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Sebastiano Sabato and Boris Fronteddu

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Introduction¹

In a context characterised by increased public concern regarding the issues of global warming and environmental protection (think, for instance, of the Fridays for Climate movement), climate change played a significant role in the 2019 European Parliament electoral campaign. It is thus no coincidence that one of the first, highly symbolic initiatives of the newly elected Parliament was to declare a climate and environment emergency, calling on the Commission, the Member States and all global actors to take urgent and concrete action (European Parliament 2019a). The fight against climate change indeed features strongly in the political programme of the new Commission President Ursula von der Leyen. In her Political Guidelines for the Next Commission, she stated that the key priority of her Commission would be to transform Europe into ‘[...] the first climate-neutral continent’ (von der Leyen 2019: 5), by developing a European Green Deal (EGD). In so doing, one of the priorities should be to ensure a ‘just transition for all’ (*ibid.*: 6), to cushion the social and employment consequences of the transition towards a climate-neutral development model – which will be particularly severe for some regions and economic sectors – thus also gaining more social acceptance for the transformations needed.

Against this background, the aim of this Working Paper is to provide a preliminary assessment of whether the European Green Deal constitutes a suitable policy framework to combine environmental and economic objectives with the pursuit of social fairness, thus ensuring a just transition towards more sustainable economies and societies. Such an assessment appears particularly relevant in a period in which the EU and its Member States are figuring out how to redesign their economies and societies in order to cope with the unprecedented social and economic crisis triggered by the COVID–19 pandemic. To perform this assessment, in Section 1 we identify the key elements of the just transition approach, as proposed by the trade union movement and codified by the International Labour Organisation (ILO), which – in 2015 – drew up a set of guidelines on which a comprehensive ‘just transition framework’ should be based (ILO 2015). Then, in Section 2 we discuss the main elements of the European Commission’s Communication on

1. The empirical research for the preparation of this Working Paper was finalised on 30 June 2020. Consequently, the decisions on the Recovery Fund and on the EU budget taken during the 17–21 July 2020 European Council (2020) have not been systematically included in this analysis. The authors would like to thank Bela Galgóczi (ETUI) and Bart Vanhercke (OSE) for their valuable comments on a previous draft of this Working Paper. The usual disclaimer applies.

the European Green Deal. In Section 3, we compare the EGD with the ILO guidelines for just transition, in order to understand to what extent the two initiatives are compatible (fits and misfits) and, consequently, to what extent the EGD could act as a suitable EU overarching policy framework to ensure that the transition towards a more environmentally sustainable economic model is also socially fair. In this respect, the results of our analysis show a certain degree of compatibility, at least at the discursive level. This said, since the EGD is a forward-looking, strategic document, the way in which it is finally implemented will obviously be key. Consequently, in the rest of the paper we consider two important implementation tools of the EGD: the European Semester and funding. In Section 4, we analyse the 2020 cycle of the European Semester and, in Section 5, we look at the overall financial aspects of implementation of the EGD and then focus on one of the core pillars of the transition funding, i.e. the EU taxonomy for sustainable economic activities. This said, the COVID-19 pandemic has dramatically changed the social, economic and political context in which the EGD was designed. We will thus provide – in both Sections 4 and 5 - some preliminary considerations on recent initiatives taken by the EU in relation to the topic of this paper, in order to address the situation. The final section summarises and concludes.

From a methodological point of view, this paper uses qualitative research methods, notably an analysis of key policy documents and of the relevant scientific literature.

1. The just transition framework

1.1 Preliminary remarks on the notion of just transition

The notion of just transition is closely linked to the notion of sustainable development. The latter, promoted by international organisations such as the United Nations (UN), implies the convergence of three – interrelated and mutually reinforcing – goals (which constitute the three pillars of sustainability): economic development, social equity and environmental protection (UN 2015a). While sustainable development is a broadly shared goal, on which there is a certain degree of consensus among states and stakeholders at the global level, the question of how to achieve such an ambition in practice, balancing the three pillars of sustainability and making these compatible, is much more controversial. With this goal in mind, the notion of ‘green growth’ gained increasing support in policy-making circles in the 2000s and was promoted, among others, by international organisations such as the World Bank, the Organisation for Economic Co-operation and Development (OECD), and the United Nations Environment Programme (UNEP). While the notion of green growth itself may be interpreted in different ways (cf. Jacobs 2013), its core meaning is relatively straightforward, i.e. ‘economic growth (growth of gross domestic product or GDP) which also achieves significant environmental protection’ (*ibid.*: 197).² From this perspective, the growth of green sectors in the economy, besides bringing environmental benefits, could also create employment opportunities (e.g. creating new, ‘green’ jobs) and an overall increase of citizens’ welfare.

Such potentialities of green growth have also been highlighted by the International Labour Organisation, which considers the green economy as an opportunity for social progress, including for its potential to create green jobs (ILO 2015: 4). This said, however, in the view of the ILO (as well as of the trade union movement), the greening of the economy also brings important challenges related, for instance, to the economic and social costs of restructuring (e.g. job losses) at both the individual and community level, or to the quality of the new jobs possibly created (*ibid.*: 5). Thus, besides being simply green, the transition towards a more sustainable development model should also be socially just. The just transition approach therefore

2. In particular, in the context of climate policies, green growth is primarily related to a development pattern able to decouple greenhouse gases (GHG) emissions from the growth in Gross domestic product.

focuses, more than green growth, on the need to consider employment and social concerns in the transition towards a more sustainable economic model.³ In other words, green growth and just transition approaches can be seen as potentially compatible and, even, complementary for the practical implementation of sustainable development (Sabato and Mandelli 2018).⁴

As mentioned above, the ILO has been one of the major proponents of the notion of just transition, so much so that, in 2015, this international organisation drew up guidelines for its implementation (see Section 1.2). However, the idea of a just transition is relatively old, since it originally appeared among the demands of some national trade union movements as early as in the 1980s (cf. Newell and Mulvaney 2013); it was then put forward by the international trade union movement during several international negotiations and conventions on climate change. Eventually, a reference to this notion was included in the final agreement of the Conference of the Parties in Cancun in 2010 (UNFCCC 2010),⁵ stressing that the shift towards a low-carbon society should ensure '[...] a just transition of the workforce that creates decent work and quality jobs' (UNFCCC, 2010: I.10). The call for a just transition was then repeated by the International Trade Union Confederation (ITUC) during the first ITUC Climate Change Workshop with South African Trade Unions in July 2011, then becoming a key revindication of the ITUC campaign 'Unions4Climate Action' in 2011 (ITUC 2011).

Later on, the ILO refined and created a more systematic notion of just transition, identifying the constitutive elements of what was labelled as a 'just transition framework'. This work eventually resulted in the publication of a specific set of 'Guidelines for a just transition towards environmentally sustainable economies and societies for all' (ILO 2015). In December 2015, the Paris climate conference (COP21) took place, resulting in the commitment to limit global warming to well below 2°C and to pursue efforts to limit it to 1.5°C. In the Preamble of the Paris Agreement, '[the] just transition of the workforce and the creation of decent work and quality jobs [...]' (UN 2015b)

-
3. The ILO (2015) refers to a just transition towards environmentally sustainable economies and societies. The notion has however been used especially in relation to the challenges posed by climate change, with particular reference to the transformations needed in order to reduce greenhouse gas emissions (for instance, the transition towards a zero – carbon economy).
 4. In line with the sustainable development approach proposed by the UN, proponents of both green growth and just transition do not question fundamentally the possibility of pursuing long-term economic growth. Thus, these notions differ from other, more radical approaches postulating that, in a planet with limited resources, high levels of environmental protection are incompatible with a sustained growth of GDP or, even, with high levels of social protection (such as, for instance, the notion of sustainable welfare -cf. Koch 2018). In this sense, while green growth could be seen as a strategy to 'green' capitalism without changing fundamentally the principles on which it is based, just transition – at least as it has been proposed by the European trade union movement – could be interpreted as a greening of the trade unions' traditional agenda (Pochet 2019: 321).
 5. The Conference of the Parties (COP) is the main decision-making body of the United Nations Framework Convention on Climate Change (UNFCCC). Made up of the states and the international organisations (including the EU) that adopted the Convention, it has met every year since 1995.

were identified as an ‘imperative’ to be taken into account. More recently, a specific Declaration on ‘Solidarity and Just Transition’ (the so-called ‘Silesia Declaration’) was adopted by the Heads of State and Government at the 24th Conference of the Parties (COP24) of the UNFCCC in Katowice (December 2018). The Declaration (COP24 2018) – that explicitly refers to the 2015 ILO Guidelines – reaffirms the political commitment towards just transition already taken in Paris and highlights the need to work further in that direction.⁶

1.2 The ILO's Guidelines on Just Transition

As shown in the previous Section, the notion of just transition has been used over time by a number of societal actors and international organisations, often in the context of political documents and initiatives, a circumstance that inevitably implies a certain degree of vagueness at the conceptual level. Indeed, besides the basic reference to the need to pay attention to and address the possible social consequences of the transition towards a more environmentally sustainable economy, the exact conceptual boundaries of the notion are rather blurred and various interpretations and usages are possible.

