Shaping a Just Transition Fund fit for purpose

Eurelectric position paper

March 2020

Eurelectric represents the interests of the electricity industry in Europe. Our work covers all major issues affecting our sector. Our members represent the electricity industry in over 30 European countries.

We cover the entire industry from electricity generation and markets to distribution networks and customer issues. We also have affiliates active on several other continents and business associates from a wide variety of sectors with a direct interest in the electricity industry.

We stand for

The vision of the European power sector is to enable and sustain:
- A vibrant competitive European economy, reliably powered by clean, carbon-neutral energy
- A smart, energy efficient and truly sustainable society for all citizens of Europe

We are committed to lead a cost-effective energy transition by:

investing in clean power generation and transition-enabling solutions, to reduce emissions and actively pursue efforts to become carbon-neutral well before mid-century, taking into account different starting points and commercial availability of key transition technologies;

transforming the energy system to make it more responsive, resilient and efficient. This includes increased use of renewable energy, digitalisation, demand side response and reinforcement of grids so they can function as platforms and enablers for customers, cities and communities;

accelerating the energy transition in other economic sectors by offering competitive electricity as a transformation tool for transport, heating and industry;

embedding sustainability in all parts of our value chain and take measures to support the transformation of existing assets towards a zero carbon society;

innovating to discover the cutting-edge business models and develop the breakthrough technologies that are indispensable to allow our industry to lead this transition.

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There is no Green Deal without a just transition

When policymakers implemented the EU internal market 30 years ago, they foresaw that the consequent supply shock in the economy needed to be counterbalanced by more societally acceptable measures such as structural funds and the establishment of the Social Dialogue. As underlined by Pascal Lamy (Jacques Delors Institute, February 2020), the Green Deal is a comparable historical moment that gives a strong direction to the EU until 2050, it has the potential to create a similar shock as the EU internal market, but of a much wider magnitude, tenfold according to Lamy.

Matching policies able to limit the distributional effects that a fast energy transition will trigger in concentrated geographical areas of the EU are essential to bring citizens on board. These policies need to effectively support the countries, regions, industrial sectors, technologies, workers and consumers that will be the most affected, in line with the "no one left behind" principle as described by President Von Der Leyen.

The proposal for a regulation establishing the Just Transition Fund (JTF) is one of the necessary measures to mitigate the negative effects of the Green Deal in some regions. The European power sector welcomes the initiative of the European Commission and highlights the importance of shaping an instrument that is fit for purpose. In particular, the current structure of the proposal does not seem to focus enough on the energy aspects the transition. Hereafter Eurelectric would like to present the position of the power sector on the JTF.

A financially independent fund is key

The Just Transition Fund should be fuelled with EU "fresh money" and provide a more substantial financial support, higher than **EUR 7,5 billion**. **Proposed transferring mechanism** based on matching the funds obtained from the JTF with Members State's resources (own resources or cohesion envelope) **shall become optional (instead of mandatory) to allow Member States to assess the best way to allocate resources.**

JTF foresees an obligation that each Member States must complement funds obtained from the JTF of EUR 7.5 billion with national funds and funds coming from ERDF and/or EFS. For each 1 euro coming from JTF a Member State will have to add minimum 1.5 euros and maximum 3 euros from its own cohesion envelope. It means that for each 1 million a Members State would like to obtain from the JTF, it will have to add between 1,5 and 3 million from its own pocket.

The Member States receiving the most funds from ERDF and/or EFS are those who need it the most, making it mandatory to redirect these resources to complement the JTF risks having counterproductive effects and discourage local authorities to apply for the fund. The EUR 7.5 billion amount is not sufficient for the objectives of the fund and will in fact leave some regions behind. **The power sector advocated for the fund to increase substantially without hurting other EU funding mechanism and funds already dedicated to climate issues.**

A more substantial financial envelope for the JTF should also go hand in hand with a higher cap. The cap adopted for the maximum allocation of fund for a Member State cannot be limited to EUR 2 billion if the overall envelope is higher than 7,5 bn.

Aid intensity of 75 % according to the EIB Just Transition Package Rules

Aid intensity rules adopted by the European Investment Bank's Energy Transition Package shall be used for JTF, for the sake of consistency and to make the fund more effective. Therefore **allow for the maximum aid level to correspond to the maximum financing level of 75%**. The aid intensity rules featuring in the cohesion policy vary widely across regions within the same Member State and can make the methodology more prone to unintended negative consequences.

