

## How does the Church of England decide whether investment in fossil fuels is 'ethical'?

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The General Synod in February 2014 was reminded that the Church of England's National Investment Bodies (NIBs) are currently reviewing their ethical investment policy in response to climate change, seeking to align investment practice with the theological, moral and social priorities of the Church. No view has yet been taken on whether the Church's Ethical Investment Advisory Group (EIAG) should recommend that the NIBs avoid investment on ethical grounds on account of companies' involvement in the extraction of fossil fuels.

Archbishop Desmond Tutu has recently added his voice to a growing campaign for divestment from fossil fuels: 'It makes no sense to invest in companies that undermine our future. To serve as custodians of creation is not an empty title; it requires that we act, and with all the urgency this dire situation demands.'<sup>1</sup>

The Executive Secretary of the UN Framework Convention on Climate Change, Christiana Figueres, in a lecture at St Paul's Cathedral on 7 May 2014, gave a brief list of institutions worldwide which are divesting from fossil fuel assets, and then referred to the Church of England's review of its investment policy, with an implied encouragement to the Church to join the list.

How should Christian people decide whether investment in fossil fuel extraction and supply is 'ethical'?

The EIAG says that its general approach is '*mindful of the need to avoid undermining the credibility, effectiveness and unity of the Church's witness by profiting from, or providing capital to, activities that are materially inconsistent with Christian values.*'

EIAG ethical investment policy is governed by criteria identified across five broad areas:

- responsible employment practices
- best corporate governance practice
- conscientiousness with regard to human rights
- sustainable environmental practice
- sensitivity towards the communities in which business operates

Currently, *ethical investment restrictions* apply to companies involved in military products and services, non-military firearms, pornography, tobacco, gambling, alcoholic drinks, high-interest-rate lending and human embryonic cloning. We need to ask how these criteria have

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<sup>1</sup> Damian Carrington, 'Desmond Tutu calls for anti-apartheid style boycott of fossil fuel industry' *Guardian*, 10 April 2014.

been applied in some cases. Then we need to consider what criteria to apply in the case of fossil fuel extraction companies.

### *Tobacco*

To give one example: investments are currently restricted in tobacco companies. Why does the Church not invest in tobacco companies? It is not immediately clear which, if any, of the above criteria are directly relevant. Nevertheless there is a clear majority opinion that there should not be investment in tobacco companies. Why? The short answer concerning tobacco would seem to be ‘because tobacco kills’, though it is not of course tobacco of itself that kills – what kills is people burning the tobacco in cigarettes, pipes and cigars and inhaling the emissions. We also know that (i) smoking has addictive qualities, with related disease and health implications and (ii) the effects of smoking impact on society through additional demands on medical care. Therefore the importance of individual human life and health and the requirements of social justice seem to be behind the decision not to invest in tobacco, which is universally understood to be intrinsically harmful. Consequently, tobacco companies might be classed as engaging in ‘*activities that are materially inconsistent with Christian values*’ even though the application of the five specified criteria is not immediately clear.

### *Alcohol*

In the Church of England’s ‘Alcohol Investments Policy’ of June 2011, there is again little direct reference to the ethical criteria listed above, though attention is given to activities that can be seen to be *inconsistent with Christian values*. The policy paper offers a substantial biblically based theological evaluation of alcohol as both a good gift of God, and yet a gift that can be abused and become a source of misery, enslavement, exploitation and violence. The recommendation of the EIAG that the Church should restrict its investments in alcohol, unless companies can demonstrate avoidance of corporate complicity in alcohol misuse, seems to be based on a calculus between health and harm. However, this is coupled with a conviction that engagement between the Church and the alcohol industry could improve standards of practice in production and retail. In other words, the approach is both ‘the stick’ of the implied threat of exclusion from investment on the one hand and also the ‘carrot’ of continuing engagement with the hope of reducing alcohol abuse through the encouraged actions of alcohol companies.

