A dark horse emerges in the climate change crisis

Jean-Louis Bertrand[1]

[1]Affiliation not available

April 17, 2023

the
WINNOWER

SOCIAL SCIENCES

A dark horse emerges in the climate change crisis

JEAN-LOUIS BERTRAND

CORRESPONDENCE:
jean-louis.bertrand@meteoprotect.com

DATE RECEIVED:
September 30, 2015

DOI:
10.15200/winn.144361.10683

ARCHIVED:
September 30, 2015

CITATION:
Jean-Louis Bertrand, A dark horse emerges in the climate change crisis, *The Winnower* 2:e144361.10683 , 2015 , DOI: 10.15200/winn.144361.10683

Where government have failed and the private sector remains oblivious, new voices propose innovative solutions ahead of Cop21

Is your company prepared for the consequences of climate change in 2100? Even in 2050? Of course not. Annual reports and five-year planning cycles do not contemplate such timelines, any more than the profit-rewarding bonus system of the c-suite does. However, the private sector continues to be inundated with reports and studies providing projections for events that may affect enterprises in this distant future, themselves based on current projections of macro-trends. These terrifying but irrelevant (and unreliable) statistics are of little use to the current planning cycles of the average business, yet the public sector is providing them in the hopes that the private sector will be motivated to step in and take the lead in responding to climate change, making the practical and timely changes that cumbersome and intractable bureaucracies have not been able to do. We now have the tragedy of the commons meets the tragedy of the timelines.

However, where governments and international bodies have missed the mark, and the private sector remains struggling to understand its role, a dark horse has emerged in the climate change crisis.

Weather risk management specialists reveal the relevant data, the financial consequences and the risk management solutions that could finally successfully join the public and private sector together in the fight against climate change and make an international agreement within our grasp. The only question now is, is it too late for Cop21?

With it being exactly two months away, advanced versions of its provisional agenda just released, and each day a new state climate action plan being submitted to its organisers, the anticipation surrounding Cop21 (or the Paris Climate 2015 Conference as it is better known) is at its height. With its lofty goal to bring together all emitters to come to a new international climate agreement, the pressure is equally high. Whilst for months, conferences, festivals and special events have been put on by the French, who are hosting the United Nations Framework Convention on Climate Change this year, as well as by international organizations and civil society, now, government and non-government bodies, consultants and lobbyists are organizing their own conferences, round-tables and breakfast seminars to present their own takes on climate change risk and opportunities. At each, climatologists, meteorological office representatives, scientists, Intergovernmental Panel on Climate Change (IPCC) members, politicians and a wide array of expert consultants are trying to convince the private sector that action needs to be taken now.

For, faced with the inability of the public sector to mobilize efforts to make climate a priority, everyone, including the United Nations[1]www.un.org/sustainabledevelopment/blog/2015/09/un-forum-highlights-fundamental-role-of\n-private-sector-in-advancing-new-global-goals/, appears to have recently made a substantial shift in policy, now calling upon private enterprise to address, if not solve, the problem. Ban Ki-Moon himself stresses the “fundamental role of the private sector” in advancing a newly-adopted sustainable development agenda. If governments are expected to “lead the way”, Ban Ki-Moon is “counting on the private sector to drive success”. Thus, the United Nations has provided 17 Sustainable Development Goals[2]www.un.org/sustainabledevelopment/sustainable-development-goals/ (SDG) aimed at wiping out extreme poverty, fighting inequality and tackling climate change in the next 15 years. In support of this, a new tool has been made available to companies: the SDG compass. The SDG Compass is supposed to “make it easy for every business in the world to align their strategies and manage the things that are going to help contribute to those SDGs and then be radically transparent about the progress made”[3]Peter Bagger, President & CEO of the World Business Council for Sustainable Development.

Specifically, Goal 13 is entitled, “Take urgent action to combat climate change and its impact”. Targets include strengthening resilience and adaptive capacity to climate-related hazards in all countries, and integrating climate change measures into national policies, strategies and planning. The United Nations stress the fact the climate change is now disrupting national economies, affecting lives, and costing people communities and countries “today and even more tomorrow”.

How is climate change causing these impacts today and even more tomorrow? This is where things get very confusing. For all the relevant players, including the prestigious Intergovernmental Panel on Climate Change (IPCC), are using studies that attempt to qualitatively and sometimes quantitatively assess climate risk for a selection of industry sectors by the year 2050. Understandably, this is not what the majority of private enterprise would refer to as relevant for today or tomorrow. In fact, given that the average tenure of a departing S&P 500 company CEO is 8.1 years, it’s more than four lifetimes away!

