



Getting started with climate scenario analysis

How we can help

Scenario analysis is a useful tool for understanding the implications of climate change for your business and to prompt longer term strategic thinking about risks and opportunities.

Some companies have developed their own scenarios, others use those prepared by organisations such as the International Energy Agency.

Given developments to date, it is useful to consider at least two distinct scenarios: one in which rapid decarbonisation achieves a 2°C outcome, and one where emissions remain high and physical climate impacts dominate.

By applying a number of possible futures to your business, you can test strategic resilience and management response options.

Major institutional investors are keen to understand the strategic implications of climate change on the companies they are invested in as well as how management intends to respond. Investors are prepared to use their voting power to demand such disclosure. For example, the Climate Action 100+ initiative, comprising 256 investors with USD28 trillion in Assets Under Management is mobilising to demand better climate disclosure from the companies they invest in.

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As the world transitions to a low carbon economy, policy, market and technology trends are emerging which present real risks and opportunities for market leaders. Market and technology trends such as the continuing growth of electric vehicles, advances in battery design and the declining costs of renewable energy should be understood and factored in by business leaders in such industries and in their supply chains.

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The Task force on Climate Related Financial Disclosures recommends that companies assess and report on the potential financial implications of climate change. Specifically, companies are asked to disclose the results of its scenario analyses as part of broader disclosure around the strategic implications for their business. It recognises that forward-looking analyses are challenging and suggests that companies use scenario analysis as a tool to support the development of their strategy.

2

Although the low carbon transition is underway, recent weather events suggest that businesses still have to deal with the increasingly frequent or severe physical impacts from climate change in the short to medium term. This has implications for all companies with physical assets; and is material for companies in sectors such as real estate, agriculture or transport. Companies whose value and supply chains are dependent on vulnerable sectors would also benefit from exploring what these changing weather patterns mean for their business.

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Our approach

Module 1: Review scenarios and prioritise risks

We review existing scenarios to identify specific attributes that are most relevant to your company. We will use our database of technology and regulatory transition pathways drawn from different climate scenarios to help you define a scenario that is aligned with your company's views.

By focusing on specific climate attributes we can work with you to assess the business implications and identify the most material impacts: on the supply chain, operations, logistics and sales. We use workshops and interviews to gather the views of relevant stakeholders within companies such as those from strategy, risk, finance and sustainability.

Module 2: Impact analysis

We use our in-house Climate Scenario Impact models and methodologies to assess the financial implications of climate change. This draws on data such as turnover by region and product or operational costs, on to which we overlay the quantified climate attributes.

Impact analysis can be done at a high level (by calculating impacts to your turnover or costs) initially, followed by validation and detailed financial and economic modelling to take into account factors which may be interdependent.

Module 3: Future-proofing

Strategic responses to climate change could include mitigation, adaptation or innovation to future-proof your business model. In our view, it is also worth testing a proposed strategy under the same climate scenarios to determine what different outcomes could be achieved. This provides validation for a particular course of action. We will help you identify and monitor signals to navigate different pathways to understand when it is most suitable to make particular strategic response.

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