

# Impact of the coronavirus crisis on climate action and the European Green Deal

## SUMMARY

Measures to contain the COVID-19 (novel coronavirus) pandemic have led to a dramatic reduction in travel and economic activity. In consequence, energy consumption and greenhouse gas emissions have fallen sharply. This in turn had an impact on the prices of energy commodities and emissions allowances, which have also dropped rapidly. Thanks to lessons learned after the 2009 economic crisis, which caused a massive surplus of carbon emission allowances in the EU Emission Trading System, a market stability reserve was put in place in 2019 to automatically adjust the supply of allowances to actual demand and prevent a collapse of the carbon price.

The handling of the COVID-19 crisis had already led to an economic downturn, reduced tax receipts and increased government spending to support companies and citizens. Stimulus programmes are considered necessary to relaunch the economy after the crisis. While some governments consider that ambitious programmes like the European Green Deal will hinder economic recovery after the crisis, the European Commission and others maintain that the European Green Deal is the growth strategy that can help Europe's economic recovery while at the same time addressing the global climate emergency.

The restrictions on travel and large-scale gatherings may also slow down legislative activity related to the European Green Deal, as EU institutions change their calendars, agendas and priorities. Decision-making under the United Nations Framework Convention on Climate Change, the International Civil Aviation Organization and the International Maritime Organization are also affected by the cancellation and postponement of important meetings and conferences.



### In this Briefing

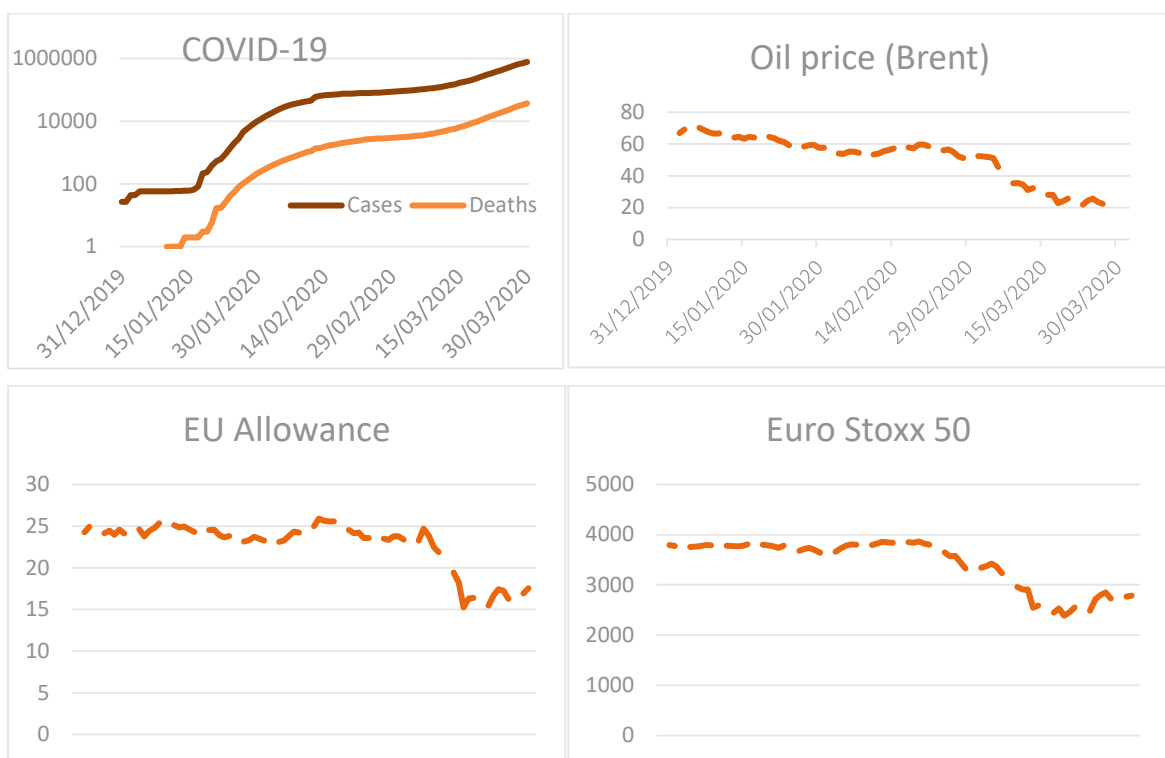
- Introduction
- Impact on energy consumption and prices
- Impact on carbon emissions
- EU climate action
- International climate action
- Prospects for a green recovery

