

Briefing for Finance: Climate Action

THE BUSINESS CASE FOR ACTION

Failure to act on climate change is the stand-out long-term risk the world faces. The World Economic Forum's Global Risks Report 2020¹ places it as the number one risk by impact and number two by likelihood over the next 10 years. The impact of climate change and extreme weather, such as storms and floods, is already impacting food production, transport and infrastructure. Natural catastrophe losses intensified by climate change reached approximately US\$4,200 billion from 1980-2019.²



The urgency is clear: to avoid the worst climate impacts, global greenhouse gas (GHG) emissions need to drop by half by 2030, then reach net zero around mid-century.³ The scale and speed of the transition needed is unprecedented and will require rapid and far-reaching transitions in all business sectors as well as buildings, transport and cities.

There is also opportunity to be found. Forbes has described climate change as “the greatest opportunity of all time”, with ‘low carbon’ driving resource efficiency, innovation and competitive advantage.⁴ Bold climate action could deliver at least US\$26 trillion in economic benefits by 2030.⁵

Key facts

7.6% emissions cuts required per annum from 2020 to 2030 to meet UN 1.5°C goal⁶

30 years to reach net zero emissions globally⁸

2/3 of extreme weather events in the last 20 years were influenced by humans¹⁰

45% drop in GHG emissions needed by 2030 from 2010 levels⁷

US\$26 trillion in economic benefits by 2030 from bold climate action⁹

What are the risks to business?

Inaction on climate change is a significant long-term business continuity risk. This has led to a demand for disclosure of risks and action on climate change from mainstream investors, and the formation of the Task Force on Climate-related Financial Disclosures (TCFD).

Key risks include:

Physical risk

Physical damage to buildings, equipment and key infrastructure as a result of extreme weather can halt supply chains, manufacturing, and distribution networks. It can also lead to resource shortages, eg water or land. These can result in asset impairments/write-offs of 'stranded assets' and increased operating costs and insurance premiums.

Transition risk

The transition to a low carbon economy will result in changes to the regulatory and consumer landscape and those organizations who do not keep pace risk being left behind.

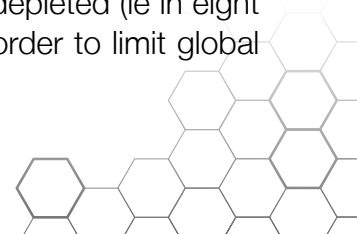
Carbon intensive processes and products may be impacted by increasing regulation such as carbon tax and reduced demand for high carbon products due to market and technological shifts. This can lead to regulatory and compliance costs as well as significant write-downs of 'stranded assets'.

Market and reputation risks increase as investors, customers and employees are increasingly considering the climate and wider sustainability policies of companies, which are often used as a proxy for good governance.

Climate action: progress so far

The Paris Agreement adopted by world leaders in 2015 aims to keep global warming to well below 2°C above pre-industrial levels by 2100 and to strive for a maximum 1.5°C rise. Five years on, most scientists agree that to avoid the worst effects of climate change, any rise needs to be limited to 1.5°C.

Current policies in place around the world are projected to reduce baseline emissions and result in about 2.9°C warming above pre-industrial levels. Warming estimates have fallen by 0.1°C since December 2019, but this is largely due to methodological changes, and the economic impact of the coronavirus pandemic, rather than any major scaling up of climate action.¹¹ At the beginning of 2020, at current emission levels, there were just eight years before the carbon budget for 1.5°C is depleted (ie in eight years, the world will have emitted the maximum amount of GHGs permissible in order to limit global warming to 1.5°C).¹²



What action can finance take?

Forward thinking organizations are taking action to both reduce GHG emissions towards net zero (mitigation) and to increase resilience to a changing climate (adaptation). To reflect the scale and urgency of the challenge, bold and ambitious actions are required. The options and guidance available for finance teams are increasing all the time, as are the examples of how organizations are using these to gain competitive advantage, measure and manage risk, access finance and transform their business models to be fit for the future.

Below are practical examples of action by finance teams, including links to our Essential Guide Series where guidance and case studies are available.

