Rethinking our Economy and Society for a Real Green and Just Transition

MAY 2024
1. Finance: direct more capital towards a net-zero Europe

Financing the green transition is one of the most urgent aspects that the next European Commission needs to face. Not only must capital be mobilised and diverted towards renewable energy systems (RES) and low-carbon technologies, but existing capital should shift from fossil-based activities towards low-carbon initiatives. This will avoid lock-in effects and stranded assets while developing markets for low-carbon technologies which can substantially contribute to the net-zero objectives of the EU. To enable this shift, it is crucial to set a clear and science-based definition of which activities substantially contribute towards these objectives.

**Recommendations:**

- Mobilise additional public capital towards the development of RES and low-carbon projects and technologies.
- Shift current public capital from fossil-based activities towards low-carbon initiatives.
- Ensure that private capital is directed towards RES and low-carbon projects and initiatives, disincentivise investments towards fossil-based activities.
- Immediate and complete phase-out of all public funding to fossil-based projects and initiatives. This must be done bearing in mind those temporary and exceptional cases addressing burden on householders in the framework of the current energy crisis.
- Enable clear and transparent science-based classification and categorisation mechanisms for determining when projects contribute substantially to the European net-zero objectives.
  - Revise the EU Sustainable Finance Taxonomy to ensure that only those activities that substantially contribute to the net-zero targets are financed. This means excluding fossil gas and including criteria that consider the embedded emissions in construction products.
- Ensure that the new Multiannual Financial Framework (MFF) from the years 2027-2034 allocates enough funds to climate policies and minimises funds which are not compatible with the EU’s net-zero targets.

2. Economy: pricing carbon effectively

Market failures jeopardise overall efforts to minimise the worst impacts of climate change, which the EU has rightfully chosen to prioritise. Yet, the current economic system still favours fossil-based activities over low-carbon ones. This is especially true when the real cost of climate change is not fully accounted for, leading to continued use and dependence on fossil-based activities. Even with the EU having the world’s largest Emission Trading System (ETS) and with the advent of a Carbon Border Adjustment Mechanism (CBAM), more must be done to ensure that market actors are given a carbon price signal which is sufficiently predictable and high, ensuring activities are priced effectively considering the products’ life-cycle emissions and the cost of climate inaction. This is in turn will allow changes in production and consumption patterns, while providing long-term certainty for investors to take on climate action and discouraging them from investing in the fossil-based economy.
Recommendations:

- **Implement a CBAM that accounts for all life-cycle emissions of CBAM-related products.** To do so, the European Commission must develop secondary legislation on the matter which:
  - **Expands the scope** of CBAM to include all sectors currently provided with free allowances under the EU ETS, as they are at the greatest risk of so-called "carbon leakage".
  - **Includes the indirect emissions of all CBAM sectors,** including iron and steel, aluminium, and hydrogen.
  - **Develops a methodology** for the calculation of embedded emissions that includes all emissions disaggregated from any potential offsets or reductions elsewhere in the system.

- **Ensure that the revenues coming from the CBAM and EU ETS are spent on effective climate action both within the European Union and abroad.** The revenues spent on industrial decarbonisation must be designed in a credible way and leave no room for greenwashing. By doing so, these measures must take into account criteria such as climate impact, system effects, timing, scalability and the "Do Not Significant Harm" principle. Moreover, effective verification measures must be put in place to track progress and course correct should this be necessary.

### 3. Ensuring a just transition

The green transition, bringing a sudden but necessary economic shift, must prevent leaving behind regions and people reliant on the fossil-based economy for their livelihoods. **The principle of a ‘just transition’ underscores the need to address the social aspects of the green transition by engaging communities, offering skill development (re- or upskilling), and facilitating job retention alongside the emergence of green employment opportunities.** Regions and workers economically relying on so-called hard-to-abate industries are particularly vulnerable and should benefit from EU support, for example in the development of CO₂ infrastructure which can decarbonise those industries while maintaining livelihoods.

**Recommendations:**

- **Ensure that the social aspect** of the green transition is included in the implementation of green policies to avoid exacerbating social inequalities.
- **Include community engagement requirements** when realising renewable and low-carbon projects, such as grid developments and CO₂ infrastructure. Stakeholders involved in this process must actively engage and involve the wider public and communities that are most impacted. This needs to be done recognising that each community is unique, with distinct experiences, priorities, and modes of engaging with public institutions; there is no one-size-fits-all approach to community engagement.
- **Ensure that public engagement takes place** as early as possible during or before the planning phase of project development. This includes both scientifically sound information transfer as well as a two-way consultation process.
- **Explore synergies between CCS and Just Transition policy and funding frameworks** to increase public support and economic feasibility of CCS projects in the Just Transition Territories.
Bellona Europa is an independent, non-profit organisation that meets environmental and climate challenges head-on. We are result-oriented and have a comprehensive and cross-sectoral approach to assess the economics, climate impacts and technical feasibility of necessary climate solutions. To do this, we work with civil society, academia, governments and polluting industries.

AUTHORS:
Bellona Europa

DESIGN AND LAYOUT:
Alissia Bourguignon
Clarice Agostini

CONTACT
Francesco Lombardi Stocchetti
Policy Advisor
Bellona Europa

Press
press@bellona.org

Phone
Mobile: +32 (0) 473 903 973

Online
Email: francesco@bellona.org
Website: eu.bellona.org