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STRENGTHENING AND MAINSTREAMING JUST TRANSITION GOALS IN THE EU BUDGET

ABSTRACT

The EU's legally binding commitment to achieve **climate neutrality by 2050** demands a far-reaching **socioeconomic transformation**. While the green transition promises sustainable prosperity, it also carries profound and unequal social and economic consequences. To meet this challenge, **a just transition** ensuring fairness, inclusivity and social protection is indispensable. This policy brief argues that the EU budget, particularly the forthcoming Multiannual Financial Framework after 2027, must be **strategically leveraged to integrate just transition goals** across all policy domains.

The policy brief highlights the progress made through instruments such as the Just Transition Fund, the Recovery and Resilience Facility and the "galaxy" of funds derived from the Emissions Trading System (Innovation Fund, Modernisation Fund and Social Climate Fund). These tools have helped to identify and address the initial wave of **eco-social risks**, notably, in carbon-intensive regions and vulnerable communities. Yet, as the climate emergency becomes more acute, so too does the scale and complexity of risks in relation to health, work and income, housing, or mobility.

To future-proof the EU's just transition agenda, **five policy goals are emphasised in this brief**: (1) ensuring inclusive and participatory governance; (2) strengthening territorial resilience; (3) developing an eco-social security system; (4) preparing workers and communities for profound transformations; and (5) investing in knowledge and governance capacity.

The policy brief recommends a major consolidation and reinforcement of EU budgetary instruments through a complementary strategy of **dedicated instruments** and **budget mainstreaming**. It argues for the **consolidation of the JTF**, the generalisation of the "**Do No Significant Harm" principle and eco-social earmarking** to all EU funds, and the establishment of an EU Just Transition Network. It also calls for deeper investment in **local research** and **policy capacity** to address asymmetries across regions.

The upcoming EU budget will be implemented at a critical moment for the delivery of a collective project of environmental, economic and social transformation that will last for more than a generation. It needs to be **fit for purpose.**

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TABLE OF CONTENTS

INTRODUCTION: ENSURING A JUST TRANSITION TO CLIMATE NEUTRALITY

The **European Climate Law** requires the EU to achieve climate neutrality by 2050. This commitment is at the core of the EU's contribution to the mitigation of climate change and to the global objective set in the Paris Agreement of keeping global warming "well below" two degrees Celsius. Respecting this commitment is a political imperative, as the consequences of climate inaction will be disastrous. The EU needs to place the **green transition** at the centre of its political and policy priorities for decades to come.

The pervasiveness of **carbon dependence** in our societies[1] means that reaching climate neutrality cannot be achieved without a **large-scale transformation** of the European economy and its relation to the wider global economy. However, the transformations necessary to reach climate neutrality have **asymmetric social and economic impacts**. This was made apparent in the EU on multiple occasions. The mobilisation of the "Yellow Vests" in France showed how regressive carbon taxation could lead to social upheaval. In recent years, a large body of research has established that the design and implementation of climate and environmental policies **can generate strong dissensus** when such policies are socially blind, to the point of compromising ambitious targets.[2]

The importance of addressing the socioeconomic dimensions of the green transition was inscribed in the preamble to the Paris Agreement, signed at COP 21 in 2015, and was already explicit in the Cancun Declaration, signed at COP 16 in 2010. In the EU, the goal was made explicit in the **European Green Deal** (EGD). The Commission's communication stated that "the transition can only succeed if it is conducted in a fair and inclusive way"[3]. From its inception, the EGD adopted the principle of "**leaving no one behind**" to ensure a **just transition**. The call for a just transition has been a recurrent demand from the public, social partners and organised civil society.

The exacerbation of existing social risks and the emergence of **new eco-social ones** (see Box 1) require that institutions at all levels of the EU political system are open to learning and adapting to bring effective answers.[4] The initial phases of the EGD revealed the **spatial distribution** of part of these risks: regions and territories especially dependent on coal mines, but also on agriculture, heavy industry or tourism, needed to effect rapid transformations. The impacts on **unemployment, job quality, social resilience** and **skill adequacy** have already been felt and have the potential to be magnified.[5]

A socially just path towards climate neutrality is a project for multiple generations, and thus, not commensurate with narrowly targeted "crisis responses". Promoting a just transition would allow for a decades-long project of socioeconomic reconfiguration capable of delivering sustainable prosperity.[6] In the EU, delivering a just transition requires political work towards **breaking traditional policy "silos"** in environmental, economic and social policies. A coherent framework needs to integrate the regulatory power of the EU, the coordination of policies amongst institutions and member states, and the full use of **financial and budgetary instruments to deliver more investment**. In this context, the decisions made regarding the upcoming **Multiannual Financial Framework** (MFF) are critical to the delivery of a just transition to climate neutrality in the EU.

Box 1. Eco-social risks and a just transition – definitions

Eco-social risks refer to those social risks that are caused or exacerbated by ecological transformations. They can be regarded as a **third generation of social risks**, adding to those stemming from industrialisation and post-industrialisation.[7]

Moreover, two distinct types of eco-social risks should be distinguished:[8] direct risks brought about by climate change and environmental degradation; and indirect risks induced by adaptation and mitigation policies in the face of climate change. We can conceive of four main areas of eco-social risks:

- **health**, including food insecurity;
- **housing**, including energy poverty and displacement;
- **income and work**, including unemployment, inflation and deprivation; and
- **mobility**, including access to transport and infrastructure.

The eco-social risks nexus furthermore encapsulates a "triple injustice" [9] due to:

- the **unequal distribution of vulnerabilities** along key factors such as income, geographical location, occupational sector, or gender and age;
- the **unequal distribution of responsibilities,** whereby the more resources endowed within and across countries are accountable for a greater share of carbon emissions and environmental degradation; and
- the **unequal distribution of the financial burden** underpinning climate and transition policies (through, e.g., regressive fiscal policy or inflation).

