

# A GREEN DEAL FOR EUROPEAN PEOPLE

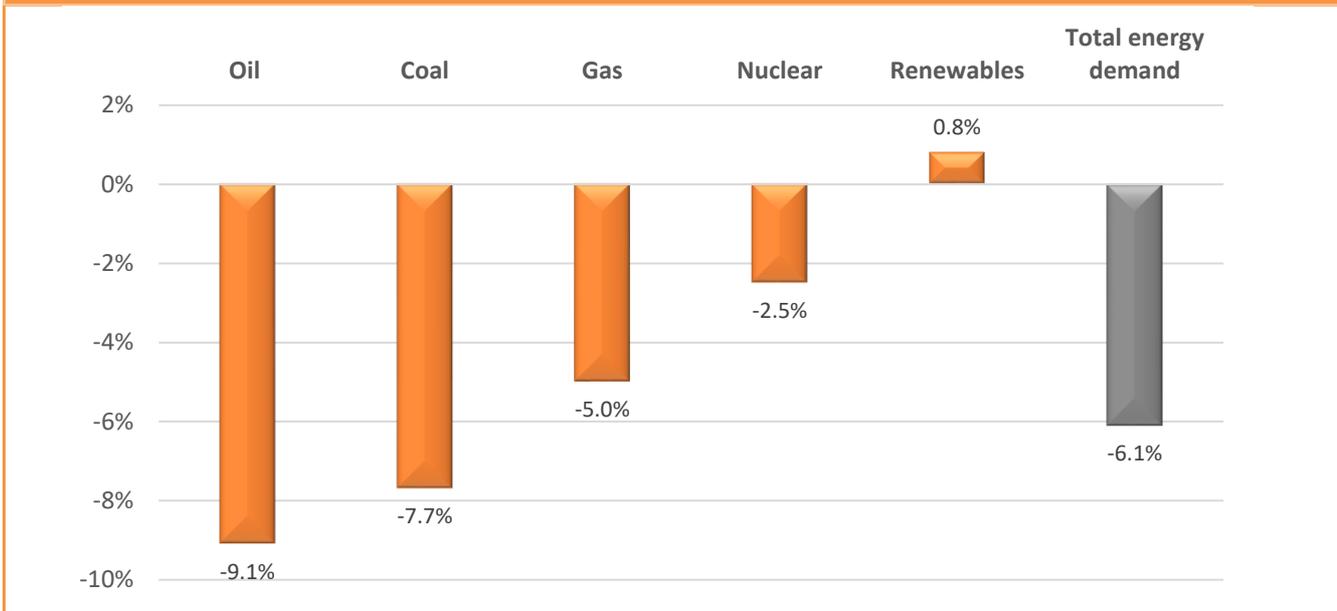
## Challenges and Scenarios for a Sustainable Recovery

Wednesday 20 May 2020, 17:30 – 18:45

### 1. The impact of the Covid-19 pandemic on energy, environment and economy

The Covid-19 pandemic has radically changed the habits of millions of people sparking off an unprecedented economic shock. To slow the spread of the virus, governments across the world have imposed restrictions on most social and economic activities. These include partial or complete lockdowns, closure of educational institutions and non-essential businesses and bans on public gatherings. At the end of April 2020, 54% of the global population - 4.2 billion people, representing almost 60% of global GDP- were subject to complete or partial lockdowns. The latest data from the IEA's "Global Energy Review 2020" shows that the drastic reductions in economic activities and mobility during the first quarter of 2020 pushed down global energy demand by 3.8% compared to the same period in 2019. If economic activity recovery were to be delayed by a further few months, annual energy demand would drop by 6.1% in 2020, a decline never recorded since the Second World War. The evolution of energy demand through the remainder of 2020 will depend on the duration, stringency and geographical spread of lockdowns, and the speed of recoveries. If efforts to curb the spread of the virus and restart economies are more successful, the decline in energy demand could be limited to under 4%. However, a bumpier restart, disruption of global supply chains and a second wave of infections in the second part of the year could curtail growth even further. In 2020, all fuels, except for renewables, are set to experience their greatest contraction in demand in 70 years (Fig.1). Oil demand could drop by 9.1%, while coal and nuclear power demand could decrease by 7.7% and 2.5%, respectively, due to a drop in electricity demand of almost 5%. Gas demand could continue to decline even after the first quarter of the year, because of reduced demand in power and industry applications. The only countertrend in energy sources should be in renewables. The clean energy demand is expected to increase because of its lower operating costs and preferential access in many power systems. Biofuels may be the only renewable energy source likely to see a drop in demand, influenced by lower transport activity.

