

HOW CAN THE EU DELIVER A SOCIALLY JUST GREEN DEAL?

**LOOKING AT THE EUROPEAN GREEN DEAL
THROUGH A JUST TRANSITION LENS**

**OPEN SOCIETY
FOUNDATIONS**

Research project for the Open Society Foundations executed by
Denktank Minerva and Reset.Vlaanderen

AUTHORS

Louise Hoon

Karel Pype

COMMISSIONED BY

Emily Iona Stewart, Open Society Foundations

ADVISORY COMMITTEE*

**Benjamin Denis, Saïd El Khadraoui, Yelter Bollen, Sacha Dirckx,
Michel Debruyne, Louise De Tremerie, Vincent van Steenberghe, and
Bela Galgoczi**

OPEN SOCIETY FOUNDATIONS

© 2022 Open Society Foundations



This publication is available as a PDF on the Open Society Foundations website under a Creative Commons license that allows copying and distributing the publication, only in its entirety, as long as it is attributed to the Open Society Foundations and used for noncommercial educational or public policy purposes.

* The advisory committee was involved in reading and discussing the text, but the content and viewpoints are the authors', and are not necessarily shared by all members of the advisory committee.

opensocietyfoundations.org

CONTENTS

4	EXECUTIVE SUMMARY
5	1. INTRODUCTION
7	2. EUROPEAN GREEN DEAL: CONTEXT, GOALS, AND INTERNAL STRUCTURE
11	3. OVERVIEW OF THE PROPOSED POLICIES
11	3.1 Revision of ETS1 and creation of ETS2
15	3.2 The proposal for a Social Climate Fund
16	3.3 Carbon Border Adjustment Mechanism
18	3.4 The revision of the Effort Sharing Regulation
19	3.5 Energy Taxation Directive
19	3.6 The Just Transition Fund
22	3.7 Other targets, rules, and standards: RED, EED, Emissions Standards, and Alternative Fuels Infrastructure
24	4. ANALYSIS
24	4.1 The employment impacts of the industrial transition
25	4.2 Disposable income impacts of carbon pricing
25	4.3 Risks and opportunities for public acceptability
27	5. RECOMMENDATIONS
32	GLOSSARY
33	ABBREVIATIONS

EXECUTIVE SUMMARY

The European Green Deal (EGD) represents the most ambitious set of policies for ecological transformation in the world to date. It is a collection of policy initiatives aimed at putting Europe on track to reach net-zero global warming emissions by 2050. This paper aims to evaluate the elements of the EGD and the Fit for 55 (FF55) package, which are likely to have both positive and negative impacts on social justice in the EU.

The paper analyses the elements of the EGD and examines the content of each policy, with a focus on the impacts on employment, disposable income, and public acceptance of the political transformation. It sets out whether there are likely to be any social justice impacts and makes suggestions for mitigating negative impacts and amplifying positive ones.

The outcome of the policy analysis shows that there is still a balance to be struck between transforming Europe's economy and ensuring a just transition. While the planned funding streams are welcome, more clarity is needed on how to avoid the most regressive aspects of some of the policies, particularly those that are likely to have an impact on individual household budgets such as housing and transport.

The paper urges the European Commission and EU member states to develop additional policy instruments to tackle these challenges, and to live up to their commitments to improving social standards and the creation of quality employment. The paper demonstrates that targeted policies and investment plans to support vulnerable households and communities in transitioning to sustainable consumption patterns are crucial, as is ensuring transparency and democratic accountability.

This paper was compiled by Reset Vlaanderen, a Belgian think-tank specialised in thinking about the sustainability and social justice dimension of the climate transition. It was commissioned by the Open Society Foundations as part of its pillar of work on 'Just Transition.'

1. INTRODUCTION

In the summer of 2021, many regions in the European Union (EU) were struck by climate disasters. Torrential rain flooded small towns and villages in the borderlands of Belgium, Germany, and the Netherlands, causing multiple deaths and catastrophic property damage for hundreds of families. The southern Europe experienced exceptional heatwaves, leading to destructive wildfires and droughts.

At the same time these disasters were happening, the Intergovernmental Panel on Climate Change (IPCC) published an alarming report¹ on the current and future impacts of global warming, and the European Commission (EC) presented a historic legislative package aiming to counteract the worst effects of the climate crisis.

The package, titled *Fit for 55* (FF55), is at the heart of the European Green Deal (EGD); the EU's strategy to become the first climate neutral continent by 2050, with an intermediate target of 55 per cent greenhouse gas (GHG) emission reduction by 2030 (compared with 1990 levels). This green transition is not restricted to climate targets. In the Communication accompanying the Fit for 55 package,² the EC commits to a socially fair transition, taking 'the transition to climate neutrality as an opportunity to reduce systemic inequality.'

The same social justice ambitions are boldly articulated in the Council Recommendation on ensuring a fair and just transition towards climate neutrality³ published in December. Fairness and solidarity are stressed as the defining principles of the EGD, and member states are urged to devise and implement climate policies that 'leave no one behind.' The document also endorses Guidelines for a Just Transition,⁴ a recent report from the International Labour Organization (ILO).

The climate crisis is an inequality crisis. Questions of social justice, (in)equality, and solidarity are deeply interwoven with the root causes of, and solutions for, the ecological crisis. This is true for all levels: between continents, countries, regions, and citizens.

The responsibility for the ecological crisis is unequally distributed across countries and people. The 2022 World Inequality Report⁵ illustrates the disproportionate share of global emissions that come from high-income countries compared to low- and middle-income countries. The top 10 per cent of individual emitters are responsible for close to 50 per cent of all emissions, while the bottom 50 per cent produce 12 per cent of the total.

1 https://www.ipcc.ch/report/ar6/wg1/downloads/report/IPCC_AR6_WGI_SPM_final.pdf

2 <https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:52021DC0550&from=EN>

3 https://ec.europa.eu/commission/presscorner/detail/en/ip_21_6795

4 https://www.ilo.org/wcmsp5/groups/public/---ed_emp/---emp_ent/documents/publication/wcms_432859.pdf

5 <https://wir2022.wid.world/>

Even though carbon-intensive products like heating oil or fossil fuel for cars make up a larger share of budgets for low-income households, total emissions steadily rise with income levels. Moreover, there is a very small group of extremely wealthy households whose ecological footprint exceeds all reasonable measures. A 2020 Oxfam report titled *Confronting Carbon Inequality*⁶ showed that the carbon emissions of the richest 1 per cent of the world's population are more than double the emissions of the poorest half.

To address the climate crisis without policies that also consider global, regional, and individual patterns of economic inequality will further entrench these patterns and fail to secure widespread support for change.

Countries and people that are vulnerable—be it economic or otherwise—are more likely to be impacted by the climate crisis and the policy responses it demands. The effects of climate disasters may initially seem random, but the most disadvantaged areas and communities in the world are not only most at risk but also least prepared for their impacts. Even in economically developed areas, vulnerable groups have fewer financial resources, less insurance coverage, and fewer opportunities to adapt to new climate circumstances, such as extreme heat, drought or rising sea levels. Not acknowledging the multiple economic and social impacts that climate change has on vulnerable groups will be a recipe for deep social injustice and inequality.

Effective climate action needs to be socially just. But while climate action is indispensable from a social justice perspective, not all climate policies result in economic and social justice. Devising, negotiating, and implementing socially just climate policies is complicated. It requires continuous reflection, evaluation, and discussion between political and societal actors; from policymakers, bureaucrats, and academics to corporate actors, civil society organizations, and citizens. Fortunately, this debate is

rich and ongoing, and the content of the EGD shows that it is effectively generating policy outputs, but also highlighting how much work still needs to be done.

This report contributes to the effort of devising and implementing socially just and ecologically effective European climate policies, focusing on social justice issues highlighted in the EGD. Our goal is not to provide a granular impact assessment of one individual policy proposal, nor do we reach an exclusive and final verdict on exactly how socially just the EGD is. Rather, we aim to provide information, arguments, and lines of reflection on the broader political meaning and content of socially just climate policies, so political, executive, and civil society actors can use this information to define their positions and to advance their advocacy and policy work.

The report contains a complete yet accessible overview and social justice evaluation of the most important proposals on the table, whether they are at the negotiation stage (FF55) or at a stage where plans are drafted for implementation in the member states, such as the Just Transition Mechanism (JTM). The report also identifies the most important social justice risks and opportunities of these policies, paired with recommendations about how to effectively implement them.

The report has four sections that do the following: The first section sketches out the context, goals, and internal structure of the EGD and explains the report's focus on the FF55 package and the JTM. The second section provides an overview of the policies and discusses the expected social justice impacts of the individual proposals. The third section analyses social justice in the EGD, focusing on socio-economic impacts (employment and disposable income) and political impacts (public acceptability). Finally, the fourth section concludes with a list of recommendations and priorities for EGD policy design and implementation.

6 <https://www.oxfam.org/en/research/confronting-carbon-inequality>

2. EUROPEAN GREEN DEAL: CONTEXT, GOALS, AND INTERNAL STRUCTURE

The European Climate Law⁷ (ECL) sets a legally binding target of zero greenhouse gas emissions by 2050, with an intermediate goal of a 55 per cent emission reduction by 2030, compared with 1990 levels. Part of the EU's self-ascribed role of international climate leadership is the ambition to become the world's first climate neutral continent, in line with its commitment to the UN Sustainable Development Goals (UNSDGs) and the Paris Agreement. The European Green Deal (EGD) sets out its strategy to get there. The Fit for 55 package⁸ (FF55) proposed by the EC in the summer of 2021 sets out the most important pricing instruments, targets, and rules to enforce the 2030 target.

The EC is also determined to 'leave no one behind' in this green transition. The EGD should make European economies not only ecologically sustainable but also fairer and more inclusive. The FF55 contains important proposals to that end, with compensation measures for vulnerable citizens and communities. The Just Transition Mechanism⁹ (JTM) is another compensation measure that focuses on vulnerable regions and workers in the industrial transition. It is currently in the first phase of implementation, in which member states draft plans—the **Territorial Just Transition Plans**

(TJTP)—for investments from this fund. As the most relevant EGD policies for social justice, FF55 and the JTF are at the centre of our report.

