REPORT OCTOBER 2018

FUNDING THE JUST TRANSITION TO A NET ZERO ECONOMY IN EUROPE

OPPORTUNITIES IN THE NEXT EU BUDGET

LÉA PILSNER, PIETER DE POUS, ALEXANDER REITZENSTEIN, JONATHAN GAVENTA

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E3G is an independent, non-profit European organisation operating in the public interest to accelerate the global transition to sustainable development. 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. More information is available at **www.e3g.org**

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List of Acronyms

CAP - Common Agricultural Policy

CEF - Connecting Europe Facility

CLLD - Community-led local development

EEB – European Environmental Bureau

EFSI - European Fund for Strategic Investments

EGF - European Globalisation Adjustment Fund

ESF+ - European Social Fund Plus

ERDF - European Regional Development Fund

ETUC - European Trade Union Confederation

ETS - Emissions Trading System

EU – European Union

ICEM - International Federation of Chemical, Energy, Mine and General Workers' Unions

ILO - International Labour Organisation

ITF - International Transport Workers' Federation

ITUC - International Trade Union Confederation

IRENA – International Renewable Energy Agency

MFF - Multi-Annual Financial Framework

NECP - National Energy and Climate Plans

R&I - Research and Innovation

Summary

Europe's transition to a net zero carbon society implies a wide range of changes throughout its economy. New industries develop, creating new jobs requiring new skills and whole new sectors of activities. While this shift is primarily an economic opportunity, such deep changes will also have social consequences that need to be addressed. Supporting regions, communities and workers adapt to these changes and make sure they are implemented in a socially fair way will require carefully targeted financial resources.

The next European Multi-Annual Financial Framework (MFF) - with its proposed envelope of €1.279 trillion - has the means to underpin Europe's support to help achieve a just transition to a net zero carbon economy. A number of the proposed EU budget instruments include supporting a "just transition" within their scope. Yet these instruments remain fragmented, and Europe is at risk of missing an opportunity to implement a more cohesive strategy for enabling a just transition to a zero-carbon economy.

This report aims to assess the Commission's recently released sectoral proposals for the next 2021-2027 MFF. It explores the contribution of several instruments - Cohesion Policy Funds, European Social Fund Plus, InvestEU, Horizon Europe and European Globalisation Adjustment Fund - to the just transition agenda. It also identifies options for the EU regulator to better align funds with this agenda.

Table 1 below provides an overall verdict on how each fund fares in the promotion of a just transition to a net zero economy. It is contextualised with an overview of each fund's size and relevance for the just transition agenda together with its current alignment with this agenda.

Table 1 – EU MFF funds' contribution to delivering the just transition to a net zero economy

Fund	Size in €bn	Relevance for just transition	Alignment with just transition	Verdict
Cohesion Policy Funds	374	<u>Very relevant – very large impact</u> Most essential funds for operating the just transition through support to regional development		Prioritises clearly low carbon transition for regional development but guarantees are needed to ensure funds are effectively channelled to finance the transition
European Social Fund Plus (ESF+)	101.2	<u>Very relevant – large impact</u> Key tool for employability and for the reskilling of workers		Targets the social consequences of clean energy transition as part of the funds' scope. To ensure adequate support however requires the fund to be better tailored for the employment and training needs resulting from the transition
InvestEU	15.2 Expected to leverage 650 in private funds	<u>Very relevant – large impact</u> Addresses market failures and investment gaps and attract investments for the development of cleaner economic and industrial development models		Includes positive but insufficient measures. A clear and targeted support for key areas of under-investment such as energy efficiency is needed for the fund to become a real catalyst for the just transition to a net zero economy
Horizon Europe	100	<u>Less directly relevant - large impact</u> Supports the development of innovative solutions for the decarbonisation of the economy		Lacks vision of its role in spurring the transition to a zero-carbon economy that could be achieved through innovative measures and missions which align with its guiding principle of excellence
European Globalisation Adjustment Fund (EGF)	1.6	<u>Very relevant – limited impact</u> First aid instrument to support workers from high carbon industries with financial and employability measures		Addresses the effects of the clean energy transition as part of its scope to benefit affected workers. As an emergency response only, the fund's measures must be part of more comprehensive and long-term social security measures.

Supports the just transition to a net zero economy or could do so with some changes

Contains relevant measures for supporting a just transition but important improvements are required to ensure it delivers

Does not sufficiently address the just transition to a net zero economy agenda. Major improvements are still required

Sources: E3G

As well as improving individual funding instruments, responding to the challenge of a just transition to a zero carbon requires a more cohesive European strategy on just transition. Current approaches remain fragmented and this creates a risk of misalignment and wasted effort.

Instead, an integrated EU funding strategy on just transition should reflect a number of cross-cutting principles.

Firstly, the budget should **create sustainable opportunities for workers and the economy of affected regions that work in synergy with national and EU strategies for the transition to net zero emissions**. The budget instruments can reflect this by:

> **Encouraging the uptake of green development models** by making sure budgetary instruments include measures that will spur the low carbon transition in affected regions with the view of creating sustainable economic opportunities. So far, only some funds, like the Cohesion Policy Funds, have made such a step by making the transition a policy objective or linking funds disbursement to the adoption of National Energy and Climate Plans. Most other budgetary instruments have yet to grasp the opportunity to fund such measures.

> **Including at least a 30% share of spending that will contribute to achieving EU climate and energy objectives throughout EU budget instruments, in line with the European Parliament's position. Climate mainstreaming** as labelled by the European Commission is essential to achieve the scale of investments that will create large scale changes and opportunities. To be effective this must be combined with a clear methodology that not only defines the nature of climate spending but that can reliably track them.

> **Complementing nationally or regionally-devised strategies for a fair and green transition.** To maximise their impact but also increase the efficiency of EU spending, the funds would serve to finance such existing strategies for a fair and green transition. EU budget funds can then be used in a targeted way to match the needs of each region, which can vary greatly. Supporting mechanisms outside the budget like the Coal Regions in Transition Platform also play an important role in helping member states to elaborate development strategies and match the needs created by their transition to opportunities in the budget.

