# Addressing Climate Risk – Practical Steps

*You may be thoroughly sick of hearing about climate change in the media.  You may be deep into the issue and have already devoured and be planning to comment on the Climate Change Commission's recent report.  You may be underway with making changes in your organisation.  Or you may be still consumed by COVID response issues and yet to start.*

*Wherever you are at we provide some practical suggestions on steps to take on this critical strategic issue.*

## An important issue – and increasingly urgent

We've previously written on how we see climate risk as possibly the most important strategic issue facing organisations over the next few decades and reasons why.  (refer *insert article link)*

This included the following reasons why climate risk has been rapidly climbing up the priority lists of governance boards and management.  This has been caused by a range of factors including increased:

- climate risk awareness – eg more extreme weather events and 2020 being the 7th hottest year on record for NZ
- public consumer pressure regarding social licence to operate – amplified by social media reactions
- supply chain requirements – suppliers, funders, investors, insurers and customers demanding certain standards and harm mitigation activity
- direct regulation – to assist Governments meet various agreed targets

Your organisation cannot solve climate change on its own. You can however have an impact and it is only with the combined positive actions of everyone that a positive difference can be made. To start, as with any issue; one must first understand the nature of the issue and how it impacts on your organisation and your organisation on it. These are the first steps to appreciating the impacts on your organisation's sustainability.

However, we also note what we see as possibly the greatest danger to organisations.  This is complacency - due to climate change being a slow creeping issue.  It also runs the risk of always being bumped off the "to do" agenda by more immediate concerns.  Covid-19 implications and response has focused many more people on the short-term.  As a result, many organisations, in our view, are not considering the strategic implications of Climate Change seriously enough or urgently enough.

## *So, what can we do?*

### 1. First, we must understand the problem

Sorry but there is no one-stop shortcut here. Some personal work and effort is going to be required to improve your understanding of the issue, market changes and developments, and likely scenarios. This base level of understanding is essential in order that you can begin to appropriately identify and consider possible risks and opportunities specific to your organisation's sustainability.

The good news is that there is lots of emerging information out there, often freely accessible, and sometimes even tailored nicely to your specific sector and entity type.

The bad news is also that there is lots of emerging information out there! Overwhelming amounts in fact. There is also quite a lot of emotion about this issue as well as some strong and loud voices lobbying for their particular view in sophisticated ways. These, in some cases extreme, lobbying voices seem to be at both ends of the spectrum.

Don't be daunted; do the mahi!

**Reality check:** If your answer to understanding the problem with respect to your organisation is that: there isn't a problem. Can we respectfully suggest you go back and repeat Step 1.

### 2. Assess the skills you have on board and those needed

Climate risk is a new area for many organisations. As such it may require bringing in new skills and experience and perspectives. A stocktake of climate change skills, knowledge and experience on both your governance board and management is a useful starting point.

Then, once gaps and/or required resources are identified, you can consider how best to address them. This can range from education and training, to employing new staff, to contracting in specialist resource as needed. Or a combination of all these.

### 3. Start! Progress trumps perfection

Like the complacency risk, there is a significant risk of "analysis paralysis". This is where you get lured into analysing the detail in such depth that it all just gets too much. When this happens usually the default position wins - which is: don't make any decisions and do nothing. Often this is further "justified" or rationalised due to "not having all the answers" and "it being a bit uncertain still".

**Reality check:** Considering climate change risks and opportunities is an area where there is a lot of uncertainty. This is natural for any issue that is likely to exist long into the future and where new technologies will undoubtably be developed in future to assist.

Get used to operating within uncertainty. Like developing a good financial budget, we can only do it based on the best information we have at the time. Then if better information comes along, we amend our forecasts and behaviour accordingly.

### 4. Understand where you are now

Understand your baseline. What is your organisation's impact on climate change? What's your carbon footprint?

As accountants we love the phrase; *what you can measure you can manage*. And really importantly; once you have a baseline measure you have something tangible to measure progress against.

