

An assessment of Just Transition elements in the Q3 2022 IPR Quarterly Forecast Tracker

Critical developments in the US, Europe, Australia and Nigeria

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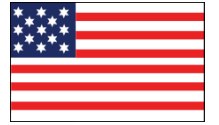
Recap: The Just Transition takes on increasing importance in international policy-making, subject to significant regional variation

- Recent developments in international policy-making confirm that the Just Transition has become a critical concept in international policy-debates, with considerations of equity featuring prominently at COP26 and subsequent discussions.
- At the national level, policy consciousness of the Just Transition is still in its infancy. However, recent analysis suggests that in many countries, there is a growing awareness of the fact that to have the best chance of effective and lasting implementation, policies need to take the Just Transition into account.
- Just Transition progress varies across regions. So far, 2022 policies reviewed in Europe, North America, and South Africa included the strongest Just Transition elements. However, not all just transition elements will be required in all policies, so the strength of each policy must be considered in the context of national circumstances.
- Q3 has seen a continuation of the regional engagement with Just Transition issues in the US and Europe identified in the first half of the year, although Europe's response to the energy crisis has shown only weak to moderate engagement with the Just Transition imperative. So far, Australia's new climate policy has yet to manifest strong Just Transition elements.

Q3 2022 Key Developments

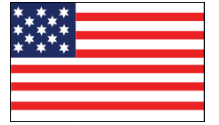
Country or Region	Policy developments	Assessment
<p>Inflation Reduction Act, 2022</p> 	<ul style="list-style-type: none"> The Inflation Reduction Act constitutes the first major climate-focused legislation to be passed in the US in decades. It includes a \$370 billion climate and energy package, primarily operating through tax credits, grants, loans, and infrastructure and procurement programmes. Much of the spending programme is funded through progressive taxation measures 	<p>Strong JT elements</p> <ul style="list-style-type: none"> Displays multiple conceptions of the Just Transition, taking into account procedural, distributive and restorative justice <ul style="list-style-type: none"> Both broad and managerial approach adopted <p>HOWEVER oil and gas leasing provisions remain a major source of concern and may pose a risk to the Just Transition</p>
<p>EU Gas Demand Reduction Plan and proposed regulation; Proposed energy efficiency target</p> 	<ul style="list-style-type: none"> The European Commission has proposed to set a target for each member state to reduce natural gas demand by 15% between 1 August 2022 and 31 March 2023 in response to the energy crisis The EU's four largest political groups have proposed to increase the energy efficiency goal to 14.5% by 2030 relative to 2020, up from the 13% currently proposed by the European Commission 	<p>Weak to moderate JT elements</p> <ul style="list-style-type: none"> Policies with a longer time horizon and longer development periods show broader conceptions of the Just Transition Ad hoc policies focused on responding to the immediate impacts of the energy crisis take a limited focus on distributive justice <ul style="list-style-type: none"> Procedural justice is left to member states in the implementation phase
<p>Australia Climate Change Bill, 2022</p> 	<ul style="list-style-type: none"> The Australian federal parliament has passed a bill enshrining its net zero by 2050 target in law, and committing to a target of 43% emissions reductions by 2030 	<p>Weak JT elements</p> <ul style="list-style-type: none"> Procedural justice emphasised, with some attention to distributive justice <ul style="list-style-type: none"> Primarily managerial approach
<p>Nigeria Energy Transition Plan, 2022</p> 	<ul style="list-style-type: none"> The Energy Transition Plan sets out a timeline and framework to achieve emissions reductions across five key sectors: power, cooking, oil and gas, transport and industry. The plan aims to achieve carbon neutrality by 2060 	<p>Weak JT elements</p> <ul style="list-style-type: none"> Distributive justice emphasised, with a focus on delivering universal energy access <ul style="list-style-type: none"> Both broad and managerial approach adopted

The Inflation Reduction Act and Environmental Justice



- Throughout the Act, and in the communication around it, there is significant emphasis on environmental justice and **support for disadvantaged communities**.
 - Senate Democrats argue that the Act includes \$60 billion in spending dedicated to environmental justice, although environmental justice advocates have argued that this is an over-estimation and the total is closer to \$47 billion.
- One of the most notable elements of the Act is the focus on **addressing legacy pollution**, emphasising environmental and restorative justice in addition to the procedural and distributive concerns that often characterise narrower conceptions of the Just Transition.
 - This is particularly evident in the provision of **\$6 billion** for **Environment and Climate Justice Block Grants** and **Neighbourhood Access and Equity Grants**, which respectively support community-led projects to address environmental harms and transport projects for disadvantaged communities.

