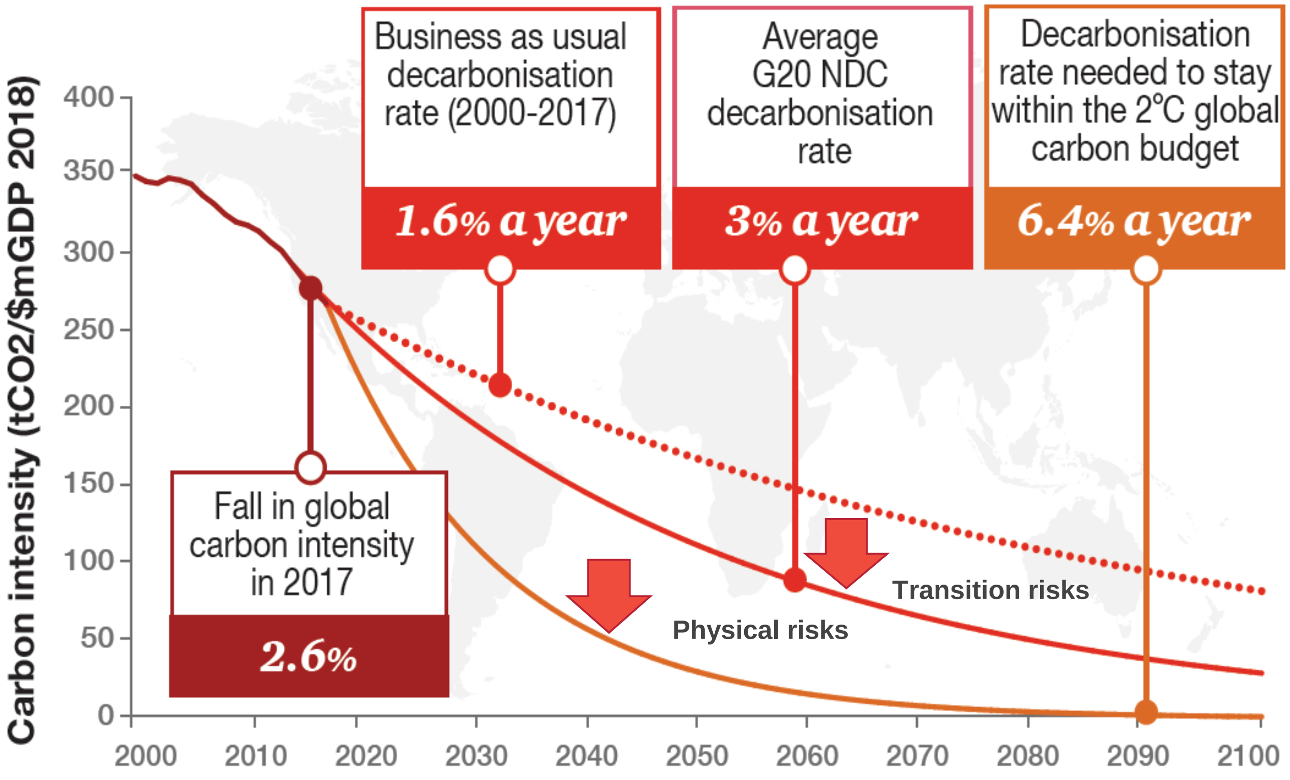
Climate Change Leadership Porto Summit 2019

Robert Swaak
12th February 2019

1 – The low carbon transition is underway



Sources: BP, Energy Information Agency, World Bank, IMF, UNFCCC, National Government Agencies, PwC data and analysis.

Notes: GDP is measured on a purchasing power parity (PPP) basis. The NDC pathway is an estimate of the decarbonisation rate needed to achieve the targets released by G20 countries. NDCs only cover the period to 2030, we extrapolate the trend in decarbonisation needed to meet the targets to 2100 for comparison.

Climate risks can be split into physical risks and transition risks

Physical risks

- Acute - risk of increasing severity of weather events
- Chronic - risk of longer term changes in weather patterns and other climate impacts

Transition risks

- Policy and legal - risk from emerging regulation aimed at addressing climate change or from litigation
- Technology - risk from emerging technologies aimed at supporting the low carbon transition or adapting to climate impacts
- Market - risk from shifting supply and demand curves as economies react to climate change
- Reputation - risk of damage to brand value and loss of customer base from shifting public sentiment on climate change

2 – Climate Change is a material risk for financial stability

FSB Task Force on Climate-related Financial Disclosures prepared the TCFD recommendations, launched on 29 June 2017. Although they are voluntary, we expect that companies operating in G20 countries will commence implementation.

