ICCR ENGAGEMENT WITH FOSSIL FUEL EXPLORATION & PRODUCTION COMPANIES ON CLIMATE RISK

By consensus of scientific opinion, climate change represents an existential crisis to our planet and its people. As the global impacts of climate change are made manifest through extreme weather-related events including historic floods, droughts and fires, we need not search beyond our borders to see the environmental devastation and human suffering that will only worsen if we are unable to depart from our current global warming trajectory.

The Intergovernmental Panel on Climate Change (IPCC) 1.5 Degree Report confirms that in order to avoid the most deleterious impacts of climate change we need "rapid, far-reaching, and unprecedented changes in all aspects of our society". Specifically, we need to dramatically reduce our reliance on fossil fuels. This will require an increased level of collaboration among all stakeholders and a collective willingness to explore new, more audacious strategies.

As pioneers in shareholder advocacy, ICCR members have learned that corporate progress on ESG concerns tends to unfold incrementally and gradually through persistent relationship-building and steady engagement. But how do investors square this approach with the urgency of a climate crisis that calls for "rapid, far-reaching and unprecedented changes"? This tension is best exemplified by investors' engagements with fossil fuel companies.

A business as usual approach to the continued production and use of fossil fuels is not sustainable, environmentally or economically, and the financial risks of investments in traditional fossil fuel companies grow daily. Pressure on the fossil fuel industry to rein in GHG emissions and change its business model is mounting from all quarters: the scientific community and environmental NGOs; climate-impacted communities and cities; central bankers through groups like the Network for Greening the Financial System; the fossil fuel divestment movement and 350.org, and from a growing chorus of engaged investors, including the Climate Action 100+, a global investor initiative representing over $33 trillion in assets under management working with heavy emitters to decarbonize.

The moral case for action on climate change has been made by ICCR's faith-based members for decades and stems from their concern for those who will suffer its impacts most acutely. The disproportionate havoc wreaked by climate change among low-wealth, less climate-resilient communities is now being made tragically apparent, as evidenced by the Fourth National Climate Assessment Report. The issues of climate justice and a just transition to an economy powered by renewable energy that secures workers' livelihoods are emerging as serious political and economic movements.

For these reasons, all companies, but in particular fossil fuel companies, must adapt their current policies and strategies to more fully acknowledge the climate crisis and rapidly and dramatically reduce their GHG emissions. Specific recommendations include:

- **Set near, medium and long-term science-based carbon emissions reduction targets aligned with the IPCC 1.5°C Report findings, including Scope 3 emissions from upstream suppliers and downstream customer use of products;**
- **Support incorporation of carbon pricing that includes equity considerations into the global financial system;**
- **Adopt the Task Force on Climate-Related Financial Disclosure recommendations on governance, risk management, action plans, and disclosure;**
- **Collaborate with stakeholders to ensure a just transition to a low-carbon economy.**

There are many financial reasons why investors are working to align their portfolios with a low-carbon future. The growth in renewables, energy-efficient electric vehicles and other low-carbon innovations are all hopeful signposts that will attract new investment. However, our current economy is still largely fueled by oil, gas, and coal and there is no quick switch that would transform it into a "green economy" overnight. Investors have a key role to play in both catalyzing rapid de-carbonization by fossil fuel companies and accelerating the transition to renewables. In terms of a timetable, **investors expect meaningful action by 2020** in line with the timeframe espoused by the IPCC for avoiding runaway climate change.

Possible engagement strategies for investors include:

- **Press companies to align their business models and strategies with the Paris climate goals at a 1.5° warming level, and recruit other investors to do the same, through focused, collective shareholder engagement;**
- **Consider company implementation and disclosure of Paris-aligned 1.5° strategies when voting on items presented for shareholder approval. This could include opposing the election of certain or all members of the board of directors and/or voting against senior executive pay packages, among other strategies.**
- **Consider exclusionary screens, divestment or other investment approaches that integrate climate concerns into investment selection in the event fossil fuel company leadership does not take meaningful action to address climate risks.**

Dorothy Bernard said that "Courage is fear that has said its prayers." If we are not able to drastically cut our reliance on fossil fuels and the carbon emissions associated with their production and use in the near term, the IPCC report predicts that our world – in terms of ecosystems, economies and communities – will be irreparably altered by 2050. It is in this context that we call for all within the investor community to muster the courage to use their influence as they can to promote a sustainable, equitable, and just energy future before it is too late.