

EUROPEAN INVESTOR EXPECTATIONS ON CORPORATE LOBBYING ON CLIMATE CHANGE

October 2018

Introduction:

1. Based on recent interventions supported by shareholder resolutions at BHP and Rio Tinto and subsequent commitments that have been made by Anglo American this proposal sets out on behalf Swedish National Pension Fund AP7 and the Church of England Pensions Board updated investor expectations within Europe on corporate lobbying on climate change. These expectations have drawn from previous work by the Institutional Investors Group on Climate Change (IIGCC) and the Principles for Responsible Investment (PRI) and are updated to reflect recent developments following engagement with companies.
2. The expectations form part of a wider engagement programme jointly led by AP7 and the Church of England Pensions Board. The programme has been developed in consultation with IIGCC and is focussed on driving change in corporate lobbying within European listed companies ahead of the 2020 UNFCCC Conference of the Parties (Paris +5).

Programme Aim:

3. **AP7 and the Church of England Pensions Board are leading a dedicated engagement programme to address corporate climate lobbying and lobbying by trade associations to ensure alignment with Articles 2.1(a) and 4.1 of the Paris Agreement. The programme is intended to establish a new standard for corporate responsibility and reporting on this issue. As part of the programme some targeted shareholder resolutions will be considered at companies in key sectors lobbying on climate change.**
4. The aim of the programme is to:

Bring focus to the issue of corporate climate lobbying and drive improved corporate behaviour in a concerted manner before the next major UN climate negotiations in 2020.

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These expectations are supported by the IIGCC, AP7 and the Church of England Pensions Board and the following organisations: AP2, APG Asset Management, BNP Paribas Asset Management, ERAFP, Hermes EOS, Hermes Investment Management, Kempen Capital Management, Länsförsäkringar AB, Legal & General Investment Management, MP Pension, NN Investment Partners, Nykredit Asset Management, Öhman, Rathbones Greenbank, Robeco, RPMI Railpen, Skandia

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INVESTOR EXPECTATIONS:

Our expectation is that, when companies engage with public policy makers, they will support cost-effective policy measures to mitigate climate change risks and support an orderly transition to a low carbon economy. We believe that companies should be consistent in their policy engagement in all geographic regions and that they should ensure any engagement conducted on their behalf or with their support is aligned with our interest in a safe climate, in turn protecting the long-term value in our portfolios across all sectors and asset classes. The following expectations are informed by the Principles For Responsible Investment report into corporate lobbying as well as recent engagement on the issue.

INVESTOR PRINCIPLES ON LOBBYING:

*As long-term institutional investors we expect those companies that engage with policy makers directly or indirectly through trade associations, lobbying organisation or think-tanks **taking positions on climate change related issues to:***

i. Lobby Positively in Line with the Paris Agreement

Support and lobby for effective measures across all areas of public policy that aim to mitigate climate change risks and limit temperature rise to well below 2 degrees Celsius. This support should apply to all engagement conducted by the company in all geographic regions, and to policy engagement conducted indirectly via third party organisations acting on the company's behalf or with the company's financial support.

ii. Have Robust Governance Procedures

Establish robust governance processes to ensure that all direct and indirect public policy engagement that is supported by the company is aligned with the company's climate change commitments and supports appropriate policy measures to mitigate climate risks. We expect companies to establish a clear framework that has:

- **Board oversight:** Ensuring accountability by assigning responsibility for governance at board and senior management level.
- **Monitoring and Review:** Establishing processes for monitoring and reviewing climate policy engagement, including identifying all climate change policy engagement being conducted by the company either directly or indirectly, across all geographic regions.
- **Consistency:** Establishing a transparent process to ensure consistency between the company's public policy positions and their direct and indirect engagement with climate policy, including through third parties. This process should include an assessment of the company's relationship with third party organisations, having regard to the nature of the material difference and the extent of the benefit derived from the broader activities of the third party, and define actions to be taken where material differences have been identified to ensure alignment.

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iii. Act When Unaligned

Act in situations where policy engagement is not aligned with company policy, or with the goals of the Paris Agreement. For engagement undertaken on the company's behalf or with its financial support by third party organisations, actions could include:

- Making clear public statements where there is a material difference between the company and third-party organisation's position;
- Working with the organisation to make the case for constructive engagement;
- Requiring the organisation to stop lobbying on issues where there is not alignment amongst all members;
- Discontinuing membership or support for the organisation; and
- Forming proactive coalitions to counter the organisation's lobbying.

iv. Be Transparent

The governance framework established under principle II should be disclosed to ensure investor and public confidence in the practice and processes of the company. Actions undertaken in accordance with principle III should also be made public. Appropriate reporting could also include details of:

- The company's position on climate change and policies to mitigate climate risks.
- The company's direct and indirect lobbying on climate change policies.
- The company's membership in, or support for, third party organisations that engage on climate change issues (including political organisations).
- The specific climate change policy positions adopted by these third-party organisations, including discussion of whether these align with the company's climate change policies and positions.
- The assessment that the company has made of the material impact of lobbying by the organisation taking a contrary position to the public position of the company.

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Further Information:

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