the political cost of openly abandoning them remains prohibitive for most member state governments. But legal enshrinement is not the same as implementation. The substantive content of those commitments is being steadily hollowed out through three interlocking mechanisms: budgetary substitution, where an expanding denominator absorbs the climate share without triggering formal renegotiation; institutional expiry, where the instruments designed to fund green investment wind down faster than their successors can be agreed upon; and legislative deceleration, where delays and waivers accumulate incrementally and without the visibility of a head-

line repeal. The question is no longer whether the European Green Deal survives in name but whether, by 2030, it will have delivered anything close to what was promised.

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