



Why climate change and human rights are a business issue

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Businesses are a critical actor for the world to limit global temperature increases to 1.5°C by 2050. However, many businesses and stakeholders alike are sleeping at the wheel, risking propelling us to a world that is well above 2 degrees, the consequences of which would be devastating to business, people and planet.

Whilst some companies are driving forward and making deep transformational changes to our industries and/or implementing policies that support the delivery of a net-zero carbon economy, collectively these transformations are not ambitious enough to decarbonise entire economies. They also, quite often, do not consider the human impact of climate change and the consequences on communities from inaction. From the heatwaves across Europe, to the Australian bushfires that have devastated millions of hectares of land, animals and people, the record droughts in India, the burning of the Amazon rainforest and the most powerful hurricane to hit the Bahamas; the impacts of climate change have become unavoidable, yet we seem to be stuck in a collective state of paralysis refusing to act before it is too late.

In accepting the 2018 Nobel Prize for Economics, William Nordhaus described climate change as a “colossus that threatens our world.” Paul Polman, former CEO of Unilever and Co Vice-Chair of the UN Global Compact, highlighted that climate change and inequality were the two biggest challenges of our time. In addition, Michelle Bachelet, the UN High Commissioner for Human Rights, described climate change as the “greatest ever threat to human rights,” and Pope Francis followed suit with countries, cities and municipalities globally in declaring a global “climate emergency.”

The signs of human-induced climate change have been present for decades. Limiting the increase in global mean surface temperature (GMST) to 1.5°C is the only option. Changes in temperatures beyond 1.5°C will lead to increases in both land and ocean temperatures, more frequent heatwaves in most land regions, an increase in the frequency and duration of marine heatwaves, an increase in the frequency and intensity of heavy rainfall on a global scale, increased risk of drought and catastrophic bushfires across some regions, and an increase in the intensity and frequency of tropical storms.

Australia's Black Saturday fires burned 450,000 hectares of land, destroyed 2,000 homes and killed 173 people, costing approximately \$4.4 billion. In comparison, the current bushfires have already burned over twenty times more land – over ten million hectares – and destroyed over 1700 properties. The bushfires are a clear example of the links between climate change and extreme weather and with bushfire seasons becoming longer and more intense these events are likely to become our new normal. AMP Capital's chief economist, Shane Oliver, estimates that the damage from the fires will reduce Australia's GDP by 0.25 and 1 percent, which is between \$3 billion and \$13 billion¹. Whilst the impacts on human life and wildlife are immeasurable, they highlight the research undertaken by the National Bureau of Economic Research that determined that the long-term impacts of climate change will also lead to a reduction in global per capita GDP². These costs include a significant increase in the cost to respond to disasters and a world where business, and consumers, cannot access insurance because of the unpredictability of the global climate. In many respects, unless there are global reductions in greenhouse gas emissions that limit global warming to 1.5 degrees Celsius, events such as the recent bushfires across Australia will continue to decimate the land and make our planet unrecognisable and uninhabitable.

¹ The Australian Financial Review, *Morrison's bushfire recovery mission*, 6 January 2020 <https://www.afr.com/politics/federal/morrison-s-bushfire-recovery-mission-20200105-p53ozm>

² The National Bureau of Economic Research (August, 2019) *Long-Term Macroeconomic Effects of Climate Change: A Cross-Country Analysis* <https://www.nber.org/papers/w26167>

Climate change displacement

More than 70 million people were forcibly displaced in 2018, including more than 25 million refugees. UNHCR has described these numbers as the “highest levels of displacement on record”³. According to a recent Oxfam report⁴, climate change related disasters have been the number one driver of internal displacement over the last decade. Oxfam estimates that this has amounted to over 20 million people per year being displaced from their home, with over 80 percent of those living in Asia. And, small island states, such as those in neighbouring Pacific Islands, are 150 times more likely to be displaced by extreme weather events than communities in Europe. At home, residents of Mallacoota in Victoria’s East Gippsland proclaimed themselves as ‘Australia’s first climate refugees’⁵. These numbers will continue to increase with entire populations being displaced not only across interstate lines, but also across international borders, adding to an already complex and highly pressurised environment of that includes the 25.9 million refugees⁶ displaced by conflict⁷.

Climate change and disasters do not displace people on their own. It is a multicausal issue. Climate change erodes decades of developmental progress, exacerbates humanitarian crises, weakens governance structures and places mounting pressures on food and water sources for communities.

And, one of the most significant challenges with displacement is the emergence of climate refugees and the lack of an international legal framework to protect them in the same way that international human rights law protects asylum seekers and refugees.

