FOSSIL FREE CHURCHES

Accelerating the transition to a brighter, cleaner future

OPERATION NOAH

Faith-motivated. Science-informed. Hope-inspired.

BRIGHTNOW

towards fossil free Churches

This new report from Operation Noah's Bright Now divestment campaign looks at the part the Churches can play in the transition to a net zero carbon economy. We hope it will be a useful resource for anyone interested in where the Church invests its money, and who wants the Church to be the change it wishes to see in bringing about a brighter, cleaner future.

Disclaimer: The examples of investments and investment decisions taken in this paper do not imply any sort of endorsement or recommendation. Full analysis and due diligence should always be undertaken before proceeding with any investment decision.

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EXECUTIVE SUMMARY

Climate change is becoming an ever more urgent issue, with increasingly severe impacts on our brothers and sisters around the world. It is time to act now.

In the past, Christian investors have played an important part in the fight against apartheid and in the rise of Fairtrade certification, their discipleship being reflected in their investment decisions. Now, the Church must act in a similarly prophetic way with respect to fossil fuel corporations.

Through the use of its money the Church demonstrates how seriously it takes what it claims to believe regarding creation, stewardship and Christian discipleship. Churches around the world have already made divestment commitments. In the UK, most Churches have divested from coal and tar sands but have further to go in terms of divestment from oil and gas companies. Currently, the Quakers are leading the way.

Climate science and climate action

The Paris Agreement in 2015 was a huge step forward for global climate action, especially in its commitment to keep global average temperature rises 'well below' 2°C and its aim to limit the rise to 1.5°C. This sets a framework for future action, but one that needs all of us to play a part: not just governments, but also businesses, investors and Churches.

Current government commitments are not enough to meet the Paris Agreement targets. It has been estimated that the Paris pledges made by national governments, known as Nationally Determined Contributions (NDCs), would lead to human-induced warming between 2.7°C and 3.5°C.[1]

Where governments are not doing enough, it is vital that other institutions stand up for the Paris Agreement.

Climate change and financial risk

Church divestment is a prophetic action but is also increasingly prudent. Historically, fossil fuel companies have been considered a safe investment, but they are now seen as increasingly risky.[2]

If we are to meet the Paris Agreement targets, the vast majority of fossil fuels will need to remain in the ground. This means that fossil fuel companies run the risk of being left with 'stranded assets' – worthless fuel reserves that regulations will prevent from being burned or that can only be consumed at unimaginable cost to us all.

Fossil fuel companies' predictions of future business success rest on an assumption of 'business as usual': a future that is like the past. Yet these companies are facing increasing market risk, with uncertainty about future demand as well as legal challenges by cities in the US looking for compensation for the impacts of climate change.

Shareholder investment and engagement

Divestment from fossil fuel companies is growing. By March 2018, more than 850 institutions with a total of $6.1 billion (£4.4 billion) of assets under management had made commitments to divest from fossil fuels. Several Churches around the world have made commitments to fully divest from fossil fuels, including the Church of Sweden, the Anglican Church of Southern Africa and the World Council of Churches.

However, many UK Churches have opted for a policy of 'engagement' with oil and gas companies, arguing that activities such as putting forward resolutions at shareholder meetings can have a greater influence than divestment. This has not been borne out by the response of the oil and gas companies themselves: both Shell and Exxon have a track record of recommending a vote against previous resolutions on climate change.

In 2017, the Church of England and others launched the Transition Pathway Initiative (TPI), a tool to assess the progress of companies in preparing for the transition to a low-carbon economy. This has given the Church of England a more prominent role in the debate and raised awareness of the importance of managing climate risk. However, the TPI has some weaknesses as a framework for engagement, particularly in terms of targets and timescales.

Investors opting to pursue engagement with fossil fuel companies must base their demands on the Paris Agreement goals, with divestment being the certain response if these targets do not dictate a company's investment strategy. While engagement can be effective with some sectors, we believe it is unlikely to succeed with fossil fuel companies. We are not seeing real change, or change that is happening fast enough.

There are serious doubts about the commitment and ability of fossil fuel companies to successfully make the transition to a safe net zero carbon economy, so we believe it is time for Churches to divest.

Technology and reinvestment

Rapid developments in renewable energy and clean technologies provide alternatives to fossil fuels and also opportunities for investors. Indeed, increased investment is urgently needed to ensure that the transition to a net zero carbon economy accelerates at the necessary pace to meet global climate ambitions. Churches should increase their own investments in this area and encourage other investors to do the same.

Conclusion

To accelerate the transition to a net zero carbon economy, Churches must divest from fossil fuel companies and reinvest their money in clean alternatives – not later, after years of 'engagement', but now.

2018 is a crucial year. The UN climate talks in Poland, taking place in December, are the most important since Paris in 2015, with an opportunity for the vital scaling up of government actions pledged to date.

2020 is also seen as a key milestone. According to the UN Environment Programme, global carbon emissions must peak by 2020 *at the latest* – and rapidly decrease thereafter – if we are to have any chance of meeting the Paris Agreement targets. This will require action and ambition on a global scale.

The Churches must play their part in the transition to a net zero carbon economy: divesting from fossil fuels and increasing their investment in renewable energy and clean technologies, encouraging other investors to do the same and bearing witness to the future they wish to see.