Secondly, the budget must be designed so that **opportunities created by the transition to a net zero emissions economy reliably benefit affected regions and stakeholders**. Making sure workers, industries and regions benefit from just transition measures does not simply encourage ownership but also maximises the impact of EU spending. This can be promoted through:

> **Designing existing capacity-building mechanisms within the budget to provide support for the net zero transition.** Examples include technical assistance provisions under Cohesion policy funds or InvestEU's Advisory Hub**.**

> **Providing more direct access to EU budget to regions and local stakeholders such as cities,** as they are well-placed to carry local development strategies in

line with the transition to a low carbon economy. They also have the expertise to identify the type of support needed at local level to best support workers, communities and industries.

> **Offering education and reskilling opportunities for future-proof employment prospects.** Funds like the European Social Fund Plus (ESF+) and Cohesion Policy Funds can address the reskilling of workers but also provide education opportunities matching local development needs for young people in regions dependent on high carbon industries. This would require direct access to funds for regions and local stakeholders who often are best placed to provide relevant support.

> **Enshrining consistent respect of the rule of law** across EU budget instruments to guarantee funds will reach workers, regions, communities and will not be diverted in fraudulent way. This not only increases benefits for workers and communities but also makes for more efficient EU spending.

Finally, the budget must **help ensure a reduced social impact from the shift away from unsustainable fossil fuel-based activities on affected regions and workers**. Changing industrial development model has disruptive effects, but these impacts can be mitigated by:

> **Putting in place social safeguards** to shield workers from the immediate effects of the transition to a green economy. Funds like the ESF+ and the European Globalisation Adjustment Fund (EGF) need to be designed to address the social consequences of the transition. This requires offering clear support to workers with labour market measures tailored to their needs in terms of job-seeking allowance, financial support or training. These often represent immediate support that cannot replace national social security measures for longer-term solutions.

> **Encouraging the use of consultative decision-making processes** involving trade union representatives, local authorities and businesses. This is essential to successfully address the needs of workers and communities and ensure buy-in for the transition.

> **Stopping support to all fossil fuel investments** to ensure the timely decarbonisation of the economy and greater coherence with the promotion of the transition to net zero emissions across the budget. This needs to be effective across all EU budget instruments, which is not currently the case as only the Cohesion Policy Funds proposal has such an exclusion clause.

> **Climate-proofing the budget** to ensure no backdoor support to projects which undermine EU climate objectives. Clear and consistent climate-proofing criteria need to be defined to ensure that beyond fossil fuel investments, the

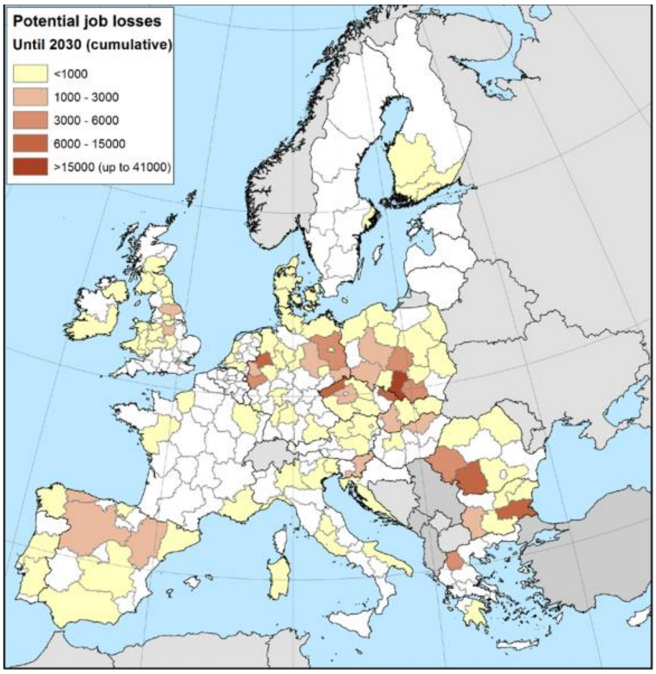
budget offers a transparent and predictable understanding of climate-compatible investments.

Introduction

With the Paris Agreement, the global community has committed to keep global warming to well below two degrees Celsius compared to pre-industrial levels and to pursue efforts to keep warming below 1.5 degrees. This requires decarbonisation in all economic sectors, which will create economic and employment opportunities across Europe but with potentially disruptive effects on high-carbon regions and industries. Achieving a just transition for those regions and sectors is thus a key challenge to reach climate goals and ensure decent jobs for workers and a bright future for communities.

In practice, this means phasing out coal as the most polluting of all fossil fuels and finding innovative solutions for carbon intensive industries like steel, cement or the automobiles to adapt to the transition. Adapting to a decarbonised world is a deep structural shift not just for the industries but for their workers, their communities and their regions. It represents in the case of coal mines the loss of thousands of jobs across Europe especially in Eastern and Southern Europe (see figure 1). While these jobs represent only a small proportion of employment in the affected regions, their loss will nevertheless impact local communities.

Figure 1: Cumulative coal direct jobs at risk by 2030



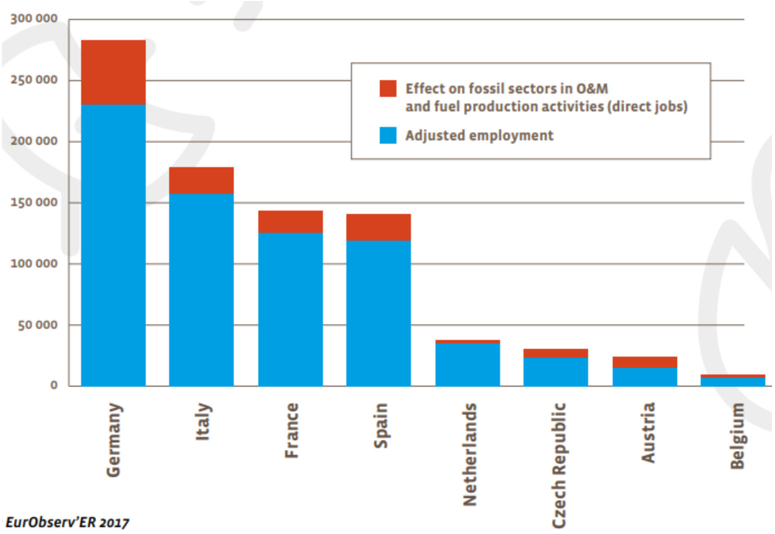
Source: European Commission, 2018[1]

However, the transition to a net zero economy is also a chance to bring about future-proof regional economic development and industrialisation strategies that come with

[1] From the report "**EU coal regions: opportunities and challenges ahead**", p.3.

new jobs and opportunities at the local level that reinforce the EU's global competitiveness. In fact, figures show the transition to a net zero economy creates more jobs than other trends like digitalisation and globalisation.[2] As exemplified by the case of renewable energy development, the industry more than compensates for the loss of jobs in the fossil fuel industries (see Figure 2). The transition does not stop at renewables but encompasses a range of opportunities such as clean technologies for more sustainable industrial production, energy efficiency investments for households or the electrification of transport.

