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Is CEO Jeff Immelt lobbying against GE's earnings?

March 17, 2006

Dear General Electric Company Shareowner:

The purpose of this letter is to seek your support for "Shareowner Proposal #6: Report on Global Warming Science" on the General Electric Company's 2006 Proxy Statement (attached). The Proposal asks management to disclose to shareowners the company's scientific and economic rationale underlying GE's lobbying the government for global warming regulation.

The Free Enterprise Action Fund is an institutional shareowner in GE. We support Shareowner Proposal #6 that will be voted on at GE's annual meeting on April 26, 2006.

In May 2005, GE's management announced its "Ecomagination" marketing initiative, describing it as a "strategy to respond to the needs of GE customers for technological solutions to environmental regulatory requirements." We support GE's effort to sell cost-effective, fuel efficient technology that benefits customers and the economy, and meets regulatory requirements. That is good business.

But we believe GE has gone beyond the bounds of simply helping customers to use energy more efficiently or to meet existing regulatory requirements. GE is now working to impose new, more stringent government regulations that will raise energy costs and reduce energy availability without providing significant, or even measurable, benefits. GE is lobbying lawmakers,[1] and even supporting politicized activists in hopes of enacting in the U.S. greenhouse gas regulation similar to the Kyoto Protocol.[2]

We are concerned that GE's lobbying for stringent global warming regulation will adversely impact: (1) GE's customers and shareowners; (2) the customers and shareowners of other businesses; (3) consumers; and (4) the economy. The certainty of high costs and the uncertainty of any benefits are the key reasons why mandatory global warming regulation has been rejected by the U.S. Government.

GE acknowledges its earnings depend on global economic growth and low energy costs.

- "Our results [for 2003 through 2005] reflect the global environment in which we operate. During these years, the economy has grown, but at a rate that, in historic terms, has been relatively modest."[3]
- "We also experienced…escalating energy costs and higher fossil fuel-related raw material prices."[4]
- GE's earnings declined 2.8% from 2004 through 2005 [$16.8 billion vs. 16.3 billion].

Greenhouse gas regulation will reduce energy availability, increase energy costs and harm the economy.

- Global warming regulations currently required by the Kyoto Protocol are estimated to reduce gross domestic product (GDP) among treaty signatories (mostly EU nations) by up to 2 percent.[5]
- Post-Kyoto regulations now being negotiated may reduce GDP by up to 4.5 percent.[6]
- Higher energy costs reduced U.S. economic growth in the fourth quarter of 2005 by about 73 percent (4.1% in Q3 vs.1.1% in Q4), according to the Department of Commerce.
- The Federal Reserve raised interest rates to counter the inflationary pressures from rising energy costs.[7]
- High energy costs will dampen retail sales in 2006, according to the National Retail Federation.[8]

- The Kyoto Protocol raised business energy costs 10%-20% in the United Kingdom.[9]
- Wholesale electricity prices in the EU are up sharply, partly as a result of the added cost of CO2 emissions credits. In 2005 alone, the average price of a European megawatt hour rose from 28 Euros to more than 40 Euros – a 43 per cent jump. The EU predicts that for every emissions reduction of just 1.5 per cent, the region's economic output will decline by 0.5 per cent.[10]
- Dupont says high energy costs – due in part to expected global warming regulations – will continue to constrain earnings.[11-12]
- The Rohm & Haas Company says CO2 limits may restrict business growth by limiting the quantity of traditional energy sources. Restricted energy availability could: increase energy costs, require additional capital investment to lower energy intensity and ration usage through purchase of greenhouse gas emission credits."
- First Energy Corp. says, "customer cost impacts of carbon dioxide (CO2) regulation could be significant (3.5-4.5 center per kilowatt-hour) if the carbon dioxide market price is as high as $50/ton CO2 ... during 2005, European CO2 emission allowance prices increased from approximately $10/ton CO2 to over $30/ton CO2… And thus far in Europe, generators have not had to incorporate expensive technology…"[13]
- Kraft Foods, Inc. said earnings growth in 2006 is expected to be skewed to the second half of the year because of the carryover impacts of higher input costs for energy and packaging."[14]
- Wal-Mart's shares slumped in August 2005 after posting its slowest quarterly growth in four years and lowering earnings forecast due to higher energy costs.[15] CEO Lee Scott expressed concern that higher energy costs "will erase improvements in employment and real income for ... an important portion of our customer base."
- Rhode Island and Massachusetts pulled out of the Regional Greenhouse Gas Initiative because of concern for increased costs at power plants and higher energy costs to businesses and consumers**.** [16]

Management should not proceed as if GE's business prospects depend on government-mandated interest in certain of its products. Management should recognize that GE's business prospects depend on free markets and a healthy, growing global economy. Stifled economic growth or a downturn – which could be brought on or exacerbated by global warming regulation – will likely adversely impact GE, as the company has acknowledged in its 2005 annual report.[17]

So-called "regulatory certainty" – the notion that business planning is facilitated by a certain regulatory environment – is an invalid argument for seeking costly global warming regulation since the only certainty is that the regulations will likely only become more stringent and expensive. GE will not be able to dictate events once the regulatory regime it advocates is enacted.

While adverse economic impacts of greenhouse has regulation are certain, the scientific basis underlying calls for greenhouse gas regulation is uncertain.

