



Kate Gordon, vice president and director of the Energy and Climate Program of Next Generation

Act Now to Manage the Economic Risks of Climate Change

A Civic Caucus Focus on Competitiveness Interview

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Present

Dave Broden (vice chair), Janis Clay, Pat Davies, Paul Gilje (coordinator), Sallie Kemper, Dan Loritz (chair), Dana Schroeder. By phone: Audrey Clay.

Biography

Kate Gordon is vice president and director of the Energy and Climate Program of Next Generation, a California-based nonprofit that promotes solutions to two of the biggest challenges confronting the next generation of Americans: the risk of dangerous climate change and the threat of diminished prospects for children and families. In that position, she develops policies and communications strategies to combat climate change and move the U.S. to a clean energy economy.

She also serves as executive director of Risky Business, a joint initiative of Bloomberg Philanthropies, the Office of Henry Paulson and Next Generation to quantify and publicize the economic risks of climate change. She is lead author of the project's June 2014 report, *Risky Business: The Economic Risks of Climate Change in the United States*.

Prior to joining Next Generation, Gordon was vice president for energy and environment at the Center for American Progress (CAP) in Washington, D.C., and remains a senior fellow there. She contributes regularly to the *Wall Street Journal* on energy, blogs for the *Huffington Post* and writes a weekly update on California energy and climate news for Next Generation.

Prior to joining CAP, Gordon was co-director of the national Apollo Alliance (now part of the BlueGreen Alliance) and still serves on its board of directors. Earlier in her career, she was a senior associate at the Center on Wisconsin Strategy and an employment and consumer-rights litigator at Trial Lawyers for Public Justice in Oakland, Calif.

Gordon earned a J.D. and a master's degree in city planning from the University of California-Berkeley and an undergraduate degree from Wesleyan University in Middletown, Conn.

Discussion

Because of the political realities surrounding climate change, Risky Business is structured as a nonpartisan project with a board of directors representing differing perspectives on the economic impact of climate change. According to Kate Gordon, executive director of Risky Business, "the climate landscape had fallen apart, based on two partisan traps: (1) the partisan fight over whether the science of climate change is real; and (2) the partisan fight over which specific policy solution to adopt." Former New York City Mayor Michael Bloomberg, former U.S. Secretary of the Treasury Henry Paulson, Jr., and Thomas Steyer, retired founder of Farallon Capital Management, became co-chairs of the project and recruited seven other board members from across the spectrum. All of the board members come to the climate change issue from different perspectives, Gordon noted.

Risky Business: The Economic Risks of Climate Change in the United States, a June 2014 report of Risky Business, explores the differing economic risks of climate change in different parts of the country and calls on the American business community to lead the way in helping reduce those climate risks. Gordon, lead author of this 60-page summary report, said the project was an attempt to keep the issue business-focused and nonpartisan, in a way that combined credible messengers with "bullet-proof data" on which to make decisions. All the underlying data is available in the complete report, *American Climate Prospectus: Economic Risks in the United States*.

Risky Business contracted with the **Rhodium Group** to do the risk analysis for the project. Gordon said Rhodium is "very nonpartisan" and has good experience working on climate risk and other types of risk. The group became a partner with Risky Business. Later, **Risk Management Solutions**, a global risk management firm, also came in as a partner on the research side.

The risk perspective was very important to the project. Gordon said in order to avoid partisan fights, the board decided early on not to do a cost-benefit analysis on climate change. "The problem with cost-benefit," she said, "is that it requires you to pick a set of policy strategies and weigh the cost of them. We wanted to acknowledge that climate change poses a real risk, but the way that risk manifests itself is very different in different parts of the country." She said the project used a risk approach because it's a standard business practice and it didn't require choosing a particular action. "It allowed the readers to decide what their own risk is and their risk tolerance and then to act accordingly," she said.

"The financial and business press and business leaders understand the risk approach, because they use it all the time for things like the risk of inflation, the risk of war and terrorism, the risk of commodity price changes and the risk of extreme weather," Gordon said. "Measuring risk is something they understand."

The Risky Business project applied the risk approach to three specific sectors of the U.S.:

- 1. Agriculture: specifically the commodities corn, wheat, soy and cotton.**
- 2. Energy: the increase in energy demand due to extreme heat.**
- 3. Coastal property and infrastructure: sea-level rise and storm surge effects.**

The project also looked at heat-related mortality and heat-related labor productivity issues.

The U.S. faces multiple and diverse risks from climate change. Gordon said aggregating to the national level is not helpful, because the country is so big, so different and so diverse. "Minnesota does not have the same impact as Florida," she said. "We tried to focus on the regional nature of climate risk."

