



Republic of Bulgaria
ECONOMIC
AND SOCIAL COUNCIL

OPINION

on

TERRITORIAL JUST TRANSITION PLANS (TJTPs) - AIMS, CHALLENGES AND EXPECTED EFFECT.

(developed by own-initiative)

Sofia, 2022

The Activity Plan of the Economic and Social Council for the first half of 2022 includes the preparation of an own-initiative opinion on a "**Territorial Just Transition Plans - aims, challenges and expected effect.**"

The preparation of the opinion was assigned to the Commission on Sustainable Development, Agriculture, Environment and Regional Policies and the Commission on Labour, Income, Living Standards and Industrial Relations.

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At its Plenary Session held on 28.03.2022, the Economic and Social Council approved this opinion.

ABBREVIATIONS USED

ESC	Economic and Social Council of the Republic of Bulgaria
EC	European Commission
EU	European Union
JTM	Just Transition Mechanism
ME	Ministry of Energy
NRSP	National Recovery and Sustainability Plan
TJTPs	Territorial Just Transition Plans
JTF	Just Transition Fund
PWC	PriceWaterhouseCoopers

1. GENERAL CONCLUSIONS AND RECOMMENDATIONS

- 1.1.** ESC notes that the Just Transition Mechanism (JTM), as part of the European Green Deal, was set up to leave no person and no region behind in the transition towards a climate-neutral economy. JTM includes the Just Transition Fund (JTF), which has been set up as part of the cohesion policy, the EU's main policy for reducing disparities and tackling structural change in the region of Europe. It provides targeted support for the mobilization of approximately EUR 55 billion for the period 2021 - 2027 in the most affected regions, with the aim of mitigating the socio-economic impact of the transition.
- 1.2.** ESC points out that the aims of a socially just transition, as well as the measures financed by European and national public programs, should support the implementation of policies and measures for technological adaptation of industrial production in industrial regions, based on equal access to the highest achievements of science and the best implemented technologies, as well as encouraging favourable investment environment, including also the development of infrastructure and services in order to attract investors. The general aims can be achieved by planning the impact of the Just Transition Mechanism on the adaptation of the working environment in the current enterprises; creation of new jobs; development of the urban environment and ensuring synergy between the available financial instruments during the period until 2030.
- 1.3.** ESC acknowledges that within the discussion of just energy transition it is necessary to draw conclusions from the current price crisis of energy markets, which adds its burden to already undertaken actions to accelerate decarbonisation and in consideration of the economic recovery from the Covid pandemic. The European Union, like many other regions of the world, is currently facing sharp increase in energy prices. ESC acknowledges that when

preparing guidelines to deal with the negative consequences of the sudden increase in prices, the EC insists that the European single energy market should not be fragmented, nor should investments in the energy sector and the environmental transition be jeopardised. In this regard, the set of targeted measures mainly covers the protection of vulnerable consumers and mitigation measures for the industry. It is necessary to develop protective measures more adequately in social and public policy, including by introducing a definition of energy vulnerable consumers.

- 1.4.** ESC acknowledges that the efforts made to assess the impact of the green transition in the affected areas. In 2021, with the assistance of consultant PriceWaterhouseCoopers (PWC), analyses of the impact of capacity closures in the districts of Stara Zagora, Kyustendil and Pernik and the framework of action plans developed in three pillars were prepared: 1) diversification of the local economy, 2) employment and quality of life; and 3) support for climate neutrality. In addition, the World Bank team also analysed the impact of industrial decarbonisation in 8 carbon-intensive regions.
- 1.5.** ESC acknowledges with concern that the preparation of Territorial Just Transition Plans (TPSPs) is significantly behind the deadlines for submitting the final plans to the EC. In this connection ESC considers it necessary to accelerate the development of Just Transition Territorial Plans by the Ministry of Energy for the three coal regions, clearly setting out the objectives for 1) taking comprehensive measures to prevent a demographic crisis in the affected regions; 2) preservation and improvement of the conditions for employment; 3) gradual industrial reorientation in the affected regions; 4) providing support for educational and research programs aimed at development in the affected regions.
- 1.6.** ESC pays special attention to the following project initiatives, which have the potential to build the foundation of powerful industrial enterprises in the coal regions to ensure a smooth industrial transition:

