CLIMATE IN THE BOARDROOM

Change is on the way and directors need to incorporate the science into their strategic risk planning.


Dr Peter Holt GAICD (left) and Dr Nick Wood

Company directors need to bring climate science into the boardroom as they try to understand the physical impacts of global warming and determine a strategic response, says Dr Peter Holt GAICD, general manager of strategy and policy at climate consultancy Energetics.

Directors should look at climate from a strategic perspective and assess how different climate projections will affect their business, says Dr Holt, who advises boards on how to respond to climate change. "Science is hitting the boardroom, telling us the world is changing. Progressive boards understand that and are embracing the science and embedding it into their strategic decision-making processes."

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Energetics' Dr Nick Wood emphasised that indicators of past performance can no longer be relied on to assess future performance because 1.5 degrees of global warming is locked in, already altering the climate and pushing "an enormous amount of energy into the system. That means any of our design standards for buildings, construction, operations, supply logistics, are now no longer current," he says. "We've got this locked in, so we need to look at how our new physical environment impacts our market environment."

One example is the work Energetics carried out on behalf of the Commonwealth Bank. The firm took climate projections up to 2060 and mapped them onto the CBA's agricultural loans portfolio, showing how lower average rainfall and higher average temperatures would affect commodity prices. The analysis compared the "do-nothing" scenario with one in which farmers invested in adaptive technologies, such as precision farming, different seed technology and water-harvesting methods, or new shading for dairy cows.

"You could see the decline in farmer revenue on a 5km grid across Australia," says Dr Holt. "It was a granular view to help the Commonwealth Bank assess any kind of credit risk to their agricultural portfolio from climate change,"

Dr Holt says the Task Force on Climate-Related Financial Disclosures (TCFD) framework — a system of voluntary, consistent climate-related financial risk disclosures for use by companies, banks, and investors in providing information to stakeholders — provides a good starting point for directors.

"The TCFD has been a useful framework to help reframe strategic thinking through a climate change lens," he says. "When that's integrated into the strategic function, you've got a longer time horizon and can actually identify where the key market opportunities as well as where the safe zones are, which exist under all future scenarios."

Large investors such as BlackRock and Macquarie are becoming more vocal about climate change and directing large amounts of capital to sustainable investments. "De-risked or low-carbon/green investments are finding a large pool of capital available to them," says Dr Holt.