International Organisation of Employers
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GUIDANCE PAPER

INTERNATIONAL ORGANISATION OF EMPLOYERS

CLIMATE CHANGE AND ITS IMPACT ON BUSINESS

A GLOBAL CHALLENGE, A FUTURE FRAMEWORK

Climate change is one of the world's most pressing challenges. While all sectors will be affected by global warming – mostly due to C02 emissions from fossil fuel use – those which will be particularly concerned are: energy, water, agriculture and food production, transport, construction, energy-intensive industries such as iron and steel, chemicals, and cement. But all workplaces are likely to face the impact due to changes in inputs costs, shifts in consumer trends, requirements for supply chain compliance and industrial instruments.

The impact on employment will vary between different regions, countries and sectors. There will be job losses in urban labour markets resulting from workers' displacement and damage to business assets, disruption of transport and industrial infrastructure. Countries that are dependent on agriculture may see significant reductions in employment (due to water scarcity or flooding and resulting damage to agricultural crops). In other countries, climate change may support new crops or allow for sustainable resource utilisation resulting in new employment perspectives.

Business activities will be affected by more frequent extreme weather events (such as heat waves, droughts, heavy precipitation, and increased intensity of cyclones) and by more gradual climatic processes (such as sea level rise, rising temperatures, changing rainfall patterns). These changes will increase uncertainty, create risks for people and economies (job losses, impact on occupational safety and health, forced migrations), and involve costs. In the absence of new policies, the macroeconomic costs from market impacts amount to 1.0 - 3.3% annually by 2060 and to 2 - 10% by the end of the century (OECD sources).

New business opportunities will also arise, stimulating investments, technological innovation, new products and services, to respond to environmental impacts and the practical effect of climate change. They will enable enterprises to access new markets and create jobs. According to BUSINESSEUROPE the global market for low-carbon goods and services is projected to grow to over €4 trillion by the end of 2015. The International Labour Organization estimates that creating up to 60 million jobs by 2030 is possible.

Climate change, energy security and economic stability are tightly linked. **A focus on climate change should not distract from other major global challenges:** sustainability requires environmental protection, employment growth and economic development to go hand-in-hand. Against this backdrop, while meeting the world's growing demand for energy and addressing the lack of access, **taking urgent action to tackle climate change is an imperative for all.**

In this respect, a prerequisite is the right policy and market framework. **A clear, transparent and reliable framework for international cooperation on climate change is needed,** as well as measures that enable investments, while protecting and deploying innovative technologies, and foster employment.

A major global and long-term agreement, is to be concluded by mid-December 2015 to replace the Kyoto Protocol: t**he UN Post 2020 Climate Agreement**, which will have far reaching impact on regulatory frameworks, global market and business.

BACKGROUND: FROM THE KYOTO PROTOCOL TO COP21

UNFCCC (United Nations Framework Convention on Climate Change): A treaty signed at the 1992 Earth Summit in Rio de Janeiro by more than 150 countries. Its ultimate objective is "stabilization of greenhouse gas concentrations in the atmosphere at a level that would prevent dangerous anthropogenic interference with the climate system". The UNFCCC contains an unmet, voluntary goal for developed countries to return their emissions to 1990 levels by 2000. The treaty took effect in 1994. The first Conference of the Parties met in 1995 (COP1). The Secretariat is based in Bonn.

The Kyoto Protocol: agreed in 1997 under the UNFCCC and entered into force in 2005, defined commitment and obligations for the period 2008-2012 for differentiated emissions reductions (against a 1990 baseline) as well as technological and financing obligations for developed countries, and monitoring and reporting emissions, but with no reduction commitments for developing countries.

COP (Conference of the Parties): The COP is the supreme body of the Convention on Climate Change. It comprises countries that have ratified the UNFCCC. The COP usually meets annually for two weeks in December. It is within the framework of COP21 that the terms of a new international agreement should be defined in Paris in December 2015. These terms will consequently replace those of the Kyoto Protocol, with the aim of limiting global temperature rises to 2 degrees Celsius by 2100.

IMPACT OF THE CLIMATE AGREEMENT ON BUSINESS

The UN Post-2020 Climate Agreement will rely on national implementation measures, building on member countries' **"Intended Nationally Determined Contributions" (INDCs)**. It is a flexible process in which each country, according to national priorities and circumstances, commits to lowering its **greenhouse gas (GHG) emissions** by certain amounts over the next several decades. These pledges will be legally binding. As of 24 November 2015, 164 countries including Latvia and the European Commission on behalf of the European Union and its 28 Member States had published their INDCs (these national pledges can be downloaded here). Taken in isolation, these commitments are not necessarily game changing. However, they are a signal that momentum is building to secure a global agreement.