INTRODUCTION

As human beings, made in God's image, we have a unique responsibility for the wellbeing of creation. Like Adam, we are called to steward God's good creation for its flourishing. We are called to minimise whatever is damaging creation and God's creatures, and promote the kingdom of God on earth.[3]

Loving our neighbours

Christians are called upon to love all our neighbours, not only our family and friends, but those considered 'the least' in society. Our love, like God's, must extend to the whole of humanity and future generations. Climate change already has a negative impact on our brothers and sisters, particularly the poorest and most marginalised around the world. This makes it an issue of justice: those most affected by climate change have often done the least to cause it and are least able to adapt. As Christians, we cannot stand idly by in the face of such injustice.

Yet action by individuals alone is not enough in response to the scale of the global challenge posed by climate change. Change is needed not only by individuals but collectively, as churches and Christian communities, and at all levels. Christian hope guarantees that these faithful actions will not finally prove to be meaningless and ineffective but will find a place in God's purpose for the redemption of the world.[4]

Discipleship

For our generation, reducing fossil fuel dependence has become essential to Christian discipleship. This is reflected in the Church of England's fifth mark of mission, 'To strive to safeguard the integrity of creation and sustain and renew the life of the earth', as well as in Pope Francis' statement in *Laudato Si* that 'We know that technology based on the use of highly polluting fossil fuels needs to be progressively replaced without delay' (#165).

Today, the principle of safeguarding creation takes on a new urgency, as rising sea levels, droughts, floods, storms and wildfires threaten the homes, lives and livelihoods of many, particularly those living in island nations. The challenge is clear for believers.

> *'The prophets put economic behaviour at the forefront of their call to justice ... To seek justice for all, for present and future generations, our authorities must encourage and enable all people to live fairly and sustainably. Acting justly requires us to hold our governments and corporations to account.'*
>
> **CLIMATE CHANGE AND THE PURPOSES OF GOD, OPERATION NOAH, 2012**[5]

> *'It is often only crises which produce real change... Things which appear to be off the political map one day can suddenly seem to be feasible and necessary the next.'*
>
> **RICHARD CHARTRES, FORMER BISHOP OF LONDON**[6]

Prophetic action

Along with this challenge come opportunities. Climate change asks us to question what has been a settled way of thinking for decades. It invites us to seek a different vision for a healthy, sustainable economy – one based on the values of human flourishing and the wellbeing of all creation, not on the assumption of unlimited economic growth, overconsumption and exploitation.

Being prophetic is about the hopeful imagination of alternatives, about envisioning a different, more just and beautiful world. Investing in clean energy, for example, is a positive public witness to our faith in the God to whom creation belongs, the God who calls us to 'till it and keep it'.[7] This is an important part of how we can fulfil our vocation as stewards of God's creation today.

In recent decades, Christian investors played an important part in the fight against apartheid and in the rise of Fairtrade certification, their discipleship being reflected in their investment decisions. Actions speak loudly and, now as ever, the call is for the Church to act in a similarly prophetic way with respect to fossil fuel corporations.

> *'The news for humanity is both joyful and sobering: there is a possible human future – but it will be costly for us. The question is whether we have the energy and imagination to say no to the non-future, the paralysing dream of endless manipulation, that currently has us captive.'*
>
> **ROWAN WILLIAMS, FORMER ARCHBISHOP OF CANTERBURY**[8]

THE CHURCH AND CLIMATE CHANGE

According to a ComRes poll commissioned by Christian Aid in 2017,[9] 78% of respondents (2,000 adults) agreed that investing in companies that cause dangerous climate change is morally wrong, no matter how profitable it is.

Through the use of its money the Church demonstrates how seriously it takes what it claims to believe regarding creation, stewardship and Christian discipleship. Yet without careful attention to their investments, there is a strong possibility that the Church could unwittingly be supporting practices that have drastic consequences for present and future generations.

Churches and their investment boards have a duty to ensure that their investments do not compromise the ethical position of their institutions. Given the impact of climate change around the world, can the Church continue to invest in fossil fuel companies? It is deeply uncomfortable for the Church, called as it is to embody the love of God, to continue to invest in something which causes the very harm it seeks to alleviate.

THE METHODIST CHURCH AND DIVESTMENT

In 2017, the Methodist Conference showed leadership in voting for the principle of withdrawing investments from fossil fuel companies whose plans are at odds with the Paris Agreement on climate change.

The motion stated that 'if any [oil or gas] company in which the Church invests has not aligned their business investment plans with the Paris Agreement target of limiting global average temperature rise to well below 2°C, there would be a recommendation that the Church disinvest from such a company by the 2020 Conference'.[10]

The current divestment picture

As the table below shows, the different Churches in the UK are at different places on the journey to full divestment. For most, there is still a long way to go.

CHURCH	DIVESTMENT COMMITMENTS MADE TO DATE (APRIL 2018)	YEAR
Baptist Union	No divestment commitments to date	
Catholic Church *	No divestment commitments to date	
Church in Wales	Coal and tar sands	2016
Church of England	Coal and tar sands	2015
Church of Ireland	Coal and tar sands	2016 (coal), 2017 (tar sands)
Church of Scotland **	Coal and tar sands	2016
Methodist Church ***	Coal and tar sands	2015
Quakers	Full divestment from fossil fuels	2013
Scottish Episcopal Church	Coal and tar sands	2017
United Reformed Church ****	Coal and tar sands	2015

* Catholic Church investments are managed by dioceses. To date no Catholic dioceses in England, Wales or Scotland have committed to divest from fossil fuels. Catholic organisations that have committed to divest include the Passionists and Newman University, Birmingham.

