

# Assessing multi-sector near-term transition and longer-term physical climate risks of greenhouse gas emissions pathways

Mel George<sup>1</sup>, Ajay Gambhir<sup>2</sup>, Haewon McJeon<sup>3</sup>, Nigel Arnell<sup>4</sup>, Dan Bernie<sup>5</sup>, Shivika Mittal<sup>6</sup>, Alexandre Koberle<sup>7</sup>, Jason Lowe<sup>5</sup>, Joeri Rogelj<sup>8</sup>, and Seth Monteith<sup>9</sup>

<sup>1</sup>University of Maryland College Park

<sup>2</sup>Imperial College London

<sup>3</sup>Pacific Northwest National Laboratory

<sup>4</sup>University of Reading

<sup>5</sup>Met Office Hadley Centre

<sup>6</sup>Grantham Institute - Climate Change and the Environment

<sup>7</sup>Grantham Institute - Climate Change and the Environment, Imperial College London

<sup>8</sup>IIASA International Institute for Applied Systems Analysis

<sup>9</sup>Climate Works

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## Abstract

Financial institutions' investment and lending portfolios could be affected by both physical climate risks stemming from impacts related to increasing temperatures, and from transition climate risks stemming from the economic consequences of the shift to a low-carbon economy. Here we present a consistent framework to explore near term (to 2030) transition risks and longer term (to 2050) physical risks, globally and in specific regions, for a range of plausible greenhouse gas emissions and associated temperature pathways, spanning 1.5-4°C levels of long-term warming. We draw on a technology-rich, regionally disaggregated Integrated Assessment Model representing energy system, agricultural and land-based greenhouse gas emissions, a reduced complexity climate model to simulate probabilistic global temperature changes over the 21<sup>st</sup> century, and a suite of impacts models to estimate regional climate-related physical hazards and impacts deriving from the temperature change pathways and their underlying socio-economics. We consider 11 scenarios to explore the dependence of risks on both temperature pathways, as well as socio-economic, technology and policy choices. This builds and expands on existing exercises such as the Network for Greening the Financial System (NGFS). By 2050, physical risks deriving from major heatwaves, agricultural drought, heat stress and crop duration reductions depend greatly on the temperature pathway. By 2030, transition risks most sensitive to temperature pathways stem from economy-wide mitigation costs, carbon price increases, fossil fuel demand reductions and potential stranding of carbon-intensive assets such as coal-fired power stations. The more stringent the mitigation action, the higher the abatement costs and sector-specific transition risks. However, such scenarios result in lower physical climate hazards throughout the century. Our study also explores multiple 2 deg C pathways which demonstrate that scenarios with similar longer-term physical risks could have very different near-term transition risks depending on technological, policy and socio-economic factors. As such, "a single scenario will not answer all questions".

## Assessing multisector near-term transition and longer-term physical climate risks of greenhouse gas emissions pathways

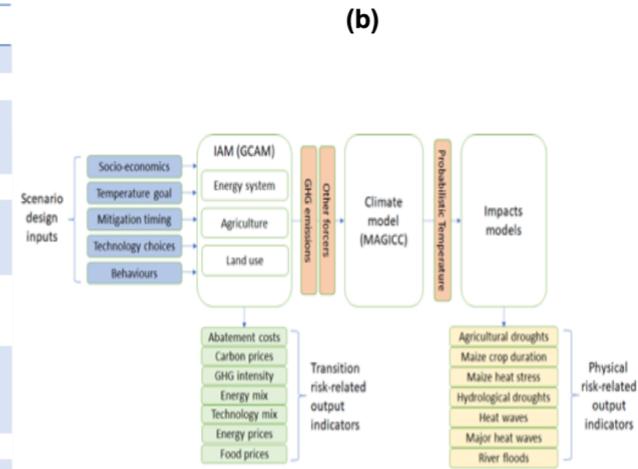
Financial institutions' investment and lending portfolios could be affected by both physical climate risks stemming from impacts related to increasing temperatures, and from transition climate risks stemming from the economic consequences of the shift to a low-carbon economy. Here we present a consistent framework to explore near term (to 2030) transition risks and longer term (to 2050) physical risks, globally and in specific regions, for a range of plausible greenhouse gas emissions and associated temperature pathways, spanning 1.5-4°C levels of long-term warming. We draw on a technology-rich, regionally disaggregated Integrated Assessment Model representing energy system, agricultural and land-based greenhouse gas emissions, a reduced complexity climate model to simulate probabilistic global temperature changes over the 21<sup>st</sup> century, and a suite of impacts models to estimate regional climate-related physical hazards and impacts deriving from the temperature change pathways and their underlying socio-economics. We consider 11 scenarios to explore the dependence of risks on both temperature pathways, as well as socio-economic, technology and policy choices. This builds and expands on existing exercises such as the Network for Greening the Financial System (NGFS).

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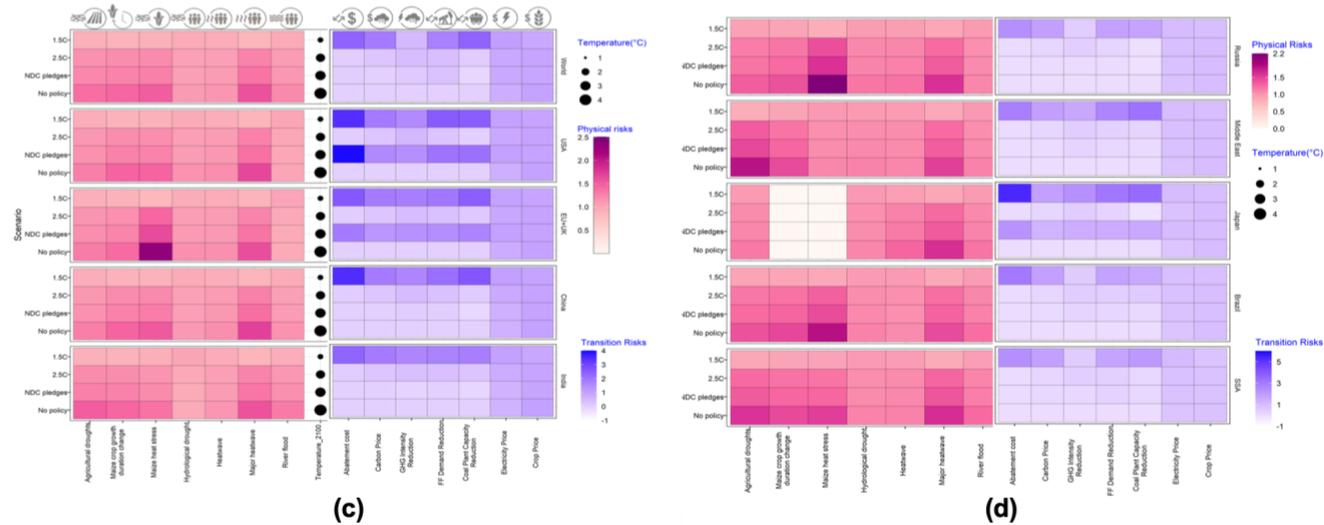
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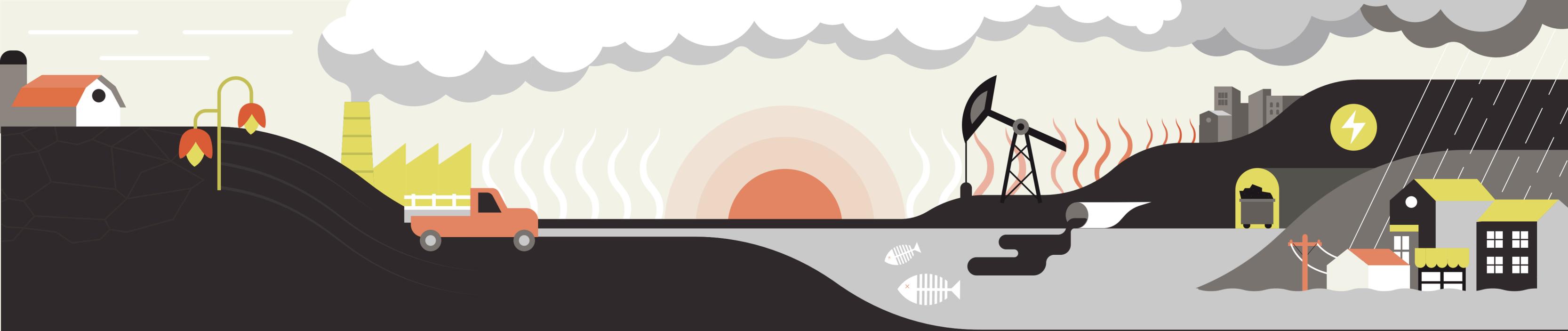
No.	Name	Details	(a)
1	No Policy	No new policies from 2010	
2	NDC Pledges	NDCs to 2030	
3	2C Central	Paris Agreement compliant transition from 2025. Socio-economics based on second shared socio-economic pathway (SSP2 <sup>19</sup> ). Full technology portfolio.	
4	2C NDCs	NDCs to 2030, then rapid mitigation towards a 2°C target	
5	2C Fragmented	Different start dates of 2°C-consistent action, with some countries going early e.g. EU, US, and others going later e.g. China Russia, Brazil, India.	
6	2C SSP1	Alternative underlying socio-economics to 2C Central scenario, focusing on greater resource efficiency & energy efficiency, utilising the SSP1 <sup>20</sup> dynamics	
7	2C SSP3	Underlying socio-economics (the third shared socio-economic pathway – SSP3 <sup>21</sup> ) consistent with a more challenging mitigation scenario that may require greater disruption and transition risk.	
8	2C RES	As 3, but with higher renewables (wind and solar)	
9	2C NUC CCS	As 3, but with higher nuclear and CCS	
10	2.5C	As 2C Central (i.e. scenario 3), but orderly, coordinated transition to higher temperature outcome (2.5°C)	
11	1.5C	As 2C Central (i.e. scenario 3), but orderly though ambitious coordinated transition to lower long-term temperature (1.5°C)	



**Fig. (a) Scenarios and pathways modelled in our study and (b) the model set-up to produce physical and transition risk-related output indicators for each scenario**



**(c) Physical and transition risk metrics for world and four major regions (d) and for 5 additional major regions . Each heat map shows 7 physical hazard metrics on the left-hand panel and 7 transition risk metrics on the right-hand panel. The physical hazard metrics are produced in a distribution and medians are shown here. The metrics (for both physical and transition risk metrics) are expressed as a ratio of each scenario's value and the value for the 2C Central scenario. Each transition risk metric is for the year 2030, whereas each physical risk metric is for the year 2050. Circle size indicates 2100 median temperature increase on pre-industrial (1850-1900) levels in each temperature scenario**



# CLIMATE RISKS

Near-term transition and longer-term physical  
climate risks of greenhouse gas emissions pathways



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# CLIMATE RISK

Policy, business, finance and civil society stakeholders are increasingly looking to compare future emissions pathways across both their associated physical climate risks stemming from increasing temperatures, and their transition climate risks stemming from the shift to a low-carbon economy. Here we present an integrated framework to explore near term (to 2030) transition risks and longer term (to 2050) physical risks.

**This deck is a companion to an article in *Nature Climate Change* and part of a wider collaboration between:**

- Grantham Institute - Climate Change and the Environment, Imperial College London
- Center for Global Sustainability, University of Maryland
- Joint Global Change Research Institute, Pacific Northwest National Laboratory
- Department of Meteorology, University of Reading
- Met Office Hadley Centre
- ClimateWorks Foundation

# TRANSITION RISKS

Can occur when moving towards a less polluting, greener economy. Such transitions could mean that some sectors of the economy face big shifts in asset values or higher costs of doing business.



# PHYSICAL RISKS

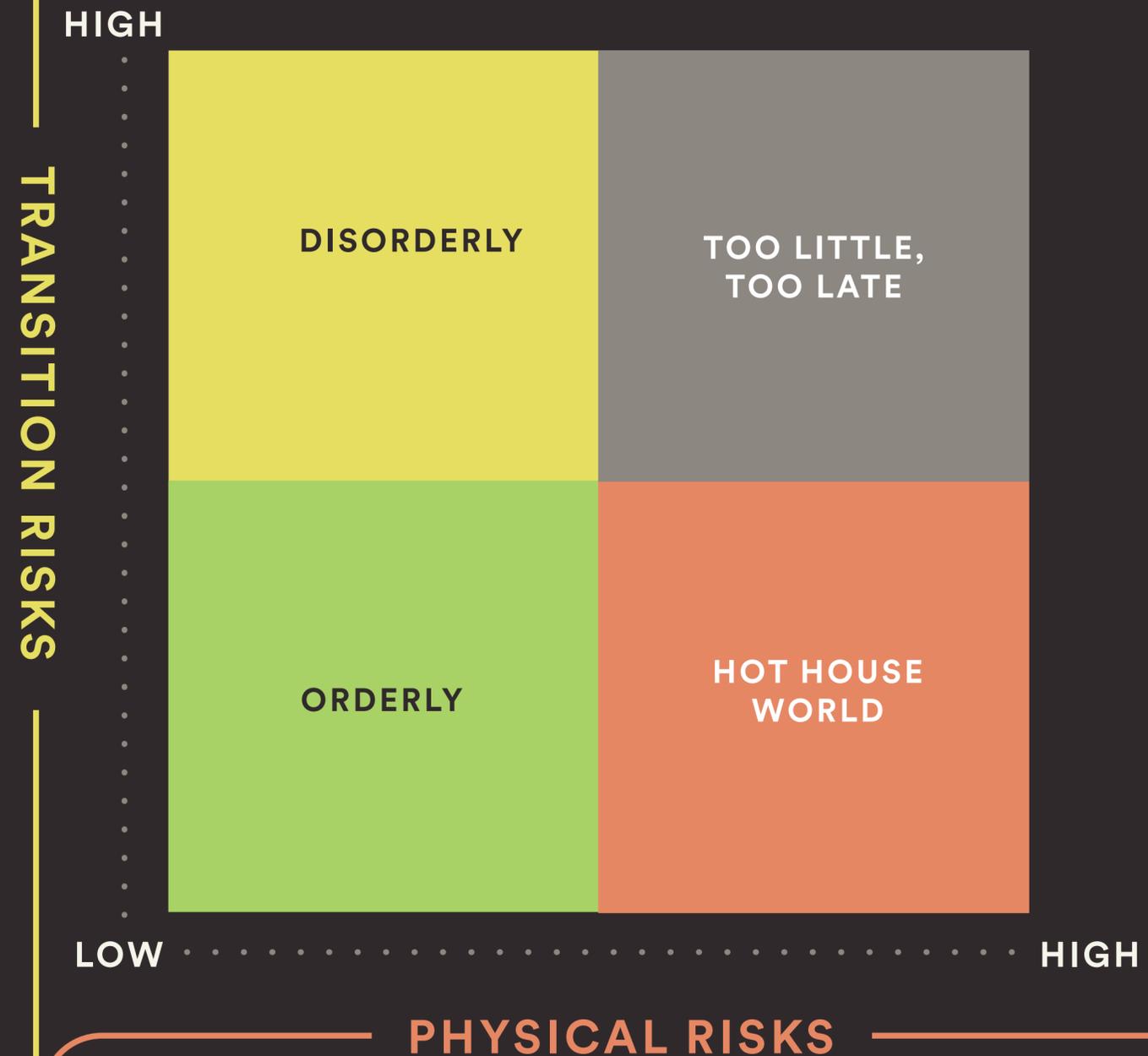
Result from climate change, which means we may face more frequent or severe weather events like flooding, droughts and storms.



In 2019, the Network of Central Banks and Supervisors for Greening the Financial System (NGFS) put out its first comprehensive report with a call to action to financial players to consider both transition and physical risk as they relate to climate change. The report provided a conceptual framework and a call to create analytical toolsets for assessing these risks, and ultimately published an initial set of scenarios in June, 2020.

The scenarios presented here fall within this framework while carrying the research further by adding more scenario variants, particularly around intended temperature change outcomes, as well as around the technological, socio-economic, policy and orderliness aspects of scenarios. These new scenarios therefore help broaden the exploration of the future possibility space around climate risk.

## RISK WITHIN NGFS



# FRAMEWORK

## Measuring physical and transition climate risks

We combine a technology-rich, regionally disaggregated integrated assessment model (IAM) representing energy system, agricultural and land-based greenhouse gas emissions, a reduced complexity climate model to simulate probabilistic global temperature changes over the 21st century, and a suite of impacts models to estimate regional climate-related physical hazards and impacts deriving from the temperature change pathways and their underlying socio-economics.

Together, these models allow for evaluation of regional hazard and impact attributes of physical hazard indicators, and a set of transition-risk indicators related to transitions

to different long-term temperature outcomes. Each metric is evaluated across an ensemble of scenarios used to explore a range of temperature outcomes as well as socio-economic and technological choices for a set of 2°C temperature target pathways. This provides a holistic, self-consistent assessment of physical and transition risk across each of a wide range of plausible scenarios.

