FOUNDATION FOR EUROPEAN PROGRESSIVE STUDIES
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Change Partnership

THE NEW SOCIAL CONTRACT:

A JUST TRANSITION

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Executive summary

COP21 in Paris committed world leaders to a new deal in ending the use of fossil fuels and limiting global temperatures to below 1.5 degrees. This requires a substantial reorganisation and direction of numerous policies to aiding the required transition in key countries, regions, communities and business models.

The pace of change and ensuing uncertainty is likely to heighten tension among stakeholders which have to transition the most and those fearful that disruption will lead to a loss of their livelihoods. The perception of this loss is as potent as any physical manifestation of loss. Whether in the end it turns out to be false or not, the perception of loss will be a powerful factor shaping political decisions and the pace of change. To overcome these fears emphasis needs to shift away from just counting tonnes of CO2 reduced, the foundation of conventional climate policy, towards building new, inclusive, fair and clean regions based upon local stakeholder participation. This is, in essence, the basis for regional policy a **new societal contract, taking into account, social justice, fairness and the right to human dignity as the reason for a fair, inclusive and Just Transition.**

The EU was founded on the coal and steel sectors. Both have to undergo substantial transformation to fit into the world outlined in the Paris Agreement. Past transitions in these sectors, with a few notable exceptions, have often left a painful legacy which cannot be repeated if humanity is to decarbonise. Rather than setting frameworks and hoping for the best, a new approach to policy making is required of which the core foundations are new models of ownership, accountability, management and delivery, which is in the interests of citizens, workers, communities and future generations, need to be institutionalised throughout Europe's regions, national and supranational governments.

In this study, we examine three case studies of the coal and steel sectors from North Rhine Westphalia in Germany, the UK and Bilbao in the Basque region of Spain. These regional transitions are important because change change will impact on these regions either directly through environmental catastrophe or evolving socio-economic models. Each story highlights marked differences in the approach, ownership and legacy of regional rejuvenation. Each region's approach gives powerful insights on the need to realign EU, national and regional transition policy, the Multiannual Financial Framework, regional policy, the Covenant of Mayors, clean energy and climate policy to empower leaders.

The core issues we examine are:

1. Models to organise change at a regional, national and EU level
2. Means to finance transition
3. How to ensure delivery of key outcomes.

Our aim is to outline an integrated and effective policy architecture based on transparent structures of political accountability, which incorporate inclusive visions of regional regeneration and investment. This is the essence of a **fair, inclusive and just transition; A New Social Contract.**

Policy architecture for the new social contract

1. Ownership

To enable ownership of the challenges to be taken, the first steps are:

a. All regions based on a single or cluster of climate polluting production capacity must be identified as **Just Transition Regions** at a European level. This is the role of the European Commission because it will aid targeted investment through European funds. By doing so the relevant Member States, local and regional authorities, workforces, communities and stakeholders will be able to participate in a constructive and strategic discussion.

b. It would be useful if the Commission could provide **sectoral overviews of key polluting activities** such as coal mining and utilisation, petroleum refineries, blast furnace steel, etc, because solutions to these sectors can only be addressed at an EU and Member State level, as witnessed in the three case studies. These should include the number of high-carbon employees per Member State, age; relevant State Aid approvals; the cost and number of direct and indirect subsidies for climate polluting activities at national and EU level; opportunities for technical abatement, and where there is a cluster of large polluters, an insight into the constitution of this cluster. This would help identify key areas and address and manage the Transition better.

c. Within each Just Transition Region, a requirement for financial assistance (EU funding, special State Aid requirements) should be dependent on the establishment of a **Sustainable Energy & Climate Action Plan (SECAP)** or an equivalent local investment plan which details the *100% reliance on zero-carbon energy and transport by 2050* because they will outline a the region's commitment to transition away from polluting capacity. If appropriate, an entity responsible for the delivery of clean investments outlined in SECAPs or their equivalent, can be established similar to Bilbao Ria 2000 and the Coalfields Communities Alliance-English Partnerships approaches.

