Facilitating a Rational Response to Climate Change

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Climate Change – An Investment Issue

- Significant risks and opportunities from:
  - Taxation and regulation
  - Changes in weather patterns
  - Technological innovations
  - Shifts in consumer attitude and demand

- There will be winners and losers in the transition to a low carbon economy
- Investors need information to determine how companies will be affected.
Costs of Climate Change

Global costs of extreme weather events

Annual losses
$1bn

- total economic losses
- insured losses
- average per decade

Investment Opportunities

Worldwide Investment in Clean Energy (US$ billions)

Source: New Energy Finance
CDP Mission: To facilitate a dialogue between investors and corporations supported by quality information from which a rational response to climate change will emerge

CDP provides a coordinating secretariat for institutional investor collaboration

CDP is a not for profit organisation, independent with US charitable status 501(c)3, application to be UK charity
The Carbon Disclosure Project (CDP)

- 315 investors with assets of $41 trillion
- Information requested from 2,400 companies
- 1,300 companies answered the questions
- www.cdp-project.net - largest registry of corporate GHGs
- 2006/2007 expansions in US, Japan, UK, France, Germany, Canada, Brazil, India, Australia, Asia, South Africa
- Global launches with high profile speakers
- CDP is now an established annual process
- CDP is where the corporate world reports GHG emissions
Rising Awareness in the Financial Services Sector

- **CDP1** 2003  35 signatory investors  $4.5 trillion
- **CDP2** 2004  95 signatory investors  $10.3 trillion
- **CDP3** 2005  155 signatory investors  $21 trillion
- **CDP4** 2006  255 signatory investors  $31 trillion
- **CDP5** 2007  315 signatory investors  $41 trillion
Regional Variations in Responses

<table>
<thead>
<tr>
<th>Sample (number of companies)</th>
<th>FTSE 100 (100)</th>
<th>Brazil 60 (57)</th>
<th>Switzerland 50 (50)</th>
<th>Global FTSE 500 (500)</th>
<th>Japan 150 (151)</th>
<th>Nordic 125 (125)</th>
<th>South Africa 40 (38)</th>
<th>UK FTSE 250 (250)</th>
<th>France 120 (120)</th>
<th>USA S&amp;P 500 (500)</th>
<th>Germany 200 (200)</th>
<th>Aust/NZ 150 (141)</th>
<th>Electric Utility 240</th>
<th>Transport 100 (100)</th>
<th>Canada 200 (194)</th>
<th>Italy 40 (40)</th>
<th>India 110 (110)</th>
<th>Asia 80 (77)</th>
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<td>12</td>
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<td>6</td>
<td>1</td>
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<td>6</td>
<td>16</td>
<td>8</td>
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<td>1</td>
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<td>Answered Questionnaire</td>
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<td>47</td>
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<td>91</td>
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<td>38</td>
<td>15</td>
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<tr>
<td>% Answered Questionnaire</td>
<td>91</td>
<td>82</td>
<td>78</td>
<td>77</td>
<td>74</td>
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</table>
CDP Key Findings 2007 (FT500 Companies)

- FT500 Report by Innovest Strategic Value Advisors
- Highest response rate ever – 77% answered questionnaire
  - North America leads growth in emissions disclosure
- Improved carbon accounting; more robust responses - 79% disclosed GHG data
- 80% see risks from climate change
- 82% see opportunities
- 76% implemented emissions reductions programs
- 46% strategies for emissions trading

Wide variations in risk exposure – between and within sectors
Costs of Climate Change

- €0.01 increase per KWh results in €58 million costs for some industrial sites - BASF
- EUETS will put estimated additional €6 per ton on steel - Posco
- Land and property values will fall when insurance becomes unavailable
- Disruption to supply caused by storms cost one company $227 million
- One large financial institution says climate risks bigger than Interest rates or FX risks - AXA
How Investors are Using CDP Data

- Qualitative check - “High Quality resource for checking companies attitudes to emissions“ Merrill Lynch.

- Engagement

- Shareholder resolutions

- Sell side research

- New Investment products

  - Indexes

  - Focus on certain technologies or asset classes
How Investors are Using CDP Data

- Domini - 2006 filed resolutions with Apache, Anadarko and Devon Energy to publicly report about climate change

- Calvert – 2007 filed resolutions with Hartford Financial and Prudential Financial for climate change reports

- All then agreed to report through CDP and the resolutions were withdrawn.
Investors addressing Climate Change

- Increasing number of sell side broker reports:
  - Citigroup – Climatic Consequences
  - Lehman Brothers – The Business of Climate Change II
  - Merrill Lynch – Combating Climate Change

- New investment products:
  - Schroders - Global Climate Change Fund
  - HSBC Climate Change Index
  - CalPERS / CalSTRS – Green Wave Initiative
Schroders – Global Climate Change Fund

- New fund offering investors exposure to companies involved in mitigation of, or adaptation to the effects of climate change on a globally diversified basis.
- Portfolio of 50 to 80 stocks aiming to provide long term out performance of the MSCI world index.

<table>
<thead>
<tr>
<th>Mitigation</th>
<th>Solution</th>
<th>Industries Impacted</th>
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<tbody>
<tr>
<td></td>
<td>Energy Efficiency</td>
<td>Autos, Electronic &amp; Electrical Equipment, Industrial Engineering, Materials</td>
</tr>
<tr>
<td></td>
<td>Shift from High-Carbon to Low-Carbon fuels</td>
<td>Natural Gas, Nuclear, Materials</td>
</tr>
<tr>
<td></td>
<td>Renewable Technology</td>
<td>Wind, Solar, Hydro, Tidal, Geothermal, Fuel Cells, Biofuels</td>
</tr>
<tr>
<td></td>
<td>Carbon Capture &amp; Sequestration</td>
<td>Oil &amp; Gas, Industrial Engineering, Forestry</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Adaptation</th>
<th>Effects</th>
<th>Industries Affected</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Agriculture</td>
<td>Biotechnology, Beverages, Food Producers</td>
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<tr>
<td></td>
<td>Forestry</td>
<td>Forestry &amp; Paper</td>
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<tr>
<td></td>
<td>Water Resources</td>
<td>Food Producers, Biotechnology, Beverages, Real Estate, Construction</td>
</tr>
<tr>
<td></td>
<td>Coastal</td>
<td>Construction &amp; Materials, Travel &amp; Leisure</td>
</tr>
<tr>
<td></td>
<td>Ecosystems</td>
<td>Oil &amp; Gas Equipment and Services, Travel &amp; Leisure, Utilities</td>
</tr>
</tbody>
</table>
Investors have a key role to play and need better information to incorporate climate change into investment decisions.

Time for investors to really integrate climate considerations across their whole business.

Need to identify winners and losers from climate change and the transition to a low carbon economy.

CDP hosts the largest registry of corporate GHGs in the world at [www.cdproject.net](http://www.cdproject.net)
Thank you

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