CLIMATE ACTIVISM

MATERIALISING TRANSITION RISK

From consumers to shareholders the pressure is growing for corporations to show the actions they are taking to address climate change.

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In December 2015, the world saw 175 countries sign the Paris Agreement. A document which represented a growing commitment to keep average global warming well-below 2oC pre-industrial levels with efforts to limit this to 1.5oC. This was a critical milestone in that it sparked a climate discussion beyond the scientific and governmental circles. As a result, there has been growth in climate activism.

On the 26th of May 2021, also known as "Black Wednesday for Oil", three important victories against big corporate emitters have triggered more actions pursued by shareholders, ordinary individuals, and organised groups of young people, demonstrating the increasingly social engagement that the topic unfolds. The bottom-up movement raises consciousness and empowers people across the globe to become active in demanding action from businesses and politicians.

These bottom-up (see 1 below) approaches are at least equally important than top-down approaches, yet some actors have a greater impact than others. For example, in the investment space, environmental shareholder activism is more effective when initiated by institutional shareholders (Flammer et al., 2021).

Growing evidence of the impact of climate change on the longevity of business has seen long-term investors place greater pressure on organisations to disclose their operational impacts. Stock markets have responded favourably to such disclosures. In the days following a shareholder-induced disclosure of climate-change risks, the disclosing firm's stock price increases by 1.21% on average (on a market-adjusted basis) (Flammer et al., 2021). Investors like this level of transparency as it reduces uncertainty in their investments.

However, small investors can have a great impact too. One example is Exxon. To increase climate transparency and action, Engine No.1 (a tiny, $50mln, Activist Hedge Fund) put forward four new directors that placed climate change at the centre of operations (Reuters, 2021).

Image of Black Wednesday Crisis taken from The Guardian

This was received favourably by investors, with stock rising by 1.2% to $58.94 on the day of the announcement. Exxon now has a task force developed to manage its transition to operating more transparently.

Another small activist group, Follow This, was also successful on that same day. The group has been pushing a shareholder resolution for Chevron to make cuts in their scope 3 emissions. This was won with a majority 61% vote. This means that the article in the Financial Times in 2018, where investors argued oil and gas companies must take responsibility for the products they sell, has now materialised into action.

The Royal Dutch Shell Company (Shell) court case presents another example of the importance of diligent and thorough reporting. Lack of transparent reporting, evidence relating to operational impacts and future plans to amend this were fundamental in the case made against Shell by Friends of the Earth. The court ruled that Shell has to reduce its carbon emissions 45% by 2030.

1. There are two frequently referenced approaches to sustainability. These are broadly known as Top-Down and Bottom-Up. While Top-Down approaches aim to create behaviour change through policy-making, Bottom-up aims to enact change through individual action which then shape policy (i.e. Climate Activism) (Cerna, 2013).

Image by Paddy O'Sullivan taken at Climate Protest in September 2019.

There was another important court ruling that same week in Australia. Eight teenagers and an octogenarian nun had sought an injunction to prevent Ley (the Environment Minister) from approving a proposal by Whitehaven Coal to expand the Vickery coal mine in northern New South Wales, arguing the minister had a common law duty of care to protect younger people against future harm from climate change.

The court heard the expansion of the mine could lead to an extra 100mln tonnes of CO2 – about 20% of Australia’s annual climate footprint – being released into the atmosphere as the extracted coal is shipped overseas and burned to make steel and generate electricity. The court ruled that the Environment Minister indeed has a duty of care to young people. However, there is still yet to be consensus made on what “duty of care” means and how this will impact the future of Whitehaven coal mine.

"...20% of Australia's Annual Carbon Foot Print..."

Why are companies being penalised?

Organisations are increasingly being held accountable for taking action to reduce emissions rapidly, yet most businesses still follow a business-as-usual pathway. Even when the three pillars of sustainability – Environment, Social, and Governance (ESG) – are incorporated into the organisations’ structure, it seems there are barriers to embrace the concept into the core business’ strategy. Corporate ESG departments thus sometimes just represent a tick box for stakeholders through punctual initiatives, lacking the opportunity to effectively foster a truly sustainable economy.

Why is "business-as-usual" not consistent with sustainability?

The answer is simple - continuing the way we operate now will undoubtedly lead us to negatively impact the foundation of our societies to live and develop in: a stable and safe natural environment. In other words, business as usual will lead to the transgression of our planetary boundaries (PB).