**Fig. 1: Projected change in global primary energy demand by fuel in 2020 compared to 2019**

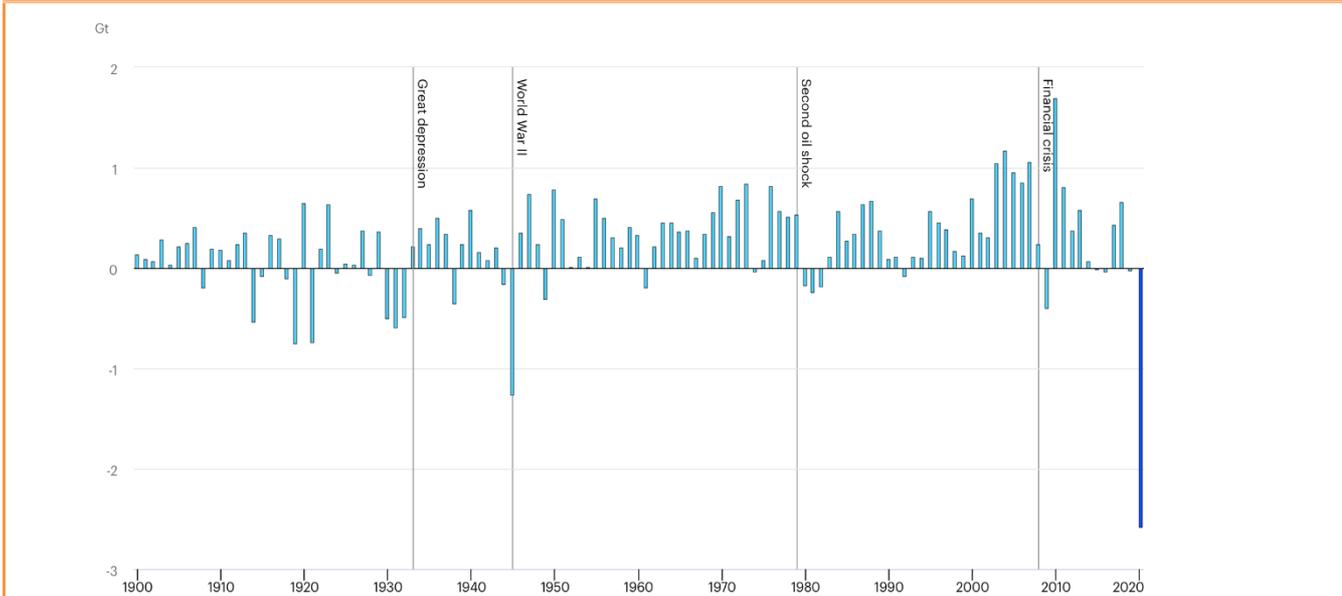


Source: IEA

Lockdowns have led to reduced electricity demand and falling electricity wholesale prices in EU Member States. For example, in March, electricity demand in France and Italy fell by about 20% compared to the same period of the previous year, while wholesale electricity prices across the EU dropped to around €20 per MWh. According to Independent Commodity Intelligence Services (ICIS), electricity prices in Europe are expected to drop by 9% in 2020 in a scenario of a 6% reduction in electricity demand. The reduction foreseen by ICIS in electricity demand is expected to lead to a drop in fossil fuel electricity generation and a correspondingly higher share of renewable electricity sources. However, according to the IEA, the drop in energy demand in the first part of the year resulted in a decline in global CO2 emissions at an unprecedented rate. Global CO2 emissions in the first quarter of 2020 were over 5% lower compared to the same period of the previous year, mainly due to an 8% decline in emissions from coal, 4.5% from oil and 2.3% from natural gas. Emissions decline has been more marked in the regions impacted the most by Covid-19, such as the European Union (-8%), China (-8%) and the US (-9%). According to the agency's forecast, global emissions will reach 30.6 Gt in 2020, almost 8% lower than in 2019 (Fig.2). In terms of energy sources, out of the almost 2.6 Gt decrease in CO2 emissions, the drop in coal use would contribute by over 1.1 Gt, followed by oil (1 Gt) and gas (0.4 Gt). According an ICIS analysis, the price of EU emission allowances might drop by €3.00 from the pre-pandemic period. The

lower energy demand driven by the Covid-19 pandemic should enable the EU to reach the 2020 targets for renewable energy sources.