The Inflation Reduction Act and ‘No worker left behind’



- The Act contains several provisions that align with the frequent focus placed on the need to ensure that workers in the fossil fuel industry are not “left behind” in the energy transition.
 - **Tax credits** for renewable energy projects are subject to a 10% increase if located in “energy communities”, which have historically been reliant on oil, gas, and coal for a significant proportion of local employment.
 - A broader focus on job creation and the idea of “**green jobs as good jobs**” is also reflected in the fact that bonus credits are available for renewable energy projects and other developments supported by the Act if they comply with prevailing wage and apprenticeship requirements.
 - Solar and wind projects sited in **low-income communities, on indigenous-owned land**, or as part of a low-income building project are also eligible for bonus credits.
 - The Act creates the **Energy Infrastructure Reinvestment Programme**, authorising \$5 billion in spending to provide up to £250 billion in loans to “retool, repower, repurpose, or replace” energy infrastructure that has ceased to operate and to reduce greenhouse gas emissions from energy infrastructure that remains operational. The Act requires “analysis of how the proposed project will engage with and affect associated communities.”

Further Just Transition Elements to note in the Inflation Reduction Act



Greenhouse Gas Reduction Fund

- A federal green investment bank is funded at \$27 billion, with at least 60% of funds focused on disadvantaged communities.
- In addition, SEC. 30002 creates a programme of just under \$1 billion in grants and loans to improve energy efficiency, air quality, electricity generation or climate resilience for assisted housing.

Financial assistance for farmers

Among the provisions focused on forestry and agriculture, there is a commitment of \$2.2 billion of financial assistance for farmers determined to have experienced discrimination prior to 1 January 2021, in Department of Agriculture farm lending programs.

Tax credits for purchase of EVs

The Act introduces tax credits for the purchase of EVs, including or the purchase of used vehicles, which are available to families earning below a certain income threshold.

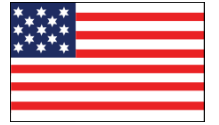
Pollution measures

- The Act commits significant funding to decreasing air pollution at Schools and Ports, including through the procurement of low emissions heavy duty vehicles.
- Provisions to limit methane emissions include a programme of grants and loans for financial and technical assistance to, *inter alia*, reduce legacy air pollution in disadvantaged communities. This is in addition to the more widely reported charge on methane emissions.

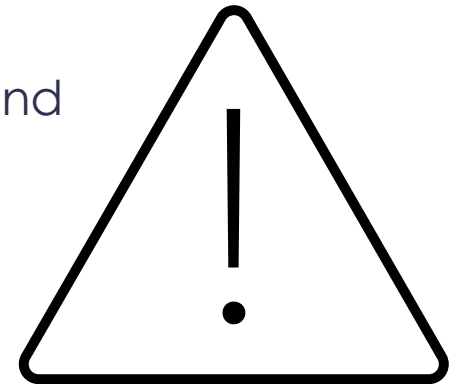
Training of contractors

Provisions in the Act which aim to support low- and median-income households to implement home energy efficiency and electrification measures are accompanied by measures to support the training of contractors to carry out this work.

