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The EU's Just Transition: three challenges and how to overcome them

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The EU's 'Just Transition Mechanism' proposal has become highly contentious, bringing up issues of redistribution between countries. It faces three main challenges: overcoming a focus on national allocations; expanding the transition from energy to other sectors; and including the private sector and civil society in the transition. By effectively mainstreaming the idea of a just transition, the Commission can ensure that the current proposal not only becomes less sensitive, but also more effectively supports a fair shift to a zero-carbon society.

In its communication on a 'European Green Deal' in December 2019, the European Commission highlighted the importance of conducting the transition to a zero-carbon society in a 'fair and inclusive way'.[1] To this end, it released its proposal for a Just Transition Mechanism on 14 January 2020. Since, the proposal has been sparked a sensitive debate about what a just transition is, and how it should come about. A plan for a Just Transition is a necessary step to generate buy-in from members of the public and from regions that will be most economically affected by the transition to a zero-carbon society. However, the plan put forward by the Commission has since become one of the most contentious parts of the EU's Green Deal.

This Policy Brief highlights and addresses three challenges facing the Just Transition Mechanism. If the EU can manage to overcome the strong focus on national allocations; broaden the just transition from the energy sector to other industries; and include the private sector and societal actors in the transition, then it may be effective and acceptable. Ultimately, tackling these challenges means mainstreaming the just transition and integrating it throughout all streams of climate and social policy.

The EU's Just Transition Mechanism

The idea of a just transition is not new and has been steadily emerging as a vital part of the transition to a zero-carbon economy. A 2015 International Labour Organisation publication lays out the principles and guidelines for a just transition,[2] and the concept had been employed by civil society long before this. Just Transition measures aim to help those whose jobs and livelihoods are most affected by the shift. The EU's proposal, however, is a very specific version of this idea, with a precise focus on the financing of the transition – not least because of its origins as a bargaining chip to get more carbon-dependent member states on board with the Green Deal. It is therefore worth outlining the Just Transition Mechanism in more detail.

In its proposal for the JTF,[3] the European Commission defines the Just Transition as a key aspect to achieve climate neutrality by 2050 'in an effective and fair manner', 'leav[ing] no-one behind'. The Just Transition Mechanism has three targets: people and citizens most vulnerable to the transition; companies and sectors active in carbon-intensive industries; and Member States and regions that are dependent on fossil fuels and carbon-intensive industries. It foresees mobilising at least €100 billion through a combination of public and private investments from 2021-2027. The mechanism will also be supported by existing just transition measures such as the existing Modernisation Fund, which is financed through the Emissions Trading Scheme and supports the modernisation of energy systems in 10 member states.

The proposed Just Transition Mechanism is made up of three financing pillars:

1. The first pillar is the main subject of discussion: the Just Transition Fund, which will draw around €30-50 billion from the EU's cohesion funds, but will also include €7.5 billion of 'fresh money' and national co-financing. This pillar will provide mostly grants for territorially-based projects.
2. InvestEU's Just Transition Scheme, which aims to mobilise up to €45 billion in private investments.
3. A public sector loan facility with the European Investment Bank, backed by the EU budget, mobilising up to €25-30 billion in public investments.

Of course, it must be kept in mind that the amount of funding allocated to the Mechanism depends on the outcome of the ongoing negotiations of the Multiannual Financial Framework from 2021-2027.

In order to receive grants from the JTF, each Member State will need to provide Territorial Just Transition Plans to the Commission, outlining which regions it would like support for and a clear timeline for the transition. Eligibility will be based on criteria that include the percentage of production in the territory based in fossil fuel intensive sectors (although these criteria must still be discussed by the European Parliament). In contrast, the second and third pillars can be used for investments that take place *outside* these most affected regions, but *only* if the projects benefit and are key to the transition in those most affected territories.

The redistributive nature of much of the JTF – and the fact that it taps into existing financing, like the Cohesion Funds, means that this has become a sensitive issue among member states. While it is utopian to believe that such a policy could ever pass without controversy, there are at least three main challenges that the EU should tackle in order to achieve an acceptable and effective just transition.

CHALLENGE 1: OVERCOMING THE FOCUS ON NATIONAL ALLOCATIONS

The current debate within the EU has been overwhelmingly focused on the first pillar of the Just Transition Mechanism – the Just Transition Fund. This is for two main reasons: the JTF is – so far – the most concrete element of the Just Transition Mechanism proposal and has come directly onto the agenda, as it will have to be negotiated as part of the ongoing discussions on the 2021-2027 Multiannual Financial framework. Moreover, given that the second and third pillars of the Just Transition Mechanism are market-based, it is impossible to give more than *forecasted* amounts (rather than specific country allocations). The JTF has therefore been the most salient and debated aspect of the Just Transition Mechanism to date.

