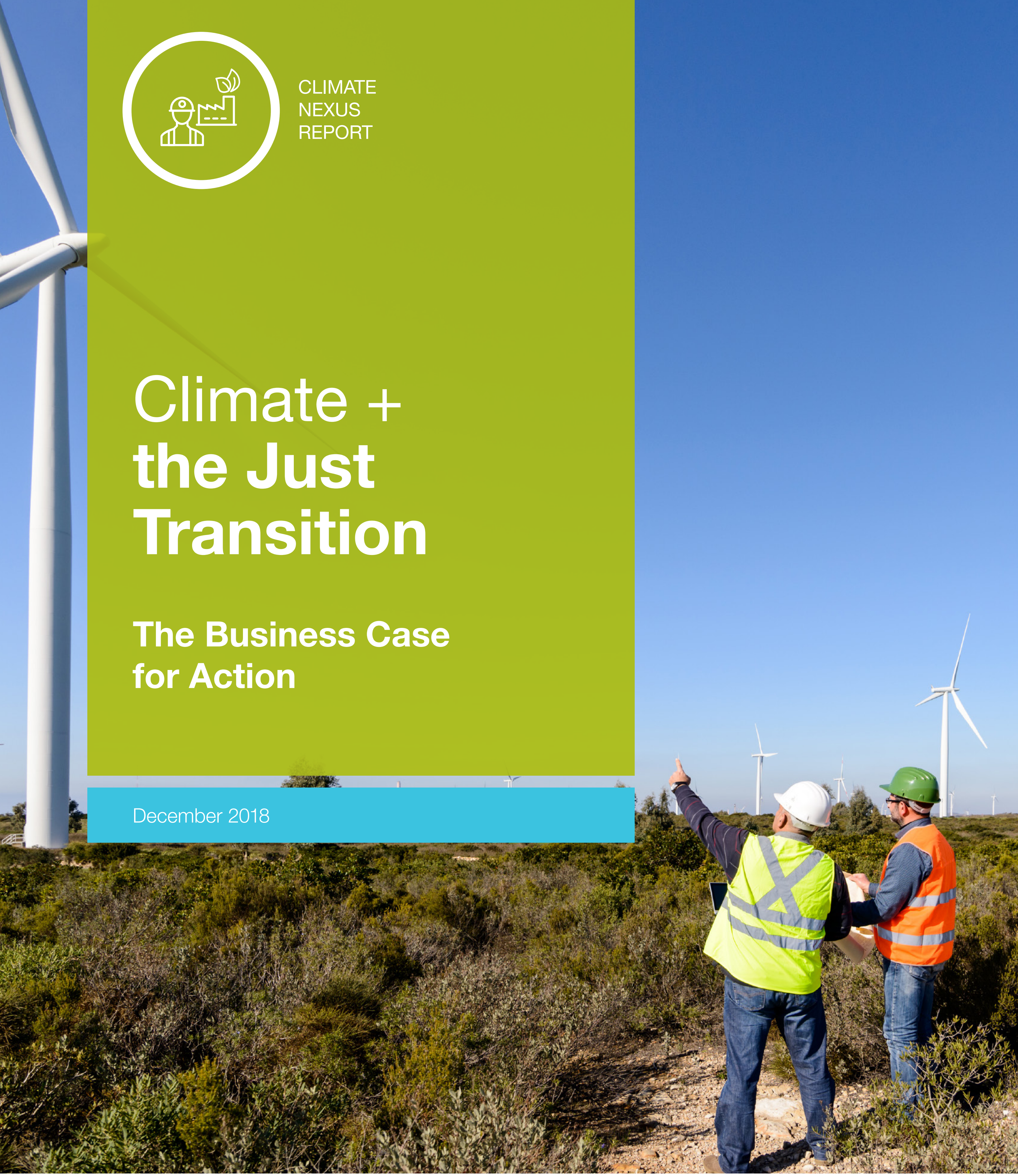
CLIMATE
NEXUS
REPORT

Climate + **the Just Transition**

The Business Case for Action

December 2018



WE MEAN BUSINESS

BSR

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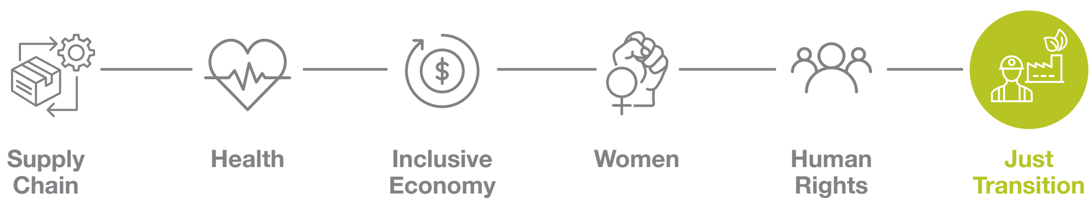
About this Report

Climate change affects every human around the globe, with profound implications for economic opportunity, social justice, and human rights. Health-related stresses; competition for natural resources; and the impacts on livelihoods, hunger, and migration warrant immediate global action. Indeed, rising attention to climate change coincides with fundamental changes in technology, the nature of employment, and the social contract. Only by considering these issues together can we develop effective solutions.

