

May 2009

Adaptation to Climate Change

Key Considerations for Business

• Introduction

Effective and efficient climate policies will require a mix of both greenhouse gas mitigation and adaptation to the impacts of climate change. Irrespective of the stringency of mitigation efforts, some impacts of climate change is unavoidable, thus making adaptation an important objective to pursue. Adaptation entails taking the right measures to reduce the negative effects on climate change by making the appropriate adjustments and changes.

There is a common need to enhance information regarding the opportunities and cost-effectiveness of adaptation measures so that action can be taken based on a solid knowledge base. As many actions are likely to have cross-border implications, international cooperation is essential. Analysis that the OECD has carried out underlines the significance of adaptation and the importance of both mitigation and adaptation in responding to climate change. In the overall picture, however, adaptation has not yet been given similar attention as compared to mitigation, and there is a need for more detailed assessment. How much adaptation might cost, and how large its benefits might be, are issues that are increasingly relevant both for on-the-ground projects and in national and international contexts.

The implications of climate change will vary across business sectors, with some being more or less affected than others, creating both business opportunities and challenges. A wide range of adaptation measures can be implemented in response to both observed and anticipated climate change. Such measures include, for example, altering farming practices and crop varieties, building new water reservoirs, enhancing water use efficiency, changing building codes, investing in air-conditioning, and constructing sea walls. The issue of adaptation is critical to business as impacts will not only affect business operations, but also the markets in which they operate. Investment in adaptation can be both “soft” (e.g. stakeholder participation, organisational structures) and “hard” (e.g. physical installations). What kind of measures need to be taken, how much adaptation might cost, and how large its benefits might be, are issues that are increasingly relevant both for governments and business.

Issues for consideration

- **Education on the “state of knowledge” is needed** to enable business, including SMEs, to understand their exposure to the climate and how to address these risks. It is critical that those with long term interests take leadership on these issues and give sound advice to all sectors of the economy. Climate change should be taken into account as part of long-term investment decisions, such as infrastructure development, cities, water provision and industrial installations.
- **Adaptation efforts need to rest on a sound economic basis.** A strong signal is needed to underline the importance of focusing on the economics of adaptation, similar to mitigation. Adaptation measures should be integrated into other interrelated strategies at company, local, national and international levels. From an economic perspective, adaptation should be evaluated in terms of whether the benefits of such actions exceed the costs incurred.
- **Analysis on the costs and benefits of adaptation in key sectors remains important.** There is a relatively large amount of information available, for example, on assessing adaptation in coastal zones, including on the costs and benefits of such measures as well as in the agricultural sector, where studies have focused on quantifying the benefits of adaptation strategies and provide limited information on the costs of such measures. However, information on the cost of adaptation is much more limited for other sectors, such as water resources, energy producers and consumers, infrastructure, and tourism, which deserve similar attention. Further work is also required to determine the role of the insurance industry.
- **Business has the potential to deliver concrete solutions:** Adaptation policy can stimulate the economy and create new business opportunities as business responds to new market opportunities. Business investment, know-how and technology will be essential to respond to the challenge of adapting to climate change. Furthermore, business has experience in accounting for risk in long-term planning and investments and could share best practice in this area. Business should therefore be considered as a partner in forward-looking strategic planning and in developing and commercializing technologies to respond to adaptation priorities.
- **Incentives for adaptation:** While much of the debate has focused on the estimated cost of adaptation, additional attention has to be given to the incentives for adaptation and the role of market. There is a risk of not being done enough as the challenge is long-term in nature. While there is great potential for private sector engagement in adaptation, there is a need for clear economic incentives, such as tax incentives, and a clear business case.

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- **Consider the role of public-private partnerships:** The role of well-designed public-private partnership (PPPs) in helping to overcome operational constraints, enhancing performance and accelerating investment should be given due consideration. In view of the broad-based impacts of climate change, partnerships that include business where necessary have the potential to optimize resources.
 - **Financing aspects will be of key importance.** The establishment of an adaptation fund by the Parties to the Kyoto Protocol of the UN Framework Convention on Climate Change to finance concrete adaptation projects and programs in developing countries is welcomed. However, the financing requirements will be huge as adaptation will be essential in both developed and developing countries, requiring close cooperation at regional, national and international levels and between public and private actors.

Business considers the issue of adaptation, both in developed and developing countries, a critical one. Climate change has implications beyond short-term weather impacts and should be an integral component of long-term planning for many businesses. Leading companies are already beginning to consider the risks of climate impacts as part of evaluations of climate risks, but more needs to be done to raise awareness across the board. Further research is required to quantify the specific costs and benefits from various adaptation measures, and clear economic information is needed for the business case for adaptation. In view of the cross-border implications, international cooperation will be essential. We encourage the OECD to take the above-mentioned considerations into account in further work on adaptation.