TRANSFORMATION IS POSSIBLE

THE GLOBAL COMPACT

UNEP

CARING FOR CLIMATE SERIES

About the United Nations Global Compact

Launched in 2000, the United Nations Global Compact is a both a policy platform and a practical framework for companies that are committed to sustainability and responsible business practices. As a multi-stakeholder leadership initiative, it seeks to align business operations and strategies with ten universally accepted principles in the areas of human rights, labour, environment and anti-corruption and to catalyze actions in support of broader UN goals. It is the world's largest voluntary corporate citizenship initiative, with over 6,500 signatories based in more than 130 countries. Visit www.unglobalcompact.org.

About the United Nations Environment Programme

The mission of UNEP is to provide leadership and encourage partnership in caring for the environment by inspiring, informing and enabling nations and peoples to improve their quality of life without compromising that of future generations. UNEP is headquartered in Nairobi, Kenya, The UNEP Division of Technology, Industry and Economics (UNEP DTIE) is the division leading the work with business and industry on climate. With its longstanding activities in the areas of sustainable production and consumption, energy, ozone, chemicals, trade, economics, finance and corporate responsibility, the division aims to help decision-makers develop and adopt policies that are cleaner and safer; make efficient use of natural resources; incorporate environmental costs and reduce pollution and risks for humans and the environment. Visit www.unep.org.

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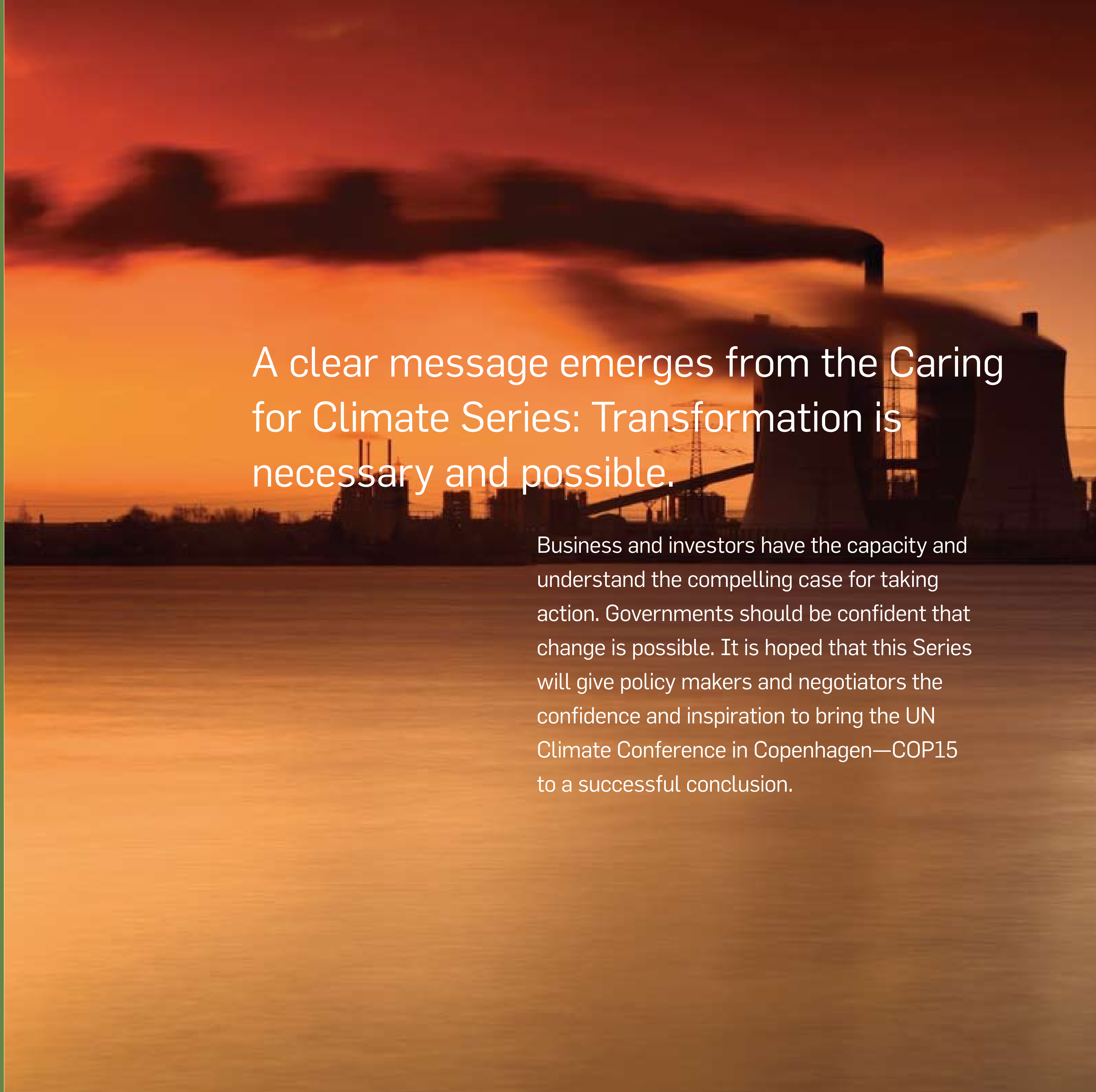
Disclaimer