** The Church of Scotland General Assembly in May 2018 will discuss a recommendation on divestment, supporting divestment from oil and gas companies that have not aligned their business plans with the Paris Agreement targets by 2020.

*** The 2017 Methodist Conference voted to support divestment by 2020 from oil and gas companies that do not align their business investment plans with the Paris Agreement target of a global average temperature rise of 'well below 2°C'.

**** The United Reformed Church Synod of Scotland committed to full divestment from fossil fuels in 2015.

CLIMATE SCIENCE AND CLIMATE ACTION

The Paris Agreement

The signing of the Paris Agreement at the UN climate conference in December 2015 was a historic moment. After years of negotiation, 195 countries came together to agree united action on climate change. It was a starting point, and a beacon of hope. They committed to keep the global average temperature rise 'well below 2°C above pre-industrial levels' and 'pursue efforts to limit the temperature increase to 1.5°C' to protect humanity from the worst impacts of climate change.

Yet, so far, governments around the world have not made the commitments required to meet the Paris Agreement targets. It is estimated that the Paris pledges made by national governments, known as Nationally Determined Contributions (NDCs), would lead to between 2.7°C and 3.5°C of human-induced warming, and dangerous climate instability. That is a long way from the commitment in the Paris Agreement – as is the current use of fossil fuels globally.

If we continue to use fossil fuels at the current rate, we only have three years remaining for a 66% chance of keeping the global average temperature rise below 1.5°C, or seven years for a 50% chance of remaining below 1.5°C. We have less than 20 years until the 'carbon budget' for remaining below 2°C has been used up.[11]

But even the difference between 1.5°C and 2°C is significant, increasing the risk of flood, drought, water scarcity and tropical storms and the knock-on effects of hunger, migration and conflict. Those countries that have contributed the least to climate change will suffer the most. But on a lesser level, we are already seeing the impact of climate change here in the UK, too.

Investor scenarios

There are significantly more known fossil fuel reserves than we can burn if we are to have any chance of meeting the Paris Agreement goals. A report from Oil Change International,[12] written with Christian Aid and others, shows that the potential carbon emissions from the oil, gas and coal in the world's currently operating fields and mines would take us beyond 2°C of warming. Even the reserves in currently operating oil and gas fields alone (without coal) would take the world beyond 1.5°C.

There are various scenarios used by investors to monitor the steps individual companies are taking to reduce their greenhouse gas emissions and to assess how well they are aligned against a particular temperature rise target. Many of these have been developed by the International Energy Agency (IEA).[13] These include:

- The 2 Degrees Scenario (2DS), used by Church investors within the Transition Pathway Initiative. This offers a 50% chance of limiting the global average temperature increase to 2°C.
- The 4 Degrees Scenario (4DS). Also used by Church investors, this is based on a long-term human-induced increase in global average temperature of 4°C (although feedback mechanisms mean the ultimate temperature rises would be much higher).

At present, no scenario has been provided that gives a high probability of keeping the global average temperature rise well below 2°C. This means that all the available scenarios will result in a dangerous temperature rise.

Regarding 2DS, we must ask: are we comfortable with a 50-50 chance of avoiding the worst impacts of climate change? We must remember the significant difference between 2°C and the 'well below 2°C' of the Paris Agreement, and that a 2°C global average temperature rise should not be considered safe.

The 4DS scenario would lead to even more devastating consequences.

The IEA scenarios (2DS and 4DS) currently used by Church investors involve overshooting both the 1.5°C and 2°C targets, which would trigger dangerous feedback loops, such as melting of the Arctic sea ice and the drying up of the Amazon. These would lead to further temperature rises that would be extremely difficult, if not impossible, to control.

To deal with the overshoot in temperatures, the scenarios used by Church investors rely on assumptions regarding 'negative emissions technologies', which aim to remove greenhouse gases from the atmosphere and isolate them for the long term. All such technologies are unproven for large-scale deployment and may not be economically viable.[14]

Since we cannot afford to rely on such technology, we need to reduce emissions more quickly in the very near term (5 to 15 years, according to the United Nations Environment Programme[15]). This will require a rapid shift from fossil fuels to clean alternatives.

