



United Nations
Global Compact

JUST TRANSITION IN SUPPLY CHAINS

A BUSINESS BRIEF



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KEY MESSAGES

- 1.** Businesses are adopting holistic risk management strategies that address the climate and social risks associated with their supply chains. To advance just transition, placing fairness, equity and inclusivity at the centre of such strategies allows businesses to identify mutually reinforcing measures and co-benefits that could be unlocked in pursuing climate mitigation and adaptation.
- 2.** Businesses are increasingly taking steps to improve the transparency of their supply chains with respect to sustainability, labour and human rights practices. However, many businesses lack comprehensive visibility and understanding of the risks posed by the physical impacts of climate change. As a consequence, business-driven climate adaptation measures have been slow to develop.
- 3.** Businesses, especially multinational corporations, are continuing to introduce or improve existing clauses on sustainability and responsible business conduct in contracts with new suppliers and layering such clauses into contracts with existing suppliers with built-in transition periods. Yet there is a need for a stronger coupling of environmental and labour and human rights compliances to adequately address the social dimension of climate change. A dialogue-based approach creates an opportunity for these businesses to work with suppliers to develop climate-resilient solutions that deliver shared benefits for businesses, suppliers and their workers.
- 4.** To support a just transition across mitigation and adaptation, stronger actions are needed from governments to create the enabling environment and regulatory framework that level the playing field for companies and deliver systems change throughout global supply chains. This could include mandatory human rights and environmental due diligence, reformed public procurement systems and improved occupational safety and health protection requirements. At the same time, social dialogue among governments, businesses and workers is key to establishing a broad-based consensus on a harmonised approach to sustainable business practices. Robust reporting, monitoring and enforcement mechanisms are also critical.
- 5.** Small and medium-sized enterprises (SMEs) play an important role in supply chains but often have less capacity to manage the climate and social risks to their operations and less influence over their own supply chains. Governments and larger companies must therefore provide technical and financial support to incentivise SMEs to deliver socially just and climate-resilient supply chains. By adhering to standards of environmentally and socially responsible business conduct, SMEs would be able to attract other business customers.





INTRODUCTION

By design or default, climate and environmental change will be a transformational driver for the global economy and for businesses around the world in the coming decades. Climate-driven economic changes will also emanate from the response of governments and companies as they implement mitigation and adaptation measures to manage the physical and transition risks stemming from a warming climate. As businesses' exposure to climate risks is expected to grow, supply chains will increasingly become the focus area for companies and their mitigation and adaptation efforts due to their relative impact on, and exposure to, climate change. However, misguided climate actions, known as maladaptation, could adversely affect workers, local enterprises and communities which together form the backbone of domestic and cross-border supply chains. On the other hand, companies with sustainable and long-term risk management strategies that integrate environmental, economic and social impact governance in their supply chains will be more resilient and better positioned to manage the climate change risks and the impacts that businesses will face to advance a just transition to net-zero and environmentally sustainable economies.

The concept of just transition has increasingly gained traction among large companies looking to accelerate the adoption of environmentally and socially responsible business conduct throughout their business operations. At the same time, regulatory developments have recently begun to impose requirements on companies to tackle issues relating to climate change and labour and human rights, with implications for the supply chains of businesses. As industries shift towards a net-zero

and climate-resilient economy, a just transition means promoting environmentally sustainable economies in a way that is as fair and inclusive as possible to everyone concerned, creating decent work opportunities and leaving no one behind. This entails companies embedding principles around social dialogue, labour rights and decent employment into climate risk management strategies to deliver shared benefits for business, workers and communities. Companies also need to engage with affected stakeholders to ensure the adequate management of the impact on the communities surrounding transition of their business operations. Moreover, an open and transparent dialogue will facilitate the inclusion of diverse perspectives, fostering trust and ensuring that the plan meets the various unique needs and aspirations of different stakeholders.

The purpose of this business brief is to describe how companies can better manage the convergence of different climate risks that they are exposed to through their supply chains by placing just transition at the centre of their transition planning and risk management strategies and making it a key pillar of overall business management. It highlights recent examples of companies implementing policies and practices to manage the environmental and social impacts of their supply chains. The brief will also discuss the importance of multilateral frameworks, the role of governments and multi-stakeholder collaborations. Finally, the brief offers five recommendations for businesses to improve the sustainability and resilience of their supply chains through a just transition.



BUSINESSES AND THEIR SUPPLY CHAINS IN A CHANGING CLIMATE

Businesses are exposed to myriad challenges related to climate change, and many companies have begun to recognise that climate change poses a strategic and operational risk that will have a material impact on their business operations.¹ Some of the key climate risks have been discussed in previous briefs developed by the Think Lab on Just Transition, namely [Introduction to Just Transition](#), [Just Transition for Climate Adaptation](#), [Financing a Just Transition](#) and [Just Transition and Renewable Energy](#). These risks are described in Figure 1. At the same, the response of companies to these climate risks will also impact people within the company and in the wider community.

Supply chains refer to complex systems and processes where raw materials and components are transformed into the finished product or service at the point of delivery to customers, arranged across different tiers that relate to the distance between the supplier and the final product. To meaningfully reduce greenhouse gas (GHG) emissions, corporate climate actions targeting company supply chains have gained in relevance in recent years, since value chain emissions are on average 11.4 times higher than companies' operational emissions.² In addition, about 76 per cent of business leaders have reported moderate to very high pressures from investors to advance on supply chain sustainability.³

The actions taken by businesses to advance the transition, however, often require them to seek new inputs to supply chains, technologies and skills, which can result in unexpected labour and social risks. This includes impacts on workers' employment across different sectors and labour issues in the supply chains, including child labour, hazardous working conditions and adverse impact on communities, including Indigenous communities.

