Asia-Pacific Climate Change Adaptation Forum 2014

Climate Risks in ASEAN – Challenges in Transformation

(Kuala Lumpur, October 3rd 2014)

Agenda

- **Discuss challenges of integrating private sector into CCA efforts**

- Share perspectives on possible way forward

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Positive momentum from NYC Climate Summit

- A group of developed countries announced a commitment of $2 billion to be channeled to the developing countries during 2014-2015 with strong focus on adaptation.

FORESTS

New York Declaration on Forests

Action Statements and Action Plans

Provisional copy

CLIMATE SUMMIT 2014

UN HEADQUARTERS · NEW YORK

23 SEPTEMBER · #CLIMATE2014

Pricing carbon

Putting a price on carbon will provide markets with the policy signals needed to invest in climate solutions.

- Seventy-three national Governments, 11 regional governments and more than 1,000 businesses and investors signalled their support for pricing carbon. Together these leaders represent 52 per cent of global GDP, 54 per cent of global greenhouse gas emissions and almost half of the world's population.

Source: Press Releases and Declarations

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Overall private sector is behind on CCA

"To date, government and civil society have taken the lead."

"The private sector has been slow to react."

"Business is behind."

Private sector is largely absent from climate change adaptation projects

Source: WRI / CSR Asia / Sida Study "Making Climate Your Business", 2009; MRBI Case Study

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Rough estimate of CCA capacity by sector

- Institutional Asset Owners
- Commercial Banks
- Health

- Materials
- Industrial
- Transport
- IT
- Telco
- Real Estate

- Utilities

- Consumer Goods
- Agriculture
- Tourism

- Insurance

Source: EOS estimate based on WRI / CSR Asia / Sida Study "Making Climate Your Business", 2009; MRBI Case Study; CDP "Major public companies describe climate-related risks and costs"; discussions with private sector companies

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Private sector views on climate risks and impacts

Reactive

Proactive

- Institutional Asset Owners

*"**Relatively little research** has focused on the investment implications of climate change at total portfolio level and how institutional investors might respond."*

- Materials

*"Severe weather events **can** lead to operational delays and increased operational costs. Storm **may** create delays in the deliveries of necessary supplies and equipment."*

- Utilities

*"The physical risks associated with climate change **will compel** Con Edison to build greater resilience …. The **costs identified here** are in orders of magnitude approximations; …"*

- Consumer Goods

*"A reduction in cotton production last year due to changes in precipitation and drought … was a contributing factor to global price increases. **We experienced** higher material costs."*

- Insurance

*"In 2012, **we recorded net pre-tax catastrophe losses** of US$ 633 million, primarily from Superstorm Sandy."*

Source: EOS estimate based on WRI / CSR Asia / Sida Study "Making Climate Your Business", 2009; MRBI Case Study; CDP "Major public companies describe climate-related risks and costs"; discussions with private sector companies