A **just transition** can be defined as a shift in human activities towards practices aiming to preserve and restore a healthy environment, while tackling the triple injustice nexus described above. A just transition therefore combines "greening" with the struggle to overcome eco-social inequalities. It aims to **prevent and alleviate the possible trade-offs between environmental policy and social policy**. There are two alternatives to a just transition, namely, the absence of transition and the continuous pursuit for productivism and extractivism, or an unjust transition through socially regressive transition policies. Both can be observed in today's Europe.

The just transition agendas that have been implemented at the national and European levels so far exhibit a **narrow focus** on the compensation of workers affected by transition policies in carbon-intensive regions.[10] Even within this limited scope, the measures taken have often been inadequate and insufficient to cushion the risks these workers have to face. In contrast, an impactful just transition agenda implies a deeper transformation of economic and social practices to ensure more justice among social groups, generations and species on the global scale in the face of eco-social inequalities.[11]

LEVERAGING THE EU BUDGET TOWARDS A JUST TRANSITION

To align with the EGD objectives, the **EU budget** must be steered towards the promotion of **just transition goals** in the EU.

The **resources of the EU budget** hav ally been limited and its use has often been contentious. Today, the MFF mobilises around €1.2 trillion for a period of seven years (2021-2027). This means an average annual expenditure of around €170 billion, that is, around 1% of the EU GDP per year. Moreover, a high share of the EU budget supports key EU policies: over two thirds are dedicated to agriculture, cohesion and scientific research.

Despite its relatively small size, the EU budget remains a critical policy instrument towards a just green transition. Its structure is important because it translates the investment priorities of the EU as a whole. And its financial resources have the capacity to affect both **direct and indirect change**, namely, in countries and regions with more limited investment capacities. While the EU budget is far from fulfilling the functions of a traditional welfare state, it can further endorse and deliver protection against eco-social risks.[12] Moreover, the EU budget can be an important **leveraging tool** in the shift towards a multi-level system of eco-social protection.

The **post-2027 MFF** is especially important, as it will support the EU in a decisive period of the transition to climate neutrality, without the extra resources provided by the Next Generation EU (NGEU) programme (around €800 billion) that supplemented the current MFF. If the new budget covers the usual period of seven years, its implementation will span the period 2028-2034. The investment decisions negotiated now will influence the EU's capacity to attain its **2030 climate target** of 55% reduction of greenhouse gas emissions compared to 1990 levels, as well as the **2040 target** of 90% reduction recommended by the Commission in February 2024.

For the MFF to be an effective tool in the pursuit of a just transition to climate neutrality, it needs to address eco-social risks as they emerge and evolve. But it also needs to be unwaveringly **supportive of environmental and climate action**. A just transition protects vulnerable actors from the asymmetric consequences of climate action, but it also protects the public from climate inaction, as well as from regressive climate and environmental policies. Whilst not all EU investments have the capacity to further "green" goals, **no EU money should be used in projects that significantly harm the environment or accentuate social inequalities**.

WHAT HAS BEEN DONE SO FAR?

The EU has already adopted several **financial and budgetary instruments** supporting – to different extents – a just transition. Understanding what has been done in this domain can generate **important lessons** for the next MFF.

Just Transition Fund and Cohesion Policy

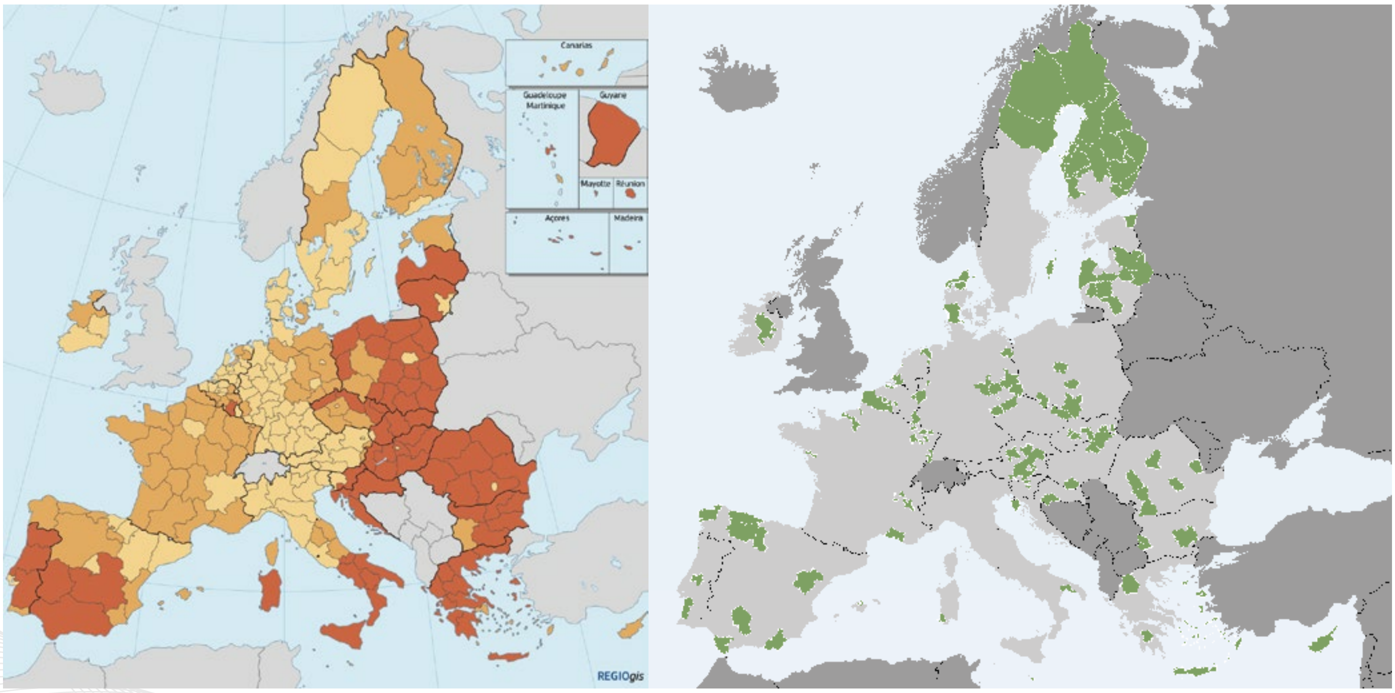
The flagship instrument towards a just transition is the **JTF**, which was announced as part of the EGD package and adopted in 2021. The JTF initially mobilised close to **€8 billion**, which were supplemented by the Recovery and Resilience Facility (RRF) to a total amount of around **€20 billion**. The mode of functioning of the JTF is very close to the broader Cohesion Policy of the EU, as it is managed by DG REGIO. However, its functioning brought interesting innovations.

