

# 18 Lessons from OECD countries on just climate transitions

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The climate transition fundamentally alters patterns of production and consumption. Its viability and effectiveness depend on navigating disruptions equitably – sharing costs and benefits. This is the essence of calls for a just transition. Drawing on the OECD Horizontal Project on Climate and Economic Resilience (Net Zero+) and other OECD research, this chapter takes stock OECD countries' experiences with the just transition, how developing countries' own low-carbon trajectories may resemble or diverge from these approaches and what role development co-operation has to play in supporting a globally just transition that is tailored to each developing country context and a systematic consideration of transnational spillovers of advanced economies' own climate policies on their developing counterparts.

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## Key messages

- A just transition is conceptually broad and context-specific. Its benefits must be shared fairly, costs mitigated, and those negatively affected both within and between countries compensated. This increases political acceptability and makes it practically viable and resilient.
- While OECD countries' experiences offer lessons for managing within-country distributional consequences of the climate transition, fundamental differences in resources and capacity shape developing countries' policy responses.
- Ensuring a globally just transition implies that advanced economies identify and manage the spillover effects of their climate policies on developing countries.
- By respecting established principles such as national ownership and prioritising greater policy coherence, development co-operation providers can build mutual trust, enhance their climate-related development actions and provide mutually beneficial outcomes for global just transitions.

## Introduction

The climate transition, much like industrialisation, automation and other economic transformations, is disruptive, fundamentally altering patterns of production and consumption. It can benefit or disadvantage different groups in society. Climate action is also indispensable for development: it both limits the potentially enormous socio-economic costs of climate change and unlocks new economic opportunities for developing countries.

The crux of the challenge, then, is how to navigate the transitional disruptions in an equitable and just manner. This question – which developing as well as OECD countries are grappling with – has practical implications for the viability of the climate transition. Unlike other economic transformations, the climate transition is largely policy-driven (OECD, 2024<sup>[1]</sup>), and this makes public support, which is predicated on perceived equity and justice, indispensable for its success. As a concept that emerged in OECD countries, just transition has not always been considered in terms of impacts on developing countries specifically, but there is growing recognition of the need to consider justice at a global scale through the transition (OECD, 2024<sup>[2]</sup>; Wang and Lo, 2021<sup>[3]</sup>). In other words, a successful climate transition ought to necessarily be a just transition. But what does this actually imply for developing countries? <sup>1</sup>

## While approaches vary across contexts, a just transition ensures that benefits and costs are shared fairly both within and between countries

Though just transition is widely used as a guiding principle for climate policy, there is no precise definition of it. The concept emerged from 1980s trade union activism in the United States around protecting workers in industries subject to more stringent environmental standards and has since evolved to encompass a wide range of socio-economic concerns linked to the transition to low-carbon, resource-efficient economies (OECD, 2024<sup>[2]</sup>).<sup>2</sup> Appetite is growing, among both developed and developing countries, for a holistic approach that considers justice at the global level.

Calls for a just transition stress the need to account for the opportunities created by this global transformation of societies and economies but also for the impacts, including on labour markets, households' economic costs and energy access. Under the rubric of just transition, however, the type of justice considered and the nature of the transition vary significantly by context (Box 1.1). How a just transition is defined also influences which stakeholders have a voice in and responsibility for the transition. For instance, guidelines provided by the International Labour Organization (ILO, 2016<sup>[4]</sup>) are primarily

addressed to policy makers and focus on labour-related issues, while the OECD Centre for Responsible Business Conduct focuses primarily on action by businesses (OECD, 2024<sup>[5]</sup>).

Increasingly, just transition is considered not only in terms of justice within countries (e.g. managing domestic labour market shifts as a result of decarbonising the economy) but also justice between countries. Policies to tackle climate change in one country frequently have impacts beyond its borders, as evidenced by the spillover effects of developed countries' actions on climate in developing countries.

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In sum, a just transition is conceptually broad and context-dependent. In practice, it encompasses the need to manage the distributional impacts of the transition, ensure benefits are shared fairly, mitigate costs, and compensate those negatively affected both within and between countries.

