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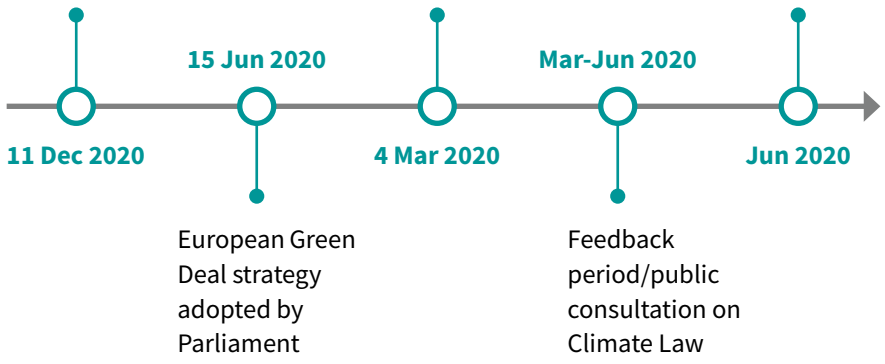
Climate and Sustainable Finance

COVID-19 and the European recovery: Transition to a green normal or return to the old normal?

Under the European Green Deal presented in December 2019, the European Union is seeking to reduce greenhouse gas emissions (GHGs) by 50–55% by 2030 over 1990 levels by targeting a wide range of policy areas, ranging from clean energy to biodiversity.[1] The ultimate aim is to achieve climate neutrality by 2050 and leadership in international climate policy; to enshrine these targets, the Commission proposed the EU Climate Law in March 2020 (see Figure 1).

European Green Deal timeline



Source: IHS Markit

Given that the road, rail, aviation, and maritime segments account for more than 25% of the bloc's total emissions, this represents both new opportunities and new challenges for the transport sector.[1] All the more so as there are significant discrepancies or differences across the European Union with regard to implementation of EU transport policies, and also in view of the current coronavirus disease 2019 (COVID-19) crisis.

Key implications

- The European Commission presented the European Green Deal in December 2019, followed by the European Union's first-ever climate law in March 2020.[2] In this context, the coronavirus disease 2019 (COVID-19) crisis represents both a threat and an opportunity for the energy transition; but no matter what the outcome, it is without a doubt an important test case for European climate policies.

- The current situation may jeopardize years of climate negotiations, or it may provide a window of opportunity for policymakers to pave the way to a sustainable economic recovery. So far, old patterns and alliances have been confirmed—those countries that were already supporters of green climate action prior to the crisis are pushing for a greener recovery, while those that are pushing back against green recovery were already climate skeptics.

- Moreover, the pandemic also reinforced existing trends; i.e., it accelerated climate action in climate-conscious countries and slowed down climate action in less climate-conscious countries. However, dynamics may evolve, and those countries that seem to lag behind today may drive change tomorrow, depending on their individual economic recovery and societal change.

- At the civil society level, it comes down to one question: will societies take this crisis as an opportunity to loosen regulatory mandates, or will they pressure governments and the European Union to accelerate the transition toward sustainable mobility and clean energy?

The impact of COVID-19 on the transport sector

While the ongoing COVID-19 crisis has once again highlighted the importance of transport and mobility— not only for the supply of medical or other essential goods, but also for our daily lives—it has also had an immense impact on oil product markets. Borders have been closed (both the EU external borders and that within the Schengen area) and travel restricted to the essential, employees have been sent to work from home, and consumerism and leisure activities moved online. As a result, and with the impact of the pandemic weighing heavily on demand for all fuels, be it fossil fuels or biofuels, oil products demand and thus related carbon dioxide (CO_2) emissions have fallen rapidly (IHS Markit expects energy-related CO_2 emissions to fall by 7% year on year in 2020).

The oil products demand fall in Europe is likely to reach 2.5 MMb/d for full-year 2020, with a 5.2 MMb/d drop forecast in the second quarter alone. Not all of this will be regained in 2021, with growth currently predicted at around 1.9 MMb/d.[3] We are thus not looking at a return to normal in Europe post crisis, but at a "new normal," with a similar long-term demand decline predicted, but starting from a base lower than before this crisis. By far, the hardest-hit oil products are jet fuel and gasoline, with the fragile aviation industry suffering from significant losses and depending on state bailouts in order to survive. Indeed, jet fuel, which used to be one of Europe's key growth products, will now struggle to regain volumes through 2020 and continue to be deeply impacted through 2021 by safety and health fears and by the economic fallout from COVID-19, with

1. For more information on the implications of the European Green Deal for the transport sector, please see the IHS Markit Insight The European Green Deal: Deal or No Deal? What's next and the impact of COVID-19 on European green policies.

