

Ceres

THE CERES ACCELERATOR FOR
SUSTAINABLE CAPITAL MARKETS

**BLUEPRINT FOR
RESPONSIBLE
POLICY ENGAGEMENT
ON CLIMATE CHANGE**

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FOREWORD

Dear Colleagues,

The evidence is incontrovertible. The risks posed by the climate crisis are not only financial or material for an individual company, they are systemic threats to financial markets. Companies, investors and policy makers globally are taking action to address this crisis.

Yet, while many businesses in the U.S. have taken ambitious steps to address climate change, their actions remain insufficient to address the crisis due to the absence of comprehensive public policy that is in step with climate science.

Companies have a vital role to play in calling for effective climate policy through their direct lobbying and through the lobbying practices of the trade associations to which they belong.

In late 2019, leading nonprofits, including Ceres, released an [open letter to the CEOs of America](#) calling on all businesses to adopt the “AAA Framework”, a science-based climate policy agenda in line with a 1.5° C scenario. The letter asks companies to:

- Advocate for policies at the national, subnational and/or sectoral level that are consistent with achieving net-zero emissions by 2050;
- Align trade associations’ climate policy advocacy to be consistent with the goal of net-zero emissions by 2050; and
- Allocate advocacy spending to advance climate policies, not obstruct them.

The Ceres Blueprint for Responsible Policy Engagement on Climate Change demonstrates how this framework fits within the broader context of climate risk, including how direct and indirect lobbying consistent with climate science is essential to address the systemic risks of climate change. The Blueprint also highlights the importance of putting systems in place to allow for such alignment to happen across corporate structures, and calls for engaging corporate counsel and the board of directors in these crucial conversations.

We invite you to join us in changing the landscape of corporate accountability for science-based climate policy advocacy.



Onward,

A handwritten signature in black ink that reads "Anne Kelly". The signature is fluid and cursive.

Anne Kelly
Vice President, Government Relations, Ceres



Executive Summary

Companies and investors now largely understand that climate change poses not just clear financial and even material risks to companies and industries across the economy, but in fact systemic risk to financial markets writ large. Robust and aggressive public policy on climate change, which is aligned with the latest science on climate change is needed both to mitigate climate risks and manage the necessary transition to a net-zero carbon economy by 2050.

Despite the clarity of the science, policy action has fallen short of what is needed. Policy on climate change must align with climate science in order to effectively address the systemic nature of the climate crisis.

Recognizing the need to address the climate crisis, a growing number of companies are taking increasingly ambitious steps to address climate change across their performance and strategies. However, these efforts could be undermined if their lobbying on climate change, whether directly or through their trade associations, is not aligned with climate science.

Companies that establish robust governance systems to address climate change as a systemic risk and align their direct and indirect lobbying efforts to support science-based climate policies will drive the creation of a regulatory environment that best positions them for resilient growth.

To do this, we call on companies to:

- **ASSESS** the impact of climate change to the company, including the ways in which its lobbying efforts on climate change serve to exacerbate or mitigate these risks
 - Assess the risk that climate change poses to the company
 - Conduct an internal audit of direct and indirect lobbying positions on climate change
- **GOVERN** to systematize decision-making on climate change across the company, including in all direct and indirect lobbying
 - Systematize decision-making on public policy engagement on climate change
 - Engage the board on climate policy
- **ACT** to align both direct and indirect lobbying with science-based climate policies
 - Publicly state that the company supports science-based climate policies
 - Directly lobby for science-based climate policies
 - Engage with trade associations on aligning their lobbying with climate science

Comprehensive and urgent corporate action on climate change is vital if we are to achieve a stable climate and mitigate the devastating impacts of global climate change. But we cannot tackle climate change without strong, science-based climate policies. Companies must urgently and proactively align all elements of their efforts, including direct and indirect lobbying on climate change, with climate science.



Context

In the last few years, expectations on whether—and how—companies should engage on climate change have evolved. Companies and investors now largely understand that climate change poses clear financial and even material risks to companies and industries across the economy. Additionally, climate change is now widely recognized as posing a systemic threat to financial markets writ large, with significant potential for disruptive impacts on overall economic stability and the lives and livelihoods of tens of millions of people across the U.S. and globally.

Recognizing the need to address the climate crisis, a growing number of companies are taking increasingly ambitious steps to address climate change across their performance and strategies. However, these efforts could be undermined if their lobbying on climate change, whether directly or through their trade associations, is not aligned with climate science. In fact, such misalignment could lead to inefficient corporate spending and reputational and financial risk. **Companies that establish robust governance systems to address climate change as a systemic risk and align their lobbying efforts to support science-based climate policies will drive the creation of a regulatory environment that best positions them for resilient growth.**

In its Blueprint for Responsible Policy Engagement on Climate Change, Ceres offers concrete recommendations on how companies can establish systems that address climate change as a systemic risk and integrate this understanding into their direct and indirect lobbying on climate policies. The Blueprint is primarily designed for the governance and legal departments of companies charged with determining the appropriate cross-organizational structures to oversee risks and risk responses within a company. We build on existing resources to identify governance, risk management and policy engagement systems they can put in place to align their direct and indirect lobbying efforts with climate change science. We call on companies to:

- **ASSESS** the impact of climate change to the company, including the ways in which its lobbying efforts on climate change serve to exacerbate or mitigate these risks
- **GOVERN** to systematize decision-making on climate change across the company, including in all direct and indirect lobbying
- **ACT** to align both direct and indirect lobbying with science-based climate policies

Climate risks pose systemic risks to companies, investors, and financial markets

Climate change's impacts on companies and on our global economy are being felt now. A 2019 analysis of 215 of the world's largest companies [identified](#) just under \$1 trillion of potential risk to them from climate change—and noted that half of these losses are expected to materialize in the next five years.

There is now a [growing consensus](#) that climate change is a systemic risk that affects global financial markets writ large. For the first time in 2020, the World Economic Forum's (WEF) annual [Global Risks Report](#) included climate change in all of its "top five risks" to the global economy by both likelihood and severity of impact. A 2019 survey of 33 central banks and supervisory authorities, representing 77% of global GDP, found that 70% saw climate change "as a major threat to financial stability" and more than half are already acting to monitor and address climate risk. In addition, the ongoing COVID-19 pandemic underscores both the interconnectedness of our economic systems, as well as the potential for profound impacts from a poorly managed disruptive risk – one that can manifest suddenly and with potentially severe consequences.