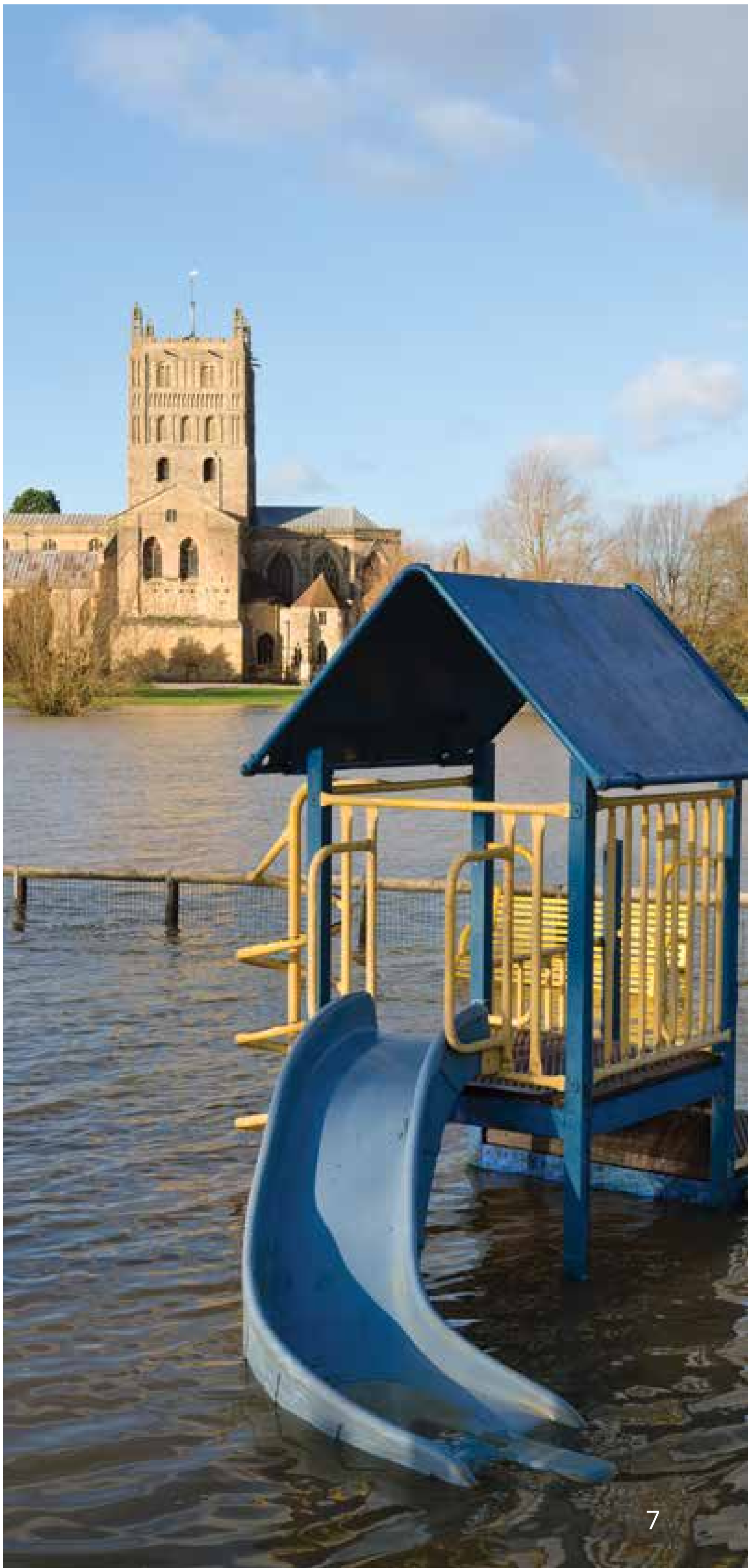
Operation Noah believes that Churches must aim for the lowest possible rise in global average temperatures, and the highest possible chance of remaining below 1.5°C. This has clear implications for the speed with which Church investments are shifted from fossil fuels to renewable energy, and the targets and timescales advocated by Churches continuing to pursue engagement with fossil fuel companies.

MISSION 2020

Christiana Figueres, the former UN climate chief, launched the Mission 2020 initiative in the wake of the Paris Agreement, arguing that global emissions must peak by 2020 at the latest in order to reach the Paris Agreement targets. She has stressed the importance of making decisions based on scientific evidence to achieve these goals. She also emphasised the need for those in power – which includes Church leaders – to 'stand up for science'.[16]

'The true threat is the delusion that our opinion of science somehow alters its reality. The climate is changing no matter how many politicians say it isn't. The window of time to prevent widespread dangerous human interference with the climate system is closing fast. Rejecting this reality puts us all at risk.'

KATHARINE HAYHOE, CLIMATE SCIENTIST, CHRISTIAN AND CLIMATE CHANGE COMMUNICATOR[17]



CLIMATE CHANGE AND THE RISKS TO INVESTORS

While most churches in the UK have divested from coal and tar sands (see page 5), they continue to invest huge sums in oil and gas companies. For example, the most recent available figures for the Church of England show significant investments in both Shell (£101 million) and BP (£91.9 million), as well as ExxonMobil (Esso in the UK).[18] As of February 2017, the Methodist Church had £53.3 million invested in oil and gas producers, including Shell (£27.2 million) and BP (£18.1 million).[19]

The Church needs to grapple with the risk to these investments to ensure the long-term sustainability of its mission.

The risk from stranded assets

While fossil fuel companies have historically been considered a safe investment, they are now seen as increasingly risky. The vast majority of fossil fuels will need to remain in the ground if we are to meet the Paris Agreement targets, so fossil fuel companies run the risk of being left with 'stranded assets' – worthless fuel reserves that regulations will prevent from being burned or that can only be consumed at unimaginable cost to us all.

Governments around the world are adopting policies to constrain the use of fossil fuels, such as the UK government commitment to phase out coal by 2025[20] and France's decision to ban all oil and gas production by 2040.[21] The increasing competitiveness of renewable energy and the growth of new technologies are further accelerating the shift from fossil fuels to clean alternatives.

The risk to wider investments

Climate change poses risks to the entire global economy. As a result, it threatens the majority of assets in the Churches' portfolios, particularly in climate-vulnerable sectors such as property and food. The insurance industry is also at risk.

A Cambridge University study found that factors such as climate change policy, technological change, and asset stranding may lead to 'financial tipping points for which investors are not presently prepared, leading to economic shocks and losses of up to 45% in an equity investment portfolio'.[22]

Fiduciary duty

Some investors have argued in the past that divestment from fossil fuels was not possible because of 'fiduciary duty' – the legal obligation that requires trustees to act in the best interests of their members.

However, it is becoming increasingly clear that to be compliant with fiduciary duty, trustees must assess the financial risks of exposure to fossil fuels.

