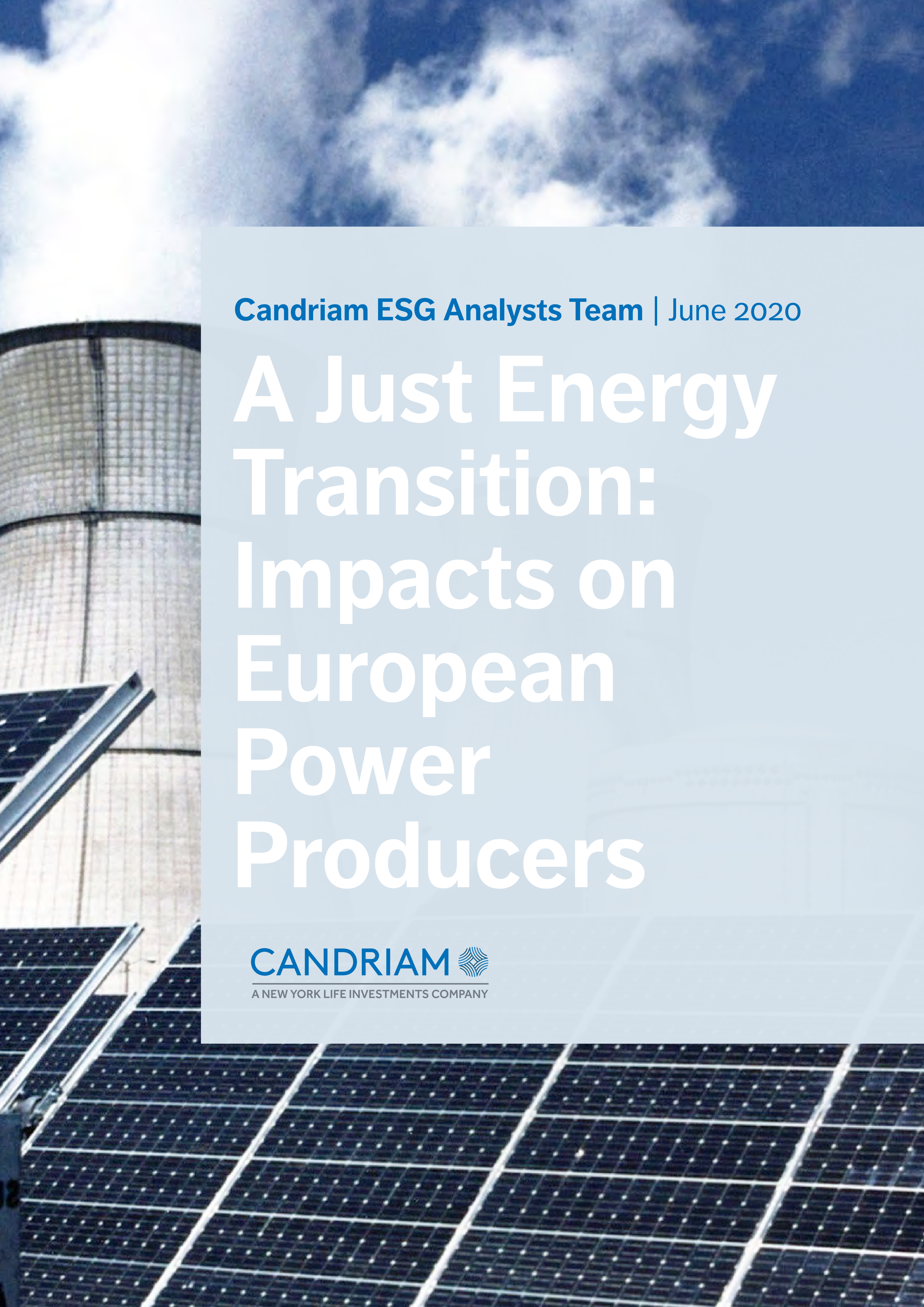

Candriam ESG Analysts Team | June 2020

A Just Energy Transition: Impacts on European Power Producers

CANDRIAM
A NEW YORK LIFE INVESTMENTS COMPANY

This document is a summary of the Candriam white paper, "A Just Energy Transition: Impacts on European Power Producers"

How Europe's largest power producers are approaching a 'Just Transition'.

A 'just transition' is a framework that aims to minimise the negative social impact and maximise positive opportunities for workers and communities affected by the energy transition towards a low-carbon economy.

More than two-thirds of Candriam's engagement initiatives directly cover the three central components of a just transition: the energy transition, fair work conditions and business ethics.

Today, 30 million workers are employed in the European energy sector. Decarbonising the economy will require a massive reallocation of resources - human, financial, and regulatory - from carbon-intensive activities to low-carbon or completely new realms. Sharing the costs, and benefits, of the transition in a just way will be vital to European citizens.

Transparency is an important first step in engaging with companies on how they are managing regional and national workforces during the transition. Candriam's team of ESG analysts surveyed the largest European power producers to understand how they are integrating the just transition framework into their operations. We also conducted interviews with corporates, trade unions, think tanks and consumer associations to ensure we holistically addressed the question: Can we be comfortable that "no one is left behind?

"If the process of transition is not just, the outcome will never be."
Climate Justice Alliance

Employees: From mitigating job losses to net job creation

We identify two key elements when considering new employment for employees during the energy transition: A 'macro' element of net job creation resulting from the development of new technologies, and a more challenging 'micro' element, where new jobs must align with lost jobs, not just in quantity, but in quality, and to some extent, by region. There are many factors to consider on a micro level: Matching skills needed with potential for retraining and upskilling, creating jobs in the right locations, and timing – new job opportunities must be available as old jobs disappear, not five years later.

The German Coal Commission estimates that 60,000 jobs are directly and indirectly dependent on the use of thermal coal in Germany alone.

Impacts on communities: No 'one size fits all' solution

Electric utility assets are often of large scale, potentially impacting regional and national communities. However, the services they provide are crucial for socioeconomic development of regions. To balance these trade-offs, almost all large-scale utility projects now require environmental and social impact assessments including formal community consultation as part of their regulatory approval process.

In our dialogues with European power producers, we found there were varying differences across each community that need to be considered, and not a 'one size fits all' solution.

Enel, for example, is attempting to re-purpose legacy fossil fuel power plants as industrial spaces to create jobs within the affected communities. RWE is sharing workforce transition costs with the German government. Iberdrola prioritizes local suppliers for services and equipment in order to indirectly create new jobs in the affected areas. Ørsted, accustomed to a European level of acceptance of offshore wind farms, has had to work in the US through local organizations to both protect and communicate that protection to the commercial fishing industry.

Transparency and dialogue will lead to a more just transition

As sustainable investors, we welcome and encourage transparency from European power producers, including their views on which stakeholders should be involved in the just transition process. It is our responsibility to monitor and converse with companies, stakeholders, and community participants to understand the full 'ecosystem'.

We find that the materiality depends on the stage of each company in its technological advancement towards clean energy. All companies are confronted by some level of challenges and are developing strategies to address them. The specifics of each company and divergence of their businesses and the communities in which they operate leads us to recommend a case-by-case approach to capture how they are managing these new risks and opportunities.

Whilst acknowledging the complexity of the topic, we seek additional disclosure and welcome proactivity from companies on how they are approaching a just transition. Such transparency would enable investors to better assess risks and opportunities. In our role as capital allocators, there is an incentive for companies to address the topic without necessarily waiting for governments to intervene.

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