

Investor Actions to Improve Corporate Governance on Climate Change

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March 31, 2006

Overview

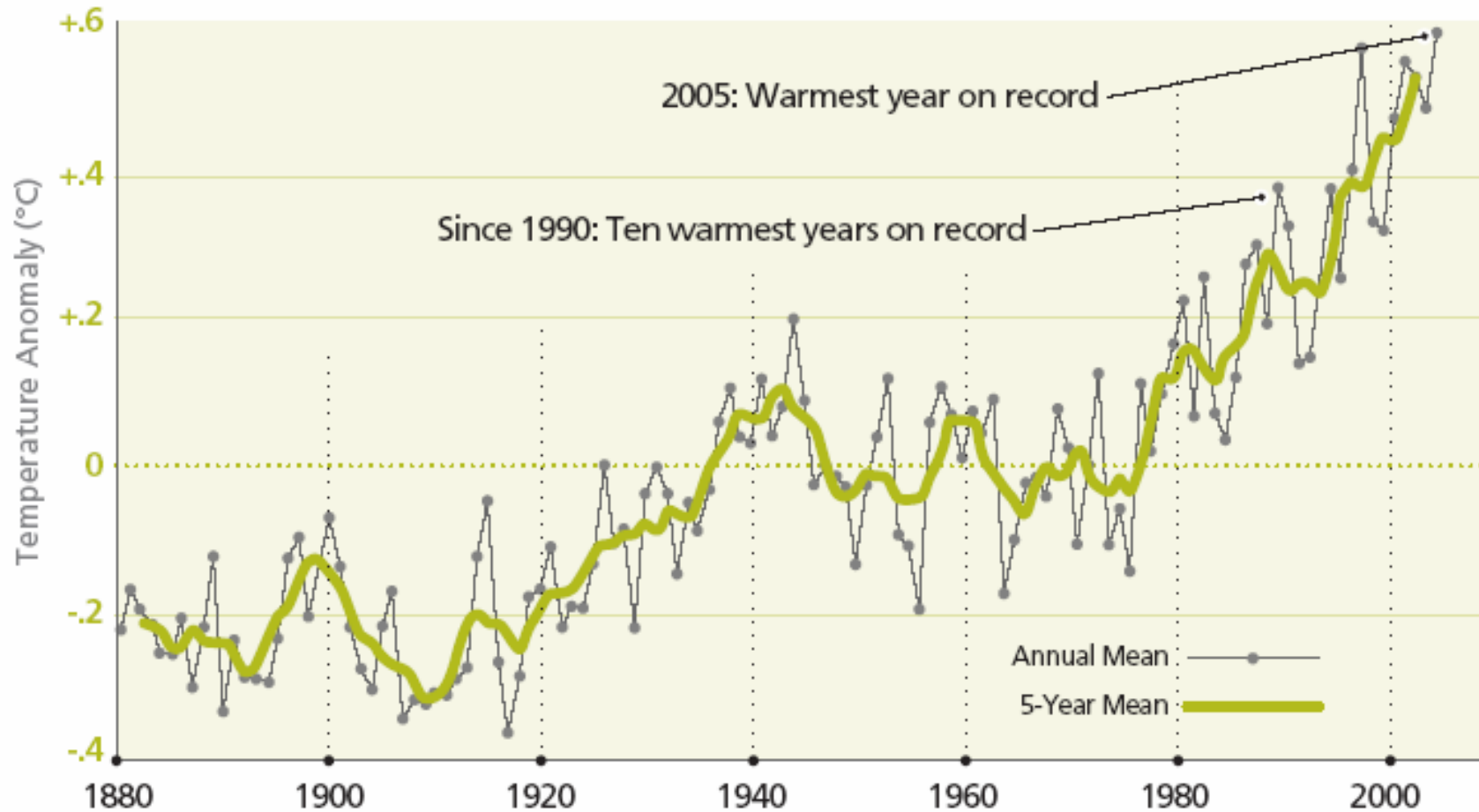
- How advanced is climate change?
- Why is it a strategic imperative for companies and investors?
- What are investors doing about climate risk?
- What are companies doing about climate risk?
- How can investors engage?

How advanced is climate change?

Man-made global warming gases are creating a blanket around the Earth that is warming it dramatically.