## Introduction

At the beginning of April 2020, about a third of the world's population was subject to [measures](#) intended to slow down the spread of the novel coronavirus (SARS-CoV-2) which leads to infection with the COVID-19 disease. These measures range from mild restrictions, such as bans on large events, to very severe ones, such as confinement at home, travel restrictions and closure of schools and non-essential businesses. These measures lead to significant reductions of mobility and economic activity, with a corresponding drop in energy consumption and greenhouse gas (GHG) emissions. The COVID-19 crisis is expected to plunge almost all G20 countries into a recession, according to [analysis](#) by the Economist Intelligence Unit. This expectation is confirmed by falling prices in the major stock markets.

The health crisis has brought about far-reaching behavioural changes. Many office workers are now teleworking, in-person meetings and business travel are being replaced by video-conferences, and shopping has increasingly moved online. These developments have reduced individual travel and the associated emissions.

Figure 1 – Development of COVID-19 cases and deaths, oil prices, carbon prices and the euro-area stock market index, January-March 2020.



Data sources: [COVID-19 cases and deaths](#); [Brent spot price](#) in US\$: [EU Allowance spot price](#) in €; [Euro Stoxx 50](#).

## Impact on energy consumption and prices

The immediate impact of measures to control the spread of the virus is a reduction in energy use and GHG emissions, but this has come at the price of economic hardship, unemployment and temporary closures of companies. The reduction in emissions is therefore unlikely to turn into a long-term trend, unless further measures are taken to build a low-carbon economy. [Robin Mills](#), CEO of Qamar Energy, expects the crisis to result in lasting changes for the energy industry, with bankruptcies in the United States shale industry and a more difficult environment for oil companies and oil-producing countries.

## Oil consumption and prices

The International Energy Agency expects [oil demand](#) in 2020 to drop due to the COVID-19 crisis – the first demand reduction since 2009 – but expects it to grow again from 2021 onwards. The agency expects global demand in 2020 to drop by 90 000 barrels per day, less than a tenth of one per cent of total demand, which is around 100 million barrels per day. At the end of March 2020, [oil prices](#) dropped to a level last seen in November 2002. On 30 March 2020, a barrel of Brent traded for US\$23.50, a drop of 60 % since 24 February 2020. The rapid drop in oil prices is due to reduced demand during the COVID-19 crisis, as well as a price war between oil producers Saudi Arabia and Russia.

Passenger air travel – an important oil consumer – in Europe fell by 88 % between 24 February and 22 March 2020, according to [Airports Council International – Europe](#). Italy experienced the largest drop, with 98 % fewer air passengers over the same period.

## Electricity consumption and prices

Reduced industrial production and closed schools and businesses have led to reduced electricity demand and falling electricity wholesale prices in EU Member States. [Electricity demand](#) in France and Italy has fallen by about 20 %. In Italy, electricity [consumption](#) during peak hours (8.00h to 18.00h) in the last week of March was around 30 % lower than a year ago. Other Member States have experienced smaller reductions in demand. Wholesale electricity prices across the EU have dropped to around €20 per MWh. Consultancy firm [ICIS](#) expects electricity prices in Europe to drop by 9 % in 2020 under a scenario of a 6 % reduction in electricity demand. Despite the falling demand, a [reliable supply](#) of electricity has been critical to keep societies going during the COVID-19 crisis by enabling teleworking, video conferencing, access to information and medical care, among others.