This report is part of a series of six climate nexus reports that cover human rights, inclusive economy, women's empowerment, supply chain, just transition, and health. All papers in this series are aimed at business to drive resilience inside their company, across supply chains, and within vulnerable communities. The reports address issues that are material to business, vital in the current political environment, and key to building resilience.

This report examines the concept of the "just transition" to the low-carbon, climate-resilient economy. It provides recommendations for business on how to reduce greenhouse gas (GHG) emissions, while enabling economic vitality and ensuring adherence to global labor standards; how to enhance climate resilience for communities; and how to cultivate effective participation in the social dialogue, which will accelerate such a transition.

This report is part of a series of six **climate nexus reports** that cover:



The paper also seeks to unify discourse among practitioners across the three strands of the just transition: emissions reductions, resilience to climate risks, and the creation of decent work. It does this by creating a shared vocabulary for corporate action and by helping different communities become fluent in the frameworks and terminology used by others. Working at the nexus between these three strands provides an opportunity for a more integrated and therefore more effective approach to corporate sustainability.

While this paper focuses on private-sector action, it is important to note the rise of the just transition in the political decision-making agenda. The building blocks for the just transition emerged in 2015. The landmark Paris Agreement on climate change urges governments to take into account the imperatives of a just transition of the workforce and the creation of decent work and quality jobs in accordance with nationally defined development priorities.[1] Also in 2015, the International Labour Organization (ILO) published guidelines for a just transition toward environmentally sustainable economies and societies for all with a focus on the "decent work agenda," consisting of social dialogue, social protection, rights at work, and employment.[2] Last but not least, the UN Sustainable Development Goals

(SDGs), adopted in 2015, collectively represent the agenda of the just transition.[3] Together, these global frameworks comprise carbon, climate-resilient, and inclusive economies.

This research draws on a wide range of documentary sources, including scientific literature on climate impacts, economic and development literature covering the financial aspects of climate change, and literature focused on the social elements of climate change. The report benefited from interviews conducted with dozens of companies as part of BSR's work on climate risk and resilience, which is funded by the International Development Research Centre (IDRC), a crown corporation of the government of Canada.

The report is aimed at decision-makers inside companies and is intended to aid greater alignment across sustainability priorities, improved resilience for companies, and positive impact on global socio-ecological systems.

Please direct comments or questions to David Wei at **dwei@bsr.org.**

ACKNOWLEDGMENTS

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DISCLAIMER

BSR publishes occasional papers as a contribution to the understanding of the role of business in society and the trends related to corporate social responsibility and responsible business practices. BSR maintains a policy of not acting as a representative of its membership, nor does it endorse specific policies or standards.

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Climate + the Just Transition

The Nexus

The Paris Agreement on climate change requires a transition to a net-zero GHG economy in the second half of this century. By recognizing the need for "a just transition of the workforce and the creation of decent work and quality jobs," it acknowledges that the shift to a clean-energy economy is disruptive for some people and communities, in spite of the profound shared benefits of a low-carbon energy system.

The OECD estimates that a decisive transition package could boost long-run output by

5% across the G20 countries by 2050.[*]

The Business Case

Individual companies that implement a just transition will better manage the risks from a transition to the low-carbon economy and capitalize on related opportunities.

RISKS

Policy/Legal Risk:
- Potential labor law violations and related legal action.
- Misalignment with future increases in carbon price.

Technology Risk:
- Increased cost of retraining or hiring plans due to technological shifts.
- Reduced knowledge and insight from lack of consultation.

Market Risk:
- Increased cost of tackling market risks reactively.

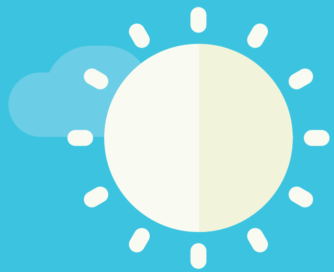
Reputational Risk:
- Negative impacts to worker recruitment and retention and/or brand and customer perception.

OPPORTUNITIES

Most studies indicate that climate policies can result in net employment gains of 0.5–2 percent, or 15–60 million jobs globally,[**] with the ILO estimating a net increase of 18 million jobs.[***]

By investing in the just transition, businesses can:

- **Help shape regulations and legal reforms** with governments and unions.
- **Grasp new commercial and technical opportunities** through reskilling and retraining.
- **Increase employee productivity, creativity, and flexibility** through good workforce relations.
- **Facilitate adjustments in wages and working time** through the implementation of social dialogue.
- **Improve customer loyalty and brand recognition.**
- **Improve their social license to operate** with the creation of green jobs.



Enel, an Italian electricity company operating in more than 30 countries, committed to decarbonize its energy mix by 2050.

