edie insight

The Business Guide to the Just Transition

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Contents

Introduction

The Just Transition refers to seizing the socioeconomic benefits of creating a more environmentally and socially sustainable society as the net-zero transition gathers pace.

While the movement itself is still in its infancy, many corporates are already examining their operations and value chains, analysing how their products, services and facilities impact workers and communities. As the net-zero transition picks up speed, many firms will need to explore how they will change for good, and what that means for the workers and communities they rely on.

As more standards, frameworks and certification options emerge for businesses, it can be difficult to keep track of the latest developments in this area and then translate the science, data and trends into easy-to-understand and actionable programmes and messages. Businesses, governments and investors alike will need to work together to ensure that no communities are left behind and that a net-zero future is an equitable one too.

However, for many firms, the Just Transition remains ill-defined and therefore lacks the buy-in that other key sustainability issues like net-zero have. This report breaks down exactly what the Just Transition means for businesses, and what actions can be taken to embed its principles into net-zero transition plans.

This insight report is published by edie, the industry-leading, purpose-driven business media brand which empowers sustainability, energy and environmental professionals of all levels to make business more sustainable through award-winning content and events. For more information, please contact lukenicholls@favhouse.com for content and sponsorship opportunities.

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edie Explains: **The Just Transition**

The concept of the Just Transition is based on protecting the livelihoods of workers, communities and sub-sectors that are at risk of losing their jobs as a result of a wider transition.

Since the industrial revolution, the world has predominantly relied on fossil fuels to drive growth and development, but this has also acted as the main contributor to the climate emergency we now face.

As nations attempt to avert climate breakdown by switching to clean, renewable and circular products and services, governments and businesses alike will need to ensure that this transition happens in a fair and inclusive manner.

While the roots of the Just Transition are firmly found in trade unionism, the term is now generally seen more broadly as ensuring that the socioeconomic benefits of creating a more environmentally sustainable society are felt equitably, and that no one is left behind on the journey to net-zero emissions.

WHAT IS THE ROLE OF BUSINESS IN DELIVERING A JUST TRANSITION?

As the net-zero transition picks up pace, Lloyds Bank hosted an event to outline the key considerations that businesses and investors must explore to ensure parts of society aren't left behind.

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Promisingly, discussions around the Just Transition are becoming more prominent. It is now an integral part of global negotiations including the UN climate summits, such as COP28 in Dubai, and the discussions that take place in Davos, Switzerland as part of the World Economic Forum (WEF).

Discussions around the Just Transition are starting to be built into national principles as nations set and build toward their short- and long-term climate plans under the Paris Agreement.

Business considerations

It is crucial that businesses understand the role that they can play in catalysing a Just Transition, what policies and frameworks exist to help drive action and what benefits can be shared with communities as this movement gathers pace.

As more businesses set long-term, net-zero goals, short-term decarbonisation targets and sweeping transition plans to spur the low-carbon movement, they will need to consider the impact that this transition has on their workers, the communities they rely on, and the organisations that operate within their value chains.

There is no silver bullet when it comes to blueprinting an organisation and how it can help deliver a Just Transition. At its core though, businesses will need to realise the interdependencies of decarbonisation, social mobility and net-zero will not be fully delivered if parts of society resist the transition because they are ignored and left behind.

This is also not something that businesses will be able to tackle in isolation. Collaboration with sectoral peers, firms outside your sector, investors and policymakers will be required to ensure that businesses gain access to a holistic view of the Just Transition. They will need to encompass the needs of workers and communities in their corporate strategies as part of a joined-up thinking approach that does not view crucial pillars of planet and society as separate action points, but rather as a synergised ecosystem that relies on holistic action.

WHAT ARE THE PRINCIPLES OF A JUST TRANSITION?

A standardised definition of the Just Transition has not yet been formulated, but many alliances and initiatives exist in an attempt to harmonise what a Just Transition entails. Looking across these entities, including the UN, the International Labour Organization and the Just Transition Alliance, common principles emerge that are applicable to businesses and governments:

- Workers and communities should have fundamental human rights respected
- Sustainable development and a resilient economy should not contradict worker rights and the environment
- Frameworks and policies should involve local, regional, national and global perspectives
- Front-line workers and those most impacted by the climate crisis should be included in any development goal or package
- The switch to a low-carbon economy should not cause economic injustice or unfair trade policies for certain communities
- Workers and communities should have the right to object and oppose proposals as part of a two-way dialogue

The policy and regulation backdrop

The Just Transition is arguably a ground-up movement, called for by workers, unions and NGOs that has reached a point where policymakers are now looking at how principles can be embedded into national plans.