2. ibid

3. For more information on the impacts of COVID-19 on European oil product demand, please see the IHS Markit Insight How sick is the market? Impact of COVID-19 on European oil product demand.

demand only expected to return to 2019 levels in 2025. Gasoline, another growth product, will come closer to 2019 levels by 2021, but in the meantime has been hit hard by movement restrictions— with indications that demand will fall by around 70% in April 2020. By contrast, diesel/gasoil demand will hold up better in the road sector, as trucking to transport essential goods supported the diesel market during lockdowns—a trend set to continue even when shops reopen owing to lingering fear of exposure to the virus in public places. However, this temporary uptake will not be able to make up for the structural decline in diesel/gasoil consumption.

Implications on transport policies

The automotive and aviation sectors have been among the hardest hit by the COVID-19 pandemic, as factories shut down, aircraft were grounded, and unemployment shot up.[4] Against this background, the COVID-19 crisis represents both a threat and an opportunity for the energy transition, calling into question business-as-usual economic models of the past and potentially revolutionizing the way we work and travel (see Table 1).

Table 1

COVID-19: Threat to or opportunity for the European Green Deal?

	Threat	Opportunity
Overall sentiment	• "We have more important things to deal with"	• "Now is the time to hit the reset button"
State level	• Reduced political leeway (public spending etc.) • Shifting priorities (toward healthcare sector, employment and wider economic stimulus, etc.) • Shifting political tone (populism, etc.) and protectionism	• Green recovery • Channeling state aid into green investments • Tying bailouts to specific green targets, etc.
Economic level	**Oil industry:** • Government bailouts support producers and refiners, but overcapacity remains • Driving/flying incentives support (fossil) fuels demand • Delays in rollout of more stringent emissions and fuel efficiency standards support (fossil) fuels demand (but this is partly offset by lower purchasing power) **Other sectors:** • Growth in unemployment • Further increase in trade and other disputes • Fall in purchasing power • Deteriorated cash position of large corporates weighs on ability to prioritize green investment	**Oil industry:** • Internal combustion engine (ICE) car sales decline; replacement by electric vehicles and hybrids dent gasoline and road diesel demand • Lower demand ultimately pressures oil production and refinery utilization • Air travel decrease • Opportunity for refiners to accelerate future-proofing of strategic assets, rationalize weaker plants **Other sectors:** • Workforce converted to green economy • Lower consumerism • Relocalization of production (versus long haul trade) • Change in working models (increased digital substitution; e.g., working from home, video-conferencing etc.)
Individual level	**Change in mobility behavior and preferences:** • Increased preference for personal car versus car-sharing and public transport **Change in travel preferences:** • Increase in domestic and international travel (due to desire to "make up for lost time" and strike discounts from airlines and hotels desperate to make their comeback) **Lower interest in environmental activism.**	**Change in mobility behavior and preferences:** • Increased appetite for walking and cycling schemes, combined with shorter commuting miles **Change in travel preferences:** • Increased preference for local over international travel and for rail over air transport (partially offset by more discretionary driving to replace flights) **Further upswing in environmental activism.**

4. The cruise ship and rail industries have also been hit hard by the COVID-19 pandemic.

For example, to better facilitate social distancing, several cities have created new pedestrian/cycle paths, which although temporary, could encourage further development of more permanent car-free spaces and also the greening of transport in general. This, in turn, could throw up a divide between cities and countries that will seek to maximize the environmentally friendly possibilities in city transformation, and others that will not. It could also result in or highlight some city authority–versus–national government conflicts (like with the German diesel bans) and could also bring to light some incoherencies in policies—such as supporting the automotive industry with bailouts while simultaneously making policies to reduce space for cars. As for the aviation sector, state-imposed changes may include economic/ecological conditionality or tax reforms (especially in the context of airline bailouts). Indeed, although various air carriers have called for a suspension of plans to overhaul flight taxes in view of the COVID-19 outbreak, ending national kerosene tax exemptions could generate huge revenues and thus help to relieve the strain on national budgets. This, in turn, would make flying more expensive.

