CEE Bankwatch Network

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Following the Money: Estonia

What is the Just Transition Fund going to finance?

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This briefing provides an overview of the just transition envisioned in Estonia's Territorial Just Transition Plan for the sole region designated to receive money from the Just Transition Fund: Ida–Virumaa. It scrutinises and evaluates the economic, environmental and social aspects of the plan, and shows how the various investments are to be divided among the respective policies for each of these areas. Unlike our previous briefings, this time we will not only focus on the content of the Territorial Just Transition Plan itself, but also on how the objectives described in the plan specifically translate into the allocation of funds. In short, we follow the money.

This briefing consists of three sections. Following a brief introduction to the Just Transition Mechanism, the second section provides an overview of the methodology underpinning our analysis. The third section identifies what Estonia actually plans to do to alleviate the impacts of the transition to carbon neutrality and explores the allocation of funds for specific types of projects.

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Introduction to the Just Transition Mechanism

The Just Transition Mechanism is a regional development programme that was announced by the European Commission in January 2020. Its purpose is to provide targeted support to regions in the EU that are likely to be disproportionately impacted by the transition to a carbon neutral economy under the European Green Deal.

The mechanism rests on three separate pillars. The first is the Just Transition Fund, the second is a dedicated just transition scheme under the InvestEU programme, and the third is a new public sector loan facility financed with EU grants and loans from the European Investment Bank. The latter two are discussed in more detail in our briefing on the second and third pillars of the Just Transition Mechanism.[1] Overall, the targeted support provided by the Just Transition Mechanism has led to the mobilisation of around EUR 55 billion in private and public investments.[2]

To be eligible for funding under the pillars of the Just Transition Mechanism, EU Member States were required to negotiate Territorial Just Transition Plans for regions identified as likely to suffer negative socio-economic impacts from the transition to a carbon-neutral economy. This process lasted from the launch of the Just Transition Fund Regulation in June 2021 until the European Commission's approval of the plans, which had to be completed by 31 December 2022. Of the eight countries covered by CEE Bankwatch Network – Bulgaria, Czech Republic, Estonia, Hungary, Latvia, Poland, Romania and Slovakia – seven have had their Territorial Just Transition Plans approved.[3] Only Bulgaria continues to work on its plans owing to the ongoing political instability in the country.

Oil shale-rich Ida–Virumaa, located in the north-east of Estonia,[4] is the only just transition region in the country. The final draft of Estonia's Territorial Just Transition Plan was submitted to the European Commission in mid-June 2022 and approved on 4 October 2022. Set to receive around EUR 354 million from the Just Transition Fund, Estonia is determined to maintain the ambitious pace it has set thus far. , among them the construction of an industrial magnet factory, which was the first accepted JTF investment in the European Union, and several are in the pipeline.

All countries who have had their Territorial Just Transition Plans approved have now entered the implementation phase, which means that potential investors are able to apply for funding under all three mechanisms, in accordance with what was established as funding priorities in the approved plans. In most countries, including Estonia, European funds monitoring committees have been established to oversee the implementation of the just transition projects, a process that is now underway.

[1] CEE Bankwatch Network, The Second and Third Pillars of the Just Transition Mechanism, *CEE Bankwatch Network,* 13 March 2023.

[2] European Commission, The Just Transition Mechanism: making sure no one is left behind, *European Commission*, accessed 9 March 2023.

[3] European Commission, Just Transition Platform, *European Commission*, accessed 9 March 2023.

[4] Ministry of Finance of Estonia, Territorial Just Transition Plan, *Ministry of Finance of Estonia,* 4 October 2022.

Methodology[5]

The plan for Estonia was carefully examined and assessed in a four-step process. First, we delved into the primary intended policy outcomes. This involved identifying the key sectors targeted in the plan, summarising estimated job losses and job creation, and analysing the proposed reduction in carbon emissions. We also examined the aspirations related to the phase-out of fossil fuels and the promotion of renewable energy.

In the second step, we closely evaluated the expected impact of the plan. This encompassed a comprehensive analysis of six critical elements: the economic, environmental, employment, and social implications of the plan, as well as potential areas for growth and retraining requirements.

In the third step, we categorised the most significant economic, social and environmental policies in a table format. Economic policies were defined as those directly aimed at the private sector or the improvement of employment conditions. Employment policies were also grouped under economic policies due to their primary benefits for private companies or individuals. Economic policies encompass initiatives such as investments in small and medium-sized enterprises (SMEs), workforce retraining or upskilling, and investments in large businesses. Environmental policies were defined as those that aim to enhance the environment, including increasing renewable energy production and brownfield decontamination. Social policies were defined as those intended to improve the communal and public conditions of regions and specifically benefit large segments of the population. These policies cover investments in social and healthcare, education (excluding retraining or upskilling) and public research organisations.

