

From the Green to the Just Transition: The Emergence of the Compensatory State in the EU's Approach to Climate Change

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Abstract

In this paper, we investigate the adaptation of the EU climate stances between the early 2000s until today. Historically tracing the EU's approach to the green transition, we highlight an increasing role of interventionist frames within European discourses and policies. As the realms of intervention have increased, so has the EU's emphasis on the need to provide social protection for the sections of the population that have more to lose from a large-scale transition. We understand this process as signalling the increasing relevance of what we call the Compensatory State. This concept points to a form of governance that, by setting itself ambitious goals that (if implemented) would have widespread effects on large portions of the population, needs to produce equally extended forms of compensations. The paper historically traces the development of this form of governance from the previously prevalent frameworks (which we understand through the concepts of the Regulatory State and the Competitiveness-enhancing State). The paper integrates contemporary attempts to theorise the role of public authorities within the EU's green transition. In addition, our analysis challenges the expectations of the extant literature in political economy, which looks at increasing social protection mainly as a public solution to market distortions.

Keywords: EU; green transition; just transition; social protection; state intervention

Introduction

In recent years, the European Union (EU) has shown ever growing interest in tackling climate change. This has translated into the commitment for Europe to 'become the world's first climate-neutral continent by 2050'.¹ Such a long-term goal has attracted increasing attention of political economists (e.g., Dupont, Oberthür, and von Homeyer 2020; Bailey 2020; Buch-Hansen and Carstensen 2021; Fifi 2024). In particular, an emerging literature in the field has analysed the role of political patterns at the national and transnational level in fostering, supporting and impeding green transition policies (Cooiman 2023; Copley 2023; Crespy and Munta 2023; Prontera and Quitzow 2022).

While one of the main focuses of this scholarship is the public–private nexus in the development of sustainable climate strategy, more work needs to be done to clearly unpack the evolving role of the public actors within the green transition. The traditional scholarship on state intervention has interpreted the EU as a regulatory state, mainly focussed on regulating market forces when pursuing its economic statecraft (Genschel

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¹European Commission, 2050 long-term strategy. Available at: https://climate.ec.europa.eu/eu-action/climate-strategies-targets/2050-long-term-strategy_en.

and Jachtenfuchs 2014). While recent accounts have enriched this framework emphasising the increasing role of public and private partnership in the EU policy-making (Mertens and Thiemann 2018; see also Genschel and Jachtenfuchs 2014; Mertens and Thiemann 2018), these have been rarely translated into updated understandings of the EU green transition strategy. In addition, although scholars have unpacked the ways in which public authorities are involved in mobilising ‘market-based but state-led’ processes, they are yet to focus on how solidarity and social protection emerge in the context of such public intervention. This is surprising given the core role that these forms of intervention play within European integration (Schelkle 2017) as well as within the EU’s just transition framework.

Employing a historical perspective and analysing the development of the EU’s approach to climate change since the early 2000s, we trace the emergence of social protection as the result of the expansion of previously interventionist stances. Since the early 2000s, the EU’s approach to climate change has shifted from a market-oriented to an increasingly interventionist one, albeit with public intervention primarily aimed at boosting competitiveness. However, in recent years, the EU has increasingly acknowledged and dedicated resources to the distortive risks implied in the green transition, promising a ‘just transition for all’ (European Commission, 2024h). Reflecting on such a turn, we highlight that as the scope of public intervention increased, social protection has also emerged more prominently as a way of compensating for the redistributive effects of the transition. We make sense of this through the lenses of the passage from the Regulatory State towards what we call the Competitiveness-enhancing State and, finally, to the Compensatory State. The latter is a form of governance that, by setting itself ambitious goals which (if implemented) would have widespread effects on large portions of the population, needs to produce equally extended forms of compensations. We suggest that this is an underappreciated form of governance, which is often resorted to during crisis-periods. The typology employed here could thus be useful to nuance current understandings of the private–public nexus beyond climate policies. Our analysis further contradicts the expectations of the extant literature in political economy, which looks at increasing social protection mainly as a public solution to market distortions. Differently from what is often referred to as the ‘compensation hypothesis’ (Rodrik 1998; Walter 2010), we show that compensatory approaches linked to the green transition do not emerge mainly as correctives for increased international competition and volatility, but rather as instruments meant at taming the effects of politically initiated changes.

The paper is structured as follows. The first section reviews the extant political economy literature on the EU climate policy, proposing a threefold typology of the EU’s evolving approach to climate change. The second section traces the developments of European climate policies since the early 2000s, engaging with the broader discussion on changing contexts at both the EU and international levels. The last section concludes and discusses the implications for further research.

I. Re-Thinking the Public–Private Nexus in EU Climate Policies

Traditional accounts of state intervention in Europe have often regarded the EU as a regulatory power, mainly focussing its intervention on market regulation (Genschel and Jachtenfuchs 2014; for criticisms of these shortcomings, see Prontera and Quitzow 2022).