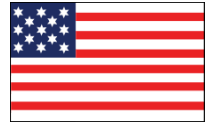
The Inflation Reduction Act: Risks to the Just Transition



- **Environmental Justice Advocates have raised concerns that certain provisions of the Inflation Reduction Act may pose risks to the climate and to vulnerable communities.**
 - Among the most widely criticized provisions of the Act are those regarding leasing of federal lands for offshore energy projects, in which new leases for offshore wind projects are tied to requirements to offer leases for offshore oil and gas projects as well.
 - However, Webb (2022) has argued that as other provisions in the Act may make bidding for leases less appealing, the impact of these provisions may be less than feared.
 - Similar concerns have been raised about tax credits for carbon capture and storage, which advocates say may lead to a continuation of polluting industries.



The Inflation Reduction Act: Potential improvements



- **To further strengthen the just transition elements in the Act, it would be promising to see improvements such as:**
 - **Efficient involvement from federal or state bodies at implementation stages**
 - Many of the provisions of the Act with a just transition emphasis appropriate funds towards programmes that will need significant action from federal or state bodies to implement
 - For example, the Act allocates just over half a billion dollars to support projects to improve domestic water supply to “disadvantaged communities”. The definition of “disadvantaged communities” is to be determined by Commissioner of Reclamation
 - Whether this provision serves to adequately address an issue of environmental injustice and does so in a way that also supports the creation of green jobs will depend on the manner in which the Commission carries out this mandate and the degree of participation and co-creation in the process
 - **To correct fundamental concerns about the Act, a decoupling of the provisions on oil and gas leasing and leasing for renewables projects would be required**

EU Gas Demand Reduction Plan and proposed energy efficiency target



- **Just transition elements are present in Europe's response to the energy crisis, but they remain weak to moderate:**
 - Policies with a longer time horizon and longer development periods show comparatively stronger consideration of the just transition
 - Ad hoc policies focused on responding to the immediate impacts of the energy crisis have limited just transition considerations, taking a managerial approach and focusing on low-income groups
 - Building participatory processes based on stakeholder engagement is left to member states in the implementation phase
- **Policy alignment with the just transition could be improved by:**
 - Strengthening participatory processes at the EU level
 - Policies only focusing on addressing potential negative social impacts can improve by incorporating other forms of justice (e.g., restorative)
- **Additional EU proposals are expected in the next few weeks, which may include further just transition elements:**
 - Requiring a "solidarity contribution" from fossil fuel companies to ease the impact of increasing energy bills
 - A "crisis contribution" or emergency levy from (non-gas) energy companies' profits
 - Initial press releases reference supporting vulnerable households and companies, and investment in clean home-grown energy sources

Australia's Climate Change Bill: Weak signals



- **Explicit just transition framing is notably absent from Australia's new Climate Change Act, nonetheless there is some weak engagement with both procedural and distributive aspects of the just transition:**
 - Section 12 requires annual assessments of the policies developed to meet the targets, including their social and economic impacts on rural and regional Australia.
 - Official documentation notes engagement with aboriginal communities and traditional owners in the development of the Bill.
- **It is worth noting that this legislation is very high level, with a major focus on target setting and creating institutional frameworks, and does not necessarily indicate an absence of just transition concerns at the implementation and policy level**
 - For example, other recent statements such as Prime Minister Albanese's address to the Sydney Energy Forum suggest that support for green skills will be high on the agenda.
- **To improve alignment to the just transition, subsequent policies and plans to implement targets set in the Climate Change Bill should actively include just transition considerations and be co-created with affected communities**

Nigeria's Energy Transition Plan




- **Just transition elements are present but weak:**
 - A key objective is to “promote a fair, inclusive and equitable” energy transition in Africa and to manage the expected long-term job loss in the oil sector
 - The Plan expects to create up to 840,000 jobs by 2060 and convert 30 million homes from dirty fuels to LPG for cooking
 - An Integrated Energy Planning Tool has been created to incorporate electrification, clean cooking and productive use analyses, with community-level data on household energy needs, ability and willingness to pay and proximity to services
- **However, the Plan intends to use gas as a “transitional fuel” and in the interim, may pose risks to the climate**
 - Includes an initial expansion of gas generation capacity to establish baseload capacity for meeting increased electricity demand and integrating renewables. Gas demand from markets is uncertain
- **Nevertheless, the details of the Plan remain high-level. We expect more clarity on the incorporation of just transition elements at the implementation stage**
 - Nigeria is currently seeking to raise an initial \$10 billion support package ahead of COP27, in order to kickstart implementation of the Plan
 - To improve alignment to the just transition, meaningful social dialogue, engagement and participation of workers and rural communities is recommended. There will be significant investment in grassroots infrastructure and communities must be consulted

