

European Green Deal: Opportunities and Challenges of Croatia's Green Transition

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The European Green Deal as the EU's Response to Climate Change

The European Green Deal (EGD) represents EU's blueprint to tackle the issue of climate change. It is an outcome of two parallel processes that are of newer origin. First, over the course of last decade green politics went mainstream and demand for green policies became one of the most pressing political issues for the majority of Europeans. Standard Eurobarometer 95 shows that climate change is identified by European citizens as the second most important issue facing the EU (Eurobarometer, 2021). Second, European green political parties, long-time regarded as anti-growth political force, have embraced business community. This U-turn propagated the idea of green transition as a political imperative also among political parties of different political lineage.

EDG has several key goals: to reduce emissions, create jobs and growth, address energy poverty, reduce external energy dependency and improve health and wellbeing. As a reaction to the economic shock induced by the COVID-19 pandemic the EU responded forcefully to avert first and foremost its short-term impact. However, Next Generation EU (NGEU) as a one-off crisis management tool shows that the EU has not lost sight of the long-term preparedness to tackle climate change. €750 billion in loans and grants to be paid out and used until 2024 have two overarching goals. Namely, each member state's National Recovery and Resilience Plan (NRRP) submitted to the European Commission and approved by the Council of the EU has to allocate at least 37% for green and 20% for digital investments.

The latter's impact is additionally compounded by Multiannual Financial Framework 2021-2027 allocation of €1074, the bulk of which will be channeled into climate and energy policy. Finally, besides providing necessary funding, the EU embarked on a regulatory and legislative campaign to facilitate green transition. This summer European Commission tabled a package of energy and climate laws bent on reaching the EU's 2030 goal of cutting emissions by 55%, and putting it on track to hit net zero by 2050, also popularly called Fit for 55.

Setting Croatia in the Context of the European Green Deal

Croatia is a member of the EU that enjoys a good starting position when it comes to achieving goals of decarbonisation, green development and climate neutrality. The latest evidence of political commitment to latter goals is Croatia's pledge at COP26 in November 2021 to end

deforestation by 2030, phase out coal by 2033 and reduce methane emissions at least 30% from 2020 levels by 2030 (Al Jazeera English, 2021). Furthermore, the share of renewable energy at 28.5% of the total energy consumption in the country positions Croatia above the EU-27 average of 19.7 % (Eurostat, 2021a). Per capita emissions of CO₂ had reached their peak of 5.7 tonnes in 2007 and dropped to 4.14 tonnes in 2020 (Our World in Data, 2021). Additionally, the energy intensity or how much energy per unit of GDP the country uses has steadily declined, from 1.91 kWh in 1993 to 1 kWh in 2016 (ibid.). Overall, there is a clear green direction that is politically feasible and Croatia boasts favourable legacy of renewable energy use, which are some of the key Croatian strengths in the context of energy transition.

Tapping into all opportunities offered by the EGD/NGEU would immensely facilitate the reconciliation of growth imperative, given the fact that Croatia represents one of the least developed EU member states, with the goal of achieving climate neutrality and avoiding climate-related damage. The latter goal is quite important since the European Investment Bank's survey shows that 85% of Croatians feel that climate change is having an impact on their everyday life, one of the highest percentages in the EU-27 (EIB, 2021). Besides, there is also a silver lining of reducing energy dependence in the quest for green transition. Croatia currently imports about 56.2% of the total energy consumed annually: 82,6% of its oil needs, 53,2% of its natural gas, 32.5 % of its electricity, and 100% of its coal needs (Eurostat, 2021b).

In that regard, the Croatian NRRP comprises 76 reforms and 146 investments that will help creating more sustainable, resilient and prosperous future for Croatian citizens. To this end, Croatia will have at disposition €6.3 billion in grants from the NGEU. 40.3% of the plan will support climate objectives and 20.4% (European Commission, 2021). According to the plan, Croatia's gross domestic product should rise between 1.9% and 2.9% by 2026. This boost to the economy will bring up to 21,000 citizens into jobs, the bulk of which will be 'green jobs' (ibid). The largest component in the green transition section encompasses energy efficiency and post-earthquake reconstruction of buildings – €789 million, followed by €728 million for sustainable mobility, €658 million for low-carbon energy transition and €542 million for green transition and energy efficiency in the business sector (ibid.). Those funds are potential game-changer that might significantly speed up economic development in Croatia according to the EDG standards. Nevertheless, it is extremely important to leverage those funds with additional private investments and reforms aimed at creating dynamic entrepreneurial culture. Some estimates claim that for every single euro in public investments, it will be necessary to ensure four euros in private investments (Wolff, 2021). Installing 1.5 GW of renewables by 2025 and investing €2.3 billion in energy renovation by 2030 inevitably requires a vibrant and financially capable private sector, as well as a close coordination and partnership with the state.