**Fig. 2: Annual change in global energy-related CO2 emissions, 1900-2020**



Source: IEA

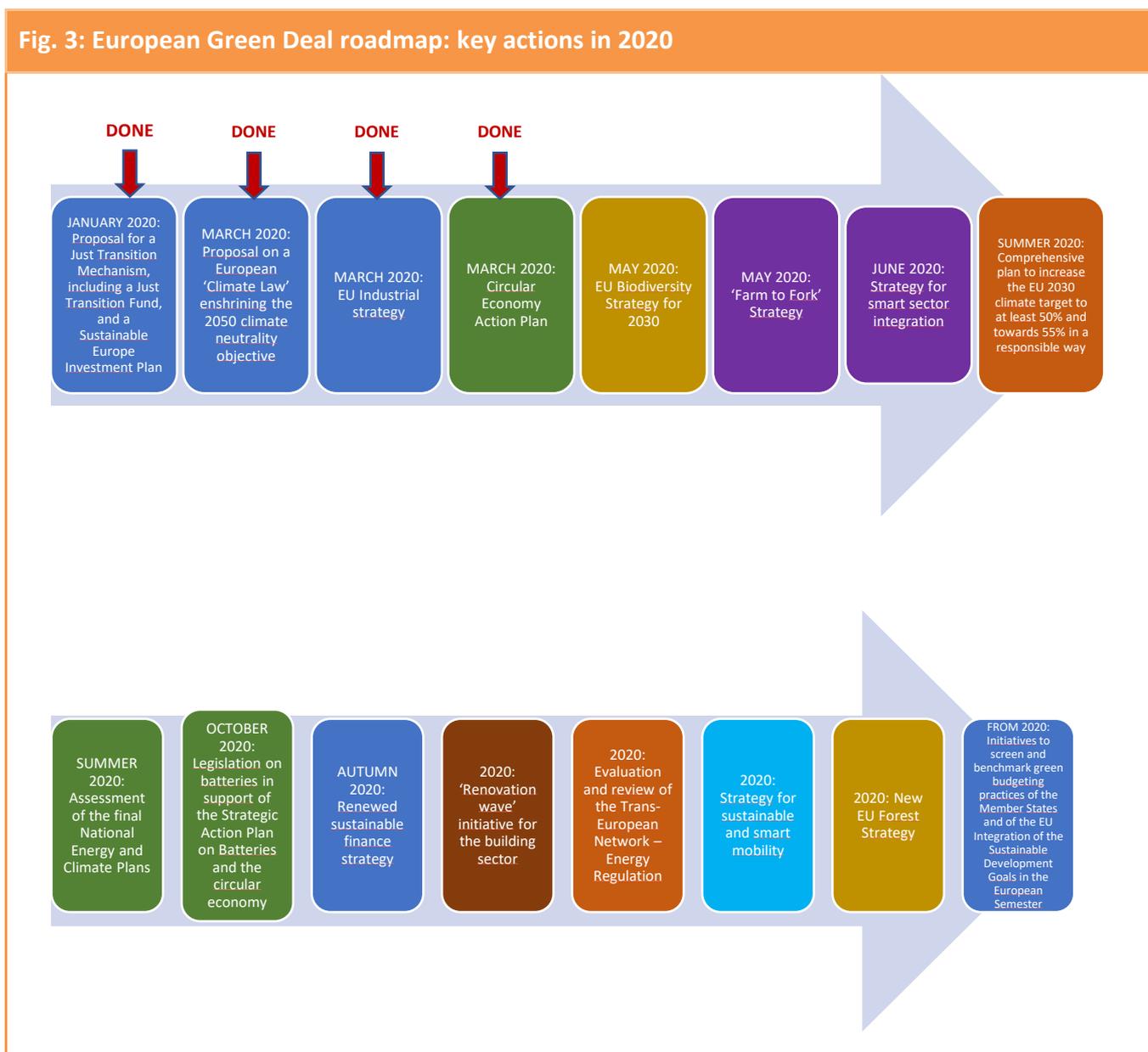
## 2. The European Green Deal: an overview

The European Green Deal is the new growth strategy, launched in December 2019 by the European Commission, aiming at responding to the challenges posed by climate change and environmental degradation. The Green Deal supports the EU transition to a fair and prosperous society with a sustainable, resource-efficient and competitive economy, with zero net emissions of greenhouse gases by 2050, plus the decoupling of economic growth from resource use. This transition should be fair and inclusive, so that no region, industry or worker is left behind. For the European Green Deal to be delivered, it is essential to revise policies for clean energy supply and energy efficiency across the economy, industry, production and consumption, large-scale infrastructures, transport, food and agriculture, and construction. Furthermore, increased value must be placed on protecting and restoring natural ecosystems, sustainable resource use and improvement of human health. A well-planned coordination will be needed to exploit synergies across all policy areas. The Green Deal will employ many policy levers such as regulation and standardisation, investment and innovation, national reforms, dialogue with social partners and international cooperation. The Commission will also work with

Member States to ensure that the policies relevant to the Green Deal are enforced and effectively implemented.

Figure 3 provides a roadmap for the key actions to be carried out in 2020 in order to reach the Green Deal’s ambitious goals. The European Commission has already set in motion the required measures. In January, it presented the Sustainable Europe Investment Plan and the Just Transition Mechanism. While the former will mobilise public investments and help to unlock private funds for financing the green transition, the latter will support those regions that will be more affected by the transition.

