Operation Noah response to the EIAG Consultation on Extractive Industries

Summary:

We are very glad to have the opportunity to offer you our views for the EIAG consultation on extractive industries. First and foremost, we wish to remind the EIAG of the growing urgency of climate change and the ambition level of the Paris Agreement, which was higher than previously expected – meaning that an even faster transition from fossil fuels to renewable energy is required. Given our area of expertise as an organisation, we restrict the focus of our response to this consultation to the impact of extractive industries, in particular the fossil fuel industry, on the issue of climate change.

We welcome the decision taken by the Church Commissioners and The Church of England Pensions Board in April 2015 to disinvest from coal and tar sands companies, following advice from the EIAG. We continue to believe that the Church should disinvest from all fossil fuel companies and support the transition to a zero-carbon future through greater investment in renewable energy. Nonetheless, given the recommendation of the EIAG (which was subsequently adopted by General Synod) to pursue a policy of 'robust engagement' with oil and gas companies, we seek to outline in this response what such engagement must entail in order to keep global temperature rises below 1.5°C.

At General Synod in July 2015, an amendment was passed requesting the EIAG and NIBs to publish their 'engagement framework' on climate change and fossil fuels by June 2016. While recognising the importance of other extractive industries, such as mining, and the positive impact that Church engagement could have in holding such industries to account, the extreme nature of the threats which climate change pose means that it must remain the primary concern of the EIAG and the NIBs.

In the context of the Paris Agreement, we strongly believe that the Church of England should base its policy on ensuring that global temperature rises remain below 1.5°C (rather than 2°C), since aiming for 2°C would be disastrous for low-lying island states such as Tuvalu and Kiribati.[1] If the Church of England does not take this into account in its environmental policy and engagement with fossil fuel companies, it is effectively consenting to the fact that the peoples of these islands have no future.

All of the major oil and gas companies are currently projecting a considerable increase in fossil fuel use over the next 20-25 years (BP projects a 24% increase by 2035; Exxon expects a 27% increase by 2040; Shell projects a rise of 37% by 2040).[2] This is completely incompatible with the Paris Agreement and the need to keep global temperature rises below 1.5°C (or even 2°C!), and suggests that oil and gas companies are not taking seriously the need to move towards a zero-carbon economy.

As Carbon Tracker has stated, fossil fuel companies will need to begin the process of winding up their operations in order to ensure an orderly transition and reduce the risk of stranded assets and financial instability.[3] In its engagement with oil and gas companies, the Church of England must ensure that its demands reflect this reality. The threat of disinvestment must be credible and acted upon if these demands are not met.

Theology and Ethics

1. What are the theological and biblical considerations relevant to the extractives sector?

'The earth is the LORD's and the fullness thereof...' (Ps. 24:1). The earth does not belong to humanity, even less to the wealthy nations, or even the comfortably well-off of the wealthy nations who invest in extractive industries. The earth and its metals, minerals and aggregates belong to God and we are answerable for our use and exploitation of them. Any theological/ethical policy worthy of the name must give a high priority to working with and investing in companies which honour the earth as God's and avoiding companies which treat the earth as merely ours to do with as we please.

The joy and pleasure which God takes in his creation is a theme which runs throughout Scripture (Ps. 104; 148; Job 38–40; Matt. 6:25-33). It follows that God values all his creatures, including the earth and its metals, its minerals and aggregates. He values them for their own sakes and not just for the benefits they give to humanity. We also must value them for the glory they give to God by their very existence (Ps. 19:1-6; Ps. 148).

The eschatological future of creation, another theme which runs through the Bible (Isa. 11:6-9; 65:17-25; Ps. 96:11-13; 98:7-9; Rom. 8:18-25; Rev. 21–22), reveals that creation is not merely a temporary stage in the purposes of God. Thus, neither can we treat creation, including the earth and its metals, its minerals and aggregates, as of temporary value. Our use of them must bear in mind their eschatological future in the purposes of God.

We are commanded to love our neighbour; Jesus understood our neighbour to include even one's enemies (Lev. 19:18; Mark 12:28-34; Luke 10:25-37; Matt. 5:43-48). The extraction of oil, gas and minerals must consider the impacts such extraction has for our neighbour, including the poor and future generations. God loves justice and demands justice from those who would be followers of Jesus (Isa. 61:8). The extraction of oil, gas and minerals must reflect God's justice. We should not invest in companies which exploit the poor and the weak.

