ACTU workers' capital

Securing a Just Transition

Guidance to assist investors and asset managers support a just transition

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Summary

The global economy faces rapid transformation from efforts to adapt to climate change and progress towards net zero emissions. This transformation is being further accelerated by new ways of working driven by digitalisation, technology, and globalisation.

As investors and asset managers re-orient their strategy to respond to these challenges they are being urged to ensure a 'just transition' for workers and communities. The Paris Agreement, for example, emphasises the need to reduce emissions but also 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].

To date however, the concept of- a just transition while broadly supported has not been widely applied, particularly in Australia. Existing Environmental Social and Governance frameworks, which recognise that ESG factors materially impact investment risks and returns, have generally acknowledged, but not systematised, just transition planning. Successful just transition planning will help achieve a fully employed, engaged and productive work force across the economy, which from an investment perspective means more productivity and better investment outcomes for the funds.

This document, developed by the ACTU in consultation with the Australian union movement, aims to make more tangible the steps investors and asset managers can take to embed 'Just Transitions' principles in their investment strategy and their engagement with the businesses they invest in. It provides guidance on engagement, planning and implementation to help ensure that companies in transition take practical action to mitigate adverse impacts and deliver better outcomes for their workforce and community as their businesses change.

While many of the examples given are most familiar in a context of emissions reduction, the just transition process could equally be applied to other disruptive changes such as digitalisation, technology, and globalisation.

This framework aims to guide trade unions, superannuation fund trustees and ultimately both asset owners and asset managers in their engagement with companies on the impacts on their workforce of transition strategies.

In 'Securing a Just Transition' we build upon the work of and aim to operationalise the Just Transition Business Guide[2], developed by the Just Transition Centre (based in the International Trade Union Confederation) and the B Team, a group of global business leaders.

This framework, like the Just Transition: A Business Guide framework, identifies three stages of action for just transitions at the company level: Engage, Plan and Enact. The table overleaf outlines what each of these steps could look like and develops some proposed new key performance indicators to support investors to track and measure company performance on transition issues as they also work to reduce emissions. The principles and indicators are equally applicable to businesses reducing operations and businesses growing their operations.

1 United Nations, Paris Agreement, 2015, p.2

2 Just Transition Centre & B Team, Just Transition: A Business Guide

Another dimension of a just transition is ensuring that emerging sectors and industries that will grow in a low carbon economy are established with good labour standards and sharing the benefits of their growth with workers and host communities. For guidance on what best practice looks like for new renewable energy projects and investments, an issue of particular interest to many investors, readers should refer to the ACTU report "Sharing the benefits with workers: A decent jobs agenda for the renewable energy industry" released in November 2020. Separately the ACTU and Australian unions are also currently developing asset owner labour rights principles which will accompany these just transitions principles.

We hope investors and asset managers find this document a practical resource that assists them to ensure that companies they are investing in have clearly articulated just transition processes and goals.