**SEE METHODS SECTION** ▶  
for more detail

# SCENARIOS IN CONTEXT

11 scenarios are used to explore a range of temperature outcomes as well as socio-economic and technological choices for a set of 2°C temperature target pathway.

## NO POLICY

No new policies from a 2010 baseline mirroring a “hothouse world” reaching ~4°C by 2100.

## NDC PLEDGES

Includes nationally determined pledges (NDC) from 2015 to 2030 and continued trend to 2100 reaching ~3°C.

## 2.5°C

As 2°C Central but orderly, coordinated transition to higher temperature outcome of 2.5°C.

## 2°C CENTRAL

A well-below 2°C compliant transition from 2025 with full technology portfolio using Middle of the Road, SSP2.

## 2°C NDC

NDCs to 2030, then rapid mitigation towards a 2°C target.

## 2°C FRAGMENTED

Different start dates of 2°C with early action for some (e.g. EU+UK, USA) and later action for others (e.g. China, Russia, Brazil, India.)

## 2°C SSP1

Alternative underlying socio-economics to 2°C Central and focus on greater resource efficiency and energy efficiency.

## 2°C SSP3

Alternative underlying socio-economics to 2°C Central with more challenging mitigation entailing greater disruption and transition risk.

## 2°C RES

As 2°C Central but with higher renewables (wind and solar).

## 2°C NUC CCS

As 2°C Central but with higher utilization of nuclear and carbon capture and sequestration technology.

## 1.5°C

An orderly and ambitious coordinated transition to lower long-term temperature 1.5°C using a range of options. See report for details.

# SCENARIOS IN CONTEXT

For ease of communicating the results we focus on a subset of the scenarios in order to illustrate our key findings. More analysis of the fuller set can be found in the publication.

## 1.5°C

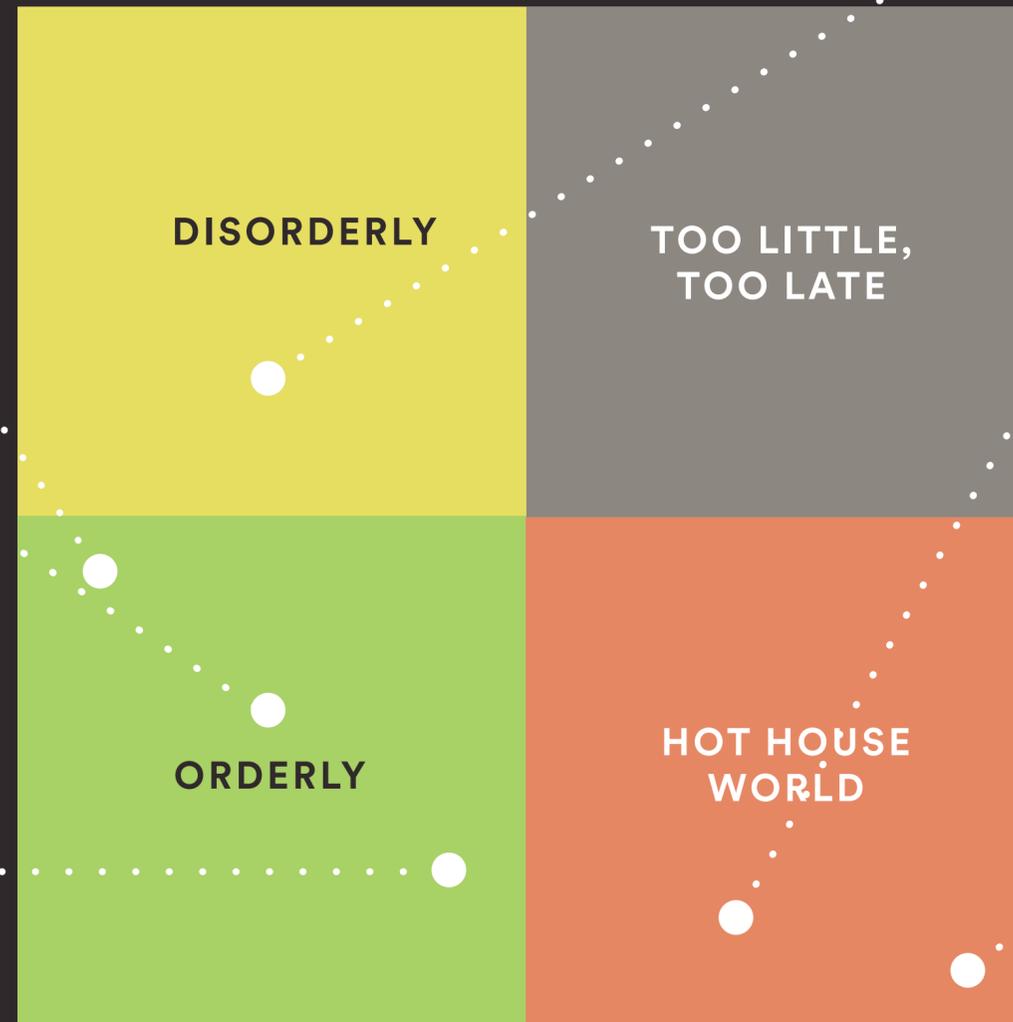
As 2°C Central but orderly though ambitious coordinated transition to lower long-term temperature 1.5°C.

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A well-below 2°C compliant transition from 2025 with full technology portfolio using Middle of the Road, SSP2.

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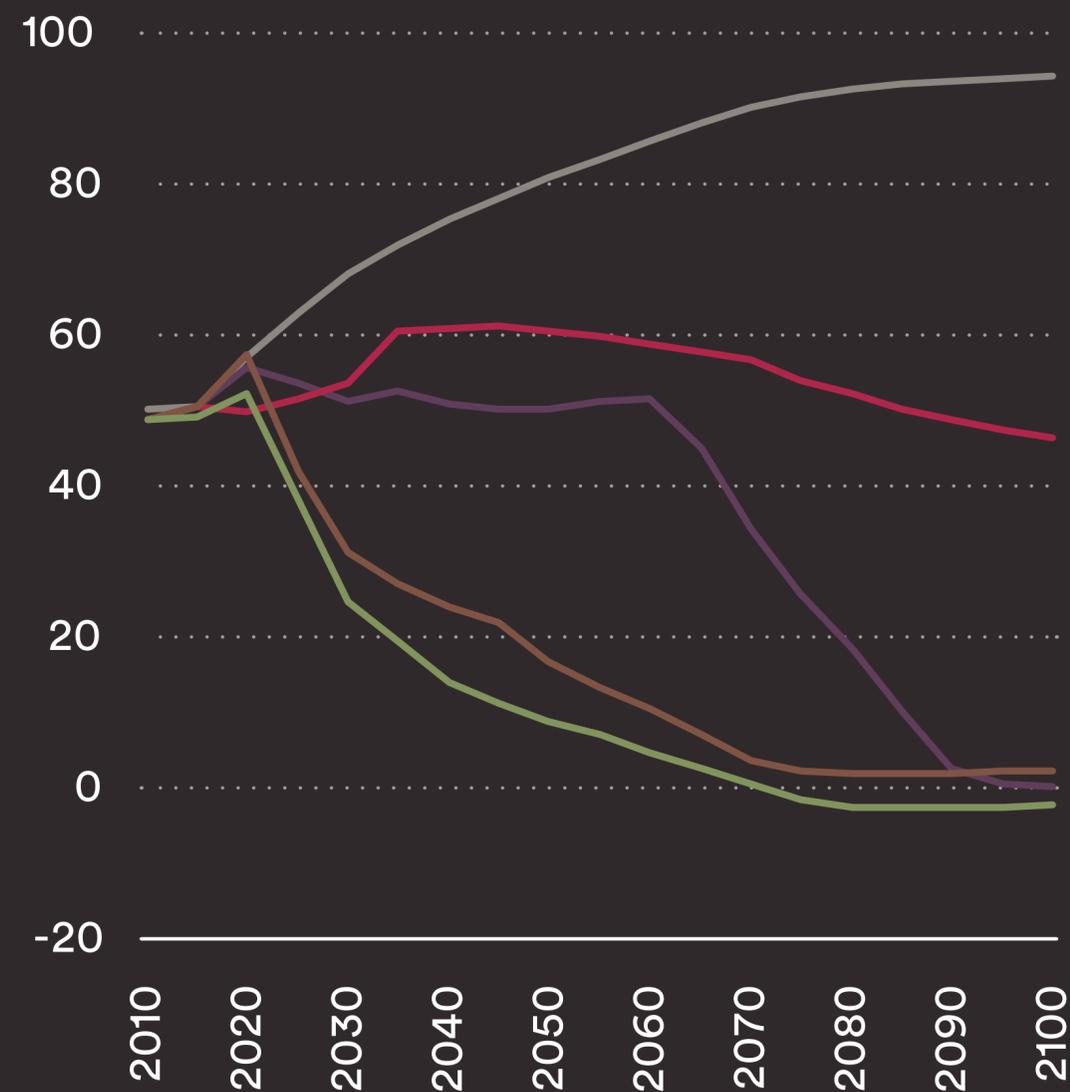


# TRANSITION RISKS

# TRANSITION RISKS

SCENARIO KEY: ■ No Policy ■ NDC Pledges ■ 2.5°C ■ 2°C Central ■ 1.5°C

Global annual GHG emissions  
(Gt CO<sub>2</sub>e/year)



Future transitions can differ in myriad ways. For transition risks, we utilize readily-available metrics from IAMs to capture the most salient transition risk-related variables. We draw from a range of proposed low-carbon transition indicators as well as those that track the feasibility of the transition (see next slide descriptions). And while IAMs offer numerous additional metrics, we see these seven chosen metrics as illustrative of this wider transition. Ultimately, any risk assessment would need to narrow on more granular data and so these results should be seen as a start to this process.

Why 2030? Emissions pathways of the various scenarios diverge in the near-term so that by 2030 there are significant differences in the values of metrics used to assess transition risk (see figure). And though differences exist across all time periods, nearer-term actions set in motion path dependencies for physical risks that might be assessed in later time periods. It is important to note that, while these example measure are indicative of the overall additional resource cost of decarbonizing by 2030, these abatement costs alone do not capture all macro-economic consequences, if for example, it results in a net investment, innovation and growth stimulus to the economy. After all, while there is certainly risk involved in a global economic transition, there is also opportunity.

# TRANSITION RISKS



## ECONOMY-WIDE ABATEMENT COST

Measure of macro-economic risk affecting all production / consumption activities

## CARBON PRICE

High carbon price will place additional production cost on carbon-intensive industries, reducing profits / margins

## REDUCTIONS IN GHG EMISSIONS INTENSITY OF GDP

Rapid reduction in emissions intensity indicates potentially disruptive transition

## FOSSIL FUEL DEMAND REDUCTIONS

If this decreases rapidly, it signals a disruptive shift away from established industries

## COAL PLANT CAPACITY REDUCTIONS

Indicator of lost capital and lost jobs in coal power and upstream (i.e. mining, distribution) sectors

## ELECTRICITY PRICES

Rapid increase in electricity price could be associated with rising business and household energy bills and disruption

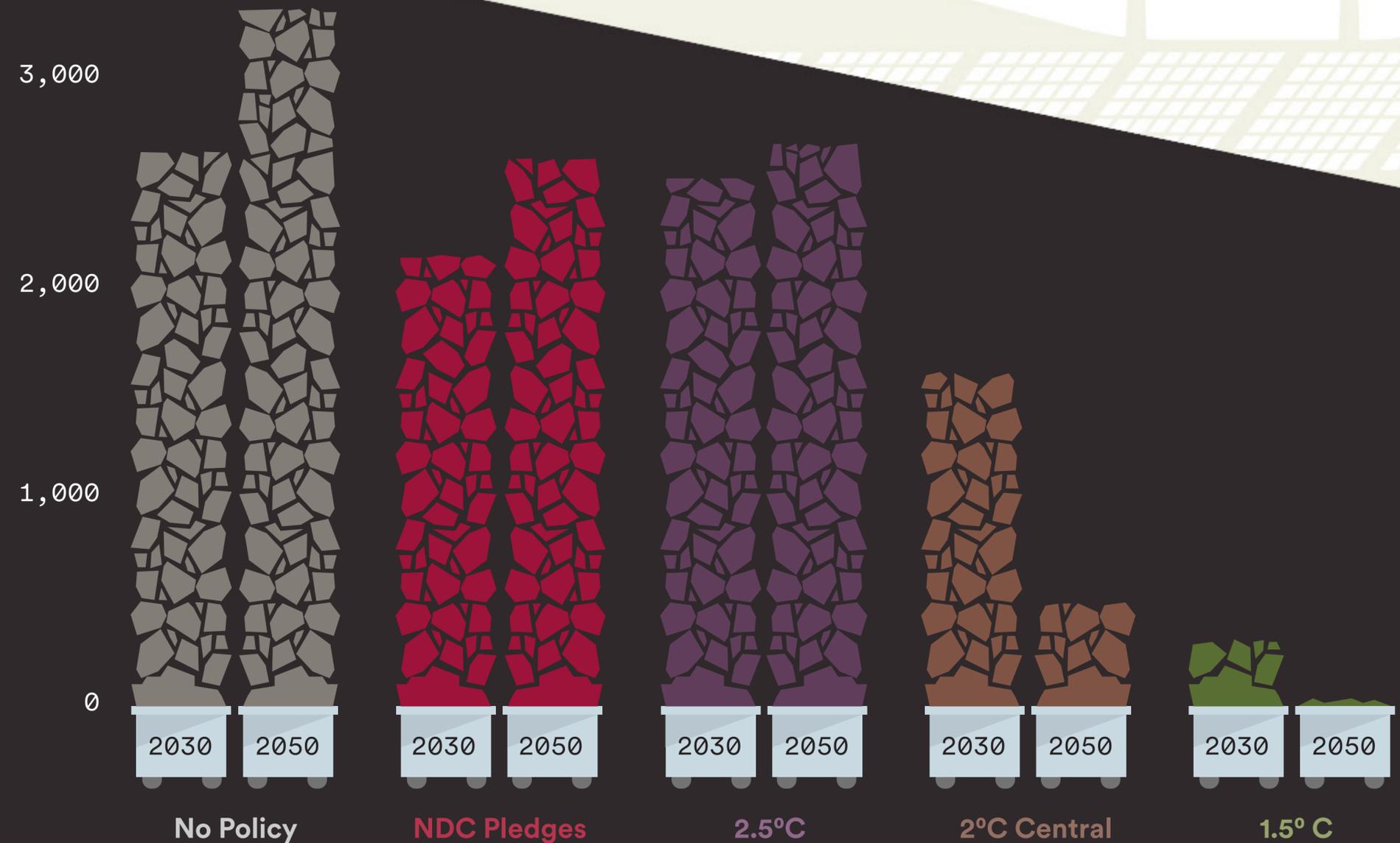
## CROP PRICES

Rising household food prices indicates lower ability to service debt



# TRANSITION RISKS: COAL PLANT CAPACITY, GW, WORLD DATA

Significant near-term transition risks to specific business sectors could result from carbon prices and regulations and potential stranding of carbon-intensive assets such as coal-fired power stations. This would have a ripple effect due to lost capital and jobs in coal power and upstream distribution and mining sectors, as well as impacts to those communities where such activity occurs. Here we see the global decline of coal plant capacity by 2030 and how that sets in motion further reductions by mid-century.





# TRANSITION RISKS

## COAL PLANT CAPACITY, GW, BY COUNTRY

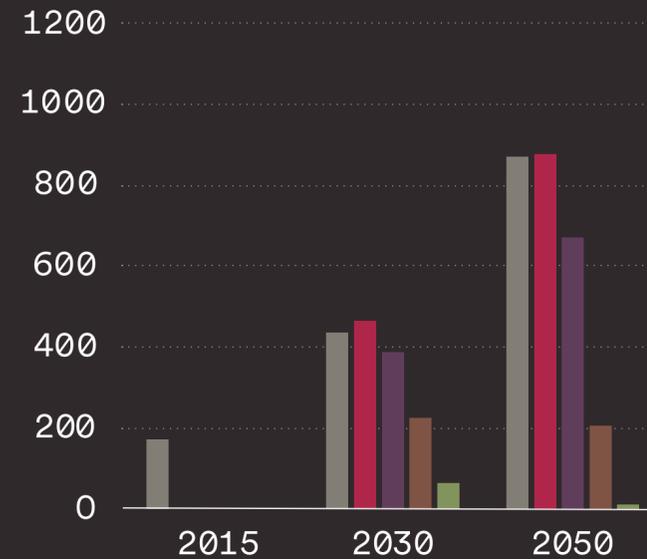
However, Global estimates hide the nuance seen within individual geographies.

- ▶ For traditional thermal coal, in 2030 it is slightly more persistent in some regions (e.g. India and China in a 2°C Central scenario).
- ▶ But in a 1.5°C scenario these are wiped out by 2050.
- ▶ Other regions see declines at a faster pace.