Theoretical context of the European Green Deal

The EGD can be contextualised by the definition of the economic discourses it references. **Green New Deal (GND) economics**, to which the EGD owes its title, date back to the 1990s. This strand in economics stresses that ecological and social objectives should be part of sound economic policies.

Referring to Franklin D. Roosevelt's New Deal, GND economics suggest a government-led investment plan that, especially in times of crisis, can generate secure and quality employment through efforts to improve public infrastructure and welfare standards. A *Green New Deal* uses such plans to decarbonise the economy, to protect vulnerable citizens and communities from ecological damage, and to improve their living standards in the long run.

Fiscal justice, social and labour reforms, and public ownership of energy utilities are often advanced GND priorities. In contrast with degrowth

7 <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:52020PC0080>

8 https://ec.europa.eu/commission/presscorner/detail/en/IP_21_3541

9 https://ec.europa.eu/info/strategy/priorities-2019-2024/european-green-deal/finance-and-green-deal/just-transition-mechanism_en

economics,¹⁰ GND economics perceives economic growth and development as a vehicle for social and ecological justice.¹¹

Another important reference for the EGD is the **just transition**. Put forward by labour unions and climate action groups, this concept stresses the links between climate change, social and ecological justice, and employment questions. A just transition approach calls for attention to be paid to the world's most vulnerable communities, workers, and regions, and it stresses how their disadvantaged positions make them the least responsible for the ecological crisis and the least capable of paying for the costs of the transition. The just transition framework takes a holistic approach to environmental and other justice issues, pushing for the overhaul of a system that exploits both people and the planet.

At the same time, the content of the EGD is still strongly built on principles of liberal market economics. As the accompanying Communication from the European Commission¹² stresses, '*... an over-reliance on strengthened regulatory policies would lead to unnecessarily high economic burdens, while carbon pricing alone would not overcome persistent market failures and non-market barriers. The chosen policy mix is therefore a careful balance between pricing, targets, standards and support measures.*' Relying on carbon pricing as one of the central instruments to enforce economic and societal adjustment, the EGD trusts in the free market to adjust and react to price incentives, to transition to a zero-emission economy without changing its foundations.

Policy context and internal structure

With a binding, EU-wide target of climate neutrality, the EGD inevitably impacts all European policy domains, at all levels of governance. It should be seen as a cross-cutting and overarching strategy rather than an independent set of policy instruments and actions. The EGD not only contains its own legislative instruments but expects all other policy domains to align their actions with the ambition of climate neutrality.

Take, for example, the EU Next Generation Recovery Plan¹³ (EU Next Gen), which demands that 37 per cent of the member states' Recovery and Resilience plans contribute to the green transition. Funds under EU Next Gen by far outweigh those in the JTM Fund and the Social Climate Fund (SCF) under the EGD. Similar streamlining is applied to other domains in the EU's Multiannual Financial Framework but has not always been uncontroversial; for example, the extent to which important policy domains, such as the Common Agricultural Policy (CAP), are consistent with the EGD ambitions has been questioned.¹⁴

As mentioned above, however, our focus is on FF55 and the JTM. Table 1 visualises the internal structure of this policy mix of pricing, targets, rules, and compensation measures.

10 See, among others: Hickel, J. (2020) *Less Is More. How Degrowth Will Save the World*. Cornerstone. Penguin Random House)

11 Mastini, R., Kallis, G., Hickel, J. (2021). 'A Green Deal without Growth?' *Ecological Economics*, 179 (2021) 106832: <https://www.sciencedirect.com/science/article/abs/pii/S0921800919319615>

12 <https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:52021DC0550&from=EN>

13 https://ec.europa.eu/info/business-economy-euro/recovery-coronavirus/recovery-and-resilience-facility_en

14 Sahin, S., Belusa, D., Denhartigh, C., Reichert, T., Lumley, I. and Marquez, A. 2021. *Common Agricultural Policy: Will CAP Strategic Plans Help Deliver Much Needed Climate Action?* Report published by Climate Action Network (CAN) Europe under the Unify programme, May 2021: <https://caneurope.org/content/uploads/2021/05/Will-CAP-Strategic-Plans-help-deliver-needed-climate-action.pdf>

TABLE 1**The structure of the policy mix**

PRICING	TARGETS	RULES
<ul style="list-style-type: none"> ● Stronger Emissions Trading System including in aviation ● Extending Emission Trading to maritime, road transport, and buildings ● Updated Energy Taxation Directive ● New Carbon Border Adjustment Mechanism 	<ul style="list-style-type: none"> ● Updated Effort Sharing Regulation ● Updated Land Use, Land Use Change and Forestry Regulation ● Updated Renewable Energy Directive ● Updated Energy Efficiency Directive 	<ul style="list-style-type: none"> ● Stricter CO₂ performance for cars and vans ● New infrastructure for alternative fuels ● ReFuelEU: more sustainable aviation fuels ● FuelEU: cleaner maritime fuels
SUPPORT MEASURES		
<p>Using revenues and regulations to promote innovation, build solidarity and mitigate impacts for the vulnerable, notably through the new Social Climate Fund, enhanced Modernisation and Innovation Funds, and the Just Transition Fund.</p>		

Based on: European Commission Communication to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions, "Fit for 55: Delivering the EU's 2030 Target on the Way to Climate Neutrality," COM (2021) 550, 14.7.2021.

Evaluating social justice in the European Green Deal: principles, instruments, and analytical focus

Before discussing the content and impacts of the EGD, we need to define the instruments and principles by which social justice in climate policies can be evaluated. Firstly, redistributive effects can be regressive, proportional, or progressive. Progressive policies are positively redistributive, in the sense that they redistribute wealth from high-income and wealthy households and companies to

lower-income actors, thereby reducing social and economic inequalities. While proportional policies have no effect on the distribution of means in society, regressive policies increase inequalities,¹⁵ leaving vulnerable groups worse off and/or benefiting groups that were already well-off. A just transition benefits from progressive policies, whereas regressive policies endanger it.

Two additional principles should be guiding in socially just climate policies. Firstly, the 'polluter pays' principle,¹⁶ which states that those who cause

15 Definitions based on: Cabrita, J. Demetriades, S. & Fóti, K. (Eurofound). (2021), *Distributional Impacts of Climate Policies in Europe* (Publications Office of the European Union, Luxembourg): <https://www.eurofound.europa.eu/publications/report/2021/distributional-impacts-of-climate-policies-in-europe>

16 European Court of Auditors, (2021). *Special Report. The Polluter Pays Principle: Inconsistent Application Across EU Environmental Policies and Actions*. (Publications Office of the European Union, Luxembourg): https://www.eca.europa.eu/Lists/ECADocuments/SR21_12/SR_polluter_pays_principle_EN.pdf

(and possibly benefit from) pollution and ecological damage should take responsibility for repairing the damage and cannot pass the price of their activities on to societies. This should incentivise polluters to avoid damaging the environment and ensure that polluters do not divert the costs of environmental restoration to taxpayers or pass them on to consumers.

Secondly, the ‘leaving no one behind’¹⁷ principle, which is central to the United Nations 2030 Sustainable Development Agenda and its Sustainable Development Goals, states that regardless of redistributive effects, the most vulnerable communities, citizens, and regions must be protected from ecological and policy shocks that endanger their security and basic needs, such as energy for heating/cooling, safe housing, food and/or basic care products, as well as access to mobility.

We also distinguish three levels of analysis over which policies can be redistributive: **member states, regions, and households**. A just transition takes the distribution of costs and benefits over these different levels into account and the great diversity of economic, social, and political contexts in which policies are deployed.

Aware both that social justice has many dimensions and that the EGD will have numerous impacts, we restrict our **analytical focus** to two socio-economic aspects that we consider relevant for vulnerable households and which we expect will play an important role in political debates and contestation.

Given the EGD’s primary goal to stimulate an industrial transition towards renewable energy and clean or low-emission production, heavy impacts are expected in carbon-intensive and fossil-fuel

industries. The **employment impacts** for regions and workers in these industries are our first topic of focus.

Secondly, the EGD deploys carbon pricing as a lever and source of income to shift production and consumption patterns to green alternatives. Carbon pricing, however, also risks impacting low-income households and vulnerable groups who are particularly sensitive to price fluctuations, especially for basic needs like energy. The possible regressive effects of carbon pricing on **disposable household income** and the risk of **energy poverty**¹⁸ is a second focus of our analysis.

And thirdly, as climate policies need to survive **multiple electoral cycles** to achieve their long-term goals, it is particularly important that they continue to be widely accepted and supported by the public. If climate policies are experienced as being socially unjust, they can provoke a **political backlash** that undermines their implementation. Such a backlash can be societal, where citizens refuse to make the necessary adaptations to their consumption and lifestyle patterns or take to the streets in protests, strikes, and civil disobedience. It can also be electoral, when political parties and movements that downplay the climate emergency gain power in parliaments and/or governments.

In addition, such dissatisfaction with climate policies can easily be directed towards the European level and feed into **nationalist and Eurosceptic discourses** and movements. A third focus of our analysis are the ways in which the *real* or *experienced* injustice of climate policies might be politicised during the transition—and how these challenges can be addressed.

17 <https://unsdg.un.org/sites/default/files/Interim-Draft-Operational-Guide-on-LNOB-for-UNCTs.pdf>

18 In the European Commission’s Proposal for a Council Recommendation for ensuring a fair transition towards climate neutrality, energy poverty is identified as a situation where low-income households spent a large share of their disposable income on energy and waste money due to poor energy efficiency.

3. OVERVIEW OF THE PROPOSED POLICIES

Below, we provide an overview of the legislative proposals put forward in the Fit For 55 (FF55) package, and the already adopted Just Transition Mechanism (JTM). In this section, we discuss the social justice impacts per individual proposal. Given our focus on employment impacts of the industrial transition, disposable income impacts, and public acceptability, we pay detailed attention to the policies that are expected to be most relevant to those domains: the revision of the European Emissions Trading System (ETS₁) and the creation of a new Emissions Trading System for transport and buildings (ETS₂), the Social Climate Fund (SCF), the Carbon Border Adjustment Mechanism (CBAM), and the JTM. We also discuss the Effort Sharing Regulation (ESR) and the Energy Taxation Directive (ETD)—also part of FF55—more generally, because the social justice impacts of these proposals are hard to assess without focussing on specific national contexts.

