Leaving No One Behind

For professional clients only

What Is Just Transition?

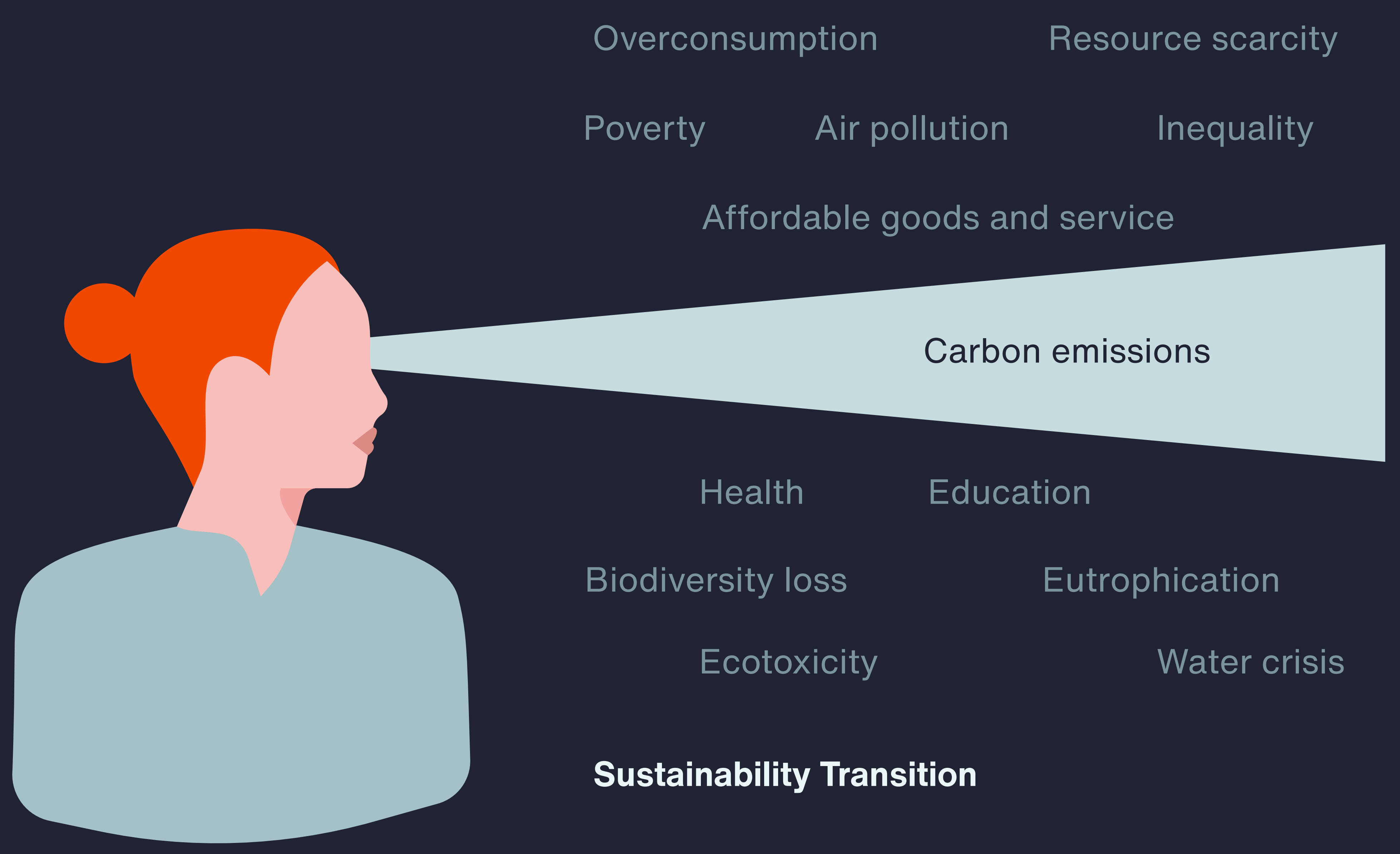
Who'd have thought pension scheme investors would be driving the race to net zero and tackling physical climate change risks like deforestation and loss of biodiversity?

We urgently need to transition towards a more sustainable global economy. However, winners and losers will emerge, as with any significant transition — such as last century's increase in automation and the rise of the service sector.

The principle of a Just Transition is that those affected by climate decisions are considered by those making the decisions. The aim is to deliver "an equitable transition to a climate-resilient future", creating decent work, opportunities and economic growth, leaving no one behind.

Governments at COP26 stated their support for the [Just Transition Declaration](). The declaration highlights that this will be a process based on dialogue, not a fixed set of rules; shared by workers, industries and governments across national, social and cultural contexts. As a first step, it is easy for investors to focus on measurable, short-term carbon emissions but this approach runs the risk of ignoring interaction effects and broader social impacts as shown in this 'Carbon Tunnel Vision' diagram.

