



Sustainable Europe Investment Plan and a Just Transition Mechanism: Short on climate neutrality

BRIEFING PAPER

Climate Action Network (CAN) Europe is Europe's leading NGO coalition fighting dangerous climate change. With over 160 member organisations from 35 European countries, representing over 1.500 NGOs and more than 40 million citizens, CAN Europe promotes sustainable climate, energy and development policies throughout Europe.

The Sustainable Europe Investment Plan (SEIP) is the financial arm of the European Green Deal, created for financing European economies' transition to zero-carbon emissions and expected to mobilise at least €1 trillion over the next decade. A key element of the plan is the creation of a Just Transition Mechanism (JTM) aimed at supporting those carbon intensive regions of the EU - such as coal-mining areas - where moving to climate neutrality will be more complex.

Apart from introducing the Just Transition Mechanism the European Commission aims to review State Aid guidelines to enable public support towards climate neutrality, to ensure at least 25% of the EU budget is dedicated to climate action as well as improve its climate safeguards¹. The Commission will renew its Sustainable Finance Strategy, finalise the correspondent taxonomy and finally aims to integrate climate and environment into the European Semester.

However the Sustainable Europe Investment Plan provides hardly any new and additional financial resources, it is mainly repurposing and re-labelling existing funds which initially are very close to the claimed objectives. It continues to provide for harmful fossil fuel subsidies by promoting gas and the upgrades of fossil fuel based installations. And finally the plan omits to hold polluters to account by allowing countries to pay off coal plants for their eventual early closures.

Recommendations

- The Territorial Transition Plans need to exclude any investments in fossil fuels, gas in particular, and set concrete milestones and timelines for achieving climate neutrality by 2050 the latest.
- Receiving support from the Just Transition Mechanism should be conditional to coal phase-out commitments and the setting of closure dates of coal related activities.
- It needs to be ensured that unambitious National Energy and Climate Plans (NECPs) do not serve as a basis for the level of ambition of Territorial Transition Plans. Rather

¹ In particular to enhance the methodology to track climate relevant spending and to put in place a 'sustainability proofing' method to assess the environmental, climate and social impact of EU funded projects.

Member States applying for support need to update their National Energy and Climate Plans, fully integrating the steps needed to achieve climate neutrality.

- The second and third pillar of the Just Transition Mechanism should equally exclude all support for fossil fuels, including efficiency measures of existing installations aiming at life-time extension.
- The review of State Aid rules should apply the ‘polluter pays’ principle.

Background

The Sustainable Europe Investment Plan (SEIP) proposed by the European Commission is a scheme mainly drawn upon the combination of various currently existing EU funding sources, see figure 1. The €1 trillion promised under the Sustainable Europe Investment Plan is tapping into the EU budget, including Cohesion Policy, the Common Agricultural Policy and InvestEU (which leverages private investments), ETS funds and EIB financing. Close to half of the amount will come from an existing plan to deploy at least 25% of the EU’s budget to climate action and further more for the environment. Co-financing from member states would add over €100bn, while EU guarantees (via InvestEU) and EIB lending would aim to leverage private sector spending approaching €300bn.

