

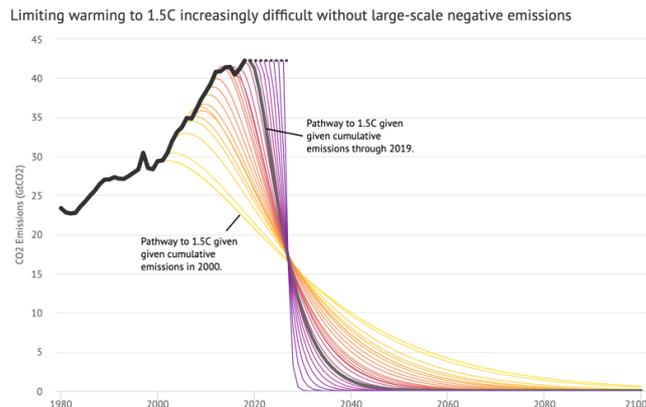
THE JUST TRANSITION



WHAT IS THE JUST TRANSITION?

The Just Transition is an idea that emerged out of trade union movements, has been advocated by environmental justice groups, and has resonated across the political spectrum. So much so that COP 24 in Katowice, Poland, was dubbed the ‘Just Transition COP’ by many involved. Indeed, 53 governments, including the UK’s, signed a Just Transition declaration at COP24. The term now represents a host of strategies to transition communities and build thriving economies that provide dignified, productive and ecologically sustainable livelihoods.¹

The crucial context for the Just Transition is a need to decarbonise the global economy at an unprecedented rate. The transition to a net-zero carbon economy has to be deep, broad, and rapid if we are to avoid truly catastrophic global heating and irreversible climate change. Any delay in reducing emissions results in an ever steeper pathway to net-zero by 2050.



Emissions reduction pathways in line with the IPCC’s Special Report on 1.5 Degrees. Source: CarbonBrief.org

The Just Transition is about doing this in a socially just and equitable manner.

¹ Climate Justice Alliance

² Action Aid. (2019) Principles for a Just Transition in Agriculture; accessed online 21.02.2020 <https://actionaid.org/sites/default/files/publications/Principles%20for%20a%20just%20transition%20in%20agriculture%20FINAL.pdf>

³ See, for instance, Jackson, T. (2017). *Prosperity without Growth: Foundations for the Economy of Tomorrow*, 2nd ed., Routledge, London; Raworth, K. (2017) *Doughnut Economics: Seven Ways to Think Like a 21st-Century Economist*.

WHO WILL BE AFFECTED BY THE JUST TRANSITION?

Most commentaries on the Just Transition focus on technological switching (fossil fuels replaced by renewables for energy generation and transport, for instance). This has resulted in a focus on the fossil fuel industry in many analyses, but there has also been some work done on Just Transitions in other key sectors, such as agriculture.²

Whilst technological change is going to be important to the transition, it is also likely that, to achieve the necessary emissions reductions in the short space of time we have, there will need to be a marked shift away from the type of non-essential consumerism that has taken root in many wealthy nations. Societal norms will probably have to alter in quite profound ways, with a rise in product and service sharing, less material-intensive lifestyles, greater leisure time, and so on.³ In this sense, the transition may impact everyone in some way.

With respect to the UK, analysis conducted by the LSE’s Grantham Institute and its partners has focused on the East Midlands, West Midlands, and Yorkshire and the Humber, as three regions with the highest proportions of jobs that could be exposed to the transition. Their work has highlighted the risks and opportunities with respect to a localised Just Transition in these regions, and outlined some case studies of place-based transitions (e.g. the Siemens-Gamesa wind turbine factory in Hull).⁴

WHAT IF THE TRANSITION ISN’T “JUST”?

Key proponents of the Just Transition have stressed that, unless the rapid shift to a low-carbon economy is socially equitable, or if it threatens the welfare and prosperity of the sections of society most likely to be impacted by it, then the transition itself may falter due to lack of social and political support.

A good example of what can happen if this social equity element is missing from transition or climate policy can be seen in France. Since 2018, the *Gilets Jaunes*, or ‘Yellow Vests’, have clashed with the French government, over, among other things,

Random House, London; and Trebeck, K. & J. Williams (2019). *The Economics of Arrival: Ideas for a Grown Up Economy*. Policy Press, Bristol.

