

CLIMATE CHANGE

**THE POLICY OF THE NATIONAL INVESTING BODIES
OF THE CHURCH OF ENGLAND**

AND

**THE ADVISORY PAPER
OF THE ETHICAL INVESTMENT ADVISORY GROUP
OF THE CHURCH OF ENGLAND**

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THE CLIMATE CHANGE POLICY OF THE NATIONAL INVESTING BODIES

The National Investing Bodies have decided to adopt the policy on climate change set out in paragraphs 1 to 5 below on the advice of the Ethical Investment Advisory Group (EIAG):

- 1 The National Investing Bodies have decided that they should be, in both an aspirational and realistic fashion, at the forefront of institutional investors subject to legal fiduciary duties addressing the challenge of the transition to a low carbon economy.
- 2 The National Investing Bodies are already taking extensive action on climate change. As a result of the advice of the EIAG they have, however, concluded that they can and should do more.
- 3 The National Investing Bodies have decided that that, from an ethical perspective, their key focus in relation to climate change should be on assisting the transition to a low carbon economy. The primary focus for the delivery of this commitment should be engagement with companies and with policy makers.
- 4 Investment exclusions will, however, be implemented for companies in the fossil fuel sector specialising in activities associated with the highest carbon emissions – the extraction of thermal coal and oil sands. These are the activities from which there is a pressing need to re-direct investment and the companies with whom there is least scope for productive engagement.
- 5 The National Investing Bodies have decided that they will:

Engagement: Corporate

- a. Engage more intensively with those companies in which they are invested that make a significant contribution to global greenhouse gas emissions (such as fossil fuel producers, electricity generation utilities, large energy users, and producers of energy intensive products) to encourage them to assist in the transition to a low carbon economy.

Engagement: Public Policy

- b. Engage more intensively as institutional investors with public policy makers with the aim of achieving a fair and stable regulatory and structural environment, nationally and internationally, that supports the transition to a low carbon economy, including through greenhouse gas emissions reductions, adaptation to the physical impacts of climate change, appropriate protection for the natural environment, and just and affordable access to energy for the poor.

Engagement: Collaboration

- c. Conduct corporate and public policy engagement wherever possible in collaboration with other investors, including through the Church Investors Group (CIG) and the Institutional Investors Group on Climate Change (IIGCC), because of the increased effectiveness that comes from doing so.

Investment and Divestment

- d. Not invest in any company where more than 10% of its revenues are derived from the extraction of thermal coal or the production of oil from oil sands on the basis that such companies are unlikely to be able to assist with the transition to a low carbon economy. In a circumstance where a company breaches the 10% threshold, having previously been in compliance, then the company should be given a grace period during which the company would be expected, following engagement, to comply with the policy. Should the breach of the threshold persist then the investment exclusion will be implemented. Similarly where a company newly ceases to breach the 10% threshold having been restricted, engagement should be conducted to provide assurance that the change can be expected to endure.
- e. Divest, after appropriate engagement, from companies that make a significant contribution to emissions of greenhouse gasses and that the National Investing Bodies consider are not taking seriously their responsibilities to assist with the transition to a low carbon economy.
- f. Increase their investments in climate change adaptation, and in sectors and activities such as sustainable energy, energy efficiency, carbon capture and storage that may make a significant contribution to reducing global greenhouse gas emissions or facilitating the transition to low carbon economy, to the extent that such investments meet their investment risk/return criteria.
- g. Explicitly examine the investment implications of climate change and current and future energy policies for companies that make a significant contribution to global greenhouse gas emissions.

- h. Explicitly examine the investment implications of the physical impacts of climate change already taking place or liable to occur on companies or sectors, and in particular those in the real estate and infrastructure sectors.
- i. Support international efforts to develop standard metrics and protocols for climate change reporting for investment portfolios and, once developed, use these tools to monitor the climate change-related risks and opportunities in their investment portfolios, to assess the effectiveness of their efforts to reduce portfolio-related greenhouse gas emissions, to inform target setting in due course, and to report publicly on their greenhouse gas emissions and other key metrics.

Capacity Building

- j. Build their internal capacity and knowledge through the provision of training for staff and trustees, the allocation of responsibility within their investment teams for investments in climate change adaptation and in sectors and activities that may make a significant contribution to reducing global greenhouse gas emissions or facilitating the transition to a low carbon economy.

Manager Selection and Monitoring

- k. Continue to encourage those organisations that invest money on their behalf to build climate change into their investment practices and processes, in line with the goals and objectives set out in this climate change policy, including through Integrating climate change into relevant requests for proposals and due diligence processes, making climate change an explicit part of their asset management appointment processes, integrating climate change into their investment management agreements, and monitoring their asset managers' approach to climate change.

Reporting

- l. Monitor and report publicly on an annual basis on their implementation of this policy.

THE ADVISORY PAPER OF THE ETHICAL INVESTMENT ADVISORY GROUP

EXECUTIVE SUMMARY

The following paper summarises the deliberations of the Ethical Investment Advisory Group (EIAG) that have informed our policy recommendations to the National Investing Bodies.

The wider context

- i) Humankind has a divinely mandated responsibility for the physical world, for its creatures and for one another, especially the weakest and least. Whilst we are legitimately involved in a process of change and adaptation, this mandate also requires us to do all we can to minimise whatever is damaging creation and God's creatures, and to promote all that is good and that brings the kingdom of heaven into ever greater realisation on earth.
- ii) The EIAG accepts the broad scientific consensus, as set out in the Intergovernmental Panel on Climate Change's (IPCC's) Fifth Assessment Report (2014), that greenhouse gas emissions from human activities are the most significant contributor to changes in the world's climate, and that urgent action is needed if we are to avert the worst consequences of climate change on ecosystems, and on present and future generations.
- iii) Climate change is a present day reality and already leading to significant impacts on the poorest and most marginalised in the world. The poorest are least able to adapt to climate related extremes yet suffer disproportionately the ecological, social and economic consequences that flow from these changes. It is also the poorest that have contributed the least to greenhouse gas emissions and are in most need of strategies that enable growth. In addition to ecological considerations, justice calls for urgent global action to ensure equitable access to enriching and sustainable development and a rapid transition to a low-carbon economy. The IPCC estimates that this will require global greenhouse gas emissions to be reduced by 40-70% by 2050 compared to 2010, and will require global energy supply to be decarbonised by the end of the century. Delay will also mean that the transitional costs are much higher, and that the long-term impacts are much more significant.
- iv) Climate change cannot be separated from the values and priorities that are reflected in our social and economic practices and systems, and cannot therefore be successfully addressed by technical or managerial measures alone. It will be the values and priorities of society that will drive society's response to climate change.
- v) The relationship between energy, society and development is complex. Effective action on climate change requires that we take account of the wider consequences and impacts of our decisions. For example, we recognise that reducing greenhouse gas emissions is not simply a question of increasing investment in renewable energy, but also requires that attention is paid to wider issues around energy supply and energy demand. Similarly, we recognise that keeping global temperature rises below 2°C is only part of what we need to do to protect endangered ecosystems and to address the needs of the world's poor who are particularly vulnerable to climate change and disasters.
- vi) Addressing climate change requires that attention is paid to the design and financing of the world's urban, land use, transportation and energy systems, to the management of issues such as urban sprawl, deforestation, food production and distribution, and to the national and international governance measures necessary to enable the transition to a low carbon economy. It also requires us to acknowledge that some on-going use of fossil fuels is likely to be necessary for some time if the world is also to deliver on its other legitimate policy goals such as those relating to poverty alleviation and sustainable development. These are issues for domestic and international policymakers, and for society as a whole, including but not limited to institutional investors.