- 2005 - warmest year on record
- Nine of the last 10 years have been warmest since 1861.
- Warming has accelerated and boosted Earth's average temperature by nearly 1 degree Fahrenheit since 1976.
- The Arctic is warming twice as fast.
- 20 percent of the summer polar ice cap has been lost since the 1970s.
- If global temperatures increase 10 degrees F by the end of the century, summer polar ice cap could disappear entirely.

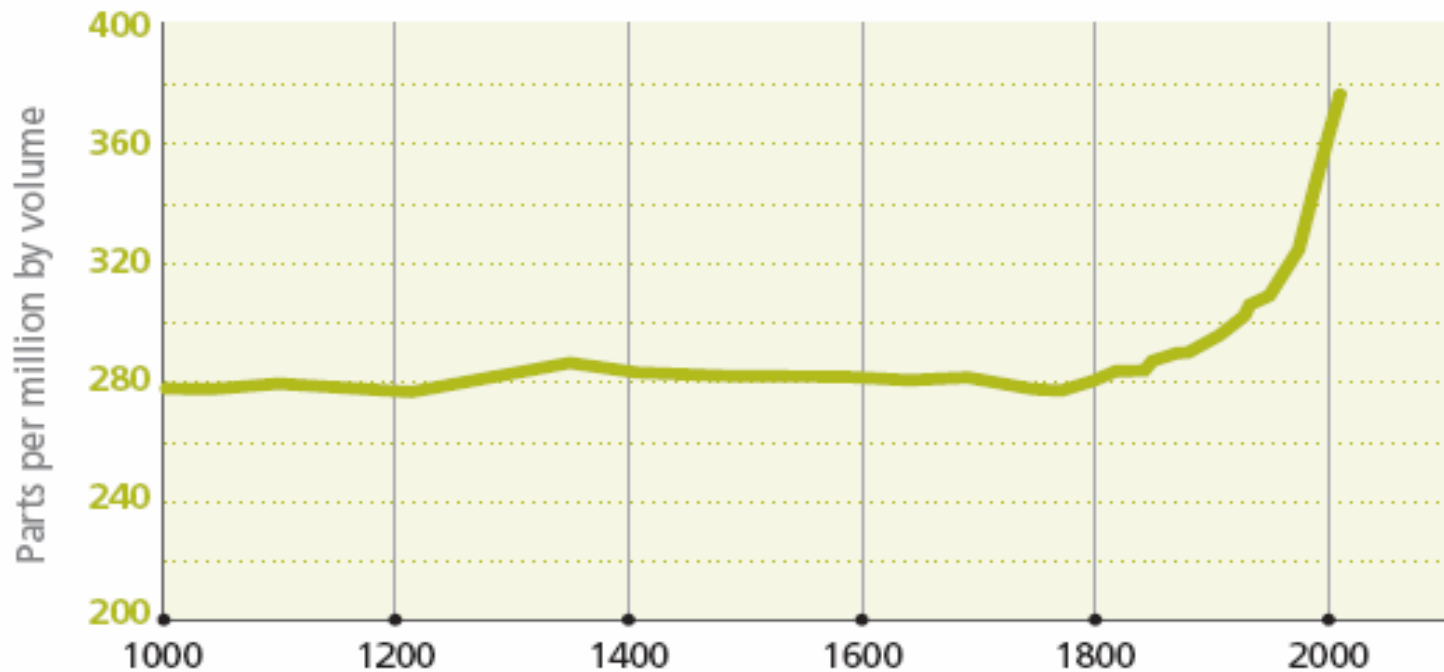
Earth is Warming



Global Temperature: Land-Ocean Index

Source: NASA's Goddard Institute

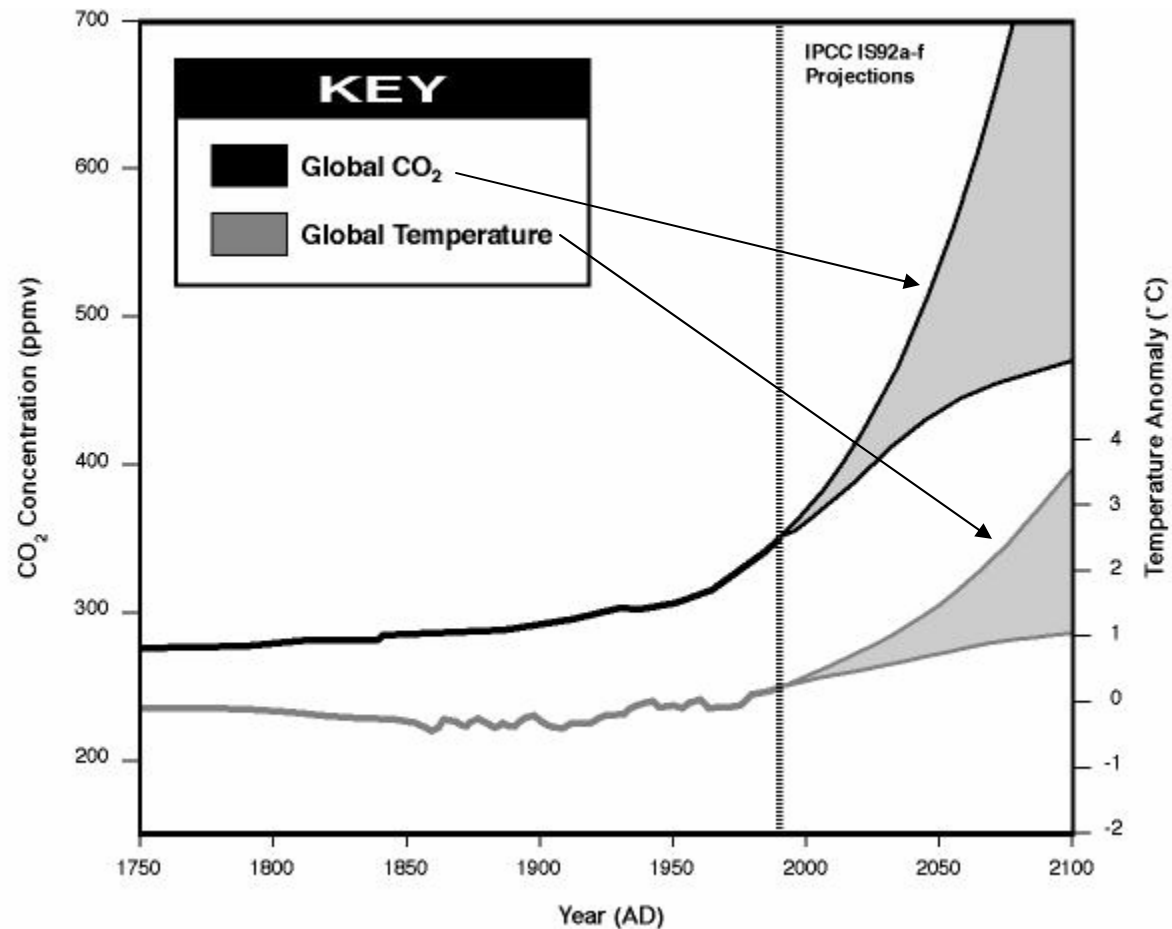
Global Warming Gases Increasing



Atmospheric Concentrations of Carbon Dioxide, 1000–2003

Source: Scripps, ORNL, and IPCC

Projected Earth's Surface Temperature: 1750 to 2100

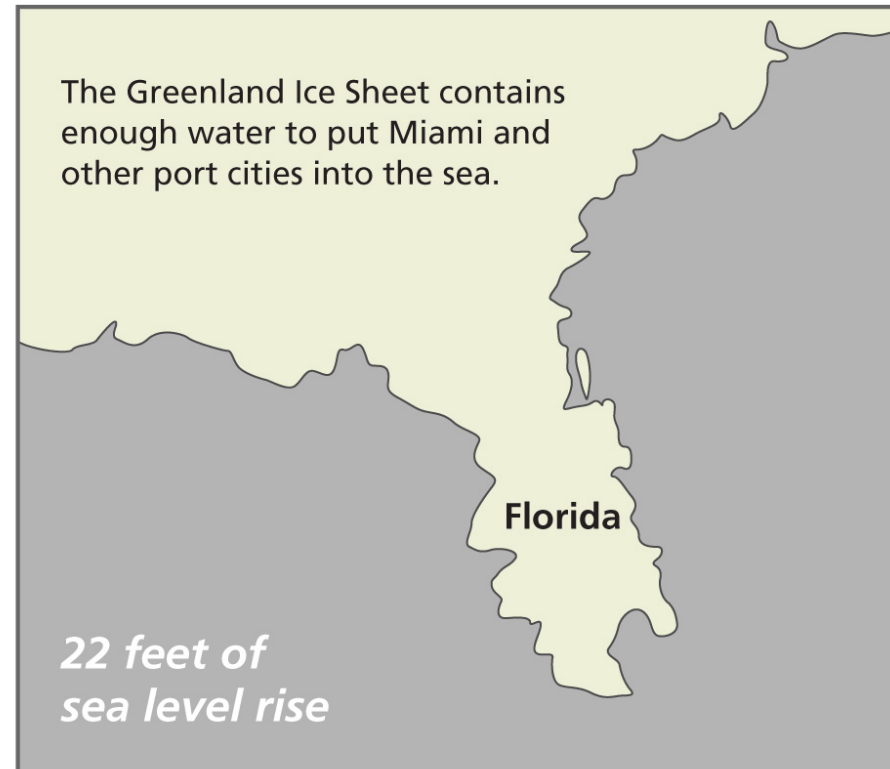


Extreme Changes are Possible

If CO₂ increases four-fold:

- Reductions in moisture of US soil could reach 50-60%, a catastrophe for agriculture.