To implement this commitment—**which includes the closure of 13 gigawatts of thermal power stations in Italy, as well as the expansion of renewable energy**—Enel engaged workers, unions, local government, business, and communities to develop plans for new economic development post-closure.****

Enel also established a global framework agreement with its global sectoral unions and a just transition agreement with its Italian unions, including:

- A commitment to respecting human rights and fair labor practices.
- Apprenticeships to transfer knowledge from elderly to young workers.
- A commitment to retention, retraining, and redeployment.
- Early pension for older workers.

Recommendations

Business can make an invaluable contribution to the just transition.

ACT

Businesses can act within their own operations through assessing and disclosing climate risks and opportunities. This includes disclosing the risk of economic and employment dislocation; committing to jobs that are green and decent; and procuring renewable energy in accordance with human rights and labor standards.

ENABLE

Businesses can enable a just transition through social **dialogue** and **stakeholder engagement.** This should be built in partnership with workers and their representatives, as well as other relevant stakeholder groups.

INFLUENCE

Businesses can influence the **emerging policy environment** for low-carbon, climate-resilient, and inclusive development, which is essential to counter inaccurate arguments that climate action results in economic vulnerability and job losses.

* http://www.oecd.org/env/investing-in-climate-investing-in-growth-9789264273528-en.htm

** https://www.ilo.org/wcmsp5/groups/public/---ed_emp/---gjp/documents/publication/wcms_536552.pdf

*** https://www.ilo.org/weso-greening/documents/WGEX_EN.pdf

**** http://www.bteam.org/announcements/just-transition-a-business-guide/; https://www.enel.com/stories/a/2017/11/COP23-reinforces-the-climate-change-commitment

Executive **Summary**

The Paris Agreement on climate change attempts to prevent uncontrolled climate impacts by requiring a transition to a net-zero GHG economy in the second half of this century. By recognizing the need for "a just transition of the workforce and the creation of decent work and quality jobs," it acknowledges that the shift to a clean-energy economy is disruptive for some people and communities, irrespective of the profound, shared benefits of a low-carbon energy system.

Attention to the economic impacts on people and communities will ensure that the political will to take climate action remains intact. On the other hand, if climate action is understood to create economic vulnerability, the political capital needed to take decisive action—already in short supply in some places—will be insufficient to tackle climate change.

The **just transition** is an economy-wide process that produces the plans, policies, and investments that build resilient economies and communities with green and decent jobs.[4] This requires job creation through seizing **new economic opportunities**, while **reducing the disruption** people and communities face in the transition away from high-carbon business models. A just transition that achieves these objectives will generate economic vitality and stability. And individual companies that contribute to a just transition will better manage the risks from a transition to the low-carbon economy and capitalize on related opportunities.

Businesses can make an invaluable contribution to the just transition by acting within their own operations, enabling a just transition through social dialogue and stakeholder engagement, and influencing the emerging policy environment on the just transition.

ACT within your own operations.

- Assess and disclose climate risks and opportunities, including the risk of economic and employment dislocation.
- Develop strategies to seize the employment-generating opportunities of the low-carbon economy.
- Commit to jobs that are green and decent, and procure renewable energy in accordance with human rights and labor standards (e.g., through the Pledge for a Just Transition to Decent Jobs).[5]

ENABLE a just transition through social dialogue and stakeholder engagement.

- Commit to social dialogue with workers and their representatives.
- Commit to broader stakeholder engagement.

INFLUENCE the emerging policy environment on the just transition.

- Promote a regulatory environment that supports low-carbon, climate-resilient, and inclusive development.

The cost of failure to implement a just transition to a low-carbon, climate-resilient economy is immense. The United Nations Development Programme (UNDP) estimates that the annual costs of building climate resilience could range from US$140 billion to US$300 billion by 2030, and between US$280 billion and US$500 billion by 2050—even as public investment in resilience totaled a mere US$25 billion in 2014.[6] The benefits of a just transition are equally great. Most studies indicate that climate policies can result in net employment gains of 0.5–2 percent, or 15–60 million jobs globally,[7] with the ILO estimating a net increase of 18 million jobs.[8] Companies can maximize opportunities from the shift to clean energy, and manage worker and community dislocation, by promoting policies that assist with the transition and skill development.

The choice, then, is clear: climate impacts, whose cost is an order of magnitude beyond public investment, or a just transition, which will generate economic vitality and a net gain of millions of jobs.

The **Nexus**

The Paris Agreement on climate change explicitly speaks to "the imperatives of a just transition of the workforce and the creation of decent work and quality jobs." The just transition is an economy-wide process that produces the plans, policies, and investments that build resilient economies and communities with green and decent jobs.[9] We assert that these objectives—economies and communities that are resilient to climate change, and green and decent jobs—are inextricably intertwined and are achieved by a just transition.

The Economic Opportunities of the Just Transition

Without action, uncontrolled climate impacts on economic growth, jobs, health, and livelihoods will be severe. To avoid these impacts, it is essential to reach net-zero emissions in the second half of this century, as stipulated by the Paris Agreement.

