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Proposal for a

REGULATION OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL

establishing the Just Transition Fund

EXPLANATORY MEMORANDUM

1. CONTEXT OF THE PROPOSAL

On 2 May 2018, the European Commission adopted its proposal for the next multi-annual financial framework covering the period 2021-2027[1]. The proposal demonstrated the Commission's increased ambition concerning climate-related activities and proposed to spend 25% of expenditure on such activities, amounting to EUR 320 billion, to be mobilised through the EU budget.

The Commission later adopted, on 29 and 30 May 2018, its legislative proposals governing the use of cohesion policy funding for the same period. One of the main objectives which will drive EU investments in 2021-2027 will be a "Greener, low-carbon Europe, by promoting clean and fair energy transition, green and blue investment, the circular economy, climate adaptation and risk prevention and management"[2] implementing the Paris Agreement. According to the Commission's proposal, a significant share of cohesion funding will focus on this priority. It will be essential to confirm that share in the ongoing legislative process.

On 11 December 2019, the Commission adopted a Communication on the European Green Deal, setting out its roadmap towards a new growth policy for Europe. This growth policy is based on ambitious climate and environmental objectives and on participatory processes bringing citizens, cities and regions together in the fight against climate change and for environmental protection. In line with the objective of achieving EU climate neutrality by 2050 in an effective and fair manner, the European Green Deal proposed a Just Transition Mechanism, including a Just Transition Fund, to leave no one behind. The most vulnerable are the most exposed to the harmful effects of climate change and environmental degradation. At the same time, managing the transition will lead to significant structural changes. Citizens and workers will be affected in different ways and not all Member States, regions and cities start the transition from the same point or have the same capacity to respond.

As further detailed in the Communication on the Sustainable Europe Investment Plan[3], the Just Transition Mechanism will focus on those regions and sectors that are most affected by the transition given their dependence on fossil fuels, including coal, peat and oil shale or greenhouse gas-intensive industrial processes. Some sectors will be declining, with an irreversible decline in economic output and employment levels for economic activities with high greenhouse gas emission intensity levels, or based on the production and use of fossil fuels, in particular coal, lignite, peat and oil shale, Other sectors with high greenhouse gas emission intensity levels, for which technological alternatives to carbon-intensive processes can be found in order to maintain economic output and enhance employment, will instead need to transform. Overall, coal infrastructure is present in 108 European regions and close to 237 000 people are employed in coal-related activities, whereas almost 10 000 people are employed in peat extraction activities and around 6 000 are employed in the oil shale industry. The oil shale industry requires particular attention given the very high carbon-dioxide emissions related to this fuel. Numerous additional indirect jobs also depend on the fossil fuel value chain and greenhouse gas-intensive industrial processes.

The Just Transition Mechanism will come in addition to the substantial contribution of the EU's budget through all instruments directly relevant to the transition, notably the European Regional Development Fund ('ERDF') and the European Social Fund Plus ('ESF+').

[1] COM(2018) 322 final.
[2] COM(2018) 375 – Article 4.
[3] COM(2020) 21, 14.1.2020.

The Mechanism will consist of three pillars: (1) a Just Transition Fund implemented under shared management, (2) a dedicated scheme under InvestEU, and (3) a public sector loan facility with the EIB Group to mobilise additional investments to regions concerned. The Just Transition Fund will be used primarily to provide grants; the dedicated transition scheme under InvestEU will crowd in private investments, and the partnership with the EIB will leverage public financing.

The focus of the Just Transition Fund will be on the economic diversification of the territories most affected by the climate transition and the reskilling and active inclusion of their workers and jobseekers. The eligibility of investments under the other two pillars of the Just Transition Mechanism will be broader to support activities related to the energy transition. The dedicated Invest EU scheme will cover projects for energy and transport infrastructure, including gas infrastructure and district heating, as well as decarbonisation projects. Under the public loan facility with the EIB, public authorities will be enabled to implement measures to facilitate the transition to climate neutrality. Projects will range from energy and transport infrastructure, to district heating networks, and energy efficiency measures including renovation of buildings.

Additional public and private resources will be unlocked through a consistent regulatory framework, in particular sectoral State aid rules, which will create opportunities to facilitate the use of national funds for projects consistent with just transition goals. Advisory support and technical assistance for regions will also be an integral part of the Just Transition Mechanism.

In the light of the latest available science and of the need to step up global climate action, the European Council of 12 December 2019 endorsed the objective of achieving a climate-neutral Union by 2050, in line with the objectives of the Paris Agreement and welcomed the Commission's announcement proposing EUR 100 billion of investment through the Just Transition Mechanism to facilitate the achievement of these objectives. Resources of the Mechanism including the Just Transition Fund will be provided to support Member States' commitments to achieve the objective of a climate-neutral Union by 2050.

The Just Transition Fund

The Just Transition Fund will be a key tool to support the territories most affected by the transition towards climate neutrality and avoid regional disparities growing. It will therefore be established within the framework of cohesion policy, which is the main EU policy instrument to reduce regional disparities and to address structural change in Europe's regions – sharing cohesion policy's objectives in the specific context of the transition towards climate neutrality. It will be implemented through shared management in close cooperation with national, regional and local authorities and stakeholders. This will ensure ownership of the transition strategy and provides the tools and structures for an efficient management framework.

The Just Transition Fund will provide support to all Member States. The distribution of its financial means will reflect the capacity of Member States to finance the necessary investments to cope with the transition towards climate neutrality.

The allocation method will consider therefore the scale of the transition challenge of the highest greenhouse gas intensive regions (through the corresponding industrial CO_2emissions), the social challenges in the light of potential job losses in industry, coal and lignite mining and the production of peat and oil shale. The method will also take into account Member States' level of economic development and related investment capacity.

Member States will complement their Just Transition Fund allocation from their resources under the ERDF and the ESF+ through a specific and definitive transfer mechanism. Member

States will also provide national resources to complement the Union resources. The level of Union co-financing will be set according to the category of region in which the identified territories are located. Given that the transfers of resources from the ERDF and the ESF+ taken together will correspond to at least 1.5 and at most 3 times the Just Transition Fund allocation and taking into account the national co-financing the overall financing capacity of this fund will exceed EUR 30 billion and may reach EUR 50 billion. In order to ensure the continued impact of cohesion policy as such, no Member State should provide more than 20% of its initial ERDF and of its initial ESF+ allocation (calculated per Fund) as complementary support transferred to the Just Transition Fund.

Programming of the Just Transition Fund

The programming process, including the identification of the territories for intervention and corresponding actions will be agreed in a dialogue between the Commission and each Member State. It will be steered by the European Semester process. Those territories need to be those that are most negatively affected based on the economic and social impacts resulting from the transition, in particular with regard to expected job losses and the transformation of the production processes of industrial facilities with the highest greenhouse gas intensity.

Taking into account the Commission's analysis in that exercise, Member States will prepare one or more territorial just transition plans, providing an outline of the transition process until 2030, consistent with the National Energy and Climate Plans and the transition to a climate-neutral economy and identifying subsequently the most impacted territories that should be supported. For each of these territories, the territorial just transition plans will set out the social, economic and environmental challenges and give details on needs for economic diversification, reskilling and environmental rehabilitation as appropriate.

In order to ensure the effectiveness of the Just Transition Fund, the support provided needs to be concentrated. The territories identified will therefore correspond to NUTS level 3 regions or could be parts thereof.