3.1 REVISION OF ETS₁ AND CREATION OF ETS₂

To align its energy policies with the 55 per cent emission reduction target, the EC proposes to strengthen and expand the scope of the existing Emissions Trading System (ETS₁) and to introduce a new, separate Emissions Trading System covering the sectors of transport and buildings (ETS₂).¹⁹ Having proven itself to be a core component of the EU's climate policy since its launch in 2005, the EU ETS applies to energy and heat generation, energy intensive industry sectors,²⁰ as well as to commercial aviation within the European Economic Area (EEA). The system covers over 11,000 firms in the EEA, or over 45 per cent of the EEA's total GHG emissions.

¹⁹ <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A52021PC0551>

²⁰ This includes oil refineries, steel works, production of iron, aluminium, metals, cement, lime, glass, ceramics, pulp, paper, cardboard, acids, and bulk organic chemicals

The overarching idea of an emissions trading system is simple: the total amount of emissions is controlled by creating a large-scale ‘cap and trade’ system for GHG emissions, whereby the amount of allowed emissions is limited, and the market consequently puts a price on these GHG emissions by installing a system of tradable emission rights.

For every tonne of emissions it generates, a firm participating in the EU ETS must submit an allowance. In this way, participating firms are given an incentive to reduce emissions if the allowance price exceeds the marginal abatement cost. These allowances can be obtained in three ways: by (a) trading them with other participants, (b) free allocation, or (c) via auction. Over the years, the system-wide ‘cap’ that puts a ceiling on the maximum number of allowances is reduced.

For ETS₁, the EC proposes (1) to lower the cap (61 per cent emission reduction by 2030, compared with 2005 levels) and introduce a more ambitious linear reduction factor (4.2 per cent per year, replacing the current reduction factor of 2.2 per cent per year).

With a view to removing surplus ETS allowances, the EC also proposes (2) to revise the rules for the free allocation of allowances, whereby free allowances will be gradually reduced for aviation,²¹ and efforts aligned with CORSIA.²² Industrial installations will continue to receive free allowances and free allocations will continue to rely on a system of benchmarking emission reduction efforts in exchange for allowances.

Allocation focuses on the sectors with the highest risk of relocating their production outside the EU,²³ or carbon leakage. These sectors still receive 100 per cent of their emissions for free. However, the CBAM discussed below should decrease risks of carbon leakage and make sectors that currently enjoy free allowances eligible for the phasing out of free allowances from 2026 onwards. For other sectors, free allowances are to be gradually phased out, from 30 per cent to 0 per cent, between 2026 and 2030.

The EC furthermore proposes to (3) revise the rules of the Market Stability Reserve²⁴ (MSR) by decreasing the overall number of emission allowances at an annual rate of 2.2 per cent from 2021 onwards, compared with 1.74 per cent in the period 2013-2020 and to (4) include maritime transport in ETS₁. The Market Stability Reserve²⁵ is a long-term solution to address the current surplus of allowances and improve the system’s resilience to major shocks.

Moreover, the EC proposes to create a new, separate system to cover emissions in the road transport and buildings sectors, which is scheduled to come into force from 2026 onwards. A certain number of allowances would be frontloaded in this new system, which differs from the ETS₁ by imposing a steeper reduction path for the cap and not providing free allowances. Moreover, the MSR will also operate in these new sectors, and these sectors will still be covered by the ESR (see below).

21 <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:52021PC0552>

22 <https://eur-lex.europa.eu/legal-content/en/TXT/?uri=CELEX:52021PC0567>

23 <https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32019D0708&from=EN>

24 The proposal to revise the market stability reserve (MSR) for the EU emissions trading system (ETS) consists of prolonging its current parameters. Under the current rules, the intake rate of allowances to the MSR and the minimum allowances placed in the reserve have been doubled until the end of 2023, to allow the quick removal of surplus EU ETS allowances. The proposal is aimed at maintaining the current doubled intake rate (24%) and minimum number of allowances placed in the reserve (200 million) until December 31, 2030, the end of Phase IV of the EU ETS. https://ec.europa.eu/info/sites/default/files/revision-market-stability-reserve_with-annex_en.pdf

25 https://ec.europa.eu/clima/eu-action/eu-emissions-trading-system-eu-ets/market-stability-reserve_nl

Lastly, the EC suggests new rules for the use of ETS revenues, which have significant redistributive implications. ETS revenues continue to be largely divided among member states but are now exclusively earmarked to be used for facilitating the green transition. Revenues from the new ETS on buildings and transport will be used to create a new SCF, which will focus on vulnerable households, communities, and transport users (discussed below).

Additional revenues from the existing EU ETS are proposed to be used to strengthen the Modernisation Fund and the Innovation Fund.²⁶

Social justice risks and opportunities in ETS1 and ETS2

Whereas the overall distributional effects have yet to be quantified, the design of ETS1 and ETS2 is expected to be regressive,²⁷ as a result, most importantly, of carbon costs being passed through to products that make up the greatest share of low-income household consumption.

The channels through which this happens will be discussed below, but it is important to note, however, that the EU ETS might possibly turn out to be progressive on the household income side, since it reduces (net of free allowances) the value and wages

of emitting companies but increases the value and wages of companies that produce substitutes.

However, both the extent to which carbon costs can be passed on to consumers and the system's overall redistributive effects depend on various parameters and on the sectors to which the ETS is applied. Since marginal abatement costs and distributional burdens differ substantially, it is important to treat ETS1 and ETS2 separately.

Regressive effects of **ETS1** have been identified over the past number of years, in the form of shifts of wealth from governments and households to large firms. The experience of ETS1 has shown that large, polluting firms generated profits from emission trading, while medium and small businesses, as well as households, fell victim to rising prices, and governments missed out on revenues.

These regressive effects can be attributed to a few dynamics of ETS1. Firstly, free emission allowances were generously awarded to a few of the largest emitters in the member states.²⁸ During the first phases of ETS1, there was massive over-allocation of free allowances, which gave firms the opportunity to sell or use them at a later stage, when prices were higher.²⁹

26 The Fit for 55 package also proposes to strengthen two important investment funds that are seen as levers of the green transition: the Innovation Fund and the Modernisation Fund. The Innovation Fund supports 10 lower-income EU member states in the transition to climate neutrality by helping to modernise their energy systems and efficiency.

The Modernisation Fund supports investments in renewable energy projects, energy efficiency, energy storage, and modernisation of energy networks. Like the JTF, it can also be used for investments in human capital relating to the transition, to re-skill, upskill or redeploy workers in carbon-dependent regions. Currently, the Modernisation Fund is funded by 2% of the allowances auctioned in ETS. Fit for 55 proposes that this percentage be raised to 4.5% of auctioning.

It also proposes that more member states should benefit from the fund, whereby member states whose GDP per capita at market prices in 2013 was lower than 65% (instead of 60%, as is currently the case) become eligible, which would allow Greece and Portugal to benefit from the fund, in addition to the existing group, which includes: Bulgaria, Croatia, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Latvia, Poland, Romania, and Slovakia.

27 However, even though EU ETS still forms the cornerstone of the EGD, other alternatives could be proposed to form the basis of the EGD. Consequently, if ETS is not optimal from a social point of view, we have to look at the alternatives—such as environmental tax incentives, norms or regulations. See: Valenduc, C. (2020) *The carbon pricing proposals of the Fit for 55 package. an efficient and fair route to carbon neutrality?* ETUI Working Paper 2022.3 https://www.etui.org/sites/default/files/2022-01/The%20carbon%20pricing%20proposals%20of%20the%20Fit%20for%2055%20package-An%20efficient%20and%20fair%20route%20to%20carbon%20neutrality_2022.pdf

28 One could argue that with low carbon prices—especially compared with other taxes and costs on the energy bill—the impact of ETS may be relatively small. However, we assess these distributional effects in view of future increases of the carbon price.

29 Zachmann, G., Fredriksson, G., & Claeys, G. (2018). "The distributional Effects of Climate Policies," *Bruegel. Blueprint Series*, 28.

De Bruyn et al. (2016), for example, showed that the opportunity cost of not selling freely allocated allowances on the EU ETS market was recovered by increasing market prices.³⁰ In an update of the study, De Bruyn et al. (2021) showed cost pass-through to be the largest component of additional profits between 2008 and 2019.

Electricity producing firms no longer receive free allowances, but they can pass that extra cost on to the final consumer relatively easily. Moreover, the current price-setting mechanism of the EU electricity wholesale market³¹ does not adequately live up to the ‘polluter pays’ principle, as it calculates prices based on the marginal price of the last kilowatt hour used.

Also, as a result of the pass-through of compliance costs into electricity producers’ prices, firms that use electricity as input suffer ‘indirect costs’ from ETS1. Some EU member states have therefore compensated these firms from auctioning revenues, again shifting wealth from government to firms.³²

More positively, the revision of ETS1 in FF55 addresses a few of these social justice risks, where the consumer (and, more specifically, vulnerable groups) pay rather than the polluter. The reduced cap and more ambitious linear reduction factor, and most importantly, the gradual phasing out of free emissions, should allow governments to take more control of the revenues generated by the system and should also lower the volatility of the carbon price.

Carbon price volatility in ETS1 should be avoided, as both carbon prices that are too high and carbon prices that are too low are counterproductive for the emission reduction and social objectives of the EU ETS. When carbon prices are too low, the incentive

for companies and households to shift to green alternatives is insufficient, leading to low emission reductions.

When carbon prices rise too fast and become too high, however, rising energy and consumption prices entail economic risks for companies and consumers, including the risk of ‘lock-in’ effects. Also, it increases speculation and the financialisation of emission trading, to the benefit of the largest traders in the emission market.

