

## HAPSc Policy Briefs Series

Vol 2, No 2 (2021)

HAPSc Policy Briefs Series



### European Green Deal: Will the Transition Be Orderly for the Private Sector, or Will There Be Discrepancies?

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doi: [10.12681/hapscpbs.29510](https://doi.org/10.12681/hapscpbs.29510)

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#### To cite this article:

Mysirli, T. (2021). European Green Deal: Will the Transition Be Orderly for the Private Sector, or Will There Be Discrepancies?. *HAPSc Policy Briefs Series*, 2(2), 230–238. <https://doi.org/10.12681/hapscpbs.29510>

# European Green Deal: Will the Transition Be Orderly for the Private Sector, or Will There Be Discrepancies?<sup>1</sup>

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## Abstract

In this paper we will try to understand whether the transition towards a green economy, according to the targets and values of the European Green Deal, will be harmonious for the private sector of the EU, or it will lead to discrepancy and adversity. In order to achieve this, we will examine each sector that is most affected by this transition separately and the extent it will be affected. The sectors that we are going to examine are those of energy, transport, agriculture, industry, building, renovation and tourism. Our aim is neither to predict nor to judge the way this transition will play out, but to understand and inform those who are interested in and affected by this new Deal.

**Keywords:** European Green Deal; private sector; green economy; private sector; just transition

## Introduction

The European Green Deal was introduced in 2019 in order to support the EU in implementing the goal of becoming the first net zero continent ever (Macaulay, 2020). The strategy for achieving this could affect many sectors of the public and private market. In fact, the most affected sectors will be those of energy, agriculture, transport, industry, building and renovation as well as tourism. A Just Transition Strategy and Mechanism (Colli, 2020a) has been incorporated in order to provide economical support and spread know-how to the countries, regions and sectors most affected by this transition to a greener economy.

The subject examined is the extension of the effect this transition will have on the private markets of the EU Member States. In the energy sector, focus is given on the obstacles that might appear (European Commission, 2019). In the transport sector, the strength of the German automotive industry that has put pressure on the European Green Deal’s targets and actions will be examined (Haas & Sander, 2020). Accordingly, focus will be given also on the renovation wave that might appear as well as its effect on the building and renovation sector and how the reduction of pesticides may change the agricultural sector (European Commission, 2020a; European Commission, 2021c). Lastly, this paper will examine the industry digitalization and green jobs, the “reduction” of tourism

<sup>1</sup> To cite this paper in APA style: Mysirli, T. (2021). European Green Deal: Will the Transition Be Orderly for the Private Sector, or Will There Be Discrepancies?. *HAPSc Policy Briefs Series*, 2(2), 230-238. DOI: 10.12681/hapscpbs.29510

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as well as the challenges these two sectors could face as a result of the transition (Sulich et al, 2020; Saseanu et al, 2020). The basic aim is to understand the separate challenges each unique sector shall face and the common difficulties these sectors might encounter, as a result of the transition and the changes in the EU market.

## **Energy**

A significant amount of Green House Gas (GHG) emissions in the EU come from the energy sector. That is the reason why decarbonizing the EU's energy system is the biggest challenge to reach the European Green Deal's goals. The goal for GHG is to be reduced 50-55% by 2030 and to have reached net zero by 2050 - by 1990 standards (European Commission, 2019). Furthermore, all other sectors are using energy in their everyday function and energy consumption is where their GHG emissions are mostly coming from. This creates a domino effect and makes it clearer why the sectors that are examined in this paper are influenced in such a way by the Green Deal's transition and why the energy sector is the most affected one.

According to the European Commission (2021a), the goals of the EGD for the energy sector are energy efficiency, a power sector based on renewable sources, secure, autonomous and affordable EU energy supply and a fully interconnected and digitalized energy market. For the implementation of these goals, legislation on the EU energy system will be reviewed by the European Commission and Funding Programs have already been set (e.g., Horizon Europe, JTM etc.).