A legal opinion from Christopher McCall QC,[23] a leading expert on fiduciary duty, states that carbon intensive investments may be 'irreconcilable' for many charities. Where there is a clear conflict between a charity's investments and its mission, trustees will need to divest 'regardless of the financial consequences'. This opinion should be noted by the Churches (including national Church investing bodies such as the Church Commissioners), which are registered charities.

The financial impact of divesting from fossil fuels

In November 2017, Newton Investment Management[24] published a study examining past performance of investments, concluding that removing fossil fuels from a share portfolio for the period 2004–2015 would have had no long-term impact. Similarly, an April 2018 study by the University of St Andrews found that fossil fuel divestment would appear not to have had a negative impact over the period 1927–2016.[25]

An increasing number of fund managers are developing investment options that exclude fossil fuels from their portfolios. There are also various mainstream alternative investment options with no or very low fossil fuel investments. Over the last five years the fossil fuel-free indices from FTSE, Standard & Poor's and MSCI have slightly out-performed the same index including fossil fuel companies.[26] While past performance is no guarantee for future performance, this suggests that investments excluding fossil fuels can generate greater returns than those including fossil fuels.

'As a responsible investor we look upon ourselves as owners of the companies we invest in. We do not want to own, and thereby fund, the extraction of fossil fuels. Instead we want to own and fund companies that stand for solutions. Furthermore we see a financial risk in owning fossil fuel companies. Their value consists to a large extent of fossil fuel reserves that risk losing in value, since they cannot be extracted if we are to have a liveable planet.'

GUNNELA HAHN, HEAD OF RESPONSIBLE INVESTMENT AT THE CHURCH OF SWEDEN, WHICH DIVESTED FROM FOSSIL FUELS IN 2014[27]

CLIMATE CHANGE AND THE RISKS TO FOSSIL FUEL COMPANIES

While investors are beginning to question the safety of investment in fossil fuel companies, the companies themselves appear to remain optimistic about their future. Yet this optimism is based on an assumption of 'business as usual' that cannot happen under the Paris Agreement. ExxonMobil, Shell and BP regularly use in-house energy forecasts that assume the Paris Agreement targets will not be met. These forecasts for future demand are presented as objective, but in fact they just show the future the companies want investors and policymakers to believe in: a future that is like the past.

When asked how they are responding to climate change, oil and gas companies often point to their forecasts (such as BP's *Energy Outlook*) that fossil fuels will continue to dominate the energy mix for decades to come. This means, they argue, that their high-carbon and high-cost investments will be safe. This stands in complete opposition to the need for greenhouse gas emissions to peak by 2020 to meet the Paris Agreement's goal of reducing emissions to net zero in the second half of this century.

> *'Changing technology, regulation and demand patterns mean that the industry should not assume the conditions exist for a profitable new cycle of production growth and organic capital investment.'*
> **SHAREACTION**

Risking future investments

Despite the fact that the vast majority of fossil fuel reserves will need to stay in the ground, fossil fuel companies continue to invest in looking for new reserves. The top 20 companies continue to plough \$100 million (£71 million) every day into exploring for new reserves. For instance, Shell's attempts to drill in the Arctic cost the company \$7 billion (£5 billion). And as conventional fossil fuel reserves decline, major oil and gas companies are investing in high-cost, high-risk projects exploring and extracting new reserves, in locations such as Brazil's ultra-deepwater[28] and Canada's tar sands.[29]

In June 2017, a Carbon Tracker report found that 69 fossil fuel companies were risking \$2.3 trillion (£1.6 trillion) of potential future investments on projects that will never be pursued if the global average temperature rise is limited to 2°C.[30]

Future valuations of oil and gas companies

Market risk is perhaps the biggest concern for investors in oil and gas companies. The more that investor confidence in their future prospects declines, the worse the companies will perform. For instance, when the \$1 trillion (£706 billion) Norwegian Sovereign Wealth Fund announced that it was considering divestment from oil and gas, there was a rapid drop in the share prices of Shell and ExxonMobil, its biggest oil and gas holdings.[31]

A survey of leading asset managers in the UK[32] has shown that a majority believe there will be significant revaluations of oil and gas companies in the next three to five years. The increasing uncertainty around future demand should challenge the way that investors view the oil and gas industry.[33]

Legal challenges to fossil fuel companies

The risk of legal action against fossil fuel companies is increasing too. In early 2018, the cities of New York City, San Francisco and Oakland filed lawsuits against several major oil and gas companies, including Shell, BP and ExxonMobil.[34] They argue that fossil fuel companies have made huge profits for decades while knowing the negative impacts of climate change, so should bear the cost of compensating the cities affected.

ExxonMobil, the largest US oil company, is currently under investigation by two Attorneys General in the states of New York and Massachusetts, charged with having deceived investors about the reality and seriousness of climate change. A 2017 Harvard study found that Exxon knew about the risks of climate change as early as the 1970s, yet spent decades misleading the public, including through paid 'advertorials' in leading US newspapers.[35,36]

SHAREHOLDER DIVESTMENT AND ENGAGEMENT

Divestment, or disinvestment, is the opposite of investment. While investment means buying stocks, bonds or other investments in order to generate financial returns, divestment is moving investments out of particular stocks, bonds or investment funds.

By March 2018, more than 850 institutions with a total of $6.1 billion (£4.4 billion) of assets under management had made commitments to divest from fossil fuels.[37] Several Churches around the world have made commitments to fully divest from fossil fuels, including the Church of Sweden, the Anglican Church of Southern Africa and the World Council of Churches. There have also been divestment commitments by many Catholic religious orders, lay organisations and social justice movements, co-ordinated by the Global Catholic Climate Movement.