### Box 18.1. Defining the “just” and the “transition” elements of just transition

Conceptualising a just transition implies understanding the nature of both the justice and the transition in question, and these can differ depending on the context.

#### Justice as a multi-faceted concept

A just transition is considered to touch on multiple dimensions of justice, including distributive (i.e. the extent to which benefits or drawbacks of transitions accrue to particular social groups, geographies, economic sectors, etc.); procedural (i.e. that the process through which transitions take place are fair, transparent and inclusive); and recognitional (i.e. that the diverse values, experiences, cultural identities and heritages of different communities are respected) (OECD, 2024<sup>[2]</sup>). Just transition is sometimes conflated with the related but distinct concepts of climate and environmental justice. There are significant overlaps, and all three concepts emphasise principles of equity and fairness, highlighting that some communities have distinct vulnerabilities and bear heavier burdens. However, there are also important differences. For instance, issues related to loss and damage from climate impacts, and environmental challenges beyond climate change, are more likely to be covered by climate and environmental justice, respectively, than by just transition (OECD, 2024<sup>[2]</sup>).

#### Each country's transition will be different

The nature of the transition is context-dependent, and no two national transitions will be alike. Countries' economic structures and emissions profiles necessarily influence the policies their government implements and the most affected sectors. For instance, emissions from fuel combustion comprise 43% of net greenhouse gas emissions in Latin America and the Caribbean, far below the OECD average (84%). Agriculture represents 25.0% of the region's net emissions, compared with the OECD average of 8.5%. Land use, land-use change and forestry account for 20% of the region's total emissions but are a net sink for the OECD (2023<sup>[6]</sup>). As a result, the relative impacts of the transition on sectors in each region will vary considerably. Concerns over energy access, which is also important to shaping a just transition, will appear different (though frequently still significant) in countries rich in energy resources (whether fossil fuels or renewables) and those relying more heavily on imports. Thus, the

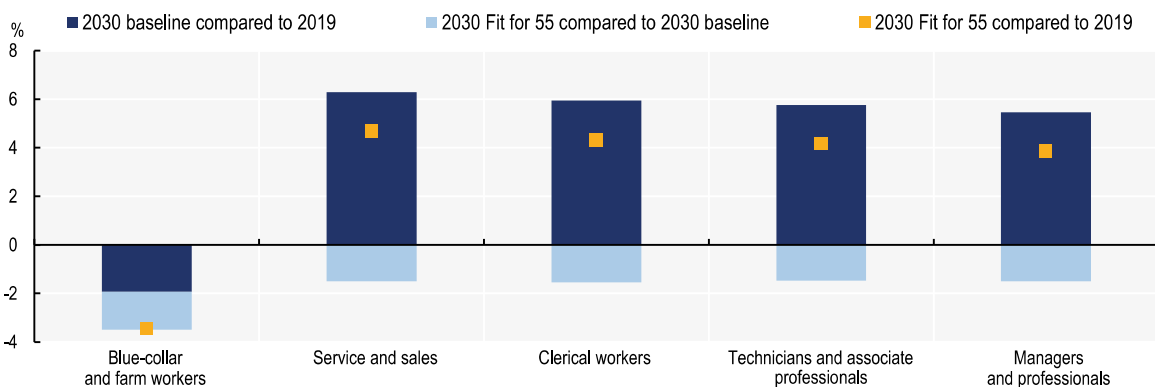
nature and approaches to the transition will differ both between developed and developing countries, and between countries in these groups, reflecting their unique experiences.

Sources: OECD (2024<sup>[2]</sup>), *Environmental Justice: Context, Challenges and National Approaches*, <https://doi.org/10.1787/57616eb4-en>; OECD (2023<sup>[6]</sup>), *Environment at a Glance in Latin America and the Caribbean: Spotlight on Climate Change*, <https://doi.org/10.1787/2431bd6c-en>.