In 2018, the UN General Assembly adopted the Global Compact on Refugees which, according to the UN High Commissioner for Refugees (UNHCR), effectively “acknowledges and addresses the reality of increasing displacement in the context of disasters, environmental degradation and climate change”⁸. Nonetheless, this does not discount the need for governments and businesses to prepare for the impacts of mass migration and to have consideration for the financial, material and technical support required to address the complex challenges of climate-related displacement.

The Pacific Islands are already heeding the impacts of displacement. Their contribution to greenhouse gas emissions is negligible, however they disproportionately suffer from the effects of climate change. The 2,500 inhabitants of Carteret Island in Papua New Guinea (PNG) were labelled as the first environmental refugees⁹; Fiji has already relocated three communities due to rising sea levels and expects to relocate another 45 in the near future; and, the World Bank predicts that by 2050 rising sea tides and storm surges will swallow half of Bikenibeu in Kiribati – home to 6,500 people. This displacement isn’t just a cost burden for these small island states, but also pose challenges for access to employment, medical services, schools and sustainable living. Funds, such as Fiji’s Climate Relocation and Displaced Persons Trust Fund for Communities and Infrastructure¹⁰ will need to be established in all countries facing high displacement risk, with business playing a role in working alongside communities and government to support adaptation efforts.

Climate change and human trafficking

With displacement unfortunately also comes an increased risk of modern slavery and human trafficking. According to the UN Office on Drugs and Crime¹¹, 72 percent of detected victims of modern slavery and human trafficking are women and girls and the percentage of child victims has more than doubled from 2004 to 2016. The majority of those “preyed on” are migrants, including refugees and asylum seekers who have left their country, with armed conflict, displacement, climate change, natural hazards and poverty exacerbating vulnerabilities.

Whilst illegal, modern slavery including forced labour, debt bondage, forced marriage, human trafficking and other slavery like conditions, is big business. The International Labour Organisation (ILO) estimates that modern slavery and human trafficking generate US\$150 billion in profits annually. It is also an issue that affects businesses, with many investors noting the interlinkages between climate change and modern slavery and expecting business to respond to both. According to Fiona Reynolds¹², the CEO of the Principles for Responsible Investment (PRI), globally, we “see many climate migrants and refugees who end up vulnerable and at the risk of being trafficked”.

³ UN Refugee Agency <https://www.unhcr.org/en-au/figures-at-a-glance.html>

⁴ Oxfam (December, 2019) *Forced from Home: Climate-Fuelled Displacement* <https://oxfamlibrary.openrepository.com/bitstream/handle/10546/620914/mb-climate-displacement-cop25-021219-en.pdf>

⁵ The Sydney Morning Herald, ‘Australia’s first climate change refugees’, 4 January 2020 <https://www.smh.com.au/national/australia-s-first-climate-change-refugees-20200103-p53okp.html>

⁶ UNHCR, Statistical Yearbooks: Figures at a Glance, May 2019

⁷ Professor Jane McAdam, Displaced by disaster, 6 December 2016, <https://www.grandchallenges.unsw.edu.au/lead/jane-mcadam>

⁸ UN High Commission for Refugees, *Climate change and disaster displacement in the Global Compact on Refugees*, 2019 <https://www.unhcr.org/en-au/protection/environment/5c9e13297/climate-change-disaster-displacement-global-compact-refugees.html>

⁹ UN Climate Change Conference (COP23): <https://cop23.com.fj/fiji-and-the-pacific/pacific-islands/>

¹⁰ See: <https://reliefweb.int/report/fiji/official-launch-fiji-s-climate-relocation-and-displaced-peoples-trust-fund-communities>

¹¹ United Nations Office on Drugs and Crime, *A Global Report on Trafficking in Persons*, 2018 <https://www.unodc.org/unodc/data-and-analysis/glotip.html>

¹² Barrons, Fiona Reynolds: *Why Climate Risk Matters for Investors*, 23 October 2019 <https://www.barrons.com/articles/fiona-reynolds-why-climate-risk-matters-for-investors-51571849006>

We are now seeing a shift, as governments and businesses globally are starting to respond to modern slavery risks. These include the Australian and United Kingdom Modern Slavery Act and associated reporting requirement, France's corporate duty of vigilance law and Germany and Canada announcing their intention to legislate supply chain reporting. This is in addition to the Liechtenstein Initiative's Blueprint for Mobilising Finance Against Slavery and Trafficking¹³ which specifically targets the active role that the financial services sector can play in investing and fostering business practices to help eliminate modern slavery and human trafficking.

However, what these laws and initiatives do not consider is how climate change will exacerbate modern slavery, particularly as we see an increase in the intensity and frequency of natural hazards where attention is placed on remediating the damage, rather than protecting the increase heightened risk to people who are the most poor and vulnerable. Action on managing the interrelated risks between climate change and modern slavery will not only require a transition away from carbon-intensive activities, but also heightened increase in government resources devoted to enforcement of these policies.