- 1.6.1 Construction of a production line for electric batteries for industrial or transport needs, in synergy with the measures under the National Recovery and Sustainability Plan (NRSP), but also as a natural utilisation of the existing infrastructure in the coal regions, for the development of new industrial productions. The pilot implementation of the various battery applications should be sought both in relation to the available electricity system infrastructure and in relation to the modern development of the urban environment in the direction of electromobility.
- 1.6.2 Construction of a pilot plant for production of green hydrogen and development of the related scientific and applied production base, as well as ensuring sustainable production of electricity from renewable energy sources to achieve green marking of all products. In this direction there are scientific results and accumulated technological experience, which can be used for the development of specialised production capacity on an industrial scale. Labour force and environmental impacts need to be further investigated.
- 1.6.3 Construction of an industrial complex for metal and composite products, as an element base for solar and wind installations. The intensive development of new solar and wind installations requires the search for opportunities to achieve a higher share in the supply chain for these facilities. The available experience and infrastructure in our country correspond to the needs for realisation of this type of sites and provide the opportunity to achieve high competitiveness in scaling of the production.
- 1.6.4 Construction of a production line for electric vehicles for industry and the urban environment and construction of charging stations. The development of electromobility in our country is at an early stage and will be largely based on support for targeted programs that cover activities with high transport load, such as the application of electric

vehicles on industrial sites or for public transport and services. This allows for the development of the supply chain and industrial development within the framework of support for a just transition.

1.6.5 Establishment of a specialised structure - state enterprise for "Conversion of coal regions", which should seek opportunities for industrial development through a public-private partnership. The enterprise will be engaged in an alternative use of the terrains and carrying out activities for preparation of the economic reconstruction, including carrying out research necessary to determine the condition of the disturbed terrains, identifying the most appropriate methods of reclamation and the necessary investments for the implementation thereof, applying the "polluter pays" principle; reclamation of disturbed terrains in order to prepare these for reconstruction (e.g. for economic, social, tourist and recreational activities); activities aimed at renaturalisation, remediation and decontamination of the terrains affected by mining activities and improvement of the condition of the terrains.

1.6.6 ESC acknowledges that there is need to accelerate the work on mapping the competences and skills of the affected workforce in the areas as well as assessing the need to improve their skills and retraining in accordance with the requirements of potential investors.

1.7. ESC emphasizes that for the purposes of adapting industrial productions to the transition, contemporary models, scientific achievements and technical innovations should be applied. Existing production chains should be supported with technology transfer and solutions to reduce dependence on fresh raw materials and energy and to extend the life cycle of products.

1.8. ESC recognises that pathways for decarbonisation cover not only the energy sector, but also transport, buildings and land use. The measures applicable to all

economic areas should be reflected in the TJTP, defining the specific preconditions for development at the local level and taking into account the specifics of the regions.

- 1.9.** ESC takes the position that the targeting of the TJTP support mainly to micro and small enterprises cannot lead to effective technology transfer. On the other hand, any large industrial enterprise can be the basis of an industrial park, along with a variety of ancillary activities, namely technology centers, business incubators, scientifically accredited laboratories for analysis and certification of materials and products, logistics base, etc.
- 1.10.** ESC emphasises the need to support research and development in specific areas, such as the creation of cost-effective innovative solutions, including the study of technologies for carbon capture and storage.
- 1.11.** ESC draws attention to the fact that the framework for just transition must ensure the participation of the social partners in the discussion of the proposed measures and link the process of the dialogue between the social partners with tangible goals for social sustainability. This dialogue will help bring the funds in line with the aims of a just transition, ensure the use of just transition funds in coordination with other cohesion funds and the NRSP. Our country shall develop long-term policies for just transition and for strengthening the systems for social protection and investment in public services. In this sense, social dialogue must be used as a compass to maintain a balance between the social and environmental aspects of sustainable development.
- 1.12.** ESC insists that for the development of national documents, institutions shall observe the principle of partnership laid down in the Just Transition Fund Regulation, involving representatives of the social partners, interested civil society organisations, the affected municipalities and research centres at the

earliest stage, which is a key condition for achieving high efficiency in the management of EU financial mechanisms.