In 2015, the ILO tried to clarify this notion by elaborating a more comprehensive policy framework and publishing a set of concrete guidelines for its implementation. In the rest of this Section, we will identify and discuss the key elements of the notion of just transition as developed by the ILO, with a view to using it as a benchmark for the analysis in the following Sections.

In the ILO's view, the just transition framework is strongly linked to the sustainable development approach and could help to achieve some of the Sustainable Development Goals (SDGs) such as those relating to the eradication of poverty, social protection and social inclusion, and the creation of decent jobs for all (ILO 2015: 4). In order to achieve such an outcome, the transition should be guided by the principles of distributional and procedural justice (cf. McCauley and Heffron 2018; Newell and Mulvaney 2013).⁷ From a distributional point of view, both the opportunities the transition will create and the costs it will entail should be shared in a fair way, taking into account and addressing current and potential inequalities at different levels: between individuals, social groups, sectors of the economy, communities, regions and countries. From a procedural point of view, the participation of citizens and of

-
6. Importantly, the signatory parties ‘*Note the importance of a participatory and representative process of social dialogue involving all social partners to promote high employment rates, adequate social protection, labour standards and wellbeing of workers and their communities, when developing nationally determined contributions, long-term low greenhouse gas emission development strategies and adaptation planning processes*’ (COP24 2018: point 10, italics in the original).
 7. McCauley and Heffron (2018: 4-5) also identify ‘restorative justice’ – i.e. the restoration to the previous level of the jobs lost as a consequence of the transition – as a defining principle of just transition since the first usages of this notion by the trade union movement in the 1980s.

all stakeholders in the decision-making process and in policy implementation should be ensured.

In order to fully exploit the opportunities arising from it and address the related risks and challenges, the transition towards a more sustainable economy should be ‘managed well’ (ILO 2015: 4) and should be based on a series of principles and requirements for effective implementation.

First, since the situation in the various countries and sectors of the economy is extremely diverse (e.g. in terms of stage of development, exposure to climate-related risks, defining features of national economies), strategies and policies for a just transition should be **context-sensitive**. A country-specific approach fully recognising the peculiar conditions in each country would be needed, while one size fits all initiatives would be counterproductive (ILO 2015: 6). A further element of complexity to be considered is that, while the challenges of the transition have territorial specificities, decisions taken at one geographical level may have repercussions at other geographical levels. In other words, while addressing specific territorial or sector-related challenges, to be ‘just’ the transition towards a low-carbon society should also take into account the broader **global** framework and the connections between ‘multi-scalar realities’ (McCauley and Heffron 2018: 2). As we will see below, governance arrangements for vertical coordination between different levels of governance would be needed and, in the view of the ILO (2015: 6), cooperation between countries should be seen as one of the guiding principles for the transition to environmentally sustainable economies and societies. While contextual differences are particularly evident in relation to the big divide between the global North and South, there are also differences within geographical macro-areas such as the EU. Indeed, risks, costs and opportunities of the transition vary significantly among EU countries, regions, local communities. Furthermore, the effects of the transition will vary both among and within economic sectors (cf. Galgóczi 2018, 2019a; 2019b) and between social groups, which makes the adoption of ‘targeted yet holistic policy approaches’ (Galgóczi 2018: 4) essential.

Second, a just transition would require the elaboration of **coherent policy frameworks**, taking into account and creating synergies between a multiplicity of policy areas linked to the economic, environmental, and social dimensions of sustainability.⁸ In particular, the ILO (2015) stresses the need to pay particular attention to nine policy areas:⁹ i) macro-economic and growth policies; ii) industrial and sectoral policies; iii) enterprise policies; iv) skills development; v) occupational safety and health; vi) social protection policies; vii) active labour market policies; viii) rights; ix) social dialogue and tripartism. In the context of the transition, social policies may serve a double

8. As noted by Galgóczi (2018: 4) ‘[just transition] should not be an ‘add-on’ to climate policy, it needs to be an integral part of the sustainable development policy framework’.

9. In this context, recognising and addressing the gender dimension of many environmental challenges and opportunities should be considered as a guiding principle of just transition to be mainstreamed in the policies formulated.

function. On the one hand, following a social investment perspective, it will be necessary to provide workers with the skills and competences necessary to participate in a greener economy. In this respect, education, life-long learning, and active labour market policies would be fundamental. On the other hand, social interventions should protect individuals and communities during the transition, with particular attention to those more negatively affected by changes. Strong (and where necessary ‘innovative’) social protection systems to ensure healthcare, income security and social services should be available (ILO 2015). In addition, social legislation should ensure the respect of fundamental principles and rights at work (*ibid*: 6).

Obviously, assessing the combined effects that initiatives taken in such an array of policy domains may have on environmental, economic and social sustainability is an incredibly demanding task. Thus, *third*, **capacity building** should be ensured at all levels and for all the actors concerned (ILO 2015). In particular, decision-makers and stakeholders should be provided with robust indicators and data allowing for ex-ante impact assessment and ex-post evaluations of the (environmental, economic and social) implications of the measures envisaged or implemented.

Fourth, the elaboration of coherent just transition policy frameworks – also taking into account the varied territorial implications of decisions taken – would require a significative degree of **policy integration**. This could be achieved through the setting-up of institutional arrangements allowing for coordination within and between institutions at different levels of governance and between public and private and social actors (ILO 2015: 6).

Importantly, *fifth*, to be just, the transition cannot be a top-down process but, rather, it should be based on **social consensus**. Relevant stakeholders should be consulted in meaningful ways and, in particular, social dialogue should be ensured at all levels in the formulation, decision and implementation of strategies and policies (ILO 2015).

Sixth, promoting a (just) transition towards a more sustainable, low-carbon economy would require a huge amount of **financial resources**. In this respect, while calling for the mobilization of both public and private investments towards environmentally sustainable activities (ILO 2015: 6), the ILO particularly stresses the key role that governments and public authorities should have – through public investments – in the greening of the economy and in ensuring that everybody can participate in the opportunities arising from the transition and be protected from the related risks¹⁰ (*ibid*.: 11).

¹⁰. As Galgóczi (2018: 4) puts it, ‘[s]ince decarbonisation is a commonly shared objective in the interest of all of humanity, the role and responsibility of the state is indispensable in managing it in a just and balanced way’.

2. The European Green Deal

2.1 The European Green Deal: main features

2.1.1 Objectives, approach and policy domains

On 11th December 2019, the European Commission published a Communication on ‘The European Green Deal’ (European Commission 2019a), accompanied by a roadmap for its implementation (European Commission 2019b). The European Green Deal should serve as ‘[...] a new growth strategy that aims to **transform the EU into a fair and prosperous society, with a modern, resource-efficient and competitive economy** where there are **no net emissions of greenhouse gases (GHG) in 2050 and where economic growth is decoupled from resource use**’ (European Commission 2019a: 2, bold in the original). Simultaneously, the Commission stresses the importance of achieving a ‘socially just’ ecological transition – i.e. of ensuring that the cost of the transition is not borne by the most vulnerable populations (*ibid.*: 16) – as a precondition for a successful transition towards a zero-emission economy. In this context, the European Pillar of Social Rights (EPSR) is presented as the reference framework to ensure that ‘[...] no one is left behind’ (European Commission 2019a: 4).¹¹

In terms of structure, the Commission Communication on the EGD is organised around eight macro-areas for action, considered as interlinked and mutually reinforcing (European Commission 2019a: 4):

1. Increasing the EU’s climate ambition for 2030 and 2050;
2. Supplying clean, affordable and secure energy;
3. Mobilising industry for a clean and circular economy;
4. Building and renovating in an energy and resource efficient way;
5. Accelerating the shift to sustainable and smart mobility;
6. From ‘Farm to Fork’: designing a fair, healthy and environmentally-friendly food system;
7. Preserving and restoring ecosystems and biodiversity;
8. A zero pollution ambition for a toxic-free environment.

11. The EPSR includes 20 principles and rights organised around three chapters (European Commission 2017): (a) equal opportunities and access to the labour market; (b) fair working conditions; and (c) social protection and inclusion. The Pillar was proposed in a Commission Recommendation published in April 2017 and was then jointly proclaimed by the Commission, the European Parliament and the Council in November 2017.

In addition to the areas mentioned above, the stated intention is to mainstream sustainability into all EU policies, with explicit references to the EU budget, macro-economic and fiscal policies, taxation, research and innovation, education and training, trade policies and EU external policies.