A clear message emerges from the Caring for Climate Series: Transformation is necessary and possible.

Business and investors have the capacity and understand the compelling case for taking action. Governments should be confident that change is possible. It is hoped that this Series will give policy makers and negotiators the confidence and inspiration to bring the UN Climate Conference in Copenhagen—COP15 to a successful conclusion.

Caring For Climate

The private sector has started to embrace a broader sustainability imperative based on the present and potential impacts of climate change. A host of other critical issues, including water scarcity, food shortages, energy security, and health and humanitarian threats are at stake. Business is beginning to see climate change not as a stand-alone environmental issue, but rather as a global cross-cutting challenge.

While governments are called on to deliver a comprehensive and effective global framework agreement on climate, business also has a vital stake in this process. It is only with the private sector that we will be able to turn the tide on climate change.

Caring for Climate provides a platform for companies committed to developing effective climate change policies, as well as a channel for the business community to contribute inputs and perspectives to key governmental deliberations. Since launching in July 2007, this joint UN Global Compact-UNEP initiative has emerged as the world's largest and most diversified business engagement platform on climate, with approximately 400 corporate signatories in over 65 countries.

Through **Caring for Climate**, companies are:
- making climate change a leadership issue for strategy and operations;
- setting emission reduction targets and exploring low-carbon technologies;
- supporting public policy efforts aimed at achieving low-carbon economies; and
- sharing experiences and publicly disclosing progress made on an annual basis.

Caring For Climate Series

The **Caring for Climate** Series is a collection of new research studies and reports by leading investment, academic and civil society organizations. The Series offers a range of perspectives on the roles of business, investors and government in tackling climate change. While each report has a unique focus, leadership and investment are cross-cutting themes with direct application to each stakeholder group.

Leadership

- Opportunities for business leadership are abundant, notably by proactively focusing on solutions for clean and efficient energy, setting targets and reporting. Those companies moving first to benefit from the significant social changes that are projected have the opportunity to seize leadership in their industries. Moreover, leaders will be those companies that move to a holistic environmental stewardship approach which links climate to other key issues.
- Investors can lead by example, taking steps such as allocating capital to low-carbon opportunities, pricing climate risk, and engaging as shareholders to improve company performance and disclosure. There is an especially important role for large asset owners with longer-term investment horizons since they have the economic rationale to act and are in the best position of leverage.
- Visionary governmental leadership is required to address climate change. This can produce a clear incentive structure that favors good performance and a global deal on climate change that creates certainty. Government leadership will be required for achieving a conclusion to the Copenhagen Climate Conference that includes universal participation, broad consensus on emission targets, mechanisms to help nations meet targets and incentives for business.