1.13. ESC notes regrettably that Bulgaria has missed the opportunity to receive funding under the Modernisation Fund at the first announced intake in 2021 and emphasises the need to accelerate the development of a National Investment Plan for financing from the Modernisation Fund to support investments in: 1) production and use of energy from renewable sources; 2) energy efficiency; 3) energy storage; 4) modernisation of energy networks, including central heating, pipelines and networks; and 5) just transition in coal-dependent regions: relocation, retraining and upgrading of workers, education, job search initiatives and start-ups. According to data from the European Modernisation Fund, the number of permissible emissions that make up the budget for Bulgaria is 16 095 825.

2. GENERAL INFORMATION ON TERRITORIAL JUST TRANSITION PLANS

2.1 TJTPs are a key tool for implementing the concept of a Just Transition of carbon-intensive sectors, i.e. transition based on the understanding that no one will be left behind in the energy and climate transition. The plans reflect the interests of affected stakeholders by developing plans, policies and reforms to strengthen institutions and mobilise the investments needed to: 1) decarbonise regional economies and high-carbon sectors, and 2) support those affected following the change at their workplaces.

2.2 In order to support the regions of the EU Member States that are most vulnerable during energy transition, a targeted Just Transition Mechanism has been set up, which has three pillars: (1) the Just Transition Fund; (2) a special "Just Transition" scheme under *InvestEU* and (3) a mechanism for granting loans in the public sector. The Territorial Just Transition Plans are a key condition for the

programming and allocation of JTM resources, which for Bulgaria are 1.178 billion Euros. In order to benefit from the funding provided under the three pillars of the Just Transition Mechanism, Member States must develop, together with the relevant local and regional authorities, one or more Territorial Just Transition Plans outlining the process of transition in the affected territories by 2030.

2.3 In connection with the Project for Technical Assistance for Preparation of Territorial Just Transition Plans in Bulgaria, commissioned by the Directorate-General for Structural Reform Support at the EC, a report was prepared by PwC consultants for the three coal regions in Stara Zagora, Kyustendil and Pernik. Separately, at the request of the Government, the World Bank has engaged in providing technical assistance, through remunerated advisory services, in the preparation of TJTPs for eight areas where the transition to a climate-neutral economy is expected to have a direct social, economic and environmental impact on the coal intensive industries: Varna, Haskovo, Burgas, Lovech, Gabrovo, Targovishte, Sliven and Yambol. Recipient of the consulting services is the ME, which is responsible for the coordination of the preparation of the TJTPs in Bulgaria.

2.4 Regardless of whether all identified areas will be approved for support under the Just Transition Mechanism, ESC insists on taking into account the results of the transition impact assessment in all of them and accordingly implementing targeted programs to support and overcome the economic and social consequences of the transition to climate neutrality.

2.5 PwC applies a methodology approved by the EC and the Ministry of Energy (ME) to analyse the economic and social challenges and to justify the main directions for the use of funds under the Just Transition Mechanism, without committing to the development of directly applicable plans or projects. The framework for PwC's proposals is the Regulation on the establishment of the Just

Transition Fund, as part of the Just Transition Mechanism. The TJTPs must be brought in line with the National Plan in the field of energy and climate and with the NRSP of Bulgaria. The final version of the Territorial Plans for a Just Transition should be prepared by the Ministry of Energy and these documents should be the subject of public discussion.

- 2.6** ESC considers that together with the Just Transition Mechanism, the measures under the NRSP should be taken into account, which is of particular importance for achieving the national objectives. Discussions are currently underway on the latest changes to the NRSP, which include a commitment from the electricity sector to reduce annual CO₂ emissions by 40% by 2026 compared to the 2019 emissions, as well as the assessment that coal-fired power plants will operate at high capacity only during the winter months, which will require the introduction of a new mechanism for capacity. It shall be taken into account that all plants that do not comply with environmental standards will be shut down. It is specified that the operation of coal-fired power plants after 2025 will depend on economic assessment, in direct connection with the established market environment.
- 2.7** ESC believes that there are prerequisites for reducing employment in activities related to the production of energy from local coal, which requires the development of plans and programs for energy and social transition. This is another proof of the necessary acceleration of the preparation of the applicable plans and measures under the Territorial Just Transition Plans.
- 2.8** ESC notes the conclusions made by the TPSP consultants about the possible paths for decarbonisation and the implementation of energy efficiency measures, changing the fuel base and electrification, applying circular models and using Renewable Energy Sources for own needs. It is important to note that the sustainable production of energy from renewable sources will be essential to combat climate change and biodiversity loss and therefore investment in

renewables should take into account the sustainability criteria in the revised Directive on renewable energy and the EU Biodiversity Strategy 2030.

