

This paper has been prepared by the EFRAG Secretariat for discussion at a public meeting of EFRAG SR TEG. The paper forms part of an early stage of the development of a potential EFRAG position. Consequently, the paper does not represent the official views of EFRAG or any individual member of the EFRAG SRB or EFRAG SR TEG. The paper is made available to enable the public to follow the discussions in the meeting. Tentative decisions are made in public and reported in the EFRAG Update. EFRAG positions, as approved by the EFRAG SRB, are published as comment letters, discussion or position papers, or in any other form considered appropriate in the circumstances.

Developing the concept of just transition in the ESRS Issue Paper

Objective

- 1 The objective of this paper is to highlight the potential of further incorporating the concept of *just transition* in the Draft ESRS, based on the feedback received from the public consultation and a further analysis of international frameworks, benchmarks, and corporate practice.

Background

- 2 The concept of “just transition” has been developed in response to widespread concerns that the impacts, risks and opportunities of the transition to a greener economy and society may be unevenly spread across stakeholder groups, including own workers, value chain workers, and communities (including indigenous peoples). It is based on the expectation that negative impacts and risks are minimized and that positive impacts and opportunities be fairly distributed. The expectation is that undertakings play a role in the just transition by identifying and minimizing potential risks and negative impacts and by creating positive impacts and opportunities in their transition plans. It is being adopted as a policy priority by many international organizations. For example, the ILO refers to the just transition as the transformation towards a greener, resilient, and climate-neutral economy and society in a way that is as fair and inclusive as possible to everyone concerned, creating decent work opportunities, and leaving no one behind¹. At the EU level policy measures supporting a just transition have been adopted, for example the establishment of a Just Transition Mechanism; this mechanism is linked to the distribution of the Just Transition Fund to finance investments to cope with the transition towards climate-neutrality.
- 3 A definition of Just transition is also included in the draft Social Taxonomy report: “the term is understood as a conceptual framework encompassing the complexities of the transition towards a sustainable, zero-net-emissions, climate- resilient economy, highlighting public policy needs and aiming to maximise the benefits, while minimising hardship for workers, consumers and communities affected by the transition.”
- 4 Additionally, the International Trade Union Confederation defines just transition as a “tool the trade union movement shares with the international community, aimed at smoothing the shift towards a more sustainable society and providing hope for the capacity of a green economy to sustain decent jobs and livelihoods for all.” The European Trade Union Confederation defines the objectives of the Just Transition as the “...fight against climate change following an evidence-based approach, the achievement of the sustainable development goals, social justice, the protection of

¹ International Labour Organisation (ILO). Frequently Asked Questions on just transition.

human rights, gender equality, full employment and decent work, democratic participation as well as intra and intergenerational equity.”

- 5 The CSRD in its Recital 1 refers to socially just transition in the context of a “transition to a sustainable economic system so that no person and no place is left behind”.
- 6 GRI undertakes a management approach for disclosures related to Just Transition, such disclosures are developed within the sector-specific layer of GRI disclosures (e.g. Oil & gas and coal) rather than forming part of the universal or topical standards. The just transition disclosures emanate from both the environmental and the social sections of the sector-specific standards.
- 7 International human rights organisations that have issued guidelines and studies on just transition and the workforce include the International Labour Organization and the United Nations Framework Convention on Climate Changes (UNFCCC) and the UN Global Compact. One of the most recent studies is from the UNFCCC, which identifies the sectors most impacted by just transition as: agriculture, forestry, energy, manufacturing (resource-intensive), buildings and transport (para 104 of UNFCCC).

Current disclosures within the ESRS

- 8 Disclosure requirements on just transition are currently integrated in the Draft ESRS S1 AG 8. e. (see also ESRS S1 Basis for conclusion BC 56.) and AG 81 (see Appendix I).
- 9 AG 8. e. specifies the requirement to disclose “*any impacts on its own workforce that may arise from the transition to a climate-neutral economy*”.
- 10 AG 81. specifies that “*in the case of impacts on own workforce that arise from the transition to a climate-neutral economy, the undertaking shall include information on any measures taken to mitigate negative impacts, such as training and reskilling, employment guarantees, and in the case of downscaling or mass dismissal, measures such as job counselling, coaching, intra-company placements and early retirement plans*”.
- 11 Furthermore, ESRS E1 Climate Change requires reporting on transition plans as well as transition risks and opportunities throughout the value chain with a cross-reference to Social standards for the social aspects of the transition plans.
- 12 ESRS E2 Pollution refers to ESRS S1-S4 regarding just transition (see Interaction with other ESRS) as a cross-reference.