Investment

- Business has unparalleled resources and know-how to innovate and create needed solutions. Climate change must become a central strategic and operational priority — for example, by setting emission reduction goals and publicly disclosing results, investing in clean technologies, and innovating green solutions in critical areas. Opportunities will arise in new markets, products and industries.
- Global investors are beginning to act by building climate change into their investment processes. Despite the tough economic conditions, the necessity for investors to act on mitigation and adaptation to climate change remains urgent to protect investments over the long-term and capitalize on the opportunities created.
- A number of governments have developed economic recovery and stimulus plans with spending and tax measures that support investments in climate change, totaling approximately USD 470 billion as of 22 April 2009. The fact that advocates of a low-carbon stimulus now exist at the highest levels in governments across the globe is a sign of the rising prominence of climate change. Green government investment can help revive demand, create jobs and accelerate the transition to economies with dramatically reduced greenhouse gas (GHG) emissions over the coming decades.

The full reports of the Caring for Climate Series are available on a memory stick produced by the Global Compact Office. All reports can also be downloaded from the Global Compact website at **www.unglobalcompact.org/Issues/Environment/Climate_Change.**

Reports: Summary Findings

Best Practices and Policy Frameworks - 2009 Survey of Caring for Climate Signatories

GlobeScan

A study of climate strategies implemented by companies signed up to the Caring for Climate initiative. Best practices of signatories are highlighted and expectations for public policies are identified. Key survey findings include:

- Caring for Climate signatories define corporate climate leadership as playing a role in providing solutions, leading by example, exercising social responsibility beyond reducing their own emissions, and demonstrating a sincere commitment.
- Signatories rate positively the effectiveness of their own climate change activities and performance in climate activities, including: building internal capacity to understand climate change; setting voluntary targets and strategy; and engaging stakeholders. They recognize room for improvement in implementing strategies and sharing climate experience with other companies.
- The best performing signatories comprise large companies with high revenues and large workforces. These companies report higher-costing climate activities that bring substantial financial benefits. Overall, most climate initiatives by signatories are implemented at a relatively low cost of less than USD 1 million, and are expected to bring low financial benefits.
- Signatories identify the most helpful national government policy approaches as investing in technology, long-term climate planning, encouraging citizens to contribute and promoting international policy.
- Signatories that address climate change in developed nations tend to find mandatory schemes and national regulatory approaches more helpful than their peers in developing nations that favour voluntary schemes.
- Caring for Climate participants call for governments to provide visionary leadership by actively ensuring they reach an agreement, setting GHG reduction targets, establishing workable mechanisms to help nations meet targets, and providing incentives for business.
- Signatories addressing climate change in developing nations are more likely to call for a cap-and-trade scheme applied to developed countries only, for global per capita targets, for a global taxation system on carbon emissions, and for an agreement that mobilizes industry sector by sector.

GLOBESCAN

Energy Efficiency and Low Carbon Intensity - Are We Making Progress?

Yale University, School of Forestry & Environmental Studies and The Center for Business and the Environment at Yale

An assessment of the public disclosures of GHG emissions of large companies that are participating in the Caring for Climate programme, through analysis of Communications on Progress (COPs) — the Global Compact's disclosure framework — and reporting with the Carbon Disclosure Project (CDP). Key findings include:

- A large fraction of firms (total of 145 at the time of the study) are reporting climate data:
  - 89 companies report at least one year of total emissions
  - 65 companies report disaggregate direct and indirect emissions (e.g. into Scope 1, 2, and/or 3)
  - 55 companies report an emissions or energy intensity
  - 70 companies report more than one year of emissions
    - Of these, 20 companies report emissions reductions
  - 20 companies report more than one year of intensity
    - Of these, 12 companies report intensity improvements
  - 58 companies report no climate-related data (either they have not submitted COPs, or they submit COPs containing no climate change information).
- Assessing progress toward Caring for Climate goals requires more than a single metric; rather, it must recognize that firms are starting with a wide range of capacity, understanding and ability to engage in the issue.
- To assess progress, the authors developed a range of metrics — from the simple act of making information publicly available, to the creation of emission reduction intensity targets, to documented reduction of emissions or emission intensities. Thus, firms that simply report data are making some progress, even if their emissions are rising to the extent that they are providing the investors and consumers with information to make informed choices about the climate consequences of the firms with which they do business. However, over time, emissions must fall in absolute terms in order to contribute to climate change mitigation.
- It is difficult to assess progress toward climate mitigation from COPs that provide little concrete information about firms' climate impacts (e.g. emissions, intensities, use of renewable energy, participation in emissions trading or offset schemes, etc). COPs that do provide abundant data are useful for offering insight into the steps that individual firms are taking toward climate change mitigation; however, they are not necessarily useful for inter-firm comparison or sector-wide assessment because of divergent reporting styles and accounting protocols.
- To enable assessments of progress at any scale beyond the individual firm — for example, between firms within a single sector or across sectors — serious consideration should be given to the possibility of adopting a uniform reporting style guided by a rigorous emissions assessment protocols, such as CDP.