This has had clear repercussions on the approach to EU's climate action. The scholarship has often interpreted public intervention in the context of the green transition as being mainly directed to facilitating the working of market-based solutions. The BlueInvest programme of the European Commission, for instance, has been interpreted as a de-risking strategy, whereby 'states do not directly invest but instead construct partnerships with global finance; they escort capital to make sustainability [...] investible' (Cooiman 2023, 2). The European Green Deal has been seen as a case in point, as policymakers take on the risk of the initial investment in order to make the transition appealing for private actors (Cooiman 2023, 2). Part of the scholarship on the EU's approaches to climate change suggests that Europe is trapped in a 20th-century productivist paradigm that gives priority to economic growth over welfare (Crespy and Munta 2023; Konings 2016).

Attempts to move beyond this view have recently emerged, highlighting how the EU is increasingly promoting public–private partnerships in various realms of economic statecraft, to the point of building a 'hidden investment state' (Mertens and Thiemann 2018; see also Genschel and Jachtenfuchs 2014; Mertens and Thiemann 2018). Such a pattern is in accordance with findings across various policy-areas (Schmitz and Seidl 2022; Heidebrecht 2024; Siddi and Kustova 2021), which indicate a shift from a market-liberal approach to more interventionist stances within the EU (Prontera and Quitzow 2022). EU industrial policy (Di Carlo and Schmitz 2023; Fiott 2024; Wigger 2023)—of which the green transition is often portrayed as an emerging, and increasingly prominent, component (e.g., Pianta and Lucchese 2020, Ducastel, Rivière, and Ferlazzo 2024)—has been increasingly featured in academic and political debates.

Prontera and Quitzow (2022, 518) have provided the first attempt to analyse the emergence of 'interventions aimed at leveraging the resources of non-state actors in pursuit of its policy goals'. Still, the literature on EU industrial policy in general, and the one on the green transition in particular, tends to ignore the ways in which solidarity and social protection emerges within the context of public intervention. Such dimensions are crucial both from the standpoint of the European integration literature (Graziano and Hartlapp 2019; Schelkle 2017), as well as to explain the increasing emphasis being placed on the just transition and the idea of not leaving anyone behind. Social solidarity is acknowledged as a core feature that allows the EU to navigate contestation over costs of market-making processes (McNamara 2024, 2374). Yet, although the dirigiste turn in the EU is well documented, less attention has been placed on the ways in which conflicts or contradictions stemming from EU's new industrial policy are dealt with and attenuated (on this point, see Seidl and Schmitz 2024, 2168). Ultimately, the ways in which social protection and solidarity fit within the broader scope of EU's public intervention is currently undertheorised. This is also due to the fact that solidarity is often analysed from the point of view of intergovernmental discussions over the balance between conditionality and redistribution among member states (Ferrara, Schelkle, and Truchlewski 2023; Schelkle 2017; Walter, Ray, and Redeker 2023).

Social protection is more widely discussed within the broader political economy literature, which looks at it mainly as a corrective for market failures. For instance, this approach can be found in the so-called 'compensation hypothesis' debate (Rodrik 1998; Walter 2010), whereby welfare provisions are seen as correctives for increased international competition and volatility. For instance, the vast literature on so-called neoliberal period in Europe and beyond (Fifi 2023; Harvey 2007; Stockhammer 2013) shares such

assumptions arguing that social protection does (and, for most authors, *should*) emerge as a response to market pressures. Integrating such positions, we suggest that, in the context of the EU's green transition, social protection emerges predominantly as a compensation for politically steered and induced changes. In particular, compensation dynamics do not only used as correctives for free-market forces, but can also arise as means through which policymakers make politically directed changes more palatable. We employ an historical perspective, showing that the EU's approach to climate change can be understood as the result of different policy-mixes. During the early 2000s, the EU saw the green transition as a process that could be achieved mainly through market-oriented mechanisms. Later, it started featuring increasing public intervention, albeit a form of intervention that was mainly directed to boost the competitiveness of sustainable productions. More recently, the EU has started emphasising the need to compensate disadvantaged groups and member states that are affected by the green transition.

We propose a threefold typology of the EU's approach to climate change, as summarised in Table 1. Firstly, the Regulatory State, already widely discussed within the literature, represents an 'indirect approach to economic governance' (Prontera and Quitzow 2022, 519). In relation to climate change, it can be linked to positions that argue that economic and environmental goals can be perfectly aligned, creating a win–win scenario (Baker 2007). In other words, this approach suggests that the environment benefits from the innovation driven by market competition. Conversely, market competitiveness can be enhanced by the development and innovation spurred by the rising demand for green technology. Many scholars of EU policy-making identify this win–win discourse

Table 1: Typology of EU approaches to climate change.