Economic policies were further categorised into those related to employment, retraining and upskilling, SMEs, and large corporations. Social policies were divided into areas such as social issues, care for children and older people, public sector research and development, education, and small-scale community initiatives. Environmental policies were categorised based on their relationship to energy and land development.

In the fourth and final step, we consulted the Cohesion Open Data Platform[6] to investigate the allocation of funds for specific policies. We calculated the percentage of the total budget allocated within the Just Transition Fund to each policy. It should be noted that just transition regions will also receive money from other EU funds, including the second and third pillars of the Just Transition Mechanism, the European Social Fund, the Modernisation Fund, and the cohesion policy funds, as well as national funds. However, it was not possible to include an analysis of all these additional allocations in this brief.

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[5] Our methodology was developed in collaboration with Michiel Stapper, Assistant Professor at Tilburg Law School, drawing from his previous work. See: Michiel Stapper, The Road to a Just Transition – A Comparative Analysis of Territorial Just Transition Plans, *Foundation for European Progressive Studies*, April 2022.

[6] European Commission, Cohesion Open Data Platform, *European Commission*, accessed 9 September 2023.

Following the money: the Just Transition Fund for Estonia

Planned policy implementation outcomes

Table 1. Planned outcomes of the just transition process in Estonia based on the Territorial Just Transition Plan.[7]

Regions	Sectors targeted	Estimated job losses	Estimated new jobs	Reduction in greenhouse gas emissions	Phase-out of fossil fuels	Renewable energy percentage in 2030
Ida–Virumaa	Oil shale	4,737	1,000	80% in 2050 compared to 1990	2035 oil shale phase-out in energy production, 2040 full oil shale phase-out	65% of total energy production by 2030

The Territorial Just Transition Plan for Ida–Virumaa addresses a critical shift in the region's economic landscape, primarily centred around the phasing out of oil shale extraction and energy production, both located in the Ida–Virumaa region in north-eastern Estonia. The plan sets a target of phasing out oil shale from energy production by 2035 and in overall energy production by 2040. Concurrently, Estonia has committed to incorporating 65 per cent renewable energy into its mix by 2030, aligning with broader climate neutrality goals set for 2050.

Without additional policy measures, phasing out oil shale is expected to have a significant negative impact on jobs in the region, resulting in the estimated loss of 4,737 jobs. Around 16,000 people live in households dependent on the oil shale sector, while 34 per cent of households have only one breadwinner. In the context of the decline of the oil shale sector, around 8,000 people are at imminent risk of falling below the poverty line.

Recognising the urgency of facilitating a socially just transition, Estonia's Territorial Just Transition Plan is quite diverse, with the largest focus on economic investments due to a high demand for new jobs. However, smaller volumes of funding are foreseen for environmental and social priorities, such as the restoration of contaminated sites and investments in welfare and education.

Predicted economic, employment, environmental and social impacts of the just transition in Estonia

The Territorial Just Transition Plan estimates that 4,737 jobs directly connected with the Estonian oil shale sector in Ida–Virumaa will be lost. One job in the oil shale sector creates around 2.6 indirect jobs. This means that these 4,737 jobs in the oil shale sector will indirectly affect another 6,158 to 18,474 jobs in the region, or 20 to 42 per cent of all those employed in Ida–Virumaa. Direct employment in oil shale companies will

[7] Developed by CEE Bankwatch Network based on a methodology by Michiel Stapper and data contained in Estonia's Territorial Just Transition Plan.

decrease by around 1,000 people by 2030. Considering indirect jobs, the cumulative loss of jobs in Ida–Virumaa due to the transition may reach approximately 3,700 by 2030.

Approximately 17 million tonnes of greenhouse gas emissions is generated annually in the oil shale sector, which accounts for nearly 80 per cent of all emissions generated in Estonia. Although the volume of ash generation is large (4.9 million tonnes in 2020), the recycling rate is relatively low at around 2 per cent. Reducing and reusing this waste is a challenge for Estonia. The oil shale industry also has an impact on the health of Ida–Virumaa residents. The health status of residents in Ida–Virumaa county is worse than anywhere else in Estonia. One of the possible reasons for this is environmental pollution from the oil shale sector.

Ida–Virumaa is a traditional industrial region where people have the knowledge, experience and habits required to work in industrial companies. Therefore, the processing industry should have a central role in the restructuring of the region's economy. In the case of new companies, it is important to support development that follows global technological trends and helps Estonia achieve its climate goals, such as environmentally friendly technologies, renewable energy, the circular economy, and hydrogen production. It is also important to preserve existing industries with long-term traditions, skilled labour and infrastructure, including the production of chemicals, plastics, metal products, electrical equipment, textiles and clothing, and mining of mineral resources. Another priority must be the development of the information and communication technology sector to safeguard the competitiveness of local companies amidst increasing automation and digitisation.