- 1 See for example World Economic Forum, *Global Risks Report 2023: 18th Edition* (Geneva, 2023); Moody's, *Rising focus on just transition will raise risks for most exposed companies* (2021).
- 2 CDP, *Transparency to transformation: A chain reaction - CDP Global Supply Chain Report 2020* (New York, 2021).
- 3 David H.C. Correll and Kellen Betts, *State of Supply Chain Sustainability 2022: Adjustments and Equilibriums* (Cambridge, Massachusetts, MIT Center for Transportation & Logistics and Council of Supply Chain Management Professionals, July 2022).

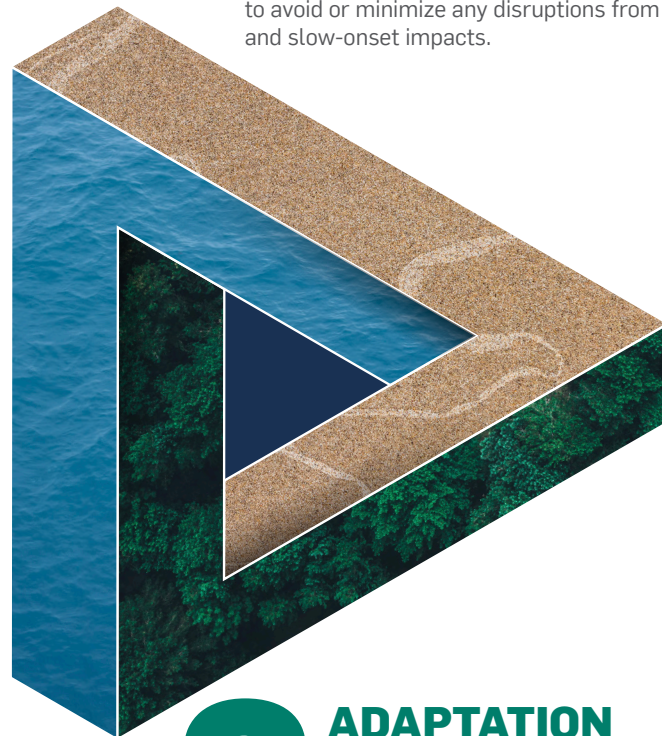
FIGURE 1.
THE THREE DRIVERS OF CLIMATE RISK AFFECTING SUPPLY CHAINS⁴

1 TRANSITION RISKS AND CHANGING SOCIETIES

Transition risks relate to a wide array of risks that stem from societal and economic shifts towards a low-carbon and net-zero compatible society. These risks include policy/regulatory risks, technological and markets risks and litigation risks. To manage transition risks, companies will need to address sustainability issues across their supply chains to reduce their extended carbon footprints as well as access new raw materials and manufacturing capabilities needed for the shift to low carbon products and services.

2 PHYSICAL IMPACTS OF CLIMATE CHANGE

Physical risks refer to risks from the physical impacts of climate change, which include both acute impacts (e.g. heat waves and flooding) and slow-onset impacts (e.g. sea-level rise and rising temperatures). Companies will need to strengthen the resilience of their supply chains to avoid or minimize any disruptions from acute and slow-onset impacts.



3 ADAPTATION ACTION WITH ADVERSE OUTCOMES

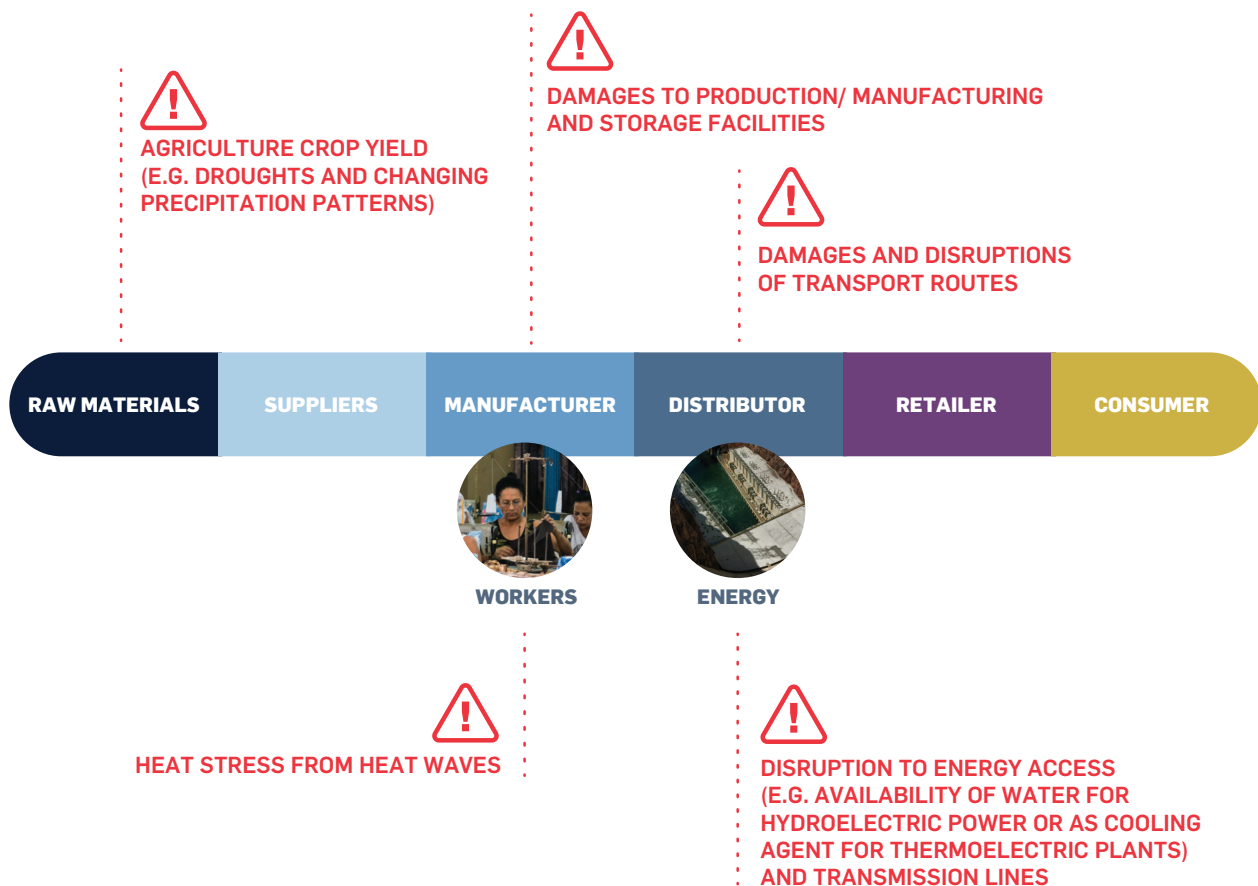
Maladaptation has been defined by the UNFCCC as "any changes in natural or human systems that inadvertently increase vulnerability to climatic stimuli." In other words, a maladaptation measure increases vulnerability instead of reducing it. Accordingly, companies need to ensure that implemented adaptation measures climate-proof their supply chains for the long-term and build resilience for the workers, enterprises and communities that underpin their supply chains.

