Europe’s energy transition, by Francesco Starace

The shock of the Covid-19 pandemic has acted as an extraordinary accelerator of phenomena and trends that were already in motion, such as digitalization and the progressive replacement of fossil fuels with renewable energy sources. This acceleration has taken place in a context where the will to tackle climate change had already produced historic decisions at the European level, such as the Green New Deal and the Digital Agenda, identified by the European Commission as the main pillars of Europe’s growth strategy. It has now become evident that these pillars are also Europe’s roadmap out of the current crisis. The Next Generation EU recovery plan has merely confirmed one of the Commission’s main objectives: namely, the energy transition – shifting the economy to a sustainable and decarbonized future.

Advances in digitalization and materials science are revolutionizing the energy industry, making renewables an increasingly competitive source. Europe, whose development has historically been linked to its high dependence on fossil fuels imports – and therefore subject to the volatility of commodity prices – is now able to boast greater energy independence with the increased penetration of renewables. In addition to this, storage systems, digitized and resilient grids, and an increased share of electricity in final energy consumption in the EU (according to the European Commission’s Impact Assessment “Stepping up Europe’s 2030 climate ambition”, that share should reach 30-31% by 2030) are key to achieve the objectives of the energy transition.

Although it is not an alternative to electrification – which remains the most cost-effective way to decarbonize large portions of total final energy consumption – green hydrogen produced from coupling electrolyzers with renewable sources is a complement to this process; it can provide a valuable contribution to the decarbonization of “hard to abate” industries: chemical, aviation, maritime transport, heavy transport. Furthermore, green hydrogen can also provide flexibility to the power system as the share of renewables increases. The EU’s Hydrogen Strategy, alongside the EU Strategy for Energy System Integration, fosters synergies between different actors and sectors needed for the complete decarbonization of the economy.

The response of diverse geographic regions to a global crisis – the pandemic and its impact on the economy and society and the climate emergency – is different; however, the clearest signals are coming from Europe. The recent announcement by European Commission President Ursula von der Leyen to increase the EU 2030 target of reducing greenhouse gas emissions from 40% to at least 55% compared to 1990 levels clearly reiterated Europe's ambition to be a global leader in the fight against climate change. The energy transition, with the opportunities it brings in terms of investment and job creation, represents the most effective response to the environmental, economic and social crisis.

Some industrial sectors that stand to lose may be concerned about the transition and may thus resist change. Nonetheless, as Frans Timmermans, Executive Vice President of the European Commission, noted: we cannot afford to make the same mistakes we made during the 2008-2010 financial crisis, when huge amounts of money were channeled to restart a system we already knew had to be changed. We cannot waste this opportunity. We must use it to accelerate change, given that we have the resources and tools to do so.

One such tool is the Just Transition Fund, which aims to address the socioeconomic repercussions of the energy transition by focusing on the regions, industries and workers who will face the most pressing challenges. The current crisis should not permanently widen injustices within our societies nor uphold an economic model that delivers growing inequality on the back of a dwindling set of resources.

The energy transition offers us a unique opportunity for economic revival also through the launch of resilient industrial supply chains, making the production of solar panels, batteries and electrolyzers, currently imported mostly from China, economically sustainable within European borders.

Companies operating in the green economy are more sustainable and resilient, even to unpredictable shocks such as the one triggered by Covid-19. Therefore, they are less risky. Sustainability will benefit those who interpret it correctly and do not repeat past mistakes, protecting not only the companies themselves, but also future generations. Governments and central banks are now accelerating along the same path that markets and large funds had already taken. Sustainable finance has played a primary role in facilitating capital flows towards sustainable investments, which are experiencing significant growth worldwide.

The majority of investments are concentrated in Europe, attracting around 50%, demonstrating that the European market is the world's most focused on sustainability issues. This translates into a competitive advantage for our economic system.

In Enel we have identified the need for financial instruments that could objectively quantify the company's sustainable strategy and business model. From our experience with green bonds, with their "use of proceeds" model, we have developed a new "general purpose" approach with the new bond program. This is linked to the United Nations Sustainable Development Goals (SDGs) and aims at the entire corporate strategy rather than individual projects. For a company like Enel, whose strategy is fully sustainable, SDG-linked bonds are the natural evolution of sustainable finance, and recently other companies have begun to follow suit.

The European Central Bank (ECB) has also taken a leap forward on the sustainable finance front, announcing that, as of 1 January 2021, bonds with coupons linked to sustainability performance targets will be eligible as collateral for the Eurosystem's credit operations and included in the ECB's asset purchase schemes. Specifically, the coupons must be linked to a performance target related to one or more of the environmental objectives set out in the EU Taxonomy Regulation, and/or to one or more of the United Nations Sustainable Development Goals related to climate change or environmental degradation.

We have it in us to succeed. The necessary technologies to accelerate the transition are mature and the financial community understands that sustainability is neither a cost nor a luxury, but an indispensable lever for reducing risk. Furthermore, it is fully aligned with the economic and financial results of companies. Public institutions and politicians have also gained awareness on the opportunities offered by innovation, digitization and sustainability in terms of employment and value creation. And the private sector – from SMEs to large companies – already has the know-how and skills to ensure that the ongoing transformation be prosperous. All the conditions have therefore been met for us to accelerate along the path to building a sustainable, inclusive, circular, competitive and decarbonized economy.

Francesco Starace is CEO and General Manager of Enel, a multinational power company and a leading integrated player in global power markets.