In addition, sectors that have the potential to diversify the economic structure of Ida–Virumaa and offer future-proof jobs outside of polluting industries should be supported. These sectors span micro-business, healthcare, social work, and the creative economy, including the region's thriving film industry, which can benefit from the authentic backdrop of the mining and industrial sites. Broadening the job market in this way will provide more employment opportunities for residents, attract talent, improve the overall attractiveness of the region, increase sustainability, and secure the future of the local economy.

Where will the money go?

Table 2. Planned allocation of funds for Estonia.[8]

			Amount (EUR)	**Percentage (approximate)**
Economic policies	Employment		0	0%
	Retraining/upskilling		5 000 000	1.5%
	SMEs **(≈40%)**	Investments in SMEs	32 000 000	10%
		Incubators	0*	0%*

[8] Developed by CEE Bankwatch Network based on a methodology by Michiel Stapper and data on the Just Transition Fund allocation for the 2021–2027 budgeting period available from the Cohesion Open Data Platform. See: European Commission, Just Transition Fund (JTF), *Cohesion Open Data Platform*; see also: Annex 1.

		Research, development and innovation in SMEs	102 500 000	32%
	Large corporations **(≈22.6%)**	Investments in large corporations	50 000 000	15.6%
		Research, development and innovation in large corporations	22 500 000	7%
TOTAL			**212 000 000**	**66%**
Environ-mental policies	Energy **(≈7.8%)**	Investments in renewable energy sources	20 000 000	6.2%
		Infrastructure of renewable energy sources		0%
		Energy communities	0	0%
		Energy efficiency and retrofitting	5 000 000	1.5%
	Land development and other environmental projects **(≈7.2%)**	Decontamination of land	6 380 375	2%
		Waste	0	0%
		Mobility	0	0%
		Climate adaptation, including water management projects	16 740 432	5.2%
TOTAL			**48 120 807**	**15%**
Social policies	Social issues		10 000 000	3.1%
	Care for children and older people		0	0%
	Research, development and innovation in the public sector		25 000 000	7.8%
	Education (not retraining or upskilling)		25 000 000	7.8%
	Small-scale community initiatives		0	0%
TOTAL			**60 000 000**	**19%**
SUM TOTAL			**320 120 807****	

* Incubators will be financed under the support services for business diversification, but they are not classified as a separate financing stream

** An additional EUR 20 million has been allocated to a category entitled 'other', which is not included in the above table.

The Just Transition Fund allocation for Estonia is roughly EUR 340 million, making it the 12th highest allocation in the European Union. Of this total amount, EUR 20 million will be spent on 'other' projects; an additional EUR 13 million will be available for technical assistance.

As Estonia's biggest focus is on economically revitalising Ida–Virumaa, most of the budget is earmarked for economic policies (66 per cent), with the remainder divided between social (19 per cent) and environmental (15 per cent) policies.

The prioritisation of small and medium-sized enterprises (40 per cent) is intended to increase the long-term competitiveness and export capacity of small and micro-enterprises operating in Ida-Virumaa. Specifically, this will involve supporting the development of innovation in the circular economy, adding value to products, services, technologies and processes, and increasing the structural and human capital of small enterprises in the region. Particular emphasis will be placed on research, development and innovation in the small and medium-sized enterprise sector, which is expected to increase the overall quality of the transition. Public research centres will also receive support to ensure the just transition progresses in a holistic fashion. For workers in the oil-shale industry, the Estonian government will create reskilling and upskilling programmes alongside a special fund to compensate workers for loss of wages as they navigate the transition. Supporting the diversification of the economy, two incubators will also be established: one dedicated to industry and the other to creativity and innovation.