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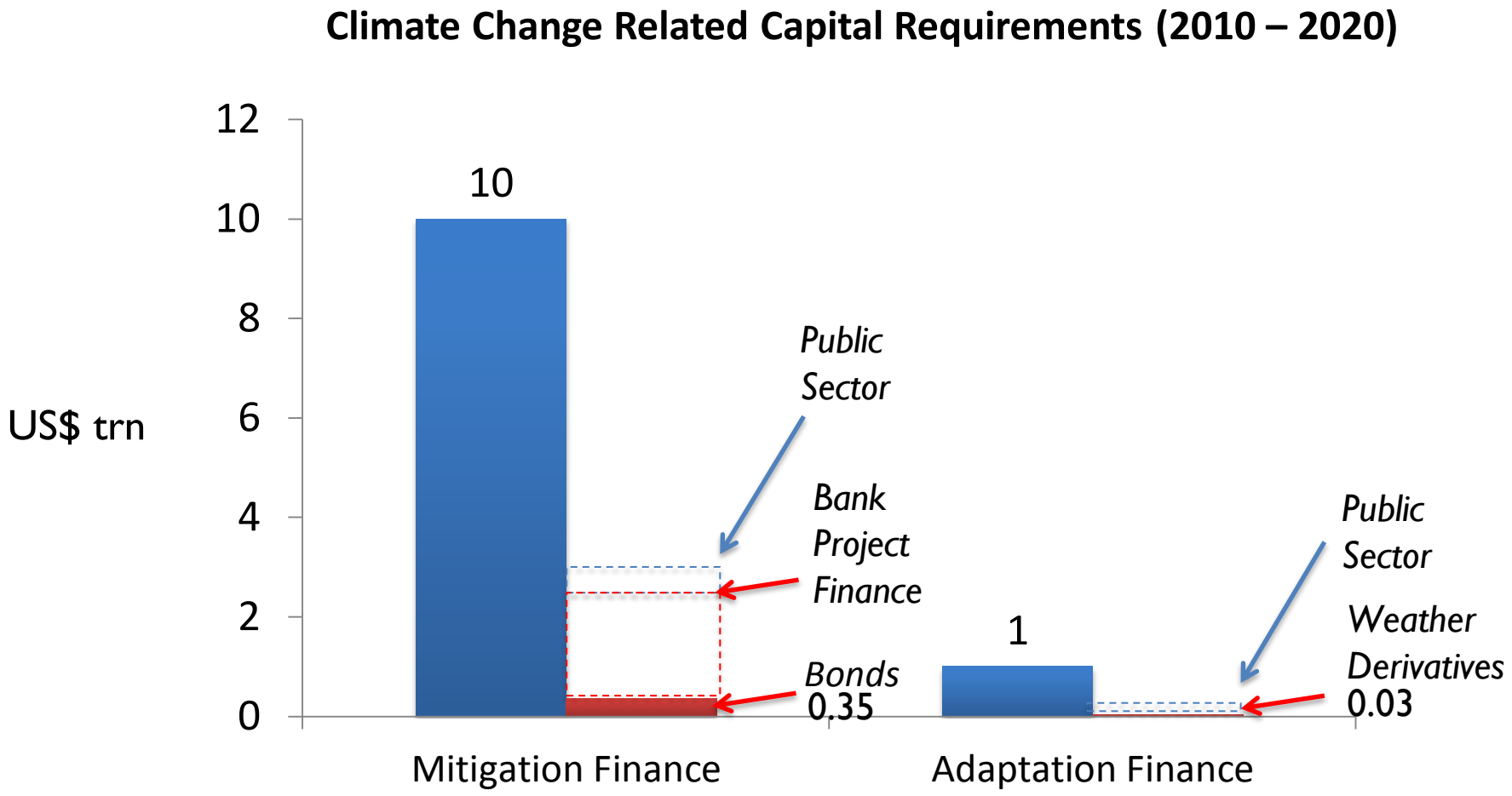
Consequence – Gap in climate finance