Priority for highly CO2 dependent regions, especially coal regions with GDP per capita below the EU average

Funds should prioritise highly carbon-intensive regions, notably those heavily reliant on coal-mining (and coal power plants) and with GDP per capita below the EU average but also those isolated from Continental Europe like islands or outermost regions (as of Art. 349 of TFEU) which are often highly dependent on imported oil for electricity generation. It is in all the aforementioned regions where citizens are faced with the biggest challenges.

The number of jobs in coal mining, energy use and in carbon intensive industries should be key eligibility criteria. The table with the national allocations circulated by the European Commission shows that the suggested methodology could end up prioritising areas that may need less external financing compared to those who need it the most.

A way to compensate for this is to modify **the weight for employment in mining and energy use of coal and lignite used for the calculation of the financial envelope and increase it from the current value of 25%.** Such a change would account for the fact that main aim of the JTF should be easing of the transition away from coal in the power sector. Moreover, we propose to take into account the dependency on imported oil for islands and outermost regions by introducing a new criteria reflecting the specificity of these areas with a weight of 5%.

Support projects in enterprises bigger than SMEs

The wording about the possibility for projects put forward by enterprises bigger than SMEs to be considered under the JTF is ambiguous and does not provide clear signals for the right investments to be made in the needed areas. Large enterprises are the biggest employers in transforming sectors of the economy.

There should be no obligation to state an exhaustive list of operation and enterprises other than SMEs in the territorial just transition plans. The needs of affected regions change continuously, it is impossible to set them ex ante. Any change of the territorial just transition plans brings additional administrative burden, which should be eliminated by allowing for more flexibility.

One of the conditions for this type of project to qualify, for instance, is that job losses are higher than job gains. We have to note that employment gains in renewables and fossil fuel energy sectors differ greatly. We cannot compare employment in transforming and new sectors of economy. Additionally, as workers migrate when power plants or carbon intensive activities are shut down, it is often difficult to track the change of residence due to administrative inefficiencies, this adds to the difficulties of having a clear picture of the jobs lost and gained.

Moreover, in the current proposal of the JTF no definition of “productive investments” (Art. 4, paragraph 2) regarding big enterprises is being provided leaving much room for ambiguity. The funding for big utilities in relation to productive investments should be earmarked for RES or other significant transformative carbon-reducing investments in power generation in the regions mostly affected by the transition.

Support for investment in renewables, smart electricity solutions and related infrastructure, circular economy, environmental remediation

Supported activities under the Article 4 of the draft JTF regulation must bring added value in comparison to the business as usual scenario. The JTF should not support consultancy or HR services, which are already supported by other funds, such as ESF+.

Supported activities should always be considered using following criteria:

- Contribution of activities to the creation of new jobs;
- Contribution to the CO2 emissions decrease;
- Contribution to the security of supply (e.g. if needed to substitute phased-out electricity generation capacities);
- Contribution to circular economy, air quality, site restauration, upskilling and reskilling of workers.

The JTF should not support activities in the affected regions only, but activities should always be linked to the transforming sector or the affected region. They must fulfil the above-mentioned criteria.

Funds should be made available for investment in renewables, smart electricity solutions and related infrastructure as well as in circular economy and environmental remediation.
Beyond addressing the social impact on transitioning communities, it must support projects that offer economic opportunities. Crucially it should finance re-skilling programmes for coal miners as well as investment in renewables, circular economy, environmental remediation, smart electricity solutions and enabling technologies and infrastructure.

This would held address the economic and social impacts of the transition by creating job opportunities within the power sector. The current structure of the proposal does not seem to focus enough on the energy aspects of the transition. The mechanism should be as such that if, for instance, a coal power plant is closed down, the energy activity is still kept in the region. This applies above all in regions where a risk for the security of supply is identified, which could jeopardize their economic transformation.

Preparation of territorial just transition plans should be coordinated

According to the JTF proposal, “Member States shall prepare, together with the relevant authorities of the territories concerned”. It should be stated that central coordination seems more reasonable. The support is dedicated only to those regions, which has had territorial just transition plan prepared for the territories concerned at the NUTS-3 level. However, without a central coordination at the Member States level it might be difficult to ensure that all plans will be prepared in line with the commitments stated in National Climate and Energy Plan and within the tight timeline before the end of this year. Thus, the JTF Regulation should foresee a more centralised approach and require the preparation of plans at the NUTS-2 level with a coordination from the central level.

Necessary support for the plans preparation should be provided via the Just Transition Platform consultancy services, which should allow for a smooth adoption of the plans.

Eurelectric pursues in all its activities the application of the following sustainable development values:

Economic Development

- Growth, added-value, efficiency

Environmental Leadership

- Commitment, innovation, pro-activeness

Social Responsibility

- Transparency, ethics, accountability

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