The time to take low-carbon transition risks seriously is now

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On February 19, the world's second-largest greenhouse gas emitter, the United States, will rejoin the Paris Agreement. This will kickstart a year of intensifying policy activity ahead of the United Nations Climate Change conference (COP26) in November, when countries will recommit to their emissions reduction goals.

"The early signs are that 2021 could be the most important year for action on climate change since 2015," says Aengus Collins, deputy director of EPFL's International Risk Governance Center (IRGC). "A growing number of countries and organizations are committing to ambitious decarbonisation goals. The pace is picking up and it is crucial not to let progress be derailed."

The most pressing global task is to ensure these reduction goals are met to avoid the worst impacts of global warming. However, Collins cautions that decarbonisation has adverse consequences of its own. These negative impacts are small compared to the consequences of missing the climate targets. But being unprepared for them threatens to slow or derail the transition, for example if they become the focus for opposition to climate policies, as happened with the gilets jaunes in France.

"Every effort should be made to ensure that climate policies succeed," Collins says. "This includes thinking ahead about unintended disruptions that climate policies may lead to in some countries and communities."

To gain understanding and plan for these adverse impacts, or "transition risks," EPFL's International Risk Governance Center (IRGC) brought together a multi-stakeholder group of experts last September. The resulting policy brief, entitled Risk governance and the low-carbon transition, defines eight categories of transition risk: economic, financial, societal, environmental, technological, energy-related, geopolitical and corporate. Crucially, this report highlights the need to deal with these more systematically—instead of individually—so that important interconnections are not missed. It is unique in its focus on an integrative approach to transition risks, stressing that tailoring solutions to individual risks will not be sufficient, and that policymakers and researchers need to grapple with the complex interconnections that tie these risks together.

"Climate change demonstrates the importance of thinking in terms of how complex systems operate," explains Collins. "A similar mindset is needed with transition risks. Integrated policy-making is needed, nationally and internationally, to identify, assess and manage these risks. The purpose of IRGC's report is to help drive successful climate action. The report calls on decision makers to anticipate potential disruptive side-effects of the transition so that they can plan ahead to mitigate them," explains Collins. "The transition risks are not just economic and financial, but also social, political, and environmental."

Now is the time to take risks that arise from low-carbon transitions seriously

EPFL's IRGC brief comes when evidence is mounting that the pace of the low-carbon transition is picking up ahead of COP26. A growing number of countries and regions have set or are planning legal net-zero target dates, including the EU, France, Hungary, Japan, New Zealand, South Korea, Sweden and the United Kingdom among others. Pressure is also building on companies to do more. Leading asset managers are threatening to divest from companies without adequate transition plans in place. In the Netherlands, Shell is being taken to court in an effort to force an accelerated shift to renewable energy. There is a growing sense that a tipping point may have been reached.

"All the indications are that the transition to a low-carbon economy and society will continue to accelerate. This makes it crucial for countries and organizations to be prepared," says Collins. "We see this already in a country like Australia, which needs to a prepare for a potential plunge in demand for its coal exports as key trading partners transition toward renewable energy."

Identifying transition risks should be a priority

The risks associated with the low-carbon transition have been gaining policy attention. The financial sector was an early mover, with the Taskforce on Climate-related Financial Disclosures (TCFD) recommending a regime of corporate disclosures to increase transparency, enable better decision-making by investors and facilitate a smooth and predictable transition. In the European Union, jobs are a key focus and the €17.5 billion Just Transition Fund (JTF) will be used to support EU regions facing socio-economic disruption as fossil fuel-dependent sectors are wound down.

These and similar policy moves show that transition risks are on the radar of key institutions. But on a global scale, there is a lack of systematic focus. This is a weak point in preparations for achieving climate goals. In terms of the actions that are needed, one of IRGC's key recommendations is for governments and organizations to identify and assess the transition risks that might impact them, so there is a clearly picture of where vulnerabilities lie. Another important step is to widen the rollout of policy responses that seem to work, such as "cap and dividend" proposals that use carbon tax revenues to protect those on lowest incomes. Other recommendations made in the report include learning from past transitions, developing institutional capacity and building resilience in key systems.

"The more prepared that governments and organizations can be for transition risks, the more likely it is that climate policies will succeed," says Collins.

More information: Risk governance and the low-carbon transition, DOI: 10.5075/epfl-irgc-282764

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