



Policy Paper

Make transitions work: climate change and employment

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Context

Climate change is a complex long-term process. It is a global phenomenon, but its effects are variable across regions and the responses need to be adapted to different realities. Climate change impacts can strongly affect economies and societies through, for instance, sea-level rise, changing weather patterns and extreme weather events, increased heat stress and climate migration flows.

Climate change already affects labour markets and they depend on the environment in many ways, while adaptation and mitigation policies closely link employment and climate change. According to the United Nations Framework Convention on Climate Change (UNFCCC), there are overall 1.47 billion jobs which are dependent on a stable climate. The real impact on jobs and employment depends, however, also on regulations and policies adopted; they can be very different depending on the response put in place. The labour impacts will also vary across sectors as their labour and emissions intensity are different.

Global business is committed to sustainable economies that work for workers, business and societies. According to a recent IOE survey, sustainability and climate change are one of the five main global trends impacting business globally; almost 70 per cent of employers asked in this survey see considerable impact in their operations from increasing environmental and disaster risks. The private sector plays a key role in this transformation and is eager to engage at national and international level in the development and implementation of comprehensive strategies to move to competitive and sustainable low-carbon economies.

“Just transition” is a relatively recent concept that today refers to policy interventions that aim to shift the economic structure to a low-carbon, socially and environmentally friendly one with a particular focus on the social impacts. Reducing CO₂ emissions will have significant effects on labour markets in terms of employment. In order to make transitions work for workers, companies and societies, comprehensive strategies are needed, which ensure national economies can adapt while preserving and creating jobs and become more resilient in the process. Beyond the important labour market and social elements, removing and preventing carbon emissions from economies constitutes an industrial and economic shift which strongly depends on conducive and coherent industrial policy frameworks as well as technology research and development. Smart and balanced regulatory frameworks and institutions – to unlock enterprise potential rather than creating regulatory burdens that may inhibit private investment – should come together with economic policies and incentives to support and encourage enterprises’ adoption of clean technology, low-carbon production processes and invest in up-skilling and re-skilling of the workforce.

There is debate whether it is a good idea to tackle both climate change and Covid-19 through integrated policies but it makes sense to seek synergies and design, where possible and cost-effective, integrated climate and pandemic recovery measures. The Covid-19 pandemic added urgent and new pressures on business and society with significant economic and social challenges. Understanding the similarities, differences, and the broader relationships between pandemics and climate risk is a critical first step if we are to derive practical implications that inform our actions; finding a low-carbon, high-growth recovery formula is not easy but by carefully designing policies environmental goals can go hand in hand with economic recovery and growth. For instance, according to International Energy Agency (IEA) analysis, a sustainable recovery plan for just the energy sector could add 1.1 percentage points to global economic

growth each year, lead to global GDP being 3.5% higher in 2023 than it would have been otherwise, while saving or creating roughly 9 million jobs a year over the next three years and lowering emissions by 4.5 billion tonnes. However, transitions out of the Covid-19 caused crisis and into a low-carbon economy will only succeed with proper policies in place. Six aspects are particularly key in this regard.

Key aspects for making transitions work

- **According to most research and analysis, if properly managed, the job creation potential of the transition to a low carbon economy will outweigh that of job losses.** According to ILO analysis 18 million jobs net (around 24 million jobs created and around 6 million jobs lost) can be created globally by 2030 by following sustainability policies while reducing greenhouse-gas emissions by 41 percent. A further 6 million jobs can be created globally by 2030 by implementing circular economy principles. The biggest absolute increase in jobs would be in the construction sector while the biggest relative increase (in percentages) would be in the renewables sector (around 9 million jobs across renewables and construction). On the other hand, the fossil fuels industry would suffer the biggest job losses with around 2 million jobs lost in the mining and extraction of fossil fuels and around 400,000 in fossil fuel electricity generation. At the regional level, there will be net job creation in the Americas, Asia and the Pacific and Europe (around 3, 14 and 2 million jobs respectively). In contrast, there will be net job losses in the Middle East (over 300,000 jobs) and Africa (around 350,000 jobs).