Center for BUSINESS AND THE ENVIRONMENT *at Yale*

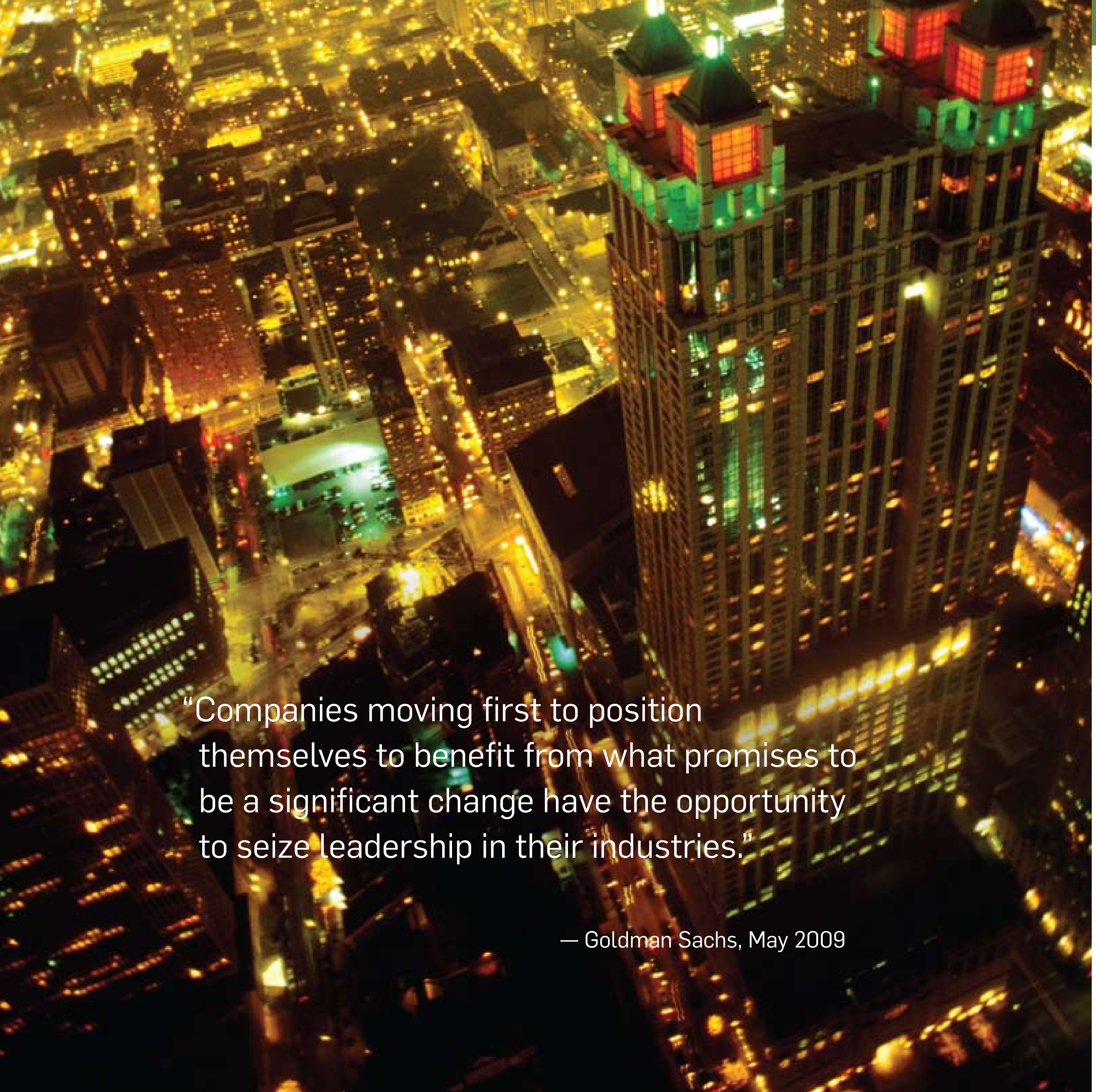
Building a Green Recovery

HSBC

Examines the stimulus packages of more than 30 governments, including the G20, with respect to allocations for investment in a low-carbon recovery. Uses the framework provided by the HSBC Climate Change Index to allocate fiscal measures to one of 18 investment themes. Key finding include:

- Since the end of 2008, governments have introduced a range of fiscal, monetary and industrial measures to counter the slide into economic recession. Historically, environmental measures have been sidelined at times of economic hardship. However, this time the case for integrating climate change objectives into economic recovery plans has gained ground.
- Across the world, governments have allocated more than an estimated USD 470 billion to one of 18 climate change investment themes identified by the HSBC Climate Change Index, some 15 percent of the total fiscal stimulus.
- Geographically, Asia is in the vanguard with over 20 percent of stimulus spending in key climate areas, led by China, Japan and South Korea. The US is second on the back of the American Recovery and Reinvestment Act which contains the broadest based stimulus in terms of fiscal support for renewables, building efficiency, low-carbon vehicles, rail, grids, and water and waste. In Europe, the stimulus in general, and green stimulus in particular, is smaller, which is partly explained by the existence of automatic fiscal stabilizers.
- Thematically, the largest allocations are towards rail, grids, water and building efficiency. The size and focus of China's stimulus package on key infrastructure priorities drives this allocation. Renewable energy receives a surprisingly small share of the spending.
- In terms of timing, most of the green stimulus will take effect in 2010 and measures planned for 2009 will be back-ended to the second half. Already, China's stimulus plan is starting to have an effect and the first clean energy projects have been agreed in the US.
- Following the G20 summit, the authors believe that the green stimulus agenda has reached the "end of the beginning". Key questions for investors include: Is the green stimulus large enough? Will there be delays in implementation? Is the green stimulus really green? Will it generate long-term competitive business opportunities? Will it mobilize private investment for a low-carbon recovery?