**Fig. 3: European Green Deal roadmap: key actions in 2020**



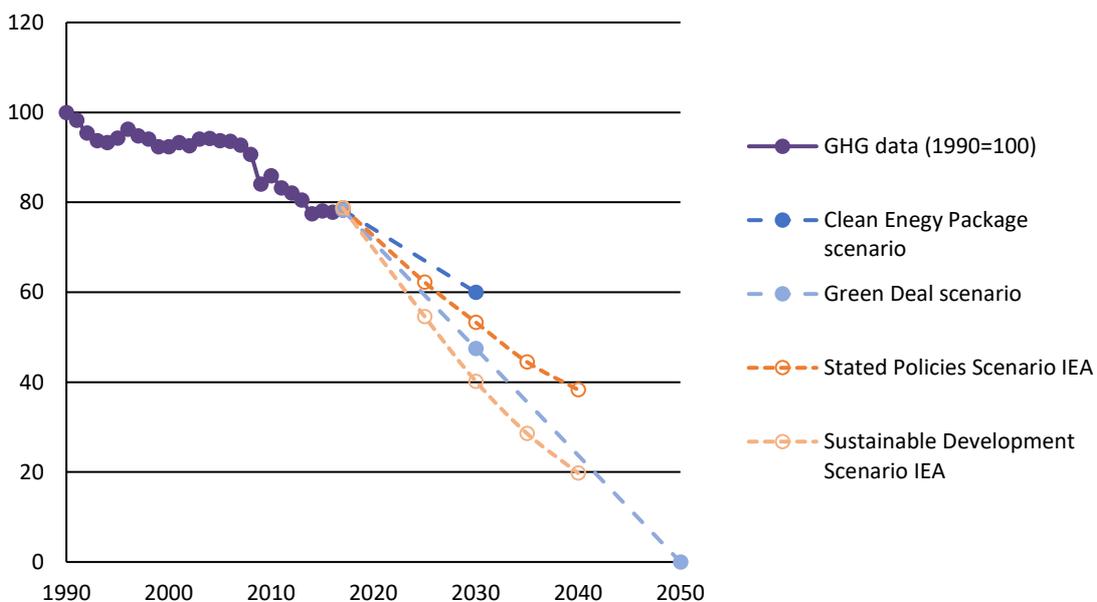
Source: I-Com Elaboration on European Commission Data

Following, the European Climate Law was proposed, its aim being to draw up the legislation for the 2050 climate neutrality objective. In March, the Commission also presented the new European Industrial Strategy, a plan for making use of the green and digital transformations to empower European businesses, as well as the Circular Economy Action Plan, focusing on sustainable resource use.

### 3. EU climate action

The ambition of the Green Deal is to make Europe the world's first climate-neutral continent by 2050, ensuring EU's leadership role in addressing global challenges. The European Climate Law, proposed by the Commission in March 2020, is the first crucial step in this direction, establishing a legislative framework for achieving zero net greenhouse gas emissions (GHGs) by 2050. This law complements existing EU policies by setting long-term goals, providing predictability for investors and ensuring transparency and accountability. Furthermore, it strengthens Europe's climate ambition regarding existing measures, which are expected to reduce GHG emissions by only 60% by 2050 compared to the 1990 levels (Fig. 4) according to the Communication on the European Green Deal.

Fig. 4: European Union GHG emissions scenarios (1990-2050, 1990=100)



Source: I-Com Elaboration on IEA and European Commission Data

The EU institutions and Member States are required to take the necessary actions to achieve the legally binding 2050 climate neutrality target. The European Climate Law includes measures to keep track of their progress and adjust actions accordingly, making use of existing systems such as the governance procedures for Member States' National Energy and Climate Plans, regular reports by the European Environment Agency, and the latest scientific evidence on climate change and its impacts. To be on track to deliver the mid-century carbon neutrality objective, the European Commission will put forward, by September 2020, a comprehensive plan to increase the 2030 target from 40% GHG emission reductions to at least 50% and towards 55% compared with 1990 levels. By June 2021, the Commission will then revise key EU climate and energy legislation to reach the increased 2030 target. Increased climate ambition requires the engagement and effort of all industries, institutions and civil society as a whole. To this end, in March, the European Commission launched an online public consultation (open until 23 June 2020), inviting contributions from a broad range of stakeholders on the 2030 climate target and the sectorial and transversal actions necessary to further cut emissions.

Moreover, the Commission will launch a European Climate Pact to inform, inspire and foster cooperation between people and organisations, ranging from national, regional and local authorities to businesses, unions, civil society organisations, educational institutions, research and innovation organisations, consumer groups and individuals. Through communication activities and events, the Pact will increase awareness and understanding of climate change, encouraging people and organisations to become involved and adopt sustainable behaviour. To make the Pact as effective and inclusive as possible, the European Commission has launched an online public consultation, open until 27 May 2020.

