

Green recovery 'Let's reimagine our future'

Saïd El Khadraoui

We live in extremely complicated and challenging times. Confronted with the most serious health crisis for many decades, and anxious about the economic and social repercussions that will follow, we have to navigate tectonic shifts that are characterised by growing geopolitical tensions, a digital industrial revolution that is changing our economic system at a pace never seen, and a climate challenge that is even threatening human life on earth if no urgent action is developed on an unprecedented scale.

Nevertheless, many recovery plans designed to relaunch the economies are unique opportunities to foster long-term thinking and create the fundamentals for a more sustainable, climate-neutral and circular economy. And yet this will not automatically become a successful undertaking. It will require smart and strong governments and the contribution of all actors in society. At the same time, five years after the conclusion of the Paris Agreement, there is also renewed momentum to address climate change. Recent announcements by California to become climate-neutral by 2045, Japan and South Korea by 2050 and China by 2060, as well as the reintegration of the United States into the Paris Agreement, are all signs that a shared vision and global agenda on climate change are in the making. The COP26 gathering in Glasgow later this year can be a unique opportunity to take stock. With the United States back in the game, there is also the hope that international institutions can once again play their bridging role, even though international tensions and competition will remain strong.

The Covid-19 crisis shows how health and environmental emergencies are actually closely linked, much more than most of us previously thought. Peter Piot, the director of the London School of Hygiene and Tropical Medicine, recently predicted more pandemics in the future because of our inability to live in harmony with nature, the growing urbanisation and population pressure on natural habitats, and the hyper-connected world that accelerates the dissemination of viruses. Climate change, for its part, will further increase the risks of mosquito-transmitted diseases.¹

¹ Politico (2020), Interview with Peter Piot, EU Confidential Podcast, 12 November.

The Covid-19 crisis also reveals a number of weaknesses, such as the lack of preparedness and coordination between EU member states on health emergencies. Despite warnings from scientists, we were not ready. It is another wake-up call that demonstrates the need for the EU to be much more proactive, to think more strategically about possible future risks, and to discuss ways to address these as well as its implications for how the EU should function. A better exchange of information and streamlined data about the evolution of the crisis, and the need to have a strategic reserve or even local production of protective medical equipment, are just two examples of issues that have recently been debated.

Furthermore, the crisis brings previously existing challenges clearly into focus and highlights an acceleration of trends that otherwise would have taken many years to emerge. The digitalisation of our economy and society is one case in point. Teleworking has become the norm for entire organisations, whilst videoconferences and virtual events are replacing face-to-face meetings. Where schools and universities have closed during lockdown, technologies have enabled some continuity. Although we can expect this to be partially undone once the crisis is really behind us, it is clear that some of these changes are here to stay and may even further accelerate in the years to come. Covid-19 also exacerbates inequalities in our society, between and within countries, with the more vulnerable income groups affected most, both by the virus and by the economic consequences of it.

On the other hand, the fact that highly effective vaccines have been developed in record time also shows that humans can become really creative under pressure and that big challenges can be solved if sufficient resources are made available. In the EU, appetite to work together to address the pandemic grew slowly but surely. Unprecedented solidarity is emerging through the creation of EU debt to finance the Recovery and Resilience Facility, and through managing the purchase and distribution of vaccines at EU level on behalf of the member states. The Covid-19 crisis is certainly a disaster in many ways, but it is also a chance to change the system.

There will be no vaccines against the climate crisis

The other crisis that is looming, climate change, will be much more difficult to solve. Unlike with the Covid-19 crisis, we cannot develop targeted vaccines or 'silver bullets' against global warming. Instead, the whole economy will have to be transformed in the years and decades to come, not only to limit global warming but also to address a wider number of threats to life on our planet, such as the loss of biodiversity, unsustainable resource depletion or pollution. Redesigning our socio-economic model is a vast endeavour, a complex and systemic exercise across all sectors. It requires redesigning almost every aspect of society and the economy – the way we produce and consume, eat, travel, and build our cities.

