

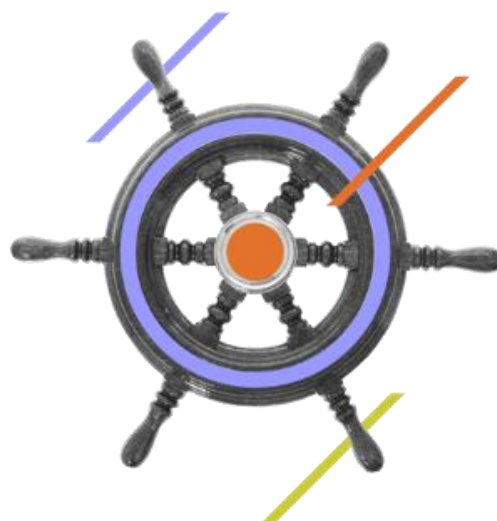


THE ITALIAN CLIMATE CHANGE THINK TANK

# THE NATIONAL ENERGY AND CLIMATE PLAN

What prospects  
for the review?

## EXECUTIVE SUMMARY



The National Energy and Climate Plan (NECP) is the key regulatory tool for **defining Italy's decarbonisation strategy to 2030**, charting the path to net zero emissions by 2050. A strategy that implies **phase-out from fossil fuels**.

Therefore, it is of paramount importance for the Plan to provide a framework for the [ecological transition](#). Furthermore, it should be able to ensure maximisation of collective benefits while minimising burdens, providing a strategic vision for the country's development.

Starting from an analysis of the current NECP, in this study we identified three minimum requirements for the Plan's development:

1. **Value:** meeting the 2030 energy and climate goals, while aligning decarbonisation strategy to net-zero by 2050;
2. **Complexity:** identifying cross-sectoral policies to support the ecological transition, providing elements for its economic and social sustainability;
3. **Effectiveness:** delivering expected outcomes.

## 1. Value of the Plan

**Coherence in the short, medium, and long-term strategy is a substantial aspect to ensuring the benefits of the Plan.**

Energy and climate features should be jointly developed with equal relevance within its content.

Currently, the Plan provides ample space for the “five dimensions” of the energy sector: (1) decarbonisation (which includes the development of renewables); (2) energy efficiency; (3) energy security; (4) internal energy market; and (5) research, innovation, and competitiveness. Decarbonisation should be at its **centre** and it should serve as a background and benchmark for its development. Thus, policies and measures could be set in a broader and longer-term perspective, accounting for the net-zero emissions goal by 2050.

By framing short-term measures in this manner, which are mainly concerned with energy provisions, it would also enable regulations for transforming all other economic sectors, from transport and building up to the more complex industry and agriculture sectors.

**On the other hand, bringing climate issues back to the centre** will allow efficient risk management, in particular for the economic and social sustainability of the ecological transition.

As a matter of fact, the contingency of the energy crisis could result in an over-representation of energy sector issues within the Plan and, in turn, it could lead to unnecessary or potentially harmful investments (risk of investment lock-in). This risk can only be mitigated through careful impact evaluation on the medium- and long-term perspective. New [natural gas investments from the REPowerEU Plan](#), required by the European Commission, should not prevent achievement of climate targets and should only be put in place if necessary to meet future gas demand. Similarly, development of new technologies functional for the transition,

such as biofuel supply chains, timing and amount of hydrogen deployment, use of CCUS technologies, should be evaluated based on their role and potential as part of the whole decarbonisation pathway.

Bringing climate back to the centre would also allow to take action in all sectors of the economy and to identify solutions that can enable the transition even of complex contexts such as manufacturing. Neglecting this means generating risks of delays in developing appropriate industrial policies aligned with the decarbonisation pathway.

Furthermore, there should be a **comprehensive assessment of risks and opportunities that decarbonisation policies** – energy efficiency, renewables, vehicle electrification – may trigger with respect to the concerned industrial sector. This assessment should go beyond policies designed to merely reduce emissions in each sector.

While push for innovation imposed by the green transition may bring some risks, it also carries opportunities in the **creation of new value chains, new processes, and new products**.

At the moment, this comprehensive vision is not part of the Plan. Its revision process can be a great opportunity to draw a strategic framework for the development of new supply chains and management of uncompetitive ones within a global market that is already shifting decisively toward clean tech.

Italy is the second largest manufacturing economy in Europe and it is characterized by a marked capacity for innovation. The Plan should highlight as much as possible the potential for development and the risks that need managing. This is especially true considering the complex and lengthy decarbonisation path planned for the manufacturing sector.

**The Green Deal Industrial Plan proposed by Europe represents the outline of a development strategy that should be aligned with the NECP**, directing the industrial policy towards investments and measures that support production of 'green' products.

## 2. Transversality of the Plan

There is a wealth of actors and societal dimensions involved in the ecological transition. The latter has indeed implications in the lives of all citizens. The Plan should therefore be as **representative** and **cross-sectoral** as possible, being a **Plan for everyone**.