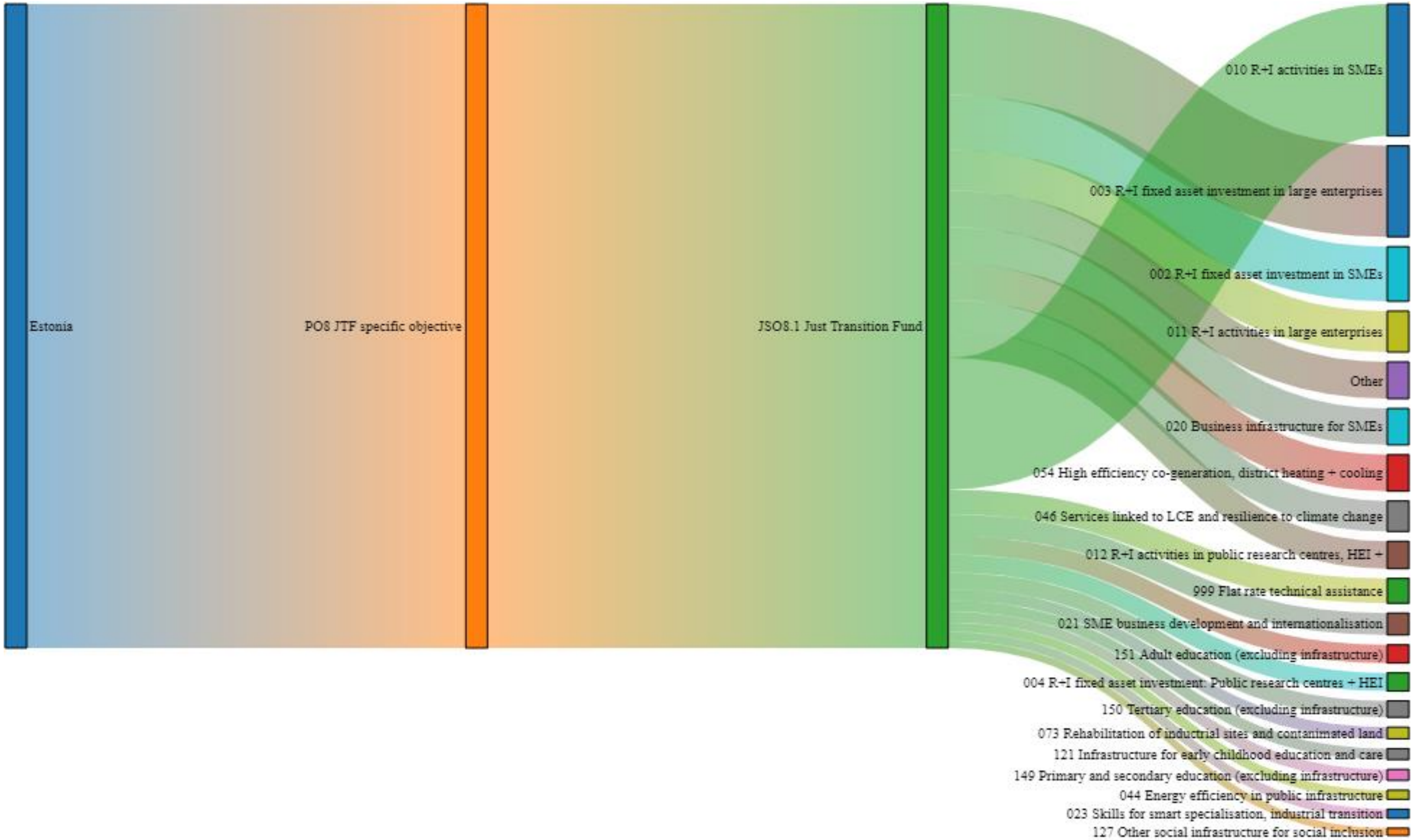
The funds allocated for investments in large corporations (22 per cent) will be used to diversify the economy in various ways. Proposals for investments range from a magnet manufacturing plant (already underway) to solar, wind, hydropower, and hydrogen projects. However, not all of these proposals are sustainable. Since 2020, Estonia's forests have been releasing carbon instead of absorbing it, an issue exacerbated by recent alarming trends in the land use, land use change and forestry sector. Environmental non-governmental organisations have raised concerns that some of the proposed projects, which include the manufacture of wood chemical products, would only serve to increase the demand for logging.

Most of the allocation for energy projects is earmarked for renewable energy production. According to one of the latest amendments in the Estonian plan, a EUR 20 million investment initially intended for decoupling the Narva heating plant from oil shale will now be reallocated to support housing renovation (EUR 15 million) and the Kiviõli heating plant (EUR 5 million) instead. This means that, since the decoupling of the Narva heating plant will no longer be financed by the Just Transition Fund, the responsibility for overseeing the transition from oil shale-based heating is now in the hands of state-owned energy company Eesti Energia. Additionally, the planned support for large enterprises should result in increased volumes of renewable energy production from wind turbines, hydropower plants, and hydrogen and solar facilities. The Estonian government also plans to decontaminate lands, including water bodies, which will mitigate the environmental and health impacts of oil shale extraction and processing on local communities.

To create a more adaptable workforce, the allocation for social policies focuses on education by increasing the volume of training curricula and opening new vocational and higher education programmes. To support social change, the Estonian government intends to develop its social and health services. To this end, local education and research institutions will receive funding to conduct research and development in areas related to the needs of local businesses, setting up specialised laboratories, and recruiting research staff.

Annex 1

Table 3. Just Transition Fund allocation for Estonia.



Source: European Commission, Just Transition Fund (JTF), *Cohesion Open Data Platform*, accessed 29 November 2023.