- Increases of temperature in the US could reach 15-25°F.

(A 5- degree warming by 2100 would be 50 times the rate of warming after the last Ice Age. A 9-degree warming would take the Earth back to levels not seen since the time of dinosaurs some 65 million years ago.)



Seawater Rise Effect on Florida Coast

Source: Richard B. Alley, University of Pennsylvania

Solutions Require Big Energy Shift:

- Addressing climate change requires fundamental change to energy systems
 - Blair – 60% emissions reduction by 2050
 - Six-fold increase in carbon-free energy by 2050
 - 15-fold increase by 2100
- Governments acting
 - EU emissions market - 11,000 facilities traded over \$5 billion in 2005.
 - Kyoto Protocol - Europe, Canada, Japan, Russia
 - California - auto GHG standard
 - Northeast states - power plant standards
 - National and state renewable energy standards

Why is Climate Change a Strategic Imperative?

"...whether or not an individual investor is convinced that anthropogenic, that is, manmade greenhouse gases are leading to changes in the Earth's climate, this issue will have implications for the financial markets and for corporate performance."

-- Goldman Sachs, Portfolio Strategy Report, August 2005

“Corporate boards will be increasingly expected to evaluate potential risks associated with climate change. The frequently cited ‘Enron effect’ will likely result in increased pressure on boards to evaluate potential costs and risks associated with mitigation either of carbon emissions or of the effects of actual climate changes.”

-- The Conference Board, August 2004

Climate Risks and Opportunities

➤ Regulatory Risk: Electric Power Companies

Losses of 24% - 83%* in companies with high-carbon fuel-mixes that have not prepared for future costs of carbon emissions.

--Berstein Research Call. February 17, 2006.