⁴ Adapted from: Adis Dzebo, Frida Lager and Richard Klein, *Just Transition for Climate Adaptation: A Business Brief* (New York, United Nations Global Compact, 2022).

Supply chains are also increasingly being affected by climate change through changing weather patterns and extreme weather events such as storms, floods, droughts and wildfires. Climate impacts are not only causing more frequent and severe disruptions to supply chains by reducing the availability of natural resources, damaging infrastructure and disrupting logistical routes but also by affecting the health, safety and livelihoods of workers and

communities.⁵ To ensure a just transition, it is essential for risk management strategies to incorporate social and environmental risks into their mitigation and adaptation measures for their supply chain. The three drivers of climate risks affecting supply chains are described in Figure 2.

**FIGURE 2.
DISRUPTIONS TO SUPPLY CHAINS THROUGH DIFFERENT TRANSMISSION PATHWAYS**



⁵ Edward Cameron, Samantha Harris and Emilie Pratico, *Resilient Business. Resilient World: A Research Framework for Private-Sector Leadership on Climate Adaptation* (San Francisco, BSR, 2018).

EMBEDDING JUST TRANSITION INTO SUPPLY CHAIN RISK MANAGEMENT

Companies are increasingly integrating climate and social risks into their core business and risk management strategies as they acknowledge that these efforts are mutually reinforcing and can deliver valuable co-benefits.⁶

MANAGING ENVIRONMENTAL AND SOCIAL IMPACTS OF SUPPLY CHAINS

Just transition entails businesses embedding principles around social dialogue, social protection and rights at work and employment into their climate strategies to deliver shared benefits for companies, workers and communities. To understand the guiding principles of a just transition, companies should consult the International Labour Organization's (ILO) Guidelines for a just transition towards environmentally sustainable economies and societies for all (henceforth ILO Just Transition Guidelines), as described in Figure 3. In addition, the World Benchmarking Alliance, together with partners, has developed just transition indicators that enable businesses to gauge their progress during the transition.⁷ Meanwhile, many multinational corporations are already leveraging their size and market influence to encourage their supply chain partners to adopt business policies and practices that are compatible with a just transition.

A growing number of companies are introducing policies on sustainability and broader responsible business conduct and clauses into partnership agreements to set the bar for new suppliers and build these into their auditing process. Such clauses are also being layered into contracts with existing supply chain partners, with built-in transition periods to allow them to plan and prepare. How these clauses are embedded into contracts and enforced is important as it can determine whether the transition is just or not. These practices are not only important to facilitate socially just mitigation and adaptation measures in the upper layers of the supply chains but must also trickle down to lower tiers of the supply chains over time, especially in the case of broader market adoption. If these just transition practices fail to spread across the entire supply chain, environmental and social issues risk being

pushed down to lower tiers, reinforcing the injustice. As it is a persistent problem for companies to have visibility and influence over the more distant tiers of the supply chains, new and innovative approaches are needed to overcome this challenge. Large companies must also be aware of any adverse effects such policies may unintentionally have, including increased cost of production, lower wages, displacement of workers etc.

Other companies have adopted a more dialogue-based approach and are working collaboratively with their trusted suppliers to raise awareness of the environmental and social impacts of their operations and highlight policies and practices that are instrumental to address these issues, such as via seminars and workshops. Some have taken further steps to provide technical support and access to finance to help the workers and local enterprises across their supply chain materialise the social and environmental benefits of climate mitigation and adaptation efforts. Figure 4 highlights some initiatives of Think Lab companies to support just transition towards sustainable and resilient supply chains.

