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# THE JUST TRANSITION FUND
## 4 BENCHMARKS FOR SUCCESS

**REBEKKA POPP AND PIETER DE POUS**

## Executive summary

On July 16, 2019 Commission President von der Leyen announced in her political guidelines the creation of a "Just Transition Fund". This fund has since become an important element of the negotiations on the European Union's budget and climate policy. This briefing sets out four benchmarks for designing the governance structure of the fund to make sure the EU moves faster towards climate neutrality.

**First, the fund should prioritise coal and carbon intensive regions, as well as address the transition needs of the rest of the economy**. The phase out of coal by 2030[1] remains a priority and challenge in a significant number of mostly Central and Eastern European countries, but transformational change is needed across the entire economy and in all EU countries to achieve climate neutrality by 2050 latest.

**Secondly, the fund should require Member States to propose a Paris-compatible phase out plan including an end-date for coal or another high-emissions technology to be eligible**. It is central to the fund's success that it accelerates the transition for example through the phase out of fossil fuels and the phase in of renewable energy. Not all EU Member States have adopted coal phase out plans yet, creating a risk of Just Transition processes getting stuck.

**Thirdly, the Just Transition Fund should add value to coal and carbon intensive regions and sectors by financing the development of Just Transition strategies**. The fund will not be able to finance the EU's entire energy transition, but funding development of transition strategies can help Member States mobilise financing from relevant sources in the EU budget, such as the Emission Trading System's

[1] 2030 is the international benchmark set by the **Powering Past Coal Alliance in its declaration**

Modernisation Fund and the private sector. For other sectors and regions, the fund can add value by closing knowledge gaps on the social impacts of decarbonisation and facilitate initial dialogue.

**Fourthly, the fund will only support the EU's transition if it works towards a clear goal, such as achieving climate neutrality by 2050.** Agreement at the December Council on the Commission's proposal to achieve climate neutrality by 2050 at the latest will be an important first step. Once this agreement is made, it will need to be followed by a proposal for a new EU Climate law that will translate political commitment into legally binding targets and measures which will help Member States to plan their Just Transition strategies.

## Introduction

The Just Transition Fund will play a central role in negotiations on climate neutrality by 2050. As such it must be designed to enable the EU to accelerate its transition to reach climate neutrality. This briefing sets out four benchmarks for designing the governance structure of the fund successfully.

Negotiations on climate neutrality have become increasingly linked to the 2021-2027 EU budget negotiations, with both running in parallel for much of 2019. Although most Member States backed the 2050 climate neutrality goal during a European Council meeting in June, a small group led by Poland held out, citing among other reasons a lack of financial support from the EU for managing their transition to climate neutrality.

This disagreement was one of the reasons for the new Commission's President Ursula von der Leyen to make Just Transition a political priority, announcing she would prepare a proposal for a new Just Transition Fund as part of her European Green Deal. The fund will be part of the next EU budget and Elisa Ferreira, Commissioner for Cohesion Policy will design it in coordination with Frans Timmermans, Executive Vice-President for the European Green Deal and Johannes Hahn, Budget Commissioner. With this move, von der Leyen also responds to an earlier call from the European Parliament for an extra €4.8 billion Just Energy Transition Fund.

Understandably, von der Leyen's announcement has led to high expectations for the fund among Member States, as well as on the ground in coal regions. Poland for example made it clear ahead of the October European Council that it expects the Commission to propose additional money for the fund and to provide details on monetary allocations per Member State.[2] Not everyone is pleased with the fund announcement however. Portugal and Spain were reported to have pressed for any reference to a Just Transition Fund to disappear from that Council's conclusions on grounds that as poorer countries themselves, they are managing the transition without special support.[3]

With this paper, E3G outlines a more realistic governance structure for the Just Transition Fund. The new fund should complement the entire EU budget to ensure EU economy wide decarbonisation is accelerated, helping to close the low carbon gap between Eastern and Western Europe. The next section reviews Just Transition needs in the EU particularly in Central and Eastern European countries. Based on this analysis, the final section sets out benchmarks the new fund will need to meet to put the EU on track to achieve climate neutrality by 2050.

