

Date: Thu, 21 Sep 2006 16:10:37 -0400 (EDT)
To: karp@are.berkeley.edu
Subject: From Greenwire -- CLIMATE: Report spotlights carbon market risks, opportunities
From: karp@are.berkeley.edu
Reply-To: karp@are.berkeley.edu
X-Mailer: PHP/4.4.1

This Greenwire story was sent to you by: karp@are.berkeley.edu



AN E&E PUBLISHING SERVICE

GREENWIRE -- THURSDAY, SEPTEMBER 21, 2006

CLIMATE: Report spotlights carbon market risks, opportunities

Arthur O'Donnell, special to *Greenwire*

While the vast majority of companies responding to an annual survey believe that climate change poses a financial risk, a growing number are also capitalizing on clean technology investments and other opportunities.

[image removed](#)

Eighty-seven percent of companies that responded to the Carbon Disclosure Project survey say climate change represents commercial risks or challenges -- ranging from physical risks from extreme weather to financial risks of higher energy costs and additional regulations aimed at reducing carbon dioxide and other greenhouse gas emissions. The project released its fourth annual report this week.

But 60 percent of responding companies say they have developed products or services to mitigate carbon risks for themselves or others. Many say they are taking advantage of energy-efficiency technologies for their own operations or investing in "clean tech" start-up companies, while others are trying to capture new revenue streams from the sale of excess emission reduction credits derived from internal abatement efforts or other carbon offset projects.

The **report** says 46 percent of companies said emissions trading is relevant to them, up from 35 percent last year.

The Carbon Disclosure Project represents 225 institutional investors, firms or individuals with total assets exceeding \$31.5 trillion. In the past year, new signatories included Goldman Sachs, AIG and Morgan Stanley, which together brought an additional \$10 trillion in investment clout to the project.

One company's risk can also represent another's opportunity, as illustrated by an innovative deal between insurance giant Swiss Re and investment company RNK Capital, involving

creation of a new insurance product that offsets RNK's risks in developing emission reduction projects that will generate carbon-reduction credits under the Kyoto Protocol's Clean Development Mechanism (CDM).

Evan Ard, spokesman for RNK, said the deal "hedges against Kyoto risk if we get involved in a project that is not approved" for CDM status by the United Nations, which is certifying CDM projects. The companies have not revealed pricing or other terms of the transaction, but it has captured the attention of other insurers, with AIG among those saying it is considering offering similar hedging products to clients.

The risk is evidently real. In July, the United Nations executive board that accredits CDM projects said it would reject four proposals, including two wind farms in India and two energy-efficiency projects in Mexico -- saying it was unclear that the projects would result in emission reductions that would not have occurred even without the Kyoto requirements.

Winners and losers

By far, electric utilities represent the largest emitters of greenhouse gases and face the biggest potential costs of complying with carbon-reduction policy. But they also have the greatest upside potential to capitalize on opportunities, the report says. Several U.S. utilities, including Exelon Corp. and AEP, are actively preparing for a national mandatory GHG reduction program, it says.

The report presents a method for "monetizing" financial exposure to potential GHG regulations by illustrating two U.S. utilities, using an average cost of \$25 per ton of carbon dioxide equivalent and other factors.

In order to achieve a 10 percent reduction in carbon emissions by 2012, for example, Southern Co. utilities could spend as much as \$1.1 billion. On the other hand, Entergy Corp. could see a net gain of \$298 million while still achieving the same 10 percent reduction.

Putting this in terms of compliance costs as a percentage of a company's pre-tax earnings, the report says North American utilities with the highest compliance costs face expenditures in excess of 25 percent of reported pre-tax earnings for 2005. A competitor that is least exposed faces negative compliance costs of 10 percent.

The risk profile differs by industry sector, the report says, with automobile manufacturers (omitting possible additional curbs on tail-pipe emissions) and retail food, beverage and drug firms facing the least direct costs for compliance.

Overall, however, with the exception of mining and steel makers, companies could reduce "business as usual" 2012 emissions by 10 percent below 2005 levels for less than 1 percent of reported pre-tax earnings, the report says.

Grist for investors

The Carbon Disclosure Project's Zoe Riddell told *Greenwire* the annual survey and associated reports for over 900 responding companies are aimed at providing investors with information that they might not be able to find via Securities & Exchange Commission filings or other

public documents.

"It's helping investors to become more aware of how companies are responding to climate change," Riddell said. "Some companies are going to make a lot of money from climate change."

Companies that measure and report their annual emissions might be perceived as better run by investors, Riddell suggested, while those that do not might be considered ill-prepared to face the future.

Some signatories to the project, like the California Public Employees Retirement System (CALPERS) actively use the information to help guide their investments into green technology companies or firms with aggressive carbon-reduction efforts. Insurer Swiss Re looks to the survey findings of companies when it underwrites Directors & Officers liability policies, Riddell said.

This year, the survey expanded its universe of companies beyond the Financial Times 500 to include hundreds of smaller cap firms, finding that "smaller companies are the least prepared and least aware of risks," Riddell said.

"We did find that in general, response rates and the quality of responses was much poorer than in the FT500 sector, except in the U.K., where companies seem very aware of the risks and opportunities," Riddell said.

Out of the FT500 firms queried by the project, 72 percent provided responses, while fewer than half of the smaller companies responded.

[Click here](#) for a copy of the CDP4 report.

O'Donnell is an independent energy and environmental writer in San Francisco.

Want more stories like this every day? Sign up for a free trial and get the best environmental and energy policy coverage available. Go to <http://www.eenews.net/trial/>

ABOUT GREENWIRE

Greenwire is written and produced by the staff of E&E Publishing, LLC. The one-stop source for those who need to stay on top of all of today's major energy and environmental action with an average of more than 20 stories a day, Greenwire covers the complete spectrum, from electricity industry restructuring to Clean Air Act litigation to public lands management. Greenwire publishes daily at Noon.



E&E Publishing, LLC
122 C St., Ste. 722, NW, Wash., D.C. 20001.
Phone: 202-628-6500. Fax: 202-737-5299.
www.eenews.net

All content is copyrighted and may not be reproduced or retransmitted without the express consent of E&E Publishing, LLC. [Click here](#) to view our privacy policy.