⁶ Julius Eggert and Julia Hartmann, "Sustainable supply chain management – a key to resilience in the global pandemic" in *Supply Chain Management*, Vol. 28, No. 3, p. 486-507 (Germany, Emerald Publishing Limited, 2021).

⁷ World Benchmarking Alliance, *Assessing a just transition: measuring the decarbonisation and energy transformation that leaves no one behind* (Amsterdam, 2021).

FIGURE 3. GUIDING PRINCIPLES OF THE ILO JUST TRANSITION GUIDELINES

The ILO Just Transition Guidelines provide a policy framework for governments and other social partners (i.e. labour and employer organisations) to develop holistic and comprehensive plans for mitigation and adaptation to climate change and disaster preparedness across nine policy areas.⁸ The ILO Guidelines serve as a central reference on just transition and set out a series of actions for government, businesses and workers, including measures to ensure sustainable and inclusive supply chains.⁹ They outline seven guiding principles for just transition efforts, which can easily be applied at company level as shown below.

- 1 SOCIAL CONSENSUS AND SOCIAL DIALOGUE:** Strong social consensus on the goal and pathways to sustainability is fundamental. Social dialogue has to be an integral part of the institutional framework for policymaking and implementation at all levels. Adequate, informed and ongoing consultation should take place with all relevant stakeholders, for example via company-level workplace collaboration, collective bargaining agreements and bipartite and tripartite dialogue.
- 2 RESPECT, PROMOTE AND REALIZE FUNDAMENTAL PRINCIPLES AND RIGHTS AT WORK:** Policies must respect, promote and realize fundamental principles and rights at work. The ILO Help Desk for Businesses provides guidance for companies and workers on how to better align business operations with international labour standards based on these principles and build good industrial relations.¹⁰
- 3 GENDER EQUALITY:** Policies and programmes need to take into account the strong gender dimension of many environmental challenges and opportunities. Specific gender policies should be considered in order to promote equitable outcomes, which could include company guidelines, training and mentoring to support diversity and gender equality.
- 4 POLICY COHERENCE:** Coherent policies across the economic, environmental, social, education/ training and labour portfolios need to provide an enabling environment for enterprises, workers, investors and consumers to embrace and drive the transition towards environmentally sustainable and inclusive economies and societies. This includes ensuring coherence among environmental and climate strategies with social due diligence and guidelines on labour compliance in the company.
- 5 JUST TRANSITION FRAMEWORK:** These coherent policies also need to provide a just transition framework for all to promote the creation of more decent jobs. As such, companies should assess the anticipated impacts on employment and ensure adequate and sustainable social protection for job losses and displacement, skills development and social dialogue, including the effective exercise of the right to organise and bargain collectively.
- 6 NO 'ONE SIZE FITS ALL':** Policies and programmes need to be designed in line with the specific conditions of countries, including their stage of development, economic sectors and types and sizes of enterprises. Therefore, customisation and differentiation among sectors and company size will be needed as there is no 'one size fits all' approach for companies.
- 7 INTERNATIONAL COOPERATION FOR SUSTAINABLE DEVELOPMENT:** In implementing sustainable development strategies, it is important to foster international cooperation among countries. In this context, the principles recall the outcome document of the United Nations Conference on Sustainable Development (Rio+20), including section VI on means of implementation. Companies should also work with non-state actors such as investors, cities and regions to speed up actions on climate change.

⁸ International Labour Organization, *Guidelines for a just transition towards environmentally sustainable economies and societies for all* (Geneva, 2015).

⁹ International Labour Organization, *International Labour Conference – 111th Session, 2023: Outcome of the General Discussion Committee on a Just Transition* (Geneva, 2023).

¹⁰ International Labour Organization, *"ILO Helpdesk for Business on International Labour Standards"*.



FIGURE 4. INITIATIVES OF THINK LAB COMPANIES TO SUPPORT A JUST TRANSITION AND IMPROVE THE SUSTAINABILITY AND RESILIENCE OF SUPPLY CHAINS

BUILDING A SHARED CLIMATE RESILIENCE: UNILEVER is actively working to improve the sustainability and resilience of its supply chain. For example, through education, access to technology and funding, the company is supporting farmers and their communities to implement regenerative agriculture practices. These methods enable farmers to adapt to climate change impacts and safeguard their crops in the long term by improving soil health and biodiversity, while providing opportunities for income diversification. Unilever is also helping to ensure that smallholder farmers directly providing them with goods or services earn at least a living income by 2030. This would ensure that they can afford a decent standard of living and have provisions for unexpected events. In addition, the Hindustan Unilever Foundation, through its flagship 'Water for Public Good' platform in India, is working in partnership with the Government and NGOs to catalyse effective water security solutions at scale. Programmes range from reforestation and building infrastructure (dams, ponds, bunds) at India's largest watersheds to working with village local councils to develop water budgets to manage supply.

BRINGING WORKERS AND LOCAL COMMUNITY INTO THE FOLD: The Danish energy company **ØRSTED** has placed much emphasis on delivering a just transition as a core part of meeting its climate targets, where the creation of economic and societal benefits for local stakeholders has been a key value proposition for the company's renewable energy projects.¹¹ The company has been making concerted efforts to bring local businesses and workers into the fold of its supply chains around locations of offshore wind projects by making its work packages more accessible to local enterprises. Ørsted has also invested in local educational programmes and apprenticeship schemes, in cooperation with local universities and community colleges, which aim to deliver job opportunities in local communities as well as secure the company with much-needed access to a skilled workforce locally to meet the operational needs of the production facilities. Most recently, Ørsted has launched an offshore Wind Farm Technician Job Readiness Program in Atlantic City, NJ in the US, designed to provide participants with the skills they need to secure careers in clean energy.