The energy sector shall face many obstacles in the transition to a greener economy (European Commission, 2019). Firstly, the upskilling/reskilling of the labor market is a significant step so that new job positions will be created and covered by those that will lose their old ones due to low demand in traditional energy factories. Cooperation and motives for companies to make a commitment to the transition are needed in order to reduce their hesitancy and fears, and inform them about the benefits. This will be achieved by giving certifications and global recognition to the companies that pass the standards.

A second obstacle the energy private sector shall face is that of low demand. The financing mechanism for clean energy is a tool built to link countries that voluntarily pay into the mechanism with countries that agree to have new projects built on their soil. This broadens the market for many countries that are reluctant to transition and for countries which show low internal demand. In order to support companies to make the change, the EU needs to better inform consumers and providers about their options (European Commission, 2020c).

The obstacle that the private sector will face through this transition - that might not be able to be eliminated - is the mismatch of prices. Renewable resources will cost, for a period of time, a bit more than non-renewables due to the duration of their domination in the market. This could cause non-wanted competition and companies trying to make the change could be left behind in demand due to higher costs. A few years later, this difference in prices is deemed to be decreased and prices to set. However, in the meantime, this will cause discrepancy and abnormality in the market.

To recover from the pandemic crisis, the private sector should move on to increase in using sustainable practices that are deemed to be the future demand (Colli, 2020b). It is almost certain that there will be a period of time with ups and downs in the energy market, due to the fact of the vast change. Therefore, many of the obstacles the energy sector might face could be reduced by the appropriate planning and action-taking from the EU's tools and programs, but surely they could not be totally eliminated.

## **Transport**

The transport sector is the only sector since the proposal of the EGD in 2019, in which emissions have been increased by 20% (European Commission, 2021d). Car manufacturers will have to put their mind on producing zero - and low-emission vehicles (ZLEV) and the car demand and supply chain to be influenced towards them. In 2017, binding rules were set by the Commission which deemed that stricter targets would lead to more job losses and companies shutting down (European Commission, 2020b). There are several reasons for this abnormality. Firstly, the fact that some member states have different national interests about the automotive industry and influence the EU transport policies accordingly, especially Germany. Secondly, increasing traffic volume is strongly linked to national economic growth. Thirdly, lobbyism is a power that influences and tortures the EU's decision-making practices. As we can understand from the above said, the private sector and especially the German automotive industry has put pressure on the European Commission in order to bring the targets of the EGD to their own liking. More specifically, Germany (Haas & Sander, 2020) was able to reduce the pace of the transition program and fees for the cars that will not make the transition on time. On the other hand, there are many companies and associations (ECSA, 2019) in the private transport sector that support the EGD's targets and see it as an opportunity for them and for the EU to evolve as a global giant through the pandemic crisis.

The EGD, as stated by the European Commission (2021d), promises a greener transport field that will support the private sector and create new jobs, opportunities and an all-inclusive transport system. It is important to note that as a result of the implementation of the EGD's targets, many job

positions will be lost, demand will not balance supply and companies that are not able to make the transition due to lack of know-how or resources will not withstand the pressure. The re-education of the labor market will be a subject covered by EU programs and funding, but it is impossible for it to be all-inclusive. Furthermore, green transport will not be affordable by many until the prices are set. Thus, the market will experience a shock if the appropriate measures are not taken.

### **Agroecology**

Agriculture is responsible for 10.3% of the EU's GHG emissions and nearly 70% of them come from the animal sector. The Farm to Fork Strategy (European Commission, 2020a) has been created to set goals for the agricultural transition towards agroecology. The goals include reduction of the environmental and climate footprint of the EU food system, reduction of food and water waste, spreading information for each food pack (nutrition labelling on the front of the package), recovery of biodiversity, promotion of a more sustainable and healthy diet for European citizens, reduction of chemical pesticides, supporting of local markets, strengthening the market's resilience in the event of crises, ensuring food security and leading a global transition towards agroecology.