Many investors are taking note of the risks of climate change—and looking to see how companies manage them. A 2020 survey of 439 institutional investors (including pension and mutual funds, banks and insurers) [found that](#) over half are already integrating climate risk into their investment process, and 91% fully expected climate risk to be financially material to their investments in five years. In his 2020 letter to the CEOs and boards of portfolio companies, BlackRock's CEO Larry Fink [announced](#) that the firm would make investment decisions with environmental sustainability a core goal as "the evidence on climate risk is compelling investors to reassess core assumptions about modern finance."

Science-based climate policies are critical to address this risk

Robust and aggressive public policy on climate change is needed both to mitigate climate risks and manage the necessary transition to a net-zero carbon economy by 2050.

In 2015, almost every country in the world [adopted the Paris Agreement](#), with the goal of limiting average global temperature rise from pre-industrial levels to "well-below 2 degrees Celsius" and pursuing efforts to limit warming to 1.5° C. The [latest science](#) highlights that limiting global temperature rise to 1.5° C is necessary in order to avoid the most catastrophic outcomes, including climate-driven drought, floods, extreme heat and poverty for millions of people. Doing so will require bold global action to reduce greenhouse gas (GHG) emissions by nearly half by 2030 and to reach net-zero GHG emissions by 2050. But as of 2019, global GHG emissions [do not show](#) signs of declining in time to reach these goals.

Despite the clarity of the science, policy actions have fallen short of what is needed. Climate ambition has faced political headwinds in major economies, most notably in the U.S. In 2017, President Trump announced the United States' intention to withdraw from the Paris Agreement and the administration has worked to roll back existing climate regulations. While these decisions are often [defended](#) as pro-business, [studies](#) demonstrate that inaction on climate will potentially add hundreds of billions of dollars in annual costs to the economy by the end of the century and leave companies exposed to a wide variety of physical and transition risks. Lack of policy leadership on climate change contributes to a fractured and uncertain regulatory environment that is costly to the economy and corporate bottom lines.

Policy on climate change must align with climate science in order to effectively address the systemic nature of the climate crisis.

What is a science-based climate policy?

Science-based climate policy aligns policy efforts with the [latest climate science](#) to limit global average temperature increase to 1.5° C above pre-industrial levels, with immediate and rapid emissions reductions in every sector of the economy, halving emissions by 2030 and achieving “[net-zero](#)” emissions in the U.S. and other industrialized nations by 2050 at the latest. For the purposes of this blueprint, we use the phrases “policies aligning with climate science” or “science-based climate policy or policies” to indicate alignment with this goal.

The first step when assessing whether a policy meets the standard of being aligned with climate science, is to first consider how it positions companies, investors and other actors to meet the goals outlined above. Some 128 companies showed an early interest in this topic when they joined the We Mean Business coalition (WMB) and launched an initiative in 2015 committing to [Responsible Corporate Engagement in Climate Policy](#) in the run up to the Paris Agreement. Since the adoption of the Paris Agreement, a growing number of companies are attending UN climate meetings, encouraging the adoption of ambitious climate targets and policies.

Science-based climate policy advocacy must pair this high-level support for climate action with support for the specific near-term policies needed to accelerate that action. To be consistent in that support and ensure they are not working against their own strategic interests, companies must not only raise their voice in direct advocacy, they must ensure that the trade groups they are members of are aligned with those positions.

What types of policies support the latest climate science?

The We Mean Business coalition has identified [key policies to accelerate the transition to net-zero by 2050](#), including:

- **Zero Carbon Economies** Phase out fossil fuel subsidies by 2025 and set strong and effective carbon pricing policies
- **Zero Carbon Transport** End internal combustion engine sales by 2030
- **Zero Carbon Power** Support renewable energy deployment, and a full phase out of coal-power globally by 2040
- **Zero Carbon Built Environment** Commit to all new buildings operating at net-zero by 2030 and all buildings operating at net zero by 2050
- **Zero Carbon Industry** Set a clear industry roadmap with interim targets and milestones to net-zero by 2050.
- **Food and Land** Support the transition to a land system that supports a net-zero carbon economy by protecting, restoring and enhancing natural systems

In addition, [Ceres Policy Network’s 2020 Policy Outlook](#) also provides the following policy recommendations:

- **Reducing “super-pollutant” GHGs** Phasing down the production and consumption of hydrofluorocarbons (HFCs)— over 3,000 times as powerful a GHG as carbon dioxide—currently used in refrigeration systems and aerosols
- **Preventing regulatory rollbacks** Supporting the reinstatement of regulations that align with climate science, including the [Clean Power Plan](#) that proposed reducing carbon pollution from power plants; [GHG and fuel economy standards](#) for vehicles; [efficiency light bulb standards](#); and requirements for [oil and gas sites](#) to monitor and repair methane leaks from pipelines and storage facilities
- **Increasing appropriations** Promoting funding increases in appropriations bills for research on climate science, clean energy research and development, international climate funding, new funding for electric buses and funding for adaptation and resilience

Companies play a vital role in lobbying for science-based climate policy

Recognizing climate change risks, a growing number of companies are beginning to proactively engage in promoting science-based climate policies. In response to President Trump's withdrawal from the Paris Agreement, a group of more than 2,260 private sector and government leaders, representing more than \$9 trillion of the U.S. economy, signed the "[We Are Still In](#)" declaration to underscore their continued commitment of the global pact and support climate action. And such calls have continued. In 2019, a group of labor unions and CEOs representing a combined 14.5 million workers [issued a letter](#) supporting the goals of the Paris Agreement and the need to achieve them through a just transition that will create new jobs and economic opportunities for American workers. In 2020, more than a dozen Fortune 100 companies joined former Federal Reserve Chair Janet Yellen and investment banks JP Morgan Chase and Goldman Sachs to [lobby](#) U.S. senators to tax carbon dioxide emissions. Leading companies such as [Mars, Inc.](#) and [Unilever](#) have aligned their policy positions on climate change with the latest climate science.