The JTF is the first EU fund entirely dedicated to **tackling eco-social risks** linked to decarbonisation policies in energy production and manufacturing, namely, the impact of the green transition on **unemployment**. It recognises that the phasing out of coal and the reduction in greenhouse gas emissions in carbon-intensive regions required to achieve climate neutrality will generate substantial socioeconomic impacts, especially on coal-dependent regions.[13] The transition means the closure of dozens of coal mines and coal-fired power plants, as well as a gradual but sustained shift away from coal in member states' energy mix. This phasing out is largely asymmetric, with countries like Poland, Czechia, Bulgaria and Germany having **disproportionate reliance on coal for energy consumption**.

The allocation of the JTF in the current MFF thus followed the spatial distribution of socioeconomic dependence on carbon emissions. Its distribution formula included the level of carbon intensity at the regional level (NUTS 3), the share of employment in coal mining and the share of employment in industry. The definition of these "just transition regions" showed that, despite some overlap with the allocation of Cohesion Policy funds (ERDF, ESF+, CF), the coincidence was limited (Figure 1). Indeed, "**just transition regions**" are not necessarily amongst the poorest in the EU, but their economies are built on an unsustainable carbon-intensive model that compromises their **resilience**.

The JTF was instrumental in the recognition of **eco-social risks** linked to the green transition, namely, unemployment. And incidentally, it was also crucial to the agreement on the broad strategy inscribed in the EGD. In addition to innovating by acknowledging new risks, it allowed for innovative solutions: **flexibility in the reallocation of resources** from Cohesion Policy funds to supplement just transition projects; and integration of MFF resources with a **public sector loan facility** and **loan guarantees** under InvestEU. A Just Transition Platform was also created to provide **technical support** to regions and governments.

Figure 1. Mapping cohesion and just transition regions.



Source: European Commission.

Note: on the left, NUTS2 regions are classified according to PPP-corrected GDP/capita relative to EU-27 averages: red indicates regions below 75%; orange between 75 and 100%; yellow above 100% of EU-27 averages. On the right, just transition regions in the context of the JTF are depicted in green.

On the ground, the JTF allowed for the configuration of **Territorial Just Transition Plans** (TJTPs) that brought representatives of these just transition regions, industries, environmental organisations, trade unions, civil society and local governments to negotiation and dialogue. Although there is room for improvement, this mode of partnership and consultation made it possible to identify c**ontext-specific needs** related to the green transition: training and re-skilling of workers to support the energy transition of the Rotterdam Port Industrial Complex (Netherlands); transforming district heating infrastructures in Valenje (Slovenia); or large-scale industrial reorganisation in Asturias (Spain).[14] Evaluations made by stakeholders, as well as by the Just Transition Platform, have highlighted the centrality of the context-specific, **locally driven mode of governance** to the success of just transition projects.[15]

The Emissions Trading System (ETS) funds "galaxy"

A second type of instrument emerged from the creation and extension of the ETS: **the Innovation Fund**; **Modernisation Fund**; and **Social Climate Fund** (SCF). These funds belong to the so-called EU "budgetary galaxy", as they are not funded by the EU's own resources. However, they play an important role in recycling revenues derived from climate policy (i.e., carbon pricing through ETS) towards investments in projects that facilitate the green transition. The SCF is the first that explicitly addresses the social costs of decarbonisation, while the others have been essentially market oriented.

The **Innovation Fund** was created for the period 2020-2030. It mobilises a portion of the revenues from carbon-allowance auctions to directly fund **projects to market low-carbon innovations**, namely, in the production of renewable energy; carbon capture, use and storage; or energy storage. The resources available to the fund are dependent on the evolution of the price of carbon in the ETS, but the Commission estimates a total envelope of approximately **€40 billion**. This fund does not have a place-based, pre-allocated distribution. Its functioning is closer to Horizon Europe, in which standards of project "excellence" determine allocation. Its mission to promote low-carbon technologies can facilitate the transition, possibly making alternatives to fossil fuel more affordable. In recent reforms, it began to target mobility and housing investments, but its contribution to eco-social goals needs to be further developed.

The **Modernisation Fund** was created in 2018, to support countries' efforts to modernise their energy systems and increase energy efficiency. Its resources are also derived from the sale of ETS allowances, but its distribution targets 13 lower-income countries, overwhelmingly from Central and Eastern Europe.[16] The allocation is highly dependent on **GDP metrics**, instead of a more complete assessment of eco-social risks. Its pool of resources is also dependent on the price of carbon, but the Commission estimates that the total envelope for 2021-2030 is around **€57 billion**.

Both these funds were designed to promote climate-related investments, but without a comprehensive, consistent approach towards a just transition, which we see as a key ambition for the next MFF. The more recent SCF provides a promising model for how to recycle the revenues of the ETS towards eco-social goals.