For all of this to be implemented, research and innovation are the first step the EU is investing on (Gargano et al, 2020). New legislation and funding programs for farming, fishing and animal farming will be promoted to achieve the goals and many programs will take place for the upskilling/reskilling of the producers that will be interested and seize the opportunity given to them. Unfortunately, many producers will not be able to make the transition due to increased costs from new technologies necessity, using less pesticides that will lead to more plant deaths and from the fact that they will not be able to get the upskilling/reskilling needed. However, this transition seems to attract young farmers and entrepreneurs and to create new jobs for them due to funding and reduction of challenges for the newcomers.

To conclude, there is no clear EU strategy for agroecological practices and action plans at national level are still disorganized. A problem the EU faces is that the actual number of investments needed for the implementation of the goals in each country are not certain (European Commission, 2020a). All this will most probably lead to a period of shock in the agricultural sector that could take many years to set to a normality. The best way to avoid this shock period is for the private - public sectors to cooperate with local societies to drive supply and demand in the right direction. It is important to acknowledge that the EU will have little to do with this step and that governments and the action of the private sector and of society itself is of much more essence to the outcome of this transition.

## **Building and Renovation**

The building sector is affected and affects the sector of energy in a significant amount. It represents a large amount of EU's GHG emissions, final energy consumption, extracted material, water use and waste produced. Most EU's buildings were built with limited energy efficiency requirements, resulting in a need for a partial or total refurbishment in order to fulfill the EU's Energy Efficiency objectives (Mercader-Moyano & Esquivias, 2020). As for the reduction of extracting raw materials and the reduction of waste, it is proposed that recycled materials and ecological equals will be used. The EU will provide certification and global recognition for companies' buildings and builders who have incorporated in their work green building practices. Furthermore, campaigns supporting demand-supply and skill building will take place and policies will be mandatory for the national governments to follow. The building and renovation market will grow through this pandemic crisis, using more renewable sources of energy and more lasting materials according to the EGD's targets.

A Renovation Wave (European Commission, 2021c) will be imperative in the first years of sustainable transition implementation. As a result of this, a bloat in the demand of new practices might appear, but it will most certainly not last longer than a decade or so when most buildings will by then be sustainable. However, more lasting materials might cause a severe drop in demand on the building and renovation field in a few decades and when the demand drops, a rise in unemployment in the field is a probability. Moreover, once again a need for upskilling/reskilling of the labor market in this sector appears, as it will be imperative in all other sectors. For this need to be covered the EU will provide with programs that might not be able to cover the entirety of the field's personnel. Unemployment will rise and companies that will not be able to make the transition could "tumble and fall". Another subject to be examined is the fact that, for many years, demand will not match supply and prices for renovation and construction with renewable sources and more eco-friendly practices will be way higher than those of traditional building and renovation. All this could lead to an upset market. Careful steps can be taken in order to make this abnormality in the market last for shorter periods than expected, but it is not expected to be fully banished.

## **Industry**

There is a chance for the EU to take measures against climate change through its recovery and restructure program from the covid-19 crisis. The EU needs a skills revolution to ensure people can thrive in the green and digital transitions. Rising unemployment (potentially long term), job insecurity and negative wage development are the main concerns of many EU workers. This is where the European Skills Agenda (European Commission, 2020d) comes in. Funds will be coming from

governments, enterprises and the EU's Recovery Plan for Europe and other programs, such as Erasmus. Green jobs (García-Vaquero et al, 2021; Sulich et al, 2020) can be used as an asset to solve or reduce youth unemployment problems, in these trying times. The educational system standards will need a change, bringing forth new jobs, new skills developed and new needs covered in the market. These changes should be incorporated at a national level, but the EU could support them by reviewing and restructuring EU education policies and making proposals for governments and companies to follow.

Competition policies need to be addressed as an issue that will probably lead companies not being able to do the transition to exit the market (Lucchese & Pianta, 2020). This could destroy the balance in many markets and could lead to rise in prices. EU trade policies are also to be reviewed between EU member states. When it comes to the EU's Bilateral Trade Agreements changes should be made to accumulate the transition and to make it more accessible for those who have undergone the transition to sell globally and enlarge their markets.

