



Reforms to Support the European Green Deal:

Policy Recommendations

Abstract

The European Green Deal is not just the next economic strategy. It becomes the most important priority that is meant to ensure EU's recovery, resilience and strategic sovereignty all together. It aims to stop climate change and reverse biodiversity loss. As European Commission President Ursula von der Leyen said, the Green Deal "... is Europe's 'man on the moon' moment". It covers all sectors of the economy, notably transport, energy, agriculture, buildings, industries, finances. It should be a fair transition for all, bringing cohesion and prosperity across EU.



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Reforms to Support the European Green Deal

The conference of Vrana Economic Council in 2021, organised by the Liberal Institute for Political Analyses, addressed some of the issues accompanying the profound change that the European Green Deal has brought to the economy.

The 3rd edition of the international conference took place on the 8th September 2021 as a hybrid event. The conference this year was devoted to liberal approaches to the green transformation of the European economy. The discussions aimed to identify the challenges and opportunities that green transformation brings to other sectors of the economy. It is well known that the readiness and public attitude towards green policies are not the same in different EU Member states.

Agriculture¹

The most obvious tool for the EU to utilize in the effort toward greener agriculture is the Common Agricultural Policy (CAP). CAP has long been the area that consumes the largest portion of the EU budget. The substantiality of the budget also makes it prone to high levels of criticism. The most recent reforms laid out in 2021-2022, which were negotiated over three years and are yet to be approved by the European Parliament, have a budget of 387 billion (Nicolas, 2021). It allows the Member States to propose their plans for how they will allocate the funding before they receive it, but there are still certain requirements for how it should be used.

Despite these requirements, there are concerns that CAP reforms are not deliberate and targeted enough. As each Member State has to draw up its own strategy, including the degree to which green reforms are being implemented, it depends to a large extent on the environmental goals of these individual countries compared to other priorities. Certain EU countries are certainly more ambitious in this regard than others. There are allocated percentages for the budget and some land requirements, however, CAP itself does not have concrete environmental targets, so perhaps CAP could be adjusted, in order to be more targeted

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¹Šarka Prat, Vrana Economic Council Conference, (2021)

Since, Member States create their budget plans on exactly how they will allocate CAP funding, it is crucial that they do so with the input of a plethora of perspectives. In terms of creating the most effective and relevant policies, farmers should be involved, as well as environmental specialists, including those from NGOs and, of course government experts. However, in order to have an efficient policy, there must also be clear targets. Targets allow for better measurements and monitoring of advancements and benefits to the environment from certain policies, which would ultimately be more efficient when trying to reach the goals of the Green Deal.

Transport²

In order to reach the goals of the European Green Deal, policies need to be significantly modified and adjusted in hope of achieving net-zero emissions by 2050. The European Commission highlights the need for sustainability, fairness, efficiency and crucial resiliency. This is an aspect that COVID-19 pandemic proved to be lacking in the transport sector, as it was one of the most affected by the difficulties caused by the crisis ("A fundamental transport transformation: Commission presents its plan for green, smart and affordable mobility", 2020).

In order to achieve this, the European Commission shared the Fit for 55 Package with 12 legislative initiatives to make EU policy on track with the goals of reducing 55% of emissions by 2030, focusing on transportation. It also proposes changes in the types of vehicles being used and produced. These are among the more controversial proposals, as it is argued that they may disproportionately negatively affect less wealthy communities (Valero, 2021). Simultaneously there is a critique that the proposal is not enterprising enough to meet the goals set by the Paris Agreement ("Fit for 55' package furthers the EU climate action, but falls short on ambition", 2021).

As a way of reducing emissions, the European Commission has proposed not to sell vehicles in the EU until 2035 that have an internal combustion engine (Keating, 2021). This means electronic vehicles will need to take their place on production lines. It also means that Member States will need to ensure greater number of charging stations for these vehicles³, as the balance will inevitably shift from majority fossil-fuelled vehicles to a majority of electric cars (Keating 2021).