	<i>Regulatory State</i>	<i>Competitiveness-enhancing State</i>	<i>Compensatory State</i>
Policy discourses	Economic growth and environmental protection can be pursued simultaneously, leading to a win–win scenario. Regulatory and market-oriented instruments are preferred to ensure a competitive market and address market failures.	Public–private partnership is required to pursue economic growth and environmental protection simultaneously. The competitiveness of the green economy (at least in the short term) depends on the availability of public funds.	Plan to boost social protection in light of envisioned socio-economic effects of large-scale green transition.
Policy tools	Regulatory and market-based measures, e.g., measures with a focus on establishing liberalised energy markets in support of renewables, energy efficiency and the reduction of GHG emissions. It also includes subsidies to incentivise green production and taxes to penalise polluting firms.	Public interventionist tools aiming to enhance competitiveness and increase productivity, e.g., productive public investments.	Public interventionist tools with redistributive elements, e.g., financial support for people and enterprises that are mostly harmed by the green transition.

in EU environmental policy, which was dominant until the early 2000s (Hajer 1995; Dryzek 1997; Stephan 2012; Coffey 2016; Machin 2019). Regarding policy tools, environmental or green taxes, including taxes on energy, transport, pollution and resources, are among the most frequently used instruments for protecting the environment by setting a price for social costs (European Commission, 2024g). The European Trading System is another example of market-oriented measures associated with the regulatory approach.

Secondly, the Competitiveness-enhancing State aims at leveraging public intervention to increase productivity in the green economy. Its focus is on creating an environment that supports green businesses, enabling them to thrive in a competitive market. This reflects wider trends in international political economy, where governments use significant fiscal stimuli to enhance the profitability of essential industries, especially those that adopt sustainable practices (Zohlhöfer, Engler, and Dümig 2018). In terms of policy tools, this approach integrates direct public intervention, such as financial support for green businesses and public investments aimed at strengthening the green economy, along with efforts to enhance public–private collaboration. For instance, the European Energy Programme for Recovery emphasises the importance of financial assistance for industries closely tied to the green transition, such as natural gas and electricity networks, which are vital for achieving the EU's climate and energy objectives. Additionally, the Commission and the European Investment Bank (EIB) have developed a series of financing schemes to catalyse investment in low-carbon energy technologies, including the InnovFin Energy Demo Projects, the Enhanced European Innovation Council Pilot and Private Finance for Energy Efficiency.

Thirdly, the Compensatory State is a form of double-sided intervention: On the one hand, the EU sets increasingly ambitious goals for the green transition (advancing environmental friendly productions over polluting ones), and on the other hand, it takes responsibility to compensate for the redistributive effects of such intervention. This approach is epitomised by the Just Transition Mechanism (JTM), launched in 2021 as part of the Next Generation EU, and aimed at supporting the most carbon-intensive regions as well as the ones with the most people working in fossil fuels.² Crucially, the JTM is meant to support people against the effects of the 'transition towards climate neutrality',³ not the effects of climate change. In this sense, our framework moves beyond existing understandings within political economy, which look at social protection as emerging mainly as a corrective for market failures. In particular, we show that compensation dynamics can also arise as a means through which policymakers make ambitious, politically directed changes more palatable. Table 1 summarises the typology that we employ to understand the evolving EU approach to climate change.

In the empirical section of the paper, we trace the discourse and instruments employed in the EU's climate and energy policy since the early 2000s. It is important to highlight that no period can be reduced to one of the approaches employed. For instance, competitiveness-enhancing policies can be seen as a constant of the EU's toolkit when dealing with climate change. Similarly regulatory approaches, such as the ETS, were and remain

²European Commission, The Just Transition Mechanism: making sure no one is left behind, Available at: https://commission.europa.eu/strategy-and-policy/priorities-2019-2024/european-green-deal/finance-and-green-deal/just-transition-mechanism_en#who-will-benefit.

³European Commission, Just Transition funding sources. Available at: https://commission.europa.eu/strategy-and-policy/priorities-2019-2024/european-green-deal/finance-and-green-deal/just-transition-mechanism/just-transition-funding-sources_en.

core instruments of the green transition. In this sense, we do not intend the typology to be mutually exclusive and/or as marking completely separate historical phases. On the other hand, what is equally evident is that within this ‘layering’ process (Béland 2007), a clear trajectory away from the previously dominant regulatory approach. In addition, tracing the evolving combination of these paradigms within the EU climate policy-making, we argue that as the scope of EU intervention has expanded, social protection has also emerged as a way of compensating for the redistributive effects of the green transition. Such developments challenge traditional debates in the European integration and political economy literature, by shedding light on the ways in which extended social-protection does not necessarily emerge as a way of rebalancing inequalities created by market forces, but can rather work as a form of compensation for the distortions implied in large-scale public intervention.