Such lobbying is particularly important as governments worldwide respond to the economic impact of the COVID-19 pandemic by deploying the largest recovery packages in history, determining economic strategies for years to come. In May 2020, more than 330 businesses, collectively representing more than a dozen Fortune 500 firms and having a combined annual revenue of more than \$1 trillion, [urged](#) members of Congress to pass a resilient stimulus plan that incorporates long-term climate solutions, including a price on carbon.

The advocacy community has called on companies to step up their ambition related to science-based climate policies. Leading nonprofits, including Ceres, released an [open letter to the CEOs of America](#) calling on all businesses to adopt the "[AAA Framework](#)", a science-based climate policy agenda in line with a 1.5° C scenario. The letter asks companies to advocate for policies consistent with net-zero emissions by 2050, align their trade associations' climate policy lobbying to be consistent with these goals and allocate spending to advance smart climate policies, not obstruct them.

The AAA Framework

In 2019, ten leading NGOs developed the [AAA framework](#) ("advocate, align, allocate"), which describes how businesses can adopt company-wide policy agendas in line with climate science. This report builds upon the "align" component of the AAA framework, summarized as follows:

- **Advocate** for policies at the national, subnational and sectoral levels that are consistent with a 1.5 degree path to achieving net-zero emissions by 2050 at the latest.
- **Align** their trade associations' climate policy advocacy to be consistent with the goal of net-zero emissions by 2050.
- **Allocate** advocacy spending to advance climate policies in line with climate science, not obstruct said policies.

Despite these efforts, influential companies have [continued to lobby against](#) climate policy efforts, both directly and through their trade associations. During the COVID-19 pandemic, this included [efforts](#) to change regulation in a way that is misaligned with climate science.

Trade associations exert significant influence on climate policy outcomes

Trade associations provide helpful resources and networking opportunities to their company members on public policy engagement, with the goal of collectively representing the positions of their members on key issues. In the U.S. alone, there are roughly 23,000 [trade associations](#) with a total annual revenue of roughly \$46 billion that represent a broad array of companies and business interests.

Climate change has long been an area of focus for trade associations. [Renewable energy trade groups](#), such as the American Wind Energy Association (AWEA) and the Solar Energy Industries Association (SEIA), have played an important role in advocating for policies aligned with climate science. However, some of the largest and most

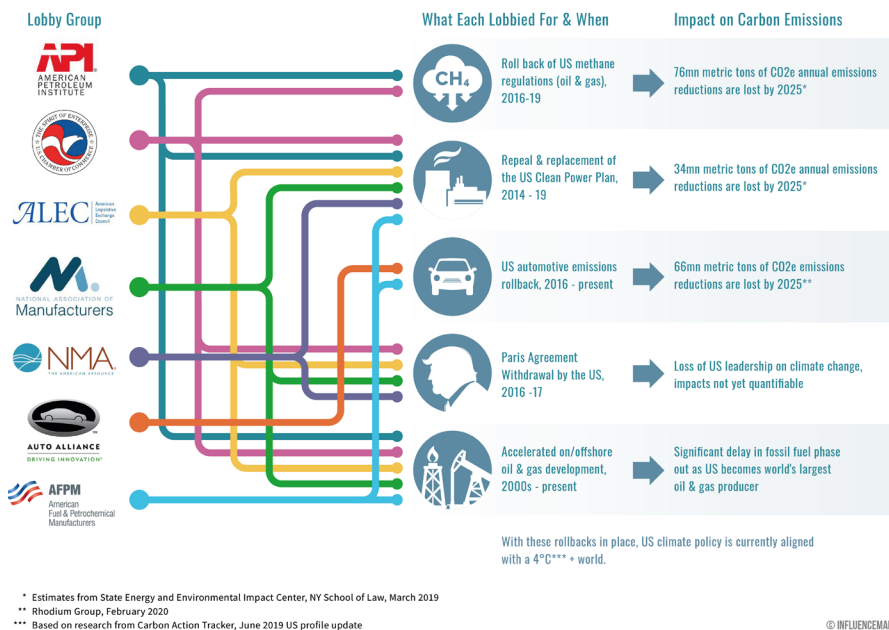
influential trade associations in the U.S. have systematically lobbied against science-based climate policies, often in contradiction to positions held by some of their members.

Major Trade Associations' Negative Impact on U.S. Climate Policy

In 2019, the U.K.-based nonprofit [Influence Map](#) reported that some large [U.S. trade associations are among the most negative influences on climate policy](#) around the world. The two most powerful trade associations advocating for deregulation on climate, they note, are the U.S. Chamber of Commerce and the National Association of Manufacturers, both of whom have successfully lobbied for the United States' withdrawal from the Paris Climate Agreement. Powerful sector groups such as the American Petroleum Institute, the American Fuel & Petrochemical Manufacturers and the Alliance of Automobile Manufacturers have also been aggressive in opposing climate policy progress, including winning regulatory rollbacks on methane emissions and automotive fuel economy standards in 2018-2019. These climate policy rollbacks in the U.S. from 2016 onward are expected to release more than [200 million metric tons of additional GHG emissions each year](#), putting the U.S. on a path to increase average global temperature by 4° C.

[Influence Map's report](#) notes that due to investors' increasing asks of portfolio companies to align lobbying practices with climate science, trade associations such as the Chamber of Commerce are changing their public messaging around climate change, now stating that "inaction is not an option." Yet, Influence Map's analysis found "such messaging to be deflection techniques, to distract the media and politicians from their recently successful and ongoing lobbying to hold meaningful climate regulations at bay."

Trade Groups and their Carbon Footprint



SOURCE: Influence Map, Trade Groups and their Carbon Footprint

Direct and indirect lobbying that is misaligned with science-based climate policies is an investment risk

As the influence and impacts of direct and indirect company lobbying on climate policies have become clearer, investors have started to focus on this issue as well, including calling on companies and their trade associations to align lobbying with science-based climate policies. In 2018, institutional investors with \$2 trillion in AUM [called](#) on the 55 top GHG-emitting European companies to "ensure any engagement conducted on their behalf or with their support is aligned with our interest in a safe climate," in order to protect their long-term value across all sectors and asset classes.

Building on the success in Europe, in 2019, 200 institutional investors with a combined \$6.5 trillion in AUM [called](#) on 47 of the largest U.S. publicly traded corporations to specifically align their climate lobbying with Paris Agreement goals, warning that lobbying efforts inconsistent with these goals are an investment risk.