When policymakers set ambitious targets businesses tend to follow. When the UK legislated for net-zero by 2050 in 2018, it kickstarted a wave of corporate announcements that massively ramped up decarbonisation ambitions.

As the Just Transition is about placing dialogue about workers and society at the heart of climate policy, many businesses are watching the policy space eagerly to see what, if anything, can be introduced.

At the time of producing this report, the Just Transition is yet to fully translate into national or global policy, but there are some promising signs. Scotland has been exploring a National Just Transition Plan since 2021 in alignment with its goal to reach net-zero emissions by 2045.

A cluster of nations in the Global South are also exploring what can be done as part of a multi-year project across nine countries. That project is led by Climate Strategies, in partnership with Dala Institute (Indonesia), Fedesarollo (Colombia), the University of Ghana, the University of Liberal Arts (Bangladesh), EfD Kenya, CEPA (Malawi), Hanoi University of Science and Technology (Vietnam), National University of Laos and Sociedad y Naturaleza (Argentina).

And, at a global level, UN Climate Change Executive Secretary Simon Stiell has kickstarted the discussions in the build-up to COP29 in Azerbaijan this year by focusing on the need for a Just Transition.

In February 2024, Stiell said between now and the 2030s the Just Transition will need to move "from concept to lived reality, for real people everywhere".

Sector-specific frameworks

While global and regional frameworks for the Just Transition are lacking, many sectors are forging ahead to introduce frameworks to ensure that social considerations are included as part of the low-carbon transition.

The World Green Buildings Council, for example, released a position paper, 'Social Impact across the Built Environment,' endorsed by the UN High-Level Climate Champions (HLCCs), to address the need for the industry to prioritise social impact.

The primary objective of the framework is to revolutionise decisions made at various phases, from investment to end-of-life, in both social and environmental sustainability within the built environment.

It aims to reshape Environmental, Social, and Corporate Governance (ESG) reporting by bridging the gap between the 'E' and 'S' in the sector. The framework intends to enhance industry understanding and engagement by categorising social issues into four scopes.

These include Scope 0, which encompasses factors like corporate governance and diversity and inclusion; Scope 1, focusing on individual asset scale issues such as indoor environmental quality and affordability; Scope 2, considering broader scales like social value and climate resilience; and Scope 3, expanding consideration across the full life cycle to address indirect issues like worker rights and modern slavery.

The paper also introduces an action plan known as the five 'A's, emphasising immediate steps for the sector. These include awareness, assessment, accountability, action and advocacy.

Carbon and resource-intensive sectors are also starting to map out what a net-zero transition could look like.

More than 80 leading asset owners and fund managers with nearly $11trn in assets under management and advisement are supporting a joint campaign to improve social and environmental responsibility in the mining sector, for example.

The Global Investor Commission on Mining 2030, also known as the Mining 2030 Commission, is a collaborative investor-led initiative. The members are poised to meet monthly to discuss how investors can responsibly value, invest in and steward the sector to meet future demand.

The Commission is guided by the United Nations Environment Programme (UNEP) and supported by the Principles for Responsible Investment (PRI). Its membership spans communities, intergovernmental organisations, civil society, academia, law, unions, the mining industry, banking, insurance and investors.

On investors, transition finance is taking off but there are concerns about whether the 'just' part will be embedded. The EU is aiming to become the first major economy to set up a dedicated Just Transition Fund, established as part of the European Green Deal to create a climate-neutral economy in Europe by 2050.

Change in the finance sector is still predominantly driven through the investors themselves, rather than policy. The Impact Investing Institute, for example, has launched the Just Transition Finance Challenge. The Challenge brings together global financial institutions with more than £4trn of assets, or assets under management, that are committed to financing a Just Transition in the UK and emerging markets.

