

OPINION Tuesday, May 10, 2005

Climate change has risks for investors

As a member of the three Vermont retirement system boards representing some \$2.4 billion in pension funds, I am deeply committed to encouraging the companies we invest in to tackle the issue of climate change and to reduce the impact of such change on their bottom lines. Climate change threatens both the financial returns of these companies and the performance of the Vermont and U.S. economies as a whole. Disclosing those financial risks today is a key aspect of good corporate governance, as it allows investors and owners to understand the risks, and holds management accountable for minimizing their impact.

A lack of disclosure and action by companies today will only increase the costs to address the issue down the line. That is why the Investor Network on Climate Risk (INCR), a group of major U.S. pension and investment funds with over \$2.7 trillion in assets and of which I am a founding member, has filed shareholder resolutions this year with dozens of the nation's largest U.S. companies asking them to assess the impact of climate change and new and proposed greenhouse gas regulations on their financial performance.

To boost Wall Street's focus on this issue, the Investor Network on Climate Risk, in partnership with the United Nations, is hosting a second Institutional Investor Summit on Climate Risk at the United Nations in New York today. This summit provides a high-level forum for leading institutional investors to discuss risks and opportunities and to develop necessary responses. Participation by over a dozen state treasurers and comptrollers, including me, illustrates the broad concern among investors about the financial impacts of climate change.

When the Kyoto Protocol took effect in mid-February 2005, dozens of industrialized countries around the world took a historic first step to tackle global climate change. The European Union introduced quotas and trading on greenhouse gas emissions in January, and other countries that ratified the protocol, including Canada, Japan and Russia, are now following that lead.

While the United States government declined to ratify Kyoto, global companies based in the U.S. have no choice but to join the carbon-reducing movement. Whether it's GM cars in Canada or Alcoa aluminum in Europe, the carbon footprint from making and using their products is becoming an increasingly important factor for U.S. businesses competing overseas. Companies that fail to manage this carbon exposure in the coming years face enormous financial risks.

Last year, shareholder resolutions resulted in dramatic progress. American Electric Power and Cinergy, two of the nation's largest carbon emitters, both assessed and disclosed aspects of their financial risks and exposure related to climate change and regulatory uncertainty. This year, investors are turning their attention to firms that have been slower to respond -- ExxonMobil, Dominion Resources and General Motors, to name a few. These companies need to tell investors, and their current shareholders in particular, just what climate change and carbon controls will mean to their bottom lines and explain what they are doing to mitigate potential costs and losses.

The trustees of the Vermont State Employees' Retirement System and Vermont State Teachers' Retirement System have agreed to consider a small investment allocation to a money manager investing in companies employing sound environmental strategies. The objective would be to reduce risk to the state's portfolios and to capture market opportunities. Any manager selected will be expected to meet the same standards and performance benchmarks as all other managers in the same asset class.

If we fail to seize this moment, the economic consequences could be severe. The message is clear. In the absence of leadership at the national level, it falls to state leaders, business leaders, and financial fiduciaries to push for change and accountability. Action on climate risk is needed today if financial and environmental consequences are to be avoided tomorrow.

Jeb Spaulding is the Vermont state treasurer.