A	**Governance** Disclose the extent of board and management's oversight of climate-related risks and opportunities.
B	**Strategy** Disclose the actual and potential impacts of climate-related risks and opportunities on the organization's businesses, strategy, and financial planning where such information is material.
C	**Risk Management** Disclose how the organization identifies, assesses, and manages climate-related risks.
D	**Metrics & Targets** Disclose the metrics and targets used to assess and manage relevant climate-related risks and opportunities where such information is material.

The Task Force has produced additional guidance that underpins these four broad recommendations. This can be found on the TCFD website. Refer to the Annex titled Implementing the Recommendations of the TCFD and a Technical Supplement titled The Use of Scenario Analysis.

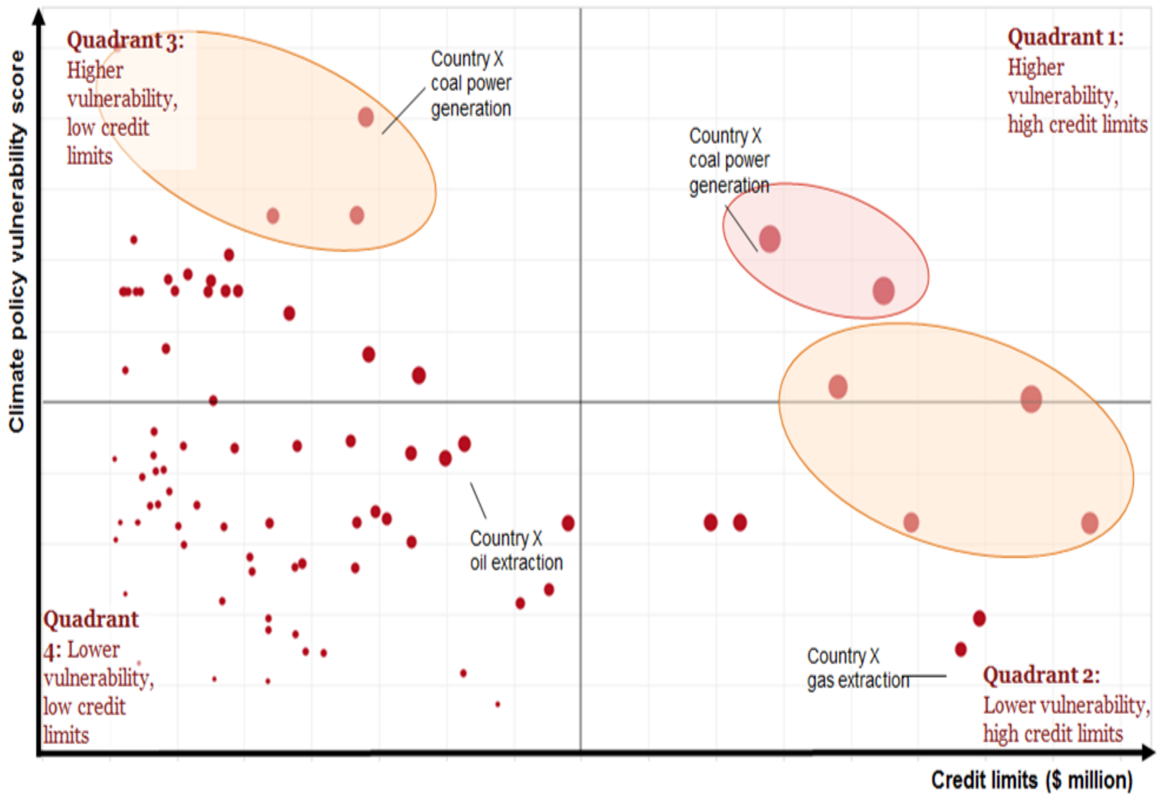
3 – Climate change impacts on the wine sector

- Broadly, impacts of 2C are ‘substantially’ worse than 1.5C - Food production, health, infrastructure are main sectors affected
- Climatic projections for Portugal highlight an overall warming and drying trend of the grapevine growing season, potentially resulting in modifications in phenology, growth, development, yields and eventually wine characteristics and typology
- Wine industry will have to evaluate the potential effect of drought and make contingency plans if needed to pre-empt the effects of climate change and water scarcity
- Viticultural suitability of each region is projected to undergo significant changes
- Labor costs in wine wineyards may also increase as a result of high temperatures and increased labor loss