Conversely, by implementing a just transition, we can shift to a net-zero economy driven by investments in clean energy and energy efficiency, which creates economic growth and supports jobs, good health, and livelihoods. The evidence suggests that job creation outweighs the risks of job losses, and business action is a central way to make this vision a reality. And by working with governments, business can help enable new economic opportunities and smooth the transition for workers and communities, seizing the substantial growth and employment potential of a low-carbon economy.[10]

The just transition represents an opportunity to leverage climate action to generate economic opportunity that is good for people and good for business. There is considerable evidence showing that the transition to a low-carbon economy will generate higher labor demand across many sectors of the economy. For example, new jobs will be created as a result of investments in renewable energy, energy efficiency, organic agriculture, rural infrastructure, agricultural productivity, and measures to adapt to climate change.[11] Most studies indicate that climate policies can result in net employment gains of 0.5–2 percent, or 15–60 million jobs globally,[12] with the ILO estimating a net increase of 18 million jobs.[13]

In addition, corporate commitments to renewable energy present a further opportunity to enable a just transition by making labor standards an explicit and enforced part of renewable-energy procurement. The transition to a low-carbon economy also presents an opportunity for businesses to contribute to 21st century skill development, and to collaborate with other businesses, governments, trade unions, and civil society to support these goals.

Managing Increased Climate Risks

Attention to the building blocks of a just transition is an essential element of managing climate change, which presents material risks to the private sector, with profound implications for the overall economy, company operations, and value chains. As it has in the past several years, the World Economic Forum (WEF) 2018 *Global Risks Report* identifies extreme weather events, natural disasters, and failure to address climate change as among the most likely and impactful risks companies face.[14] Without a transition to the low-carbon economy, uncontrolled climate impacts will damage infrastructure; disrupt business activity; and destroy jobs, livelihoods, and communities.[15] This risk undergirds the Paris Agreement's long-term goal to hold warming well below 2°C, and to pursue efforts to limit warming to 1.5°C above pre-industrial levels.[16]

The private sector is currently ill-equipped or falling short when it comes to managing these risks. According to recent research, 72 percent of suppliers stated that climate risks could significantly impact their business operations, revenue, or expenditure. But only half of these suppliers said they are currently managing this risk.[17]

The recommendations of the Task Force on Climate-related Financial Disclosures (TCFD), which now boast more than 500 supporters,[18] classify some climate risks as resulting from direct physical changes to the environment. Others are indirect and result from our collective response to climate change and the transition to a low-carbon economy.[19] Today, the major sustainability reporting frameworks (CDP, SASB, and GRI) are aligning their approaches with the TCFD recommendations, which is creating more consistency across the sustainability reporting landscape and removing a pain point for practitioners.

The Paris Agreement recognized that in order to hold global warming well below 2°C, we would need to reach net-zero global emissions "in the second half of this century," which is between 2050 and 2100.[20] A recent special report from the Intergovernmental Panel on Climate Change (IPCC) is equally clear that to hold warming below 1.5°C, we will need to reach net-zero global emissions at the front end of this range, by 2050.[21] Whether we contend with a world with 1.5°C or 2°C of warming (or more) corresponds to when we reach net-zero global emissions.

As the IPCC's special report shows, this effort is worth making. At warming of 2°C compared to 1.5°C, millions more people will be at risk of flooding, and we face increased risks to health, livelihoods, food security, water supply, human security, and economic growth.[22] In this context, climate resilience is defined as "the ability of a system and its component parts to anticipate, absorb, accommodate, or recover from the effects of a hazardous event in a timely and efficient manner."[23]

A resilient business is one that tackles the physical and transition risks that climate change presents, and builds resilient communities along its value chain.

Companies across the globe are therefore adopting corporate climate strategies in line with the Paris Agreement objectives. At the time of writing, 498 companies had committed to setting science-based targets, which are aligned with a global emissions trajectory of below 2°C. The number of companies making this commitment increased 40 percent over the previous year.[24] In addition, 154 companies have set a target under the RE100 initiative to procure 100 percent renewable electricity by a specified target year.[25] A group of companies have also committed to net-zero GHG emissions by 2050 across all scopes, which is consistent with holding warming below 1.5°C. They have also agreed to engage in comprehensive, consistent, and transparent annual reporting, while advocating for policy that supports an economy-wide transition to net-zero GHG emissions by 2050.[26]

Green and Decent Jobs

In 2015, the ILO published guidelines for a just transition toward environmentally sustainable economies and societies for all, establishing four pillars that provide a foundation for the "decent work agenda." These are social dialogue, social protection, rights at work, and employment.[27]

Strong social consensus is fundamental to the just transition. This is why **social dialogue** is a critical component of the just transition. The ILO defines social dialogue as including all types of negotiation, consultation, or simply the exchange of information between, or among, representatives of governments, employers, and workers, on issues of common interest relating to economic and social policy. The enabling conditions for social dialogue are strong, independent representative workers' and employers' organizations with technical capacity and access to relevant information, political will and commitment to engage in good faith in social dialogue by all, respect for the fundamental rights of freedom of association and collective bargaining, appropriate institutional support, and recognition that all social partners are equal.[28]