Our joint responsibility

- vii) Climate change is an urgent ethical issue and it calls for an urgent response from all parts of society. The responsibility to consider our relationship with God, and to take action in response to climate change, applies to all of us, individually, institutionally, nationally and internationally.
- viii) As individuals we each have a personal responsibility to live more sustainable and equitable lives and to challenge ourselves about our patterns of consumption, our direct and indirect use of fossil fuels, and the level of our solidarity with and support for others, particularly the poorest and weakest, including as reflected in national and international governance measures.
- ix) As regards the Church of England's National Investing Bodies, they have a responsibility to ensure that their investments are managed in a manner that is aligned with the Church's witness and mission, and to engage as institutional investors with others with a view to persuading them of the need for change.

1 INTRODUCTION

1.1 The science, the public policy and the economics

- 1.1.1 The central conclusions of the Fifth Assessment Report¹ of the Intergovernmental Panel on Climate Change (IPCC), published in 2013-2014, are that climate change is occurring and that human activity, particularly through the emission of carbon dioxide, is very likely to be the dominant cause. The average global temperature is already 0.85°C higher than pre-industrial levels. The impacts of these higher temperatures are already starting to be seen on hydrological and biological systems. If emissions continue to rise at the current rate, by the end of this century the average global temperature is likely to be 2.6–4.8°C higher than at present.
- 1.1.2 The IPCC states that it is virtually certain that there will be more frequent hot and fewer cold temperature extremes over most land areas on daily and seasonal timescales as global mean temperatures increase, and that it is very likely that heat waves will occur with a higher frequency and duration. While climate change may have some positive effects for some high income countries at moderate levels of warming, climate change will become very damaging at the higher temperatures that threaten the world in the second half of this century. The human impacts are predicted to include increased mortality, increased morbidity, and loss of livelihoods (see Box 1). These impacts are likely to be particularly severe for those populations and communities in the weakest economic position.
- 1.1.3 The impacts of climate change extend beyond humans, and affect the ecological well-being of the planet as a whole. The IPCC states that a large fraction of both terrestrial and freshwater species faces increased extinction risk under projected climate change during and beyond the 21st Century, especially as climate change interacts with other stressors, such as habitat modification, over-exploitation, pollution and invasive species.

Box 1: Climate change impacts

The IPCC predicts that climate change will affect systems, sectors and regions. While it qualifies its predictions by noting that the specific impacts will depend on actual emissions and on the resulting increases in average global surface temperatures, it identifies a series of impacts that it could predict with high confidence. The predicted impacts include²:

- Death, injury, ill-health, or disrupted livelihoods in low-lying coastal zones, in small island developing states and in other small islands due to storm surges, coastal flooding and sea level rise.
- Severe ill-health and disrupted livelihoods for large urban populations due to inland flooding in some regions.
- Breakdown of infrastructure networks and critical services such as electricity, water supply, and health and emergency services as a result of extreme weather events.
- Increased rates of mortality and morbidity during periods of extreme heat, particularly for vulnerable urban populations and those working outdoors in urban or rural areas.
- Food insecurity and the breakdown of food systems as a result of warming, drought, flooding, and precipitation variability and extremes, particularly for poorer populations in urban and rural settings.
- Loss of rural livelihoods and income due to insufficient access to drinking and irrigation water and reduced agricultural productivity, particularly for farmers and pastoralists with minimal capital in semi-arid regions.
- Loss of marine and coastal ecosystems, biodiversity, and the ecosystem goods, functions, and services they provide for coastal livelihoods, especially for fishing communities in the tropics and the Arctic.
- Loss of terrestrial and inland water ecosystems, biodiversity, and the ecosystem goods, functions, and services they provide for livelihoods.

1 <http://www.ipcc.ch/report/ar5/>

2 IPCC (2014), Working Group II – Impacts, Adaptation and Vulnerability. Summary for Policymakers, http://ipcc-wg2.gov/AR5/images/uploads/WG2AR5_SPM_FINAL.pdf

- 1.1.4 To prevent the most severe impacts of climate change, the parties to the UN Framework Convention on Climate Change (UNFCCC) agreed a target of keeping the rise in average global temperature since pre-industrial times below 2°C. The IPCC estimates that this will require global greenhouse gas emissions to be reduced by 40-70% by 2050 compared to 2010, and will require global energy supply to be decarbonised by the end of the century. The IPCC notes that delaying mitigation until 2030 will mean that substantially higher rates of greenhouse gas emissions reductions from 2030 to 2050 would be required. Delay will also mean that the transitional costs are much higher, and that the long-term economic impacts are much more significant.
- 1.1.5 In relation to the economics of climate change, the IPCC's Fifth Assessment Report suggests that climate change has major societal and economic implications. As such, it is an issue that must be explicitly considered by the National Investing Bodies in their investment practices and processes. We also note that the New Climate Economy Report³, published by The Global Commission on the Economy and Climate in September 2014, concluded that, by shaping the major processes of structural and technological change now occurring in the global economy, it is possible to create economic growth whilst also tackling the immense risks presented by unconstrained climate change. This report also emphasises that action on climate change must take account of the need for lasting and better quality economic growth - growth that distributes its benefits more widely, is more resilient, and sustains the natural environment – in low income countries.

1.2 Our responsibility as Christians

- 1.2.1 As Christians, we have a divinely mandated responsibility for the physical world, for its creatures and for one another, especially the weakest and least. This requires us to do all we can to mitigate whatever is damaging creation and God's creatures, and to promote all that is good and brings the kingdom nearer.
- 1.2.2 In relation to climate change, we accept the broad scientific consensus that greenhouse gas emissions from human activities are the most significant contributor to changes in the world's climate. We also accept that urgent action is needed if we are to avert the worst consequences of climate change on ecosystems, and on present and future generations.
- 1.2.3 Climate change is a present day reality and already leading to significant impacts on the poorest and most marginalised in the world. As the IPCC Fifth Assessment Synthesis Report states: 'Impacts from recent climate-related extremes, such as heat waves, droughts, floods cyclones and wildfires reveal significant vulnerability and exposure of some ecosystems and many human systems to current climate variability.' The poorest are least able to adapt to climate related extremes yet suffer disproportionately the ecological, social and economic consequences that flow from these changes. It is also the poorest that have contributed the least to greenhouse gas emissions and are in most need of strategies that enable growth. In addition to ecological considerations, justice calls for urgent global action to ensure equitable access to enriching and sustainable development.
- 1.2.4 This responsibility to take action applies to us as individuals and as institutions within the Church of England. As Christian individuals, we all have responsibility to live more sustainable lives and to challenge ourselves about our patterns of consumption, our use of fossil fuels and our personal contribution to climate change. We also have a similar interest in ensuring that the Church of England's investments are managed in a manner that is consonant with its witness and mission.
- 1.2.5 The Church of England has long been concerned about the natural environment. It has consistently stressed the importance of the Church, its institutions and its members taking action to protect the environment. Within this wider concern for the natural environment, climate change has been a central focus.