➤ Competitive Risk: US Auto Companies

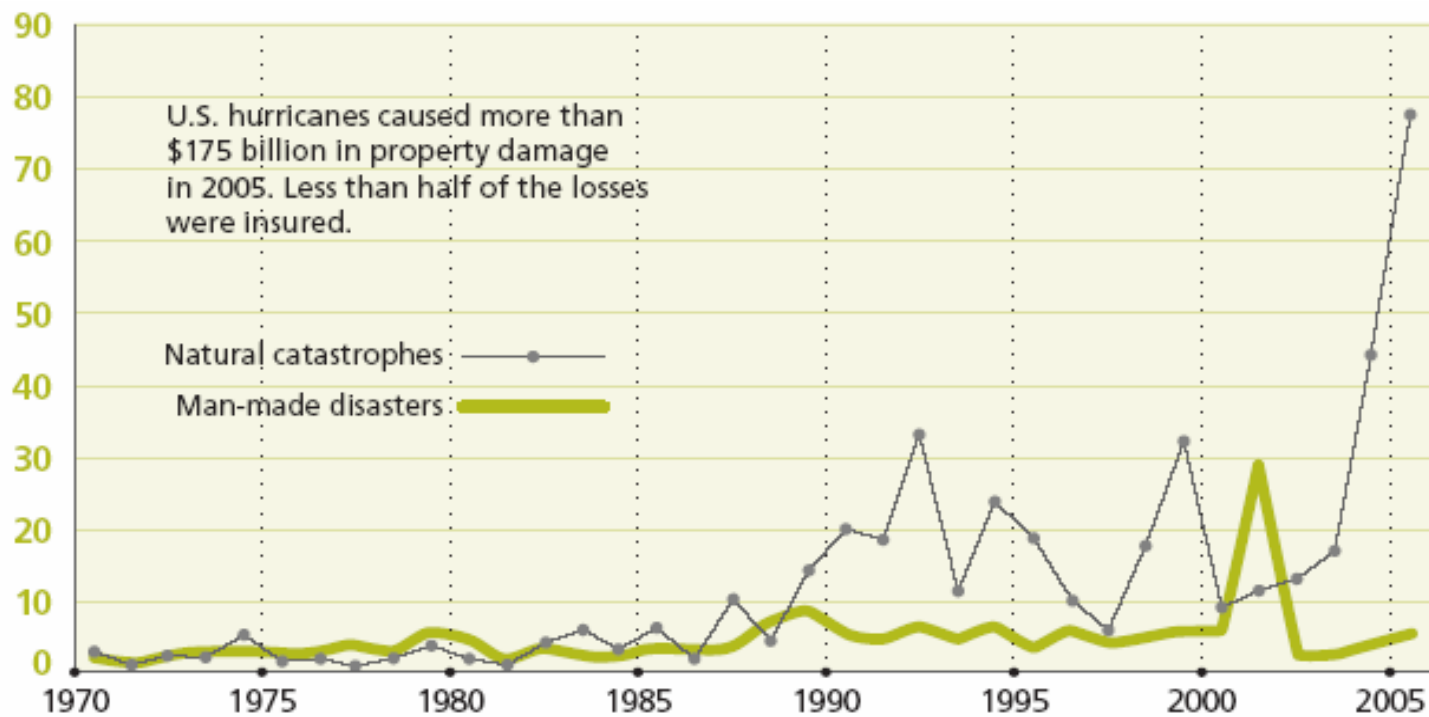
81% of U.S. cars and 86% of light trucks *do not* meet China's 2008 emission standards -- US PIRG