Social-protection systems include policies and programs to reduce poverty, deprivation, and vulnerability by helping people manage various risks.[29] Governments are primarily responsible for ensuring access to social protection, but businesses can contribute to social protection by ensuring healthcare benefits and retirement security for workers; paying their fair share of taxes to support the public purse; advocating for income support; providing pensions and unemployment benefits; and working with governments to ensure that the cost of the transition is not passed on to low-income populations, either through higher energy costs or reduced access to affordable energy.[30]

Respect for international human rights norms, and, in particular, adherence to global labor standards, are central to the just transition.[31] Since 2011, the private sector has embraced the challenge of implementing the United Nations Guiding Principles on Business and Human Rights (UNGPs), which provide guidance on understanding and managing human rights impacts connected to business operations. The UNGPs reiterate the state duty to protect against human rights abuses by third parties, including business, through appropriate policies, regulation, and adjudication; establish the corporate responsibility to respect human rights, which means to act with due diligence to avoid infringing on the rights of others and to address adverse impacts that occur; and establish the duty to provide access to effective remedy for victims.[32]

The ILO predicts that **employment** will be affected in four ways as climate policies and corporate leadership define a low-carbon economy:

01

The expansion of greener products, services, and infrastructure will translate into higher labor demand across many sectors of the economy and associated new jobs. The Paris Agreement anticipates significant investments over the coming 15 years, with as much as US$13 trillion mobilized to support clean energy alone.[33] This can become a strong driver of job creation, job upgrading, social justice, and poverty eradication.[34]

02

Some existing jobs will be substituted through shifts to a low-carbon economy. Examples include shifts from truck-based transportation to rail, from internal combustion engine manufacturing to electric vehicle production, or from landfilling to recycling and refurbishing. These changes have implications for occupational profiles and skill requirements.[35] The transition can be particularly challenging for low-skilled workers and migrant workers, as it will be difficult for them to upskill to compete for new jobs. In addition, locations losing employment may not be among the vanguard of those creating new jobs.[36]

03

Certain jobs or sectors may be eliminated—either phased out or massively reduced in numbers. This is particularly acute for fossil fuel producers and carbon-intensive industries or practices. The continued large-scale mining and burning of coal, in particular, is incompatible with a stable climate. Industries with large supply chains, especially those dependent on agribusiness, will also be affected by efforts to decarbonize. Employment levels are also increasingly diminished due to mechanization and changing consumer demands.[37]

04

Many and perhaps most existing trade jobs (e.g., plumbers, electricians, metal workers, and construction workers) will simply be transformed and redefined as day-to-day workplace practices, skill sets, work methods, and job profiles are greened. For example, automobile workers will produce more fuel-efficient (or electric) cars, and farmers will apply more climate-appropriate growing methods.[38]

The collaborative development and implementation of just transition plans can help companies seize low-carbon opportunities, while minimizing dislocation to workers and communities.[39] Social dialogue with workers and broader stakeholder engagement can shed light on how to best manage transition risks. Collaboratively developed plans can create decent jobs while reducing GHG emissions—for example, by providing for retention, reskilling, and redeployment for workers, or through investments in the renewal and economic diversification of communities.

The **Business Case**

Through the just transition, the shift to a net-zero economy can be a powerful engine for job creation, business innovation, and strong and resilient national economies. Businesses that implement this vision will better manage their climate risks and capitalize on climate opportunities.

A Just Transition Generates Economic Vitality and Stability

Failure to make a just transition to a net-zero economy would impose unacceptable costs to businesses and their suppliers, employees, customers, and communities along the value chain. The UNDP estimates that the annual costs of building climate resilience could range from US$140 billion to US$300 billion by 2030, and between US$280 billion and US$500 billion by 2050. Nonetheless, public investment in resilience totaled a mere US$25 billion in 2014.[40] Over the past 30 years, an estimated US$1 out of every US$3 spent on development has been lost to extreme climate events—a cost of US$3.8 trillion worldwide.[41]

At the same time, failure to plan for and collaboratively address the social and economic dimension of the transition will slow it down, increasing the cost of climate impacts, and reducing our political will to take decisive climate action. It would also increase the social costs of the transition, potentially increasing inequality and making economic growth less sustainable. In contrast, a just transition will generate economic vitality and stability. The OECD estimates that a decisive transition package could boost long-run output by 5 percent across the G20 countries by 2050.[42]

> “We are facing a huge transformation process, but we can’t face it without the involvement of all the stakeholders. One of them, importantly, is our employees and their unions.”
>
> **—CRISTINA COFACCI, ENEL’S INDUSTRIAL RELATIONS AND LABOUR LAW MANAGER**

A Just Transition Helps Companies Manage Climate Risks and Seize Climate Opportunities

Individual companies that implement a just transition will better manage the risks from a transition to the low-carbon economy and capitalize on related opportunities.

The TCFD puts the risks from the transition to a net-zero economy into four categories. Implementing a just transition improves the management of these risks, even if it is far from the whole solution.

