

MONDAY, JUNE 7, 2004

BARRON'S

REVIEW

Climate Change

U.S. Multinationals Will Soon Feel the Global Warming Heat

EDITED BY ROBIN GOLDWYN BLUMENTHAL

IT MAY BE TOO EARLY to tell whether the Russians were just blowing smoke when they said they would support the Kyoto treaty on global warming to gain European backing for their entry into the World Trade Organization. But it certainly got the attention of some on Wall Street.

"With or without Russia, environmental disclosure is becoming a big deal for U.S. companies," says Joseph Quinlan, chief market strategist at Banc of America capital management. He points out that despite the U.S. refusal to support the Kyoto treaty — which by 2012 aims to reduce greenhouse-gas emissions from developed nations to a level below emissions in 1990 — U.S. multinational companies could see earnings affected, big time.



William Waitzman

Quinlan points out that more than half of U.S. multinationals' manufacturing affiliates abroad are based in countries that support the treaty. He estimates billions of dollars of earnings could be at risk. Sectors such as oil, chemicals, steel and automobiles have the most potential exposure, he says. Absent Russia's ratification of the Kyoto treaty, "you're still looking at emissions controls in Europe, Canada and Japan," Quinlan says. Too, a number of U.S. states are examining environmental controls.

Quinlan identified some companies that already have adopted voluntary reductions in their emissions. Among them: [Baxter International](#), [DuPont](#), [Pfizer](#), [Alcoa](#), [International Paper](#) and [Motorola](#). Innovest Strategic Value Advisors recently identified 50 companies in the FT 500 Global index that it may use as a basis for a tradable index.

Some managers who have been investing in companies that are "best-in-class" in terms of environmental performance have seen outsized returns. Jonathan **Naimon** is president of Light Green Advisors, which manages the Eco Performance Portfolio of 80 such companies from different Standard & Poor's sectors. He says it has outperformed the S&P 500 by about 9% since inception in January 2000. "The smart guys are already figuring out" how to become more environmentally friendly, says **Naimon**. "You shouldn't be waiting for Russia to cut a deal to decide it's time to do something."

Dow Indicator

Dow Industrials

10242.82 + 54.37

Dow World Index

189.10 - 0.14

30-Yr T-Bonds

5.46 + 0.12

"Environmental disclosure is becoming a big deal for U.S. companies." — Joseph Quinlan, Banc of America