The **SCF** was adopted in 2023, in the context of the extension of the ETS to the transportation and building sectors (ETS2). It can mobilise up to **€65 billion** in the period 2026-2032. These funds are allocated to member states, depending on their levels of carbon emissions from fuel consumption by households, energy poverty, rural poverty, and the country's gross national income. The SCF is complementary to the JTF, as it recognises and addresses eco-social risks linked to **access to energy and transportation** that can result from decarbonisation.

The SCF targets initiatives linked to energy efficiency, the renovation of buildings and low-emission mobility. It is yet to be implemented, but its governance structure linking DG CLIMA with DG EMPL and the Recovery and Resilience Task

Force has the potential to make the National Social Climate Plans more coherent in their **just transition approach**. A critical innovation of the SCF in this funding landscape is the possibility for member states to use up to 37.5% of their allocated funds to "**direct income support to vulnerable households and vulnerable transport users**", conditional on the articulation of such measures with structural investments targeting these sectors (Article 8(2) of SCF Regulation 2023/955).

Next Generation EU

The response to the COVID-19 pandemic involved a substantial expansion of the EU's financial capacity, namely, through the creation of the **NGEU** programme. The overall package of around **€800 billion** was designed with clear earmarking for **green, digital and social investments**, thus enhancing the budgetary room for promoting a just transition. Importantly, the main financial instrument of NGEU, the RRF, was a **crisis-response** facility endowed with €650 billion. Even though it was conceived to address problems from a long-term perspective,[17] its purpose and governance differed in significant ways from more traditional long-term financial instruments.[18]

The exceptional character of the RRF made its governance more centralised at the level of member states, largely bypassing local and regional authorities, social partners, and civil society. The definition of priorities and plans was negotiated directly with the Commission, and the European Parliament received limited supervisory capacity.[19] Whilst the priorities of NGEU had great potential to support a just transition agenda, the **integration of environmental and social goals** was for the most part limited.[20] At the same time, NGEU opened the door to innovative instruments of social protection for targeted purposes. The successful adoption of **Support to Mitigate Unemployment Risks in an Emergency** (SURE) provided an interesting blueprint for the multi-level integration of social protection in the EU and has served as a basis for proposals regarding a "Green" SURE.[21]

JUST TRANSITION GOALS FOR THE MFF

The analysis of some of the existing EU financial instruments capable of promoting a just transition reveals considerable room for policy improvement to support the dual goal of accelerating the shift towards "green" practices and addressing eco-social risks. Here, we argue that achieving such an improvement requires the EU budget to give centrality to the following five goals:

- ensure **inclusiveness and capacity building** across budgetary processes;
- promote **territorial economic resilience** in the green transition;
- foster **eco-social security** to address the socioeconomic risks of the transition;
- invest in **workers and communities** directly affected by decarbonisation; and
- create deeper **knowledge** and better **governance** of eco-social risks.

These goals, albeit central, do not exhaust all aspects of a just transition agenda. It is notably important to ensure that just transition policies within the EU are developed in cooperation with countries from the Global South. A just transition aimed at environmental and human health only makes sense in a global perspective.[22]

Inclusiveness and capacity building

Active **participation** is key to all dimensions of the just transition. The tangible involvement of citizens and stakeholders is essential, at least in three respects. Firstly, **listening to the demands and grievances** of those who are affected by the green transition helps us to understand the transformation at stake and their effects in social terms. Secondly, it is fundamental to make sure that public policies and funds are **effectively targeting and reaching those who need them** in a way that is adequate for local and regional realities. Thirdly, it is crucial to **generate and sustain public support** for just transition objectives and policies.

Yet, participatory and procedural justice, namely, the transparency and inclusiveness of political processes, has remained the Achilles' heel of EU fund distribution. While the **principle of partnership** lies at the core of the Cohesion Policy, there is still room for more and better involvement of political authorities at multiple levels, alongside social partners, civil society organisations, social and solidary economy actors, and the wider public. This was especially limited in the management of NGEU funds, in which "ownership" was operationalised through stringent commitments taken from governments and administrations, with limited involvement from parliaments, social partners, civil society and territorial authorities.

Improving **inclusiveness and capacity building** is critical to the development of an effective and coherent just transition agenda, both in dedicated instruments and across the EU budget. Creating **participatory structures** needs to be at the core of the socioeconomic transformations necessary towards climate neutrality. This needs to go beyond narrow forms of "consultation" or technocratic "stakeholder democracy" models and create multi-level representation of affected publics and diffuse interests (including non-human wellbeing). The involvement of **civil society organisations and trade unions** in decision-making processes must be structured, meaningful and effective – it cannot just be a box-ticking exercise.

Furthermore, **citizens' assemblies** can be powerful guides for meaningful participation, as can **subnational, national and EU-wide networks** focusing on the development, implementation, monitoring and evaluation of just transition policies. These structures need to be **involved across different EU policy cycles**: European Semester; National Energy and Climate Plans (NECPs); EU-wide strategies; and national and territorial just transition plans.