Although in this context it is hard to speak with certainty about the recovery, going forward the automotive and aviation industries could undergo massive transformations. For example, at the economic and individual levels, business travel may be replaced by videoconferencing and people may either avoid commuting or opt for more individual modes of travel like cars or bikes; this may result in less rail and air travel. At the same time, domestic travel may recover before international travel, a scenario that could lead to an increase in both road and rail travel. However, no matter what the outcome, it is certain that travelling in the post-COVID-19 era will be different, involving, for example, longer immigration queues, testing at borders, limited seats, suspended beverage and snack services, and reduced traditional human interaction.

Regional responses to the green recovery

During the COVID-19 pandemic, the European Union—the European Commission in particular—has tried persistently to not lose sight of the other, potentially much more devastating crisis the world is facing: the climate /ecological crisis. Since both crises are closely tied to one another and require global responses and long-term thinking, the idea spread to put the Green Deal at the center of the European Union's economic recovery and to rebuild European societies on a green foundation. In this light, the European Commission's recovery plan—which was released on 27 May and proposes a new €750 billion recovery instrument called "Next Generation EU"—foresees, among other things, increasing climate spending from the current 20% to 25% for the 2021–27 EU budget (the total budget is €1.1 trillion). With regard to the transport sector, the focus is on furthering clean mobility, and to this end the plan includes, among other things, greater investments in rail travel, electric car recharging infrastructure, and urban mobility programs (see Figure 2).

Backed by various environmental organizations and civil society,[5] the European Parliament, which in November 2019 declared a climate emergency in Europe, has been urging for the upcoming seven-year budget to be aligned with the provisions of the Green Deal. In this context, a number of EU countries, including Austria, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Latvia, Luxembourg, Malta, the Netherlands, Portugal, Slovakia, Slovenia, Spain, and Sweden (see Figure 3), as well as various business and industry leaders such as the CEOs of insurance company AXA, the BNP Paribas bank, energy supplier E.ON, and consumer goods producer Unilever, have joined forces under the Green Recovery Alliance to accelerate the energy transition post COVID-19.[6] Likewise, the CEOs of the Oil and Gas Climate Initiative have reiterated their commitment to accelerating the transition to a low-carbon future in an open letter.

5. More than 100 environmental non-governmental organizations (NGOs) and 1 million citizens have called for a green recovery in the context of the so-called Green 10 coalition, a coalition of 10 of the largest environmental organizations and networks in Europe.

6. The Green Recovery Alliance is a group of executives from EU politicians, companies, and industry bodies aiming to drive a sustainable recovery. It was established by Member of the European Parliament (MEP) Pascal Canfi.

Figure 2

The European recovery plan: Three main pillars

Member states

- New Recovery and Resilience Facility
- Recovery Assistance for Cohesion and the Territories of Europe (REACT-EU) initiative top-up
- Reinforce rural development programs
- Reinforce Just Transition Fund

Economy

Solvency Support Instrument
- Prioritization of green investments

Strategic Investment Facility
- Investments in renewable and energy storage technologies, clean hydrogen, batteries, carbon capture and storage, and sustainable infrastructure

Strengthen InvestEU program
- Acceleration of production and deployment of sustainable vehicles and vessels and alternative fuels
- Installation of 1 million charging points, clean fleet renewals, and sustainable transport infrastructure (clean urban mobility)

Future

- New Health Programme
- Reinforce rescEU reserve
- Reinforce programs for research, innovation, and external action