Therefore, the strengthening of the MSR proposed in FF55 is an opportunity to both mitigate the regressive effects of emission trading and give governments more control over the carbon market. However, there are proposals for an alternative, price-based stability mechanism that introduces a price floor and a price ceiling and better protects the social and ecological goals of emission trading (see Chapter 5, Recommendations).³³

FF55 also includes the proposal for **a new, separate emissions trading system for the combustion of fossil fuels in the road transport and buildings sectors—ETS2**. The regressive distributional effects of this system are expected to be larger than those of ETS1, as the sectors it covers affect households and small consumers more directly. The impact of ETS2 may potentially be felt in energy poverty and/or mobility loss, particularly for low-income households and those depending on carbon intensive transport or heating systems.

Low-income households generally spend a larger share of their income on energy expenses in specific areas. Low-income households also have higher energy needs, as they live in low energy-efficient

30 NB: in phase 3 of EU ETS1, the EC tried to tackle this problem by using a benchmarking approach that bases the allocation level on an installation’s emissions intensity rather than on historical emissions, as was the case in Phase 2. Efficient installations that generate low emissions relative to their output levels receive most or all allowances for free, while less-efficient firms must either reduce emissions or purchase some of their allowances. In addition, a ‘cross-sectoral correction factor’ ensures that the number of free allowances remains below the emissions cap for industrial installations.

31 https://energy.ec.europa.eu/topics/markets-and-consumers/market-legislation/electricity-market-design_en

32 Zachmann, G., Fredriksson, G., & Claeys, G. (2018), *supra*.

33 Perino, G., Pahle, M., Pause, F., Queminn, S., Scheuing, H., Willner, M. (2021). *EU ETS Stability Mechanism Needs New Design*, policy brief of the Center for Earth System Research and Sustainability (CEN), Hamburg University. <https://www.cen.uni-hamburg.de/en/research/policy-briefs/eu-ets-perino-page.html>

dwellings and depend on fossil-fuel cars for mobility. Households with lower savings also have less means to invest in replacing vehicles and appliances and retrofitting their homes to save energy, even if such investments pay off in the medium or long term.

Low-income groups have specific problems with energy consumption for housing and mobility, which tends to be quite inelastic, making it difficult to adapt consumption to price fluctuations. Such investments are likely easier for middle- and high-income households to make, which could reinforce the regressivity of ETS2 in the long term. Secondary effects should also be taken into account: when the largest portion of high-income households escape carbon pricing in the short term; middle- and high-income contributions to compensation schemes will decline rapidly.

The potential redistributive effects of ETS2 can be further differentiated. For carbon pricing on road transport, regressive effects are not directly related to income. The lowest income groups are less likely to be car owners, and therefore less impacted than lower middle- and middle-income groups who rely on private means of transport to get to work and to access essential services.³⁴ Depending on tax systems in the member states, higher income groups may have access to reduced or non-taxed options, such as a company-paid cars and fuel cards. Moreover, households living in rural or peri-urban areas where public transport alternatives are limited are more disproportionately affected.

However, the regressivity of these effects depends on two crucial elements. Firstly, whether the design of ETS2 can avoid carbon costs being passed on to consumers, and secondly, whether revenues are used for effective compensation mechanisms that give households, small- and medium-sized companies and especially the most vulnerable, easy and prompt access to clean and low-carbon alternatives.

Concerning the design of ETS2, it is important to note that no free allowances are provided, even if they could have been used, in this case, to exempt vulnerable consumers. Mechanisms to avoid carbon costs being passed on to small consumers seem to be lacking in the design of ETS2, which implies great risks of regressivity. An alternative proposal that does aim to do so is discussed in Chapter 5, Recommendations.

FF55 does propose ambitious plans for compensation and for supporting the consumers most vulnerable to energy poverty and mobility loss as a consequence of carbon pricing. The new rules on using revenues from ETS1 and ETS2 are therefore important opportunities to mitigate the potential regressive effects of both emission trading systems. The proposal increases the contribution of ETS revenues to the Innovation and Modernisation Funds and creates a Social Climate Fund (discussed below).³⁵

3.2 THE PROPOSAL FOR A SOCIAL CLIMATE FUND

The EC proposes to use 25 per cent of the revenues generated from auctioning allowances under ETS2 to create a Social Climate Fund³⁶ (SCF). Based on current prices, its financial envelope is estimated at 72.2 billion euros. The EC proposes that member states double this amount (to 144.4 billion euros), using part of their revenues from auctioning allowances under ETS2. SCF explicitly addresses social challenges by supporting the most vulnerable households and citizens during the transition.

The fund takes into account the uneven impact of a uniform price for GHG emissions in different member states and regions. The allocation key considers the following factors: population at risk of poverty living in rural areas (2019); carbon dioxide emissions from fuel combustion by households

34 Cabrita, J. & Quefelec, S. 'Exploring the Social Challenges of Low-Carbon Energy Policies in Europe' European Environmental Agency Briefing, 29.10.2021, <https://www.eurofound.europa.eu/publications/other/2021/exploring-the-social-challenges-of-low-carbon-energy-policies-in-europe>

35 However, there is criticism that some of the revenues generated by ETS2 will go to ETS1 instruments.

36 https://ec.europa.eu/info/sites/default/files/social-climate-fund_with-annex_en.pdf

(2016-2018 average); percentage of households at risk of poverty with arrears on their utility bills (2019); total population (2019); Gross National Income (GNI) per capita measured in purchasing power standard (2019); share of reference emissions under Article 4(2) of Regulation (EU) 2018-842 for the sectors covered by ETS₂.

The main goal of the fund is to support vulnerable households and communities during the transition, by providing money to national governments to facilitate the just transition. To claim money from the fund, member states are expected to put forward the measures they wish to sponsor through the fund in Social Climate Plans (SCP), which they submit to the EC with their National Energy and Climate Plans (NECP) in accordance with the Governance Regulation. The proposal specifies the types and goals of measures that are eligible for the fund but leaves the design and implementation to the member states. Payments from SCF will be made conditional on the social and climate targets and milestones defined in the plans, and monitored by the EC.

The SCPs should focus on ensuring affordable and sustainable heating, cooling, and mobility for those most impacted by ETS₂. Among other suggested measures, the proposal advises member states to invest in accessible and attractive public transport systems, support for renovating and retrofitting of buildings and (social) housing for vulnerable groups, as well as (temporary) direct income support.

Social justice risks and opportunities in the Social Climate Fund

Using revenues for a redistributive fund provides an opportunity to correct the regressive effects of ETS₂. The fund is progressively redistributive over member states, but it especially aims to address uneven impacts on households. The size, scope, and design of the SCF are obviously crucial to the extent to which it can succeed in its mission of easing the regressive effects of ETS₂.

While these effects may be hard to estimate, we know that timing will be crucial for the SCF. With time, emission prices are expected (and intended) to rise. This implies more revenue, also for the SCF. But with rising carbon prices, the regressive effects of ETS₂ will also grow, as will the risks of energy poverty and mobility loss. Providing low-income households and vulnerable groups with opportunities to opt out of carbon-intensive consumption patterns should happen before carbon prices go up.

Also, policy instruments designed by the member states under the SCF should, as stressed in the legislative proposal, be very finely targeted to the groups that need it most. Middle- and higher-income groups are generally better informed about—and equipped to benefit from—subsidies and fiscal incentives (e.g., solar panel or electric car subsidies), leading to regressive effects and ineffective use of public funds in the transition.

Therefore, administrative and information thresholds should be lowered for target vulnerable groups, and the design of subsidies and fiscal incentives should be closely scrutinised on their focus on low-income and vulnerable groups. In devising and deploying SCPs, public ownership and the involvement of the target groups is a crucial factor.

The involvement of target group representatives in designing and implementing such policies is crucial to bringing these subsidies in line with just transition principles.

3.3 CARBON BORDER ADJUSTMENT MECHANISM

The proposal to create a Carbon Border Adjustment Mechanism³⁷ (CBAM) aims to prevent carbon leakage (the displacement of production to other countries with less ambitious climate regulation) as a consequence of the strengthening of ETS₁, by equalising the price of carbon between domestic

37 <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:52021PC0564>

products and imports. CBAM will work via a system of certificates corresponding to the carbon price that EU importers would need to pay for a product had it been produced in the EU. If producers outside the EU can show that they have already paid a price for the carbon used in the production of imported goods, the corresponding cost can be deducted for the EU importer.

Initially, only a selected number of products at high risk of carbon leakage will be covered in the CBAM—namely iron and steel, cement, fertiliser, aluminium, and electricity generation. From 2023, the EU will initiate a reporting system for importers of those products—without financial adjustment costs, giving them the opportunity to facilitate the roll out. Starting in 2026, importers will start paying a financial adjustment.

Revenues from CBAM will go mainly to the EU Budget,³⁸ and it is described as one of the new resources sought by the EU in light of the extension of its budget to mitigate the economic shocks of the COVID-19 pandemic. While the EC requires member state recovery plans financed by the EU Next Gen recovery instrument to support the green and digital transitions, resources from CBAM are not earmarked to be used directly for ecological and/or just transition purposes.

Social justice risks and opportunities in the Carbon Border Adjustment Mechanism

The effort to prevent carbon leakage and to safeguard quality jobs and industries in the EU is positive and important from a social justice perspective. CBAM can be expected to support socially just climate policies as, firstly, it is likely to make the production of certain goods within the EU a more attractive option than continuing to import those goods. This

is likely to increase the demand for labour in those sectors, leading in turn to new job opportunities and even higher demand for labour. In a positive scenario, these sectors can be expected to see increasing wages and better working conditions.

Secondly, the CBAM takes the most important argument for further allocating free allowances to heavy industry and the largest polluters off the table. Over-allocation to sectors at risk of moving their production out of the EU has been shown to benefit a small group of large companies, and to place a heavy load of ETS on households and small- and medium-size enterprises (SME).³⁹

However, there are also a few missed opportunities and insecurities to be considered. Firstly, while CBAM revenues go to the EU budget, unlike ETS revenues, they are not earmarked to be invested in the green transition. It is not clear yet, secondly, if prices for certain products will increase once they are no longer being imported from other parts of the world, where they may have been produced at low wages and under low or non-existing environmental standards and regulation. It is positive that the true price of products is being paid. Impacts on the purchasing power and access to basic care products of lowest income groups should be monitored and, where necessary, compensated for with social compensation that does not harm the integrity of the mechanism.

