

Capital to the Capitol:

Investors and Business for U.S. Climate Action

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Imperatives of Climate Risk and Opportunity: A Call to Action from Leaders in Investing and Business

Executive Summary

We are the CEOs, senior officers and trustees of institutional investors, asset managers and corporations who recognize the risks and opportunities of global climate change, which we have begun to address voluntarily. We are taking important actions both individually and collectively, but these are not enough.

Now is the time for shared action—because the voluntary actions of a handful of forward-looking businesses and investors will be insufficient. We must act—businesses, investors, and government—and we must do so on a large scale over a long period of time. We can and must do much more to mitigate climate risks and seize opportunities, but government action to create national policies to establish regulatory certainty and provide strong incentives is essential. The U.S. National Academy of Sciences has concluded that “the scientific understanding of climate change is now sufficiently clear to justify nations taking prompt actions.” To extract the very best that we have to offer, to unleash American progress and innovation, we need the right national policies, and we need them now.

As fiduciaries and leaders in the business and investment communities, we come together now to declare that we stand ready to partner with the U.S. government and others to establish a national policy to address this problem. Specifically, we need:

- ◆ **A mandatory national policy to contain and reduce national greenhouse gas emissions** economy-wide, making the sizable, sensible, long-term cuts that scientists and climate models suggest are urgently needed to avoid the worst and most costly impacts from climate change. This approach will also enable businesses and investors to make investments with a known long-term planning horizon. Wherever possible, this policy should utilize market-based mechanisms, such as cap-and-trade systems, to create an economy-wide carbon price.
- ◆ **The realignment of incentives and other national policies to achieve climate objectives**, including a range of energy and transportation policy measures to encourage deployment of new and existing technologies at the necessary scale. Only governments can create the infrastructure needed to underpin the new clean energy system.
- ◆ **Guidance from the Securities and Exchange Commission and other financial regulatory bodies** to businesses and investors on what material issues related to climate change companies should disclose in their regular financial reporting, so that investors can assess more accurately the effects of climate risk and opportunity in their portfolios.

Delay is no longer an option, as opportunities will be squandered and the risks and economic cost of inaction will only continue to grow.

So we are speaking out now, issuing an urgent call for leadership and action.

We are prepared to do our part by working with government leaders to develop and implement these policies, and to help the public understand why new policies are both necessary and beneficial.

Background Information and Specific Measures

The Risks and Opportunities of Climate Change

Climate change presents serious economic risks, not only for businesses and investments, but also for the global and U.S. economies. Where there are risks, there are also opportunities, and the business opportunities posed by climate change are significant.

Climate change currently poses regulatory, legal, physical, and competitive risks for companies. Many U.S. businesses are confronting a growing patchwork of regulations addressing climate change and mandating emissions reductions in the European Union, Japan, Taiwan, the Northeast United States, California, New Mexico, various U.S. cities, and elsewhere, and the list is growing. In addition, U.S. businesses face increasing climate change litigation risk. Extreme weather events, which leading scientists and numerous studies tell us are likely to become more frequent and more severe, have already caused economic damage to many, such as businesses in the Gulf Coast. Left unattended, risks from severe weather, extended droughts, sea-level rise, and other effects of climate change will worsen over time, harming company assets, global investment portfolios, ecosystems, and human lives.

Government inaction on climate change poses additional risks for businesses and investors. The lack of a national policy creates great uncertainty for businesses and investors engaging in long-term strategic planning, asset management, and capital budgeting. In the current unpredictable national climate policy environment, it is exceedingly difficult and risky for businesses to evaluate and justify the large-scale, long-term capital investments needed to seize existing and emerging opportunities and to transition to a cleaner, lower-carbon energy economy.

At the same time, addressing climate change presents a significant economic opportunity for America in the 21st century. Many companies are already innovating to save energy, reduce greenhouse gas emissions, identify investment strategies, and create new climate-friendly technologies. With the proper incentives and market conditions, we are confident that such business opportunities could expand dramatically, low-carbon technologies that are available today could be more broadly deployed, and significant reductions in emissions could be achieved over the next few decades—all while creating vast economic opportunities and new jobs for Americans.