Meanwhile, the latest data show another decrease of greenhouse gas (GHG) emissions in the EU. These fell by 3.7 per cent in 2019, leading to a total reduction of 24 per cent compared to 1990. The drop was mainly caused by a 15 per cent reduction in the power sector where coal-fired electricity production is being replaced by gas and renewables. At the same

time, our economy grew by 1.5 per cent in 2019, pointing to a long-term trend that shows economic growth can be decoupled from carbon emissions.² It is without doubt that the abrupt slowdown of our economies and human activity due to the Covid-19 crisis will push the emissions in the EU and elsewhere further downwards in 2020. Whether this means we are on track to address global warming and achieve climate-neutrality by 2050 remains to be seen. The United Nations' World Meteorological Organization emphasises that the impact on cumulative past and current emissions of a reduction in annual global emissions in 2020 between 4.2 per cent and 7.5 per cent will actually be negligible.³ At the same time, emissions in China, the first country able to reactivate its economy after the Covid-19 crisis, are projected to be higher in 2020 compared to 2019. Emissions will therefore rebound if the recovery is not cleverly designed.

But the clock is ticking. Global temperatures are already 1°C higher than pre-industrial levels. National meteorological institutions in Europe are adapting their guidelines of what is the 'normal average temperature of the year'. This has increased in Belgium, for instance, from 9.8°C in 2009 to an average of 10.6°C over recent years, to 10.9°C today. The increasing number of wildfires in California, the extreme droughts and heat waves Australia is experiencing in recent years, the ever-stronger hurricanes, devastating floods and rising sea levels that have all recently occurred, are very tangible examples of the impact of global warming and the disruptive forces of climate change. The intensity and severity of such events are going to become greater, with devastating consequences for life on earth, including human life.

Soon, climate tipping points will be exceeded, presenting a real threat of irreversible environmental change. Europeans should not be naïve. Even though some other places on our planet could be affected more heavily in the decades to come, the repercussions will be global, and a cascade of unprecedented impacts will be triggered. Our coastal communities will have to make significant investments to adapt to rising seawater levels, as will those who live close to riverbanks. Global value chains will be disrupted, growth potential will erode, and there is no doubt that technological and regulatory changes will totally transform whole sectors of our economy. Climate change will also offer the 'perfect storm' for international social and political tensions, with unknown consequences and additional migration pressures for sure. Meanwhile, human actions threaten more species with global extinction now than ever before. An average of around 25 per cent of species in assessed animal and plant groups are threatened, suggesting that around 1 million species already face extinction,

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2 European Commission (2020), 'Kick-starting the journey towards a climate-neutral Europe by 2050', EU Climate Action Progress Report

3 World Meteorological Organization (2020), 'Carbon dioxide levels continue at record levels, despite COVID-19 lockdown', press release, 23 November

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many within decades, posing a risk to global food security and undermining the resilience of many agricultural systems to threats such as pests, pathogens and climate change.⁴ In addition, Europeans have contributed historically to the accelerated growth of GHG emissions and other damages to our planet and should do their fair share to contribute to the solutions.

There are therefore plenty of reasons for Europe to lead the way towards the development of a new socio-economic model that is climate-neutral and compatible with the planetary boundaries. Europe's bet is that addressing these multifaceted challenges also implies many opportunities in terms of innovation, competitiveness, and job creation. For these to come about we need to recognise the interconnected nature of the challenges, develop systemic solutions and activate a wide range of policy tools jointly. This will have to happen at all policy-levels, from local to European and beyond, and together with all actors in society. It will be a complex endeavour. No 'invisible hand' will lead us to our destination. As the Covid-19 crisis has also underlined, strong and smart government and leadership are needed to manage these challenges, to bring everybody together around a shared vision, and to coordinate the transition to a sustainable model that is compatible with our planetary boundaries, and that provides a good life for all citizens at the same time.⁵ The latter is a critical success factor.

Moreover, agility will also be essential. Despite all the planning and impact assessments, the future cannot be predicted in advance. Transitions are fundamentally uncertain processes, with frequent surprises and unintended outcomes.

A once-in-a-lifetime opportunity to reshape the backbone of our economies

The current Covid-19 crisis can be seen both as a curse and a blessing. It is too soon to say whether it represents a setback for efforts to bring about the necessary mutation of our economic system, or a catalyst that accelerates the pace of change. Lower oil prices may slow down the process of decarbonisation in the energy sector, and the uncertainty associated with the crisis may lead to cuts in sustainable investment. On the other hand, clean technologies such as solar panels or batteries are fast becoming cheaper. Nevertheless, there is the danger of a brown stimulus, as it is very tempting for governments to keep alive the old world, back to business as usual.