Figure 2: Effect of the development of renewable energy on jobs in fossil sectors (figures for 2016)[3]



Source: EurObserv'ER[4]

Making sure such a transition from high- to low-carbon is timely and socially fair requires policy and financial support to ensure it is well-managed and sustainably beneficial for the regions and the workers. Considering the truly European scale of the issue, with Eastern but also Southern Europe most concerned by high-carbon industry dependency, a European solution seems particularly relevant.

With the next Multiannual Financial Framework (MFF post-2020; EU budget), the EU has a great opportunity to support transitions in European regions. In the absence of a 'Just Transition Fund' or similar measure - despite many calls for one - currently there is no financial instrument in the post-2020 EU budget explicitly dedicated to supporting EU member states' and regions' just transition to a net zero economy. Considering the EU budget's proposed envelope of €1.279 trillion, its cross-cutting

[2] In a recent policy brief, the OECD estimates for example that one in seven jobs could be lost to automation (14% of jobs across all 32 OECD countries) with another 32% that could be significantly impacted. "**Putting a face behind the jobs at risk of automation**", March 2018.

[3] In blue are the jobs created by the renewable energy sector and in red the losses of jobs in the fossil fuel industries due to the deployment of the renewables sector.

[4] 2017 edition of "**The state of renewable energies in Europe**" report, p. 149.

nature and its EU-wide reach, it has the potential to financially support the needs of affected regions and communities. Through the budget the EU has various instruments to support elements of transition roadmaps and strategies. These funds make up a large share of public investments in some European member states, in particular in Central and Eastern Europe, where they can represent more than half of public investments.[5]

However, for the MFF to effectively support future-facing industries, green development models, innovation, job creation and reskilling of workers in these areas, its instruments need to be designed appropriately, with just transition and climate policies being mainstreamed across the budget. This report reviews some of the most relevant EU budget instruments and explores avenues that could ensure they deliver on a just transition to a net zero economy across Europe.

[5] European Commission, European Investments and Structural Funds **data**.

The Just Transition Concept and its Relevance for the EU

Just transition refers to the need of ensuring the transition to a net zero emissions economy is socially fair. The term captures the complexities of such a transition whereby public policies aim to maximise benefits and minimise risks for workers and local communities in this transformation.[6] At the same time, the speed of such a just transition just transition needs to be in line with the Paris Agreement, to ensure that climate policies are ambitious enough to protect communities globally.

The concept was first developed by trade unions in North America to provide a framework for discussions on the necessary social and economic interventions to secure workers' jobs and livelihoods in the shift from high-carbon to low-carbon, climate-resilient economies. Driven by the challenges posed by climate change, unions sought to align their efforts to provide workers with decent jobs with the protection of the environment. The concept has since been endorsed and used by a rapidly increasing number of stakeholders, including local and federal governments (for example, Canada and Germany), civil society (for example, Greenpeace, WWF, Bankwatch, E3G), industry, and affected communities. In 2015, the International Labour Organization set out "**Guidelines on a Just Transition towards environmentally-sustainable economies for all**". Considering the "imperatives of a just transition of the workforce and the creation of decent work and quality jobs in accordance with nationally defined development priorities" is further recognised in the UNFCCC process and the **Paris Agreement** as a key challenge for local transitions and the restructuring of real economy sectors.

The public policy needs for a just transition are however not only focused on minimising the risk of unemployment for workers but increasingly recognise the opportunities a transformation to a green economy could provide to create decent, unionised jobs and sustainable development in affected regions. Just transition incorporates a bundle of potential policies addressing the vulnerabilities of workers and communities, including bottom-up transition dialogues and democratic, participatory consultations in affected regions, local investments in low-carbon growth sectors and technologies, research and innovation strategies, reskilling and training, local economic diversification plans, targeted infrastructure investments, recultivation of local environments, and social protection measures (see, for example, ITUC's "**Climate Justice: There are no jobs on a dead planet**"). While most of these policies will be necessary components of any just transition process, it is widely acknowledged that specific transition strategies should be driven by local stakeholders and adapted to local needs.

Since the concept was first introduced, the debate has significantly broadened and is subject to controversial discussions. Some key aspects and outcomes of the debate include:

[6] Definition adapted from the International Labour Organisation (ILO) (2010) Climate Change and Labour: The Need for a Just Transition'. Geneva: ILO.

- Initially, the just transition concept was used to frame the challenge to transform economies from fossil-based energy and production systems to decentralised, renewable ones. However, the implementation of the Paris Agreement requires a **deep decarbonisation of all real economy sectors**, implying structural changes across all sectors. For this reason, international union associations[7] and other stakeholders increasingly recognise the need for similar discussions and strategising in, for example, transport and mobility, energy-intensive industries, building and construction, and agriculture. While differing in the expected type and quality of transition, each sector will have to plan for its transition to the low-carbon, climate-resilient economy and consider the economic, social and environmental implications of the transition.

- With the Paris Agreement, the global community has committed to keep global warming to well below two degrees Celsius compared to pre-industrial level and to continue efforts to maintain it under 1.5 degrees, aiming at decarbonising the global economy by 2050. This requires a steeply accelerating pace of climate action. To build a bridge between the interests of unions, businesses and communities affected by climate change, it is important that just transition is a **supporting mechanism of climate action**, i.e. a central component of the real economy implementation of the Paris Agreement, and not used to block climate action. Just transition should thus not be seen in opposition to Paris-compatible environmental policies but as a **framework for a socially just and economically successful transformation**.