On the other hand, the biggest weaknesses are to be found in the implementation of projects essential for successful green transition. Some of them are: 1) State and local agencies are pretty slow when granting locational permit 2) Getting a building permit even for state-owned or locally-owned utility companies can be quite time-consuming, let alone for private investors 3) Expropriation procedure can generate problems of its own and significantly slow down the project implementation 4) Lack of administrative capacity in state and local

agencies unnecessarily prolong the life-cycle of infrastructural projects 5) Mutually incompatible laws and regulations often create a legal uncertainty for businesses 6) Public Procurement Act that functionality and is susceptible to abuses on behalf of various entities through appeal proceedings. In spite of those weaknesses, there are indeed some noteworthy examples of successful green undertakings such as that of Norinco's (Chinese SoE) investment into Senj wind farm, Croatia's biggest so far, launched in December 2021. However, scalability of projects will require the removal of identified 'institutional bottlenecks'.

Finally, some of the key threats to Croatia's success in ensuring green transition is the European Commission's sustainable finance taxonomy, which might significantly lift the economic costs of energy transition. Croatia procures approximately 10% of electricity from the Krško nuclear power plant and is bent on expanding its capacity together with Slovenian partners. One does not need to be puzzled that Croatia joined a group of ten European countries led by France, that have put pressure on the European Commission to grant nuclear energy a 'green' label under the EU's sustainable finance taxonomy, which acts as a guide to climate-friendly investments. In the current context, electricity price for household consumers are among the lowest among the EU-27 (0.1291 € per kWh) while businesses also pay lower price than the EU-27 average (0.1034 € kWh) (Eurostat, 2021c). Escalating electricity prices could derail competitiveness of Croatian exporters and undermine social cohesion, which is a prerequisite for any green transition.

The readiness of Croatian businesses to embrace opportunities offered by green transition

The readiness of Croatian businesses to embrace opportunities arising from green transition was assessed by a joint research conducted on behalf of the Croatian Chamber of Commerce and the consultancy firm Apsolon d.o.o. Their recently published research shows that more than 60% of businesses do not perceive green transition as an opportunity (HGK and Apsolon, 2021). The greatest obstacles to green transition have been identified in the fields of financing, often contradictory and complex legislative framework, as well as slow and non-responsive public administration. On the other hand, the biggest opportunities have been spotted in the financial opportunities contained in the national component of the EU's Recovery and Resilience Facility and Multiannual Financial Framework 2021-2027.

In spite of the fact that green transition has still not gained enough of traction among Croatian businesses, more than 60% of them already have a project idea or ready to implement projects in areas such as energy efficiency, use and production of renewables and adoption of new green technologies (ibid.). On the other hand, only 15.7% business have their own strategy aimed at green transition while 60% have an intention to create one in the close future (ibid.). In terms of non-financial reporting that also covers 'green accounting', 20% of companies have already implemented or are implementing those standards, 27.1% are making preparations for their adoption, while 24.7% have the plan to start working on this issue over the next 12-36 months (ibid.). The research underlines the conclusion that green

transition will have the most impact on the companies' business model, revenues and wider socio-economic infrastructure.

Finally, when it comes to electromobility, Croatia is in the middle of the EU-27 chart with regard to charging points per 100 km (2.3 in 2020). On the other hand, Croatia has a less impressive score in relation to the market share of EVs (1.9% in 2020) (ACEA, 2021). In this particular area Croatia has plenty of space to improve, attract new investments and create new jobs. Eurostat's data for 2018 show that the share of energy from renewable sources in transport is less than 4%. Only Greece, Estonia and Cyprus fare worse (Eurostat, 2021d). Hence, Croatia is a land of marked contrasts in relation to electromobility. On the one hand relatively poor infrastructure, low affordability and popularity of EVs while on the other hand Croatia has world-class centres of expertise in advanced EV technologies. E.g. Rimac Automobili recently took over the iconic company Bugatti and offers cutting-edge tech solutions. Interestingly, Rimac Automobili and Hyundai developed together Vision FK, a hydrogen plug-in hybrid sports-car. With \$90 million investment in Rimac Automobili Hyundai has the third largest stake in the company (12%), with founder Mate Rimac possessing 37% and Porsche 24%. Hence, this sector is very promising and still underutilised, especially in terms of FDI attraction.

Conclusion

The SWOT analysis above presented key elements of Croatia's path to green development and climate neutrality. In that regard NGEU and other funding options will constitute a major opportunity to smooth out the social and economic impact of green transition. Having in mind Croatia's initial strengths comprising relatively large share of renewables in total energy consumption, it will be of utmost importance to implement major institutional reforms to unlock the full potential of private investments in green energy and products. Additionally, it will be important to secure favourable regulatory environment at the EU level, often as a part of the coalition of states that is aware of the importance of nuclear energy in the energy mix. Finally, Croatian businesses also need a departure from the existing mindset that predominantly perceives green transition as a threat. Needless to say, green transition should be understood even more broadly than only enhancing energy efficiency and producing renewables. Creating new products, developing resources-saving technologies and improving waste management are additional benefits brought about by the 4th Industrial Revolution and green transition. Rimac Automobili is a glimmer of hope. Hopefully, all relevant stakeholders in the Croatian society will embrace this historical opportunity.

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