A second risk has been pointed out by international organisations such as the United Nations Conference on Trade and Development (UNCTAD), which claim that the introduction of CBAM may increase global economic inequalities, and that it may not be optimally cost-efficient in terms of emission reduction on a global scale. As developing countries generally have less carbon-effective production processes, we may expect CBAM to lead to a decline

38 Council Decision (EU, Euratom) 2020/2053 of December 14, 2020, on the system of own resources of the European Union and repealing Decision 2014/335/EU, Euratom (OJ L 424, 15.12.2020, p. 1).

39 Bollen, Van Hauweert & Beys, (2018). *For a Fair and Effective Industrial Transition. Support Measures for Heavy Industry in Belgium, the Netherlands and Germany*. ETUI Working Paper 2021.8 : <https://www.etui.org/publications/fair-and-effective-industrial-climate-transition>

in exports from those countries and to an increase in exports from more developed countries.⁴⁰ If CBAM leads to the further deterioration of countries already struggling with heavy debt ratios, it will also undermine their capacities to face the climate crisis and to decarbonise their economies. Such negative effects may outweigh the relatively small percentage of emission reductions that CBAM is expected to create on a global scale.

Lastly, for production that is re-localised or safeguarded in the EU as a consequence of CBAM, it should be taken as an opportunity to improve social standards, job quality, environmental safety, and fiscal justice. In this matter, the existing dynamics of a race to the bottom between member states and special and secret agreements between governments and multinational corporations poses risks for social justice and environmental policies.

3.4 THE REVISION OF THE EFFORT SHARING REGULATION

The Effort Sharing Regulation⁴¹ (ESR) is a cornerstone of European climate policies, which sets binding GHG emission targets for each of the member states individually. Given that the European Climate Law (ECL) adjusts 2030 targets, emission reduction ambitions should also be recalculated for each member state. The revision of the ESR presented in the FF55 package sets forth an increase of the EU-wide emission reduction target from 29 per cent to 50 per cent by 2030, compared with 2005 levels.

The ESR relates to those sectors of the economy outside the scope of the EU ETS, which include agriculture, waste, and other non-ETS industries. Buildings and transport make up 55 per cent of the emissions covered under the current ESR and will remain subject to ESR targets even when ETS2 enters

into force. The EC claims that a combination of price incentives and government action is necessary to achieve the reduction ambition of these two sectors.⁴²

The ESR applies an allocation key for targets based on Gross Domestic Product (GDP) per capita, with a maximum target of 50 per cent and a minimum target of 10 per cent. It is up to the member states to draft and deploy the necessary policy instruments to reach these goals.

Social justice risks and opportunities of the Effort Sharing Regulation

When we look at what it requires of the member states, the existing ESR can be seen as rather progressive, as it demands higher reduction efforts from economically strong member states and gives weaker economies more time and leeway to reduce GHG emissions.

Within member states, however, the redistributive impact of policies deployed in the framework of the ESR can be widely divergent and dependent on governments' concern with social justice in the green transition. The ESR thus presents both risks and opportunities for social justice.

In contrast with ETS, however, the ESR does not directly provide direct revenues that could be used for social compensation measures. This means that member states should be very attentive to potential regressive effects of any policy instrument that uses pricing or taxation as a lever for emission reduction, especially in sectors that have a heavy impact on households, like transport and buildings.

The same is true for the employment impacts of national policies aimed at emission reduction. The

40 United Nations Conference on Trade and Development (UNCTAD), (2018). *A European Carbon Border Adjustment Mechanism: Implications for Developing Countries*. <https://unctad.org/webflyer/european-union-carbon-border-adjustment-mechanism-implications-developing-countries>

41 <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=celex%3A32018R0842>

42 Such as tackling market failures, investing in infrastructure, favouring the uptake of zero-emission cars, and promoting building renovation.

Just Transition Mechanism (discussed below) is designed mainly to address employment impacts in sectors affected by ETS¹. Wherever national climate policies have a major impact on employment and social rights, national compensation measures and social safety nets are important.

In the long run, there may also be a risk that this approach increases economic inequalities among member states. As the economically stronger member states are forced to make the green transition earlier and faster, they will be ahead of weaker Member States in eliminating dependence on ever pricier, carbon-intensive energy sources and industries. Redistribution might be even more effective through investment in enforcing the green transition as quickly and coherently as possible (e.g., through a strengthened Modernisation Fund).

3.5 ENERGY TAXATION DIRECTIVE

The Energy Taxation Directive (ETD) sets the framework for energy taxation within member states. The FF55 package contains a proposal to amend this directive to make sure that energy taxation better reflects the environmental and health impact of motor and heating fuels and electricity.

It does so by redefining the tax base and by extending the scope of energy sources eligible for taxation. To better align taxation with pollution effects, the current tax base (volumes consumed) would be replaced by energy content. A wider range of energy sources would become eligible for taxation in the member states, and a number of tax breaks for fossil fuels would be removed, specifically in the agricultural sector and energy-intensive industries. Paraffin used in aviation and heavy fuel oil used in the maritime industry are no longer exempt from taxation for intra-EU travel.

Social justice risks and opportunities in the Energy Taxation Directive

As with the ESR, it is hard to estimate the social justice impacts of the ETD without seeing its

concrete deployment in the member states. All things being equal, however, we can expect energy taxation to lead to rising prices and their previously discussed regressive effects. Compared with a market-based system like ETS, however, taxation systems provide more opportunities for governments to protect vulnerable groups and to target high-income groups and the heaviest polluters.

The ESR amendment presented in FF55 includes suggestions for member states to create such safety nets for vulnerable energy consumers and to avoid regressive effects through energy taxation. For example, lower-income households can be compensated for increased taxation on fossil fuels used for heating or exempted from the taxation of heating fuels and electricity. Member states are encouraged to use revenues from energy taxes for lump-sum transfers to increase the disposable income of the poorest households and to provide them with opportunities to make energy-saving investments.

Energy taxation, importantly, provides the opportunity to target the excessive and unnecessary sources of pollution that may come with extremely luxurious lifestyle choices, such as using private jets, yachts, and disproportionately polluting vehicles like SUVs. Taxing redundant, luxury pollution is a highly efficient and socially just way of reducing emissions, as these markets are very elastic, and taxing luxury pollution can make prompt changes from those who are most responsible for the climate crisis and who have the most leeway to adapt their behaviour.

3.6 THE JUST TRANSITION FUND

The Just Transition Fund (JTF) aims to support the **territories, industries, and workers** most affected by the climate transition. It is part of the JTM, which also contains a special investment scheme under InvestEU and a public loan facility. The JTF entered into force on July 1, 2021.

Expected to mobilise 17.5 billion euros between 2021 and 2027, the fund is deployed under the Cohesion policy, which aims to reduce regional disparities and

address structural changes in the EU, and which also includes the European Regional Development Fund⁴³ (ERDF) and the European Social Fund+⁴⁴ (ESF+). The JTF is also part of the Sustainable Europe Investment Plan.⁴⁵

The JTF has a strong geographical focus. Investments are concentrated in a limited number of regions, or parts of those regions where economic activities strongly depend on fossil fuels⁴⁶ and/or GHG-intensive industrial activities. In these specific areas, the fund deploys investments in economic diversification and retraining or upgrading the skills of workers.

Investments in economic diversification can go to enterprises and economic stakeholders, especially to SMEs, micro-enterprises, and start-ups. These activities should be in line with the objectives of the green transition and have significant job-creation potential. Social support investments through JTF should focus on the retraining or upgrading of skills of workers and job seekers in declining and transforming sectors to enable them to find employment in alternative, local sectors.

A range of other activities that may contribute to the JTF objectives, such as research and innovation, smart and sustainable local mobility, a circular economy, and social infrastructure and soil regeneration, are also eligible for funding.

Despite the JTF's focus on SMEs, large enterprises, and industrial facilities, as well as activities under ETS, *can* receive JTF support 'under certain conditions,' when these investments lead to GHG reductions and are necessary for job creation—for example, in carbon capture and storage (CCS), electrification of processes, and hydrogen use. Investments that are explicitly excluded from

the scope of support are, among others, the decommissioning or construction of nuclear power stations, investments related to the production, processing, transport, distribution, and storage or combustion of fossil fuels; any investments in 'clean' coal technologies, coke production or other processes that involve coal, and investments in the capture and use of methane.

Resources from the JTF have been pre-allocated to the member states based on an allocation key that considers economic parameters and the concentration of fossil-fuel and carbon-intensive industry. To mobilise these resources, member states need to submit Territorial Just Transition Plans (TJTPs) to the EC, in which they assess the specific challenges faced by the territories on the levels of employment, distributional impacts, depopulation risks, and negative environmental impacts.

Furthermore, member states need to demonstrate that the proposed investments will contribute to the social, economic, and environmental objectives of the fund and are consistent with the European Pillar of Social Rights, their National Energy and Climate Plans (NECP), and their national long-term strategies, objectives, and planned actions for the transition.

The TJTPs also need to specify synergies and complementarities between other funding programmes, such as the ERDF and ESF+⁴⁷, and the JTF. Investments from the other two pillars of the JTM—the just transition scheme under the European Investment Bank InvestEU Programme and the public sector loan facility (between 25 and 30 billion euros) – are also triggered by the TJTPs. These can be located outside the TJTP territories if sufficient justification that they meet the development needs specified in the plans can be provided.

43 https://ec.europa.eu/regional_policy/en/funding/erdf/

44 <https://ec.europa.eu/esf/home.jsp>

45 <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A52020DC0021>

46 Notably coal, lignite, peat, oil shale, heavy oil, and diesel.

47 Member states can also transfer funds from ERDF and ESF+ to JTF, for a maximum of 15% of their ERDF and ESF+ allocation.