The presumed reduction in electricity demand is expected to lead to a drop in fossil-fuel electricity generation and a correspondingly higher share of renewable electricity sources, according to ICIS. However, the lower carbon price may mean that gas-fired power plants, which have relatively lower emissions but higher fuel costs, may reduce production more sharply than coal-fired plants.

## Impact on carbon emissions

CO<sub>2</sub> emissions in China temporarily dropped by about a quarter during the pandemic, but are now rising again as economic activity resumes. A similar short-lived reduction of carbon emissions can be expected in Europe.

According to [ICIS](#), emissions in the EU ETS might fall by around a quarter in 2020, based on the first data on reduced electricity demand and assumed cuts in travel and industrial activity. According to the modelling, the price of EU emission allowances might drop by €3.00 compared to pre-pandemic levels. The lower energy demand associated with the coronavirus pandemic – in combination with Brexit – should enable the EU as a whole – as well as many Member States – to reach their 2020 targets for renewable energy sources.

Due to reduced energy use because of a mild winter and the COVID-19 crisis, Germany may well reach its target of reducing its 2020 GHG emissions by 40 % compared to 1990 levels, according to an analysis by [Agora Energiewende](#).

While this might appear to be good news, [Hans Bruyninckx](#), Executive Director of the European Environment Agency, warns that 'major and abrupt shocks with an extremely high cost to society are not at all how the European Union has committed to transform its economy and achieve climate neutrality by 2050.' The World Meteorological Organization reports that while [emissions](#) may have dropped, the observed concentrations of CO<sub>2</sub> in the atmosphere this year have been higher than last year.

## EU Emission Trading System

The price for [allowances](#) in the EU Emission Trading System (ETS) fell by 40 % between 19 February (€25.66) and 18 March 2020 (€15.24) due to expectations about falling electricity demand and industrial activity. By 1 April 2020, the price recovered to €16.95, possibly thanks to announcements about economic support and recovery programmes.

The [Market Stability Reserve](#) for the ETS would automatically reduce auction volumes of EU emission allowances and prevent the large surplus and the big price drop seen after the 2009 financial crisis. [Free allocation](#) of allowances to industry would be impacted from 2026, when the allocation will be based on historical production levels in the years 2019-2023, albeit not for the first period, which will be based on average production values in the years 2014-2018.

The European Commission stated that the [deadlines](#) for submitting verified emissions data for 2019 (31 March 2020) and for the surrender of emission allowances (30 April 2020) remain unchanged, thus rejecting industry [requests](#) for a delay. The reported emissions are needed to determine the amount of allowances that go into the market stability reserve.

## EU climate action

The coronavirus outbreak has led to a modification of the [calendar](#), agendas and immediate priorities of the European Parliament and its committees. As a result, work on legislative proposals related to the European Green Deal is likely to proceed at a slower pace.

The European Council held a video-conference on 26 March 2020 and invited the Commission to develop a [roadmap](#) and an action plan for economic recovery and sustainable growth, integrating inter alia the green transition and the digital transformation. This [statement](#) was welcomed by [industry groups](#), Members of the European Parliament (MEPs), and policy analysts. However, [doubts](#) have been expressed as to whether the Council will be capable of addressing the COVID-19 crisis and the climate crisis simultaneously.

The European Commission's spokesperson for climate action and energy has reaffirmed that the European Green Deal will continue to be Europe's [growth strategy](#). The Commission intends to revise the [legislative proposal](#) for the 2021-2027 multiannual financial framework to take account of the situation caused by the COVID-19 crisis. Under the current proposal, 25 % of the EU budget would be dedicated to climate action, in particular through the [European Green Deal Investment Plan](#), also referred to as the Sustainable Europe Investment Plan.

European [car-makers](#) have asked to postpone the application of the CO<sub>2</sub> emission limits for new cars and vans (95 g/km as of 2021), because of [slumping sales](#) and factory closures during the pandemic. [Transport&Environment](#) noted that falling car sales alone would not prevent the achievement of the emission targets, which are based on a fleet-wide average for new cars.