The support from the Just Transition Fund will be based on the territorial just transition plans and programmed under one or more priorities, either in programmes supported also from the ERDF, the ESF+ or the Cohesion Fund or in a dedicated Just Transition Fund programme. The territorial just transition plans will be part of the programmes and will be adopted by the same Commission decision as the programme. Support from the Just Transition Fund will be conditional on the approval of the territorial just transition plans, which need to include, in particular, a description of the Member State's commitment as regards the transition process consistent with their National Energy and Climate Plans and the EU objective of climate neutrality by 2050. The territorial just transition plans should also provide a justification for the ERDF and ESF+ complementary resources transferred as well as any support to productive investments in enterprises other than SMEs if deemed necessary. The approval of the territorial just transition plans will enable support not only from the Just Transition Fund, but also from the dedicated just transition scheme under InvestEU (second pillar of the Just Transition Mechanism) and the public sector loan facility, implemented in partnership with the EIB (third pillar), which will support investment for the concerned territories. The territorial just transition plans should be updated and re-adopted when necessary, notably in case of an update of the National Energy and Climate Plans. As for all cohesion policy programmes, programmes supported by the Just Transition Fund will be subject to the mid-term review. Based on results, Just Transition Fund resources could be re-allocated within the Member State in 2025 as part of the mid-term review. The mid-term review will also provide the opportunity to allocate the funding for the years 2026 and 2027, which will be set aside at the start of the next period.

Territories receiving support from the Just Transition Fund will also benefit from a dedicated technical assistance facility. The purpose of this facility will be to design a tailored package of measures across the range of available support from the Commission, the EIB and other international organisations in a simple and integrated manner. Already in 2020, the Commission will assist Member States with the preparation of their territorial just transition plans. In addition, the InvestEU Advisory Hub, including Jaspers (a joint Commission - EIB initiative for project development under the Structural Funds) will provide support for the preparation of the project pipeline. Finally, the Commission will set up a Just Transition Platform to enable bilateral and multilateral exchanges of experience on lessons learnt and best practices across all affected sectors building on the existing platform for coal regions in transition.

Complementarity with InvestEU just transition scheme and the public sector loan facility with the EIB

The Just Transition Mechanism will include a strong governance framework centred on territorial transition plans.

In this context, the support provided through the Just Transition Fund will be complemented by a dedicated just transition scheme under Invest EU. It will support a wider scope of investments, notably by contributing to the transition through support to low-carbon and climate-resilient activities, such as renewable investments and energy efficiency schemes. This scheme will also be able to deploy financing for energy and transport infrastructure, including gas infrastructure and district heating, but also decarbonisation projects, economic diversification of the regions and social infrastructure. Additionally, a new public sector loan facility set up together with the EIB will provide subsidised financing to the local authorities for the benefit of the regions concerned. The EU support could take the form of inter alia an interest rate subsidy or an investment grant, financed from the EU budget, which will be blended together with loans extended by the EIB to municipal, regional and other public authorities.

The two other pillars of the Just Transition Mechanism will have a wider geographical scope than the Just Transition Fund itself, supporting not only investment in projects in just transition territories, but also outside those territories, provided that these projects are key to the transition within the just transition territories.

This proposal provides for a date of application as of 1 January 2021 and is presented for a Union of 27 Member States, in line with the notification by the United Kingdom of its intention to withdraw from the European Union and Euratom based on Article 50 of the Treaty on European Union received by the European Council on 29 March 2017.

2. LEGAL BASIS, SUBSIDIARITY AND PROPORTIONALITY

• Legal basis

EU action is justified by Article 174, paragraph 1, TFEU: 'The Union shall develop and pursue its actions leading to the strengthening of its economic, social and territorial cohesion. In particular, the Union shall aim at reducing disparities between the levels of development of the various regions and the backwardness of the least favoured regions'.

To provide for the setup of the Just Transition Fund, it is necessary to base the proposal on Article 175 TFEU, which explicitly calls on the Union to support the achievement of the objectives set out in Article 174 by the action it takes through the Structural Funds, the EIB and the other existing Financial Instruments.

Article 175, paragraph 3, TFEU also provides that 'if specific actions prove necessary outside the Funds and without prejudice to the measures decided upon within the framework of the other Union policies, such actions may be adopted by the European Parliament and the Council acting in accordance with the ordinary legislative procedure and after consulting the European Economic and Social Committee and the Committee of the Regions'.

- **Subsidiarity and proportionality**

In accordance with Article 4(2) TFEU, the Union has shared competence with Member States in the area of economic, social and territorial cohesion as well as of certain aspects of social policy. It also has competence to carry out actions to support, coordinate or supplement the actions of the Member States in the area of education and vocational training as well as industry (Article 6 TFEU).

The implementation of the Just Transition Fund under shared management is underpinned by the subsidiarity principle. Under shared management, the Commission delegates strategic programming and implementation tasks to Member States and regions. Thus Union action is limited to what is necessary to achieve the Union objectives as laid down in the Treaties.

Shared management aims to ensure that decisions are taken as closely as possible to the citizens and that EU-level action is justified in light of the possibilities and specificities at national, regional or local level. Shared management brings Europe closer to its citizens and connects local needs with European objectives. Moreover, it increases ownership of EU objectives, as Member States and the Commission share decision-making power and responsibility and jointly co-finance the programmes.

- **Choice of the instrument**

Cohesion policy is the appropriate framework for the Just Transition Fund, as it is the main EU policy to address structural changes in Europe's regions. It provides financial support for investments in a wide range of areas that contribute to jobs and growth, working in partnership with actors on the ground.

It also provides for an integrated place-based approach, which ensures synergies and coherence between investments supported under the Just Transition Fund and those supported under the mainstream cohesion policy programmes. This will accelerate the economic development and reconversion of the concerned regions.

In addition, it ensures ownership by Member States and regions. This is critical in the context of the Just Transition Fund, which needs to be anchored in tailor-made territorial transition strategies, encompassing in a comprehensive manner the numerous social, environmental and economic challenges raised by the transition.

Under cohesion policy, the choice of instrument is a Regulation of the European Parliament and of the Council in accordance with the ordinary legislative procedure as set out in Article 175, paragraph 3, of the Treaty.

3. RESULTS OF EX-POST EVALUATIONS, STAKEHOLDER CONSULTATIONS AND IMPACT ASSESSEMENT

- **Stakeholder consultations**

In May and June 2018, the Commission adopted its proposals for the post-2020 long-term budget and the next generation of programmes and funds. As an integral part of this process, the Commission conducted a series of public consultations covering major spending areas to gather views from all interested parties on how to make the most of every euro of the EU budget.

The public consultation on the EU long-term budget in the area of cohesion took place from 10 January 2018 to 9 March 2018 and received 4 395 replies. 85% of the respondents considered the transition to a low carbon and circular economy, ensuring environmental protection and resilience to climate change to be an important challenge. However, only 42% of the respondents considered this challenge to be adequately addressed by the current programmes/funds[4].

In the context of the negotiations on the post-2020 long-term budget, the European Parliament in its interim report of 7 November 2018 called for the introduction of a specific allocation (EUR 4.8 billion) for a new 'Just Energy Transition Fund' to address societal, socio-economic and environmental impacts on workers and communities adversely affected by the transition from coal and carbon dependence.

This call has been echoed by the Committee of Regions, which has issued an opinion[5] on the socio-economic structural change in Europe's coal regions, calling for the provision of additional funds helping address the specific needs of coal regions. The opinion suggested in this regard to allocate EUR 4.8 billion to a new 'Fair Energy Transition Fund', designed to mitigate the social, socio-economic and environmental impact of transition in these regions.

In its conclusions of 18 October 2019, the European Council stressed its determination that the EU continues to lead the way in a socially fair and just green transition in the implementation of the Paris Agreement. The European Council also endorsed, through its conclusions of 12 December 2019, the objective of achieving a climate neutral EU by 2050, in line with the objectives of the Paris Agreement. In addition, it endorsed the principle of providing tailored support for regions and sectors most affected by the transition through a Just Transition Mechanism.