2. What are the ethical considerations that should guide the way the extractives sector operates?

There is no greater ethical consideration in our day than addressing the threat of climate change. Already, extreme weather events, such as prolonged rain resulting in floods and landslides, or heat-waves and lack of rain, resulting in droughts and wild fires, are increasing. Climate change is already harming the world's poorest, as well as the economies of wealthy nations. Climate change is a contributing factor to the increased migration we have witnessed in Europe, as well as a factor in the increased migration seen in North America and Australia.

All of the major oil and gas companies are projecting a considerable increase in fossil fuel use over the next 20-25 years. BP is projecting a 24% increase in fossil fuel use by 2035; Exxon expects a 27% increase by 2040; Shell's 'current outlook' is a rise of 37% by 2040.[4] Such a rise in fossil fuel use is completely incompatible with the Paris Agreement and the need to keep global temperature rises below 1.5°C (or even 2°C!), and suggests that the oil and gas companies are not taking seriously the need to move towards a zero-carbon economy.

The fact that approximately 85-90% of the known reserves of fossil fuels are unburnable if we are going to have any chance of remaining under a 1.5°C rise,[5] means that fossil fuel companies and especially oil and gas majors must cease exploration as soon as possible. For the same reason, fossil fuel companies and especially oil and gas majors must be encouraged to invest in the development of carbon capture and storage.

Given the overwhelming evidence of the impacts of climate change around the world, and the likelihood that the scale and impact of these will increase over time, all involved in the extractive sector must give a very high priority to the lowering of their carbon emissions.

Communities

4. How do companies work with public agencies and governments to ensure legacy issues are dealt with in a fair and ethical manner?

With regard to the issue of oil and gas extraction, legacy issues are not limited to those living in the communities where the extraction takes place, but extend to all those affected by the changing climate due to the burning of fossil fuels. It is a legacy that all of us share, and which is not limited to our generation but includes future generations; it is also one that affects in particular the poor and marginalised who have done the least to cause climate change, yet are the first to experience its negative impacts (through increased weather-related disasters, malnutrition and other health impacts, conflict over ever more scarce resources etc.). A company, particularly one operating in the extraction of fossil fuels, which disregards this fact and does not take it into account in its business model is acting in a deeply unethical manner.

Best Practice

7. What are the features of best practice within the extractives sector that combine long-term value generation with societal good?

At present there is little evidence of best practice (or even good practice) within the oil and gas industry that combines long-term value generation with societal good. In fact, based on their current projections for increased demand and production of fossil fuels, oil and gas majors risk not achieving either of these goals.

Operation Noah's view is that, in the context of the Paris Agreement, best practice means the swift wind up of the fossil fuel divisions of these companies. We are not alone in that view.

In Carbon Tracker's report, *The $2 trillion stranded assets danger zone: How fossil fuel firms risk destroying investor returns*, Jeremy Leggett and Mark Campanale write, 'Our narrative of a **steady wind down of the sector** is to both protect shareholder value but also to ensure an orderly transition.'[6] Furthermore, as Bank of England Governor Mark Carney has stated, 'Risks to financial stability will be minimised if the transition [from fossil fuels] begins early and follows a predictable path.'[7]

There is no evidence that oil and gas companies are prepared to accept the need for the winding up of the sector that is required to prevent global temperature rises exceeding 1.5°C/2°C.

10. How wide/widespread is the gap between best practice and common practice?

The 'BP Energy Outlook', published on 10 February 2016, has a base case projection of world carbon emissions <u>increasing</u> by 20% between 2014 and 2035.[8] This reflects current common practice in the fossil fuel industry. This contrasts with best practice, which would require releases of carbon emissions and other heat-trapping gases to peak by 2020[9] to meet the Paris Agreement's goal of reducing emissions to net zero in the second half of the century, according to Christiana Figueres, Executive Secretary of UNFCCC. As she has said, failure to meet this challenge could lead to a 'systemically uninsurable'[10] world where droughts, floods and extreme weather events become commonplace.