However, **successful and inclusive transitions to a low-carbon economy will not come automatically but rely on dynamic labour markets which are conducive for job creation and enable people to move easily between jobs, sectors and regions.** Rigid labour market regulations will not only be an obstacle for employment creation but also an impediment for the ability of workers to move from shrinking sectors to the sectors which are growing and in need of skills and manpower. Dynamic labour markets include also the context of regional flexibility to support people to move into regions where employment is created. The social consequences of abrupt transitions should not be underestimated either, as they can lead to a counterproductive scenario. **Destruction of jobs, unemployment and weak labour markets can be damaging to the environment in the middle- and long-term.** The Covid-19 crisis is temporarily reducing emissions (in line with the abrupt lockdown of much economic activity) but the environment can be further downgraded on national and international policy agendas in times of economic strife due to changing priorities so it is important to prevent this trend and maintain environmental goals even in crisis.

- **Creating national frameworks for more skilled and flexible working populations is crucial in the context of transitioning to sustainable economies.** Environmental technology is quickly developing and requires, as other novel technologies, constantly evolving skill-building systems – starting from early education and school, VET systems to university education. Societies which do not constantly modernize curricula and ensure that skill building systems are in line with the changing labour market needs will not be able to unleash the employment potential of a low-carbon economy. According to ILO analysis, the creation of over 100 million jobs is conditional on additional training within already existing occupations as well as skilling for new occupations. Not preparing the workforce and adapting their skills accordingly through efficient frameworks risks stalling progress due to a mismatch between jobs and skills on national markets. Moreover, workers in shrinking sectors will not be able to move to new occupations. Ensuring employability of the workforce in times of rapid changes is key. Easy, accessible and effective lifelong

learning systems are of crucial importance to open up new opportunities for impacted workers. So far, there has been not enough focus on ensuring proper skilling systems. Less than 40 per cent of Nationally Determined Contributions (NDCs), which are the national action plans under the Paris Agreement, include any plans for skills training to support their implementation, and over 20 percent do not plan any human capital related activities at all. **Skills development for just transitions thereby is not taking place in a vacuum: Core skills such as STEM and core soft skills are transferable across occupations and even sectors.**

- **Adaptation and mitigation measures should provide certainty, be cost-efficient, foster competitiveness and innovation.** Business requires stable and affordable energy prices, clear and supportive regulatory frameworks, efficient and adapted incentives in order to foster competitiveness and innovation but also productivity which are not only necessary for a robust economy, but also enable companies to move to a low-carbon economy. There should be a robust impact assessment of measures for employment and competitiveness in the middle and long-term. **It is thereby important to enable all companies and potential actors to contribute to emissions reductions through adequate support and frameworks. The support and incentives provided need to be technology neutral so that all potential solutions can compete.** Business competitiveness is global and must be taken into account; measures need to be cost-effective and the availability of affordable energy is crucial. A key focus must be to mainstream SME needs in any national strategy to move to a low-carbon economy. SMEs account for the majority of jobs, are the backbone of practically all economies and make up most enterprises globally. They are a key element for a successful transition. They often have particular conditions and different contexts which require not only adapted support like access to financing and capacity-building, but also unbureaucratic framework conditions.
- **There are around 2 billion people, representing 61.2 per cent of the world's employed population, working in informality globally. In fact, many current jobs linked to recycling and the circular economy (waste management for example) are informal, dangerous and un-decent. Climate change is aggravating existing challenges.** It is in the informal sectors, where workers and employers don't have access to social protection, training and skill building, and where support and incentives to adapt business models are lacking. Mitigating potential negative impacts of climate change on employment and fully harnessing the opportunities the transition to a low-carbon economy offers requires addressing informality and developing innovative approaches to ensure all parts of society are part of building a low-carbon economy. With ILO Recommendation No. 204 concerning the Transition from the Informal to the Formal Economy, there is a global tripartite consensus on what needs to be done to address the informal sector. However, implementing Recommendation No. 204 and addressing the root causes of informality has not been a sufficient priority of countries so far.
- **Sustainable and effective social protection systems** are an important part of proper transition and crisis policies, as they protect workers and communities impacted by employment and economic effects stemming from climate change or other adverse dynamics. Research suggests that unmitigated climate change could drag 100 million people into poverty by 2030. Determined action is necessary as 55 percent of the world's population – as many as four billion people – are not covered by any social insurance or social assistance. Globally, only 20 percent of unemployed people are covered by unemployment benefits,