#### **4. Tools for a green recovery after the pandemic**

##### **4.1 Alternatives and electric mobility**

The pandemic will have a strong long-term impact especially on individual transportation habits. The measures taken to make mass public transport safe seem to be unable to overcome the fear of contagion. According to a study conducted by the IPSOS Group on changes in Chinese transport preferences in the post-emergency Covid-19, the share of individuals choosing to use a private car for their journeys will grow from 34% to 66%. The share of regular public transport users of buses and subways, in the reopening phase, will be more than halved from 56% to 24%. This trend is also evident from the increase in purchasing intentions. According to the same study, 72% of Chinese who do not own a car are seriously considering buying one and, of these, 77% gave the reason for this choice in the hope of reducing the chances of contagion. Where the fear of physical contact may drastically reduce the appeal of shared mobility, several factors will more than likely accelerate mobility electrification. These include a better awareness of air quality and targeted incentives for the auto industry. However,

cheaper oil and gas may counterbalance this trend in the short to medium term. According to the latest data released by ACEA on car sales in Europe, in March 2020, the EU car market recorded a dramatic drop (-55.1%) in new vehicle registrations as a result of the COVID-19 outbreak. All 27 EU markets contracted in March, with Italy experiencing the biggest hit - registrations fell by 85.4% to 28,326 new car registrations. Similarly, demand also dropped in France (-72.2%), Spain (-69.3%) and Germany (-37.7%). Although the global car market has shrunk by 85%, the sale of electric vehicles has grown by 47%, driven by Tesla performance. Electric car registrations in the EU and EFTA countries had already seen a positive growth last year, increasing by 45.5% between 2018 and 2019, exceeding 540,000, with 365,000 being fully electric (BEV - Battery Electric Vehicle), an increase of 81% compared to the previous year. The need for social distancing could have a significant impact on electric vehicle growth if helped by alternative energy policies.

#### **4.2 Energy subsidies and taxation and an EU taxonomy for sustainable activities**

Energy taxation and subsidies are key pillars of the ecological transition policies. They are fundamental in guiding markets, creating the right incentives and new business opportunities, and sustaining production competitiveness. Energy taxation not only guarantees an important share of tax revenues, but can also be used to amplify price signals, discourage certain behaviour (such as excessive polluting or harmful fuel consumption), and counter market failures by subsidising desirable developments such as investments in sectors inadequately addressed by the market, for example, in the still developing clean energy sector. Furthermore, an energy taxation policy responds to the need to stimulate innovation in new sectors, materials or processes and provides long-term strategic guidelines on development trajectories. Therefore, it is helpful for the decarbonisation process and energy transition. According to the latest report of the European Commission on "Energy prices and costs in Europe", published in 2019, the energy taxes collected by EU Member States amounted to € 280 billion, 4.7% of total tax revenues. The share of tax revenue on energy has been quite stable since the 2008 economic crisis. Excise duties, with more than 80% from petroleum products, make up the majority of energy taxes.

Furthermore, the EU have called for phasing out fossil fuel subsidies, which hinder the transition to clean energy. Overall, European energy subsidies have increased in recent years, from €148 billion in 2008 to €169 billion in 2016, with the energy production sector being the main beneficiary (€102 billion in 2016), followed by the residential sector (€24 billion), energy-intensive manufacturing industry (€18 billion) and transportation (€13 billion). The increase was driven by the growth in subsidies for renewable energy which reached € 76 billion in 2016. Over the period 2008-2016, the allowances for free emissions fell from € 41 to € 4 billion, due to the drop in carbon prices and fewer sectors eligible to receive free ETS allowances. Despite the international commitments made by the G20 and G7, EU subsidies for fossil

fuels - from protectionist tariffs on capacity payments to public infrastructure investments - have not decreased and are estimated at €55 billion<sup>1</sup>, remaining stable in all sectors, indicating that it may be necessary to strengthen EU and national policies to phase out these subsidies. Fossil fuel subsidies create unfair competition, increase the risk of locking in stranding assets, and undermine carbon price signaling. However, according to the latest international comparisons available (2015 data), fossil fuel subsidies are even higher outside the EU. Subsidies for petroleum products (mainly tax cuts) account for the largest share of fossil fuels. The EU MSs with the highest fossil fuel subsidies are Germany (more than €9 billion), France (almost €8 billion, a marked increase compared to €6 billion in 2008), Italy (more than €6 billion) and Spain (almost €5 billion). The MSs with the lowest amount of subsidies, a few tens of millions of euros, are Romania, Estonia, Luxembourg and Malta<sup>2</sup>. Therefore, there is fiscal room to redirect the capital markets leading to a better understanding and, thus, facilitate the provision of investment capital for the low carbon technologies and infrastructures necessary to complete the energy transition. Therefore, there is a solid framework ranging from national taxes to EU energy, climate and capital market policies to ensure that Europe's energy prices and costs evolve efficiently, in line with the Green Deal and global goals of accessible and sustainable energy for all.