Yet, the JTF is also the most sensitive part of the proposal, as touched upon above. It proposes to draw from the EU's cohesion funds (namely the European Social Fund+ and the European Regional Development Fund), which fuel existing divisions between (groups) of countries. It will also require the transfer of current cohesion funds from certain regions to others, meaning that, like with any redistributive policy, some countries and regions will 'lose out'. There are, finally, some fears that the focus on funding detracts from the strategic planning aspect of the mechanism, although the requirement for clear and concrete territorial plans is supposed to combat this.

It is, of course, impossible to ensure a just transition without at least some form of territorial allocation scheme, given the need to 'cushion' the effects of the transition to a zero-carbon society and economy in the regions that will be most affected – those dependent on fossil-fuel intensive industries. However, one potential path for the EU to win over sceptical countries and regions is to emphasise the potential of the second and third pillars of the mechanism. The Invest EU pillar, for example, allows for work on projects that are interregional but may also benefit most affected regions (for instance, training schemes, mobility networks, etc.). Similarly, changes in the rules for state aid as part of the Just Transition Mechanism may allow countries to support and develop new green industry sectors, such as renewable energy. Although the effectiveness of these market-based instruments as a "bargaining chip" is somewhat reduced with their lack of predictability, trying to divert attention from the zero-sum aspect of the Just Transition Mechanism to the positive-sum investment potential of the other pillars may help to make the proposal more palatable for countries that receive little to no financing from the JTF itself.

CHALLENGE 2: MOVING BEYOND ENERGY PRODUCTION

A just transition is not only about energy production and more obvious carbon-intensive industries, but also about systemic change that will be necessary in many sectors and that will affect workers, consumers and citizens. While the European Commission's proposal does refer to this need to support citizens and workers in different industries, the actual content of the Just Transition Mechanism is largely focused on energy production. This not only conceals a large part of the work that is necessary to implement a Just Transition, but may also heighten a sense of unfairness if countries see the JTF as 'rewarding' countries that have been reluctant to switch from carbon-intensive energy production, or as a transfer of funds from countries that have already taken steps to decarbonise and those that have not yet begun.

Other key sectors will also be important for a just transition: measures necessary to achieve climate neutrality by 2050 will have an impact on the lives of workers and citizens alike. Transport, for instance, is a key sector where significant change will be required in the transition to carbon neutrality, as individual vehicles running on fossil fuels will need to be replaced with electric vehicles and alternative means of transport. These measures will not only affect workers in the car industry, but also consumers. Emmanuel Macron's attempt to tax diesel and the resulting *gilets jaunes* movement highlight the importance of ensuring that any changes to this end will need to avoid measures that predominantly affect the lower-income households – for instance, a simple tax on fuel or fossil fuel-burning cars. They should also include the provision of alternative means of transport: public transport, carsharing and bicycles. Currently, this sort of project would only currently be supported through the Just Transition Mechanism if it relates directly to the regions identified in the Territorial Just Transition Plan.

Similarly, construction and renovation have been highlighted as priorities for the EU, with a 'Renovation Wave' plan expected to be published later this year. Residential heating makes up an important percentage of emissions in the majority of EU countries, with around 17% of all EU emissions coming from residential heating.[4] Both ensuring that new buildings are energy efficient and retrofitting old buildings will be a necessity to achieve carbon neutrality. This renovation is also a key part of the just transition, particularly to combat energy poverty. While renewables should not cost more than fossil fuels in the near future, the fact that in many EU countries heating oil and fossil fuels are subsidised for private use, particularly for social reasons, means that initially at least, a shift to renewables will either cost citizens, or require state subsidies. Renovation, while requiring a significant upfront cost, is an overall cheaper – and more efficient – way to combat energy poverty and reduce energy costs for all users.

A first step that will be vital for all EU states will be to identify the sectors and industries that will be most affected by the transition to a zero-carbon economy – studies that could even be funded by the JTF itself. While this data has been collected in some countries, the majority have not done full impact assessments or forecasts of priority areas. Any measures that follow must be implemented following the principles of subsidiarity, implying that not all funds necessarily need to come from the JTF. However, project-based funding in a manner similar to the existing Cohesion Funds – whereby the EU provides funding for locally-managed projects in regions that would otherwise lack means – may be key to ensuring both subsidiarity and good management, while showing EU support for this agenda. The Just Transition Mechanism could be adapted to provide support for these key industries and sectors, for instance by reserving a certain percentage of the funds for consumers, citizens and other sectors.

