Is a Green Deal the Middle East's Path to Sustainability?

Introduction

As the region gets ready to host COP28 in the UAE to unite the world towards formulating sustainable and practical solutions to the climate crisis, businesses in the region expect governments to step up and develop policy frameworks, similar to the Green New Deal in Europe.

This has been reiterated in our 2023 Middle East Report where we have seen businesses calling for a new green deal for the Middle East, that includes some form of climate legislation with incentive packages to boost green growth in the region.

Middle Eastern governments have already made significant investments toward the green transition. But the renewed interest in green incentives, inspired by the European Green Deal, gives the region a unique opportunity to design new world-leading regimes. And with the right coordinated response from governments, 2023 could be the region's most environmentally transformative year yet.

The EU Green Deal is, in other words, a set of policy initiatives by the EU Commission with the goal of transitioning the EU towards a climate neutrality in 2050. It aims to transform the European Union (EU) into a modern, resource-efficient and competitive economy by ensuring:

Zero net emission of greenhouse gases by 2050

Inclusion across people and places

Decoupling economic growth with resource use

The European Green Deal is also critical to the region's post-pandemic recovery. One-third of the EUR1.8 trillion investments from the NextGeneration EU Recovery Plan and the EU's seven-year budget are financing the European Green Deal. The Green Deal's main objective is to reduce net greenhouse gas emissions by at least 55 percent by 2030, compared to 1990 levels. The European Commission has adopted several proposals to make the EU's climate, energy, transport, and taxation policies fit for this objective.

Green incentives, whether tax breaks, grants, or specific investment policies, recognise governments cannot achieve decarbonisation through public spending alone. Instead, incentives provide a financial impetus for businesses to take action and shift investment flows towards cleaner technologies helping countries seize a piece of these growing markets.

Recent global developments – particularly the introduction of the European Green Deal – have stirred a renewed focus on green incentives policy, and other countries are following the EU's lead.

In this paper we explore the European Green Deal in more detail, look at examples of successful green taxes and initiatives in the EU and the UK and provide an outlook of how the Middle East can learn from these to develop policy frameworks aligned with the region's sustainability goals.

The European Green Deal (2019)

Envisaged in 2019, the European Green Deal was propelled by a proposed European climate law, adoption of the European Industrial Strategy and a proposed Circular Economy Action plan focusing on sustainable resource use, all in March 2020.

The European Green Deal envisages improvements in well-being and citizens' health by providing:

- Fresh air, clean water, healthy soil and biodiversity
- Encourage the use of public transport
- Renovated and energy-efficient buildings
- Cleaner energy and cutting-edge clean technological innovation
- Globally competitive and resilient industry
- Healthy and affordable food for all
- Repair, recycle and reuse longer-lasting products
- Future-proof jobs and skills training to enable a smooth transition

1st

The first climate-neutral continent by 2050

55%

at least 55% less net greenhouse gas emissions by 2030, compared to 1990 levels

3 billion

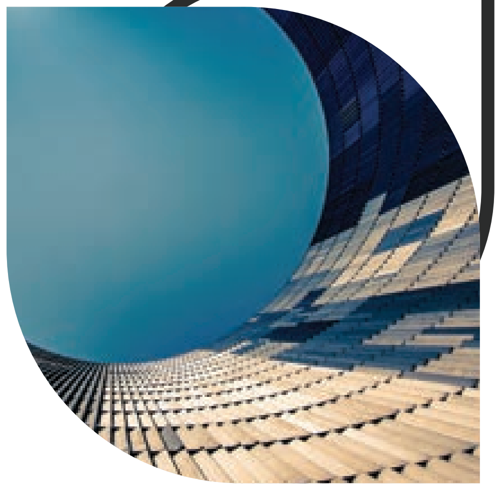
additional trees to be planted in the EU by 2023

At the back of this Deal, the EU also launched Horizon Europe (2021-27), their research and innovation programme. Its vision is to drive the necessary systematic changes to reach climate neutrality and ensure an inclusive ecological and economic transition.