## Just Transition needs in the EU span across sectors and geographies

What is a Just Transition? The concept of a Just Transition captures the complexities of the necessary transition towards a climate neutral and climate resilient economy. With costs of climate impacts set to become a bigger burden on budgets it is a time-limited opportunity to shape the shift to a sustainable society. It seeks to address negative impacts for some such as job losses as well as reaping the benefits for all like future-proof development of regions. Importantly, the speed of a Just Transition needs to be in line with the Paris Agreement to ensure climate policies limit the impacts of climate change.[4]

**An essential element of a Just Transition are regional transition strategies as they give planning security to workers, industries, investors and communities.** They need to be driven by stakeholders from affected regions through participation formats and supported by national energy and climate policies consistent with European and international climate commitments. Paris-compatible phase out trajectories for polluting technologies like coal combustion

[2] Euractiv (2019) **Poland wants fresh money to back EU climate goal**

[3] Euractiv (2019) **The brief – The curious case of the missing fund**

[4] E3G (2018) **A Just Transition for all or just a transition?**

need to be set at the national level to guide the transition. Becoming a climate neutral economy requires the decarbonisation of all economic sectors – not only the energy sector. Consequently, transition strategies are needed in all affected areas of the economy.

**In Europe, Just Transition debates currently focus on (the lack of) national efforts to phase out coal use.** Analysis shows all OECD countries need to phase out coal by 2030 to limit global warming to 1.5 degrees.[5] The social impacts of the energy transition are well understood[6] and mechanisms to support regions in their transition away from coal have been set up with the Smart Specialisation Platform and Coal Regions in Transition Platform. The Coal Platform serves to discuss pilot projects and best practices. The platform helpfully kick-started regional transition strategies in some of its pilot regions.

**There is a strong divide between Western vs Central and Eastern Europe in advancing the transition to more sustainable forms of energy.** Countries in Western Europe are implementing coal phase out plans. Some have even started debates about the future of oil and gas, whereas Central and Eastern European governments are still planning their future energy mix with coal playing a central role. An analysis of draft National Energy and Climate Plans (NECPs) shows Poland, Czechia, Bulgaria and Romania have insufficient coal capacity reduction plans and along with a few others, will be home to most of Europe's coal capacity in 2030.[7]

Already today however, there are notable exceptions to the East West divide. Slovakia recently announced it will stop burning coal for electricity production by the end of 2023. Likewise, Hungary announced to phase out coal by 2030.

Despite having been slow in preparing for the transition from coal to clean energy sources, major progress has been made in Central and Eastern Europe across a range of other economic parameters such as income and development of institutions. Poland for example, has been the fastest growing economy in the EU over the last 30 years and saw per capita income rise threefold.[8] Rising carbon prices and plummeting costs of ever cheaper renewables means that in

[5] Climate Analytics (2016) **Implications of the Paris Agreement for coal use in the power sector.** It needs to be noted that not all EU Member States (e.g. Romania and Bulgaria) are also members of the OECD.

[6] See for example European Commission (2018) **EU coal regions: Opportunities and challenges ahead**, Jacques Delors Institute (2017) **Making the energy transition a European success**

[7] CAN Europe & Sandbag (2019) **Just Transition or just talk?**

[8] Friedrich Ebert Stiftung (2019) **Das Wunder an der Weichsel**

Central and Eastern European countries the costs of decarbonisation are significantly lower today compared to 10-20 years ago. In Czechia for example it is expected that by 2021 new renewables will be cheaper than existing coal and by 2030, 100% of existing coal capacity will have higher long-run operating costs than renewables.[9] Recognising the opportunities this brings, renewable energy associations from the Visegrad countries are organising themselves now to cooperate more closely on a coal to clean transition.[10]

However, job losses in the coal sector, concerns about a potential rise in energy prices and insecurity around replacing coal-powered electricity and heating discourage politicians from driving a phase out forward. This is further complicated by the fact that throughout Central and Eastern Europe, coal companies are either state-owned or have close ties with political parties from across the political spectrum. Confronted with these challenges, **Central and Eastern European countries have so far paid little attention to the need to decarbonise other sectors besides the energy sector.**

**Problematically, some of these Member States are already benefiting from EU energy transition support schemes. They are furthermore asking for increased funding despite a lack of clarity over their plans to end coal** and an insufficient renewable energy pipeline. For example, the Coal Platform helped channel funding via cohesion policy programmes through reprogramming to transition projects in Upper Silesia and Greater Poland.[11] Similarly, since the Czech coal mining regions became pilot regions of the Coal Platform, reprogrammed cohesion policy funds played a significant role in the implementation of the national strategic framework for the economic development of the country's three mining regions (RE:START).[12] None of these initiatives and programmes however foresee an actual end-date to the use of coal.