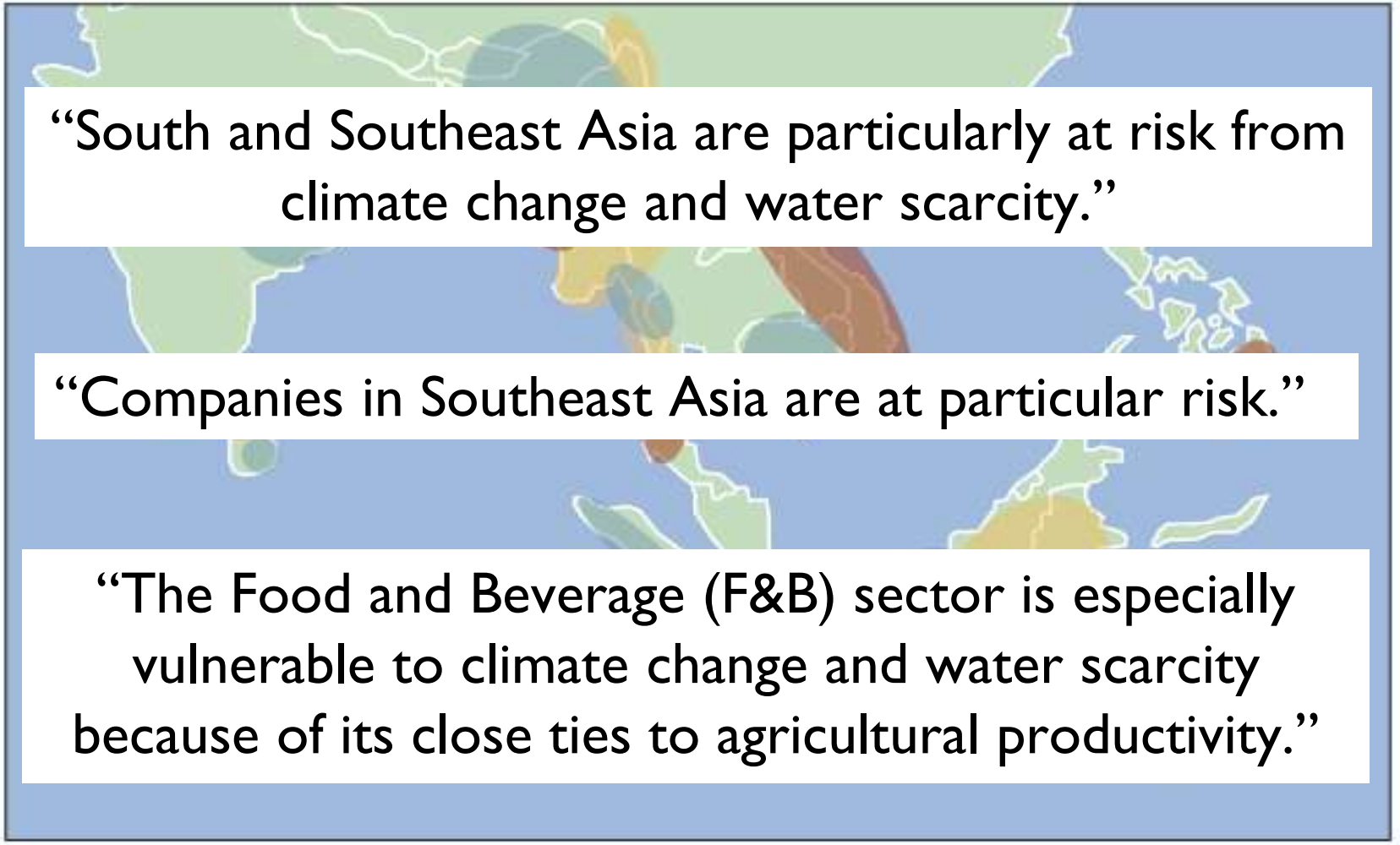


Bonds: 76% Transport / rail ; 12% Energy; 70% of bonds government backed

Source: Climate Bonds Initiative

Why is the private sector lagging in CCA?

Climate Change Hotspots South and Southeast Asia



"South and Southeast Asia are particularly at risk from climate change and water scarcity."

"Companies in Southeast Asia are at particular risk."

"The Food and Beverage (F&B) sector is especially vulnerable to climate change and water scarcity because of its close ties to agricultural productivity."

Source: WRI / CSR Asia / Sida Study "Making Climate Your Business", 2009; HSBC / WRI 2010 "Weeding Risks" Financial Impacts of Climate Change and Water Scarcity on Asia's Food and Beverage Sector

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1) Framing the CCA Issue

Public Sector & Civil Society

- Safeguarding communities
- Climate proofing of infrastructure
- "Mainstreaming" of CCA

Public Good

Private Sector

- Quantifiable risks to firm value system
- Cost / revenue / capital impact
- Earning's growth

Private Shareholders

Source: EOS

2) Climate projections are not easily useable

GCM's & downscaled models not easily accessible for private sector firms and restricted in use