However, this proposal from the European Commission would mean that electric vehicles would need to become a more realistic and affordable purchase for the average household as demand, and subsequent supply increase, forcing manufacturers to take this into account. It is also important to mention that this proposal does not completely ban ICE by 2035. However, purchasing new ones would not be an option. This leaves time for people to plan for this change before 2050 where the goal will essentially be no more fossil-fueled vehicles.

² Šarka Prat, Vrana Economic Council Conference, (2021)

³ COM (2021) 559 final: Proposal for a REGULATION OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL on the deployment of alternative fuels infrastructure, and repealing Directive 2014/94/EU of the European Parliament and of the Council

Overall, what will be most important when considering the implementation of these policies is the potential social implications. Better care and protection of the environment is crucial, but this should not be done at the expense of the well-being of the average citizen. This will only cause unrest in European society, and will not benefit the green movement. Finding this balance is essential in order to benefit people and the planet.

Many of the policy adjustments related to transport, particularly in relation to the Fit for 55 package, put much of the burden on the individual citizen. Transportation policy should be fair to those who rely on ICE vehicles and may not be able to afford electric vehicles easily. If this switch is deemed crucial to a more environmental, transportation policy, then it should be realistically accessible. In addition, the greater emphasis on efficient public transportation is another green solution, which the EU should consider prioritizing as a tangible goal for its Member States. More public transportation can provide people with an alternative to purchasing or using ICE vehicles, other than the purchasing an electric vehicle.

Energy

The new energy model, which will be valid between 2030 and 2050, is more decentralized, more technological and more flexible. The consumer will play far more important role than the model of the last 20 years. On the other hand, public consent is needed for the value of the transition and the distribution of the price we are willing to pay. The key to the success of the endeavor is to build a proper bridge between the past, present and future model. Energy independence and security can not only be the ultimate goal of this transition, but also accompany change.⁴

In the sense of the above, important reforms are needed in several directions. The transition cannot be done with restrictions only. Incentives are more effective in a market economy, especially when the initiative is in the hands of the individual. Incentives must be combined with support and must reach the end user in order to promote energy savings. The second important aspect is the reform of the regulation, which empowers the consumer, who can also appear as an energy producer. Regulatory barriers to small installations should

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be drastically reduced, in direct proportion to the increase in the use of renewable energy sources as clean energy. Regulatory barriers need to be identified and removed.⁵ This also leads us to the next reform, which should change the thinking of investors and regulators. Energy security requires thinking about energy independence not only as a geopolitical category. If we talk about restrictions, we

should think about natural monopolies and their role in the transition. Poor publicity is created by the promotion of economic activities with a large carbon footprint or outdated technologies. For example, a number of coal-fired power

⁴ Assoc.Prof.Dr. Atanas Georgiev, Vrana Economic Council Conference, (2021)

⁵ Stoyan Panchev, Vrana Economic Council Conference, (2021)

plants produce, subsidized electricity (for example, in Bulgaria)⁶, but they are advertised as a tool of energy independence. The low awareness - the discussion around energy efficiency is not always reaching rural areas inhabitants, is also the reason not to use the opportunity for decarbonisation of small settlements, including rural, mountainous and inaccessible areas. There, the potential for energy independence is very large, taking into account geographical, architectural and natural features. Instead, these settlements use harmful solid fuel on a large scale because they have no incentives or organization to replace it.

The savings from these subsidies could be redirected to financing the transition. The measures on European and on the national levels should be better coordinated. National regulations should not exceed the administrative burden of a heavily regulated market.

The paradigm of true energy independence, shaped by new energy sources such as solar and wind, is poised to be related not so much to the bulk production of electricity at centralised locations, but for the possibility for each single consumer to provide for their own energy services with their own or leased equipment. In order to be able to finance and support initiatives directly impacting citizens, the Social Climate Fund needs to become operational without delay. Both European and relevant national legislation should be adopted and implemented very soon in order to mitigate the risk of energy and mobility poverty amid the already rising energy prices. Thus, even concepts of energy independence are set to change. From a national perspective, this term will mean the ability to guarantee energy independence in the wholesale market; and from a single-user perspective, the new energy independence status may be defined as the sum of every consumer's energy dependence position.