Territorial resilience

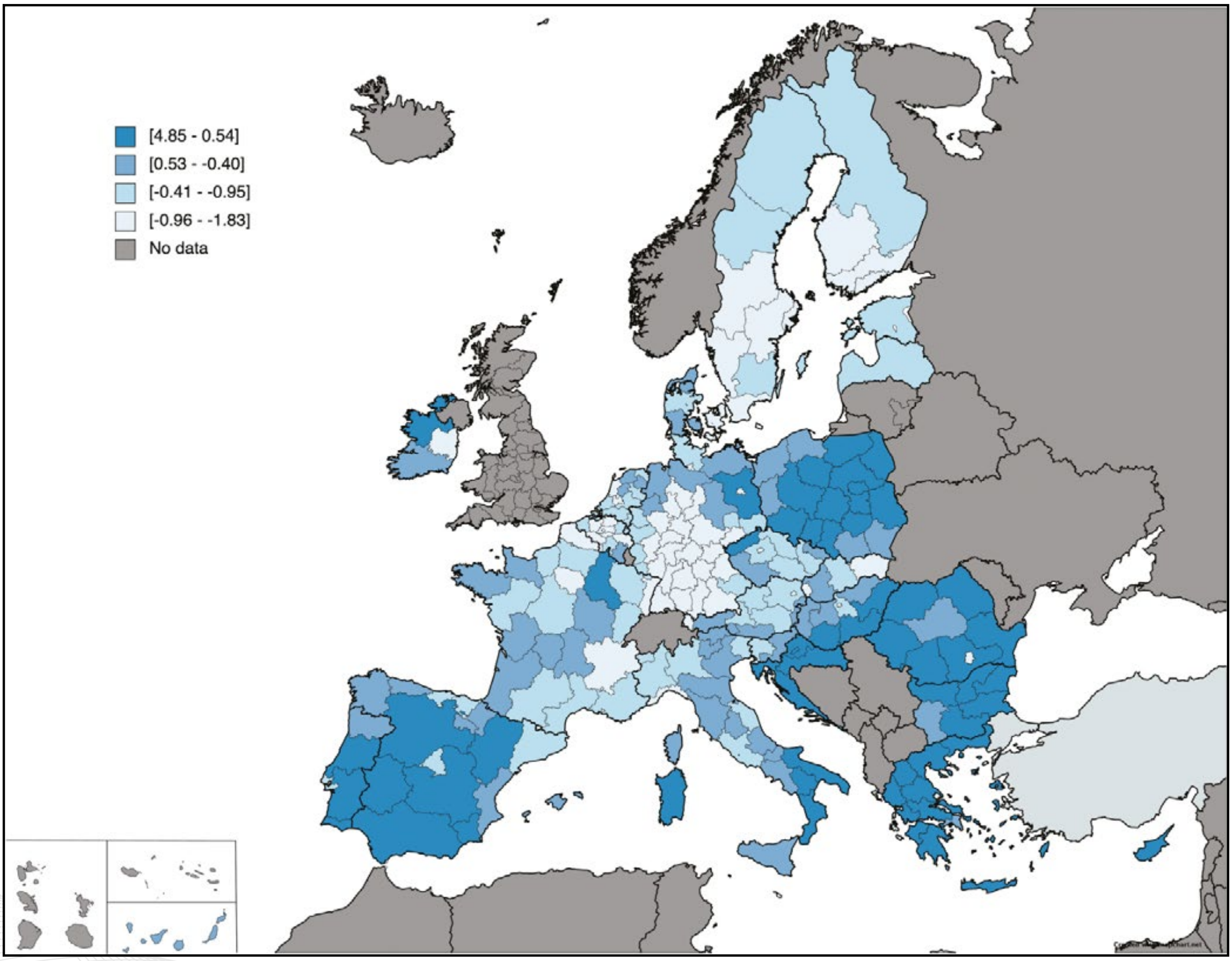
The intensification of climate and environmental action in the EU in recent years has highlighted the **territorial and regional dimensions** of the economic transformations that are required. Economic activities such as coal mining, energy production, the chemical or steel industries, agriculture, and transportation or tourism have profound geographical anchoring. Many "just transition regions" have been dependent on mainly one **economic sector**: companies, industries, and sectors that drive regional employment and economic prosperity.

This means that pursuing a just transition in the EU budget requires the recognition of **regional imbalances and asymmetries** in transition costs. A large part of EU funds are already "place-based", namely, cohesion and agricultural funds. However, the recognition of vulnerability to the green transition implies a **more sophisticated identification of eco-social risks and their geographical distribution** (Figure 2). The allocation of the JTF emphasised carbon dependency and employment in coal mining and in industry. The SCF targeted rural and energy poverty. In the future, the regions affected by further steps in the green transition will need **alternative sources of economic resilience and wellbeing**.

Regional development and support have been central policy priorities for the EU for decades, but its impact has been undermined by the fragmented distribution of money through diverse, small-scale projects. A significant share of the funds could **be directed at key eco-social risks in housing and mobility**, for instance, by supporting the large-scale building of energy-efficient social housing; the collective planification of housing insulation in neighbourhoods; the development of a Europe-wide, highly efficient and well-interconnected railway network (curbing air travel in Europe); and clean and accessible urban and peri-urban public transport.

A just transition has the potential to address the predicaments of a well-recognised "geography of EU discontent".[23] Understanding and responding to evolving regional needs can directly boost EU citizens' "**right to stay**".[24] Tackling eco-social risks is key to addressing exacerbating territorial unbalances driving phenomena such as constrained mobility, brain drain and demographic decline, which affect a number of European regions.

Figure 2. Regional asymmetries in the vulnerability to the green transition.



Source: Rodríguez-Pose and Bartalucci (2024).

Note: the figure depicts a composite index of regional vulnerability to direct and indirect impacts of the green transition across multiple economic sectors. It is an illustration of the type of development necessary in the recognition of place-based asymmetries.

Eco-social security

In a world of heightened instability, many individuals feel threatened by the ongoing profound technological, political and economic transformations. Most of these issues, in particular climate change, the transformation of work, the ageing of the European population, and intensified and often constrained displacements of people, are transnational by nature and must therefore be a priority for the EU. Adapting and reinforcing **social security structures** to these new realities should thus be an overarching goal of the MFF.