Implications for achieving the IPR 1.8°C FPS

- Despite legitimate concerns raised by critics, the Inflation Reduction Act is a significant step in the right direction to lasting and effective climate action, while weak engagement with justice and equity principles in recent announcements from Europe and Australia also signal that there are reasons for optimism about the ongoing development of the Just Transition, **at least in western democracies**.
- It is promising that Nigeria's Energy Transition Plan considers promotion of a fair, inclusive and equitable transition as a core objective. However, at this stage, there is weak engagement with just transition elements and procedural justice principles. These may become clearer at implementation stage.
- This is likely to contribute to ensuring the lasting implementation of recent policy announcements, confirming the credibility of progress towards achieving the IPR 1.8°C FPS.
- Achieving a no overshoot **1.5 ° C RPS pathway** will require engagement from all stakeholders across regions, with a corresponding step up in Just Transition considerations in regions where action is lagging.
- A full global review of policy developments will be coming at end of December.

Annex: Notes on the Method and Approach

LSE Just Transition Assessment Framework

- 1 Apply Just Transition lens on IPR Policy Levers to determine relevancy to FPS and RPS forecasts and select policies**
 - 2 Assess whether policies are sufficiently close to implementation level for meaningful analysis**
 - 3 Analyse key Just Transition elements:**
 - Just Transition framing
 - Impact on vulnerable groups
 - Participatory processes and actor engagement
 - Forms of justice: distributive, procedural, restorative
 - Policy areas and sectors
 - Policy instruments
 - Implementation level
 - Duration
 - 4 Assess presence and strength of Just Transition elements**
 - 5 Assess placement on the Just Transition Policy spectrum**
-  **Policy by policy assessment is only part of the story. This assessment should be read alongside an assessment of existing labour laws, social protections, and participatory governance in the implementing country or countries**

Understanding the Just Transition: The Spectrum of JT Policies

Analyse key Just Transition elements –
Strong / Moderate / Weak:

- Just Transition framing
- Impact on vulnerable groups
- Participatory processes and actor engagement
- Forms of justice: distributive, procedural, restorative
- Policy areas and sectors
- Policy instruments
- Implementation level
- Duration












Just Transition Element ⁽¹⁾	Conception of Just Transition	
	Managerial	Transformative
Type of Justice	<ul style="list-style-type: none"> • Procedural justice: managerial policies may focus on consultation with affected groups and other forms of participatory decision-making • Distributive justice: policies may focus on ensuring that certain groups are protected from costs of a transition, typically via the provision of compensation in cash or in-kind (e.g. training and skills) 	<ul style="list-style-type: none"> • Restorative Justice: policies may go beyond the idea of dealing with the distributional impacts of a specific policy and consider the need to address historic injustices • Recognition Justice: policies may contain specific reference to the needs and challenges faced by marginalized or vulnerable communities • Environment Justice: policies may incorporate other elements of environmental and social justice
Scope	<ul style="list-style-type: none"> • Likely to focus on a limited set of stakeholders or beneficiaries, such as workers in a given sector. 	<ul style="list-style-type: none"> • The policy takes a more expansive view of actors involved in the transition. These actors are considered agents, often involved in co-design, as well as stakeholders and beneficiaries.
Space/Location	<ul style="list-style-type: none"> • The policy is narrowly targeted at an industry in transition in one or more specified areas (e.g. coal regions; forests; agricultural areas) 	<ul style="list-style-type: none"> • The policy anticipates the impacts of the transition on the whole of society
Timeframe	<ul style="list-style-type: none"> • Policies are reactive, seeking to respond to events or anticipated impacts associated with specific elements of a planned transition • Policies may be focused on the short and medium term 	<ul style="list-style-type: none"> • Policies are proactive, focused on creating societal frameworks to enable long term change • Policies may be focused on long-term (2050 or beyond) transition



