Insights for Investors Working for Bolder Intervention on Climate Change

Interfaith Center on Corporate Responsibility

About this White Paper

This white paper was developed in response to investor requests for enhanced strategies that might be considered in engaging the energy sector to address the serious risks posed by rapidly rising levels of CO_2.

Interfaith Center on Corporate Responsibility
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INTERFAITH CENTER ON CORPORATE RESPONSIBILITY

ABOUT ICCR

Currently celebrating its 42nd year, ICCR is the pioneer coalition of active shareholders who view the management of their investments as a catalyst for change. Its 300 member organizations with over $100 billion in assets have an enduring record of corporate engagement that has demonstrated influence on policies promoting justice and sustainability in the world.

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BACKGROUND

In October of 2012, Superstorm Sandy roared up the east coast leaving 110 people dead, more than 8 million households without power and wreaking economic havoc in excess of $60 billion. Weather events in the form of droughts, floods and tornadoes occur with ever-increasing regularity and impact across the globe. And ominously, in May of this year, the Mauna Loa Observatory in Hawaii recorded a first-ever carbon dioxide concentration of 400 parts per million (PPM), exceeding the threshold of 350 PPM that scientists deem safe for humanity.

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Decades before Al Gore's "An Inconvenient Truth" sparked an international debate that pitted climate scientists against global warming skeptics, members of the Interfaith Center on Corporate Responsibility and shareholders in global energy companies began sounding the alarm on climate risk. For over 40 years, faith-based and socially responsible investors have been using their voices to advocate for the corporate responsibility to properly care for and manage the earth's resources. The concept of environmental stewardship is embedded in all faith traditions, as is the concept of "environmental justice" which acknowledges that environmental impacts are felt most keenly by those least able to mitigate against them. This social justice dimension has been at the center of all ICCR members' advocacy and a driving force behind our members' engagements on climate change.

While the primary responsibility for controlling greenhouse gas emissions clearly lies with global policymakers, as early as 1992 ICCR members began to use their leverage as shareholders to forcefully engage the fossil fuel industry and other GHG-heavy sectors in an effort to curb emissions and forge new paths towards a green economy. While the shareholder engagement approach championed by ICCR and its members has proven successful in promoting increased corporate responsibility in a wide variety of industries, progress in the fossil fuel industry has been too modest and now, in light of accelerated global warming trends, much too slow.

Specifically, fossil fuel companies:

- Have not factored the full impacts of climate change into their business plans, and are instead continuing to invest heavily to preserve a business model that is unsustainable. In fact, they have increased production, extracting millions of barrels of oil more a week and are developing more environmentally degrading sources, such as tar sands;
- Often use their vast resources to influence politicians and to lobby against legislation

that attempts to put a price on and/or cap carbon extraction and burning and;

- Fight environmental regulations (directly or through industry associations) that seek to reduce GHG emissions and mitigate climate change impacts.

As a sign of both the dire nature of our planet's climate crisis and the growing public frustration with government and industry intransigence, grassroots movements are beginning to surface and gain some traction in the public discourse. One such movement is a campaign launched by 350.org which calls for wholesale divestment from the top 200 fossil fuel companies. While the campaign organizers concede that a divestment movement is a largely symbolic strategy meant to mobilize the public and marginalize the industry, the campaign has helped to focus public attention on the need for more aggressive policy measures that will serve as a wake-up call to propel meaningful climate policy.

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Questions and Considerations

What are the implications of divestment vs. engagement as a strategy to encourage improved corporate social responsibility?

The ICCR model of active ownership maintains that shareholders have an obligation to use their voices to positively influence corporate decision-making. Even if this voice is only used to vote their proxies in favor of others' resolutions, for the purposes of engagement, shareholder advocates may choose to hold problematic companies in their portfolios in order to retain a "seat at the table". To divest is to relinquish those shares to another owner who may not be practicing active ownership. This approach, in effect, serves to strengthen management control. ICCR members advocate for amplifying our collective voice by bringing more shareholder advocates to the table – that is, we support engagement.

However, divestment may be appropriate when a company with egregious practices has failed to respond to a long-term engagement or when an organization has exhausted its available resources to continue to engage a company effectively. What we strongly discourage is passive ownership. If investors determine to divest as a last resort, we urge them to raise the public visibility of their decision and the reasons for it.

What investment approaches are available to concerned investors?

Most faith-based and responsible investors have established criteria and guidelines that inform their investment and engagement strategies. The following is a list of the most

common investment approaches employed by concerned investors from the lowest to the highest level of engagement. By applying guidelines and evaluating resources, investors can find an appropriate engagement level with one, or a combination of several, of the following approaches:

- Traditional Avoidance and Screening: Organization gives guidance to fund managers to avoid certain activities above defined thresholds (e.g., alcohol, firearms, tobacco);
- Modified "Buy" List to Avoid "Worst in Class": Organization avoids companies identified by third parties as most problematic;
- Modified "Buy" List to Accentuate "Best in Class": Organization seeks out companies making strides toward goals through their business models, processes and products;
- Ownership with Active Engagement: Organization promotes change via corporate engagement through dialogue and shareholder action, redefining "best practices", encouraging transparency and reporting, influencing research and valuation models, and developing new approaches to alternative investments.