In the case both of tobacco and of alcohol, the five governing criteria need to be broadened, and the primary test has apparently been to avoid ‘*activities that are materially inconsistent with Christian values*’ (or perhaps, to put it positively, ‘to invest in activities that materially promote Christian values’).

### *Fossil fuel extraction*

How do the above considerations about tobacco and alcohol apply to fossil fuels, especially their extraction?

Fossil fuels themselves do not kill; however, the burning of extracted fossil fuels to release carbon dioxide (especially, and other pollutants) into the atmosphere is increasingly understood to cause severe harm. It is the consumption (i.e. burning) of fossil fuels that causes harm, and the Church of England has already taken some steps to encourage reduction of consumption through its 'Shrinking the Footprint' campaign. However it is the extent to which extraction and supply of fossil fuels feed consumption and therefore the appropriateness (or otherwise) of investment in fossil fuel extraction and supply companies that is the focus of this paper.

Recent research<sup>2</sup> has indicated that between 1854 and 2010, 63% of cumulative worldwide emissions of industrial CO<sub>2</sub> and methane can be traced to 90 state-owned or investor-owned producers of fossil fuels (including ExxonMobil, Chevron, BP and Shell) and cement. Of the 90, 56 are crude oil and natural gas producers, 37 are coal extractors, and seven are cement producers. The research paper's conclusion is that commercial and state-owned producers are the primary source of anthropogenic greenhouse gases that are driving and will continue to drive climate change.

The recent (March 2014) IPCC AR5 report, *Climate Change 2014: Impacts Adaptation and Vulnerability*, refers to serious likely future risks, unless carbon emissions are drastically reduced. Among these risks are:

- risk of death, injury or ill health or disrupted livelihoods in low-lying coastal zones and small islands due to storm surges, coastal flooding and sea-level rise;
- risk of severe ill health and disrupted livelihoods for large urban populations due to inland flooding;
- systemic risks (breakdown of infrastructure and critical services such as electricity, water supply, and health and emergency services) due to extreme weather events;
- risks of mortality and morbidity during periods of extreme heat;
- risks of food insecurity (negative impact on yields of maize and wheat), and the breakdown of food systems;
- risk of loss of rural livelihoods and income due to insufficient access to drinking water and irrigation water and reduced agricultural productivity;
- risk of loss of marine and coastal ecosystems, biodiversity and the good they provide (especially for coastal livelihoods, fishing communities in the tropics and in the Arctic);
- risk of further ocean acidification which will affect fish stocks and the whole marine ecosystem;
- risk of loss of terrestrial and inland water ecosystems and biodiversity;
- risk of social unrest and conflict through uncertainty about food security and more competition for resources; and
- heightened likelihood of people being displaced from their homes.

In other words, unless there is an urgent change of direction to mitigate the worst effects of climate change through serious reduction in carbon emissions, there will be serious damage

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<sup>2</sup> Richard Heede, 'Tracing anthropogenic carbon dioxide and methane emissions to fossil fuel and cement producers, 1854 – 2010, *Climatic Change*, published online 22 November 2013.

to health, welfare, livelihood and life itself (mostly in the poorest parts of the world at the moment, although our children and grandchildren will experience a very different world). The economic cost of such harms has been calculated (both in the IPCC reports, and by economists such as Nicholas Stern<sup>3</sup>). The primary harm of my burning fossil fuels is not immediately to affect my own life, but those of human beings in other parts of the world, and eventually everyone's future generations. The overall threats are to the ecosystems of the planet as a whole, within which we all live and on which we all depend. Would causing such harms be judged '*activities that are materially inconsistent with Christian values*'?

The third section of the IPCC AR5 Report was published in April 2014. Among the various mitigation scenarios explored which might enable the earth to avoid catastrophic warming, they say 'Substantial reductions in emissions [of greenhouse gases] would require large changes in investment patterns.' That means shifts of investments away from highly polluting carbon such as coal, and investment instead in clean energy production.