- **Impact assessment**

The Proposal for a Regulation of the European Parliament and of the Council on the European Regional Development Fund and on the Cohesion Fund[6] has been accompanied by an impact assessment[7]. The impact assessment validated the delivery system proposed for these Funds, which are regulated in the Proposal for Regulation of the European Parliament and of the Council laying down common provisions on the European Regional Development Fund, the European Social Fund Plus, the Cohesion Fund and the European Maritime and Fisheries Fund and financial rules for those and for the Asylum and Migration Fund, the Internal Security Fund and the Border Management and Visa Instrument[8] and which will also govern the programming and implementation of the Just Transition Fund (see Chapter 4).

The impact assessment also examined the challenges to be addressed by the next multiannual financial framework and cohesion policy. It confirmed the need, consistent with the outcome of the public consultation, to support a clean and fair energy transition, through a dedicated policy objective and a corresponding thematic concentration mechanism (see Chapters 2.2 and 3.2).

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4 Public consultation on EU funds in the area of cohesion https://ec.europa.eu/info/consultations/public-consultation-eu-funds-area-cohesion_en

5 European Committee of the Regions, Opinion on Socioeconomic structural change in Europe's coal regions, 136th plenary session, 7-9 October 2019, ECON-VI/041.

6 COM(2018) 372 final.

7 SWD(2018) 282 final.

8 COM(2018) 375 final.

Therefore, the objective of the Just Transition Fund is justified, as it aims to ensure a fair energy transition through alleviating the economic and social costs the transition towards a climate neutral economy implies. The Just Transition Fund will, to this end, support the transformation of industrial processes necessary for a successful energy transition, promote economic diversification of the most affected territories, consistent with the conclusions of the impact assessment on the need to support smart industrial transformation (see Chapter 2.2).

The unevenly dispersed effects of the energy transition had also been pointed out in the impact assessment (see Chapter 3.3). In particular, it highlighted the challenges regions most affected face due to their reliance on solid fuel production and the high share of solid fuels in their electricity generation mix. This assessment justifies the proposed concentration of the Just Transition Fund in the most negatively impacted territories and the proposed distribution of the national allocations.

The above analyses and impact assessment elements support the objectives and the main features of the Just Transition Fund. A self-standing impact assessment was not carried out, as it would have delayed the adoption of this legislative proposal with the risk of slowing down the ongoing negotiations on the next multiannual financial framework.

- **Lessons from the implementation of selected transition initiatives**

The scope and objective of the Just Transition Fund address the impact of transition towards climate neutrality and therefore tackles the situation of solid fossil fuel extraction activities (coal, lignite, peat and oil shale) but also the transformation of energy intensive industrial processes required by this transition, as regards their social and economic impacts, in the concerned territories.

In this regard, actions have already been undertaken under the coal regions in transition initiatives and the pilot action for regions in industrial transition. Although the Just Transition Fund will pursue larger objectives and will provide for a more integrated approach, it will also draw lessons from these initiatives and build on existing working methods and structures when relevant, for the programming and implementation of the Just Transition Fund.

Firstly, under the coal regions in transition initiative, cohesion policy is supporting the transition in 21 pilot regions (as of January 2020) with economies that are highly dependent on coal. Structural changes are addressed through a holistic approach encompassing the economic, industrial, technological and social dimensions of the transformation process, with the involvement of, and in close partnership with, local actors, including social partners, industry and non-governmental organisations.

Multi-stakeholder dialogue and knowledge sharing proved to be essential to ensure collective progress, transparency and mobilisation of the most effective means for addressing the socio-economic impacts of the transition.

Support is focused on economic transformation in line with smart specialisation strategies (e.g. support to SMEs, business incubators, innovation and cooperation of industry and researchers), the reskilling of workers traditionally employed in coal-related sectors and the promotion of energy efficiency and alternative, renewable energy sources.

The success of the initiative relies on the ownership of the concerned Member States, regions and local actors, including social partners. This is leveraged by national co-financing requirements under shared management as well as the involvement of partners in the development strategy.

Secondly, in a similar vein, to help EU regions manage the transition to a more sustainable low-carbon economy, and industrial change triggered by the energy and climate change transition specific support has been offered for boosting innovation, removing investment barriers, and equipping citizens with the right skills. The pilot action for regions in industrial transition provides support from Commission experts as well as technical assistance from the ERDF. 12 regions have been selected for EU support.

4. BUDGETARY IMPLICATIONS

The Commission seeks to pursue its priorities as set out in the political guidelines as part of the broader ambition for the EU budget. An ambitious Just Transition Fund is a priority in that context. This is the reason why the Commission has tabled this legislative proposal very early in its mandate which is complementary to and comes on top of existing proposals for the next Multiannual Financial Framework (MFF). The proposal will feed into the negotiation on the next MFF and expectedly will be integrated into the framework of an overall agreement on the next MFF.

The budgetary resources for the JTF should be EUR 7.5 billion (in 2018 prices) with the possibility to increase this level of ambition, if appropriate, at a later point in time.

5. OTHER ELEMENTS

• Detailed explanation of the specific provisions of the proposal

The legal framework consists of a dedicated proposal for a Regulation establishing the Just Transition Fund and the necessary consequential amendments to the Commission's proposal for the Common Provisions Regulation to embed the Just Transition Fund as a new Fund under the Regulation, along with the ERDF, the Cohesion Fund and the ESF+. The delivery and implementation of the Just Transition Fund will be governed by the Common Provisions Regulation.

The proposal for a Regulation establishing the Just Transition Fund focuses on the following features:

- setting out the subject matter of the Just Transition Fund,;
- establishing a definition of the corresponding specific objective to be used for programming the resources of the Just Transition Fund under a dedicated priority or programme within the Investment for jobs and growth goal of cohesion policy;
- setting out its geographical coverage and methodology on the allocation of financial resources for the JTF;
- defining the scope of support of the JTF;
- specifying the content of the territorial just transition plans, including the need for Member States to identify those territories that are the most impacted by the transition towards a climate neutral economy and where support from the Just Transition Fund will be concentrated;
- establishing a framework for measuring its achievements through corresponding indicators and a mechanism to adjust support in case targets are not met.

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THE EUROPEAN PARLIAMENT AND THE COUNCIL OF THE EUROPEAN UNION,

Having regard to the Treaty on the Functioning of the European Union, and in particular the third paragraph of Article 175 thereof,

Having regard to the proposal from the European Commission,

After transmission of the draft legislative act to the national parliaments,

Having regard to the opinion of the European Economic and Social Committee[9],

Having regard to the opinion of the Committee of the Regions[10],

Acting in accordance with the ordinary legislative procedure,

Whereas:

(1) The regulatory framework governing the Union's cohesion policy for the period from 2021 to 2027, in the context of the next multi-annual financial framework, contributes to the fulfilment of the Union's commitments to implement the Paris Agreement and the United Nations Sustainable Development Goals by concentrating Union funding on green objectives. This Regulation implements one of the priorities set out in the Communication on the European Green Deal ('the European Green Deal')[11] and is part of the Sustainable Europe Investment Plan[12] providing dedicated financing under the Just Transition Mechanism in the context of cohesion policy to address the economic and social costs of the transition to a climate-neutral and circular economy, where any remaining greenhouse gas emissions are compensated by equivalent absorptions.