³ <http://newclimateeconomy.report/>

Box 2: National Investing Bodies' action on climate change, 2008-2015

The National Investing Bodies have long recognised climate change as an important ethical and responsible investment issue, and have been implementing the EIAG's climate change policy since 2008. Examples include:

- The Pensions Board uses investment consultant Mercer's environmental, social, and governance (ESG) ratings when selecting external fund managers.
- The Church Commissioners have recently appointed a Head of Responsible Investment, whose role includes assisting with fund manager selection and oversight.
- All three National Investing Bodies were part of Mercer's 2014/15 collaborative work on the impact of climate change scenarios on investment decision making.
- The Church Commissioners have a specialist sustainable investment mandate with Generation Investment Management (~£284m at end 2014, representing approximately 10% of the Church Commissioners' investments in shares) and are one of the largest investors in an environmental technology fund, Impax Environmental Markets (~£17m at end 2014).
- The Church Commissioners have also allocated 4% of their investment portfolio (over £253m) to sustainable forestry in the UK and overseas. The Church Commissioners are the largest private investor in UK commercial forestry.
- The Pensions Board has allocated 5% of its funds (currently £70m) to infrastructure investments. This will be invested in socially useful projects including renewable energy infrastructure.
- The multi-asset CBF Church of England Investment Fund has over 2.5% of its assets in renewable energy infrastructure, energy efficiency and timber. It also does not invest in companies where FTSE's ESG Ratings indicate little evidence of high climate change risks being mitigated, and is underweight traditional energy for investment reasons.
- Both the Church Commissioners and the CBF Church of England Investment Funds have assessed the carbon emissions associated with their equity investments.
- CCLA Investment Management (which manages and is majority owned by the CBF Church of England Investment Funds) engages annually (on behalf of the £15bn ecumenical Church Investors Group of which the National Investing Bodies are members) with FTSE350 companies demonstrating poor carbon emissions management to encourage improvements in the disclosure/management of carbon emissions. These successful laggard engagement programmes are academically assessed by Edinburgh University, and are being extended globally through a pilot with overseas Church investors.
- The National Investing Bodies are also part of the CCLA-led "Aiming for A" engagement initiative, which seeks leadership from the ten largest FTSE100 extractives and utilities companies, including asking questions at and co-filing shareholder resolutions for companies' Annual General Meetings (AGMs). Following resolutions tabled for the AGMs of Shell and BP in 2015, the boards of both companies have recommended to shareholders to support the resolutions.
- The National Investing Bodies are active members of the Institutional Investors Group on Climate Change which lobbies policy makers to put a price on carbon and hasten the transition to a low carbon economy, and CCLA has helped organise two investor retreats with the UNFCCC.

1.3 About this policy**1.3.1 This document revises and updates the EIAG's 2008 climate change policy. The remainder of this document:**

- Presents the EIAG's biblical and theological perspective on climate change, and provides an overview of the actions that the Church of England and other churches are taking.
- Discusses climate change as an investment issue, focusing on the specific contribution that Church investors might make as providers of capital and as wider actors in society. In relation to this latter point, we recognise that Church investors are just one actor among many and, therefore, need to work with governments, other investors and other stakeholders if we are to avert the worst consequences of climate change on ecosystems, and on present and future generations.

- 1.3.2 We are aware that climate change is a highly complex issue with significant uncertainties in the public policy responses that will be adopted, in the specific impacts that will be seen and in the specific impacts of climate change on investment portfolios. We also recognise that we cannot wait for perfect knowledge and that we need to take effective, precautionary action now. Our policy recommendations, therefore, provide the National Investing Bodies with flexibility to respond to changes in the understanding of the scientific, social and economic implications of climate change.
- 1.3.3 Even though we do not expect that we will need to revise the main substance of our recommendations before 2020, we will regularly review them to ensure their continued relevance to the Church of England's investment activities, in the light of: opinion in the Church of England on the ethics of climate change; prevailing scientific knowledge; the policy, corporate and investor responses to climate change; and understanding of the social, economic and investment implications of climate change.

2 BIBLICAL AND THEOLOGICAL REFLECTIONS

2.1 Biblical reflections

- 2.1.1 We begin our reflections with the great story across the whole of the Bible, with a systematic treatment in turn of the major Christian doctrines of the Creation, the Fall, the Election of God's people, the Incarnation, Atonement, Resurrection and Eschatology, which will lead into further theological reflections drawn from the history of the Christian tradition down the ages, before coming in Section 3 to Ecclesiological reflections on the various views and positions in the Church today.
- 2.1.2 The Christian faith starts where the Bible starts, with the doctrine of Creation, to explain why we, and the whole universe, are here in the first place. At every stage, after the creation of the stars and planets, vegetation, fish, birds and animals, God sees that 'it is good'. (Gen 1.4, 12, 17, 21, 25). This faith in the essential goodness of the physical universe is unusual in ancient (and some modern) religions which treat the universe as evil or something to be escaped from into the intellectual or spiritual realms. However, the Bible declares that God is the Creator of everything and considers it to be good, and therefore he has his purposes for the physical world as well as for non-human species, with biodiversity being part of the glory of creation. However, it is only after the creation of male and female human beings that the adjective becomes superlative: 'God saw everything that he had made and indeed, it was very good' (Gen 1.31, emphasis added). This placing of the man and woman at the pinnacle of the created order suggests a mediating place for the human race between God and his creation, which is reinforced by the following story of Adam being placed in the garden 'to till it and keep it', as well as his giving names to all the animals (Gen. 2.15, 20). This means that Christians have a divinely mandated responsibility for the physical world, its creatures and for one another.
- 2.1.3 However, the next story of the Garden of Eden explains why we tend to get things wrong. It recognises that human beings are sinful, and make wrong choices out of greed or pride which leads to mutual recrimination, blaming each other or a creature, which comes between them and the good creation, leading ultimately to pain and suffering and to alienation from both the creation and its creatures (Gen. 3.6, 12-13, 14-17). Thus it is not surprising that the 'dominion' over the creation given by God to human beings (Gen. 1.26) has often become 'domination' in which human greed and selfishness have exploited the earth, its produce and its creatures for our own ends, rather than for the glory of God and the good of his world. This places upon us a responsibility to protect the planet, not only because of its own fragility, but also because of our tendency to (ab)use it for our own ends. The history of the human race also warns us to beware our human pride and overweening confidence that we can do anything (see the story of Babel in Gen. 11.1-9) and calls for a proper sense of humility in the face of challenges like climate change.
- 2.1.4 God's reaction to this is not to give up and destroy the world utterly (as in the Flood, Gen. 6.13), but to call into being a people to serve him in caring for his world through the story first of Noah (8.21-9.17), then the whole history of the call and choice of Israel as God's people, and eventually to enter himself into the experience of the physical universe in the incarnation of Jesus Christ (John 1.1-14). Even then human greed and pride, sin and selfishness responded by inflicting unimaginable pain and attempting to

destroy him – yet through the cross and resurrection, God was making peace and reconciling everything to himself in a new creation, a task he has passed onto us (Col. 1.15-20; 2 Cor. 5.17-18).

