FINANCING THE JUST TRANSITION

OCTOBER 2022

GIVING AN OVERVIEW OF THE FINANCIAL RESSOURCES

New legislative packages at EU level presented as an answer to the challenges of the Just Transition.

Just transition: "*secures the future and livelihoods of workers and their communities in the transition to a low-carbon economy. It is based on social dialogue between workers and their unions, employers, and government, and consultation with communities and civil society*"

A lot of different financial initiatives require a need to have a comprehensive understanding of those.

EU resources focusing on electro-intensive industry and coal sector.

Just Transition Mechanism

Just Transition Fund

- **Just Transition Fund of €17.5 (19.2) Billion**: €7.5 Billion from MFF + €10 Billion from Next generation EU.
- **EU co-financing** rates must not exceed 85% for the least developed regions, 70% for regions in transition and 50% for most developed regions.

Provide grants

InvestEU Just Transition Scheme

- A dedicated plan under InvestEU which would provide for a scheme to generate some **€10 to €15 billion** of (mainly private) investments.
- Investment support instrument with a budgetary guarantee from the European Union.

Guarantee for private investment

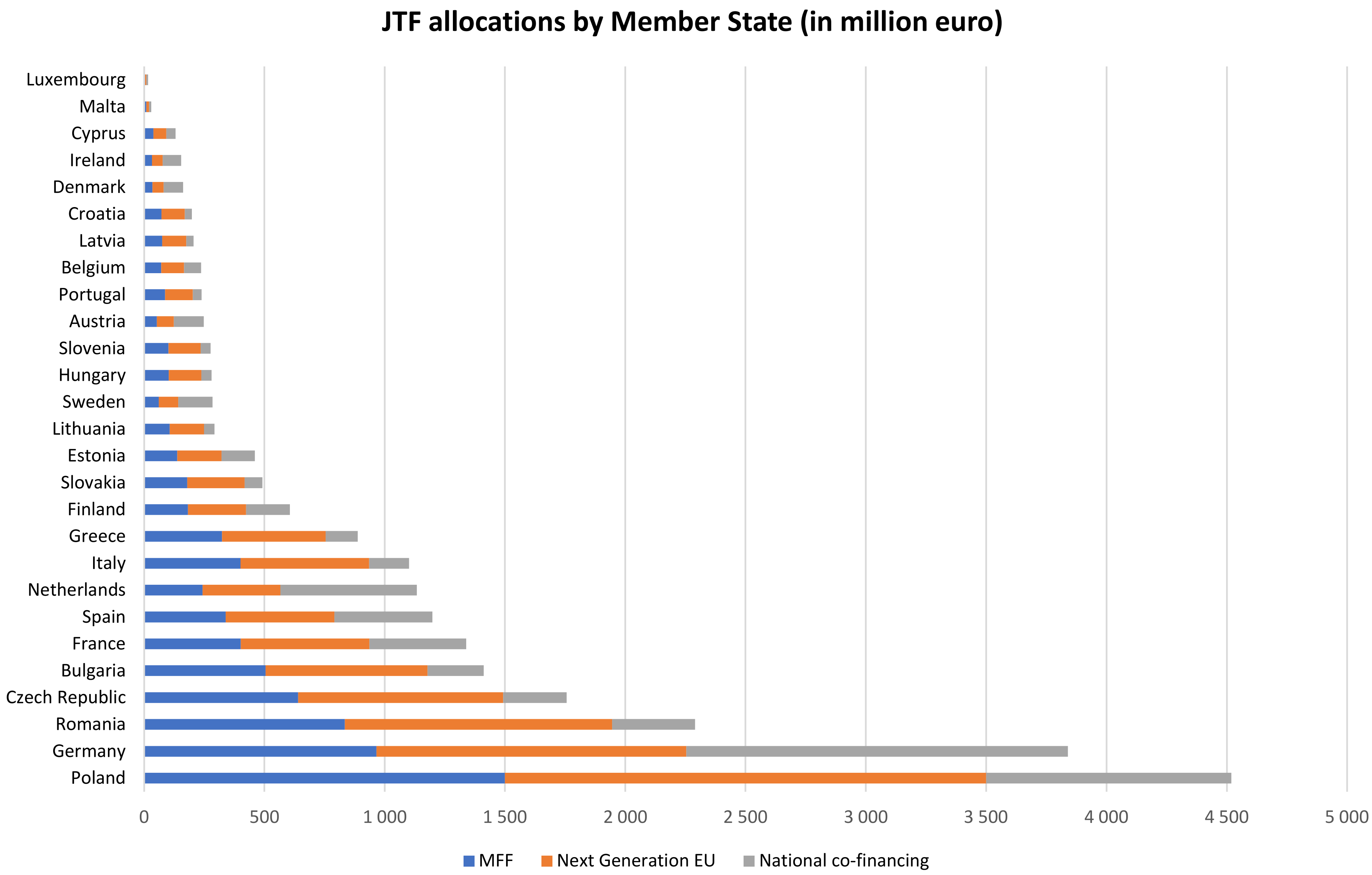
Public Loan Facility

- A public sector loan facility, consisting of a grant component worth €1.47 billion from the EU budget and a loan component of up to **€10 billion from the EIB**
- It is expected to mobilize some **€25 to €30 billion** in public financing.

Loan to leverage public investments

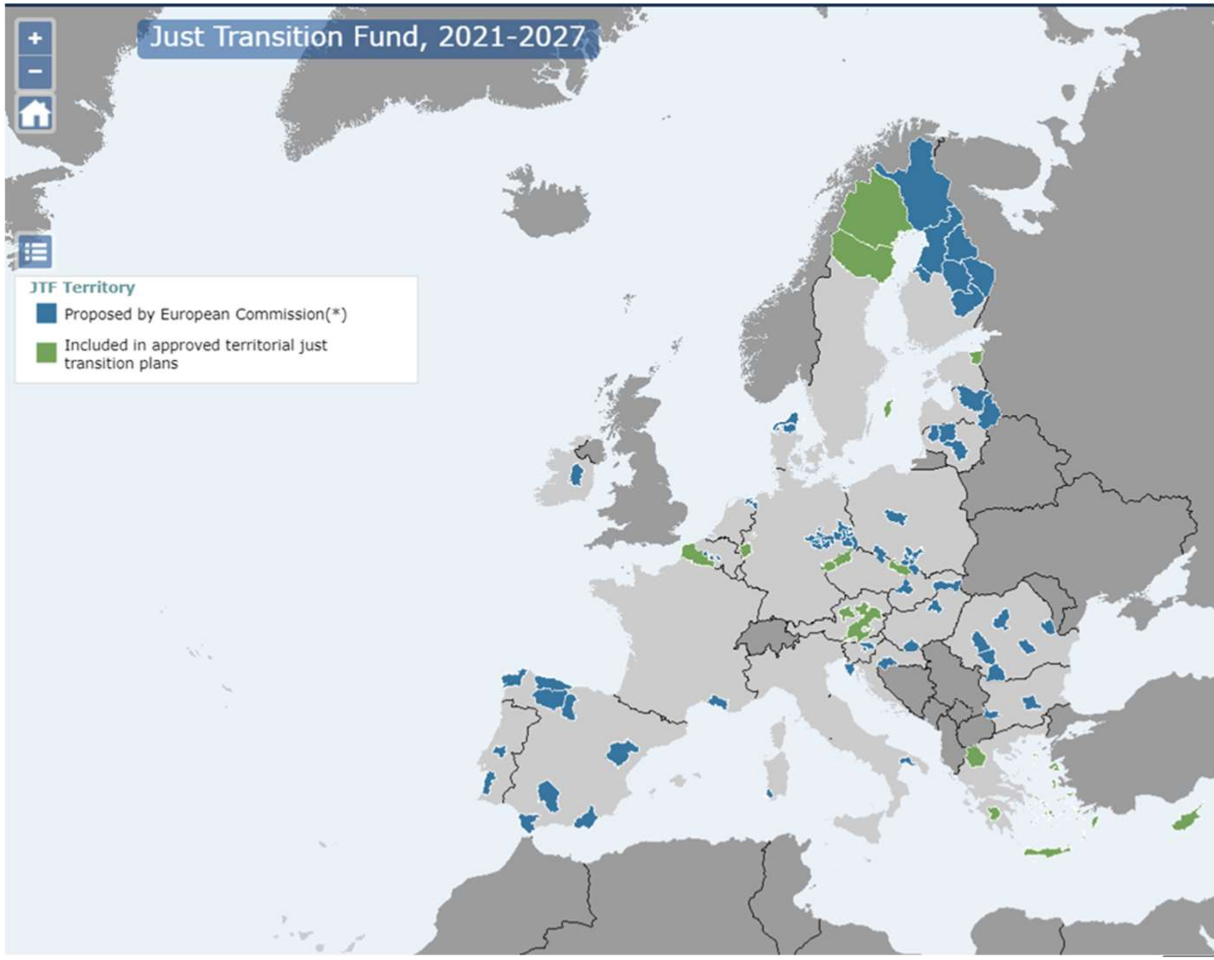
- Adoption of a territorial just transition plan enables access to all 3 pillars of JTM
- Investments under pillars 2 & 3 of JTM need to benefit territories identified in the territorial just transition plans without the obligation for projects to be located in these territories
- Scope of pillar 2&3 wider than the JTF

