

My Turn: Climate change has risk, opportunity

By Jeb Spaulding

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A popular commercial for a well-known credit card company asks, "Do you know what's in your wallet?" Responsible investors must ask a similar question: Do you know what risks and opportunities are lurking in your portfolio? You may be surprised to learn that global climate change is one of the biggest risks and biggest opportunities in our portfolios and for the economy. That is why I have joined a growing community of institutional investors representing \$4 trillion in assets to call on Washington to get serious about this issue.

From an investment perspective, it is now beyond doubt that climate change is real. The economic risks are significant, and almost no sector of the economy will be immune. Electric power companies, oil producers, and automakers all face high risks from emerging regulations aimed at reducing global warming pollution and from European and Japanese competitors who are already developing products for their low-carbon economies.

Climate change also presents a huge opportunity for U.S. investors who buy into the best technological innovations such as renewable energy, bio-based fuels, carbon-capture, and hybrid vehicles. Innovation and market development on this scale, however, will require enormous amounts of capital. And investors tend to weight their equity portfolios toward companies focused on succeeding in stable and predictable markets, not on those making large gambles on doubtful, uncertain regulatory landscapes.

The present lack of a coherent, comprehensive U.S. strategy for addressing climate change is hindering the ability of American businesses to invest and innovate. Once this country knows what the regulatory playing field looks like -- once targets are established for greenhouse gas emissions, and greater incentives are in place to encourage development of clean technologies -- the untapped ingenuity of American enterprise will emerge, profits will be made, and new jobs for Americans will follow.

A national climate change policy with specific, mandatory limits on carbon emissions is good economic policy. That is why I, as the Vermont state treasurer, joined recently with 65 of America's leading corporations and investors managing \$4 trillion in assets urging strong federal legislative and regulatory action on climate change. Our group includes Merrill Lynch, BP America, National Grid, Green Mountain Power, and Green Mountain Coffee, as well as leading pension

funds in California, New York, North Carolina, Kentucky, Connecticut, and Massachusetts. Increasingly, when pension funds evaluate the companies we may invest in, we are asking tough questions about whether and how management is hedging the risks of climate change and preparing to operate in a carbon-constrained economy. We look for companies where the CEO and other top managers, and the board of directors, have made managing climate change risk a top priority. And we look for companies that are poised to lead the way in the development of clean technologies.

As a matter of national economic health, our group has called on Congress to take prompt action to:

Establish a mandatory national policy to contain and reduce national greenhouse gas emissions with targets of 60 to 90 percent reductions below 1990 levels by 2050, a benchmark that scientists and climate models suggest are urgently needed. We believe this goal can be established using market-based mechanisms that will create an economy-wide carbon price.

Realign national energy and transportation policies to stimulate research, development, and deployment of new and existing clean technologies on a scale necessary to reduce greenhouse gas emissions, and eliminate incentives for technologies that exacerbate climate change, such as tax breaks for oil and gas development.

Require guidance from the Securities and Exchange Commission and other financial regulatory bodies on what material issues related to climate change companies should disclose in their regular financial reporting. Investors need disclosure of climate-related risk to make smart decisions.

Voluntary measures do not provide enough certainty for business to make needed investments. Only our national government has the power to create the incentives and clear market signals necessary to ensure a smooth transition to a low-carbon future. To unleash American progress and innovation, we need a mandatory national policy that dramatically reduces greenhouse gas emissions, and we need it now.

Jeb Spaulding is the state treasurer.