- 2.1.5 Ultimately, in the End, the physical world is destined not for the destruction of global warming or the doom of heat death among the stars, but for 'a new heaven and a new earth', where the relationship between God and human beings, his creation and his creatures will be perfected (Rev. 21-22). This is the ultimate Christian hope. Before that, there is an inevitable judgement where those who 'sow the wind shall reap the whirlwind' (Hosea 8.7). Jesus's parables are full of ideas of rendering account or facing judgement and harvest (e.g. Matt. 13.24-30, 47-50; 25.14-46; Luke 16.19-31) while Paul warns that we must all stand before the judgement seat of God and Christ (Rom. 14.10; 2 Cor. 5.10), which is later depicted in the story of the great white throne (Rev. 20.11-15).
- 2.1.6 Therefore we now live 'between the times', in the current age where we are called to continue God's reconciling work among his people, his creatures and his creation. This means that we are all engaged in the process of change and adaptation, looking towards the coming age of God's perfection and doing what we can to make his sovereign rule, the 'kingdom of God', an increasing reality. Paul uses the image of the creation 'groaning in labour pains' as it is 'waiting in eager longing' for that consummation (Rom. 8.18-24). Paul also stresses the urgency of the need for action: 'You know what time it is, how it is now the moment for you to wake from sleep.' (Rom. 13.11)
- 2.1.7 Therefore we must do all we can to mitigate whatever is damaging creation and God's creatures, and to promote all that is good and brings the kingdom nearer (Rom. 13.11-14). In making decisions about investments, as with anything else, we are to reflect the loving, generous and just nature of God, to be holy, merciful and perfect as he is holy, merciful and perfect (Lev. 19.2; Luke 6.36; Matt. 5.48). In particular our response to the commands to show mercy and love our neighbour as ourselves (Lev. 19.17) must recognize that our neighbour may be from a different race, religion, or part of the world (see for example Jesus' clarification to the lawyer in the parable of the Good Samaritan, Luke 10.29-37). The judgement on the sheep and goats turned on how they had treated 'the least of my brothers and sisters' (Matt. 25.31-46). Such 'neighbours' and 'least' must not only be 'intragenerational', that is to include not only the poor who are 'always with us' (Matt. 26.11), but also 'intergenerational', with regard for those of future generations whose very existence may be damaged or precluded by our actions at this critical time. Other biblical concepts which may be of significant assistance include the ideas of Sabbath (Exod. 20.10-11; 31.14-16) and the year of Jubilee (Lev. 25.1-15), which suggest that both human beings and the land (and perhaps by extrapolation we should apply this to the very planet itself) need periods of rest and recuperation in order to be fruitful. Similarly, the story of God feeding his people with manna in the wilderness challenges us with the notion of 'what is sufficient or enough' as there was enough for everyone's need, but those who were greedy gained nothing (Exod. 16.17-18); equally, the early church's practice of sharing resources 'as any had need' should impact upon our consideration of this crucial issue (Acts 2.44-45; 4.32-35).

2.2 Theological reflections

- 2.2.1 These biblical themes of attentiveness to the least in the community, the balance between work and rest, and concentrating on sufficiency and meeting needs rather than desires, all lead to the conclusion that Christian discipleship involves a calling to simplicity as a contrast to rapaciousness.
- 2.2.2 There is a very long and deep tradition within the Christian churches of adopting simple lifestyles which impinge as little as possible on the finite resources of the earth as an expression of Christian discipleship and trust in God. There is plenty of warrant for this in the gospel accounts of Jesus's life (Luke 9.58), although Jesus was not against the idea of eating and drinking well (Matt. 9.11) or the symbolism of lavish celebration in the right circumstances (Mark 14.3-9). The early church seems also to have encouraged lifestyles of simplicity and generosity (Acts 2.44) and the vow of poverty became one of the central features of life in many religious communities, the Franciscan order being especially noted for this. The vocation to live simply is followed in faiths other than Christianity ("live simply so that others may simply live" as Gandhi put it) and Pope Francis's adoption of such a way of life, symbolised in his choice of papal title, has rekindled interest in this approach to faith among many people who would not claim any faith at all.

- 2.2.3 Simplicity of life has not, however, been uncontentious in the church. As Christianity accommodated, in some respects, to temporal power, the church moved away from an emphasis on simplicity and simultaneously generated a more extreme asceticism in reaction. These tensions became acute at periods during the middle ages, and have not disappeared today – as growing interest (at least in the West) in Mennonite theology, and communities such as the Amish, testifies.
- 2.2.4 It is possible that the question of simple lifestyles, vows of poverty and so on became (like many things) more complicated as time forced the early church to revise its theology of the end of all things, which had been expected imminently but came to seem further away. An ethic for a community which expects to be around for generations has to take a rather different form from an ethic for “end times”. A viable and sustainable economy, for example, becomes a necessity and not an irrelevance. Chosen poverty, not least because it often relies on others who are not poor, becomes morally more ambiguous in a context where the long term is a major consideration. But, paradoxically, it is precisely that long term view which today re-emphasises the significance of simplicity and minimising humanity’s impact on the environment.
- 2.2.5 Once the early church had, perforce, to move beyond its initial focus on an imminent parousia (popularly referenced as the Second Coming), a greater emphasis on long term issues became more deeply embedded in Christian ethics. The New Testament marks a movement from a dependence on descendants to ensure the continuity of one’s family, blood-line and inheritance into the future, to a dependence on the Christian community as the new family which ensures the persistence of the gospel ethic as a shared inheritance. Thus, as the need for a long term ethic developed, the church became the vehicle for ensuring that people could understand how what they did today held a deep significance for how the world would be after their death. This sense that discipleship means living for others, not only in the present but in generations to come, orientates Christians towards a concern for a future which they will never themselves see. With the decline of public belief in any kind of afterlife, contemporary culture has become increasingly casual about the continuities between the present and the long term future, and the Christian world-view with its developed long termism has become more explicitly counter cultural. Nor is this perspective unique to Christians. Many religions which, in their own ways, express the eternal nature of religious truths and the ephemerality of individual human life are profoundly concerned with the long term fate of the earth.
- 2.2.6 In Jesus’s teaching, there is a clear strand of condemnation for those who seek enjoyment and consumption now at the expense of the long term (Matt. 16.24-26). He contrasts immediate consumption and the desire to possess and control (which Augustine called the *libido dominandi*) with the concern for one’s immortal soul. The implication is that the person who treats the fruits of the earth as his or her plaything, existing only in order to satisfy personal wants, has forfeited the rewards that God offers to those who live in ways which reflect God’s own love for all that he has made. He includes, among those who have had their reward already, the ostentatiously pious as well as those who act rapaciously (Matt. 6.2), but simplicity of life versus the desire for rewards now, is a constant thread in Jesus’s message and, hence, an abiding theme in the church’s teaching about humanity’s relationship to the created order.
- 2.2.7 This theological focus helps shift the debate away from the dilemmas of growth and development to the ways in which consumption becomes treated as a good or as an end in itself. It is not that growth is bad, or that developing nations should be stopped in their tracks. Following the emphasis in the teaching of Jesus, amplified by Augustine, the theological (and, some would say, the economic, political and environmental) problems arise when humanity behaves rapaciously toward the created order. To seek simplicity of life is not to oppose growth and development per se. God has given humanity a creative role which echoes God’s own, and our imaginations, skills and labour should be directed to transforming the material world and discovering the potentials that God has placed within it. One of the tasks of business and industry is precisely to enable people to participate in this co-creativity. But growth directed to satisfying as many of humanity’s desires as possible is another matter. This consumerist mind-set has, in many developed nations, obscured humanity’s relationship to, and trust on, God and skewed unsustainably our relationship with the rest of God’s creation. God provides enough for all. Human activity, including industry and commerce, has the potential to develop God’s created order for the benefit of all.

