Photographer: Daria Shevtsova

Climate Change Risks to Australian Businesses

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The starting point for this article is Section 180 of the Corporations Act 2001. The s180 specifically addresses how directors and officers of a company should make business judgments in good faith and inform themselves appropriately.

The information that directors could easily access has been supplied by the World Economic Forum's Global Risks Report (GRR). For three years in a row, the GRR has called out the risks we collectively face from climate change. In the 2019 report published in February, climate change and environmental risks dominate the "high likelihood" and "high impact" quadrant of the global risk matrix. The report goes into great detail explaining the multi-faceted nature of this risk and our diminishing ability to mitigate its impacts.

Alison Martin, Group Chief Risk Officer, Zurich Insurance Group, said: "2018 was sadly a year of historic wildfires, continued heavy flooding and increasing greenhouse gas emissions. It is no surprise that in 2019, environmental risks once again dominate the list of major concerns. So, too, does the growing likelihood of environmental policy failure or a lack of timely policy implementation. To effectively respond to climate change requires a significant increase in infrastructure to adapt to this new environment and transition to a low-carbon economy. By 2040, the investment gap in global infrastructure is forecast to reach $18 trillion against a projected requirement of $97 trillion. Against this backdrop, we strongly recommend that businesses develop a climate resilience adaptation strategy and act on it now."

Figure 1: Davos, Switzerland

This article will take a high level view of this risk through the lens of business continuity. The challenge is that climate change risk has the potential of disrupting the operations of many different types of businesses and a serious disruption in one sector could impact others. For example, a serious disruption to power generation in Victoria recently resulted in large scale load shedding of power supplies to Melbourne consumers.

The authors of the GRR have proven to be accurate in their warnings. Since the beginning of the year, businesses all over the world have been impacted by severe weather, fires, polar vortices and floods. Australia has been no exception. The full impact of the extraordinary floods in Townsville is still being calculated.

If your business has a high reliance on power, the efficient movement of goods through ports, availability of quality water and temperate weather – then you need to start planning for the impact of the risks presented by climate change.

Many years ago Australia signed an International Energy Agency agreement to hold 90 days' use of energy (oil) inventory, but it has consistently failed to honour its commitment. The conclusion of Australian Parliament Report in 2015 on Australia's transport energy resilience and sustainability, estimated that we had 20 days of automotive gasoline, 17 days of aviation fuel and 16 days of diesel oil.

The latest IEA data shows we currently have 55 days of inventory, by far the lowest of other comparable countries. Australia has reduced its crude oil refining capacity and it is likely it will continue to shutdown existing refinery capacity. The Parliament Committee report concluded that by 2030, we will have 20 days inventory, no refineries and 100% imported fuel dependency.

Even a short disruption to Australia's importation of crude oil products would have a significant impact on national productivity, supply chains and civil society.

A disruption to our ports could equally impact our exports. We are heavily dependent on the revenues earned through the export of minerals, LPG and grains. The GRR found that "Half of all internationally traded grain must pass through at least one of 14 major chokepoints and over 10% depends on a maritime chokepoint to which there is no viable alternative route."

The GRR devoted a chapter solely to the outlook of cities and the impact of sea level rise. Rapidly growing cities are making more people vulnerable to rising sea levels. Two-thirds of the global population is expected to live in cities by 2050. Already an estimated 800 million people in more than 570 coastal cities are vulnerable to a sea-level rise of 0.5 metres by 2050. Cities are carrying the burden of population growth and this trend magnifies the risk. Not only are there more people at risk in a given area - but there is also more costly infrastructure at risk.

Figure 2: Sunny day flooding, Miami October 2016

In 2012, the impact of hurricane Sandy on New York devastated many communities and resulted in extensve repairs to the city's infrastructure. Miami now regularly experiences "sunny day flooding" due to sea level rise; for many years the residents in Byron Bay have lost part of their properties to the sea and Pacific Islanders face an existential threat from sea level rise.

Mark Carney, the Governor of the Bank of England was concerned about the exposure of the UK insurance industry to the risks presented by climate change. Under the leadership of Michael Bloomberg, the Task Force on Climate related Financial Disclosures was established in 2016.

It develops voluntary, consistent climate-related financial risk disclosures for use by companies in providing information to investors, lenders, insurers, and other stakeholders.

TCFD | TASK FORCE ON CLIMATE-RELATED FINANCIAL DISCLOSURES

The Task Force considers the physical, liability and transition risks associated with climate change and what constitutes effective financial disclosures across industries. The Task Force has had a fundamental impact on the way financial institutions report their exposure and manage their risks. BHP has used the approach in their 2017/18 Annual Report.

Importantly, the approach addresses direct physical risks and the risk to business due to the transition that is required to mitigate the risk. For example, the Australian power generation industry is undergoing substantial change because of the need to de-carbonise the production of electricity. Similar disruption can be expected in the transport industry – with electric driverless vehicles. The approach promoted by the Task Force is quite generic and is applicable across all industry sectors.

Tackling this global problem requires strong collaboration between Governments. Unfortunately, the US Government has reneged on the Paris Accord, the UK is completely distracted by Brexit and some EU countries are experiencing serious internal disruptions. At best, Australian Governments have a spotted record in the area of climate change policy. China is moving forward aggressively and appears to be cementing its position as the world's primary supplier of renewable energy products.

We can only hope that Governments will collectively agree to reduce emissions to keep global temperatures below 2oC. As we have found this summer, parts of Australia have already experienced warming above this target. The BoM reported that January 2019 was warmest on record for Australia and warmest or second-warmest for each State and Territory. Many records were broken across the country.

If you have developed a business continuity strategy for your business, you may need to go back and review your plans in light of the multi-faceted risks presented by climate change.

Photographer: Matheus Bertelli