ENGAGING SUPPLIERS TO PROVIDE TECHNICAL SUPPORT: The Indian conglomerate **MAHINDRA** recently joined the pilot round of the Sustainable Supplier Impact Programme of the UN Global Compact through its companies Mahindra Auto & Farm and Mahindra Logistics. This five-month programme aims to upskill and equip suppliers with tools to operationalize the Ten Principles of the UN Global Compact and advance sustainable and resilient supply chains. The ultimate objective is to enable suppliers in areas of social and environmental sustainability, incorporate sustainability into business operations and ultimately make supply chains exponentially more sustainable, achieving global impact. As part of this programme, Mahindra is engaging with more than 100 of its suppliers through facilitated and online learning sessions created and led by Accenture Sustainability and Innovation specialists. Once suppliers complete the programme, Mahindra is incentivising them with key benefits to accelerate collective action on creating sustainable supply chains. These incentives include potential to score higher on their ESG supplier due diligence scorecard, points towards annual supplier rewards programme and opportunities to directly interact with senior Mahindra leadership and other peer suppliers.

¹¹ Ørsted, *"Thriving communities"*.

THE BUSINESS CASE FOR JUST TRANSITION IN SUPPLY CHAINS

There are also strong economic benefits for businesses that take actions to strengthen the sustainability and resilience of their supply chains by pursuing risk management strategies that address both climate and social risks across their supply chains in tandem. These include actions to improve the transparency of supply chains and adaptation measures that deliver shared resilience. Some of the main benefits have been summarized in the [Introduction to Just Transition: A Business Brief](#).

Think Lab companies that have conducted materiality assessments and engaged with supply chain partners on environmental and social issues are benefitting from greater transparency across their supply chains. This improved transparency has better positioned these companies to both determine and manage the different climate and social risks throughout the supply chains that could compromise business operations. Some initiatives that have been established to improve supply chain transparency are listed in Figure 5. A just transition approach that integrates labour and wider social considerations into companies' sustainability efforts has also facilitated technology uptake and improved access to and retention of skilled labour across their operations and that of their suppliers through the upskilling and reskilling of workers. This has allowed companies to enhance productivity and reduce operational cost throughout their value chain.

Beyond protecting their material assets, companies invest in adaptation measures to provide direct benefits to workers and their communities across companies' supply chains. Resilience in the face of growing impacts of climate change on workers' health and safety is a priority.¹² In this light, businesses can help to address health and safety related vulnerabilities and inequities that characterise many of the communities involved in supply chains. Such investments are beneficial for companies themselves as well, as these actions would maintain business continuity and support productivity.¹³ Government policies are however instrumental to make investment in just transition in climate resilient supply chains more attractive.

In addition, some SMEs may welcome the encouragement and see broader commercial and social benefits to 'raising the bar' on environmental and social standards, as compliance to environmentally and socially responsible business practices can make them attractive supply chain partners to other companies.

¹² Tord Kjellstrom and others, *Climate Change and Labour: Impacts of heat in the workplace* (New York, UNDP, 2016).

¹³ Gitanjali Singh, "Protecting Human Capital: Making Workforces Resilient to Climate Change Impacts on Health", SustainAbility Institute by ERM, 6 April 2022.



A large container ship is sailing on the ocean at sunset. The ship is filled with colorful containers and is moving towards the right. The sky is a mix of orange, red, and blue, and the water is a deep blue. The ship's wake is visible in the water.

FIGURE 5. IMPROVING SUPPLY CHAIN TRANSPARENCY THROUGH DATA ANALYTICS

Measuring and managing climate risks is often a challenge for businesses since many companies today lack comprehensive and robust data and analytical tools to improve the transparency of their supply chains. Having access to consistent data and analytical tools is key to managing the different climate and wider environmental risks to which companies are exposed. Therefore, innovative data analytics will play an instrumental role in helping companies conduct climate risk assessment and design relevant risk management strategies.

The Stockholm Environment Institute has been leading two data-driven initiatives that set out to improve the transparency of international trade connections and supply chains, with the aim of helping drive a global shift towards more sustainable and socially just commodity production and consumption. The first initiative is TRASE, an open-access online mapping tool that brings together publicly available data to support companies, financial institutions and civil society to manage environmental risks and address sustainability issues in agricultural supply chains.¹⁴ TRASE's digital tool and actionable data is already being used by governments, companies and financial institutions around the world to tackle deforestation.

The second initiative is the Global Shipping Watch (GSW). It is also an open-access platform that links maritime emissions with specific supply chain actors through better data access and monitoring capability.¹⁵ By helping the shipping sector set performance baselines across transport modes, companies and commodities through a standardised emission reporting system, the GSW can help make global maritime shipping and international supply chains more transparent.

The World Benchmarking Alliance has also been developing a Climate and Energy Benchmark which is working to rank 450 of the world's leading companies across high-emitting sectors on their contribution to a just transition by assessing their alignments with the goals of the Paris Agreement and Sustainable Development Goal 13 alongside their approach to addressing the social challenges of the net-zero transition. The companies, which collectively employ 24 million people, will be measured against efforts to respect rights of workers, communities and the most vulnerable as part of their transition to meet climate and other sustainability goals, including throughout their supply chains.¹⁶

14 Stockholm Environment Institute, "TRASE" (accessed on 7 June 2023).

15 Javier Godar, "Global Shipping Watch: Big data to help decarbonize maritime shipping: Fact sheet", Stockholm Environment Institute, April 2022.

