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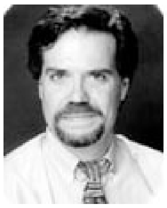


# Trend Watching

by Bruce Piasecki and Peter Asmus
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## Greening Finance: Why Wall Street Needs the White House

Goldman Sachs became the first global investment bank to adopt a comprehensive environmental policy that acknowledges the value of "ecosystem services" this December. This firm is just one among many financial institutions pushing brave new forms of corporate social responsibility in response to global climate change. JP Morgan, for example, is already evaluating the impact of carbon risks on its loans to industries that are big polluters.

With this ground-breaking initiative, nonetheless, Goldman Sachs is explicitly acknowledging the fact that we cannot achieve climate stabilization without government regulations to complement individual corporate actions. Today, virtually any company that voluntarily undertakes a transition to renewable energy and other non-carbon energy sources may put themselves at a competitive disadvantage within its industry. A number of oil and auto executives have said privately that they can make the transition to clean energy, but they need government to regulate them so they can make the change in lockstep with no loss of market share. Others are willing to move forward, sensing opportunity in being greener first.

Owner of more than a few fossil-fuel power plants, Goldman Sachs agreed to publicly report on its efforts to reduce air emissions contributing to global climate change and invest $1 billion in renewable energy and efficiency projects. Goldman Sachs will also fund a new Center For Environmental Markets while broadening the application of social and environmental factors into loaning and investment activities. But most importantly, these Wall Street insiders have agreed to press the Bush Administration to adopt new public policies to respond to the global climate change threat.

"It is telling that the first major call for regulation to address the rapidly escalating impacts of climate change is coming from the finance sector," commented Ross Gelbspan, author of the book The Heat Is On. According to Gelbspan, the immediate impetus comes from the escalating losses of the world's property insurers to floods, droughts and increasingly destructive storms. In 2004, for example, he pointed out that the global economy absorbed damages costing about $145 billion from climate-related disasters (primarily severe storms and hurricanes). Of that figure, about $44 billion represented insured losses. Munich Reinsurance, the world's largest re-insurance company, has projected that losses to climate impacts will approximate $300 billion a year in the next two decades.

Gelbspan continued, "Seen in a larger context, it seems that their own strategic needs require banks, insurers and financial institutions to take a longer view of the health of the capitalist system. Most individual companies, by contrast, are obligated to respond to shorter-term concerns about their quarterly or annual earnings and losses. So it falls to the world's financial institutions to protect the long-term viability of the economy."

Given the intensifying impacts of an unstable climate, it is obvious to many financial leaders that the ultimate viability of the global economy depends on government intervention to promote the necessary changes in the world's energy infrastructures. If government fails to intervene, insurance losses and defaulted business loans are the ultimate outcome, leading to a very damaging shrinkage of markets for goods and services, especially in developing countries.

Goldman Sachs is but one of many actors on Wall Street now scrutinizing fiscal risks in ways unheard of just a decade ago. The risks reshaping corporations can now be measured with some hard numbers by financial stock analysts. Independent rating agencies such as Innovest have already developed risk profiles of multi-nationals based on the carbon content of their products, slowly shifting investors from bad to good environmental corporate actors.

Consider these other major developments among corporations with carbon risks and driven by the growing and greening influence of Wall Street:

- HSBC has pledged to offset all carbon emissions by the end of next year;
- At Novo Nordisk, achievement of carbon reductions are a major factor in performance reviews of senior executives;
- BHP Billiton has developed specific carbon curtailment plans for each of its business units.

All of these companies are now developing social programs that mimic activities most of us associate with governments.
If corporations differentiate themselves based on a social response to climate change -- and can therefore manage risks better than competitors in their industrial sectors -- then third-party credit agencies such as Innovest, Core Ratings, and IRRC become key drivers behind sustainability. They can capture this hidden value of socially responsible firms! Once these former intangibles become indeed tangible, companies embracing social values such as Goldman Sachs can then jump out ahead of their competitors, instead of being penalized by the lack of government action.

Yes, we need Washington, DC to back-up the social product innovators, in order to institutionalize reforms to meet society's need for a comprehensive solution to the challenge of global climate change. But in the mean time, it is a new class of credible third-party agencies that are helping financial markets sort through tomorrow's winners and losers. In the process, they are shaping the fate of our planet in ways the White House may never be able to do.

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