- But consumerism, by justifying the desire to accumulate beyond need, prevents the creation from serving the needs of all.
- 2.2.8 When this perspective is coupled with Jesus's especial love for the poor, those who have little and those who are nothing in the world's eyes, the place of simplicity in Christian discipleship is made even clearer. It is the converse of the attitude which treats everything – people, natural resources and artefacts alike – as existing only for personal benefit. It is the converse of the life which seeks fulfilment in consumption or in human acclaim. Given the extent to which consumerism has contributed to the threat to the world's resources and natural systems today, the gospel focus on an ethic of simplicity is ripe for re-emphasis. In so far as anthropogenic climate change is a consequence of the exponential rise in consumption in the last decades, and a consequence of the demand for natural resources, especially fossil fuels, which consumption has driven, then the approach to simplicity, and the gospel concern for the long term are, together, part of a very direct response. The churches are faithful to the gospel in emphasising the importance of respect for creation, epitomised in simple lifestyles which put God, not humanity, at the centre of all things, and a long term view of history which allows God to be in charge rather than assuming that all God has made is our plaything. As human consumption of natural resources accelerates, the gospel message of simplicity is a crucial corrective which might call us back from hubris to faithfulness.
- 2.2.9 Thus these biblical and theological reflections about the place of human beings within God's good creation, and our divinely mandated responsibility for the physical world, its creatures and for one another, especially the weakest and least, must drive any Christian response to the challenges of climate change, assisted by the lessons from the experience of the church down through history and around the globe today.
- 2.2.10 The basic theology that we have presented in this policy – that the world is God's and that we all have a responsibility to Creation and to our neighbour – is not contested within the Christian church. Nor is it contested that we all have a personal Christian responsibility to live more sustainable lives and to challenge ourselves about our patterns of consumption, our use of fossil fuels and our personal contribution to climate change.
- 2.2.11 However, our work in preparing our policy recommendations has exposed various differences which revolve around how urgently we should seek to end our dependence on fossil fuels. Should we make this our top priority, now, regardless of any short-term negative consequences for the economy? And should the Church divest, now, from all fossil fuel companies, regardless of any negative consequences for the Church's investments? For some divestment campaigners with whom we have dialogued, this a 'kairos' moment like that in the struggle against apartheid in South Africa, which demands instant attention which overrides everything else.
- 2.2.12 Meanwhile, others expressed their preference for a more cautious approach based upon their assessment of the scientific detail and urgency. A further approach believes that through human ingenuity and new scientific discoveries, the human race will be able to meet and offset the challenge of climate change without having fundamentally to change our attitudes to wealth creation and economic growth which have enriched many (but arguably also impoverished other parts of the human race).
- 2.2.13 Having received this variety of representations, the EIAG believes that mitigating climate change and effecting the transition to a low carbon economy is a task of great complexity that will not be accomplished simply through divestment from fossil fuel companies, but by sustained efforts on many fronts over many years, as is recognised by those governments who have committed to a process of carbon emissions over the decades through to 2050 and by the Shrinking the Footprint campaign, which recognises that the Church of England cannot cut emissions to 20% of their level in the first decade of this century until 2050.
- 2.2.14 We also believe that such an approach which seeks to set the highest goals and aspirations while attempting to earth this in the realities of daily life along the way reflects the approach of Jesus Christ as portrayed in the gospels whose words and ethical teaching was always demanding at the highest, yet his

actions and pastoral care was equally directed to the poorest and weakest, who struggled to follow him along the way.

3. ECCLESIOLOGICAL REFLECTIONS

- 3.1 In this section, we consider how the issue of climate change is being treated by both the Church of England today, and by our ecumenical partners in others churches.
- 3.2 The environment, and the importance of environmental protection, has been a long-standing concern of the Church of England at large. Concerns about the environment began to be expressed at the Lambeth Conferences (the meetings of the bishops of the Anglican Communion) in 1968 and 1978, but a tone of urgency and priority has been evident since 1988 when the Conference raised concerns about 'a serious threat to the whole ecosystem' and agreed its mission statement, the Five Marks of Mission, the fifth of which is 'To strive to safeguard the integrity of creation and sustain and renew the life of the earth.' At the 1998 Lambeth Conference, environmental concerns were for the first time linked explicitly to concerns about global justice; it was noted that industrialised countries comprised only 24% of the total world population, but accounted for over 75% of the consumption of commercial energy, metal and mineral resources.
- 3.3 A major Church of England report on the environment, 'Sharing God's Planet', was published in 2005. Its theme was that the earth was ailing and that human beings were responsible. The Synod debate on the report led to the creation of the Church of England's national environmental campaign, Shrinking the Footprint, under which the Church is working to a target of reducing its carbon emissions by 80% by 2050, with an interim reduction target of 42% by 2020. A further Mission and Public Affairs Council report, Climate Change and Human Security, was published in 2008. The report once again made a very explicit link between climate change and global injustice and drew attention to the threat to human security posed by climate change. It is right that the church should set more stringent targets for its own carbon consumption than it, at present, is asking from those firms in which it invests. This reflects the church's calling to prophetic action. Our objective is to reduce the impact of human activity on climate change. Setting a challenging target for our own institutions is part of our witness to that objective, and we build on it through our approach of engagement, encouragement and challenge to those in whom we invest.
- 3.4 In February 2014, General Synod debated a diocesan motion on climate change and investment brought by Southwark Diocese (see Box 3). The motion was passed overwhelmingly, by 274 votes to one, with three abstentions.

Box 3: 2014 General Synod Motion on Climate Change and Investment

'That this Synod:

- a) recognising the damage being done to the planet through the burning of fossil fuels;
- b) aware of the huge reserves held by gas, oil and coal extraction industries;
- c) committing itself to taking seriously our Christian responsibility to care for the planet ("the earth is the Lord's");
- d) acknowledging the financial responsibilities of the Church's National Investing Bodies; and
- e) noting that a review of recommended ethical investment policy with regard to climate change has been begun by the Church of England Ethical Investment Advisory Group (EIAG),
 - i) call upon the national investing bodies to ensure that their investment policy (including the option of divestment) is aligned with the theological, moral and social priorities of the Church which find expression in the reports "Sharing God's Planet" and "Church and Earth 2009-2016" and in the "Shrinking the Footprint" campaign;
 - ii) call upon the EIAG to publish the report of its review by the end of 2014; and
 - iii) request the Archbishops' Council to reconstitute the Shrinking the Footprint working group, so that it reports direct to the Council, to monitor, facilitate co-ordination and promote the responses of all parts of the Church of England to environmental challenges.'

- 3.5 Across church investors as a whole, engagement with companies and policymakers is the most widely supported approach, with a number of church investor groups explicitly stating that they see this engagement as more appropriate than full divestment.
- 3.6 Many other church investors have issued statements or published policies on climate change. There is broad consensus among church investors that climate change requires urgent attention, and that they need to take action to reduce the emissions in, or associated with, their investment portfolios. Different approaches are being seen in this regard, including:
- Engagement with companies and policymakers on climate change. For example, the UK-based ecumenical Church Investors Group issued a climate change position statement⁴ in 2013 signed by the Catholic Trust for England and Wales, the Central Finance Board of the Methodist Church, the Church in Wales, the Baptist Union of Great Britain, the United Reformed Church Trust, the URC Ministers Pension Trust and many other church investors. Signatories "caution against oversimplifying climate change as an ethical investment issue" and note the important role played by church investors in both corporate and public policy engagement on climate change.
 - Reducing the overall carbon footprints of investment portfolios. For example, the climate change policy of the Central Finance Board of the Methodist Church requires it to 'create and manage portfolios with a carbon footprint that is relatively low and measurably declining'.
 - Preferentially investing in particular areas. For example, the Central Finance Board of the Methodist Church's electricity generation policy requires it to favour investments in lower carbon power generation utilities and to avoid investments in companies building new unabated coal-fired power stations in high income countries.
 - Excluding particular companies and sectors from investment portfolios. For example, the UK Quakers resolved to divest from companies involved in the extraction of fossil fuels, five Anglican dioceses in New Zealand as well as the New Zealand Anglican Church's Pension Board have been mandated to divest from companies involved in the extraction of fossil fuels. The World Council of Churches considered that the list of sectors in which the WCC does not invest should be

⁴ http://www.churchinvestorsgroup.org.uk/system/files/documents/James%20Corah/CIG%20position%20statement%20on%20climate%20change%20-%20website_0.pdf

extended to include fossil fuels, and the Church of Sweden excludes all fossil fuel producers from investment.

