

New CPD paper on climate scenarios and public forum on building a sustainable economy

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Rigorous planning for the financial and economic impacts of climate change is vital in Australia, where climate risks are profound and climate policy is behind the curve.

Climate scenario analysis is the subject of a new discussion paper called *Climate horizons: next steps for scenario analysis in Australia*, released today by the Centre for Policy Development (CPD). It comes four months after the Financial Stability Board's Taskforce on Climate-related Financial Disclosures (TCFD) recommended scenario analysis be used by companies to model the impact of different assumptions about climate change and climate policy on their business.

The paper recommends five principles to ensure that the scenarios used are fit-for-purpose – beginning with climate trajectories that are genuinely consistent with Paris Agreement commitments.

“Thanks to the Paris Agreement we now have a credible long-term anchor for policies and transitions to limit global warming to well below 2 degrees,” said paper co-author and CPD Policy Director Sam Hurley. “Shareholders, courts and regulators like APRA clearly expect businesses and investors to prepare for this transition – and also for the major physical impacts that are likely even if severe global warming of 2 degrees or more is avoided.”

“Many of the climate reference scenarios used by business only give us a 50 per cent chance of keeping global warming to 2 degrees or less,” said paper co-author and CPD fellow Kate Mackenzie. “And business-as-usual approaches have us on track for warming of 3 degrees or more, which would be incredibly damaging both economically and environmentally.”

“Scenario analysis work that does not factor in robust Paris-consistent scenarios will mean companies and investors underestimate the scale of the risks present and transitions required to meet Paris targets – and the opportunities that this transition will also create.”

“Better analysis and disclosure of climate risks is vital to provide the information markets need to help drive a transition to a zero carbon economy. But flawed or superficial approaches to scenario analysis will obscure more than they reveal,” said CPD CEO Travers McLeod.

“This is a critical time to build on momentum created by the TCFD, and for Australia to be a crucial test case and leader. While conducting good scenario analysis is not a simple undertaking, many publicly-available resources already exist. Key sectors and stakeholders can work together to improve scenario analysis and ensure Australian approaches don't diverge from international best practice.”

Climate horizons says Australian regulators also have a role to play – by supporting broad adoption of the TCFD's recommendations, and by investing in their own capability to understand climate risks.

In February 2017, APRA Executive Board Member, Geoff Summerhayes, gave a landmark speech saying climate risks were “foreseeable, material and actionable now”. He highlighted the importance of scenario analysis as a tool to map organisational risks and drive better corporate climate strategy. Since then, there have been several major steps forward from leading global regulators and supervisors – including APRA joining the Sustainable Insurance Forum, a network of global insurance supervisors and regulators that seeks to provide leadership on climate and other sustainability challenges and opportunities.

On 29 November in Sydney, Mr Summerhayes will join Steven Skala AO (Chair of the Clean Energy Finance Corporation), Christina Tonkin (Managing Director of Loans and Specialised Finance, ANZ) and new CPD board member Sam Mostyn for a special CPD public forum on the theme ‘Building a sustainable economy.’

Kate Mackenzie and Sam Hurley are available for interview.

Full discussion paper available here: <https://cpd.org.au/2017/11/climate-horizons/>

Further information about the *Building a sustainable economy* event is available here: <https://cpd.org.au/2017/11/public-forum-building-sustainable-economy-event-29-november-2017-sydney/>

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