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Achieving a carbon neutral economy by 2050

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The new European Green Deal plans to make the EU carbon neutral by 2050 while opening up new possibilities for development and employment. The European Commission wants to send a strong message to the world on dealing with climate change, but a number of thorny issues will need to be tackled.

Securing funding for the initiatives covered by the Green Deal will be difficult, and may be exacerbated by political splits and resistance to the overall goal from certain EU member states. The EU may also go down the wrong path of picking winners or try to play down the true cost of reaching a carbon neutral economy. Both of these strategies could backfire.

The EU should instead focus on adopting an innovation-friendly regulatory environment, harnessing the carbon-absorption elements in nature and taking an impartial approach to technologies and energy sources in the transition towards a carbon neutral economy.

Introduction

Strong feelings about the environment and climate change are growing, particularly among younger people. The school strike protests across Europe launched by teen activist Greta Thunberg and the more extreme activism of groups like Extinction Rebellion are concrete examples of this. Politicians are being forced to do more, and be seen to do more.

In response, European Commission President Ursula von der Leyen has pledged to introduce a 'European Green Deal' within 100 days of taking office. This plan aims to achieve the Herculean task of cutting emissions and reaching carbon neutrality by 2050 while ensuring social justice.

The EU policies that aim to achieve a carbon neutral economy by 2050

The European Green Deal plans to launch a whole raft of initiatives from a policy and a financing perspective. On the policy side, the proposal aims to do the following:

- Make the EU carbon neutral by 2050, and increasing the 2030 emissions reduction target from 40 per cent to 55 per cent.
- Extend the EU Emissions Trading System to cover the maritime and aviation sectors. This will then be followed by traffic and construction.
- Introduce a Carbon Border Tax to avoid carbon leakage.
- Review the Energy Taxation Directive.
- Launch a New Circular Economy Action Plan.
- Inaugurate a Biodiversity Strategy for 2030.
- Adopt a new 'gas decarbonisation package' with a focus on renewable and decarbonised gas which will be adopted in late 2020/early 2021.

In addition, the European Green Deal plans to introduce a strategy for green financing. It will also launch a Sustainable Europe Investment Plan which promises to unlock €1 trillion of investments over the next decade (von der Leyen, 2019).

How does the new college of Commissioners impact this energy transition?

While Dutch centre-left Executive Vice President Frans Timmermans will be in charge of the 'European Green Deal' the financing sits with a centre-right former Latvian prime minister and Commissioner responsible for a 'Europe that works for people', Executive Vice President Valdis Dombrovskis. This is important for three reasons.

Firstly, Commissioner Timmermans will be the face of the European Green Deal and its success or failure will rest on his shoulders. Secondly, with Commissioner Dombrovskis holding the purse strings, he will be the one exercising the real power. Mr Timmermans is aware of this reality and in private has expressed his frustration and annoyance at having his hands tied (Politico, 2019). The two Commissioners have very different world views and are likely to clash. Mr Dombrovkis oversaw a period of austerity while prime minister of his own country whereas Mr Timmermans is a socialist.

Thirdly, this dynamic represents Commission President von der Leyen snatching back control of environmental and climate policy for the centre-right within the European Commission. Despite the grand visions of Ms von der Leyen in her inaugural speeches, many of the more adventurous initiatives are likely to be watered-down. There is a hope that a more business-friendly approach to reaching carbon neutrality will be adopted as a result.

Furthermore, the role of gas as a transition fuel towards a carbon neutral economy is helpfully endorsed by new Energy Commissioner Kadri Simson, a liberal from Estonia's Centre Party and a former minister of economic affairs and infrastructure (EURACTIV, 2019 and Climate Home News, 2019).

What are the potential problems with these policies from a free-market perspective?

As with the Green New Deal in the US, sponsored by Alexandria Ocasio-Cortez and Ed Markey, the aim of the European Green Deal is to address climate change and economic equality. While this may sound worthy on paper, the politics and the economics paint a different picture from a free-market perspective.

Firstly, while the EU goal of becoming a world leader in the circular economy and clean technologies as well as decarbonising energy-intensive industries is good, the means are not. The European Union is currently heading down an interventionist path. With the UK leaving, and therefore the traditional counterweight being removed, France and Germany have already signaled that they want to pick environmental winners. Whether this is through industrial policy or environmental schemes, the desire will be to choose and back selected national champions (Financial Times, 2019). This kind of *dirigisme* is bad for business, bad for consumers and bad for the economy as resources are not allowed to flow to where they will be best served.