A useful tool for the ecological transition is the EU taxonomy for sustainable activities, one of the most significant developments in the field of sustainable finance, with wide implications for policy-makers, investors and companies. Action 1 of the Commission Action Plan on Financing Sustainable Growth called for the establishment of an EU classification system for sustainable activities (i.e. an EU taxonomy). In May 2018, the Commission presented a package of measures as a follow-up to its action plan, which included a proposal aimed at establishing a unified EU taxonomy. On 18 December 2019, the Council and the European Parliament reached an agreement on the Taxonomy Regulation. In this framework, a Technical Expert Group (TEG) on sustainable finance was commissioned to draw up recommendations for technical screening criteria for economic activities able to make a substantial contribution to climate change mitigation or adaptation. In 2020, the TEG published its final report, with recommendations referring to the general approach of the EU Taxonomy and to the technical implementation on how companies and financial institutions can use the classification system. The taxonomy sets performance technical screening criteria for economic activities which make a substantive contribution to one of the six environmental objectives (climate change mitigation or adaptation, sustainability and protection of water and marine resources, transition to a circular economy, pollution prevention and control, protection and restoration of biodiversity and ecosystems) and do no significant harm (DNSH) to the other five, where relevant. Moreover, the EU Classification

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<sup>1</sup> If we consider the approach of the International Monetary Fund, including the costs of climate action and co-externalities, fossil fuel subsidies are up to € 264 billion. CFR, the European Parliament's Roadmap for Reallocation, a critical assessment of the Green Deal's growth, financial and regulatory challenges, April 2020.

<sup>2</sup> Of course, a fair comparison should take into account each country's size. For instance, Luxembourg and Malta are the least populated countries among EU Member States.

sets performance thresholds for economic activities which reach minimum safeguards (e.g., OECD Guidelines on Multinational Enterprises and the UN Guiding Principles on Business and Human Rights). Hence, the EU Commission helps investors, companies and issuers to identify which activities are environmentally friendly and to improve their environmental performance, facilitating the access to green financing.

### **4.3 The Green Deal Investment Plan, EU Green Bonds and the Recovery Fund**

In order to achieve the ambitious goals of the European Green Deal, massive investments are needed. The Commission has estimated that for achieving the current 2030 climate and energy targets, €260 billion in additional annual investments will be required (1.5% of EU GDP in 2018). It is actually a conservative estimate, as it does not consider, for instance, the investment needed for climate adaptation or for other environmental challenges, such as biodiversity. The European Green Deal Investment Plan (EGDIP) is the investment pillar of the Green Deal, that will implement up to €1 trillion in sustainable investments over the next decade. Part of the plan includes the Just Transition Mechanism, which will address a fair and just green transition, based on an ad hoc fund worth € 7.5 billion, to support the sectors and regions most affected by the energy transition. The Just Transition Mechanism will mobilise around €143 billion in investments over ten years with financing from the EU budget, Member States, and contributions from InvestEU and the European Investment Bank (EIB). Overall, this would involve a funding of € 30-50 billion, capable of mobilising further investments. Over the 2021-2027 period, this part of the plan will invest at least €100 billion in supporting workers and citizens of those regions most impacted by the transition. The EU budget from 2021 to 2027 will substantially invest in climate and environmental related goals. The Commission proposed that 25% of its total budget may contribute to climate action and environmental goals across various programmes (European Agricultural Fund for Rural Development, European Agricultural Guarantee Fund, European Regional Development Fund, Cohesion Fund, Horizon Europe and Life funds). Taken together, the EU budget will provide €503 billion for the European Green Deal Investment Plan, not including the additional national co-financing of around €114 billion in climate and environment projects. Over the 2021-2030 period, InvestEU will provide around €279 billion in private and public investments to be used in various climate and environment projects. A key role is envisaged for the European Investment Bank, which has committed itself to doubling its climate target, from 25% to 50% by 2025, mobilising between € 25-30 billion according to forecasts. In autumn 2020, a sustainable finance strategy will be launched looking to private sector investments.