➤ Competitive Opportunities: US Manufacturers

GE - \$20 Billion by 2010 from clean products

*of EBITDA: Earnings Before Interest, Taxes, Depreciation, and Amortization

Insurance Losses Increasing



Insured Losses 1970–2005

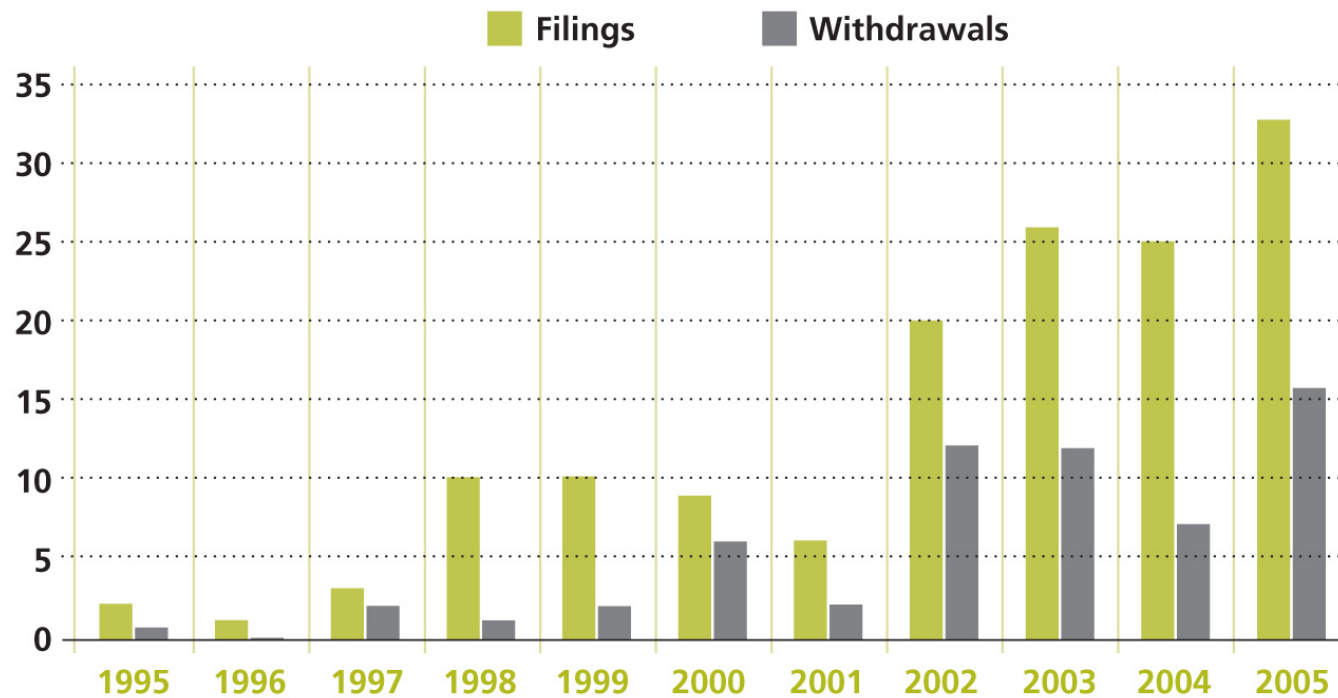
Source: Swiss Re

Investors Action on Climate Risk

Investors have:

- Announced 10 Point Action Plan – May 2005
- Grown Investor Network on Climate Risk 5-fold since 2003; now 50 members \$3 trillion in assets
- Written 50 largest power companies and 30 largest insurance companies seeking disclosure
- Called for SEC to clarify climate risk disclosure requirements
- Surveyed fund managers on climate risk assessment competence
- Written 1900 companies worldwide and S&P500 in U.S. seeking disclosure – Carbon Disclosure Project
- Filed more than 100 shareholder resolutions since 2002

Shareowner Activism on Climate Risk



U.S. Climate Change Shareholder Resolutions, 1995–2005

Corporate Governance and Climate Risk: Making the Connection

- 100 companies now ranked on governance of climate risk
- Doing Well – Chemical, Utility, Auto
- Doing Less Well – Industrial Equipment, Metals and Mining, Forest Products
- Doing Poorly – Oil and gas, coal, food, airlines

Corporate Governance and Climate Risk: Making the Connection

Industry Sector Leaders and Laggards:

<u>Sector</u>	<u>Leaders</u>	<u>Laggards</u>
Oil/Gas	BP (90 points*)	ExxonMobil (35)
Chemical	DuPont (85**)	PPG (21)
Metals/Mining	Alcan (77) & Alcoa (74)	Newmont (24)
Electric Power	AEP & Cinergy (both 73)	Sempra Energy (24)
Auto	Toyota (65)	Nissan (33)

* Top score among the 100 companies

**Top score among 76 U.S. companies

Companies Focusing on Climate Risk

- Disclosure - First Energy, Progress, DTE, Great Plains Energy, Alliant, Ford
"We see climate change as a business issue as well as an environmental issue and we're accelerating our efforts to find solutions. Addressing this issue will require collaborative action across all sectors of our society and I'm committing Ford Motor Company to do its part." — Bill Ford
- Climate policy statements from JP Morgan Chase, Goldman Sachs
"Goldman Sachs is very concerned by the threat to. . . the economy presented by climate change and believes that it requires the urgent attention of and action by governments, business, consumers and civil society to curb greenhouse gas emissions."
- Business leaders acknowledge climate change as a business issue
"As we make business decisions about investing in assets with a 40-year life, **we are assuming that the world will collectively address climate change during that time.**" — Michael Morris, CEO of AEP

Emphasis added

How can investors engage?

- Join Investor Network on Climate Risk
- Examine climate risk across portfolio
- Pursue clean investment opportunities
- Re-examine proxy voting guidelines
- Encourage best practice from portfolio companies and fund managers
- Engage SEC to promote better disclosure

For More Information

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Investor Network on Climate Risk

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