GENERAL SYNOD

DIOCESAN SYNOD MOTION: DISINVESTING FROM FOSSIL FUEL COMPANIES

Background Paper from the Diocese of Oxford

"It makes no sense to invest in companies that undermine our future." --Desmond Tutu

1. The Biblical witness is unambiguous, God cherishes His creation and calls on us to share in this cherishing (Gen 1:1, 26-31; Pss. 24.1; 104; 148). Moreover, love for one's neighbour is non-negotiable for the Christian. We cannot ignore human suffering and human need (1 John 3:17-18). The redemption we have experienced in Christ will one day encompass not only humans, but even the material creation itself (Pss. 96: 11-13; 98:7-9; Rom. 8:18-25; Rev. 21-22). The point has recently been made that "the climate crisis itself is a spiritual crisis about humanity's relationship with God." And so, any complicity by the Church, through its investments or in other ways, in consumerism and materialism should not go unchallenged.[1]

The Science of Climate Change and the Church of England

2. In this context we need to recall three facts. First, scientists warn that if the world is to avoid catastrophic and irreversible climate change, then global temperatures must not rise more than 2° C above pre-industrial levels[2] and we have already reached 0.85° C. Second, in order to have a 50% chance of remaining below a 2° C rise, global emissions must peak by 2020 and rapidly decrease thereafter.[3] Third, a recent Intergovernmental Panel on Climate Change (IPCC) report concludes that 60-80% of known reserves of coal, oil and natural gas will have to stay in the ground unburnt for the planet to avoid a 2° C rise.[4] Two general conclusions follow. We must move quickly and urgently to reduce carbon emissions and transition to clean forms of energy, *and* it is pointless for fossil fuel companies to spend another penny in exploration for more coal, oil and natural gas. Despite this, in 2013 the top 200 oil and gas companies spent $674 billion finding and developing new reserves and ways of extracting them,[5] increasingly in expensive, low yield fields, such as tar sands, deep sea and Arctic projects.[6] At the same time, green technologies have advanced and renewable sources of energy are increasingly competitive. Coal, oil and gas majors seem incapable of grasping the changed reality in which we find ourselves.
3. This being the case, the 2015 report from the EIAG, which recommends urgent action on emissions, and the decision of the National Investing Bodies (NIBs) to disinvest from thermal coal and tar sands oil, are to be heartily welcomed.[7] Both represent a significant step in the

[1] David Atkinson, "The Church of England, Investments and Fossil Fuels," http://brightnow.org.uk/wp-content/uploads/2013/08/The-Church-of-England-Investments-and-Fossil-Fuels.pdf.
[2] This figure was agreed by world leaders at the Copenhagen UN climate negotiations in 2009 as part of the Copenhagen Accord. Some countries, particularly the Small Island States at risk from rising sea levels, have called for it to be revised to 1.5°C.
[3] European Climate Foundation, 'Leading international climate scientists call on world leaders for global emissions peak by 2020', 2009, http://www.europeanclimate.org/index.php/de/news/60-leading-international-climate-scientists-call-on-world-leaders-for-global-emissions-peak-by-2020; UN Environment Programme (UNEP), *The Emissions Gap Report*, 2010, http://www.unep.org/publications/ebooks/emissionsgapreport/chapter2.
[4] UN Framework Convention on Climate Change, Copenhagen Accord, 2009, (http://unfccc.int/resource/docs/2009/cop15/eng/l07.pdf); HM Government, Climate Change Act 2008.
[5] Carbon Tracker Initiative, 2013, op. cit.
[6] Carbon Tracker Initiative, *Oil and Gas Majors: Fact Sheets 2014* (http://www.carbontracker.org/wp-content/uploads/2014/09/CTI-Oil-Gas-Majors-Company-Factsheets-August-2014-FULL.pdf).
[7] 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, 30 April, 2015.

right direction. However, the NIBs' judgement, supported by the EIAG report, that their "primary focus ... should be engagement"[8] reveals a lack of appreciation of the scale of change required. Their focus on reducing emissions over decades is totally inadequate given that emissions must peak in less than half a decade to avoid the 2° C rise. If emissions are to be brought under control, it is essential to address the more fundamental issue of fossil fuel extraction. For regardless of what governments or corporations decide, if cheap fuels are put on the market, they will be bought and burned.