Source: IHS Markit

Figure 3

Europe—Green recovery alliance

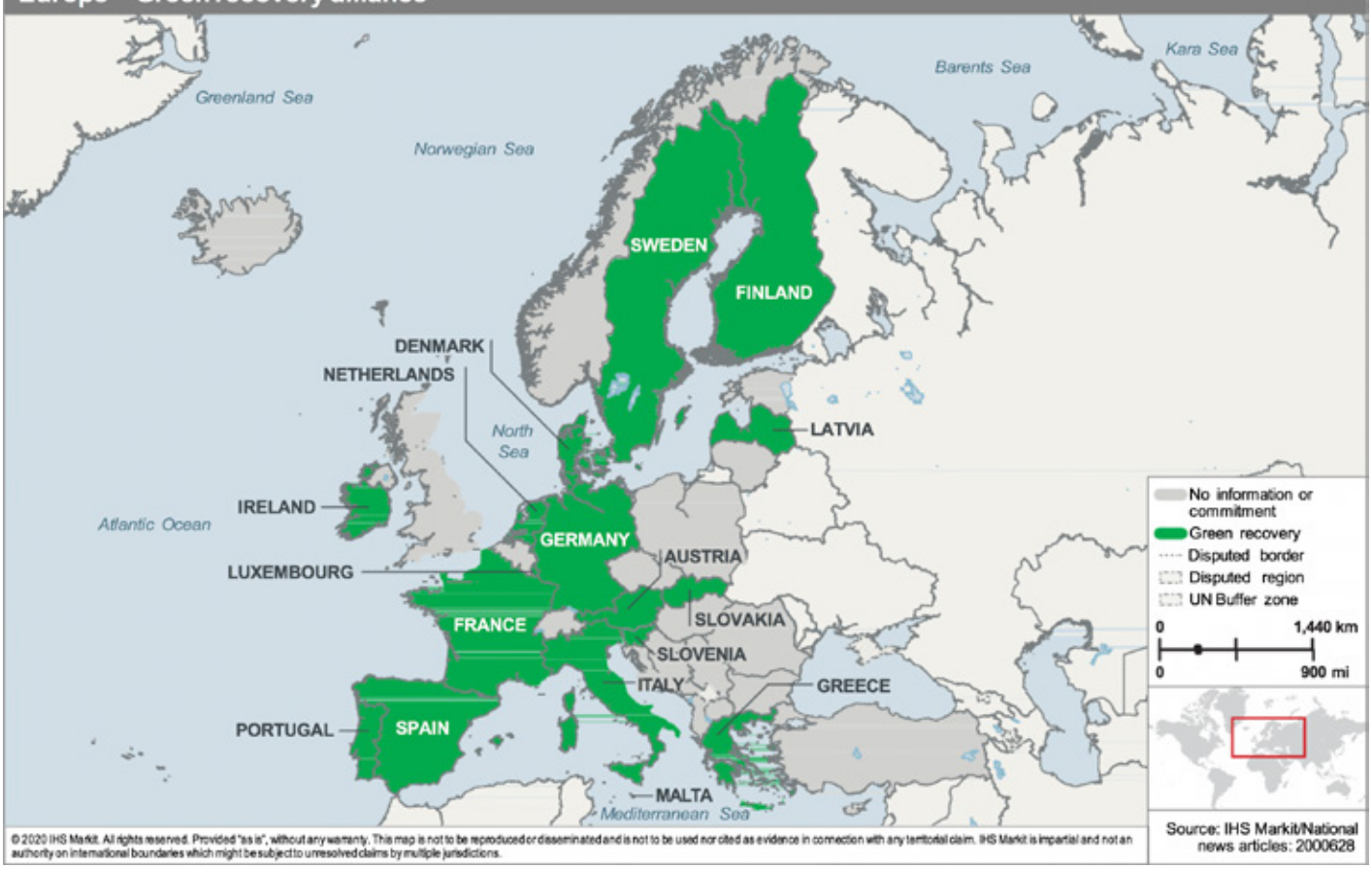
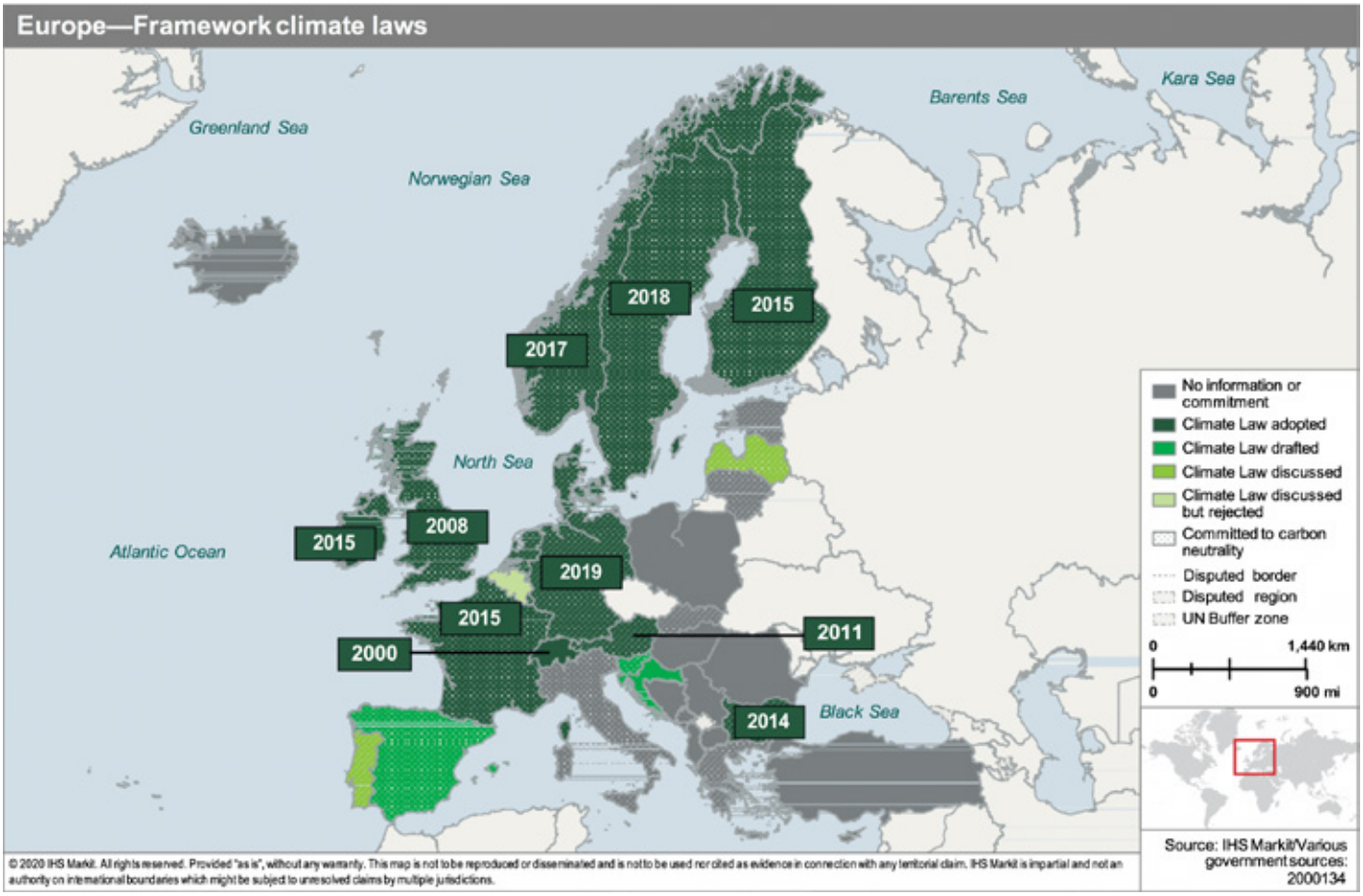