It is a reality of business that politicians should understand, as they, to some degree, face the same challenge as company executives: the constraints of a short-term mandate. In the business environment, the pressure is on delivering results this quarter, this fiscal year. Commitment of capital needs to return money very quickly. Not in 2030, not in 2050. Companies exist to generate profit and maximize shareholders’ value. Only to the extent that climate change is a threat to this objective will company executives start to think about ways to tackle the issue. The other very basic principle that drives investment is the ability to measure return on investment.

Compounding the problem, in the vast majority of cases, there is a lack of consistency between studies, combined with a low degree of accuracy on the evaluation of the risks, due to our inability to accurately forecast climate in 2050, or modify models in real-time to account for individual players' shifting actions and behaviours. We don't know for sure how climate will look like in 2050. We don't know any better what it will look like in 2030. And for that matter, we don't even know if this winter will be warmer or colder than normal. Not only are we struggling to characterize the general climate environment a few years out, but nobody is in a position to precisely evaluate what climate change means for individual sectors, and individual companies. If you can't quantify what is at stake, how can you evaluate the need to invest into climate-related strategies, and the potential return these strategies will generate?

So does that mean that it's a lost battle already? Will this Climate Conference be destined to achieve not much more than paving the way for the twenty second one next year in Morocco? Not at all. As the United Nations point out, companies are already experiencing the significant impacts of climate change as there are more severe weather events, and weather patterns are changing. Slowly, journalists and investors are picking up on the problem. For almost every day, you can turn to stock market pages in the newspapers to read that sales target were missed because of unfavorable weather conditions. Yesterday, for instance, in the textile sector, the House of Fraser and H&M both announced significant weather-related losses[4]www.thisismoney.co.uk/money/markets/article-3244797/House-Fraser-latest-high-street-fa\nll-victim-bad-weather-sales-stumble-start-quarter.html and about.hm.com/en/news/newsroom/news.html/en/financial-reports/2015/9/1988328.html, tomorrow other names will pop up in the energy, agro-food, tourism, transport, retail or any of the 70% sectors affected by "unseasonal weather" (a by-product of climate change, which aggravates climate variability).

There are many ways, probably too many, to measure the world's changing climate. What's more challenging, but also much more relevant, is to measure it in a way that relates to what people, consumers and companies experience in their daily lives.

It is all about translating unseasonal weather into one actionable metric, objective, easy-to-understand metric. The easiest means of doing this is to focus on climate variability, defined as the deviation of observed weather from its normal long-term value. To act, and to act now, weather risk management experts can provide the private sector with:

1. A clear, objective and quantified description of the potential loss caused by climate in a time horizon that is relevant to them and to their shareholders
2. Financial solutions that enable them to mitigate climate risk and buy time in the short term to adjust and implement business strategies in the long run

Weather risk management experts such as Meteo Protect, Europe's largest dedicated weather risk management provider, merge historical weather record databases with pricing and hedging solutions, so as to be able to evaluate the impact of climate variability for next quarter, or next year for a specific product, company or business sector. Having developed the ability in order to underwrite insurance losses, they can do so with a level of precision that a CEO, a CFO or an investor can live with. Moreover, they can quantify the risk to which a specific company is exposed in terms of potential loss and the frequency of that loss. A risk manager has everything it takes to understand what climate change does to his/her company and act to build resilience.

Having identified the impact of climate change on their business, utilizing financial instruments such as derivatives or weather insurance products to limit the impact of climate variability, companies can build resilience to climate variability and therefore climate change, while investing in the environmental solutions that scientists have already identified as necessary (such as replacing use of fossil fuels with renewables and restocking carbon sinks). Measuring and managing the impact of climate variability allows everyone, managers, investors, and regulators, to better understand their exposure to climate and find operational and industrial solutions to lower this exposure and be more resilient to climate change. It serves to realize the extent to which climate risk can jeopardize short term and long term profits, which in turn becomes a drive to address climate-related issues on an on-going basis.

If Ban Ki-Moon is looking to get the buy-in from the private sector, helping them to build resilience to climate variability- to manage the effects of unseasonal weather- is the first step.

References

1. ↑ www.un.org/sustainabledevelopment/blog/2015/09/un-forum-highlights-fundamental-role-of\n-private-sector-in-advancing-new-global-goals/
2. ↑ www.un.org/sustainabledevelopment/sustainable-development-goals/
3. ↑ Peter Bagger, President & CEO of the World Business Council for Sustainable Development
4. ↑ www.thisismoney.co.uk/money/markets/article-3244797/House-Fraser-latest-high-street-fa\nll-victim-bad-weather-sales-stumble-start-quarter.html and about.hm.com/en/news/newsroom/news.html/en/financial-reports/2015/9/1988328.html