Urgency

4. The EIAG's own analysis calls into question their intention to give decades to engagement. The EIAG accepts "that urgent action is needed" (1.2.2) and that, the longer we wait to bring down emissions, the greater the cost to the economy and to livelihoods (1.1.4). Indeed, the EIAG admits 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" (4.1.3). The EIAG report goes on to challenge investors to "take actions now that enable or support the early reductions in greenhouse gas emissions (i.e. between now and 2030)" (4.1.5). But it is impossible that disinvestment from coal and tar sands alone would produce the reductions necessary by 2020, especially as oil accounts for more than a third of the world's fossil fuel CO_2 emissions (36%) and natural gas about a fifth of such emissions. Global carbon emissions will not peak by 2020, if no effort is made to reduce emissions from oil and gas, the two sources which account for more than half of all CO_2 emissions.

Engagement is not working

5. The EIAG report claims the NIB have had significant success through "investor engagement," encouraging companies to improve their "social and environmental practices" (4.2.1). Upon examination, however, any such success can only be said to have been modest, if not superficial. The recent, much heralded shareholder resolutions filed at both BP and Shell AGMs are cases in point. Both are part of a CCLA-led "Aiming for A" initiative and both resulted in strong commitments by Shell and BP to "increased disclosure" of their "climate change strategies." In effect, both of these oil and gas majors have promised to tell shareholders how they intend to cut emissions, but to date Shell and BP's total emissions have not been reduced and both continue to plan for decades of expansion in exploration. Indeed, the very day Shell agreed to support this resolution, it also announced its intention to begin drill the Arctic.[9] The minimal investment in carbon capture and storage and the billions of dollars continuing to be invested in expensive, high risk and low return exploration by Shell, BP and other oil and gas majors belies any success on the part of Church investors--or anyone else. Finally, the new Climate Change policy of the NIB and the EIAG report make it clear that engagement is a temporary strategy; if it does not lead to further and significant success, then disinvestment will be an option. However, neither the NIB nor the EIAG inform us of the criteria by which such success is measured. Nor are we told how long engagement with oil and gas companies will be pursued, except that they "do not expect that [they] will need to revise the main substance of [their] recommendations before 2020" (1.3.3)--thereby postponing any decision on further disinvestment until after the crucial date of 2020 set by the UNFCC.

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[8] Climate Change, 3.

[9] "Shell determined to start Arctic drilling this Summer," The Guardian, 29 January, 2015; http://www.theguardian.com/business/2015/jan/29/shell-determined-arctic-oil-drilling-summer and https://www.churchofengland.org/media-centre/news/2015/01/church-of-england-investing-bodies-welcome-shell-response-on-climate-change.aspx.

Stranded assets

6. As noted above, 60-80% of known reserves can never be used while still having a chance of stay below 2°C. Allowing for a slightly riskier scenario, a recent article in *Nature* concludes that 80% of coal, one third of oil and 50% of gas reserves must remain in the ground.[10] It follows that every penny spent on finding and developing new reserves and ways of extracting them risks being spent on unburnable assets that will become worthless if world governments succeed in reaching an agreement to limit greenhouse gas (GHG) emissions in Paris at the end of 2015. The World Bank, the Bank of England, the United Nations Framework Convention on Climate Change (UNFCCC), a Parliamentary committee on green finance, Citi, MSCI and others have advised that fossil fuel assets could become stranded.[11,12] HSBC believes this risk is growing as a result of the prospect of carbon regulation, the recent fall in oil prices, and advancements in energy efficiency, renewable energies and battery storage.[13]

7. Institutions are increasingly acting to avoid these risks by moving their funds away from fossil fuel companies. In 2014 the Church of Sweden made its $691 million in assets fossil free, citing financial risk as a key reason for the decision, while the Rockefeller Brothers Fund disinvested its $860 million trust. In 2015 Norway's sovereign wealth fund – worth £556 billion – excluded coal and tar sands companies due to the 'elevated long-term risk' they face from GHG regulations.[14]

Financial impact of disinvesting from fossil fuels

8. While all investments are exposed to risk, numerous studies demonstrate that the financial risk associated with disinvesting from fossil fuels is less significant than perceived by some investors.[15] A financial impact report prepared by the Archbishops' Council Finance Committee for the Church of England General Synod debate on environmental issues in February 2014 concluded that the financial impact of screening fossil fuel companies from the MSCI World Index would be very small, with an average difference of just 0.25% per annum. The report further recognised that the extent to which this historical analysis would apply to the portfolio's future performance depends on the investment decisions made by the active manager in terms of sector and stock.[16]

9. Other studies demonstrate that fossil free portfolios can outperform those invested in fossil fuels. Impax Asset Management found that removing fossil fuels from the MSCI World Index and adding renewable energy and energy efficiency alternatives would have generated better returns over the seven years preceding 2013.[17] A similar study by MSCI shows that portfolios disinvested from fossil fuel companies would have earned an average return of 1.2% more than