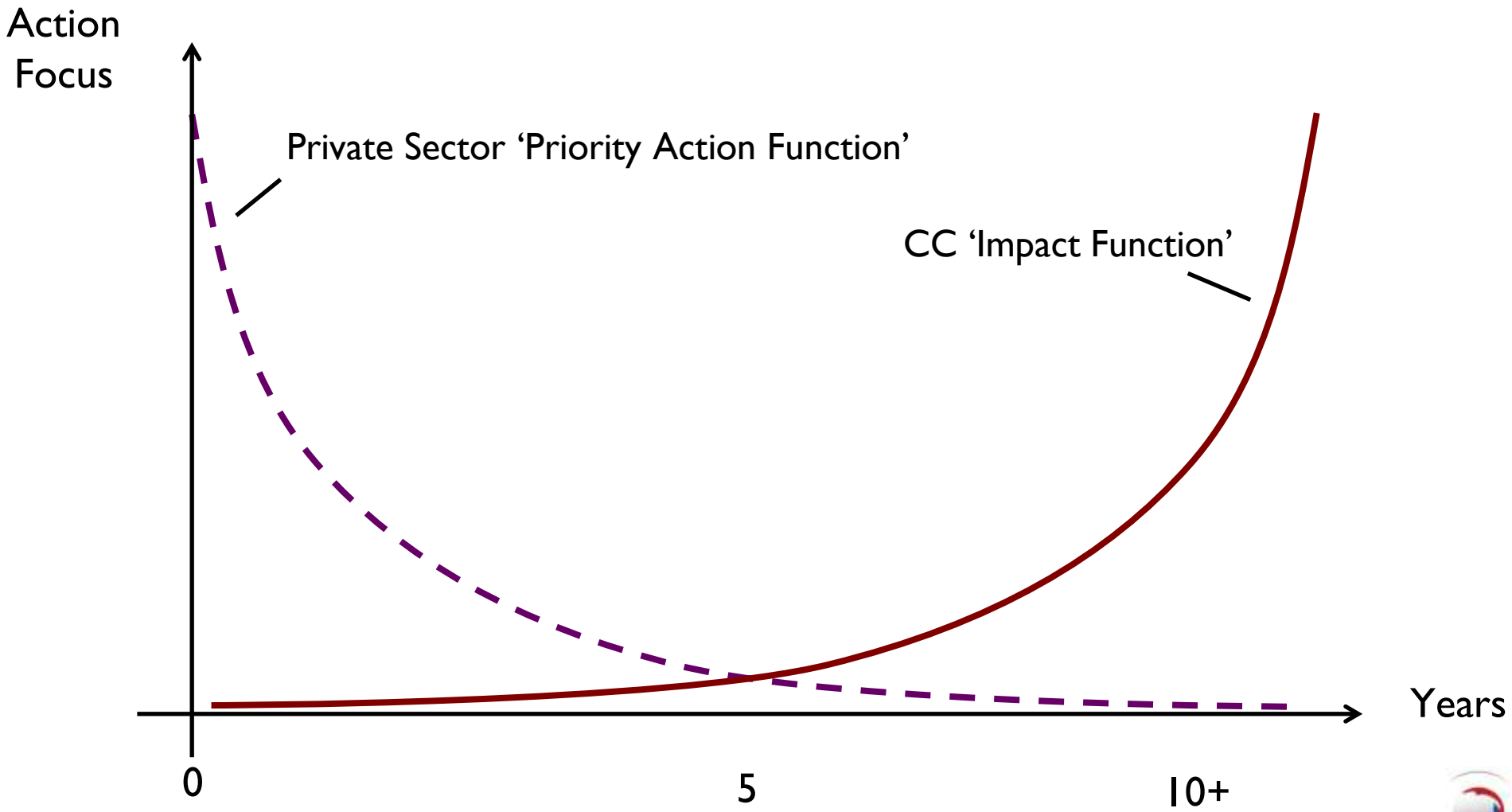
Models have poorest 'skill' in the 5-30 year projection time period