The last G7 Leaders' Declaration in June 2015 affirmed strong determination to adopt at the Paris Climate Change Conference "a protocol, another legal instrument or an agreed outcome with legal force".

In any event **the global economy will be impacted**, including emissions trading markets, trade measures, and barriers arising from the diverse national approaches countries are setting out. For instance countries could be tempted to weaken Intellectual Property Rights (IPRs) or to enforce them as a barrier to the spread of green technologies, limiting technical options that will be needed to further energy security and advance climate friendly development and economic growth. IPRs should serve as a catalyst of innovation and technologies dissemination, particularly in developing countries.

Given that many of the technologies needed to achieve emission reductions (such as nuclear power, renewables, energy efficiency, greener transport) are not only comparatively expensive and take time to deploy, but also face regulatory challenges, enabling the right framework will be key.

WHY THE PRIVATE SECTOR MUST BE INVOLVED

- **Pursuing cost-effective, long-term, environmentally sustainable production makes business sense.** Enterprise engagement will be essential for workplaces and societies to evolve into more efficient and sustainable lower-carbon entities.
- **Business is a part of the solution to addressing the impacts of climate change.** The private sector is a natural partner in international efforts to reduce GHG emissions, to use resources more efficiently, to invest in R&D into climate-friendly technologies, and to share good practices on adaptation and resilience.
- **Companies in all sectors will integrate climate mitigation into their activities** and supply value chains. Multinational Enterprises (MNEs) and small businesses (SMEs) can seize opportunities derived from the global market for a low-carbon economy.
- **Global businesses are taking the lead.** Many major companies are reporting their greenhouse-gas emissions, sending clear signals to their customers and investors that they are serious about reducing their carbon footprint. Major advances have already been achieved in energy efficiency of products and services, power generation, building and transport, and the use of renewable energy as well as lower emissions from land use. Further action should build on the significant work already undertaken.
- **Business can play a constructive role in informing the entire life-cycle of climate policy** helping to set priorities, policy options and action. International business brings a unique global insight and technical expertise that will be vital in tackling climate change while maintaining robust economic growth.
- **Business needs to work with Governments to ensure limited resources are deployed wisely**, and to minimise any potential unintended consequences such as using subsidies and stimulus programmes to advance projects that have had little benefit to new job creation and divert money from other possibly more beneficial programmes.
- **Business will contribute to the UN Green Climate Fund (GCF)** which is expected to provide support to developing country efforts to reduce their GHG emissions or to adapt to the risks and impacts of climate change. Without overlooking the role financial institutions have to play in the UN's efforts to mobilise funds for climate action, reaching a $10 billion capitalisation target depends also on the mobilisation of private investment and innovation. Investments from the private sector will flow to GCF projects if there is reasonable expectation that the return will match the risk.
- **Business must be part of private-public climate dialogues, internationally and nationally,** to help policymakers understand the economic and business consequences of their choices. The Paris Summit must pave the way for practical inclusion of the private sector as key in the successful implementation of the global climate agreement.
- **Business is committed to contributing to the SDGs:** Goal 13 specifically urges action to combat climate change and its impacts, and other goals have climate change-related targets.

THE IOE PERSPECTIVE ON CLIMATE CHANGE

With regard to environmental issues, alongside other business organisations such as the International Chamber of Commerce (ICC) and the Major Economies Business Forum (BizMEF) which both have a broader approach toward climate change, **the IOE focuses on the impact on employment and social conditions.** In this area, priority should be given to taking into account:

- **The impact on jobs and competitiveness** of climate change policies, carbon markets, emissions trading and other market-based approaches (such as taxes);
- **The impact on sectoral approaches** and jobs within sectors but also economy-wide;
- **The adaptation challenges:** jobs created or lost, re-training, capacity building.

Changing from one technology to another (e.g., fossil fuel to renewable energy) may result in significant economic and social changes (e.g., from coal mines to wind farms or solar). Energy efficiency, mostly in buildings and construction, and renewable energies where the demand for goods and services is expanding (such as bioenergy, solar, wind) have the highest potential to reduce greenhouse-gas emissions and create jobs in the process.

In the same way as the world economy is in a constant state of flux, jobs being gained and lost due to a wide range of factors (innovation, competition and changing markets), there will be shifts within sectors. The overall balance of jobs will depend on the demand for and investment in greener products and services, the labour intensity requirements for such products and services, and their overall trade implications.

The transitions required will create tensions. Transitions will generate losses for businesses as well as for workers. Some enterprises and jobs will disappear completely, for example through banning or discouraging the use of a particular processing method or resources, especially in energy intensive and polluting industries.

Certain jobs will be replaced as a consequence of industrial transformation, for example jobs in waste incineration plants will be replaced by jobs in recycling facilities. **All this will happen within different time frames.** Globally and regionally not all shifts or solutions will be the same.