SDGs and Long-term Strategies

The aims of the Just Transition are also intrinsically linked to the UN's Sustainable Development Goals (SDGs). By the UN's own definition, the SDGs act as "a universal call to action to end poverty, protect the planet, and ensure that by 2030 all people enjoy peace and prosperity". All of these aspects chime with the principles of a Just Transition, but due to the broadness of the SDGs, they have largely remained aspirational than deliverable.

The UN's latest annual report tracking progress towards each of the 17 Goals, published in July 2023, found that the world is "woefully" unprepared to deliver the SDGs by 2030, with progress having halted or even reversed on some Goals during the pandemic.

Many businesses have adopted some or all of the 17 SDGs and their underlying targets, acting as metrics to be contributed toward. As such, many firms may well view the SDGs as a starting framework to start building in Just Transition principles into their own strategies.

"More than 80 leading asset owners and fund managers with nearly $11trn in assets under management and advisement are supporting a joint campaign to improve social and environmental responsibility in the mining sector, for example."

Business should also note that the aims of the Just Transition are slowly being built into national climate plans.

As part of commitments to the Paris Agreement, nations have submitted short- and long-term climate action plans under Nationally Determined Contributions (NDCs) and long-term climate strategies (LTS) respectively.

According to the most recent UN report, Just Transition principles can now be found in more than one-third (38%) of all NDCs, and more than half (56%) of all LTS. This suggests that while the current uptake of Just Transition principles are still in the discussion stage, many nations have long-term plans to action them. Businesses should note the direction of this policy travel and work proactively to build in Just Transition principles into corporate strategies well ahead of time, rather than playing catch-up as policies and frameworks are introduced across the globe.

Building on the SDGs, a plethora of new reporting requirements have all emerged, calling on, and in some cases mandating, that businesses map out the net-zero transition and uncover the risks that could emerge as a result. These have been largely focused on purely environmental risks **(more on these reporting frameworks in the Steps to Success segment)** but some, such as the EU's Corporate Sustainability Reporting Directive (CSRD) and the Transition Plan Taskforce (TPT) are forcing companies reporting against their frameworks to consider the Just Transition.

Achieving The Just Transition: **Business drivers and benefits**

A Just Transition is critical to ensuring that businesses decarbonise and transform at a pace, while accounting for the skills, investments, workforce and value chain needed to thrive in a low-carbon future, but doing so requires holistic thinking.

As part of edie's SDG Business survey of more than 200 sustainability professionals last year, we asked, "to what extent do you agree that the Just Transition is a vital part of your organisation's sustainability strategy?"

In total 22% claimed they were "unsure" what a Just Transition meant for their organisation, 39% claimed that they "strongly agreed" that it was a vital part of their strategy, while only 4% strongly disagreed.

It is apparent that businesses are still trying to define how they can interact with the broader themes and principles of the Just Transition movement, but doing so can strengthen a company in the eyes of its stakeholders.

Businesses may well focus on the benefits of the Just Transition through the lens of negated risk. Keeping up with mandatory disclosure requirements not only reduces the likelihood of non-compliance punishment, but will boost reputation, improve stakeholder relations and provide a competitive advantage in terms of recruitment and retention. Upskilling workers, both internally and across the value chain may also unlock access to burgeoning new markets, improving business growth and resiliency prospects as a result.

Businesses that focus on the Just Transition now, by supporting workers and communities, will also open avenues to new commercial opportunities from investors increasingly focused on ESG metrics and good labour practices will likely improve productivity as a result.

If a business chooses to engage with unions, when applicable, as part of Just Transition strategies or business purpose, they will also build better relationships that improves stability and protects them from any wider, sector shocks.

Business done better

Currently, 60% of Gen Z would prioritise a job that they both enjoyed and that offered a competitive salary, but many are also focused on sustainability. Indeed, the demand for green jobs such as sustainability management, engineering and consulting has increased by 667% in the last four years. Additionally, 70% will pay more for sustainable products and actively seek ethical brands.

On the investor side, research published in June 2023 found that global ESG regulations have increased by 155% in the last 10 years as nations get serious about climate legislation.

As such, any organisation taking its decarbonisation goals seriously will benefit from focusing a Just Transition from both an investor and customer perspective.