Horizon Europe partners with other EU programmes to leverage national public and private investment. These synergies enable the development of new technologies, sustainable solutions and disruptive innovation, which can be transferred successfully across the region and globally. Four out of the five mission areas of Horizon Europe are in sync with the European Green Deal:

Restore ocean and waters

A soil deal for Europe



Climate-neutral and smart cities

Adaptation to climate change and societal transformation

Let us look at a few projects under Horizon Europe :

01

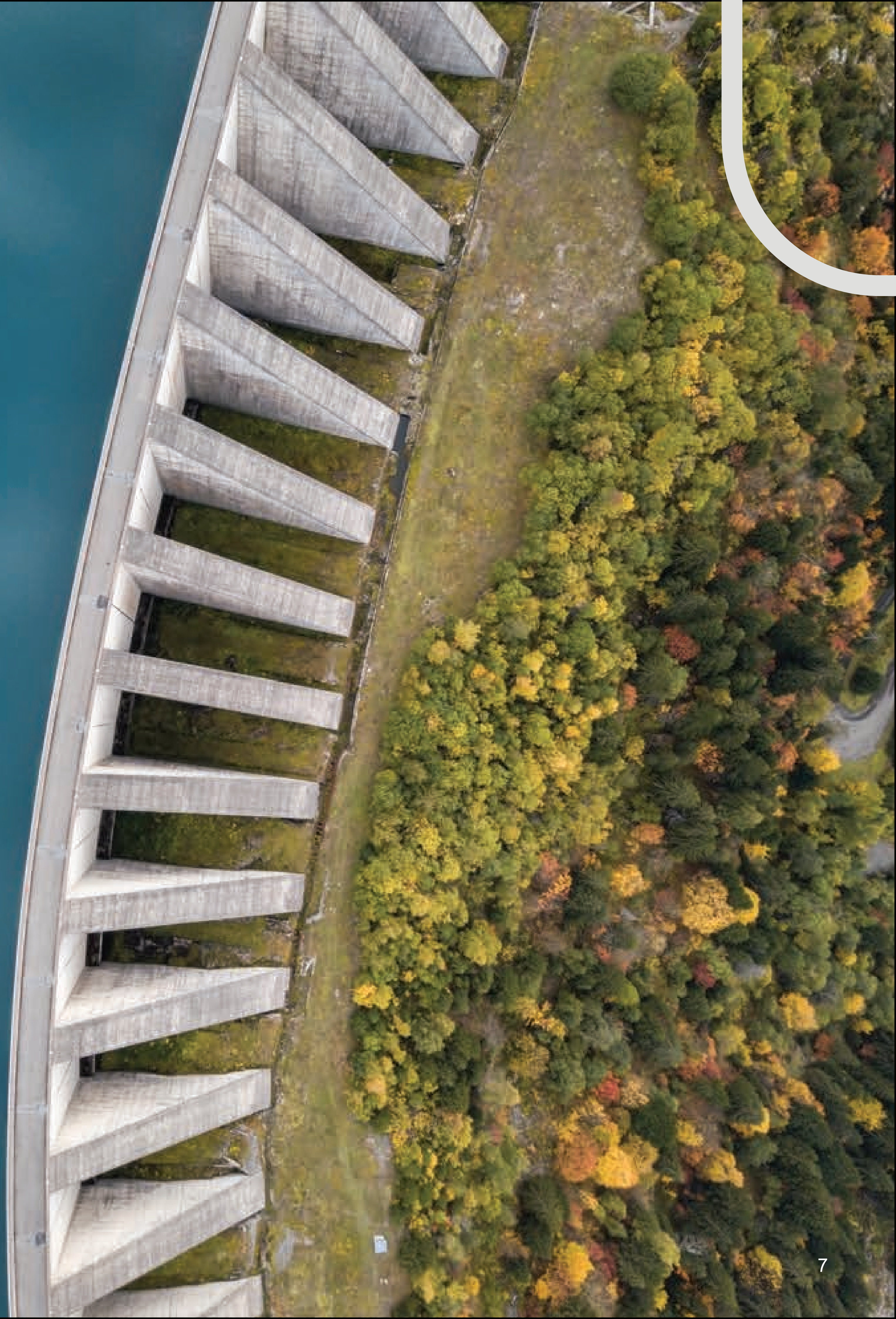
E-ferry[1]

In the EU, shipping contributes roughly 13 percent of transport emissions, which is higher than cars, which account for 12 percent of transport emissions. In coastal areas, ferries are usually the biggest polluters. Electric ferries can make a huge difference by offering cleaner air and lower pollution to impacted communities. A fully electrically-powered emission-free ferry called Ellen is saving 2,000 tonnes of carbon dioxide from entering the atmosphere annually.