- In the US, the United Methodist Church Pensions Board of Directors (overseeing US\$21 billion in assets) voted to exclude certain investments in coal (but not other fossil fuels). The UMCPB state that: “The new coal guidelines may result in the board excluding:
 - Any company deriving at least 50 percent of revenues from the extraction and/or mining of thermal coal.
 - Electric utilities deriving at least 75 percent of their overall fuel mix from coal. The exception is a company that has demonstrated its intent to transition from coal to getting at least 10 percent of its energy from renewable sources.”
- Linking engagement outcomes with investment decision-making. For example, the Church Investors Group notes: “Although only used as a last resort, following exhausting all possible other modes of engagement, divestment is a final manner through which it is possible to generate progress at a particular investee company. Following divestment the investor will no longer have a voice at the company as the alignment caused by ownership will have ceased to exist. However divestment by some can help those investors who are continuing to engage.” The US based Interfaith Centre on Corporate Responsibility has encouraged its members to adopt a similar approach.

4 IMPLICATIONS OF CLIMATE CHANGE FOR CHURCH INVESTORS: PRACTICAL REFLECTIONS

4.1 The transition to a low carbon economy

- 4.1.1 In its Fifth Assessment Report, the IPCC states that “Limiting peak atmospheric concentrations over the course of the century — not only reaching long-term concentration levels — is critical for limiting temperature change”⁵. The IPCC acknowledges that there is no single pathway to stabilise greenhouse gas concentrations at any level but notes that reaching atmospheric concentrations levels of 430-480 ppm CO₂e by 2100 (levels that are likely to keep temperature change below 2°C over the course of the century relative to pre-industrial levels) are associated with global greenhouse gas emissions reductions of 40%-70% by 2050 compared to 2010.
- 4.1.2 Even though the IPCC does not offer a view on the greenhouse gas emission reductions that should be achieved by individual countries, we recognise that the need for economic growth and increased access to energy in low income countries is likely to result in increased greenhouse gas emissions from these countries in the near term. This, in turn, suggests that high income countries may need to bear a greater burden of the emissions reduction effort. For example, the UK Climate Change Act established a target for the UK to reduce its emissions by at least 80% from 1990 levels by 2050. The UK’s Committee on Climate change has stated that “This target represents an appropriate UK contribution to global emission reductions consistent with limiting global temperature rise to as little as possible above 2°C”⁶.
- 4.1.3 The IPCC states that delaying mitigation until 2030 will increase the challenges of, and reduce the options for, bringing atmospheric concentration levels to 530 ppm CO₂e or lower by the end of the century. The IPCC suggests that delaying action until 2030 would mean that the rate of greenhouse gas emissions reductions from 2030 to 2050 would need to be 6% per annum compared to just over 3% per annum if early action is taken. Achieving greenhouse gas emission reduction rates of this magnitude would also require a much more rapid scale-up of low-carbon energy over this period and higher transitional and long term economic impacts.
- 4.1.4 The evidence from the various emission reduction scenarios analysed by the IPCC suggests that the decarbonisation of energy supply by 2100 is essential to enable the emissions reductions set out above to be achieved.

⁵ IPCC (2014), Working Group III – Mitigation of Climate Change. Technical Summary, page 25.

http://report.mitigation2014.org/drafts/final-draft-postplenary/ipcc_wg3_ar5_final-draft_postplenary_technical-summary.pdf

⁶ <http://www.theccc.org.uk/tackling-climate-change/reducing-carbon-emissions/carbon-budgets-and-targets/>

4.1.5 The relationship between energy, society and development is both critical and complex. Effective action on climate change requires that we take account of the wider consequences and impacts of our decisions. For example, we recognise that reducing greenhouse gas emissions is not simply a question of increasing investment in renewable energy, but also requires that attention is paid to wider issues around energy supply and energy demand. Similarly, we recognise that keeping global temperature rises below 2°C is only part of what we need to do to protect endangered ecosystems and to address the needs of the world's poor. The decisions on how to respond to climate change need to pay attention to matters such as the design and financing of the world's urban, land use, transportation and energy systems, the management of issues such as urban sprawl, deforestation, food production and distribution, the national and international governance measures necessary to enable the transition to a low carbon economy, and the development (and associated energy) needs of low income countries. These are issues for domestic and international and policymakers, and for society as a whole, including but not limited to institutional investors.

The conclusions that we draw from this analysis are:

- Significant cuts in global greenhouse gas emissions in both the medium- and long-term and decarbonising energy supply are essential to keep temperature change below 2°C over the course of the century relative to pre-industrial levels.
- Within the longer-term goal of decarbonising energy supply, the shorter term goal is one of reducing greenhouse gas emissions associated with energy production. This requires the characteristics of individual fossil fuels to be explicitly considered, and priority to be given to reducing the use of those fuels with the worst impacts on climate change.
- The need to address poverty and access to energy in low income countries may mean that fossil fuel consumption and greenhouse gas emissions in these countries increase for at least a period of time.
- Reducing greenhouse gas emissions requires that a holistic approach is adopted, and that attention is paid to, amongst others, energy supply, energy demand, wider fossil fuel use, patterns of consumption and land use.
- From an investment perspective, climate change is best seen as a challenge of transition. That is, investors need to take actions now that enable or support the early reductions in greenhouse gas emissions (i.e. between now and 2030) that then enable atmospheric greenhouse gas concentrations to be stabilised at a level likely to keep temperature change below 2°C over the course of the century relative to pre-industrial levels .

4.2 Climate change and corporate engagement

4.2.1 There is strong evidence that investor engagement – individually and collectively - with companies has made a significant contribution to companies improving their social and environmental practices, processes and performance, strengthening their governance processes, better managing their social and environmental risks, and making better strategy and capital investment decisions. These all contribute to long-term financial performance.

4.2.2 Climate change has been a particular engagement focus for a number of years. Church investors have successfully engaged with companies to encourage them to improve their climate change-related disclosures, to set greenhouse gas emission reduction targets and to invest in projects that deliver both greenhouse gas emission reductions and provide positive returns on investment. An important recent focus has been on potentially stranded assets, where Church and other investors have encouraged fossil fuel companies to explain how they take account of the risks presented by climate change policy in their capital investment and portfolio decisions.

4.2.3 Much of the most effective engagement has been conducted through collaborative initiatives, i.e. where Church investors find common cause with other like-minded investors. Church investors, and their co-owned fund managers, have:

- Supported CDP's efforts to encourage companies to produce a comprehensive account of their approach to climate change, their emissions, their objectives and targets, amongst others.