Away from the bottom line, a Just Transition gives organisations better control over societal fluctuations that could emerge in the future. Thinking systemically about workers and society and tailoring products and solutions to match enables a company to think about climate and society in synergy, which could unlock new opportunities. One such breakthrough will need to be delivered in the built environment, where housing stocks not only need to increase and be more affordable for a growing population, but also aligned to efforts to reach net-zero.

The Just Transition also anchors companies back into their aims and claims on sustainable and social responsibility. Championing principles such as fair tax, decent wage and improving standards can all be reported against the SDGs.

WHAT IS A JUST TRANSITION? AND WHY DO WE NEED ONE?

Now that the direction and level of ambition of net zero has broadly been accepted – the "what" – attention is turning to the potential social and other impacts of climate change – the "how". This latest op-ed from Lloyds Bank outlines the importance of the Just Transition to protect both society and the planet.

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HOW APPRENTICESHIPS CAN UNLOCK GREEN CAREERS FOR GEN Z

New research has revealed that careers advisers and social media influencers could play a key role in steering young minds towards green apprenticeships, underscoring that the tools to achieving the UK's net-zero goals rests in the hands of Generation Z (Gen Z).

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Achieving The Just Transition: **Overcoming key challenges**

Delivering against ambitious climate targets requires fast, effective decarbonisation, but businesses may uncover some unintended consequences if they fail to engage workers, unions and the communities they rely on.

FINANCING A JUST TRANSITION

As much of the world adopts plans to achieve net-zero emissions and slow and reverse climate change, calls to ensure a Just Transition are growing louder. This is all about ensuring that the benefits of a green transition are as fair and inclusive as possible to everyone concerned, creating decent work opportunities and leaving no one behind, as this latest op-ed from Lloyds Bank explains.

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Huge parts of the economy and many nations and regions are built on the foundations of carbon-intensive activities and sectors that will need to transform in order to be a viable part of the low-carbon economy.

Indeed, the Trade Union Congress has repeatedly warned the UK Government that some 800,000 existing jobs in manufacturing and supply chains could be put at risk unless the clear, long-term industrial targets are introduced with the principles of a just net-zero transition at its heart.

The UK does not have an answer to stimulating legislative packages such as the US's Inflation Reduction Act or the EU's Green Deal Industrial Plan which have spurred new green markets with a focus on worker rights and is at risk of being left behind.

For businesses, there is no 'one size fits all' approach to the Just Transition. It cannot be a 'tick-box exercise' because every sector and every region has different stakeholders, transition risks and mitigation actions, this makes it harder to map and implement as a result.

Key barriers that businesses will need to look out for are policy and metrics.

Currently, a net-zero workforce does not exist, even as green jobs grow year-on-year. As such, businesses will need to explore and evaluate how engaged staff are with the current low-carbon transition and to see what parts of the value chain need to be upskilled.

More broadly, they will need to work collaboratively while they wait for policy to catch up. A report from the Climate Change Committee (CCC) in May 2023 calculated that the net-zero transition can deliver between 135,000 and 725,000 net new jobs in low-carbon sectors such as buildings retrofit, renewable energy generation and electric vehicles. To date, however, some 250,000 jobs have been created in the transition, but government policies are failing to realise the full extent of the transition.

Businesses, governments and investors alike will need to work together to ensure that no communities are left behind and that a net-zero future is an equitable one too. However, concerns persist as to whether businesses are encompassing the needs of the Just Transition in their corporate strategies or whether the pillars of planet and society are still being treated in isolation.

"The net-zero transition can deliver between 135,000 and 725,000 net new jobs in low-carbon sectors such as buildings retrofit, renewable energy generation and electric vehicles."

