

Current climate changes a spur for some to adapt

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Dealing with **climate change** is mostly couched in terms of the need to cut greenhouse gas emissions, with targets often set far in the future.

But focusing on these mitigation strategies has distracted attention from the need to adapt to changes happening now, according to experts.

"People are looking to the future and what will happen then, but climate change really is happening now," says Paul Dickinson, chief executive of the **Carbon Disclosure Project**.

Some climate change is inevitable, regardless of how much emissions are cut in future, because of the gases that have already been pumped into the atmosphere.

Climate scientists meeting in Copenhagen in March heard that it will be almost impossible to meet targets to limit temperature rises to 2°C because emissions have continued to surge.

According to New Energy Finance, the clean energy analysts, heat waves are becoming more common and rainfall patterns are changing, with increased risk of flooding and drought.

"Glaciers are melting, which will have profound effects on water supplies in locations ranging from the Indian sub-continent to North and South America," the report says.

"Permafrost is thawing, affecting building foundations and potentially releasing billions of tonnes of previously locked away methane. Sea levels are rising; storm surge heights are increasing; and the intensity of storms is increasing, all of which will affect millions of people."

Businesses across every sector of the economy – from aviation to agriculture – will be affected. Security of water and energy supplies, seasonal shortages, and changes in water quality will all have cost implications, says a report by Acclimatise for IBM, published last month.

Consequently, investors need to know about the exposures of the companies they own, says Rory Sullivan, head of investor responsibility at Insight Investment, a specialist asset manager. This is easier said than done, however, because exposure varies across countries and sectors of the economy.

"There are different challenges in different regions," says Connie Hedegaard, Denmark's environment minister. "The issues you face in northern Finland are nothing like what you have to deal with in southern Spain."

Nonetheless, there are certain common themes when it comes to adaptation. "Scarcity of water will be one of the main challenges," Ms Hedegaard says.

Many regions also face more severe flooding while changes to rainfall patterns mean that even if the overall amount of rainfall does not change, the amount of usable water – for water supplies, agriculture and to cool power stations – will reduce. Finally, sea level rises put at risk the lives and livelihoods of billions of people around the world who live near coasts.

As well as dredging companies and builders of sea defences such as Boskalis of the Netherlands, companies dealing with storm water management such as Hydro International and those that provide water treatment services will see their markets grow, says Bruce Jenkyn-Jones, chief investment officer of Impax, a fund manager investing in a cleaner economy.

The increase in severe weather events puts the insurance sector firmly in the front line of dealing with climate change. Losses from natural catastrophes were \$200bn (£133bn, €150bn) in 2008, according to Munich Re. Property and casualty insurance are the most affected by this and companies are reacting by limiting cover or increasing premiums in flood-affected areas. The state government is now the biggest residential insurer in Florida, for example, because insurers have withdrawn cover from hurricane-prone areas.

Insurers are also offering new products, providing catastrophe insurance and cover for renewable energy projects and extending cover in emerging markets that are likely to be hard hit by climate change, thus increasing the resilience of businesses and consumers.

Infrastructure and the built environment will also be affected, not least because the sector involves assets that last

for decades – and may therefore be heavily affected by rising temperatures and more severe weather.

Michael Riley, equity analyst at SAM, the sustainable investment specialist, says the value of property and infrastructure that will be affected is massive.

Mr Sullivan says: “Those companies that are most exposed in the short term are those that are not diversified and are in infrastructure – such as the water companies.”

Energy companies will also have to take climate effects into account during the massive programme of capacity expansion that is under way around the globe. The unforeseen impacts on electricity generators was illustrated during the 2003 heat wave in Europe, when France had to shut down nuclear power stations because of a lack of water to cool the reactors. The shortage of water hit its hydro-electric plants as well.

Businesses able to improve the resilience of the grid will benefit from increased uncertainty over supplies, as well as suppliers of uninterruptible power supplies and energy storage, says Mr Jenkyn-Jones.

Meanwhile, buildings will need more cooling as temperatures rise, but will also have to use less energy.

This will provide opportunities in areas from insulation to specialist glazing and building controls systems.

Finally, the bewildering range of changes and the need for local knowledge to assess risks and opportunities will bring strong demand for the services of environmental consultancies and companies that can provide their clients with information about their own energy consumption and emissions .

The advance of adaptation up the climate agenda will be uneven, receiving increased attention in the wake of various natural disasters, says Mr Dickinson of the Carbon Disclosure Project. “Mitigation is a business that will move at the speed of politics. Adaptation will move at the speed of events.”

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