Importantly, the EGD is meant to be a *growth strategy*: the objective of promoting a sustained growth pattern remains of paramount importance, and economic growth is not considered incompatible with the achievement of high levels of environmental protection and social progress. In this respect, at a first glance the EGD continues on the path of the previous EU ‘grand strategy’ – the Europe 2020 strategy for smart, sustainable and inclusive growth (European Commission 2010). However, other than in Europe 2020, tackling climate and environmental-related challenges – depicted as ‘[...] this generation’s defining task’ (European Commission 2019a: 2) – is explicitly presented as the top priority of the EGD from the very beginning of the Commission Communication. The objective of the EGD is indeed twofold. Firstly, it is to guide the transition towards an economy (and a society) characterised by ‘zero net emissions’ of greenhouse gases and by the decoupling of economic growth from resource use. Secondly, it is ‘[...] to protect, conserve and enhance the EU’s natural capital, and protect the health and well-being of citizens from environment-related risks and impacts’ (European Commission 2019a: 2). These strategic objectives are a sort of *fil rouge* linking the various parts of the Communication and the policy areas/actions illustrated therein.

2.1.2 Governance and funding

According to the Commission, the EGD should be considered as an integral part of the EU strategy to implement the United Nations’ 2030 Agenda for Sustainable Development and the Sustainable Development Goals (SDGs) (European Commission 2019a: 3). In terms of policy areas dealt with, when considering the EPSR as a constitutive element of the strategy, the EGD covers all the 17 SDGs. Furthermore, in line with the UN Sustainable Development approach, the objectives of economic growth, social fairness and environmental progress are deemed to be compatible and mutually reinforcing. To this end, EU action in the various policy domains should be consistent; this requires a high degree of integration and coordination at different levels of governance. However, as is the case for the UN Sustainable Development Agenda, the EGD sets no clear priorities between environmental, economic and social objectives, should trade-offs arise. This said, the potential difficulty of combining economic growth, environment protection and social fairness is made more explicit than in the past, and the need to pay attention to the possible trade-offs that could arise is mentioned (European Commission 2019a: 4). To address this issue, the Commission has undertaken to strengthen its ‘Better Regulation’ guidelines and impact evaluation procedures (*ibid.*: 19), while the European Semester is expected to have a key role in ensuring that macro-economic, fiscal and social policies are in line with environmental priorities, and in identifying possible inconsistencies and trade-offs (see Section 4).

In a multi-level governance setting such as the EU, policy integration and coordination between institutional and societal actors operating at different levels of governance is vital for the elaboration of coherent strategies and policies. While the features of interaction and coordination between actors vary according to specific policy areas and initiatives, the European Semester should be the governance arrangement best placed to coordinate EU and national policies linked to the EGD, possibly combining EU priorities with a country-specific approach. As for interaction with societal actors, the involvement of the public and of a broad array of stakeholders is considered as an important element in the success of the EGD; the transition can be successful only if policies are designed with the involvement of citizens and accepted by them (European Commission 2019a: 22). In this perspective, the Commission has stated its intention to launch a European Climate Pact, activating existing structures for citizens' dialogue and social dialogue committees (*ibid.*: 23). More specifically, an 'active social dialogue' is recognised as an essential element to ensure that the transition is successful and accepted by workers and companies (European Commission 2019a: 16).

Finally, the issue of funding for the transition features prominently in the Commission's Communication on the EGD (see Section 5). In this respect, a number of EU financial initiatives are listed, including: i) the setting-up of a Sustainable Europe Investment Fund; ii) the EU budget; iii) the InvestEU Fund; and iv) the Just Transition Fund. It is however clear that the bulk of the financial resources needed would have to come from national public investment and private capital. National budgets should be 'greened', so as to redirect public investment, consumption and taxation towards 'green priorities' (European Commission 2019a: 17). In this respect, guidance on how to combine green public investment with fiscal sustainability should be provided in the context of the European economic governance framework (*ibid.*).

3. The European Green Deal and the ILO Just Transition framework: fits and misfits

3.1 Comparing the two policy frameworks: a significant overlap

The main features of the EGD show a certain degree of correspondence with the main elements of the just transition framework proposed by the ILO in their 2015 Guidelines (see Section 1.2). First of all, in terms of policy approach the Commission's European Green Deal is closer to a Sustainable Development Agenda. It is a broad framework including the notions of green growth and just transition: the two approaches are deemed as compatible with each other and with the pursuit of environmental objectives. As for the latter, the fight against climate change and the reduction of greenhouse-gas emissions are the common threads linking the various components of the EGD strategy. The EGD includes a broad array of policy areas, with the ambition of developing a **coherent policy framework** guiding the transition, including all the policy areas constituting the ILO just transition framework. These policy areas cover macroeconomic, fiscal, social and environmental objectives and, coherently with the just transition framework, the EGD aims at both creating synergies between these objectives and the related policies and identifying and addressing possible trade-offs. One of the main governance arrangements that should serve as a feedback mechanism to verify to what extent economic, social and environmental actions are consistent, and to identify and address possible trade-offs, is the European Semester. Besides the Semester, policy consistency should also be ensured through the further development of the Commission's Better Regulation guidelines as well as through strengthened and more participatory impact assessment procedures, which require robust and comprehensive **indicators and data** as well as work on **capacity building** at all levels, as repeatedly underlined in the ILO's just transition framework. The elaboration of consistent strategies and policies would also require a high degree of **policy integration and coordination** between institutional and societal actors operating at different levels of governance, a concern that emerges from the EGD Communication.

As for vertical coordination, the European Semester could serve as a governance tool to coordinate actions at the EU level with initiatives at the national, regional, and local level, possibly helping to develop the **context-sensitive approach** that would be needed in a just transition perspective (cf. Section 1.2). In this respect, the tool specifically geared to ensuring a just transition in the framework of the EGD – the Just Transition Mechanism – will be strongly territorially-focused and sectorial in nature. As explained

in Section 1, just transition should be understood as a multi-scalar process, considering the relationship between regional, national and local initiatives and the **global context**. As for the latter aspect, the European Commission has committed itself to continue to play a key role in elaborating a global response to climate change and environmental degradation (in particular under the Paris Climate Agreement), strengthening international partnership and through trade policies (European Commission 2019a: 20-22; see also European Commission 2020a: 12). While a full analysis of the global implications of EU actions foreseen in the EGD goes well beyond the scope of this paper, some observers have pointed out possible inconsistencies, notably concerning the fair distribution of mitigation efforts towards emission reduction and usage of natural resources (Laurent 2020).

When it comes to coordination and interaction with social actors, the wish to ensure adequate involvement of relevant stakeholders in order to build social consensus around the transition – a key element of the ILO just transition framework – is mentioned in the Communication on the EGD, which also mentions the importance of ensuring an ‘active’ **social dialogue** (European Commission 2019a: 16). The promotion of social dialogue at all levels and the involvement of workers is one of the principles of the EPSR (Principle 8). Finally, the issue of **financing** the transition is a key element of both the Just Transition framework developed by the ILO and of the EGD. This said, the EGD emphasises more strongly than the ILO approach the need to mobilize private capital – in addition to substantial public investment.

3.2 The social dimension of the European Green Deal

With regard to the social dimension of the EGD, we have already mentioned that promoting a ‘just and inclusive’ transition is among the stated objectives of the Commission’s strategy (European Commission 2019a: 2), and a number of considerations about the possible social implications of action in the eight macro-areas of the EGD can be found in the Commission Communication.¹² Two aspects appear particularly relevant for this analysis, since they could be a misfit between the EU strategy and the ILO just transition framework, potentially leading to certain tensions around the social dimension of the EGD: the scope and the orientations of social policies in the EGD.

With regard to the scope, in the EGD the Commission adopts a rather ‘targeted’ approach to just transition, by focusing on the possible negative implications that the transition could have on specific territories and economic sectors. Indeed, the main measure proposed by the Commission in order to cushion

¹². For instance, energy transition initiatives should consider and address the risk of energy poverty; the shift to sustainable and smart mobility should ensure the affordability and accessibility of the alternatives to current mobility habits; the ‘From Farm to Fork’ strategy should also ensure a decent living for farmers, fishermen and their families.

the social consequences of the transition is the creation of a ‘Just Transition Mechanism’, including a ‘Just Transition Fund’, to support the regions and sectors that – given their reliance on fossil fuels or carbon intense processes – will be hardest hit by the transition (European Commission 2019a: 16; see Section 5). Such an instrument would thus have a marked geographical and sector-specific character. As for the nature of social policies, only ‘education and training’ policies are addressed in an autonomous, specific section of the EGD Communication (cf. European Commission 2019a: 19). These policies are considered as particularly important to allow citizens and workers to adapt to the new, more sustainable economic model envisaged. Quite surprisingly, as noted by Laurent (2020), there are no references to inequality in the document, and few references to the notion of social rights. In other words, at a first glance, the Commission seems to predominantly rely on a social investment-oriented understanding of social policies, focusing on the policy areas with the highest potential to provide workers with the skills needed for a new, greener economic model, while apparently neglecting broader distributional effects of climate policy and more general social protection and social inclusion issues.