Another important European initiative for sustainable investments involves the EU green bonds, which represent the Action 2 of the Action Plan on Financing Sustainable Growth. The Technical Expert Group (TEG) on sustainable finance, in June 2019, had already published its final Report on a EU Green Bond

Standard. The TEG suggested creating a voluntary, non-legislative EU Green Bond Standard to strengthen the effectiveness, transparency, comparability and credibility of the green bond market. To provide an incentive for market participants to issue and invest in EU green bonds, the TEG Report builds on best market practices. In March 2020, the TEG released the “EU Green Bond Standard Usability Guide”, providing recommendations on the practical application of the EU Green Bond Standard for potential issuers, verifiers and investors in EU Green Bonds. The European Commission is looking at the possibility of a EU Green Bond Standard legislation through a public consultation on a Renewed Sustainable Finance Strategy. In the third quarter of 2020, the Commission will present this Strategy. 2021 could be the year to start up an acceleration in the flow of capital to the EU’s environmental targets.

However, due to the pandemic, the agenda must now look to supporting economic recovery, involving an "unprecedented investment effort", as established by the "Roadmap for Recovery" adopted by the European Council. The impact of the pandemic has raised concerns about the shift of economic resources from the energy transition objectives and about the possibility to meet climate targets and move towards carbon neutrality. According to some, the urgency to face the recession would cause the derailment of energy efficiency and decarbonisation strategies<sup>3</sup>. However, the European Commission appears determined to reaffirm its commitment to clean energy promotion, making it a key issue in stimulus plans (i.e. the Recovery Fund) to counter the effects of the COVID-19 crisis. In so doing, the European Green Deal is conceived as a growth strategy that can help Europe's economic recovery and, at the same time, address the global climate emergency and the energy transition. A push in this direction also comes from some States and institution representatives, such as from the Netherlands that recently published the "Outline for an EU Green Recovery" plan suggesting that EU recovery fund spending should be guided by an EU-wide green finance taxonomy rewarding investments in clean technologies (see above). The EU should set criteria for an exclusion list of economic activities which would be banned from receiving EU money. According to the Dutch government, the exclusion list proposed for the Just Transition Fund should be used as the starting point. The Just Transition Fund excludes nuclear power from receiving EU money (whether for construction or plant decommissioning), as well as fossil fuel investments, even those with a low emission threshold. In addition, according to the Dutch proposal, state aid should be more quickly accessible for clean technologies and be reserved as a priority for companies willing to make circular, sustainable and low-carbon investments.

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<sup>3</sup> Andrej Babis, the Czech Prime Minister, said on 16 March 2020: ““Europe should forget about the Green Deal now and focus on the coronavirus instead”. Janusz Kowalski, Poland's Deputy Minister of State Assets, declared: “Poland and other countries should take care of the climate on their own, and the ETS should be removed from 1 January, 2021, or at least Poland should be excluded from the system”. The first vice-president of the Romanian ruling party likewise asked all Romanian MEPs to support abandoning the Green Deal and diverting funds to supporting national economies and health systems.

Moreover, an informal alliance<sup>4</sup> was launched by the European Parliament following the call from 12 EU environment ministers who signed an appeal for an ecological recovery from the COVID-19 pandemic, also signed by big names from the private sector. The Green Deal finds space in the aforementioned "Roadmap for Recovery", which asks for "investing massively in the Green and Digital transitions and the circular economy, alongside other policies such as cohesion and the Common agricultural policy. The European Green Deal will be essential as an inclusive and sustainable growth strategy in this respect". Hence, the EU institutions seem to accept the principle of the alignment of recovery measures with global climate change and European Green Deal priorities and that stimulus money should flow to economic activities that can contribute more to a sustainable transition.

### Key Questions

- *The Covid-19 outbreak erupted unexpectedly all over the world, including the EU, with severe short-term social, economic and environmental repercussions. While the evaluation of these short-term impacts is still ongoing, the medium/long-term are still largely unpredictable. Does the need to fight the recession clash with the ecological transition goal? If not, how can the path of the European Green Deal foster a sustainable economic recovery? What tools are needed to support green recovery? Is the Recovery Fund useful in this direction? What synergies with other EU and national funds should be foreseen?*
- *The EU energy sector has shown an overall resilience to Covid-19-induced short-term shocks, but the medium/long-term possible effects on EU energy transition must be carefully evaluated. What can the European institutions do to support the parts of energy value chain most affected by the present crisis? How can EU energy transition be strengthened?*
- *Will the current health emergency and economic recovery discussion between EU institutions and Member States affect the European Green Deal timeline? Will the current upheaval in the international scenario have an impact on the revision of the 2030 emissions reduction target, scheduled for summer 2020?*
- *The transport sector is expected to undergo major changes due to the Covid-19 crisis. Are these changes transient or structural? What are consequences for the decarbonisation of the sector? Has the pandemic also deeply changed the relation of EU citizens with their homes? How could this impact on the deep energy renovation of buildings?*

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<sup>4</sup> The "green recovery alliance" was launched on Monday 14 April by Pascal Canfin, chairperson of the European Parliament's Committee on Environment and Public Health (ENVI). Canfin declared: "COVID-19 has not made the climate crisis go away. The public money that states and Europe will spend to reinvest in the economy must be consistent with the Green Deal".