Projections are still relatively coarse

Models 'disagree' with each other on key variables and have significant projection spreads

Source: EOS

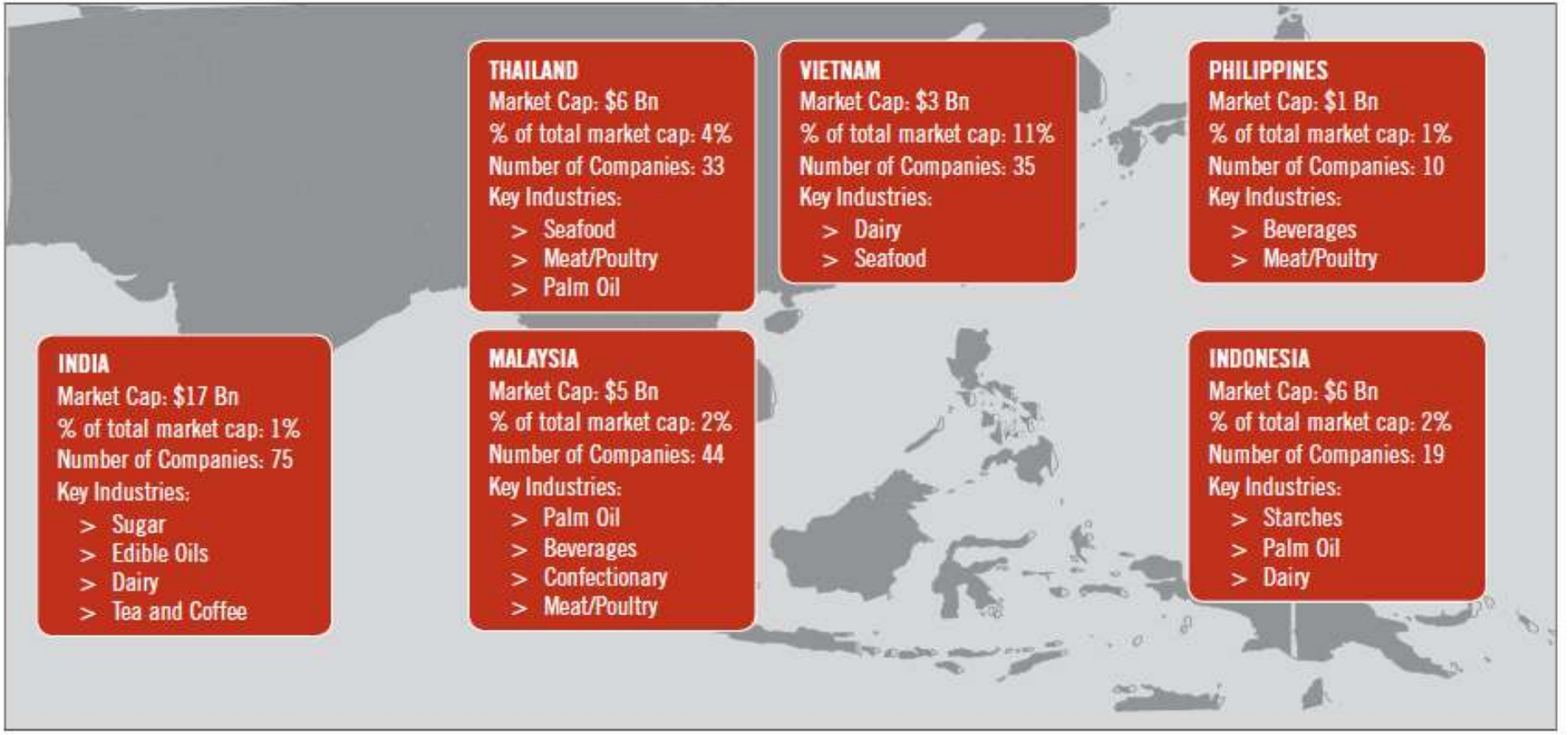
3) Mismatch of Timescales and Competition for Capital



Source: EOS

4) Difficulty in calculating firm value impacts (1)

FIGURE 3. Key Packaged F&B Sub-Industry Statistics by Country



Source: Bloomberg (data accessed January 7, 2010)

*Note: Select companies, most notably San Miguel Pure Foods (Philippines), are not included due to unavailability of data. Please see Appendix 2 for list of companies included.

