

## **Is big business making progress on climate change?**

**In the run up to the United Nations Climate Change Conference in Copenhagen, latest research from EIRIS focuses on 300 of the world's largest companies to examine the progress they have made over the last 12 months in responding to the challenges of climate change.**

[\*Climate Change Compass: The road to Copenhagen\*](#) analyses the 300 largest companies listed on the FTSE All World Index and finds that just over a third are failing to address the risks they face from climate change - although the quality of companies management response to climate change has improved overall.

Climate change has the potential to seriously impact shareholder value, especially in the medium to long term. As the significant physical and economic impacts of climate change increase, investors need to develop a greater understanding of the extent and impact of corporate response to the issue. Highlights of EIRIS' research into how some of the world's largest companies are responding to climate change challenges are listed below:

### **Some improvements, but further momentum needed**

- Over a third (35.6%) of global 300 companies have a high or very high climate change impact<sup>1</sup>. Of these, 33% are failing to mitigate their climate change risk (down from 34% in 2008)
- 99% of companies with a high or very high climate change impact has a corporate-wide climate change commitment (in comparison with 84% in 2008). This improvement can be explained by a number of drivers coming into play including the increasing activity of investors
- Almost three quarters of companies (73% compared with 61% last year) have referenced the wider policy context by referring to international targets, regulations or the scientific imperative

### **Opportunities at Copenhagen**

- The UN Climate Change Conference may create significant opportunities for companies – linked to the development of green stimulus packages or a clearer regulatory framework.

### **Engagement is key**

- Many large cap companies face significant climate change risks and opportunities. Investors must understand the impact these issues will have on their portfolios and integrate climate change into their engagement strategies or when exercising voting rights.

Climate change affects businesses across every sector of the economy – from aviation to agriculture. EIRIS' latest research outlines the various risks and opportunities for companies and their investors which climate change presents, including:

- **Regulatory challenges** - Copenhagen may bring about a number of changes in national and international legislation for reducing green house gas (GHG) emissions. Potential environmental taxes and compliance costs must therefore be factored into company valuation
- **Changing market dynamics** – relating to higher and fluctuating energy costs, especially for energy intensive sectors. Changing consumer attitudes and demand patterns also open up opportunities for new technologies, products and markets
- **Changing weather patterns** - security and cost of water and energy supplies, plus the physical risks of climate change, including the damage of assets as a result of extreme weather events all have cost implications
- **Reputational** - customer, employee, investor and societal perceptions are having an increasing impact on brand value

Given the importance of climate change and the likely impact of it on future long-term corporate financial performance, it is increasingly seen as an investor's fiduciary responsibility to integrate consideration of climate change into their investment strategy as outlined in the UNEP-FI Fiduciary II report<sup>2</sup>. Against a backdrop of the recent global financial crisis and growing evidence of the significant physical effects of climate change, the outcome of the Copenhagen Conference will set the direction for a financial and policy framework for future climate change investment for governments, corporations and investors.

Stephanie Maier, Head of Research at EIRIS said 'Our research identifies a number of improvements in the strategies that companies have put in place with regard to their climate change impact. It is encouraging to see some evidence that regulation and the increasing engagement activity of investors on climate change is driving companies to focus more attention on the climate change risks and opportunities they face.'

However, there are areas where further progress can be achieved. Stephanie Maier added 'Board level responsibility and ownership of a company's response to climate change is crucial. Linking remuneration to performance in this area will help ensure companies remain focussed on the issues. Likewise the increased use of verification for GHG emissions data will provide investors with further reassurance on the reliability of the information published. These are key areas where investors should exert influence so as to help them minimise their risk.'

EIRIS has developed a comprehensive suite of products to help investors assess their portfolios and design investment strategies in response to the challenge of a carbon-constrained economy. [Click here for further information.](#)

The full research report is available is [here](#)

(<http://www.eiris.org/files/research%20publications/ftse300climatechangepaper09.pdf>)

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## **Notes to Editors**

- 1) EIRIS classifies both the climate change impact of a company and its management response. In this way investors can understand whether the company has in place an appropriate management response to adequately address its climate change impact. To profile the climate change impact of a company EIRIS has classified companies into over 50 sectors based on their business activities to identify their climate change impact. Each sector is defined as very high, high, medium or low impact based on their direct and indirect emissions alongside other factors such as a sector's projected growth, beneficial impact of the sector, allocation of emissions across the value chain and contribution to climate change solutions. With input from investor groups, NGOs and companies (including WWF, Climate Group, Carbon Trust and Institutional Investors Group on Climate Change). EIRIS developed indicators to assess how companies should best address their climate change impacts and risks through their management response. EIRIS indicators cover aspects such as: 1) Governance – e.g. does the company have a corporate-wide climate change policy, or is board remuneration linked to climate change performance, 2) Strategy – e.g. has the company set targets, 3) Disclosure – covering the quality of carbon data, or quantified disclosure risks or opportunities, and 4) Performance – e.g. year on year reduction in GHG emissions, or transformational initiatives such as large scale investment in carbon capture and storage
- 2) See <http://www.unepfi.org/fileadmin/documents/fiduciaryII.pdf>
- 3) EIRIS ([www.eiris.org](http://www.eiris.org)) is a leading global provider of independent research into the social, environmental governance and ethical performance of companies. EIRIS, a UK-based organisation with offices in the US and France together with its international research partners, has a wealth of experience in the field of responsible investment research. EIRIS provides comprehensive research on around 3,000 companies in Europe, North America and the Asia Pacific region. EIRIS is already retained by 100 institutional clients including pension and retail fund managers, banks, private client brokers, charities and religious institutions across Europe, North America, Australia and Asia. EIRIS has developed a comprehensive suite of products to help investors assess their portfolios and design investment strategies in response to the challenge of a carbon-constrained economy. For more information on EIRIS' products and services visit [www.eiris.org](http://www.eiris.org) or email: [clients@eiris.org](mailto:clients@eiris.org)

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