3. SPECIFIC NOTES

- 3.1** ESC draws attention to the complex nature of the necessary interventions, which should cover both enterprises providing a significant share of electricity generation in Bulgaria and the opportunities for developing new forms of industrial production with appropriate planning, linked with available assets in land, infrastructure and human resources. Ensuring a smooth transition should be guaranteed both by security of electricity supply and large-scale industrial projects for perspective future prospects.
- 3.2** ESC emphasizes that currently the main risk is the assumption of spontaneity in the closure of existing electricity generation and mining companies and the associated burden on the social security system and labour offices in the absence of clear prospects for replacement employment and without a clear strategic framework to deal with the economic, social and environmental consequences of the transition. In this regard, it is necessary to develop specific initiatives, which include technology transfer, development of a national supply chain, ensuring sustainable employment and retraining in the workplace, improving cooperation between academia and business. Conditions and stimulus for clusters of support activities, small businesses, research centres and municipalities shall be developed.
- 3.3** ESC points out that each industrial zone, in cooperation with local authorities, has the potential to implement at regional level (including through initiatives) the following:
- programs to promote entrepreneurship and start-up ecosystem;
 - measures for capacity enhancement in municipal administrations for planning and management of projects related to the urban environment;

- programs for support of local farmers and development of organic farming and food production;
- construction of training and retraining centres to improve competitiveness;
- programs to encourage the introduction of new energy-efficient and resource-efficient technologies for use in production processes and in the urban environment;
- programs to promote the production of energy from renewable sources in production processes and in the urban environment;
- programs for implementation of digital solutions for energy consumption management.

3.4 ESC recognises that the pathways for decarbonisation cover not only the energy transition, but also the development of transport, buildings and land use. Decarbonisation in the transport sector includes increasing the use of lower carbon emissions from transport (including public transport), including increasing the share of electric vehicles and providing the appropriate infrastructure necessary for their operation. It is imperative to develop ways to implement the concept of zero carbon buildings, as well as more efficient mechanisms for investment in energy efficiency. With regard to the future organisation of energy systems and infrastructures, TJTPs must emphasise the importance of the active participation of all consumers (households, businesses and energy communities) in the development of smart energy systems. In its entirety, the measures in the field of bioeconomy do not imply a significant increase in the number of employees, but rather a development of the productivity of the employed micro and small enterprises in the sector.

3.5 ESC notes that the Commission proposes the creation of a new Social Climate Fund, which will help reduce costs for those most exposed to price increases due to the introduction of emissions trading in new sectors (buildings, road transport) during the initial transition phase, and our country should make the most of the

fund. The fund will enable Member States to support vulnerable groups (households, transport users and micro-enterprises) through direct income support and green investment to increase energy efficiency and renovation of buildings, clean heating and cooling, renewable energy use and access to low-emission mobility. It is crucial to seek synergies and complementarity in the development of various strategic and planning documents related to the transition to a climate-neutral economy and overcoming the consequences of rising carbon prices and the inclusion of new sectors in the scheme.

3.6 ESC emphasizes that in eight regions of Bulgaria it is expected to have a direct social, economic and environmental effect of the transition to a climate-neutral economy on carbon-intensive industries. For these, carbon-intensive sectors and economic activities have been identified and the overall impact of the transition on their economy has been assessed. The specific proposals for decarbonisation, which should be reflected mainly in the NRSP, but also in the TJTPs, and include:

- Electrification in small production facilities;
- Switching from natural gas to alternative fuels (green gas is considered a commercially viable option) switching from liquid fuels to gas, or using biogas where possible and building energy storage facilities (including green hydrogen production) near industrial parks;
- Substitution of coke or natural gas with hydrogen as a reducing agent in some pyrometallurgical processes involving non-ferrous metals;
- Use of electricity from renewable sources for partial reductions in process emissions;
- Energy efficient measures applied through automatic control of intelligent and integrated management systems, and technical improvements;

- Utilisation of excess heat - application of heat exchangers (pilot versions have been tested) and closed heat pumps for drying processes;
- Processing, incl. recycling of metals and other materials, with a focus on the principles of the circular economy;
- Utilisation of digital technologies that have the potential to reduce energy consumption, improve loss monitoring and provide automated responses.