The parallel between burning fossil fuels and smoking tobacco cannot be pushed too far, because while a number of people enjoy smoking, almost everyone benefits hugely from energy, much of which comes from burning fossil fuels. However, even now we do not allow the need for energy to be met at any cost. The energy industry is heavily regulated (e.g. through clean air laws) to prevent harm to human health and the environment. That said, most of us in the developed world use fossil fuels, e.g. (i) as petrol or diesel in our cars for justifiable purposes and (ii) for heating our homes to provide comfort and benefit to our health. Moreover, we all use electricity, which worldwide is predominantly, but certainly not exclusively, generated from fossil fuels. The modern world needs energy, and we need to remember that too many people (including in developed countries such as the UK) are shamefully in 'fuel poverty' and need cheaper energy. Understandably, the developing parts of the world are eager for more energy supplies, and a growing population leads to increasing demand, and in practice these needs are currently supplied, at least to a great extent, by fossil fuels.

Some other factors may be pertinent. While there is a strong tobacco-advertising lobby appealing mainly to young people, there is also strong government incentive against smoking ('Smoking Kills' on the cigarette packet). By contrast, there is strong lobbying pressure from fossil fuel companies to attract new investment – and this is coupled in this case with strong government incentive by way of very significant total amounts of subsidies, and perhaps also by relief of corporation tax, for the extraction and traditional use of fossil fuels, while there is much less total amount of government subsidy or incentive to produce cleaner forms of energy generation.

How far should government policies affect the Church's decision on whether or not to continue investment in fossil fuel extraction?

In the case of fossil fuel extraction, there are a number of further ethical questions, in which comparison between investment in tobacco and alcohol and investment in fossil fuels is not direct.

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<sup>3</sup> various writings including the *Stern Review* 2006, and *A Blueprint for a Safer Planet* Bodley Head, 2009.

If the government *were* to provide clear and continued policies for investors to be confident in putting their money into clean energy, energy efficiency, ‘carbon capture and storage’ and so on, would that alter the picture? That would be a political consideration affecting the Church’s investment decision.

Fossil fuels – like alcohol – can be understood as among the rich resources of God’s earth, yet their misuse causes misery, ill health, social unrest and sometimes death, which is why in the case of alcohol such misuse is being tackled by public policy. The risks of harm from modifying the climate system are ultimately hugely greater than they are from alcohol consumption – though with a much longer time span between action and consequence. Furthermore, fossil fuel extraction is irreversibly using up a diminishing natural resource that will eventually run out.

If (as is the case) fossil fuel companies have reserves of coal, oil and gas about five times more than could ever be safely burned if the climate is not to change disastrously<sup>4</sup>, would that alter the picture? The recent report of the House of Commons Environmental Audit Committee (EAC), ‘Green Finance’, refers to a possible ‘carbon bubble’ and quotes Dr Nicola Ranger: ‘investing in these [fossil fuel] companies that are potentially at risk from *stranded assets* in the future could be a high-risk strategy for them, so investing in other areas might be better in terms of the returns.’ The EAC recommends that the Financial Policy Committee of the Bank of England should regularly consult with the UK Committee on Climate Change to help monitor the risks to financial stability associated with a carbon bubble. For the Church to take note of stranded assets in its investment policy would be a prudent financial consideration, not directly covered by its ethical criteria.

If there were a majority opinion within the Church that continued use of fossil fuels is seriously damaging the planet’s ecosystem, would that alter the picture? That would be a theological / ethical consideration based on our view of the earth as something to be cherished as God’s creation, based on the ‘environmental sustainability’ criterion for ethical investments, and on the desire not to invest in ‘activities that are materially inconsistent with Christian values’. This would also take the scientists’ call for urgency moving towards a low-carbon economy very seriously, which would suggest disinvesting first from the most harmful carbon sources (coal and tar sands, then oil, then gas). The EIAG have themselves made a tiny move in that direction by saying that they ‘will consider whether to recommend that the NIBs should implement, at this stage of the transition to a low carbon economy, ethical restrictions on investment in companies whose main business is coal mining’.<sup>5</sup>

If it could be shown that there are in fact forms of low-carbon investment which would produce at least as good a return as investment in fossil fuel companies, would that alter the picture? If not, why not?