There is a risk that these two elements – the marked territorial/sectoral focus of just transition in the EGD and the emphasis given to social investment-oriented policies – are only partially consistent with the notion of just transition developed by the ILO. Indeed, while the latter highlights the need for measures targeted at the most vulnerable territories and sectors (a context-sensitive approach) and the importance of policies facilitating employability in the new economic context, it also makes clear that both elements should be firmly placed within strong social protection systems guaranteeing social rights to all citizens. In this sense, territorially and sectorally targeted social provisions should not be an alternative to universal social rights, and social-investment policies should be in addition to basic social protection and social inclusion policies.

This said, these potential contradictions and tensions may be reduced since, as mentioned, the European Commission in its Communication on the EGD (European Commission 2019a: 4) also mentions the European Pillar of Social Rights as the reference framework that should ensure that ‘[...] no one is left behind’. On the one hand, the Pillar contains a rather comprehensive list of social rights and principles for social provisions addressed to all European citizens, and, on the other hand, the inclusion of the Pillar in the EGD should ensure a better balance between more social-investment oriented policies and more traditional social protection and social inclusion-oriented policies. According to some observers, the EPSR indeed takes a ‘rights-based social investment approach’: while the primary objective of the Pillar is the promotion of social rights, the actual measures and policy orientations through which these rights are to be implemented are consistent with the social investment approach (Sabato and Corti 2018: 61). While, at the time of its elaboration, the link between the EPSR and the promotion of environmental sustainability was largely neglected (Sabato and Vanhercke 2017: 82), in the context of the EGD the stated objective is to put the Pillar at the centre of the transition towards climate neutrality – as well as the digital

and demographic transitions¹³ – so as to ‘[...] upgrade Europe’s social market economy to fit the opportunities and challenges of today and tomorrow and ensure just transitions for all’ (European Commission 2020a: 3). Of course, if the EPSR is to perform this function, the full realisation of all its principles and rights should remain a central preoccupation in all the policy processes and tools linked to the implementation of the EGD, including – importantly – EU socio-economic governance and financial provisions.

All in all, the comparison between the main elements of the EGD and the ILO just transition framework allows us to conclude that, at least on a discursive level, the EGD is potentially a suitable policy framework to ensure that the transition towards a more environmentally sustainable economic model is also socially just. Obviously, since the EGD is a programmatic, strategic document, a closer look at its actual implementation is needed in order to understand whether and to what extent the promise of a green and just transition will be pursued and achieved. In the next two Sections we will focus on two key tools for the implementation of the EGD, seeking to identify their potential and limitations: the European Semester and financial instruments. In so doing, we will also suggest some preliminary considerations on recent initiatives taken by the EU to address the COVID-19 crisis.

13. ‘The European Pillar of Social Rights is the European answer to these fundamental ambitions. It is our social strategy to make sure that the transitions of climate neutrality, digitalisation and demographic change are socially fair and just’ (European Commission 2020a: 2).

4. Implementing the European Green Deal through the European Semester

4.1 The starting point: the European Semester before the European Green Deal

Launched in 2011, the ‘European Semester for economic policy coordination’ is an annual policy coordination cycle aimed at synchronizing and coordinating the diverse instruments and procedures linked to the reformed Stability and Growth Pact (SGP) and activities associated with the Europe 2020 Strategy. In a nutshell, the Semester is based on three pillars: i) the reformed SGP (fiscal policy), ii) the Macroeconomic Imbalances Procedure (MIP) (macroeconomic policy), and iii) the Europe 2020 Strategy, supported by the Integrated Guidelines for growth and jobs. The Semester is an iterative process: every year, the European Commission publishes its ‘Annual Growth Survey’, identifying key policy challenges and setting out EU priorities. The Member States then submit ‘National Reform Programmes’ (NRPs), detailing structural reforms implemented or foreseen in the domains covered by Europe 2020. These are subsequently used by the Commission and the Council of the EU to issue (non-binding) Country-specific Recommendations (CSRs), providing Member States with policy advice. Since 2015, the Commission also publishes Country Reports analysing the situations in the Member States in the areas covered by the Semester. These form the analytical basis for the CSRs. Over time, the Semester has undergone several changes, from both a substantive and a procedural point of view. While in the first years of implementation the main focus was on macroeconomic and fiscal policies, attention to social policies in the Semester has increased over the years, to the extent that Zeitlin and Vanhercke (2018) have identified a progressive ‘socialisation’ of the process, in terms of both the substantive outcomes (e.g., the CSRs) and procedural aspect (i.e. the increasingly central role gained by institutional ‘social actors’). Thus, although opinions on its effectiveness and implications differ,¹⁴ it is safe to conclude that the European Semester has gradually developed a more social dimension, complementing its well-established macro-economic and fiscal dimensions. However, the same cannot be said for the environmental dimension of the Semester which, according to some observers, appears rather underdeveloped and mostly focused on issues related to energy policies (Charveriat and Bodin 2020; Sabato and Mandelli 2018).

14. For a more critical view on the social dimension of the European Semester, see, among others, Copeland and Daly (2018), Hacker (2019).

4.2 The Annual Sustainable Growth Strategy and the Country reports 2020

Against this backdrop, in the Commission's view the European Semester should be one of the implementation tools of the European Green Deal and, in particular, of the UN SDGs. Consequently, in the 2020 cycle of the process, the Commission has restated its intention to 'refocus' the Semester on the priorities of the SDGs, with a stated goal '[...] to put sustainability and the well-being of citizens at the centre of economic policy, and the sustainable development goals at the heart of the EU's policymaking and action' (European Commission 2019a:3).

The European Semester 2020 was launched on 17 December 2019 with the publication of what used to be the Semester's Annual Growth Survey, now renamed '**Annual Sustainable Growth Strategy**' (European Commission 2019c). In order to promote the sustainable growth model envisaged in the EGD and the Union's climate objectives, the Annual Sustainable Growth Strategy refers to the notion of 'competitive sustainability' (*ibid.*: 3), based on four, complementary dimensions to be taken into account:

1. *Environmental sustainability*, with a focus on financial resources to achieve the objectives of the EGD and on private and public 'green investments';
2. *Productivity growth*, to be ensured – among others – through research and innovation, the digital transition, the single market, investment in education and skills development;
3. *Fairness*, to be achieved through the implementation of the principles and rights of the EPSR, through the promotion of cohesion between and within the Member States, and the setting-up of a European Unemployment Benefit Reinsurance Scheme;
4. *Stability*, highlighting the need for 'responsible' economic, fiscal and financial policies so as to ensure '[...] **well-targeted investments to support the move to a climate-neutral and fully digital economy** [...]' (European Commission 2019c: 12, bold in the original), while safeguarding fiscal sustainability.

In line with the Communication on the EGD, and somehow filling a gap in the Europe 2020 Strategy, the environmental dimension has been included in the Semester, thus potentially paving the way for the elaboration of a more comprehensive and coherent policy approach making it possible to better grasp the relationship between environmental, macro-economic, fiscal and social objectives and policies.

The notion of **just transition** as a general principle is explicitly mentioned several times in the Annual Sustainable Growth Strategy. In particular, besides highlighting the potential opportunities arising from the transition (new jobs and greater well-being), the Commission also explicitly refers to the need to take into account and balance the distributional consequences of the transition, maintaining that '[b]enefits should be shared and costs

must not be borne by the most vulnerable' (European Commission 2019c: 4). These distributional implications of climate change and of the policies to fight the phenomenon should be taken into account when formulating recommendations for structural reforms (*ibid.*). Particular attention is paid to the context-sensitivity of the transition, i.e. to the fact that some regions, sectors and workers will pay higher costs than others. The awareness of the need for context-specific approaches is indeed cross-cutting in the Annual Sustainable Growth Strategy, since references to this aspect can be found in all the four dimensions of sustainability considered in the document. The main instruments to address this situation should be cohesion policy and the envisaged Just Transition Mechanism.