It is difficult to measure how many people in the EU work in green jobs since there is no agreed definition on the term (Sulich et al, 2020). France, Germany, Portugal and Spain are the four countries that are already taking steps towards green jobs and restructure their education system. It is important to understand what capabilities European citizens are lacking and what capabilities are needed for the transition to a greener economy and then take action. With that being said, upskilling/reskilling programs might not be able to cover the entirety of the labor market in each sector and this shall create adversity in each separate field. In every sector, the use of recycled materials, eco-friendly practices and renewable sources will most certainly be followed by higher prices for the decades to come. A rise of prices is expected and a mismatch of demand and supply. These are some common characteristics that will be met in every industry field of the EU due to the domino effect that will disrupt the markets. As it has already been pointed out, these can be reduced but not eliminated, with the support of the EU.

## **Tourism**

Europe is the world's main tourist destination for foreigners and residents of the EU (European Commission, 2021b). Thus, tourism has a huge environmental impact for the EU member states. Sustainability of tourism covers the responsible use of natural resources, the environmental impact of activities (waste production, pressure on water, land and biodiversity, etc.), clean energy use, the protection of the heritage and preservation of the natural and cultural integrity of destinations, the quality and sustainability of jobs created, the local economic fallout or customer care.

The EU and soft tourism 231 actions (Saseanu et al, 2020) have launched a campaign in favor of a decrease in the tourism sector to reduce the numbers of visitors, overnight stays, economic activities, etc. as a first step towards a more socially and ecologically equitable urban model, through policies of seasonal adjustment, delocalization and decongestion. This will cause a decrease in demand on famous travelling destinations. On the other hand, destinations and tourism establishments that did not enjoy much demand can take advantage of this transition to attract more tourists. Balance may be created in the demand and supply field of tourism. The increase of Internet use and digitization in travel planning has also influenced the sustainability and the demand of tourism in remote regions. There are businesses in this field that continue to neglect their obligations related to the environment, possibly due to a misunderstanding of the benefits they might obtain or a lack of best practice examples.

The EU has developed a European Tourism Indicators System as a simple method for measuring sustainability performance of companies and an EU ecolabel that is a voluntary tool to prove and promote their environmental excellence (Zago, 2020). This is a practice that will help many companies get global recognition and attract tourists from all over the world. The tourist sector might be the only one where demand might be redistributed in other regions to produce balance and not be reduced, as a result of the transition.

Sustainable tourism will be mostly affected by the transport and industry sector and by the digitalization and turn of interest of the public. Famous regions that were filled up with tourists in the past years could be negatively influenced by this transition (European Commission, 2021b). Apart from that, investments could more easily transfer to more sustainable practices than in other sectors due to the flexibility that characterizes the tourist sector.

## **Conclusions**

On becoming the world's first climate-neutral continent by 2050, the EU needs to support the private sector, engage citizens, inform and spread the know-how to companies in order to reduce the consequences of an abnormal transition. Through innovation, collaboration and transparency, this big leap towards a greener economy can give a significant relief to the EU economy in the post-pandemic period (Colli, 2020b). Supply chains should transform to adapt to new values, new investment strategies should be built and ambition should be the driving force for the companies that could try to go down this road (Macaulay, 2020). All this could create value and benefit those companies and regions that decide to seize the opportunity of this transition.



If the private sector of EU member states does not cooperate and move towards the same direction, the markets of the above-mentioned sectors and generally, the whole EU economy, might pass a period of time that could be characterized by severe discrepancies and adversity (Herweijer & Joppa, 2020). Once again, a change in the private sector is not to be sustainable if a socio-economic change does not follow. A period of disruption could appear as a result. Unfortunately, a disturbance in the EU markets is most likely. The size of it is more related with the ways governments, the private sector and the public could react rather than with EU reaction.

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