Methodologically, we map EU discourses and tools as related to climate change, by conducting content analysis of relevant EU institutions’ official papers between the year 2000 and 2024. The selection of the starting point makes sense as it coincides with the EU’s attempt to establish its international leadership on climate change as a result of the US dropping out of the Kyoto Protocol in 2001. Our content analysis gives particular relevance to the Commission’s climate stances. This choice is justified by the fact that the Commission has been described within the literature as a ‘environmental policy entrepreneur’ and a ‘broker’ for climate policies (Durel and Gosselin 2024, 12; Spendzharova 2023), albeit with an increasingly hypocritical role (Knill, Steinebach, and Fernández-i-Marín 2020, 367). In fact, the Commission’s policy-entrepreneurship ‘can largely be thanked for advancement in climate policy’ (Dupont 2019, 375). The EU has become an increasingly unified and cohesive actor in driving the ‘securitisation of climate change’ (Dupont 2019). In addition, there is ample evidence of an increasing pivotal role of the Commission to direct investments in strategic areas (McNamara 2024). Our content analysis is complemented by four semistructured elite-interviews with former and current members of European Commission who have actively worked on climate action (see Appendix A). We have triangulated our findings through the use of policy reports and secondary literature.

II. Mapping EU Climate Policy: Continuity and Change

A Win–Win Approach to Climate Change Until the Late 2000s

Until the late 2000s, the EU climate and energy policy was primarily dominated by a regulatory approach that was guided by a discourse framing economic development and environmental protection as a win–win scenario. As Voß has pointed out, the United State’s withdrawal from the Kyoto Protocol in 2001 served as a critical juncture, which offered a window of opportunity for the EU to reframe the pollution problem ‘from moral condemnation to efficient allocation’ (Voß 2007, 339). Therefore, the storyline of the EU’s climate and energy policy reconciled economic growth and environmental goals to offer a positive-sum game and emphasised the importance of addressing climate issues on the basis of market rationality. This discourse was evident in the EU’s strategic policy documents, particularly the medium-term Environmental Action Programmes (EAPs). For instance, the Sixth EAP stated that the programme ‘makes the link between environment and our European objectives for growth and competitiveness’ and stressed that

‘High environmental standards are also an engine for innovation – creating new markets and business opportunities’ (European Commission, 2001b).

Similarly, the Lisbon Strategy in 2000 stated that the shift to a digital, knowledge-based economy would improve ‘citizens’ quality of life and the environment’ (European Council, 2000), demonstrating the EU’s attempt to reconcile economic growth with sustainable development. A year later, the Gothenburg European Council agreed on the EU Strategy for Sustainable Development (EU SDS) of 2001, emphasising that the EU SDS completed the Union’s commitment to economic and social renewal and added a third, environmental dimension to the Lisbon Strategy (European Commission, 2001a). In 2006, the Strategy was updated, stressing that economic, social and environmental objectives can reinforce each other and they therefore should be pursued together (Council of the European Union, 2006).

During this period, the EU primarily implemented regulatory and market-oriented policy instruments, reflected in a series of directives and legislative packages aimed at establishing liberalised and integrated energy markets across Europe. This was seen as necessary because ‘an integrated EU energy market is the most cost-effective way to ensure secure, sustainable and affordable energy supplies to EU citizens’. (European Commission, 2024c). Two legislative packages were adopted 1996 and 2003 respectively, focusing on building an internal energy market energy and the enhancement of energy efficiency (Jordan et al. 2011). Complementing these market-making efforts, the Union Emissions Trading Systems (ETS) was introduced in 2005. As a cap-and-trade system, the ETS establishes a limit on greenhouse gas emissions for participating sectors, allowing companies to buy and sell emission allowances. This creates a market for carbon, encouraging businesses to seek out the most cost-effective ways to reduce their emissions (Skjærseth and Wettstad 2010). The Commission clearly stated that the ETS was established to ‘promote reductions of greenhouse gas emissions in a cost-effective and economically efficient manner’ (European Parliament and Council of the European Union, 2003, p. 34). Although public authorities established and regulated the ETS, there is a heavy deference to the market rationality: market actors make the decision of pursuing energy efficiency and reducing emissions on the basis of cost–benefit calculations. Therefore, the ETS emerged as a major market-oriented policy instrument that fostered effective measures for reducing carbon emissions while safeguarding the competitiveness of European industry (Voß 2007).

Additionally, the Commission proactively advocated the idea of using eco-taxes to pursue environmental sustainability. For instance, in 2003, the EU adopted the Energy Taxation Directive, which served as a framework for the taxation of energy products (Council of the European Union, 2003). The Directive seeks to reduce distortions of competitions caused by divergent tax rates in Member States on energy products, thereby promoting energy efficiency and emission reductions (Domenech and Bahn-Walkowiak 2019, 13). Despite its limited practical impact because of a lack of the Commission’s competence in taxation, the Directive represented a compelling example of the EU’s use of market-oriented mechanisms as a major component of its climate action.