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[10] C. McGlade and P. Eakins, 'The geographical distribution of fossil fuels unused when limiting global warming to 2˚C', Nature, Vol 517, Jan 2015.
[11] http://www.theguardian.com/environment/2015/mar/03/bank-of-england-warns-of-financial-risk-from-fossil-fuel-investments; http://www.telegraph.co.uk/finance/newsbysector/energy/11277546/Fossil-fuel-investing-a-risk-to-pension-funds-says-Ed-Davey.html
[12] http://blueandgreentomorrow.com/2014/03/06/mps-issue-stark-carbon-bubble-warning-to-investors-and-finance-world; http://www.rtcc.org/2014/01/27/world-bank-chief-backs-fossil-fuel-divestment-drive/
[13] HSBC, *Stranded Assets: What Next?*, 2015.
[14] http://www.theguardian.com/environment/2015/feb/05/worlds-biggest-sovereign-wealth-fund-dumps-dozens-of-coal-companies
[15] Aperio Group, *Do the Investment Math: Building a Carbon-Free Portfolio*, 2013.
[16] Archbishops' Council Finance Committee, *Fifth Notice Paper for General Synod February Group of Sessions 2014*, 2014.
[17] Impax Asset Management, *Beyond Fossil Fuels: The Investment Case for Fossil Fuel Divestment*, 2013, https://s3.amazonaws.com/s3.350.org/images/Impax--20130704_white_paper_fossil_fuel_divestment_uk_final.pdf

those including such companies over the last five years.[18] Advisor Partners have conducted a longer analysis over 22 years, concluding that the performance of a portfolio excluding oil, gas and coal companies is 'virtually indistinguishable' from that of the S&P 500 Index.[19,20]

Investing in a sustainable future

10. Meeting global energy demand without fossil fuels requires rapid scaling up of renewable energy, energy efficiency and other low-carbon sectors.[21] The International Energy Agency (IEA) estimates that $1 trillion a year of investment in clean technology is required to transition quickly enough to hold temperature rise to 2°C. Investors such as the Church could lead this transition by directing their capital towards a range of sustainable sectors, such as renewable energies, energy efficiency, low-carbon transport, sustainable property and agriculture, water treatment, biodiversity protection and conservation. This positive investment can be augmented by the capital released by disinvestment from fossil fuels.

11. Portfolio managers will need an appropriate time over which to divest, giving close attention to market movements, but institutions should aim to complete the disinvestment over a maximum period of five years, preferably three.[22] HSBC have outlined various approaches to reinvestment, including actively seeking stocks in certain companies, using an index such as the HSBC Climate Change Index, or investing in a managed environmental investment fund. Successful environmental funds include Impax Environmental Markets[23] and the FP WHEB Sustainability Fund[24] in the US, Green Century and Trillium Asset Management. Among fossil free indexes, mention should also be made of FTSE's Developed ex Fossil Free Index.[25] Direct investment in alternatives to fossil fuels can also result in strong returns and enables local communities to take ownership of their energy provision.[26]

Summary

12. The scientific consensus points overwhelmingly to one conclusion: We cannot wait to disinvest from oil and gas. The world of finance is increasingly waking to the necessary corollary: Oil and gas companies are risky investments. Our Lord's command that we love our neighbours and the Biblical injunction to care for creation demand that we act now.

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On behalf of the Oxford Diocesan Synod

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[18] MSCI, *MSCI ACWI ex Fossil Fuels Index*, 2015.
[19] Standard & Poor's 500 - an American stock market index based on the market capitalisations of 500 companies with common stock listed on the New York Stock Exchange (NYSE).
[20] Advisor Partners, *Fossil Fuel Divestment: Risks and Opportunities*, http://www.advisorpartners.com/wp-content/uploads/Fossil-Fuel-Divestment-Risks-and-Opportunities.pdf
[21] For detail on how this can be achieved in the UK see Centre for Alternative Technology, *Zero Carbon Britain: Rethinking the Future*, 2013.
[22] Rathbones Green Bank, *Fossil Fuel Divestment: Investor Briefing Paper*, 2014.
[23] See http://www.impaxam.com/about-us/key-facts.
[24] WHEB Insights Blog, 'WHEB fund 70% lower carbon footprint than benchmark' February 2015, http://www.whebgroup.com/wheb-fund-70-lower-carbon-footprint-than-benchmark.
[25] See http://www.ftse.com/products/downloads/FTSE_Stranded_Assets.pdf.
[26] T. Harwood, 'Press Release: Great returns from investing in renewable energy no longer just for the rich', 2012, http://blog.abundancegeneration.com/2012/11/press-release-great-returns-from-investing-in-renewable-energy-no-longer-just-for-the-rich/; see also http://www.bwce.coop/invest/7-good-reasons/.