

Compensating for the green transition: An analysis of the EU's Just Transition Fund and Social Climate Fund

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The EU has been a major driver of policy change in the domain of environmental protection and climate change for a long time, and this role was considerably enhanced with the ascent of the Von der Leyen Commission. Its flagship climate change strategy, the European Green Deal (EGD), was proposed in 2019 and approved in 2020, and includes a set of initiatives aimed at achieving climate neutrality by 2050. “Just transition” is an integral element of the EGD, which commits that, in tackling the climate emergency, the EU will “leave no person and no place behind”. The recognition that the costs of the energy transition should be allocated fairly in society and that those most adversely affected by the transition should receive special support is presented as essential to ensure the political feasibility of the broader climate policy project.

The first explicit mechanism devised to compensate for the adverse social externalities of green policies adopted by the EU was the Just Transition Fund (JTF), established in 2022. It was followed by the Social Climate Fund (SCF), approved in 2023. These instruments have been necessary to garner broader political support for the EU's key climate initiatives: the JTF was instrumental in ensuring that all member state governments would ascribe to the EU's climate targets, and the SCF was instrumental in securing the agreement to extend the EU's carbon market for buildings and road transport (ETS-II). As such, the JTF supports EU regions most affected by the transition to a low carbon economy and the SCF will shelter vulnerable households, micro-enterprises, and transport users from some of the consequences of the ETS-II.

The paper draws on the secondary and gray literature, policy documents and media coverage and consists of two parts: a formal policy analysis and a political process analysis. We begin by scrutinizing the way in which the JTF and the SCF have been designed, their complementarities with existing national programs and their capacity to “buffer” negative externalities arising from climate ambition. We subsequently turn the policy making process that led to the adoption of the two policy instruments. In doing so, we seek to identify the conditions under which territorial and ideological divisions are transcended allowing to push eco-social policies forward at EU level.