

► ISSUE REPORT

Climate Change

Cultivating and caring for creation is God's indication given to each one of us not only at the beginning of history; it is part of His project; it means nurturing the world with responsibility and transforming it into a garden, a habitable place for everyone." POPE FRANCIS I, JUNE 5, 2013

The earth is full of beauty and wonder. It sustains us and gives us air, water, food, and other things that we need in order to live and prosper. It is a gift from God. As stewards of God's gift, we have the responsibility to care for it so that it can continue to provide for all humans, both today and in the future.

One of the ways the earth is imperiled is by climate change, which has the potential to negatively impact billions of people. Climate change is likely to contribute to more severe weather patterns, including both droughts and floods, rising sea levels, and changing ecosystems, which influence agriculture production.

There is a strong scientific consensus that the primary cause of climate change is the emission of greenhouse gases into the atmosphere. While deforestation, agriculture, and other land-use changes are contributors, the majority of greenhouse gas emissions are carbon dioxide resulting from the burning of fossil fuels such as coal, oil, or natural gas in order to produce energy.

The rate of carbon dioxide emissions has increased steadily throughout the twentieth century. Emissions in 2012 represented a six-fold increase from those in 1950 and a 50% increase over the past 20 years. Coal-fired power plants represent the single largest source of carbon dioxide emissions, but the burning of oil and natural gas for



KEEPING THE FAITH

While there is much interpretation around Catholic teaching, we seek to identify key issues that underline some of the core beliefs of the Church:

- Human Dignity
- Justice
- Stewardship
- Shared Prosperity
- Responsible Ownership
- Corporate Responsibility



electricity generation and transportation are also significant sources.

Many initiatives have contributed to reducing emissions from what they might have been. However, due to insufficient investment, outdated public policy, and a lack of viable energy alternatives, greenhouse gas emissions continue to rise. The Intergovernmental Panel on Climate Change has projected that average global temperatures could increase from 1.1° F to 7.2° F by the end of the century based upon a range of scenarios that model various levels of emissions reductions. Sea levels could rise between 11 inches and 16.7 inches.¹

A CATHOLIC PERSPECTIVE ON THE ENVIRONMENT

The obligation to care for Creation is linked to the Church's teaching on the dignity of the human person. In *Caritas in Veritate*, Pope Benedict XVI wrote that "The environment is God's gift to everyone, and in our use of it we have a responsibility towards the poor, towards future generations and towards humanity as a whole." (No. 48).

Responsible stewardship of our planet requires consideration of the impact our use of natural resources has on others. One person's prosperity should not come at the expense of another's. Authentic development encourages moderation in the use of God's gift so it can continue to provide for future generations, and it supports balancing human progress with respect for the environment.

Climate change impacts the ability of God's creation to provide for humans, those alive today as well as future generations. In this way, climate change is an issue that should be a particular concern to Catholics. Its negative effects are felt disproportionately by the poor and the weak. Natural disasters are harder to survive and to recover from when there is poor housing, no insurance, and a lack of savings. Increasing food prices resulting from agricultural production disruptions impact hardest those with inadequate income.

As stewards of God's creation, Catholics must work to protect the environment so that it can continue to provide human beings with the resources necessary to lead productive, healthy lives and to ensure that future generations can also enjoy its

fruits. Climate change resulting from the burning of fossil fuels is compromising earth's ability to provide for all of humanity.

CLIMATE CHANGE AND INVESTING

Applying Catholic principles regarding human responsibility for Creation to one's investments involves analyzing several factors and using prudential judgment to determine the optimal investment strategies. Financial return goals and the desired impact on climate change should both be considered.

Divestment

Divestment from fossil fuel companies is one means of addressing climate change through investing. This strategy has been used by investors on other issues, such as life ethics, to avoid contributing capital to, or benefiting from, companies involved in problematic activities. Some investors believe that if enough investors shun fossil fuel companies, those companies may alter their strategies or operations.

In 2012, a campaign was launched to encourage divestment from fossil fuel companies. Initially focused on university endowments, the campaign has since expanded and now includes public funds (e.g. the city of Seattle) and other investments. This campaign is often compared to the divestment campaign that targeted companies operating in apartheid South Africa. However, that campaign was part of a broader movement that included consumer boycotts, protests, picket lines, and awareness campaigns that all contributed to the eventual end of white minority rule.

Some investors have opted for partial divestment, avoiding companies considered to be the heaviest emitters of carbon dioxide such as coal companies and those involved in tar sands. Another approach to partial divestment is a best-in-class strategy whereby only those companies making meaningful improvements in production efficiency and emissions reductions are held.