POLICY AND LEGAL RISKS result from a number of sources: policies to reduce GHG emissions, such as carbon markets, carbon taxes, or policies that indirectly impose a carbon price; policies that promote resilience to physical climate risks; and climate-related legal action brought before the courts. These increase costs related to GHG emissions, driving up the price of high-carbon energy inputs, and thereby triggering the social impacts of the transition to a low-carbon economy.

TECHNOLOGY RISKS come from new production, transportation, information, and other technologies that dramatically affect entire value chains. Climate change is but one of the profound changes reshaping our economy. For example, artificial intelligence and automation are set to disrupt how we work. A just transition helps account for how interlocking climate and technological disruptions affect the economy.

MARKET RISKS arise as climate change affects customer demand for various types of goods and services. For example, reduced snowfall in mountainous areas has resulted in fewer tourists and reduced sales for winter sports. Customers are also increasingly accounting for climate action when making purchases, as evidenced by the growing interest in low-carbon transportation,[43] companies testing the market for "carbon neutral" electronics,[44] and the risk that climate change may lead to the reevaluation of coastal real estate prices.[45]

REPUTATIONAL RISKS arise because a company's engagement may affect its brand reputation and prospects for future business. Customers may become increasingly concerned about buying from companies that do business with heavy emitters or with companies that do not support community resilience in their supply chains. Climate advocates are also increasing awareness by publicly criticizing industries and companies that are slow to act on their supply chain.[46]

The business case for the just transition builds on managing these risks and the benefits of taking action.[47]

TCFD TRANSITION RISK TYPE	COSTS ASSOCIATED WITH RISK	BENEFITS OF TAKING ACTION
Policy/Legal	• Risk of labor law violations and related legal action. • Misalignment with future increases in carbon price.	• Business positioned to attract investment from government-led just transition plans. • Ability to shape regulations and legal reforms with government and unions.
Technology	• Increased cost of retraining or hiring schemes due to technological shifts. • Lack of consultation means missing out on knowledge and insights.	• Business investment in reskilling and retraining can help companies grasp new commercial and technical opportunities. • Employee participation improves identification of crucial areas for skill and industrial upgrading.
Market	• Market shifts tackled reactively cost more.	• Social dialogue facilitates adjustments in wages and working time. • Good workforce relations increase employee productivity, creativity, and flexibility.
Reputation	• Negative impacts to worker recruitment and retention. • Negative impacts to brand and customer perception.	• Advantage in recruitment and retention. • Improved customer loyalty and brand recognition. • Creation of green jobs improves social license to operate.

By contributing to a just transition, companies can reduce the costs associated with transition risks, and seize the benefits of taking action. In addition to managing individual transition risks, support for a just transition bolsters the political will necessary for economy-wide emissions reductions by demonstrating that the transition to a low-carbon economy is a source of economic and employment strength, not weakness. This speeds up the transition and reduces the climate risks faced by companies.

Recommendations

Businesses play a key role in seizing the economic opportunities of a just transition by acting within their own operations, enabling a just transition through social dialogue and stakeholder engagement, and influencing the emerging policy environment. This business contribution is essential to maximizing the economic opportunities and minimizing the dislocation presented by the transition to a low-carbon economy. Business action is therefore essential to reaching the two goals of the just transition, resilient economies and communities with green and decent jobs.

Act Within Your Own Operations

Businesses can begin contributing to a just transition by **assessing and disclosing the risks and opportunities** categorized by the TCFD, in a manner that addresses underlying vulnerabilities to those risks.[48] This assessment should lay the groundwork for contributing to a just transition by including transition risks for the business, workers, and communities affected by emissions reductions, both positively and negatively, and by devising the best strategies for protecting workers and communities.[49]

In their disclosure, companies can include **transparent information about potential economic and employment dislocation and plans to address this.**[50] Disclosure can help companies identify opportunities and manage risks. Improved disclosure and better-quality reporting of the financial implications related to the just transition will enhance supply change management practices, and support companies' relations with investors, stakeholders, and the wider public.

Following an assessment of climate risks and opportunities, companies can **develop strategies to seize employment-generating opportunities** in the low-carbon economy. Investments in the human, social, natural, physical, political, and financial assets of a company will protect workers from occupational hazards, and enhance resilience inside individual companies, across complex supply chains, and within frontline communities.[51]

Companies can **commit to generating jobs that are green and decent,** and improve employment practices through enhanced job quality, job access, and reskilling of workers. The private sector plays a critical role in helping overcome inequality by providing employees, contractors, and supply chain workers with good jobs, skills development, and the safe working conditions that provide good material living standards and improve personal well-being. These investments contribute to job security and labor mobility and can stimulate the greening of the economy.[52] For example, the German engineering company Siemens received considerable press and political attention in 2015, when it invested £160 million in wind-turbine production and installation facilities in the U.K., creating 1,000 new jobs.[53]

At the Global Climate Action Summit in September 2018, several companies committed to the **Pledge for a Just Transition to Decent Jobs,**[54] through which renewable energy buyers agreed to provide the following standards for their own employees and their renewable energy contractors:

- social dialogue with workers and their representatives;
- fundamental rights, including the ILO core labor standards and ILO occupational health and safety standards;
- social protection, including pension and health; and
- wage guarantees, including prevailing wage rates for skilled workers in the relevant industries.