Finally, the EC stresses that the involvement and commitment of the public and all stakeholders is crucial to the JTF's success and specifies three ways in which such involvement can be achieved. Firstly, a number of public consultation procedures; the European Climate Pact, the Conference on the Future of Europe, and a public consultation as part of a strategic assessment for the programmes that include JTF.

Secondly, the partnership principle, a feature of the Cohesion policy that urges member states to include regional and local authorities, economic and social partners, civil society (such as environmental partners, nongovernmental organisations), and research institutions and universities in the process of preparing, implementing, and evaluating funding programmes.⁴⁸

And thirdly, the Just Transition Platform is created within the Just Transition Mechanism to provide information on and support in the drafting and implementation of TJTPs and to give policymakers and stakeholders a forum to exchange best practices and example projects.

Social justice risks and opportunities in the Just Transition Fund

The JTF clearly builds on the principles of a just transition by redistributing resources over member states and its objective to leave no one behind.

Considering the employment challenges that will inevitably arise with the decline and transformation of fossil fuel and GHG-intensive sectors, investments in social support, quality education for retraining and upgrading worker skills, and the creation of quality replacement jobs are all indispensable. It is crucial that the JTF is optimised to achieve those objectives.

Firstly, it is positive that the JTF sets out clear parameters for investments and prioritises SMEs, start-ups, and micro-enterprises. It is also positive that activities funded by the JTF strictly exclude

fossil fuel-related activities, processes that involve coal and methane, and nuclear power stations.

When it comes to evaluating investments in alternative economic activities, it is important to take a more holistic view of ecological damage. Focusing solely on fossil fuel and GHG-reduction might lead to investments in new, low-emission alternatives that damage ecological systems in other ways, by creating a higher need for certain materials or requiring the extraction of other natural resources. Investments in circular economy initiatives, for example, should be prioritised over replacing CO₂-intense products and production processes with electric products and production processes, which brings with them new ecological challenges.

Regarding the social commitments and priorities set out in the JTF, it is positive that the EC requires TJTPs to be aligned with the Pillar of Social Rights and that it stresses the importance of involving social partners and civil society in devising and implementing the plans.

The retraining and upgrading of skills for workers and job seekers in territories strongly impacted by the transition is a significant and valuable focus of the fund. It is important that these investments really benefit the targeted groups and are not used as an instrument to facilitate restructuring or re-orientation that leads to the loss of established social rights for the workers in question.

Considering the size and geographical focus of the fund (which was reduced to about half of its initial size in the 2020 Multiannual Financial Framework [MFF] negotiations), it is understandable that the JTF does not provide direct income support, for example, in the shape of early retirement or compensation schemes.

The SCF (above) does include that possibility, but its focus is not on mitigating employment impacts. Inevitably, groups of workers will have to be able to rely on national social security nets during the transition.

48 Article 8 CPR.

While the importance of involving social partners and civil society in devising TJTPs is mentioned several times in the regulation, there are no hard guarantees about their formal representation or powers to approve or oppose certain plans or proposals. Furthermore, the decline and transformation of sectors where union representation is strong and where these organisations have enforced standards and rights, also implies the loss of those acquired rights. The regulation does not demand the participation and representation of workers in corporate structures in exchange for funding, nor does it assign them any role in the drafting and deployment of retraining and upgrading programmes for workers and job seekers.

The geographical focus of this fund may be a strength, as it facilitates concentrated investment targeted at the specific needs of impacted territories. However, it may also be a weakness, leading to other forms of social injustice: even in areas where the general economic situation is good, or where the economy is highly diversified, social, economic, and employment impacts can still be disruptive for particular households.

Considering its geographical concentration, the appropriacy of the JTFs allocation method in identifying territories at risk is key. However, it is also difficult to estimate the employment impacts of the transition based on the information we have today. The geographical pre-allocation of funds does not allow member states to shift JTF investments to other regions or to challenges that are not bound to a particular territory when unexpected social and economic challenges arise. In contrast, areas identified by the allocation key may be able to diversify or reorient during the transition without needing any additional funding from the JTF.

As stipulated by the EC, public ownership of the TJTPs will be a crucial aspect of their success or failure. Of the consultation procedures mentioned, only the strategic environmental assessment is directly linked to the TJTPs. Both the European Climate Pact and the Conference on the Future of Europe are too wide in scope and participation level to give local actors and stakeholders direct control over the funds.

The Just Transition Platform is a valuable space for the exchange of information, and it likely contributes positively to the redistributive objectives of the fund, as it makes it more accessible. But the platform is not a democratic channel, given that stakeholders or citizens do not get a direct say in, or any control over, the drafting and implementation of plans.

The partnership principle, if respected in practice, is the most important democratic tool for enabling citizens, civil society, and stakeholders to take ownership of the fund. It is important that elected, local democratic bodies and civil society get a serious opportunity to oppose and amend the content of TJTPs, and that these plans are not drafted and agreed upon exclusively by executive entities. The broad definition and lack of formal decision-making procedures, participation, and representation rules may pose risks of accountability and transparency. In vaguely defined democratic procedures, it is often the most vulnerable groups that are least represented.

3.7 OTHER TARGETS, RULES, AND STANDARDS: RED, EED, EMISSIONS STANDARDS, AND ALTERNATIVE FUELS INFRASTRUCTURE

The Renewable Energy Directive (RED) and the Energy Efficiency Directive (EED) set out the EU and member state targets for energy reduction and for the transition to clean energy. The EC proposes to increase the energy efficiency target to 36 per cent for final energy consumption by 2030 (current target: 32.5 per cent)—and to make the target binding. The EC demands specific efforts from the public sector: each year, energy consumption should be reduced by 1.7 per cent, and at least 3 per cent of the total surface of public administration buildings should be renovated to use energy more efficiently and reduce use of non-renewable resources. The directive also pays attention to the energy poverty dimension and proposes that a specific share of the energy savings made by renovating public and private buildings should be redirected towards vulnerable consumers,

people affected by energy poverty, and people living in social housing.

The Alternative Fuels Infrastructure Directive requires member states to develop policy networks for building publicly available refuelling and recharging points for alternative fuel vehicles, vessels, and stationary aircraft. The proposal sets mandatory national targets concerning the national fleet of vehicles and publicly available electric charging infrastructure for cars and vans, ensuring that charging points are available within a maximum distance of 60 km and sufficiently placed within urban nodes. It also includes targets on hydrogen and natural gas refuelling stations. By 2025, more than 1 million charging points should be deployed, and by 2030 there should be 3.5 million in the EU.

Social justice risks and opportunities in other rules and standards

The RED proposal will make clean energy more widely available, and at better prices. It is also positive that the proposal incentivises investments in the public sector and that public institutions are pushed to reduce their carbon-intensive energy consumption. At the same time, this effort could be more ambitious and could also include investment targets in addition to efficiency targets.

It is also positive that the energy poverty dimension is taken into account in the EED and that vulnerable households and people living in social housing are temporarily exempted. At the same time, such exemptions could delay governments efforts to invest in prompt and accessible access to clean energy alternatives for the most vulnerable consumers.

The deployment of alternative fuel infrastructure can be expected to create new job opportunities in construction and retail, which are possibly safer, healthier and of better quality than comparable jobs in the fossil-fuel driven car and transport industry. It is important, however, that social standards and social dialogue are built into the growth of this new sector. Wherever public money is used to support the emergence of this sector, it should be used as a lever for social rights and for guarantees regarding worker representation and participation in growing corporate structures of the clean energy sector.

At the same time, attention must be given to how workers are redirected from the fossil-fuel construction and retail and/or automotive sectors to alternative clean-energy sectors. Providing training, skills upgrading and help in seeking an alternative job is important, but these systems should be set up in close cooperation with social partners and target groups.

If not accompanied by targeted use of the SCF and the deployment of an alternative fuel infrastructure that takes the most vulnerable groups into account, the new car and vehicle standards entail the risk of mobility loss among low-income, car-dependent groups. For the same reason, it should be ensured that ‘sustainable’ vehicles and infrastructure do not simply replace carbon-intensive transport in urban areas where public transport could effectively replace individual cars and vehicles. Areas most in need—i.e., in low-income and poorly connected areas, rural areas, and economically weaker regions—should be prioritised first to avoid mobility loss.

Finally, the alternative fuels infrastructure proposal sustains a model of individual car ownership, whereas a socially just, green transition could also focus on a modal shift, where public transport largely replaces it.

4. ANALYSIS

In this section, we summarise the overall social justice risks and opportunities of the EGD as a policy mix for our two domains of focus: employment impacts of the industrial transition and disposable income impacts of carbon pricing. Here, we attempt to balance the pricing, rules and targets, and compensation measures to get a clearer idea of the total picture.

4.1 THE EMPLOYMENT IMPACTS OF THE INDUSTRIAL TRANSITION

The interplay of policy instruments and compensation measures aimed at emission reductions in industry (ETS1, CBAM, RED, EED, new car and vehicle emission standards, and the deployment of the alternative fuels infrastructure in FF55 and the JTM) can be expected to have profound impacts, both positive and negative, on employment in the EU.

On the macroeconomic level, the EC estimated that the employment impact of the transition will be neutral or even slightly positive. Also, whereas lower-skilled workers will be more affected in concentrated regions, the EC foresees macroeconomic

employment impacts to be slightly more negative for higher educated workers.⁴⁹

But in some specific sectors, like those dependent on fossil fuels and coal, an irreversible decline in economic output and employment can be expected. About 237,000 people across the EU are still employed in coal-related activities. Peat extraction activities and the oil shale industry provide jobs for 10,000 and 6,000 people respectively. The fossil fuel value chain provides multiple additional jobs, for example in gas stations and automotive services.⁵⁰ Workers in these sectors will need to find replacement jobs and/or become dependent on (temporary) social support and safety nets.

Other sectors are expected to undergo profound technological transformations in order to reduce emissions. The restructuring of those industries might lead to unemployment but will also create demand for other job profiles, which can be met through retraining and upgrading skills of existing employees, or by hiring new people. The JTF and the SCF both provide possibilities for the funding of retraining and upgrading programmes and for job search assistance. It is important, however, that such programmes are worker oriented.