In 2013, fossil fuel companies spent $670 billion (£443 billion) on exploring for new oil and gas reserves, with ExxonMobil alone spending £463,000 on exploration every ten minutes. In order to keep global temperature rises below 1.5°C, however, it is estimated that between 85-90% of existing fossil fuel reserves need to stay in the ground. Best practice would therefore mean an end to exploration for new fossil fuel reserves, since the vast majority of existing reserves can never be burned.

Thus we can say that the gap between best practice and common practice is enormous.

Economics and wider considerations

12. What does a just economic model mean for the extractives sector in terms of issues such as state royalties, land and water rights, sustainable development, labour, human rights, tax, transparency, competition, a circular economy, commodity prices, commodity trading, the natural environment, inter-generational equity, and investor returns?

This is a very broad question to which it is difficult to respond fully and concisely. However, it is important to state that there can be no 'just economic model' for the extractive sector which does not give a high priority to climate change. A 'just economic model' which addressed only state royalties, land and water rights, labour rights, tax, transparency, commodity prices and trading and investor return etc., while ignoring the devastating threats from climate change, would be neglecting our responsibility to care for God's creation that has been entrusted to us, as well as the poor and marginalised around the world who are already experiencing its negative impacts despite having done the least to cause it.

13. Do some companies operate as 'risk outriders' within the sector to open up riskier/more marginal areas to extraction, if so what are the implications?

It is worth noting Shell's attempts to drill in the Arctic, which cost the company $7bn (£4.6bn) before it decided to abandon operations in September 2015. This is an obvious example of irresponsible risk taking within the industry. One could also mention the BP Deepwater Horizon oil spill, which affected 2,113 kilometres (1,313 miles) of coastline and led to the loss of between two and five trillion larval fish and 8.3 billion oysters,[11] and cost the company a total of $54bn in legal and clean-up costs.[12] It should also be remembered these two examples are from leading oil and gas majors, not from marginal or newly created companies.

14. Is there sufficient transparency in the sector to allow accountability? Are current transparency initiatives effective/fit for purpose?

There is strong evidence that suggests both a lack of transparency and accountability among fossil fuel companies. In the US, ExxonMobil is currently under investigation from the FBI (at the request of the Department of Justice) in order to determine whether ExxonMobil violated federal laws by publicly denying climate change for years.[13]

BP has refused to make publicly available the research it did into renewable energy[14] – the opposite approach taken by Tesla, for example, which has released some of its energy patents to boost innovation in the sector.

15. Are there any other issues that should be considered?

The Paris Agreement pledged to keep the average global surface temperature 'well below 2°C' and 'pursue efforts' to limit the increase since preindustrial times to 1.5°C. The difference between the two targets is considerable, as outlined in a recent article from Carbon Brief.[15] There is no time to waste. Based on current emissions levels, Carbon Brief estimates that the carbon budget for 1.5°C will be used up within five years.[16]

Aiming for the 2°C target would be disastrous for low-lying island states such as Tuvalu and Kiribati, which argued for the 1.5°C target at Paris and stand to be completely destroyed by rising sea levels if we do not keep global temperature rises below this level.[17] If the Church of England does not take this into account in its environmental policy and engagement with fossil fuel companies, it is effectively consenting to the fact that the peoples of these islands have no future.

The fact that the nations of the world agreed at Paris COP21 to staying below a 1.5°C/2°C rise in temperature means that there is a real risk that large portions of the assets of oil and gas majors will become stranded. Consequently, even though they may not recognise it, the long-term (and even medium-term) future of these companies is bleak. Given the degree to which the pensions of many people are tied up in oil and gas investments, it would be irresponsible, to those who depend on these pensions, not to encourage oil and gas companies to begin the process of winding up their operations, as outlined by Carbon Tracker above.

Nonetheless, past experience does not inspire confidence that fossil fuel companies will make the transition to a zero-carbon future rapidly enough. BP, which launched the slogan 'Beyond Petroleum' in a $200m rebranding exercise in 2003, went on to scrap BP Alternative Energy as a stand-alone business and slash its budget in 2009 before closing down BP Solar in 2011 and attempting to sell its US windfarms in 2013.[18] Shell suspended its wind, solar and hydrogen projects in 2009.[19]

Conclusion

We believe that the strategy of engagement adopted by the Church of England will, on the issue of climate change, fail to bring about the required transition to a net-zero-carbon economy at the pace required. This view is based primarily on the lack of willingness among oil and gas majors to redefine their business strategy for moving towards a zero-carbon economy. ExxonMobil's recent AGM, where all resolutions on climate change were rejected at the recommendation of the Board of Directors (including the resolution proposed by the Church Commissioners), clearly shows the limitations of the engagement approach.

