05 | May 2020

Brief

Launching the EU's Just Transition Mechanism

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Abstract

FEEM Policy Brief

On December 11th 2019, the European Commission adopted a Communication on the European Green Deal shedding light on the roadmap to implement the new growth policies for Europe. Ambitious environmental objectives and cooperation between public and private institutions are key pillars of the initiative. In particular, it contains dispositions regarding the Just Transition Mechanism. This tool, as Executive Vice-President for the European Green Deal Frans Timmermans stated, is inspired by solidarity and fairness values and is aimed at supporting the countries and the sectors which will suffer the most during the transition towards a climate-neutral economy by making investments more attractive with an overall financial package worth at least €100 billion. This action, together with all the others included in the European Green Deal, are pivotal steps towards the achievement of the Paris Agreement goals.

01 Introduction

The European Green Deal (EGD), as stated by the President of the European Commission Ursula von der Leyen, is the new EU's strategy to achieve the Paris Agreement goals, specifically the one related to the climate-neutrality by 2050, but the risks that the transition poses, especially in some sectors and countries, are not to be underestimated. According to a report published by the Joint Research Centre (JRC), the EU coal sector employs nearly half a million people, and around half of the relevant direct jobs could be lost by 2030, representing a major challenge for Member States in the transformation of coal regions (Kapetaki et al., 2020). In order to help policymakers to address the issue properly, the European Commission introduced in the EGD a key action: the Just Transition Mechanism (JTM). The main aim of this tool is to transform the risks that an evolution of the economic system, such as the one that the Commission has in mind, into a clear business opportunity. European citizens are the primary beneficiaries of the whole action but, admittedly, an effort is needed by the people, sectors and regions that rely more than others on fossil fuel. The JTM, symbol for solidarity and fairness, will help support the most affected, and to do so, it will be endowed with a financial package worth at least €100 billion over the period 2021-2027. The JTM will consist of three main sources of financing:

- **A Just Transition Fund (JTF)**
  It will be endowed with €7.5 billion, mainly grants, coming from the next long-term EU budget and it will be distributed according to the capacity of the Member States to finance the necessary investments to cope with the transition. The scale of the transition's challenge of the most exposed regions, the scale of the social challenge related to the potential job losses, and Member States' level of economic development are the other criteria that regulate the distribution of the fund's financial means.

  In addition, the Fund will be complemented by Member States' national resources and not more than the 20% of their resources under the European Regional Development Fund (ERDF) and the European Social Fund Plus (ESF+) ensuring an overall financial endowment of at least €30 billion that may reach €50 billion.

- **A dedicated just transition scheme under InvestEU**
  The aim is to mobilise up to €45 billion of investments and attract private resources, supporting a wider scope of investments, i.e. renewable investments and energy efficiency schemes.

- **A public sector loan facility with the European Investment Bank backed by the EU budget**
  It will be used to concede loans to the public sector, namely local authorities, to support the concerned regions, and it is expected to mobilise between €25 and €30 billion of investments.

Compared to the first pillar of the JTM, the second and the third ones have a wider geographical scope, as they support not only investments in the selected transition territories, but also outside those territories, as long as they contribute substantially to the transition within the just transition territories. In other words, the InvestEU scheme and the public loan facility will fund and leverage private resources for projects that are not necessarily geographically located in the considered regions and that do not refer to a specific regional transition plan under the JTF, but will consider eligible projects that are key to the achievement of the transition objectives of the just transition territories.

But the JTM is not all about financing: it relies on a Just Transition Platform, that will be the vehicle through which the European Commission will provide technical assistance to the Member States and investors, making sure that all the stakeholders get involved (communities, local authorities, social partners, and non-governmental organisations).

02 The Just Transition Fund

The whole functioning of the JTF is described in the "Proposal for a Regulation of the European Parliament and of the Council establishing the Just Transition Fund" (European Commission, 2020b). In particular, the JTF "*shall contribute to the single specific objective 'enabling regions and people to address the social, economic and environmental impacts of the transition towards a climate-neutral economy'*" (European Commission, 2020b). The identified territories are the ones where the employment in coal, lignite, oil shale and peat production is high, as wells as territories with greenhouse gas-intensive industries. Kapeki et al. (2020) identified the 42 coal regions and clustered them in three groups, based on the decarbonizing employment potential:

- Regions with a High Decarbonizing Employment Potential (HDEP), i.e. jobs plausibly derived by 2030 from the regional impact of EUCO3232.5 scenario[1], can account for at least 90% of current coal-