1. https://op.europa.eu/en/publication-detail/-/publication/c12786f1-6c18-11eb-aeb5-01aa75ed71a1/language-en/format-PDF/source-190577810

02 Hydralab-Plus[2]

Due to climate change, the EU faces flooding risks from extreme river flows, rising sea levels, and more frequent storm events. State-of-the-art experimental hydraulic facilities across the region are bringing researchers together to develop cutting-edge technologies to adapt to a changing climate. The **Hydralab-Plus** project harnesses this crucial knowledge to predict the effects on the EU's coasts and rivers and offers market-ready solutions to protect impacted communities.



2. https://op.europa.eu/en/publication-detail/-/publication/c1f98788-6c19-11eb-aeb5-01aa75ed71a1/

02 Environmental taxes and reliefs for businesses in the United Kingdom (UK)

Businesses in the UK can pay less tax by applying for schemes that help demonstrate a more efficient operation and production of less damaging waste. Generally, meeting one of the below conditions allows businesses to get relief or be exempt from some taxes:

01
Extensive use of energy because of the nature of business

02
Small businesses that do not use much energy

03
Businesses purchasing energy-efficient technology for operations

To encourage businesses to be environment-friendly, the UK introduced a climate change levy (CCL), which is an additional tax on top of the main rate of electricity, gas, and solid fuels (like coal, lignite, coke, and petroleum coke). Most economic sectors are liable to pay CCL, including industrial, commercial, agricultural, and public services. However, some exclusions apply to businesses using small amounts of energy, domestic energy users and charities engaged in non-commercial activities.

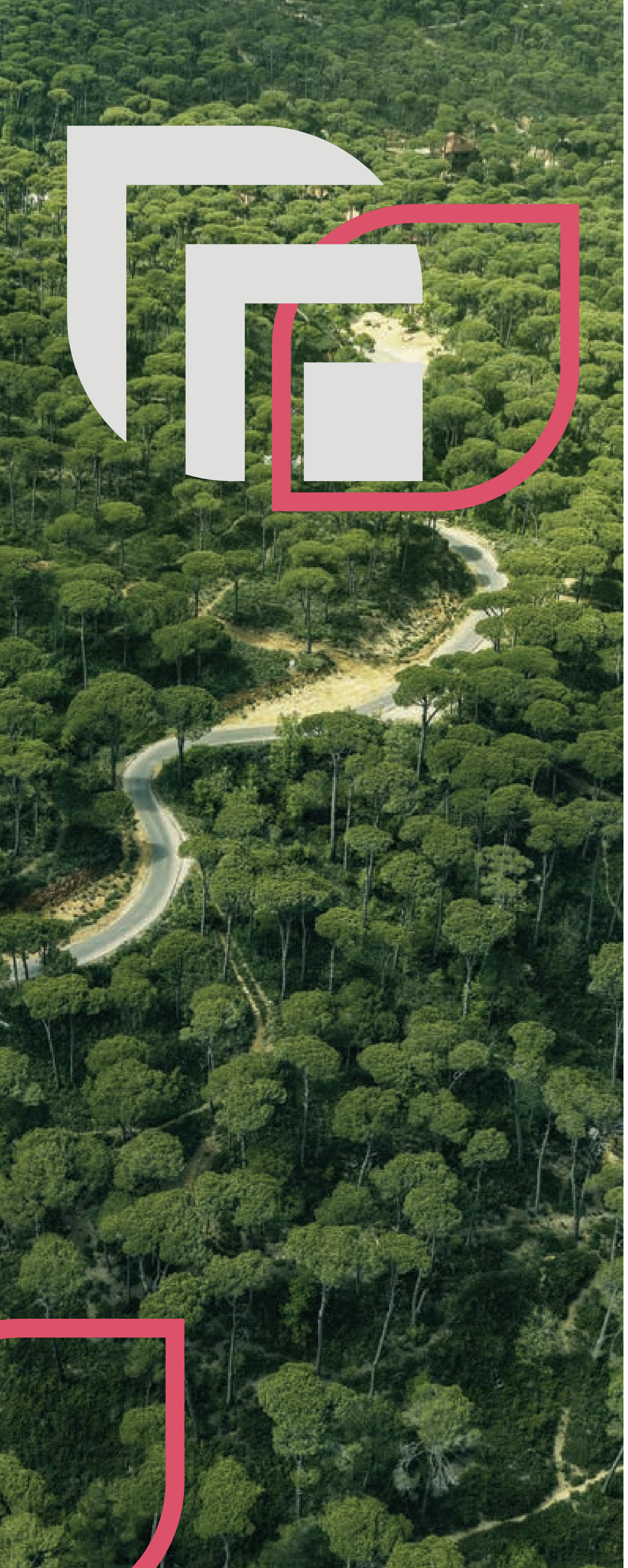
The CCL rewards energy-intensive businesses that have entered agreements with the Environment Agency. This enables them to get the following reductions:

92%
Reduction in electricity

86%
Reduction for coal and other solid fossil fuels

86%
Reduction in gas

77%
Reduction for liquefied petroleum gas (LPG)



Some other measures are also listed below.

1. Encouraging energy efficiency

- Capital allowances on energy-efficient items: applicable for businesses buying energy efficient or low to zero-carbon technology for their business, resulting in a reduction in the tax paid amount.[3]

2. Penalising harmful practices

- Additional tax on top of regular landfill fees: Applicable to businesses that dump waste in landfill sites. If using a site not authorised for landfill, a company is charged Landfill Tax. There are currently two rates **- a lower rate of GBP 3.25 per tonne for inactive waste (for example, rocks or soil) and a standard rate of GBP 102.10 per tonne for all other waste.**[4]
- Aggregates levy: A tax on sand, gravel, and rock dug from the ground, dredged from the sea in the UK waters, or imported. The levy is **GBP 2 per tonne of sand, gravel, or rock.**[5]
- Plastic packaging tax: A tax on finished plastic components containing less than 30 percent recycled plastic. The current tax rate is **GBP 210.82 per tonne of finished plastic packaging components containing less than 30 percent recycled plastic**.[6]

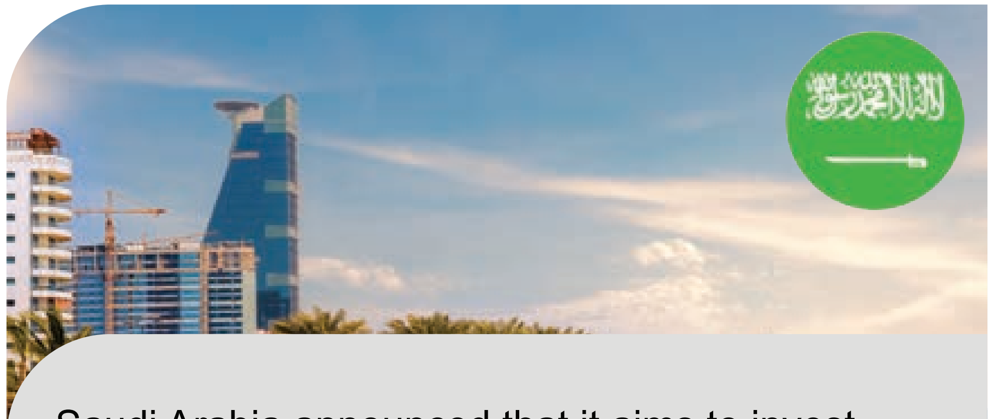
PwC has developed its own tracker of global green taxes and incentives.[7] It currently contains information on over 3,000 green taxes across almost 90 countries. The use of incentives looks set to increase as governments seek to capitalise on the green revolution. Countries can make themselves an attractive destination for green investment by focusing on the most impactful industries in their economy.