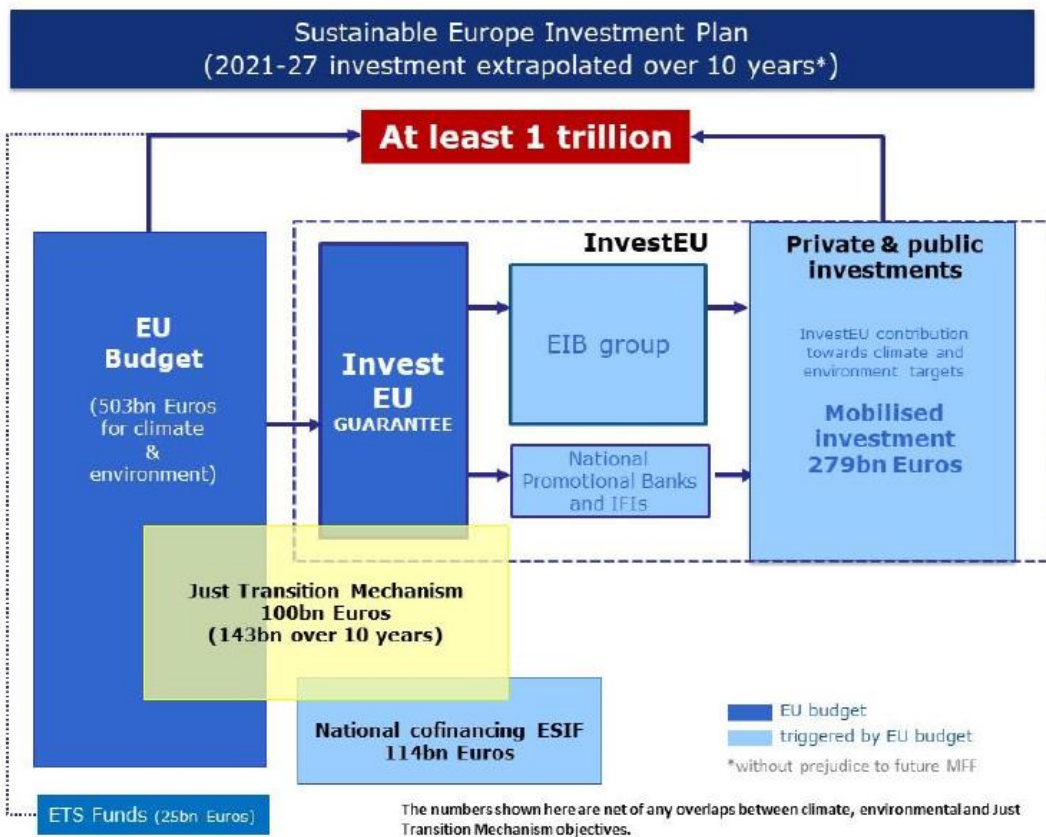


Figure 1: Sustainable Europe Investment Plan; source: European Commission: Sustainable Europe Investment Plan, European Green Deal Investment Plan, COM(2020) 21 final European Commission

A Just Transition Mechanism

A key element of the plan is the creation of a Just Transition Mechanism (JTM) aimed at supporting the most carbon intensive regions of the EU in their efforts to transition towards climate neutrality. The proposed Just Transition Mechanism itself has a 3-pillar construction, with grants coming from a new Just Transition Fund² integrated into Cohesion Policy and implemented under ‘shared management’, a Just Transition Scheme under InvestEU attracting private investments, and a to-be-created public sector loan facility in the European Investment Bank, see figure 2.