Figure 4



However, at the same time, voices, particularly from Eastern Europe, have become loud that the COVID-19 crisis reduces political leeway and state budgets, and will thus have to lead to a reevaluation of climate priorities. In general, countries that maintain their support for the Green Deal were already supporters

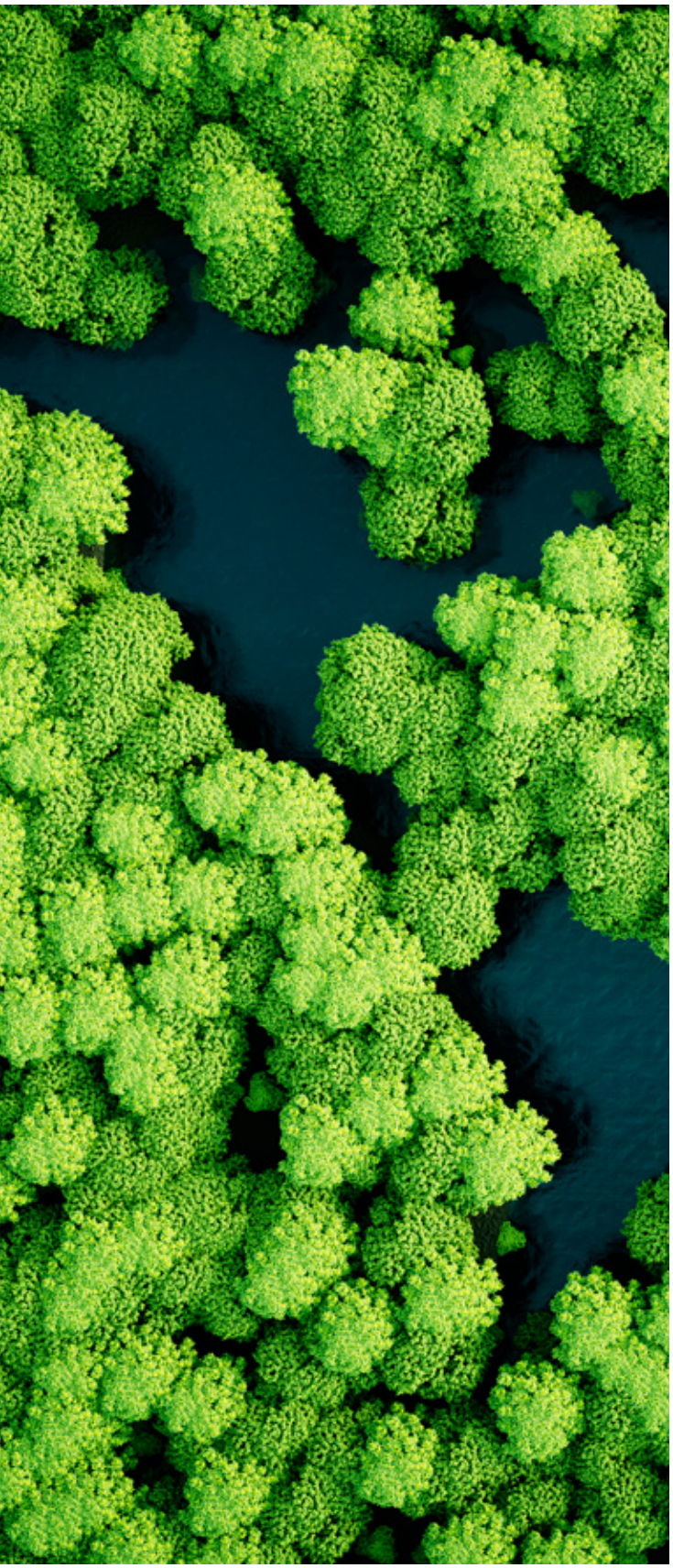
of European green climate action prior to the COVID-19 crisis, whereas those that are now pushing back against an environmental focus in recovery policies were already less committed to the green deal before (see Figure 3 and 4).

Northwest Europe

France: Concrete steps toward green recovery taken, bailouts linked to measurable climate action

Despite being severely hit by the COVID-19 crisis, France, which had already been at the forefront of initiatives aimed at containing fossil fuel growth prior to the crisis, was also one of the first countries to reiterate its climate commitments, reflected primarily by the fact that it submitted its National Energy and Climate Plan (NECP) in March and is pushing for a European CO_2 border tax.[7] Likewise, Paris, one of the cities hit the hardest by the virus, joined the list of EU capitals asking for the Green Deal to be the centerpiece of the economic recovery.

7. The National Energy and Climate Plans (NECPs), which cover the 2021–30 period, are part of the Paris Agreement and the framework for member states to outline their climate and energy goals and policies. In fact, as part of a 2018 EU governance regulation aimed at coordinating national climate policies, the member states were required to submit their final plans to the Commission by the end of 2019.



Aiming to accelerate the environmental transition in the automotive sector, and in the context of an aid package for its national car industry, the French government is also planning the introduction of subsidies for low- or zero-emissions vehicles (€2,000 for hybrid cars, €7,000 for purely electric cars). Similarly, it announced that it would tie any state aid to the aviation sector and Air France's parent company Air France-KLM (which had called for a delay in policies designed to reduce emissions) to ecological conditions, including the reduction of CO_2 emissions by 50% by 2024 for internal flights, the renewal of fleets, and the use of biofuels.

Although taxing aviation fuel is another possible measure that is increasingly being discussed (not only in France but globally), France—which had introduced an ecotax on flights at the beginning of 2020 (in order to support its national rail system)—has currently paused its implementation. Going forward, inner political considerations are likely to play a role here: in 2018, French President Emmanuel Macron's fuel tax reforms led to an unprecedented protest movement (the "Gilets Jaunes" or yellow vests movement) that spread across the entire country, and the fact that aviation was exempt from these reforms and continues to enjoy the lowest tax rates, may, in view of the current situation, increasingly become difficult to justify politically. In general, ending aviation fuel tax exemptions, particularly for international flights, is not an easy endeavor owing to various regulatory constraints.[8]

Germany: Growing support for green recovery, but coherent and specific decisions not taken yet

Germany, which has been less severely hit by the COVID-19 pandemic than its Western European neighbor (at least in terms of number of severe cases), has on various occasions reconfirmed its climate commitments; for example, it has welcomed the more stringent 55% GHG target of the Green Deal and is part of the Green Recovery Alliance. Like Paris, Berlin joined the list of EU capitals asking for the Green Deal to be the centerpiece of the economic recovery and various German industry groups such as ThyssenKrupp, Bayer, and Allianz have called for any COVID-19-related state funding to be linked to environmental conditions.