In the early 2000s, the social dimension of the EU’s climate and energy policy was also seen as achievable mainly through market-oriented instruments. For instance, in *A Sustainable Europe for a Better World: A Europe Union Strategy for Sustainable Development* (European Commission, 2001c), emphasis was placed on market prices as

the major tool to aid the groups impacted by the policy shifts in response to climate change (European Commission, 2001c).

To summarise, until the late 2000s, the EU climate and energy policy was largely dominated by a regulatory approach that emphasised the synergy between economic development and environmental protection. Accordingly, the EU sought to create market incentives compatible with environmental protection goals primarily through market-oriented measures. This included regulations and initiatives to develop a liberalised and integrated market that supported energy efficiency, alongside the introduction of the ETS and the implementation of eco-taxes. During this period, the social dimension of the EU's climate and energy policy was treated as a secondary concern, primarily addressed through market-oriented instruments.

The Period of 'Green Competitiveness', 2009–2018

Beginning in the late 2000s, a competitiveness-enhancing approach became more influential in EU climate and energy policy, emphasising public intervention to boost the competitiveness of green enterprises. The increased role of public intervention within the EU reflected challenges to the Western-dominated neoliberal order at the global level, particularly following the 2008 financial crisis. As Buzan and Lawson (2014, 79) noted, the neoliberal promise of a self-sustaining market proved to be 'a mirage', leading to a gradual rise in the legitimacy of public intervention. Since the late 2000s, major global actors have increasingly emphasised the importance of public intervention in addressing climate crises and the disproportionate impacts of climate risks. For instance, the International Monetary Fund (IMF) states that 'distributive and procedural justice must be at the forefront of every stage of environmental policymaking' and that 'adaptation policies must be implemented to reduce the exposure of the most vulnerable populations to climate change impacts' (IMF 2021).

Consequently, the framing of the significant role of public intervention in boosting the competitiveness of green enterprises—thereby addressing climate concerns—has been used more frequently since the late 2000s. For instance, the Green Paper *A European strategy for sustainable, competitive, and secure energy* emphasises that increasing competitiveness is a key objective of the EU intervention (European Commission, 2006). In 2009, in response to recession across the EU because of the global financial crisis, the European Economic Recovery Plan (EERP) was adopted. It stated that '[a] smart combination of EU policies and funds' was the key to achieving prioritised goals identified in the Lisbon Strategy (European Commission, 2008, p. 10). In a communication on EU energy policy, the Commission argued that investments in energy efficiency and renewable sources were intended to 'create jobs, promoting innovation and the knowledge-based economy in the EU' (European Commission, 2007, p. 4). In the fields of energy infrastructure and low-carbon technologies, it was explicitly stated that the partnership between the public and private sector should be enhanced to carry out major infrastructure and research investments to accelerate the structural shift towards a low carbon economy (European Parliament and Council of the European Union, 2009, p. 13).

EU discourses reflected the growing interpretation of public intervention as crucial for achieving green competitiveness and, conversely, climate objectives. Such a framing differs from the previous win-win scenario discourse. As a result, more interventionist

instruments aiming at boosting public–private partnership and public investment were adopted. For 2009 and 2010, the Commission suggested allocating an additional €5 billion for trans-European energy inter-connections and broadband infrastructure projects. European public banks, including the European Investment Bank (EIB) and the European Bank for Reconstruction and Development (EBRD), played a major coordinating role in managing the financing of these climate-related projects. (European Commission, 2008). In particular, the EIB has emerged as a key financial actor in the EU's climate policy landscape. Already in 2004, it began to set up financial initiatives: the EUR 500 million Climate Change Financing Facility to assist European businesses participating in the EU's Emissions Trading Scheme (European Investment Bank, 2005). In 2007, the EIB started issuing green bonds (Climate Awareness Bond) to fund climate action (European Investment Bank, 2022).

Other interventionist instruments aimed at boosting the competitiveness of green entrepreneurs and decarbonising energy-intensive industries include the Connecting Europe Facility for Energy (CEF-E). Established in 2014, the CEF-E serves as the key funding instrument for targeted energy infrastructures at the European level (European Commission, 2024b). In the same year, the Juncker Commission proposed the Investment Plan for Europe and the European Fund for Strategic Investments (EFSI) (European Parliament, 2015). Among the key growth-enhancing areas targeted by the EFSI, several climate and energy-related sectors stood out, including energy, digital and environmental infrastructure, as well as renewable energy and energy efficiency (European Commission, 2024j). The Commission explicitly noted that in these critical areas, the use of financial instruments under the EFSI is essential. (European Commission, 2024j).

