

# Ceres, GRI and Climate Risk

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NEWMOA

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# Ceres... A Network for Change

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- ✍ A *coalition* of more than 80 investment funds, environmental organizations, and other public interest groups working together for a sustainable future
- ✍ A *network* of more than 70 corporate endorsers representing diverse industries & businesses
- ✍ The *leader* in standardized corporate reporting on environmental performance
- ✍ The *founder* of the Global Reporting Initiative (GRI)
- ✍ The *creator and convener* of the Investor Network on Climate Risk (INCR)



# Selected Coalition Members

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- ✍ AFL-CIO
- ✍ Calvert Group
- ✍ Connecticut State Treasurer's Office
- ✍ Conservation Int'l
- ✍ Co-op America
- ✍ Environmental Defense
- ✍ Friends of the Earth
- ✍ Interfaith Center on Corporate Responsibility
- ✍ ISIS Asset Management
- ✍ National Wildlife Federation
- ✍ Natural Resources Defense Council
- ✍ New York City Comptroller's Office
- ✍ Social Investment Forum
- ✍ Social Accountability Int'l
- ✍ Union of Concerned Scientists
- ✍ Walden Asset Management
- ✍ World Wildlife Fund



# Selected Endorsers

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- ✍ American Airlines
- ✍ Aveda Corp.
- ✍ Bank of America
- ✍ Baxter International
- ✍ Ben & Jerry's
- ✍ Coca-Cola
- ✍ Con Edison
- ✍ Ford Motor Company
- ✍ General Motors Corp.
- ✍ Green Mountain Energy
- ✍ Interface, Inc.
- ✍ ITT Industries, Inc.
- ✍ Nike
- ✍ Northeast Utilities
- ✍ PPL Corporation
- ✍ Pinnacle West
- ✍ Sunoco, Inc.
- ✍ The Timberland Company
- ✍ YSI. Inc.



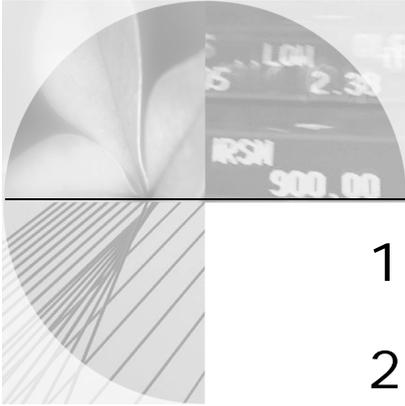
# Mission & Beliefs

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**Mission** - to move businesses, capital, and markets to advance lasting prosperity by valuing the health of the planet and its people.

## **Beliefs**

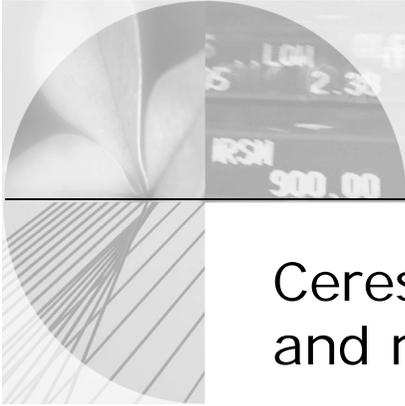
- What gets *measured* gets *managed*
- Disclosure and dialogue build trust and credibility
- Diversity is strength—multiple perspectives and interests can create better and longer-lasting solutions than unilateral action



# Ceres Principles

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1. Protection of the Biosphere
2. Sustainable Use of Natural Resources
3. Reduction and Disposal of Wastes
4. Energy Conservation
5. Risk Reduction
6. Safe Products and Services
7. Environmental Restoration
8. Informing the Public
9. Management Commitment
10. Audits and Reports



# The Global Reporting Initiative

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Ceres created the Global Reporting Initiative (GRI) and remains its key ally in North America.