From a governance perspective, in order to put the EU on the right track to achieve a sustainable growth model, the European Commission (2019c: 2) highlights the need to adopt a 'systemic', 'whole of government' approach, ensuring the participation of all relevant institutional actors and stakeholders. In the Commission's view, such an approach should help to develop more coherent policies, helping to create synergies between the four key dimensions and to identify and address possible trade-offs (*ibid.*). In this respect, two issues arise. The first one concerns the governance and leadership of the process. In particular, for the European Commission, the Directorate General for Employment, Social Affairs and Inclusion (DG EMPL) is among the 'core DGs' of the Semester, together with the Directorate General for Economic and Financial Affairs (DG ECFIN) and the Secretariat-General (SECGEN), while the Directorate-General for the Environment (DG ENV) and the Directorate-General for Climate Action (DG CLIMA) play a more peripheral role in the decision-making. However, at a higher hierarchical level, neither DG ECFIN nor DG EMPL are part of the Commission's Group on 'A European Green Deal'. Coordinated by the Commission Executive Vice-President France Timmermans, this latter group is made up of the Commissioners for Agriculture, for Health and Food Safety, for the Environment, Oceans and Fisheries, for Energy, for Transport and for Cohesion and Reforms. Strikingly, neither the Commissioner responsible for the economy nor the Commissioner for Jobs and Social Rights are part of this Group. The latter are however involved – together with the Commissioner for Cohesion and Reforms and the Commissioner for Trade – in the Group on 'An Economy that Works for People', under the responsibility of the Commission Executive Vice-President Valdis Dombrovskis.

A second issue is that ensuring policy coherence and identifying synergies and trade-offs between economic, social and environmental policies would require account to be taken of the various policy-specific strategies already implemented in the EU, their procedures, targets and indicators. With regard to climate and environmental policies, a number of strategies with specific timelines, targets, indicators and reporting procedures already exist (Charveriat and Bodin 2020: 22) and it is not clear how key decision-makers in the Semester will take into account those initiatives in their analyses and recommendations. As for policy targets, Charveriat and Bodin (2020: 21) note that the EU currently has about 64 quantitative policy targets which

are relevant to climate and the environment, and 12 quantitative policy targets related to other dimensions of sustainability; all these targets are measured by specific indicators. While, quite obviously, not all the objectives of environmental strategies and targets can be integrated into the Semester – which could potentially focus on the contribution that macroeconomic, fiscal and social policies can make to the achievement of these objectives and targets – effective governance arrangements should be developed for coordination between the Commission DGs responsible for economic, social and environmental strategies.

In line with the overall orientations of the Annual Sustainable Growth Strategy, some changes have been made to the contents and structures of the Semester's **Country reports 2020**. Published at the end of February 2020, these documents now include: i) a specific Section on environmental sustainability;¹⁵ ii) a paragraph on the countries' performances *vis-à-vis* the UN SDGs in the Section on 'Economic situation and outlook'; iii) a table on green growth indicators, in Annex C;¹⁶ iv) an Annex on 'Investment guidance on the just transition fund 2021-2022 (Annex D)'; and v) an Annex on 'Progress towards the Sustainable Development Goals', based on the indicators included in the EU SDG indicator set used by Eurostat for monitoring progress towards the SDGs in an EU context (Annex E).

4.3 The European Semester and the COVID-19 pandemic: towards a Recovery Plan for Europe

Soon after the publication of the 2020 Country Reports, EU countries were hit hard by the **COVID-19 pandemic**, putting national healthcare systems under huge strain and pushing most national governments to enact unprecedented initiatives limiting social contacts and economic activities, with enormous social and economic consequences. Against this background, many Member States have called for an EU response to the crisis, based on the principle of solidarity. A first EU reaction took the form of a massive intervention of the European Central Bank on the financial markets and of a number of initiatives by the European Commission, including the activation of the Stability and Growth Pact's 'general escape clause'¹⁷ and the

15. The Section on 'Environmental Sustainability' is included among the reform priorities, together with 'Public Finance and Taxation', 'Financial Sector', Labour Market, education and social policies', 'Competitiveness, Reforms, and Investments'. The Country Reports also provide short references to Member States' National Energy and Climate Change Plans (NECPs), usually in the Section on Competitiveness, Reforms, and Investments or in the Section on Environmental Sustainability.

16. In addition to tables on 'Financial market indicators', 'Headline Social Scoreboard indicators', 'Labour market and education indicators', 'Social inclusion and health indicators', and 'Product market performance and policy indicators'.

17. As explained by the Commission (2020b: 4), the general escape clause does not suspend the SGP but it '[...] allows Member States to depart from the budgetary requirements that would normally apply while enabling the Commission and the Council to undertake the necessary policy coordination measures within the framework of the Pact'.

setting up of a loan-based European instrument for temporary Support to mitigate Unemployment Risks in an Emergency (SURE). However, a more comprehensive response, in the form of a EU Recovery Plan, has been delayed by harsh divergences among Member States concerning the desired scale, scope and form of a potential EU response to the crisis, especially in terms of financial aid. After a series of rather dramatic meetings of the Eurogroup and of the European Council, the task of working on such a Recovery Plan was given to the Commission, with a view to drafting a proposal to be submitted to the European Council.

In this context, and with the prospect of a severe economic recession and a dramatic increase in the unemployment rate, many doubts were raised as to the fate of the European Green Deal, notably if the priority of resuming growth as soon as possible were to aim to take account of environmental and social considerations. These discussions obviously influenced the European Semester and, in particular, the elaboration of the Commission's proposals for the 2020 **Country-specific Recommendations**. The latter were published on 20 May 2020, one week before the presentation of the Commission's proposal for the Recovery Plan. A number of key, common messages emerge from a preliminary analysis of the 2020 CSRs (see also European Commission 2020b). First, the European Commission has restated its willingness to maintain the approach taken in the Annual Sustainable Growth Strategy – i.e. the simultaneous focus on the four dimensions of competitive sustainability – and to implement the EGD. Second, there is a general recommendation to take all necessary measures to effectively address the pandemic, temporarily disregarding fiscal constraints deriving from the SGP, with a view to resuming more prudent fiscal policies only when the overall conditions will allow this. Third, there is a clear message that countries should take the necessary initiatives to cope with the short-term socio-economic impacts of the crisis, including prioritisation of investment in health-related issues and income support to affected workers. The fourth general recommendation is to focus efforts for the recovery on the green and digital transition, by prioritising sustainable and green investments¹⁸ in line with the EGD.

The focus on the EGD and green investment was confirmed in the Commission's proposal for the Recovery Plan (27 May 2020), the stated objective of which is to ensure that '[...] solidarity, cohesion and convergence [...] drive Europe's recovery' (European Commission 2020c: 1). In a nutshell, the proposal consists of the creation of a new recovery instrument – the **Next Generation EU** – financed through the EU budget and an increase of own

18. This can be considered as an important change compared to the CSRs of the previous Semester cycle. In fact, referring to the 2019 CSRs, Charveriat and Bodin (2020: 9) note that 'Recommendations for structural reforms to Member States largely fail to take into account environmental risks and opportunities. References to the climate and energy package are few and unspecific. In fact, a word cloud analysis of the 2019 country recommendations [...] demonstrated that there is still little coverage of environmental issues in the CSRs. The vocabulary remains focused on macroeconomic concepts and, to some extent, social aspects'.

resources, so as to provide extra funding to the Member States in the form of both grants and loans. Without entering into the details of the plan (some considerations on the financial aspects will be provided in Section 5), two elements appear particularly relevant. First, various ‘policy fundamentals’ are identified which – in the view of the Commission – should lead the recovery, notably: i) the reiteration that the EGD should be considered as the EU growth strategy and that investments should be targeted at its policy priorities; ii) the need to strengthen the Single Market and to adapt it to the digital transformation; and iii) the aim to ensure that the recovery is fair and inclusive (European Commission 2020c). Second, from a governance perspective, public and private ‘green’ investment should, according to the plan, be in line with the EU sustainable finance taxonomy (*ibid*: 6), and public investments funded through the plan should be in line with the priorities identified in the European Semester, in the National Energy and Climate Change Plans and in the Just Transition Mechanism (*ibid*).

5. Financing the European Green Deal: public and private investment for a just transition

5.1 The complexity of estimating the costs for achieving a green and just transition

As mentioned in Section 2, the European Green Deal includes a multitude of objectives, the vast majority of which imply structural transformations of the whole European socio-economic structure. For example, the Green Deal calls for a 90% reduction in GHG emissions from the transport sector by 2050 and estimates that 1 million charging points will be needed to power low-emission vehicles in the EU by 2025 (European Commission 2019a). Achieving this implies vast financial, political and human investment.

In general, the European Commission estimates that achieving the energy and climate objectives by 2030 would require around €260 billion of additional annual investments (European Commission 2019a: 18). For its part, the European Court of Auditors estimates that between 2021 and 2030, €1,115 billion in annual investment would be needed (of which €736 billion in the transport sector and €282 billion in the residential and services sector) to achieve the EU's climate objectives by 2030 (European Court of Auditors 2017).