8. The Convention on International Civil Aviation, signed in 1944, prohibits taxation of any jet fuel currently onboard an aircraft when it lands in another country.

Other commitments include CO_2 pricing (on 20 May, the German Parliament agreed on a higher starting price of €25 per metric ton of CO_2 as of 2021),[9] €1 billion shipping funding (fleet renewal, shipping innovation etc.), and cash incentives for electric cars or the investment in sustainable energy technology (notably hydrogen). In the same line, the German automotive industry has remained committed to meeting EU-wide CO_2 reduction targets throughout the COVID-19 crisis (contrary to its European lobby group). Nonetheless, and unlike in previous crises, the government has so far been hesitant to concede any specific privileges to the sector. One reason for this is the general lack of trust in the sector since the diesel emissions scandal broke in 2015.

On the other hand, Germany has missed an opportunity to already introduce a carbon price in 2020 and only delivered its National Energy and Climate Plan (NECP) in June 2020. Moreover, the planned bailout of Lufthansa, paradoxically, does not seem to be conditional on measurable climate action, with Germany's environment minister promising that only the next phase of the recovery would be green. Therefore, whether Germany will actually be able to spearhead the green recovery post-COVID-19, and lead by example, remains to be seen. The country will get the opportunity to prove itself in the context of its EU presidency starting in July.

United Kingdom: Commitment to carbon neutrality reiterated, post-COVID-19 focus on road and aviation sectors

The United Kingdom is not only Europe's worst-hit country in terms of COVID-19-related deaths, its oil and gas industry is also suffering from the current low oil prices; consequently, politicians are caught between economic and environmental concerns when making decisions on recovery. Nonetheless, Prime Minister Boris Johnson has reiterated his country's pre-pandemic commitment to the energy transition and goal of carbon neutrality by 2050, the context under which he confirmed plans to prioritize investments in low- and zero-carbon vehicles and low carbon infrastructure. In the same line, Johnson declared that the aviation industry must lower its CO_2 emissions, under any circumstances. In this context, various deputies from six different parties, including the Conservatives and Liberal Democrats, have been calling for a conditional rescue for the sector. However, at the same time, around 53 companies, including various carmakers (Honda, Nissan, Rolls-Royce, and Toyota) and airlines (British Airways, EasyJet, Wizz Air, and Ryanair), have benefited from the government's (unconditional) economic rescue plan: the Bank of England's Covid Corporate Financing Facility. So far, these companies have borrowed more than £16 billion from the scheme. In general, and with the UK economy suffering among the worst damage from COVID-19, the UK green recovery is increasingly under pressure.

Northern Europe: Green recovery backed by politicians and industry leaders

Despite differences in their regional COVID-19 crisis management (Norway and Denmark took rather drastic steps at an early stage), the northern European countries have overall been less hit by COVID-19- related deaths and have had less strict lockdowns than other regions, such as Southern Europe. However, their economies have still been affected, and they have been among those promoting a green recovery; Denmark, Finland, the Netherlands and Sweden are all part of the Green Recovery Alliance. This is not surprising as these countries had already been pioneering climate change legislation prior to the crisis and are strong supporters of the Green Deal.

For example, as one of the climate-related responses to the COVID-19 crisis, the Norwegian Parliament has suggested greater investments in CO_2 capture and storage and offshore wind and in green shipping, while industry leaders such as the CEOs of Volvo Group, Swedbank, IKEA, H&M, and Lego have called for a transformation of the global economy. With regard to the Netherlands, the country was, together with France, one of few urging the European Union to introduce a Europe-wide tax on jet fuel. Although the fate of this tax remains uncertain in view of the current situation, the Dutch government has also proposed taxing international plane tickets as of 2021, and unlike the French government, has confirmed its plans to go ahead

9. The initial plan was to price CO_2 at €10 per metric ton as of 2021. This entry price level was broadly criticized for being too low.

with the new tax of €7 per passenger, which will apply to all flights. Furthermore, it is now seeking to link the Air France-KLM bailout with sustainable development commitments.