The GRI is:

- ✍ Elevating corporate sustainability reporting practices to a level equivalent to financial reporting
- ✍ Designing a standardized reporting guideline reflecting the three dimensions of sustainability: *environmental, economic, and social*
- ✍ Ensuring a permanent and effective institutional host



# Sustainable Governance Project

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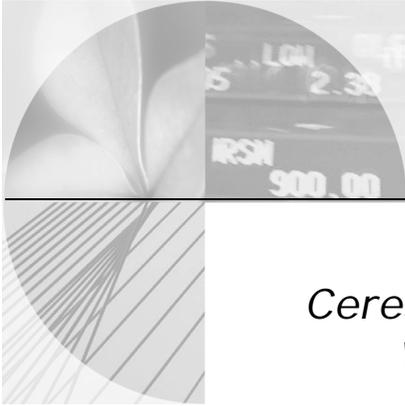
**Underlying premise:** To properly oversee large global businesses, CEOs, boards, and the financial community must:

- ↳ understanding key questions of sustainability, such as climate, energy, water, biodiversity, inequality
- ↳ setting goals and measuring outcomes
- ↳ disclosing the results through an international standard verified by third parties

Failure to do so exposes firm to unnecessary risk

***In 21st century, good governance includes***

***A strategic approach to sustainability***

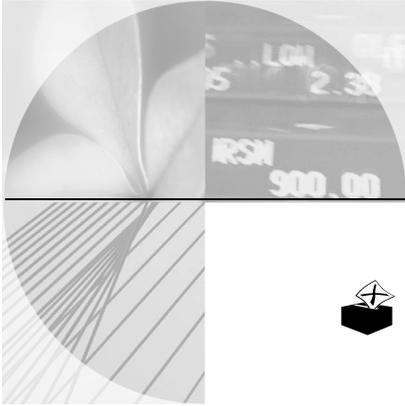


# Sustainable Governance and Long-term Value

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*Ceres works with allies in the financial and corporate worlds who are naturally concerned with long-term value.*

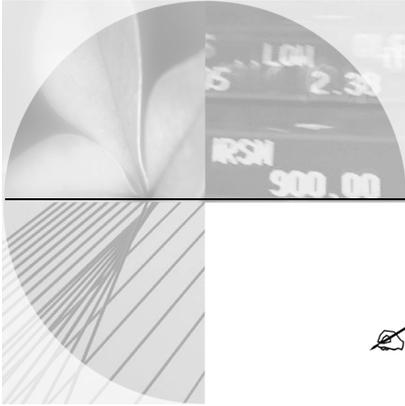
- ✍ **Institutional Investors** - Those investing for retirement funds are concerned with 20 -30 year horizons.
- ✍ **Corporate Mgmt. & Boards** - Companies are more aware of their duty to anticipate and act on “off balance sheet” risks and opportunities. Boards also often have outside experience that can give them a broader perspective.
- ✍ **Analysts** - Some analysts, like those who rate bonds, are beginning to understand the connection between corporate actions on sustainability issues and long-term competitive positioning.



# Ceres-IRRC Report: Corporate Governance & Climate Change

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- ❖ Key question: How are the largest corporate emitters factoring climate change into their governance practices?
- ❖ Three layers of investigation: board oversight, management accountability and stakeholder disclosure.
- ❖ Key objective: Find prudent strategies to protect shareholder value... *and the planet for future generations.*

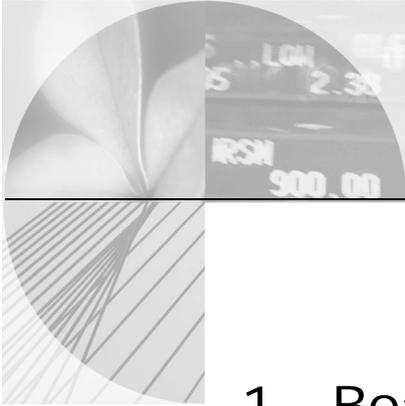


# Profiled Companies

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- |                   |                       |
|-------------------|-----------------------|
| ✍ AEP             | ✍ General Electric    |
| ✍ Alcoa           | ✍ General Motors      |
| ✍ BP              | ✍ Honda Motor         |
| ✍ ChevronTexaco   | ✍ IBM                 |
| ✍ Cinergy         | ✍ International Paper |
| ✍ ConocoPhillips  | ✍ Royal/Dutch Shell   |
| ✍ DaimlerChrysler | ✍ Southern Co.        |
| ✍ DuPont          | ✍ Toyota Motor        |
| ✍ ExxonMobil      | ✍ TXU                 |
| ✍ Ford Motor      | ✍ Xcel Energy         |