**In contrast to energy, sectors like transport, industry and agriculture lack an equally granular understanding of the socio-economic impacts of decarbonisation policy. Despite this, a transition is slowly taking shape in some Western European countries.** In the transport sector, a move towards more stringent and innovative passenger transport, aviation and shipping policies can be observed. For example, several countries have announced sales bans for new

[9] Carbon Tracker (2018) **Powering down coal: Navigating the economic and financial risks in the last years of coal power**

[10] E3G (2019) **Visegrad + for renewable energy**

[11] European Commission (2019) **Cohesion Policy funds in coal regions**

[12] European Commission (2019) **Cohesion Policy funds in coal regions**

Diesel and petrol cars. Denmark called for an EU strategy to phase out diesel and petrol cars from 2030.[13] France and the Netherlands are introducing a small aviation tax and the UK will require all ships from 2025 to be zero emissions compatible in its clean maritime strategy.[14]

Similarly, business models in some industrial sectors are slowly changing. German chemical company BASF will begin its first battery materials production in Finland.[15] Swedish steel manufacturer SSAB and mining company LKAB have teamed up with the utility Vattenfall to pilot a steel plant fuelled with hydrogen from renewable energy sources. This will enable a carbon-free steel industry by 2045.[16] In the automotive industry, Mercedes-Benz producing Daimler aims to have a carbon neutral new passenger car fleet by 2039 and others are making similar pledges.[17]

Addressing the social implications of decarbonising the car industry is complicated by integrated transboundary supply chains, of which a significant part is in Central and Eastern Europe. While strategic investment decisions of car companies are taken, for instance, in Volkswagen's headquarters in Germany, they affect vehicle production in other parts of Europe, such as 13,000 employees in the Audi plant in Hungarian factory town Győr.[18]

**Clearly transition needs in the EU are broader, geographically and sectorally, than current debate often suggests.** Although the phase out of coal in all EU countries will remain a central challenge and priority for the EU's low carbon transition for years to come, the socio-economic implications of economy wide decarbonisation are becoming increasingly important. The new Just Transition Fund as it will be proposed by the Commission and adopted by European Parliament and Member States will need to reflect this.

## Get real on the Just Transition Fund

The Just Transition Fund has the potential to become a tool that puts the EU on track to achieve climate neutrality by 2050. To be successful however, its sectoral focus must be broad, financed activities limited and eligibility criteria

[13] Transport & Environment (2019) **The end of the fossil fuel car is on the EU agenda**

[14] Reuters (2019) **Nine EU countries call for European aviation tax to curb emissions**; BusinessGreen (2019) **UK clean maritime plan targets zero emission-capable ships from 2025**

[15] BASF (2018) **BASF and Nornickel join forces to supply the battery materials market**

[16] SSAB (n.d.) **HYBRIT – Toward fossil-free steel**

[17] Daimler (2019) **Ambition2039: Our path to sustainable mobility**

[18] Audi Media Center (2019) **Győr (Ungarn)**

linked to climate ambition. We propose four benchmarks for the governance structure of the new fund.

**First, the fund should prioritise coal and carbon intensive regions, as well as address the transition needs of the rest of the economy**. Our analysis above shows Just Transition funding needs differ strongly across the EU. The urgent phase out of coal by 2030 remains a priority and challenge in a significant number of mostly Central and Eastern European countries. Achieving deep decarbonisation consistent with the Paris Agreement's goal of limiting global warming to 2 degrees Celsius and striving for 1.5 degrees requires change in every sector of the EU economy. The fund must go beyond coal to rise to this challenge. It needs to prioritise coal and carbon intensive regions, but its scope should be wide enough to start addressing the transition needs of the rest of the economy as well.