Innovation&SMEs

The European approach to innovation would benefit from leadership and focus. Funds and efforts need to be directed to the research areas with immediate effect on the industry. The EU legislation is currently being drafted, which seeks to regulate both supply and demand side of various sustainable products to diminish CO₂ and other GHG emissions. Their actual introduction cannot take place neither without continuous improvement of technologies, nor without supporting their rapid introduction into mass production. The concrete need of the moment should be at the beginning of the process. Innovation should be market based.⁷

This measure consists of identifying relevant funding mechanisms and sources that can be put in place to support the increased supply of sustainable goods in the EU to support the transition. Funding will be particularly necessary to support research and development of innovative, sustainable and cost-effective sustainable materials, fuels⁸ and other goods. These innovation should follow a twin-track approach - to substitute fossil fuels with their alternatives and to constantly update recycling technology in order to expand the share of circular economy. It will be also important to support not only the research and innovation, but also the development, and production of these goods

⁶ Centre for Study of Democracy, Sofia, Bulgaria, "Report: Accelerated lignite exit in Bulgaria, Romania and Greece", (May 2020)

⁷ Vassil Karaivanov, Vrana Economic Council Conference, (2021)

⁸ European Commission 2021 initiatives ReFuelEU Aviation and ReFuel Maritime

in the EU. High risk and initial capital costs related to the commercialization could be encouraged by innovative financial products designed for the purpose. Among the existing instruments at EU level available are the following.

Horizon Europe is the European Union's research framework programme with a budget of €100 billion for the period 2021-2027.

InvestEU will combine the European Fund for Strategic Investments and thirteen EU financial instruments currently available. This will provide an EU budget guarantee of €75 billion in support of various investment areas, including SMEs.

Innovation Fund under EU ETS is a €10 billion fund over the period 2020-2030, aiming to drive low-carbon technologies to the market with a special focus on industrial sectors in the scope of EU ETS and renewable energy and carbon capture use (CCU) and storage (CCS).

European industrial alliances and state aid schemes could also be highly relevant to providing both innovations and financial support. The new supply chains that are expected to emerge due to the need of lower carbon footprint can become important new markets for European SMEs⁹.

Finances

Finances are one of the building blocks of the new green economy. The green transition can be financed by several sources –by the tax system, by generation of a new debt and by changing the way of life to prevent pollution. Citizens do not have to pay the full price of the transition. Finding a balance in cost allocation requires participation of the private sector. The EU has currently agreed on a sustainable financial framework¹⁰, however the concrete details of which investments will qualify remain to be finalized. These measures, led by the taxonomy¹¹, are a good start. However, the market must comply with the yet unfinished framework and accept it. Member States need to help improve the cash flow towards sustainable activities. At the same time there is a need to enable the investors to reorient investments towards more sustainable technologies and businesses. The question is whether the private sector can bear all the risk and how this will affect its international competitiveness. Against this background, the availability of sufficient, sustainable projects and investment possibilities is fundamental for

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the proper and swift functioning of the market.¹² Therefore, policy priorities should not only be focused on avoiding “greenwashing”, but also on fostering private sustainable projects and initiatives. In this way, the efforts can be shared between EU and the Member States, depending on the scale of the investment and the financing needed. Another solution could be the public-private partnership – a well-known instrument for risk-sharing and encouraging

the participation of private capital in the financing of large scale projects in the EU.

¹⁰ COM (2021) 188 final

¹¹ REGULATION (EU) 2020/852 of the European Parliament and of the Council of 18 June 2020 on the establishment of a framework to facilitate sustainable investment, and amending Regulation (EU) 2019/2088 (Text with EEA relevance)

¹² Sofia Kassidova, Vrana Economic Council Conference, (2021)

Tourism

Despite tourism being such a significant portion of the European economy, COVID-19 pandemic has been a period of trial for the tourism sector. This challenging time for tourism also represents a great opportunity to rethink the norms of tourism, and how making it more sustainable area not only in regards to the economy and socially, but environmentally.