At Member State level, the German government has postponed a [parliamentary hearing](#) on the coal exit plan and delayed a decision on the country's hydrogen strategy. The Dutch government postponed the adoption of [new climate plans](#) aimed at implementing a [judgment](#) of the Netherlands' Supreme Court that requires the country to reduce its 2020 GHG emissions.

## International climate action

Restrictions on international travel and large-scale gatherings make it harder to organise meetings and conferences to advance international climate action. All UN climate [meetings](#) in March and April 2020 have been cancelled, and the intersessional climate [meetings](#) in Bonn, Germany, planned for June 2020, have been rescheduled to October 2020. The COP26 climate [conference](#), scheduled for November 2020 in Glasgow, has been postponed to 2021, when governments are likely to be less preoccupied with the health crisis and able to devote more efforts to defining their long-term climate strategies and raising medium-term climate ambition. There should also be more clarity

about the climate ambitions of the United States, which is due to hold presidential elections in November 2020.

The International Maritime Organization (IMO) has postponed nine [meetings](#) due to the pandemic, including the Working Group on Reduction of GHG Emissions from Ships and the Marine Environment Protection Committee, which is responsible for climate action in the IMO.

The International Civil Aviation Organization has established a [market-based mechanism](#) (CORSIA) for carbon-neutral growth of the aviation sector after 2020, based on the offsetting of emissions above the 2019-2020 baseline. Airlines' emissions in 2020 will be significantly below average due to the COVID-19 crisis, which will lower the baseline and increase offsetting requirements. However, this increase in offsetting requirements may be dampened by a [flexibility clause](#) in the CORSIA programme.

## Prospects for a green recovery

Countries are taking immediate measures to support citizens and businesses during the COVID-19 crisis. As tax receipts are also falling during the crisis, these measures will be financed through increasing levels of government debt. Economic recovery and restoring employment will therefore get high priority. The challenge is to combine this with investment into a transformation towards climate neutrality and avoid subsidising carbon-intensive activities. This section summarises viewpoints and suggestions that have been put forward by experts, analysts and stakeholders.<sup>1</sup>

### Positions of Member States

While the European Council explicitly advocated integrating the green transition into the roadmap and action plan for economic recovery and sustainable growth, some Member States make the case that dealing with the fallout from the COVID-19 crisis will make it more difficult to meet climate targets and move towards carbon neutrality. [Andrej Babis](#), Czech Prime Minister, said on 16 March 2020 that Europe should abandon the Green Deal and focus on the coronavirus instead. This view is shared by [Janusz Kowalski](#), Poland's Deputy Minister of State Assets, who suggested that the EU should abolish the Emission Trading System or exempt Poland from it. The Polish climate ministry indicated that important energy [projects](#) may be delayed or suspended while crisis-struck companies lack the funds for investment.

On 9 April 2020, the environment ministers of [13 EU Member States](#)<sup>2</sup> stressed that Europe must not forget about the persistent climate and ecological crisis when defining its response to the COVID-19 pandemic. They call on the Commission to use the European Green Deal as a framework for a comprehensive EU recovery plan, and moreover to look into bringing forward elements of the Green Deal, including the European Green Deal Investment Plan, to promote green recovery and a just transition.

### Investment in clean energy

Without supportive action, the pandemic may put investment in clean energy at risk. Bloomberg New Energy Finance downgraded its [expectations](#) for the solar, battery, and electric vehicle markets. The firm reduced its forecast for global solar demand in 2020 by 16 %, mainly due to lower projections for demand in China, where limits on mobility and commercial activity are still in place to halt the spread of COVID-19. Expectations for electric vehicles and batteries were also reduced because of the difficult situation for the car industry and supply chain interruptions in China. The analysts make the case for diversified supply chains and local manufacturing, especially for batteries.