Source: HSBC / WRI 2010 "Weeding Risks" Financial Impacts of Climate Change and Water Scarcity on Asia's Food and Beverage Sector

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4) Difficulty in calculating firm value impacts (2)

TABLE 5. Summary of Potential Financial Impacts of Climate Change and Water Scarcity on the F&B Sector in South and Southeast Asia

Value Driver	Business Risk		
Agricultural Inputs	Agricultural Crop Prices	Cost ↑	Climate change and water scarcity can affect the availability of key agricultural inputs and result in price changes over the medium to long-term. These price changes can also affect companies with animal-based products through increased feed prices.
		Cost ↑	The increased frequency and severity of extreme weather events, such as storms or droughts, increases the risk of short-term price volatility. Such events may require companies to switch suppliers, make raw material substitutions with little notice and/or source ingredients from further away.
	Animal Yields	Revenue ↓	Aquaculture, dairy, and poultry yields are especially vulnerable to climate change and water scarcity impacts. These inputs are often raised directly by companies rather than sourced from suppliers. Impacts on revenues will depend on supply/demand balance of market.
Operating Efficiency	Processing Costs	Cost ↑	Water scarcity can increase the cost of treating and accessing water.
			The interruption or decline of water supply (from a drought or water rights issues) can create operational disruptions due to its role as a base ingredient and key production input in processing and in the supply chain.

Source: HSBC / WRI 2010 “Weeding Risks” Financial Impacts of Climate Change and Water Scarcity on Asia’s Food and Beverage Sector

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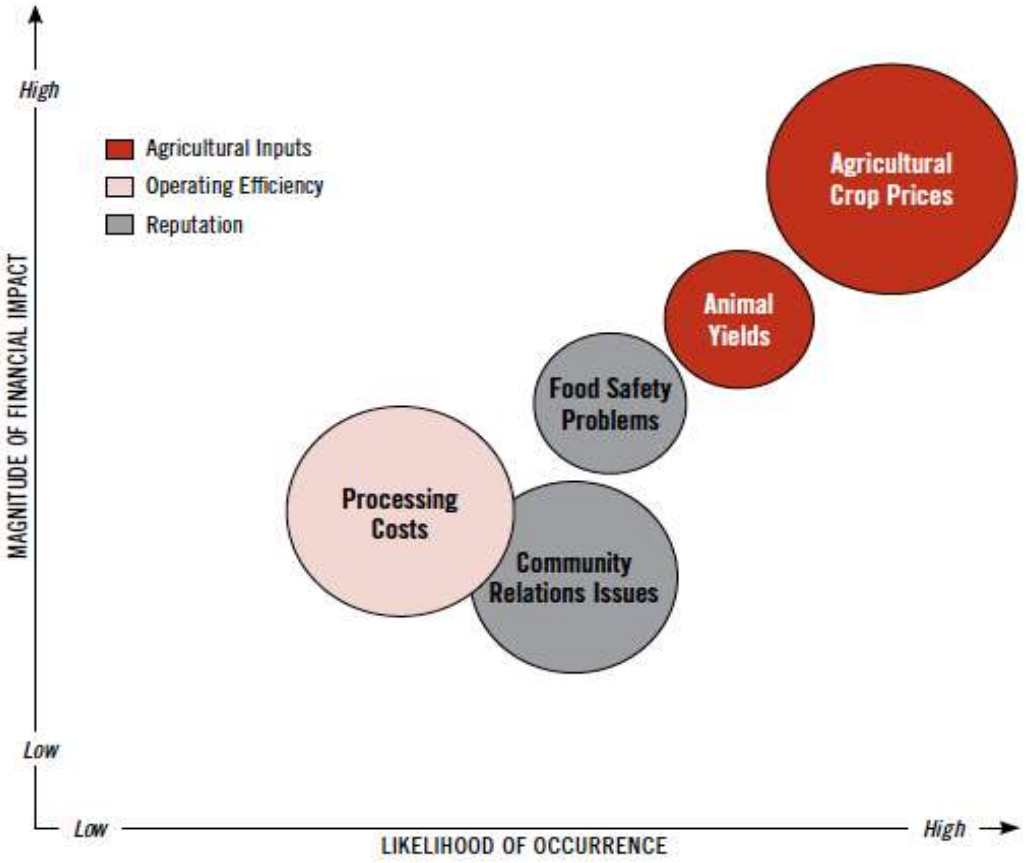
4) Difficulty in calculating firm value impacts (3)

