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Policy brief

Translating just transition ambitions into investor action



THE LONDON SCHOOL
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Headline issues

- The just transition is a critical enabling factor in reaching net-zero greenhouse gas emissions.
- Governments hold the primary responsibility for the just transition but investors can play a significant role by fully integrating the social dimension into their activities, and need clear expectations to fulfil this role with integrity and impact.
- An acceleration in investor action is now needed ahead of and beyond the COP26 climate summit.

Policy briefs provide analysis on topical issues, presenting specific recommendations to inform ongoing policy debates. Drawing on the Grantham Research Institute's expertise, they summarise either our research findings or the state of knowledge about a particular issue.

This policy brief has been written by Nick Robins, Sabrina Muller and Katarzyna Szwarc and summarises a longer report, *From the grand to the granular: translating just transition ambitions into investor action* (July 2021).

Summary

The just transition agenda is moving into a new phase, shifting from statements of high-level commitment to practical delivery. There are clear strategic reasons for investors to take action. To fulfil their role in supporting a socially equitable transition to net-zero, clear expectations of business are needed, to be used in investment due diligence, shareholder engagement and capital allocation to deliver real impact.

We set out a framework of just transition expectations for investors, based on international standards and emerging practice, and apply it to five European energy companies to learn lessons for wider adoption.

The just transition needs to become part of every business plan and financing strategy for climate action, moving into the mainstream so that the social impacts of the shift to net-zero are routinely included in decision-making. This will require a significant scale-up of effort from all parties, not least by investors.

"With the structural, economic and social change required for the net-zero transition, a rounded perspective is needed to move away from environmental, social and governance silos."

Creating a framework of just transition expectations

Building a net-zero economy requires an urgent acceleration in efforts to deliver a just transition. A just transition means designing and delivering climate action so that it tackles existing inequalities and delivers social progress. Rooted in the world of work, the implications of a just transition also extend to the supply chain, and it is as important to consider communities and regions affected by the transition as the impacts it can have on consumers (see Figure 1).

While governments hold the primary responsibility for the just transition, institutional investors can make a significant contribution by fully integrating the social dimension into their climate strategies. To do this, clear expectations must be set, which can then be used in investment due diligence, shareholder engagement and capital allocation to deliver real impact.

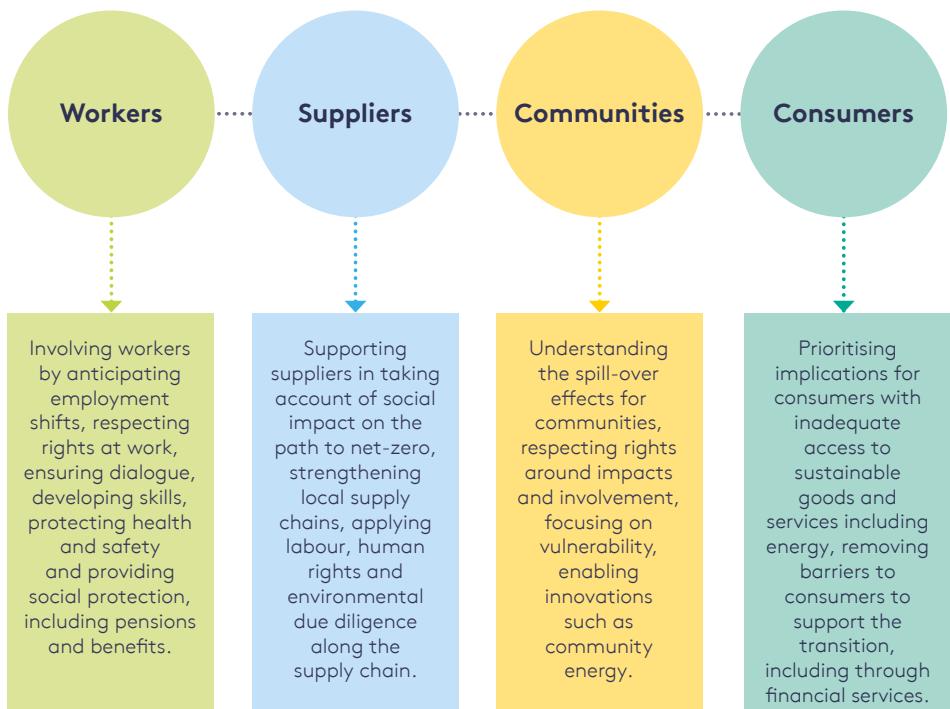
This brief sets out a framework of just transition expectations that investors can use to achieve these aims. The framework builds on policy and stakeholder foundations and draws on emerging investor and business practice and we apply it to five companies in the European energy sector to learn lessons for wider adoption. We end by summarising areas for priority action by investors and others as the just transition moves from the margins to the mainstream of the climate agenda.

