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New Analysis Warns Investors of Non-disclosure by Automakers in Europe

The World Resources Institute (WRI) and the Sustainable Asset Management (SAM) Group today released a new analysis warning investors that companies selling autos in the European Union – with the exception of BMW – are not disclosing carbon dioxide (CO2) reduction strategies in compliance with a five-year-old European Union agreement.

"It is unacceptable that, five years after the ACEA Agreement was signed, BMW is the only one of all the companies to have disclosed its strategies and supporting data to WRI and SAM, and in annual reports to investors," said WRI's Amanda Sauer, lead author of "Transparency Issues with the ACEA Agreement: Are Investors Driving Blindly?" "This uncertainty should cause investors to apply a higher risk-factor to auto stocks as a whole until the structure of the agreement is made clear." On the other hand, BMW appears to have some of the most substantial future costs to incur compared with other auto companies in order to meet the CO2-reduction requirements of the ACEA Agreement. ACEA stands for les Association des Constructeurs Europeens d'Automobiles or, in English, the European Automobile Manufacturers Association.

The WRI report examines the effects on carmakers of two possible scenarios that could result from an agreement that the authors call "secret" and "designed to hide the hardest-hit companies from its effects, while adversely affecting investors." The companies analyzed are BMW, DaimlerChrysler, Ford, Volkswagen, Hyundai, Fiat, PSA Peugeot Citroën, Renault, General Motors, Nissan, Toyota and Honda. Aside from Sauer, the report is co-authored by WRI's Fred Wellington and the SAM Group's Philipp Mettler and Gabriela Grab Hartmann. The 12-page analysis can be downloaded from http://www.sam-group.com.

The ACEA Agreement was signed in 1998 between the manufacturers association, the auto companies, and the European Commission. It calls for the voluntary reduction of CO2 emissions rates of vehicles sold in the European Union. Specifically, the agreement establishes industry-wide targets for average vehicle emissions from these vehicles to reach 140 grams of CO2 per kilometer (gCO2/km) by 2008, with the possibility of extending the agreement to 120 gCO2/km by 2012. Although the scheme is voluntary, the European Commission has repeatedly stated that it will formally regulate the industry if it fails to meet the 2008 target.

"Along with adding more low-carbon vehicles to meet the 2008 regulations, companies will have to modify their existing models, including adoption of incremental technologies to improve fuel efficiency, along with the further penetration of diesels," Mettler said. "Without knowledge of how the commitment will be met, it is impossible for stakeholders to determine how cash

flows and debt levels of each company will be affected."
The analysis evaluates the two most likely scenarios under the ACEA Agreement. The two scenarios are:

- A **corporate average emissions-intensity** approach, under which each company's fleet is assumed to be required to meet the 140 gCO2/km standard. This is a similar framework to the CAFÉ standards used in the United States, but it would be applied across the whole fleet rather than having separate standards for cars and light trucks. This approach would most benefit companies that already have relatively fuel-efficient fleets, such as Fiat, PSA Peugeot Citroën, Renault, General Motors, Nissan, Toyota and Honda.

- A **uniform percentage improvement** approach, under which each company is required to improve its own fleet by an industry standard of 15 percent by 2008. This approach would most benefit companies with the least fuel-efficient fleets, such as BMW, DaimlerChrysler, Ford, Volkswagen, and Hyundai.

Under the authors' methodology, based on European Union data and 2004 sales and CO2 emissions data, they found that the average cost to meet the agreement under the corporate average scenario is €839 per vehicle and €787 per vehicle in the uniform percentage improvement scenario.

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SAM Sustainable Asset Management (http://www.sam-group.com) is an independent asset management company headquartered in Zurich, Switzerland. Established in 1995, SAM was among the first asset managers to specialize in the field of sustainability-driven investments. SAM manages institutional and private mandates in line with sustainability criteria. And together with Dow Jones & Company, SAM launched the world's first index to track the performance of sustainability-driven companies worldwide.

The World Resources Institute (http://www.wri.org/wri) is an environmental research and policy organization that creates solutions to protect the Earth and improve people's lives.