



Presidency issues note for session n°4 of the Informal ECOFIN

How to ensure a fair and inclusive climate transition?

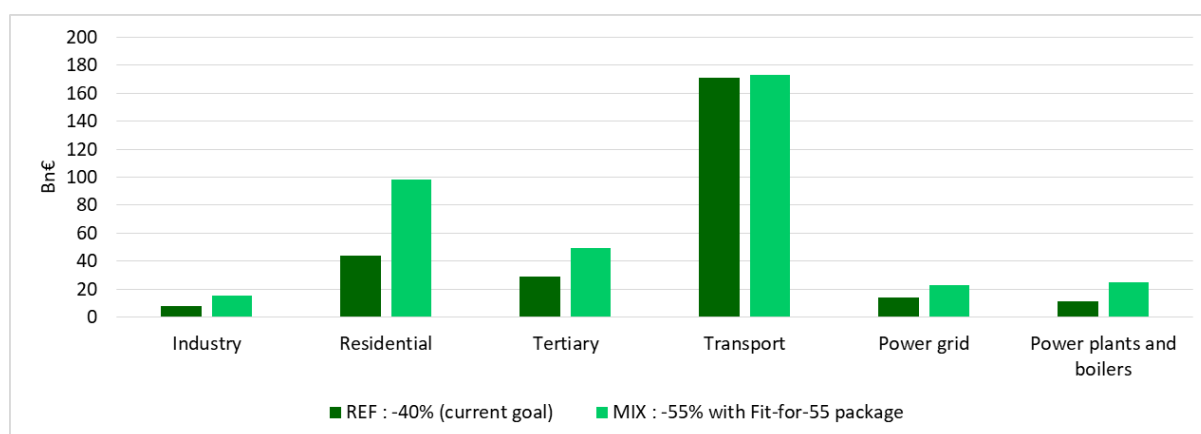
In the coming decade, the climate transition will affect the entire economy, with heterogeneous impacts depending on the sector. All sectors of activity will have to massively and rapidly reduce their greenhouse gas emissions and their carbon footprint, to adapt to the effects of climate change, and to limit their impact on the environment. Economic policies have a major role to play in supporting households and businesses in this transition, enabling them to seize the opportunities that the climate transition offers and making the European economy the world leader in a low-carbon economy.

The climate transition increases the need for investment and leads to strong reallocations of capital and skills.

The climate transition leads to massive investment needs. The European Commission estimates the additional investment needs related to the Fit-for-55 package on climate change mitigation at €390 billion per year in the EU between 2021 and 2030. This implies putting in place the relevant public policies to meet these investment needs, in particular by choosing the most efficient investments, the right balance between public and private investments and the leverage effects that can be factored in.

For companies, this transition will lead to major reallocations of capital and skills. This will lead to new economic opportunities but also to necessary changes and redeployments between sectors and within some sectors. Companies must adapt their productive capital to a decarbonized economy and also need new skills, estimated at 1 million jobs by 2030 (Commission).

Average annual additional climate investment needs in the EU in 2021-30 compared to 2011-20 (agriculture sector not covered by the European Commission estimate)



Source: European Commission for ECCWG, November 2021

For households, the climate transition may induce significant redistributive effects.

The transition to carbon neutrality and the tools to achieve it (carbon pricing, regulations) will have a heterogeneous impact on households, depending on their income, geography, or previous equipment choices. While the climate transition may ultimately generate income gains via the energy savings it brings, transition policies may nevertheless be a source of inequality.

The transformations induced by the climate transition require a reinforced economic, social and territorial cohesion.

Accompanying the transition depends first and foremost on creating an environment that is conducive to triggering the necessary investments. Giving households and businesses visibility on future policies will facilitate investment decisions in favor of the transition.

Public policies also have a role to play in promoting the emergence and availability of alternative solutions easily available to the greatest number of people, such as public transport as an alternative to the use of a private car, or the deployment of networks of recharging stations allowing the development of electric vehicles.

Acceptability will be a determining factor in initiating a transition now and thus achieving our objectives for 2030 and 2050. The economic and social impacts will require financial support for the most vulnerable populations, when alternative solutions are not immediately available to them or when the induced shocks are too important. This raises the question of how best to support the households and companies that need it, while meeting the requirements of equity, maintaining incentives for the transition, and also the sustainability of public finances in light of the unprecedented level of effort that is required.

Finally, the reallocation of labour and its impact on the job market calls for the strengthening of policies in favour of skills, at all levels (initial, lifelong training), in

order to facilitate reskilling and upskilling, in particular for the sectors experiencing jobs' shortages as a result of the climate transition.

To ensure that the climate transition can benefit everyone, transversal support policies will be necessary.

Questions for Ministers:

- Based on your experience, what measures would you recommend at the national level to improve the fairness and inclusiveness of economic climate transition policies?
- What actions would you prioritize in the future to ensure that the climate transition in Europe is a just transition?
- Is there an interest in more coordination of policies to support the transition?