When considering whether to divest from fossil fuel companies, and if so to what extent, one must consider the potential impacts to portfolio returns, the degree of alignment with one's values, and the effect divestment will have influencing corporate behavior on climate change.

Active Ownership

If the desired goal is to affect companies' activities, tactics other than divestment may be more effective. Active ownership, whereby investors press companies to adopt new business practices, can have meaningful impacts on reducing greenhouse gas emissions and slowing climate change.

For example, oil and gas companies can adopt techniques that decrease emissions during production, businesses can improve energy efficiency through systems changes and technology improvements, and construction firms can incorporate more energy efficient design elements into their buildings. Companies can also increase their use of low-carbon energy, either through purchases or through installing generating capacity such as solar panels. A recent report from the Carbon Disclosure Project and the World Wildlife Fund² concluded that if US corporations reduce their annual emissions of greenhouse gases by 3%, they will experience net annual savings of \$190 billion by 2020.

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Positive Investing

Some investors have chosen to address climate change by directing money towards solution-oriented investments. Alternative energy, such as wind and solar, is produced with little or no greenhouse gas emissions. Clean technology companies may provide products or services that address energy storage, energy efficiency, recycling, transportation, or waste reduction, or they may be alternative energy producers (such as wind power, solar power, hydropower, or biofuels). Once largely the purview of venture capital firms, investments in clean tech can now be accessed through clean tech funds, ETFs, private equity funds, and the stocks and bonds of publicly traded companies.

CBIS' APPROACH

When determining how best to address various issues in our investment programs, CBIS considers several factors including Church teaching, potential impact on returns, and opportunities to effect positive change. CBIS also considers

the consensus values of our participants, which we determine based upon input we receive through direct meetings and from a periodic SRI survey of our participants.

Reflecting upon those factors, CBIS has adopted an active ownership approach to address climate change. For more than two decades, Catholic investors and other socially responsible investors have been pressing companies in which they own stock to adopt more environmentally friendly business practices such as pollution controls, energy efficiency improvements, waste reduction, and recycling. These efforts have resulted in fewer resources consumed and a healthier environment.

Using our leverage as investors in various fossil fuel companies, we have been able to raise awareness and apply pressure by filing shareholder resolutions, voting proxy ballots, and meeting with company representatives to get these companies to moderate their positions and their activities. Among our accomplishments:

- ▶ CBIS is part of a multi-year engagement at Exxon Mobil that succeeded in pressing the company to no longer challenge the science of climate change and to curtail funding of groups skeptical of climate change. We continue to file shareholder resolutions at the company requesting carbon emissions reductions and to meet regularly with the company to discuss emissions and alternative energy technologies.
- ▶ After several years of engagement by CBIS and other investors, Chevron agreed to adopt an emissions reduction goal and to integrate the cost of carbon in to new investments.
- ▶ Through filing shareholder resolutions and meetings, CBIS helped convince American Electric Power to become the first major utility to issue a report discussing the risks to the company from climate change.

CBIS' Active Ownership work on climate change extends beyond fossil fuel companies. Almost all companies can reduce their contributions to climate change through improved energy efficiency, reduced packaging, and increased recycling. Some recent examples:

- ▶ By 2020, Walmart has pledged to reduce energy intensity of buildings by 20% and increase renew-able energy purchases by 600%, which is predicted to save the company \$1 billion annually.
- ▶ A recent campaign at Allstate reduced paper use by 41%, equivalent to approximately 185,000 trees, and saved the company \$750,000 a year.
- ▶ Ford has pledged to reduce carbon dioxide emissions at its facilities by 30% and energy consumption by 25% on a per-vehicle basis.

IN SUMMARY

Catholics have an obligation to protect Creation, to preserve it in order that it may support and sustain all human life, including those yet to be born. Catholic investors can play an important role in addressing climate change by using their investments as tools for change. We can use our leverage as investors in publicly traded companies to advocate for improvements in how they conduct their operations that will help preserve the environment. We can target investments towards climate change solutions to help the development of new technologies and the expanded deployment of new solutions. And, we can help educate others about their responsibilities and the existing opportunities to have a positive impact.

Successfully addressing climate change will require a range of strategies including public policy, the development of new technologies, and changing corporate and consumer behaviors. Engaged investors pressing for change at corporations will continue to play a critical role in helping to reduce climate change and preserve the environment.

¹"Contribution of Working Group I to the Fourth Assessment Report of the Intergovernmental Panel on Climate Change, 2007", Intergovernmental Panel on Climate Change, http://www.ipcc.ch/publications_and_data/ar4/wg1/en/contents.html

²"The 3% Solution – Driving Profits Through Carbon Reduction", Carbon Disclosure Project and World Wildlife Fund, 2013.

Important Information

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