Feedback from the public consultation

- 13 The main comments received through the public consultation are summarised as follows:
 - a. *Including social aspects of transition plans in ESRS E1:*

Respondents highlight the increased demand by stakeholders on social information related to a just transition and suggest including social aspects, including human rights aspects, in the disclosure requirements on climate transition plans in ESRS E1. They emphasize that the interconnectedness of the environmental and social standards needs to be ensured, by signposting and addressing the topics in an integrated manner.
 - b. *Social factors in climate and environmental disclosure requirements:*

Respondents note that the disclosure requirements in general should more fully reflect the social factors that can either support or undermine the potential success of business strategies and actions to address these risks and impacts. This includes how different stakeholder groups can be negatively or

positively impacted, e.g., by measures through which companies adapt to climate change.

EFRAG Secretariat analysis

- 14 Just transition is a key concept for the identification and assessment of sustainability risks, opportunities and impacts that link environmental and social dimensions, such as potential negative impacts on affected stakeholder groups resulting from an undertaking's energy transition.²
- 15 Whilst studies and guidance have been issued on Social Just Transition, this topic does not yet have a tested and widely accepted set of sustainability reporting disclosure requirements for undertakings. The guidance described in para 5 is mainly addressed to national authorities and Governments with a focus on the need to set up policies and, in some cases, to determine targets as enablers for the transition to environmentally sustainable economies. Social policy areas addressed include skills development, occupational safety and health, social protection, labour rights and social dialogue and tripartism as per ILO Just Transition Guidelines.
- 16 The recently published UNGC Introduction to Just Transition – A Business Brief in September 2022, states that “a just transition works to ensure that the transition to net-zero emissions and climate resilience is orderly, inclusive and just, creates decent work opportunities and leaves no one behind. This depends on a fair process built on social dialogue, stakeholder engagement and a universal respect for fundamental labour rights and other human rights”. This framework describes the workforce related areas affected by just transition: rights at work (including safety and health), human capital development and job creation, social dialogue, gender and social equity and social protection. It goes one step further to define measurement and reporting on just transition, such as human rights policies and practices, together with outcome-oriented targets (including progress and effectiveness in meeting objectives and targets).
- 17 The stakeholder groups that can be affected by just transition include a wide spectrum of actors such as communities (including indigenous peoples), workers (own and value chain), governments, and customers as per the UNGC Introduction to Just Transition.
- 18 Therefore, based on the research performed on just transition reporting and an examination of the GRI management approach on this area, it is recommended that:
 - a. Just transition can be covered in the context of Application Guidance for the assessment of Impacts, Risks and Opportunities and for implementation measures (PTAPR) in the Social standards S1 to S3 in so far as transition plans to reduce carbon emissions and the environmental impact of operations are material to the undertaking;
 - b. Performance measures on just transition are not well developed but could be considered in the context of sector-specific standards;
 - c. Consideration could be given to amending S4 Consumers and end users and also E1 Climate change to include the impacts of climate transition plans on the social stakeholder groups in terms of describing the stakeholder groups that could be impacted and which social and human rights are impacted.

² UN Global Compact (2022). Statement on the European Sustainability Reporting Standards Exposure Drafts released by EFRAG. p. 2.