- Just transition is an integrated approach to sustainable development which brings together social progress, environmental protection, and economic success into a framework of democratic governance. **Effective just transition strategies require local, bottom-up participation of all affected stakeholders** and commitment by governments to guarantee their buy-in and provide planning security**.** However, as observed in major European coal countries such as Germany or Poland, fears of job losses, disruptive structural and cultural changes, economic decline, and negative implications for elections influence the debate more strongly than the benefits of the low-carbon transition. These are numerous and include job creation in low-carbon sectors, local ownership, improved air quality, and competitiveness in new industry sectors. Consequentially, some high**-carbon industries and unions of coal miners and workers in coal power plants have attempted to block Paris-compatible progress**, arguing for slower transitions and higher compensation. This is however balanced by a number of actors like the European Trade Union Confederation (ETUC) who are openly supporting a timely transition to a green economy.

[7] This refers to statements made by the International Federation of Chemical, Energy, Mine and General Workers' Unions (ICEM), the International Transport Workers' Federation (ITF) and the International Trade Union Confederation (ITUC).

- Lastly, the focus of the just transition concept has widened. While it was initially concentrated on the futures of workers in the fossil fuel industry, there is growing awareness that the **transformation** of our economies **affects other sectors, the financial system, supply chains and communities worldwide**. While inaction might benefit incumbent industries in the short-term, it has negative, possibly devastating impacts on other stakeholder groups such as workers in the renewable industry or vulnerable communities affected by the impacts of climate change.

Given the necessary speed of change, current Just transition processes are unprecedented in their scale and scope. Learning from previous experience, for example the phase out of nuclear power and hard coal mining in Germany, peers, for example the Canadian Just Transition Task Force, and multi-stakeholder platforms[8], is thus key for transformative change.

With the establishment of the **Coal Regions in Transition Platform**, the European Commission has put just transition high up on the political agenda, providing a platform for exchange and knowledge-sharing across Europe[9]. While it is initially focused on transitions in European coal regions, it is aiming to then expand to include carbon-intensive regions. Such a commitment needs to be backed by strong funding measures to leverage private investments in coal regions, support low-carbon infrastructure, and foster innovation. However, despite many calls by civil society actors, there is currently no dedicated Fund that could provide the financial support to implement such measures.

The next MFF, for which negotiations have recently started is the opportunity to enshrine the just transition agenda in the MFF's multiple financial tools. Just transition is a complex policy agenda that requires coordinated policy interventions in a wide-variety of fields to be successful. Together, the MFF's financial instruments cover such a broad range of fields from regional development, innovation, investment or employment measures and therefore have the potential to support the needs of a successful just transition to a net zero economy across Europe. This is backed by an overall MFF budget envelope of close to 1.3 trillion euro. However, to efficiently support the just transition to a net zero economy, the budget's instruments must be designed accordingly and recognise the policy needs for its implementation.

The following sections analyse existing MFF proposals for funding instruments and the role of and potential for just transition and climate measures, resulting in a set of avenues to follow for an EU budget which supports a Paris-compatible just transition across Europe.

[8] E3G 2018 report **Europäische Braunkohleregionen im Wandel - herausforderungen in Deutschland und Tschechien** (in German)

[9] Recently, the Platform received further support from UN Special Envoy for Climate Action and Bloomberg Philanthropies founder Michael R. Bloomberg and European Commissioner for Energy and Climate Action Miguel Arias Cañete who "pledged to join efforts to manage the global transition away from coal" **European Commission News**, 13 September 2018.

Cohesion Policy Funds

Fund	Size in €bn	Relevance for just transition	Alignment with just transition	Verdict
Cohesion Policy Funds	374	Very relevant – very large impact Most essential funds for operating the just transition through support to regional development		Prioritises clearly low carbon transition for regional development but guarantees are needed to ensure funds are effectively channelled to finance the transition

The European Regional Development Fund (ERDF) and Cohesion Fund – addressed here together as *Cohesion Policy funds* – **have considerable potential to incentivise and support high-carbon industry dependent regions in their transition to a carbon neutral economy**. They are specifically dedicated to promoting regional development and reducing regional disparities across Europe. They are comprehensive in their reach as they support regional job creation, sustainable growth but also infrastructure and innovation across the European regions. With a proposed €374 billion for the next period, Cohesion Policy remains the budget's largest spending area despite a 7% cut compared to the current budget period.

Potential to serve the just transition to a net zero economy

Overall, the Commission's Cohesion Policy funds proposal prioritises the low-carbon transition in regional development. Elevating a "greener and low carbon Europe" to one of the funds' two main policy objectives and providing it with a minimum share of resources should ensure financial support gets effectively directed to the transition. This is especially the case since "clean and fair energy transition" is part of this objective. This is reinforced with the introduction of enabling conditions that are supposed to make the disbursement of funds conditional on respecting EU energy and climate frameworks. Cohesion Policy is one of the only budgetary instruments to effectively exclude fossil fuel projects from receiving funding and it clearly promotes the funding of energy efficiency especially with regard to investments in housing[10]. However even though the promotion of a "clean and fair energy transition" is part of achieving a greener Europe, the proposal would benefit from introducing some guarantees to ensure funds will indeed be channelled for the purpose of a just transition to a net zero economy.

Avenues to deliver a just and green transition

> **Boost support for just transition to net zero economy through effective monitoring and control mechanisms**

To better support the process of just transition the proposal should strengthen the monitoring and control mechanisms in place. The proposals already include several positive mechanisms such as the performance measuring system, which can track

[10] Proposal for a regulation on **European Regional Development Fund & Cohesion Fund** Art 6 (2).

spending related to achieving the Fund's low carbon Europe policy objective. However, to capture the need to move away from high-carbon industries, these monitoring mechanisms need to be fine-tuned and used to identify the issues of member states lagging, so as to provide targeted support. The performance system for example should therefore not leave out the industrial sector as an output indicator, which is a major source of emissions. The real time performance assessment should be used to provide diagnosis and support measures for member states found to be lagging in their climate and energy performance.

> **For maximised impact, funds should align with national or sub-national planning with the just transition to a net zero economy low carbon transition**

To achieve efficient EU spending it is important that Cohesion Policy funds feed into national and regional just transition strategies. This is because cohesion policy funds alone cannot finance all the wide-ranging policies needs of the just transition and would have a maximised impact if aligned with approaches designed by member states. Cohesion Policy funds being under shared management between the EU and member states, to be spent effectively, just transition needs should be reflected in the operational programming of the fund. To ensure the coherence with national policies member states or regions have the opportunity to engage in developing a just transition roadmap – as part of the Coal Regions in Transition Platform - which is to detail a comprehensive approach to regional development and regeneration and is assessed for progress. This would feature a governance system inclusive of all key stakeholders (such as representatives of workers, local communities, environmental groups, elected politicians and business), plans for an industrial regeneration strategy, skills and training plan as well as larger regional infrastructure development plans.