Southern Europe: Green recovery envisaged

Southern European countries, Spain and Italy in particular, have been very badly affected by the COVID-19 pandemic. Prior to the outbreak, they had regularly urged the European Union to take faster climate actions and to work toward the implementation of the Green Deal. This trend toward more or reinforced environmental policies has not changed over the course of the crisis, although it remains to be seen how exactly EU funds and non-EU financial support may be provided. For example, Italy, Portugal, and Spain have all joined the Green Recovery Alliance, with Spain being in favor of more stringent emissions reduction targets for 2030 and calling for, among other things, greater investments in sustainable mobility. Likewise, and to reduce future air pollution, major Italian cities such as Milan are planning the construction of new cycle routes and larger pavements for pedestrians. Portugal is looking into the construction of a new hydrogen plant, whereas Greece is seeking to modernize its environmental legislation. Although investments in renewables will be facilitated, restrictions on oil and gas exploration in protected areas will be eased as well.

Eastern Europe: Climate action may be slowed down over economic fears

In view of the COVID-19 crisis, the eastern European countries, particularly Poland and the Czech Republic, have turned out to be the most skeptical about green recovery and consequently have not joined the Green Recovery Alliance (unlike Slovakia and Slovenia). This is not surprising, as these countries often drag their feet on European green policies and already prior to the crisis were not as committed to the Green Deal as other countries. For example, in mid-March, Poland and the Czech Republic suggested delaying the European Green Deal, with Poland even voicing its wish to be excluded from the Emissions Trading System (ETS) in order to free up resources for combating COVID-19.

However, although Poland is concerned about not having sufficient means to tackle COVID-19, it does not mean that the country is against the green recovery in general. On the contrary, the country has already declared energy efficiency and the promotion of low- and zero-emission transport (both in the road and rail segments) as key investment areas for the post-pandemic recovery. The fact that its coal mining sector has been hit hard, with various mines facing temporary closure to contain the COVID-19 virus, may in theory

create an opportunity for greater environmental content and the energy transition.[10] However, Poland draws around 80% of its electricity from coal, and with thousands of jobs depending on the revenues generated by coal mining, exiting the fossil fuel economy would not only signify a massive transformation for the Polish energy sector, but also come at high social costs, making it unlikely that it will happen rapidly.

Pandemic confirms old patterns and alliances and reinforces existing trends

The COVID-19 pandemic will have long-lasting effects on fuel demand and the transport sector and has once more revealed sharp divisions across Europe; and this despite the European Union's self-set ambition to "speak with one voice" and "act as a whole," suggesting a disconnect between EU rhetoric and targets and political realities on the ground. Two camps have emerged: societies that take this crisis as an opportunity to soften or cancel regulatory mandates, and those that are taking it as an opportunity to accelerate the transition toward sustainable mobility.

So far, the crisis seems to have only confirmed old patterns and alliances: those who prior to the outbreak were in favor of the energy transition and climate neutrality are now those attempting a greening of their economies. Likewise, those who previously were skeptical now argue to prioritize economic recovery over a more ambitious environmental agenda—a move that in the worst case may lead to a temporary slowdown in European climate action. So, nothing new under the sun? Not necessarily, because what also shines through in this crisis is that some of the established climate supporters are currently accelerating their activities (see France), giving reason to believe that one important lesson has been learnt from the COVID-19 crisis; i.e., that early action is essential. Moreover, dynamics may evolve, and those countries that today seem to lag behind (like Poland) may be the ones that drive change tomorrow, depending on various factors such as their individual economic recoveries or societal change, and vice versa.

Further, the crisis also seems to have reinforced existing mobility and fuel trends. Vehicles (internal combustion engine cars) and fuels (fossil fuels) that prior to the outbreak were already in decline are now those that are expected to have peaked in 2019 and whose futures are in doubt. In the same vein, those fuels that were trending upward before, now seem to be the likely winners of the crisis; in terms of legislation, it appears electric vehicles and hydrogen vehicles will be coming out particularly favorably in a post-COVID-19 world. Indeed, while there looks to be renewed emphasis on these fuels, biofuels, by contrast, have not been with only the French support package to Air France calling on an increased use of sustainable aviation fuels. However, due to their firm establishment in the European legislative framework (Renewable Energy Directive), it is unlikely for them not to play a role in the wider green recovery, in particular when it comes to the aviation sector where biofuels are the only viable low-carbon option.

10. At the end of May 2020, Poland's environmental authorities postponed a decision on new lignite mining concessions for the country's Belchatow power station. Similarly, financing of Poland's new coal-fired power station Ostroleka C has been temporarily suspended, owing to various regulatory changes at the EU level, including that related to the Green Deal.

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