- 19 Specifically, the EFRAG Secretariat proposes enhancing current disclosure requirements for undertakings to provide information³ in S1 to S3 about:
- a. **risks and opportunities** arising from a just transition within ESRS 2-IRO 2 describing the results of the ongoing dialogue with the relevant stakeholders (including vulnerable groups);
 - b. **policies, targets, and action plans** to prevent or mitigate the impacts of the transition, considering
 - i. specific sectoral and geographical conditions,
 - ii. communities, workers and other affected stakeholder groups whose livelihoods might experience the hardest impacts of the transition,
 - iii. the gender dimension of many environmental challenges and opportunities,

Proposed changes

- 20 In order to further incorporate the concept of just transition in the ESRS, the EFRAG Secretariat proposes amendments to application guidance in ESRS S1-3. This follows the thematic architecture of the ESRS, covering social dimensions under the social standards for different stakeholder groups.
- 21 The EFRAG Secretariat suggests consideration of adding further cross-references to disclosure requirements and application guidance in ESRS E1 and possibly other environmental standards to enhance the connectivity of social and environmental dimensions covered by these standards; furthermore, consideration of whether just transition language should be included in S4.
- 22 Having considered the feedback received from the public consultation, as well as international frameworks, benchmarks, and corporate practice, the EFRAG Secretariat suggests the below amendments to the ESRS S1-S4:

ESRS to be amended	Suggested amendments
ESRS S1	<p>Further elaboration of AG 8. for <i>Own workforce-related specific application guidance on ESRS 2 Disclosure Requirements IRO 2 and 3 (incorporation of BC 56)</i>:</p> <ul style="list-style-type: none"> • e. any impacts on its own workforce that may arise from transition plans for reducing negative impacts on the environment and achieving greener and climate-neutral operations, including information on the impacts on own workforce caused by the undertaking's plans and actions to reduce carbon emissions in line with international agreements. Impacts, risks and opportunities include restructuring and employment loss as well as opportunities arising from job creation and reskilling or upskilling.
ESRS S1	<p>Adding AG on just transition for DR S1-1 – <i>Policies related to own workforce</i> by further elaboration of AG 14:</p> <ul style="list-style-type: none"> •This includes policies and commitments of the undertaking to prevent or mitigate the risks and negative impacts of reducing carbon emissions and transitioning to greener and climate-neutral operations on workers as well as to provide opportunities

³ Derived from the International Labour Organisation's (ILO) Guidelines for a just transition towards environmentally sustainable economies and societies for all.

	for the workforce such as job creation and upskilling, including explicit commitments to a 'just transition'.
ESRS S1	<p>Adding AG on just transition for DR S1-2 – <i>Processes for engaging with own workers and workers' representatives about impacts</i> by further elaboration of AG 41.</p> <ul style="list-style-type: none"> The undertaking shall explain....(e) how it engages with workers and their representatives on the impacts on its own workforce that may arise from reducing carbon emissions and transitioning to greener and climate-neutral operations, in particular restructuring, employment loss or creation, training and up/reskilling, gender and social equity and safety and health.
ESRS S1	<p>Further elaboration of AG 81. for DR S1-5 – <i>Taking action on material impacts on own workforce and effectiveness of those actions:</i></p> <p>In the case of impacts on own workforce that arise from the transition to a greener, climate-neutral economy, the undertaking shall include information on any measures taken to mitigate negative impacts, such as training and reskilling, employment guarantees, and in the case of downscaling or mass dismissal, measures such as job counselling, coaching, intra-company placements and early retirement plans. This includes measures to comply with prevailing regulation. In taking action, companies may draw on resources such as the UN Global Compact Guidance on Just Transition for Business, which builds on the ILO's Guidelines for a just transition towards environmentally sustainable economies and societies for all.</p>
ESRS S1	<p>Adding AG on just transition for DR S1-6 – <i>Approaches to mitigating material risks and pursuing material opportunities related to own workforce</i> by further elaboration of AG 84:</p> <ul style="list-style-type: none"> The undertaking shall highlight present and/or expected external developments that influence whether dependencies turn into risks. This includes consideration of impacts that may arise from the transition to greener and climate-neutral operations.
ESRS S2	<p>Adding AG on just transition to <i>Workers in the value chain related-specific application guidance on ESRS 2 Disclosure Requirement IRO 2 and 3 on the outcome of the assessment of material sustainability impacts, risks and opportunities</i> by further elaboration of AG 9(c) and (d):</p> <ul style="list-style-type: none"> c) In the case of negative impacts...to specific business relationships. This includes consideration of impacts for workers in the value chain that may arise from the transition to greener and climate-neutral operations. Potential impacts include impacts associated with innovation and restructuring, closure of mines, increased transition mineral mining, solar panel production etc. d) In the case of positive impacts...including providing opportunities for the workforce such as job creation and upskilling in the context of a 'just transition'.
ESRS S3	<ul style="list-style-type: none"> Adding AG on just transition to <i>Affected communities-related specific application guidance on ESRS 2 Disclosure Requirement IRO 2 and 3 on the outcome of the assessment of material sustainability impacts, risks and opportunities</i> by further elaboration of AG 9 (b):