⁴ London School of Economics, Principles for Responsible Investment, Trade Union Congress & University of Leeds (2019). Policy brief: Investing in a just transition in the UK. http://www.lse.ac.uk/GranthamInstitute/wp-content/uploads/2019/02/Investing-in-a-just-transition-in-the-UK-policy-brief_8pp-1.pdf

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a tax increase on fuel, the proceeds of which were intended to fund a low-carbon energy transition in the country.⁵



Gilets Jaunes on the streets of Paris, November 2018.
Photo: Economist/Press Association.

"There's no viable solution to reducing emissions on the scale needed in France without a price on carbon pollution as well as complementary policies, but a process that is not developed in an inclusive manner is destined to fail...achieving decarbonisation at the speed called for by science requires political will, and equity needs to remain at the core of the discussion"

Pierre Cannet, WWF France (December 2018)

Similarly, Australian coal miners have been vocal in their opposition to climate policies which would destroy their jobs and livelihoods, without adequate compensation. The defeat of the Australian Labour party in the country's most recent general election has been attributed in part to lukewarm promises to mining communities. The party promised the establishment of a 'just transition authority', but no finance for restructuring the economies of coal-dependent states and communities. If political parties' proposed climate policies do not offer a brighter, alternative future to 'at-risk' workers, it should not be surprising if they do not win their votes.⁶

⁵ Morena et al. (2020). *Just Transitions: Social Justice in the Shift towards a Low-Carbon World*. Pluto Press, London. p.3

⁶ Mathiesen, K. (2019). 'Australia's coal communities, ignored by Labor, deliver brutal election defeat' <https://www.climatechangenews.com/2019/05/20/australias-coal-communities-ignored-labor-deliver-brutal-election-defeat/>

⁷ Mustata, A. (2017). 'Eight steps for a Just Transition'. *Bankwatch Network*, p.8

⁸ Coulomb, R., S. Dietz, M. Godunova, and T.B. Nielsen (2015). 'Critical minerals today and in 2030: an analysis for OECD countries', Environment Working Paper No.91, ESRC Centre for Climate Change Economics and Policy, Grantham Research Institute on Climate Change and the Environment.

By contrast, there are already some examples of more successful transitions. Starting in the mid-1990s, the city of Gelsenkirchen (in Germany's Ruhr region), transitioned from a reliance on the mining industry to other alternative activities by building a science centre specialized in developing new technologies on both energy efficiency and the use of solar energy and clean fuels. A report released in 2017 noted that upwards of 26,000 jobs had been created through the transition period, and the region has grown into a "large student and research hub".⁷

A GLOBAL PERSPECTIVE

Whilst recognising that domestic political issues are paramount, the Just Transition has to be a global effort – the 'greening' of wealthy nations in the Global North cannot be at the expense of the Global South. This adds a further layer of social and racial justice to the transition.

Many low carbon or 'environmental' technologies – from electric vehicles to energy storage devices – rely on rare minerals, many of which are found in developing countries.⁸ Unless we can factor global socio-economic equity into the Just Transition, we risk a wave of resource extraction, land-grabbing, human rights abuses, and local environmental destruction across the Global South in the race to decarbonise the Global North through technology.⁹

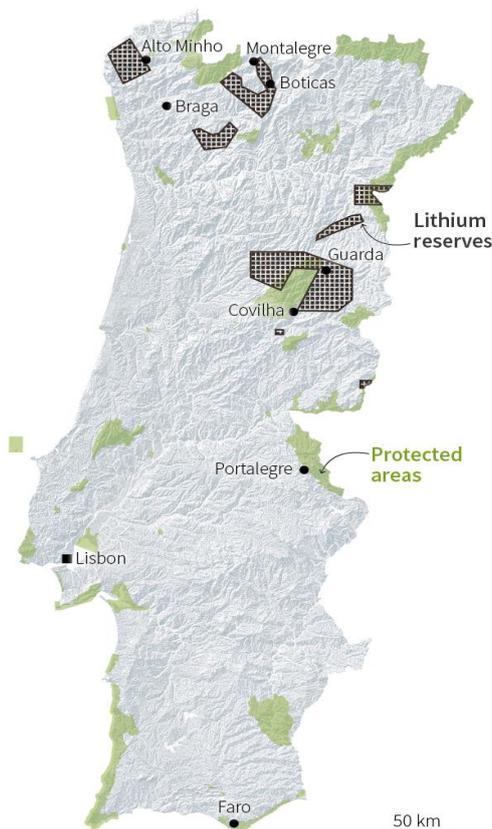
This is also beginning to come home to roost in Europe. In Portugal, for example, mining companies seeking to exploit the country's lithium reserves are "locking horns" with local communities.¹⁰ Lithium, which is used in smartphones, electric vehicles, and energy storage systems, will be a key strategic mineral in the low-carbon transition. However, the environmental costs of its large-scale extraction across South America have been well documented¹¹, even if they are not that widely known, and similar drawbacks cannot be overlooked in Portugal's case.