Secondly, European Green Deal advocates are not being open about the scale of the adaption needed and the costs associated with this seismic disruption. Europe cannot become climate neutral by 2050 without colossal efforts in research and innovation to develop new technologies. By way of example, the European Commission's Climate Road Map states that €175-290 billion of investment in energy infrastructure will be needed annually to reach carbon net neutrality (EC, 2018). Furthermore, a recent study also underlined that, for heavy industry (steel, chemicals, concrete and cement) to reach carbon neutrality, €40-50 billion will need to be invested every year up to 2050 (Material Economics, 2019). Added to this will be the cost of retraining workers, closing down power plants and retooling whole industries.

Thirdly, the EU is not well-structured for grand visions: it is better suited to piecemeal tinkering in siloes. The ability of the EU to push through one size fits all strategies is also getting harder in an increasingly complex EU with many competing interests. It will be relatively simple for a country such as Denmark, which boasts a large share of renewables in its energy mix, to work towards carbon neutrality. It will be more difficult to force Poland to abandon coal when 80 per cent of its energy comes from this source (Financial Times, 2019) and it is vital to the country's self-sufficiency in energy generation. This is an important issue for the Polish electorate while the country also has a large, noisy and politically sensitive mining sector. European Commission officials don't need to get elected, but they need to be aware of the challenges faced by law-makers who do.

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What alternative economic policies should be pursued in order to achieve a carbon-neutral EU economy?

Supporting advancements in science and technology will be crucial to reaching a carbon neutral economy. This will mean creating an innovation-friendly regulatory environment as well as encouraging financing possibilities from a broad range of sources. A free market approach which allows good products and solutions to succeed without interference will be vital. The EU economy as a whole will benefit as the best technologies are developed and sold around the world. These solutions could include affordable carbon capture and storage technologies,new forms of clean energy, and the development of carbon-absorbing materials. In order to accommodate and store renewable energy, battery technology also needs to develop. This is one of the key areas that is holding back the widespread use of renewables today.

However, curbing emissions from sectors which are currently fossil-fuel intensive represent only one side of the coin. European, national and regional policymakers should not neglect solutions which increase the 'carbon absorption' capabilities of forests, soil, oceans and other natural sinks (World Economic Forum, 2019). While companies and organisations will pay an appropriate price for the environmental damage they cause, they should also be rewarded for mitigating their CO2 emissions. In this context, the preservation and restoration of ecosystems and nature-based solutions should be encouraged by the public and private sectors since it will have a key role to play in mitigating climate change and providing multiple benefits.

Furthermore, decision-makers should realise that gas is a cost-efficient transition fuel over the short to medium term. Gas will not only fill the power gap when the sun is not shining and the wind is not blowing: it is also 40 per cent cleaner than coal (IEA, 2017). This means allowing fracking in the same way that this has been successfully done in the US.

At the international level, the EU should look to a stronger energy trade relationship with the US. This would mean a move away from a volatile, aggressive and undemocratic Russia to focus on Liquefied natural gas from a traditional friend and ally. As of May 2019, about 13.4 per cent of all EU gas imports came from the US, an increase of 272 per cent since 2016 (EC, 2019), but this trade can be expanded further over time.

Conclusion

The transition to a carbon neutral economy will be complex, expensive and face many political and social barriers. The European Green Deal contains a number of policy and funding initiatives which need to be workable and business-friendly.

The EU needs to avoid picking winners and supporting national champions, adopt an innovation-friendly regulatory environment and take a technology-neutral approach in the transition to a carbon neutral future.

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About the author

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Glen was previously responsible for the Nordics, Baltics and Central & Eastern Europe within an international communications agency. Prior to this he worked for the European institutions as well as governments, blue-chip international companies, startups and NGOs as a lobbyist, strategist and communications advisor.

Glen was also the Secretary General of a European trade association for five years. Today, Glen is a respected commentator on European affairs, as well as a frequent presenter, moderator and panelist at European policy events. Glen is also a trainer and coach on policy and communications techniques for the public and private sectors.