Context: from strategic commitment to early implementation

Until recently, most investors have managed climate change primarily as an environmental driver of risk, return and responsibility. Yet, with the structural, economic and social change required for the net-zero transition, a rounded perspective is needed to move away from environmental, social and governance (ESG) silos that look at the 'E', 'S' and 'G' issues separately.

Source: Authors

Figure 1. Components of the just transition



There are clear strategic reasons for investors to take this rounded perspective to climate action, including respecting social standards, minimising systemic risk, supporting sustainable development and delivering positive impact.

The case for such action is increasingly being recognised. Leading investors first signalled the importance they attach to the just transition in 2018 through a statement of commitment, which has since been signed by more than 160 institutions with over US\$10 trillion in assets under management (PRI, 2020). Individual investors have also incorporated the just transition into shareholder engagement and dialogue with policymakers.

Translating ambition into action

A recurring challenge facing investors is how to translate the high-level ambition of the

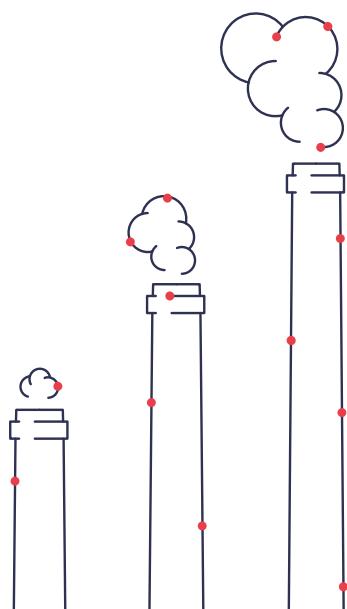
just transition into operational action that brings real changes in corporate behaviour. A deeper understanding of what just transition means in practice is needed. A commonly agreed framework defining what can reasonably be expected from businesses will enable investors to incorporate the just transition into routine assessment of company performance, shareholder engagement initiatives and capital allocation as well as dialogue with policymakers and other stakeholders such as trade unions.

Clear guidelines will also help businesses to report on their just transition initiatives and impacts. This in turn will allow investors to verify if just transition commitments have been achieved, thereby driving the necessary improvement in corporate performance.

"There are clear strategic reasons for investors to take this rounded perspective to climate action."



More than 160 institutions have signed a PRI statement of commitment recognising the need for investor action to support the just transition by integrating workforce and social dimensions into climate practices.



A consolidated set of just transition expectations

Drawing from existing policy and stakeholder frameworks as well as the early-stage applications by investors, we have developed a consolidated set of seven just transition expectations (Box 1). These combine the governance dimension (strategy, policy dialogue and transparency) with a stakeholder component, including workers, communities, supply chains and consumers.

By incorporating these expectations into investment appraisal and due diligence, shareholder engagement and capital allocation decisions for portfolio companies, investors can ensure they minimise systemic risk, support sustainable development and contribute to positive social impact.

The framework is designed to be relevant to all sectors and regions, though investors will need to adjust their expectations towards portfolio companies depending on their industry, location and size.

Box 1. A framework of expectations of business on the just transition, for use by investors

1. Strategy

- Establish a company strategy and plan for the just transition in the context of delivering net-zero and resilience goals, to be adopted at the Board level with clear Board oversight.
- Incorporate the just transition in remuneration, planning, risk management, scenario exercises, capital investment and acquisitions and restructuring.
- Ensure social dialogue and representation of workers and trade unions in company-level climate decision-making and implementation.

2. Workers

- Deliver good jobs and decent work and respect worker and human rights.
- Promote and provide reskilling and retraining, redeployment, or retirement support.

3. Supply chain

- Support suppliers (including SMEs) through access to skills, finance and technology.
- Apply both labour and human rights and environmental due diligence and policies along the supply chain, particularly in developing countries.