Investor Expectations on Corporate Climate Lobbying

The Investor Expectations on Corporate Climate Lobbying identified both the risks to investors of portfolio companies with direct and indirect lobbying misaligned with climate science, as well as the steps companies can take to address this.

The risks to investors were identified as follows:

- **Regulatory risks** Delay in action now will likely result in the need for stronger regulatory interventions later, leading to higher costs for companies.
- **Systemic economic risks** Delay in the implementation of climate policies aligned with climate science increases the physical risks of climate change, elevating uncertainty and volatility in investor portfolios and a broader systemic risk to global economic stability.
- **Reputational and legal risks** Companies may face backlash from their consumers, investors, or other stakeholders if they or the organizations they support are seen to be delaying or blocking effective climate policy.

Investors called on companies to do the following:

- **Lobby** in favor of cost-effective climate policies in line with the Paris Agreement goals of keeping average global warming to well-below 2 degrees Celsius by 2050.
- **Undertake such efforts in all geographic regions** of operation and in both direct and indirect engagements with policymakers, including those conducted by trade associations.
- **Establish robust governance and disclosure procedures** around climate risk and related lobbying by the company or its trade associations, including assignment of board oversight.
- **Look for misalignment** between company policies on climate and policy engagements, including those by trade associations, and act if misalignments are found.
- **Publicly disclose** the company's position on climate, its climate lobbying, the lobbying of its trade associations on climate and actions taken when misalignments are discovered.

Many of the investors taking these actions are members of [Climate Action 100+](#), an initiative comprised of more than 450 investors managing more than \$40 trillion AUM, engaging the world's largest corporate GHG emitters to achieve the goals of the Paris Climate Agreement. Climate Action 100+ investors [note](#) that less than 8% of their focus companies have aligned the lobbying undertaken by their trade associations with their stated positions on climate. The number of shareholder resolutions filed on this topic has continued to grow in recent years, particularly as a result of investor action from CA 100+, including [three resolutions](#) filed at Chevron, Delta Air Lines and United Airlines by BNP Paribas Asset Management requesting that lobbying be aligned with Paris goals.

In 2020, major shareholders including BlackRock [achieved](#) a historic 53% majority vote at Chevron on a resolution calling on the company to produce a report disclosing how the company's lobbying aligns with the Paris Climate Agreement.

Companies should leverage all their resources, including direct and indirect lobbying efforts, to address the systemic risk of climate change

As of when this report was written, over 895 companies globally are [taking](#) science-based climate action, and over 387 companies have approved science-based climate targets. While these are examples of leadership, to be meaningful in the face of the climate crisis, companies should put systems in place that orient all their decision making in light of the systemic risks of climate change. This is particularly true of their direct and indirect lobbying on climate change policy.



Recommendations

This Blueprint¹ offers concrete recommendations on how companies can establish systems that address climate change as a systemic risk and integrate this understanding into their direct and indirect lobbying on climate policies. This includes specific action steps that can be taken by their governance, risk management and policy engagement functions. These recommendations are not intended to be addressed in a specific order, and a company need not wait to proceed from one recommendation to the next. These recommendations are based on in depth interviews with corporate and investor leaders, an in depth literature review and data analysis.

We recommend three steps:

- **ASSESS** the impact of climate change to the company, including the ways in which its lobbying efforts on climate change serve to exacerbate or mitigate these risks
- **GOVERN** to systematize decision-making on climate change across the company, including in all direct and indirect lobbying
- **ACT** to align both direct and indirect lobbying with science-based climate policies

ASSESS

Given the systemic nature of climate change, companies should analyze the nature of its impacts on their business and devise strategies for mitigation and adaptation. Once a company understands the nature of its climate risk exposure, it should also assess the extent to which both its direct and indirect lobbying serve to address or exacerbate these risks.

1. Assess the risk that climate change poses to the company

QUESTIONS TO CONSIDER

- Does the company consider climate risk as a part of its enterprise risk management process and materiality analyses? How is climate risk defined?
- Has the company considered its contribution to climate change, in addition to the risks climate change presents to its business?
- Has the company conducted scenario analyses on climate change?
- Has the company considered a range of timeframes, along with stakeholder and shareholder input, when conducting these analyses?

As a first step, companies should assess the scope and nature of their climate risk exposure by integrating climate change into the enterprise risk management (ERM) process. When conducting these assessments,

1. This report identifies examples of companies that are intended to illustrate how specific action steps may be operationalized. These should not be considered as endorsements of the company’s climate lobbying processes or outcomes.

a company should factor in the latest climate science, including projections on how the physical and transition risks from climate change could affect its operations, its value chain, the constituencies it engages and its very license to operate. The policy and regulatory environment within which a company operates is also a critical factor to consider as a part of these assessments, including [assessments](#) of how that landscape is likely to change in coming years as an increasing number of jurisdictions take climate action.

Climate change scenario analysis

The Financial Stability Board's [Taskforce for Climate-Related Financial Disclosures](#) (TCFD) was established in 2015 to develop a framework companies can use to assess and disclose climate-related financial risks and standardize how investors, lenders, insurers and other stakeholders process this information across physical, liability and transition risks. Chaired by Michael Bloomberg, the TCFD was led by investor, corporate and risk management experts throughout its development and will continue to evolve these recommendations. To date, more than 340 investors with nearly \$34 trillion in AUM have [called on](#) companies to report under TCFD.