In any event, it is extremely difficult to estimate precisely what it would cost to achieve all the objectives set out in the EGD, particularly as these take a long-term perspective. It should also be noted that the EGD is partly based on the electrification and digitalisation of the European economy, and the costs of these aspects of the transition can vary considerably depending on trends in the prices of raw materials. These in turn are highly dependent on a multiplicity of factors, including the trade policies of producing and exporting countries. For example, half of the world's cobalt consumption is used in the production of electric vehicles. Hence, the growing demand for this metal will most likely generate strong tensions on the market in the short term (Lepessant 2018). This underlines the centrality of the EU's relations with third countries (especially with those of the global South) since the achievement of the EU's environmental and climate objectives will depend, in part, on its ability to secure supplies of critical raw materials produced outside its borders.¹⁹

¹⁹ To understand the social consequences of the supply and production chains for this type of raw material in the producing countries, see, for example, Amnesty International (2015).

Moreover, in addition to the costs of the ecological transition itself, one of the pillars on which the EGD is based is the intention to undertake an ecological transition that is socially just. This implies ‘investments to provide ‘affordable solutions to those affected by carbon pricing policies (...) as well as measures to address energy poverty and promote re-skilling’ (European Commission 2019a: 16).

However, this central element of the EGD also requires massive investment. In order for the transition to receive broad support within the Member States, it will be necessary to ensure that the Member States whose socio-economic fabric is largely based on sectors with a key role in the EU’s global environmental footprint are not left behind by the transition, as this could have dramatic social repercussions for the workers involved. The Commission states in its proposal for a Regulation establishing a Just Transition Fund that while some economic sectors will be in decline, with an ‘irreversible’ decrease in economic production and employment, others will have to go through dramatic restructuring (European Commission 2020d). For example, electrification of the automotive industry is likely to modify the sector’s very structure. This will require a comprehensive political approach and massive investment, both public and private, as many workers from the industry will have to be radically retrained. The transformation of one of the most significant economic sectors in the EU will involve [...] shifts to entirely different fields both within and outside enterprises, as well as within and outside the automotive sector’ (Lefeuvre and Guga 2019: 188; Galgóczi 2019b).

In addition, in order to prevent workers from the most polluting economic sectors from opposing the ecological transition, they must be guaranteed conditions at the very least similar to those provided by their current jobs in terms of wages and social benefits. These may be considerably higher than in other, less polluting, sectors, for workers with similar qualifications.²⁰

5.2 The EU instruments to finance the just transition: an overview

In order to assess whether the European Commission’s funding proposals respond to the magnitude of the challenges posed by the EGD, we must analyse the instruments available or envisaged in order for massive channelling of funding towards the transition. In its proposal for a regulation published on May 1st 2018 and concerning the Multiannual Financial Framework (MFF) 2021-2027, the Commission set out its ambition to allocate one quarter of the financial framework to the transition (European Commission 2018a).

²⁰. See for example the case of the Polish coal sector (Szpor 2019).

Financial breakdown of the Sustainable Europe Investment Plan

On 14 January 2020, the European Commission published a Communication entitled 'Sustainable Europe Investment Plan' (European Commission 2020d). The Communication lays the foundations for an investment plan whose objective is to mobilise one trillion euros in public and private investment over ten years, between 2021 and 2030, to achieve a 'socially just transition'.

The plan's financial breakdown has been proposed by the Commission as follows:

- €503 billion between 2021 and 2030 would be provided from the EU budget;
- €114 billion would come from national co-financing. In addition, the plan provides greater budgetary flexibility for the Member States in meeting the costs of the transition;
- At least €25 billion would come from the Innovation and Modernisation Funds (financed by revenues from the EU Emissions Trading Scheme);
- InvestEU is expected to attract €279 billion of private investment. This fund should be used to finance energy and transport infrastructure projects, in particular gas infrastructure, district heating and projects to reduce CO₂ emissions;
- €100 billion would be allocated to a Just Transition Mechanism (JTM) whose objective is to accompany and support the ecological transition of those regions whose socio-economic fabric will be most affected by the transition. The projects eligible for funding through the JTM would be defined on the basis of territorial transition plans submitted by the Member States to the Commission.

The JTM itself would consist of three pillars:

1. A specific facility within InvestEU which is expected to attract €45 billion of private investment (including €1.8 billion of public guarantees);
2. A public loans facility channelling funds from the European Investment Bank (EIB);
3. A Just Transition Fund (JTF) that will serve as an instrument providing subsidies to support the transformation and reconversion of those regions most dependent on sectors of economic activity with a high carbon footprint. Initially, the Commission's proposal envisaged that the JTF would have €7.5 billion in budgetary reserves, which should eventually generate investments of up to €50 billion (European Commission 2020d). However, the Commission, on 27 May 2020, as part of the recovery plan in response to the COVID-19 pandemic, decided to substantially increase this amount, proposing a €40 billion budget for the JTF.

Source: authors' own elaboration, based on European Commission 2020d

Implementation of the JTF had already been the subject of a Commission proposal for a regulation in January 2020 (European Commission 2020e). The scope of the fund includes the retraining of workers, assistance, reconversion and active inclusion of workers affected by the transition (European Commission 2020d). More specifically, the proposal states that for every euro invested from the EU budget, the beneficiary Member States

should contribute between 1.5 and three euros (depending on the level of socio-economic development of the region and the related investment capacity of the Member State) through the European Regional Development Fund (ERDF), the European Social Fund Plus and/or as national co-financing. The cornerstone of the JTF is thus close cooperation between the Commission, the national and local authorities. The governance scheme for this collaboration will be part of the wider framework of the European Semester and will be based on the territorial transition plans provided to the Commission by the Member States. These will have to define the environmental, social and economic challenges faced by the regions applying for funding. In this respect, on 26 February 2020, the Country Reports published as part of the 2020 cycle of the European Semester provided, in annex, a list of regions eligible for funding under the Just Transition Fund.

As stated in Section 4.3, the COVID-19 pandemic and its socio-economic consequences led the Commission to propose, on 27 May 2020, a cross-cutting recovery plan entitled ‘Next Generation EU’ to act as a catalyst for a dual ecological and digital transition (European Commission 2020c).²¹ The Commission intends to involve a wide range of actors in this recovery plan, including the social partners, industry, regions and the Member States: this plan should eventually mobilise EUR 1,850 billion. In order to generate this amount, the Commission proposes an increase in the EU budget to 2% of gross national income.

This increase should enable the Commission to borrow €750 billion on the financial markets. The ‘Next Generation EU’ plan is based on three pillars. The first pillar is a funding instrument with a budget of €560 billion euros intended to provide subsidies and loans to the Member States. These will be granted on the basis of their investment and reform priorities defined in the context of the European Semester, and will thus be linked to their territorial transition plans. Then, an instrument entitled ‘React-EU’ will top up the cohesion funds and will in particular support ‘ecological and digital transitions’. Finally, as mentioned above, the Commission intends to upgrade its proposal for a Just Transition Fund, to provide this instrument with a total budget of EUR 40 billion. The second pillar will aim to stimulate private investment, in particular through an instrument to support business solvency and an increase in the capacity of the InvestEU mechanism. The last pillar will aim to increase Europe’s resilience amid future crises, notably through the launch of a new programme entitled ‘The EU for Health’. In addition, *public* investment made under the post-COVID-19 recovery plan is expected to comply with the ‘do-no-harm’ criterion, which aims to ensure that the investments made do not undermine European climate and environmental objectives (European Commission 2020c).²²

21. The European Commission estimates that Europe’s GDP will fall by 7% in the year 2020 - or even by 16% if Europe has to cope with a second wave. Unemployment in the EU is expected to reach 9% in the same year. (European Commission 2020c).

22. The European Council of July 2020 eventually agreed on an amount of € 750 billion EUR for the Next Generation EU programme (made up of €360 billion in loans and €390 billion in grants) and an overall budget for the MFF of €1.074 trillion. For a summary and analysis of the European Council’s outcomes, see Drachenberg (2020).

However, while the recovery plan proposed by the Commission appears to be particularly ambitious, the negotiations on the Multiannual Financial Framework 2021-2027 are continuously bogged down. In order to overcome the deadlocks in the negotiations, and in parallel with the 'Next Generation EU' plan, the Commission proposed a new MFF amounting to €1,100 billion (European Commission 2020c). The European Council, in the conclusions of its special meeting held from 17 to 21 July 2020, considerably reduced the level of financial commitments proposed by the European Commission in both the Next Generation EU plan and the MFF (the JTF budget, for example, has been slashed from EUR 40 to 17.5 billions). However, in the same document, the European Council highlighted the need to implement the EPSR while mainstreaming climate actions through the Next Generation EU plan and the MFF, in order to contribute to the EU's commitments to the Paris Agreement and the SDGs (European Council 2020). In any case, both the European Green Deal Investment Plan and the European Recovery Plan would rely heavily on the hope that private investors will collectively and voluntarily support the public authorities' political priorities. In other words – even disregarding the mainly exogenous variables mentioned above, such as the volatility of commodity prices – the legislative proposals analysed in this Working Paper make a clear statement: the environmental transition proposed by the Commission, especially if it aspires to be socially just, would require a massive injection of private capital. In this sense, the investments needed to achieve such a transition exceed by far the capacity and willingness of both European Union and the Member States.

