

MEMO

Subject: Bed Bath & Beyond (**BBBY**) and Kroger Corporation (**KR**) – Grounds for YES votes on shareholder resolutions concerning climate change

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Rationale for YES votes:

1. Climate change will impact all sectors of the economy, including retailers.
2. BBBY and KR significantly lag other retailers when it comes to climate disclosure.
3. BBBY and KR are dismissive of shareholder requests for climate related disclosure.

Climate change will impact all sectors of the economy, including retailers

There is increasing recognition that climate change will impact all sectors of the economy. The Stern Review, often cited as the most comprehensive overview of the economics of climate change, estimated that the cumulative economic impacts of climate change could be equivalent to a loss of up to 20% of average world-wide consumption if action is not taken quickly.ⁱ

Concern about the impacts of climate change is no longer limited to those companies in high-emitting industries like oil and gas, utilities and autos. Increasing energy costs, extreme weather events, carbon caps and other realities associated with a world increasingly concerned about the changing climate will impact even those sectors with relatively low levels of direct emissions. This includes companies in the retail sector, some of which continue to view themselves as relatively insulated from the effects of climate change.

While it is true that the direct emissions associated with retail sector operations are relatively low, companies such as Bed Bath & Beyond and Kroger can no longer afford to ignore climate change. Take as just one example the effects of the recent domestic drive to increase ethanol consumption. According to the *New York Times*, the current push to address energy independence and decrease GHG emissions through the use of alternative fuels is prompting oil companies to stall on refinery investments. Oil industry executives are now warning that current fuel shortages could become a long-term problem, leading to permanently higher gasoline prices.ⁱⁱ Retail sector companies are already beginning to feel the pinch; retail sales growth from February to April 2007 ran at half the pace of last year.ⁱⁱⁱ Increasing prices at the pump are making shoppers think twice about each trip to the store and leaving them with fewer dollars to spend when they arrive. A survey by consumer consulting firm BIGresearch

found that 40% of respondents were making fewer shopping trips as a result of rising gas prices.^{iv}

For grocers such as Kroger, the drive to replace higher GHG emitting fuels with ethanol may have other implications as well. According to an article in *MarketWatch*, the rush to produce ethanol has demonstrated how a shift in demand for a basic commodity such as corn can disrupt food supplies. “The push to wean the United States off oil and reduce its contribution to climate change has sent the price of corn to record highs in recent months, with corn futures topping \$4.49 a bushel in March, up 66% from early September.” As of April, food prices in general were up 3.7%, the fastest rate of growth in three years.^v How will this affect the already razor-thin margins of the grocery sector?

“No investor in the food industry can be certain that the economics of the industry in an era of substantial climate change will be the same as they are now, and that ought to worry investors.”

Aron Cramer, President & CEO, Business for Social Responsibility

Shifts in demand and pricing due to ethanol production provide just one example of the ways in which retailers, despite their relatively insignificant levels of direct emissions, may be impacted by climate change. Other things these companies need to be thinking about include possible operational disruptions and damages to warehouses and stores stemming from extreme weather events,^{vi} increasingly stringent energy efficiency requirements such as those outlined in the recently introduced Energy Efficiency Promotion Act and possible brand damage stemming from inaction.

According to Fred Crawford, Managing Director at Alix Partners, a global consulting and financial advisory firm, “Retailers will have to change their business models ... because, ultimately, [environmental issues are] going to be legislated, and they’re not going to have a choice. Much like Sarbanes-Oxley or Y2K, it would be a very prudent thing for big retailers to begin the programs now.”^{vii} As investors, we want to be sure that our companies are, at the very least, beginning to think strategically about what programs might be necessary.

BBBY and KR significantly lag other retailers when it comes to climate disclosure

Others in the retail industry acknowledge the importance of thinking about climate change and its potential impacts on their operations. According to Wal-Mart’s vice president for corporate strategy and sustainability, “We don’t believe we can separate environmental concerns from business concerns... We believe this is good business. We are proving that we can reduce greenhouse gas emissions while adding return for our shareholders and providing value to our customers.”

Most European retailers also recognize that climate change can and will impact their businesses. They are preparing to deal with the challenge through concrete actions such as reducing in-store energy use, switching from air to sea freight for products where feasible and participating in groups like the Corporate Leaders Group on Climate Change.^{viii} Most publicly report information on their plans for addressing climate change.

“Of all the sustainability issues we deal with, none poses such an all encompassing threat to the way in which we operate in the long term as climate change.”
Mike Barry, Sustainable Development Manager, Marks & Spencer

They also inventory and report their carbon footprints, including, in many cases, emissions associated with their supply chains.

A number of major American retailers, including Wal-Mart, have undertaken reporting and/or committed to emission reductions. When compared with the efforts of others in the retail industry, both Bed Bath & Beyond and Kroger look woefully unprepared to confront the realities of a carbon constrained economy and a changing climate.