> **Provide sub-regional stakeholders with a more direct access to funding and ensure stronger support for community-led local development strategies**

Local actors and cities are particularly well-placed to carry local development strategies in line with the transition to a low carbon economy as they have the expertise to identify the type of support needed at local level to best support workers, communities and industries. Cities across Europe have developed initiatives to connect green jobs with vulnerable groups and promote both social and labour market inclusion[11]. Yet development strategies are often devised at national level which then receives European funds. Ideally, sub-national stakeholders should be systematically involved in the Fund's governance. In the absence of this, it is important for Cohesion Policy funds to be more easily accessible to local actors by making use of the Fund's support for community-led local development (CLLD). When member states and regions recognise the need to support CLLD strategies, this can help to ensure spending is as efficient as possible in securing business and social opportunities such as education and training. Better access to climate-related funds but also social funds under the Cohesion policy proposal should therefore be guaranteed across policy objectives.

[11] See Eurocities' case studies on "**Green jobs for social inclusion**", 2015.

European Social Fund Plus

Fund	Size in €bn	Relevance for just transition	Alignment with just transition	Verdict
European Social Fund Plus (ESF+)	101.2	Very relevant – large impact Key tool for employability and for the reskilling of workers		Targets the social consequences of clean energy transition as part of the funds' scope. To ensure adequate support however requires the fund to be better tailored for the employment and training needs resulting from the transition

The European Social Fund Plus (ESF+) is one of Europe's main instruments to improve employability by providing support to employment-related projects across Europe and support to people looking for jobs[12]. It will have a €101.2 billion envelope and an expanded scope as it merges the previous ESF with a series of social instruments for youth, most deprived, employment and health programmes. The ESF+ is therefore an **essential tool to ensure Europeans have the skills for the transition away from high-carbon industries**.

Potential to serve the just transition to a net zero economy

The proposal recognises the clean energy transition as one of the structural shifts Europe is facing and which requires support. It also shows commitment to consultative programming of activities through the promotion of active participation of civil society organisations and social partners (article 8). Support can be directed to young workers (article 10) and to local development strategies (article 13). These are all positive measures for the transition to a green economy; however they need to be designed more explicitly to support the training and employment needs resulting from the transition to a net zero economy.

Avenues to deliver a just and green transition

> **The employment needs for the reskilling of workers for a just transition to net zero transition must be enshrined as a priority**.

Low carbon transitions create jobs[13]. Recognising Europe-wide re-skilling needs brought by the transition is essential to operate the transition and maximise employment potential from the development of the low carbon sector. The ESF+ should specifically target reskilling needs of workers affected by the transition to a green economy to ensure these workers will benefit from programmes. To ensure support is then tailored for their needs and that resources will be made available locally, high-carbon regions should also show commitment to support innovative and community-led local development strategies as called for in the proposal[14]. It is also important to ensure integration with the EGF – meant as a first point of help - that the

[12] **European Commission**.

[13] According to a 2018 **study** by IRENA, in 2016 the number of renewable energy jobs in the EU reached 1.19 million, up from 1.16 million in 2015.

[14] Article 13.1, **Regulation of the European Parliament and of the Council on the European Social Fund Plus (ESF+)**.

ESF+ then takes on with a long-term and more comprehensive employment, education and support strategy.

> **To provide workers with future-proof local opportunities, the activities funded under the ESF+ should match local development strategies**.

Workers need to be equipped with the kinds of skills and competences that match the new sectors and industries a region plans to attract. Such redevelopment away from high-carbon industries is already being put in place, through for example "smart specialisation" strategies supported by the European Commission. [15] This would contribute to increased local employment and reduce the need to relocate. Having a local and well-trained labour force also increases the attractiveness of the region for new businesses.

> **Measures provided by the ESF+ to facilitate the transition to a green economy should be aimed at the whole community affected.**

To ensure the transition away from high carbon industries is successful, the Fund can provide opportunities not only for workers directly affected by the transition away from high-carbon sectors but also young people in education and the entire community dependent on the high-carbon sector in an area.

[15] The European Commission's "**Smart specialisation**" initiative under Cohesion Policy Funds helps regions identify their own competitive advantage and build development strategies around them.

InvestEU

Fund	Size in €bn	Relevance for just transition	Alignment with just transition	Verdict
InvestEU	15.2 Expected to leverage 650 in private funds	Very relevant – large impact Addresses market failures and investment gaps and attract investments for the development of cleaner economic and industrial development models		Includes positive but insufficient measures for the just transition. A clear and targeted support for key areas of under-investment such as energy efficiency is needed for the fund to become a real catalyst for the just transition to a net zero economy

The InvestEU programme will become the EU's main instrument to leverage private investment as the successor of the European Fund for Strategic Investments (EFSI). It will have the potential to address market failures and investment gaps that hamper the achievement of EU goals regarding sustainability, competitiveness and inclusive growth. InvestEU's aim will be to leverage €650 billion of private investment with a proposed budget of €15.2 billion, which **could contribute to attracting investments in regions and areas keen to promote a transition to net zero emissions as part of their industrial development strategies**.

Potential to serve the just transition to a net zero economy

Regions dependent on high carbon industries require financial support for development alternatives. The investment gap in climate-related sectors such as energy efficiency is estimated between €177 and €294 billion annually, half of which is investment in energy efficiency in households. [16] InvestEU has the potential to spur on investments needed to boost the transition in these regions and develop the local economy. As things stand, however, InvestEU does not sufficiently contribute to achieving the Commission's proposed 25% climate mainstreaming target for the 2021-2027 budget, to which closing the energy efficiency investment gap could make a very significant contribution. The creation of an investment window specifically focused on 'sustainable' infrastructure sends the right political signal, but with unclear support to energy efficiency projects and no clear mention of the needs of regions moving away from high-carbon industries, InvestEU currently falls short of becoming a catalyst to spur on these areas' green transition through its investments.