ALLOCATION BY MEMBER STATE

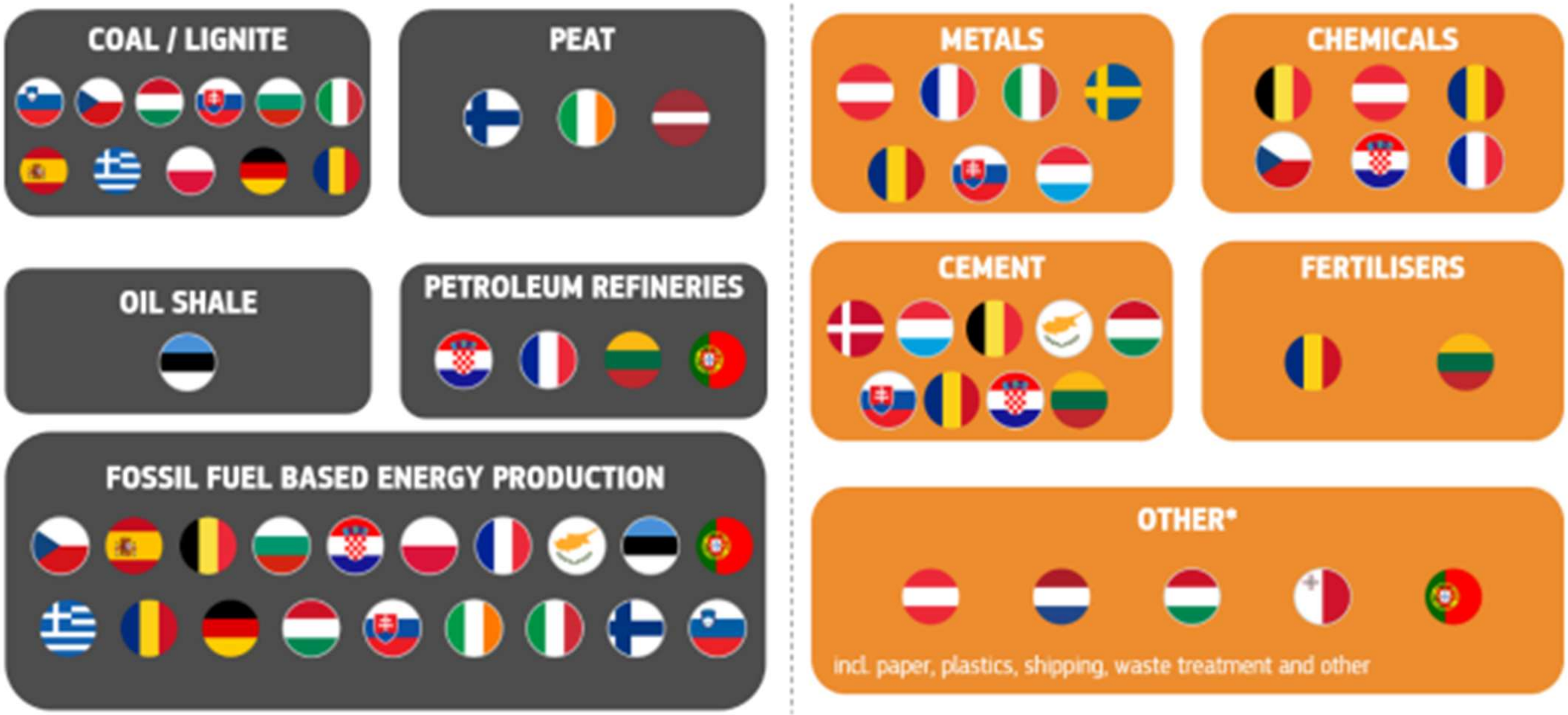


TERRITORIAL JUST TRANSITION PLAN

- On basis of an analysis from the Commission, MS are to draw up one or more « territorial Just Transition Plans » (TJTPs) mapping the transition process until 2030:
  - In line with the National Energy and Climate Plans (NECPs)
  - Transition to a climate-neutral economy
- In February 2020, the Commission published a document on "*the adoption of the investment guidelines for the Just Transition Fund for the period 2021-2027*" (also called "*Annex D*").
  - This first analysis, based on the study of the TJTPs submitted by the MS to the Commission, establishes the list of territories eligible for JTF funding. 100 regions at "NUTS 3" level have been pre-selected
  - Regions with carbon intensive industry and mining of coal and lignite.



SECTORS IMPACTED AND TARGETED BY THE TERRITORIAL PLANS



Declining (in grey) and transforming sectors (in orange) identified in the Annexes D of the European Semester country reports of February 2020

THE JTM IS TARGETED

- The Just Transition mechanism is territorially oriented, focusing on regions with high carbon intensity and mining industry

- The choice to focus on a specific sector (coal sector)) and on territories chosen on the basis of their GHG emissions lead to a rather narrow scope of the Just Transition. It fails to include other sectors at risks (e.g. car industry).

- Flat criteria such as GHG emissions and number of workers in the sectors concerned don't necessary capture the complexity and extent of the stakes the targeted regions are confronted with.