The planetary boundaries framework, containing the latest science on what we know about the earth and its function to humans, identifies 9 life-supporting systems that are currently impacted by humans. These 9 systems are highly interconnected and if boundaries are crossed can lead to irreversible and undesirable change. Yet, climate change and biosphere integrity (similar to biodiversity) are those which have the highest potential to drive the Earth system into a new state that is (much) less desirable for humans, with food shortages, high levels of immigration, loss of coastal values, loss of species, and sea level rise, just to name a few.

The Financial Stability Board, a body monitoring the global financial system, has become aware that changing our natural environment, particularly our climate, has vast negative implications on our society and economy if drastic action is not taken soon to preserve our life-supporting systems.

They have put forth two major efforts to support businesses in assessing their risks and to guide investors' behaviour.

The first one is the **Task-force on Climate-related Financial Disclosures** (TCFD) Recommendations, released in 2017, as a request from the G20 to the Financial Stability Board. The TCFD started on a corporate voluntary basis, but is becoming mandatory as governments and financial regulators are adopting it worldwide.

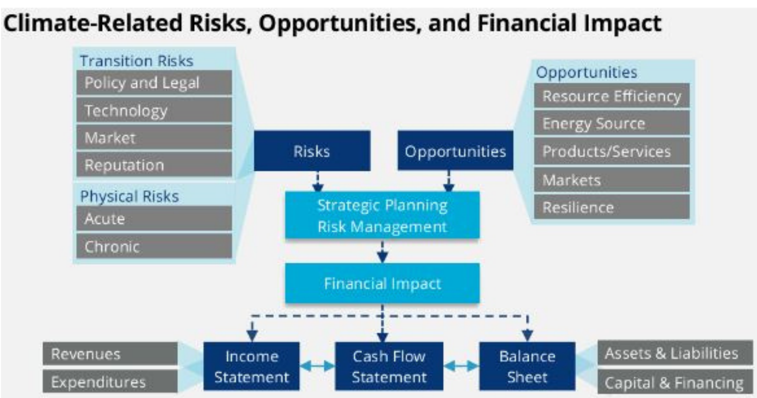

Figure 1: TCFD Climate related Risk, Opportunities and Financial Impact

The second is the **Task-force on Nature-related Financial Disclosures (TNFD),** which is to deliver its recommendations by 2023, and that came up through an Informal Working Group composed of 74 members from 24 countries, including financial institutions, corporates, governments, regulators, multilaterals, NGOs, and consortiums. Both initiatives constitute market-led instrumental frameworks.

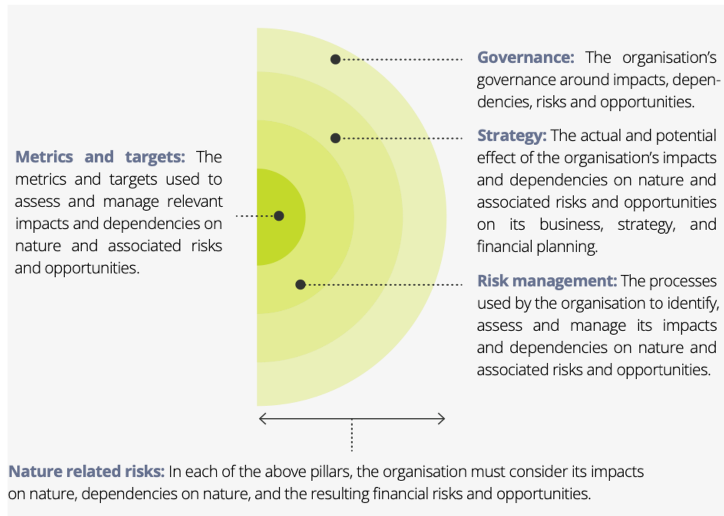

Figure 2: TNFD nature related risks, metrics and targets.

Companies should prepare to comply with such emerging expectations, requirements, and regulations. This can be achieved by not only assessing their related risks and opportunities, but also by disclosing this information according to recognised frameworks for meaningful action.

ARTEH works with companies to set and achieve actionable carbon emission reductions, and disclose this information in accordance with TCFD guidelines for metrics and targets. ARTEH has a unique platform that helps companies to easily upload data, calculate greenhouse gas emissions, understand Science-Based Targets, and identify areas for carbon reductions.