By making this pledge, companies address the social dimension of their own transition toward renewable energy, paralleling the just transition for the economy as a whole.

Enable a Just Transition through Social Dialogue and Stakeholder Engagement

Companies should begin the just transition process by engaging workers and their representatives, investors, government, civil society actors, and the communities from which they derive the social license to operate, allowing each of these stakeholders an opportunity to provide input and insight on the corporate strategies that will accelerate the transition to a low-carbon and resilient economy.[55]

Strong social consensus created by a **commitment to social dialogue** is fundamental to the just transition. This is built in partnership with workers and their representatives, and also other relevant stakeholder groups. Reducing emissions, enhancing resilience, and building inclusive economies requires bold collective action and sustained effort over decades.

For example, in 2017, AGL Energy, an Australian power producer, announced the closure of the coal-fired Liddell power station by 2022, to be replaced by a combination of gas, wind, solar, and battery power. AGL Energy worked closely with the union representing workers at the site to draw up plans to ensure that all existing employees would remain in employment, transition to a nearby plant, or take a voluntary redundancy. AGL reported that the transition would produce considerable savings, generate more affordable energy, and shrink its carbon footprint by almost 18 percent, contributing to Australia's carbon-reduction goals.[56]

In addition to social dialogue with workers and their representatives, **stakeholder engagement** is central to a just transition, given the diverse array of people and groups affected by the energy transition. BSR has developed a five-step approach to show how corporations can initiate and sustain dialogue over time inside their organization and with external partners, with the aim of creating shared value and common purpose. This approach provides a basis for dialogue through:

STEP 1: Establishing a common vision and level of ambition for future engagement and reviewing past actions.

STEP 2: Defining criteria for identifying and prioritizing stakeholders and the selection of an appropriate engagement mechanism.

STEP 3: Identifying and pursuing both short- and long-term goals.

STEP 4: Conducting the engagement itself, ensuring equitable stakeholder contribution and mitigating tension, while remaining focused on the issues.

STEP 5: Identifying opportunities from feedback and determining actions, then revisiting goals and planning next steps for follow-up and future engagement.[57]

The implementation of emissions-reduction targets is a key opportunity to make use of social dialogue and **stakeholder engagement to enable a just transition**. For example, Enel, an Italian electricity company operating in more than 30 countries, committed to decarbonize its energy mix by 2050. To implement this commitment—which includes the closure of 13 gigawatts of thermal power stations in Italy, as well as the expansion of renewable energy—Enel engaged workers, unions, local government, business, and communities to develop plans for new economic development post-closure.[58]

Enel also established a global framework agreement with its global sectoral unions and a just transition agreement with its Italian unions. These include a commitment to respecting human rights and fair labor practices; apprenticeships to transfer knowledge from elderly to young workers; a commitment to retention, retraining, and redeployment; and early pension for older workers. At a sectoral level, Enel CEO Francesco Starace helped bring together Eurelectric, the association that represents the pan-European electricity industry, and the European Public Service Union (EPSU) and IndustriAll European Trade Union, to sign a joint statement on the just energy transition.[59]

In the U.S., Pacific Gas and Electric (PG&E), one of California's three investor-owned utilities and the largest utility in the country, owns and operates Diablo Canyon, a commercial nuclear power plant located in California. In 2016, the plant faced uncertainty about whether its lease and permits would be renewed. The major risk for the plant was to close down by 2018. But PG&E built a coalition to come to an agreement that avoided an abrupt shutdown of the plant. PG&E also agreed to replace the generating capacity at Diablo Canyon with a portfolio of energy efficiency, renewable energy, and energy storage. The deal also contained provisions for the community to compensate for the loss of property tax revenues and for plant decommissioning over the coming years.[60]

Influence the Emerging Policy Environment to Shape a Just Transition

Companies should also pursue the opportunity to **shape the emerging policy environment** for low-carbon, climate-resilient, and inclusive development. This is essential to counter inaccurate arguments that climate action results in economic vulnerability and job losses.

Through clear communication of the employment and economic benefits of climate action, companies can help maintain the political will needed to transition to a low-carbon economy. And business support for emerging policy initiatives will help maximize economic opportunity, while minimizing dislocation.