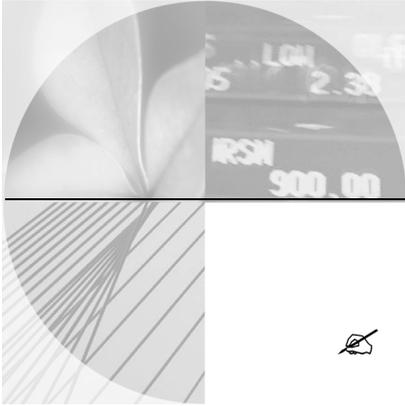
**Profiled Companies = 15% of Global CO<sub>2</sub> Emissions**



# Climate Change Governance 14-Point Checklist

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1. Board oversight
2. Board climate review
3. Chain of command
4. Executive compensation
5. CEO leadership
6. 10-K disclosure
7. Sustainability report
8. Emissions offsets
9. Recent inventories
10. Historical baselines
11. Future targets
12. 3rd party certification
13. Emissions trading
14. Renewable energy



# Institutional Investor Summit on Climate Risk

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- ✍ 240 Investors at UN Headquarters in November 2003
  - ↳ \$3 trillion represented
  - ↳ 46 conveners, fiduciaries of > \$ 1 trillion
- ✍ Speakers: Kofi Annan, Dr. John Holdren, Leon Panetta, Al Gore, Abby Joseph Cohen, John Coomber
- ✍ Co-Chaired by Timothy Wirth and Denise Nappier
- ✍ Leon Panetta - *Every* fiduciary should ask: "Under what circumstances and to what degree will my portfolio be affected by climate risk?"
- ✍ Investor Call for Action on Climate Risk
- ✍ Investors formed Investor Network on Climate Risk (INCR) - Ceres is secretariat



# Investor Call for Action on Climate Risk

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## **Signers:**

- ↳ State Treasurers (CA, CT, MD, ME, NM, OR, VT)
- ↳ State and City Comptrollers: New York State, NYC
- ↳ Labor: AFSCME, CWA/ITA, SEIU, Teamsters

## **10-Point Action Plan - Summary:**

- ↳ SEC: Require climate risk disclosure and protect shareholder rights to file climate resolutions
- ↳ Corporate Boards: Insist that management report climate risk information to shareholders
- ↳ Investment Managers: Analyze climate risk
- ↳ Institutional Investors: Adopt proxy voting guidelines supporting climate risk disclosure
- ↳ Government: Congress, Executive Branch, states

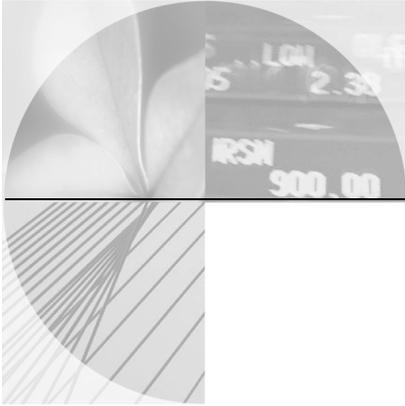


# Fiduciary Duty and Climate Risk

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Companies and investors may be affected financially by climate risk - 5 types of risk:

1. **Regulatory Risk** - complying with regulatory requirements (e.g. EU 2005 regulations, or northeast states cap-and-trade) to reduce greenhouse gas emissions, or failing to earn credits associated with emissions reductions.
2. **Physical Risk** - physical effects of climate change (e.g. forests, water, insurance, agric.)
3. **Reputation Risk** - e.g. ExxonMobil
4. **Competitiveness Risk** - e.g. automakers
5. **Litigation Risk** - Climate change lawsuit



## Regulatory risk: AEP

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“We don’t expect Kyoto timeframes to be enforced in the United States but we do expect international consensus on this issue [carbon dioxide emissions] will prevail in the United States.”

—*Susan Tomasky, Chief Financial Officer, American Electric Power*



## Litigation risk: Swiss Re

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“In Mr. [Chris] Walker's view, directors and officers could face legal liability if they fail to act early to reduce their companies' greenhouse-gas emissions, exposing their companies to higher catch-up costs for factory overhauls or emissions credits once government mandates take effect.

