

Institutional Investors Probe Corporate Climate Change Risks

Terence Jeyaretnam

Last month I had the pleasure of interviewing for this column Mr. Bob Welsh, CEO of VicSuper. Bob, or 'Sustainable Bob' as he is fondly referred to, is also the Chair of the Investor Group on Climate Change (www.igcc.org.au), a coalition of several large institutional investors focussed on better understanding, enunciating and investing on the basis of climate change risks, in addition to the usual financial and business measures. The IGCC presently comprises of AMP Capital Investors, Babcock & Brown, BT Financial Group, the Catholic Superannuation Fund, Colonial First State Property, Five Oceans Asset Management, The GPT Group, HESTA Super Fund, Mercer Investment Consulting and VicSuper, responsible for over \$21 billion of investor funds/assets. The IGCC also locally represents the global Carbon Disclosure Project (CDP), similarly set up four years ago, and now requesting and collecting such climate change data from FT500 companies on behalf of its 155 institutional investor signatories representing over \$US 21 trillion in assets.

As a result of the formation of the IGCC, in February 2006 ASX 100 and NZX 50 companies will receive a request for information on the possible impact on company value from climate change related taxation/regulation, customer behaviour and altered weather patterns. This will represent the first time investors have asked many Australian and New Zealand companies for such information - a significant step in reinforcing a need to think and act on sustainability risks and opportunities, particularly relating to their carbon footprint for corporate Australia and New Zealand. Whilst several have previously responded to the global CDP survey, for more than ninety percent of these 150 companies this will be a wake up call to take stock of carbon emissions of their operations, products/services and supply chain.

So, what options does one have when \$12 billion worth of investors are knocking on the door for some, what they consider, critical investment information? If you consider the trends in response rates for the 2005 CDP project of 71%, up from 59% in 2004 and 47% in 2003, then the decision is simple – respond. Ford, the third largest automobile manufacturer in the world recently issued a report on the *Business Impact of Climate Change*. The report states that "*At Ford the issue is not abstract...Concerns about climate change – along with growing constraints on the use and availability of carbon-based fuels – affect our operations, our customers, our investors and our communities. The issue warrants precautionary, prudent and early actions to enhance our competitiveness and protect our profitability in an increasingly carbon-constrained economy*". The question in my mind is whether Ford is too late in its response, with both General Motors and Ford recently making significant losses and announcing large-scale job cuts as a result of US customers' shift from the profitable larger vehicles to smaller ones on the back of fuel price increases. A cost of carbon.

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