49 European Commission, 17.9.2020, Impact Assessment accompanying the Commission communication to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions on Stepping up Europe's 2030 Climate Ambition. *Investing in a Climate Neutral Future for the Benefit of Our People*. https://eur-lex.europa.eu/resource.html?uri=cellar:749e04bb-f8c5-11ea-991b-01aa75ed71a1.0001.02/DOC_1&format=PDF

50 The EC's least optimistic assessment model (JRC-GEM-E3) estimates the coal sector to be the most heavily impacted, with an employment reduction of almost 50% by 2030. Other sectors in which employment is likely to be negatively affected are the crude oil and oil sectors, gas, and aviation transport. Sectors most sensitive to policies that address carbon leakage due to international trade and competition are ferrous metals and non-ferrous metals and non-metallic minerals.

The crucial difference between retraining, upgrading, and job search programme instruments from JTM and SCF is that funds from JTF can be mobilised only in specific areas, whereas funds from SCF can be used for policy instruments deployed in the member states as a whole. Also, only the SCF provides the opportunity for member states to use funds for (temporary) direct income support, for example, by means of pension-bridging grants.

In the employment transition, the EC has committed itself to improving social standards and working conditions and to aligning policy instruments and investments with the Porto Declaration and the European Pillar of Social Rights. To meet these commitments, it will be crucial to establish strong social dialogue and to ensure the participation and consultation of social partners in the renewable energy and other sectors of the green and circular economy.

The EC's 2020 impact assessment and the recommendations to ensure a fair and just transition also suggest that member states should **use carbon revenue to reduce labour taxation for lower-skilled segments of the work force**. Reduced taxation on lower-skilled labour would lead to higher wages, stimulating low-skilled labour supply and reducing labour costs for companies. Such tax shifts can effectively support the just transition if they are carefully designed to benefit the most vulnerable and are not accompanied by cuts in welfare and social security systems.

4.2 DISPOSABLE INCOME IMPACTS OF CARBON PRICING

Our reading of the different legislative proposals also revealed various risks and opportunities relating to disposable household income. Firstly, both emission trading systems create a great risk that large emitters will pass the cost of carbon pricing on to final consumers. In ETS₁, the allocation of free allowances to a small group of big companies was a significant source of such regressive effects. The introduction of CBAM and the gradual phasing out of free allowances is an important response to this issue.

This impact of carbon pricing on disposable household income can be expected to be much higher for ETS₂. Here, the interplay of carbon pricing with social compensation measures in the SCF appears to be most relevant. Without prompt and targeted access to clean alternatives, low-income households that depend on carbon intensive heating systems or mobility face the risk of energy poverty and/or mobility loss when carbon prices go up.

In fact, these risks are already pertinent in the present context, where carbon-intensive energy prices are rising in the face of geopolitical and economic factors entirely independent of climate policies. This context makes the rapid and targeted deployment of policy instruments to support the most vulnerable households in the transition even more urgent.

This underlines the importance of safeguarding and, ideally, even increasing the size and scope of the SCF, as well as the importance of a swift and thorough process for the SCPs. In drafting and deploying these plans, a lot of responsibility lies with the member states.

While we can also expect the increased emission reduction targets under the ESR and new energy taxation under the ETD to have a considerable impact on disposable income, the distributional effects of these policies entirely depend on how the member states design them.

4.3 RISKS AND OPPORTUNITIES FOR PUBLIC ACCEPTABILITY

As discussed in our introduction, social justice is not only important for the effectiveness of climate policies but also necessary for securing public support and acceptability. There are different ways in which we can expect real or experienced injustices to be politicised during the transition.

There is a risk that the (re)distribution of resources and efforts across member states will be exploited by nationalist and Eurosceptic actors. To avoid such politicisation, it is crucial that national governments

and political actors overtly support and defend the solidarity mechanisms built into the EGD. It should be clear to European leaders and citizens that these mechanisms are necessary to secure a safe and sustainable future for all of them.

Also, mainstream parties and national governments may shift the negative impacts of climate policies to the European level and take all the credit themselves for the positive outcomes and compensation measures that come from EU policies. To avoid being made the scapegoat for all possible negative impacts of the transition, it is important for Europe to clearly leave its stamp on the compensation measures it deploys to mitigate these effects. To this end, guarantees about publicly communicating accurate credit to the EU and national governments for successful projects should be enforced in exchange for EU funding.

Lastly, an important responsibility lies with European institutions and national governments to show the utmost respect for democratic principles and procedures when devising and deploying the green transition. If citizens do not feel sufficiently informed, consulted, and listened to, they will experience European climate policies as undemocratic.

Significant risks and opportunities can also be found in the approval and consultation processes for SCPs, TJTPs, and National Climate Plans. The democratic risks of such procedures have become clear in the drafting and approval of the National Recovery and Resilience plans, where, according to some, democratic oversight was insufficient.⁵¹ To broaden accountability, the drafting and implementation of such plans should come with closer oversight from the European Parliament, and a role for social partners at the European and national levels.

51 <https://www.europarl.europa.eu/news/nl/press-room/20210517IPRO4120/parliament-demands-democratic-scrutiny-over-national-recovery-efforts>

5. RECOMMENDATIONS

In this section, we list the policy recommendations resulting from our social justice reading and analysis of both the FF55 package and the Just Transition Mechanism, and of our discussion with European, national, and local civil society actors on the various policy instruments.

The key takeaways from our analysis are as follows:

- The climate crisis should be understood as and can only be tackled as an inequality crisis. Extreme wealth and the production of highly profitable, multinational companies are the most important sources of pollution, exploitation, and ecological damage.
- To tackle the impact of green deal policies on household income, the ‘polluter pays’ principle must be upheld and expanded by the European Commission. Too often, the heaviest emitters divert the costs they are expected to pay to compensate for the ecological damage they create on to consumers, governments, and society. This happens when extremely wealthy consumers escape from paying taxes, and when multinational companies divert the costs of emission trading on to consumers.
- Emission trading is an ideal policy instrument to make polluters pay. The existing emissions trading system has left many loopholes for large companies to divert additional costs on to consumers, and to even make additional profits. However, we recognise that emission trading may be the only politically feasible way of putting a price on carbon emissions at the European level.
- The phase out of free allowances and the carbon border adjustment mechanism proposed in Fit for 55 are important efforts made to avoid more regressive effects from emission trading. The phasing out of free allowances for large emitters should take place without delay and without exceptions, in coordination with the carbon border adjustment mechanism. Additional ways to reduce the regressive effects of emission trading should be explored by the Commission and introduced in future.
- The deployment of the carbon border adjustment mechanism should be accompanied by efforts to support least developed countries with high levels of debt and great dependence of export to the EU. It should be avoided that the carbon border adjustment mechanism increases global economic inequality, leaving least developed countries behind without the means to make the transition. This would undermine the EU’s goal of globally reducing carbon emissions.

- The Social Climate Fund is indispensable as a compensation mechanism for the regressive effects of the new emissions trading system for buildings and transport. It would be socially just, and arguably more effective for the transition, to address 100 per cent of the revenues from ETS₂ to make sure that no one is left behind. Without government support, low-income groups will have difficulties escaping from ever more expensive, carbon intensive lifestyles. Such an uneven transition is likely to trigger public discontent and political backlash.
 - National governments' Social Climate Plans need to be very closely scrutinized on whether proposed projects and subsidies are designed to really benefit vulnerable groups. Drafting and deploying these policies should happen in close cooperation with local representatives and civil society actors close to the targeted groups.
 - The package can be expected to have wide impacts on employment. Overall, EU-wide employment levels are expected to be positively impacted, but high levels of unemployment will occur in specific sectors and areas because of the transformation and disappearance of carbon intensive industrial activities. The Just Transition Fund is being deployed to mitigate these negative economic effects.
 - The size of the Just Transition fund does not suffice to meet the complex employment impacts of the transition in certain areas, and national governments will have to make additional efforts to respond to this challenge. However, to maximise the effectiveness of this financially restrained Just Transition Fund, social partners should be consulted and involved in the drafting and deploying of national Territorial Just Transition Plans. Considering its limited size, projects eligible for funding should meet to the highest social and ecological standards. Furthermore, these ecological standards should not be narrowly focused on carbon emission reduction. Low-carbon activities may well have other climate impacts such as waste production, the exploitation of natural resources, soil, or water pollution.
 - The proposal to renew the energy taxation directive provides national governments with a framework to tax redundant and excessive emissions, and to exempt vulnerable groups from energy taxation. National governments should develop such instruments and should seek ways to apply this approach to other ecologically damaging products. Taxing luxury emissions is like picking low hanging fruit; it is highly effective and socially just. Such policies are likely to prompt strong pushback from powerful organisations and individuals, which can only be reduced if political leaders are sufficiently urged to and held accountable to defend the interests of the many and not the happy few. Therefore transparency, accountability, and the independence of leadership in our democracies is as important in the climate crisis as the fight against inequality.
- In line with that argument, and to safeguard public support and ownership of the European Green Deal, transparency and democratic accountability should be upheld by all governance levels involved in deploying the European Green Deal. It implies that national and European leaders must defend its social and ecological objectives, prevent blame-shifting and scapegoating, and ensure that the EU is also credited for the benefits of social climate policies.
- A detailed overview of our recommendations, organised per proposal, is provided below.
- For **ETS₁**, a more linear emission reduction factor for the carbon emission cap must be introduced. This proposal not only contributes to the necessary climate targets but also lowers the risk of over-allocation that has led to regressive effects in the past.
- In addition to the need to strengthen of the Market Stability Reserve, the alternative proposal of a price stability mechanism must be considered as well because it can give governments more control over the ETS market.

The phasing out of **free allocations** should be applied without exceptions and a maximum number of emission allowances should be auctioned at prices that reflect the actual ecological impact of emissions. Remaining free allowances should be allocated in a dynamic manner, closely aligned with the actual production of the industries receiving them.⁵²

The introduction of the Carbon Border Adjustment Mechanism is crucial in this respect, as it takes international competitiveness and carbon leakage arguments off the table.