—*Wall Street Journal*, 5/7/03



# Recent Investor Actions on Climate Risk

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- ✍ Global Warming Shareholder Campaign
  - ↳ Big investors - NY State files first climate resolution ever
  - ↳ Victories with 5 electric power companies
  - ↳ Highest votes ever: Apache (37%); Anadarko (32%)
- ✍ Environmental Investing
  - ↳ CalPERS approved 2 environmental investing initiatives
  - ↳ Other states interested in replicating CA "Green Wave"
- ✍ SEC Climate Risk Campaign
- ✍ Ceres Investor-Electric Power Dialogue
- ✍ Carbon Disclosure Project
- ✍ Engagement with University Endowments
- ✍ Building a Global Investor Network on Climate Risk (Linkages already with EU, Canada, UNEP-FI)



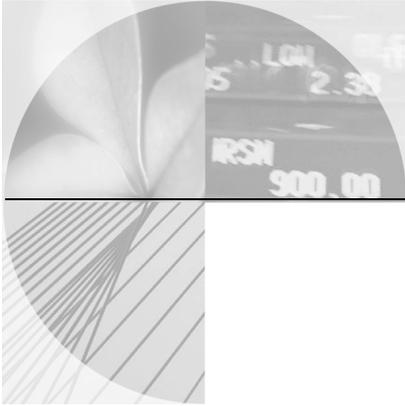
# Investor Action: California

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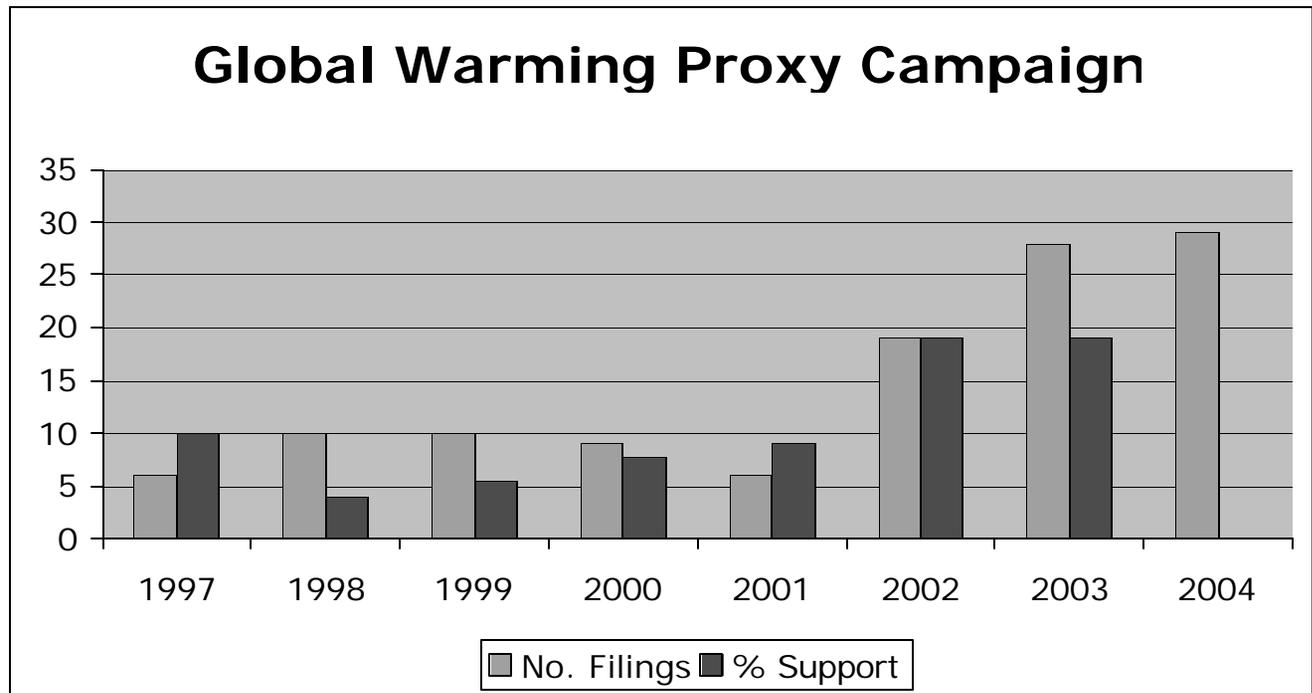
Following Summit, California State Treasurer Phil Angelides announced the “environmental *Green Wave* initiative.”

“The four-pronged initiative calls on the State’s two large public pension funds – [CalPERS and CalSTRS] – to marry the jet stream of finance and capital markets with public purpose by committing \$1.5 billion to investments in cutting-edge technologies and environmentally responsible companies.”