3.7 ESC insists that the impact on the economy of the carbon-intensive sectors be taken into account and that these receive adequate support, either within the framework of the TJTPs or under the NRSP, as the most appropriate form of support for the structure defining enterprises is direct financing of measures.

3.8 ESC emphasises the need to support research and development in specific areas, such as the creation of cost-effective innovative solutions, including the study of carbon capture and storage technologies. ESC reminds that by a decision of the Council of Ministers the Institute for Transition and Sustainable Development was established, which has the potential to help achieve synergies and complementarity of action plans with other national plans and programs by supporting the single centre for monitoring the implementation of plans. and programs for providing methodological and analytical support to the Green Deal Advisory Board.

3.9 ESC draws attention to the fact that the effective management of active labour market policies and income support programs will be crucial to mitigate the effects of the transition: targeted retraining and improvement, and measures to facilitate social protection of workers. These policies will require a long-term commitment to regional and local development, as well as institutional coordination between the Employment Agency, the education system, the social assistance system and the private sector. Action is also needed to map in detail and analyze the impact that the transition will have on employment and skills in

different regions and sectors, including subcontractors from the contract relations chain. Active labour market policies must be developed with the social partners and in line with local territorial needs.

3.10 ESC believes that TJTPs should reflect the changes included in the presented in 2021 by the EC 14 legislative acts of the so-called Fit for 55 package intended to ensure that the increased climate target of at least 55% is achieved, compared to the 1990 levels, on the way for climate neutrality by 2050 and taking into account the need for contribution from all sectors. The EC proposals amend European climate and energy legislation in the EU 2030, including in terms of effort sharing, land use and forestry, renewable energy, energy efficiency, transport and energy taxation, which together form the basis for the transition to a low-carbon economy - a process that requires profound economic and social transformations.

3.11 ESC shares the assessment that the green transition is accompanied by significant social and economic challenges that should not be overlooked. The impact of the Fit for 55 package on the economy, labour markets and workers should not be underestimated, as any legislative proposal in the package will affect the competitiveness of industry and workers in many ways. These proposals contain various measures such as new regimes for heating buildings, road transport, aviation, shipping, a higher share of renewable energy, massive forest planting and others. For example, the reform of the European Emissions Trading Scheme or the new standards for cars and vans will have important implications for the economic and energy sectors, on the one hand, and for the workforce in terms of employment, skills and working conditions, on the other hand. In addition, the ESC notes that at the current stage, the most widespread green technologies in the RES sector generate jobs only during their construction, which may change when Bulgarian business is included in the production chains related to RES.

4. CONCLUSION

4.1 The transition to climate neutrality can only succeed if it is carried out in a just and inclusive way ("just transition") in the Member States. To this end, a mechanism for a just, competitive and environmentally friendly transition has been set up to ensure that the people, industries and territories most affected by the transition are supported in accordance with the principle of "no one left behind". ESC welcomes the provision of targeted support under the Just Transition Mechanism for the most affected regions in order to alleviate the socio-economic impact of the transition.

4.2 The challenges outlined below must be given special attention when developing territorial plans for a just transition:

- The new jobs that will be created in green industries will not coincide geographically with jobs that will be lost in other sectors;
- The new jobs created in this transition will not match the current skills of the workforce, and technologies will require new skills in existing sectors;
- The effects of climate change will affect citizens and workers in many ways, requiring measures to adapt to the world of work.

4.3 The planning and implementation of the JTF involves a number of preparatory, analytical and expert activities on the implementation and management mechanism of the Fund, with analysis for the determination of the affected areas that may receive support from the Fund, with analysis of the needs and challenges of the areas, with discussions between the stakeholders, proposals for types of priorities, measures and desired projects, etc. This implies a high commitment of the Bulgarian government and individual stakeholders in the implementation of the TJTPs in Bulgaria.

- 4.4** ESC believes that in the development of TJTPs should make maximum use of already established organizations, such as the European Green Deal Consultative Council and the Institute for Sustainable Transition and Development.

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PRESIDENT OF THE ECONOMIC AND SOCIAL COUNCIL