The introduction of a price floor and a price ceiling would prevent prices from dropping below the levels necessary to incentivise the switch to green alternatives, while a price ceiling would prevent prices from rising too quickly and becoming too high, leading to the risk of lock-in effects and additional profits for companies trading their emission allocations.

Revenues from ETS1 must be used to strengthen the Modernisation and Innovation Funds, as well as the earmarking of revenues to be used for the green transition. Member states should utilise these revenues to strengthen social safety nets and to prepare societies for the employment impacts of the industrial transition.

In accordance with the EC's suggestion, revenues from carbon pricing should be used to lower taxation on low-skilled labour. There is also crucial importance in ensuring that such tax shifts do not eventually result in weaker social security and safety nets in the member states.

The impacts of **ETS2** on disposable household income can be expected to be greater than those of ETS1, which means that systems to avoid cost pass-through are even more important here. The recent legal analysis by Opportunity Green for Transport and Environment⁵³ proves that it is possible to design

a system so that a legal cap is set on the share of the carbon price (paid in emission allowances) that can be passed on to final consumers. In order to develop such a system, suppliers of fuel for transport and heating must provide a breakdown of costs going into the price at the pump (similar to agricultural products today). Where emission trading costs exceed the cap, this money should either be absorbed by suppliers or contributed directly to the Social Climate Fund.

Rather than using concerns about the effect of ETS2 on energy poverty as an excuse to lower climate ambitions, it should be taken as an opportunity to design timely and targeted policy instruments that support low-income households, small businesses, vulnerable communities, and groups who are highly dependent on carbon-intensive transport and heating or cooling systems during the transition. Without such measures, it is hard to see how both the ecological and social justice objectives of the European Green Deal can be realised. The use of revenues for social compensation must be a minimum requirement.

The creation of a **Social Climate Fund is urgently needed**. The contribution of 25 per cent from ETS2 revenues must be safeguarded and complemented by a further 25 per cent contribution of ETS2 revenues from the member states. The fund needs to be strengthened and expanded where possible, and that more ambitious social compensation initiatives will be required in the future.

Considering the limited size and scope of the Social Climate Fund, all policy instruments financed through the fund should be closely monitored for their accessibility to the most vulnerable groups.

The involvement and close cooperation of target groups in devising and deploying Social Climate Plans is crucial to help navigate the complexity of subsidies. The European Commission should urge national governments to consult and cooperate

52 https://carbonmarketwatch.org/wp-content/uploads/2021/06/CE_Delft_Additional_Profits_ETS.pdf

53 https://www.transportenvironment.org/wp-content/uploads/2022/02/Opportunity-Green-ETS2-Oil-Majors_final_8Feb22-1.pdf

with civil society actors that represent groups such as NGO's advocating for, and working with people in poverty, as well as social workers, to devise and deploy Social Climate Plans. Support from civil society actors can be added as a formal criterion in the **Social Climate Plans** instructions given to the member states.

Independent of the Social Climate Fund, national policies and safety nets will be necessary to support vulnerable groups during the climate transition. This should become a point of attention in the various dialogues maintained by the European Commission with the member states (the European Semester, the National Energy and Climate Plans, and the evaluation of Recovery and Resilience Fund spending.)

The size and scope of the **Just Transition Fund** is too limited in comparison with the economic challenges it is expected to address. It is urgent that Territorial Just Transition Plans be drafted and scrutinised with great concern for the most vulnerable groups, and for those communities and companies that are most in need of support.

The investment parameters defined for the Just Transition Fund should be applied strictly and without exception. Priority should be given to investments in small- and medium-sized enterprises and projects that clearly contribute to the green transition. In the exceptional case that investments from the Just Transition Fund are awarded to big corporations, ecological and social guarantees should be strictly enforced. Soil regeneration projects should be funded only when a big corporation is legitimately unable to pay for the project.

When selecting investments based on greening efforts, the focus should be broader and more holistic than decarbonisation alone. Even low- or zero-carbon products and processes can have detrimental ecological impacts. Minimising natural extraction and waste should always be prioritised over new

production processes. Policymakers and business leaders must implement holistic approaches that prioritise investments that generate societal benefits, not just profits.

Retraining and upgrading skills initiatives and job search assistance programmes should first and foremost be worker-oriented and should be designed with the support of, and in close cooperation with, social partners. National governments must be aware that not all workers can be simply redirected to new jobs. For these workers, national governments will have to provide some degree of direct income support.

Public ownership of the **Territorial Just Transition Plans** is crucial for their effectiveness. The transparency and the involvement of local actors and stakeholders in drafting and deploying Territorial Just Transition Plans must be increased. In line with the partnership principle, citizens, civil society groups, and other stakeholders should be enabled to take ownership of the fund. Locally elected politicians and civil society representatives should have meaningful opportunities to oppose and amend the content of Territorial Just Transition Plans.

Trade unions are crucial partners and more must be done to involve them in the design of the Territorial Just Transition Plans. In a recent survey conducted by ETUC,⁵⁴ trade union affiliates in 10 out of 21 member states said that they had not been involved in the design of Territorial Just Transition Plans. Based on the European Trade Union Confederation (ETUC)'s conclusions, we urge the EC to issue clear guidelines on how to properly involve trade unions and that this obligation should be assessed as part of the evaluation of the Territorial Just Transition Plans.

Additionally, the Just Transition Platform can play an important role in improving transparency and in facilitating communication and information exchanges with local communities.

54 <https://www.etuc.org/en/document/etuc-position-just-transition-legal-framework-complement-fit-55-package>

As for the **Effort Sharing Regulation**, it will require the progressive distribution of efforts demanded across member states. At the same time, there is a risk that this approach could increase economic inequalities among member states in the long run. Forcing economically stronger member states to make the transition earlier and faster may cause weaker economies to experience greater lock-in effects. To avoid this, redistributive investments in the transition must be strengthened as well (e.g., through strengthening of the Modernisation Fund).

For the **Energy Taxation Directive**, we support the European Commission's suggestion that member states should use energy tax policies to facilitate the just transition, for example, by exempting vulnerable groups from energy taxation.

We regard the **Renewable Energy Directive as a major achievement because it takes the energy poverty dimension into account** and provides national governments with the possibility to temporarily exempt vulnerable households and people living in social housing from paying taxes on energy. But such exemptions should not delay government efforts to invest in providing prompt and accessible access to clean energy alternatives for the most vulnerable consumers.

Finally, for the deployment of the **alternative fuel infrastructure and new car and vehicle standards**, it is crucial that efforts are made to provide sustainable alternatives to groups most at risk of mobility loss. We also stress that attention should be paid to social standards and union representation in newly created jobs in the alternative fuel automobile sector.

GLOSSARY

Carbon Border Adjustment Mechanism (CBAM)

The proposal to set up a system of taxation based on the carbon content of products imported into the EU.

European Climate Law (ECL)

A law that was voted on in 2019 which adjusts 2030 targets on Green House Gas emission reduction efforts.

Emissions trading system (ETS)

A market mechanism that allows bodies such as countries, companies or manufacturing plants, which emit greenhouse gases into the atmosphere, to buy and sell these emissions as permits or allowances amongst themselves.

ETS2

The proposal to extend the Emissions trading system to new sectors such as transport and buildings.

European Green Deal (EGD)

The set of policies for ecological transformation set out by the EU.

EU Next Generation Recovery Plan (EU Next Gen)

A demand that 37 per cent of the member states' Recovery and Resilience plans contribute to the green transition.

Effort Sharing Regulation (ESR)

Sets binding GHG emission targets for each of the member states individually with an increase of the EU-wide emission reduction target from 29 per cent to 50 per cent by 2030, compared with 2005 levels.

Energy Taxation Directive (ETD)

Sets the framework for energy taxation within member states.

Fit for 55 (FF55) package

Package of measures set out by the EU to achieve 55 per cent reduction of emissions as compared to a 1990 baseline.

Intergovernmental Panel on Climate Change (IPCC)

Set up by the UN, the panel is responsible for advancing knowledge on human-induced climate change.

Just Transition Mechanism (JTM)

A compensation measure that focuses on vulnerable regions and workers in the industrial transition.

Just Transition Fund (JTF)

A fund set up under the JTM which aims to support the territories, industries, and workers most affected by the climate transition.

National Energy and Climate Plans (NECP)

In order to meet the EU's new energy and climate targets for 2030, member states are required to establish a 10-year NECP for the period from 2021 to 2030

Social Climate Fund (SCF)

Set up to support vulnerable households and communities during the transition, by providing money to national governments to facilitate the just transition.

ABBREVIATIONS

CAP	Common Agricultural Policy
CBAM	Carbon Border Adjustment Mechanism
CCS	Carbon Capture and Storage
EC	European Commission
ECL	European Climate Law
EEA	European Economic Area
EED	Energy Efficiency Directive
EGD	European Green Deal
ERDF	European Regional Development Fund
ESF+	European Social Fund+
ESR	Effort Sharing Regulation
ETD	Energy Taxation Directive
ETS1	Emission Trading System
ETS2	Emission Trading System for Transport and Buildings
ETUC	European Trade Union Confederation
EU	European Union
EU ETS	European Union Emission Trading System
EU Next Gen	European Union Next Generation Recovery Plan
FF55	Fit for 55
GDP	Gross Domestic Product
GHG	Greenhouse Gas
GND	Green New Deal
GNI	Gross National Income
ILO	International Labour Organization
IPCC	Intergovernmental Panel on Climate Change
JTF	Just Transition Fund
JTM	Just Transition Mechanism
MFF	Multiannual Financial Framework

MSR	Market Stability Reserve
NECP	National Energy and Climate Plan
RED	Renewable Energy Directive
SCF	Social Climate Fund
SCP	Social Climate Plan
SME	Small- and Medium-size Enterprise
TJTP	Territorial Just Transition Plan
UNCTAD	United Nations Conference on Trade and Development
UNSDGs	United Nations Sustainable Development Goals