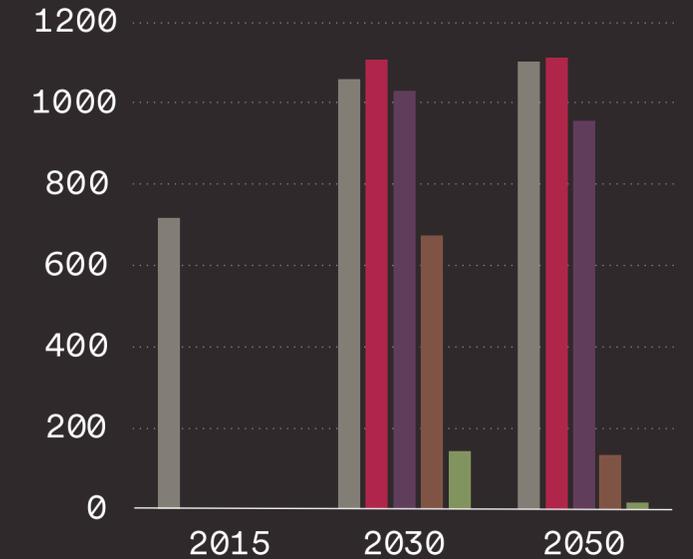
SCENARIO KEY

- No Policy
- NDC Pledges
- 2.5°C
- 2°C Central
- 1.5°C

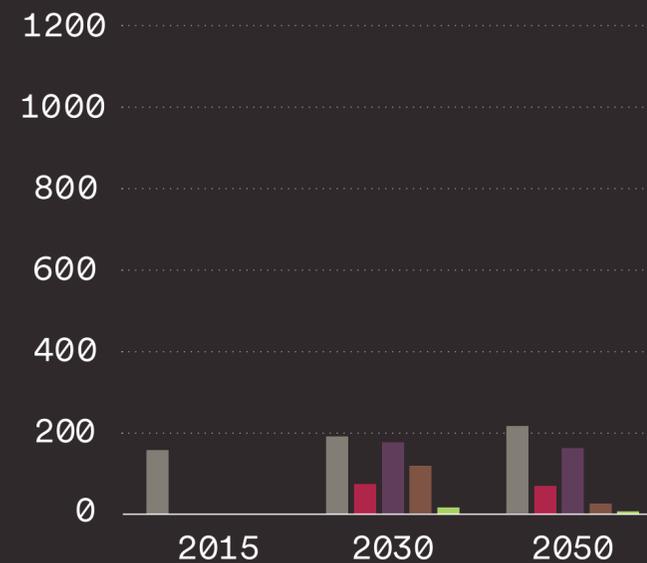
### India



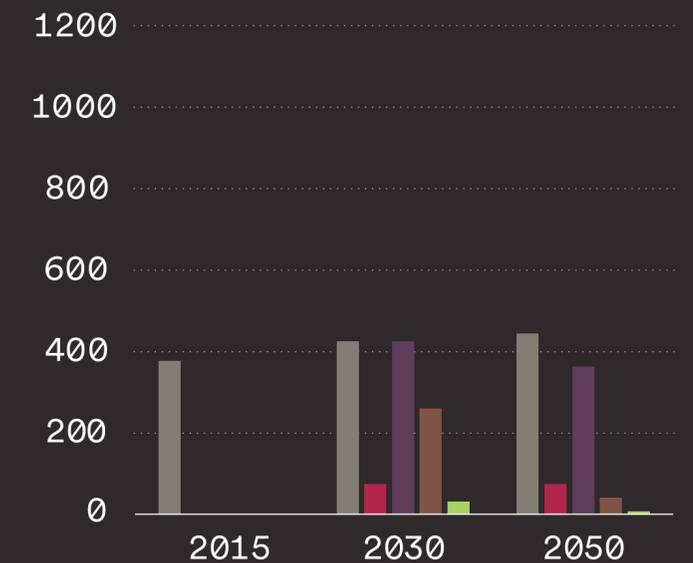
### China



### EU + UK



### USA





# TRANSITION RISKS

EMISSIONS INTENSITY OF GDP

MT CO2-E / BILLION USD2010

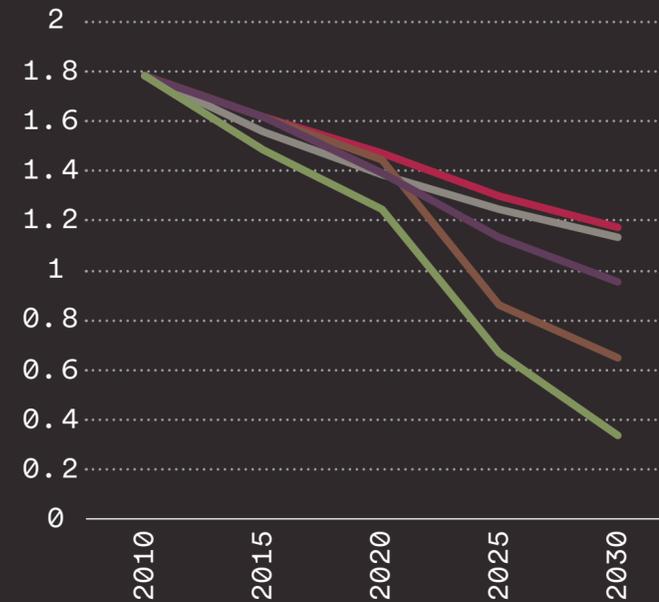
The change in emissions intensity of GDP is illustrative of the overall transition of an entire economy. It is a measure of macro-economic risk affecting all production and consumption activities.

- ▶ Regions can vary significantly when compared to historical values
- ▶ While useful as a macro-economic metric, it can hide nuance of the pace of the transition seen in individual sectors (e.g. service sector oriented economies look very different from more industrial economies).

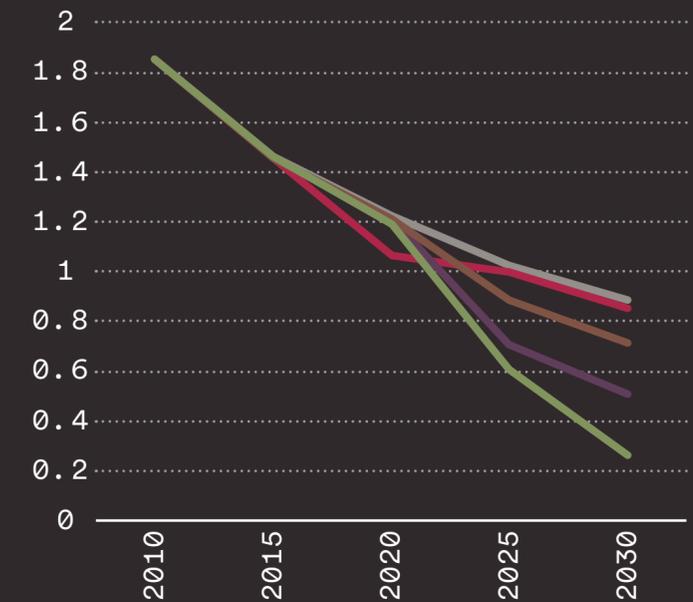
SCENARIO KEY

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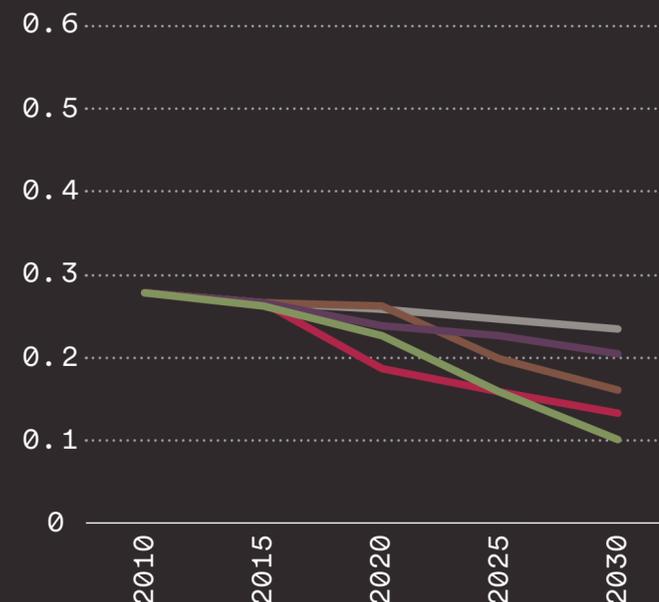
## India



## China



## EU + UK



## USA



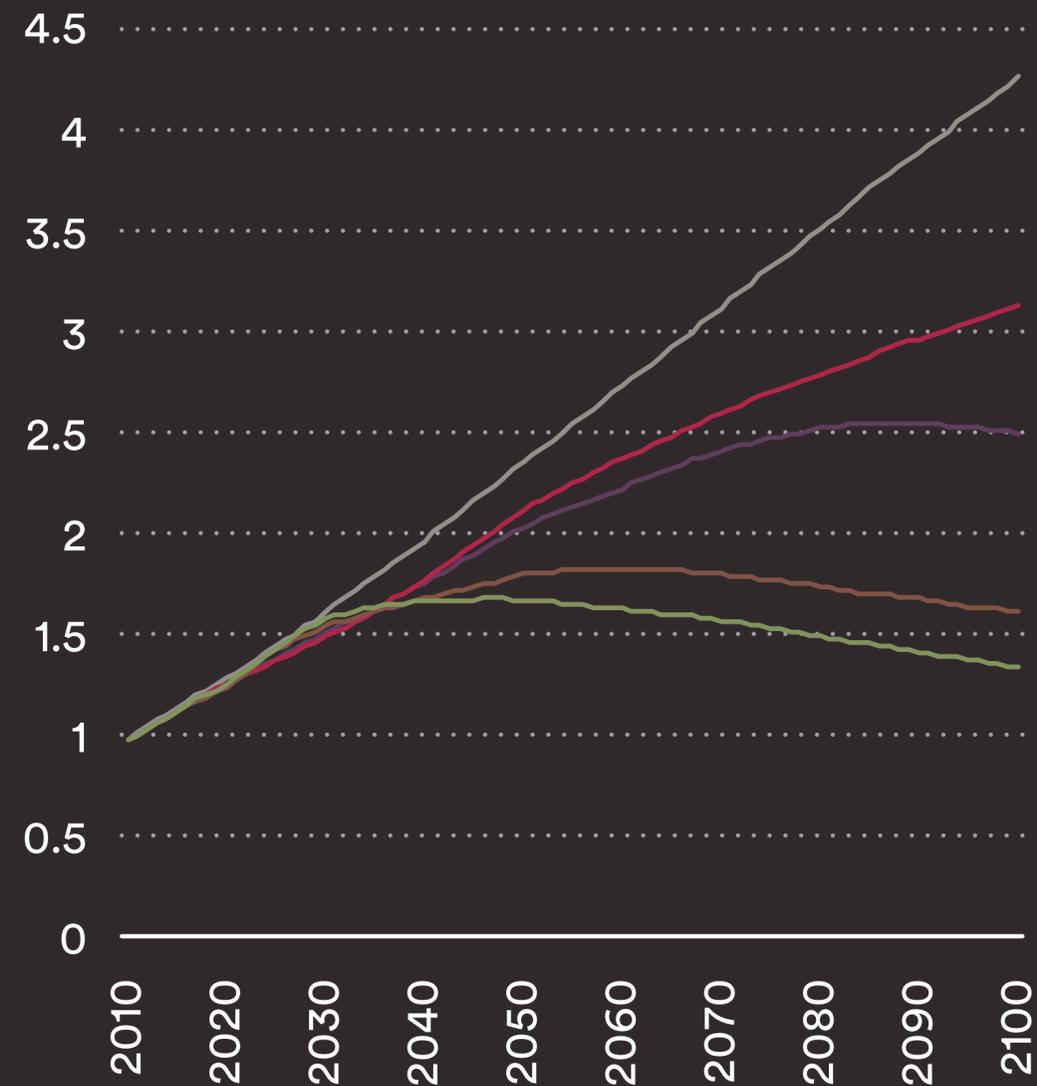


# PHYSICAL RISKS

# PHYSICAL RISKS

SCENARIO KEY: ■ No Policy ■ NDC Pledges ■ 2.5°C ■ 2°C Central ■ 1.5°C

Global mean temperature rise C°



Potential exposure to future physical risks can also widely differ. Metrics of physical risk have been presented in the climate change literature, relating to major impacts from climate change, categorized as either gradual and chronic, or acute and extreme event-driven. We utilize regional hazard and impact attributes of seven physical hazard indicators (see next slide). These indicators are calculated using a suite of impact modeling at a high resolution (0.5x0.5°) and then averaged to the regional scale – thus representing the regional average likelihood or change in duration at a point in the region. Most indicators are expressed as likelihoods and can be interpreted as acute risks, since they characterize the chance of an extreme event happening each year, but average annual change in crop

growth duration is a chronic risk.

As with transition risks, a thorough risk assessment would need to narrow on more granular data included in the more detailed high resolution modeling and we first display such results and later provide the geographic averages.

Why 2050? Unlike transition risks which can vary widely in the nearer term, physical risk variations between scenarios become apparent later. This is due to inertia. Essentially, nearer-term temperature increases between scenarios differ only slightly by 2030 but by 2050 (and thereafter) there are sufficient differences enough to evaluate physical risk (see figure on temperature outcomes).

# PHYSICAL RISKS



## HEAT WAVE

Heatwaves adversely impact upon human health and wellbeing: the heatwave definition here currently occurs in around 35% of years

## MAJOR HEAT WAVE

Major heatwaves adversely impact upon human health and wellbeing: the major heatwave definition here currently occurs in around 5% of years

## RIVER FLOOD

River flooding causes direct and indirect losses to health, livelihoods and economic assets: the flood here currently occurs in 2% of years

## HYDROLOGICAL DROUGHT

Water resources droughts affect supplies of water to people and industry. The drought defined here currently occurs in around 6% of years

## AGRICULTURAL DROUGHT

Agricultural droughts affect crop yields, farmer livelihoods and food security. The drought defined here currently occurs in around 10-12% of years

## HEAT STRESS FOR MAIZE

High temperatures at critical points in the growing season can adversely affect crop yields. The current chance varies considerably

## GROWTH DURATION

Reduction in time to maturity due to higher temperatures would result in lower yields



# PHYSICAL RISKS: MAJOR HEAT WAVES

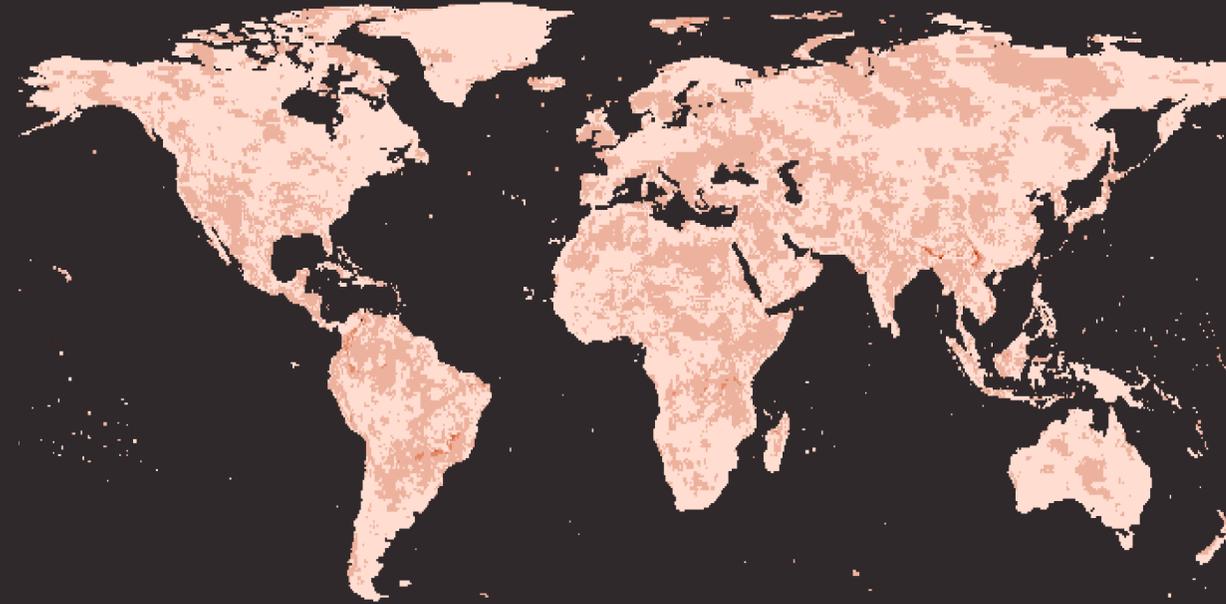
Map shows the annual likelihood in 2050 of major heatwaves in each region, which occur with a global average likelihood of 5% today.