Litigation risks

With climate related disasters also being considered a human rights issue this has also given rise to litigation and human rights complaints against governments and businesses.

In Australia, for example, numerous Torres Strait Islanders made a complaint to the UN Human Rights Committee in 2019 alleging that the Australian Government's inaction on climate change poses a threat to their human rights as their islands are subject to sea level risks and other climate-induced events¹⁴. Their complaint asks for the Federal Government to commit to reducing its greenhouse gas emissions by at least 65 percent below 2005 levels by 2030, to commit to net zero before 2050, phase out thermal coal and commit to at least A\$20 million for coastal defence mechanisms, such as seawalls, to protect the Islanders' livelihood.

From a business perspective, the Paris Agreement and regulatory pressure for businesses to consider the material and financial risks of climate change on their business has also led to increased climate litigation. Whilst most litigation has been focused on lawsuits against government, according to a report by the London School of Economics and the Grantham Institute¹⁵, the US and Australia are 'hotspots' for climate

litigation. For example, in 2018, Mark McVeigh, a beneficiary of the superannuation fund, REST, filed a lawsuit alleging that the fund failed to provide adequate information about the fund's exposure to climate related risks, which restricted him from making an informed judgement on the fund's financial returns and management¹⁶.

In November 2019, the Commission on Human Rights of the Philippines found that the world's largest fossil fuel companies including Shell, ExxonMobil, Chevron, BP and Total, are "morally" liable for their role in "human-induced climate change" that "interferes with the enjoyment of Filipinos' fundamental rights"¹⁷. These companies now risk being held legally liable for their impacts on climate change, making it a landmark case globally.

Climate litigation should also be viewed in the context of a rise in shareholder resolutions and activism. Since 2015, there has been over 40 shareholder resolutions against Australian companies¹⁸ solely on human rights due diligence and climate change risk matters. Whilst none of these resolutions passed, they are clearly not going away and highlight that compliance with the law is no longer enough, and that there is a need for business to understand and disclose their climate related risks and the activities that they are undertaking to reduce them.

Whilst shareholder resolutions certainly place an intense spotlight on companies, investor groups will also be applying mounting pressure and working with companies to ensure they are in alignment with the goals set out by the Paris Agreement and requesting enhanced corporate disclosure in line with the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD). BlackRock, the world's largest asset manager, just recently joined the influential Climate Action 100+ (CA100+) group that calls on the world's largest corporate greenhouse gas emitters to reduce their emissions and take action on climate change. In response, Fiona Reynolds said, "in joining CA100+, BlackRock is responding to the demands of its asset-owner clients and other groups globally that they take meaningful action to address climate change." The addition of funds brought by BlackRock brings total assets under management represented by investors participating in CA100+ to more than \$41 trillion. This mix of investor pressures, shareholder resolutions and litigation will see a rapidly changing environment for businesses where compliance to these demands will not be optional.

¹³ <https://www.fastinitiative.org/>

¹⁴ <https://www.theguardian.com/australia-news/2019/may/13/torres-strait-islanders-take-climate-change-complaint-to-the-united-nations>

¹⁵ Grantham Institute and London School of Economics (July 2019) *Global trends in climate change litigation: 2019 Snapshot* http://www.lse.ac.uk/GranthamInstitute/wp-content/uploads/2019/07/GRI_Global-trends-in-climate-change-litigation-2019-snapshot-2.pdf

¹⁶ <https://www.envirojustice.org.au/our-work/climate/rest-super-case/>

¹⁷ Climate Liability News (2019) *Carbon Majors can be held liable for Human Rights violations, Philippines Commission Rules* <https://www.climate-liabilitynews.org/2019/12/09/philippines-human-rights-climate-change-2/>

¹⁸ <https://accr.org.au/shareholder-action/resolution-voting-history/>

¹⁹ <https://www.theguardian.com/environment/2019/oct/13/firms-ignoring-climate-crisis-bankrupt-mark-carney-bank-england-governor>

Disclosure

Mark Carney, former Chair of the Financial Stability Board and Governor of the Bank of England, has warned companies that do not “adapt [to climate change] will go bankrupt” and that “just like in any other major structural change, those banks overexposed to the sunset sectors [i.e. coal] will suffer accordingly”¹⁹. Carney also told businesses in the UK that they have two years to start reporting against initiatives like the TCFD before global regulators, including the Australian Prudential Regulatory Authority (APRA), makes them compulsory.

Carney’s speech followed the TCFD’s 2019 recommendations where they instructed businesses to assess, disclose and address climate-related financial risks to their stakeholders. Companies that have adopted the TCFD are not only publicly declaring their support for climate-related disclosure, but also enabling transparent conversations with investors, customers and employees on how the company is tackling the implications of climate change, including the human impacts.

