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The EU's difficult green revolution

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The Green Deal involves the EU's much-needed decarbonisation. Yet although it is called the EU's "new growth strategy", it is not a shortcut to paradise. Convincing Europeans to bear the cost of this difficult green transition for a long time will be key to its success.

The Green Deal aims to make the whole EU carbon neutral by 2050 through deep – in fact, revolutionary – economic, industrial and technological change. All this needs to be done while respecting the European Commission's call to "leave no one behind" by maintaining inclusiveness and social justice. The snag is that, while industrial revolutions have obvious long-term benefits, they always create winners and losers in the short term – people, regions and sectors. The Commission's analysis of the raising of the EU's 2030 target for reducing greenhouse gas emissions from the current 40% to 55%, published in September, shows that this more ambitious plan could, depending on the macroeconomic model adopted, increase real EU GDP by 0.55% in 2030 in the best-case scenario. In a less favourable scenario, GDP could contract by as much as 0.7% in 2030.

The EU's "new growth model" is therefore the type of long-term investment that first involves huge costs. Considerable redistribution is therefore needed to maintain Europeans' social and political support for the Green Deal. Mining regions, like those in Poland, are a classical example. Other countries face a major challenge, too, like Slovakia, where around 12% of GDP is generated by the automotive sector, which employs around 80,000 workers. For this country, the move towards electromobility means both technological change and job cuts, which are likely to be widespread. As a result, the Green Deal's social cost could push the EU to increase the coordination of social policy to help countries endure the green revolution. Brussels' appetite in this area is already visible; for instance, in efforts to support cooperation between member states when it comes to the minimum wage, which is usually national governments' domain.

Towards green steel

The EU does not have all the instruments that could help implement a just Green Deal at its disposal. It regulates its emissions allowances market and sets standards for cars, but the energy mix, taxes, construction norms and a large part of public investments are individual member states' domain. Nevertheless, the EU – in part thanks to its scale – is capable of handling Europe's "green" economic challenges well. It can temper the increase in energy costs, an inherent part of the green transition at this stage, with investments in energy infrastructure, modernisation and new technology from the common EU budget and with incentives for private investors. It can also wield the EU's "heavy weight" in trade policy to protect member states from "eco-dumping" with the announced carbon border levy and international economic agreements. This means ensuring conditions for fair competition with producers in non-EU countries, who are not subject to such stringent environmental standards.

Moreover, Europe faces the challenge of transforming the restrictions stemming from climate policy into new competitive advantages for EU industry. In this context, there is a lot of talk by Brussels about "green steel" that would be produced in the future using hydrogen.

Reducing emissions in industrial processes, as well as those linked to agriculture, construction and transport, could now turn out to be a tougher challenge for Europeans – in technological and social terms – than the intensifying move towards green electricity production. In transport, for example, it is not just a matter of electromobility or promoting trains over road transport, but also a potential lifestyle change. Europe must test various political and regulatory actions that would reduce the need for individual cars by promoting public transport, among other things. A separate, politically difficult, challenge for the EU linked to the Green Deal is ensuring safe energy supplies while abandoning coal, when gas will be used as a transition fuel. This leads to internal disputes in the EU over pipeline cooperation with Russia or over LNG from the United States.

The "renovation wave" as an opportunity?

During the second half of 2020, the German presidency of the Council of the EU will pilot the Commission's proposal regarding the new emissions target for 2030, which is supposed to be "rebuilt" with support from the Just Transition Fund. During these months, member states need to reach an agreement with Brussels on programmes for spending money from the Recovery Fund, much of which has to go towards green investments. Maintaining Europeans' readiness to support the Green Deal in the long run will require – alongside professional retraining and support for poorer households hit by higher energy prices – showing them, without much delay, that the green transition is a new economic dynamic capable of creating many new jobs fairly rapidly.

The Commission is very much counting on a speedy "renovation wave" that will increase buildings' energy efficiency, reducing CO2 emissions and lowering residents' bills. However, the "renovation wave" also involves work that, even if someone wanted to, cannot be moved outside the EU because it needs to be done onsite. This will create many additional, "pro-environmental" jobs, which the EU will owe to the Green Deal.

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