Responding to investor pressure, a number of companies have conducted scenario analyses on climate change to better understand the business impacts that may be caused by a range of possible climate-related outcomes. Such assessments should consider impacts on the company's business over the short, medium and long-term, as well as take stakeholder and shareholder perspectives into account. The TCFD has released a number of [resources](#) for companies that show how to lead and disclose results from scenario analyses. These resources include descriptions of how to incorporate climate risk within a scenario analysis, and offer a variety of energy transition and physical risk scenarios to include. The TCFD recommends these scenarios be included in a company's strategic planning or ERM processes by:

- Identifying a range of global temperature increase scenarios, including a 2° C scenario, that provides a variety of possible future climate conditions.
- Evaluating the resiliency of the company's strategic plans across the range of scenarios.
- Strengthening the company's business resiliency by making necessary adjustments to its strategic and financial plans.
- Disclosing the results of this assessment, including the range of scenarios, assumptions and models used, the potential business impacts and management responses to them

When conducting a climate risk assessment, companies should consider both their exposure to climate risks and their contribution to climate change. Given the systemic nature of the climate crisis, it is not possible to hedge against or externalize its risks and impacts. In 2018, the World Business Council of Sustainable Development (WBCSD) and the Committee of Sponsoring Organizations of the Treadway (COSO) released [guidance](#) on how to integrate environmental, social and governance (ESG) risks within the traditional ERM process. The guidance explains how to reduce risk exposure by integrating climate and sustainability risks within corporate strategy deliberations, including how policies regulating ESG issues can be examined within a company's risk exposure assessment.

For the vast majority of companies, the nature of the risk posed by climate change is so significant that it rises to the level of being considered a material factor. The Sustainability Accounting Standards Board (SASB) [considers](#) climate risk to materially impact 72 out of 79 industry sectors.

When climate is identified as a material issue, this needs to be disclosed in the company's financial filings. In 2010, the Securities and Exchange Commission (SEC) issued [interpretive guidance](#) for public companies on existing SEC disclosure requirements as they apply to business or legal developments relating to the issue of climate change. Many investors are now [looking](#) for companies to provide details about the specific risks posed to them by climate change.

Investors expect a focus on what is material to the company within the context of emerging trends, ask for decision-useful quantitative and qualitative information, and want companies to disclose these risks in sources all investors reference, including 10-Ks, proxy statements, annual reports, and investor relations websites.

For instance, [Coca-Cola](#) identified climate change as a material risk in its 10-K in 2019, stating that climate risks posed potential long-term adverse impacts on its operations. The company cited scientific evidence that increased temperatures caused by GHG emissions would result in decreased global agricultural productivity and would exacerbate water scarcity and extreme weather, all of which could cause the company to experience supply chain disruptions.

Some 90% of the 2,400 North American companies reporting to the Carbon Disclosure Program (CDP) climate questionnaire in 2019 (72% of the S&P500) stated that they had integrated climate-related issues within their business strategy. Yet, the data suggests that the issue is still not considered material, let alone systemic by most companies. Only 23% of the S&P 500 [discussed](#) ESG issues, including climate change, in their 10-Ks.

2. Conduct an internal audit of direct and indirect lobbying positions on climate change

QUESTIONS TO CONSIDER

- Does the company regularly conduct internal audits of how its direct and indirect lobbying efforts align with climate science? (description of internal audit questions below)
- Does the company disclose the results of these audits, including any planned actions where there is misalignment?

Once a company understands the nature of its climate risk exposure, including the risk it faces from climate change as a systemic risk, it should assess the extent to which its direct and indirect lobbying serves to address or exacerbate these risks.

A growing number of investors are increasingly calling on companies to conduct internal audits to assess the extent to which their lobbying efforts are aligned with science-based climate policy. Such audits should cover both direct lobbying and indirect lobbying conducted on a company's behalf by the trade associations to which it belongs.

For the purposes of this report, indirect lobbying is defined as lobbying conducted on behalf of companies through their trade associations. Such lobbying is of particular concern to investors, other stakeholders and the public. Indirect efforts are more difficult for stakeholders to understand as many companies do not publish comprehensive lists of their trade association memberships. Additionally, many trade associations themselves do not disclose their member lists or their climate policy positions and lobbying efforts.

Internal audits on science-based climate policy alignment will help surface when companies may be "spending against themselves" and "spending against climate mitigation." Such audits will also allow companies to hold trade associations accountable for representing their best interests.

Elements of an internal climate audit for science-based climate policy alignment

- **The company's official position** on climate science, including its alignment with the goal of keeping average global temperature rise to no more 1.5° C above pre-industrial levels
- **Direct Lobbying Efforts**
 - The company's direct lobbying efforts that affect or are linked to climate change (e.g., energy policy, land use, emissions standards, etc).
 - An assessment of the degree of alignment or misalignment of the company's direct lobbying with current climate science.
 - A process for addressing any significant misalignments that are discovered.
- **Indirect Lobbying Efforts**
 - Identifying all trade associations or other tax exempt entities that engage in lobbying that the company is a member of or otherwise supports.
 - Determining each trade association's positions on climate change and climate science, and their lobbying track records over the past ten years on climate-related policies.
 - An assessment of the degree of alignment or misalignment between current climate science and the trade associations' lobbying efforts.
 - Identifying the process for addressing any misalignments that are discovered, including disclosing those areas of misalignment, company advocacy within the association asking it to change its position and options and procedures for leaving the association if the misalignment cannot be resolved.

The results of these internal audits should be presented to the board of directors.

It is important for companies to conduct such internal audits regularly, whether annually or otherwise, as the scope and context on what is being assessed (climate policies, climate science, membership in trade associations) evolve continuously. Additionally, companies should identify steps and timelines to address any misalignments that may be identified through these audits. (Options for a company to consider when misalignments are found are on page 19.)

Finally, companies should publicly disclose both the results of the audit and any planned steps to address policy misalignment. Such disclosure will demonstrate to investors and other stakeholders that companies recognize the risks associated with misaligned lobbying and are looking to assess and mitigate such exposure. In the meantime, it will also make clear to policy makers that the trade association positions do not necessarily represent that particular company, helping reduce confusion and perceived opposition to climate action.

As a result of investor focus, a small number of oil companies have started to conduct limited internal audits focused on large trade association memberships. [Shell](#) conducted an audit of its largest trade groups and disclosed the results, including noting where its position on climate change is misaligned from its associations and actions taken. Other organizations that have conducted such internal audits and disclosed results include [BP](#) and [Total SA](#).

Responding to investor pressure, the companies have also withdrawn from some industry associations, including the American Fuel and Petrochemical Manufacturer's Association, citing the "misalignment" between the company's views on climate policy and the association's. However, these companies remain members of other trade associations that have lobbied against science-based climate policy, including the American Petroleum Institute, a trade association [with](#) outsized negative influence and historical success in blocking all federal attempts at climate change regulation. The companies have also assessed trade groups against a fairly broad criteria of stated support for the Paris Agreement that often falls short of alignment with the latest climate science. (Examples of other companies that have left trade associations on account of misaligned climate change positions can be found on page 20.)