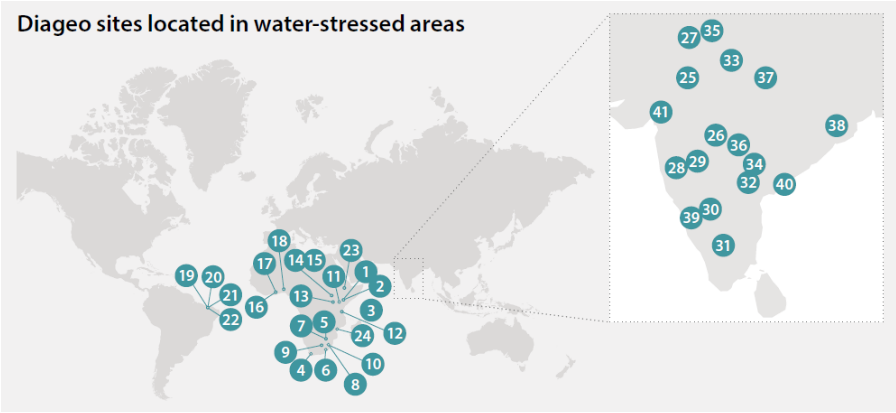
Key players from the wine industry recognize climate change as a priority topic

Climate is the most decisive factor in winemaking as well as the one most difficult to control. The vineyard is inextricably linked to shifts in season and temperature, and it is strongly affected by climate change, because the vine is one of the most sensitive plants when it comes to these kinds of variations.

4 – Climate scenarios and risk analysis: examples



Map is used to illustrate Diageo sites in water-stressed areas (Diageo Annual Report 2018, p.15)



Identification of risk “hotspots” where significant credit exposure/revenues cross with high climate policy vulnerability

Quantifiable view that can be filtered by product type, credit limits, revenue, client sectors, location and climate risk.

A tool to measure and track portfolio decarbonisation.

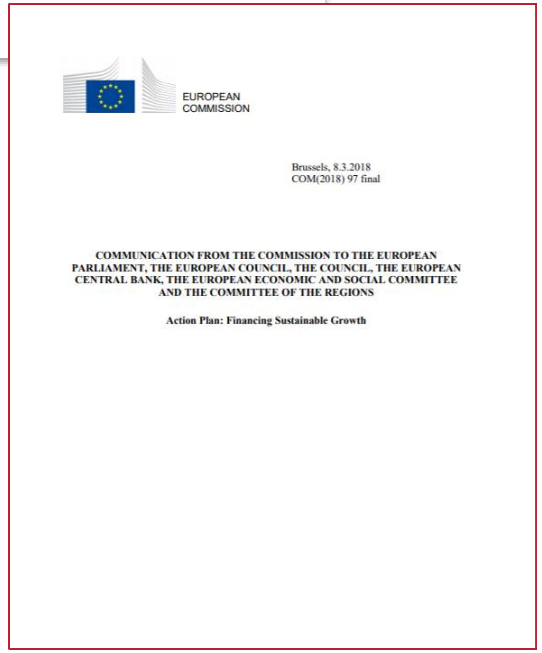
5 – What are regulators doing?

EU

- Commission’s Sustainable Finance Action Plan commits to exploring changes to insurers’ prudential requirements
- EIOPA is due to report to the Commission by 2021 on potential changes to Solvency II

UK

- Draft Supervisory Statement for consultation
- A more active and strategic approach to managing the financial risks from climate change
- Defines climate risks as physical and transition risks
- Use effective
    - Governance
    - Risk management
    - Scenario analysis
    - Disclosures (TCFD)
- Role of Board and Senior Management function



6 – Considerations for business leaders

Taking on a different perspective

In our view, the approach to climate change must shift in three crucial ways:

- Away from the traditional backward looking sustainability-focused lens and towards a **forward looking financially-focused view**;
- Broadening the perspective from a company's impact on climate change to **climate change's impacts to the company through physical and transition risks**;
- Moving climate-related disclosures into **mainstream reporting** and away from standalone sustainability reports, requiring the same rigorous governance processes as financial reporting

Business will need to be ready for these shifts.

Climate risks can be broadly split into physical risks and transition risks.

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7 – How will taking action generate value for businesses?

Understand how climate change could impact your business.

Understand the materiality of any climate risks and opportunities.

Quantitatively assess these risks and opportunities and prioritise accordingly.

Be in a position to evaluate the implications of future climate scenarios on your strategy and business performance.

Position your business to best manage material risks and capture the opportunities.

Address stakeholder concerns around the resiliency of your business to climate change.

Thank you

Robert Swaak
Global Relationship Partner

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