Meanwhile, the social dimension of climate and energy policy started to gain more relevance. As early as 2015, for instance, the European Parliament proposed that the Emissions Trading Scheme mechanism should be used for ensuring a 'just transition' in territories and communities that were affected by the green transition (Pollock, 2022). In 2018, in the Commission's communication on a *Clean Planet for All*, there is a clear recognition of the need to ensure social protection of coal-dependent communities: 'Both the EU and the Member States must take into account social implications from the outset and deploy all relevant policies to the fullest to mitigate this challenge' (European Commission, 2018: 20). However, the concrete measures to ensure social protection were often vague and poorly defined. Many initiatives were expressed in general terms, such as: '[e]nsure that the transition is socially fair. Coordinate policies at the EU level with those of Member States, regional, and local governments to facilitate a well-managed and just transition that leaves no region, community, or worker behind' (European Commission, 2018: 24). Consequently, despite an increasing recognition of the need to address the social implications of climate and energy policy, no concrete measures were developed, and the EU's approach to climate and energy policy continued to prioritise competitiveness over social protection.

It is noteworthy that, despite the prevalence of the competitiveness-enhancing approach, regulatory and market-oriented instruments remained critical in the EU's efforts to achieve climate goals during this period. One notable example was the further effort to establish liberalised and integrated energy markets across Europe. The Third Energy Package, adopted in 2009, aimed at improving the functioning of a more liberalised internal energy market (European Commission, 2024e). Another example is the EU's first

circular economy action plan (CEAP) adopted in 2015, which was a comprehensive body of legislative and non-legislative actions to transform the European economy into a circular model (European Commission, 2024f).

In summary, between the late 2000s and 2019, alongside the use of traditional regulatory and market-oriented tools, the EU's climate and energy policy gradually shifted towards a competitiveness-enhancing approach. This shift emphasised the role of public intervention in boosting competitiveness and productivity within the green economy. European public banks, including the EIB and the EBRD, emerged as crucial actors, and various funding instruments were adopted to enhance public investment and boost public–private collaborations. During this period, the social dimension of the EU's climate and energy policy did not see the development of concrete measures, and social concern remained largely outside of the central agenda.

Making the Green Transition 'Just', 2019–2024

The adoption of the European Green Deal (EGD) in 2019 can be interpreted as marking the emergence of the compensatory approach, which recognises the distortions resulting from the green transition and the need to compensate for them. The emergence of this approach should be contextualised within a shifting economic and political landscape. Firstly, social movements across Europe highlighted the urgency of addressing the social implications of the green transition. For instance, the Yellow Vests protests, which began in France in October 2018, brought socio-economic inequalities exacerbated by the green transition to the forefront of the European climate agenda. This movement raised public awareness of social inequality in the context of climate action (Kyriazi and Miró 2023, 117). Secondly, deep divides among Member States regarding the pace of progress towards the EU's climate targets became apparent. For example, Poland, governed by the Conservative-nationalist Law and Justice party, is one of the least environmentally minded EU member states (Ibid.). The need to address Polish resistance in climate policy development has pressured EU institutions to consider the needs of Member States that might be left behind in the context of the green transition.

Our argument is that social protection emerged as the result of increasing ambitious regulatory and competitive-enhancing plans. Ursula von der Leyen, who took office in December 2019, framed the need to develop the European green industry as integral to European identity in the twenty-first century (Prontera and Quitzow 2022, 522). This emphasis can be partly explained by von der Leyen's need to win 'green votes' and her status as a 'true believer in the green transition' (Interview 3). As a result, the new Commission 'has been by far the greenest' in EU's history (Interview 2). The EGD seeks to establish Europe as the first climate-neutral continent by 2050, proposing to raise the EU's 2030 greenhouse gas emission reduction target from 40% to at least 55% (European Commission, 2024a).

As part of this effort, the scope of regulatory and market-driven policy instruments dedicated to the green transition has been extended. For instance, two energy legislative packages were adopted in 2019 and 2024 respectively. They aim at further improving the functioning of the EU internal energy market and aligning the Union's energy targets with its net-zero climate ambitions (European Parliament, 2024). Additionally, the Emission Trading System (ETS) remains central to the EU's decarbonisation agenda. In June

2023, the EU adopted a landmark reform of the ETS to achieve a more ambitious reduction target (Internal Carbon Action Partnership, 2023). The new emission trading system (the so-called ETS2) is designed to tackle CO₂ emissions from fuel combustion in buildings, road transport and other sectors, particularly smaller industries not included in the previous ETS (European Commission, 2024d). Another vital market-oriented policy instrument within the regulatory approach is the EU taxonomy. The Taxonomy Regulation, which entered into force in July 2020, classifies economic activities that contribute to environmental objectives.³ In this way, it contributes to 'helping the EU scale up sustainable investment, by creating security for investors, protecting private investors from green-washing, helping companies become more climate-friendly and mitigating market fragmentation'.⁴