Avenues to deliver a just and green transition

> **Clearly prioritise energy efficiency projects to drive investments**

The Commission estimates that €10bn of energy efficiency investment could support up to 220,000 jobs, help to establish a renovation market for small businesses worth

[16] The lowest estimate was put forward by the European Commission and calculated based on what is needed in addition to delivering the 2016 EU Reference scenario of currently implemented policies. The EU has recently agreed a target of 32.5% for 2030 and thus the investment needs are at the higher end of these estimates.

up to €120bn and take 3.2m European families out of energy poverty.[17] High-carbon regions in particular face some of the highest levels of energy poverty[18] so that energy efficiency investments would help address the issue together with developing local supply chains and skilled jobs that come with large-scale regeneration. Given the large investment gap in energy efficiency, prioritising projects in this field is needed to drive investments and create opportunities for the local economy.

> **Help direct funds for energy and climate-related projects specifically for regions in transition**

Previous experience under EFSI – InvestEU's predecessor - showed that investments in energy projects do not reach regions in transition. Under EFSI only 1.25% of available funds allocated to energy projects went to Central, Eastern and South-East European countries, who have a large share of regions dependent on high-carbon industries.[19] To ensure InvestEU directs sufficient investments in these regions, synergies with regional development strategies for a low carbon transition developed under Cohesion Policy funds among others could be explored. The design of the Fund should also allow for projects in less mature financial markets to successfully apply for funding. This means InvestEU should be more accessible to member states affected by the transition and provide technical assistance to ensure a greater success rate.

> **Provide technical assistance along with fund disbursement for increased capacity-building**

Being able to fully utilise the potential of InvestEU investment in climate-related projects requires that regions in transition, who often lack the expertise to implement them, be supported with capacity-building measures. The proposed Advisory Hub is to focus on, amongst other things "facilitating development of aggregators for small-scale projects", "leveraging local knowledge" to ensure widespread use of InvestEU support and capacity building for project pipeline development, for financial intermediaries focusing on clients and projects that struggle to access finance, and the development of sector specific knowledge. These are qualities, along with the increased budget[20] for the proposed Advisory Hub that could be used for the Fund to develop capacity. Making sure regions in transition access this expertise would mean making sure it is accessible at local level.

[17] See European Commission news 7 February 2018 "**Smart finance for smart buildings: investing in energy efficiency in buildings**".

[18] See the European Parliament's 2017 "**Energy poverty**" study. The study mentions that "while energy poverty occurs across the EU, the prevalence of the condition in Eastern and Southern European states is particularly high".

[19] BPIE 2017 study covering Central, Easter and South-East European countries. "**Financing the future of buildings in Central, Eastern and South-East Europe**".

[20] The proposed budget for InvestEU's Advisory Hub – at €75 million per year – is three times larger than EFSI's equivalent.

Horizon Europe

Fund	Size in €bn	Relevance for just transition	Alignment with just transition	Verdict
Horizon Europe	100	<u>Less directly relevant - large impact</u> Supports the development of innovative solutions for the decarbonisation of the economy		Lacks vision of its role in spurring the just net zero transition that could be achieved through innovative measures and missions which align with its guiding principle of excellence

Horizon Europe is the new European research and innovation programme. It follows on from the EU's Horizon 2020 with a proposed budget that has been substantially increased, to €100 billion. The EU's flagship programme for science and innovation support is organised around three pillars: (1) Fundamental research, researcher mobility and infrastructure; (2) Cluster-specific research – including a climate, energy and mobility cluster; (3) Increasing the EU's innovation output. [21] **Horizon Europe is the main vehicle to support the development of new clean technologies but also economic and social science research providing solutions for the decarbonisation of the economy**.

Potential to serve the just transition to a net zero economy

Horizon Europe has a key role to play in financing Europe's innovative capacity that will spur on Europe's transition to net zero emissions. The Horizon Europe Programme is the opportunity to boost Europe's front-running position in clean tech from basic research to commercialisation, improve its competitiveness offer in a constantly changing world and create jobs for the future. However, for climate-change related research to be boosted and become a catalyst for local development, the programme itself should start by giving climate change a greater programmatic role. Whilst the excellence principle at the heart of European research determines the recipient of funding, it is important that measures are put in place for Horizon funding to benefit regions in transition as well and provide support to develop their research capabilities, which could contribute to creating new regional development opportunities.

Avenues to deliver a just and green transition

> **Develop a funding stream for regions in transition within the Horizon Europe Programme to support regional development strategies**

Excellence should continue to be the main funding criteria for European research in order to ensure Europe's competitiveness. However, to make sure regions have an equal chance at developing their research activities, specific support should be given to regions with less experience with research activities. This could take place through Horizon Europe by dedicating funds for regions in transition from fossil fuels. To be

[21] See the **interview** with Carlos Moedas, European Commissioner for Research, Science and Innovation, 7 June 2018.

successful, this would need to be part of a regional development strategy and develop synergies with initiatives like the Commission's "smart specialisation" programme as part of European Cohesion Policy funding. [22] Under the Stairway to Excellence sub-programme of the Commission's smart specialisation Platform, a synergy between Cohesion and Research and Innovation Funds are used to support Eastern European member states develop their innovation potential and promote excellence. [23] This is a good example of integrating policies that could be used to provide holistic support to the transition of high-carbon regions in particular.

> **Finance "missions" that will turn cities in high carbon regions into climate champions while financing breakthrough technologies**

In a previous **briefing** E3G supported the idea of Horizon Europe supporting the mission of having 100 carbon neutral cities by 2030. [24] This would not only increase the deployment of clean technology through reduced cost, it would also support cities with their transition to a green economy. Locally, cities could receive technical support by regional and national energy agencies, through initiatives such as the Covenant of Mayors Europezero. This should be accompanied by a focus in Horizon Europe on financing the development of breakthrough technologies in the clean energy and climate research sector to ensure a pipeline of technologies.

> **Greater programmatic role for climate-related research to boost Europe's net zero transition**

Without a greater role for climate-related research in the Horizon Europe proposal, there is no guarantee that funds will be directed to developing the technologies to accelerate the move to a net zero emissions future and achieving Europe's climate objectives. Europe needs to stay competitive in an environment where China's research and innovation (R&I) investments outpace Europe's. This is a pre-requisite to ensure Europe's front-running position in clean tech, but also to facilitate Europe's own transition to a net zero future, including regions dependent on high-carbon industries.

[22] For more information about the Commission's "smart specialisation" initiative see **here**.

[23] For more information on the Stairway to Excellence initiative, see **here**.