It is important to note that defining a policy as managerial or transformative does not imply a value judgment regarding the policy. Every country is likely to require both types of policy to ensure the implementation of a Just Transition

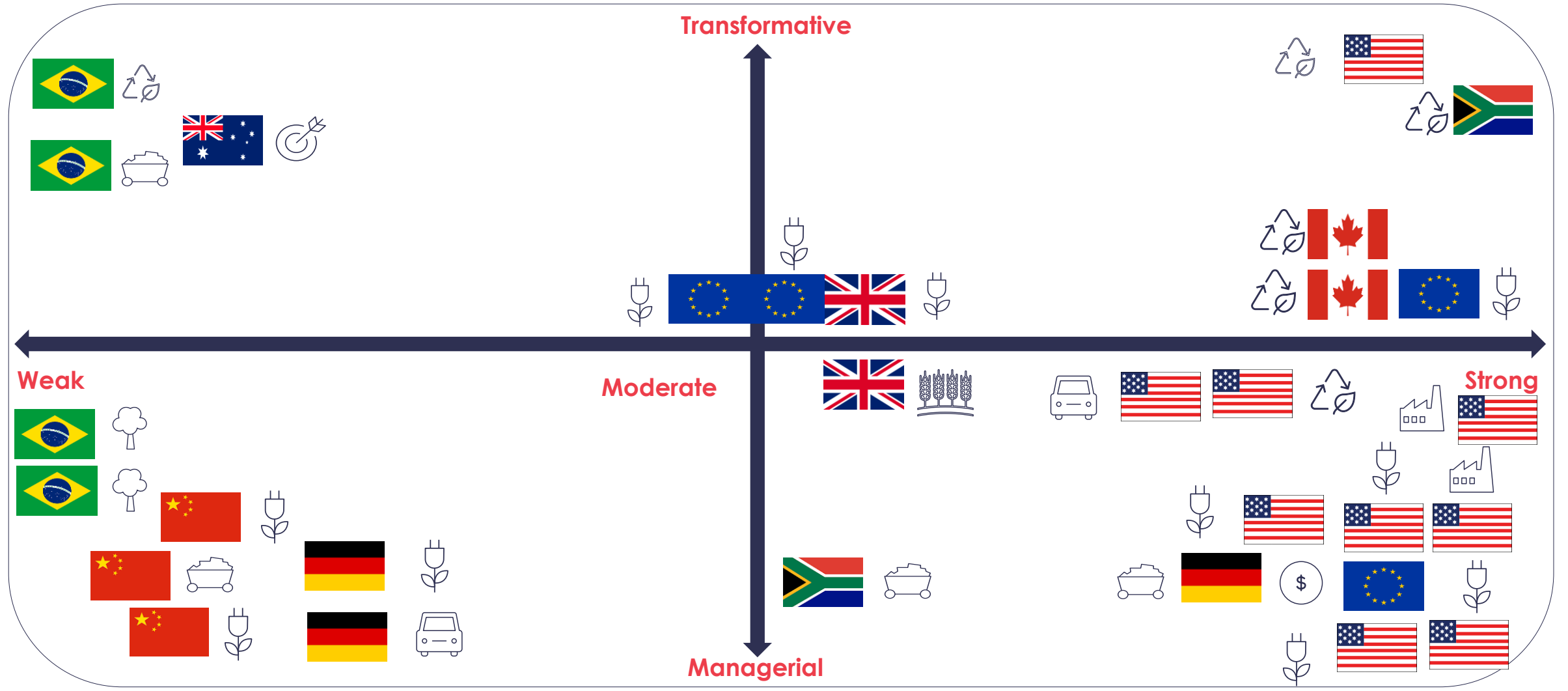
⁽¹⁾ Adapted from the Just Transition framework developed by Heffron & McCauley (2018)