4 IPBES (2019), *Global assessment report on biodiversity and ecosystem services of the Intergovernmental Science-Policy Platform on Biodiversity and Ecosystem Services*. IPBES secretariat: Bonn.

5 Raworth, K. (2017), *Doughnut Economics: Seven ways to think like a 21st-century economist*, London: Random House.

A recent report emphasises that between 2020 and 2030, global coal, oil, and gas production would have to decline annually by respectively 11, 4, and 3 per cent, to be consistent with a 1.5°C pathway. However, government plans and projections indicate that, despite Covid-19, there will be an average 2 per cent annual increase for each fuel instead, thereby producing 120 per cent more fossil fuels by 2030 than would be consistent with limiting global warming to 1.5°C.⁶ The International Energy Agency (IEA) for its part has recently provided a stark summary of the scale of the challenge: even if we decide to switch today to climate-neutral infrastructure, running the existing infrastructure, such as power plants, petrochemical and cement industries, for its normal economic lifetime, would lock in by itself a temperature rise of 1.65°C.⁷ In other words, phasing out relatively new polluting infrastructure, especially in some of the rapidly developing economies in Asia, will be one of the many challenges we will have to address in the near future. The IEA outlook also underlines the urgency of the matter. Given that our energy systems have long path dependencies, investment decisions today will have an impact for the next 30 or 40 years.

The good news is that the scale of the stimulus packages that are currently being designed all over the world offer a once-in-a-lifetime opportunity to reshape the backbone of our economies, and to skip a few stages towards the sustainable infrastructure needed to transform our socio-economic model. A climate-oriented stimulus will indeed not only raise investment with benefits for economic output and jobs in the short term, but will also provide the basis for long-term innovation and an economic development aligned with environmental and climate constraints.

That is why it so important for the recovery plans that are now being designed by the EU member states to stand the test of time. The EU's long-term budget, coupled with the NextGenerationEU initiative, which is a temporary instrument designed to boost the recovery, will be the largest stimulus package ever financed through the EU budget. On top of the €1074.3 billion made available through the regular 2021-2027 EU budget, an additional €750 billion, including €390 billion in grants, can be spent through NextGenerationEU and the Recovery and Resilience Facility in particular. To be most effective, speed will be of the essence. The recovery needs to be operationalised and implemented as soon as possible, and it will have to be steered towards future-oriented projects. Guidelines include the requirement that 37 per cent of the funds be used on climate action and 20 per cent on the digital transition. Moreover, the 'do not significantly harm' principle will apply to ensure

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6 SEI, IISD, ODI, E3G and UNEP (2020), *The Production Gap Report: 2020 Special Report*.

7 IEA (2020), *World Energy Outlook 2020*.

that the remainder of the spending does not go on projects that pollute and contradict our longer-term objectives.

The investment needs to boost just the green transition are actually higher, up to €400 billion extra per year for the EU according to some estimates, compared to a business-as-usual scenario. The transition efforts will also have to last longer than the lifetime of the Recovery and Resilience Facility, emphasising the need to start a discussion already today on how the stimulus could be prolonged and how it could be structurally embedded in the EU's regular budget as a transition investment instrument.

For now, it is crucial that the selected projects maximise the impact, and that the public investment be used to create a multiplication effect and mobilise additional private capital in such a way that the ball keeps rolling once the projects have been implemented. That is also the role that the European Investment Bank can play in cooperation with regional development banks and local banks, by accelerating its promise to dedicate at least 50 per cent of its lending activities to climate action by 2025. In addition, we should not forget the crucial role of the reform of the financial system itself. The EU's sustainable finance agenda should be strengthened further to reorient capital flows to productive long-term investments, and to make climate and other sustainability risks more visible, and thus more expensive. This can be done by obliging companies to be much more transparent about their impact on the climate and environment, including through their supply chain. To avoid greenwashing,⁸ the ongoing efforts to develop a green taxonomy, which explains what activities can be considered 'green' and to what extent, will need to include more categories and will increasingly also need to factor in the social dimension in order to better assess any trade-offs that may exist.