  - Bulgaria is confronted with significant challenges in some municipalities (Bobov Dol) extremely dependent on the mining sectors, weak diversification of the economy and a heavy need of training couples with weak training framework and local authority involvement.
  - The Trenčín and Košice regions in Slovakia risk to suffer significant net job losses without the creation of other type of activities.
  - The Rheinishe Revier (NRW) in Germany, while facing significant challenges, the diversity of the industrial tissue in the regions and the training framework are not comparable.

- What about regions already in transition (Banska Bystra regions in Slovakia)?

OTHER EU FUNDING SOURCES: THE STRUCTURAL FUNDS

- The European Social Fund + (**ESF+**) and the European Regional Development Fund (**ERDF**)
  - Member States may transfer additional resources to the JTF from those funds **on a voluntary basis**.
  - The total amount of transfer is capped: not to exceed 3 times the national JTF allocation.
  - **Interreg and the European Regional Development and Cohesion Fund** will have to devote at least 30% of their resources to climate action, the circular economy and investments in sustainable growth and job creation.
  - **ESF +:** the Just Transition objectives are specifically listed as an aim for the period 2021-2027: *"a greener, low carbon Europe through the improvement of education and training systems necessary for the adaptation of skills and qualifications, the upskilling of all..."* (Regulation 2021/1057, Art. 4).

OTHER EU FUNDS: THE MODERNISATION FUND AND THE INNOVATION FUND

- Financed by the revenue from the auctioning of CO² allowances within the EU ETS.