HSBC
The world's local bank



Change is Coming: A Framework for Climate Change - a Defining Issue of the 21st Century

Goldman Sachs

A detailed and broad assessment of the investment implications of climate change across global industries, integrating a top down perspective of the impacts changes in society will have across industries, with a bottom up view of companies' readiness to adapt to those changes. Key findings include:

- The social and political reaction to the threat posed by climate change promises to become a critical element of sustained industry leadership in coming years. Rising awareness of climate change is driving a shift in societies, in all of the roles in which they act, including shifts in consumer tastes, increased importance of environmental values to employees and the provision of a mandate by voters to regulators to enforce change. That awareness is growing quickly and extends across all major economies.
- If long term emissions reductions targets are to be achieved, dramatic changes in industries' operational and investment strategies will be necessary, likely fuelled by a substantial rise in the penalties associated with failures to react to those changing pressures. Companies in many sectors have begun to recognize the likely impact on their future performance by adapting their governance structures and strategies. Increasingly, investors will begin to recognize the significant proportion of shareholder value likely to be affected by the effectiveness of companies' responses.
- No industry will be immune from the changes implied by adaptation to the social response to climate change and the physical impacts it will bring, with the drivers of competitive positioning impacted to differing degrees and in different ways. Carbon intensive industries face the imperative to reduce direct emissions from their operations, whilst less intensive industries will be impacted through the pressures placed on their supply chains and end demand. In parallel, markets for technological solutions to climate change will present players in those sectors with a platform for rapid growth. Those companies moving first to position themselves to benefit from what promises to be a significant change have the opportunity to seize leadership in their industries.