The weight of these considerations seems to suggest that investment in fossil fuel extraction is considerably less ethical than investment in tobacco, or in alcohol, to which ethical investment restrictions currently do apply.

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<sup>4</sup> Mike Berners-Lee and Duncan Clark *The Burning Question* Profile Books 2013

<sup>5</sup> General Synod Background Note from the EIAG: GS 1942B (for February 2014).

There is one further factor. When the Church disinvested from tobacco, tobacco companies constituted only 3-4% of the investment portfolio, so their departure was not hugely financially significant. In the case of fossil fuel companies, it has been reported that they constitute about 14.25% of the FTSE350, which would be excluded from the investment portfolio as a result of divestment from the 'integrated oil and gas' and 'oil and gas exploration and production' sectors. Such disinvestment could thus be financially significant for the Church, although it is impossible to predict with certainty whether these stocks will perform either much more favourably or much worse than the FTSE350 index.<sup>6</sup>

How important is that financial consideration in judging whether to disinvest?

### *Fiduciary duty*

The National Investment Bodies have a fiduciary duty towards their beneficiaries, which at the very least might indicate that any decision to disinvest should be carefully phased, and coupled with positive reinvestment either in clean energy or in other 'low carbon' sources of investment capital. It is worth noting, however, that if we trigger sudden and uncontrolled change in the climate system, the healthy functioning both of society and of our financial system could be called in question, and the value of invested assets become unpredictable. In considering fiduciary duty, should the Church be considering the risk to future investments of actions today that could trigger catastrophic climate change?

As we have already noted, fossil fuels currently increase good as well as increasing harm. Electricity and gas are essential to keep many elderly people warm, as well as powering much of our current way of life. To cause a decrease in fossil fuel supply, without adequate substitutes, could – it has been argued – substantially increase not only fuel poverty in the UK, but could prove fatal to many vulnerable people. On the other hand, people on low incomes often pay disproportionately more for their energy than those on higher incomes, which suggests that the *cost* of energy (significant though that is) is not the only factor in fuel poverty. Furthermore, causing a decrease in fossil fuels could actually encourage the use of non-fossil energy supplies and promote much-needed further research in energy efficiency. Calls for disinvestment from fossil fuels would need to be matched to an equal extent by calls for investment in substitute supplies of clean energy. However, positive investment in a sustainable and low-carbon economy does not necessarily imply that *Church* reinvestments should be in other forms of energy generation. How the Church's investments are best placed is a matter for investment experts, subject to agreed controls on unacceptable investment. Disinvestment needs to lead to reinvestment, which should be such as to secure corresponding potential returns and the securing of ethical value.

Many investors believe that Government needs to provide clear, unchanging policies for substantial investment in clean energy generation, energy efficiency and carbon capture before they can be confident about investing in such things themselves without failing in their fiduciary duty to their beneficiaries. There are, however, certainly opportunities for

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<sup>6</sup> The Commissioners' fund was valued at just over £5.5 billion at the end of 2012 (Annual Report). The financial impact report prepared for the General Synod debate in Feb 2014 (Fifth Notice Paper: Item 13) estimated that if the Commissioners did decide to disinvest fully from oil and gas companies, the financial impact of this decision could be an opportunity cost of around £7.5 million in the value of their assets (which I calculate to be under 0.14%).

substantial and profitable Church investment in renewable electricity generation and other low carbon funds, possibly in research and development, carbon capture and storage (CCS), and clean and smart environmental technologies, as well as in renewed exploration of the benefits of nuclear energy (possibly using thorium). There also seems to be growing interest in community energy schemes which offer good returns on investments, and which are often closely aligned with the core values of the Church.

### *Engagement*

The EIAG places a high value on the longstanding practice of engagement with companies in which they invest. In the case of the Church's engagement with alcohol-producing companies, for example, disinvestment is coupled with strategic and positive engagement with those companies, aiming to have measurable good effects, e.g. on supermarket policies.