- ▶ All regions see a rise in this 1.5°C scenario.
- ▶ Adverse impacts are even greater in scenarios with higher temperature outcomes.
- ▶ Significant differences exist within regions and medians can hide these.

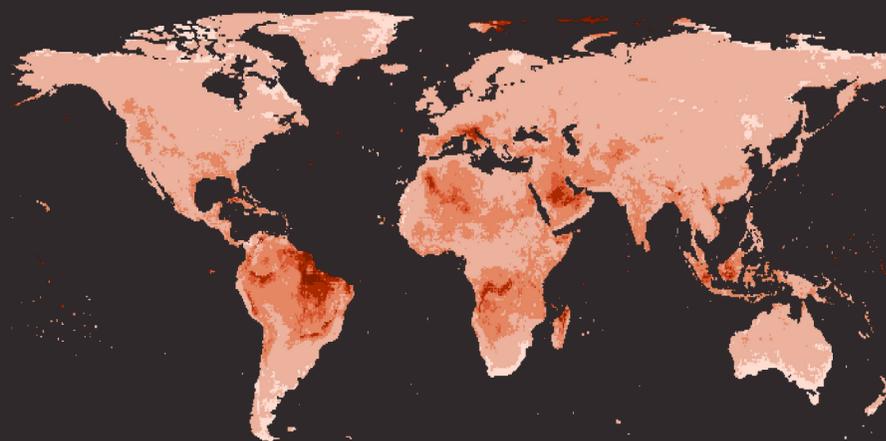
SCENARIO  
KEY

- 0 - 25%
- 35 - 50%
- 50 - 65%
- 65 - 80%
- 80 - 95%
- 95 - 100%

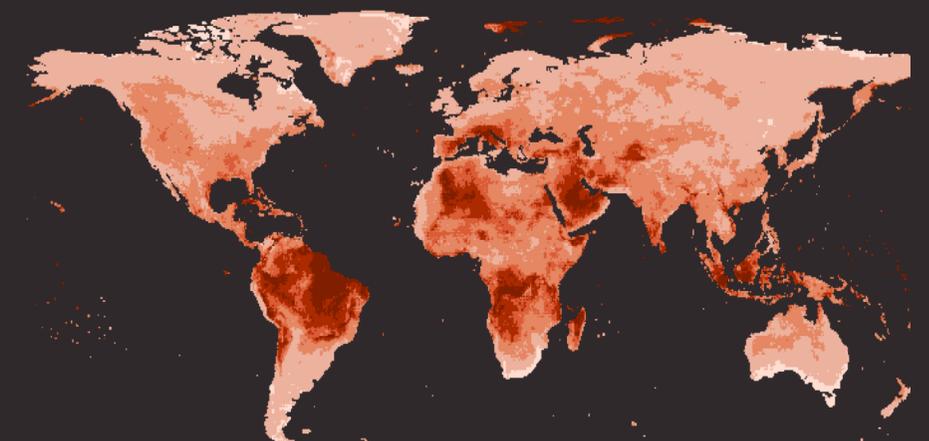
Chance of major heatwave today



Chance of major heatwave in 2050  
in a 1.5°C Scenario



Chance of major heatwave in 2050  
in a No-Policy Scenario





# PHYSICAL RISKS: AGRICULTURAL DROUGHT

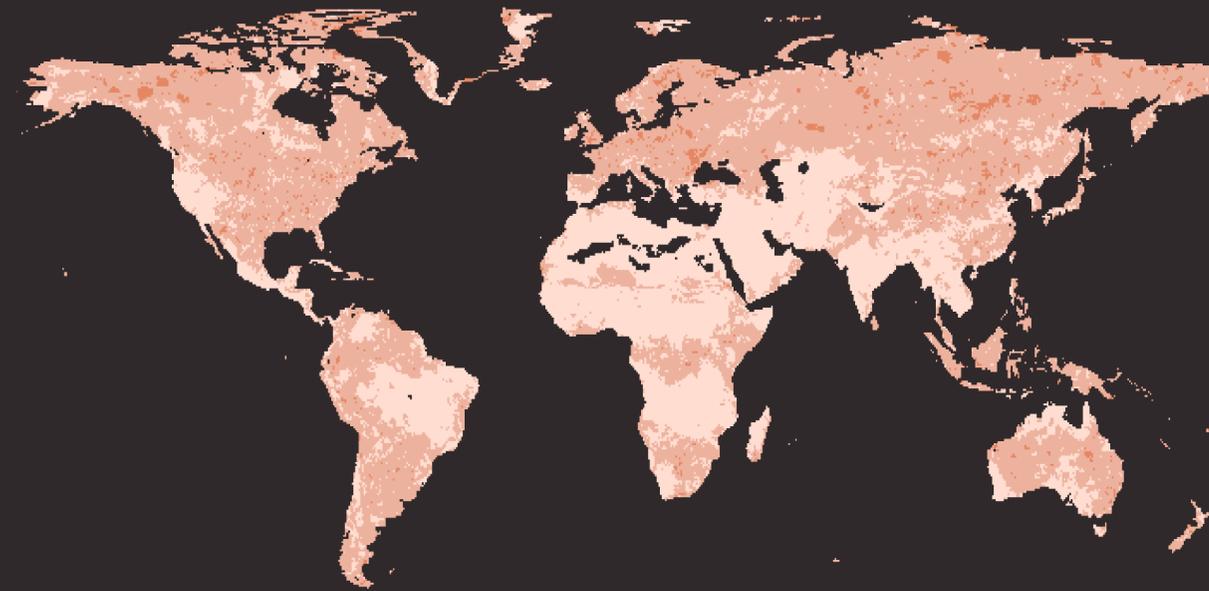
The maps show percent change in occurrence for agricultural drought (compared to a benchmark average from today of 10-12%).

- ▶ All scenarios see a rise in risk for drought
- ▶ All regions and sub-regions see a rise in risk for drought
- ▶ Globally the average is increased to 32% in a 1.5°C scenario 50% in an NDC Pledge scenario

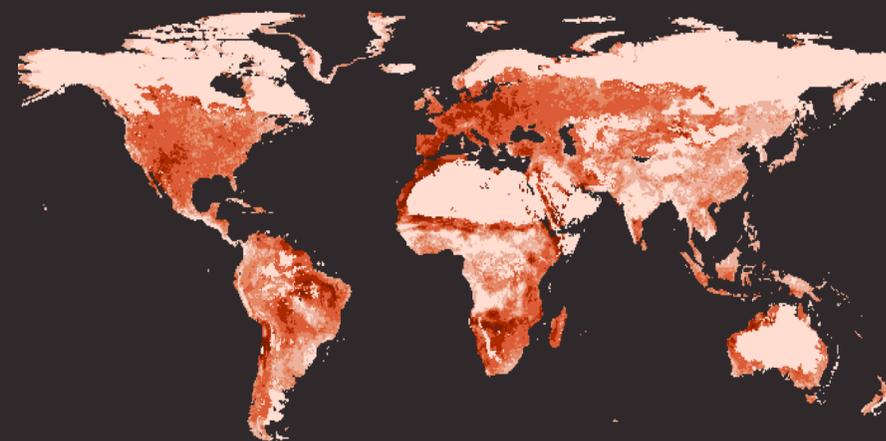
SCENARIO  
KEY

- 0 - 10%
- 10 - 20%
- 20 - 30%
- 30 - 50%
- 50 - 70%
- 70 - 100%

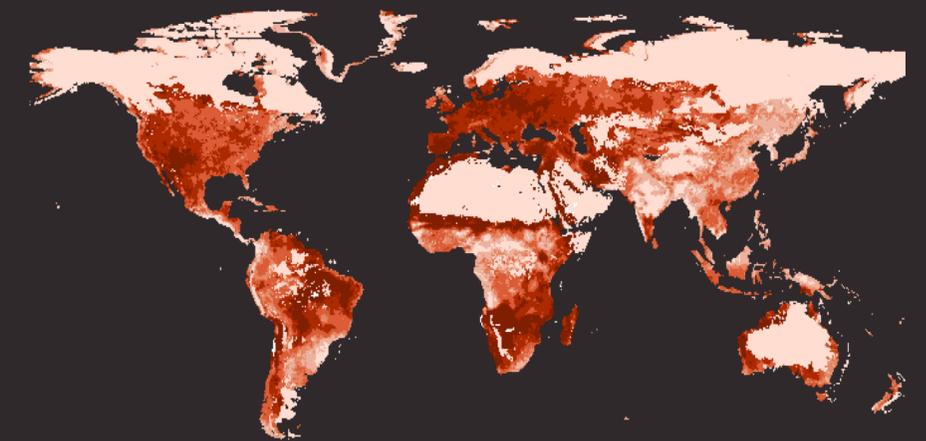
Chance of drought today



Chance of drought in 2050  
in a 1.5°C Scenario



Chance of drought in 2050  
in a No-Policy Scenario



# GEOGRAPHIC INSIGHTS

Moving from the Global to regional data reveals variation across both transition risk in 2030 and physical risk in 2050. Though complicated, viewing the full set of metrics side by side allows one to take into account a wider set of insights that might be overlooked while evaluating a metric in isolation.

# NORMALIZED METRICS

## SCENARIO KEY:

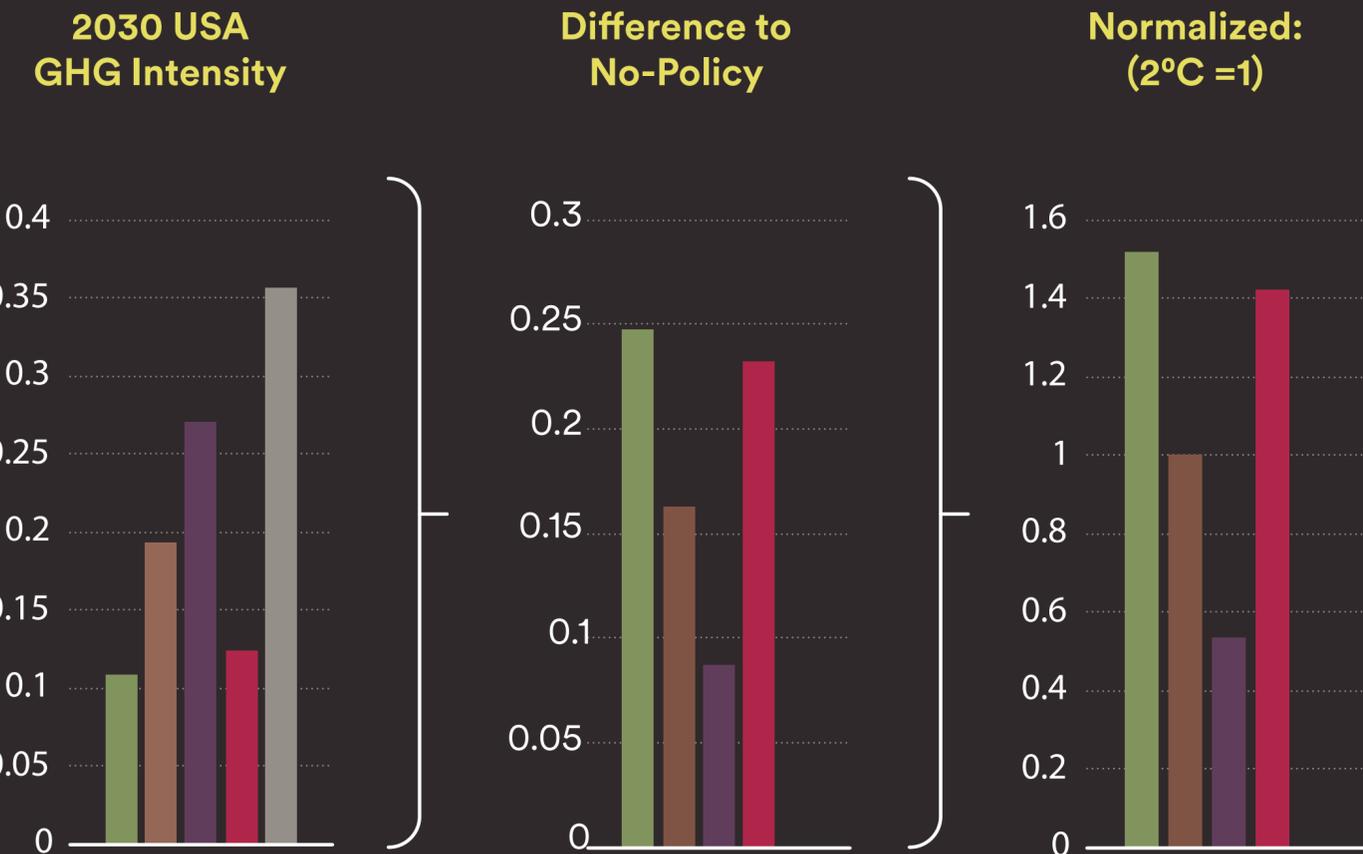
■ No Policy   
 ■ NDC Pledges   
 ■ 2.5°C   
 ■ 2°C Central   
 ■ 1.5°C

## TRANSITION MEASURES

The outputs from the integrated assessment model are downscaled for a particular region for the year 2030 (a time period with significant divergence in outcomes).

Each outcome is then compared to what might occur in a No-Policy scenario which is considered lower risk in the sense that it implies lower transition and thus has a value of zero. These are then normalized by comparing the differences to the 2°C Central pathway. This is repeated across all transition-related metrics.

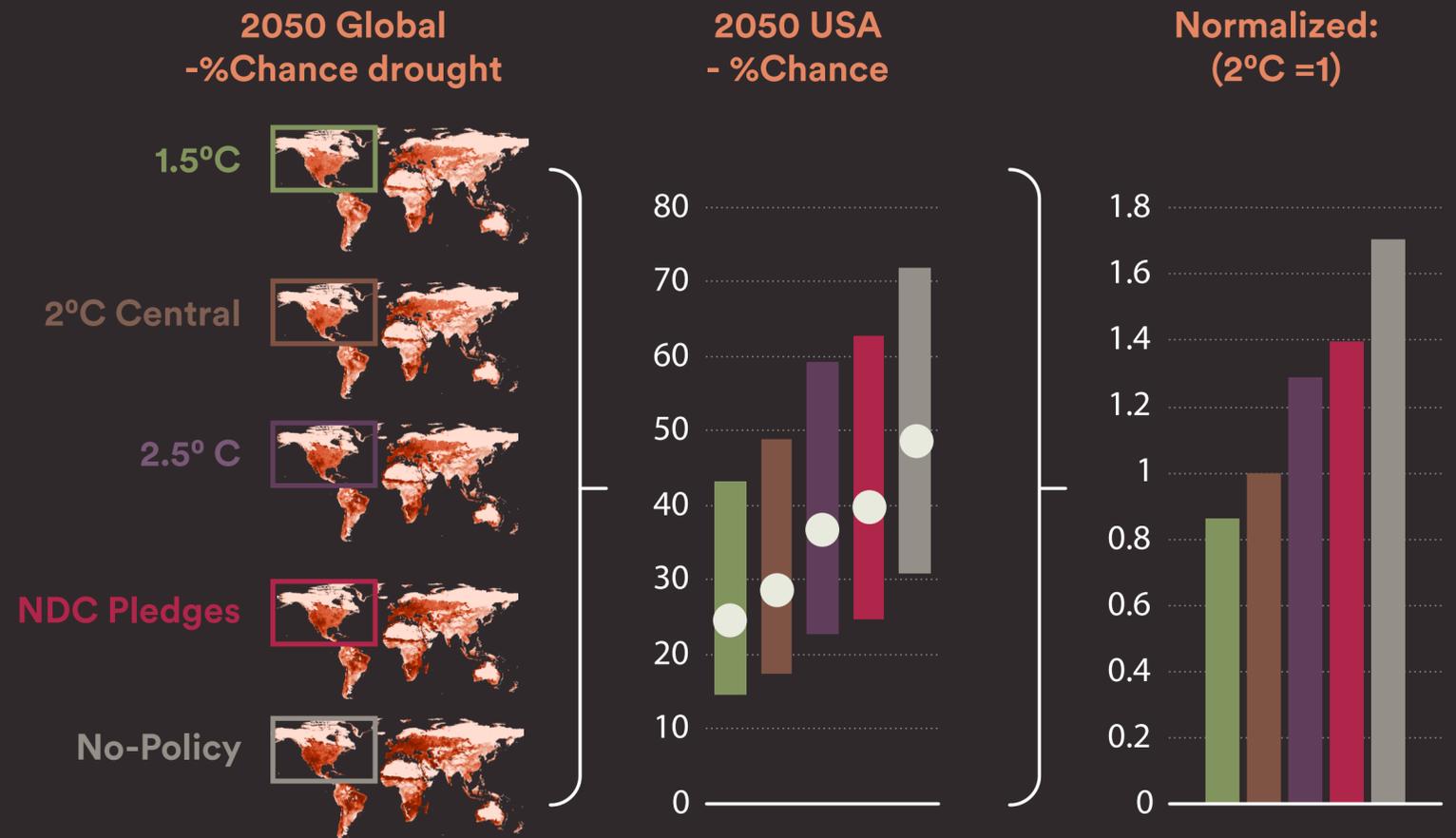
In the case below, the a normalized USA GHG Intensity comparison shows higher risk for both the NDC Pledges and the 1.5°C scenarios and lower risk for 2.5°C and No-Policy scenarios in comparison to the 2°C Central scenario.



