Climate change will bring risks and costs to unprepared businesses. Equally, it will bring opportunities to those who have analysed the impacts and positioned themselves accordingly. How will climate change your business?

AEA’s award-winning team of climate change experts combines a deep understanding of climate science with a strong appreciation of business risk planning. We use this expertise and experience to help our clients understand and manage the business risks from climate change and climate variability.

To learn more about climate change adaptation and what your business can start doing today to build resilience, contact Alex Harvey:

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A brighter outlook

Reproduction of an article written by AEA's Alex Harvey and published in the April 2010 issue of Sustainable Business magazine.
Across many UK business sectors there is a growing interest in adapting to the changing climate. Simple steps can be taken to prepare for climate risks – and for some companies greater resilience is within easy reach. But, says Alex Harvey, others may need to transform how they do business – and who they do it with, too.

The climate is changing and this has implications for your business. From SMEs to multinationals – climate change is increasingly recognised as a threat to profitability and resilience.

The weather affects business performance in many different ways: good and bad. Many organisations already have some degree of continuity planning to help them respond to the consequences of extreme weather, but this usually assumes that past experience is a reliable indication of potential future weather risks. With growing evidence of how the climate has already changed, and the larger changes anticipated in future, this is a dangerous game to play; we can no longer rely on the weather being just as it has always been.

At the same time, there is a trend for voluntary, and increasingly mandatory, disclosure of climate risk. Companies responding to the Carbon Disclosure Project have answered questions about climate risk. Local authorities report against an indicator of preparedness for climate change. Now, government, investors and insurers are putting pressure on more businesses to understand and address climate risks.

For example, under the UK Climate Change Act, the Government can direct organisations with a responsibility for national infrastructure to publish climate risk assessments, and the US Securities and Exchange Commission has recently recommended that companies disclose physical risks from climate change.

Business leaders are waking up to the challenges now and taking steps to enhance their resilience and build competitive edge. The good news is that effective climate risk management does not have to be difficult.

**Understand your risks**

To make your business more resilient, you need to understand the potential climate risks you may face. You need to know how likely they are to occur. And you need to understand what the impact would be if they do.

Start with a high-level screening exercise. This can raise awareness within the organisation and help you identify which aspects of your business, your assets, your people, your suppliers and your markets could be vulnerable to a changing climate. You will rapidly see where to follow up with a more detailed assessment.

You will need to gather some evidence about climate change to help you understand and assess these risks. This might include, for example, getting a better handle on potential climate changes in the countries that are important to your supply chain. An initial scoping of the key issues will help you to decide whether and where to focus your risk assessment efforts.

Climate risks are difficult to quantify: they are dynamic and they are long term. This can make decision-making challenging and can lead to under-valuation of risks. So, it is important to frame risks in a way that makes sense to your organisation; use the language and systems that you already have in place for corporate risk management. A risk communicated and accepted is one more likely to be acted on.

**What might these risks look like?**

AEA has worked with a number of organisations to identify and assess climate risks. This experience tells us that climate risks are different for each company.

For a drinks manufacturer, climate impacts on their water supplies was a priority. Increasingly, scarce water resources will affect the availability of water for cooling and production processes, causing more frequent delays, reducing output capacity and increasing costs. By assessing the magnitude and likelihood of risks, a series of adaptive actions was developed to reduce the problems.

This company also needed to assess which of its sites would face increased flood risk in future, so that today’s investment decisions would remain productive throughout their 80-year life. It also considered the impact of climate change on its products and packaging. High temperatures, storms and humidity could affect shipping to global markets. This risk and its magnitude came as a surprise, but simple steps were identified to reduce the risk at minimal cost.

In contrast, a global pharmaceutical manufacturer’s major concerns were storms and floods. The supply of electricity and water to their factories had already been disrupted by damage to power cables, pipes, pumping and power stations.

These problems were projected to get...
The good news is that effective climate risk management cannot be undertaken by one person alone. It requires participation from the board down.

Through experience of helping organisations across sectors to assess and respond to climate risks, we have several observations about successful approaches:

- raising internal awareness of climate change is key: time and time again, workshops and interviews have successfully helped transfer and collect vital information
- high-level messages about priority risks and opportunities can be used to secure the board’s buy-in for more detailed assessment and action
- capital plans and investment strategies can be adjusted to make the long-term consideration of future climate change explicit (this reassures lenders and attracts investment)
- many ongoing initiatives help to mitigate climate risk, for example water efficiency strategies, flood risk assessments, business continuity plans, etc. These are often easily modified to accommodate climate risks
- support for climate risk management is more easily secured if the additional benefits of adaptation responses are highlighted (for example, enhancing general resilience, improving efficiency or cutting costs within the organisation

Ultimately, climate risks should be considered alongside other risks when project, policy and strategic decisions are made.

Review, review, review
Climate change is dynamic, and both information on climate risk, and adaptation experience, are growing. Managing climate risks needs to be a continuous process based on regular review and assessment. Ideally climate risk should be included in existing mechanisms for strategic planning and monitoring business risks. At the same time, ‘mainstreaming’ climate risk in this way is prudent and more transformative action could ultimately be required by your business.

Climate change isn’t going away, it is a long-term strategic issue that is likely to become more important as early-movers seize the new opportunities, or the slow-to-respond disappear. Businesses must start to prepare themselves for climate risk and its impact on profit.

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