OVERVIEW

The EU aims to cut greenhouse gas emissions by at least 50% by 2030 and achieve climate neutrality by 2050. This will require a socio-economic transformation in regions relying on fossil fuels and carbon-intensive industries. As part of the European Green Deal, on 14 January 2020, the European Commission adopted a proposal for a regulation to create the Just Transition Fund, aimed at supporting EU regions most affected by the transition to a low carbon economy.

Funding will be available to all Member States, while focusing on regions with the biggest transition challenges. The fund will support workers, companies, and regional authorities, encouraging investments that facilitate the transition. The proposed budget for the Just Transition Fund (JTF) is €7.5 billion, to be complemented with resources from cohesion policy funds and national co-financing (up to a total of €30-50 billion). The Fund will be part of a Just Transition Mechanism, which also includes resources under InvestEU and loans from the European Investment Bank. Total funding mobilised under the mechanism is expected to reach €100 billion, according to the Commission.

In the European Parliament, the file has been entrusted to the Committee on Regional Development. The committee is due to hold a workshop on 19 February 2020 before starting discussion on the rapporteur’s draft report.

Proposal for a regulation of the European Parliament and of the Council establishing the Just Transition Fund

| Committee responsible: | Regional Development (REGI) | COM(2020) 22 14.01.2020 |
| Rapporteur: | Manolis Kefalogiannis (EPP, Greece) | 2020/0006(COD) |
| Shadow rapporteurs: | Pedro Marques (S&D, Portugal) | Ordinary legislative procedure (COD) |
| | Ondřej Knotek (Renew, Czechia) | (Parliament and Council on equal footing – formerly ‘co-decision’) |
| | Francesca Donato (ID, Italy) | |
| | Niklas Nienass (Greens/EFA, Germany) | |
| | Raffaele Fitto (ECR, Italy) | |
| | Martina Michels (GUE/NGL, Germany) | |
| Next steps expected: | Initial debate and committee workshop | |
| | Publication of draft report | |

EPRS | European Parliamentary Research Service
Author: Agnieszka Widuto and Pernilla Jourde
Members’ Research Service
PE 646.180 – February 2020
Introduction

As part of the European Green Deal, the EU aims to cut greenhouse gas emissions (GHG) by at least 50% by 2030 and to achieve climate neutrality by 2050. A Commission proposal on a 'Climate Law' enshrining the 2050 climate neutrality objective is scheduled for March 2020.1

Reducing GHG emissions will have an impact on jobs and regional economies, especially in regions relying on fossil fuels and carbon-intensive industries. The 2018 Joint Research Centre (JRC) report on 'EU coal regions' analysed future trends in terms of declining employment and economic activity in the coal sector. It recommended diversification of regional economies and replacing traditional energy sources with cleaner alternatives. A new 2020 JRC report, entitled 'Clean energy technologies in coal regions: Opportunities for jobs and growth,' highlights the significant potential of clean energy technologies in terms of job creation (up to 315,000 new jobs by 2030 and up to 460,000 by 2050). Other industry sectors with high emission levels may also find technological alternatives to carbon-intensive processes in order to start their transition, while maintaining economic output and enhancing employment. A 2019 Eurofound report estimates the impact of transition to a low-carbon economy by 2030 on manufacturing. While the impact varies between sectors and occupations, the report identifies positive scenarios for GDP and employment growth, resulting from demand generated by a shift in production, investments to achieve the transition, as well as lower spending on importing fossil fuels.

On 14 January 2020, the Commission published a legislative proposal on the Just Transition Fund (JTF), aimed at helping the most affected regions alleviate the socio-economic impact of the transition. The proposal would also entail amendments to the proposal on the Common Provisions Regulation governing cohesion policy funds, which are expected to complement the resources of the JTF. The Just Transition Fund will be one of the pillars of a broader Just Transition Mechanism, outlined in the Commission communication on the Sustainable Europe Investment Plan (see Box).