CHALLENGE 3: WORKING WITH THE PRIVATE SECTOR AND STAKEHOLDERS

The EU's proposed Just Transition Mechanism is reasonably quiet about the role that it envisages for the private sector and social stakeholders in the transition, despite the fact that the implementation of projects and the success of any transition will ultimately depend on these stakeholders.

Companies are key in the re-education and training of workers during the transition, across all industries that will undergo serious restructuring. Previous research has already indicated that re-education and training schemes tend to be vaguer and less effective when there is no existing regulation or public policy in place. State regulation is thus 'not only an important driver for greening, but also for skills development and training provision'.[5] By ensuring that concrete regulations exist at national and EU level (for example, setting targets for transitioning industries, or clear timelines for the phase-out of fossil fuels) governments provide certainty and a framework within which companies can define and develop retraining schemes. At the same time, it is important to keep in mind the 'polluter pays' principle while designing mechanisms for a just transition: while public funding is important, it is not used efficiently when used to subsidise or resolve the results of negative externalities of companies' activities. Funding for re-education schemes should thus be carefully monitored to ensure that it is not used, for example, for cleaning or rehabilitation of industrial areas or polluted regions.

During this transition and when designing schemes and programmes, social actors must also be included, including trade unions and representative civil society organisations. The extent to which the inclusion of civil society will be an obligation is currently unclear from the Just Transition proposal, even though this is a guiding principle of the ILO's guidelines for a just transition., Representation from different parts of society is vital to include the often-overlooked impact of measures on consumers and citizens. The EU needs to include specific measures requiring countries – and the EU itself – to include the private sector and civil society in policymaking for all measures.

This is not necessarily an issue at the level of EU policymaking: the Commission has ensured that citizens and stakeholder groups are included through public consultations on different aspects of the Green Deal – notably through its European Climate Pact, expected to be launched ahead of the UN climate conference in Glasgow in November 2020.[6] However, the lack of measures requiring the consultation and inclusion of stakeholders at national and sub-national level in the Just Transition Mechanism – particularly given the different attitudes and levels of inclusion in different member states – is more worrying. Additional measures should therefore be considered to require the inclusion of stakeholders not only in the drafting of the Territorial Just Transition Plans, but also in the implementation and governance of the projects and measures that are funded.

Conclusion: Mainstreaming The Just Transition

These three challenges – overcoming the focus on national allocations, moving beyond the energy sector alone, and working with the private sector and stakeholders – are important not only for the EU to reduce the sensitivity of the proposed Just Transition Mechanism, but also to ensure that the transition to a zero-carbon society is a just one across *all* parts of society.

Of course, many of the proposed measures have been – or will be – taken through different policies. For example, as highlighted above, measures on construction and renovation are planned for later this year. Similarly, measures that do contribute to a just transition are already being funded through structural and investment funds – despite the fact that the design of the Just Transition Mechanism as a separate mechanism, and the salience of the JTF within this, make it seem like these are the only policies that support a just transition.

To better 'sell' the proposal, the EU can work to mainstream the idea of a 'just transition' throughout all policy actions taken under the Green Deal. This would take all of the recommendations above into account, by ensuring that the just transition is an idea that cuts to the core of all action on climate change, rather than being concentrated in one policy proposal, sector and type of funding. This would not only help to reduce the sensitivity of the proposal, but also ensure that the transition to climate neutrality benefits citizens, consumers and workers throughout the EU.

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Endnotes

[1] European Commission. (2019). *The European Green Deal*. COM(2019) 640 final.

[2] International Labour Organization (2015). Guidelines for a just transition towards environmentally sustainable economies and societies for all. Available at: http://www.ilo.org/wcmsp5/groups/public/---ed_emp/---emp_ent/documents/publication/wcms_432859.pdf

[3] European Commission (2020) *Proposal for a Regulation of the European Parliament and of the Council establishing the Just Transition Fund*. COM(2020) 22 final.

[4] Around 25% of EU emissions come from households, and 66% of the energy used by households is for heating. European Environment Agency (2019) Household Energy Consumption. Available at: https://www.eea.europa.eu/airs/2018/resource-efficiency-and-low-carbon-economy/household-energy-consumption

[5] OECD (2017) *Boosting Skills for Greener Jobs in Flanders, Belgium*. Paris: OECD Publishing.

[6] See Commission (2020). "European Climate Pact" https://ec.europa.eu/clima/policies/eu-climate-action/pact_en