16 World Benchmarking Alliance, "Climate and Energy Benchmark".

THE IMPORTANCE OF AN ENABLING ENVIRONMENT FOR A JUST TRANSITION

The global economy, with large transboundary and domestic supply-chain structures, is characterised by a complicated landscape riddled with policy, legal, institutional and regulatory drivers which together can enable or hinder a socially just transition. Therefore, the degree of influence that companies have on their supply chains can vary significantly depending on their size, sector, product or service.

Companies in the Think Lab recognize they face challenges in promoting environmentally and socially responsible business conduct beyond the first two tiers of their suppliers, and many multinational corporations rely on hundreds or thousands of different suppliers. Companies can also be hindered in their ability to manage climate and social risks across their supply chains when their products and services rely on resources or manufacturing concentrated around a small number of suppliers (e.g. due to valuable intellectual property or geographically restricted resource availability), as it makes it difficult to diversify and substitute with companies that have more sustainable and socially responsible practices when alternative suppliers are limited.

Furthermore, many supply chain networks are underpinned by small and medium-size enterprises (SMEs), which in turn may not have the ability or resources to adopt new practices and technologies to adhere to social and environmental standards due to financial resource constraints and access to credit. In fact, in a recent corporate survey conducted by the UN Global Compact and Accenture, the majority of SME CEOs (85 per cent) reported that they were missing educational resources to build business resilience.¹⁷

To improve supply-chain resilience and ensure a just transition, companies need to work closely together with their suppliers and workers and other social partners to understand how climate mitigation and adaptation measures can be implemented across supply chains in ways that deliver broader benefits for the workers, local enterprise and communities that underpin them. Companies also need support from both state actors and non-state actors, globally as well as nationally, through enabling environments, clear guidelines and frameworks and ambition towards achieving a just transition.

MULTILATERAL GUIDELINES AND FRAMEWORKS

International frameworks on responsible business conduct, such as the ILO Tripartite Declaration on Multinational Enterprises and Social Policy (MNE Declaration), the UN Guiding Principles on Business and Human Rights and the OECD Guidelines for Multinational Enterprises provide guidance to businesses on how to avoid and address adverse impacts with which they may be involved while encouraging a positive contribution to economic, social and environmental sustainability. [Introduction to Just Transition: A Business Brief](#) outlines seven priority actions to help all companies, including those in supply chains, understand just transition's principles, identify gaps in current practices and generate ideas for improving alignment.

However, one of the main challenges for businesses is that there is currently no coherent and comprehensive global governance framework to harmonise definitions, standards and indices of environmentally and socially responsible business conduct. Because of this, many companies, including suppliers, are struggling to adhere to different national metrics and disclosure frameworks, while trade barriers threaten to make the transition more costly for businesses. The voluntary nature of international frameworks and the lack of enforcement mechanisms is also a challenge, although these regulatory frameworks would apply less to SMEs for the reasons mentioned above. The EU Corporate Sustainability Reporting Directive (EU CSRD) that recently took effect takes important initial steps to address these issues.

¹⁷ United Nations Global Compact and Accenture, *Reimagining the Agenda: Unlocking the Global Pathways to Resilience, Growth, and Sustainability for 2030 - 12th United Nations Global Compact-Accenture CEO Study* (2023).

THE ROLE OF GOVERNMENTS

Governments have an important role of implementing policies, developing regulations and ensuring compliance and monitoring at national level to create labour markets that can deal with planned and unanticipated changes. Therefore, government actions are key to creating an enabling and facilitating environment to support companies in their effort to deliver socially just supply chains that are resilient to the myriad climate risks.

Yet, it is important to consider there are no 'one-size-fits-all' solutions and thus governments need to develop their own policies and regulatory frameworks that are suitable to their own national contexts. Beyond creating the relevant policy environment, governments also need to play a greater role in facilitating dialogues and awareness raising among relevant stakeholders. Several suggestions for government actions that have stemmed from the Think Lab on Just Transition are listed in Figure 6.



FIGURE 6

Mandatory due diligence and enforcement

Greater statutory requirements from governments and robust enforcement mechanisms are needed to enable the kind of systemic change required to deliver socially just, sustainable and resilient supply chains. It can be capital intensive for companies to deliver the bold and transformative changes needed to effectively address climate and social risks in supply chains, which leads to higher operational cost. Since higher operational costs can harm the competitiveness of these companies and send a harmful market signal, their ambitions and actions to drive a transition towards climate-resilient and socially responsible supply chains will be curbed in the absence of strong policy and regulatory mechanisms to level the playing field. Strong government actions are therefore important to ensure that companies are not penalised for doing the right thing. However, mandatory measures can have unintended consequences with serious implications for smaller businesses and jobs, and thus capacity building and access to finance needs to bolster in parallel.

Public procurement

Governments should better design public procurement systems to send a clear market signal about products, services and infrastructure that are produced in an environmentally and socially responsible manner. Public authorities and institutions could introduce or strengthen clauses on sustainability, labour and human rights in their call for tenders and demonstrate the willingness to pay a premium for environmentally and socially responsible business practices. Such market signals from the public sector could permeate through the supply chains and create economic incentives for suppliers across different tiers to make changes to improve sustainability and labour and human rights aspects of their business operations.

