Responsible Investing

Engagement Aimed at Advancing Climate Change Mitigation

By: John Wilson | & William Hsu | September 13, 2021

Washington - Lessons learned from the COVID-19 pandemic starkly brought home the message that no person — or country or corporation — is an island. The pandemic's reach demonstrates that companies can no longer avoid strategic planning and action on global issues, climate change being an important example.

The second in a two-part series on the IPCC's latest climate-change report, this blog focuses on Calvert's corporate engagement efforts around advancing renewables and addressing climate risks.

Climate change is one of the priority environmental, social and governance (ESG) issues for Calvert's engagement team. Our approach doesn't just focus on setting targets but also on governance and execution of climate strategies that give credibility to a company's ability to meet its stated targets.

Mitigation Can Still Make a Difference

According to the latest IPCC report, unless there are "immediate, rapid and large-scale reductions in GHG emissions, limiting global warming to the critical threshold of 1.5 degrees Celsius (1.5 C) or even 2.0 C will be beyond reach." Research indicates a linear relationship between greenhouse gas (GHG) emissions and climate change, which indicates that mitigation at any level will likely have an impact on the level of global warming. To us, this suggests that all efforts at mitigation are worthwhile.

In 2021, we have continued to press companies we've had long-standing engagements with on the issue of climate change. Given how far-reaching climate change is as a material business risk — regulatory, operational, physical and reputational — our engagements and underlying objectives vary: from encouraging companies to align their reporting with the Task Force on Climate-related Financial Disclosures (TCFD) to setting clearly defined GHG emissions reduction targets to ensuring that lobbying activities align with the Paris Agreement's goal of limiting temperature rise to 1.5 C.

Some specific examples include:

Example 1: Achieving renewable-generation targets

Our ongoing engagement with one electric utility company revolves around its achieving both state-mandated and company-announced renewable-generation targets, in order to reduce the company's reliance on fuel oil for electric generation.

In 2019, Calvert filed a shareholder proposal requesting that the company undertake a risk analysis to examine the potential impact of not achieving state-mandated renewable energy targets as well as more stringent targets set by the company itself. We subsequently reached an agreement to withdraw the proposal, and we have continued to work with the company on its renewable energy goals and improving climate risk disclosure.

We believe the utility has made notable progress in these areas. In 2020, it aligned its executive compensation structure with its renewable energy targets, expanded board oversight of its clean energy goals and engaged with investors around clean energy targets. It has also made significant progress in disclosure by releasing its first ESG report aligned with the Sustainability Accounting Standards Board (SASB) goals in September 2020. Most recently, in the second quarter of 2021, the company completed its first TCFD-aligned report. We will continue to assess the company's progress toward achieving its stated renewable energy goals.

Example 2: Curbing carbon output in the steel industry

Steel production accounts for about 7% of global emissions but is one of the most difficult sectors to decarbonize. The industry is under pressure from customers, regulators, investors and lenders to reduce climate emissions.

For these reasons, in 2017 Calvert began engagement efforts with one steel company with reduction of GHG emissions in mind. Our initial emphasis, however, focused on the importance of governance and disclosure of financially material ESG matters. Since then, the company has produced its first sustainability report, submitted its first CDP carbon-disclosure report, and produced a SASB- and GRI-compliant report. GRI represents the mostly widely used, global standards for sustainability reporting. As the dialogue continued, the company indicated an openness to setting GHG emission-reduction goals and to considering using renewable energy sources for a major new steel plant.

Following our July 2021 engagement, the company announced a goal to be carbon neutral by 2050 for its electric arc furnace (EAF) steel mill operations. To achieve this target, the company also set interim emissions-reduction and renewable energy milestones to be achieved by

2025 and 2030. Additionally, the company plans to increase the use of renewable electrical energy for its EAF steel mills to 10% by 2025 and 30% by 2030.

Example 3: Encouraging alignment with the Paris Agreement

Calvert, in cooperation with As You Sow and another stakeholder, in 2021 filed a shareholder resolution with one energy company asking its board of directors to evaluate and issue a report describing if, and how, the company's lobbying activities align with the Paris Agreement's goal to limit temperature rise to 1.5 C. We also requested information on the company's plans to mitigate risks presented by any misalignment.

The company claims it supports climate goals but currently lobbies for policies that promote use of natural gas and against policies that promote climate solutions. The company has disclosed that it has plans to grow its natural gas footprint and, in recent years, has received widespread negative press and scrutiny over its efforts to block climate-related policies, including a recommended financial penalty for hundreds of millions of dollars. Such controversy and risk exposure merits further attention into the apparent incongruence between the firm's stated public messaging and actions on climate change.

Moreover, the company's current disclosures do not enable investors to understand how its specific lobbying and advocacy activities, especially in support of natural gas use, align with global efforts to transition to net-zero GHG emissions by 2050 or earlier. At the company's May 2021 annual meeting, the shareholder proposal received 37.5% support. We will continue to engage with the company around its lobbying activities and climate risk and governance efforts.

Collaboration Is Key

In our view, there is a vital need for continued collaboration between companies and stakeholders to rapidly scale available zero-emissions technologies. We believe that the regulatory and policy framework necessary to properly incentivize a road map similar to that presented by the International Energy Agency (IEA) is likely — sooner or later — with the UN's COP26 this November serving as a near-term catalyst.

Bottom line: We believe that structured engagement is essential to encourage companies to take strong action related to climate change impacts. Calvert will continue to work with companies on this and other material ESG issues.

1. IPCC, Sixth Assessment Report of the United Nations Intergovernmental Panel on Climate Change, August 9, 2020. This is the sixth in a series of reports that assess scientific, technical and socioeconomic information concerning climate change.

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