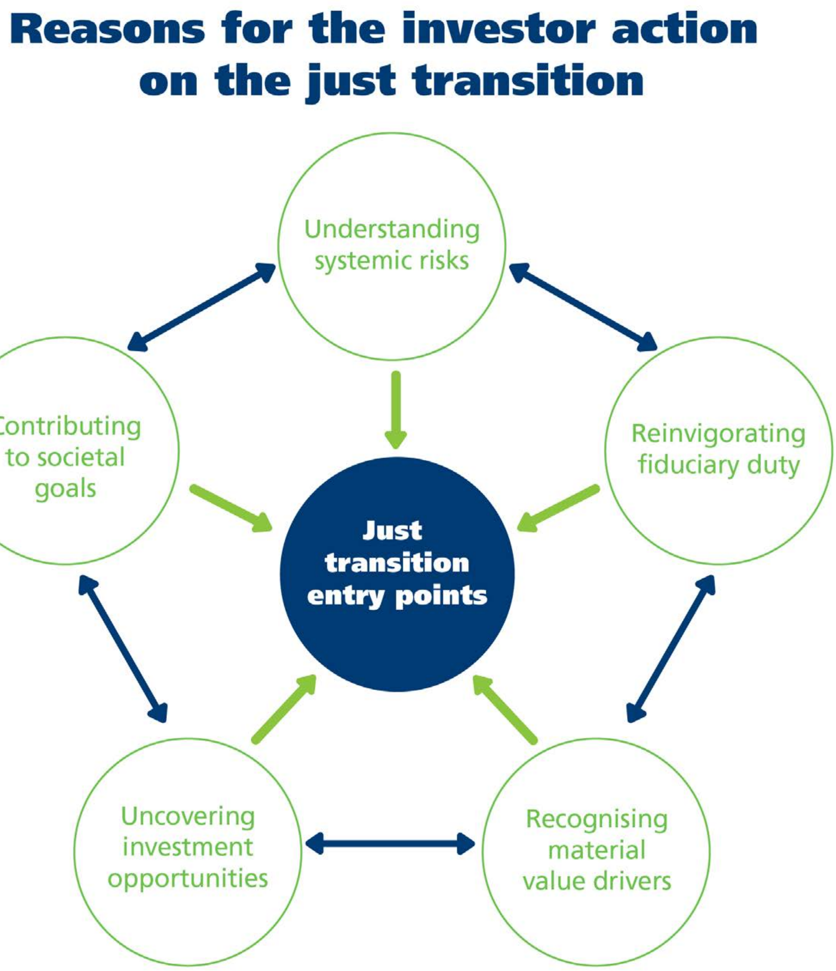

Figure 1: Image from Grantham Research Institute, Climate Change, and the Just Transition: A guide for investor action

How can investors ensure companies implement a just transition?

A just transition at the company level involves 3 stages of action

Step 1: Engage

a) Ensure social dialogue with workers and their unions, and potentially government; and,

b) Consult broadly with key stakeholders such as communities.

The foundation of just transition is co-creation of plans through social dialogue between workers and employers, and potentially government and communities. Social dialogue ranges from information sharing to negotiation and collective bargaining. This includes all phases from initial discussions about climate action, analysis and target setting through to planning, delivery, monitoring and reporting.

Key Actions	Key Performance Indicators
• Establishment of joint management-labour Transition Committees with transparent terms of reference, appointment processes, access to decision makers and outcomes. The Transition Committee/s could be convened at the overall business level, individual asset level or as otherwise agreed. • Focus areas for committees might include: – Assessing different options for climate action by the company or its sector, including pathways to net-zero emissions. – Assessing the impacts of pathways to net zero on the Company's direct workforce and indirect workforce at the asset level, and sector level. – Forecasting skills needs and employment opportunities and designing appropriate skills training services. – Maximising the positive impacts of company-level climate action on workers and communities, as well as minimising negative impacts in the short and long term.	**Transition Committee** Establishment and effective functioning of Transition Committees between workers and their representatives, and senior management. Progress measured by: • Clear agreed goals and timebound milestones for developing transition plan, • All relevant and material issues identified and disclosed. • Reporting on outcomes of these committees in an Annual Transition report, which could be included in TCFD reporting. **Workforce engagement:** Engagement with workforce measured by: • Transition committee process and minutes are transparently shared with workforce. • Results of annual workforce transition plan participation survey • Reporting on outcomes of these engagements included in an Annual Transition report which could be included in TCFD reporting

– Assessing different options for improved processes, services, knowledge, innovations, or new technologies that reduce emissions and waste or promote productivity and resource efficiency. – Locally, to design and deliver policies and actions that help to create new industries, jobs and social services provisions for workers and communities. – Locally and nationally, developing and advocating for government policies that support just transition, particularly for vulnerable workers and communities, and drive job creation, decent work, development, and poverty eradication. • Tripartite dialogue, between unions, the company and relevant government bodies, is also strongly recommended. In addition to dialogue with workers and their unions, the company should consult with other relevant stakeholders, particularly in communities where the company has facilities, employees, or significant parts of its supply chain.	**Stakeholder engagement:** • Establishment of tri-partite social dialogue with management, unions and relevant government bodies, and establishment of dialogue with impacted communities. Measured by: • Relevant and material issues identified and disclosed. • Minutes of meetings transparently published. • Reporting on outcomes of these engagements included in an Annual Transition report which could be included in TCFD reporting.