(2) The transition to a climate-neutral and circular economy constitutes one of the most important policy objectives for the Union. On 12 December 2019, the European Council endorsed the objective of achieving a climate-neutral Union by 2050, in line with the objectives of the Paris Agreement. While fighting climate change and environmental degradation will benefit all in the long term and provides opportunities and challenges for all in the medium term, not all regions and Member States start their transition from the same point or have the same capacity to respond. Some are more advanced than others, whereas the transition entails a wider social and economic impact for those regions that rely heavily on fossil fuels - especially coal, lignite, peat and oil shale - or greenhouse gas intensive industries. Such a situation not only creates the risk of a variable speed transition in the Union as regards climate action, but also

9 OJ C , , p. .
10 OJ C , , p. .
11 COM(2019) 640 final, 11.12.2019.
12 COM(2020) 21, 14.1.2020.

of growing disparities between regions, detrimental to the objectives of social, economic and territorial cohesion.

(3) In order to be successful, the transition has to be fair and socially acceptable for all. Therefore, both the Union and the Member States must take into account its economic and social implications from the outset, and deploy all possible instruments to mitigate adverse consequences. The Union budget has an important role in that regard.

(4) As set out in the European Green Deal and the Sustainable Europe Investment Plan, a Just Transition Mechanism should complement the other actions under the next multi-annual financial framework for the period from 2021 to 2027. It should contribute to addressing the social and economic consequences of transitioning towards Union climate neutrality by bringing together the Union budget's spending on climate and social objectives at regional level.

(5) This Regulation establishes the Just Transition Fund ('JTF') which is one of the pillars of the Just Transition Mechanism implemented under cohesion policy. The aim of the JTF is to mitigate the adverse effects of the climate transition by supporting the most affected territories and workers concerned. In line with the JTF specific objective, actions supported by the JTF should directly contribute to alleviate the impact of the transition by financing the diversification and modernisation of the local economy and by mitigating the negative repercussions on employment. This is reflected in the JTF specific objective, which is established at the same level and listed together with the policy objectives set out in Article [4] of Regulation EU [new CPR].

(6) In view of the importance of tackling climate change in line with the Union's commitments to implement the Paris Agreement, the commitment regarding the United Nations Sustainable Development Goals and the increased ambition of the Union as proposed in the European Green Deal, the JTF should provide a key contribution to mainstream climate actions. Resources from the JTF own envelope are additional and come on top of the investments needed to achieve the overall target of 25% of the Union budget expenditure contributing to climate objectives. Resources transferred from the ERDF and ESF+ will contribute fully to the achievement of this target.

(7) The resources from the JTF should complement the resources available under cohesion policy.

(8) Transitioning to a climate-neutral economy is a challenge for all Member States. It will be particularly demanding for those Member States that rely heavily on fossil fuels or greenhouse gas intensive industrial activities which need to be phased out or which need to adapt due to the transition towards climate neutrality and that lack the financial means to do so. The JTF should therefore cover all Member States, but the distribution of its financial means should reflect the capacity of Member States to finance the necessary investments to cope with the transition towards climate neutrality.

(9) In order to set out an appropriate financial framework for the JTF, the Commission should set out the annual breakdown of available allocations per Member State under the Investment for jobs and growth goal, based on objective criteria.

(10) This Regulation identifies types of investments for which expenditure may be supported by the JTF. All supported activities should be pursued in full respect of the climate and environmental priorities of the Union. The list of investments should include those that support local economies and are sustainable in the long-term, taking

into account all the objectives of the Green Deal. The projects financed should contribute to a transition to a climate-neutral and circular economy. For declining sectors, such as energy production based on coal, lignite, peat and oil shale or extraction activities for these solid fossil fuels, support should be linked to the phasing out of the activity and the corresponding reduction in the employment level. As regards transforming sectors with high greenhouse gas emission levels, support should promote new activities through the deployment of new technologies, new processes or products, leading to significant emission reduction, in line with the EU 2030 climate objectives and EU climate neutrality by 2050[13] while maintaining and enhancing employment and avoiding environmental degradation. Particular attention should also be given to activities enhancing innovation and research in advanced and sustainable technologies, as well as in the fields of digitalisation and connectivity, provided that such measures help mitigate the negative side effects of a transition towards, and contribute to, a climate-neutral and circular economy.

(11) To protect citizens who are most vulnerable to the climate transition, the JTF should also cover the up-skilling and reskilling of the affected workers, with the aim of helping them to adapt to new employment opportunities, as well as providing job-search assistance to jobseekers and their active inclusion into the labour market.

(12) In order to enhance the economic diversification of territories impacted by the transition, the JTF should provide support to productive investment in SMEs. Productive investment should be understood as investment in fixed capital or immaterial assets of enterprises in view of producing goods and services thereby contributing to gross-capital formation and employment. For enterprises other than SMEs, productive investments should only be supported if they are necessary for mitigating job losses resulting from the transition, by creating or protecting a significant number of jobs and they do not lead to or result from relocation. Investments in existing industrial facilities, including those covered by the Union Emissions Trading System, should be allowed if they contribute to the transition to a climate-neutral economy by 2050 and go substantially below the relevant benchmarks established for free allocation under Directive 2003/87/EC of the European Parliament and of the Council[14] and if they result in the protection of a significant number of jobs. Any such investment should be justified accordingly in the relevant territorial just transition plan. In order to protect the integrity of the internal market and cohesion policy, support to undertakings should comply with Union State aid rules as set out in Articles 107 and 108 TFEU and, in particular, support to productive investments by enterprises other than SMEs should be limited to enterprises located in areas designated as assisted areas for the purposes of points (a) and (c) of Article 107(3) TFEU.

(13) In order to provide flexibility for the programming of the JTF resources under the Investment for jobs and growth goal, it should be possible to prepare a self-standing JTF programme or to programme JTF resources in one or more dedicated priorities

[13] As set out in "*A Clean Planet for all European strategic long-term vision for a prosperous, modern, competitive and climate neutral economy*", Communication from the Commission to the European Parliament, the European Council, the Council, the European Economic and Social Committee, the Committee of the Regions and the European Investment Bank - COM(2018) 773 final.

[14] Directive 2003/87/EC of the European Parliament and of the Council of 13 October 2003 establishing a scheme for greenhouse gas emission allowance trading within the Community and amending Council Directive 96/61/EC (OJ L 275, 25.10.2003, p. 32).

within a programme supported by the European Regional Development Fund (‘ERDF’), the European Social Fund Plus (‘ESF+’) or the Cohesion Fund. In accordance with Article 21a of Regulation (EU) [new CPR], JTF resources should be reinforced with complementary funding from the ERDF and the ESF+. The respective amounts transferred from the ERDF and the ESF+ should be consistent with the type of operations set out in the territorial just transition plans.

(14) The JTF support should be conditional on the effective implementation of a transition process in a specific territory in order to achieve a climate-neutral economy. In that regard, Member States should prepare, in cooperation with the relevant stakeholders and supported by the Commission, territorial just transition plans, detailing the transition process, consistently with their National Energy and Climate Plans. To this end, the Commission should set up a Just Transition Platform, which would build on the existing platform for coal regions in transition to enable bilateral and multilateral exchanges of experience on lessons learnt and best practices across all affected sectors.

(15) The territorial just transition plans should identify the territories most negatively affected, where JTF support should be concentrated and describe specific actions to be undertaken to reach a climate-neutral economy, notably as regards the conversion or closure of facilities involving fossil fuel production or other greenhouse gas intensive activities. Those territories should be precisely defined and correspond to NUTS level 3 regions or should be parts thereof. The plans should detail the challenges and needs of those territories and identify the type of operations needed in a manner that ensures the coherent development of climate-resilient economic activities that are also consistent with the transition to climate-neutrality and the objectives of the Green Deal. Only investments in accordance with the transition plans should receive financial support from the JTF. The territorial just transition plans should be part of the programmes (supported by the ERDF, the ESF+, the Cohesion Fund or the JTF, as the case may be) which are approved by the Commission.