Investor Leadership on Climate Change - An Analysis of the Investment Community's Role on Climate Change, and Snapshot of Recent Investor Activity
Principles for Responsible Investment

Explores the impacts of climate change through the investor lens, looking at efforts by signatories to the UN-backed Principles for Responsible Investment (PRI) and the broader investment community to build climate into investment processes, encourage shareholder leadership and engage on public policy. Key findings include:

- Business as usual is not enough. The burden of ensuring the world does not surpass the climate stabilization level (450ppm CO2) recommended by the International Energy Agency falls mainly on governments, scientists and civil society. However, investors must also show leadership in this area.
- Many global investors are already acting on climate change, and are doing so in four key ways:
  - Allocating capital to low-carbon opportunities;
  - Building climate change into their investment processes;
  - Engaging as shareholders to improve company performance and disclosure on climate change; and
  - Working collaboratively with policymakers to ensure the policy response to climate change is systemic, timely and adequate to the task.
- There is an especially important role for those large asset owners with longer-term investment horizons who are "universal owners". They sit at the top of the value chain, have the economic rationale to act and are in the best position of leverage. But, all in the value chain must share the responsibility.
- Climate change is a systemic problem. Collaboration and networks, such as the PRI, are going to be important in catalysing more investment in areas such a cleantech and dedicated venture capital.
- The financial crisis has endangered the liquidity of major climate change investments. One way to arrest this trend might be to call for more public intervention in low-carbon investments — for example, more Government-backed "climate bonds".

Carbon Markets: The Simple Facts

Mission Climate of Caisse des Dépôts and University Paris-Dauphine

Provides an overview of the benefits, pitfalls and best practices in setting up carbon-trading schemes that work for the environment, facilitate access to technology and foster economic development. Key findings include:

- The main lessons regarding the design of permit markets relate to four strategic issues: defining carefully and equitably the initial allocation of permits; ensuring reliable measurement and control of emissions; setting up registries that keep track of all permit transactions; and allowing flexibility mechanisms through the use of offset credits and appropriate rules for banking and borrowing.
- Putting a price on carbon will accelerate the emergence of a low-carbon economy and should be expanded to the major emerging economies. In the framework of current international climate negotiations, the creation of a global GHG market, covering the main industrial sources, could help to bring on board countries with different levels of economic development, as did the EU-ETS for the EU 27 Member States.
- Market-based instruments can also help in including agriculture and forestry in a future climate agreement. These sectors represent almost one-third of worldwide GHG emissions and often a larger proportion in developing countries. This could be achieved by crediting national or regional policies designed to protect tropical forests and increase food and agricultural output in a sustainable way. These programmes could be partially financed by credits sold on the future international GHG market.
- Carbon markets can also provide public authorities with new financial resources when allowances are auctioned. In the future, part of the revenues from auctioning could be directed to financing implementation of climate change policies including both mitigation and adaptation measures.
- Permit markets allow an efficient sharing of a global emissions constraint among emitters. If the market works well, the carbon price equalizes the costs of emissions reductions across the various actors, and enables the achievement of the desired emissions reductions at least cost. In the context of international negotiations, permit markets possess two features that may facilitate an agreement: flexibility and efficiency.

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The Ten Principles of the United Nations Global Compact

HUMAN RIGHTS

Principle 1	Businesses should support and respect the protection of internationally proclaimed human rights; and
Principle 2	make sure that they are not complicit in human rights abuses.

LABOUR

Principle 3	Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining;
Principle 4	the elimination of all forms of forced and compulsory labour;
Principle 5	the effective abolition of child labour; and
Principle 6	the elimination of discrimination in respect of employment and occupation.

ENVIRONMENT

Principle 7	Businesses are asked to support a precautionary approach to environmental challenges;
Principle 8	undertake initiatives to promote greater environmental responsibility; and
Principle 9	encourage the development and diffusion of environmentally friendly technologies.

ANTI-CORRUPTION

Principle 10	Businesses should work against corruption in all its forms, including extortion and bribery.

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