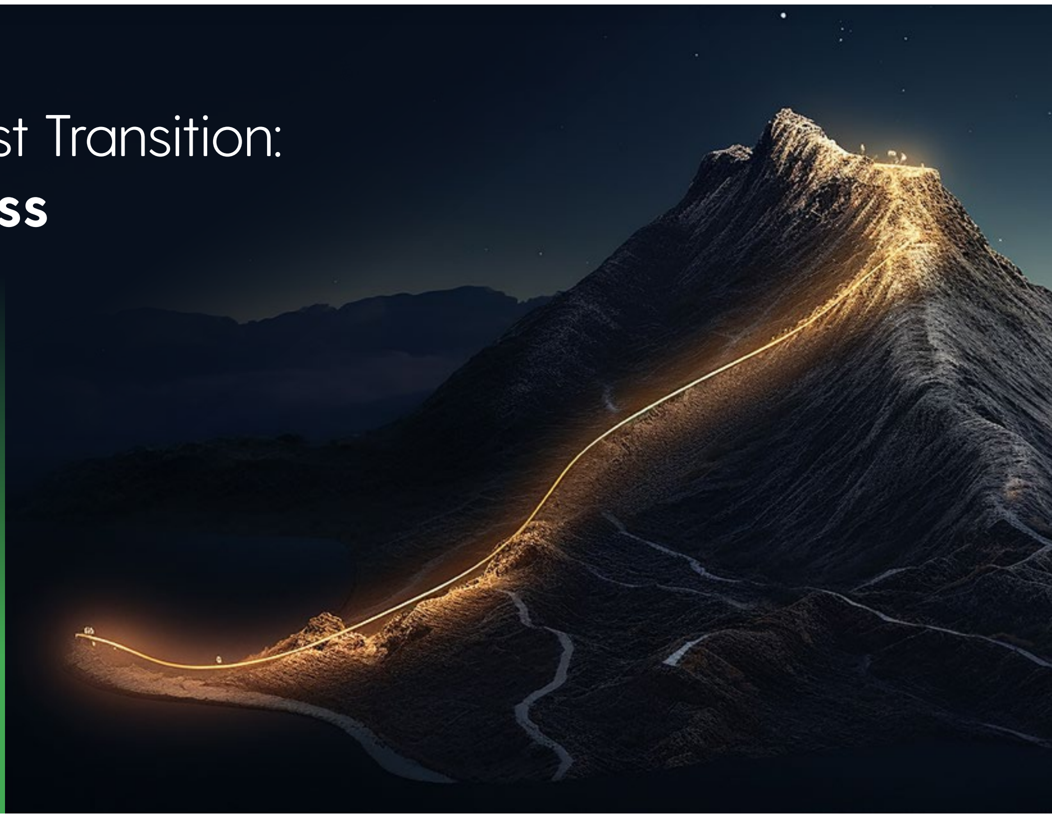
One such area evident in the UK is that of the steel sector. In late 2023, British Steel set out a £1.25bn proposal to replace two blast furnaces with electric alternatives that could be operational by late 2025 at the earliest, with financial support from the Government.

British Steel has not stated whether jobs will be lost as a result of the change. But several national media outlets are reporting that between 1,300 and 2,000 roles could be axed, as the new furnace systems take fewer people to operate than their blast furnace counterparts.

These oversights can not be ignored and any technology advancements to spur the low-carbon transition must consider whether workers are being displaced.

A Just Transition should be embedded as part of a corporate purpose. It cannot function as a tick box activity or an add-on to an existing sustainability strategy. Businesses wishing to drive the Just Transition must reevaluate their entire purpose and ensure that the growth and value that they generate can be shared with the communities that they rely on.

Achieving The Just Transition: **Steps for success**



There is a danger that many companies view the Just Transition as just another buzzword to latch onto or tick-box to fulfil. As such, there are key steps to consider when attempting to embed the Just Transition into the heart of corporate strategies.

It is not enough for businesses to merely examine what a Just Transition would look like in practice, although that is an ideal starting place, they'll also need to see what initiatives they can enact and how delivery can be measured.

Explore and engage

Businesses should seek to embed the Just Transition into their written processes and public strategies, covering climate and sustainability as well as human rights. These written policies should ideally cover the value chain and be championed and approved by the board to ensure governance processes are in place.

Doing so ensures that efforts to reach net-zero do not come at a cost for workers across the supply chain. Ideally both these public policies should be integrated into an all-encompassing ESG strategy that realises the intricacies between people and planet.

The UN Guiding Principles on Human Rights and the Science Based Targets initiative (SBTi) are two options that corporates could explore to ensure their policies are in line with the latest guidance and science.

Additionally, movements like B Corp and the Better Business Act are growing in prominence and could help businesses analyse their current impacts and provide new metrics to create a purpose that can contribute to the Just Transition.

When building these policies, it is important to capture the thoughts of workers. A Just Transition should be built on co-creation between the corporate and the employees and communities it relies on. Discussions should focus on ambitious yet achievable targets and metrics while analysing how the net-zero transition may impact workers and what safeguarding and upskilling can be introduced.