The primary objective of the divestment movement is, by ceasing to profit from organisations that are causing climate change and by doing so in as public a manner as possible, to make a statement that it is unacceptable to continue profiting from such organisations. According to researchers at the University of Oxford,[38] divestment is succeeding in this aim and the reputation of the fossil fuel industry has been hit, posing a far-reaching threat to the sector.

Engagement and divestment

While most UK Churches have taken steps to divest from the most polluting fossil fuels (see page 5), many have opted for a policy of 'engagement' with oil and gas companies. Yet there is little sign that notice is being taken.

The argument for engagement is that activities such as putting forward resolutions at shareholder meetings can have a greater influence than divestment. A further argument against divestment is that investors lose all their influence by divesting from fossil fuels. However, if an investor wished to engage with fossil fuel companies, it could do so while holding the minimum possible number of shares, which would give a clear signal that it did not believe in profiting from the fossil fuel industry.

The Church of England's General Synod in July 2015 passed a motion calling for 'robust engagement' with oil and gas companies. With this in mind, what would robust engagement look like in practice?

Engagement needs a credible possibility of divestment to have any chance of being effective. If implemented effectively, the motion passed by Methodist Conference in 2017 (see page 5) is an example of what 'robust engagement' might look like in practice.

We believe that robust engagement should require the following changes on the part of fossil fuel companies.

1. ENDING EXPLORATION FOR NEW FOSSIL FUELS

Fossil fuel exploration now needs to be put in a similar category as coal-burning as an activity to be stopped completely. Public institutions, including the World Bank, have already made commitments to stop funding future fossil fuel exploration. If oil and gas companies are allocating capital expenditure on fossil fuel exploration, they do not pass this test.

2. MANAGED DECLINE

There are strong reasons to believe that oil and gas companies will not diversify to become the renewable energy companies of the future. In this case, it would be preferable for oil and gas companies to pursue a strategy of managed decline: ending new production assets, returning profits to shareholders and ultimately winding up the business.

Investors pursuing 'robust engagement' with oil and gas companies should request a credible 'well below 2°C' transition plan, with a timeline and quantifiable milestones for tracking progress. This does not mean an end to using all fossil fuels overnight, but it does mean a managed decline of the fossil fuel industry and a just transition for the workers and communities who depend on it.

3. A COMMITMENT TO THE PARIS AGREEMENT TARGETS

Oil and gas companies need to stop using forecasts that assume the Paris Agreement targets will not be met. If they continue forecasting failure and base their future investment plans on such assumptions, they are either misleading investors about financial risk or choosing to finance runaway global warming.

4. ENDING PRODUCTION GROWTH STRATEGIES

Investors should robustly challenge oil and gas management teams' production growth ambitions. There must be an end to remuneration policies that include volume-based production metrics for their own sake. These encourage investment in high-cost, high-risk projects such as deepwater drilling – where assets are more likely to become stranded.

5. STOP LOBBYING AGAINST CLIMATE ACTION

While the major oil and gas companies publicly support the Paris Agreement and some policies that could have a positive impact on climate change, such as a carbon price, they also belong to trade associations that proactively lobby against climate action. InfluenceMap[39] has shown that Shell, BP, Total, ExxonMobil and Chevron are all members of such trade associations. There must be consequences if oil and gas companies continue their membership of trade bodies that obstruct climate action.

Engagement with Shell, BP and ExxonMobil

In 2015, a number of UK Churches, including the Church of England and the Methodist Church, joined with other shareholders as part of the *Aiming for A* coalition to support specific shareholder engagement activities. These succeeded in getting resolutions passed at the BP and Shell AGMs on 'climate risk disclosure', whereby companies report on the impact of climate policies on their business. However, follow-up reports by ShareAction in 2017[40] concluded that Shell had met only the minimum requirements of the resolution and had not grasped the growing pace of the low-carbon transition or its implications for shareholders' capital. In addition, their scenarios for business planning were found to be 'consistent with 3°C–5°C+ of global warming'.

At its 2017 AGM, Shell was challenged by another group of campaigners and shareholders to set and publish targets for reducing greenhouse gas emissions to align with the Paris Agreement targets. Shell responded by urging shareholders to vote against the resolution. The resolution was supported by the Church Commissioners, but was rejected by 94% of shareholders.

The Church of England has also been actively involved in efforts to engage with US oil and gas company ExxonMobil, sponsoring resolutions on 'climate risk disclosure' at the company's AGM in 2016 and 2017. More than 60% of shareholders rejected the resolution in 2016, as they were recommended to do by Exxon's Board of Directors. A similar resolution was passed by a majority of shareholders in 2017, but the Board once again opposed it.

ExxonMobil finally agreed to implement the resolution in December 2017. However, when ExxonMobil published its climate risk report in February 2018, it dismissed any risk to the company, on the basis that the Paris Agreement targets would not be met. It claimed that Exxon could exploit all the oil and gas in its portfolio and continue to invest in new reserves. While the Church of England said that the report provides a 'good basis for shareholder engagement', other investors were more critical.[41]

Transition Pathway Initiative

In January 2017, the Church of England joined with the Environment Agency Pension Fund, the Grantham Institute (at the London School of Economics) and others to launch the Transition Pathway Initiative (TPI). This is an online tool to assess the progress of companies in the oil and gas industry (and other sectors) in preparing for the transition to a low-carbon economy.