CalPERS has already adopted 2 of the recommendations



# Investor Concern: Proxy Votes





# Resolutions 2004 - Electric Power

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## ✍ Agreements

↳ AEP, Cinergy, Southern, TXU, Reliant

## ✍ Commitment

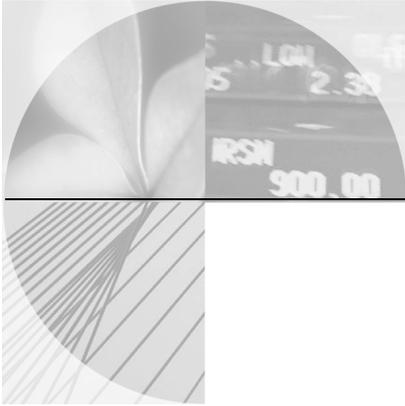
↳ comprehensive disclosure of risks and opportunities that climate change presents

↳ assessment at board level - committee of independent board members

## ✍ Conclusions

↳ Climate change is a material risk

↳ Climate change is an issue of corporate governance



# AEP Emissions Assessment Report

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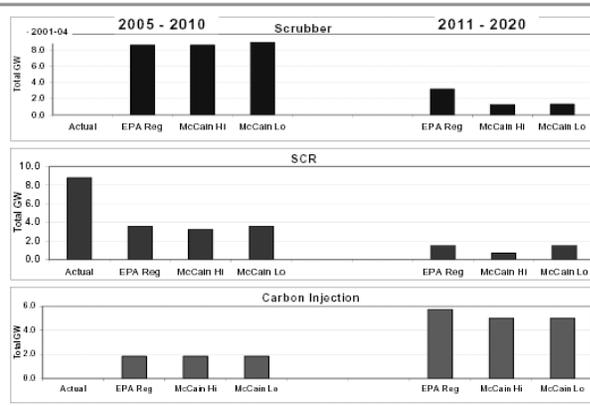
**“We share your position that management and the Board have a fiduciary duty to carefully assess and disclose to shareholders appropriate information on the company’s environmental risk exposure.”**

# Regulatory Risk: AEP

## Assessment of AEP's Actions to Mitigate the Economic Impacts of Emissions Policies

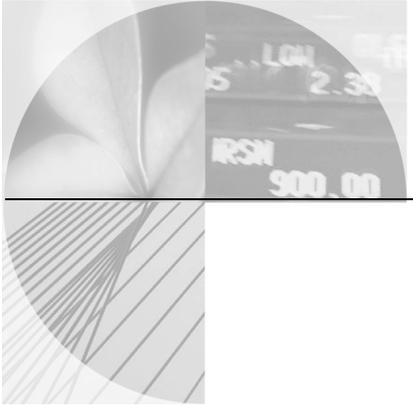
Economic Impacts of Emissions Policies  
August 31, 2004

### AEP Major Pollution Control Retrofits



AEP AMERICAN  
ELECTRIC  
POWER

**“Large-scale investments in pollution control can only be undertaken prudently if there is little risk of such investments becoming “stranded” by future environmental or economic mandates, including carbon constraints.” -- Aug. 31, 2004**



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QuickTime™ and a  
TIFF (LZW) decompressor  
are needed to see this picture.

- ✍ **The current regulatory uncertainty has made it difficult to plan capital expenditures that will bring the company into compliance with environmental requirements while also serving customer needs**
- ✍ **A long-term, multi-emissions bill would take the unnecessary uncertainty out of national environmental policy**
- ✍ **Carbon controls are inevitable and a “well constructed policy that gradually and predictably” reduces greenhouse gas emissions can be managed “without undue disruption to the company or the economy.”**



# Electric Power/Investor Dialogue

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In **Phase I**, Ceres convened 8 large electric companies, several major investors and environmental experts to issue consensus recommendations on climate change. The group agreed to:

- ↳ A national mandatory cap on CO<sub>2</sub>
- ↳ Increased disclosure of climate risk
- ↳ Support for a national renewable energy standard
- ↳ Increased investment in clean technologies

In **Phase II**, Ceres has broadened the group and is focused on:

- ↳ Best practices on financial mgmt. of climate change
- ↳ Methodology for assessing climate risk for the sector

# Conclusion

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*"We have the know-how and technology to address climate risk, and we can do so while enhancing investment returns. But what we need today is the other important ingredient: leadership. We need investors, we need companies and we need policy makers to stand up and be counted."*

-- Sean Harrigan, Board President, CalPERS

Speech at Ceres Conference on April 15, 2004

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