[24] The briefing is available online **following** this link **https://www.e3g.org/docs/Clean_energy_innovation_-_framing_the_challenge.pdf**

European Globalisation Adjustment Fund

Fund	Size in €bn	Relevance for just transition	Alignment with just transition	Verdict
European Globalisation Adjustment Fund (EGF)	1.6	Very relevant – limited impact First aid instrument to support workers from high carbon industries with financial and employability measures		Addresses the effects of the clean energy transition as part of its scope to benefit affected workers. As an emergency response only, the fund's measures must be part of more comprehensive and long-term social security measures.

The European Globalisation Adjustment Fund (EGF) was established to support member states with job losses caused by serious economic disruption due to globalisation. With a proposed €1.6 billion for the period 2021-2027, the EGF aims to increase the employability of workers made redundant due to changing trade patterns and ultimately help them finding new job opportunities. The Fund co-finances labour market measures such as trainings but also helps create businesses and job-search allowances. It is therefore a critical **first aid instrument to ease the transition away from high carbon industries for workers**.

Potential to serve the just transition to a net zero economy

While the Fund was originally set-up to address the social consequences of economic restructuring due to globalisation, the Commission widened the scope of the Fund to include the green transition for the next budget period. With a limited budget, workers affected by the transition away from fossil fuel will compete against people affected by other big economic shifts. However, the reduced eligibility threshold (from 500 to 250 redundancies), the increased rate of EU co-funding from 50% to 65% and allowing not just national but regional applications to the Fund are positives for the just transition agenda. Introducing these changes means high carbon sectors are better targeted and workers are more likely to benefit from European support. Reducing the threshold of workers eligible for funding better targets closing coal power plants, while regional application should mean financial support is localised.

Avenues to deliver a just and green transition

> To incentivize members states to direct funding to workers affected by the transition to a green economy, the EGF legislative proposal should **clearly stipulate that funds can be used for the support of displaced workers in high-carbon sectors**.

> The labour market measures – training, education, job-seeking allowance etc. – should be **tailored to the needs of workers in high carbon industries**. As the Fund is to act as a kind of emergency help, these measures should therefore only be the first stage of support before receiving help from national or regional schemes.

- Embed the **support received from the EGF into broader and more long-term social protection measures to displaced workers** when applying for funds. The EGF is only meant to provide temporary and one-off support and must therefore be part of greater support framework by member states as well as companies. Severance packages that compensate for economic disadvantages following planned company changes need to be put in place and agreed in a consultative manner by all relevant stakeholders (companies and worker representatives). The requirement to embed EGF support into national social protection measures should however not negatively influence how quickly funds are disbursed to workers.

Other Funding Opportunities

Connecting Europe Facility

With a total envelope of €43.3 billion, the Connecting Europe Facility (CEF) provides financial support for cross-border projects developing the EU's energy, transport and digital networks. Considering the long-lasting nature of the energy infrastructure, it is fundamental that the investment decisions driven by this fund are consistent with European and international climate commitments. Sending the right political signal is important also to mobilise the private investments needed to deliver a transition to a net zero emissions economy. In this regard, a progress has been made in the proposal by dedicating 10% of the energy envelope to cross-border renewable projects. On the other hand, the Commission's proposal includes serious loopholes which allow fossil fuels projects to remain eligible under the CEF.

Currently, the manufacturing of renewable energy components is spread across the whole of Europe, but it is far from geographically balanced[25]. The proposed cross-border projects for renewable energy can tap potential in currently underdeveloped European markets and possibly incentivise the development of manufacturing. Large scale cross border renewable projects could incentivise manufacturers to increase local content which could be particularly interesting in high carbon regions with high renewable energy potential such as South East Europe[26]. This should be taken into account when assessing eligibility and overall socio-economic benefits of the CEF projects.

Common Agricultural Policy

The Common Agricultural Policy (CAP) makes up the largest share of the EU budget. With a €365 billion envelope it is in fact one third of the EU's budget. The first pillar is made up of direct payments to provide certain farmers with income support. A second pillar of rural development funds is spent under national and regional programmes serving a variety of policy goals, from improving farmer competitiveness to protecting the environment. As the EU's primary financing instrument for the agricultural sector, these funds could potentially play a role in supporting farmers in a process of just transition, for example in the livestock sector. A recent study from the RISE foundation found that for this sector to play its part in achieving the EU's existing climate targets, its production capacities would need to be reduced by 50% as improvements in production efficiency alone will not be sufficient. [27]

Under the Commission's proposal, the overall structure of the policy will not fundamentally change, with minor cuts proposed to the first pillar and more significant reductions to the second pillar. Calls from NGOs like WWF, BirdLife and the European Environmental Bureau (EEB) to phase out the existing pillar one payments

[25] See Wind Europe's **employment data** on the geographical distribution of local job creation linked to the wind sector.

[26] See IRENA's 2017 study "**Cost-competitive renewable power generation: Potential across South East Europe**".

[27] See RISE 2018 study "**What is the Safe Operating Space for EU livestock?**"

and to re-allocate the funds to support a time limited process of just transition have so far not been taken up by the Commission. This would have enabled farmers to avoid having to write off investments made in infrastructure. At the same time, pressure on the sector to cut its emissions is only expected to increase in the future as well as the pressure on agriculture ministers to provide a better justification for a continuation of CAP spending amid calls for a smaller EU budget.

Ensure the 25% ringfencing for climate spending applies to all parts of the CAP and is supported by effective monitoring mechanisms. This should be combined with support programmes aimed at reducing overcapacities in the livestock sector.

ETS Funds

Revenue from the EU's Emissions Trading System (ETS) is one of the new sources of funding introduced for the post-2020 EU budget. They will make up 20% of the EU's own resources. Together with a plastic tax and a corporate tax-related funding source, this will amount to 12% of the EU budget. [28] As this can divert the funds from national budgets that were spent on climate action into the European budget, it is essential that the funds continue to support climate action.

Additionally, the ETS was reformed in 2017 for the post-2020 period. This includes the use of ETS revenues to finance two different funds – the Innovation fund and the Modernisation Fund (addressed together here as ETS funds). They are respectively aimed at supporting the industry and the power sector in adapting to the needs of the low carbon transition. Both these funds are significant as they will receive the equivalent of 400 million allowances (Innovation Fund) and 2% of the total of ETS allowances (Modernisation Fund).