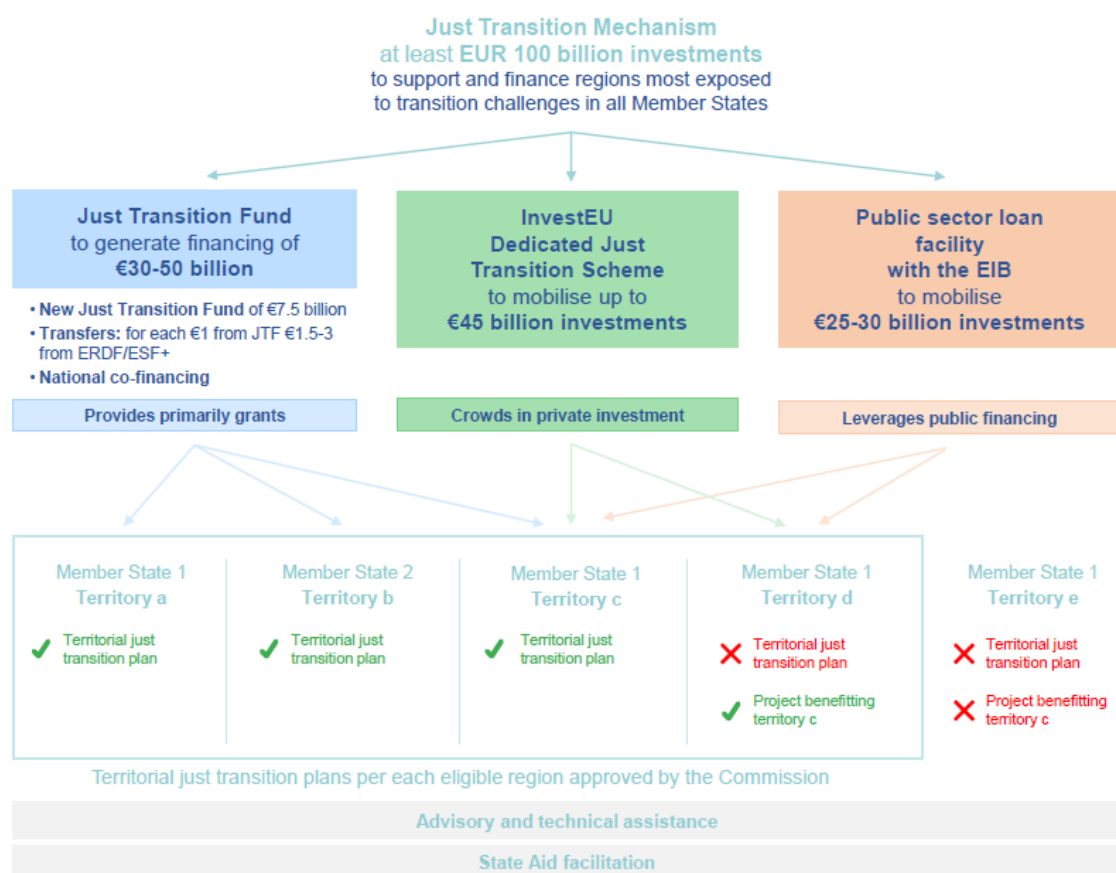


Figure 2: Just Transition Mechanism; source: European Commission: Sustainable Europe Investment Plan, European Green Deal Investment Plan, COM(2020) 21 final

The Just Transition Mechanism (JTM) would be worth €100bn during the period of the EU’s next multiannual budget, from 2021 to 2027. Through the Just Transition Fund (JTF) it would comprise €7.5bn of fresh money from the upcoming EU budget, coupled with support from national budgets, additional EU Cohesion Policy allocations and increase public sector financing from the European Investment Bank.

² All legal and monetary provisions described in this briefing are subject to ongoing negotiations on the overall EU budget and the ordinary legislative procedure on the regulation for the Just Transition Fund.

Eligible for support from the Just Transition Mechanism would be all fossil fuel and carbon intensive regions and industries, however the amount of support to be expected from the Just Transition Fund is depending on the level of their carbon intensity and employment in the sectors: it will focus on territories with high employment in coal, lignite, oil shale and peat production, as well as on those with carbon-intensive industries which will be either discontinued or severely impacted by the transition. Resources will be distributed according to the size of the decarbonisation challenge of the territories.

In order to obtain the support Member States will have to draw up Territorial Transition Plans that need to demonstrate the delivery on climate neutrality objectives and as well have to be consistent with their National Energy and Climate Plans (NECPs). However, a clear time-commitment to achieve climate neutrality by 2050 the latest is missing in the proposal. Territorial Transition plans will have to be approved by the European Commission and would be governed via the European Semester. The European Commission proposes technical assistance and project development support throughout the entire planning and implementation cycle.