Why remain invested in fossil fuel companies given that the industry faces questions about its sustainability over the long term?

The energy industry is in a unique position to help find (and fund) the solutions through their product lines and operations.

No one disagrees that the continued burning of fossil fuels at current levels will have deleterious environmental, economic and social impacts, but the argument that the fossil fuel industry alone is responsible for global warming is misleading. To the degree that we participate in a global economy powered mainly by fossil fuels we are all complicit. Transitioning to a greener economy will require full participation and begins with reducing demand and deliberately shifting capital towards renewables.

Importantly, the energy industry should not be seen as sole creators of the problem as long as global markets remain inextricably linked to fossil fuels to propel growth. It is, however, in a unique position to help find (and fund) the solutions through product lines and operations. Holding fossil fuel companies to account on this need is the role of shareholder advocates who continuously press for more ambitious emission reduction targets and more robust investments in research, and development of sustainable energy alternatives. However, without strong and enforceable global regulations that put a price on carbon emissions, there is small hope for meaningful progress in an industry that has little incentive to self-regulate.

What engagement strategies are currently being used to counter global warming?

Over the past 20 years, investors have used multiple and creative strategies to exert pressure on fossil fuel companies, including resolutions and dialogues calling for:

- GHG emissions disclosure (Shareholder pressure is credited with helping to found the Carbon Disclosure Project, currently tracking the emissions of over 5,000 companies around the world.);
- Sustainability reporting, including extensive reporting on environmental performance;

Put the human rights impacts of climate change on the agendas of both companies and governments, with consideration for the global public health implications of global warming as well as the serious climate justice issues it raises.

- Lobbying and political spending reporting (Citing potential conflicts of interest with publicly-stated environmental policies, shareholder resolutions request disclosure of lobbying and political activities that seek to undermine stronger regulation of GHG emissions. The number of these resolutions and investor support of them continues to grow each year.);
- Setting of quantitative GHG reduction goals;
- Reporting on the risks of hydraulic fracturing to water and communities as well as reporting on fugitive methane emissions and flaring;
- Engagements with the financial services sector regarding the carbon impact of their investment portfolios.

What new and expanded strategies for future engagement are being pursued?

The Intergovernmental Panel on Climate Change (IPCC), the world's leading scientific authority on climate change estimates that a 50% reduction in GHG emissions globally is needed by 2050 to stabilize global temperatures - this translates into an 80% reduction in the U.S. alone. New and more effective strategies must be employed. New shareholder approaches (some recently tested) are being considered, including:

- Phase in a request to any and all companies to address the IPCC reality to reduce carbon emissions by 80% by 2050 and their plans to accomplish this goal;
- Call for companies to publicly support stronger national legislation and EPA regulatory initiatives to reduce GHG emissions;
- End lobbying activities with, or withdraw membership from, groups opposing climate regulation (including the Heartland Institute, ALEC, etc.) and challenge the U.S. Chamber of Commerce's activities on climate change;
- Call on companies to study and disclose the financial implications of their stranded carbon assets;
- Call for increased investments in R&D for green energy solutions;
- Put the human rights impacts of climate change on the agendas of both companies and governments, with consideration for the global public health implications of global warming as well as the serious climate justice issues it raises;
- Intensify direct appeals to legislators and facilitate public appeals through web campaigns and online petitions.

Where can we have the greatest leverage and impact?

After evaluating its resources and relationships, each individual/institutional investor should ask where it might have the most influence and impact, including, but not limited to:

- What are they doing as individuals and institutions to directly reduce their carbon footprints and to promote green energy solutions through advocacy, purchasing decisions and capital investment?
- Is there a "best in class" company that could be encouraged to step out more publicly on the need to reduce GHG emissions and to adopt new public policy approaches as

a challenge to industry laggards?

- Are there relationships with trade associations, policymakers or regulators that can be leveraged?

In Conclusion

The severity and urgency of the climate crisis has been underestimated by too many for far too long. Strong global policy and regulation that drastically reduce carbon emissions are needed if we are to avoid irreversible impacts on the environment, economies and the health and well-being of our planet's inhabitants; fossil fuels have significant geo-political importance and impact. There are many companies across a variety of sectors that are moving to advance sustainable solutions and are setting standards that exceed government regulations. But the majority of the energy sector remains mired in its old model and demonstrates through its actions that it is in apparent denial of the terrible price future generations will pay for its resistance to reform and/or to conform to measures that can produce change.

In the absence of a more stringent GHG policy to enforce reductions, it is our responsibility as concerned investors to use our leverage to intervene wherever and whenever we can. There is no doubt that bolder, more creative strategies are required. There is no doubt that increased energy, persistence and resourcefulness will be needed. Many innovative strategies will and should be implemented because we face dire circumstances and a range of tactics will be required to achieve the needed solutions.

As advocates - with many ICCR members representing faith institutions - we understand that where there is disagreement, we must be in discussion to hope for resolution. For that reason, as shareholders, we remain engaged with the companies we hope to change.