Businesses may also wish to try an empower advocates within their workforce, who act as climate "champions" and help push staff toward ESG goals.

Plan and enact

Businesses will need to figure out where tangible targets can be introduced as the focus cascades down from the broader purpose into actual targets. As with most ESG target-setting processes, corporates will first need to identify material areas of action where that organisation can have the biggest impact. Investors may look at social housing for example, while energy firms may look at upskilling existing fossil fuel workforces with green skills as the company pivots to renewable assets.

> **"Crucially, companies should revisit targets and strategies by re-engaging workers and suppliers on a regular basis to uncover any trends, challenges and opportunities."**

As part of ESG strategies, many companies are seeking to decouple emissions from growth. It can be easy to decarbonise by shutting down sites and selling off assets, but the risk that creates is that the workers are left adrift. Any corporate decarbonisation and climate resiliency plans should consider what growth and value can be delivered and how that will impact the supply chain and workers.

Businesses will also need to consider which areas of public policy they can influence or lobby for change in order to drive action. The UK steel sector, for example, has been backed by Government funding to help upgrade and electrify carbon-intensive sites.

Report and revisit

With a plan that considers the Just Transition now in place, companies will need to monitor progress through reporting mechanisms based on accountability and transparency.

Effective approaches to the Just Transition should be tied to corporate climate targets, both in the short and long-term, and based on constant dialogue that would outline whether targets need to be revisited depending on policies markets and trends.

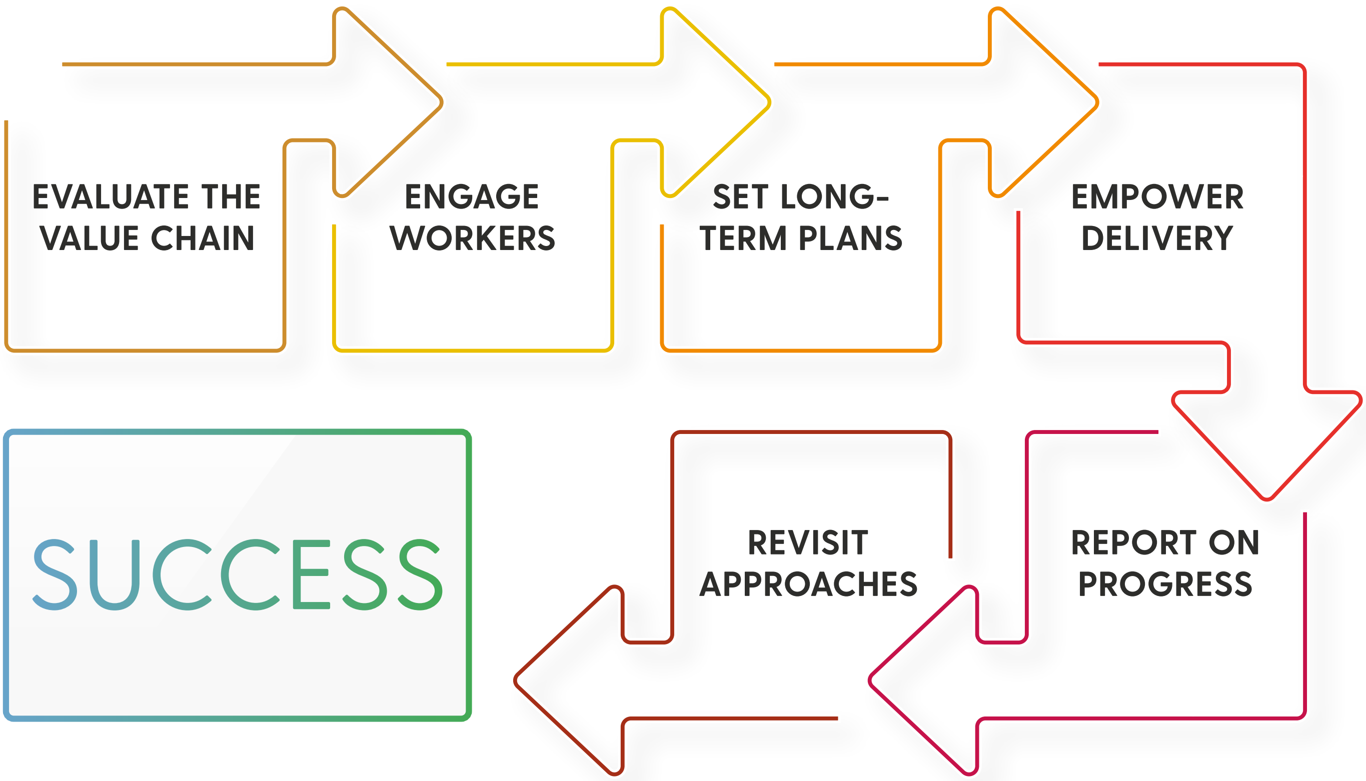
Most companies are required to publish annual non-financial reports that detail data and approaches to sustainability. The Just Transition could, and ideally should, be included as part of the reporting process.