Access to finance and capacity building for SMEs

SMEs may not have the human capital and financial resources to address climate and social impacts of their operations and their supply chains. Therefore, governments should work with businesses and social partners to provide technical support and access to finance that will enable SMEs to adopt environmentally and socially responsible business practices. For instance, governments could provide non-competitive funding for SMEs to adopt new processes and technologies for climate resilient and socially inclusive business operations and/or reform tax systems to favour responsible business practices. In some cases, there is scope for governments and large companies to promote the commercial benefits of higher standards to encourage SMEs to co-invest.

Informal employment and social protection

Workers with informal contracts may have limited labour rights and weaker social protection, which may render them more vulnerable to the impacts of climate change due to lack of access to employment related health and social protection. Informal employment arrangements among suppliers may also make it difficult for companies to have visibility of the environmental and social risks across their supply chains and act on those. The implementation of sustainability and resilience measures throughout the supply chain could in fact unfairly impose economic cost to the workers who already have poor wages. As such, governments should take steps to formalise the employment conditions in businesses and work together with social partners to set in place mandatory requirements that address the decent work deficits.



THE IMPORTANCE OF MULTI-STAKEHOLDER COLLABORATIONS AND BUSINESS COALITIONS

With social dialogue at heart, multi-stakeholder collaborations and business actions can play a key role in advancing stronger collective action and policy alignment to deliver just transition across climate mitigation and adaptation actions. At the same time, businesses that collaborate with social partners and civil society organizations can facilitate a comprehensive and coherent approach that delivers just and transformative climate action across sectors and company types while enabling rights at work, job creation and enhanced social protection.

Many companies have begun to establish strategic partnerships with other businesses that share their values and commitments on climate action and labour and human rights within and outside their respective sectors. These partnerships allow companies to leverage their collective voices for policy advocacy and to leverage their aggregate market influence to promote environmentally and socially responsible business practices among suppliers, logistics operators and their workforces.

For example, an alliance of more than 60 companies, supported by the UN Global Compact, launched a call to the European Parliament demanding that living wages and incomes be incorporated as a human right within the EU Corporate Sustainability Due Diligence (EU CSDD) directive that was recently signed into law.¹⁸ The EU CSDD directive sets out to encourage larger companies to carefully manage the environmental and social impacts of their supply chains but has faced concerns over shortcomings that may curb the positive impact on the environment and labour and human rights.

The Maritime Just Transition Task Force is a multi-stakeholder collaboration launched at COP26 in Glasgow by the International Chamber of Shipping, the International

Transport Workers' Federation, the International Maritime Organization, the ILO and the UN Global Compact to ensure that the shipping industry's response to the climate emergency puts seafarers at the heart of the solution. It is the first sector-specific global task force dedicated to just transition.

Some countries and businesses may not have the financial resources to implement the required measures to make supply chains just, sustainable and resilient. Therefore, tripartite dialogue¹⁹ at all levels, intergovernmental collaboration and public-private partnerships will be instrumental to help unlock access to finance to facilitate the necessary investments to make supply chains more sustainable as well as strengthen their resilience through improved social protection of workers. In addition, cooperation among larger companies could facilitate adoption of best practices, while collaborative business platforms can facilitate sharing of best practices among SMEs.

Engagement with social partners, including labour and employer organisations, can also help companies identify joint company and workforce needs for improved skills and training. Such social dialogue can help accelerate rapid uptake and development of new skills, practices and technologies needed for sustainable and resilient supply chains. Companies that engage in social dialogue are likely to see lower turnover in their own workforce and among their suppliers', thus lowering recruitment and retraining costs.²⁰

18 Fairphone, "Over 60 companies & NGOs call on EU to make living wages & income a human right", 25 May 2022.

19 The International Labour Organization emphasizes the importance of tripartite social dialogue among governments and representatives of employers and workers to advance a just transition.

20 Just Transition Centre and The B Team, *Just Transition: A Business Guide* (May 2018).

RECOMMENDATIONS FOR BUSINESSES

In recent years, businesses have increasingly begun to assess the implications of different climate risks to their operations and to their supply chains as climate change is now recognized as a material financial risk.²¹ The complex and systemic nature of climate risks requires businesses to address them strategically and in an integrated manner across the organization, from boardroom to the operational level. Yet businesses need to ensure that workers and local communities are heard and involved in decision making regarding transition planning and climate risk management. Businesses are exposed to different climate risks through their supply chains, depending on the sector, business model and product, with some businesses facing greater risk than others. Therefore, each company will need to assess its own value chain and determine the extent of risk that it faces from climate change.

The following recommendations draw on insights from Think Lab participants to consider how a just transition could help companies unlock the co-benefits of pursuing social and environmental objectives in an integrated manner.