Carbon Tunnel Vision



Source: Expert Opinion: Avoiding carbon tunnel vision
Tina Nybo Jensen, international policy manager, Global Reporting Initiative (GRI) – November 2021
[Expert Opinion: Avoiding carbon tunnel vision | Environment Analyst Global (environment-analyst.com)]()

The themes of social justice and climate change are now being discussed together; environmental, social and governance factors are no longer viewed as distinct. Most recently, rising geopolitical tensions and conflict has highlighted how vulnerable and reliant many societies are and will remain on fossil fuels. The conflict — and subsequent energy crisis — has accelerated the urgency for sustainable, global energy security. While the interplay between environmental and social issues is increasingly considered, many investors still struggle to translate their ambition into practical implementation.

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> I understand that everything is connected, that all roads meet, and that all rivers flow into the same sea.
>
> Author: Paulo Coelho

In this respect, a case study may prove insightful — let's look at a significant South African energy and chemicals company, one of the highest carbon emitters in Africa (accounting for more than approximately one third of oil use). If an investor were to purely focus on carbon emissions, the 'dirtiness' of the environmental footprint may be felt to be overwhelmingly negative, and this investor may prioritise advocating for mothballing or divesting from these environmentally harmful operations.

However, the company is a large employer on a national scale in an economically poor area, with thousands of staff and their dependents reliant on the company for income and employment. There are therefore significant societal implications to mothballing or shut-down of operations: by taking a more holistic view and supporting the company through engagement to encourage its transition to lower-carbon operations, employment and re-training opportunities can be safeguarded to a much larger extent. This benefits the local and national economy, alongside the many thousands of individuals directly impacted by the company. Following engagement of this nature, in 2021 the company shared 2030 and 2050 decarbonisation roadmaps, planning to transition the business to net zero alongside plans to manage these societal implications.

Engagement also applies to sovereign nations, as well as corporations. During COP26, the Deforestation Pledge was agreed, with more than 100 countries agreeing to halt and reverse deforestation by 2030. However, Indonesia declined to become a signatory to the pledge, due to the nation's economic reliance on palm oil production — which results in significant deforestation. One Indonesian palm oil producing company alone directly employs more than 3 million Indonesians (2019) and, indirectly, as many as 12 million (2021). Action must be taken to ensure we can achieve the transition and end deforestation without seriously harming developing nations' societies and economic growth.

How Can Investors Do Better?

Double materiality — you're all at it already. Now, more than ever, investors are looking at a company's financial value and considering its impact on society and the environment before you invest. A Just Transition, weaving together the urgent transition to a sustainable, global economy coupled with real-world social impact, is rapidly becoming the lens through which better investment decisions are made. It is critical that we manage both the positive and negative social and economic implications of climate action — to have a positive social impact, reducing systemic risk for investors.

How do investors consider a Just Transition when making investment decisions?

1. **Measurement is critical;** investors will increasingly want to quantify the risks and opportunities of walking the tightrope of combatting climate change and having a social impact. Investors must make better decisions in a rapidly changing world and rely on transparency and high-quality inputs.
2. **Use stewardship** to set expectations of companies to take account of Just Transition principles where there are material investment risks. Investors may seek to align with international standards like Principles for Responsible Investment or other voluntary organisations that provide investor guidance.
3. **Engage with policymakers;** investors can use their power to engage with policymakers and communicate with a broader audience to deliver better outcomes for all stakeholders.

> "The environment and the economy are really both two sides of the same coin. If we cannot sustain the environment, we cannot sustain ourselves.
>
> Wangari Maathai, COP26

Institutional investors tell us they don't want to focus on climate objectives in isolation but want to consider broader societal and environmental impacts which align with a sustainable, global economic transition. A Just Transition finally equalises E, S, and G; acknowledging the need for supported societal change in meeting global emissions reduction goals.

This effort is backed by a report from the House of Commons, highlighting that investors alone cannot meet national carbon reduction targets. However, they have an essential role to play and an obligation to support the Just Transition principles to achieve a Just Transition.

A Just Transition is aligned with good member outcomes, and pension scheme trustees are increasingly being questioned by their membership on how climate issues are managed — with one member of a large scheme posing the question, *"what's the point in having a pension if there's no world to retire in?".* Members have opinions on how the low-carbon transition affects our society and on addressing other climate risks — these should be listened to and addressed through your member communications.

Taking this approach also contributes to the financial well-being of your members. Connecting investment decisions made by you, as trustees or committees, to tangible real-world outcomes boosts member engagement and can be used as a tool to encourage retirement savings. One scheme's belief statement is: *"members will be more engaged and save more if their pension assets are doing some good"*. If your members feel they are being heard and their investment positively impacts them, that can only be a good thing!

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