The von der Leyen Commission has also scaled up the focus on pro-actively increasing the competitiveness of the green sector. The EGD represents an important vehicle for economic growth to be delivered through a set of 'deeply transformative policies' (Čavoški 2020, 1112). The Green Deal has *de facto* become the EU's 'growth strategy', involving a 'massive shift in the economy' (Interview 2). In particular, 'Fit for 55', a set of policy-proposals presented by the Commission to prepare for the implementation of the EGD, 'has created a very predictable environment for the economy' (Interview 2), making it easier for economic actors to adapt. As a result, the competitiveness-enhancing instruments were strengthened during this period. The European Green Deal Investment Plan (EGDIP), released in January 2020, underscores that transition to a climate-neutral economy requires substantial public and private investments to ensure a cost-effective, equitable and socially balanced transition (Prontera and Quitzow 2022, 522). Furthermore, the EGDIP proposed that the European Investment Bank act as the Union's 'climate bank', gradually increasing its financing dedicated to climate action. It initially planned to mobilise at least €1 trillion in sustainable investments (European Commission, 2020e). In light of the COVID-19 crisis, the demand for enhanced public sustainable investment has intensified. Building on the EGDIP, the Commission swiftly developed the NextGenerationEU package, with the Recovery and Resilience Facility at its core. This facility allocated €672.5 billion to support investments in Member States, with 37% earmarked for climate-related initiatives (European Commission, 2020d).

Recognising the redistributive distortions implied in the extension of regulatory and competitive-enhancing instruments, the EGD puts unprecedented emphasis on the social dimension of the EU's climate and energy policy. It explicitly states that the green transition 'must be just and inclusive' and '[a]ll EU actions and policies should pull together to help the EU achieve a successful and just transition towards a sustainable future'. (European Commission, 2019: 19). The focus on social justice within the green transition process is central to von der Leyen's political agenda. As she noted, '[i]n this transition, we must recognise and respect that we do not all start from the same point. We all share the same ambition but some may need more tailored support than others to get there' (European Commission, 2020b: 6). In a similar vein, the 2020 Communication titled *A Strong Social Europe for Just Transition* states that '[i]t is our social strategy to ensure that the

³European Commission. Available at: https://finance.ec.europa.eu/sustainable-finance/tools-and-standards/eu-taxonomy-sustainable-activities_en.

⁴Ibid.

transitions towards climate neutrality, digitalization, and demographic change are socially fair and just' (European Commission, 2020a), underscoring the EU's commitment to fostering both environmental and social sustainability. Similarly, the Communication on the *Sustainable Europe Investment Plan: European Green Deal Investment Plan* highlighted that climate neutrality necessitates structural changes in business models and new skill requirements (European Commission, 2020c). This aspect must be addressed in the green transition to ensure that no one is left behind (European Commission, 2020c). Later, the 2021 *Proposal for a Council Recommendation on Ensuring a Fair Transition Towards Climate Neutrality* emphasised that fairness and solidarity are defining principles of the European Green Deal, proposing to intertwine social, employment and environmental policies.

These communications and proposals highlight the EU's growing awareness of the potential distortions arising from its climate and energy policies. Accordingly, the EU has increasingly aimed at addressing these distortions and promoting social equity in the green transition. For example, the Just Transition Mechanism (JTM) is a key tool to ensure the transition towards a climate-neutral economy is fair and just. It provides support to help mobilise around €55 billion over the period 2021–2027 in the most affected regions across the EU, mitigating the socio-economic impact of the transition (European Commission, 2024k). Under the umbrella of the JTM, three financial pillars jointly contribute to address the social and economic effects of the transition and achieve social justice, namely the Just Transition Fund, InvestEU 'Just Transition' scheme and a Public Sector Loan Facility (European Commission, 2024k). Through the JTM, the EU seeks to mitigate the redistributive impacts of decarbonisation by directing resources to the regions and sectors most affected (Dupont, Oberthür, and von Homeyer 2020, 1101; Kyriazi and Miró 2023, 113). Frans Timmermans, Executive Vice-President for the European Green Deal, articulated this commitment by stating that '[t]he necessary transition towards climate neutrality will require more efforts from citizens, sectors, and regions that rely more on fossil fuels than others. The JTM will help and support those most affected. This is our pledge of solidarity and fairness' (European Commission, 2020e). Furthermore, the Commission streamlined some previously existing instruments in the programming period 2014–2020, including the European Social Fund (ESF), the Youth Employment Initiative, the Fund for European Aid to the most Deprived (FEAD), the EU programme for Employment and Social Innovation (EaSI), into the European Social Fund Plus (ESF+). The ESF+ more directly supports a just transition and serves as the main instrument for investing in people, ensuring a fair, inclusive and opportunity-rich Europe (European Commission, 2024m). In particular, under the umbrella of the ESF+, the EU is investing around €65 billion in jobs and skills across Europe to prepare workers for the green and digital transitions (European Commission, 2024l). Additionally, the Social Climate Fund (SCF) was introduced as a new tool to support vulnerable groups most affected by the higher fuel prices resulting from a new emission trading system, the ETS2 (European Council, 2024n). It allocates €72.2 billion to support low-income groups in adopting green technologies (Kyriazi and Miró 2023, 113). In particular, it aims at ensuring that the 'most affected vulnerable groups [...] are directly supported, and not left behind during the green transition' (European Commission, 2024i). As specified by one of our interviewees, the Social Climate Fund is the first attempt at 'targeting individual needs' (e.g., insulating homes; Interview 2). This is crucial because 'rich people can

insulate their homes ... poor people do not have that. If they want to buy heat pumps, they can't because their homes are poorly insulated. This means that they become more dependent on fossil fuels and do not have access to cheaper energy' (Interview 2).

