

# CSR, Corporate Governance and Climate Change

Presentation to  
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Andrew Logan  
Program Manager, Ceres  
[logan@ceres.org](mailto:logan@ceres.org)

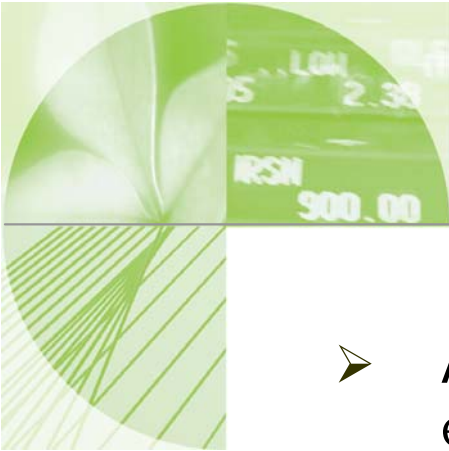


# Ceres' Mission

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Ceres is a coalition of investment funds, environmental organizations, and other public interest groups.

Our mission is to move businesses, capital, and markets to advance lasting prosperity by valuing the health of the planet and its people.



# Ceres... A Network for Change

- 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)



# Ceres Coalition - Investors

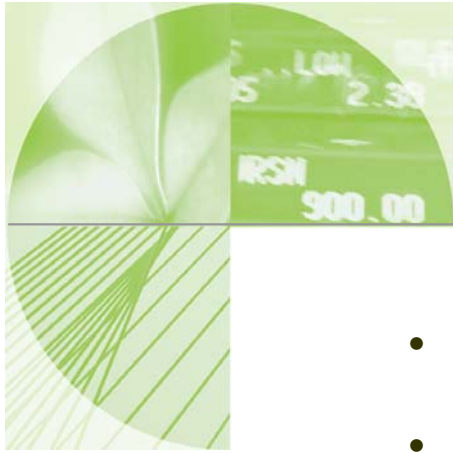
- AFL-CIO
- Calvert Group
- Interfaith Center on Corporate Responsibility (church pension funds)
- Citizens Funds
- Domini Social Investments
- ISIS
- New York City Employee Retirement System
- Presbyterian Church USA
- Social Investment Forum
- State of Connecticut Treasurer's Office
- State of New York Comptroller's Office
- Trillium Asset Management
- United Methodist Church
- Walden Asset Management



# Ceres Coalition - Environmental

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- Conservation International
- Environmental Defense
- Friends of the Earth
- National Wildlife Federation
- Natural Resources Defense Council
- Sierra Club
- Union of Concerned Scientists
- 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.



# The Global Reporting Initiative

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

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

- ↻ Understand key questions of sustainability, such as climate, energy, water, biodiversity, inequality
- ↻ Set goals and measure outcomes
- ↻ Disclose results through an international standard verified by third parties

Failure to do so exposes the firm to unnecessary risk

***In the 21st century, good governance includes a strategic approach to sustainability***





# Sustainable Governance and Long-term Value

*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 Management & Boards** - Companies are more aware of their duty to anticipate and act on “off balance sheet” risks and opportunities. Boards often have outside experience that can give 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.



# Weather Has Our Attention

**“Feroocious Hurricane Punishes the Gulf Coast”**

*-- New York Times, Sept. 16, 2004*





# Signs of Climate Change Are Clear

## National Geographic Cover Story



**“Global Warning,” September 2004**

# The Stakes Are Getting Higher

## OUR CHANGING PLANET

The U.S. Climate Change Science Program  
for Fiscal Years 2004 and 2005



A Report by the  
Climate Change Science Program and  
the Subcommittee on Global Change Research

A Supplement to the President's Budgets for Fiscal Years 2004 and 2005

“Decisionmaking is challenged by uncertainties including **risks of irreversible and/or non-linear changes that may be met with insufficient or excessive responses whose consequences may cascade across generations.** The difficulties associated with uncertainty have become increasingly salient given the interest of policymakers in addressing global environmental change.” -- *August 2004*



# Fiduciary Duty and Climate Risk

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*"Business as Usual" actually carries significant risk.*

**Physical** risk from climate change

+

**Policy** risk from future regulation

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**Competitive** risk

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= Climate change is a **major and urgent fiduciary duty** for directors, executives, investors and asset managers



# Policy Risk

## **BusinessWeek - August 16, 2004**

- "We accept that the science on global warming is overwhelming," "There should be mandatory carbon constraints." -- John W. Rowe, CEO of Exelon Corp.
- "We felt it was inevitable that we were going to live in a carbon-constrained world," -- Dale Heydlauff, AEP
- "Give us a date,tell us how much we need to cut, give us the flexibility to meet the goals,and we'll get it done," -- Wayne Brunetti, CEO, Xcel



## Conference Board - August 2004 Executive *Action* Report

- Science is unlikely to provide unequivocal answers. However, scientific consensus that the climate is changing is growing steadily stronger over time.
- Governments and markets are likely to act on their perception of the science. Increasingly, this perception is swinging toward a belief that climate change is an urgent priority that must be addressed through a variety of measures.