⁹ We have written elsewhere about the conditions in which cobalt is often mined in the Democratic Republic of the Congo, home to around two-thirds of the world's known cobalt reserves.

¹⁰ Reuters (2020). 'Portuguese communities lock horns with lithium miners to save their land'. Accessed 14.02.2020

¹¹ WIRED (2018). *The spiralling environmental cost of our lithium battery addiction*. Accessed 14.02.2020

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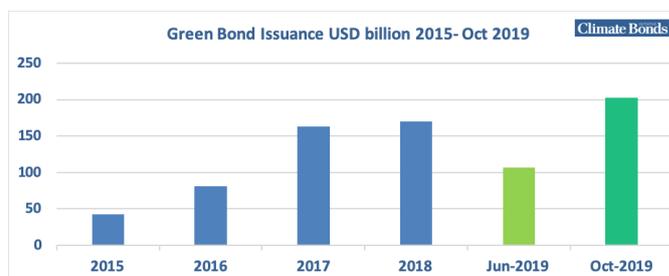
Lithium mining in Portugal. Source: P.K. Dutta/Reuters (2020)

One way to limit the impacts in terms of raw material extraction is to change some of the norms of societies in the Global North, and socio-economic equity has to be at the heart of this. The ‘everyone can own a Tesla’ approach to ‘solving’ transport emissions, for instance, is fundamentally flawed. We touched on this in our recent EdenTree Insight¹², where we reflected on the need for greater use of public transport, walking and cycling in decarbonising transport systems. Where mining is undertaken across the globe to provide the minerals required for low-carbon technologies, it is imperative that: (i) local communities provide free-prior and informed consent; (ii) that they, not distant shareholders, are the principal beneficiaries, and; that (iii) local environmental impacts are minimised and thoroughly remediated.

WHAT IS EDENTREE DOING?

As with our previous “emerging issues” Expert Briefings, we have explored here the background to the topic, but our thinking on the Just Transition continues to evolve. For instance, there is evidence of growing client interest in exploring the implications of integrating Just Transition thinking into portfolio construction. With this in mind, we have signed an investor statement on the Just Transition, and have recently joined a PRI working group on the subject, which we will contribute to.

One of the biggest hurdles for investors is obtaining adequate data from companies to be able to say with confidence that they are contributing to the Just Transition. This is a challenge across many sectors, and is something on which we anticipate engaging. A further conundrum for mainstream equity investors is how to gain exposure to (or directly finance) place-based transitions. A case in point is the Siemens-Gamesa wind turbine facility in Hull, mentioned earlier. An investor in Siemens can point to the company’s work in the Yorkshire and Humber region, but he or she cannot avoid also being connected to Siemens’ work on the Adani-Carmichael coal mine project in Queensland, Australia, for instance.¹³



Green Bond Issuance 2015- 2019. Source: Climate Bonds Initiative

One way around this problem may be through debt instruments, with specific use-of-proceeds outlined. A flourishing market in ‘green’, ‘social’, and ‘sustainability’ bonds is making it easier for investors to achieve a focused, occasionally project-specific exposure to elements of a Just Transition. Care is needed in analysing the use-of-proceeds and the quality of the issuer, but it is an area in which EdenTree is increasingly active.

¹² <https://www.edentreeim.com/insights/edentree-insight-road-transport>

¹³ <https://www.theguardian.com/business/2020/jan/13/adani-coalmine-siemens-ceo-has-empathy-for-environment-but-will-honour-contract>

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THE EDENTREE RI TEAM



Neville White
Head of RI Policy
and Research



Esmé van Herwijnen
Responsible Investment
Analyst



Jon Mowll
Responsible
Investment Analyst

We have a specialist in-house Responsible Investment (RI) team who carry out thematic and stock-specific research to identify ethically responsible investment ideas for our range of Amity funds. Headed up by Neville White, Head of RI Policy & Research, and supported by Responsible Investment Analysts Esmé van Herwijnen and Jon Mowll, the team is also responsible for creating an on-going dialogue with companies, allowing us to engage on a wide variety of ethical and socially responsible investment concerns. Our ethical and responsible investment process is overseen by an independent Amity Panel that meets three times a year, and comprises industry and business experts, appointed for their specialist knowledge.

We hope you enjoy this RI Emerging Issues and find it useful and informative. For any further information please contact us on 0800 011 3821 or at ifa@edentreeim.com