3. https://www.gov.uk/green-taxes-and-reliefs/capital-allowances-on-energyefficient-items
4. https://www.gov.uk/green-taxes-and-reliefs/landfill-tax
5. https://www.gov.uk/green-taxes-and-reliefs/aggregates-levy
6. https://www.gov.uk/green-taxes-and-reliefs/plastic-packaging-tax
7. https://www.google.com/url?q=https://www.pwc.com/gx/en/services/tax/green-tax-and-incentives-tracker.html&sa=D&source=editors&ust=1691517174391148&usg=AOvVaw3SxQFGzceqslzPC6bPee6n

03 The Use of Incentives in the Middle East

As the use of green incentives grows globally in response to the European Green Deal and the UK's measures, Middle Eastern governments need to ensure the region remains competitive. Green incentives offer an opportunity for them not only to secure their revenue flows in the long term but to drive net-zero commitments and establish sustainable green economies.

The region is already demonstrating its high ambitions for change and the use of green incentives is growing rapidly.



Saudi Arabia announced that it aims to invest SR 380 billion (US$101 billion) and will include incentives (such as tax exemptions for renewable energy projects) to decrease reliance on oil in power generation. Saudi Arabia has also directed its sovereign wealth fund, the Public Investment Fund (PIF), to support green initiatives financially.

For example, PIF is investing in Saudi Renewable Energy, a project which aims to build the world's largest single-site solar power plant. PIF-backed NEOM, particularly the city of OXAGON, which seeks to be the 'home to advanced and clean industries, has launched several incentives to remove barriers to industrial innovation.

The UAE has announced measures to progress its green agenda to become a successful model for the new green economy.

Through the UAE Green Agenda (2015-2030) and the Green Economy for Sustainable Development initiative, the UAE hopes to increase GDP by 4 to 5% and increase exports by AED 24 to 25 billion (US$6.5 to 6.8 billion). The UAE has launched several programmes within these initiatives, such as the Green Diversification Programme, which provides an incentives package for green manufacturing and financing programs for green industries.[8]

8. UAE Ministry of Climate Change and Environment (2023) The UAE Green Agenda Programs (2015-2030).

04 Key takeaways

The European Green Deal and the UK's environmental taxes and incentives demonstrate the need for countries to step up their game regarding green incentives and provide valuable lessons for Middle Eastern governments on designing effective incentive regimes. Some key considerations on this for governments in our region are:

1- Think about maximising effectiveness by combining incentives and penalties

For example, most individual incentives offered by the UK are not groundbreaking in and of themselves. But they work together as a package to lower costs at both the points of production and consumption. It is equally vital to discourage less environment-friendly activities by levies and penalties, as we saw in the case of the UK.

What can Middle East governments borrow from the EU and the UK? Rather than approaching individual measures in isolation, they should take a holistic approach to designing their incentive regimes so that it is more than the sum of their parts.

2- Leverage strengths and prioritise long-term needs

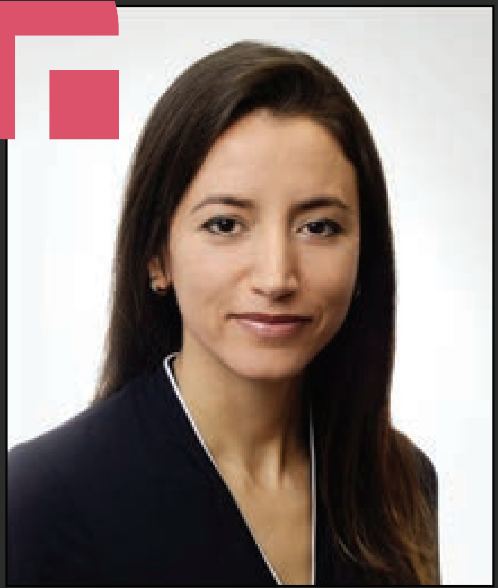
There is no need to compete on scale with the EU or the UK; Middle Eastern governments can focus on designing green incentive regimes that play to their countries' strengths and long-term development needs.

Economic diversification, lesser reliance on fossil fuel-based revenue, and driving localisation of talent have been recent themes across many Middle Eastern countries - and green incentives offer an opportunity to support this transition.

3- Provide clear direction to businesses

Our community of solvers at PwC are well connected with the global business community and rightly believe that companies value clarity and certainty. Green investments typically involve long lead times, and they need assurance that any incentives they rely on to make projects viable will not be suddenly withdrawn.

How can Middle Eastern governments ensure this? By exhibiting their commitment to the green transition by either providing that the incentives they put in place will endure or signalling any sunset clauses.



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