Engagement in relation to climate change is more complicated. Almost all investments have some carbon consequences, and environmental challenge impacts many aspects of the Church's investment portfolio, so it must be right for part of the Church's ethical investment strategy to engage both with policy makers, and also with other investing bodies, to require adequate reporting and long-term thinking from companies concerning their carbon impacts, and to ensure as far as possible that all investments are consistent with working towards a low-carbon economy.

However, the Church's direct engagement with fossil fuel companies is a different matter and needs to be clarified. What would such engagement be for? Would it be an attempt to persuade this global industry to change direction away from its current *raison d'être* (extracting fossil fuels for burning) and towards low-carbon processes? The fact that globally fossil fuel companies own five times as much in reserves as can ever be safely burned and that there is every indication that they expect to continue extracting even more fossil fuels for decades to come, suggests that however enthusiastic the Church's engagement with such companies might be, the likelihood of a significant change in those companies' *raison d'être* seems vanishingly low. It could even be counter-productive, in that the Church's inclination towards engagement with fossil fuels companies could cloud its judgement as to whether such engagement is really as effective as it would like. It might even be in the interests of the fossil fuel companies to sustain a long (but ineffective) engagement process as a buffer both to criticism and to a change in their business policy.

### *Christian values*

Is investment in fossil fuel extraction consistent with 'Christian values'? A Christian ethical investment policy needs to be determined by a positive set of Christian ethical principles. The Anglican *Five Marks of Mission*, for instance, include the following:

#### **(i) *To respond to human need by loving service***

This recognises the dignity and value of all people because we are made in the image of God. Christians are called to the loving service of God and of our neighbours, both here and

overseas, both now and of the future. The Christian understanding is of God's priority for the poorest and most vulnerable in society.

Climate change will most damagingly affect those who are in the poorest and most vulnerable communities, those who have done least to cause the damage to the climate, and are least able to adapt. Loving concern for them should be a Church priority.

**(ii) *To seek to transform unjust structures of society, to challenge violence of every kind and to pursue peace and reconciliation***

This refers to the Christian calling to reflect God's justice in all human affairs. The call to justice includes the call to a new sort of economy. As the *Ash Wednesday Declaration* put it: *'The challenge is to seek a different, sustainable economy, based on the values of human flourishing and the wellbeing of all creation, not on the assumption of unlimited economic growth, on overconsumption, exploitative interest and debt.'*

Concern for the 'unjust structures of society' must refer also to the Jubilee perspectives that wealth is a gift to be shared; that work should be justly rewarded; that capital should not accumulate in the hands only of a few; and that business should be responsible not only to shareholders but to all stakeholders – including the environment. The call to justice must extend to a critique of the exercise of corporate power.

**(iii) *To strive to safeguard the integrity of creation and sustain and renew the life of the earth***

This is a reminder that all God's creation is good; that God rejoices in it and invites us to rejoice in it; that there is a sacredness to the created order, which we damage through our human sin, selfishness and stupidity; that all life is interdependent, and that humanity relies on the sustainability of the earth systems for sustainable life. There is a Christian responsibility to care for and cherish God's earth, which is foundational to the gospel. This must be a primary consideration in any ethical investment policy.

The crucial question then becomes the way the issue is framed. With regard to tobacco and alcohol, the questions of ethical investment are evaluated within a broader framework, namely an economic one. When considering 'the environment' we are talking of an even broader framework, namely 'the earth is the Lord's', within which *everything*, including our economics and our approach to investment, needs to be evaluated.