Existing situation

The current 2014-2020 Multiannual Financial Framework (MFF) ensures that at least 20% of the European budget is dedicated to climate-related expenditure. While no separate legislative framework exists for a 'just transition,' the European structural and investment funds (ESIF) for 2014-2020 contain several thematic objectives that can support that goal. The scope of support of the ESIF funds is laid out in the Common Provisions Regulation (No 1303/2013). The European Regional Development Fund (ERDF) supports the shift to a low-carbon economy through specific actions, such as investments in renewable energy sources, energy efficiency in the housing sector, low-carbon technologies, adaptation to climate change, and industrial transition towards a resource-efficient economy. The ERDF also supports European Territorial Cooperation (ETC), including cross-border cooperation on climate action between Member States (see Interreg). Environmental actions can also be financed from the Cohesion Fund, focusing mainly on the transport and energy sectors. However, this fund is available only in countries with per capita GNI (gross national income) lower than 90% of the EU average. The European Social Fund (ESF) supports the shift towards a low-carbon and climate-resilient economy through the improvement of the education and training systems necessary for the adaptation of skills and qualifications, the upskilling of the labour force, and the creation of new jobs in sectors related to the environment and energy.

Other instruments are also available for some aspects of the climate transition. The European Fund for Strategic Investments, to be replaced by the InvestEU programme, offers support in the energy sector. The fund is managed by the European Investment Bank (EIB), which also provides other funding sources in the 'climate and environment' area. Other funding sources for energy and climate actions help finance the development of renewable energy sectors, the modernisation of energy networks, social support, and research into clean technologies. Technical assistance and advisory support is available via the Structural Reform Support Programme, the European Investment...
Advisory Hub, and the Platform for Coal Regions in Transition. Many of these instruments will be amended or replaced under the new 2021-2027 MFF. Some of them, such as the ERDF, ESF+, InvestEU, and EIB funding, would be mobilised under the new Just Transition Mechanism, which will also include the new Just Transition Fund, offering tailored support to the ‘just transition’ regions.

Parliament's starting position

The Parliament had already called for the establishment of a comprehensive fund to support a just transition in the energy sector in March 2018, with the resolution setting out the Parliament's position on the post-2020 MFF. In a second resolution on the 2021-2027 MFF, from November 2018, it called for the establishment of a Just Energy Transition Fund of €4.8 billion to support the energy sector transformation, in light of the EU climate objectives, and for addressing the resulting social, economic, and environmental impacts. In a March 2019 resolution entitled 'A Europe that protects: Clean air for all,' Parliament drew attention to the need to support regions affected by the energy transition and decarbonisation, especially mining regions. In late November of that year, ahead of the United Nations Climate Change Conference (COP25), held in Madrid in December, Parliament approved a resolution declaring a climate and environmental emergency and asking the Commission to ensure that all relevant legislative and budgetary proposals be fully aligned with the objective of limiting global warming to under 1.5 °C. In a January 2020 resolution on the European Green Deal, Parliament stressed that just transition is not merely a fund, but a whole-policy approach underpinned by investment. It must ensure that no-one is left behind. Parliament stressed the instrumental role of the post-2020 budget in achieving the climate goals, reiterating that a reduced MFF would be a step backwards.

Council and European Council starting position

In its conclusions of 18 October 2019, the European Council recognised that dealing with climate change requires greater ambition and enhanced climate action at both the EU and global levels. It confirmed that the EU will continue to lead the way in the implementation of the Paris Agreement, pursuing a socially fair and just, green transition. On 12 December 2019, the European Council almost unanimously endorsed the objective of achieving climate-neutrality by 2050, welcoming in its conclusions the tailored support for regions and sectors most affected by the transition (inter alia under the present proposal). It recognised that there are national differences in terms of starting points and highlighted the need for significant public and private investments. The Heads of State or Government underlined that the next MFF will significantly contribute to climate action.

In the Council, in the run-up to the Madrid COP25 summit in December 2019, environment ministers agreed that the transition should take place in an inclusive, just, and socially balanced manner. They stressed that the transition towards climate neutrality requires a horizontal approach and coherence between all relevant policies. Among the priorities of the Croatian Presidency during the first half of 2020 is the ambitious implementation of the Paris Agreement, with a financially and socially just transition to a low-carbon, circular economy.