Through its work on the TPI, the Church of England has certainly played a more prominent role in the debate on investment in fossil fuel companies and raised awareness of the importance of managing climate risk. TPI is supported by asset owners with more than $7 trillion (£5 trillion) of assets under management, including the Church of England, the Central Finance Board of the Methodist Church and the Church of Ireland.

The TPI assesses companies based on the quality of management of climate change (known as 'management quality') and the alignment of their current and future emissions in the transition to a low-carbon economy (known as 'carbon performance').

There are some sectors in which the TPI is particularly helpful for showing investors which companies have begun the transition to a lower-carbon economy and those that need to improve, such as the automotive and electricity utilities industries. However, there are some limitations and weaknesses of the TPI when it comes to fossil fuel companies.

First and foremost, as a framework for engagement it is only as effective as the targets and timescales that go with it. There is a need for a clear and transparent timetable to be set for companies to align with the Paris Agreement targets, with the threat of divestment followed through if these minimum criteria are not met.

The TPI measures companies' carbon performance using two International Energy Agency (IEA) scenarios: the 2 Degrees Scenario (2DS) and the 4 Degrees Scenario (4DS) (see page 6).[42] The 2DS would give only a 50% chance of limiting the global average temperature increase to 2°C, very different from the 'well below 2°C' of the Paris Agreement.[43] We must ask once again: are we comfortable with a 50% chance of limiting the global average temperature rise to 2°C?

As for the 4DS, 4°C temperature rise is far too high and would lead to catastrophic feedback loops.

The Churches, along with other investors, should lobby the IEA for the publication of scenarios that give a much higher chance of meeting the Paris Agreement targets.

> *'Actions have to change for words to have effect.'*
>
> **JUSTIN WELBY, ARCHBISHOP OF CANTERBURY, AT CHURCH OF ENGLAND GENERAL SYNOD DEBATE ON THE ENVIRONMENT, JULY 2015**[44]

The assessments of oil and gas companies on management quality also raise some interesting questions. For instance, how was ExxonMobil, a company whose Board of Directors has urged shareholders to vote against all resolutions on climate change since 1990, awarded Level 2 (out of 4) for management quality? While it publicly supports the Paris Agreement, its current operations and future investment plans suggest otherwise. One might also ask how three other oil and gas companies, including Shell, have been awarded Level 4 (out of 4) in management quality, yet have not aligned their business investment plans with the Paris Agreement targets.

The TPI has already assessed some other sectors for the alignment of their current and future emissions with the 2°C target and Paris pledges (NDCs), but this assessment has not yet been done for oil and gas companies. One major issue is that most oil and gas companies do not provide a comprehensive disclosure of the emissions associated with the consumption of their product.

A TPI discussion paper published in March 2018 highlighted this issue, stating that 'improved company reporting is vital to future efforts to assess the sector'.[45] The methodology proposed in this discussion paper is based on oil and gas companies reducing their carbon intensity by diversifying away from fossil fuels and producing energy from other sources. One drawback of this approach is that it allows oil and gas companies to continue new exploration for fossil fuels, provided their proportion of energy from low-carbon sources were to increase. This methodology would not enable adequate assessment of oil and gas companies that chose to pursue different strategies, for instance if some were to diversify, while others opted for managed decline.

> *'True engagement needs the pressure created by divestment. Engagement without divestment is like a criminal legal system without a police force.'*
>
> **CARBON TRACKER**[46]

Why engagement with fossil fuel companies is unlikely to work

While engagement can be effective with some sectors, we believe it is unlikely to succeed with fossil fuel companies. The capital-intensive nature of fossil fuel infrastructure and the time lag between investment and returns in oil and gas production mean that it is very challenging for fossil fuel companies to successfully diversify from their core business.

None of the major oil and gas companies has communicated a credible strategy to remain competitive while meeting the Paris Agreement targets. BP, Shell, ExxonMobil and others have only recently begun to disclose the risks that climate change poses to their business operations, which is a long way from actually reducing these risks.

Given the serious doubts around the commitment and ability of fossil fuel companies to successfully make the transition to a safe net zero carbon economy, we believe it is time for Churches to divest. Investors opting to pursue engagement with fossil fuel companies must adopt strong targets and timescales in line with the Paris Agreement goals, with divestment being the certain response if these targets do not dictate a company's investment strategy.

TECHNOLOGY AND REINVESTMENT

In recent years, we have seen rapid developments in renewable energy and clean technologies, which not only provide alternatives to fossil fuels but provide opportunities for investors too. These include:

- Wind and solar energy: In recent years, solar and wind energy have seen rapid cost reductions. This is a huge development in the transition to a net zero carbon economy, since the energy sector accounts for around two-thirds of global greenhouse gas emissions.[47]
- Electric vehicles: Governments around the world are adopting policies to drive the growth of electric vehicles, car manufacturers have boosted spending on electric cars, and electric vehicle sales are rising sharply.[48]
- Battery storage: Battery storage technology has been developing at an incredible rate. Electric vehicles are already benefiting from these developments, and battery storage can also provide backup to the electricity grid.
- Energy storage: This is now playing a key role in speeding up the decarbonisation of the electricity industry.[49] Utility-scale batteries offer a solution to the intermittent energy produced by solar and wind power and provide flexibility at times of peak demand.