As external pressures push business along the path to a zero-carbon target, and investors and activists demand disclosure on managing climate related risks, proactive businesses will be at the forefront of institutional investment. However, as Carney implied, companies that lag behind or resist will be punished by the market.

Costs of inaction are higher than costs of action

Climate change is a strategic and operational risk to business and to their employees and the communities that they operate in. If business does not act to reduce and manage their carbon emissions, global temperatures will continue to rise, water sources will be depleted, and land will be rendered useless to the point that the planet will be uninhabitable for human beings.

These effects will be felt across all sectors. For example, according to a report by the Climate Council²⁰, the property sector is expected to lose A\$571 billion in value by 2030 due to climate change and extreme weather. In addition, one in every 19 property owners face the prospect of insurance premiums that will be effectively unaffordable by 2030. The report reveals that there will be direct macroeconomic

shocks from climate change, including reduced agricultural yields, damage to property and infrastructure and commodity price hikes, could trigger serious financial instability in Australia and the region. These risks are highlighted again by the Australian bushfires and the extensive losses to agricultural land, property and tourism.

Current trends suggest that the accumulated loss of wealth due to agricultural and labour productivity as a result of climate change will exceed A\$19 billion by 2030 and increase to four trillion Australian dollars by 2100²¹. This is coupled by a halving of the irrigated agricultural output of the Murray-Darling Basin region which currently accounts for 50 percent of Australia’s agricultural output by value.

Globally today, the cost of climate change is over US\$5 trillion. To put that in perspective, the global cost of wars and conflict is approximately US\$8 trillion. The Intergovernmental Panel on Climate Change²² confirmed in its 2018 report that weak climate action will cost more to correct in the future as more drastic reductions in carbon emissions are needed to curb the impacts of climate change. In fact, some analysis suggests that the costs of inaction are over US\$17 trillion per year, with the cost of unmitigated climate change in Australia costing around A\$130.5 billion in GDP annually²³.

However, these impacts are largely avoidable and we have the resources and technology in hand today to respond. By working collaboratively, implementing robust regulation and diverting resources – financial, policy mechanisms and human – to action on meeting net zero, including investment in resilience and adaptation for all communities, we will lessen the economic and human rights risks associated with climate change. Clearly the cost of inaction is greater than the cost of action and the uncertainties linked with a 3 or 4 degree world are simply not tenable. The question now is what future are we willing to invest in?

²⁰ Climate Council, (2019) *Compound Costs: How Climate Change is Damaging Australia’s Economy* <https://www.climatecouncil.org.au/resources/compound-costs-how-climate-change-damages-australias-economy/>

²¹ Ibid.

²² IPCC (2019) *Global Warming of 1.5°C: Summary for Policy Makers* https://www.ipcc.ch/site/assets/uploads/sites/2/2018/07/SR15_SPM_version_stand_alone_LR.pdf

²³ Kompas et al. (2018) *The Effects of Climate Change on GDP by Country and the Global Economic Gains from Complying with the Paris Climate Accord*. *Earth’s Future* 6(8), 1153–1173.

The Ten Principles of the UN Global Compact

The Ten Principles of the United Nations Global Compact are derived from: the Universal Declaration of Human Rights, the International Labour Organization's Declaration on Fundamental Principles and Rights at Work, the Rio Declaration on Environment and Development, and the United Nations Convention Against Corruption.



HUMAN RIGHTS

- 1 Businesses should support and respect the protection of internationally proclaimed human rights; and
- 2 make sure that they are not complicit in human rights abuses.



LABOUR

- 3 Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining;
- 4 the elimination of all forms of forced and compulsory labour;
- 5 the effective abolition of child labour; and
- 6 the elimination of discrimination in respect of employment and occupation.



ENVIRONMENT

- 7 Businesses should support a precautionary approach to environmental challenges;
- 8 undertake initiatives to promote greater environmental responsibility; and
- 9 encourage the development and diffusion of environmentally friendly technologies.



ANTI-CORRUPTION

- 10 Businesses should work against corruption in all its forms, including extortion and bribery.

Global Compact Network of Australia

E | secretariat@unglobalcompact.org.au

T | +61 (0) 491 234 061

A | 15 Lygon Street, Carlton 3053

unglobalcompact.org.au



<https://www.linkedin.com/company/globalcompactnetworkaustralia>



<https://twitter.com/globalcompactAU>



Global Compact
Network Australia



Discussion Paper written and edited by:

Kylie Porter | Executive Director

Corinne Schoch | Senior Adviser

With contributions from:

Angeli Patel | Intern