Step 2: Plan

Collaborate to produce concrete, time-bound, asset level, business, and sectoral plans for just transition, including emissions reductions, workforce, and community planning. Through this process of just transition planning the interests of long-term investors and their investments are better aligned.

With a foundation of social dialogue, a company can move to planning its emissions reductions. This requires evaluating where and how a company can reduce emissions in the short, medium, and long term. A company should also evaluate the commercial consequences of those emissions reductions.

Company-level decisions to cut emissions can have effects - positive and negative - on workers and communities. Reducing emissions might require hiring additional workers, improving the skills of workers, redeploying workers, or early retirement of workers in high-emissions business areas.

Key Actions	Key Performance Indicators
In consultation with key stakeholders develop a concrete, time-bound, company-wide transition plan with measurable goals and indicators. This plan should: • Deliver reductions in company-wide emissions, consistent with a commitment to net-zero emissions or with pathways for keeping global temperature increases well below 2°C. They include both short- and long-term targets and measures. • Consider the risk workers and communities might or will face over time and include in just transition plans options and resources to manage this risk and build resilience. • Result in creation of decent jobs within the company and its supply chains – that is, jobs with fair income, security in the workplace, social protection and the effective right to organize and collectively bargain. This includes jobs in the company's supply chains and the formalisation of informal work. • Provide for retention, reskilling and redeployment for workers as part of the company's transformation, rather than redundancies. • Assessment of groups most at risk of unequal impact of decarbonisation– skills/age/gender/language difficulties and specific transition plans • Drive investment in community economic diversification or renewal.	**Transparency** • Transition plan published annually on company website and summarised in Annual Report or TCFD Report. • In the case of asset divestment, disposal, closure or restructuring, individual asset transition plans are provided annually to affected workers. These plans should include: • Projected net change in direct employment e.g. net job gains/losses • Projected net change in indirect employment e.g. net job gains/losses • Transition Plan identifies key risks to the asset, business or sector and community involved, and measures to minimise the impact on workers and their communities. • Transition plan includes long term planning and provision of capital to minimise impacts. Investors will need to set appropriate goals for capital provision. **Diversification** • Where diversification from current assets is required, the transition plan should identify, measure, and mitigate employee impacts, including redeployment and retraining options and related budget. • Retiring asset plan is costed and budgeted for. • Amount of investment in alternate job creation in community is measured.

• Where an asset is facing divestment, disposal, closure or restructuring (DDCR) the company should leave the workforce, and the community in which it is located, in a position similar to, or better than, that preceding the DDCR. This may include: – making new or increased other investments in the region, – funding the retraining, relocation, and redeployment of workers, and, – Allocating a dedicated proportion of working capital to actively support this work	**Diversity** • Transition plan to include specific transition measures for those most at risk of disproportionate impact.

Step 3: Enact

Deliver plans and advocate for broader action to promote just transition.

Delivery of company plans should be accompanied by regular monitoring, reporting and social dialogue focused on accountability, results, and learning. Transparency towards workers, communities, other stakeholders, and shareholders is key.

Company plans for just transition are most effective when they are tied to the broader context of action by other employers, local and regional governments, national governments, and investors.

Companies should advocate and collaborate, individually and through organisations, for stronger collective just transition planning.

Key Actions	Key Performance Indicators
• Resource transition plans and embed actions in company's strategy, plans and budgets • The Transition Committee will monitor progress of transition plans against KPI's • The Transition Committee will review, and refresh transition plans annually or as needed.	**Implementation** The implementation phase of the Transition plan should be tracked and measured by Annual Reporting on: • How the company-wide transition plan is costed and budgeted for. • How the retiring asset plan is costed and budgeted for. • How much of the budget for Transition initiatives is spent annually, and if the budget is underspent, why? • Amount of investment in alternative job creation, in community. • Amount of investment in alternate business in community.