Identify risks and opportunities

Identify and assess the actual and potential impacts of climate-related risks and opportunities on your organization's businesses, strategy, and financial planning. Articulate the business case and commercial rationale by highlighting the value at risk from inaction and associated costs, eg rising insurance premiums and costs of supply chain disruption.

Guidance:

- [A4S Essential Guide to Managing Future Uncertainty](#)

Set ambitious targets

Set science-based emission reduction targets that lead to net zero emissions as part of your organization's long-term strategic priorities. Operationalize these targets by including in budgets, forecasts, capex appraisals, and management information. Incorporate relevant targets into executive remuneration.

Guidance:

- [A4S Essential Guide to Strategic Planning, Budgeting and Forecasting](#)
- [A4S Essential Guide to Management Information](#)

Actions continue on next page...



Find the true cost

Develop an internal carbon price and incorporate it into project or investment budgets thus creating the business case to invest in lower carbon options.

Understand where climate change impacts impairment assessments and the application of other financial reporting standards.

Guidance:

- [A4S Essential Guide to Strategic Planning, Budgeting and Forecasting](#)
- [CDSB paper: use of financial accounting standards to deliver on the TCFD recommendations](#)

Invest in sustainable capital assets

Include climate change considerations in your capex appraisals. This will highlight the business case for investing in project that reduce emissions and create climate-resilient buildings.

Guidance:

- [A4S Essential Guide to Capex](#)
- [A4S Essential Guide to Debt Finance](#)

Access finance

Mobilize funds for investment in low carbon alternatives, eg electric fleet or on-site renewable energy generation, by developing long-term business cases.

Consider sourcing sustainable finance which can help finance the transition to net zero carbon operations. Options for sustainable finance have significantly increased over the last few years, through green bonds, sustainability-linked loans and revolving credit facilities.

Guidance:

- [A4S Essential Guide to Debt Finance](#)
- [Implementing a Sustainable Financing Framework: Top Tips for Treasury Teams](#)

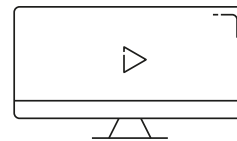
Report and disclose

Implement the TCFD recommendations in corporate reporting, which recommends disclosures regarding climate governance, strategy, risk management, and metrics and targets.

Guidance:

- [TCFD Implementation: Top Tips for Finance Teams](#)

Further resources



Explore

- [A4S TCFD Insights Series](#)
- [TCFD Hub](#)
- [The Commonwealth Climate and Law Initiative](#)

Read

- [A4S Case Study: Heathrow achieving net zero](#)
- [Recommendations of the Task force on Climate-related Financial Disclosures](#)

Watch

- [Why climate change is an issue for humanity](#)
- [Why climate change is a current issue for business](#)
- [Why it's time for businesses to adapt](#)

Endnotes

- 1 <https://www.weforum.org/reports/the-global-risks-report-2020>
- 2 <https://www.munichre.com/en/risks/extreme-weather.html#Explore%20our%20solutions>
- 3 https://www.ipcc.ch/site/assets/uploads/sites/2/2019/06/SR15_Summary_Volume_Low_Res.pdf
- 4 <https://www.forbes.com/sites/erikkobayashisolomon/2019/04/19/climate-change-the-greatest-opportunity-of-all-time/#75d11d2488d1>
- 5 <https://www.wri.org/blog-series/the-26-trillion-opportunity>
- 6 <https://unfccc.int/news/cut-global-emissions-by-76-percent-every-year-for-next-decade-to-meet-15degc-paris-target-un-report>
- 7, 8 <https://www.ipcc.ch/2018/10/08/summary-for-policymakers-of-ipcc-special-report-on-global-warming-of-1-5c-approved-by-governments/>
- 9 <https://www.wri.org/blog-series/the-26-trillion-opportunity>
- 10 <https://www.carbonbrief.org/mapped-how-climate-change-affects-extreme-weather-around-the-world>
- 11 <https://climateactiontracker.org/global/temperatures/>
- 12 <https://www.mcc-berlin.net/en/research/co2-budget.html>