GOVERN

Once companies have assessed their exposure to the systemic risk from climate change, including through their direct and indirect lobbying, they need to engage relevant internal stakeholders across the enterprise on this risk, including those in legal, government affairs, risk and sustainability departments. The board of directors should be kept informed and oversee the company's public policy efforts on climate change.

1. Systematize decision-making on public policy engagement on climate change

QUESTIONS TO CONSIDER

- Does the company have a systematic process in place to evaluate and determine its public policy engagement on climate change?
- What are the specific scenarios of global average temperature increase used when determining these positions (1.5° C, 2° C, 4° C, etc.)?
- Who is involved in public policy decision-making?
- Does the scope of the process include both direct and indirect lobbying?
- How do executive management and the board stay informed about current climate science and hold themselves accountable for this education?

Internal audits for science-based climate policy help companies identify their risks from lobbying that may be misaligned with climate science. Companies should supplement these audits by also establishing clear systems to drive forward-looking decisions on public policy engagement on climate change.

A cross-organizational group that includes government affairs, the chief legal counsel, the financial or risk management teams, and the sustainability team will be best positioned to discuss the company's position on the evolving regulatory and policy landscape on climate change, as well as ensure that the company's position is aligned with climate science. This cross-functional group will also bring relevant and important perspectives to the deliberations where the company is involved with trade associations that may be engaging on climate policy.

Chief Legal Officers (CLOs) have an especially important role to play in this effort, given their roles overseeing the company's disclosures, tracking risk exposures, and acting as key advisors to the C-suite and board of directors. For example, [Adobe's](#) Executive Vice President and General Counsel is the lead for Government Affairs and Public Policy, including sustainability policy and environmental and renewable energy policy advocacy. This role includes oversight of the company's climate-related issues, risks, and opportunities and approval over its policies, strategies, and financial disclosures.

Such a cross-functional team becomes particularly important when decisions on climate lobbying alignment are complicated by potentially competing organizational priorities, such as when membership in a trade association provides other important benefits to the enterprise. A cross-organizational team involving government affairs, legal, risk and the sustainability functions has insight into the range of issues and priorities the company grapples with and can assist in breaking down silos to engage relevant internal and external stakeholders in making decisions. Such teams and systems can ensure a company's lobbyists are well versed on its latest climate priorities, that they regularly raise climate issues in their interactions, that they track climate-related legislation and decisions to ensure they are science-based, and that they are aware of policy misalignment.

For example, [Allstate's](#) Sustainability Council, which reviews operational efficiency, climate change, and employee-focused sustainability initiatives, consists of representatives from key functions across the enterprise, including Law & Regulation, Government Affairs, Real Estate & Administration, Investments, Products, Supply Chain, and Risk Management. The council studies company policies and practices and their impact on the environment, reviews the policies and engagements of the trade organizations Allstate engages with, and evaluates issues related to climate change to ensure consistency with the company's overall climate change strategy.

Should inconsistencies arise, the Sustainability Council addresses them with Allstate's Government Affairs division, housed within the company's Law & Regulation department, which owns Allstate's advocacy relationships.

2. Engage the board on climate policy

QUESTIONS TO CONSIDER

- Does the board have an explicit mandate to address climate risk and public policy oversight?
- Does management regularly engage the board in discussions on climate risk exposure, and are there opportunities to engage on science-based climate policy?

Given the systemic nature of the climate crisis and the growing investor understanding that this issue is material to most companies, boards should oversee climate change as a part of their oversight of corporate risk, strategy, and resilient performance. Given that a company's direct and indirect lobbying on climate change will either increase those risk factors or be risk mitigation factors, lobbying on climate change should also be regularly considered by the board.

Companies whose boards have an explicit mandate to oversee both climate change and public policy are best positioned to consider these issues and the overlap between them regularly and robustly. Where these responsibilities are in separate committees, the committees should work together to allow for the necessary integrated deliberations.

For instance, [Citigroup Inc.](#)'s Nomination, Governance and Public Affairs Committee oversees the company's public and government policy efforts, as well as its memberships in trade associations that engage in lobbying activities or make independent expenditures. The committee is also responsible for overseeing Citi's sustainability policies and programs, including on the environment, climate change and human rights. This committee's oversight of public policy efforts, trade association memberships and climate change enables the board to have informed deliberations on how to conduct responsible climate lobbying in ways that can best address climate risk.

Some 89% of the 2,400 North American companies reporting to the Carbon Disclosure Program (CDP) climate questionnaire in 2019 stated that their board oversees climate-related issues. However, the extent to which this oversight extends to public policy is not clear.

To support boards, management should provide regular updates on the company's climate risk exposure, as well as on its opportunities to mitigate this exposure by engaging in public policy. Where the company has established a cross-functional group to systematize organizational decision-making on climate policy, this group should also regularly brief the board, including on the risks of staying silent or inactive if the company's direct or indirect lobbying on climate policy is misaligned with climate science. When a company has conducted internal audits assessing the alignment of lobbying efforts with climate science and identifying planned climate action and accountability, these audits should be discussed with the board.

Ceres' report "[Running the Risk: How corporate boards can oversee environmental, social and governance risks](#)," details how ESG risks, including climate change, fit within the risk oversight mandate of corporate boards. The report includes detailed recommendations on how boards can oversee risks posed by sustainability issues, including questions for directors to ask management throughout the risk identification, assessment and mitigation processes.

After the company has engaged internal stakeholders on science-based climate policy, it should take the necessary action to demonstrate this alignment through its direct and indirect lobbying on climate change.

1. Publicly state that the company supports science-based climate policies

QUESTIONS TO CONSIDER

- Has the company publicly stated that climate change is caused by human activity that has led to increases in GHG emissions and global average temperature?
- Has the company publicly supported both the Paris Agreement and the goal of limiting global temperature increase to no more than 1.5°C by 2050?
- Has the company publicly supported creating a just transition to a net-zero carbon economy by 2050?
- Are the above positions consistently reflected across all internal and external statements and across all relevant company platforms on climate?

As a fundamental step, companies need to unequivocally state their position that climate change is caused by human activity that has led to increases in GHG emissions and global average temperature.