Preparation of the proposal

In connection with the post-2020 legislative proposals, the Commission conducted a series of public consultations covering major spending areas. In the area of cohesion, the consultation took place in January-March 2018. About 85 % of the respondents considered the transition to a low-carbon, circular economy that ensures environmental protection and resilience to climate change to be major priority. However, only 42 % of the respondents considered this challenge to be adequately addressed by the current programmes and funds.

A specific impact assessment of the Just Transition Fund has not been possible due to time constraints related to the ongoing MFF negotiations. However, the explanatory memorandum for the JTF proposal recalls the results of the impact assessment conducted in the context of the
proposal on the ERDF and Cohesion Fund. That impact assessment validated the delivery system proposed for these funds under the Common Provisions Regulation, which will also apply to the Just Transition Fund. It confirmed the need to support a clean and fair energy transition through a dedicated policy objective and a corresponding thematic concentration mechanism and to support smart industrial transformation. Moreover, the assessment pointed to the unevenly distributed effects of energy transition and highlighted the challenges for regions relying on solid fossil fuel production and having a high share of solid fuels in their electricity generation mix. The JTF responds to these concerns by focusing on the most negatively impacted territories, with the specific objective of alleviating the social, economic, and environmental impacts of the climate transition. The Commission therefore concluded that both the public consultation and the impact assessment support the objectives and main features of the JTF.

The explanatory memorandum for the JTF proposal mentions lessons learnt from the implementation of selected transition initiatives, such as the coal regions in transition initiative and the pilot action for regions in industrial transition. While the scope of the JTF goes beyond coal mining, the implementation of the fund could draw on the existing structures and working methods of these initiatives. Lessons learnt include the importance of involving a broad range of local actors, knowledge-sharing, links with cohesion policy, and inter-regional cooperation. Additionally, smart specialisation strategies have been identified as a useful tool to support the transformation.

The changes the proposal would bring

General framework

The new legal framework consists of a dedicated proposal for a regulation establishing the Just Transition Fund and the consequent amendments to the proposal on the Common Provisions Regulation (CPR). In addition, the Commission communication on the Sustainable Europe Investment Plan outlines the broader Just Transition Mechanism (see Box).

The Just Transition Fund (JTF) will have its own budget of €7.5 billion (Heading 3 – Natural resources and environment), in the 2021-2027 MFF, complemented by the European Regional Development Fund (ERDF), the European Social Fund Plus (ESF+), as well as national co-financing. Taken together, these funding sources are expected to reach a total of €30-50 billion. The fund will finance only the
activities specified in the proposed regulation, and focus on territories with the most pressing social, economic, and environmental transition challenges.

The Just Transition Fund will be implemented under the cohesion policy. Its delivery will follow the amended Common Provisions Regulation and be included in partnership agreements and programmes. The JTF’s own specific budget will be complemented with resources from the ERDF, ESF+, or a combination of the two, through obligatory transfers. The total of ERDF and ESF+ resources transferred to the JTF should be between 1.5 and 3 times the amount of the JTF budget. In order to ensure continued impact of cohesion policy, the resources transferred from either the ERDF or ESF+ cannot exceed 20% of the respective ERDF and ESF+ allocations to any individual Member State (new proposed article 21a of the amended CPR). Member States are also expected to provide funding of their own, with levels of EU co-financing depending on the category of the region in which the ‘just transition territory’ is located.

The remaining two pillars of the Just Transition Mechanism – the InvestEU scheme and the EIB loan facility – will have a broader geographical and thematic scope than the JTF, being available to territories outside the ‘just transition’ zone, on condition that projects are beneficial to ‘just transition territories’ – for example, transport or energy infrastructure projects that improve the connectivity of these territories. The two pillars will also cover a broader range of activities, for instance district heating and gas networks, energy efficiency of buildings, energy and transport infrastructure, and social infrastructure. The Just Transition Fund will primarily provide grants. The InvestEU scheme will seek to bring in private investment, whereas the EIB loan facility will leverage public funding. The Commission expects the three pillars of the Just Transition Mechanism – the Just Transition Fund (€30-50 billion), the InvestEU scheme (up to €45 billion), and the EIB loan facility (€25-30 billion) – to mobilise at least €100 billion of investments.