### ***The uneven distribution of transitional costs and benefits is an issue in all countries, but can manifest differently in developing countries***

OECD countries' experiences illustrate the various within-country distributional consequences of the climate transition, but different starting points for the transition shape developing countries' trajectories. While the overall picture is mixed, evidence from OECD countries on labour market consequences suggests the green transition results in declining employment prospects for blue-collar and farm workers (Figure 18.1), a larger reskilling burden for lower skill workers, and the concentration of the relative advantages of green occupations in high-skilled jobs (OECD, 2024<sup>[11]</sup>).<sup>3</sup> The effects of the transition are also regionally heterogeneous, with elevated risks in areas with a heavy concentration of emissions-intensive sectors and benefits accruing to areas endowed with the human capital (OECD, 2023<sup>[7]</sup>) and resources (e.g. critical minerals) (OECD, 2023<sup>[8]</sup>) required for the climate transition. At the household level, carbon-pricing schemes tend to be regressive in the absence of corrective measures (Immervoll et al., 2023<sup>[9]</sup>; OECD, 2024<sup>[11]</sup>). At the same time, climate policies are likely to impose higher burdens on small- and medium-sized enterprises (SMEs), as an example, because they have less capacity to comply with standards and reporting requirements<sup>4</sup> (OECD, 2023<sup>[10]</sup>).

**Figure 18.1. Projected impact on employment of the European Union's Fit for 55 package, a set of proposals to reduce the EU's greenhouse gas emissions by at least 55% by 2030**



Notes: The figure shows changes in employment in the baseline scenario from 2019 to 2030 (dark blue bars), as well as the additional changes that take place in 2030 with the Fit for 55 scenario (light blue bars). The figure also displays the overall net change in employment in the Fit for 55 scenario from 2019 to 2030 (markers).

Source: OECD (2023<sup>[11]</sup>), *OECD Skills Outlook 2023: Skills for a Resilient Green and Digital Transition*, <https://doi.org/10.1787/27452f29-en>.

To some extent and to varying degrees, these issues from OECD countries find an echo in developing countries, where the transition also can affect labour market outcomes unevenly. In major fossil fuel-producing developing countries, for example, the negative impacts on workers employed directly or indirectly by the energy sector are particularly significant (OECD, 2022<sup>[12]</sup>). For example, coal-mining value chains in Southeast Asia, tend to be heavily concentrated in a few regions, raising the risk that the transition will deepen regional inequalities (OECD, 2024<sup>[13]</sup>). Similarly, fossil fuel subsidy reforms, for instance in

extractive-based developing economies, can generate negative distributional effects especially for households that spend a relatively larger share of their total expenditure on energy (OECD, 2022<sup>[12]</sup>).

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But developing countries also face distinct issues. For example, in developing countries with nascent energy systems, the climate transition implies tackling energy poverty through renewable sources (OECD, 2023<sup>[14]</sup>), and this makes energy access an important variable for assessing inequalities. More generally, projections of the implications of the climate transition – still incomplete in OECD countries<sup>5</sup> – are even blurrier in developing contexts due to financing and data gaps, human capacity constraints, and governance challenges (OECD, 2023<sup>[15]</sup>). Investment in and supporting such diagnostic work is a prerequisite for designing and fostering a just transition in developing countries.

***Tailored policy responses and dialogue with affected stakeholders can help weather transitional disruptions, but limited resources and capacity constrain developing countries' options***

The different dimensions along which distributional consequences materialise demand different policy responses. For labour market shifts, OECD research underscores the importance of education and skills policies as well as social protection mechanisms (e.g. wage insurance) to smooth transition costs (OECD, 2023<sup>[11]</sup>; 2023<sup>[7]</sup>; 2024<sup>[1]</sup>). Compensatory government transfers also can counteract the regressive patterns of carbon-pricing schemes (Immervoll et al., 2023<sup>[9]</sup>; OECD, 2024<sup>[1]</sup>). In addition, financial and technical support combined with standards tailored to their specific situation<sup>6</sup> can help ease constraints for SMEs (OECD, 2023<sup>[10]</sup>).

