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COMMENTARY

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Ideas for a Green Economic Recovery of Cyprus

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1. Economic Restart: How much, but also How

Currently, governments around the world focus their efforts on how to keep the COVID-19 pandemic under control and on measures for immediate relief of employees and enterprises that are particularly hit. While discussions have started about ways to gradually relax the strict social distancing measures, considerations are made about policies to stimulate economic activity in the coming months. As financial resources are limited, it is important to think about targeted measures with the most promising social impact. On which economic sectors should economic support be offered? What types of investments are justified, and with what criteria?

On this topic, the European Union's focus is clear and provided by two very recently published policy documents: the draft EU Climate Law¹ and the new Action Plan for a Circular Economy². It is also supported by the leaders of EU Member States who, at a summit on 26 March, declared their readiness to initiate an economic recovery “integrating inter alia the green transition and the digital transformation”³. Similar statements have been made by 13 European Environment and Climate Ministers as well as a large number of companies, members of the European Parliament, trade unions and non-governmental organisations⁴.

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¹ European Commission proposal for a regulation: [European Climate Law](#), Brussels, 4 March 2020.

² European Commission communication ‘[A new Circular Economy Action Plan For a cleaner and more competitive Europe](#)’, Brussels, 11 March 2020.

³ [Joint statement of the Members of the European Council, 26 March 2020](#).

⁴ [“Green Recovery: Reboot and reboost our economies for a sustainable future”](#), 14 April 2020.



Similar statements are made by high-level officials of international organisations: economic recovery after the pandemic should accelerate the transition to economies with a much lower environmental footprint; this ameliorates social inequalities and increases the resilience of societies to future natural disasters and epidemics. Climate change has already led to fatalities and suffering in many parts of the planet, and it seems that all of us will face stronger adverse impacts in the next years. Air pollution causes a significant number of deaths, even in Cyprus⁵, while natural resources and many ecosystems are in crisis as well because human activities are exceeding planetary boundaries⁶.

To be useful for policymakers, the above principles have to be translated to specific policies in each country, depending on its conditions and needs. This commentary attempts to provide the framework of a coherent green economic recovery programme for Cyprus, which will yield benefits both to employment and to the living standards of society. A detailed package of measures will need to be prepared by national authorities after consultation with business groups, trade unions and other stakeholders – without losing sight of the central strategic choice to proceed with measures for an environmentally sustainable economic development.

2. Electricity

The strategic aim of the EU to eliminate the use of fossil fuels and achieve net zero carbon emissions by 2050, soon to be legally adopted, provides orientation about what type of investments should be prioritised. Some years ago this discussion focused on encouraging the use of renewable energy sources, mainly solar and wind, in power generation. Now that the cost of these technologies has declined sharply, the priority of public policy should be on improving the electricity grid on order to ensure that decentralised renewable electricity can be smoothly integrated in the power system in large amounts, to enable the transition to an entirely renewable electricity system. This requires substantial investments for the widespread rollout of smart meters, digital equipment in the transmission and distribution system etc. The promotion of electric vehicles will necessitate additional investments in fast charging stations but will also pose additional requirements for the stability of the power system; these will also have to be taken into account.

A large part of the infrastructure investments in smart electricity grids will have to come from public funds, but the private sector will also have an important role because investments of individual consumers, companies and energy communities are necessary. Deployment of digital technologies and provision of innovative energy and digital services can create several middle- and high-skilled jobs and can enable the shift to a green power system. Technologies, markets and policies indicate that this transition can be accelerated and will benefit society.

3. Sustainable mobility

To meet EU climate objectives, Cyprus must initiate a huge transformation in its transport system. It should be characterised by strong promotion of public transport modes and non-motorised mobility (walking and cycling). Apart from climate policy, the need for action in transport becomes clear if we consider the effects of traffic-induced air and noise pollution in cities, and if citizens reflect on their own everyday experience from traffic

⁵ European Environment Agency, [Air quality in Europe – 2019 report](#), Copenhagen, 2019.

⁶ [Is Europe living within the limits of our planet?](#) European Environment Agency, Copenhagen, April 2020.

congestion and accidents. Replacement of conventional motor vehicles with electric ones is a necessary but far from sufficient condition for this transition.

Sustainable mobility requires considerable investment in buses and possibly in light rail. The National Energy and Climate Plan (NECP), which was submitted by Cypriot authorities to the European Commission in January 2020, foresees a strong promotion of bus transport and the operation of tramlines in Nicosia before the end of this decade. Some analysts and stakeholders express doubt about the possibility to implement these measures so soon, although additional financing is likely to be available from EU funds. In any case, it is time to consider seriously all sustainable mobility plans that the governmental Public Works Department has been proposing – and to start realizing these plans. The NECP Impact Assessment that we carried out has found that sustainable mobility investments are clearly beneficial to society; they can drastically reduce fossil fuel import costs, can also decrease vehicle import costs to some extent, improve air quality and accelerate the transition to a zero-carbon economy.

If all economic benefits are accounted for, the large investments in sustainable mobility pay off and yield much larger benefits to society⁷. They can also stimulate employment because such investments will trigger economic activity in labour-intensive sectors such as construction or maintenance of mechanical and electrical equipment. These sectors largely depend on local supply chains and add considerable value per unit of investment. Moreover, growth in such sectors can help absorb redundancies in labour in similar sectors (e.g. the penetration of electric cars will most likely reduce employment in the sectors of the sale, maintenance and repair of motor vehicles and car accessories).