In the UK, the Transition Plan Taskforce (TPT) has called on corporates to publish their transition plans for reaching net-zero this year, while exploring how nature, adaptation and a Just Transition can be included.

The proposal consists of a framework, recommending how companies should develop plans and the key elements they should include; and an implementation guidance document. The guidance includes advice on when, where and how to provide net-zero transition plans. Many businesses may well want to consider aligning reporting to this framework to examine progress against the Just Transition.

Crucially, companies should revisit targets and strategies by re-engaging workers and suppliers on a regular basis to uncover any trends, challenges and opportunities. Approaches to the Just Transition should have boardroom ownership, with investment streams focused on unlocking innovation that spurs progress to net-zero while championing the Just Transition.

At glance: Steps to success



industry viewpoint

Strategising and mobilising the Just Transition

Without due attention, both the extreme weather associated with climate change and the financial burden will disproportionately be felt by the poorest in society. This is why a Just Transition is so important.

Whilst previous energy transitions in the UK – such as the transition from coal to gas in the 1980s – resulted in the UK reducing its emissions by 50%, it also resulted in the disruption of communities, particularly in the north of England.

As the net-zero transition takes shape, a better result will need to be achieved across all regions where communities, workers and supply chains are not left behind. Corporates have a key role to play in facilitating a Just Transition. In many cases, this simply starts with an assessment of the impact of a corporate's net-zero plans which leads to engagement with those stakeholders affected to ensure they can also take advantage of the opportunities that the net zero transition presents.

Social dividends that could be created by the transition to a low-carbon economy include jobs such as renewable energy installation, energy efficiency retrofitting, sustainable agriculture, and other low-carbon sectors.

Whilst some of the technologies associated with climate transition, such as electric vehicles, offshore wind, carbon capture and storage and hydrogen dominate the headlines, more prosaic projects will also be critical – and can deliver significant social benefits.

A Just Transition to net zero in the UK requires several elements working together. It requires robust policies from government that provide clear signals and incentives. It needs buy-in from companies and financial institutions with a place-based, regional focus and clear sector-specific pathways. A Just Transition also needs to be mapped and measured to ensure progress is delivered.

Mobilising finance

We must integrate Just Transition principles into all decision-making processes for investments.

It's important that communities impacted by climate change and the emergence of new economic models are supported, and that gains from new technologies are distributed fairly. But deciding how to fund a Just Transition is imperative.

Institutional investors and financial markets have material and relevant resources to put to work, and many have already embraced the net-zero transition.

But for the net-zero transition to work, it must go hand-in-hand with a Just Transition in order to get buy-in from society. As financial markets redirect capital towards net-zero projects, banks and investors must anchor their net-zero plans in Just Transition principles, respecting social, labour and human rights standards, creating new, high-quality jobs, rejuvenating communities and working within planetary boundaries.

As well as enabling projects that otherwise couldn't reach fruition, finance is also essential to bridge the gap between the investments into a Just Transition and the benefits. Whilst the social and wellbeing benefits can manifest immediately, recouping the financial costs can take several years or even decades to accrue, consequently it is critical that investors benefit from clear rules and incentives that can only be provided by policy reform.

Lloyds Bank Corporate & Institutional actively seeks out opportunities to support their clients to finance and deliver a Just net-zero transition, benefitting companies, communities, and the wider economy.
For further insights, visit the Lloyds Bank Just Transition hub.

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