Set up of the Just Transition Fund

The draft Just Transition Fund (JTF) regulation contains a number of climate action relevant provisions:

- The fund's proposed € 7.5 bn would come as additional financing on top of existing instruments of the next EU budget, placed under MFF- heading 3 - natural resources.
- An obligatory contribution from Member States would require to transfer resources from the national European Regional Development Fund and European Social Fund envelopes worth 1.5 to 3 times of what they receive via the JTF, i.e. for every 1 euro received from the JTF, Member States would need to add between 1.5 to 3 euros from their Cohesion Policy envelopes to the Just Transition funding.
- Cohesion Policy will be the delivery model, the JTF is integrated as new fund into Cohesion Policy (which requires amendments to the Common Provisions Regulation of EU funds) and thus all horizontal principles under the Common Provisions Regulation are applicable to the JTF.
- The Partnership principle under Cohesion Policy applies to the Just Transition Fund, i.e. local communities, civil society organisations and social partners should be involved in the process of elaborating the transition plans.
- All Member States are eligible, affected territories are to be defined on NUTS 3 level (sub-regional level).
- 'Territorial Just Transition Plans' have to be 'programmed' similar to ERDF and Cohesion Fund: in order to receive support Member States have to draw up detailed strategic plans for addressing the territories 'most negatively affected based on the economic and social impacts resulting from the transition, in particular with regard to expected job losses and the transformation needs of the production processes of industrial facilities with the highest greenhouse gas intensity'.
- Territorial Transition Plans should be consistent with the National Energy and Climate Plans (NECPs) and should explicitly embrace climate neutrality.

- The JTF can support the diversification and modernisation of local economies, the decontamination of polluted sites and land restoration, circular economy, upskilling and reskilling of workers, services for jobseekers.
- Investments in fossil fuels are explicitly excluded from the JTF draft regulation.
- Large enterprises ('ETS Annex I'- installations) can be supported in territories that are designated for regional state aid, in case they form an important part of the Territorial Just Transition plan and planned modernisation measures go beyond current EU standards.
- Indicators and monitoring arrangements are linked to milestones and targets. In case targets are not reached, JTF resources can be lost.
- The JTF comes in addition to the overall 25% climate spending target for the MFF. At the same time it cannot be discounted from the Thematic Concentration on the European Regional Development Fund's Policy Objective 2 ('transition to green low-carbon Europe').

Conclusions

Whereas the Just Transition Fund offers some progressive elements to boost the transition towards climate neutrality, the overall approach of the Sustainable Europe Investment plan falls short of the ambition needed. The European Commission still promotes gas projects as good investments examples; while investing in new gas would undermine the 2050 carbon neutrality objective.

Also proposals regarding the State Aid guidelines raise concerns. As the Commission intends to continue to allow for compensating fossil fuels companies for early closures which goes against the polluters pays principle. Moreover proposed loosening of the rules on state aid to district heating poses a risk of providing subsidies to coal based installations and therefore prolonging their lifetime instead of accelerating the transition beyond coal.

Overall, the SEIP is hardly any new money, it is mainly a repurposing/re-labelling of existing funds which were anyway very close to the claimed objectives, and gas and potentially (efficiency) upgrades of fossil fuel based installations are promoted.

Recommendations

- The Territorial Transition Plans need to exclude any investments in fossil fuels, gas in particular, and set concrete milestones and timelines for achieving climate neutrality by 2050 the latest.
- Receiving support from the Just Transition Mechanism should be conditional to coal phase-out commitments and the setting of closure dates of coal related activities.
- It needs to be ensured that unambitious National Energy and Climate Plans (NECPs) do not serve as a basis for the level of ambition of Territorial Transition Plans. Rather Member States applying for support need to update their National Energy and Climate Plans, fully integrating the steps needed to achieve climate neutrality.

- The second and third pillar of the Just Transition Mechanism should equally exclude all support for fossil fuels, including efficiency measures of existing installations aiming at life-time extension.
- The review of State Aid rules should apply the ‘polluter pays’ principle.

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