- The **modernisation fund**
  - fund intended to support investments, in particular for the purpose of financing investment projects for the modernisation of energy systems and the improvement of energy efficiency
  - Just transition in carbon dependant regions as a specific objectives: support redeployment, retraining and upgrading of workers, education, job-seeking initiatives

- **The innovation funds**
  - non-formalised link but can have a potential or indirect impact on Just Transition insofar as technological investment projects in an employment area (R&D, pilot and demonstration projects, then industrial and commercial deployment) would promote the retraining of workers who have lost their jobs in declining high-carbon activities

OTHER RESOURCES IN FINANCING THE JUST TRANSITION

- The European Global Adjustment Fund for Displaced Workers (**EGF**)
  - Provide assistance to workers who lost their job as a result of changes in world trade patterns resulting from globalisation.
  - New eligibility rules for 2021-2027: **restructuring to the transition to a low-carbon economy** and the digital/automation transition.

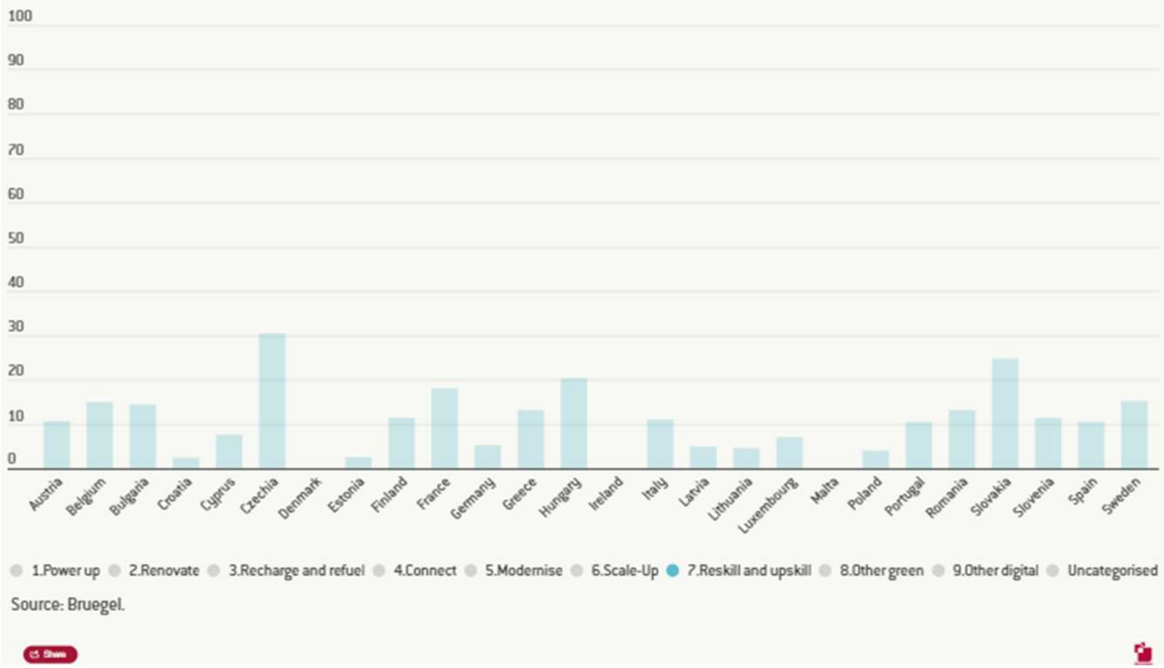
- **Life** and **Horizon Europe** programmes
  - No organic link between the JTM and those funds, but they can be mobilised to finance the just transition on a case-to-case basis.

- The Recovery and Resilience Facility (**RFF**)
  - Largest component of NextGeneration EU, the RFF will provide grants amounting to at most 321,5 Bn EUR and up to 360 BnEUR in loans.
  - Member States have to submit national Recovery and Resilience Plans (RRPs). Each Member State dedicated a share to its plan to upskilling and reskilling to support the Green and Digital transitions.