This is especially the case in efforts to "**leave no one behind**" in the green transition. Whereas the bulk of social protection remains at the national level, a just transition requires a coordinated shift towards an eco-social security that needs to include different levels of government. Traditional support for social goals through EU funds has focused on social investment, with a strong focus on active labour market policies and, more recently, education (including childcare). Eco-social risks bring about new vulnerabilities and inequalities that go beyond income and work and must be better understood, and tackled as such (see Box 1). Just like risks stemming from changing labour markets, eco-social risks cannot be covered by the market only (typically private insurance schemes) and must be addressed by public policy and public resources.

EU funds must incentivise and complement national welfare states in **mitigating and compensating** for these risks. This can be done through a reinforcement of eco-social priorities in existing schemes (e.g., energy efficiency in housing and transport, better public infrastructures, healthcare), but also through strengthening member states' capacity to address these risks and through **direct income support** to individuals.

Transformation of work and lifestyles

The green transition has several impacts on the world of work, including the risk of skill obsolescence. **Skills** needed for new "**green jobs**" can be very different from the type of training necessary in activities such as coal mining or some types of industrial work. The **world of work** is situated at the intersection between the decarbonisation of the economy and people's social condition, and the support of workers and communities in the green transition is an internationally recognised priority.[25] More than adaptation at the margins or ex-post compensation, a **profound transformation of all human activities** in work, leisure and culture is indeed a condition for a just transition.

The MFF is especially suited to promoting the type of **re-skilling**, **up-skilling** and **life-long learning** that can support workers and communities to adapt to the necessary socioeconomic change. Its programmes have promoted education and training for decades. It is important to understand that the preparation necessary will not just require new types of training (both technical and scientific), but also new structures and institutions adapted to **adult education**. The different cycles of education systems (secondary and technical schools, universities) need to provide necessary skills to traditional and new users. The rampant marketisation of education, nevertheless, threatens to be oriented towards short-term market needs and is likely to accentuate issues in unequal access and affordability. Instead, strong public, accessible education and training must be set up to foster a wide understanding of sustainable welfare and the learning of relating competences.

To be sure, **groups of workers** who have lost or may lose their jobs as a consequence of the reconfiguration or phasing out of unsustainable industries (coal mining, heavy industry, car manufacturing, etc.) should be at the front line of policy efforts. But beyond immediate compensation, EU funds should be used to provide an impulse **towards a deeper transformation of work and lifestyles** in a way that fosters decarbonisation and social change.

They also need to promote the **social and cultural dynamism** of these communities, neighbourhoods and cities, which are integral elements of a wellbeing society. Such funds can be attached to climate-related investments, as well as to the implementation of environmental and climate-related policies.

Strong multi-level knowledge and governance

Eco-social risks can be strongly felt by individuals and communities, but a systematic understanding of their **nature, extension and distribution** is still limited. Promoting a just transition requires a deeper understanding of eco-social risks, capable of driving political and policy work at the EU, national and subnational levels. The MFF can be a central tool to invest in much-needed research on a just transition, as well as in essential administrative capacities to deliver it. The adequate articulation of **knowledge and governance** is central to a just transition.

Research on the social dimensions of the green transition can be further pursued by institutions, in articulated efforts towards in-house and externally sourced work. In this regard, a well-funded **European Fair Transition Observatory** can be an excellent investment. But the evolving reality of these risks requires **disseminated efforts** throughout the EU, and especially the local production of knowledge on these problems. The most affected regions and their **research institutions** need to be at the forefront of knowledge production, which will both enhance regional resilience and strengthen local policy capacity.

A large part of the work of pursuing a just transition is necessarily done at the **national and subnational levels**, as different actors and organisations mobilise EU funds to attain these goals. Often, the most affected areas also suffer from scarce policy and administrative capabilities and from limited technical capacity. Moreover, access to EU funds can address the **complex challenges** of a just transition, requiring substantial investment in local, regional and national political structures to improve budgetary **governance**.

RECOMMENDATIONS: COMBINING DEDICATED INSTRUMENTS WITH BUDGET MAINSTREAMING

EU budgetary resources have the potential to make a more decisive contribution to a just transition towards climate neutrality by 2050. The next MFF will be critical in this regard, but it needs to be reformed. The next EU budgetary cycle needs to **incorporate and expand on existing policies and programmes** through two complementary budgetary strategies: a reinforced **dedicated instrument**; and the **mainstreaming** of just transition goals across budget lines.

The importance of combining these strategies is easy to understand. A **dedicated instrument**, such as the JTF, mobilises policy capacity towards a clearly defined policy priority. Moreover, it has the potential to generate stability and trust in processes of long-term transformation. Yet, a dedicated instrument managed as a "silo" may risk being disarticulated from other budgetary goals, possibly even creating tensions and contradictions.

Leveraging the EU budget to promote a just transition in the EU thus requires this policy goal to be **mainstreamed** across the budgetary framework. Budget mainstreaming means the inclusion of specific goals in all stages of the budgetary process and across different expenditure and revenue policies. In recent years, the EU has mainstreamed several goals in the MFF (e.g., gender equality, climate and digital transitions) through multiple methodologies, such as procedural practices, policy scoring and earmarking.[26] This process is built on the understanding that such goals are priorities and that different EU budget lines can have an impact (either positive or negative) on them. Several evaluations indicate the need to improve mainstreaming methodologies and practices, especially in social policy goals, and the importance of good governance structures to achieve results.[27]

Budgetary practices in the EU, the experience of early programmes of just transition and the lessons learned from mainstreaming strategies lead us to recommend the adoption of the following recommendations.

Reinforcement of a dedicated fund for a just transition

The JTF was a success story in bringing the pursuit of just transition goals to the centre of EU priorities. Moreover, the evolution of climate policy instruments in recent years brought about several instruments that have the potential to support the just transition, namely, those financed by ETS revenues (Innovation Fund, Modernisation Fund and SCF).