- Co-led the CDP Carbon Action programme, which asks the world's highest emitting companies to make emissions reductions year-on-year, to publish their greenhouse gas emission reduction targets and to invest in projects that provide positive returns on investment.
- Built the "Aiming for A" Coalition which now includes the Local Authority Pension Fund Forum.
- Engaged, through the Church Investors Group, with laggard companies in the FTSE350 to encourage these companies to take action to disclose and manage their greenhouse gas emissions.

The conclusions that we draw from this analysis are:

- Even in the absence of strong public policy, patient and supportive company engagement can deliver significant improvements in company practices, processes and performance (which in turn should also contribute to better investment returns over the long term).
- Collaborative engagement, i.e. where Church investors work with other investment actors, is much more likely to be effective and to deliver change beyond that which could be delivered by Church investors acting on their own.

4.3 Climate change investment and public policy

- 4.3.1 Public policy, including the incentives and signals provided to investors, is a major influence on how society as a whole responds to climate change. This is particularly important in areas such as infrastructure and power generation, where the investment decisions made today are likely to have a major influence on global greenhouse gas emissions and on society in 2050 and beyond. Public policy is equally important when we look at how best to encourage investment in areas such as cleaner and renewable energy, energy efficiency, decarbonisation and climate change adaptation. To take just one example, the incentives provided by policymakers, together with the increasingly attractive economics of many renewable energy technologies, have underpinned the massive growth that we have seen in renewable energy over the past decade.⁷
- 4.3.2 Investors have played an important role in encouraging policymakers to take action on climate change. This influence has primarily been achieved through investor groups such as the Institutional Investors Group on Climate Change and the Investor Network on Climate Risk, rather than through individual investment organisations acting on their own. These groups have argued, to great effect, that public policy needs to be designed in a way that encourages investment in areas such as cleaner and renewable energy, energy efficiency, decarbonisation and climate change adaptation, and that reduces the incentives to invest in high greenhouse gas emitting activities.⁸
- 4.3.3 Despite the progress that has been made by policymakers, much more is needed. There are three priority areas for policy action:
- Market failures: In many countries, many of the most significant sources of greenhouse gas emissions are either not regulated or, if they are regulated, the incentives to reduce emissions are not sufficiently high to encourage emissions reductions at the scale or at the rate necessary to enable us to stabilise atmospheric greenhouse gas concentrations at a level likely to keep temperature change below 2°C over the course of the century relative to pre-industrial levels.
 - The economics of investment in areas such as renewable energy, energy efficiency and clean energy: Unfortunately, many of these investments do not offer sufficiently attractive investment risk-return characteristics. However, where they are supported by well-designed policy⁹, private

⁷ See, for example, the data presented in Bloomberg New Energy Finance and UNEP (2014), Global Trends in Renewable Energy Investment 2014 (Frankfurt School-UNEP Centre, Frankfurt), <http://fs-unep-centre.org/publications/gtr-2014>

⁸ See, for example, the 2014 Investor Statement on Climate Change which was signed by nearly 350 investors, representing over US\$24 trillion in assets under management, <http://investorsonclimatechange.org/>

⁹ For example, it is estimated that in order to limit global warming to 2°C and to avoid the worst effects of climate change, the world needs to invest an additional \$44 trillion in clean energy. This is equivalent to more than \$1 trillion of additional investment per year for the next 36 years (Mark Fulton and Reid Capalino (2014), Investing in the Clean Trillion: Closing The Clean Energy Investment Gap (Ceres, Boston MA)). [gccc.org/files/publication-files/2011_Investment_Grade_Policy_Report.pdf](http://www.iigcc.org/files/publication-files/2011_Investment_Grade_Policy_Report.pdf)
http://www.iigcc.org/files/publication-files/2011_Investment_Grade_Policy_Report.pdf

sector investors have invested significant amounts of capital. Conversely, in the absence of such policies, investors have been less willing to invest, frequently preferring to wait for other incentives to be provided or even to invest elsewhere. Of particular concern in this regard has been the short duration of policy incentives, the lack of dependability of the policy incentives, fossil fuel and energy subsidies¹⁰ (acknowledging that at least some of these subsidies may be intended to ensure that low cost energy is available for the poor) and obstacles to electricity grid access for renewable energy.

- Climate change adaptation: While the IPCC presents compelling macroeconomic arguments for, for example, protecting large parts of the world's coastline against coastal flood damage and land loss, there is often a weak case for individual private sector investors and financial institutions to provide financial support to these investments. In practice, for the private sector to play a meaningful role in financing such investments requires significant levels of public support, whether in terms of capital provision or through allowing the private sector to capture at least some of the benefits from the investment.

The conclusions that we draw from this analysis are:

- The design of public policy has a critical influence on investors' ability and willingness to invest in areas such as cleaner and renewable energy, energy efficiency, decarbonisation and climate change adaptation.
- Public policy is a key determinant of company action and of the incentives for companies to take action to reduce their emissions.
- Investors need to engage collectively with policymakers to encourage the development and implementation of comprehensive climate change policies that are ambitious (in terms of their goals), robust (in terms of the incentives provided) and sufficiently dependable to enable appropriate levels of investment in greenhouse gas emissions mitigation and in climate change adaptation.

4.4 The treatment of fossil fuels

- 4.4.1 We noted above that decarbonising energy supply is a key requirement for stabilising atmospheric greenhouse gas concentrations below 580ppm CO₂e by 2100. Within this, we note that the process of decarbonising energy supply requires that attention is paid to the climate change characteristics of different fossil fuels, to the potential contribution of carbon capture and storage other decarbonisation technologies, and to the pathway followed, with gas likely to play an important bridging role during the transition to a low carbon economy.
- 4.4.2 Attention also needs to be paid to the specific social and environmental impacts of fossil fuel extraction, and to the interests of the companies involved. Within this, we note the following general points:
- While the specific greenhouse gas emission characteristics of different fossil fuels need to be assessed on a case-by-case basis, it is generally accurate to say that (a) relative to other fossil fuels, coal-fired power generation produces the greatest quantity of greenhouse gas emissions per unit of electricity generated, and (b) the extraction of fossil fuels from certain types of reserves, notably from oil sands, is highly energy intensive.
 - The National Investing Bodies are already exposed to a variety of oil and gas extraction processes (including fracking, coal seam methane, oil sands) through their investments. In addition, the Church Commissioners may be approached about fracking on their land holdings.
 - Companies (specifically those where thermal coal mining and/or the production of oil from oil sands represents a material part of their business) are much less likely to be willing to change their business processes or models than companies that are involved in a diversity of activities.
- 4.4.3 From an investment perspective, the debate around stranded assets is of particular importance. We accept the premise that, if we are to keep global temperature change below 2°C over the course of the century relative to pre-industrial levels, many of the known and probable fossil fuel reserves simply cannot

¹⁰ For example, the new Climate Economy Report published by the Global Commission on the Economy and Climate in September 2014 states that "Globally, subsidies and tax breaks to fossil fuel exploration, production and consumption amount to around US\$600 billion each year...".

be produced and burnt without some process for mitigating the climate change impacts of the associated greenhouse gas emissions. However, we also note that:

- The question of whether or not assets will become stranded depends on a series of factors, including but not limited to global climate change policy, energy prices, energy demand and domestic energy policy.
- Technology and policy change (e.g. on carbon capture and storage, CCS) may mean that some or all of these reserves do not get stranded. This points to the role that investors may play in encouraging companies to conduct research and development on CCS (or other mitigation strategies and technologies), and in encouraging governments to establish the policy frameworks that encourage the deployment of these types of technology.
- Companies may adopt different strategies to respond to asset stranding, with consequent impacts on cash flows, profits and returns to investors. For example, they may scale back on certain types of expenditure (e.g. on exploration, new reserves development), they may maintain or even accelerate certain capital and operating expenditures (e.g. they may try to maximise production before regulations are introduced), they may change their capital expenditure plans (e.g. they may increase their focus on the development of new types of energy reserves) or they may alter their business strategies (e.g. deciding to develop new markets).