Objective and geographical coverage

The Just Transition Fund shall contribute to the single specific objective of ‘enabling regions and people to address the social, economic, and environmental impacts of the transition towards a climate-neutral economy’ and include all Member States. Support will be available at the level of NUTS 3 (Nomenclature of Territorial Units for Statistics) regions, especially to areas facing serious transition challenges resulting from high employment in the fossil fuels sector and high industrial emissions.

Allocation method

Annex I to the proposed regulation lays out the allocation method for resources under the Just Transition Fund. While all Member States can access funding, the method ensures a concentration of funding on regions with the biggest challenges resulting from the transition (see table). While all Member States are in principle entitled to access JTF funding, the method ensures that most of the funding would be allocated to regions with the biggest transition challenges.

Available funding for each Member State is based on criteria such as GHG emissions of industrial facilities in NUTS 2 regions with high carbon intensity, employment in the industry sector, employment in coal and lignite mining, production of peat, and production of oil shale. Annex I to the proposed regulation shows the calculation of the percentage weighting for each Member State. The allocations are further adjusted to ensure that no Member State receives funding in excess of €2 billion and that all Member States reach at least the minimum level of per capita aid intensity. Adjustments up or down are made on the basis of a Member State’s per capita GNI in relation to the EU-27 average.

Scope of support

The Just Transition Fund will only finance activities that are directly related to its specific objective and that contribute to the implementation of the territorial just transition plans. It will support
workers, companies, and regional authorities, encouraging investments that facilitate the transition. The activities supported are restricted to a) productive investments in SMEs (including start-ups) that lead to economic diversification and reconversion, b) investments in the creation of new firms, including support for business incubators and consulting services, c) investments in research and innovation activities that foster the transfer of advanced technologies, d) investments in the deployment of technology and infrastructure for affordable clean energy, as well as in greenhouse gas emissions reduction, energy efficiency, and renewable energy, e) investments in digitalisation and digital connectivity, f) investments in regeneration and decontamination of sites, land restoration, and repurposing projects, g) investments that enhance the circular economy, including those that promote waste prevention, reduction, resource efficiency, reuse, repair and recycling, h) upskilling and reskilling of workers, i) job-search assistance to jobseekers, j) active inclusion of jobseekers, and k) technical assistance.

The fund may also support investments in enterprises other than SMEs, and investments aimed at reducing greenhouse gas emissions resulting from activities listed in Annex I to Directive 2003/87/EC (EU emissions trading system – ETS), as long as they have been approved in the territorial just transition plans and are necessary for the implementation of those plans.

Excluded from the scope of the fund are (a) the decommissioning or the construction of nuclear power stations, b) the manufacturing, processing, and marketing of tobacco and tobacco products, c) undertakings in difficulty, as defined in Article 2(18) of Commission Regulation (EU) No 651/2014, d) investment related to the production, processing, distribution, storage, or combustion of fossil fuels, and e) investment in broadband infrastructure in areas in which there are at least two equivalent broadband networks.

Territorial just transition plans

Territorial just transition plans will be prepared by the Member States, together with the authorities of the territories concerned and the relevant partners specified in article 6 of the new CPR. The selection of territories should be made on the basis of the economic and social impacts of the transition, especially with regard to employment in the fossil fuel sector and the transformation needs of industries with the highest greenhouse gas intensity. One or more territorial just transition plans can cover one or more affected territories – NUTS 3 level regions or parts thereof.

The territorial just transition plans must describe the transition process at national level and aim towards a climate-neutral economy, including a timeline of key steps consistent with the National Energy and Climate Plans. They must contain a justification for identifying the most affected territories to be supported by the JTF, an assessment of transition challenges, the expected contribution of JTF support to address these challenges, an assessment of consistency with other national, regional, or territorial strategies and plans, a description of governance mechanisms, descriptions of the types of operations envisaged and their contribution, justification for potential support for enterprises other than SMEs or for investments to reduce greenhouse gas emissions resulting from activities listed in Annex I to Directive 2003/87/EC (ETS), as well as synergies and complementarities with other EU programmes and with the pillars of the Just Transition Mechanism. The territorial just transition plans must also be consistent with a) the territorial strategies based on article 23 of the new CPR, b) the National Energy and Climate Plans, c) relevant smart specialisation strategies, and d) the European Pillar of Social Rights.