For example, starting in the 1970s, social dialogue between Danish employers, unions, and government resulted in a strong policy aimed at energy independence and the transition of the power sector's from coal to wind. Denmark's wind industry now includes Vestas, the world's second-largest wind turbine manufacturer, and Ørsted, the world's largest offshore wind company. In 2015, Denmark's wind industry employed 31,251 people and wind power delivered 42 percent of Denmark's electricity. Denmark also became a net energy exporter and decreased coal use by 50 percent.[61]

Similarly, in Belgium's construction sector, strong energy-efficiency standards have driven new jobs retrofitting buildings and new construction to a higher energy-efficiency standard. Belgium's three main trade unions have collaborated with sector employers to develop courses for construction workers linked to green building and energy-efficiency measures. Workers and employers assess the need for skills training together and develop proposals, which lead to concrete training programs implemented by government organizations.[62]

In Canada in 2016, the federal government announced plans to phase out the use of coal-fired electricity by 2030, and to invest CA$21.9 billion over 11 years for green infrastructure and commercially viable clean energy. Canadian unions won a commitment to establish a Just Transition Task Force to ensure that workers and communities are provided with access to income protection, training and re-employment opportunities, and regional economic-development initiatives for impacted communities.[63]

In New York state, the Clean Climate Careers initiative focuses on accelerating energy efficiency and renewable energy growth to make New York a magnet for new energy technologies. The goal is to create 40,000 new, good-paying clean energy jobs by 2020. As part of the initiative's first phase, New York will make an unprecedented investment of up to US$1.5 billion in major renewable-energy projects, including wind and solar, and significantly expand energy efficiency and solar installations at public buildings. The investment will result in an additional 2.5 million megawatt-hours of electricity a year, representing the country's largest clean-energy procurement by a state.[64]

Conclusion

Bold collective action is needed to aggressively reduce the GHGs that cause climate change, and to avoid the unmanageable climate impacts on jobs, livelihoods, and communities. But failure to address the social dimension of the transition will slow down climate action, increasing the cost of climate impacts and increasing the social costs of making the transition. In contrast, a just transition to a low-carbon economy will be faster and support stable employment in an inclusive economy. Businesses have a key role to play by acting within their own operations, enabling a just transition through social dialogue and stakeholder engagement, and influencing the emerging policy environment to shape a just transition.

Endnotes

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4 B Team. 2017. "Just Transition: Guidance for a Socially Inclusive Transition to Net-Zero Emissions for Businesses." Overview Deck. B Team, New York.

5 http://www.bteam.org/plan-b/just-transition-pledge

6 http://www.unepdtu.org/newsbase/2016/05/uneps-adaptation-finance-gap-report-released?id=377aa3d4-32c1-4100-8bee-ae65390b60ba

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8 https://www.ilo.org/weso-greening/documents/WGEX_EN.pdf

9 B Team. 2017. "Just Transition: Guidance for a Socially Inclusive Transition to Net-Zero Emissions for Businesses." Overview Deck. B Team, New York.

10 https://www.ilo.org/global/topics/green-jobs/publications/WCMS_536552/lang--en/index.htm The evidence recognizes that new jobs may not be created in the same geographical areas, demand the same skill set, or pay the same wages as jobs that were lost. Therefore, companies and workers must collaborate to maximize the benefits of new job creation and growth.

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18 https://www.fsb-tcfd.org/publications/tcfd-2018-status-report

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20 https://unfccc.int/sites/default/files/english_paris_agreement.pdf Article 4.1 calls for "global peaking of GHG emissions as soon as possible, recognizing that peaking will take longer for developing country Parties, and to undertake rapid reductions thereafter in accordance with best available science, so as to achieve a balance between anthropogenic emissions by sources and removals by sinks of GHGs in the second half of this century, on the basis of equity, and in the context of sustainable development and efforts to eradicate poverty."

21 http://report.ipcc.ch/sr15/pdf/sr15_spm_final.pdf (See page SPM-13.)

22 http://report.ipcc.ch/sr15/pdf/sr15_headline_statements.pdf

23 https://www.ipcc.ch/pdf/special-reports/srex/SREX_Full_Report.pdf

24 https://sciencebasedtargets.org Targets adopted by companies to reduce GHG emissions are considered "science-based" if they are in line with the level of decarbonization required to keep the global temperature increase below 2°C compared to pre-industrial temperatures, as described in the IPCC's Fifth Assessment Report (IPCC AR5). The Science Based Targets initiative recommends that companies use one of two approaches, the "Sectoral Decarbonization Approach" or the "Absolute Emissions Contraction Method," to set their Scope 1 and 2 targets, as these methods ensure that global emissions are reduced in absolute terms in the long term. They are the most robust methods to ensure the 2°C carbon budget is conserved.

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47 http://www.bteam.org/announcements/just-transition-a-business-guide/ The chart is adapted from the analysis in this guide.

48 https://www.fsb-tcfd.org/publications/final-recommendations-report/ In the case of climate change and human rights, vulnerability refers to the propensity of people, ecosystems, biodiversity, economic sectors, complex supply chains, or individual companies to suffer adverse effects when exposed to climate risks or poorly crafted climate policy responses.

49 Just Transition Centre and B Team. 2017. "Just Transition CEO Explainer." Just Transition Centre, Geneva.

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(continued)

Endnotes

51 For a fuller description of the capital assets, see https://www.bsr.org/reports/BSR_Re-silient_Business_Resilient_World_A_Re-search_Framework_for_Private_Sector_Leadership_on_Climate_Adaptation.pdf

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