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If designed well, the taxonomy will help us 'speak the same language' and can be further developed as a key reference for a wide range of actors throughout the finance value chain, thus allowing comparability and benchmarking, the development of more credible and attractive green financial products, and better sustainability ratings, for example. For governments too, the taxonomy could become a source of inspiration to decide what type of activities it wants to support or subsidise.

A critical condition for a successful green recovery is of course that the national recovery and resilience plans are carefully assessed and made consistent with what is needed in each of the member states to develop sustainable infrastructure and activities. This implies that the monitoring of the 37 per cent of the money earmarked for climate action should not be limited to a pure calculation exercise. It also entails a qualitative assessment in line with the above-mentioned tax-

⁸ Greenwashing is a form of marketing spin in which green PR and green marketing are deceptively used to persuade the public that an organisation's products, aims and policies are environmentally friendly.

onomy and other plans that member states have had to develop in recent years, such as the national energy and climate plans or the just transition plans. Not every euro spent on climate action leads automatically to better outcomes.

Ideally, the plans should also be aligned with the EU's strategic thinking on industrial policies to support the green and digital transitions. Indeed they also have a geopolitical and a social dimension. Recent developments such as the election of Joe Biden as president of the United States and China's commitment to become carbon-neutral by 2060 are extremely positive, but they also trigger rivalry to set the terms of a future decarbonised world. The challenge for the EU will therefore be to move quickly enough to stay a frontrunner in green technologies, to use its regulatory and standard-setting superpower, and to create industrial alliances to strengthen our economies. At the same time, we need the skilled workforce to master the green and digital transitions.

Moreover, the rules of the game today are not always fit for the world of tomorrow. The current system is hard-wired linear instead of circular or resource-efficient, and it still favours yesterday's fossil-fuel economy. That is why it is extremely important for the recovery and resilience plans also to be used to reform some aspects of our economic system, labour market and tax system, in support of fair digital and green transitions.

It also remains to be seen whether the European Semester process, which is supposed to follow up on the implementation of the plans, can produce sufficient steering power in line with our long-term societal objectives. The revised European Semester, with more focus on climate and social considerations, should be part of a broader realignment of how the European institutions and member states communicate about successful economies. It is not the growth rate that should be the flagship indicator, but the direction of the growth. Ongoing reflections within the European Commission on the development of a transition performance index, a more outcome-oriented composite indicator that includes economic, social, environmental and governance parameters, should therefore be further stimulated and formalised.

2021 will be a make-or-break year for the European Green Deal

In this perspective, the European Green Deal is a powerful attempt to provide a vision and a framework for action. Of course, environmental and climate policies are not new in the EU, but they were never 'top of mind' or at least were not as mainstream as today. By contrast, the European Green Deal has been positioned as the EU's flagship initiative and is structurally embedded in everything we do. All other policies will have to be made consistent with it and coherent with the long-term climate objectives. The 2050 climate neutrality objective and the EU's recent commitment to reduce greenhouse gas emissions by at least 55 per cent by 2030 compared to 1990 are orientation points that help our citizens and economic actors understand the direction of travel, and that ensure some predictability, in this unpredictable world, to secure investments in the carbon-neutral economy of tomorrow.

After its first big initiative of publishing the European Green Deal communication in December 2019, the European Commission launched an impressive number of strategies and action plans over the course of 2020 on each of the key building blocks of the Green Deal. These strategies and plans address most of the key systems that define the way we live and work, from the food system and biodiversity to mobility, the built environment and the circular economy. Some horizontal issues have been partially addressed through the introduction of the Just Transition Mechanism and a Sustainable Development Investment Plan, for instance.

Meanwhile the Multiannual Financial Framework, the EU's budget for the 2021-2027 period, foresees that 30 per cent is to be used for climate action. Most importantly, the European Climate Law provides the architecture for the mechanics that should keep us on track on our journey towards climate-neutrality, with a five-yearly update that offers an opportunity to see where we are and readjust policies where needed. In my view, this five-yearly review should not be put in the hands of a few Commission officials or the Council. Instead, the EU should consider creating a European 'Intergovernmental Panel on Climate Change' (IPCC) that would bring the scientific community and experts into the discussion in an interdisciplinary way in order to facilitate a more transparent and publicly debated assessment.