In this regard, on 8 March 2018 the Commission published an action plan entitled 'Financing Sustainable Growth' (European Commission 2018b). The document encompasses ten fields of action. These are mostly outlined in three proposals for regulations of the European Parliament and the Council, all three brought together in a legislative package on sustainable finance (European Commission 2018c). The EGD communication announces an upcoming 'renewed sustainable finance strategy' to foster and accelerate the implementation of the 10 priorities defined in the initial 2018 action plan (Fronteddu 2020).

5.3 Towards a European taxonomy of sustainable activities: the key elements of a thorny debate

One of the priorities of the European sustainable finance strategy is the establishment of a framework to facilitate sustainable investment (European Commission 2018d). This proposal aims to define, at the European level, what constitutes a 'sustainable' economic activity. Its implementation would require all financial and non-financial companies to offer 'sustainable' financial securities to demonstrate that they comply with harmonised European standards. The final objective of this regulation would be to inform and guide private investors who would like or need to take into account environmental, social or governance (ESG) criteria in their investment policies. In this way,

the Commission wishes, firstly, to increase the visibility of ‘sustainable’ investment and, secondly, to limit the opportunities for greenwashing.²³ The regulation should enter fully into force between 2020 and 2022, depending on the publication of the related delegated acts. This regulation and its delegated acts would thus constitute a community classification of sustainable activities i.e. a ‘European taxonomy’ (Vander Stichele 2018) and they will probably play a key role in the just transition. Indeed, a harmonized classification of ‘green activities’ could provide a clear regulated basis for defining which sectors are eligible for subsidies and funding allocated under the EGD and the recovery plan. At the same time, it should help to ensure that the private investment on which much of the Commission’s strategy is based is actually involved in the transition. In its ‘Next Generation EU’ action plan, the Commission notes that ‘the EU sustainable finance taxonomy will guide [private] investment in Europe’s recovery to ensure they are in line with our long-term ambitions’ (European Commission 2020c: 6). However, a brief review of the legislative process that led to the adoption of the taxonomy regulation by the Council and the Parliament on 18 June 2020 and of relevant scientific literature illustrates both the limits of the taxonomy *per se* and how difficult it is to get all the stakeholders to agree on an ambitious socio-environmental cross-cutting strategy.

First, and in particular, as a consequence of these tensions and conflicting interests, the agreement between the Parliament and the Council, reached on 11 March 2019, appears to be rather vague. Apart from solid fossil fuels, the taxonomy does not, at this stage, exclude any particular sector of activity or technology (Hache 2020). The agreement leaves a lot of room for interpretation and a large share of responsibility to delegated acts, which will have to specify, in detail, the criteria to be met for an economic activity to be qualified as ‘sustainable’ (European Commission 2019d).²⁴ On the latter aspect, a lively debate developed with some organisations such as the World Wildlife Fund (WWF) and Finance Watch calling for the establishment of a ‘brown’ taxonomy, i.e. a classification of the activities considered as the most harmful to the environment and climate (Finance Watch 2019; WWF 2018). This idea led to a struggle with the industry²⁵ and an amendment introducing a ‘brown’

23. ‘Greenwashing’ refers to behavior or activities that make people believe that a company is doing more to protect the environment than it really is (Cambridge dictionary online, consulted on 4 June 2020).

24. In detail, the development of a framework for classifying sustainable economic activities was largely guided by a technical expert group (TEG) (European Commission 2019d). The group was made up of representatives of the finance industry, multilateral institutions, and civil society representatives (TEG 2020). While the expert group delivered a final report to the Commission on 9 March 2020, the more political aspects of taxonomy, such as the outright exclusion of some of the most environmentally damaging sectors, were the subject of much negotiation between political parties in the European Parliament, NGOs advocating environmental and financial regulation and business representatives.

25. For example, European Issuers, an umbrella organisation which represents the interests of listed companies in Europe, sent an appeal as early as 15 March 2019 to the MEPs in the Committee on Economic and Monetary Affairs (ECON) and the Committee on the Environment, Public Health and Food Safety (ENVI), calling on them to reject the amendments referring to the ‘brown taxonomy’ (European Issuers 2019).

taxonomy was ultimately rejected by the European Parliament. However, another amendment, which was adopted by the European Parliament, calls on the European Commission to carry out an impact assessment by 31 December 2021 on the consequences of revising the Regulation to extend the taxonomy to a framework setting out the criteria for determining when and how an economic activity has a significant negative impact on sustainability (amendment 38). A similar debate developed in the Council, revealing deep divisions among the Member States, reluctant to endorse the exclusion of one of their key sectors from potential future funding in the context of the upcoming transition.²⁶ This situation eventually led to a compromise solution envisaging a gradual approach to the classification of economic activities that, apart from solid fossil fuels, does not exclude any particular sector of activity or technology.

Second, besides environmental criteria, the European Trade Union Confederation (ETUC) and several NGOs called for the inclusion of social criteria in the evaluation of projects to be labelled 'sustainable', while, in July 2018, several national and international organisations called on the Commission to include the respect of human rights and sector-specific social criteria in the assessment of whether an economic activity is eligible under the taxonomy (Germanwatch 2018). In this respect, the text that was ultimately adopted on 28 March 2019 by the European Parliament states that the minimum social guarantees should not be limited to the eight fundamental ILO conventions (as initially proposed by the Commission). The Parliament agreed to add references to the OECD Guidelines for Multinational Enterprises, the UN Guidelines on Business and Human Rights and the International Bill of Human Rights. At the same time, MEPs have called on the European Commission to assess whether further social 'minimum guarantees' need to be added for an economic activity to qualify as complying with the EU definition of 'environmentally sustainable economic activity' (European Parliament 2019b).

Third, while conflicts among the various stakeholders have mainly concerned the contents and criteria for the taxonomy, some more fundamental criticisms have been put forward by the scientific community in relation to the political and ideological underpinnings of the 'Financing Sustainable Growth' action plan. The latter is indeed based on the arguments that 'finance supports the economy by providing funding for economic activities and ultimately jobs and growth' (European Commission 2018b: 2). However, this correlation between finance, growth and employment is far from being a matter of consensus (see, for example, Favereau 2016; Husson 2008; Lebeau 2009).

²⁶ For example, a document from the General Secretariat of the Council dated 24 September 2019 includes a joint declaration by Germany, Luxembourg and Austria stating their opposition to a 'green' label for investments linked to nuclear energy, revealing pressure from some Member States, including France, to backtrack on the Parliament's proposal, which proposed to exclude nuclear-related activities from the taxonomy (Council of the European Union 2019).

Fourth, more in general, the entire European strategy for developing sustainable finance is based on the assumption that market players will, of their own accord and in a rational manner, collectively change their behaviour. However, the ‘natural’ rationality of financial investors is one of the cornerstones of neoclassical economic theories and is also far from being a given (see, for example, Amin 2009; Plihon 2008; Lordon 1994). The Commission seems to accept that in order to encourage private investors to finance low-carbon projects, sustainable investments must be made attractive. Encouraging actors to set up and finance ‘green’ projects involves translating environmental benefits into financial terms (Dupont *et al.* 2015).

Fifth, the need to ‘price’ environmental benefits can create tension between the pressure to increase production in order to raise income and the achievement of project sustainability goals (Dupont *et al.* 2015). Tordjman and Boisvert (2012) stress that calculation systems whose purpose is to assign a market value to biodiversity require ‘codification’ and distortion of reality. This is done so that biodiversity can be broken down into assets that conform to market logic. However, by classifying and coding economic activities according to their supposedly positive impact, it is up to the market, i.e. institutional investors, to determine the market value of safeguarding the environment and, in the end, humanity.

In the same vein, *sixth*, the recovery plan relies on a double transition: ecological and digital (see Section 5.2). This is also one of the cross-cutting objectives of the Green Deal, through, for example, electrification of the automotive industry, the development of digital identity cards for consumer products and the use of digitalisation to maximise the use of resources (European Commission 2019a). And yet academic and scientific questions about the counter-cyclical effects of digitalisation on the environment have not provoked strong and concerted reactions from NGOs and trade unions. However, many studies have demonstrated the environmental and social impacts of the extraction of the raw materials needed for both digitalisation and the energy transition (see for example: The Shift Project 2018; Vidal 2018; Gelin 2019; Pitron 2018; OECD 2019).

