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## Once Lauded, Citigroup's Green Policy Now Sees Fire

By CLINT RILEY

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Three years ago, environmentalists hailed Citigroup Inc. for adopting the strongest "eco-friendly" policies of any financial institution world-wide.

Rainforest Action Network, a San Francisco environmental group that had targeted Citigroup with protests and blockades of its bank branches, ended its tactics and began helping the firm develop environmental standards.

The group, known as RAN, then challenged other banks to meet or beat the example set by the world's largest financial-services company by market value.



Charles Prince

Apparently, a few were listening.

RAN and other environmental groups say they now consider Citigroup a laggard, compared with other big banks, such as Bank of America Corp. and those in Europe. That thinking comes despite the firm's adoption of lending and disclosure policies for environmentally sensitive projects that meet or exceed goals in international agreements such as the Equator Principles, voluntary guidelines based on World Bank and International Finance Corp. policies that are considered a financial-industry benchmark.

### Citi Air

"It is increasingly clear that on one issue in particular -- climate change -- there is a need for Citigroup to update and upgrade its policy," Michael Brune, RAN's executive director, said in a recent letter to Citigroup's chairman and chief executive, Charles Prince.

What has especially drawn the attention of environmental groups and some activist investors is Citigroup's involvement as an adviser to TXU Corp., a Dallas utility and longtime Citigroup client that is proposing building 11 coal-fired power plants in Texas. While Citigroup won't identify any of its clients, the involvement of the bank -- as well as Merrill Lynch & Co. and Morgan Stanley, which also are arranging financing for the \$10 billion TXU project -- has become an open secret in recent months.

One reason is that TXU's proposal has emerged as a high-profile issue in the debate over global warming and the accompanying discussion of establishing a mandatory nationwide cap on carbon-dioxide emissions in the U.S. The pressure on Citigroup and other companies is only expected to increase following the Feb. 2 release of a report by the U.N.-sanctioned

Intergovernmental Panel on Climate Change. The panel concluded after six years of study that it is almost certain that global warming is caused by the burning of fossil fuels.

A lengthy report to investors prepared last summer by Citigroup's investment-research arm -- with assistance from the World Resources Institute, a Washington think tank -- concluded that utilities account for about 32% of total greenhouse emissions in the U.S.

Despite entering the trading market for carbon-emission credits last year in Europe, where limits on emissions by industry are in place, Citigroup hasn't taken a public position on whether a carbon-emission cap-and-trade system should be instituted in the U.S.

That could change. Citigroup and other big banks are expected to endorse such limits as soon as next week. Carbon-credit trading is expected to become a more than \$250 billion market by 2020. Already, competitors such as Lehman Brothers are actively lobbying lawmakers for a nationwide carbon cap alongside environmental groups and some other big corporations as a way to limit climate change.

### **Meeting on Valentine's**

On Valentine's Day, Mr. Prince is scheduled to sit down with Mr. Brune and other RAN officials to discuss Citigroup's stance on TXU and its overall climate-change policy. In his letter, Mr. Brune put Mr. Prince on notice that his organization plans to begin agitating against the company again if the TXU project goes forward with the bank's involvement, "particularly without a comprehensive climate policy."

Citigroup declined to comment on the meeting. "We have had numerous conversations," said Pamela P. Flaherty who heads the Citigroup Foundation and who deals with social-responsibility issues at Citigroup. "We are continuing to talk."

Central in the coming discussion likely will be what responsibility, if any, Citigroup has to only do business with clients that embrace eco-friendly ways. Thus far, Citigroup has imposed environmentally beneficial policies on itself, but refused to jettison big polluters or dictate specifically what its energy-producing clients must do beyond what the law and financial prudence require.

For example, Citigroup pledged last year to reduce its greenhouse-gas emissions by 10% by 2011 at its more than 14,000 facilities world-wide. As part of that effort, Citigroup joined the Environmental Protection Agency's Climate Leaders Program and this month was ranked 16th among more than 40 big companies for the amount of clean energy it used: 3% of the company's total energy use.

At the same time, Citigroup served as the largest arranger of corporate financing for the power and oil and natural-gas industries in 2006, according to data provider Thomson Financial. Citigroup controlled 10% of the \$272 billion power-lending market and 8.7% of the \$310 billion oil and natural-gas lending market.

RAINFOREST ACTION NETWORK NEWS ARTICLE

At the same time, Citigroup served as an adviser or financier on dozens of other "project finance" deals where funding is specifically obtained to construct projects like power plants and refineries that are expected to generate the revenues needed to repay debt.

For now, the TXU project is moving forward in Texas, but a hearing by the state on key permits that TXU needs is scheduled for later this month.

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