2. Financing

A dedicated financial stream, in the form of a **Just Transition Fund** is required. This could easily be set up within the framework of the EU Emissions Trading System (EU ETS) because the perception is that this instrument is responsible for the loss of jobs and investment. It is an essential part of the new social contract that those who are to be most impacted upon by the change will have a dedicated financial stream. It's objective should be to aid the closure climate polluting plant by covering the costs of associated environmental redress, retraining of workers and where appropriate, their early departure. This would build confidence in the transition as well as the effectiveness of the climate policy. EU ETS will not be able to finance this alone so support from dedicated funds within the Multiannual Financial Framework (MFF) and, if appropriate, private finance will be required.

The MFFs of the past had dedicated sectoral funds to aid specific sectoral transitions such as the RECHAR programme (regenerating former coalfields with a budget of ECU 700 million); the RESIDER programme (regenerating steel-making areas with a budget of ECU 800 million); and the RENAVAL programme (regenerating shipbuilding areas) with a budget of ECU 200 million. We would welcome such funds to be reintroduced and streamlined to allow better access to timely and effective finance, which can also be used to attract private finance.

3. Management, delivery and reporting

The skillsets of leadership different with respect to successful implementation. Visionary leaders, the iconic men and women who develop and lead a vision of a better future are vital in capturing the hearts and minds of everyone going through the process of change. Equally important, is the management skillset focused on project management and delivery of outputs. Both are critical to successful regional transformation.

To aid this, local governments and regional authorities should be required to report on the progress of implementing their SECAP or alternative investment plan through the **Energy Governance guidelines**. Streamlined indicators should be used which focus on system change across key sectors. For example, in the transport sector - the total number of public buses in a location measured against the total number shifted to non-climate polluting fuel such as electricity. Some investments, such as the establishment of educational facilities, require a critical infrastructure or social value indicator to be adequately reflected in reporting requirements.

4. Effective policy design to ensure timely closure or abatement of large climate polluting plants

The best means to achieve this is to set robust limits and end points for the production and use of fossil fuels in Europe, particularly in areas where a multitude of clean technology options exist already which allows polluting technology to be increasingly displaced by clean technology. This is the case for electricity generation and surface mobility, the biggest culprits for climate change pollution, responsible for 55% and 23% of EU greenhouse gas emissions in 2014, according to the Eurostat, the statistical office of the EU.

This means: **a) the phase out of coal production and unabated utilisation and b) the phase out of production capacity and utilisation of fossil fuels in surface transport.**

Workers over a certain age could be supported through early retirement programmes similar to those in each of the case histories. Production capacity such as coal-fired plants and petroleum refineries would have dates for closure. An **Accelerator fund,** from the MFF or with contributions from the Just Transition Fund, could be used to compensate 100% the first ten installations which apply for closure. The next ten receive 80% compensation whilst the last remaining installations would not receive any compensation.

To ensure pressure for investment in abatement is maintained, all plants which do not qualify for the Accelerator Fund would have an **emission and time limits** placed for their lifetimes increasing the economic inefficiency of not managing their climate pollution. To avoid energy insecurity or economic disruption, compensation from the Accelerator Fund should come in the shape of clean technology assets deployed which displace the climate polluting capacity.

Finally, additional measures are required to bring these polluting industries to the negotiation table. Current policy is ineffective in doing so. The optimal solution is to avoid socialising the cost of climate change impacts by asking these companies to take out **carbon insurance** to cover the cost of future damages as well as supporting their workforces with adequate retraining. To reduce the burden on local and national governments with respect to land reclamation, each polluting company should be required to contribute a percentage of their turnover towards a single body responsible for **financing land reclamation and cleaning**. The Single Resolution Board provides a similar service to the EU banking sector to avoid taxpayers having to foot the bill for their failure.