

Pension Funds Focus on Climate Change

November 21, 2003

By LISA SINGHANIA, AP Business Writer

UNITED NATIONS - Buoyed by their efforts to instill corporate governance reforms on Wall Street, the caretakers of several state and union pension funds took on another challenge Friday: global climate change.

Regulators and corporations aren't doing enough to protect shareholders from the potential financial costs of climate changes, the treasurers and controllers from states including California, New York, Connecticut, Maine and a handful of unions said at a conference at the United Nations.

They said other institutional investors and the Securities and Exchange Commission need to do more to make sure companies plan for how higher temperatures will affect their businesses — and that a failure to do so could cost their funds billions of dollars in lost profits and other expenses.

That ultimately could mean smaller pensions for the people who depend on the funds for retirement.

"Companies that fail to adequately disclose potential liabilities related to climate risk and financial analysts who ignore the potential financial risks of investments in these companies run the risk of fueling the next governance crisis," said Denise Nappier, treasurer of Connecticut. "As investors, we cannot afford any more casualties of corporate irresponsibility or regulatory loopholes."

As part of a 10-point plan, the group wants the SEC to mandate that companies disclose their liabilities with regard to global warming. They also want shareholders, including pension funds, to pressure companies to address the issue.

The call comes amid growing pressure around the world to reduce what is known as greenhouse gases. Scientists say the byproducts of coal-burning factories, gasoline-burning cars and other industrial processes are causing global temperatures to increase, triggering serious environmental and climatological changes.

U.N. Secretary-General Kofi Annan, who has made the issue a key focus during his tenure, said the efforts "send a message that corporate performance will be measured in both financial and environmental terms."

"This would be a real step forward ... for corporate governance, transparency and accountability in general," he said.

The Bush administration, however, has expressed skepticism about global warming and has refused to sign international treaties that would require curbs on greenhouse gasses overseas and in the United States.

Conference attendants acknowledged the Bush administration's view complicates their task, but said investors still have the power to effect changes.

"If the political system turns out to be incapable of dealing with it ... the same not need be the case for the business community and the investment community," former Vice President Al Gore told the conference. "You have responsibility as fiduciaries ... to analyze risk and look for opportunities."

The effort also reflects the growing willingness of pension funds and other large investors to speak out following a spate of corporate governance scandals, ranging from Wall Street analysts who misled investors to mutual funds that permitted improper trading. Many institutional investors lost a lot of money, and say they won't allow that to happen again when they see risk.

Indeed, several investment banks and financial institutions sent representatives to the conference, including Goldman Sachs managing director Abby Joseph Cohen.

"If companies believe it is in their best interests," change will occur, she said.

The conference's focus reflects a growing concern in the business community, particularly overseas, says Michael Oppenheimer, a professor of international relations at Princeton University's Woodrow Wilson School.

The European Union is already moving to restrict emissions, he said, and it is widely expected that other countries will follow suit. That might, for example, make an investment in coal-burning technology a poor long-term choice — and one a large shareholder might want to discourage.

"It seems imprudent to make investments without thinking about possibility or probability that the emissions will need to be controlled or eliminated and how that will affect profits," he said.