RESKILLING AND UPSKILLING IN NATIONAL RECOVERY AND RESILIENCE PLANS

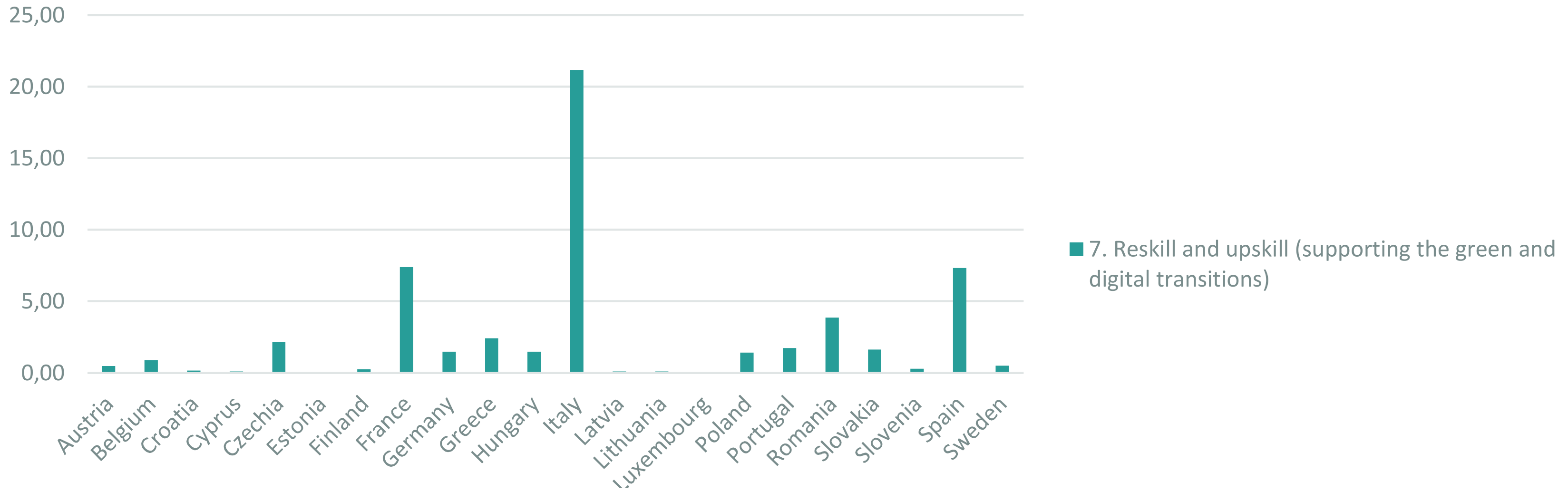
- Significant differences between countries in their upskill and reskill ambition.
- Many of the proposed policies or programmes are transversal and extend further than just these areas.

Figure 4: Composition of recovery plans according to the flagship areas defined by the Commission (% of total)