# Competitiveness Risks and Opportunities

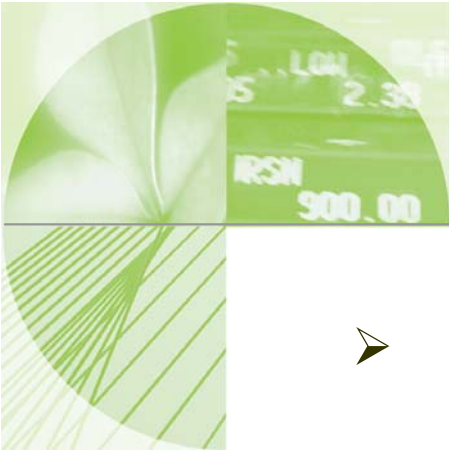
## Conference Board - August 2004 *Executive Action Report*

- 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 global economy will become less carbon-intensive overtime. The carbon-based energy mix will change and alternatives will increase. The real questions are what the pace of the transition will be and who will be the winners and losers.



# Physical Risk

- Weather related catastrophes topped \$55 billion in 2003.
- Annual toll estimated to reach \$150 billion by 2015.
- The French insurance company AXA estimates that about 20 percent of global GDP is now affected by climatic events and that, "climatic risk in numerous branches of industry is more important than the risk of interest rates or foreign exchange risk."



# Legal Risk

- Attorneys general from eight states have filed a public nuisance lawsuit demanding that Cinergy, American Electric Power Co., Southern Co., Xcel Energy Inc. and the Tennessee Valley Authority reduce carbon dioxide emissions 3 percent per year each of the next 10 years.
- “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.

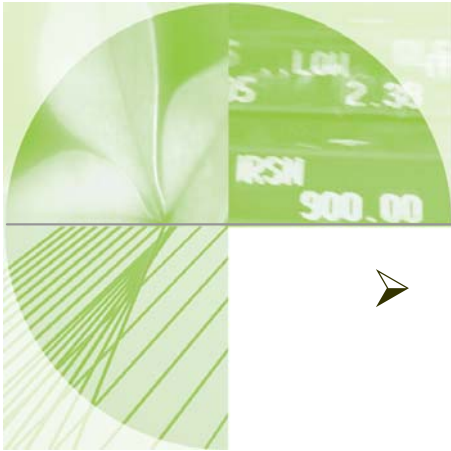
—*Wall Street Journal*, 5/7/03



# Major Investors are Taking Action

Recent investor actions on climate change include:

- Global Warming Shareholder Campaign
  - ↯ Big investors - NY State files first climate resolution ever
  - ↯ Settlements with 5 electric power companies
  - ↯ Highest votes ever: Apache (37%); Anadarko (32%)
- Environmental Investing
  - ↯ CalPERS and CalSTRS “Green Wave”
- CERES Investor-Electric Power Dialogue
- SEC Climate Risk Campaign
- Client Engagement with Consultants and Money Managers
- Carbon Disclosure Project
- Building a Global Investor Network on Climate Risk (Linkages already with EU, Canada, UNEP-FI)



# Institutional Investor Summit on Climate Risk

- 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
- **Next Summit: May 2005**



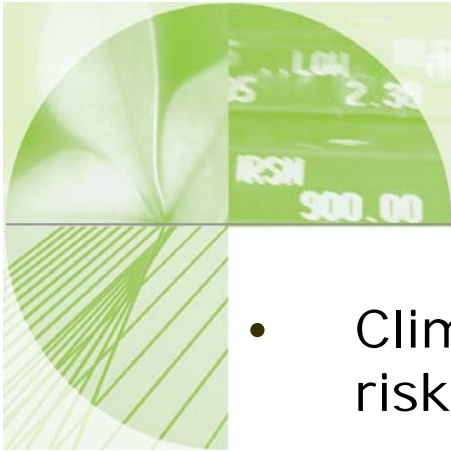
# Investor Call for Action on Climate Risk