FIGURE 9. **Likelihood and Magnitude of the Impacts of Climate Change and Water Scarcity on the F&B Sector in South and Southeast Asia**



Source: WRI

Note: Bubble size varies by number of companies affected.

Source: HSBC / WRI 2010 “Weeding Risks” Financial Impacts of Climate Change and Water Scarcity on Asia’s Food and Beverage Sector

5) Organizational barriers (1)

1

- CC / CCA is **difficult** to capture organizationally
  - ✧ Procurement
  - ✧ Supply chain
  - ✧ Marketing
  - ✧ Finance
  - ✧ Risk / Compliance

→ Cross-functional 'Sustainability' officers or teams are **not always impactful**

2

- Integration of CCA into decision making requires relatively **high level of skill and sophistication**

→ Prevalent **CCA skills** are typically **correlated** with firm size due to investments

Exposure to C-Impacts / Firm Type	Low	Medium	High
MNC		**Strong**	**Very Strong**
Large National / Regional			**Medium - Strong**
SME's			**Weak**

Source: EOS

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5) Organizational barriers (2)

3

- CCA capacity investments will only be made if **endorsement from top management**
  - ✧ CEO
  - ✧ Board

→ Endorsement and investments require a demonstrated **'business case'** and KPI's to track progress

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4

- Internal awareness building and external stakeholder communication is critical
  - ✧ Employee and management education
  - ✧ External communications campaign

→ Requires **marketing team** involvement when internal capacity is being developed

Source: EOS

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Agenda

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Possible leverage points for APAN (1)

Industry-sector specific working groups

- Private-sector led
- Linked to existing sector efforts, e.g. RSPO, BEI, etc.
- Linked via governance and co-ordination mechanisms to broader APAN efforts

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Cross-stakeholder initiatives around specific themes

- Cross-stakeholder efforts are increasingly used as a vehicle to bridge the interest divide between stakeholder groups
  - ✧ Aligned around common goals
  - ✧ Requires independent & neutral secretariat to drive day-to-day work around analytical workstream, communication, etc.
- Examples: Fishing for a Future, GAIN, GAVI, Portfolio De-carbonization Coalition
- Possible topic for APAN:

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Possible leverage points for APAN (2)

Bridge knowledge barriers for private sector CCA

- Provide access to climate models via a 'clearinghouse' function and modeling experts
- Sponsor studies to build climate change impact assessment tools; study design with strong private sector input
- Design and offer executive education sessions on physical and value related climate change impacts, tools and best practices for adaptation

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Provide 'easy to access' and 'affordable' capital pools for early CCA movers

- Commercial CCA capital with investment criteria linked to projects that merge private firm benefits with social or environmental impacts
- Integrate philanthropic capital pools to integrate impact investment-type of CCA projects

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Concluding thoughts

Window of opportunity for next 15 months

Must reframe the dialogue – explore new approaches

Provision of resources and capital to get tangible results

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Thank You