- Climate varies significantly because of natural causes.[18]
- Twentieth century temperature trends do not correlate well with concurrent trends in manmade greenhouse gas (GHG) emissions.[19]
- The mathematical models that attempt to predict future climate change resulting from manmade GHG emissions have not been validated against historical climate data.[20]
- No existing model predicts future global climate with certainty.[21]
- Warm periods are historically associated with human development and prosperity. The Vikings thrived in Greenland until the 14th century cold period known as the "Little Ice Age," when they abandoned

settlements because of encroaching sea ice. The Little Ice Age persisted until the 19th Century and immediately preceded the current warming trend.[22]

- The required GHG emission reductions of the Kyoto Protocol may “avoid” just a few hundredths of one degree Centigrade of warming through 2050 at an estimated cost of 0.2% to 2% of GDP per year.[23]
- It is widely acknowledged that energy efficiency and zero-emissions mandates will have no detectable impact on global climate in any foreseeable timeframe.[24]
- The U.S. Senate has rejected mandatory limits on manmade GHG emissions as being too costly relative to uncertain benefits.

GE’s management opposes the Shareowner Proposal claiming that “GE has not to date announced a ‘climate change policy.’ The facts indicate otherwise.

- Section 5.6 of the 2005 *GE Citizenship Report* states, “There will continue to be an increasing need around the world to reduce greenhouse gases.”
- On July 13, 2005, GE joined the Pew Center on Global Climate Change, a group advocating mandatory GHG controls. CEO Jeff Immelt said, “We are glad to join Pew’s effort to work toward these goals…”[25]
- GE joined the “Northeast Climate Group,” a coalition of nine companies organized by the World Resources Institute, a public policy group that advocates the reduction of GHG emissions.[26]
- “Immelt said in the interview that he would like Congress to pass an energy bill that set ‘clear milestones’ to reduce greenhouse gas emissions…”[27]
- “… Mr Immelt and other senior GE officials now publicly proclaim that global warming is real, and also call for American government regulations to deal with it…”[28]

The Shareowner Proposal simply requests transparency on an issue crucial to GE and the economy.

The Proposal asks GE to prepare a report for shareowners (at reasonable cost and excluding confidential information) that would disclose whether its lobbying for global warming restrictions is based on a due diligence-type review and analysis of pertinent scientific and economic facts or perhaps has its roots in appeasement of anti-GE activists or public relations.

If GE can find willing buyers for its Ecomagination products, that’s good business. But GE’s lobbying to enact laws and regulations that would potentially raise energy prices, harm the economy and adversely impact GE – without conducting the appropriate due diligence – is bad business.

GE founder Thomas Edison once said, “I find out what the world needs, then I proceed to invent.” Shareownerr Proposal 6 simply requests disclosure of whether GE performed the requisite scientific and economic analysis to determine that global warming regulation is “what the world needs.”

Please vote “FOR” on “Shareowner Proposal #6: Report on Global Warming Science.” If you have questions, you may reach us by telephone 301-258-2852 or via e-mail at steve@feafund.com.

Sincerely,

Steven J. Milloy

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[1] See e.g., Energy & Environment Daily, McCain, Lieberman slam enviros, Bingaman climate effort (June 17, 2005).
[2] Pew Center on Global Climate Change, Media Release (July 13, 2005).
[3] General Electric 2005 Annual Report (March 2006).
[4] Ibid.
[5] United Nations, Third Assessment Report, 2001.
[6] Source: Testimony of Margo Thorning, American Council on Capital Formation to the Senate Subcommittee on International Economic Policy, Export and Trade Promotion (November 14, 2005) http://www.accf.org/pdf/Statementfinal.pdf
[7] Financial Times, America will fall harder if oil prices rise again, by Martin Feldstein (February 3, 2006).
[8] Financial Times, Energy Costs to Damp US Retail Sales Growth (January 17, 2006).
[9] Global News Wire, Radiative Forcing of Climate Change: Expanding the Concept and Addressing Uncertainties (January 1, 2006).
[10] Western Standard (Alberta), Market jitters: Trading in emissions credits was supposed to make Kyoto affordable. Instead, it could end up costing us a fortune (February 13, 2006)
[11] E. I. du Pont de Nemours and Company, Form 8-K (January 24, 2006).
[12] E. I. du Pont de Nemours and Company, Form 10-K (March 2, 2005).
[13] First Energy Corp., Form 8-K (December 1, 2005).
[14] Kraft Foods Inc., Form 8-K (January 30, 3006).
[15] MarketWatch.com, Wal-Mart says gas prices are hurting; Profit falls short of target; retailer reduces forecast, August 16, 2005.
[16] Boston Globe, Mass. pulls out of agreement to cut power plant emissions (December 15, 2005)
[17] See n. 3-4.
[18] National Academy of Sciences (NAS), Natural Climate Variability on Decade-to-Century Time Scales, 1995.
[19] Douglass, Pearson, and Singer, Geophysical Research Letters, 9 July, 2004.
[20] NAS, Reconciling Observations of Global Temperature Change, 2000.
[21] NAS, Radiative Forcing of Climate Change: Expanding the Concept and Addressing Uncertainties, 2005.
[22] NAS, Natural Climate Variability on Decade-to-Century Time Scales, 1995.
[23] United Nations, Third Assessment Report, 2001.
[24] Hoffert MI et al. Science 1 November 2002 298: 981-987; and http://www.foxnews.com/story/0,2933,68667,00.html.
[25] Pew Center on Global Climate Change, Media Release (July 13, 2005).
[26] 2005 GE Citizenship Report.
[27] Washington Post (May 10, 2005).
[28] The Economist (November 27, 2005).

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