The territorial just transition plans will be annexed to the cohesion policy programmes entailing support for the JTF and will be adopted by the Commission along with these programmes. The funding sources programmed can take the form of one or more specific programmes, or of one or more priorities within a programme. The required content of the just transition plans is laid out in article 7 of the proposed JTF regulation, and a template for the plans is established in Annex II.
Indicators

Annex III to the JTF proposal sets out a number of common output and results indicators. Output indicators focus on measures such as the number of enterprises supported, additional production capacity for renewable energy and waste recycling, surface of rehabilitated land and support for various social groups – according to employment status, age, and educational levels. Results indicators measure jobs created in supported entities, SME innovations, patent applications, and population benefiting from measures aimed to improve air quality, for example. The list of indicators in Annex III can be amended by way of delegated acts of the Commission.

For output indicators, baselines are set at zero. Milestones for 2024 and targets for 2029 (included in the template for territorial just transition plans) are cumulative. Targets cannot be revised after the request for programme amendment has been approved by the Commission. In case of failure to achieve at least 65% of the target established for one or more output or result indicators for the JTF resources, financial corrections may be applied.

Advisory committees

The European Committee of the Regions (CoR) is expected to provide an opinion on the proposal following its mandatory consultation. The Commission for Territorial Cohesion Policy and EU Budget (COTER) is currently working on the file COTER-VII/002 with rapporteur general Vojko Obersnel (PES, Croatia). A general exploratory debate is scheduled for the COTER meeting of 3 March, while adoption in plenary session is expected on 25-26 March 2020. Previously, the CoR adopted an opinion on ‘The socio-economic structural change in Europe's coal regions’ in October 2019. It stressed the need to achieve climate policy goals while at the same time alleviating the socio-economic and environmental effects of the required transition in coal regions. It called for additional funding for these regions.

The European Economic and Social Committee (EESC) is also working on an opinion on the Just Transition Fund proposal under mandatory consultation. The Section for Economic and Monetary Union and Economic and Social Cohesion (ECO) is in charge of the file (ECO/504). The rapporteur is Ester Vitale (Workers – Group II, Italy) and the co-rapporteur is Petr Zahradnik (Employers – Group I, Czechia). Adoption in plenary is expected at the end of April 2020.

National parliaments

The proposal for a regulation was submitted to national parliaments, with the subsidiarity deadline of 17 March 2020. So far, none of the Member States that have examined the proposal have issued a reasoned opinion.

Stakeholders' views

In a letter of December 2019 to Charles Michel, President of the European Council, the presidents of the regional and local authorities within the Cohesion Alliance – Eurocities, the Association of European Border Regions (AEBR), the Assembly of European Regions (AER), the Conference of European Regional Legislative Assemblies (CALRE), the Council of European Municipalities and Regions (CEMR), the Conference of Peripheral Maritime Regions of Europe (CPMR), and the European Committee of the Regions stressed ‘the necessity for cohesion policy to have sufficient funding of at least one-third of the future EU budget at its disposal, and for any new instruments such as the Just Transition Fund and its budgetary allocations to be additional to the existing European Structural and Investment Funds.’

In a detailed analysis, the CPMR states that the new funding resources to support the new fund should not be an argument for further reducing the cohesion policy envelope in the 2021-2027 MFF. As the regulation proposes placing the new fund under heading 3 – Natural resources and environment, instead of heading 2 – Cohesion and Values, the CPRM fears delays in the ongoing...
negotiations on the cohesion policy regulations and programmes, and additional bureaucracy for practitioners. The CPRM is concerned about 'the disproportionately strong role for national governments vis-à-vis local and regional authorities' and asks the Commission to ensure that the preparation of the just transition territorial plans is done in close cooperation with the authorities of the geographical areas involved.