(16) In order to enhance the result orientation of the use of JTF resources, the Commission, in line with the principle of proportionality, should be able to apply financial corrections in case of serious underachievement of targets established for the JTF specific objective.

(17) In order to supplement and amend certain non-essential elements of this Regulation, the power to adopt acts in accordance with Article 290 TFEU should be delegated to the Commission in respect of the amendment of the elements contained in Annex III of this Regulation regarding the common output and result indicators. It is of particular importance that the Commission carry out appropriate consultations during its preparatory work, including at expert level, and that those consultations be conducted in accordance with the principles laid down in the Interinstitutional Agreement of 13 April 2016 on Better Law-Making[15]. In particular, to ensure equal participation in the preparation of delegated acts, the European Parliament and the Council receive all documents at the same time as Member States' experts; these experts systematically have access to meetings of Commission expert groups dealing with the preparation of delegated acts.

(18) In order to set out an appropriate financial framework for the JTF, implementing powers should be conferred on the Commission to set out the annual breakdown of available allocations per Member State in accordance with Annex I.

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15 OJ L 123, 12.5.2016, p.13.

(19) The objectives of this Regulation, namely to support territories facing economic and social transformation in their transition to a climate-neutral economy, cannot be sufficiently achieved by the Member States alone. The main reasons in this regard are, on the one hand, the disparities between the levels of development of the various territories and the backwardness of the least favoured territories, as well as the limit on the financial resources of the Member States and territories and, on the other hand, the need for a coherent implementation framework covering several Union funds under shared management. Since those objectives can better be achieved at Union level, the Union may adopt measures, in accordance with the principle of subsidiarity as set out in Article 5 TEU. In accordance with the principle of proportionality, as set out in that Article, this Regulation does not go beyond what is necessary in order to achieve those objectives,

HAVE ADOPTED THIS REGULATION:

Article 1
Subject matter and scope

1. This Regulation establishes the Just Transition Fund ('JTF') to provide support to territories facing serious socio-economic challenges deriving from the transition process towards a climate-neutral economy of the Union by 2050.

2. It lays down the specific objective of the JTF, its geographical coverage and resources, the scope of its support with regard to the Investment for jobs and growth goal referred to in [point (a) of Article 4(2)] of Regulation (EU) [new CPR] as well as specific provisions for programming and indicators necessary for monitoring.

Article 2
Specific objective

In accordance with the second subparagraph of Article [4(1)] of Regulation (EU) [new CPR], the JTF shall contribute to the single specific objective 'enabling regions and people to address the social, economic and environmental impacts of the transition towards a climate-neutral economy'.

Article 3
Geographical coverage and resources for the JTF under the Investment for jobs and growth goal

1. The JTF shall support the Investment for jobs and growth goal in all Member States.

2. The resources for the JTF under the Investment for jobs and growth goal available for budgetary commitment for the period 2021-2027 shall be EUR 7.5 billion in 2018 prices, which may be increased, as the case may be, by additional resources allocated in the Union budget, and by other resources in accordance with the applicable basic act.

   For the purposes of programming and subsequent inclusion in the Union budget, the amount referred to in the first subparagraph shall be indexed at 2% per year.

   0.35% of the amount referred to in the first subparagraph shall be allocated to technical assistance at the initiative of the Commission.

3. The Commission shall adopt a decision by means of an implementing act setting out the annual breakdown of resources, including any additional resources referred to in

paragraph 2, by Member State in accordance with the methodology set out in Annex I.

4. By way of derogation from Article [21a] of Regulation (EU) [new CPR], any additional resources referred to in paragraph 2, allocated to the JTF in the Union budget or provided by other resources shall not require complementary support from the ERDF or the ESF+.

Article 4

Scope of support

1. The JTF shall only support activities that are directly linked to its specific objective as set out in Article 2 and which contribute to the implementation of the territorial just transition plans established in accordance with Article 7.

2. In accordance with paragraph 1, the JTF shall exclusively support the following activities:

(a) productive investments in SMEs, including start-ups, leading to economic diversification and reconversion;

(b) investments in the creation of new firms, including through business incubators and consulting services;

(c) investments in research and innovation activities and fostering the transfer of advanced technologies;

(d) investments in the deployment of technology and infrastructures for affordable clean energy, in greenhouse gas emission reduction, energy efficiency and renewable energy;

(e) investments in digitalisation and digital connectivity;

(f) investments in regeneration and decontamination of sites, land restoration and repurposing projects;

(g) investments in enhancing the circular economy, including through waste prevention, reduction, resource efficiency, reuse, repair and recycling;

(h) upskilling and reskilling of workers;

(i) job-search assistance to jobseekers;

(j) active inclusion of jobseekers;

(k) technical assistance.

Additionally, the JTF may support, in areas designated as assisted areas in accordance with points (a) and (c) of Article 107(3) of the TFEU, productive investments in enterprises other than SMEs, provided that such investments have been approved as part of the territorial just transition plan based on the information required under point (h) of Article 7(2). Such investments shall only be eligible where they are necessary for the implementation of the territorial just transition plan.

The JTF may also support investments to achieve the reduction of greenhouse gas emissions from activities listed in Annex I to Directive 2003/87/EC of the European Parliament and of the Council provided that such investments have been approved as part of the territorial just transition plan based on the information required under point (i) of Article 7(2). Such investments shall only be eligible where they are necessary for the implementation of the territorial just transition plan.

Article 5

Exclusion from the scope of support

The JTF shall not support:

(a) the decommissioning or the construction of nuclear power stations;

(b) the manufacturing, processing and marketing of tobacco and tobacco products;

(c) undertakings in difficulty, as defined in Article 2(18) of Commission Regulation (EU) No 651/2014[16];

(d) investment related to the production, processing, distribution, storage or combustion of fossil fuels;

(e) investment in broadband infrastructure in areas in which there are at least two broadband networks of equivalent category.

Article 6

Programming of the JTF resources

1. The JTF resources shall be programmed for the categories of regions where the territories concerned are located, on the basis of the territorial just transition plans established in accordance with Article 7 and approved by the Commission as part of a programme or a programme amendment. The resources programmed shall take the form of one or more specific programmes or of one or more priorities within a programme.

   The Commission shall only approve a programme where the identification of the territories most negatively affected by the transition process, contained within the relevant territorial just transition plan, is duly justified and the relevant territorial just transition plan is consistent with the National Energy and Climate Plan of the Member State concerned.

2. The JTF priority or priorities shall comprise the JTF resources consisting of all or part of the JTF allocation for the Member States and the resources transferred in accordance with Article [21a] of Regulation (EU) [new CPR]. The total of the ERDF and ESF+ resources transferred to the JTF priority shall be at least equal to one and a half times the amount of support from the JTF to that priority but shall not exceed three times that amount.

Article 7

Territorial just transition plan

1. Member States shall prepare, together with the relevant authorities of the territories concerned, one or more territorial just transition plans covering one or more affected territories corresponding to level 3 of the common classification of territorial units for statistics (‘NUTS level 3 regions’) as established by Regulation (EC) No

[16] Commission Regulation (EU) No 651/2014 of 17 June 2014 declaring certain categories of aid compatible with the internal market in application of Articles 107 and 108 of the Treaty (OJ L 187, 26.6.2014, p. 1).

1059/2003 of the European Parliament and of the Council as amended by Commission Regulation (EC) No 868/2014[17] or parts thereof, in accordance with the template set out in Annex II. Those territories shall be those most negatively affected based on the economic and social impacts resulting from the transition, in particular with regard to expected job losses in fossil fuel production and use and the transformation needs of the production processes of industrial facilities with the highest greenhouse gas intensity.

