ERCST

Roundtable on
Climate Change and
Sustainable Transition

2020

Feedback on the Just Transition Fund Regulation

12 March 2020

Fast-track interservice consultation on the "SEIP including a JTM and the JTF"

Governance

- Need: flexibility in the level of aggregation
- Positive: participation across all EU MSs
- Need: recognition of different economic circumstances

The Allocation is done at the sub-national level based on the recommendation of the MS. However, giving direct access at the subnational and sub-regional level should be matched with cooperation possibilities to build transregional and transnational groupings according to the nature of the problem. The social and economic transition may have a greater impact at a larger scale than at the very local level. Additionally, regions which may experience labour migration are not necessarily the same as those that benefit from the transition.

Consequently, greater flexibility may need to be considered in the allocation resources from the JTM/JTF, to allow for the recognition of socio-economic impacts and investment needs across areas greater than what the current governance proposes.

A positive aspect can be attributed to the participation in the JTM/JTF across the entire EU and makes it interesting as a sustainable mechanism lasting into the future. This should allow to agree on climate transition support until 2050, beyond the current MFF. In turn, this could be a good solution - the allocation of funds in the upcoming MFF should be associated with the climate neutrality goal and used as a model to deal with further consequences of the Green Deal.

Beneficiaries, that is regions in transition under Pillar 1, can attract investments under Pillars 2 and 3. While the EU budget and Sustainable Europe Investment Plan can mobilize substantial funds necessary to finance the climate just transition, it is important to secure enough financing in economies that have investment capacities below the EU average. This can be done by, for example, considering GDP/capita, budgetary constraints or access to capital markets.

Level of funding for Just Transition - nowhere near sufficient

Who provides the money?

It is important to note that the Just Transition Fund provides a total of 7.5 bn EUR of fresh money and is meant to leverage 100 bn EUR in total. Together with the EU ETS funds, this could add up to some 125 bn EUR available for the current decade. The needs for financing the actual transition seems to be substantially higher. The power sector estimates 90-110 bn EUR annually for the electricity generation alone[1]. In that context the amount offered is just 1/10 of the needed sum.

Since the ETS is expected to generate some 25[2] bn EUR for the Modernization and Innovation Funds (at current price levels), this puts the 7.5 bn EUR from the JTF in perspective. Also, the EU budget is about

[1] https://cdn.eurelectric.org/media/3457/decarbonisation-pathways-h-5A25D8D1.pdf
[2] https://ercst.org/publication-implementation-of-the-funding-mechanisms-in-the-fourth-phase-of-the-eu-ets-state-of-play/

150 bn EUR – national budgets are often substantially larger (starting with Austria and Belgium). The 1 tn EUR foreseen by SEIP is in itself another magnitude of money.

The 7.5 bn will be substantially leveraged with the non-committed (private/national) money. The Juncker Fund mobilized 30 bn EUR and was triggering some 450 bn EUR of investments[3]. Repeating the experience in terms of results may not be desirable, and will require close monitoring and quantification, so that we know the results in terms of e.g. job creation and emissions reductions.

While the only 'fresh and committed' money is included in the JTFund, the other pillars can mobilize funds which normally could go elsewhere. This includes private investments and also public funding which could be spent in non-climate-related areas.

The role of national governments is still to be determined – for example when deciding on matching the JTF money. The proposal suggests that the programming process, including identification of the territories, will be agreed in a dialogue between the Commission and each MS.

It would be important to take into account the capacity of MS to finance the necessary investments to cope with transition towards climate neutrality. In practice, this could mean the requirement of adding criteria based on non-material factors like development or mobility.

MS which already decided on coal phase-out/transition can be supported with the mechanism, so they will be partly replacing and partly unblocking the funds already committed to this goal. Indeed, having the Just Transition Mechanism will justify spending in the sectors covered by the state aid guidelines.

The EU funds matched with national co-financing can provide support for investment which are already planned, so which are not necessarily additional. We support this solution to the extent that it frees access to funding which otherwise would not be accessible under the state aid guidelines. While for countries which didn't plan such transition themselves, it can constitute an incentive to directly stream funding into "just transition".[4]

Lending criteria and role of EIB

The EIB will focus on support for different sectors, as well as regional cooperation support. In 2025, funding for climate and environment goals should reach 50%, while spending for cohesion and transition of regions should reach another 30%. This funding should align with both the needs of the Paris Agreement and follow the Energy Lending Criteria (ELC).

While respecting the ELC, it would be important that the JTM/JTF should take a holistic view and also include in its focus financing infrastructure and energy. It should be balancing different transitions – both economic and social.

[3] https://ec.europa.eu/commission/strategy/priorities-2019-2024/jobs-growth-and-investment/investment-plan-europe-juncker-plan/investment-plan-results_en

[4] Examples indicate that 1 euro invested between 2007 and 2013 under the cohesion policy increased the gross national product by €2.74

While the first three criteria (social, economic and infrastructure) have a wider regional development dimension, the actual energy transition should be considered outside of the up-to-date cohesion policies and focus on additional just transition funding.

Timeline of when key decisions are being made

During the discussions in the EP and Council, the draft regulation will be altered to include the final 2021-2027 EU budget. Among the elements that may be changed is the level of support.

The JTF might grow in the future. The current intention does not seem to limit or compete with the cohesion funding. But if there will be new funding available, that money would more likely be dedicated to the regions in transition and be aimed at ‘leaving no one behind’. This also relates to the own resources discussion, as Member States might be hesitant to increase funding.

The proposed date of application is 1 January 2021 – including 27 Member States. Already in 2020, the Commission intends to assist Member States with the preparation of their Territorial Just Transition Plans. The Just Transition Platform will likely replace the Coal Regions in Transition Platform that currently hold regular meetings.

The final decisions will involve a European Council meeting on the 2030 target and finalizing the MFF through unanimity. It is important that the legislative process on the JTF Regulation should involve the climate track in the Council and the ITRE Committee in the EP as competent in the future discussions.