In a reaction to the Green Deal, Business Europe urges the Commission 'to ensure that investment is channelled into productive areas of demonstrable added value, with public funds complementing, and not crowding-out, private sector investments.' Also fearing increased bureaucracy, the confederation thinks that 'the modalities of the mechanism must be well-designed to optimise its impact' and calls for a broader range of framework conditions to be put in place rapidly 'to make this deeply transformative agenda a success and to avoid damaging growth and jobs.' The European Trade Union Confederation (ETUC) is concerned that investment does not match the European Commission’s ambition for its green deal, saying 'the funding proposed for 10 years is what would be needed every year to achieve climate neutrality by 2050 in a fair way.' The Confederation fears there is a risk that most of the funds will go to research and innovation rather than directly benefitting affected workers.

The Climate Action Network (CAN) wants the Just Transition Fund to help increase the EU’s 2030 climate target to a 65 % cut in emissions. The organisation considers that a climate-friendly EU budget should stop subsidising all fossil fuels and should dedicate 40 % of its funds to climate action. It points out that ‘the entire EU funding for regional development – Cohesion Policy – has the potential to equip the most polluted regions with clean infrastructure.’ The WWF also defends the need for more funds. It believes that the EU should exclude any fossil fuel investments and that comprehensive regional plans must include phase-out dates for fossil fuels. The organisation reiterates that existing funds from the ETS should be optimised, as one of its recent analyses reveals that EU Member States could be spending billions of euros more on climate action through the ETS.

**Views from think-tanks**

The European think-tank Bruegel says €1 trillion of investments over ten years represents only a third of the additional investment needed, and that ‘only national governments and the private sector will be able to fill the majority of Europe’s ‘green investment gap.’ The policy paper also suggests that the EU fiscal framework should be reformed to authorise deficit-financed green investment, and underlines that carbon pricing has an essential role to play in that regard and that action is required.

The European Policy Centre (EPC) sees several obstacles to the success of the European Green Deal. It fears that incoherent legislation and Member States’ failure to achieve the self-set 40 % GHG emission target for 2030 will undermine the Green Deal, as well as an EU budget that continues to subsidise areas such as fossil fuels and livestock production and consumption, when 'the ultimate goal would be to reduce consumption levels and ensure that every product and service on the European market is, by default, sustainable.' The analysis also invites the Commission to highlight Member States' failure to act and launch infringements cases more readily.

**Legislative process**

The European Commission adopted the legislative proposal on the JTF on 14 January 2020. The proposal was presented in a plenary debate on the same day in Parliament in Strasbourg. MEPs called to ensure that the transition does not affect existing policies such as cohesion, agriculture, and research and that it works for people and businesses alike. Members also highlighted the need for fresh funding rather than recycling of money, and raised questions about the clarity of funding sources and distribution. In the Council, the proposal will be examined by the Working Party on Structural Measures. In the European Parliament, the file has been entrusted to the Committee on Regional Development.
EP SUPPORTING ANALYSIS


Study on *A just energy transition, opportunity for EU industries, the role of hydrogen in the future and the example of energy transition in Germany*, Policy Department for Economic, Scientific and Quality of Life Policies, European Parliament, June 2019.

OTHER SOURCES

*Just Transition Fund*, Legislative Observatory (OEIL), European Parliament.


ENDNOTES

1 Currently, the EU targets in this area are based on the 2020 climate and energy package (20 % cuts in GHG) and the 2030 climate and energy framework (40 % cuts in GHG, in line with EU commitments relating to the Paris Agreement). The 2050 long-term strategy of 2018 outlines proposed actions for GHG reduction and the socio-economic and industrial transition. According to the 2019 Eurostat report, the EU is on track to achieve its current target of 20 % emission reduction by 2020 and is even expected to exceed it. However, further emission cuts of at least 50 % by 2030 and then 100 % by 2050 may require more sustained effort.

2 The five European structural and investment funds for 2014-2020 include the European Regional Development Fund (ERDF), the European Social Fund (ESF), the Cohesion Fund (CF), the European Agricultural Fund for Rural Development (EAFRD), and the European Maritime and Fisheries Fund (EMFF). The ERDF, ESF, and Cohesion Fund are formally part of EU cohesion policy for 2014-2020. The two remaining ESI funds (EAFRD and EMFF) offer support for environmental actions in the areas of agriculture and fisheries, such as energy efficiency measures.

3 This section aims to provide a broad overview of the debate and is not intended to be an exhaustive account of all different views on the proposal. Additional information can be found in related publications listed under 'EP supporting analysis.'