Conclusions

Our analysis shows that the European Green Deal takes into account – *at least at the discursive level* – most of the elements characterising the notion of ‘just transition’, as described in the ILO 2015 Guidelines, and is thus potentially a suitable policy framework to ensure such a transition. In particular, one of the aims of the EGD is to create a coherent policy framework, taking simultaneously into account economic, social and environmental objectives with a view to, on the one hand, creating synergies between actions in these domains and, on the other hand, identifying and addressing possible trade-offs. The notion of just transition is repeatedly mentioned in the EGD Communication, which emphasises that the risks and opportunities deriving from the transition will differ across countries, regions, economic sectors and social groups. Consequently, these differences should be taken into account when developing and implementing policies. Furthermore, particular attention should be paid to policies facilitating workers’ employability in a ‘greener’ economy, notably education and training. In theory, such an approach may be only partially consistent with the ILO Just Transition Framework, since the latter postulates that context-sensitive initiatives and employability-related policies should not be an alternative to universal social rights, and that social-investment policies should be in addition to strong social protection and social inclusion systems. This risk may be reduced by the reference in the EGD Communication to the need to fully implement the European Pillar of Social Rights, which lists a comprehensive number of social rights to be guaranteed to all European citizens (not only those potentially hit harder by the transition). Moreover, this ‘misfit’ could gradually be offset by implementing broader, transition-related social policies with distributional effects, such as the fight against energy poverty, the strengthening of the European social dialogue and the publication of Country-specific Recommendations regarding environmental fiscal policies.

One of the key governance arrangements to implement the EGD (as well as the EPSR), thus possibly applying the principles of a just transition, is the European Semester. According to our analysis, the introduction of an environmental dimension and the attention paid to the United Nations Sustainable Development Goals are among the main new features of the 2020 Semester. In line with the general orientations of the EGD, one stated priority of the 2020 Annual Sustainable Growth Strategy is to ensure a just transition, to make sure that the costs and opportunities of the transition are fairly shared. The Annual Sustainable Growth Strategy is based on the notion of ‘competitive sustainability’, postulating that the objectives of GDP

growth, fiscal responsibility, social fairness and environmental protection are compatible and potentially mutually reinforcing, although it recognises that trade-offs are possible and should be identified and addressed. It is important to note that, in both the Communication on the EGD and the Annual Sustainable Growth Strategy, the need to identify and address potential trade-offs between simultaneous efforts to achieve these various objectives is emphasised much more strongly than in previous EU initiatives and strategies, such as Europe 2020. A comprehensive analysis of synergies and trade-offs between the objectives, initiatives and recommendations proposed by the EU in the various policy areas of the Semester would require a high degree of policy integration and coordination between the various institutional actors responsible for economic, social and environmental policies, and an improvement of their analytical capacities. An important role in this latter aspect is to be played by the Semester's 2020 Country Reports. Our analysis shows that - although some limitations do emerge - these documents now have the potential to provide a more comprehensive analysis of the situation in the Member States, and of possible (positive or negative) interactions between initiatives in different policy domains. This is mainly because the scope of the CRs has been broadened to include environment and sustainable development-related issues and indicators. This said, the 2020 Semester Country-specific Recommendations could have acted as a reality check of the Commission's ability to ensure in practice the consistency of growth, fairness, environmental sustainability and fiscal responsibility, beyond the discursive level. These CSRs were however published in a social, political and economic context dramatically impacted by the COVID-19 crisis. Against this background, the main message of the CSRs has been to ask countries to take all necessary measures to address the pandemic effectively (from both a social and an economic point of view), temporarily disregarding fiscal constraints deriving from the SGP. Importantly, in the CSRs the Commission has restated its willingness to implement the EGD, by recommending that Member States target their investments at the ecological and digital transformations. This approach seems consistent with the promise to promote a just transition. However, the loosening of the requirements of the SGP, due to the exceptional circumstances, means that we cannot assess the extent to which the priority of investing in greening economic growth while simultaneously preserving high social standards for all European citizens can actually be compatible with the traditional EU priority of the objective of 'fiscal responsibility', especially for countries with high levels of public debt. Indeed, while activation of the SGP's general escape clause currently allows the Member States a large degree of budget flexibility in the short term, this should not '[...] endanger fiscal sustainability in the medium term' (European Commission 2020b: 8) and '[w]hen economic conditions allow, fiscal policies should aim at achieving prudent medium term fiscal positions and ensuring debt sustainability, while enhancing investment' (*ibid.*: 7).

All this said, targeting investment on the ecological (and digital) transition while ensuring that this process is also socially just is an approach seemingly confirmed in the Commission's proposal for a Recovery Plan for Europe (the Next Generation EU plan). In particular, in this plan, the Commission

emphasizes the need to attract and focus public and private capital on sustainable investment in both the digital and ecological transition. A central role in the green transition is to be played by the taxonomy of sustainable economic activities, enabling identification of the key investment areas. Furthermore, the objective of achieving a just transition was also restated in the recovery plan, which foresees an increase of the financial resources of the Stability Mechanism. The financial means to implement the EGD and ensure a just transition have been the last aspect analysed in this paper. As repeatedly stated, the EGD has been presented by the Commission as a holistic and long-term strategy, which is intended to act as the driver of European economic growth. However, the completion of a transition announced as ‘socially just’ will depend not only on the means allocated to it, but also on the instruments activated to allocate these funds. The structures funding the transition will have a decisive impact on the process implementing the objectives defined in the Green Deal. As the negotiations concerning the next MFF and the EU recovery plan are still ongoing, it is too early to assess the adequacy of the financial resources allocated to meeting the EGD’s political objectives. Moreover, it is very difficult, if not impossible, to make a precise estimation of the cost of the transition, since exogenous factors will play a decisive role (e.g. the price volatility of raw materials critical to the transition, as well as the social, economic and political impact of the COVID-19 pandemic).

However, a brief analysis of the legislative process that led to the adoption of the interinstitutional agreement on the establishment of a European taxonomy of sustainable economic activities has highlighted how it revived deep divides between the various stakeholders. Such an analysis is helped by an understanding of the structural limitations of the instruments funding the transition. These limitations are linked to the Commission’s assumptions, which underlie and structure the very concept of these transition funding instruments. Thus, the entire funding strategy for the EGD is based, *inter alia*, on the hope that private investors will collectively and voluntarily provide massive private capital to fund the just transition. This strategy itself is based on assumptions made by the European Commission, which seem to conform to neoclassical economic theories and which are far from a matter of consensus among academics. Although, then, the EGD derives its legitimacy from being presented as a ‘science-based policy’ (i.e. based on the fact that human activities are largely responsible for long-term climate crises), numerous assumptions underlying the EGD funding strategy appear to have a debatable ideological foundation. For this reason, implementation of the just transition funding structures is likely to gradually rekindle diverging interests among stakeholders, undermining the Commission’s quest for broad consensus on the implementation of a long-term cross-cutting strategy such as the EGD.

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All the links were checked on 11.09.2020.

Annex: list of acronyms

COP	Conference of the Parties
COVID	COroNaVirus Disease
CSRs	Country-specific Recommendations
DG	Directorate General (European Commission)
DG CLIMA	DG for Climate Action (European Commission)
DG ECFIN	DG for Economic and Financial Affairs (European Commission)
DG EMPL	DG for Employment, Social Affairs and Inclusion (European Commission)
DG ENV	DG for the Environment (European Commission)
ECON	Committee on Economic and Monetary Affairs (European Parliament)
EIB	European Investment Bank
EGD	European Green Deal
ENVI	Committee on the Environment, Public Health and Food Safety (European Parliament)
ERDF	European Regional Development Fund
ETUI	European Trade Union Institute
ETUC	European Trade Union Confederation
EPSR	European Pillar of Social Rights
ESG	Environmental, Social, and Governance
EU	European Union
GDP	Gross Domestic Product
GHG	Greenhouse gases
ILO	International Labour Organisation
ITUC	International Trade Union Confederation
JTF	Just Transition Fund
JTM	Just Transition Mechanism
MIP	Macroeconomic Imbalances Procedure
MFF	Multiannual Financial Framework
NECP	National Energy and Climate Change Plan
NRP	National Reform Programme
OECD	Organisation for Economic Co-operation and Development
SDGs	Sustainable Development Goals
SECGEN	Secretariat-General (European Commission)
SGP	Stability and Growth Pact
SURE	Support to mitigate Unemployment Risks in an Emergency
TEG	Technical Experts Group (on sustainable finance)
UN	United Nations
UNFCCC	United Nations Framework Convention on Climate Change
UNEP	United Nations Environment Programme
WWF	World Wildlife Fund