Just transition and good work

Net-Zero: Focus on change

June 2022

We all know that to successfully achieve net-zero emissions by 2050 and limit global warming to 1.5°C[1], economies worldwide need to engage in widescale industrial change and restructuring. What's perhaps less of a focus but critical for any chance of 'success' is the need for the transition to be **fair** and **just** to those people who are most affected.

Goal 8 of the UN's Sustainable Development Goals (SDGs) outlines the need to provide 'decent work for all' – e.g., suitable employment for those employed in sectors that will no longer be viable in a decarbonised economy. The opportunity to 'level up' other social inequalities should be part of a 'just transition' too.

Which industries are workers are most affected?

Given that the net-zero transition could impact approximately six million jobs in the UK (to use the UK as an example), it's vital that companies and workers anticipate employment shifts and ensure that the right skills are being developed. The industries most affected by this economic restructuring include fossil-fuel industries, oil and gas extraction, transportation and manufacturing. Some industries will discontinue while others will be able to evolve.

Fossil-fuel industries are seen as a priority, given the role of carbon emissions in contributing to climate change. Despite the recent approval for Shell's Jackdaw[2] gas field and the possibility of other 'ready to go' developments such as the Cambo[3] oil field and the Rosebank oil and gas field being accelerated by the UK government's windfall tax (as new fields could claim significant relief against the tax), we could see a complete cessation of all activity in the extractive oil and gas industries in the coming decades. In the energy sector, a transition towards renewable energy generation, energy storage and the associated infrastructure will be required. A skills transfer for workers in these industries would be a sensible starting point, as oil and gas workers can take opportunities to move into a number of other energy sectors, such as decommissioning, offshore wind construction and marine renewables.

We should also take lessons from our recent history. A fair and just transition would prevent a repeat of the events of the 1970s/80s, when the UK coal industry entered a steep decline that resulted in the decimation of communities and a loss of transferable skills. This damage to Northern powerhouses contributed to the notorious 'North-South' divide and associated social inequality, issues that persist today.

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[1] https://ec.europa.eu/clima/eu-action/international-action-climate-change/climate-negotiations/paris-agreement_en

[2] https://www.bbc.co.uk/news/uk-scotland-scotland-business-61666693

[3] https://www.energyvoice.com/oilandgas/north-sea/414888/windfall-tax-accelerate-uk-oil-cambo-rosebank/

Today's most obvious example is Aberdeen, a city that faces a move away from an industry (oil and gas) that has created half a million jobs and brought enormous wealth to the north-east of Scotland. Reskilling and upskilling are needed to bridge the 'low carbon skills gap', and careful planning at both an industry and national level is necessary to avoid communities being devastated.

Who is doing well?

Some companies are already ahead of the curve in their journey and encouragement of good green work.

In the UK, energy company Drax has signed a deal to upskill the workforce servicing its existing coal plant to work on biomass and bioenergy, including carbon capture and storage projects.

UK utility company Scottish and Southern Energy (SSE) devised a detailed plan[4] with numerous avenues such as the Science, Technology, Engineering and Maths 'STEM' Returner's programme aimed at attracting those with previous STEM vocational backgrounds. SSE has also met with Skills Development Scotland to help provide workers with additional support and training during the transition. The sustainability of SSE's just transition efforts is reflected in their focus on preparing the future workforce through their STEM Education Outreach Strategy, aimed at school pupils.

Meanwhile, Danish energy company Ørsted is among the world's leading renewable energy companies, having transitioned from being one of the most coal-intensive energy companies in Europe. Over the last decade, the East Coast Hub has grown to become one of Ørsted's major areas of development in the UK. Across several sites, the existing and future wind farm developments will contribute 17% of the UK government's 2030 ambition of offshore wind[5].

Alongside significant contributions to renewable energy production, Ørsted is creating well-paid, highly skilled and long-term jobs in coastal communities and helping to raise the aspirations of the young people in those areas. By 2030, the offshore wind industry could support over 27,000 direct jobs and many more in the supply chain. Across the UK, Ørsted is promoting STEM-related careers and partnering with national and regional training and educational bodies to develop our future workforce. For example, they have partnered with the Grimsby Institute in Grimsby and Furness College in Barrow-in-Furness to deliver a three-year wind turbine technician Apprenticeship Scheme. They also support charities such as Teach First, which is focused on addressing educational inequality.

An independent study[5] of Ørsted's economic impact on the region over the past decade, including forecasts to 2030, concludes that "through employment and training opportunities, wind energy in the Humber has transformed the shape of work in the region, engaging local people in a fast-growing and dynamic industry. It has provided new skills and sustainable jobs in a coastal economy, boosting production and providing a source of regional prosperity for decades to come. Through direct investment in local education and training opportunities in the company, Ørsted is providing a route for local young people to enter one of the world's most dynamic and growing industries."

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[4] https://www.sse.com/media/5gklydzs/just-transition-supporting-workers-transition.pdf

[5] Orsted-economic-impact-in-humber---may-2022---exec-summary.ashx (azureedge.net)

The auto industry too has great examples of companies reskilling their workforces. The shift from combustion engine to electric moves the focus on emissions from downstream to upstream. Along with the more obvious move from the traditional mechanic to computer-based roles, auto manufacturers need to understand the processes in their supply chain, for example expertise in the green steel process and sustainable bio alternatives to leather for interiors.

What does this mean for institutional investors?

How companies invest in and adjust their workforces will be fundamental to how successfully they navigate the transition. Companies need to work with local labour markets, commit to upskilling and create the skilled workforce they need for the future – and investors need to be satisfied that companies are managing this well. The skills shortage in the renewable industry, for example, could provide tens of millions new jobs over the next decade globally. That skills gap needs to be invested in *now* for companies to be able to access the investment opportunity to expand that sector and build their operations.

Effective stewardship in supporting the just transition is a necessary method to instigate action.

Engagement should include discussion about *how* companies are supporting and investing in their workforce. Managers can suggest ways in which companies can do more or areas of action that should be explored, emphasising the need for sustainable financial, as well as environmental and social, outcomes over the longer term.

What actions can institutional investors take *today*?

- Assess your investments through a social and just transition lens rather than simply the climate metrics aspect
- Engage with your asset managers to understand their depth of thinking on a just transition and how they in turn are engaging with companies on this subject
- Explore investment opportunities that combine climate and social goals across both developing and developed economies. For example, emerging and frontier markets may present opportunities that very clearly combine these two goals. Climate adaptation is in need of capital, therefore presents a potential investment opportunity and typically brings climate and social goals together (see our other blog on this here).