

# Ambitions of Green Deal May Hinder Its Achievement



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In December 2019, the European Commission presented a set of policies and targets known as the 'European Green Deal'. Already in January 2020, the European Parliament voted in favor of adopting the deal. Subsequently, a number of long-term environmental plans have been adopted and the Fitfor55 package was introduced. The latter is already translating the general objectives into specific changes in legislation.

The Green Deal is an initiative that has – and will have – major economic and redistributive impacts, never before seen in the European Union (EU). Its fulfilment requires not only a complete shake-up of the foundations of the European economy, trillions of dollars of investment, but also the implementation of technological innovations that we have not yet discovered.

Today, however, we know that achieving ambitious emissions targets, well planned in a period of cheap and available energy, is far more difficult to achieve in a period of scarcity and uncertainty. Energy markets have *given a lesson* to European politicians that the managed planning for economic transformation is not at all easy, if not impossible. Economists know that it is impossible to put all the variables into a model and give the right weighting to known risks. Two years ago, few people in Brussels could admit that in 2022 we would be desperate to save every cubic meter of natural gas. The positive enthusiasm and conviction that the EU must be the leader in achieving carbon neutrality did not allow for acknowledging these risks.

Today, however, we are in a different situation. Not that the CO<sub>2</sub> emissions of one ton of oil have changed, or that the intensity of the methane greenhouse effect has decreased. What has changed radically is the price and physical availability of elec-

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tricity and natural gas. Coal-fired power stations are being restarted, which is in stark contrast to the intentions of the Green Deal. The present publication succinctly describes most of the key risks and pitfalls that the Green Deal will be forced to face.

Emissions trading aims to create a market price for emissions, while capping the total volume of emissions. However, the price of permits has risen many times over the last two years, which has understandably been passed on to the price of energy produced by fossil fuels. This raises the question of the appropriateness of this instrument and potential introduction of alternative solutions – whether it is a carbon tax directly, but also, the use of various forms of carbon offsets. The potential of waste and biomass has not yet been fully exploited either.



The essence of the Green Deal lies in limiting the production of cheap fossil energy and replacing it with renewable, albeit increasingly expensive, energy sources. Rising energy prices are thus leaving politicians in a dilemma as to which target to prioritize – the climate objective or the political and consumer objective of cheap and affordable energy. Using Hungary as an example, Márton Schlanger argues that artificially lowering energy prices is difficult to sustain, costly, and creates winners and losers.

This dilemma has become a *trilemma* as a result of the war in Ukraine. It is no longer just about *climate* versus *affordability*, but also about Russia, which has contributed to the rise in energy prices and is benefiting greatly from the recent developments. All politicians in Europe are caught in this bind – above all Germany and a number of countries in Central and Eastern Europe. Using the example of the Czech Republic, Christopher Strong illustrates that the short-term use of high-emission local coal may be the preferred solution to the growth of discontent in society.



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The current situation in the energy market reinforces the demand for member states to be able to decide on the ambition of their emission targets and the form of their achievement. They are in different geographical circumstances which determine the choice of renewable energy sources. There are many pathways to decarbonization, and by describing the example of Slovakia, Martin Vlachynský shows that meeting stringent targets can be achieved by transforming a single steel producing company.

It would be naive to claim that high energy prices are a market failure. On the contrary, they are a textbook manifestation of strong demand and insufficient supply. If there was a shortage of gas, the price of electricity must have risen, since it is determined on the common market by the most expensive flexible generation – which is precisely gas-fired power stations. Once again, the benefits of free international trade have been demonstrated in this critical situation. The lack of gas from Russian pipelines (but also of oil or coal) is being replaced to a relatively large extent by gas imported from tankers from all over the world. However, relying on an endless supply of cheap Russian gas means a current lack of LNG processing capacity. Here, there is great potential for exploiting the capacity of the Iberian Peninsula – as indicated in his article by Ricardo Silvestre. However, he also points out that large and rapid investments will be needed to fully connect them to the continental networks.

This brings us to the key issue of the Green Deal – investment decision-making. Economists prefer technological neutrality, but the emergence of the green taxonomy indirectly decides the chosen technologies. Germany's dependence on Russian gas would have been considerably



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lower if Germany had not voluntarily divested itself of nuclear energy, which continues even in this crisis situation. Green taxonomy unnecessarily closes the door on low-emission sources capable of supplying stable energy even in darkness and windlessness. Until we master electricity storage technology, we will be dependent on 'night-time' sources of electricity. Green hydrogen has some potential, but its production is quite energy intensive, which will be a problem, especially in a situation where almost everything is about to be electrified.

All these technologies, not just renewables, will require trillions of euros of investment. Therefore, every unnecessary bureaucratic hurdle will have a cost of billions of euros on such a large scale. Karolina Mickutė also describes, using Lithuania as an example, that it is not only necessary to shorten the permitting processes, but

also that in order to achieve such a fundamental change, it will be necessary to think about change in taxing companies as well. Not taxing reinvested profits is a cheaper and more effective solution than massive subsidy schemes from central budgets, which can increase the bureaucratic obstacles many times over.

The current energy turmoil poses a huge challenge for European politicians. Energy availability and a functioning energy market are essential to maintaining living standards and future economic growth. Irresponsible radical interventions in pricing may come back with high costs in the future. The same applies to inadequate targets, which will be impossible to meet. The Green Deal has noble intentions, but at the end of the day, it is the outcome that will matter more than the process. To quote Máté Hajba's words featured in this issue of the *4liberty.eu Review*: "Let us hope we will remember the EU and the Green Deal as a torchbearer in many fields – such as sustainability, energy, research and innovation, trade, and not as an overambitious desire to be first at any cost".



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