Key

Icon	Sector
	Multiple areas / cross-sectoral
	Coal Phase Out
	Transport
	Clean Power
	Carbon Pricing
	Industry Decarbonisation
	Agriculture
	Land Use and Forestry
	Net zero targets

Icon	Countries
	Germany
	European Union
	Canada
	South Africa
	China
	United States
	United Kingdom
	Brazil
	Australia

Q1 and Q2 Recap: Placing developments on the JT spectrum

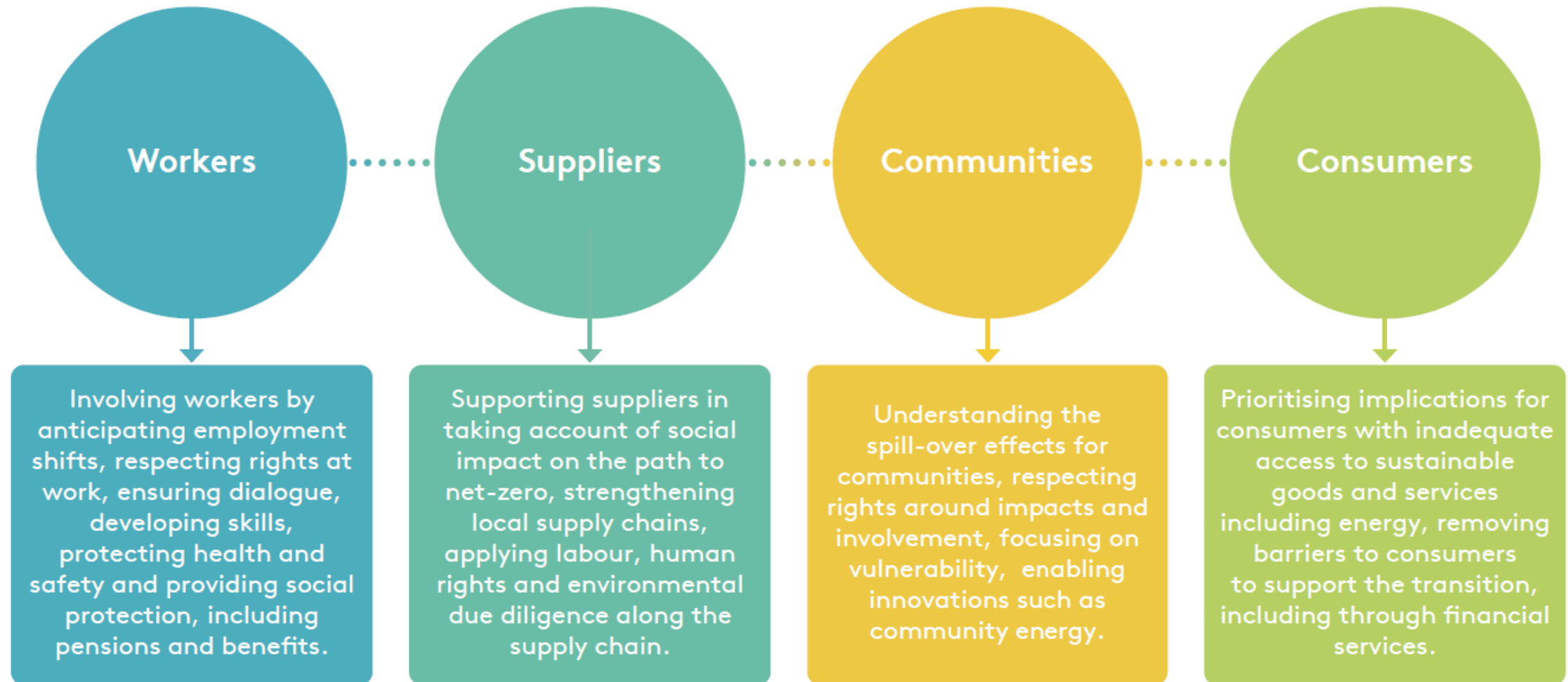


Why consider the Just Transition?