Companies should then affirm their understanding that the scientific consensus has shifted to 1.5° C as the ceiling for global average temperature increases, if we are to avoid climate change's worst impacts. These positions should be consistently expressed across all company statements on climate to protect the company from risks associated with having different statements on climate on multiple platforms.

For example, [Mars'](#) "Climate Action Position Statement" affirms that humanity's GHG emissions have changed the climate and acknowledges that the world must contain global temperature increase to no more than 1.5° C to avoid the worst climate-related impacts. Further, the company outlines its assessment of its value chain GHG emissions and discloses targets to decrease emissions 27% by 2025 and 67% (from 2015 levels) by 2050 to stay within its "share" of the global carbon budget. The company is also an active member of the [Sustainable Food Policy Alliance \(SFPA\)](#) and has promoted the importance of worldwide wind power by [launching](#) a global advertising campaign.

2. Directly lobby for science-based climate policies

QUESTIONS TO CONSIDER

- Does the company lobby for policy measures that are aligned with the latest climate science?
- Does the company lobby against policy measures that are misaligned with the latest climate science?
- Does the company disclose its efforts on lobbying for science-based climate policies?

As noted throughout this report, engaging on science-based climate policy efforts is an important opportunity for companies to mitigate the risks they face to their broader operating environment from climate change. Companies can play a role in shaping public policy in the U.S. and should use their voices to openly support legislative and regulatory efforts in line with the latest climate science. On page 7, we identify a number of science-based public policy proposals, at both the federal and state levels, that companies could consider supporting.

For example, [Microsoft](#) has shown strong support for state, federal, and global policy efforts to spur clean energy generation and to establish an economy-wide carbon tax. In its 2019 CDP report, Microsoft disclosed a number of examples of how it has actively engaged on climate policy, such as by forming the Advanced Energy Buyers Group to advocate for policies that provide more renewable and zero-carbon purchasing options. In 2018, the company also advocated for carbon tax legislation in Washington state via issuing statements from their President and Chief Legal Officer, providing Senate testimony, and making a formal endorsement during the Senate committee proceedings.

It is important that companies also actively lobby against policies misaligned with climate science. For example, companies can state that they do not support weakening standards that help reduce the U.S.'s GHG emissions. In response to the Trump administration's proposal to weaken fuel economy and vehicle emissions standards, Ford, BMW, Honda, and Volkswagen, later joined by Volvo, effectively rejected the weakened standards and joined a [compromise agreement](#) with California. In a joint statement produced by the four automakers, they noted that "these terms will provide our companies much-needed regulatory certainty by allowing us to meet both federal and state requirements with a single national fleet, avoiding a patchwork of regulations while continuing to ensure meaningful GHG emission reductions." In contrast, GM, Toyota, Fiat Chrysler and others intervened in litigation defending the Trump administration's revocation of state authority and its rollback of the standards.

In addition to lobbying for science-based climate policies in general, companies should also disclose their specific positions on key proposals and publicly share how they communicate these positions with policymakers, shareholders and stakeholders. Disclosing details about the methods and goals of these engagements will allow a company to showcase the seriousness, breadth, and depth of its climate policy commitments. Whether their engagement includes active lobbying with state or federal legislators, direct political expenditures, offering testimony on the importance of climate policy, or participating in sign-on letters for strong science-based climate policies, companies need to be transparent about how they mitigate climate risks by advocating for such policies.

Lobbying for science-based climate policies can be done individually and through coalitions. [Ceres' Businesses for Innovating Climate and Energy Policy Network \(BICEP\)](#) brings together more than 50 companies to advocate for strong climate and clean energy policies to accelerate the transition to a net-zero carbon economy. [Ceres' 2020 Policy Outlook](#) highlights possible corporate engagement opportunities for businesses to help advance policies that create a net-zero carbon economy. These opportunities include calling for better corporate access to renewable energy; stronger state renewable portfolio standards and energy efficiency resource standards; the transformation of the clean transportation sector; and the overall growth of a clean energy economy. The [We Are Still In Initiative \(WASI\)](#) is a coalition of business, cities, states and other entities committed to realizing the goals of the Paris Climate Agreement through their own climate actions, despite the U.S. federal government's withdrawal.

3. Engage with trade associations on aligning their lobbying with climate science

QUESTIONS TO CONSIDER

- Has the company assessed and disclosed its full list of trade association memberships?
- Has the company communicated its climate policies to all trade associations?
- Has the company assessed the climate policy positions of their trade associations and disclosed when it is a member of a trade association whose lobbying efforts are misaligned with science-based climate policies?
- Has the company engaged with its trade associations on their climate change positions, including whether these are aligned with climate science?
- Has the company left trade associations when engagement over misaligned climate lobbying was unproductive?

Once a company has established that its commitment to science-based climate policies is a key element of its risk reduction efforts and has aligned its direct lobbying, it needs to take steps to align its indirect lobbying, done through trade associations, with this climate science.

In the "Assess" section of Blueprint, we identify a process for companies to internally audit their direct and indirect lobbying efforts to ensure alignment with science-based climate policies and the goals of the Paris Climate Agreement.

When misalignments are identified, companies need to take corrective action with their trade associations. As a first step, companies should engage their trade associations to fully understand their positions on climate change beyond what is publicly disclosed. Many trade associations do not provide easily accessible disclosure on their positions on key issues like climate change, nor on their efforts to influence regulatory and legislative proposals. Companies should encourage their trade associations to be more transparent in this regard and can do so either independently or collectively with other members of the association.

If a company finds that it is a member of a trade association that is not aligned with science-based climate policy efforts, it should, at a minimum, publicly disclose this information. The company should also then provide a rationale as to why it remains a member of the association in question and outline its plans to engage the trade association on identified misalignment.