- *In which sectors, and to what extent, do you think fossil fuel subsidies can be cut? What is a feasible timing for fossil fuel subsidy phasing out? Can low oil prices detract from a subsidy reduction policy or, on the other hand, make the transition smoother?*
- *The first two actions of the Action Plan on Financing Sustainable Growth regard a EU Taxonomy for sustainable activities and a EU Green Bond Standard. How would you judge the work done by the TEG in these two areas? Can it be useful to stimulate sustainable investments and guide markets towards the ecological transition?*

## 5. VideoTalk Main Highlights

"A Green Deal for European People. Challenges and Scenarios for a Sustainable Recovery" is the title of the VideoTalk held on 20 May organised by I-Com in partnership with Enel, with guest speaker Raffaele Mauro Petriccione, Director-General of DG CLIMA of the European Commission.

Bringing together EU institution representatives, research and business organisations, trade and consumer associations and other relevant stakeholders, the VideoTalk offered the opportunity to discuss the Commission's action on the Green Deal, focusing on the initiatives already adopted in the last months, the challenges posed by the Covid-19 pandemic and the measures to be taken up in the future to further boost the ambitious transition to a climate neutral Europe by 2050.

The event was opened with a short speech by I-Com President Stefano da Empoli, followed by an introduction by the Vice-President and Head of Energy Area Franco d'Amore. The main speaker, Raffaele Mauro Petriccione, Director-General DG CLIMA of the European Commission, then took the floor, with comments from Simone Mori, Head of Europe and Euro-Mediterranean Affairs, Enel Group. There followed an open debate moderated by Mattia Ceracchi, I-Com Head of EU Affairs, before Mr Petriccione's closing remarks.

Below are the main takeaways of the discussion.

### **A crisis should never be wasted**

The Covid-19 outbreak erupted unexpectedly all over the world, including the EU, with severe short-term social, economic and environmental repercussions. As Europe is facing unprecedented societal challenges resulting from the COVID-19 pandemic, a balance needs to be struck between short-term required choices and actions to take with a long-term perspective. Experts agree on the fact that the current crisis can turn into an opportunity, as, faced with an unexpected crisis, the EU has managed to coordinate Member States responses and find concerted and innovative solutions to overcome it. In the long-term, the challenge will remain the need to tackle climate change. The European Green Deal represents here the only possible EU long-term growth strategy, being a structured instrument to achieve ambitious goals and transform the old continent's economic base as a whole. The response to

this pandemic should also provide an example for future crisis management, seeking to ensure as far as possible that the solutions identified at a common level are valid and applicable throughout the Union.

### **The need to combine public and private investments**

The transition envisaged by the Green Deal requires a massive investment effort over the next ten years. The starting point lies in restructuring current business models in order to create an economy able to serve a fair and sustainable transition. This requires the appropriate effort from Member States, and, at the same time, a considerable mobilisation of private-sector investments. Undoubtedly, the Recovery Fund will be the European tool to foster economic reconstruction in Europe. It should primarily intervene through targeted measures aimed at mitigating the exacerbation of MS asymmetries arising from the crisis, which would then be further honed by a totally Member State-driven recovery. Financial and regulatory barriers should be reduced (e.g. permitting procedures for energy projects in the EU) in order to stimulate investments and promote innovation.

### **The need to ensure a fair transition**

The radical change resulting from this ambitious strategy will undoubtedly require an effort, also in economic and social terms. The wide variety of EU funding tools envisaged in response to the crisis will have to be channelled to MSs and provide direct support to regions, local realities, companies and workers. This transformation involves the dislocation of economic activities and particularly of workers, especially involving those regions already marked by economic and social fragility prior to the crisis. For the transition to be truly fair, the involvement of civil society is essential. The Commission's initiatives in the direction of a stronger and more active stakeholder engagement, e.g. the launch of the European Climate Pact, should be viewed positively in this respect.

### **A strong focus on supporting innovation in the energy sector**

The EU energy sector has shown an overall resilience to Covid-19-induced short-term shocks, but the medium/long-term possible effects on EU energy transition must be carefully evaluated. Despite the impact of the pandemic crisis on the European economy, European companies have shown their willingness not to slow down investment in innovation. There are several good practices in Europe concerning digitisation and innovation in the energy sector, including various efforts to support sustainable mobility. In order to achieve a rapid and effective transition, it is essential to provide incentives and complement private investment efforts, by supporting both research capabilities, deployment of old technologies and access of new technologies to the market. Innovation is key to accelerating the process towards energy and industrial transition, with the twofold objective of mitigating the environmental impact and reinforcing productivity and competitiveness.