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Nevertheless, it is one thing to agree on a narrative, strategies and on longer-term targets, but it is quite another to make it happen on the ground. As we all know, the devil is in the detail. That is why 2021 will be a make-or-break year for the European Green Deal. Indeed, crucial for the forthcoming years will be the translation of the new 2030 targets into new legislation and accompanying measures. By this summer, the European Commission will come with its plans to redesign the Emissions Trading System (ETS) and its twin brother, the Effort Sharing Regulation, which defines the efforts member states should make to address the climate crisis. The Commission will also come with an update of the broader EU energy legislation by the summer. Many of the concrete actions announced in the wide variety of strategies launched in 2020 will also come to life.

It will not be a walk in the park. The revision of the ETS, for instance, which in the early days was considered a very technical issue mastered only by a few experts, will have wider ramifications on what will appear to be extremely sensitive political issues. If well designed, a reformed ETS offers the perspective of slowing emissions down almost mechanically in a wider number of sectors than today. But it will also raise questions about the distribution of revenues between the European Union and the member states, about what the revenues can be used for, and to what extent the reformed ETS will affect the competitiveness of those sectors that face competition from outside the EU. The review of the ETS is therefore intrinsically linked to the debate on own resources for the EU and the EU's global climate policy, including the possible introduction of a carbon border adjustment mechanism that would tax carbon-intensive products when entering the EU. From what we know today, the mechanism could be used as a carrot and stick. It would initially address a limited number of sectors, such as cement and

steel, but could be expanded to more sectors later on. It would only apply to products coming from states that do not have equivalent measures in place to reduce their emissions, thereby promoting the introduction of carbon pricing in third countries.

In fact, as with the ETS, all Green Deal issues are interlinked, and the different pieces of the puzzle will have to be carefully calibrated with the level of ambition that we have agreed, while an eye is kept on the repercussions these issues may have on people in Europe. This is all the more true, given that tough decisions at the core of the European Green Deal will have to be taken, coinciding with the gradual reopening of our economies over the course of 2021, and the likely backlash and higher unemployment figures when the massive state support is gradually phased out. The political support and appetite for high-ambition reforms will of course depend on the economic situation at the time these issues come to the discussion table. Hence, once again, the importance of well-developed recovery plans. The more these plans are designed to support an accelerated transformation in the member states, the more likely the backing for regulatory reforms to enhance the level of ambition.

The Green Deal should also be about reconnecting people

This brings me to a dimension that I find deserves more attention in the future development of the European Green Deal – the human dimension. As with all transitions, there will be winners and losers. Indeed, transitions imply creative destruction. Europe should become better in supporting winners and quicker in scaling up innovative solutions, products and services that will help us create a future-proof carbon neutral economy. That is why the mission-oriented innovation approach that is being rolled out at EU level is a promising avenue. Four of the five identified missions are related to the Green Deal. Combined with more strategic industrial policies, this approach has the potential to make our economies stronger and to create new jobs in new sectors. And this will be all the more the case if we succeed in cleverly linking the green transition to the digitalisation of our economy and society in such a way that these two developments reinforce each other. Digitalisation can certainly support and accelerate the transition to a circular and climate-neutral economy, but it also entails the potential to create new inequalities or to concentrate economic power.

Given the existential nature of the challenge, we more than ever need to have everybody on board. We cannot afford for our mission to fail. 'Leaving nobody behind' should thus be positioned much more at the heart of the European Green Deal policymaking. A considerable number of people are not sure if there will be a place for them in future. It must not be forgotten that globally the richest 1 per cent is responsible for twice as many GHG emissions as the poorest half of humanity, and has a carbon footprint that is 100 times higher.⁹ The transformation of

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9 Oxfam (2020), 'Confronting carbon inequality. Putting climate justice at the heart of the Covid-19 Recovery', Oxfam Media Briefing, 21 September.

our economy will affect regions and industrial sectors in different ways. Similarly, the transitions will affect people to different degrees depending on their personal situation and their social status. Subsidies for buying electric cars or installing solar panels are clearly used more by people who can afford to make these investments. By contrast, poorer people spend a larger share of their budget on energy. They will oppose change if it creates and aggravates inequalities. This will make them rely on polluting assets or activities even more, keeping them in a vicious circle as carbon is expected to cost more and more as time goes on.