## ➤ **Signers:**

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

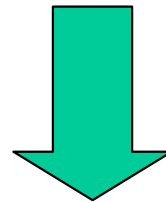
## ➤ **10-Point Action Plan - Summary:**

- ↯ 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



# Investors Want Better Disclosure

- Climate change is one of the most significant long-term risks facing industry
- Several leadership companies have relatively well-articulated plans for managing this risk
- Laggard companies are either ignoring the issue, or have done a poor job of informing shareholders of their strategies



Shareholders need **more disclosure** to properly evaluate the differential risk associated with each company



# Two methods of pushing for disclosure

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- INCR is petitioning the US Securities and Exchange Commission (SEC) to mandate disclosure of climate risk under existing SEC disclosure rules.
  - Rule S-K requires disclosure “where a trend, demand, commitment, event or uncertainty is both **presently known to management and reasonably likely to have material effects** on the registrant’s financial condition or results of operations.”
  - Similar effort possible with OFR
- The Global Warming Shareholder Campaign (GWSC) is engaging companies via dialogue and the shareholder process, seeking better disclosure and action on climate risk.
  - Vote proxies in favor of resolutions.
  - Consider co-filing with the worst actors.

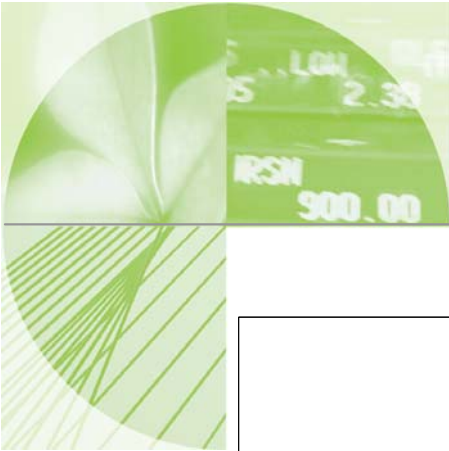


# Shareholder Action

*Shareholders work cooperatively with companies when possible, filing resolutions only when engagement fails.*

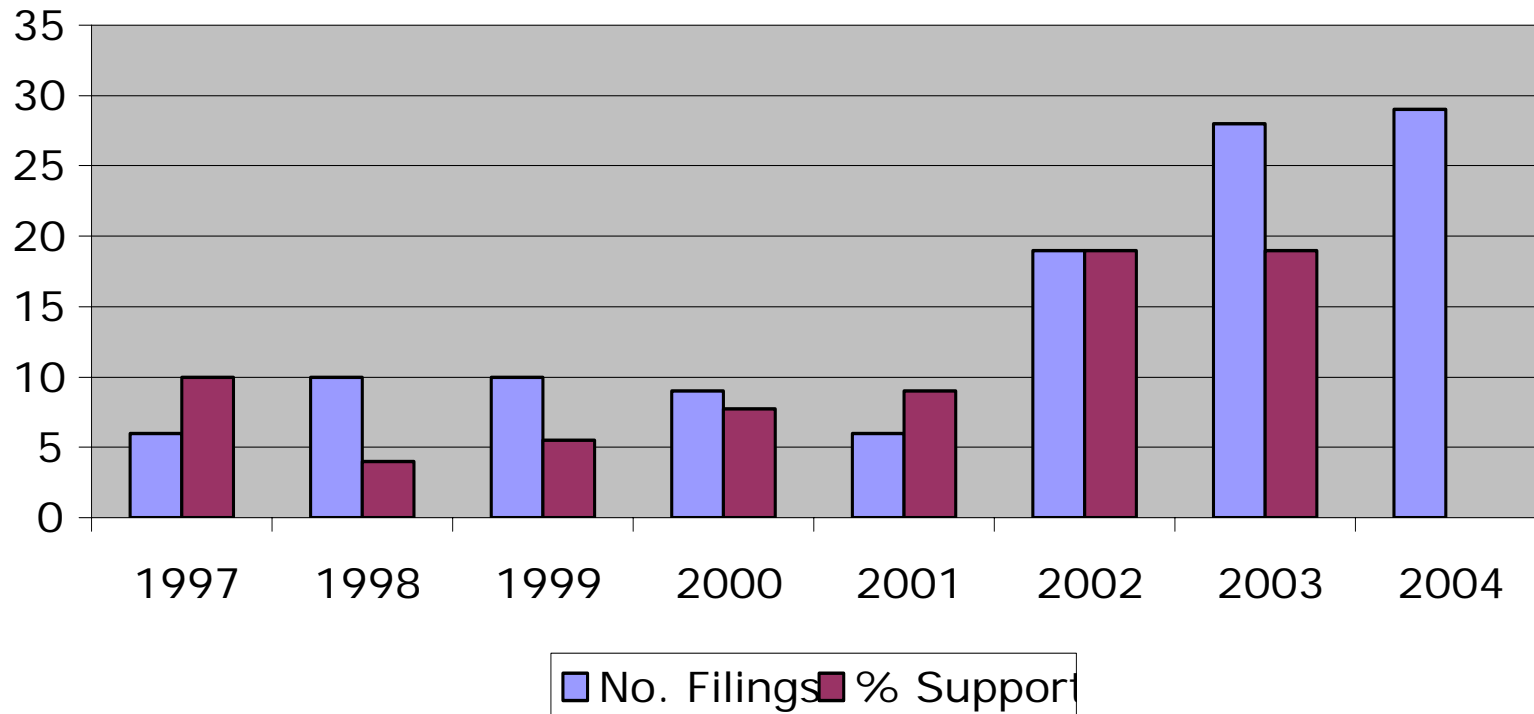
- Engaged with the oil, auto, insurance and electric power sectors
- Resolution asks that the board assess how the company is responding to rising regulatory, competitive, and public pressure to significantly reduce greenhouse gas emissions (or significantly develop renewable energy sources) and report to shareholders (at reasonable cost and omitting proprietary information) by September 1, 2005.
- Filers include large pension funds representing over \$300 billion in assets: New York State, New York City, Connecticut, Maine.