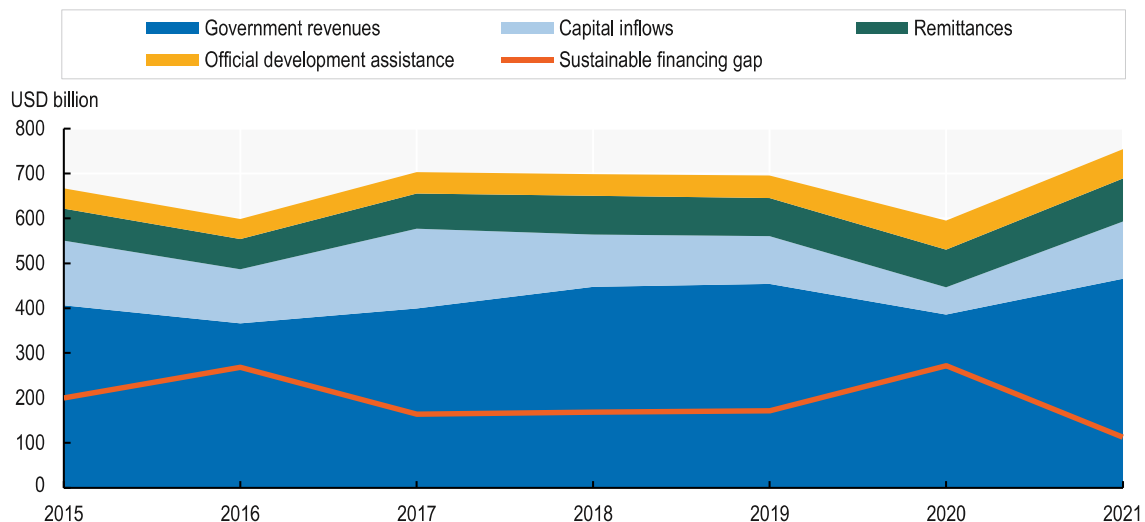
A common thread in the research is the importance of sufficiently granular information – not only about the consequences of the transition<sup>7</sup> but also regarding the impediments to and drivers of policy solutions. For example, in OECD countries, the uptake of training programmes remains low among workers in emissions-intensive jobs, who are at risk of job displacement (OECD, 2023<sup>[7]</sup>). Understanding the internal (e.g. motivation) and external (e.g. cost) barriers to uptake is critical in designing effective labour market policies (OECD, 2023<sup>[16]</sup>; 2023<sup>[11]</sup>). Another cross-cutting element is the importance of social dialogue. Distributional consequences create winners and losers: in this context, OECD experiences show that dialogue and inclusive decision making can alleviate resentment, build trust and strengthen public acceptance of climate policies.<sup>8</sup>

Informal labour markets also limit the potential for social protection schemes to reduce transition costs. In fact, formal workers are twice as likely to contribute to and/or benefit from social protection schemes.

Fundamental differences especially in resources and capabilities affect the extent to which the policy responses of OECD economies are applicable to lower income countries. Fiscal constraints (OECD/African Union Commission/African Tax Administration Forum, 2023<sup>[17]</sup>; African Union Commission/OECD, 2023<sup>[18]</sup>) and gaps in financing in developing countries (see, for example, Figure 18.2 for the case of Africa), combined with limited government capacity (OECD, 2022<sup>[12]</sup>), tend to preclude large-scale public spending

on social protection and retraining programmes.<sup>9</sup> Informal labour markets also limit the potential for social protection schemes to reduce transition costs. In fact, formal workers are twice as likely to contribute to and/or benefit from social protection schemes (Kolev, La and Manfredi, 2023<sub>[19]</sub>). Lack of trust is a barrier to the green transition in non-advanced economies (OECD, 2024<sub>[20]</sub>; Cologna and Siegrist, 2020<sub>[21]</sub>). Social dialogue is also more challenging, as the participatory governance systems and deliberative processes used in OECD countries (such as tripartite dialogue mechanisms and citizen conventions)<sup>10</sup> are generally weaker in developing countries.

**Figure 18.2. Africa's sources of finance and its sustainable financing gap, 2015-21**



Note: Sustainable financing gap refers to the difference between the financing needed to achieve the Sustainable Development Goals and the availability of financial resources.

