

Feeling the heat

May 14, 2005

NEW YORK, American bosses are starting to take global warming seriously-

It could have been some evangelical mega-church in red-state America. The faithful gazed fixedly at the pulpit. Devotees of special merit were pointed out and applauded. An expansive southerner stepped up, cried "God bless ya!" and launched into a rip-roaring sermon on the morality of... global warming.

In fact, the preacher was Al Gore, the church a hall in the United Nations building in New York, and the service a conference on May 10th organised by CERES, a coalition of investors and greens, to enlighten Wall Street about climate change. Among the greens, the scientists and the (British) carbon financiers, was a less predictable figure: Jim Rogers, head of Cinergy, a big mid-western producer of coal-fired power. News had just broken that Cinergy is to be taken over by Duke, a southern utility. Yet somehow he made the time to turn up and deliver a speech.

Mr Rogers's job is secure. But surely he had better things to do at such a big moment for his firm than give a speech on greenery? On the contrary, he insists: climate change, far from being peripheral, goes to the heart of the Duke-Cinergy deal.

There are some conventional business rationales for the deal. It will bring larger scale, geographical and fuel diversity, and save \$400m in costs. And, coming in the wake of nuclear-power giant Exelon's purchase of PSEG, a New Jersey energy firm, it may be part of a trend. Vance Scott of A.T. Kearney, a consultancy, expects a wave of consolidations among utilities.

Yet Mr Rogers adds a key motivation: both he and Paul Anderson, Duke's boss, believe that government policies "will inevitably lead to a carbon-constrained world." Cinergy has many old and dirty coal plants, which emit vast amounts of carbon. The deal will help him retire many of them sooner, in favour of Duke's clean natural-gas plants. He even dares to talk of new nuclear plants, emitting no carbon, which Cinergy could never have afforded but which the combined firm might build.

Just guff drummed up to please the carbon crowd? A.T. Kearney's Mr Scott argues not: Cinergy's exposure to possible carbon regulation of its coal plants will be hedged by the addition of Duke's gas plants; Duke, hit by the volatility and recent spikes of natural-gas prices, will benefit from relatively lower and more stable coal prices.

Mr Rogers was not the only unlikely corporate figure to tackle carbon this week: so did Jeff Immelt, boss of GE. In a speech in Washington, D.C., on May 9th, he committed GE to a set of green goals going far beyond any current government regulations. He vowed that by 2012 GE would boost its energy efficiency by 30%, and cut its greenhouse-gas emissions from over 40% above today's level if nothing is done, to 1% below. By 2010, he said, GE would double its annual investment in clean technology to \$1.5 billion.

Mr Immelt denounced America's "do-nothing" policy on climate change: "We are living in a carbon-constrained world where the amount of CO₂ must be reduced." The Bush administration has challenged whether CO₂ can even be regulated as a pollutant, and opposes mandatory carbon caps. Bemoaning the resulting uncertainty for investors, Mr Immelt concluded: "America is the leading consumer of energy. However, we are not the technical leader. Europe today is the major force for environmental innovation."

The current American policy may prove bad for the energy industry, Mr Gore told

his gathered faithful. Pointing to Big Tobacco, he argued that Big Oil could go the same way. Oilmen may think CERES a fringe group. But its coalition includes such heavyweights as CalPERS, California's huge public-employees' pension fund, and represents over \$3 trillion in invested capital. CERES members have already brought shareholder resolutions against various oil firms. They also have their sights set on big energy users and greenhouse-gas emitters across the board: cement and construction, aluminium and steel, agribusiness and more. A recent report on brand value from Britain's Carbon Trust, a public-private outfit, says that as oil firms make most of their profit upstream, airlines—more exposed to the general public—may be at greater risk of losing brand value to global-warming activism.

Should American firms wait for government action, or follow this week's trailblazers? GE's boss put it this way: "We are investing in environmentally cleaner technology because we believe it will increase our revenue, our value and our profits... Not because it is trendy or moral, but because it will accelerate our growth and make us more competitive."