Employability skills, trades and professions will all be affected by climate change. The immediate manifestations will be in those occupations that become redundant due to incompatibility with climate change targets or in which the skill sets are already changing as a result.

Some enterprises and jobs will require completely new skills, and some additional skills. It will be challenging to ensure retraining existing workers in the new technologies. High vulnerability to the impacts of climate change will result from the lack of adaptive capacities.

There should be a particular emphasis on employability skills to respond to rapidly changing labour market needs. Some jobs constitute entirely new types of jobs, most build on traditional professions and occupations but with more or less modified competencies.

Enterprises must meet the skills demands of the new labour market (in terms of numbers and skill profiles). But evaluation of the long-term requirements of the labour market is subjective. Education and training for the next generation of worker poses a different and potentially larger scale problem.

What is certain, however, is that energy-saving and environmental management will have an effect on the actions of individuals within the enterprise as much as on the enterprise as a whole.

Such challenges are to be seen not just as threats but also as opportunities: **the opportunities can best be realised by facing this change in a positive way**, by encouraging innovation and creativity, also by providing the tools for skills and resilience development.

Adequate analysis of the impact of climate change on work will help businesses anticipate and cope with change. In particular, to grasp the opportunities involving new technologies and services, business will require a flexible, motivated workforce with the right skills. Proactive and well-designed labour market policies can lead to net employment gains.

As an issue for labour and management, climate change does not add a "condition" to existing labour agreements. Where business decisions arise that involve the social partners, they should be addressed through the established consultation processes. It is important to note that trade unions argue for an increase in employment in green jobs and for "a just transition", meaning measures to protect vulnerable people and workers, setting sustainable livelihoods and "decent work" at the centre of discussions. Any transitional measures should take into account the need for an enabling environment for sustainable enterprises.

MAIN BUSINESS MESSAGES ON CLIMATE CHANGE

Climate change has an impact on a broad range of areas and political agendas, and thus the framework conditions for business operations. Therefore policy measures and developments need to be closely monitored and influenced to ensure sustainable enterprises.

It is important for employers' organisations to engage in these discussions at local, national and international levels. Here are the key messages that can be used in this engagement:

- Business must be at the heart of the discussions on country pledges as it has the knowledge and experiences of practical and cost-effective initiatives for greenhouse gas reductions.
- Policymakers should benefit from private sector experience in the setting-up of a credible and transparent framework for monitoring, reporting and verifying emissions.
- Governments must establish clear consultation structures to engage with business on employment policy formulation and the training needs of industry.
- There must be a focus on employability skills to respond to changing labour market needs.
- Policies must not lead to barriers to trade, innovation and growth but enable climate-friendly investments and dissemination of low carbon technologies and cleaner energy sources.
- Climate change adaptation measures should have a sound economic basis. Adaptation efforts need to be based on a cost-benefit analysis.
- The global level playing field should ensure fair comparison, taking into account the different realities, capabilities, and mitigation approaches within countries and regions.
- Carbon pricing is one of the market-based climate policy tools, but there are other options such as incentive-based systems or efficiency standards.
- Establishing a clear GHG price signal is a way to encourage carbon emission reduction and innovations leading to alternatives (renewables), and to discourage major emitting activities.
- End of consumption-based energy subsidies and support of energy efficiency uptake by establishing market-oriented incentives schemes should be promoted.
- Decision makers should, at the same time, pay attention to keeping energy prices at a level that does not overburden industry or impede consumer access to energy.
- Intellectual Property Rights must be preserved to enable investments and risk-taking by the private sector, to facilitate technology transfer, and deploy the most advanced technologies.

ROOM FOR ACTION

Climate change is one of the greatest challenges influencing the way business is done today and in the decades to come.

From energy supply to recycling and from construction to transportation, all enterprises should be encouraged to develop approaches that focus on how to make businesses more environmentally sustainable.

Enterprises should focus on taking practical steps to improve their environmental performance. Thus they will seek to minimise their footprint in the short and long term by controlling emissions to air, land and water, and make effective use of resources through innovation to meet this challenge.

They will attempt to reduce the amount of resources needed for production, lowering the amount of waste generated, and thereby saving energy costs. This can be reinvested in innovation, making companies stronger, and providing more jobs.

Business engagement can take many other forms, including voluntary initiatives and partnerships, corporate responsibility actions, capacity building, and technical advice.

At the sector or firm level, companies should engage stakeholders, foster open and timely communication on planned transitions, and enhance skills development for the workforce.

All proactive actions must be considered to cope with the challenge and achieve the objective of climate change requirements.

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The IOE is the largest network of the private sector in the world. With more than 150 members, it is the global voice of business for labour and social policy matters at the international level.

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