The good news about understanding your carbon footprint baseline is that there are experts available and able to help you assess this.

**Strategic tip:** Don't delay; measure your carbon footprint early. The strategic reason is two-fold:

1. This will likely be your worst measure before any significant mitigation actions begin. Hence you will be able to benefit from showing good progress once mitigation actions commence.
2. Showing progress is incredibly motivating to help implement and sustain the required actions

### 5. Communicate

Don't underestimate the positive power of communicating with your shareholders, members, customers, suppliers and wider stakeholders.

Don't wait till it is good enough, or it is "done" (**Reality check:** it will never be done!). Rather, report what you are doing and progress you are making.

**Strategic tip:** Some organisations will be forced into varying degrees of mandatory climate risk reporting via legislation in the near future. However, we believe that there is a strategic advantage for many organisations in being voluntary early adopters, and great positive communicators in this area.

Never underestimate the power of "social licence to operate" and how great, honest communication protects and sustains this licence.

### 6. Rinse and Repeat

Take regular opportunities to reflect.

What have you learnt? What's worked well for you and others? What hasn't? What's changed? What new strategic and operational opportunities now present themselves?

Then modify your strategy and actions based on these learnings and carry on.

## Parting thoughts

What we as individuals, organisations, countries and globally do in the next ten years to tackle the climate change challenge will be critical to the world our future generations will live in.

The time for “wait and see” is over. We collectively need to engage with this now…the stakes are too high not to.

## Understanding the language and legislation

You will see lots of terms bandied around in climate reporting. Here is a guide to what some of the key ones mean as well as the main NZ legislation in this area.

- **Net Zero:** means that any carbon dioxide released into the atmosphere from the entity’s activities is balanced by an equivalent amount being removed elsewhere in the entity’s activities.
- **Carbon Neutral**: Carbon neutral is slightly different, allowing entities to measure the amount of carbon they release and offset that with a reduction in emissions or removal of carbon. This can include buying carbon credits to make up the difference which makes it appealing to companies or other types of organisations that produce a lot of emissions.
- **Carbon Negative:** requires an entity to remove more carbon dioxide from the atmosphere than it emits.
- **The Kyoto Protocol:** A legally binding international agreement to reduce global greenhouse gas emissions and providing a framework for international emissions trading. Adopted in 1997 but it took until 2005 before it entered into force. NZ ratified the agreement in 2002. Parties to the Kyoto Protocol use Kyoto emission units to track their progress against their agreed emissions reduction commitments.
- **The Paris Agreement:** A legally binding international treaty on climate change. It was adopted by 196 Parties at COP 21 in Paris, on 12 December 2015 and came into force on 4 November 2016. Its goal is to limit global warming to well below 2 degrees Celsius – and preferably to 1.5 degrees Celsius – compared to pre-industrial levels. To achieve this long-term temperature goal, countries must aim to reach a global peak of greenhouse gas emissions as soon as possible to achieve a climate neutral world by mid-century.
- **Climate Change Response Act 2002:** Establishes New Zealand’s legal framework for meeting its obligations under the United Nations Framework Convention on Climate Change and the Kyoto Protocol.
- **Climate Change Response (Zero Carbon) Amendment Act 2019:** amends the Climate Change Response Act to provide a framework by which New Zealand can develop and implement clear and stable climate change policies that:
    - contribute to the global effort under the Paris Agreement to limit the global average temperature increase to 1.5° Celsius above pre-industrial levels; and
    - allow New Zealand to prepare for, and adapt to, the effects of climate change.
- **Climate Change Commission:** A Crown Entity established by the Zero Carbon Amendment Act to provide independent, expert advice to the Government on mitigating climate change and adapting to the effects of climate change. The Commission is also required to monitor and review the Government’s progress towards it emissions and adaption goals.

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*Disclosure note:  Craig is the chair of the XRB's External Reporting Advisory Panel.  The views expressed here are his own.*