The EU and its member states should invest more resources in an improved understanding of the distributional outcomes of Green Deal policy measures at different policy levels

The Just Transition Mechanism is an honest but insufficient attempt to address the social dimension by investing more money in some of Europe's energy-intensive and coal-mining regions and helping them establish alternative development strategies. In addition, the European Skills Agenda is a plan to identify the key sectors that will be disrupted by the green and digital transitions, and to design upskilling and reskilling strategies with the relevant social partners. Social considerations should however be embedded more structurally in everything we do, starting with better monitoring and knowledge-sharing. That is why the EU and its member states should invest more resources in an improved understanding of the distributional outcomes of Green Deal policy measures at different policy levels. To ensure that social considerations start at the design phase of policy proposals, the European

Commission's impact assessments could be strengthened for this purpose. Furthermore, the European Environment Agency could be transformed into a 'Climate Transition Agency' and its mandate could be extended to include much more analysis of socio-economic considerations, as well policy options at a more local or regional level to address some of the trade-offs or unintended effects of climate action, even if the solutions do not necessarily lie at EU level.

Indeed, the most straightforward way to compensate for some of the distributional effects is to raise carbon taxes and to redistribute the carbon dividend (or revenues from the ETS or similar schemes) in a very transparent way to those most in need. This can include very visible and targeted investment in the massive renovation and upgrading of social housing for instance. In this way, triple-win situations could be created: energy poverty would be addressed, markets for innovative solutions would be scaled up, and local jobs created. Similarly, in the area of mobility, smart public-private mobility solutions could be developed for more remote areas where regular public transport offerings are absent or would be too expensive. Showcasing real solutions that can change people's lives will be crucial. We need to make these solutions tangible, shape a positive story and act accordingly. Hence the importance of linking this to national policies, and of using the additional insights to further fine-tune the recommendations through the European Semester process.

When it comes to regional disparities, the member states could also be inspired by Spain's Institute for Just Transitions that brings together knowledge and accompanies regional transitions alongside the national and regional authorities, trade unions, local businesses and other

stakeholders. It is important, however, to expand the scope of 'just transitions' beyond coal-mining regions or energy intensive regions. This is actually about change management that applies across sectors and that covers wider issues such as the transformation of our food system, and agriculture in particular, as well as the transformation of the built environment, everywhere.

The human dimension should also cover the way the European Union connects with people. The climate transition can only succeed if it becomes a societal project where top-down government interventions are combined with bottom-up action by diverse actors. Beyond a good narrative, people, cities, local communities and new types of organisations need to be inspired, encouraged and stimulated to participate in co-creating solutions for a better future. New business models and the changing regulatory environment need to support new cooperative models that provide for instance more locally sourced food, innovative mobility solutions or decentralised energy generation. The transition therefore also requires new types of coalition and new ways of working together. The Climate City Contracts¹⁰ that the European Commission is considering developing with more than a hundred European cities as part of the Mission on Climate-Neutral and Smart Cities is one way to connect the different policy levels and support local participatory approaches.

These developments also imply that member states should accept that the European Union develops much closer ties with local communities and citizens directly – something they currently do not tend to like as this may increase the EU's legitimacy. For cities it may mean that they would have to work more together by aggregating local projects from different cities to reach the scale necessary to become interesting for institutional investors.

The logic of subsidiarity with a clear division of tasks and competences between the different levels should be replaced by a logic of cooperation across policy levels. This is the consequence of the systemic character of the climate crisis, and is necessary to ensure policy coherence and consistency, and to create the dynamics needed on the ground.

If taken seriously, the transformation of our economy to address the climate crisis could actually help us achieve a wider range of co-benefits and a fairer society. It could also help us reinvent and strengthen our democracies. It would create a better future for all.

¹⁰ The Mission Board for Climate-Neutral and Smart Cities proposes to introduce a Climate City Contract as a new mechanism to deliver EU support to cities in the form of more innovation, better regulation, and integrated financing. It will be signed by the mayor on behalf of the local government and local stakeholders, by the Commission, and by national or regional authorities. A precondition for a Climate City Contract is that citizens are given a new active role, new platforms to act and better resources to play their role. The European Commission is currently considering how to follow-up on these recommendations.