***So, within the broader framework of God's creation, are fossil fuel investments justified?***

On the positive Christian criteria of these Marks of Mission, it becomes clear that we could only be justified in remaining invested in fossil fuel companies if they:

- (i) demonstrate that they have a viable strategy for diversification away from coal, oil and gas;
- (ii) recognise the urgent need for reduction in global greenhouse gas emissions;



- (iii) work actively with government to achieve binding climate change targets, and long-term stable policies for mitigating climate change;
- (iv) work actively with government to create a favourable investing environment for clean energy (especially renewables), CCS, and energy efficiency;
- (v) refuse to invest in developing oil and gas deposits from environmentally sensitive areas such as Alaska, the Arctic, the Yasuni;
- (vi) refuse the development of new coal seams or tar sands.

It may be that there is likely to be little change of direction in the fossil fuel industry without a very significant steer from Government, both in providing subsidies for clean energy, and to give investors confidence to make positive investment in a low carbon economy. Otherwise most investors will be very reluctant to take the risk to move towards clean energy, as the recent House of Commons EAC report 'Green Finance' acknowledged.

### *Sacrificial service*

The Church is not 'most investors', however. As Christians we are called on occasion to make bold and sometimes sacrificial steps in the light of our values, and our Marks of Mission. Disinvestment could imply reduced stipends, reduced church pensions and reduced Commissioners grants for the upkeep of Church property. However, it is certainly strongly arguable that such reductions should not be necessary. There is evidence of a growing global market in renewable energy,<sup>7</sup> and it would be wrong to assume that a portfolio that excluded the coal, oil and gas sector would necessarily perform less well. For example, Generation Investment Management, who provide a specialist management service for some Church of England funds, state that they seek 'to deliver superior investment performance by consistently taking a long-term view'.<sup>8</sup> Christiana Figueres, in an article in the *Guardian* calling on 'Faith leaders to find their voice on climate change', commented: 'Pension Denmark, which divested and then re-invested into clean energy in Europe and the developing world, says that this has boosted profits while reducing greenhouse gas emissions.'<sup>9</sup>

What is necessary is the question: Should the Church be benefitting from companies whose primary *raison d'être* (extracting fossil fuels for burning) is causing damage to the environment? How can the Church continue to invest in companies that ignore current scientific evidence about the urgency of the need to reduce dependence on fossil fuels, plan to expand their extraction of fossil fuels over the next decades, and thereby minimise

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<sup>7</sup> The Frankfurt School / United Nations Collaborating Centre for Climate and Sustainable Energy Finance reported on 7 April 2014 that renewable energy's share of world electricity generation continued its steady climb in 2013 despite a 14% drop in investments. The drop was partly due to the falling costs of solar PV systems, as well as policy uncertainty in many countries. Achim Steiner, UN Under Secretary General commented: 'A long term shift in investment over the next few decades towards a cleaner energy portfolio is needed to avoid dangerous climate change ... the fact that renewable energy is gaining a bigger share of overall generation globally is encouraging. To support this further, we must re-evaluate investment priorities, shift incentives, build capacity and improve governance structures. While some may point to the fact that overall investment in renewables fell in 2013, the drop masks the many positive signals of a dynamic market that is fast evolving and maturing'. The report notes that the year [2013] marked a deepening involvement of long-term investors such as pension funds, insurance companies, wealth managers and private individuals in the equity and debt of wind and solar projects.

<sup>8</sup> <http://www.generationim.com/about/mission.html>

<sup>9</sup> Christiana Figueres, Executive Secretary UNFCCC, *Guardian*, 7 May 2014.

international commitments to limit global temperature increase? My opinion is that continued investment in fossil fuel extraction cannot be reconciled with 'Christian values', particularly with 'sustainable environmental practice': the fourth of the EIAG's broad ethical investment criteria. Church disinvestment and reinvestment would not produce huge change in the finances of fossil fuel companies; it could, though, be a hugely effective demonstration of the Church's commitment to respond urgently to climate change, and of the need to reframe and underline the moral issues – rooted in the Christian gospel – which are involved.

Serving God, and caring for God's creation by working for a sustainable economy, cannot be effected solely on the basis of financial balance sheets. Maximising financial profits cannot be the only factor in church investors fulfilling their fiduciary duty to their beneficiaries – otherwise it is hard to see why the phrase 'ethical investment' is used at all.

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