The Innovation Fund, formerly known as NER300, now supports industrial sectors in the transition. It could, if designed to support high-carbon industries, be a financing tool for ensuring a timely and fair transition. This would however entail ensuring the social dimension and consequences of industrial innovation are taken into account.

The Modernisation Fund is directly relevant for the just transition agenda as its aim is to help member states with a relatively low GDP to adapt their power sector to the transition, including explicit support to the just transition. It is however crucial that modernisation investments focus on small-scale renewable energy and energy efficiency spending that are framed by locally-managed actors and ensure overall consistency with National Energy and Climate Plans (NECPs).

[28] European Commission **press release**, 2 May 2018.

Cross-cutting issues

Several **cross-cutting issues** common to all legislative proposals are essential to ensuring the entire EU budget delivers on a just transition to a net zero economy.

> **Participative, local and bottom-up driven processes in designing transition strategies**

Adopting participative, local and bottom-up driven processes where possible is key to developing relevant strategies for the transition of high carbon areas and also for ensuring local buy-in. These need to be enshrined in all instruments dealing with just transition. This is a guarantee to make sure measures in place benefit those who are directly affected and represent their interests.

> **Facilitated access to regions and local authorities to EU funds**

Regions, cities and local authorities should be granted easier access to – and ideally decision-making power in the governance of - EU funds, which are often managed at national level. This is particularly relevant considering they are not involved in the governance of EU Cohesion policy funds. Sub-national stakeholders throughout Europe have shown their willingness to drive the green energy transition process and have developed local strategies adapted to their specific needs and capacities. They best understand the needs of their communities and local businesses to direct funds towards adapted projects.

> **Enforcement of the rule of law principle for effective spending**

Cohesion Policy legislation makes the disbursement of funds more strongly conditional on meeting certain enabling conditions. Member states will have to show they have an effective monitoring mechanism of public procurement in place and implement the EU Charter of Fundamental Rights. Conditions also apply to thematic priorities like the green economy whereby member states must prove they adhere to criteria as well.

However, these conditions only apply to member states using Cohesion Policy funding. To ensure the effectiveness of spending and guarantee EU funds serve their beneficiaries like workers or local projects and avoid being fraudulently diverted, such a system should apply to all EU legislative instruments under the budget.

> **Integrated approach between EU budget instruments and the European Coal Regions in Transition Platform**

To drive and support the just transition to a carbon neutral economy, the Commission established in 2017 the European Coal Regions in Transition Platform to support regions in this process. It is meant to offer guidance – initially for coal regions but to be extended to high-carbon regions – to facilitate the development of long-term economic strategies and projects. The role of the Platform should be to support high-carbon regions to benefit from EU funds – through the budget – to deliver their transition. This is why it is important for the budget's design across instruments to set the right framework that will encourage the green economy transition.

> **Clear fossil fuel exclusion from EU funding**

Promoting the transition to a green economy requires a complete exclusion of fossil fuel subsidies from the EU budget. This is also part of the EU's own commitment made to stop fossil fuel subsidies by 2025 pledged at the G7. So far, only Cohesion Policy Funds legislation offers an almost comprehensive fossil fuel ban from receiving EU funds. However, to effectively divert money away from ailing industries like coal or to avoid propping up sectors that are incompatible with Paris Agreement targets, this ban should be applied to all EU funding instruments. This should also be combined with a clear sustainability proofing of all the remaining 75% of the budget, which should be aligned with the EU's climate and energy objectives.

> **Consistent and ambitious climate mainstreaming targets**

With a proposed 25% share of climate-related spending in the next budget, the Commission shows climate is a clear priority for the Union. It also signifies Europe understands the necessity of adopting a comprehensive approach in order to deliver the type of cross-cutting transformational change needed to achieve a sustainable energy transition. However, this still falls short of the 30% requested by the European Parliament and the 40% called for by French President Macron. Ensuring adequate EU funds for climate-related investments is fundamentally important to send the right political signal to private investors and to cover the investment gap of €177 billion per year in clean energy[29].

As pointed out by the European Court of Auditors, clarification is needed as to what can contribute to the achievement of overall climate mainstreaming. The next budget will need to include coherent guidelines and targets across all the different proposals.

[29] The estimate was put forward by the European Commission and calculated based on what is needed in addition to delivering the 2016 EU Reference scenario of currently implemented policies.

Conclusion

The next Multi-Annual Financial Framework (MFF) will decide what European political priorities will receive funding for the next seven years. In that sense, it is more than a financial instrument; it has the potential to be a prime vehicle of support for achieving Europe's climate and energy objectives. It also has the potential – if designed appropriately – to support the transition to a net zero economy which is socially fair and creates opportunities for regions that are economically dependent on unsustainable high-carbon industries.

With its financial instruments, the MFF disposes of an array of tools that cover a variety of policy-fields ranging from investment and innovation to regional or social policy. Together these instruments reflect the cross-cutting and broad-ranging nature of the needs to support a just transition to a net zero economy. The budget has the potential to support the reskilling of workers, promote investment in energy efficiency, develop innovative solutions to climate change or help create future-proof regional economic development strategies.

Our assessment of the various budget instruments shows that the Commission's legislative proposals have different initial levels of alignment with the just transition agenda[30]. While Cohesion Policy funds have a good level of both climate ambition and overall support for the social aspect of a just transition, other instruments like InvestEU or Horizon Europe lacked such explicit prioritisation. **Our analysis also shows that all instruments carry the potential to be better tailored to delivering on a just transition to a net zero economy**. Measures suggested, which differ according to the scope of each instrument, are aimed at identifying these gaps and suggesting avenues to ensure they are better designed to effectively deliver on the transition. We also identified a set of cross-cutting issues that are designed to complement the fund-specific measures. They include the enforcement of the rule of law, a greater role for sub-national actors in accessing funds and ensuring fossil fuel subsidies are excluded from the MFF.

Negotiation on the MFF instruments are already underway. It is crucial that the need to ensure each instrument is closely aligned with a **social just transition to a low carbon economy is being taken into account throughout this process**. This is also essential to provide the coherent and joined-up European approach needed to deliver the just transition to net zero emissions economy. The transition to a net zero economy requires a conscious policy steer to ensure Europe achieves its Paris Agreement commitments and long-term climate strategy in a way that benefits all Europeans, its economy and its territories.

[30] See the summary section for a visual representation of each instruments' contribution to delivering the just transition to a net zero economy.