Source: African Union Commission/OECD (2023<sub>[18]</sub>), *Africa's Development Dynamics 2023: Investing in Sustainable Development*, <https://doi.org/10.1787/3269532b-en>.

### ***A just transition considers between-country impacts, including managing the spillovers of OECD countries' policies on developing countries***

There is increasing recognition that a just transition involves accounting for impacts not only within countries but also between countries and along international value chains. A common thread emerging in OECD work is that environmental and climate policies in developed countries frequently affect the calculus for developing countries' own transitions.<sup>11</sup>

Carbon leakage is an example of an important potential spillover effect. This occurs when foreign emissions increase as a result of the introduction or intensification of domestic climate policies (OECD, 2020<sub>[22]</sub>). Leakage from developed to developing countries can occur through the trade and investment channel if stricter climate policies in the developed country, unmatched by the developing country, raise costs for businesses and reduce return on investment. While ex post evidence on carbon leakage to date is limited, this spillover effect may also work to induce shifts in production – including the relocation of emissions-intensive and highly polluting industries such as chemicals, cement and steel – to developing countries in line with the so-called pollution haven hypothesis (Prag, 2020<sub>[23]</sub>). At the same time, unilateral efforts to address potential carbon leakage such as border carbon adjustments and local content requirements have potential implications for competition and international trade. Designing these complex instruments requires careful consideration to ensure that they support mitigation efforts while maintaining a level playing field and not privileging advanced economies, especially compared to those developing

countries with more carbon-intensive production processes and lower capacity to meet measurement and reporting requirements.

Other examples of climate action with possible spillover effects are the large-scale green industrial policy packages implemented in advanced economies in recent years such as the Inflation Reduction Act in the United States and the European Union's Green Deal Investment Plan. These have significant potential for stimulating low-carbon industry, and from a political economy perspective, can also be important for supporting domestic jobs and industries. However, their domestic benefits may come at a cost to developing countries, which typically lack the capacity and finance to fund such vast programmes (with the exception of the People's Republic of China, Indonesia and some other large emerging economies). There is a risk that green industrial policy packages could result in developing countries being passed over for low-carbon investment in favour of advanced economies, widening the already substantial gap in low-carbon investment (Montague, Raiser and Lee, 2024<sup>[24]</sup>). There is also a risk of developing country actors being increasingly excluded from supply chains where they are unable to meet the required standards to benefit from government industrial policy support.

There is a risk that green industrial policy packages could result in developing countries being passed over for low-carbon investment in favour of advanced economies, widening the already substantial gap in low-carbon investment (Montague, Raiser and Lee, 2024<sup>[24]</sup>).

Recent EU efforts to stop imports of timber and agricultural commodities linked to deforestation through the 2023 Deforestation Regulation met with strong criticism from some developing producer countries, which argue the regulation would be burdensome and unfair. Several developing countries raised concern about the reputational damage associated with a classification of high risk under the regulation and about spillover effects on market access and export levels. Ultimately, the European Union chose to delay implementation of this classification system (Bounds, Hancock and Beattie, 2024<sup>[25]</sup>).

### **By combining effective development co-operation support with coherent national policies, providers can support just transitions in developing countries**

The full suite of development co-operation tools is required to support developing countries in navigating a just transition. This includes making financial resources available, accessible and affordable to partner countries; helping them establish appropriate regulatory and policy environments; and supporting the development of requisite capacities (OECD, 2019<sup>[26]</sup>). The objective should be to enable partner countries to first identify the exact nature of their climate transition, including possible frictions and opportunities, and then undertake concrete actions to execute their priorities.

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Well-established development principles can be tailored to the climate context to effectively support partner countries. As the approach to a just transition is context-specific, development co-operation efforts in this



domain need to be owned by partner countries and driven by partner country realities. The principles of aid effectiveness – namely partner country ownership, a focus on results, inclusive development partnerships, and transparency and mutual accountability (GPEDC, 2024<sup>[27]</sup>) – are already familiar and must guide climate-related development support. More broadly and recognising the transversal nature of the climate transition, development co-operation stands to benefit from adopting a systems approach that considers the impacts of the transition holistically and promotes co-ordination across ministries and other stakeholders.