The merger of these funds (JTF, Innovation Fund, Modernisation Fund, SCF) into a powerful **JTF 2.0** could mobilise nearly €180 billion towards an integrated approach to a just transition that combines climate and social investments. The "**single shop**" model would simplify access to funds and ease administrative burdens at the regional, national and EU levels. The new fund could be structured in different pillars, to preserve the specificities of existing funds, whilst boosting policy coherence. The organisation of JTF 2.0 could bring together technical staff from different Commission services, as it would address inherently **cross-sectoral policy goals**.

The portion of JTF 2.0 that would be **allocated to regions** should follow distribution keys based on sophisticated evaluations of **eco-social risks**, and thus, extend the methodologies used in existing funds and integrate them in a coherent fashion (see Figure 2). Relevant indicators should include carbon intensity; unemployment risks from the transition; and vulnerabilities regarding housing, energy and transportation poverty. Building on and expanding the territorial focus of the current JTF is highly necessary.

Such a fund would have a **stable contribution** from the MFF and a **variable component** based on carbon pricing in the ETS. This would make the fund **sensitive and responsive** to the intensity of the economic impacts of climate policy in a way that could remain pertinent over time. Its use would also be streamlined institutionally, in a way that allows for better **parliamentary supervision** of priorities and disbursements.

The merger of these funds also has the potential to extend some of their existing features. On one hand, the fund can be **further leveraged** through linkages with European Investment Bank resources, MFF-supported loan guarantees or an extension of the public sector loan facility. On the other hand, it can further expand the SCF "model" of allowing part of the resources to be used towards **direct income support** that targets vulnerable individuals at risk of "falling through the cracks" of existing systems. Beyond supporting people vulnerable to energy and mobility poverty, the new fund could target specific instances of unemployment support or early retirement, whenever processes of re-skilling and active labour market policies are not sufficient.

Access to resources from JTF 2.0 would be conditional on the development of **National Just Transition Strategies**, following the model of national plans already developed for the funds available in the current budgetary cycle. The development of these strategies needs to be integrated in the production of NECPs and in the European Semester process. Their formulation would require **strict conditionality regarding stakeholder involvement**. As further discussed below, in recommendation 3, the involvement of local and regional actors, trade unions and social partners, and broader civil society is fundamental for the adequate steering of funds towards just transition goals, namely, regarding **territorial resilience**.

The consolidation of a more coherent and streamlined JTF 2.0 does not exhaust potential needs regarding emerging eco-social risks. As such, the logic already adopted for the JTF, according to which other EU funds can, **within specified limits**, be reallocated to just transition projects, needs to be continued and reinforced. This has the potential to further strengthen the articulation of climate and social goals across EU funds, without crowding out resources that remain necessary for other policy priorities.

Mainstreaming DNSH conditionality and earmarking eco-social spending

Conditionality has become the key tool to direct EU investments and financial redistribution through the budget across virtually all funds, including the Common Agricultural Policy (CAP), all European structural and investment funds, and the RRF. While various forms of conditionalities have proliferated across policy domains, the experience of both the CAP and the RRF nevertheless suggest a lack of integration between green and social spending, threatening to create trade-offs between the two instead of substantiating a holistic eco-social vision of the transition. Moreover, experience with the green DNSH shows that it lacks homogeneity and systematicity across domains, funds and instruments.[28]

Conditionality can be used to promote a just transition in two ways. **A defensive approach** consists of preventing detrimental policies and behaviours. So far, this has materialised in the form of an environmental DNSH based on the **EU Green Taxonomy** (Regulation 2020/852, Art. 17), which has been used in a range of policies, including the SCF. While its limitations should be addressed,[29] the environmental DNSH principle should be transversal to the entirety of the EU budget. Moreover, it should be supplemented by a social DNSH principle, based on a social taxonomy focused on (a) decent work; (b) fair taxation; (c) responsible corporate behaviour; and d) accessibility, quality and affordability of essential goods and services. The articulation of both principles will ensure the use of EU funds is aligned with the EU's commitments regarding climate neutrality and social and workers' rights, as enshrined in the European Pillar of Social Rights, EU treaties, International Labour Organization agreements and the UN's sustainable development goals. This recommendation aligns with the recent reform of the Financial Regulation (2024/2509, Art. 33.2).

One step further, a more proactive **approach** consists of using conditionality to actively promote investment to build resilience against eco-social risks. Similar to what already exists in the RRF or the ESF+, this can be done through systematic **earmarking of 30% of each EU fund for addressing eco-social risks**. Depending on regional and national priorities, and on the funds, this share could be flexibly distributed across the four key domains of eco-social risks, namely, health, housing, income and work, and mobility (see Box 1).

Consistency and control in these forms of budgetary mainstreaming must be ensured through the involvement and democratic scrutiny of the EU Just Transition Network (see recommendation 3) and through the consolidation of a multi-level community of researchers and policymakers (see recommendations 4 and 5).

Creation of the EU Just Transition Network

Following the model adopted in the EU CAP Network in 2022, an **EU Just Transition Network** would constitute a central pillar of the definition of a coherent just transition strategy integrating local, regional, national and EU-wide purposes and actions. In each member state, a network would gather key stakeholders in the just transition. These national networks would build on the **capacity** generated around the JTF, which created new forms of social and civil dialogue in the definition of Territorial Just Transition Plans. Along the lines of the CAP model, these networks would constitute an EU-wide assembly, forming a permanent steering committee and policy-driven permanent groups, to help shape the EU strategy on a just transition.

The EU Just Transition Network would be a permanent site for **inclusive and active participation** of relevant actors capable of influencing just transition strategies, monitoring the implementation of funds, and developing and sharing policy-making tools. The network would be involved in the governance of the **dedicated instrument** presented above and in the efforts of **mainstreaming** just transition across different **EU policy cycles** (National Just Transition Plans, NECPs, European Semester, etc.). As the experience of gender mainstreaming has shown, the permanent involvement of relevant stakeholders is necessary for effective policy outcomes.