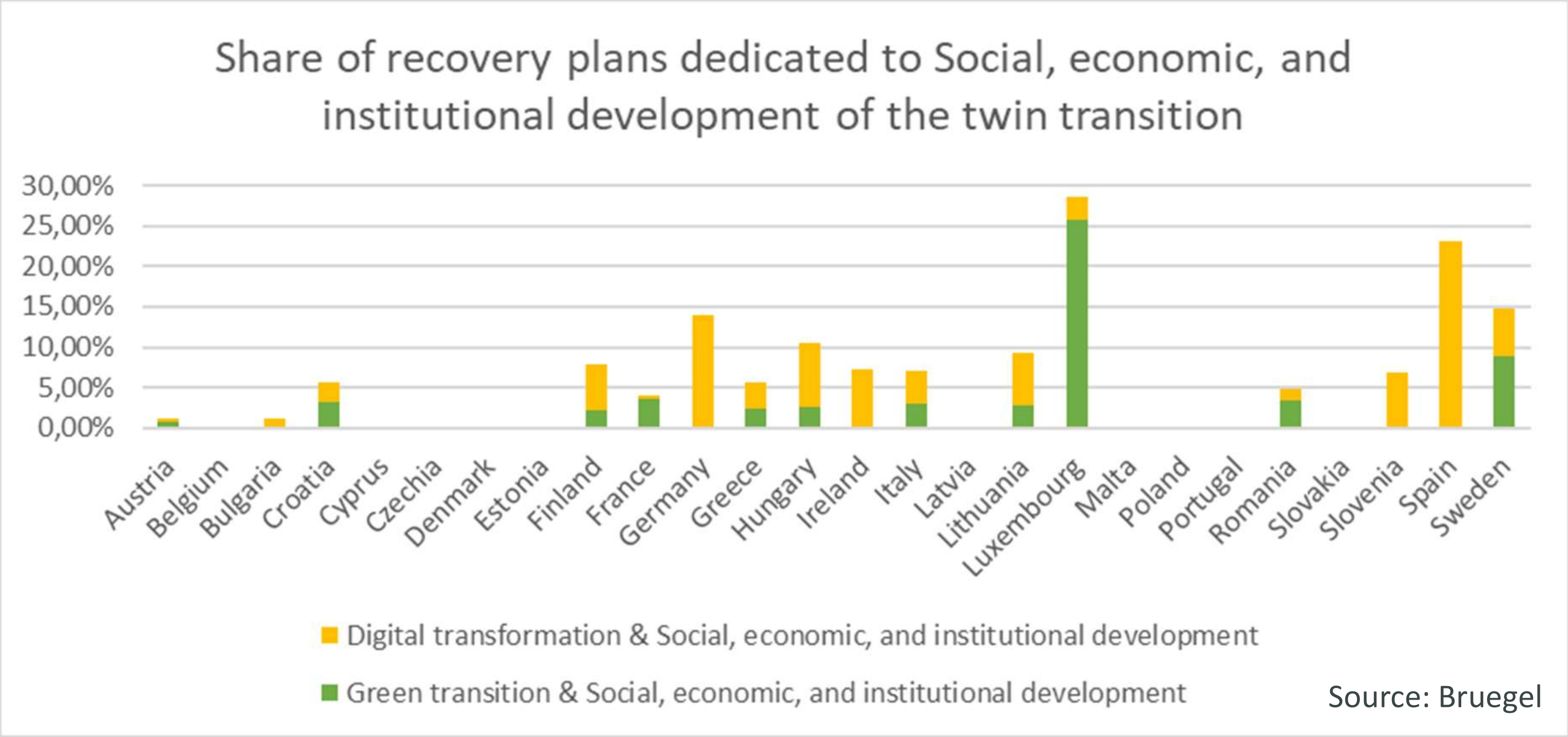
Source: Bruegel.

Reskill and upskill in Million Eur



SHARE OF RECOVERY PLANS DEDICATED TO SOCIAL, ECONOMIC, AND INSTITUTIONAL DEVELOPMENT OF THE TWIN TRANSITION

- Share dedicated to economic, social and territorial cohesion, labour market and job creation, education and skills; but also health, culture and tourism, SMEs…



THE DIFFERENT CAPACITIES OF MEMBER STATES TO MOBILIZE ADDITIONAL RESOURCES

- They are differences if the European just transition resources are complementing existing policies or not.

- Germany, one of the main beneficiaries of the JTF due to the size of its coal sector, committed 14 bn euro through the Strukturstärkungsgesetz (SSA), and an additional €26 bn via support programs until 2038 (however some EU funds are embedded in those financing).

- Spain mobilizes also different sources of funding through different schemes, for instance:
  - Plan Del Carbon: pact between the social partners and the Spanish government provides for €250 million to be invested in mining communities
  - Development of regional just transition agreements
  - A just transition institutes that deploy several of its own aid instruments

- On the other hand, other countries like Bulgaria didn’t develop similar schemes
  - The EC pointed that out in the assessment of the final national energy and climate plan of asking for “Measures supporting a coal phase-out strategy with a clear timeframe commitment and ensuring a Just Transition of coal and lignite-reliant areas”.

- The Next generation EU and the National Recovery and Resilience plans shows various ambition:
  - Slovakia links 25% of its plan dedicated to up and reskilling (5% and 10% for Italy)
  - It doesn’t indicate on the strength of the national reskilling and upskilling framework already in places

CONCLUSION

- Just transition funds narrow and targeted
- Other funds (ESF+) can be used, but not necessary flagged “Just transition”.
- Just transition fundings dependant also on Member States. Could bring inequalities between them.