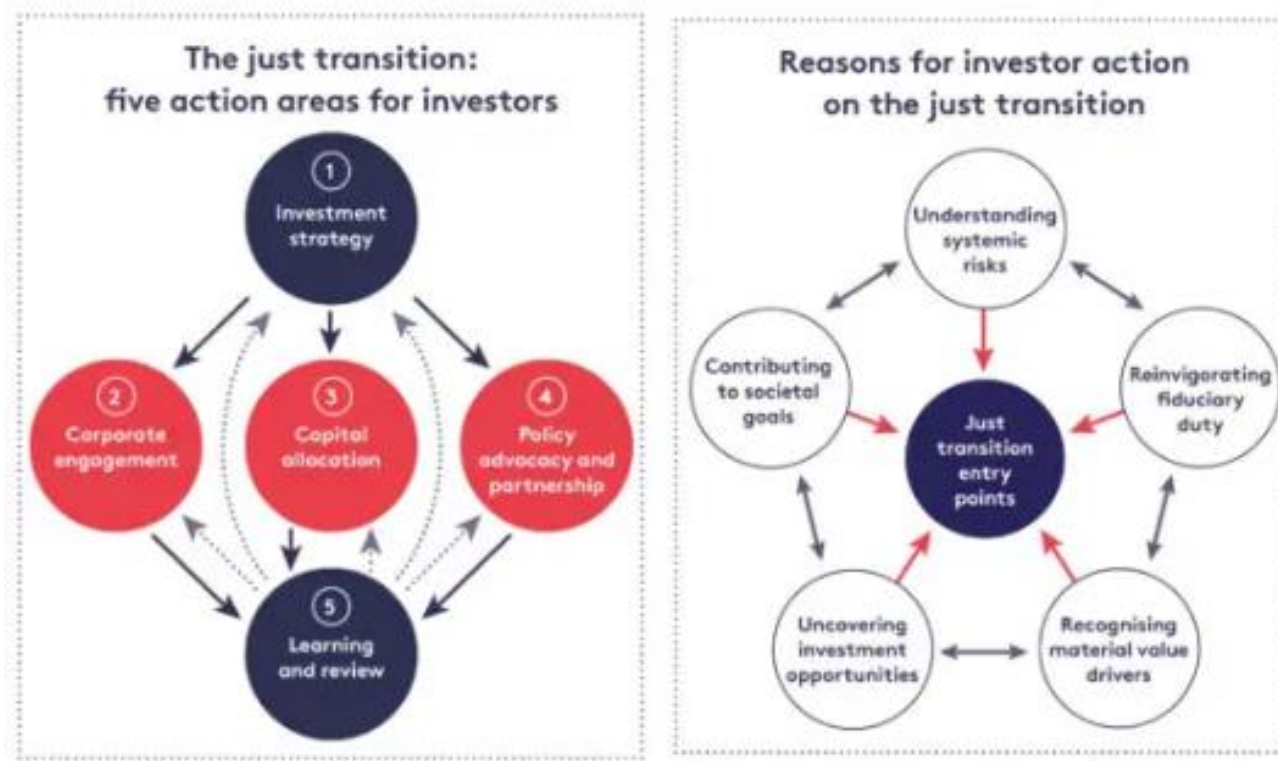
- The Just Transition is increasingly recognised as **a key strategy for delivering ambitious climate action**. By responding to the needs of workers, communities and consumers, governments can accelerate the shift to a net-zero economy: first, by mitigating concerns about downside social risks, and second, by realising social opportunities in terms of the creation of decent work for all, social inclusion and the eradication of poverty.
- The ways that governments, business and investors now incorporate the Just Transition into their climate policies will be a key factor shaping how the IPR forecasts play out. Climate policies that anticipate and address the distributional dimension of net-zero **will have a greater chance of success**, and it could well make the difference between achieving or failing to achieve a net-zero economy by 2050.

~ Nick Robins, *The Just Transition: Shaping the delivery of the Inevitable Policy Response*, Inevitable Policy Response (2022)

Priority groups in the Just Transition



Understanding the role of investors



~ Robins et al., *Climate Change and the Just Transition – A guide for investor action* (2018)