The constitution of these networks would need to be adapted to the realities of different member states, but minimum requirements should be defined to **ensure representativeness**. These networks would be composed of representatives of social partners, civil society organisations, social and solidarity economy actors, and elected local and regional offices. Furthermore, just transition networks can be a site for democratic innovation, namely, through the establishment of **citizens' assemblies for just transition**.

We recommend that these networks maintain close collaboration with the European Economic and Social Committee and the Committee of the Regions, which would provide crucial coordination of the networks at the EU level and facilitate bottom-up involvement in EU policy-making. Like the EU CAP Network, EU institutions need to provide funds to flexibly support the work of the EU Just Transition Network.

Promotion of local research on socioeconomic realities of the transition

The EU budget gives substantial priority to the development of scientific research in natural, technical and social sciences. Research on climate-related phenomena, including eco-social risks, needs to be enhanced to support the just transition. Whereas many of these socioeconomic risks can be understood across the board, there are also **context-specific realities** that require the development of **local knowledge**. As such, EU funds should target the development of further research on eco-social risks in affected regions. This would not just facilitate access to spatially asymmetric phenomena, but also boost the scientific dynamism of **regional universities** and their potential bridges with affected communities. This type of investment would contribute to **knowledge production**, but also to r**egional resilience** and **preparedness.**

More specifically, a multilevel network of scientific experts and policymakers could provide much-needed expertise[30] to design, implement and control the pursuit of just transition goals in the use of EU funds at the national, regional and local levels. This would ensure the production of knowledge with a direct impact on policy-making.

Investment in policy and administrative capacity

A fundamental difficulty of the green transition and of its socioeconomic impacts resides in the challenges posed to existing administrative structures. What is perceived at the EU level as the challenges of policy "silos" can be easily translated to the multi-level political system that bridges the supranational and the local levels. Some of the administrative barriers are especially felt in regions and countries that are more vulnerable and, at the same time, less equipped to develop innovative responses to the challenges of a just transition. The adoption of coherent and effective just transition policies will require the development of **administrative and policy capacities** through substantial investment and technical support. This should build on existing structures (e.g. the Just Transition Platform), but extend their capacity to not only to monitor policies on the ground, but also contribute to innovative policy design to address eco-social risks. The MFF, and in particular the JTF 2.0, needs to promote better policymaking at all stages of the policy cycle. Like existing provisions in the current ESF+, a small part (e.g. 2%) of the JTF 2.0 could be earmarked for such capacity building.

CONCLUSION

Achieving a transition towards **climate neutrality** is essential for our future, and the EU will succeed only if the transition is **socially just**. EU budgetary instruments are **central tools** to leverage this agenda and to make a just transition an EU-wide priority. This can be delivered through a **reinforcement of dedicated instruments** supplemented by mechanisms of **mainstreaming** of just transition goals in the MFF as a whole. So far, the EU approach to a just transition has been overly focused on narrow forms of compensation and ad hoc instruments. Economic policy, environmental policy and social policy have largely remained siloed, and the involvement of people and their representatives at all levels of governance, social partners and organised civil society has been limited.

In this policy brief, we proposed principles and recommendations for the use of EU resources to effectively shape a more coherent, encompassing vision of a Europe-wide just transition. As a larger share of national and European financial resources will be directed at **security and defence policies**, it is important to avoid the dispersion of EU money and make sure it is directed at a limited set of priorities in an assertive fashion.

The many forms of injustice potentially arising from the green transition can fuel **nationalism and the contestation of the rule of law**. As the EGD and its social component are under attack from various sides, there is an urgent requirement to **create new spaces for democratic deliberation and participation** that can facilitate compromises and ensure public support for a just transition.

While this policy brief focused on the "**spending**" side of EU financial resources, the reflection on the revenue side also needs to be taken further. The EU as a whole has an unrealised potential to make decisions on revenues and taxes that could both accelerate the green transition and make it fairer.

Moreover, it is important to acknowledge that the **EU budget is not a "silver bullet"**. Beyond the MFF, just transition goals need to be core to the coordination of policies in the **European Semester**[31] and **NECPs**. A just transition further needs to incorporate regulatory instruments, in the economic, environmental and social domains. The place of eco-social investment in the **fiscal framework**, or how to green the **European Pillar of Social Rights**, for instance, also deserves attention. Furthermore, the design and use of the MFF should go hand in hand with a reflection on consistency with key policy areas, especially **trade policy**, agricultural policy, international aid, regulation of the financial sector and even monetary policy.

Fundamentally, a just transition to climate neutrality needs to stay the course; be reliable and predictable; build on democratic consensus; and include the EU public in a project of environmental, economic and social transformations **that will last more than a generation**. Making the **EU budget fit for purpose** is a critical step in this journey.

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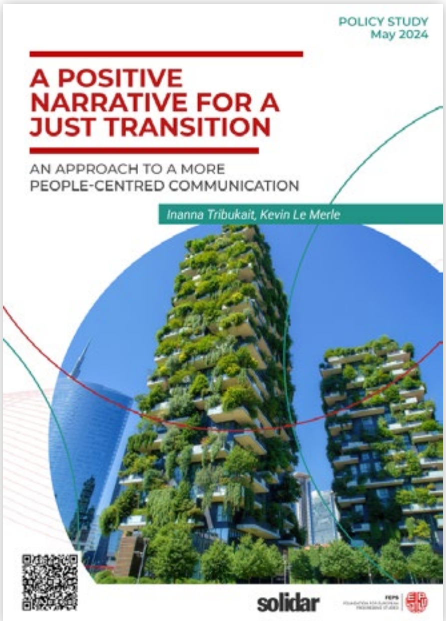
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