Prioritising policy coherence can augment the effectiveness of development support. Climate action is a global undertaking, with consequences that transcend borders and vary within and between countries. Truly supporting a just transition for developing countries necessitates a global view. For development co-operation providers, this means monitoring and evaluating the transboundary impacts of public policies (OECD, 2019<sup>[28]</sup>) and promoting climate solutions that account for these impacts. Such efforts, especially if rooted in consultations with developing countries, can build mutual trust, ensure that providers' approaches to climate action accentuate rather than detract from their climate-related development efforts and support a just transition at a global scale.

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## Notes

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<sup>2</sup> Several OECD countries have formalised their commitments to just transition as part of their efforts on climate action. For instance, Costa Rica has been incorporating principles of just transition into its nationally determined contributions under the United Nations Framework Convention on Climate Change, and has made just transition a part of the country’s development planning. While the implementation of this plan has been primarily led by the Minister of Environment and Energy, the process includes the participation of a wide range of stakeholders, including vulnerable groups. Similarly, in New Zealand, the Just Transitions Partnership team, part of the Ministry of Business Innovation and Employment, works across government departments and agencies and with regional partnerships to plan and navigate the transition in a fair and equitable manner, while ensuring alignment with the central government’s objectives, see <https://doi.org/10.1787/cbd31b13-en>.

<sup>3</sup> For example, while high-skill workers in green occupations receive a significant wage premium, lower skill workers in green occupations are usually paid less than those in other low-skill jobs, according to the OECD’s forthcoming *Employment Outlook 2024*.

<sup>4</sup> The higher unit cost of energy and limited access to and eligibility for green fiscal incentives also mean that the climate transition puts a disproportionate burden on SMEs. For further details, see <https://doi.org/10.1787/6813bf38-en>.

<sup>5</sup> For a discussion of data limitations in mapping the labour market implications of the green transition in OECD countries, see, for example, <https://doi.org/10.1787/27452f29-en>.

<sup>6</sup> The *OECD Guidelines for Multinational Enterprises on Responsible Business Conduct* promote proportionate and risk-based mitigation action. They guide businesses to adapt and tailor their due diligence according to their size, involvement in any adverse impact and the severity of this impact to ensure that due diligence expectations are practicable. See <https://doi.org/10.1787/81f92357-en>.

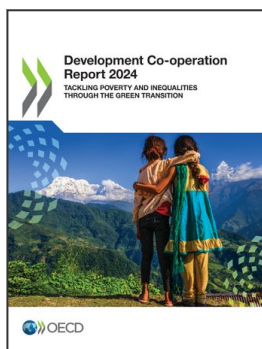
<sup>7</sup> Even among OECD countries, there is notable heterogeneity in the underlying green skill supply and hence the reallocation potential of the workforce. For further discussion, see <https://doi.org/10.1787/3d5554fc-en>.

<sup>8</sup> See, for example, OECD work, <https://doi.org/10.1787/4abdba16-en>, <https://doi.org/10.1787/76972a4a-en> and Dechezleprêtre et al. <https://doi.org/10.1787/3406f29a-en>.

<sup>9</sup> For example, only 15% of workers in Latin America and the Caribbean receive some form of training compared with 56% of workers in OECD countries. See <https://doi.org/10.1787/3d5554fc-en>.

<sup>10</sup> For example, in several European countries, tripartism is embedded in social legislation, see <https://www.imperial.ac.uk/grantham/publications/briefing-papers/towards-a-just-and-equitable-low-carbon-energy-transition.php>. Consultative processes also underpin phase-out strategies for fossil fuels such as coal, see <https://doi.org/10.1787/21db61c1-en>. Other examples of deliberative processes used in OECD countries to address climate-related issues are discussed in OECD, <https://doi.org/10.1787/76972a4a-en>.

<sup>11</sup> The inverse can also be true – for example in the case of export restrictions implemented by developing countries with large reserves of critical minerals, see <https://doi.org/10.1787/c6bb598b-en>. This is also discussed in a forthcoming OECD paper on trade and domestic effects of export restrictions that draws on case studies of cobalt, lithium and nickel.



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