and in some regions the coverage is much lower. However, when developing social protection systems, it is key that they not lay the basis for a permanent relationship of dependence on the state, but – on the contrary – help individuals to achieve their full potential by supporting them to move into growing sectors and regions. **Social protection systems must be sustainably financed and need to be combined with active labour market policies while staying coherent with the socio-economic traditions of the respective countries.**

- **Climate Change is a truly global issue.** Unilateral national action will not achieve desired results; **multilateralism and global coordination are necessary ingredients not only to comprehensively address climate change, but also to allow a level playing field.** Furthermore, successful transition requires broad acceptance and buy-in by all parties at national and international level. Business has to be included and actively engaged in the development of any transition plans or initiatives. The representative business and employers' organisations are the legitimate voice of the private sector, which has a key role to play in the development, negotiation and follow-up of any transition policy. They also have the network and convening power to engage with the broad mass of companies on all issues linked to just transition.

Conclusions

In the context of the ambitious obligations of the Paris Agreement participating countries need to make emissions reductions in all industrial and economic sectors. Calling back to the Bahrain Declaration, IOE and its members are committed to a more sustainable economic system and the goal of decarbonisation and recognize the importance of climate change by working on this matter since many years; however **these agendas can only be realised by business if they are implemented in a realistic and economically-friendly way.** It is important that all companies and potential actors able to contribute to emissions reductions receive adequate support. **The costs of this transition can be very high if it is not properly managed. The return on investment will also be considerable and could offset the cost if the opportunities are leveraged.** In order to maximise the efficiency of seeking out opportunities, global cooperation, multilateralism and alignment across stakeholders is essential. The OECD estimates that a climate-friendly “policy package can increase long-run GDP by up to 2.8 per cent on average across the G20 in 2050 relative to a continuation of current policies. If the positive impacts of avoiding climate damage are also taken into account, the net effect on GDP in 2050 rises to nearly 5 per cent across developed and emerging economies of the G20”.

The multiple and complex challenges facing us today should be seen as opportunities; achieving ambitious objectives is possible by working together through collaboration and concerted efforts. For this to happen, action on climate change must take the employment and economic impact fully into account. This means:

- Successful transitions to a low carbon economy rely on job creation and robust labour markets which can absorb the shocks and capture all economic activity.
- Transitioning to low-carbon economies will result from a holistic, coherent and smart policy mix which does not create overlaps, conflicts and inefficiencies.
- Inclusive multilateralism and global coordination are necessary ingredients to allow a level playing field and a flexible international governance that works for all.

- Adaptation and mitigation measures need to provide certainty, be cost-efficient, foster competitiveness and innovation.
- Governments need to promote an enabling environment and market mechanisms for sustainability, particularly productivity recovery and green stimulus packages in the aftermath of the COVID-19 crisis, without which sustainability on a large scale is not achievable.
- Creating national frameworks for more skilled and flexible working populations is crucial in the context of sustainable economies.

Supporting the transition to a climate-resilient economy requires tight and efficient collaboration between the private and public sector in order to complement the efforts that many companies are already undertaking. Robust policies, realistic regulations and adequate incentives need to be put in place. Unilateralism is not the answer: all countries within their own capacities and different levels of development, must act and deliver in a responsible manner. Employers' and Business Organisations need to be highly involved as they have a key role to play in making transitions work. They can provide critical guidance, especially to SMEs, raise awareness, promote innovative approaches but also support governments in developing realistic and impactful policies. IOE and its network of over 150 member federations representing more than 50 million companies are committed to work with all stakeholders to ensure sustainable transitions that work for the planet and people.



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