She said the warming of the planet leads to direct impacts on the economy, sea-level rise, extreme heat impact, agricultural impacts, health impacts and changes in precipitation.

The extreme heat impact will have a definite effect on agriculture, particularly in the southern states, the lower Midwest and the southeast. Gordon said the data point to yield declines in commodity agriculture across those states. They get less severe as you go north, and,

in some parts of the northern U.S., yield *increases* are actually projected. "This isn't the same story across the U.S.," she said.

The lower parts of the Midwest will have greater increases in temperature, while Minnesota remains "pretty temperate," she said. However, there will be fewer cold days and warmer winters, which will lead to impacts on forestation, pest populations and other concerns.

Major energy impacts are predicted, because the hotter it gets, the more energy people use. By mid-century, Gordon said, the report predicts a need for about 95 more gigawatts of electricity for the U.S. than we have now. That is equivalent to 200 power plants (as we build them now), which has a huge impact across the U.S. She also pointed out that as it gets hotter, our existing power plants and transmission lines are less efficient.

Sea-level rise impact is not equal across the U.S. It's most severe, Gordon said, on the eastern seaboard and the Gulf Coast. On the west coast, there are one-in-one-hundred risks of severe impacts from Antarctic ice melt.

Heat results in the Midwest in this century and the next show an increase in days over 95 degrees, but, more importantly, an increase in a combination of heat and humidity, measured by a "humid heatstroke index (HHSI)." Gordon said for the body to be able to cool itself, the dew point must be low enough to allow sweat to evaporate. If the HHSI, incorporating both heat and

humidity, is above 92 degrees, it's unsafe for humans to be outside. She said Minnesota is looking at potentially three such days a year by the end of this century and possibly 20 days a year by the end of the next century.

"That's a really big deal," Gordon said, "because it means you can't be outside on such days for more than 20 minutes, even standing in a sprinkler, and survive." She noted there would have to be emergency shelters for such conditions, during which no children could be outside and there would be no school. The Midwest is a high-risk area for this, she said.

On days with the HHSI above 92 degrees, people can't do outdoor work, which will affect industries like construction, manufacturing, and mining or any business that operates outside.

Gordon said in Minnesota, 30 to 40 percent of the workforce is involved in those outdoor, high-risk activities, so there would be a significant decrease in labor productivity in the state.

The report modeled a path that does not include any major mitigations or attempts to reduce emissions here or globally. "It's the path we're currently on," Gordon said, "and that's pretty dire."

But we can affect the heat impacts. The sea-level rise is already "baked in" and is the result of policy decisions made 40 or 50 years ago, Gordon said. But we *can* still change the heat impact and "get off that path," she said.

There's been a false dichotomy between adapting to the heat impact and mitigating it. "The study results say we have to do both," Gordon said. "There's a certain amount we have to adapt to now, a certain amount we need to be planning for and a certain amount we have to try to stop."

Anyone making long-term capital investments should be incorporating climate risk into decision-making now. Gordon said that includes businesses and governments. "If you're thinking about where to site your supply chain, where to put a new factory, where to put infrastructure you're building, you need to be thinking about your potential climate risk now," she said. She noted that's happening in a few industries and cited the example of Cargill siting grain elevators along the Missouri River based on climate-based flood projections.

"Climate risk needs to be mainstreamed into their investments," she said.

Mitigation is not easy to talk about in Congress right now. Gordon said coming to climate change from a risk perspective and from a regional perspective is much more effective than coming at it from a big national policy perspective. "We're calling on businesses to step up and talk about these risks and the need for mitigation to the district and local policymakers who represent their region," she said. Policymakers need to be the long-term planners and protect the region from climate change. She called on the U.S. to take leadership on climate mitigation.

"Businesses can't be the only ones looking at this," Gordon said. "It's a public-sector problem, too."

The goal of the *Risky Business* report is to make climate risk a mainstream issue. "We would be gratified if we saw big, multinational, global companies with massive supply chains looking at climate risk as a matter of course in their business decisions," Gordon said. She'd like to see that same approach used as a standard practice by utilities, public utility commissions, bond raters, bond issuers and big institutional investors. She thinks small businesses should do the same, but they have

less ability to plan that far ahead and are often more tied to their region. "It's hard for farmers in Iowa to move their farms," she said.

Gordon hopes the U.S. will have a price on carbon in five years. In two years, she'd like to see climate risk being priced into the economy in a more consistent way than it is now. "That will lead to political and policy change," she said.

The report is making people in the business sector very uncomfortable. "We wanted people to feel uncomfortable," Gordon said, "because the report points out these risks you need to deal with." After the report came out, she said, conversations with investors have really changed. Instead of taking no responsibility for climate change, they realize that it has a large impact on their investments and are making it more a part of their business decisions.