We are concerned by the lack of corporate integrity of companies such as ExxonMobil, which is being investigated by the FBI for publicly denying climate change for many years, as well as the recent attempts by Shell to drill for oil in the Arctic and even more recent decision by BP to ignore the wishes of the majority of its shareholders (including the Church of England) on the issue of executive pay. These facts cast serious doubt on the ethics of the leading oil and gas majors and present strong grounds for the Church of England to disinvest from these companies.

Nonetheless, bearing in mind the EIAG's recommendation in 2015 to opt for 'robust engagement' with oil and gas companies, the Church of England must considerably strengthen its success criteria (to include the steady wind-up of operations of fossil fuel companies) within the *Aiming for A* initiative if its demands are to reflect the reality of what is required.

Jesus said: 'I have come that they may have life, and have it to the full' (John 10:10). The success or failure of the Church of England's approach will have an impact on the lives of huge numbers of people, especially the poor and marginalised around the world, both today and in generations to come. Now is the time to ensure that all may enjoy the fullness of life and share in the gifts of God's creation by speeding up the transition to a zero-carbon economy.

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[2] Campanale, M., 'Navigating stranded assets how can investors prepare for the low-carbon transition?' p.12. *Bridge to the Future Conference*, Oslo, 19 February 2016. Available from: http://broentilframtiden.com/wp-content/uploads/2015/06/Mark-Campanale-Bridge-to-the-Future-Oslo-Feb-2015-1.pdf

[3] Carbon Tracker, 'The $2 trillion stranded assets danger zone: How fossil fuel firms risk destroying investor returns', November 2015, p.4. Available from: http://www.carbontracker.org/wp-content/uploads/2015/11/CAR3817_Synthesis_Report_24.11.15_WEB2.pdf

[4] Campanale, M., 'Navigating stranded assets how can investors prepare for the low-carbon transition?' p.12. *Bridge to the Future Conference*, Oslo, 19 February 2016. Available from: http://broentilframtiden.com/wp-content/uploads/2015/06/Mark-Campanale-Bridge-to-the-Future-Oslo-Feb-2015-1.pdf

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[6] Carbon Tracker, *The $2 trillion stranded assets danger zone: How fossil fuel firms risk destroying investor returns*, November 2015, p.4. Available from: http://www.carbontracker.org/wp-content/uploads/2015/11/CAR3817_Synthesis_Report_24.11.15_WEB2.pdf

[7] ibid., p.4.

[8] BP Energy Outlook 2016, p.51. Available from: https://www.bp.com/content/dam/bp/pdf/energy-economics/energy-outlook-2016/bp-energy-outlook-2016.pdf

[9] 'Paris Climate Deal Seen Taking Effect Two Years Ahead of Plan', *Bloomberg*, 11 April 2016. Available from: http://www.bloomberg.com/news/articles/2016-04-11/paris-climate-deal-seen-taking-effect-two-years-ahead-of-plan

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[12] 'BP Agrees to Pay $18.7 Billion to Settle Deepwater Horizon Oil Spill Claims', *Wall Street Journal*, 2 July 2015. Available from: http://www.wsj.com/articles/bp-agrees-to-pay-18-7-billion-to-settle-deepwater-horizon-oil-spill-claims-1435842739

[13] 'DOJ sends request For Exxon probe to the FBI', *Huffington Post*, 3 March 2016. Available from: http://www.huffingtonpost.com/entry/exxonmobil-climate-change_us_56d86b7de4b0000de4039417

[14] 'BP dropped green energy projects worth billions to focus on fossil fuels', *Guardian*, 16 April 2015. Available from: http://www.theguardian.com/environment/2015/apr/16/bp-dropped-green-energy-projects-worth-billions-to-focus-on-fossil-fuels

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[16] 'Analysis: Only five years left before 1.5C carbon budget is blown', *Carbon Brief*, 19 May 2016. Available from: http://www.carbonbrief.org/analysis-only-five-years-left-before-one-point-five-c-budget-is-blown

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