The rise of clean technologies is threatening future demand for fossil fuels. According to a February 2017 report published by Carbon Tracker and the Grantham Institute, demand for oil could peak as early as 2020 due to the rise in electric vehicles and falling costs of solar power.[50]

Not just divestment, but investment

While technological developments and the falling costs of clean technologies offer hope, increased investment is urgently needed to ensure that the transition to a net zero carbon economy accelerates at the necessary pace to meet global climate ambitions.

Another argument for investment in clean technologies is that they can also benefit poor and vulnerable communities that risk being left behind in the energy transition. Christian Aid's 2017 report 'A Virtuous Circle' shows how, with the right investment conditions, the increasing affordability of renewables can help meet both the Paris Agreement goals and the UN Sustainable Development Goals, delivering energy access to the one billion people around the world living without electricity.[51]

Churches should be at the forefront of efforts to support the growth of clean technologies, through increasing their own investments in this area, encouraging other investors to do the same and through advocacy with the UK government.

> *'It is incumbent on those who have generated the most greenhouse gas emissions and derived the greatest benefit from relatively cheap and accessible fossil fuels to pioneer the path towards alternative energy futures.'*
>
> **HOPE IN GOD'S FUTURE**[52]

CONCLUSION

To accelerate the transition to a net zero carbon economy, Churches must divest from fossil fuel companies and reinvest their money in clean alternatives.

There are also several other important steps that Churches can take. First and foremost, they should lobby governments to support a faster energy transition through bolder policy decisions, by creating environments that enable the growth of clean technologies and by eliminating policy and market barriers. One policy that would have a huge impact is an end to government fossil fuel subsidies, as promised by leaders of G20 countries in 2009.[53]

Church investors, especially the Church Commissioners and Central Finance Board of the Methodist Church, should join other investors to call on the International Energy Agency (IEA) to publish a full scenario in line with the Paris Agreement goals: one that has a high probability of keeping the global average temperature rise 'well below 2°C' and that aims for 1.5°C.

Churches in the UK should create opportunities to amplify the voices of Church leaders from the global south, especially from the regions most affected by climate change.[54] They should take bold and prophetic action ahead of the UN climate summit in Poland in December 2018.

Key dates: 2018

2018 is a crucial year for climate action. The UN climate talks in Poland, taking place in December, are the most important since Paris in 2015. Countries will review their progress towards the targets they agreed three years before and – campaigners hope – will strengthen them. The current Paris pledges (NDCs) are too weak to avert dangerous climate change and the conference in Poland will be an opportunity for them to be upgraded. This would involve significant scaling up of action pledged to date.

Key dates: 2020

Global carbon emissions must peak by 2020 at the latest – and rapidly decrease from then on – if we are to have any chance of meeting the Paris Agreement targets, according to the UN Environment Programme. This will require action and ambition on a global scale in order to achieve a 'decarbonisation curve': declining carbon emissions after 2020.

Mission 2020, led by former UN climate chief Christiana Figueres, believes there is evidence that a 2020 climate turning point is possible, but argue that we need to step up the pace of change. They have set six critical milestones needed in order to meet this ambition: the first is that, by 2020, renewables outcompete fossil fuels as new electricity sources worldwide.

The witness of the Church

It is vital that the Churches play their part in the transition to a net zero carbon economy. It is time for Churches to get out of the problem and get into the solution by divesting from fossil fuels and increasing their investment in renewable energy and clean technologies. Furthermore, they should 'shout it from the rooftops,' encouraging other investors to do the same and bearing witness to their own congregations and the whole of society about the future they wish to see.

> *'For the past 250 years, fossil fuels have been the primary driver of development and growth. Burning fossil fuels has provided us with outstanding progress and opportunities, and I for one am grateful to the many generations of men and women who have so sincerely laboured in this sector. However, unbeknownst to all those generations of labourers is that this progress has also put increasing pressure on our planet. We now know that we have precipitated the imbalance of the earth's ecosystem and its vital life cycles. Fossil fuels have brought us this far, but now it's time to change.'*
>
> **CHRISTIANA FIGUERES, EXECUTIVE SECRETARY OF THE UNITED NATIONS FRAMEWORK CONVENTION ON CLIMATE CHANGE, 13 NOVEMBER 2015**

Paris, 2015: Archbishop Thabo Makgoba presents Christiana Figueres with the interfaith petition for climate justice

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The transition to a net zero carbon economy is vital in the fight against climate change. It needs to happen now, and it needs to happen fast. This means a whole new approach to investment and divestment – and the Churches must lead the way.

This careful and informative Bright Now report gives clear pointers to ways ahead for all concerned about where the church invests its money. I have admired the determination of church investors to bring shareholder pressure to bear on major oil companies. However, the sluggish response and the increasing urgency of the need to respond to climate change indicates that now is the time for the churches to divest from oil and gas, and reinvest in clean energy.

Rt Revd Dr David Atkinson, Assistant Bishop in the Diocese of Southwark

With both a scientific assessment of climate change and an overview of financial policies amongst the Churches, this report challenges and encourages the divestment from fossil fuels and investment in renewable sources of energy. I commend it to all Churches as part of our exploration of care for creation as an important aspect of our Christian discipleship.

Revd Dr John Weaver, Chair of the John Ray Initiative and former Baptist Union President

This report will help Churches to take the lead in the transition to a net zero carbon economy. It argues that shifting investments from fossil fuels to clean alternatives is a powerful step to show love for the most vulnerable as well as proper respect for, and wise stewardship of, God's creation.

Revd Dr David Pickering, Moderator of the United Reformed Church National Synod of Scotland

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