[1] The EUCO3232.5 is a foresight scenario that takes into consideration an updated vision of the European energy system and includes the main EU-wide policy targets for 2030 currently in force.

related jobs by those, reaching 100% by 2050;
- Regions that show Slow Decarbonizing Employment Potential (SDEP), meaning that they have significant decarbonisation potential, but by 2030 jobs created would be below 90% of the coal-related ones and this potential could only be fully realized by 2050;
- Regions that show Restricted Decarbonizing Employment Potential (RDEP), implying that the foreseen EUCO3232.5 derived regional employment potential may not suffice to account for the associated coal related jobs fully.

It appears clear that to achieve the regions' full potential it is necessary to identify the potential of each technology accurately, facilitate the mobilisation of resources towards the SDEP regions, and the enablement of adaptation schemes for the RDEP regions, representing the major policy challenge for the Member States. This would unlock an estimated technical potential of 1 516 GW in the coal regions alone, according to the JRC's researchers, and create almost 315 000 jobs in the clean energy production sector by 2030.

Of course, the Fund's resources will cover all Member States, but the distribution if its' financial means will be anchored not only to the scale of the transition challenge and the social challenge associated to the potential job losses but also to their capacity to finance the necessary investments to cope with the transition towards climate neutrality (European Commission, 2020b). However, these investments need to be part of a transition process, which must be described in a territorial transition plan (territorial units defined at NUTS 3 level) and prepared in cooperation with the relevant stakeholders and supported by the Commission. In addition, these territorial transition plans have to be consistent with the Member State's National Energy and Climate Plans.

The role of the territorial transition plans is central, as they should identify the regions more negatively affected and in which the JTF support should be concentrated and describe precisely the actions that have to be undertaken. In case of serious underachievement of targets established for the JTF specific objective, the Commission has the faculty to apply financial corrections, in line with the principle of proportionality.

03 The InvestEU “Just Transition” scheme

The InvestEU regulation will not be modified, but a portion of its financial means will be dedicated to the achievement of the just transition objectives.

Aiming at reflecting the national contribution to the JTF, this scheme could generate an additional €45 billion of investments over the 2021-2027 period. However, the main characteristic of the action is that it is demand-driven, meaning that it will depend on projects in the pipeline and on the absorption capacity of considered regions.

As previously stated, the JTF is focused only on projects in just transition territories (regions having approved transition plan under the Just Transition Fund Regulation). At the same time, the InvestEU scheme goes beyond this restriction and takes into consideration projects that benefit directly those regions, characteristic that is particularly relevant for the transport and energy infrastructure projects that improve the connectivity of the just transition territories.

The eligibility criteria as well are different from the ones under the JTF, since they are those applied under the InvestEU regulation, which includes projects for energy and transport infrastructure, including gas infrastructure and district heating.

04
The public loan facility in the EIB Group

The third pillar will offer concessional loans to the public sector, and it could take the form of an interest rate subsidy or an investment grant, financed from the EU budget and blended with loans extended by the EIB to municipal, regional and other public authorities. With the contribution from the EU budget of €1.5 billion and the EIB lending of €10 billion at its own risk, the public sector loan facility could mobilise between €25 and 30 billion public investments over the period 2021-2027 (European Commission, 2020a). The geographical scope and the beneficiaries of the third pillar are the same ones identified for the InvestEU "Just Transition" scheme, being configured as a complementary tool of it. In addition, the financial support that comes from this pillar is meant for projects which do not generate revenue and would otherwise not get financed.

The new public loan facility legislative proposal will be proposed by the Commission in March 2020.

Policy Conclusion

The job market will suffer profound changes in the next decades. According to the estimates, the renewable energy sector will add a considerable number of jobs, while the fossil fuels sectors are expected to shrink significantly. It appears clear as well that this kind of dynamic will characterise all the energy-intensive industries (i.e. steel, cement and aluminium, car manufacturing, etc.). However, the job creation phenomenon is subject to the preparation of a territorial transition plan consistent with the National Energy and Climate Plan.

For this reason, the government, associations, trade unions and other relevant stakeholders, should cooperate in defining and implementing social and economic plans oriented at dealing with the disruptive change in the job market, and the JTM represents a key instrument for the Member States to address the issue properly, as it offers support and incentivises a proactive behaviour at the same time. Failing to do so would lead the economic system to a general loss of well-being.

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