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OP-ED ARTICLE

Jeb Spaulding, Vermont State Treasurer
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The Business of Climate Change

No longer is global warming merely a scientific issue. More and more state treasurers, pension fund managers, and other investors believe that climate change is now a major economic issue to which all US companies should be responding. Climate change threatens both the financial returns of the companies we all invest in and the performance of state and US economies as a whole. That is why, as Vermont's State Treasurer, I value my participation in the Investor Network on Climate Risk, a group of more than 50 institutional investors that collectively manage more than \$3 trillion in assets.

Just as thousands of scientists around the world have come to confront the complexities and environmental threats to the planet from climate change, businesses are beginning to understand the financial risks and opportunities from a warming world. Many have already taken action. Last year, global renewable energy investments hit another record high, eclipsing \$40 billion. The Kyoto Protocol is leading dozens of industrialized countries – and their businesses – to find ways to reduce pollutants that are trapping heat in the atmosphere. The international treaty has spawned a new carbon cap-and-trade program in Europe that rewards companies for reducing emissions. More than 230 million tons of carbon dioxide (CO₂) was traded in the first year, with a value of more than \$5 billion.

While the United States government declined to ratify Kyoto, global companies based in the US have no choice but to join the carbon-reducing movement. Whether it is 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 US businesses competing overseas.

Greenhouse gas regulations may also pose financial risks for US companies. A dozen US states are moving to curb greenhouse emissions from automobiles and power plants. Power plant limits are an especially big concern to shareholders of companies like American Electric Power and the Southern Company that burn vast amounts of coal to generate most of their power. And with 140 new coal-fired power plants currently proposed in the US, many other companies will be assuming new climate risks as well.

But global warming also creates vast opportunities for profitable innovation. Companies such as DuPont and Goldman Sachs are investing billions of dollars in biofuels and other renewable technologies that will thrive in the coming carbon-constrained global economy. General Electric has

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more than a dozen clean technology products on the market already and forecasts a doubling in sales from these products, to \$20 billion a year, by 2010.

Companies that fail to manage this carbon exposure in the coming years face enormous financial risks. Although business leaders manage off-balance-sheet risks every day, climate change poses an especially big challenge due to the current uncertainty about future greenhouse gas regulations and the extent of the physical impacts. What assurances do investors have that the companies they invest in are positioned for the opportunities and risks from climate change?

continued

A good tool investors can use in assessing companies is a new report by Ceres and the Investor Responsibility Research Center. The report, *Corporate Governance and Climate Change: Making the Connection*, uses a 100-point scoring system to assess how 100 leading companies are addressing climate challenges through board oversight, management performance, public disclosure, greenhouse gas emissions accounting, and strategic planning. The report shows that US companies in many key industries are now facing the climate challenge head-on. Unfortunately, this report also shows that most American businesses still lag behind their international peers on the issue – a trend that is making them less competitive and nimble as the global economy shifts to climate-friendly technologies such as hybrid vehicles and renewable fuels. I encourage you to access the report at www.ceres.org and get involved in the paramount issue of our times.

All investors and analysts should have confidence that the companies in their portfolios are preparing and positioning themselves to face future business challenges and opportunities. Climate change should be no exception.

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