The Physical Cost of Climate Change on Companies

by Ron Immink

Ron looks at ways we can measure the physical cost of climate change on companies and how we can reduce this.

Climate policy

A long time ago I read a book titled "The end of Western Civilisation, a view from the future" which was written as if it were a hundred years in the future and looking back on how we failed in our response to climate change. It is a fascinating read with an eerie ring to it as everything we see happening now is described in the book. There was complete system failure which resulted in heat waves, a massive rise in sea level, depopulation and mass migration, outbreaks of disease, famine, deforestation, you name it. The hard part, according to the book, is that we knew what had to be done and we did nothing about it. This is because the political, economic and social institutions had a vested interest in maintaining the use of fossil fuels.

This could happen in our lifetime

If you believe that we will live to be 150 years old (and I do), this will all happen in our lifetime. According to Buddhist Economics we are using the wrong metrics. GDP does not take into account new business models and certainly does not take into account the true cost of production, which should include pollution, carbon emissions and the real capital cost of impact on nature but also the social cost. The reason we do not measure properly is that most companies would go bankrupt. Think about it. Our GDP is telling us our economies are growing. While our planet is being destroyed, we have hospital waiting lists, a housing crisis and suicide is the number two cause of death among young men.

Failure to measure

GDP is a calculation that fails at measuring:

1. Quality of life. Only consumption of market goods and services is counted and all other aspects of life are ignored.

2. Harm to the environment, such as air pollution, water pollution or chemicals poured on the ground, is ignored.

3. Shared prosperity. The use of average GDP to indicate well-being ignores inequality. When incomes at the top increase, GDP per capita increases even as incomes of the non-rich remain stagnant.

However, once environmental damage, health problems and other social costs are factored in, it amounts to 6.5 per cent of global economic output for 2015 (I suspect that figure is much higher).

An example is when Hurricane Katrina destroyed much of New Orleans and the surrounding Gulf Coast in 2005, killing 1,833 people, GDP was not reduced by one penny. In fact, after the disaster struck, relief efforts costing over $120 billion and insurance payments of $41 billion were actually added to the GDP. So by this measure, the natural disaster helped the economy grow by $161 billion, never mind the decline in quality of life for the residents of New Orleans or the thousands of people who have suffered for months and years as they have tried to rebuild their homes and lives.

Here is another example of how the GDP can be misleading. Let's compare a person who drives a Prius and gets 50 mpg to a neighbour who drives a Hummer and gets 14 mpg. Free market economics tells us that the Hummer is the better choice for the economy, because it adds more than three times what the Prius adds to the GDP for every mile driven, since the GDP records only the gas bought.

An economist study came to the conclusion that by the end of the century, private investors risk losing more than $4 trillion in assets as a result of the devastating effects of climate change, either in the devalued portfolios of fossil fuel companies as fossil fuel use is ended or in a devaluation across all companies if GHG emissions continue.

There are other ways to measure

Economists already have ways to measure pollution and environmental damage, income inequality, happiness, human capabilities and nonpaid activities (both useful and harmful). Around the world, broad measures of well-being have already been developed. Among them are Bhutan's Gross National Happiness Index, the UN's Human Development Index, the OECD (Organisation for Economic Co-operation and Development) Better Life Index, the Genuine Progress Indicator (GPI), and the Happy Planet Index.

Beyond GDP

Buddhist economics wants to go beyond the GDP and use other measures in a way that helps people and nations create more meaningful, sustainable lives worldwide. To do this, we need to use a single-value measure, such as the GPI, to replace the GDP as the measure of economic performance over years and across countries.

Buddhist economics

Free market economics holds that human nature is self-centered and that people care only about themselves as they push ahead to maximise their incomes and fancy lifestyles. Buddhist economics, in contrast, provides guidance for restructuring both our individual lives and the economy to create a better world.

Here are some policy suggestions from Buddhist Economics:

- Introduce a carbon tax to accelerate the transition to a carbon-free world.
- Introduce a guaranteed minimum income, which provides a safety net for all.
- Restore the balance between family and work, by shorter work hours and family-focused policies.
- Demand that stores carry only products manufactured under humane conditions.
- Provide a capital endowment to young people at adulthood, so that they have a chance to finance their education or make investments in their future.
- Introduce employee ownership and profit sharing.

You don't have to become a Buddhist but it is time for businesses to embrace some of the new thinking around sustainability. The problem is the existing small and medium-sized companies, particularly in Ireland. I do a lot of work with Irish accountancy bodies to explain why it is very important that we take note.

Not only as an existential threat for all of us, but as a 90 trillion business opportunity. That is $ 90,000,000,000,000 to be spent in the next 25 years. After that, it is too late. In Ireland alone, the number is 40 billion Euro. That is outside of the changes in the value chains where the large companies are expecting their suppliers to be sustainable. The value is estimated at one-third of GDP.

Companies such as Unilever, Walmart, IBM, HP, Patagonia, Johnson and Johnson, GE, BT, Diageo, UPS, Toyota, Nestle, Carrefour, Pepsi, AkzoNobel, Dow, Puma, BASF, Colgate, Kingfisher and Marks & Spencer to name a few are all laying down the law with their suppliers. it is very simple. You are sustainable as a supplier or you are no longer a supplier.

Regulation

Then there is the regulatory pressure. COP21, UNDP, ES, non-financial reporting, EU directives and the national mitigation plan are all going to penalise businesses that are not sustainable. That is before we take into account that consumers are starting to demand green and clean business practices. That is before we take into account that the capital stack has shifted and is putting a risk premium on non-sustainable projects. In the near future, that means that lending from your bank will become more expensive when you are not applying sustainable business practices.

Embrace the opportunity

A lot of companies are already embracing climate change as a business opportunity. Companies such as UrbanVolt, Mimergy, Hexafly, SizeU, Maggrow and Oxymem. Accountants have a moral obligation to start measuring climate impact. As parents, good citizens, but also as advisors to their clients. It will future proof their client business. Green accounting is also a very big business opportunity.

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Ron is a Dutch/Irish entrepreneur with extensive experience in the areas of entrepreneurship, intrapreneurship, strategy, innovation and SME engagement. He is a founding partner of StrategyCrowd, author and public speaker.