## PHYSICAL MEASURES

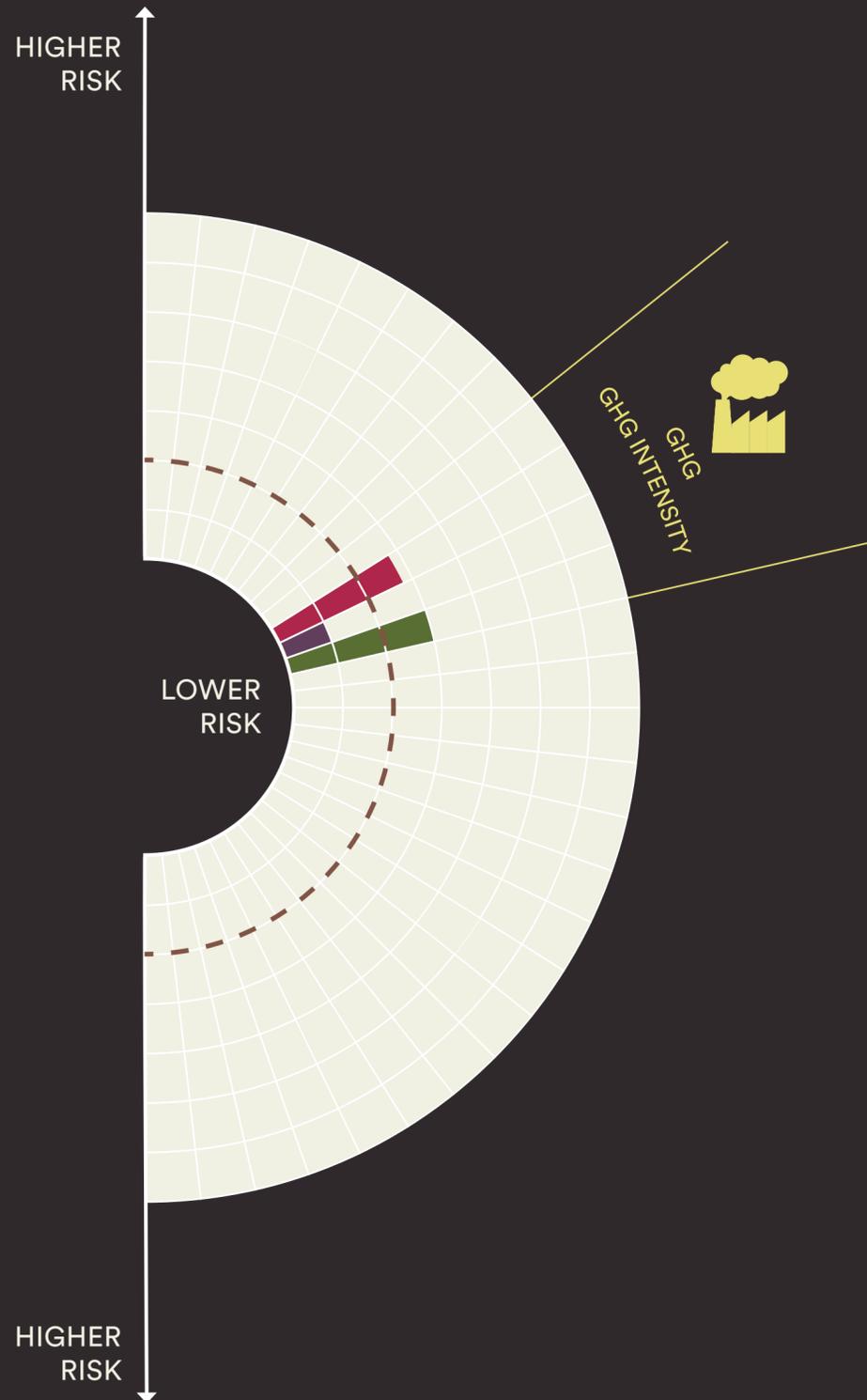
The outputs from the impact models are downscaled for a particular region for the year 2050 (note that earlier time periods see little divergence and later years see greater). These are then normalized by comparing the ratio outcomes to the Central 2°C pathway so that the value shows the percent increase or decrease in comparison to this scenario. This is repeated across all physical impact metrics.

In the case below, the a normalized chance for drought comparison shows higher risk for the No-Policy, NDC, and 2.5°C scenarios and lower risk for 1.5°C scenario in comparison to the 2°C Central scenario.



# TRANSITION RISKS

in 2030



# HOW TO READ CHARTS

## SCENARIO KEY:

- No Policy
- NDC Pledges
- 2.5°C
- 2°C Central
- 1.5°C

## IMPORTANT:

### Results are compared to the 2°C Central scenario

The metrics (for both the physical and transition risk metrics) are expressed as a ratio of each scenario's value compared to the value for the 2°C Central scenario. This means that the 2°C scenario always has a value of 1 (or 100%) and a value for another scenario that is higher or lower corresponds with an increase or decrease in potential risk.

These plots provide a sense of the relativity between scenarios of the severity of risk for each individual metric but shouldn't be compared across metrics. A more detailed analysis would be required for such an assessment. Instead, showing all metrics at once allows one to identify areas for further exploration.

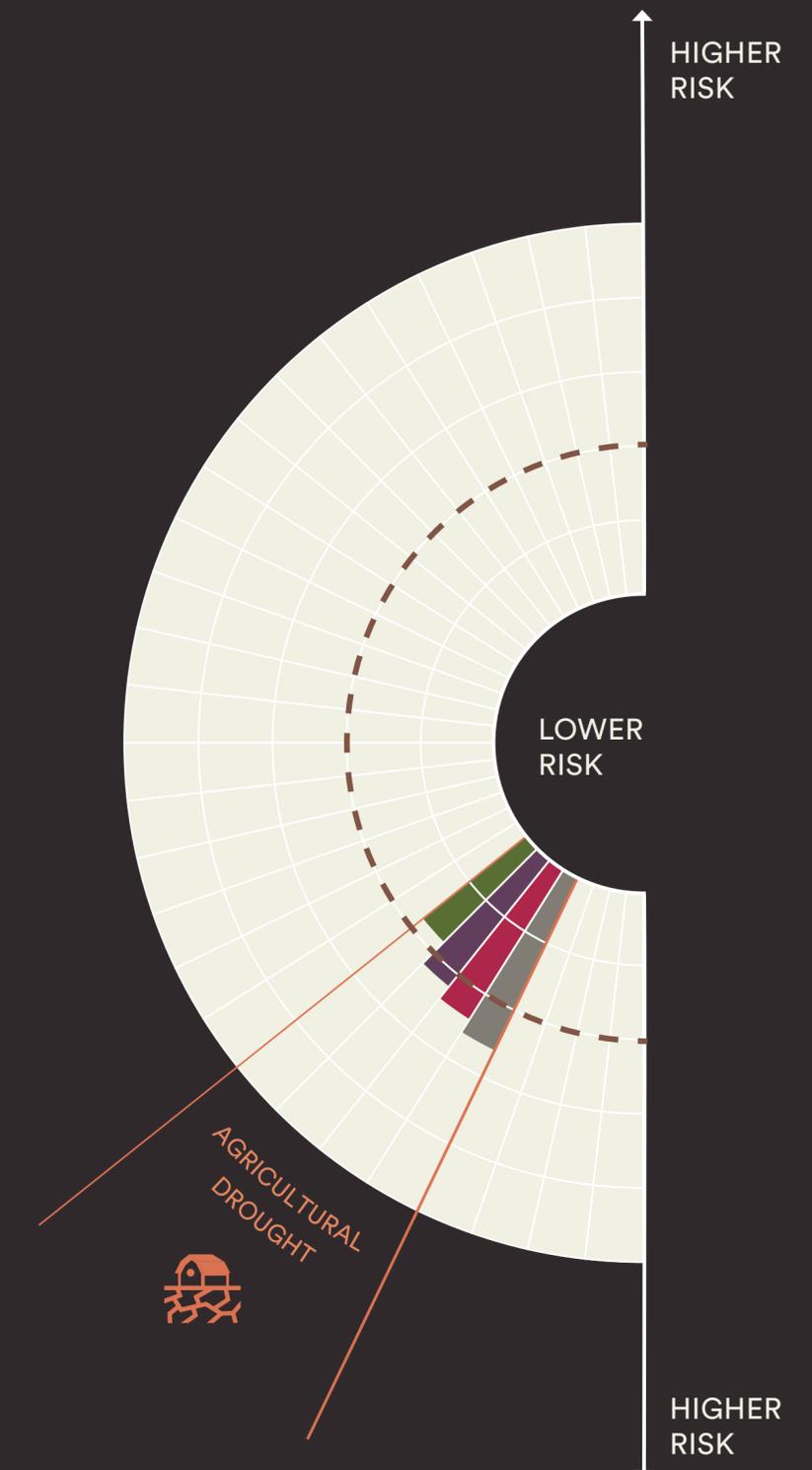
Each ring represents a 50% change in value in comparison

to the 2°C Central scenario. For transition risks, we show values for 2030 where there is significant divergence in the scenario spread due to early versus delayed or limited action. For physical risk, we show values for 2050 where there is also significant spread in outcomes for different emissions and associated temperature pathways.

In these examples, the GHG intensity on the left shows that in a 1.5°C scenario (in green) the reduction in intensity by 2030 is around 50% greater than the 2°C scenario (brown dashed line). And for drought, on the right hand side, we see a different outcome as the 1.5°C scenario corresponds with a roughly 15% decrease in potential drought in 2050 in comparison to this 2°C scenario.

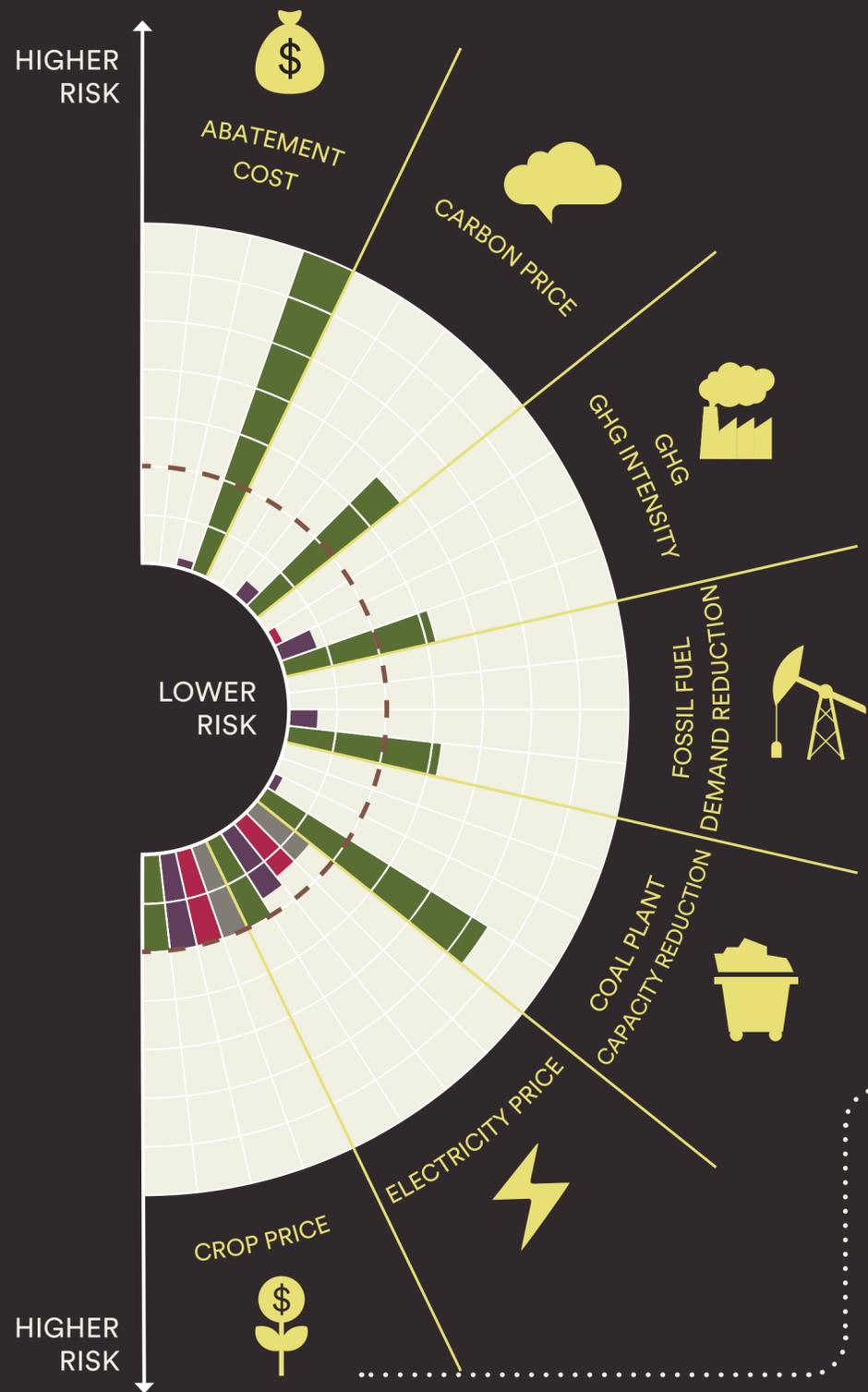
# PHYSICAL RISKS

in 2050



# TRANSITION RISKS

in 2030



While most transitions are higher in a 1.5°C scenario, agricultural prices are reasonably uniform.

# CHINA

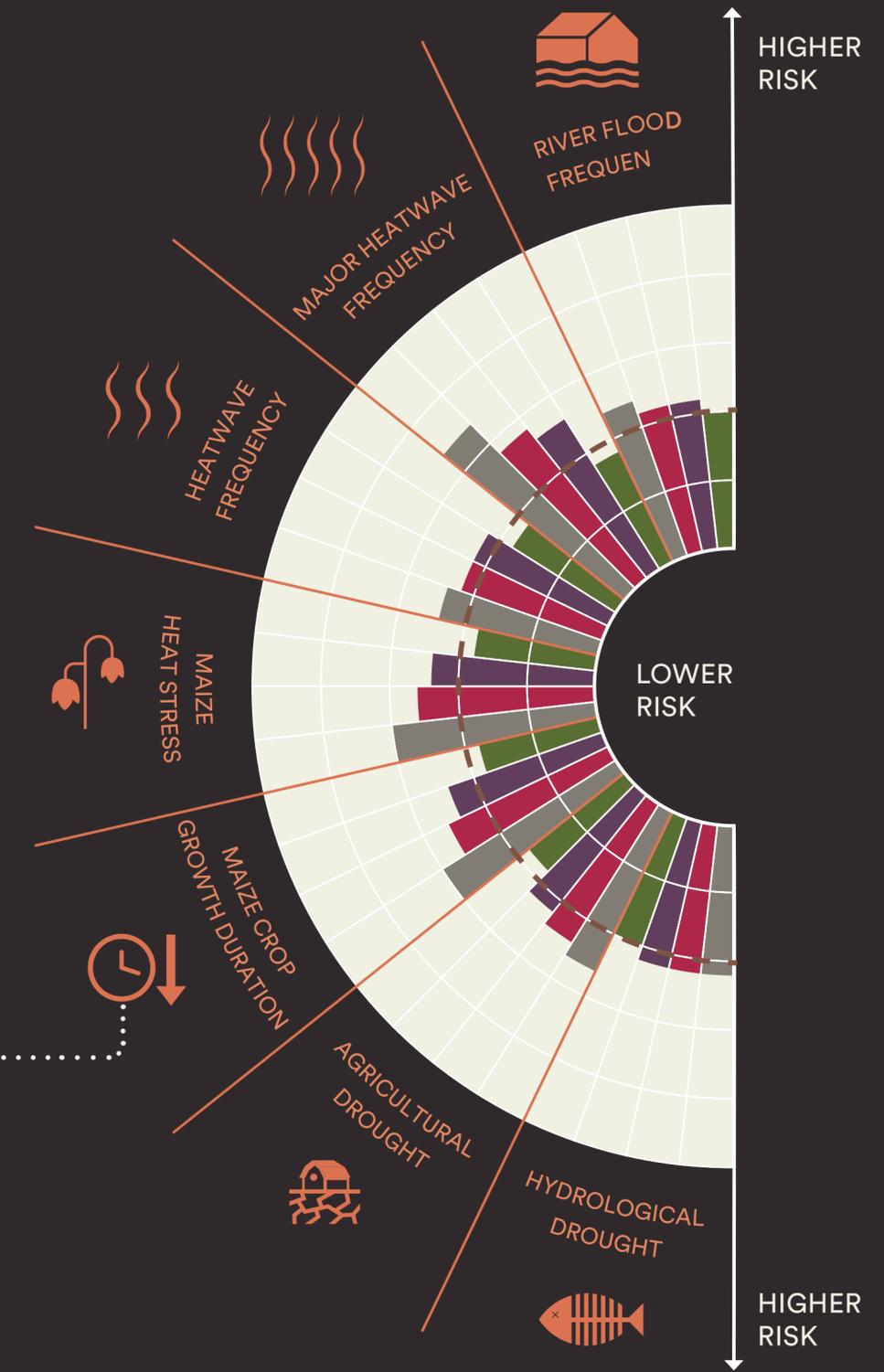
**SCENARIO KEY:**

- No Policy
- NDC Pledges
- 2.5°C
- 2°C Central
- 1.5°C

Higher risk is associated with higher temperatures and for China, a shorter growing season could be a major concern.