4. Communities

- Engage with communities to address social risks to regional economies and promote wellbeing.
- Share value in net-zero and resilience investments with communities, including engagement with and respect for Indigenous rights.

5. Consumers

- Support consumers by ensuring affordable access to key goods and services in the transition and enable consumers to participate actively in the transition.

6. Policy and partnerships

- Advocate for the just transition to net-zero in industry associations and in lobbying of government, and support partnerships at the local, sectoral, national and global levels.

7. Transparency and disclosure

- Report on just transition policies and performance, including through Task Force on Climate-related Financial Disclosures (TCFD) reporting.

Lessons from practice in the European power sector

A first wave of companies is taking action to embed practical delivery of the just transition agenda into their climate plans, prompted by social dialogue with their trade unions, and, increasingly, by shareholder engagement from their investors.

To investigate how the elements of our framework are playing out in practice, we analysed the activities of five European power utility companies: Enel, EDF, SSE, E.ON and ZE PAK (see Box 2). Given that our five case studies are of companies in a single sector based in five high-income European countries, they can provide only a partial view on business adoption of just transition practices. They can,

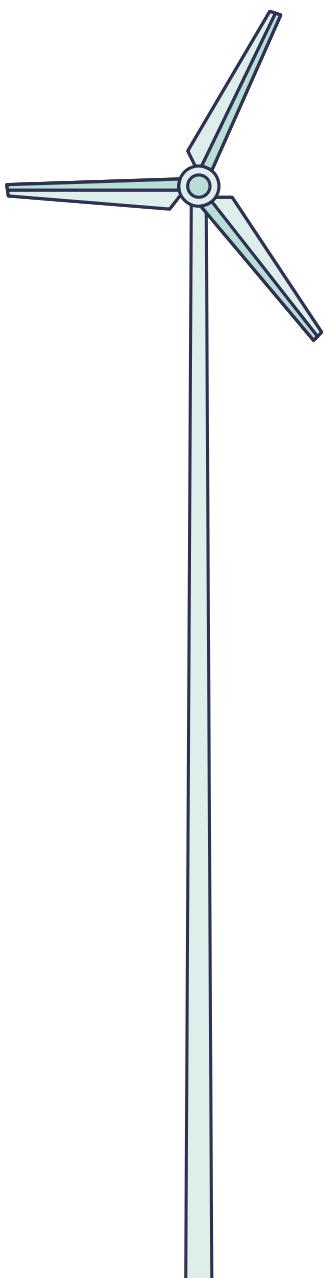
nevertheless, provide important guidance for an industry whose very survival is dependent on the energy transition and the just transition.

Strategy: shared foundations, but still emergent

Some of the core foundations are acknowledged by the four international companies (such as ILO labour standards and the Sustainable Development Goals) but a strategic approach is still emergent. Only SSE has a dedicated just transition strategy.

A critical theme is the global implementation of just transition strategies and policies. A strategic approach will need to be taken by businesses that centres on community impacts from the planning stage.

"A first wave of companies is taking action to embed practical delivery of the just transition agenda into their climate plans."



Box 2. The five European power utility companies in our study

Enel

The first company to take an active approach to the just transition, which has now become part of its wider strategy for the clean energy transformation.

EDF

The just transition emerges from the company's tradition of social dialogue and has prompted the development of innovative local Ecological Transition Contracts.

SSE

Investor engagement helped trigger the design of the first just transition strategy covering both 'transitioning out' of high-carbon activities and 'transitioning into' net-zero.

E.ON

Following a call to action from its investors, a structured approach to a just transition is being developed to build public approval and social acceptance.

ZE PAK

Based in one of Poland's key coal regions, this company is using the EU's just transition programmes as a catalyst for action to leave no workers behind.

"The just transition becomes real when new supply chains deliver quality jobs for people in affected regions."



Workers: at the heart of company practice

The worker dimension is a priority focus. A comprehensive approach across operations worldwide and a focus on job quality emerge as critical themes for the future.

Supply chain: recognising extended responsibility

Supply chain realities loom large in terms of generating quality green jobs for local people and also making sure that sustainability and human rights due diligence are intensified in international sourcing from developing countries.

Communities: from corporate social responsibility to co-creation

There is a need for community engagement to move from traditional corporate social responsibility (CSR) activities to a more transformational model built on co-creation.