To summarise, beginning in the late 2010s, alongside the extension of regulatory and competitive-enhancing frameworks, a compensatory approach emerged, which acknowledges the distortions resulting from the green transition and emphasises the important role of interventionist tools to address them. During this period, the social dimension of the EU's climate and energy policy has taken central stage. Consequently, a wide range of instruments, including the Justice Transition Mechanism, the European Social Fund Plus (ESF+) and the Social Climate Fund (SCF), has been adopted to mitigate the social distortions resulting from the green transition and to promote social protection.

Conclusion

Historically tracing the discourses and instruments employed in the EU's climate and energy policy since the early 2000s, this study challenges the conventional scholarly focus that primarily looks at the EU through the frameworks of the regulatory and interventionist state. We argue instead that the EU's approach to climate and energy policy is better understood as a 'layering' process, introducing a new dimension—a compensatory approach with a focus on social aspects of green transition. We have highlighted an increasing role of interventionist frames within European discourses and policies, analogous to what has happened in other policy realms (e.g., digital services; see Heidebrecht 2024). As the realms of intervention have increased, so has the EU's emphasis on the need to provide social protection for the part of the population that has more to lose from a large-scale transition. In this sense, our framework casts doubts on the criticisms of EU approaches to climate change which suggest that Europe tends to give priority to growth over welfare (Crespy and Munta 2023).

Our analysis further integrates the recent scholarship in EU studies, which has placed increasing emphasis on interventionist approaches while so far neglecting how social protection fits within this process. The Compensatory State points to a form of governance that, by setting itself ambitious goals which (if implemented) would have widespread effects on large portions of the population, needs to produce equally extended forms of compensation. The realisation that in order 'to get climate action you need a fully integrated policy-agenda across all sectors' (Interview 1), ultimately led to place increasing emphasis on the possible redistributive effects of the green transition. Table 2 summarises the evolution of the instruments employed by the EU during the period analysed and their link to our typology.

Further research into the synergies between the discourses and policy instruments associated with each approach would enhance our understanding of policy effectiveness within the EU. Our findings reveal the dominant discourses and corresponding policy instruments linked to each approach, raising the question of whether these instruments align with their respective discourses.

The paper suggests that extended social-protection does not necessarily emerge as a way of rebalancing inequalities created by market forces, but can be rather work as a form of compensation for the distortions implied in large-scale state intervention. Future research could thus also employ the typology to investigate the extent to which similar

Table 2: Policies associated with Regulatory, Competitive-enhancing and Compensatory approaches.

	<i>2000s</i>	<i>2010s</i>	<i>2020s</i>
Regulatory and market-oriented	<ul style="list-style-type: none"> • 2nd Energy Package (2003) • The Energy Taxation Directive (2003) • Emission Trading System (2003) • 3rd Energy Package (2009) 	<ul style="list-style-type: none"> • The first circular economy action plan (2015) • 4th Energy Package (2019) 	<ul style="list-style-type: none"> • The new circular economy action plan (CEAP) (2020) • The Taxonomy Regulation (2020) • European Climate Law (2021) • The establishment of ETS2 (2023) • 5th Energy Package (2024)
Competitiveness-enhancing		<ul style="list-style-type: none"> • Climate Awareness Bond (2007) • The Connecting Europe Facility for Energy (CEF-E) (2014) • Investment Plan for Europe & European Fund for Strategic Investments (2015) 	<ul style="list-style-type: none"> • European Green Deal Investment Plan (EGDIP) (2020) • The NextGenerationEU Package (2020)
Compensatory			<ul style="list-style-type: none"> • Just Transition Mechanism (2020): the Just Transition Fund, InvestEU Just Transition Scheme (JTS) and a Public Sector Loan Facility (PSLF) • Social Climate Fund (2023)

dynamics are implied in other aspects of European integration and beyond. For instance, a compensatory approach to policy-making could be identified in the management of the Covid-19 pandemic, where generalised restrictions on social and economic activities was accompanied by the need to ensure equally generalised forms of social protection. Scholars could build on our proposed framework to study how the EU and other international actors act on different emergencies and crises developing mutating balances of the private–public nexus.

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Interviews

Interview 1: Adviser for Climate change and Resilience within the European Commission, 17 June 2024.

Interview 2: member of the Cabinet of Executive Vice-President of the European Commission, 9 July 2024.

Interview 3: former DG Trade EU Commissioner, 24 May 2024.

Interview 4: former DG Trade EU Commissioner, 4 June 2024.