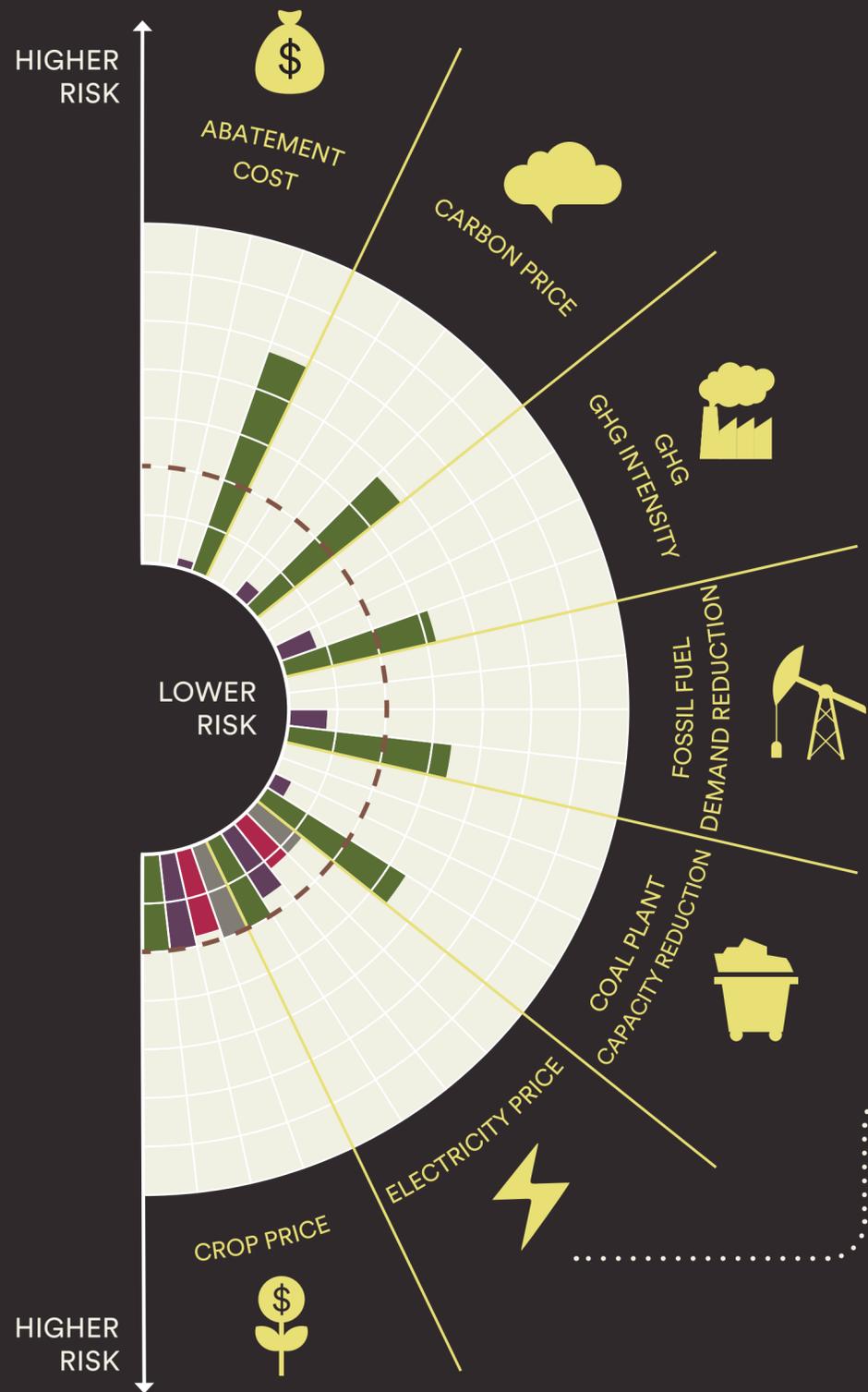
# PHYSICAL RISKS

in 2050



# TRANSITION RISKS

in 2030



Electricity prices are only moderately lower in No Policy and NDC Pledge scenarios.

# INDIA

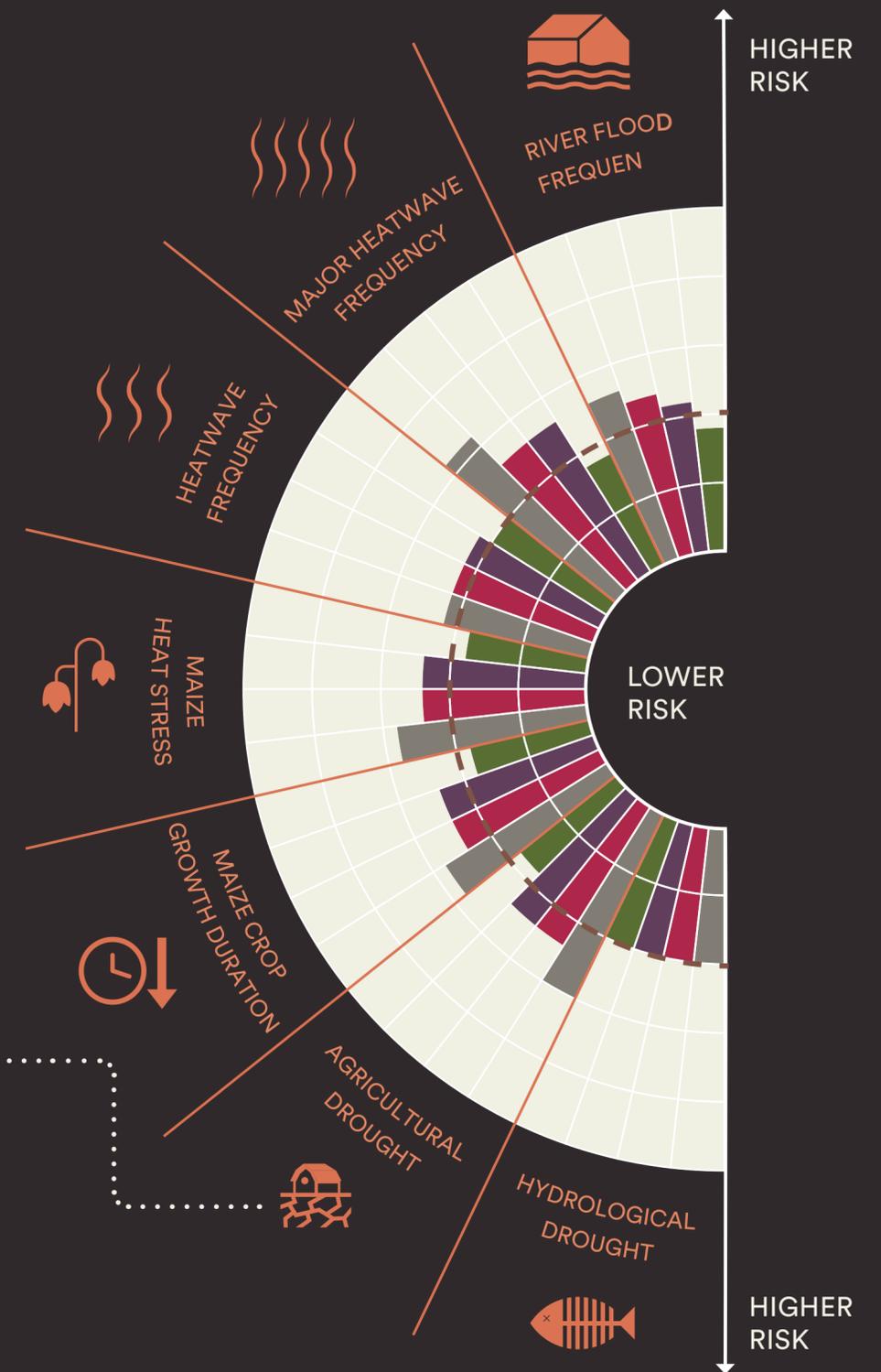
**SCENARIO KEY:**

- No Policy
- NDC Pledges
- 2.5°C
- 2°C Central
- 1.5°C

Higher risk is associated with higher temperatures and for India, a growing risk of agricultural drought could be a major concern.

# PHYSICAL RISKS

in 2050



# TRANSITION RISKS

in 2030



Electricity prices are only moderately lower in No Policy and 2°C Central scenarios.

# EU+UK

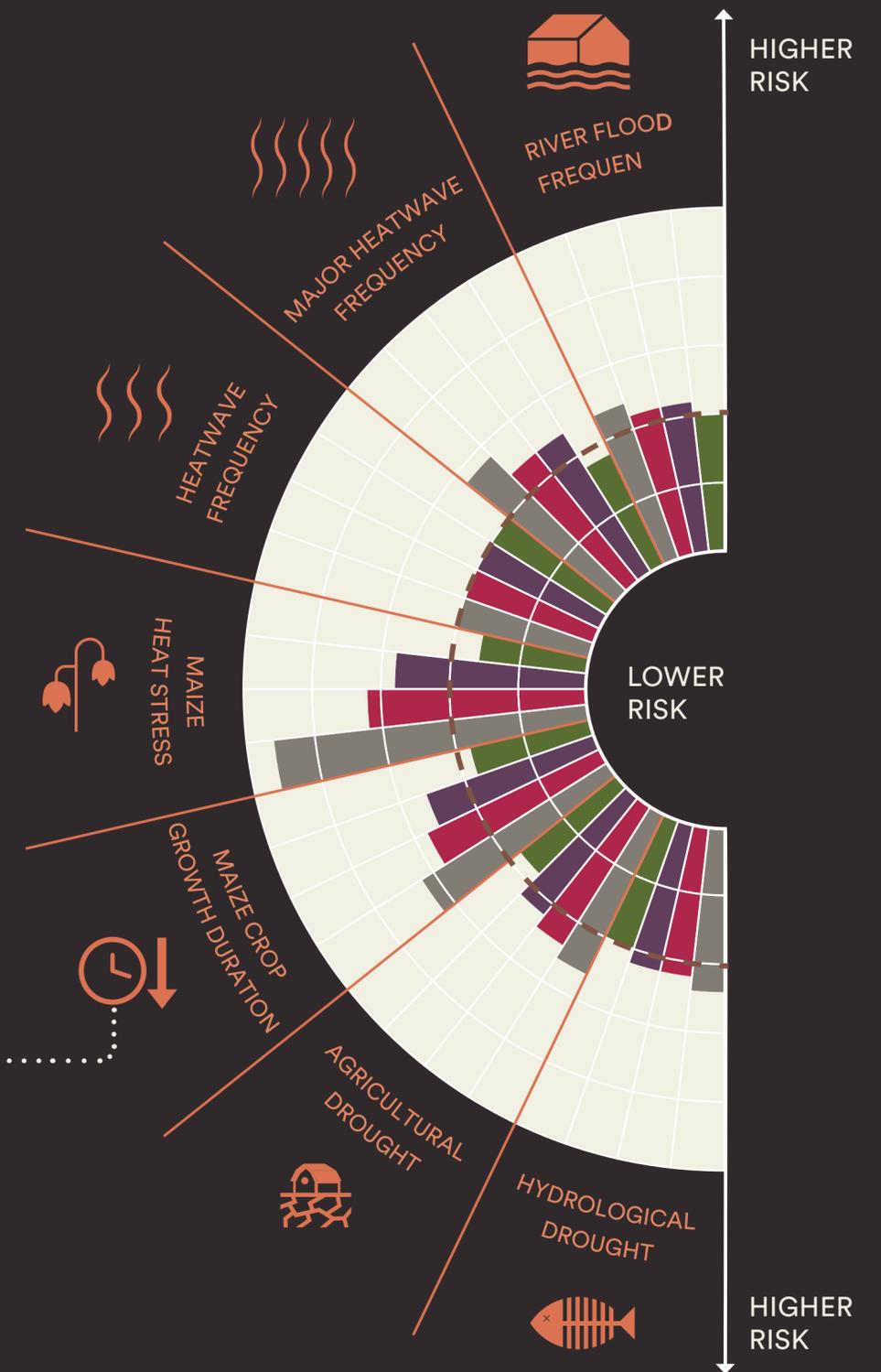
**SCENARIO KEY:**

- No Policy
- NDC Pledges
- 2.5°C
- 2°C Central
- 1.5°C

Higher risk is associated with higher temperatures and for the EU+UK, a shorter growing season could be a major concern.

# PHYSICAL RISKS

in 2050



# TRANSITION RISKS

in 2030



# USA

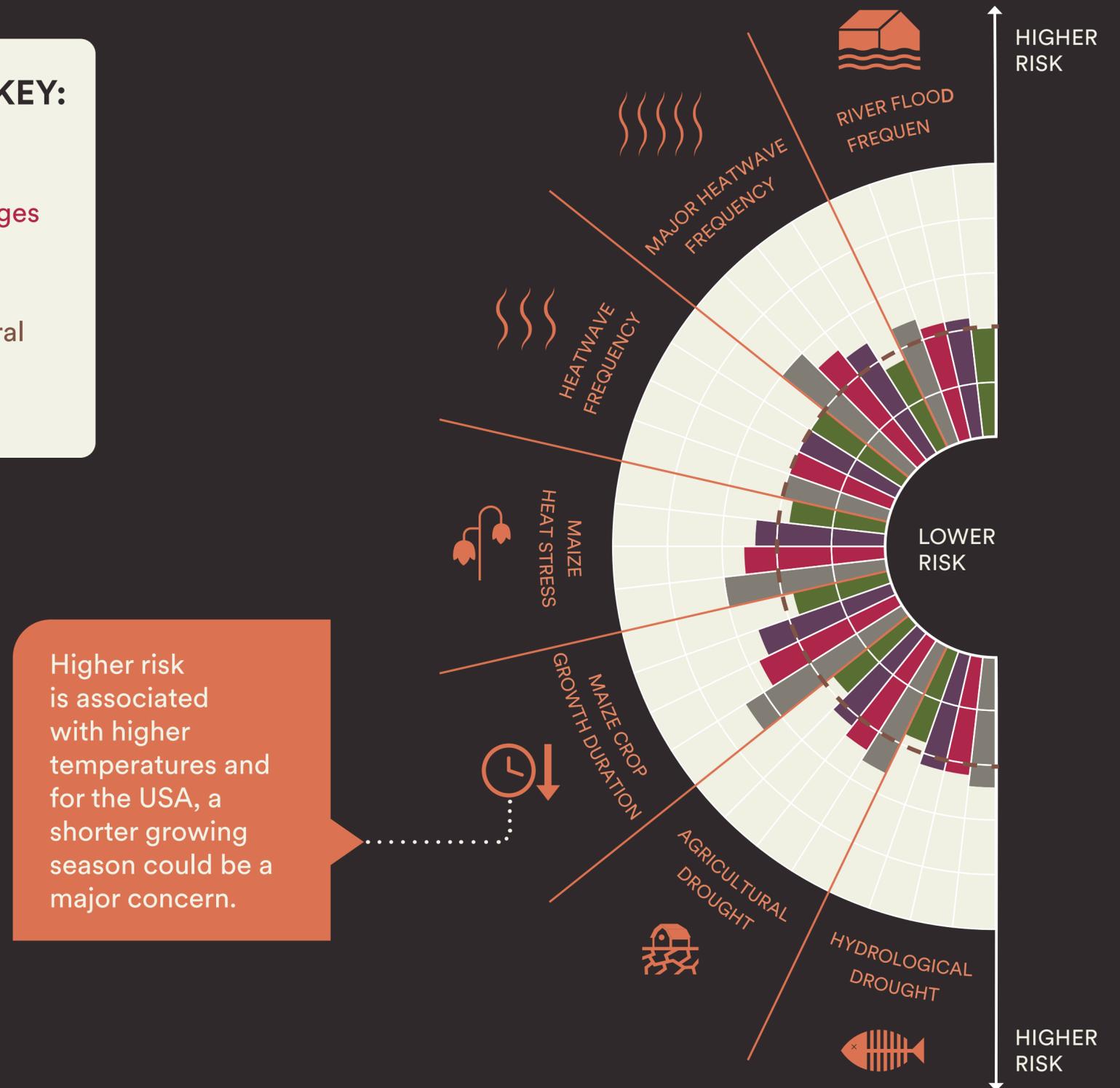
## SCENARIO KEY:

- No Policy
- NDC Pledges
- 2.5°C
- ⋮ 2°C Central
- 1.5°C

While most transitions are higher in a 1.5°C scenario, the USA NDC Pledges are similar in scale.