# Rising Shareholder Support

## Global Warming Proxy Campaigns





# CERES-IRRC Report: Corporate Governance & Climate Change

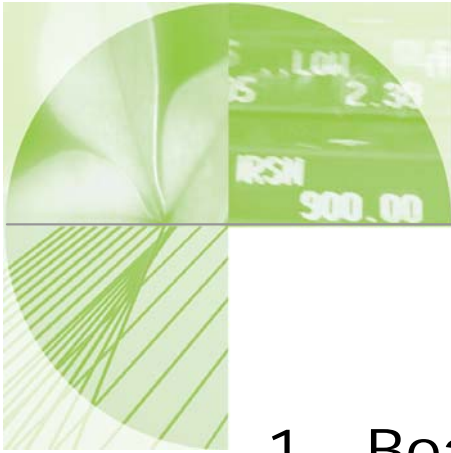
- ? Key question: How are the largest corporate emitters factoring climate change into their governance practices?
- ≡ Three layers of investigation: board oversight, management accountability and stakeholder disclosure.
- 🌐 Key objective: Find prudent strategies to protect shareholder value... *and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



# Profiled Companies

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

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



# Climate Change Governance 14-Point Checklist

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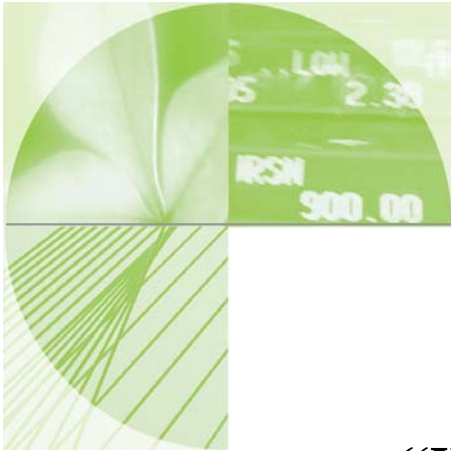
1. Board oversight
2. Board climate review
3. Chain of command
4. Executive compensation
5. CEO leadership
6. 10-K disclosure
7. Sustainability report
8. Emissions offsets
9. Recent inventories
10. Historical baselines
11. Future targets
12. 3rd party certification
13. Emissions trading
14. Renewable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



# Key Findings

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- ↪ A wide range of climate response strategies among firms -- from denial to issue immersion.
- ✦ In general, non-US firms are devoting more high-level attention and are more proactive.
- ✦ More efficiency gains in company facilities than in products (where most emissions occur).
- 🕒 Domestic policy vacuum may undermine competitiveness of US companies and put long-term shareholder value at risk.



## We Won't Make Progress Without Leadership from Business, Especially in US

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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**