It will take billions of dollars over many years to shift the world's economies to cleaner and more efficient energy systems, but the economics of mitigation are much more attractive than the economics of inaction. Indeed, the Stern Review on the Economics of Climate Change, echoing sentiments expressed by a growing number of business leaders, concluded that the costs of action to reduce greenhouse gas emissions are both affordable and significantly lower than the costs of inaction.

We need to be in this effort together—businesses, investors, and government—to drive American businesses to a leadership position in the low-carbon future. Companies and investors stand ready to help, but government action is essential. The U.S. government needs to take action now.

Government Action Urgently Needed

To enable the business and investment communities to reduce climate risks and capture opportunities, we believe there is an urgent need for the federal government to act promptly to take three critical steps.

- 1. The government must establish a mandatory national policy that will stabilize and then reduce national greenhouse gas emissions economy-wide.** The policy should include a target for sizeable, sensible, long-term reductions in greenhouse gas emissions in accordance with the 60–90% reductions below 1990 levels by 2050 that scientists and climate models suggest are urgently needed to avoid dangerous climate change.* Such ambitious long-term targets not only improve the odds of avoiding the worst impacts from climate change, but also enable businesses and investors to make investments with a known long-term planning horizon.

Wherever possible, this national climate policy should include mandatory market-based solutions, such as a cap-and-trade system, that establish an economy-wide carbon price, allow for flexibility, and encourage innovation. However, we recognize that other regulations and policy tools may be most effective in some areas. The policy should not disadvantage businesses that have acted early to reduce their emissions.

- 2. The government must take action to stimulate deployment and uptake of new and existing technologies.** Simply putting a price on greenhouse gas emissions through market mechanisms like a cap-and-trade system will not be enough. The government should therefore realign other national energy and transportation policies to achieve climate objectives, including a range of policy measures to provide the financial incentives that are needed to stimulate research, development, and deployment of cleaner, more efficient technologies at the scale necessary. The government also must eliminate misaligned incentives and barriers to taking action. The government has an important role to play in assisting the private sector in deploying existing large-scale energy, fuel, and transportation technologies to reduce emissions in the near-term, and in supporting research and development of new technologies that will be needed in the longer-term. To stimulate rapid deployment of new technologies, the government will need to provide transitional incentives and support. Such an approach should not pick technological winners, but rather should aim to bring forward a portfolio of technologies that both enable reductions in greenhouse gas emissions and promote America's energy security.

- 3. The Securities and Exchange Commission and other financial regulatory bodies must assist both businesses and investors by better defining the material issues related to climate change and clarifying what companies should disclose on climate change in their regular financial reporting.** This will help investors understand the risks and opportunities that businesses face—and will help them determine with more accuracy the level of climate risk and opportunity in their investment portfolios—as America leads a global transition to a clean energy economy.

Benefits of Action

This set of government actions would have many benefits. By properly establishing a national policy rather than leaving leadership to the courts and state governments, it would remove unnecessary risk in asset management and corporate governance and help to harmonize an increasingly complex regulatory landscape. With greater certainty, American businesses and investors could make capital investments and seize global leadership on clean technologies. American businesses could do what they do best—innovate.

The companies and investment institutions we lead, which span a wide spectrum of economic activity, are willing to play their part in bringing about a low-carbon future. But in the absence of strong federal leadership, there is a risk that U.S. businesses may get left behind, losing ground against competitors in the rapidly growing global market for low-carbon solutions.

Establishing this national policy will not be the end of the effort. Climate change is dynamic, as will be efforts to mitigate its impact, and national policy will have to be updated accordingly. But we recommend these critical first steps and urge immediate action.

By aligning the rules, regulations, and incentives, we can help make the clean energy transition a win-win for the environment, the global economy, the American economy, businesses, and investors.

* Several existing programs have targets in line with this, such as California's goal of reductions to 1990 levels by 2020 and 80% below 1990 levels by 2050; New Mexico's target of 10% below 2000 levels by 2020 and 75% by 2050; and the European Commission's recent proposal that the EU reduce emissions to 20-30% below 1990 levels by 2020.

Complete List of Signers (as of 3/16)

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