Consumers: broadening the scope

Access to essential services is quickly rising up the just transition agenda. This dimension needs to be strengthened in the future.

Policy and partnerships: essential for a systemic solution

Government action is essential for the just transition and there are early examples of how companies respond and contribute to policy frameworks. Gaps exist; next steps include examining the positions of leading trade associations.

Transparency and disclosure: still early-stage

Disclosure is essential to hold companies to account. Across the five case studies, ESG reporting is bespoke and inconsistent. Ensuring reporting on the just transition becomes part of routine climate and sustainability disclosure is a key priority. The entrance of new assessment initiatives, led by Climate Action 100+ and the World Benchmarking Alliance, will be an important catalyst for this.

The road ahead

In taking the first steps to translate high-level commitments on the just transition into practical action, initial champions are emerging, notably in the energy sector, showing how businesses can start to make the just transition an operational reality. But these efforts remain incomplete, both in terms of depth within companies and breadth across sectors and regions.

We have focused on companies that have made intentional efforts to advance the just transition. This still remains the exception rather than the rule. Investors can work with business, trade unions, civil society and policymakers to end this exceptionalism.

The just transition must become part of every business plan and financing strategy for climate action, moving into the mainstream so that the social impacts of the move to a net-zero

economy are routinely included in decision-making. This will require a significant scale-up of effort from all parties, not least by investors. As the pace of the transition accelerates, upgrading just transition initiatives has become an urgent priority so that social consequences can be anticipated and shaped in advance.

The Expectations Framework is one tool that investors can use to make sure that just transition considerations are embedded across their portfolios. Forthcoming work by Climate Action 100+ and the World Benchmarking Alliance to introduce robust assessment approaches will add to the incentives and pressures that drive the development of strategic approaches and enable investors to monitor progress on just transition performance.

"The just transition needs to become part of every business plan and financing strategy for climate action. It needs to move into the mainstream."

Next steps

This is part of the first output of a three-year research partnership with Candriam. Based on the results of this work, a number of critical next steps have emerged:

- Promoting convergence around common approaches to business and investor action on the just transition, building on the Expectations Framework.
- Understanding better the role of participation in just transition plans, including investor dialogue with key stakeholders.
- Developing 'heat maps' of priority regions for investor attention, where a place-based approach by investors could be most relevant.
- Identifying the investor role in delivering the just transition in the emerging and developing economies of the Global South.
- Examining how just transition plans by business and investors can best deliver positive environmental and social impact on the ground.

Further reading:

Climate Action 100+ [CA100+] (2021) Climate Action 100+ Net Zero Company Benchmark.

International Labour Organization [ILO] (2015) *Guidelines for a just transition towards environmentally sustainable economies and societies for all*. Geneva: ILO.

International Labour Organization [ILO] (2021) *Conventions and Recommendations*. Geneva: ILO.

Organisation for Economic Co-operation and Development [OECD] (2017) *Responsible business conduct for institutional investors: Key considerations for due diligence under the OECD Guidelines for Multinational Enterprises*. Paris: OECD.

Principles for Responsible Investment [PRI] (2020) *Statement of Investor Commitment to Support a Just Transition on Climate Change*.

United Nations (2011) *Guiding Principles on Business and Human Rights*.

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World Benchmarking Alliance [WBA] (2021) *Assessing a just transition: draft methodology*.

Grantham Research Institute on Climate Change and the Environment

London School of Economics and Political Science
Houghton Street, London WC2A 2AE

e gri.policy@lse.ac.uk
w www.lse.ac.uk/granthaminstitute

Feedback

We look forward to your feedback on the Expectations Framework and its adoption (and adaptation) by investors. We would also welcome suggestions for taking this agenda forward to make the shift from grand ambitions to granular applications of the just transition.

Please contact N.V.Robins@lse.ac.uk with your feedback.

Download the full report at: <https://www.lse.ac.uk/granthaminstitute/publication/from-the-grand-to-the-granular-translating-just-transition-ambitions-into-investor-action/>



About the authors

Nick Robins is Professor in Practice for Sustainable Finance at the Grantham Research Institute; Sabrina Muller is a Sustainable Finance Policy Analyst at the Grantham Research Institute; Katarzyna Szwarc is a former Policy Fellow at the Grantham Research Institute.

Authors' declaration

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