4.4.4 Fracking is a particularly controversial form of fossil fuel extraction. If climate change alone is considered, then the gas produced by fracking may well have a part to play in reducing emissions during a period of transition to a lower carbon economy. However, the EIAG recognises that there are many other issues that need to be considered in making decisions about whether or not fracking should proceed. These include environmental impacts (e.g. on water bodies, on land stability), social impacts (e.g. changing local economic patterns) and stakeholder views, in particular those of local communities directly affected by such operations. Some of these issues reflect the relative novelty of fracking as a method of gas extraction. Over time, it is to be expected that increased experience – here in the UK and elsewhere – will give us a better understanding of the risks and benefits of fracking and enable a better informed debate on the investment and the ethical implications of fracking as a method of gas extraction.

The conclusions that we draw from this analysis are:

- Engagement to encourage companies where thermal coal mining or the production of oil from oil sands represents a significant proportion of their business to reduce their involvement in these activities, whilst desirable from a process perspective, is highly unlikely to lead to a change in their business models or practices and, as such, means that they are unlikely to make a meaningful contribution to the transition to a low carbon economy.
- Engagement to encourage diversified fossil fuel companies to reduce their extraction of particular fossil fuels or to divert capital to lower carbon fossil fuels has, subject to wider economic and regulatory conditions, a greater likelihood of success.
- Investment decisions in the fossil fuel sector need to take account of likely changes in climate change policy, of likely changes in energy prices, and of how companies are likely to respond to the stranding (or potential stranding) of their assets.
- While not the primary focus of this policy, the EIAG offers two comments on fracking. First, exploration and related activities to determine the size of potential reserves does not create any presumption that any such reserves should or will be exploited. The ethical questions around exploration and any later extraction and exploitation are different and need to be treated separately. Second, any decisions to extract gas through the use of fracking methods should be driven by the scientific research, should take account of the life-cycle climate change impacts of gas from fracking in comparison to other fossil fuels, should take due account of all relevant risks and opportunities (including those for employment in areas of social deprivation), should comply with all relevant legislation, should take account of the company's track record, and should recognise the role that the planning process plays in ensuring that the range of stakeholder views, including those of local churches and communities, are heard.

4.5 Climate change, poverty and development

- 4.5.1 Climate change and sustainable development are intimately linked. One of the central conclusions from the IPCC's Fifth Assessment report is that it is low income countries that are most likely to be negatively affected by the impacts of climate change. We recognise that the burden of these impacts is being carried by countries that, in many cases, have made limited contribution to historic global greenhouse gas emissions.
- 4.5.2 It is also the case that measures to reduce global greenhouse gas emissions could have profound impacts on the populations of low income countries and on those living in poverty in middle and high income countries. Therefore, the needs and rights of both of these groups need to be explicitly addressed when defining how society as a whole, and investors as a part of society, respond to climate change.
- 4.5.3 It is politically, economically and morally necessary to address poverty in low-income nations. Low income countries are less likely to support international greenhouse gas emission reduction measures or to prioritise constraining or reducing their own greenhouse gas emissions unless poverty reduction is an integral part of the climate change response. Within this, economic growth and increased access to energy in low income countries are integral to delivering enriching and sustainable development in these countries. This economic growth is, for a number of years at least, likely to result in an increase in greenhouse gas emissions from these countries.

The conclusion that we draw from this analysis is:

- Our approach to climate change – mitigation and adaptation – needs to take explicit account of the development needs of low-income countries and of the needs of those living in poverty in middle and high income countries.

4.6 Climate change as a fiduciary issue

- 4.6.1 Fiduciary obligations exist to ensure that those who manage other people's money act responsibly in the interests of savers (clients or beneficiaries), rather than serving their own interests. In its 2014 report on the fiduciary duties of investment intermediaries, including pension fund trustees¹¹, the UK Law Commission confirmed that it was unhelpful to suggest that trustees should only maximise risk adjusted financial returns. Instead, it said that trustees should use their investment power for the purpose for which it was given and secure the best realistic return over the long term, given the need to control for risks. The report went on to say that trustees should, in doing so, take into account financially material factors, including ethical, environmental, social and governance factors that were financially material, having regard to the particular circumstances of their fund, and acknowledging that some factors may be more financially material for some funds than for others. The report also confirmed the need to balance the interests of all beneficiaries, including both short-term and long-term beneficiaries. While the Law Commission report did not conclude that there is a duty on trustees to undertake stewardship activities, it did conclude that "it is clearly in the interests of pension funds as a whole to promote the long-term success of the companies in which they invest".
- 4.6.2 Although the Law Commission report did not focus on the position of trustees of charitable funds, CC14 published by the Charity Commission in 2011 sets out three reasons why the trustees of charitable funds may make investment decisions for purely ethical reasons¹². They may do so where:
- A particular investment conflicts with the aims of the charity. We note that this is unlikely to apply to Church investors as the phrase 'the aims of the charity' is narrowly construed.
 - There is no significant financial detriment. We note that, for long-term investors in particular, climate change is a source of risk and opportunity that warrants explicit consideration in investment research and decision-making, and in company engagement.

¹¹ Law Commission (2014), *Fiduciary Duties of Investment Intermediaries* (The Law Commission, London), http://lawcommission.justice.gov.uk/docs/lc350_fiduciary_duties.pdf

¹² Charity Commission (2011), *Charities and Investment Matters: A Guide for Trustees (CC14)* (Charity Commission, London), <http://www.charitycommission.gov.uk/detailed-guidance/money-and-accounts/charities-and-investment-matters-a-guide-for-trustees-cc14/>

- The charity might lose supporters or beneficiaries if it does not invest ethically. We note that the long-standing importance of environmental protection to the Church and the overwhelming support for the 2014 General Synod motion on climate change provide strong support for the National Investing Bodies to take action on climate change.

The conclusion that we draw from this analysis is:

- There is strong support in the Church for the National Investing Bodies to take action on climate change, and it appears to us that taking the action proposed in this policy is not inconsistent with the National Investing Bodies' fiduciary duties.

4.7 Influencing the wider investment community

4.7.1 Church investors can contribute to efforts to reduce greenhouse gas emissions (mitigation) and to adapt to the physical impacts of climate change through their own investments, through their engagement with companies and with policymakers, and through influencing those organisations that invest on their behalf. However, delivering the transformative changes that are needed in public policy, in the capital markets and in corporate behaviour requires faith and non-faith investors to work together to change investment markets, to encourage companies to reduce their greenhouse gas emissions and play their role in the wider societal response to climate change, and to encourage policymakers to provide the policy frameworks that encourage emissions reductions and effective adaptation.

The conclusions that we draw from this analysis are:

- Church investors should encourage those organisations that invest money on their behalf to build climate change into their investment practices and processes, in line with the goals and objectives of this climate change policy.
- Church investors should build common ground with other investors to maximise the effectiveness of their engagement with companies and with policymakers.

Further information:

The Ethical Investment Advisory Group (EIAG)
The Church of England
Church House
Great Smith Street
London SW1P 3AZ
T: 020 7898 x1096
www.churchofengland.org/about-us/structure/eiag.aspx