In its efforts towards more sustainable tourism, which should be defined as more environmentally friendly ways of travel, activities, and accommodation while abroad in Europe, the European Parliament adopted a resolution on an EU Strategy for Sustainable Tourism in March 2021. It firstly addresses how to rebuild the tourism sector following the pandemic, and make it more resilient to possible future turbulences. However, it also calls on the commission to “develop a roadmap for sustainable tourism that includes innovative measures to reduce the climate and environmental footprint of the sector” clearly makes the impact of climate change a priority in the tourism industry (“EU Strategy for Sustainable Tourism Text Adopted by European Parliament 25 March 2021”, 2021). It also assigns Member States with a similar goal, to make action plans for more sustainable tourism. This resolution also calls to transform tourism from supporting competence to shared competence.

At present, these efforts are largely voluntary, and the participants are those who have been hit the most by issues such as over-tourism that negatively impacts these communities and their environments. They, in particular, understand the issues and recognize action needs to be taken to preserve their hotspot tourist destinations long into the future. There has been a little initiative taken by the EU to create an updated comprehensive action plan to combat this issue, apart from the recent Strategy for Sustainable Tourism Text. Aside from this, the most recent text from 2007 was a communication from the Commission titled “Agenda for a sustainable and competitive European tourism”.

In order to achieve the goals of The Green Deal, tourism must also be considered, further except in connection with the adjacent issues such as transport, which overlaps significantly with tourism. For example, to address the issue of over-tourism in certain areas, a quota of tourists could be introduced. This could limit the environmental impact that masses of people have on beaches, parks, lakes, and more, and could attract tourists to the plethora of other tourist destinations Europe has to offer, which may not be as well known, which subsequently supports their economic recovery.

As Member States have the task of creating action plans for greener and more sustainable tourism, these governments should go beyond working with the tourism industry. Citizens of the sea areas need to be involved. These are the individuals who are most affected by the negative impacts of tourism. The EU needs to create more incentives for green tourism, and overall create better guidelines on how to achieve this. This may include supporting the creation of limits on the number of tourists in an area at a time, and helping guide other states that receive fewer visitors to develop their tourism sector.

Empowering for a sustainable change

Change must unite, not divide Europeans. They must feel the transition as fair and beneficial for all. Looking at variables that might prevent or slow down the green transformation, EU Cohesion is essential, if we are to achieve a sustainable future for the entirety of the EU. Successful implementation of the European Green Deal requires a strong focus on context of the people. Empowerment is essential in a task so big as the green transformation. So is the public trust. Trust is needed in two main directions - on one hand it is the need to transform many aspects of our lives. On the other hand, it is crucial to create a reliable way to finance the venture. Across Europe these concerns vary a lot, depending on many different factors. Public funds for sustainability should be aimed at creating the appropriate conditions for the prosperity of the individual. We should focus on how the money is spent. In some cases, the entire system is partly conceptualized – and investing money in it can be problematic (e.g., Healthcare systems, Educational systems, etc.)¹³. Empowerment and lifestyle change go hand in hand with system change. Individual efforts need to be supported by changes in the system¹⁴ and reinforce each other. That means introduction of regulation, societal practices and change in the behaviour of communities, of public and private organisations, and of local and central governments.. Infrastructure needs to be developed with the same pace as legislation to enable citizens to make sustainable choices in their daily lives. It is well known that the railway network, electric vehicles charging stations and many others are unevenly developed across the EU and people do not have the same choice.¹⁵

The Green Deal has been an initiative that will be the namesake of the current era, the actions that will shape its future are happening now. In order to achieve the best to both the economic boom of the fossil fuel era and the sustainability of the Green Deal, the EU must focus funds to subsidize the correct sectors and initiatives of economies across Europe in order to achieve goals of sustainability. However, this raises the question of a key feature of the EU and liberal values, such as the market and competition. Transition implies regulation of supply and demand at the same time, as well as consumption.

The sustainability of the green transition can only be guaranteed on the basis of the principles and proven solutions of the European Union. The market economy is just one of these tools.

¹³AlexanderJ.Klein,Vrana Economic Council Conference, (2021)

¹⁴Caroline Verduin,VranaEconomicCouncil Conference, (2021)

¹⁵MariusGobetVrana Economic Council Conference, (2021)

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