2. A territorial just transition plan shall contain the following elements:

(a) a description of the transition process at national level towards a climate-neutral economy, including a timeline for key transition steps which are consistent with the latest version of the National Energy and Climate Plan ('NECP');

(b) a justification for identifying the territories as most negatively affected by the transition process referred to in point (a) and to be supported by the JTF, in accordance with paragraph 1;

(c) an assessment of the transition challenges faced by the most negatively affected territories, including the social, economic, and environmental impact of the transition to a climate-neutral economy, identifying the potential number of affected jobs and job losses, the development needs and objectives, to be reached by 2030 linked to the transformation or closure of greenhouse gas-intensive activities in those territories;

(d) a description of the expected contribution of the JTF support to addressing the social, economic and environmental impacts of the transition to a climate-neutral economy;

(e) an assessment of its consistency with other national, regional or territorial strategies and plans;

(f) a description of the governance mechanisms consisting of the partnership arrangements, the monitoring and evaluation measures planned and the responsible bodies;

(g) a description of the type of operations envisaged and their expected contribution to alleviate the impact of the transition;

(h) where support is provided to productive investments to enterprises other than SMEs, an exhaustive list of such operations and enterprises and a justification of the necessity of such support through a gap analysis demonstrating that the expected job losses would exceed the expected number of jobs created in the absence of the investment;

(i) where support is provided to investments to achieve the reduction of greenhouse gas emissions from activities listed in Annex I to Directive 2003/87/EC, an exhaustive list of operations to be supported and a justification that they contribute to a transition to a climate neutral economy and lead to a substantial reduction in greenhouse-gas emissions going substantially below the relevant benchmarks established for free allocation under Directive

17 Regulation (EC) No 1059/2003 of the European Parliament and of the Council of 26 May 2003 on the establishment of a common classification of territorial units for statistics (NUTS) (OJ L 154 21.6.2003, p. 1).

2003/87/EC and provided that they are necessary for the protection of a significant number of jobs;

(j) synergies and complementarities with other Union programmes and pillars of the Just Transition Mechanism to address identified development needs.

3. The preparation and implementation of territorial just transition plans shall involve the relevant partners in accordance with Article [6] of Regulation (EU) [new CPR].

4. Territorial just transition plans shall be consistent with the territorial strategies referred to in Article [23] of Regulation (EU) [new CPR], with relevant smart specialisation strategies, the NECPs and the European Pillar of Social Rights.

Where the revision of a National Energy and Climate Plan pursuant to Article 14 of Regulation (EU) 2018/1999 necessitates a revision of a territorial just transition plan, this revision shall be carried out as part of the mid-term review exercise in accordance with Article 14 of Regulation (EU) [new CPR].

Article 8
Indicators

1. Common output and result indicators, as set out in Annex III and, where duly justified in the territorial just transition plan, programme-specific output and result indicators, shall be established in accordance with [point (a) of the second subparagraph of Article 12(1)], [point (d)(ii) of Article 17(3)] and [point (b) of Article 37(2)] of Regulation (EU) [new CPR].

2. For output indicators, baselines shall be set at zero. The milestones set for 2024 and targets set for 2029 shall be cumulative. Targets shall not be revised after the request for programme amendment submitted pursuant to Article [14(2)] of Regulation (EU) [new CPR] has been approved by the Commission.

3. Where a JTF priority supports the activities referred to in points (h), (i) or (j) of Article 4(2), data on the indicators for participants shall only be transmitted where all the data relating to that participant, required in accordance with Annex III are available.

4. The Commission is empowered to adopt delegated acts in accordance with Article 10 to amend Annex III in order to make the necessary adjustments to the list of indicators to be used.

Article 9
Financial corrections

Where the Commission concludes, based on the examination of the final performance report of the programme, that there is a failure to achieve at least 65% of the target established for one or more output or result indicators for the JTF resources, it may make financial corrections pursuant to Article [98] of Regulation (EU) [new CPR] by reducing the support from the JTF to the priority concerned in proportion to the achievements.

Article 10
Exercise of the delegation

1. The power to adopt delegated acts is conferred on the Commission subject to the conditions laid down in this Article.

2. The power to adopt delegated acts referred to in Article 8(4) shall be conferred on the Commission for an indeterminate period of time from [the date of the entry into force of this Regulation].

3. The delegation of power referred to in Article 8(4) may be revoked at any time by the European Parliament or by the Council. A decision to revoke shall put an end to the delegation of the power specified in that decision. It shall take effect the day following the publication of the decision in the *Official Journal of the European Union* or at a later date specified therein. It shall not affect the validity of any delegated acts already in force.

4. Before adopting a delegated act, the Commission shall consult experts designated by each Member State in accordance with the principles laid down in the Interinstitutional Agreement of 13 April 2016 on Better Law-Making.

5. As soon as it adopts a delegated act, the Commission shall notify it simultaneously to the European Parliament and to the Council.

6. A delegated act adopted pursuant to Article 8(4) shall enter into force only if no objection has been expressed either by the European Parliament or by the Council within a period of two months of notification of that act to the European Parliament and the Council or if, before the expiry of that period, the European Parliament and the Council have both informed the Commission that they will not object. That period shall be extended by two months at the initiative of the European Parliament or of the Council.

Article 11
Entry into force

This Regulation shall enter into force on the [twentieth] day following that of its publication in the *Official Journal of the European Union*.

This Regulation shall be binding in its entirety and directly applicable in all Member States.

Done at Brussels,

For the European Parliament	*For the Council*
The President	*The President*

LEGISLATIVE FINANCIAL STATEMENT

1. FRAMEWORK OF THE PROPOSAL/INITIATIVE

1.1. Title of the proposal/initiative

Proposal for a Regulation of the European Parliament and of the Council establishing the Just Transition Fund

1.2. Policy area(s) concerned *(Programme cluster)*

Environment and Climate Action pending the approval of the MFF proposals

1.3. The proposal/initiative relates to:

X a new action

☐ a new action following a pilot project/preparatory action[18]

☐ the extension of an existing action

☐ a merger or redirection of one or more actions towards another/a new action

1.4. Grounds for the proposal/initiative

1.4.1. Requirement(s) to be met in the short or long term including a detailed timeline for roll-out of the implementation of the initiative

Second half of 2020 - Adoption of the Regulation Starting from 2020 - Preparation of territorial just transition plans in the Member States During 2021 – Programme adoption and start of implementation

1.4.2. Added value of Union involvement (it may result from different factors, e.g. coordination gains, legal certainty, greater effectiveness or complementarities). For the purposes of this point 'added value of Union involvement' is the value resulting from Union intervention which is additional to the value that would have been otherwise created by Member States alone.

EU action for the Just Transition Fund is justified on the grounds of the objectives laid out in Article 174 TFEU which states that particular attention shall be paid to areas affected by industrial transition, and regions which suffer from severe and permanent handicaps. Transitioning to a climate-neutral economy is a challenge for all Member States. It will be particularly demanding for those Member States which rely heavily on fossil fuels or greenhouse gas intensive industries which will be phased out or severely impacted by the transition and which lack the financial means to adapt in view of achieving climate-neutrality. The JTF helps overcome the transition challenge and expands the fiscal capacity of Member States to carry out the necessary investments and actions.

[18] As referred to in Article 58(2)(a) or (b) of the Financial Regulation.

1.4.3. *Lessons learned from similar experiences in the past*

Actions have already been engaged at Union level, under the coal regions in transition initiatives and pilot action for regions in industrial transition to promote energy and climate transition. Although the Just Transition Fund pursues larger objectives and provides a more integrated approach, lessons could be usefully drawn from these initiatives for the programming and implementation of the Fund.