The Risk Committee is doing a lot of peer-to-peer CEO-level engagement to push the idea of making climate risk a mainstream issue and to talk through what that means for particular business sectors. In the agricultural sector, Gordon said, there is a lot of public/private overlap, because the agricultural industry depends on public infrastructure. The industry is starting to push county governments and other public infrastructure officials to incorporate risk into infrastructure decisions, so the infrastructure that farmers need is not at risk.

A lot of adaptation to climate change is already being done in the agricultural sector and more is planned. "I have faith that they'll do a lot to try to keep yields where they are," Gordon said. "It's a really big question whether those yields will be located in the same place as before." Iowa, Illinois and Indiana will be the big losers, she said. Some counties in those states will have up to a 70 percent yield loss. "We talk about adaptation in the abstract," she said, "but adaptation is not really possible for a lot of people."

Risky Business is aiming to carry the message of its climate-risk report to the state and local level. Gordon said the project is preparing state-level fact sheets and is doing a stand-alone climate-risk report on the Midwest, taking a much deeper look at the data, even down to the county level. She said the group will do a lot of communication around that report. Because the project's very small staff and its overcommitted Risk Committee members have limited capacity to widely communicate the content of the June report, she is hoping other people will join in as messengers, since the data are all readily available to the public.

The governors of Minnesota and other states should take executive action requiring that climate risk be taken into account when making any state investments. Gordon said states must do much more intentional planning and decision-making. Governors should put out a call to action to the federal government, she said. "States can't do the entire job by themselves," she said. "It's really an unfunded mandate from the federal government." She said Congress and the executive branch must take a leadership position on climate change and start mitigating climate risks because of their significant impact on the country. "The impacts of climate change are local, but the solutions must be global," she said.

There are only a few people in Congress who actually don't believe climate change is real. For most of the climate-change "deniers," Gordon said, it's a convenient way to dismiss the issue, when their real problem is that it calls for a government solution. "The debates almost all focus on the cost

to government and that this is a conspiracy to grow government," she said. "I think that, ideologically, that's the bigger issue." The better question, Gordon said, is, "Do you think you should react to this risk?" That will lead to a better discussion, she remarked.

"I'm hoping businesses will call on those Congress members to act in the interest of the American economy," Gordon said, "and to shift the whole discussion from the big cap-and-trade bill, which was a Big Government solution. I understand why that made people nervous. It was not giving regions or businesses or stakeholders any possible way to engage with that process. It was a top-down, very partisan process. I think the partisanship is around Big Government and not climate-change denial."

"You can't really do anything about denial," Gordon continued. "All we can do is put out the best data we can and hope that people read it."

There are only a few good examples around the country of multistate regional compacts that hold together. She mentioned a few: the Regional Greenhouse Gas Initiative in nine Northeastern states that banded together to have a carbon-trading system for electricity, which worked very well; the Appalachian Regional Commission that works on economic development and how to plan for the future; and the Great Lakes Regional Compact that focuses on the future of the region. There is not an obvious way for regions to work together in the U.S., she said, but it's an interesting approach.

The principals on the Risk Committee overseeing the Risky Business project are very involved, but also incredibly busy. In response to an interviewer's question as to whether Risky Business has a spokesperson, Gordon said the committee chooses members to speak on the issue based on the venue. In a conservative forum, the spokespeople tend to be Gregory Page, executive chairman of Cargill, Inc.; Hank Paulson, chairman of the Paulson Institute, and former U.S. Secretary of the Treasury; or former U.S. Senator Olympia Snowe. George Schultz is also a very strong conservative voice on these issues. In a forum more specific to the real estate sector, Henry Cisneros, founder and chairman, CityView Capital, and former U.S. Secretary of Housing and Urban Development, will respond.

Gordon said the country is so diverse that Risky Business has intentionally not had just one spokesperson. The representatives can't come from within government or one particular school, she said. But former U.S. Secretary of the Treasury Henry Paulson, now chairman of the Paulson Institute has emerged as the most visible spokesperson.

"The members of the Risk Committee are actually involved in an ongoing basis, which is amazing," she said.

Conclusion

Gordon concluded by saying the main important point is how regional climate impacts are. "The overall report didn't talk about U.S. GDP, because that number just masks the entire issue," she said. "You must look at it regionally, how your region interacts with other regions, including looking at Minnesota's major companies with global supply chains." She said, though, that the climate-change impacts in the U.S. look relatively small compared to the huge impacts in southern countries globally.

"Ultimately," she said, "this is a global problem."