4. Energy efficiency

It is well documented that many energy renovations in buildings, appliances and industrial equipment pay off fast and can induce local employment in manufacturing and construction sectors. Several grant and financing schemes have been applied in Cyprus during the last decade, with very positive but relatively limited impacts. Many enterprises are faced with barriers in financing energy efficiency investments. Currently, a funding scheme (Fund of Funds) is in place, financed by the European Investment Bank, the European Strategic Investment Fund and local banks. As this is a loan scheme, it is still uncertain to what extent businesses will be able to benefit from this scheme as much as they would desire. It might be possible to enhance this scheme or complement it with the ‘Business4Climate’ initiative that will be mentioned below. In any case, there is still untapped energy efficiency potential in several sectors of the economy, and the most cost-effective of these investments should be supported.

5. Circular economy

‘Circular’ is an economy that minimises the need for raw materials and natural resources through the design of products that can be repaired, refurbished, reused, recycled or transformed to other useful raw materials. The priorities of a circular economy are closely aligned with those of a low-carbon economy but can also yield additional environmental benefits. These principles are widespread in the whole economy because they affect the

⁷ Zachariadis T., Sotiriou C., Taliotis C., Karmellos M., Fylaktos N., Giannakis E. and Andreou S., [Comprehensive Impact Assessment of the Planned Policies and Measures of the National Energy and Climate Plan of Cyprus](#). Report to the European Commission, Nicosia, December 2019.

extraction of materials, the packaging of all kinds of goods, the management of products after the end of their economic lifetime, the processing and reuse of industrial and residential waste and many other aspects.

EU circular economy policy is ambitious and challenging, but this creates huge business opportunities – not only for industrialised countries but also for Cyprus. Therefore, economic stimulus measures should take into account the needs of businesses and local authorities to comply with circular economy requirements, and should also promote industrial and academic research for this purpose. For example, enterprises should be able to benefit from targeted grants or increased state guarantees only to the extent that they commit to re-organisation of their processes in line with circular economy priorities. Local authorities should incur economic costs for landfilling and be incentivised to offer ‘pay as you throw’ schemes for their population.

6. A framework for the green assessment of investments

The above considerations underline the need to examine future economic recovery measures through the lens of climate and circular economy policies. This is aligned with the EU Sustainable Finance initiative and regulation⁸ and is consistent with recommendations of international organisations⁹. In Cyprus we have already implemented a method that can offer the framework for a green appraisal of investments. It is the “Business4Climate” initiative, which was developed through cooperation of the private sector, universities and public authorities. The initiative has formed the basis for a new governmental grant scheme, which will be subject to public consultation with the aim to be implemented in the next years. According to this scheme, enterprises which submit an action plan for reducing their emissions by 2030 will be subsidised for their low-carbon investments with an amount proportional to the amount of emissions they will curb. The action plan will be monitored by a scientific team that will verify the environmental performance of each enterprise.

This scheme can be expanded in duration and budget in the frame of a green economic stimulus, with the aim to be used for all small and medium-sized enterprises of Cyprus. Moreover, a green tax reform can foresee tax credits for companies with a green action plan, to be financed by an economy-wide carbon tax. As low-carbon measures that a firm can adopt will usually be measures related to energy savings, promotion of renewable energy or waste management, Business4Climate-supported investments can spur demand for goods and services in many secondary and tertiary sectors of the national economy. At the same time, agricultural firms as well as nature protection measures will also be able to benefit from the scheme. This can induce a very positive impact on employment for people of diverse skills in different economic sectors.

The Business4Climate approach can be applied at a very large scale, so that economic recovery grants may be provided only to those firms which have submitted a green action plan whose implementation can start immediately. There is already a proposal to amend EU state aid rules (which have currently been suspended to combat the economic crisis) so that state aid is provided with green conditions only, and a similar approach to be followed with new or extended bank loans¹⁰. Until Business4Climate becomes fully operational, it can be foreseen

⁸ [Taxonomy: Final report of the Technical Expert Group on Sustainable Finance](#), Brussels, March 2020.

⁹ Hallegatte S. and Hammer S., [Planning for the economic recovery from COVID-19: A sustainability checklist for policymakers](#). Commentary in World Bank’s blog, 14 April 2020.

¹⁰ Schoenmaker D., [A green recovery](#). Bruegel blog post, 6 April 2020.



that grants or larger state guarantees for business loans can be offered only to those enterprises which are certified with the European EMAS scheme or other reliable environmental certification schemes. Similar methods can be applied for assessing and prioritising public investments.

7. Conclusions

The economic recovery of Cyprus will need substantial financing from national and EU funds. Obviously economic stimulus measures will primarily aim at securing or even increasing employment – but this need not and should not take place with conventional approaches. This moment offers a great opportunity for economic policies to drive the transition to a low-carbon and resource-efficient society, by encouraging the development of innovative products and services that will reduce the environmental footprint of the economy and create green jobs for people of diverse skills and education levels. These policies should include generous public investments in electricity grids and sustainable mobility, as well as targeted support – through direct grants and enhanced state guarantees – to private investments which are aligned with the requirements of a circular and zero-carbon economy. The general recommendations offered in this commentary can become more specific and be part of a comprehensive green economic recovery plan for Cyprus. In this way the Cypriot economy will get prepared for the transition to a strongly digitalised and environmentally challenging era, with multiple benefits for the living standards of the population.

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