First, the coal regions in transition initiative is supporting the transition in 21 pilot regions with economies that are highly dependent on coal. Structural changes are addressed through a holistic approach encompassing the economic, industrial, technological and social dimensions of the transformation process, with the involvement of and in close partnership with the local actors.

Support is focused on economic transformation in line with smart specialisation strategies (e.g. support to SMEs, business incubators, innovation and cooperation of industry and researchers), the reskilling of workers traditionally employed in coal-related sectors and the promotion of energy efficiency and alternative, renewable energy sources.

The success of the initiative relies on the ownership of the concerned Member States and regions. This is leveraged by national co-financing requirements under shared management as well as the involvement of partners in the development strategy.

Similarly, in order to help EU regions managing the transition to a more sustainable low-carbon economy, specific support has been offered for boosting innovation, removing investment barriers, and equipping citizens with the right skills and manage industrial change triggered by the energy and climate change transition. The pilot action provides support from Commission experts as well as technical assistance from the European Regional Development Fund. 12 regions have been selected for EU support.

1.4.4. *Compatibility and possible synergy with other appropriate instruments*

The delivery and implementation of the Just Transition Fund will be governed by the Common Provisions Regulation which also governs *inter alia* the European Regional Development Fund and the European Social Fund Plus. Therefore, the complementarity and synergies with these funds will be extremely strong, including through dedicated transfers from the two cohesion policy funds. The Just Transition Fund will also be closely coordinated with the other pillars of the Just Transition Mechanism. The Fund is expected to deliver results in the framework of the European New Green Deal and the Sustainable Europe Investment Plan. It will also have strong links with the initiatives under point 1.4.3.

1.5. Duration and financial impact

X limited duration

– ☐ in effect from [DD/MM]YYYY to [DD/MM]YYYY

– **X** Financial impact from 2021 to 2027 for commitment appropriations and from 2021 to the post 2027 period for payment appropriations.

☐ **unlimited duration**

– Implementation with a start-up period from YYYY to YYYY,

– followed by full-scale operation.

1.6. Management mode(s) planned[19]

☐ **Direct management** by the Commission

– ☐ by its departments, including by its staff in the Union delegations;

– ☐ by the executive agencies

X Shared management with the Member States

☐ **Indirect management** by entrusting budget implementation tasks to:

– ☐ third countries or the bodies they have designated;

– ☐ international organisations and their agencies (to be specified);

– ☐the EIB and the European Investment Fund;

– ☐ bodies referred to in Articles 70 and 71 of the Financial Regulation;

– ☐ public law bodies;

– ☐ bodies governed by private law with a public service mission to the extent that they provide adequate financial guarantees;

– ☐ bodies governed by the private law of a Member State that are entrusted with the implementation of a public-private partnership and that provide adequate financial guarantees;

– ☐ persons entrusted with the implementation of specific actions in the CFSP pursuant to Title V of the TEU, and identified in the relevant basic act.

– *If more than one management mode is indicated, please provide details in the 'Comments' section.*

[19] Details of management modes and references to the Financial Regulation may be found on the BudgWeb site: https://myintracomm.ec.europa.eu/budgweb/EN/man/budgmanag/Pages/budgmanag.aspx

2. MANAGEMENT MEASURES

2.1. Monitoring and reporting rules

Specify frequency and conditions.

The monitoring system and reporting rules will be governed by the Common Provisions Regulation (CPR) and will be identical to those applicable to the other seven shared management funds under the CPR.

The CPR rules build on the best practices of the 2014-2020 period and will continue to be based on a system of shared management. Monitoring committees set up for each programme will be given a more prominent role in supervising the programme performance and all the factors influencing implementation. For transparency, documents submitted to the monitoring committees will be required to be publicly available. Annual performance review meetings between the Commission and Member States complement the system. The requirement for a final performance report will apply.

The definition of commonly applicable indicators will contribute to the availability of monitoring information that can be aggregated at Union level. These indicators are set out separately for the Just Transition Fund but in a coherent framework with the indicators proposed for the European Regional Development Fund.

Electronic data enables the combination of simplification and transparency. In the 2014-2020 period, it was a requirement to establish a system of electronic data exchange between beneficiaries and managing authorities as well as between different authorities of the management and control system. The current regulation builds on this and develops further certain aspects in terms of gathering data. All data necessary for monitoring progress in implementation, including results and performance of programmes, will now be transmitted electronically.

2.2. Management and control system(s)

2.2.1. Justification of the management mode(s), the funding implementation mechanism(s), the payment modalities and the control strategy proposed

The management and control system will be governed by the CPR and will be identical to those applicable to the other seven shared management funds under the CPR.

Given the positive results from the reduced error rates reported by the European Court of Auditors (and the uncertainty stemming from not having been in place for a full implementation cycle of programmes, thus definitive conclusions on all its aspects cannot be drawn) it is necessary to keep in place the existing fundamental principles of the management and control system and the financial management rules introduced for the 2014-2020 period.

It is, however, also necessary to recognise the delayed start of 2014-2020 implementation and the sometimes unnecessary administrative burden some of the requirements introduced. It is therefore proposed that the tasks and responsibilities of various bodies in the management and control system are set out in a clearer way, in particular with regard to the selection of operations and requirements to ensure compliance with the principles of sound financial management.

All details and secondary rules previously set out in secondary legislation are included in the legislative text to ensure predictability. There is no requirement for undertaking the designation process; the provisions promote the roll-over of existing systems. A higher degree of simplification is proposed for programmes with a well-functioning management and control system and a good track-record. Requirements are also clarified with regard to risk-based management verifications, single audit arrangements, as well as in the field of minimum requirements for smaller programmes where it may be necessary to use non-statistical sampling methods.

2.2.2. *Information concerning the risks identified and the internal control system(s) set up to mitigate them*

The changes and simplification options considered by the Commission's post-2020 proposal take into account various Court of Auditors' recommendations for preparation of post-2020 legislation, in particular those calling for reconsideration of the design of the delivery mechanism for the Funds (Recommendation 1 of audit 2015/AUD/0195) taking into account suggestions of the High Level Group.

High error rates in the past were often linked to a lack of legal certainty and different interpretations of the same governing rules, such as in the area of public procurement. The Commission introduces several aspects in the new CPR proposal, such as risk-based management verifications, a risk-based audit strategy, rules on a proportionate need for statistical sampling and specific provisions on proportionality of controls and reliance on national management and control systems.

Detailed Annexes on relevant aspects of the management and control systems aim at providing legal certainty without the need for subsequent secondary legislative acts or lengthy guidance notes that normally follow the adoption of the CPR.

2.2.3. *Estimation and justification of the cost-effectiveness of the controls (ratio of "control costs ÷ value of the related funds managed"), and assessment of the expected levels of risk of error (at payment & at closure)*

The current delivery mechanism in shared management is at times criticised, including by the Court of Auditors, for being too complex and error prone with high costs at all levels of control. The Commission has considered all these critical elements carefully with a view to finding the right balance between accountability, simplification and performance.

Simplification has been introduced to prevent the risk of overlap of controls on beneficiaries performed at the different levels, and of the overlap between different functions of the management and control set-up. For instance, for post-2020, the Certification Authorities (currently over 210 in number) need to be replaced by an accounting function that will not be able to duplicate controls in the future. In addition, streamlining of the audit activities is proposed with a decrease of audits of operations carried out at the level of beneficiaries. Specific provisions on enhanced proportionate arrangements are indeed foreseen, taking into account the past effective functioning (track record) of the management and control system of a programme.

In terms of targeted assurance level, at the stage of the legislative proposals the aim is to maintain the error rate below the materiality threshold of 2%. A different materiality threshold could only be discussed on a case-by-case basis in the light of the legislative debate, notably when the Legislative Authority would not (fully) endorse the proposed programme simplifications and/or would cap the controls, which would have consequences on the expected error rate.