The [International Energy Agency](#) (IEA) shares these concerns about supply chain interruptions for clean energy technologies and batteries. Moreover, it regards low oil prices as a risk for investments in energy efficiency, but also as an opportunity to cut subsidies for fossil fuel consumption. The IEA sees a role for governments to reaffirm their commitment to clean energy and put it at the centre of stimulus plans to counter the effects of the COVID-19 crisis. According to IEA analysis, governments

directly or indirectly drive more than 70 % of global energy investments. The agency highlights the need for investment in both cost-competitive mature technologies, such as solar and wind, and for support to scale up emerging technologies, notably hydrogen and carbon capture, in order to bring down their costs.

[Eurelectric](#) calls for European investment plans and economic recovery programmes that respect EU climate objectives, support electrification and target investments critical for the energy transition. As regards financing instruments, Reuters sees an increased role for [green bonds](#) to address the economic recovery and the low-carbon transition simultaneously. In order to avoid support for fossil fuels, [Severin Borenstein](#) of Haas School of Business warns against subsidies for oil companies, which may not help employment, and calls for supporting airlines in a transparent way without reducing the cost of their carbon emissions.

## Proposals for the design of green recovery programmes

The COVID-19 crisis and the need for economic recovery programmes come at a critical moment for European climate action. The EU not only has to implement the challenging targets of the 2030 climate and energy framework. It is also in the process of assessing and raising its 2030 targets, with a view to revising much of the EU's climate and energy legislation in 2021. The challenge is to set up crisis recovery programmes in such a way that they remain compatible with raised climate ambitions and avoid investments in carbon-intensive industries and processes.

The [Centre on Regulation in Europe](#) considers the COVID-19 crisis as a game changer for EU climate and energy policies, and sets out recommendations such as price corridors for the EU ETS, modelling of crisis scenarios in the development of the 2030 climate target plan, flexible guidelines for State aid for environmental protection and energy, a greater role for regulatory authorities in the governance of National Climate and Energy Plans, and the establishment of an EU observatory for distributional effects of the energy transition.

There is a large group of organisations calling for using recovery programmes to strengthen climate action, phase out fossil fuels, and improve protection of the environment. An [open letter from NGOs](#) proposes to exclude public investment in decarbonising the economy from the calculation of national deficits, at least temporarily. [Greenpeace](#) called for a response to the crisis that supports a transition away from a 'current social and economic model which drives inequality and environmental destruction.' The [Planetary Emergency Partnership](#), initiated by the Club of Rome, calls for economic recovery plans that are truly transformative by investing in people, nature, and low-carbon development.

## COVID-19 crisis management – a model for the climate emergency?

Scientists, analysts, and policy experts interviewed by [Carbon Brief](#) said that the COVID-19 crisis has demonstrated humanity's capacity to react to an existential threat and take drastic measures in a short amount of time, highlighted the role of governments and science in handling the crisis, and may provide a blueprint and opportunity for dealing with the climate crisis. An editorial in [Der Spiegel](#) calls on governments to communicate the climate crisis as clearly and urgently as the health crisis, in order to push citizens to take decisive action and accept drastic measures. [Michael Liebreich](#), founder of Bloomberg New Energy Finance, expects that some changes in behaviour, such as remote learning, online shopping, teleworking, video-conferences, and remote medical services are here to stay after the crisis and will help accelerate the transition to a low-carbon economy.

On the other hand, [Jason Bordoff](#), director of Columbia University's Center on Global Energy Policy argues that the COVID-19 pandemic shows that effective global climate action remains elusive because a) climate change is a collective action problem where decisive action by one party benefits all others, b) public understanding of the gravity of the threat is insufficient, and c) measures taken

during the pandemic have demonstrated the strong link between economic activity and GHG emissions.

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## ENDNOTES

<sup>1</sup> This section aims to provide a flavour of the debate and is not intended to be an exhaustive account of all different views.

<sup>2</sup> Austria, Denmark, Finland, France, Germany, Greece, Italy, Latvia, Luxembourg, Netherlands, Portugal, Spain, Sweden

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