# PHYSICAL RISKS

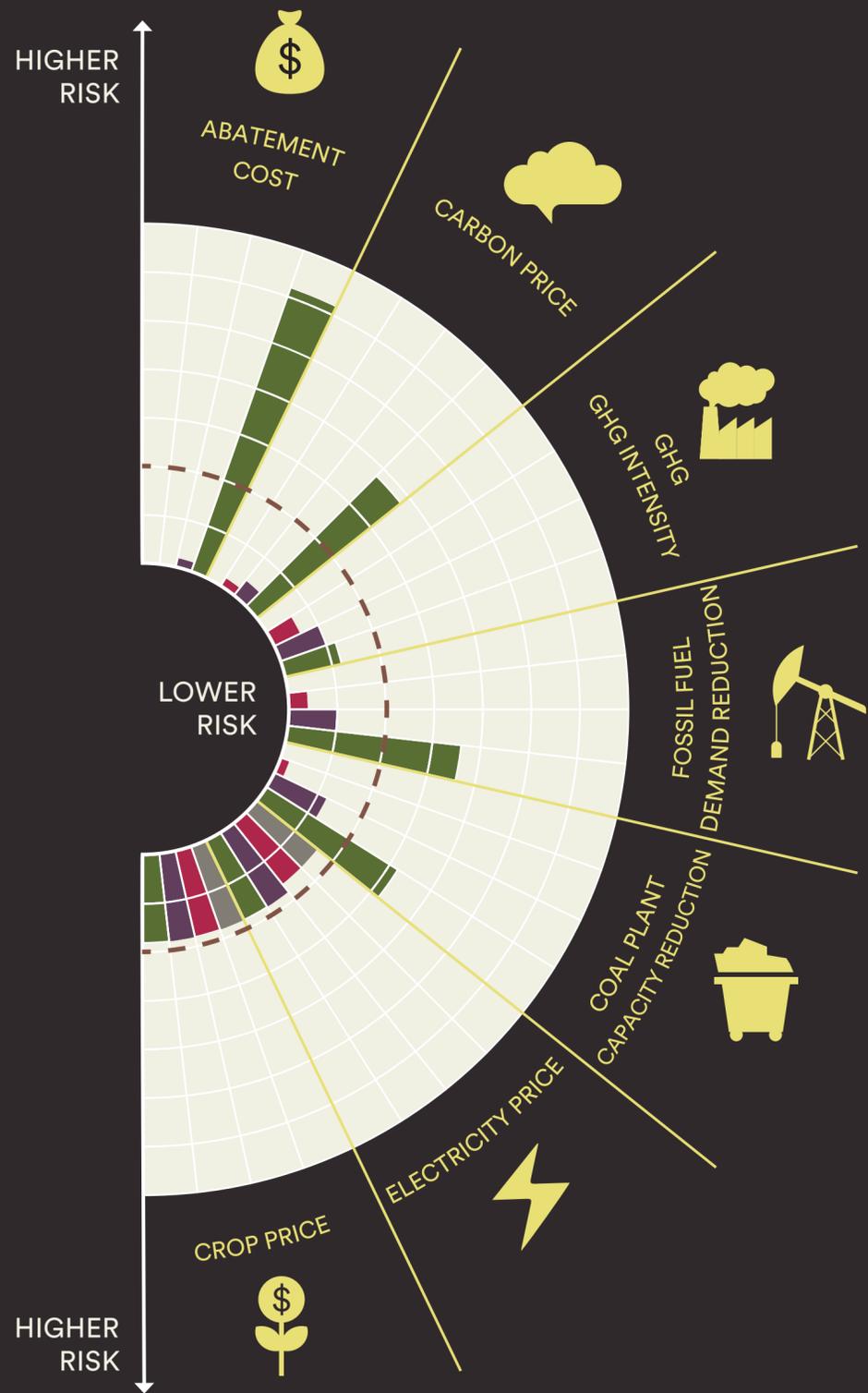
in 2050



Higher risk is associated with higher temperatures and for the USA, a shorter growing season could be a major concern.

# TRANSITION RISKS

in 2030



# BRAZIL

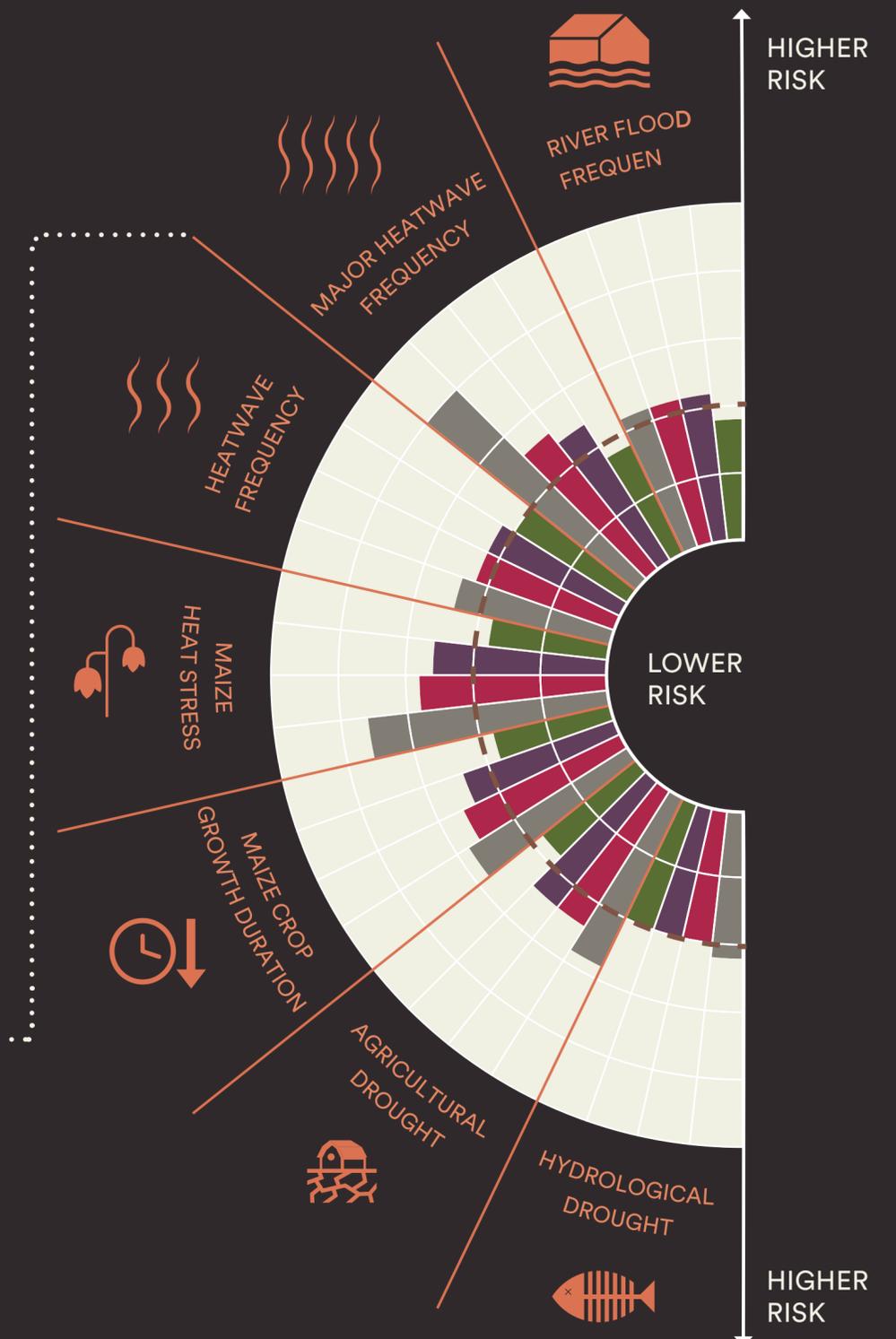
## SCENARIO KEY:

- No Policy
- NDC Pledges
- 2.5°C
- 2°C Central
- 1.5°C

Higher risk is associated with higher temperatures and for the Brazil, exposure to heatwaves could be major concern.

# PHYSICAL RISKS

in 2050



# DISCUSSION: A FRAMEWORK TO CARRY FORWARD

This integrated scenario analysis framework can be built upon by stakeholders across business, finance, household and government sectors. This figure indicates sample implications for a range of key economic sectors. For example, the framework serves as a first step towards a full “scenario expansion” towards financial risk estimates, which would involve quantitatively downscaling sector-level and economy-wide outputs from IAMs to firm- and household-level financial risks.

A critical consideration in undertaking such financial risk analysis is systemic risk, deriving not just from first-round exposure of investors to carbon-intensive sectors, but also to second-round effects from financial firms’ investment in each-other, creating networks of exposure to losses, as well as the extent of insurance against losses. More detailed analysis is therefore required to understand the full financial system and wider economic risks.

And yet, insights gleaned from comparing physical and transition risks in a consistent scenario framework provides a clear basis for building such analysis, including identifying underlying drivers of economic changes that result from them. In essence, we provide the first chapter in this storyline of global and regional physical and transition consequences of different plausible emissions pathways.

## Scenario analysis

TRANSITION RISKS	RELATED IAM OUTPUTS
Economy-wide mitigation cost leading to GDP losses	Policy, abatement or system lost changes, GDP losses
Higher carbon taxation	Carbon price
Energy prices	Electricity and other fuel prices
Food prices	Food price
Stranded assets	Stranded asset (mostly in power sector)
Sectoral transition pathways	Sectoral carbon intensity
PHYSICAL HAZARD RISKS	RELATED IMPACT MODEL OUTPUTS
Heatwaves	Loss of work hours
Floods	Asset damages
Droughts	Lower crop productivity and loss
Crop heat stress and duration	Lower crop productivity and loss

## Sector implications

AGRICULTURE	ENERGY SUUPLY	BUSINESS AND INDUSTRY	HOUSEHOLDS	FINANCE
Reduced demand	Reduced demand	Potentially reduced demand	Potential employment loss or restructure	Impact on risk and return across assets
Potentially higher cost e.g. meat	Higher operating cost for fossil energy supplies	Higher operating cost for fossil reliant businesses	Higher goods and service prices	Greater business and household credit default risk
Higher energy input cost	Higher energy input cost	Higher energy input cost	Higher energy bills	Greater business and household credit default risk
Changes to sales and revenue		Changes to input costs e.g. food retailers	Higher food prices	Greater business and household credit default risk
	Sunk costs of premature asset closure			Asset investment write-offs
Higher cost to reduce intensity faster	Higher cost to reduce intensity faster	Higher cost to reduce intensity faster		Lower carbon-intensive asset values
AGRICULTURE	ENERGY SUUPLY	BUSINESS AND INDUSTRY	HOUSEHOLDS	FINANCE
Lower productivity	Lower output / higher wages	Lower outputs / higher wages	Health and lost income	Lower asset values across sectors
Lower productivity	Asset replacement costs	Asset replacement costs	Household damage / higher insurance costs	Business and household asset devaluation
Lower productivity	Lost output e.g. hydro, waterreliant plants	Lost production for firms reliant on water input	Health and water supply impacts	Lower asset values from lost production
Lower productivity	Loss of bioenergy resource	Potentially higher food input costs	Higher food prices	Lower agricultural sector asset values

# METHODS

The different scenarios are set up in the Global Chance Analysis Model (GCAM), an integrated assessment model, considering the specific GDP and population growth characteristics of the scenarios, the temperature goals, the scenario variants in terms of policy action, and any technological and behavioural constraints or availability.

The GCAM model outputs a range of energy, agricultural and land system metrics which are used to specify the transition risk indicators. The emissions (spanning all greenhouse gases, aerosols and other climate forcers) are fed into the probabilistic climate model MAGICC, whose range of temperature outputs are then fed into the suite of impacts models. These produce measures of physical hazard which form the physical risk metrics. When combined with the population from the specific scenario, these hazards are used to generate impact indicators (e.g. population exposed to heat waves).

For more information on methods, and results across more geographies, please see the supplemental material to the article at:

[LINK TO WEBSITE TO COME](#)

## Scenario design

-  Socio-economics
-  Temperature goal
-  Mitigation timing
-  Technological choices
-  Behaviours

## Integrated Assessment Model: GCAM

-  Energy System
-  Agriculture
-  Land use



## TRANSITION RISK INDICATORS

-  Abatement cost
-  Carbon price
-  GHG intensity
-  Fossil fuel demand
-  Coal plant capacity
-  Electricity price
-  Crop price

## Climate model: MAGICC

Resulting GHG emissions and other climate-related forcers are fed through a climate model resulting in probabilistic temperature pathways

## Impact models

Probabilistic temperature outcomes are run through an ensemble of impact models



## PHYSICAL RISK INDICATORS

-  River Flood
-  Major Heatwave
-  Heatwave
-  Maize heat stress
-  Crop duration
-  Agricultural drought
-  Hydrological drought

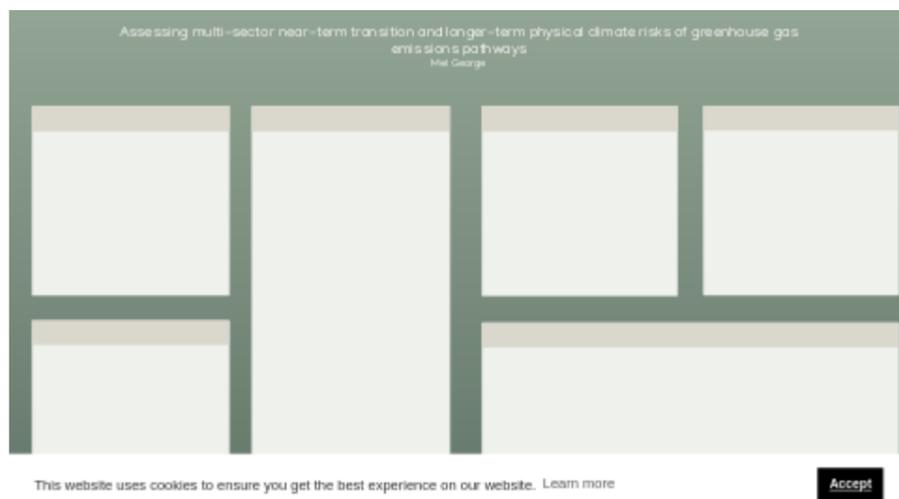
# Near-term transition and longer-term physical climate risks of greenhouse gas emissions pathways

Report authors:

Ajay Gambhir, Mel George, Haewon McJeon, Nigel W. Arnell, Daniel Bernie, Shivika Mittal, Alexandre C. Koberle, Jason Lowe, Joeri Rogelj, and Seth Monteith

Access the full report at ...TBC

# Assessing multi-sector near-term transition and longer-term physical climate risks of greenhouse gas emissions pathways



Mel George\*, Ajay Gambhir, Haewon McJeon, Nigel Arnell, Daniel Bernie, Shivika Mittal, Alexandre Koberle, Jason Lowe, Joeri Rogelj, Seth Monteith

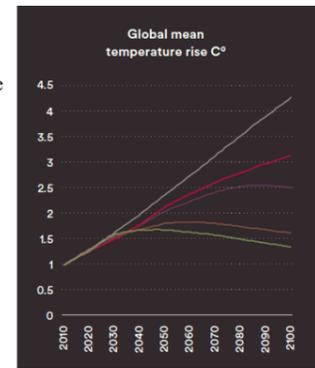
University of Maryland, USA; Imperial College London, UK; University of Reading, UK; Met Office Hadley Center, UK; University of Leeds, UK; ClimateWorks Foundation,

PRESENTED AT:



## MULTIPLE PLAUSIBLE GHG PATHWAYS

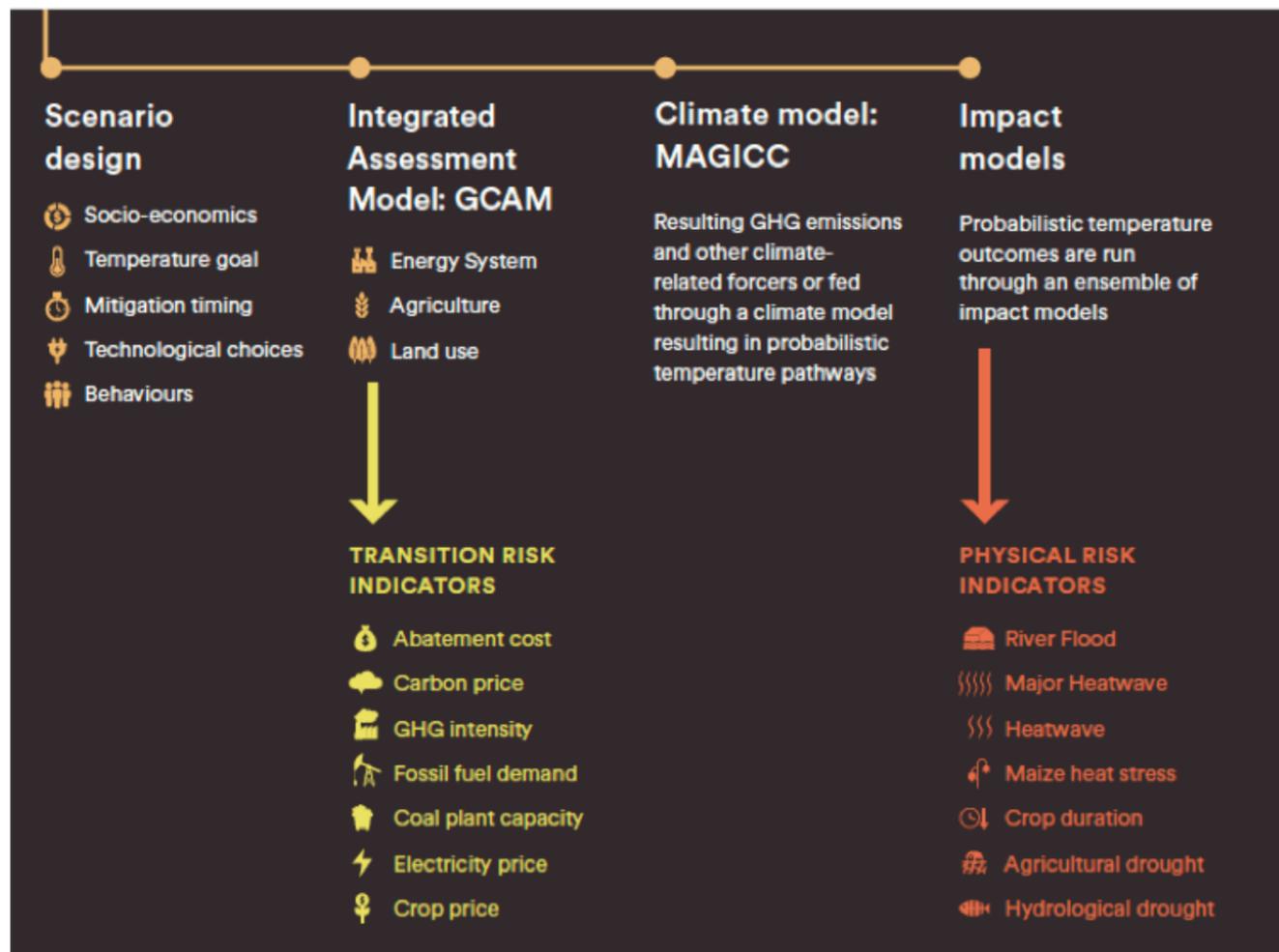
Policy, business, finance and civil society stakeholders are increasingly looking to compare future emissions pathways across both their associated physical climate risks stemming from increasing temperatures, and their transition climate risks stemming from the shift to a low-carbon economy.



# THESE LEAD TO DIFFERENT PHYSICAL AND TRANSITION RISKS

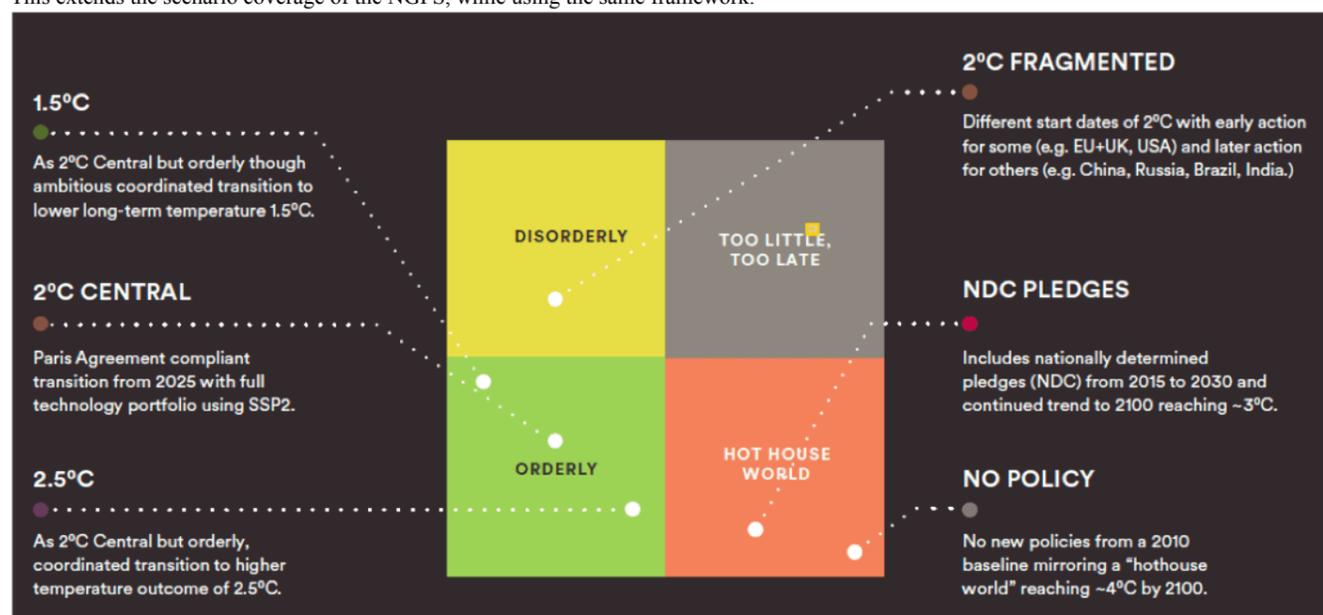


## EXTENDING THE NGFS FRAMEWORK



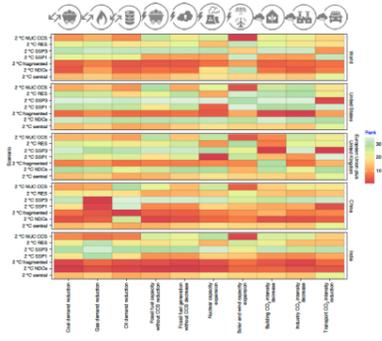
We use an Integrated Assessment Model (GCAM) in combination with a probabilistic climate model (MAGICC) and an impacts model using a damage function. This allows us to compare multiple GHG pathways on physical and transition risks simultaneously and in a consistent framework.

This extends the scenario coverage of the NGFS, while using the same framework.



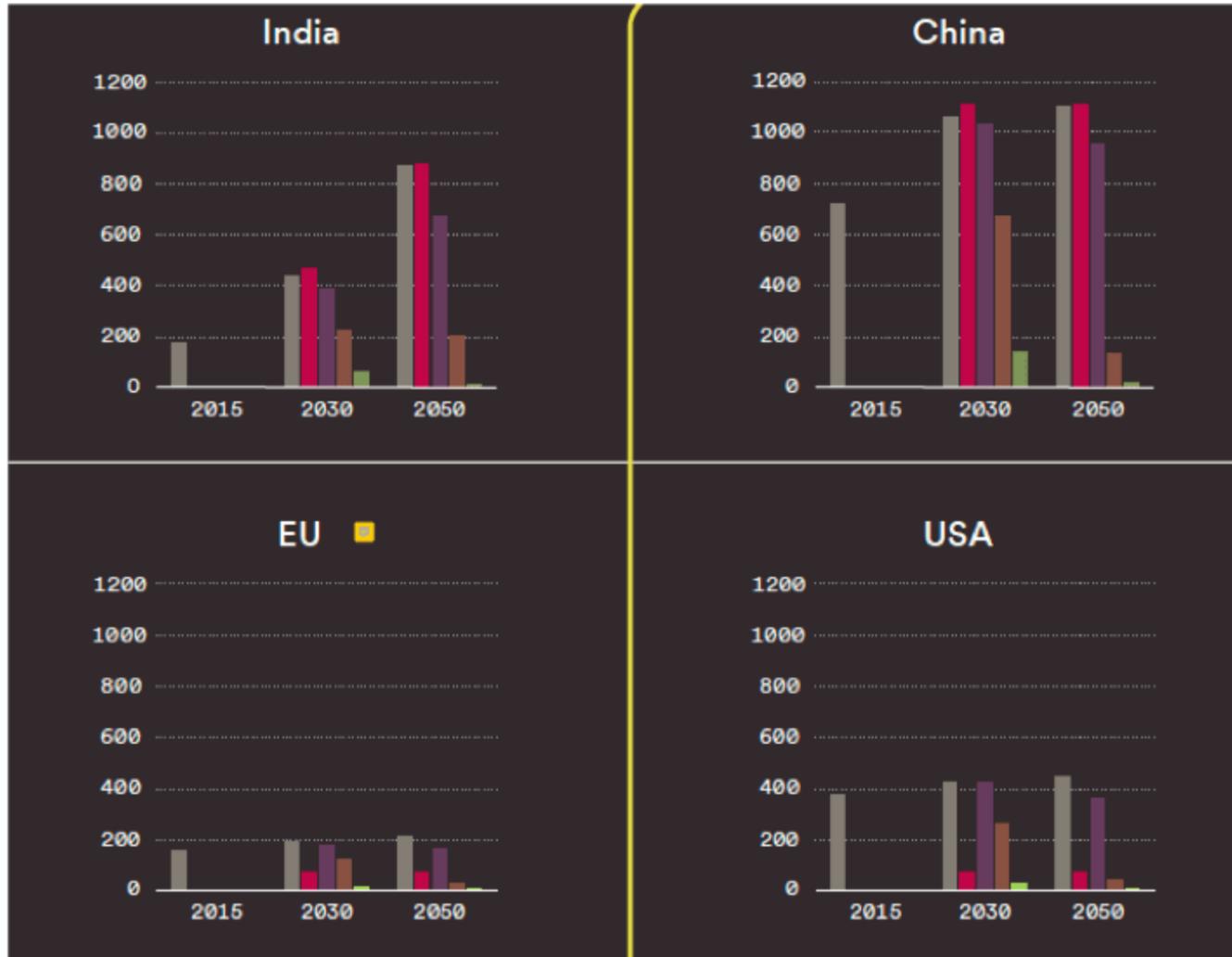
The results are normalised against risk (likelihood) metrics for the central 2C scenario. They remain robust when extreme values are considered.

# PATHWAYS WITH SIMILAR PHYSICAL RISK CAN HAVE VERY DIFFERENT TRANSITION RISKS ACROSS REGIONS



The transition risks depend on the pathway - varying by technology choice, pace of transition and socioeconomics

# THE GLOBAL PICTURE CONCEALS REGIONAL NUANCES



## RISKS VARY ON SPATIAL AND TEMPORAL SCALES

A more extensive look at the comparative physical and transition risks for different regions can be found in the companion slide deck. (<https://drive.google.com/file/d/10iCoADBgKE3l-DxM8N8bnpEBqYkavd5C/view?usp=sharing>)

The results have significant implications for financial sector planners, asset valuations, households, governments and civil society groups. The avoided physical risks are cobenefits and transition risks need policy support for mitigation

The full paper has been published in Nature Climate (<https://www.nature.com/articles/s41558-021-01236-x>) Change and is accessible here (<https://www.nature.com/articles/s41558-021-01236-x>).

# ABSTRACT

Financial institutions' investment and lending portfolios could be affected by both physical climate risks stemming from impacts related to increasing temperatures, and from transition climate risks stemming from the economic consequences of the shift to a low-carbon economy. Here we present a consistent framework to explore near term (to 2030) transition risks and longer term (to 2050) physical risks, globally and in specific regions, for a range of plausible greenhouse gas emissions and associated temperature pathways, spanning 1.5-4°C levels of long-term warming. We draw on a technology-rich, regionally disaggregated Integrated Assessment Model representing energy system, agricultural and land-based greenhouse gas emissions, a reduced complexity climate model to simulate probabilistic global temperature changes over the 21<sup>st</sup> century, and a suite of impacts models to estimate regional climate-related physical hazards and impacts deriving from the temperature change pathways and their underlying socio-economics. We consider 11 scenarios to explore the dependence of risks on both temperature pathways, as well as socio-economic, technology and policy choices. This builds and expands on existing exercises such as the Network for Greening the Financial System (NGFS).

By 2050, physical risks deriving from major heatwaves, agricultural drought, heat stress and crop duration reductions depend greatly on the temperature pathway. By 2030, transition risks most sensitive to temperature pathways stem from economy-wide mitigation costs, carbon price increases, fossil fuel demand reductions and potential stranding of carbon-intensive assets such as coal-fired power stations.

The more stringent the mitigation action, the higher the abatement costs and sector-specific transition risks. However, such scenarios result in lower physical climate hazards throughout the century. Our study also explores multiple 2 deg C pathways which demonstrate that scenarios with similar longer-term physical risks could have very different near-term transition risks depending on technological, policy and socio-economic factors. As such, "a single scenario will not answer all questions".

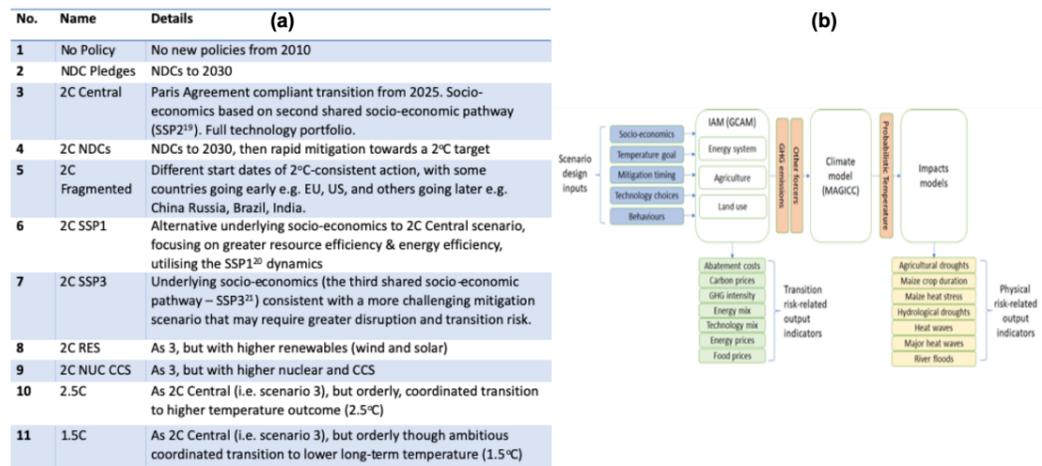
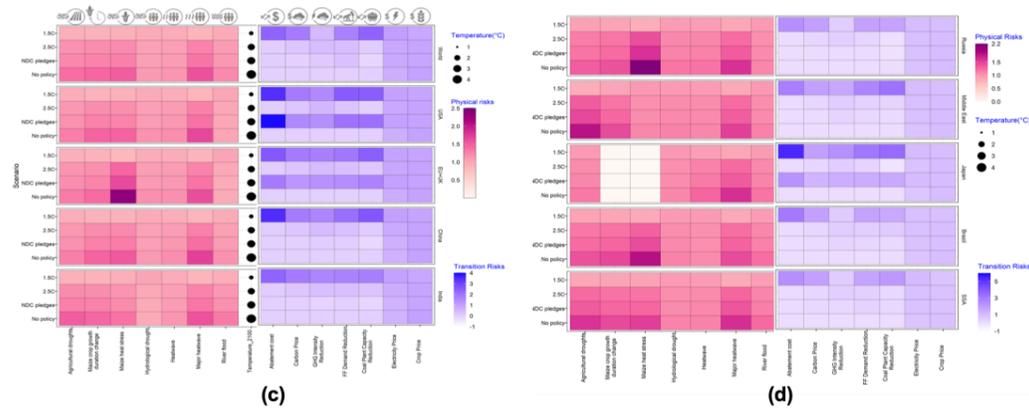


Fig. (a) Scenarios and pathways modelled in our study and (b) the model set-up to produce physical and transition risk-related output indicators for each scenario



(c) Physical and transition risk metrics for world and four major regions (d) and for 5 additional major regions. Each heat map shows 7 physical hazard metrics on the left-hand panel and 7 transition risk metrics on the right-hand panel. The physical hazard metrics are produced in a distribution and medians are shown here. The metrics (for both physical and transition risk metrics) are expressed as a ratio of each scenario's value and the value for the 2C Central scenario. Each transition risk metric is for the year 2030, whereas each physical risk metric is for the year 2050. Circle size indicates 2100 median temperature increase on pre-industrial (1850-1900) levels in each temperature scenario

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