2.3. Measures to prevent fraud and irregularities

Specify existing or envisaged prevention and protection measures, e.g. from the Anti-Fraud Strategy.

The Commission continues to look into further strengthening all measures put in place by managing authorities for prevention of fraud and irregularities post-2020.

Managing authorities will have to maintain effective and proportionate anti-fraud measures and procedures, specifically taking into account identified risks of fraud.

E-Cohesion and interactive IT systems will remain major requirements for the future. Managing authorities will be enable to roll over the irregularities and fraud prevention processes and systems they have put in place.

3. ESTIMATED FINANCIAL IMPACT OF THE PROPOSAL/INITIATIVE

3.1. Heading of the multiannual financial framework and new expenditure budget line(s) proposed

Heading of multiannual financial framework	Budget line	Type of expenditure	Contribution			
	Number	Diff./Non-diff.[20]	from EFTA countries[21]	from candidate countries[22]	from third countries	within the meaning of Article [21(2)(b)] of the Financial Regulation
03.Natural resources and environment	XX.XX Just Transition Fund (JTF)	Diff	NO	NO	NO	NO

20 Diff. = Differentiated appropriations / Non-diff. = Non-differentiated appropriations.

21 EFTA: European Free Trade Association.

22 Candidate countries and, where applicable, potential candidates from the Western Balkans.

3.2. Estimated impact on expenditure

3.2.1. Summary of estimated impact on expenditure

EUR million in 2018 prices (to three decimal places)

Heading of multiannual financial framework	03.	Natural resources and environment

			2021	2022	2023	2024	2025	2026	2027	*Post 2027*	TOTAL
XX.XX Just Transition Fund (JTF)	Commitments	(1)	1,036.000	1,047.000	1,059.000	1,071.000	1,083.000	1,095.000	1,109.000		**7,500.000**
	Payments	(2)	43.051	48.460	436.016	539.405	944.231	1,221.051	1,194.277	3,073.509	**7,500.000**
Appropriations of an administrative nature financed from the envelope of the programme[23]	Commitments = Payments	(3)									
TOTAL appropriations for the envelope of the programme	Commitments	=1+3	1,036.000	1,047.000	1,059.000	1,071.000	1,083.000	1,095.000	1,109.000		**7,500.000**
	Payments	=2+3	43.051	48.460	436.016	539.405	944.231	1,221.051	1,194.277	3,073.509	**7,500.000**

Heading of multiannual financial framework	7	'Administrative expenditure'

This section should be filled in using the 'budget data of an administrative nature' to be firstly introduced in the Annex to the Legislative Financial Statement , which is uploaded to DECIDE for interservice consultation purposes.

23 Technical and/or administrative assistance and expenditure in support of the implementation of EU programmes and/or actions (former 'BA' lines), indirect research, direct research.

EUR million (to three decimal places)

		2021	2022	2023	2024	2025	2026	2027	*Post 2027*	TOTAL
Human resources		3,300	3,300	3,300	3,300	3,300	3,300	3,300		**23,100**
Other administrative expenditure										
TOTAL appropriations under HEADING 7 of the multiannual financial framework	(Total commitments = Total payments)	3,300	3,300	3,300	3,300	3,300	3,300	3,300		23,100

EUR million (to three decimal places)

		2021	2022	2023	2024	2025	2026	2027	*Post 2027*	TOTAL
TOTAL appropriations across HEADINGS of the multiannual financial framework	Commitments	1,039.300	1,050.300	1,062.300	1,074.300	1,086.300	1,098.300	1,112.300		7,523.100
	Payments	46.351	51.760	439.316	542.705	947.531	1,224.351	1,197.577	3,076.809	7,523.100

3.2.2. *Summary of estimated impact on appropriations of an administrative nature*

- The proposal/initiative does not require the use of appropriations of an administrative nature
- X The proposal/initiative requires the use of appropriations of an administrative nature, as explained below:

EUR million (to three decimal places)

Years	2021	2022	2023	2024	2025	2026	2027	TOTAL
HEADING 7 of the multiannual financial framework								
Human resources	3,300	3,300	3,300	3,300	3,300	3,300	3,300	**23,100**
Other administrative expenditure								
Subtotal HEADING 7 of the multiannual financial framework	3,300	3,300	3,300	3,300	3,300	3,300	3,300	**23,100**
Outside HEADING 7[24] of the multiannual financial framework								
Human resources								
Other expenditure of an administrative nature								
Subtotal outside HEADING 7 of the multiannual financial framework								
TOTAL	3,300	3,300	3,300	3,300	3,300	3,300	3,300	23,100

The appropriations required for human resources and other expenditure of an administrative nature will be met by appropriations from the DG that are already assigned to management of the action and/or have been redeployed within the DG, together if necessary with any additional allocation which may be granted to the managing DG under the annual allocation procedure and in the light of budgetary constraints.

24 Technical and/or administrative assistance and expenditure in support of the implementation of EU programmes and/or actions (former 'BA' lines), indirect research, direct research.

3.2.2.1. Estimated requirements of human resources

– The proposal/initiative does not require the use of human resources.

– X The proposal/initiative requires the use of human resources, as explained below:

Estimate to be expressed in full time equivalent units

Years		2021	2022	2023	2024	2025	2026	2027
• Establishment plan posts (officials and temporary staff)								
Headquarters and Commission's Representation Offices		22	22	22	22	22	22	22
Delegations								
Research								
• External staff (in Full Time Equivalent unit: FTE) - AC, AL, END, INT and JED [25] Heading 7								
Financed from HEADING 7 of the multiannual financial framework	- at Headquarters							
	- in Delegations							
Financed from the envelope of the programme [26]	- at Headquarters							
	- in Delegations							
Research								
Other (specify)								
TOTAL		22	22	22	22	22	22	22

The human resources required will be met by staff from the DG who are already assigned to management of the action and/or have been redeployed within the DG, together if necessary with any additional allocation which may be granted to the managing DG under the annual allocation procedure and in the light of budgetary constraints.

Description of tasks to be carried out:

Officials and temporary staff	• To contribute to the analysis, negotiation, modification and/or preparation for approval proposals for programmes and/or projects in Member States. • To contribute to the management, monitoring and evaluation of the implementation of programmes/projects approved. • To ensure compliance with the rules governing programmes.
External staff	

[25] AC= Contract Staff; AL = Local Staff; END = Seconded National Expert; INT = agency staff; JPD= Junior Professionals in Delegations.

[26] Sub-ceiling for external staff covered by operational appropriations (former 'BA' lines).

3.2.3. *Third-party contributions*

The proposal/initiative:

– **X** does not provide for co-financing by third parties

– ☐ provides for the co-financing by third parties estimated below:

Appropriations in EUR million (to three decimal places)

Years	**2021**	**2022**	**2023**	**2024**	**2025**	**2026**	**2027**	**TOTAL**
Specify the co-financing body								
TOTAL appropriations co-financed								

3.3. Estimated impact on revenue

– **X** The proposal/initiative has no financial impact on revenue.

– ☐ The proposal/initiative has the following financial impact:

– ☐ on own resources

– ☐ on other revenue

please indicate, if the revenue is assigned to expenditure lines ☐

EUR million (to three decimal places)

Budget revenue line:	Impact of the proposal/initiative[27]						
	2021	**2022**	**2023**	**2024**	**2025**	**2026**	**2027**
Article ………….							

For assigned revenue, specify the budget expenditure line(s) affected.

Other remarks (e.g. method/formula used for calculating the impact on revenue or any other information).

[27] As regards traditional own resources (customs duties, sugar levies), the amounts indicated must be net amounts, i.e. gross amounts after deduction of 20 % for collection costs.