The fund should help close the low carbon gap between Western and Eastern Member States as the latter are behind in their decarbonisation efforts. They are also lagging behind in terms of job potential and industrial growth in low carbon sectors. Many Central and Eastern Member States continue to rely on coal for energy generation even though their transition challenges are relatively well researched and understood through EU initiatives like the Smart Specialisation Platform and the Coal Regions in Transition Platform.

**Secondly, the fund should require Member States to propose a Paris-compatible phase out plan including an end-date for coal or another high-emissions technology to be eligible**. As Europe's trade unions never seize to point out, 'there are no jobs on a dead planet'.[19] Just Transition plans need to be developed to support accelerating climate action. In order to minimise climate risk, the speed of the transition is essential. EU budget implementation needs to be linked to EU climate ambition.

Concretely, this means to be eligible for support under the new Just Transition Fund, a country must demonstrate through clear commitments the date it plans to phase out a high-carbon technology. This could be phasing out burning coal for power generation, domestic fossil heaters or internal combustion engines. These commitments need to be sufficiently ambitious for a country to be on track to achieving the goal of climate neutrality by 2050. For coal use in OECD

[19] During a **ETUC photo action ahead of EU council**

countries, the Powering Past Coal Alliance sets an international benchmark of 2030 as the latest coal phase out date.[20]

**Thirdly, the Just Transition Fund should add value to coal and carbon intensive regions and sectors by financing the development of Just Transition strategies**. Even if the Just Transition Fund were to add up to €35 billion, as being reported in some media[21], it will not be enough to pay for the low carbon transformation of the entire EU economy. Nor should that be the expectation. The whole of the EU budget with its Cohesion and Social Funds and the new InvestEU has a critical role to play in supporting Member States in their transition. As part of the recent agreement on the Energy Lending Policy of the European Investment Bank (EIB), the bank is planning to play a supportive role in national transition efforts.[22]

The added value of the fund will be its financing for the development of Just Transition strategies.[23] Implementation of these strategies however would be financed from other sources, for example, using relevant EU budget lines such as the European Social or Cohesion Fund, the ETS modernisation Fund, the EIB and private sources to pay for reskilling workers, early retirement schemes or zero emissions innovation.

**Another added value of the Just Transition Fund will be closing knowledge gaps on social and employment impacts in all sectors and facilitating the exchange of good practice.** The fund could finance the creation of additional Just Transition platforms on for example manufacturing, transport or livestock farming (or new modules under the existing Coal Regions in Transition Platform). It could also fund EU wide scoping studies to help close knowledge gaps on the employment impacts of decarbonisation policies. These would feed into an evaluation and review of the Just Transition Fund at an appropriate time, serving to extend the scope of the fund to further support the development of Just Transition strategies.

**Fourthly, the fund can only support the EU's transition if it works towards a clear goal, such as achieving climate neutrality by 2050.** The new EU climate law must transform political commitment into legally binding instruments including an emissions reductions target of at least 55% by 2030 and climate neutrality by

[20] PPCA (2017) **PPCA Declaration**

[21] Financial Times (2019) **Brussels ramps up emissions goals as MEPs declare 'climate emergency'**

[22] EIB (2019) **EU bank launches ambitious new climate strategy and Energy Lending Policy**

[23] See also WWF (2019) **An EU fund for a just transition – what it should be and why it matters**

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2050. The deal on climate neutrality will need to be followed up with amendments to the draft regulations underpinning the EU budget and a detailed legal proposal for a Just Transition Fund. This will ensure coherence with the EU's new climate targets and allow adoption of the budget in parallel to negotiations on the new Just Transition Fund.

## About E3G

E3G is an independent climate change think tank accelerating the transition to a climate safe world. E3G builds cross-sectoral coalitions to achieve carefully defined outcomes, chosen for their capacity to leverage change. E3G works closely with like-minded partners in government, politics, business, civil society, science, the media, public interest foundations and elsewhere. In 2018 E3G was ranked the fifth most globally influential environmental think tank for the third year running.

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