- **IMPROVE AWARENESS OF RISKS OF SOCIAL DISRUPTION AND CLIMATE CHANGE IN SUPPLY CHAINS:** It is important for businesses to consider climate risks within a broader context of environmental and social impacts and specifically the exposure of their supply chains to these risks. At the same time, businesses need to minimize and redress any adverse impacts to workers and communities which result from the implementation of mitigation and adaptation measures through engagement with suppliers and social partners. Upskilling suppliers could improve awareness of these risks.
- **IMPROVE THE TRANSPARENCY OF SUPPLY CHAINS:** Businesses need to conduct materiality assessments and engage with suppliers to better understand their exposure to climate and social risks across their supply chain as well as the negative externalities that businesses have themselves on the environment and society. The improved visibility of resources, assets and processes across the supply chains will enable companies to identify a broad range of risks and cost redundancies.
- **INTEGRATE RISK MANAGEMENT THROUGH JUST TRANSITION PRINCIPLES:** Businesses that manage the environmental and social impacts of their supply chains in an integrated manner will be better positioned to take effective and socially just measures and invest in mitigation and adaptation efforts throughout their supply chains. By aligning with the guiding principles of just transition, engaging in social dialogue and stakeholder engagement, supporting skills development, respecting fundamental principles and rights at work and undertaking human rights and environmental due diligence,²² transition planning and climate risk management would strengthen.
- **CREATING MARKET DEMAND FROM THE PUBLIC SECTOR:** Businesses, together with employers' and workers' organizations, could advocate for governments and local authorities to design, implement and improve policies and incentives that create strong market signals for environmentally and socially responsible business conduct. By reforming public procurement systems, governments and public authorities could leverage their large-scale purchasing power to create market demand for sustainable and socially responsible produced commodities, services and infrastructure.
- **SUPPORT CAPACITY BUILDING AND ACCESS TO FINANCE FOR SMES:** Not only the public sector but also private sector actors need to work with social partners to support SMEs with weaker institutional and financial capacity in their efforts to embed labour and human rights into climate mitigation and adaptation measures. While governments should build institutional capabilities and financing instruments to help SMEs implement mitigation and adaptation measures, larger companies could also help bridge the financing and educational gap to enable smaller SMEs to deliver solutions to climate and social challenges.

21. World Economic Forum, *Accelerating Business Action on Climate Change Adaptation* (Geneva, 2023).

22. The UN Global Compact has established a *Business and Human Rights Accelerator programme* to help businesses understand their responsibilities on human and labour rights and establish due diligence processes in line with international standards.

ABOUT THE THINK LAB ON JUST TRANSITION

The Think Lab on Just Transition aims to shape and define business and thought leadership on critical areas linked to just transition; address key business challenges; identify policy advocacy opportunities and good business practices; and scale-up learnings through the network of the UN Global Compact. Company participants include A.P. Møller – Mærsk, Accenture, AIA Group, CEMEX, DP World, Enara Capital, Enel SpA, Garanti BBVA, Iberdrola, Johnson Controls, Lenovo Group, LONGi, Mahindra Group, Majid Al Futtaim, Meta, Microsoft, Moody's Corporation, National Australia Bank, Nestlé, Novozymes A/S, Ørsted, ReNew Power Pvt. Ltd., Sappi Southern Africa Ltd., TriCiclos, Unilever, Wipro Ltd. and Woolworths Holdings Limited.

This Business Brief was prepared in collaboration with the participating companies and partner organizations of the United Nations Global Compact Think Lab on Just Transition. The brief describes the effects of different types of climate risk on businesses and their supply chains and highlights the benefits of improving the sustainability and resilience of supply chains through just transition. The brief draws on existing business practices to demonstrate how multinational corporations are working with suppliers to manage climate and social risks in tandem and discusses the importance of creating an enabling environment to facilitate just transition in supply chains. Finally, the brief makes recommendations for businesses to achieve just transition across climate change mitigation and adaptation.

Disclaimer: The views expressed in this Business Brief are not necessarily those of the United Nations Global Compact or of the participants and partners of the Think Lab on Just Transition. The inclusion of company names and/or examples is intended strictly for learning purposes and does not constitute an endorsement of the individual companies by the United Nations and authors of this brief. The brief has benefited from the input of the organizations comprising the Think Lab on Just Transition but does not represent the views or positions of the businesses and stakeholders with which these organizations work. The material in this publication may be quoted and used, provided there is proper attribution.

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Caring for Climate



International Labour Organization



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A powerful and balanced voice for business



IRENA International Renewable Energy Agency



THE B TEAM



United Nations Global Compact



WORLD RESOURCES INSTITUTE

THE TEN PRINCIPLES OF THE UNITED NATIONS GLOBAL COMPACT



HUMAN RIGHTS

- 1 Businesses should support and respect the protection of internationally proclaimed human rights; and
- 2 make sure that they are not complicit in human rights abuses.



LABOUR

- 3 Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining;
- 4 the elimination of all forms of forced and compulsory labour;
- 5 the effective abolition of child labour; and
- 6 the elimination of discrimination in respect of employment and occupation.



ENVIRONMENT

- 7 Businesses should support a precautionary approach to environmental challenges;
- 8 undertake initiatives to promote greater environmental responsibility; and
- 9 encourage the development and diffusion of environmentally friendly technologies.



ANTI-CORRUPTION

- 10 Businesses should work against corruption in all its forms, including extortion and bribery.

The Ten Principles of the United Nations Global Compact are derived from: the Universal Declaration of Human Rights, the International Labour Organization's Declaration on Fundamental Principles and Rights at Work, the Rio Declaration on Environment and Development, and the United Nations Convention Against Corruption.

Design: Grettel Regalado Aguirre

ABOUT THE UNITED NATIONS GLOBAL COMPACT

As a special initiative of the United Nations Secretary-General, the UN Global Compact is a call to companies worldwide to align their operations and strategies with Ten Principles in the areas of human rights, labour, environment and anti-corruption. Our ambition is to accelerate and scale the global collective impact of business by upholding the Ten Principles and delivering the Sustainable Development Goals through accountable companies and ecosystems that enable change. With more than 18,000 companies and 3,800 non-business signatories based in over 160 countries, and 62 Local Networks, the UN Global Compact is the world's largest corporate sustainability initiative — one Global Compact uniting business for a better world.

For more information, follow [@globalcompact](#) on social media and visit our website at unglobalcompact.org.



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