Options to engage trade associations on climate change

There are a number of possible opportunities for companies seeking to engage their trade associations on lobbying practices that are misaligned with climate science. As a part of [The We Mean Business coalition \(WMB\)](#), formed by leading nonprofits to catalyze business action and drive policy ambitions to accelerate the zero-carbon transition, Ceres collaborated with [The B Team](#), a nonprofit working with global business leaders to create new norms of corporate leadership, to address trade association misalignment on climate policy with companies. The B Team produced a [toolkit](#) that provides several options for engagement and includes resources, such as sample letters to trade associations, that companies can use throughout the engagement process. Engagement options include:

Individual company actions

- Conduct an audit of trade association activities against science-based climate policies.
- Issue a public statement on the importance of responsible lobbying in line with climate science, which could include a written post, article, video, or other media on the company's website.
- Publish an open letter on the company website calling on all trade associations to disclose their current lobbying positions on climate policies.
- Send a private letter to all or a selection of trade associations asking them to disclose their current lobbying positions on climate policies.
- Work within the trade organization to align its policy positions with current climate science.
- Ask trade associations to establish internal audit processes to ensure their positions are fully aligned with current climate science and that these processes are transparent.
- Remove the company's name and logo from any statements released by trade associations that are misaligned with climate science.
- Publicly state the company's disagreement with the trade association's position on climate policy lobbying.
- Leave the trade association, publicly disclosing the criteria that the trade association must meet before the company will re-join.

Collective corporate action

- Join other member companies to send a joint letter to a trade association or selected associations, whether via a private letter or "open letter" or public statement, requesting the association align policy positions with current climate science.
- Issue a joint public statement clarifying that the trade association doesn't speak for all members on climate policies and specify where your companies do not align with lobbying efforts made "on your behalf."
- Audit trade association as a collective enterprise with fellow member companies.
- Leave the trade association together with fellow members and issue a joint statement explaining why.

For example, [PepsiCo](#) has disclosed that its climate goals and policy advocacy efforts are consistent with the goals of the Paris Agreement and has asked its trade associations to adopt a similar stance when engaging on climate. The company also annually reports on its trade association memberships and how each of its trade associations lobbies or holds positions on climate policy. PepsiCo updated its [2018 Political Activities, Political Contributions & Issue Advocacy policy](#) with a section on lobbying practices related to climate change, specifically stating the company does not share the U.S. Chamber of Commerce's views on climate policy, including their lobbying efforts against legislation aimed at reducing GHGs.

Building on this approach, companies should look for opportunities to help trade associations evolve positions on science-based climate policies. Such engagement could take place either individually or through coalitions and could include a request for an association to put lobbying and making political contributions on particular issues on hold if there are unresolved misalignments between members and the association or members themselves.

For example, [Unilever's](#) CEO Alan Jope sent an open letter to its trade associations and business groups asking them to confirm that their current lobbying positions on climate policy are consistent with Unilever's positions, the 1.5° C goal, and the general Paris Agreement goals. Unilever also states that it supports the United Nations Global Compact's (UNGC) [Guide to Responsible Engagement on Climate Policy](#), which calls for companies and their trade associations to ensure their lobbying aligns with their public positions on climate change.

In another example, [UPS](#) disclosed that it does not support the U.S. Chamber of Commerce's opposition to the regulation of GHGs under existing laws, including the Clean Air Act. As a form of engagement, UPS management met with the Chamber's leadership to explain the company's position on climate and the steps it has taken to reduce its carbon footprint. UPS also joined the Chamber's energy and environment committee to assert its positions on climate as legislative opportunities arise. Finally, UPS urged the Chamber to support a rule requiring government vendors to disclose whether they publish their GHG emissions. The Chamber agreed not to oppose the rule because of UPS's communication with the association, despite being urged by other members to oppose it.

If engaging with misaligned trade associations is unproductive, companies can consider leaving these associations. Companies should develop criteria to determine what degree of misalignment and what amount or timeline of unproductive engagement will cause them to leave. Companies also need to commit to disclosing these criteria and any decisions that result in their direct and indirect climate lobbying audits so that stakeholders can understand the particulars of such criteria and be informed of the decisions.

For example, [Apple](#) left the U.S. Chamber of Commerce in 2009 along with PG&E, PNM Resources and several other companies. Each company stated that its reason for leaving centered around climate change policy differences with the Chamber. In particular, [Apple specifically stated](#) that a key reason for its departure was the Chamber's opposition to the Environmental Protection Agency's effort to limit GHGs, as Apple supports such regulation.

In 2018, [Danone, Mars, Nestle and Unilever](#) also cited differences over climate change policy as a key reason for leaving the Grocery Manufacturers Association to form the [Sustainable Food Policy Alliance](#). The Chairman and CEO of Nestle, Paul Grimwood, categorized this move as one toward greater transparency on the issues their consumers care about, including climate change.



Conclusion

Comprehensive and urgent corporate action on climate change is vital if we are to achieve a stable climate and mitigate the devastating impacts of average global temperature increase. But we cannot tackle climate change without strong, science-based climate policies. In today's deeply interconnected society, companies and their shareholders understand it is not just the actions of a company on climate policy that matter—it's also the climate actions undertaken on behalf of companies by their trade associations. As we seek ways to combat climate change, limit climate risks to companies and capital markets and "Build Back Better" in 2020 and beyond, companies must holistically and proactively assess all elements of their direct and indirect lobbying on climate policies to ensure they are helping build a just and economically viable future.

This project is generously funded by the We Mean Business coalition, a global coalition of nonprofit organizations working with the world's most influential businesses to take action on climate change. The coalition catalyzes business action to drive policy ambition and accelerate the transition to a zero-carbon economy.



THE CERES ACCELERATOR FOR SUSTAINABLE CAPITAL MARKETS

In the last three decades, Ceres and our influential networks have achieved significant progress in integrating sustainability into the capital markets. However, private and public sector progress is not happening fast enough or with the right level of ambition to tackle not only the global climate crisis, but the growing threats around deforestation, water scarcity and pollution.

Building on our more than 30 years of leadership and impact, the Ceres Accelerator aims to transform the practices and policies that govern capital markets in order to accelerate action on reducing the worst impacts of the climate crisis and other sustainability threats. It will spur capital market influencers to act on these systemic financial risks and drive the large-scale behavior and systems change needed to achieve a net-zero carbon economy and a just and sustainable future.

The Ceres Accelerator will initially focus on four flagship initiatives that aim to accelerate large-scale capital markets behavior and system changes needed to address the climate crisis.

- **Regulating Climate as a Systemic Risk**
- **Achieving Paris-Aligned Portfolios**
- **Financing a Net-Zero Carbon Economy**
- **Board Governance for a Sustainable Future**

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