Guidance for divestment, disposal, closure, or workplace restructuring of assets [1]

Where a company is considering divestment, disposal, closure or restructuring (DDCR) the company should leave the workforce, and the community in which it is located, in a position similar to, or better than, that preceding the DDCR. This may include:

- making new or increased other investments in the region,
- funding the retraining, relocation, and redeployment of workers, and
- Other collaboration measures to mitigate impacts within an industry or region.

Where that is not possible, the company should develop mitigation strategies with governments, other business, and stakeholders. For example, this could include sharing of retrenchments and redeployments across firms.

The company should ensure that the workforce, their unions, and the community in which the asset is located, have been notified of the DDCR in a timely manner. This should be given in time to enable meaningful consultation and opportunity for proposing alternatives.

The company should ensure that the workforce, their unions, and the community in which the asset is located, have been consulted and given the opportunity to suggest alternatives to DDCR. The company should fully evaluate the feasibility of those alternatives.

Where net job losses are inevitable, the company should develop, implement, and track measures to mitigate the adverse impact on:

- those directly affected; and
- those indirectly affected e.g. local businesses.

- Actual Net change in **direct** employment e.g. net job gains/losses
- Actual Net change in **indirect** employment e.g. net job gains/losses
- Number of workers redeployed to other sites or roles within the company.
- If divestment is considered, terms of sale to include security of workers' accumulated entitlements with the new owner.

Advocating for a Just Transition

Encourage policy makers to take stronger collective action and policy action on just transition with long term investors, as measured by:

- Public advocacy for just transition including submissions to parliamentary and other relevant enquiries,
- Encourage other businesses to take stronger action on just transition through collaborative industry wide initiatives, and,
- Ensuring that Industry Associations they are a member of are advocating for the implementation of just transition principles.

1 This guidance draws on the International Finance Corporation (IFC) of the World Bank's Good Practice Note on Managing Retrenchment which provides an approach for managing retrenchment. Key principles include a) ensure retrenchment is necessary; b) look for alternatives to job losses; c) commence consultation with Key Stakeholders; d) decide on the Nature of Retrenchment and establish Procedures; and e) implement Retrenchment Plan. The ACTU report Sharing the challenges and opportunities of a clean energy economy – a Just Transition for coal-fired electricity workers and communities (2016) further develops this framework with principles for supporting affected workers including i) stable work with predictable pay, wages and entitlements; ii) adequate hours and pay, especially compared to previous jobs; iii) opportunities for training and lifelong education; and iv) a dignified retirement.

This could include undertaking a Social Impact Analysis, devising remedies to any adverse impacts, and allocating appropriate financial support to address these issues. The company should take all reasonable steps to ensure that, in a DDCR action, that workers' entitlements are protected (at least) in accordance with the law and relevant collective agreements. Where the future employment and earnings of workers in the individual asset are adversely affected, the company should consider directly or indirectly (e.g. with governments) action to make good those losses. Measures may include: • income maintenance of those retrenched or redeployed; and/or • funding of early retirement. • The actions should be documented and monitored to ensure implementation. Where restructuring (including digitisation) is occurring to improve efficiency and profitability, the company should ensure that the benefits are shared with the workforce and community. For example, through reduced working hours and more flexibility for workers, and/or social expenditures in local amenities and infrastructure. Where divestment or disposal of directly owned assets may result in workers' employment being transferred to other owners, the asset owner should ensure the on-going protection of the rights and entitlements of the workers Divesting to small or under-capitalised firms is a typical method by which responsibilities and liabilities are illegitimately passed to workers and taxpayers (e.g. unfunded leave and redundancy entitlements). Where divestment or disposal of directly owned assets involves environmental liabilities such as future site remediation or rehabilitation, the asset owner should ensure provision has been made for future remediation work.	