	<ul style="list-style-type: none">• In the case of negative impacts...security services). This includes consideration of impacts for affected communities that may arise from the transition to greener and climate-neutral operations. Potential impacts include impacts associated with innovation and restructuring, closure of mines, increased transition mineral mining, solar panel production etc.
--	--

...

Questions for EFRAG SR TEG

- 23 Does EFRAG SR TEG agree with the definition and discussion of Just Transition?
- 24 Does EFRAG SR TEG agree with the proposed amendments to the application guidance of S1-S3?
- 25 Does EFRAG SR TEG consider that amendments to S4 (Consumers and end users) should be added?
- 26 Does EFRAG SR TEG consider that amendments be made to the Environmental standards as well; in the case of E1, there is one cross-reference to cover Just transition? If that's the case, how best to incorporate just transition within the Environmental standards (e.g. application guidance with examples)? And which Environmental standards should be in scope for Just transition enhancements?

Appendix 1: Excerpts from the Draft ESRS

27 Following excerpts of the application guidance of ESRS S1 refer to the concept of just transition:

- () ***Own workforce-related specific application guidance on ESRS 2 Disclosure Requirements IRO 2 and 3 on the outcome of the assessment of material sustainability impacts, risks and opportunities:***

AG 8: The undertaking shall ensure that all its own workers who can be significantly impacted through the undertaking's own operations are included in the scope of its reporting under ESRS 2 disclosure requirements. When responding to ESRS 2 Disclosure Requirement IRO 2 paragraph 77 (a), the undertaking shall provide the following information:

[...]

e. any impacts on its own workforce that may arise from the transition to a climate-neutral economy, in particular, unemployment linked to the decommissioning of stranded assets (e.g. shut down of production of power plants);

- (a) **BC56.** The application guidance AG 8 also addresses the need for users for information on 'just transitions' by requiring information on the impacts on own workforce caused by the undertaking's plans and actions to reduce carbon emissions in line with international agreements.

- (b) ***Disclosure Requirement S1-5 – Taking action on material impacts on own workforce and effectiveness of those actions***

[...]

AG 81. In the case of impacts on own workforce that arise from the transition to a climate-neutral economy, the undertaking shall include information on any measures taken to mitigate negative impacts, such as training and reskilling, employment guarantees, and in the case of downscaling or mass dismissal, measures such as job counselling, coaching, intra-company placements and early retirement plans.

Appendix 2: References

- 28 EU Commission (2019). The European Green Deal. [resource.html \(europa.eu\)](#).
- 29 Global Reporting Initiative (2022). GRI 12: Coal Sector 2022. [GRI - Sector Standard for Coal \(globalreporting.org\)](#).
- 30 International Labour Organisation (ILO) (2015). Guidelines for a just transition towards environmentally sustainable economies and societies for all. [Microsoft Word - Guidelines for a just transition - copyrighted.docx \(ilo.org\)](#).
- 31 International Labour Organisation (ILO). Frequently Asked Questions on just transition. [Frequently Asked Questions on just transition \(ilo.org\)](#).
- 32 United Nations Global Compact (2022). Introduction to Just Transition – A Business Brief. [UN Global Compact launches new guidance on a Just Transition for Business | UN Global Compact](#).
- 33 United Nations Global Compact (2022). Statement on the European Sustainability Reporting Standards Exposure Drafts released by EFRAG. p. 2.
- 34 World Benchmarking Alliance (WBA) (2021). Just Transition Methodology [Just-Transition-Methodology.pdf \(worldbenchmarkingalliance.org\)](#).