Company	Climate Reporting	Emissions Reporting & Reductions	Other Efforts
Wal-Mart	Yes.	Wal-Mart conducts a GHG inventory and has committed to reducing emissions from stores and distribution centers by 20% over the next 6 years. ^{ix}	Wal-Mart participated in the 2006 Senate Climate Conference. The company has committed to reduce energy usage in stores by 30% and increase trucking fleet efficiency by 25%. In February 2007, WMT announced that it would push suppliers to produce less carbon intensive products. ^x WMT has also committed to aggressively pursuing regulatory and policy changes that will create incentives for utilities to invest in energy efficiency and use low or no GHG sources of electricity. ^{xi}
Target	Yes.	Target tracks and reports both direct and indirect GHG emissions. TGT is currently working to set a GHG reduction goal. ^{xii}	Target is a member of the US EPA's Climate Leader program. TGT also purchases green energy where economically viable. ^{xiii}
Bed Bath & Beyond	No stand alone reporting. ^{xiv}	No.	None found.
Safeway	No stand alone reporting. Press releases containing significant information available on website.	Safeway has a comprehensive GHG Emissions Reduction Program and has publicly committed to reducing emissions by 390,000 tons. As a member of the CCAR, Safeway is required to monitor, report and certify its GHG emissions. ^{xv}	Safeway is a member of the California Climate Action Registry (CCAR) and supported AB 32, California's law reducing emissions by 25% by 2020. ^{xvi} Safeway is also a member of the Chicago Climate Exchange (CCX).
Kroger	No.	No.	None found.

BBBY and KR have been dismissive of shareholder requests for climate related disclosure

Kroger's only contact with the proponents to date has been the provision of the company's planned statement of opposition as required by SEC regulations. Kroger's three paragraph statement of opposition contains no information about the company's response to pressure to address climate change. In essence, the statement notes that the company has developed its own form of reporting and that the requested report, "...would be a waste of time, resources and money for Kroger and [its] shareholders." We disagree.

*"What is clear is that doing nothing about climate change is a business risk itself... businesses will need to examine the risks posed to their business and demonstrate they've looked at the issue."^{xvii}
VNU Business Publications*

While Kroger claims that its reporting is sufficient, the company's Public Responsibilities Report does not include any information on climate change. Presently, there is no indication that the company plans to include information on its response to climate change in its next Public Responsibilities report.

Bed Bath & Beyond received a similar proposal focused more narrowly on energy efficiency in 2006. Despite the relatively high level of support, approximately 26%, the company has not taken any concrete steps to produce the requested disclosure or to share additional information on the topic with concerned shareholders. The company's statement of opposition to this year's proposal does provide shareholders with some information on its plans to address climate change, but focuses primarily on energy efficiency improvements in its buildings and the company fleet; issues raised in last year's proposal. We continue to be concerned about the company's preparedness to confront the broader implications of climate change for its business. Its current disclosure does not include an emission inventory, nor does it say whether it tracks or has plans to begin tracking emissions. It also fails to make any mention of possible impacts from severe weather or whether the company participates in any voluntary climate related initiatives.

According to BBBY, the 26% vote on last year's resolution demonstrated that, "There does appear to be some appetite among the Company's shareholders for information regarding the efforts undertaken in the areas of energy efficiency, emissions reduction and broad responses to climate change issues." In the absence of a concrete commitment to undertake climate reporting, we believe that it is especially important for shareholders to continue to send BBBY's management a strong message regarding the need for comprehensive climate change reporting.

We urge you to support shareholder proposals requesting climate change disclosure at Kroger and Bed Bath & Beyond

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- ⁱ hm-treasury.gov.uk/media/FDE/AD/faq.pdf. Page 2, Question 5.
- ⁱⁱ Mouwad, Jad. "Oil Industry Says Biofuel Push May Hurt at Pump." *The New York Times*. May 24, 2007.
- ⁱⁱⁱ Jones, Sandra. "Spring Brings Record Fall." *Chicago Tribune*. May 11, 2007.
- ^{iv} Herbst, Moira. "Consumer Spending Could be Out of Gas." *BusinessWeek*. May 17, 2007.
- ^v Pritchard, Carolyn. "Climate: The food chain's weakest link." *MarketWatch*. May 17, 2007.
- ^{vi} According to a report by Business for Social Responsibility, "There is scientific consensus that climate change is making extreme weather more frequent, more ferocious, and increasingly destructive." Business for Social Responsibility. "A Three-Pronged Approach to Corporate Climate Strategy." October 2006.
- ^{vii} Moore, Angela. "Do you have that in green?" *MarketWatch*. May 17, 2007.
- ^{viii} Tesco.com/crreport06/f/climatechange.html
- ^{ix} cdproject.net/online_response.asp?cid=2235&id=4&exp=3&desc=S%26P+500&letter=W&year=1
- ^x logisticsbureau.com/supply_chain_carbon_footprint_emissions_analysis.htm
- ^{xi} cdproject.net/online_response.asp?cid=2235&id=4&exp=3&desc=S%26P+500&letter=W&year=1
- ^{xii} cdproject.net/response_list.asp?id=4&exp=3&desc=S%26P+500&letter=T
- ^{xiii} http://media.corporate-ir.net/media_files/irol/65/65828/corpgov/TGTCorporateResponsibilityasof3-29-07.pdf
- ^{xiv} BBY does provide investors with some information on its energy efficiency and climate change efforts in its statement in opposition to the 2007 climate change proposal.
- ^{xv} phx.corporate-ir.net/phoenix.zhtml?c=64607&p=irol-newsArticle&ID=909665&highlight=
- ^{xvi} energy-daily.com/reports/Safeway_Joins_California_Climate_Action_Registry_999.html
- ^{xvii} Willsher, Richard. "Climate risk? Stormy 'whether'." *VNU Business Publications*. June 28, 2006.