To ensure this transversality, three dimensions must be emphasised:

**A. Social Dimension.** The social sustainability of the Plan is key to its implementation.

Decarbonisation implies major transformations:

- ◇ in the work environment: impacts on employment need to be addressed and demand for upskilling needs to be supported;
- ◇ in people economic availability, which affects the possibility of being able to fully seize opportunities from the decarbonisation process (access to goods and services in line with emission reduction and public health goals, e.g. energy efficiency, electrification of household consumption).

The new NECP will need to adequately reflect this dimension, shaping it for each sector. This aspect is also recalled by the Governance Regulation and the Guidelines for its update<sup>1</sup>. Added to this is the necessary coordination with the Just Transition Plan<sup>2</sup> and the analysis and guiding principles for constructing the Social Climate Plan<sup>3</sup>.

The NECP should therefore include:

- ◇ principles and strategies for **governing the just transition** in terms of employment, reconciling the needs of today with those of new generations;
- ◇ an **assessment of the effectiveness and efficiency of public spending in respect to social and climate goals**;
- ◇ proposals for fair and goal-oriented **tax and tariff reforms**;
- ◇ the extension of **energy poverty policies** to access economic resources to finance the decarbonisation of housing and mobility.

**B. Economic dimension: how to finance the transition.** The revision of the NECP will need to accompany the decarbonisation trajectory with a strategy for financing the transition through public and private resources.

Such a strategy cannot disregard:

- ◇ the concrete quantification of investments for the transition. Not only in sectors that result in direct emission reductions by 2030, but in the entire value chain of an economy undergoing transformation toward the phase-out of fossil fuels;
- ◇ the ability to link investment needs to public financing policies: the NRRP, REPowerEU and European funds as a whole;
- ◇ the definition of the role of public finance and the identification of the instruments to finance the transition. Redefining the role of SACE, CDP and Invitalia from the perspective of '[climate banks](#)' also in view of the need to activate the leverage of private financing;
- ◇ the identification of basic principles for public incentives to ensure functional spending to achieve climate goals;
- ◇ the ability to consider the revision of the Stability and Growth Pact, the state aid regulations, and the definition of the priorities for the European Green Deal Industrial Plan, which are essential elements for the financing of the transition.

The NECP will need to indicate how to integrate principles linking the sustainability of public debt to climate change-related risks into planning and investment strategies, as the European Central Bank plans to do in the update of its economic models planned for 2024.

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<sup>1</sup> [https://energy.ec.europa.eu/communication-and-annex-guidance-ms-updated-necps-2021-2030\\_en](https://energy.ec.europa.eu/communication-and-annex-guidance-ms-updated-necps-2021-2030_en)

<sup>2</sup> <https://www.agenziacoessione.gov.it/just-transition-fund/>

<sup>3</sup> Point 3.4.3, Commission Notice: Guidance to Member States for the update of the 2021-2030 NECPS (C/2022/9264 final)

### C. Participatory dimension

The NECP will have to ensure widest involvement of representations from the various stakeholders involved in the Plan.

In this sense, the construction of the NECP should provide for – as required by the norm – **a structured multilevel dialogue** in which local authorities, civil society organisations, the business community, workers' representatives, investors, and individual citizens should be able to actively participate. A dialogue which should be started in the review phase of the NECP and ensured in the periodic evaluation of the strategy. Such a confrontation would allow to adequately inform all the representations that, in various capacities, will be 'implementing' the NECP, such as Municipalities and Regions, but also individual citizens through their behaviour.

### 3. Effectiveness of the Plan

#### **The NECP is still a rather ineffective tool in ensuring the implementation of climate policy.**

Despite the presence of precise quantitative targets by 2030, important components of climate strategy have not been considered in policy priorities, neither in legislative production nor in public spending choices.

[Available analyses](#) indicate that Italy is not on track to meet its climate targets, particularly in the road transport and buildings sectors. Last December's eighth national communication (NC8) specifies that for these sectors "additional policies are still needed. Simply increasing renewables in the electricity generation mix certainly leads to emission reductions, but greater electrification of road transport and buildings is necessary."

Failure to develop renewables in appropriate proportion and the non-alignment of the 'Superbonus' and NRRP allocations to climate goals are examples of the lack of incisiveness of the NECP as a legal instrument. Likewise, linkage of the NECP with climate governance is absent throughout.

#### **Recommendations for increasing the effectiveness of the NECP:**

- ◇ Greater **consistency and coordination of public policies with respect to climate goals, through** strengthening of the legal instrument and management of its implementation.
- ◇ Inclusion of **functional reforms to achieve the goals.**
- ◇ Identification of a **plan for monitoring the status of the implementation** of reforms and related goals through quantitative and qualitative key indicators to ensure and propose 'correction' measures.

#### **Conclusion**

The NECP is the primary regulatory tool for shaping the country's future policies.

Through the NECP, achievement of energy and climate goals can be ensured. Simultaneously, the NECP is an opportunity to do much more. Indeed, it allows the definition of strategic courses of action to put the Italian economy back on track, greatly benefitting all from the decarbonisation and growth path.

To do this, it is necessary to take advantage of this opportunity in updating the Plan and all its potential. The NECP must become part of the public debate to ensure the involvement of the whole community. Only in this way will we be able to ensure that the new NECP can transform decarbonisation needs into opportunities for growth and development, greater welfare, households and businesses, and for developing a win-win Plan.