Hot air IR

As institutions press companies to address risks associated with climate change, IR steps into the fray. Ian Williams reports

The IR war of attrition over climate change continues – but it's looking increasingly tough for die-hard refusenik companies. Socially concerned investors are getting fed up with companies that refuse to consider global warming as a credible issue. ExxonMobil, for instance, is the target of a group of religious, environmental and institutional activists, aptly called Campaign ExxonMobil, that's determined to get the oil giant to recognize the threat posed to shareholder value by global warming.

In early May hundreds of institutional managers representing over $3 tn in assets attended an institutional summit on climate risk in New York. The outcome was a statement on the fiduciary responsibilities of institutions, money managers, brokers, analysts and corporations to factor in the potential costs of climate change.

John Browne of BP broke the cartel of oil companies in 1997 by admitting global warming is an issue that needs examination. He committed BP to reducing greenhouse gas emissions by 2010 to 10 percent below 1990 levels. The target took only three years to meet, and the company reports it had collateral benefits: for an expenditure of $20 mn, the company actually saved $650 mn.

Rachael MacLean, BP's vice president of IR for North America, remembers that the San Juan unit she ran then was one of BP's worst emitters, with 2,500 wells leaking methane. 'One person on our team not only stopped the emissions, but also diverted the gas into the sales line,' she says. 'The payback was within months.'

MacLean estimates that 'socially responsible' investors amount to only 4 percent or 5 percent of BP's shareholder base, and says the company doesn't receive resolutions on environmental issues. Other companies do, however. '[In 2004] we were involved in over 30 resolutions but half were withdrawn because companies like Ford, Cinergy and others agreed to draw up reports on climate risk

issues, and benchmark and – in some cases – reduce their emissions,' says Peyton Fleming, a spokesperson for Ceres, a Boston-based coalition of investors, environmental organizations and other interest groups.

'We' refers to a coalition of politically powerful faith-based groups and more traditional investors and pension funds determined to get companies to fess up to the risks of global warming. And they all spoke at the conference in New York. 'They feel companies they invest in should take account of the effects of climate change,' says Fleming. The coalition has 3,000 members and includes the pension funds of states from California to Connecticut.

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Faced with such powerful opponents, it's not surprising Ford recently agreed to prepare a report on this issue. Cinergy, the fifth-largest coal burner in the US, raised a few eyebrows by devoting a significant part of its current annual report to climate change. The midwestern power generator's approach epitomizes a successful blend of altruism and pragmatism.

Originally Cinergy resisted an attempt by the Presbyterian Church's investment arm to put the issue on its proxy but then CEO Jim Rogers met with church representatives and agreed to put out a report on climate change. 'The report attempted to assess the risks we face in a carbon-constrained world,' explains John Stowell, vice president of federal affairs, environmental strategy and sustainability at Cinergy. 'We think it is inevitable that Washington will adopt a carbon plan, even if we don't know when. You want to assure your investors that you are thinking ahead. When you are getting ready to build a power plant, which takes six to eight years and costs $1 bn, you want to know what the rules of the road are going to be for the next 20 years.'

Mainstream analysts increasingly look for that pragmatic outlook. Fitch Ratings' energy analyst Denise Furey had input to the Cinergy report. 'We believe there will be a carbon law in the US within five years, and we are looking at the companies that could be most affected,' she says. 'If you see that the management of a large carbon-using company is considering the issue, that's good news. For us, proactive management is a plus.'

Valuing risk

Cinergy's IRO Brad Arnett is seizing the opportunities offered by the company's new approach to global warming. 'Recently we've been targeting socially responsible investors – and of course they're familiar with Fitch's view,' he notes. On a recent trip to London, Arnett says investors and analysts were deeply concerned about climate change. 'Everyone we spoke to asked us to send the annual report,' he comments. 'It's not that people suddenly bought a huge stake, but they were interested.'

For now Arnett is not pushing the issue to general investors. 'For the most part, the roadshow time is so limited that we focus on the next two-year horizon,' he explains. 'It will be interesting to see investors' eventual reaction but we've certainly not seen any negative reaction so far.'

Chances are activist efforts on this front are not going to die down any time soon. 'We have a fine history of advocacy, though it has been a little blind toward the environment, but we are beginning to change that,' says Rich Cizik, the government affairs officer for the National Association of Evangelicals, one of the legs of the Republican coalition. 'When a Canadian and Chinese company tried to come onto the US markets to sell stock to finance their operations in Sudan, we said, *Well, not on our watch*. We have not really used shareholder advocacy. We are quick studies, however, and I think when we put our hands to the plow, we will have a tremendous capacity to influence Wall Street and corporate America.'

When you consider Duke Energy's recent endorsement of a carbon tax, and its impending merger with Cinergy to make an ecologically concerned giant, the end times may be near for old attitudes. IR departments should be prepared: these investors will want action, not hot air. ■

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