

The Church of Scotland and Fossil Fuel Investment



Climate change threatens the lives of millions of people around the world, with the poor and marginalised the most vulnerable.

To try and avert this crisis governments, communities and individuals across the world are working together in a historic push to shift the world away from fossil fuels and towards a sustainable future.

Investors like the Church of Scotland can back this change by divesting from fossil fuel companies as part of a wider effort to take serious action to protect our climate.¹

Our common home

Investment choices will shape how society is able to tackle major global challenges, and no global challenge is greater than climate change.

The last four years were the warmest ever recorded,² and global warming is driving hurricanes in the Caribbean, wildfires in the US and Europe, heatwaves in Australia and devastating floods and typhoons in Asia. As we pass 1 degree of global warming, the UN estimates that 26 million people are already being pushed into poverty by weather and climate disasters every year.³ According to the World Health Organisation, an estimated 250,000 additional people will *die each year* from 2030 due to malnutrition, malaria, diarrhoea and heat stress caused by climate change.⁴



Speaking to Members of the Scottish Parliament, the former Moderator of the Church of Scotland the Very Rev Dr Derek Browning said: "We share the earth, our common home gifted to us, with seven billion others

¹ This briefing has been produced by Christian Aid Scotland, Friends of the Earth Scotland, Operation Noah and Eco-congregation Scotland with the aim of encouraging the Church of Scotland to address its investments in fossil fuel companies.

² metoffice.gov.uk/news/releases/2019/forecast-suggests-earths-warmest-period

³ unfccc.int/news/un-collects-data-on-losses-from-climate-change

⁴ who.int/mediacentre/factsheets/fs266/en/

whose descendants depend on getting our response to climate change right... we have faith that this is possible.” Outlining the Church’s support for a net reduction in greenhouse gas emissions of 100% he said it “might appear very difficult to achieve but with rapid decarbonisation of the economy envisaged in the draft Scottish Energy Strategy there is no reason to dismiss it.”⁵

The Church of Scotland called for Scotland to become a climate-neutral nation by 2050 at the latest, joining over 40 faith groups, charities and civic bodies (*pictured*).

Scotland’s objective would contribute to the landmark global agreement made by world leaders in Paris in 2015, to cut carbon emissions and seek to limit global warming to 1.5°C. Addressing the UN climate conference in Bonn in 2017, First Minister Nicola Sturgeon spoke of this treaty:

“We recognise the economic and social opportunities of a just transition to create new jobs; to protect our natural environment; and to tackle pollution and save lives. But, above all else, we understand this - tackling climate change is an overwhelming moral obligation that we owe to this and future generations.”⁶



Fossil fuels and climate change

The UN collects and summarises the findings of thousands of scientific studies on climate change. Their work has established clearly that the burning of fossil fuels – coal, oil and gas – is the main driver of global climate change.

To tackle climate change we must reduce the burning of fossil fuels. In this endeavour every part of society has a role to play in reducing demand and supply.

In recognition of this, the £443.4 million⁷ Church of Scotland Investors Trust has divested from companies with more than 15% of turnover derived from the extraction of coal and tar sands, two of the dirtiest forms of fossil fuel extraction.⁸ However, the Trust still invests in other fossil fuel companies including:⁹

BP, who fleetingly branded themselves *Beyond Petroleum*, has shed its renewable energy arm in favour of new investment in deep sea drilling, Arctic drilling, tar sands developments and fracking.¹⁰ In 2010 BP were fined \$18.7 billion, the largest environmental fine in US history, for ‘gross negligence’ regarding the Gulf of Mexico oil spill (*pictured overleaf*).¹¹ The company’s 2017 Annual Review stated that it is planning to increase oil production by an average of 5% per year - an independent assessment of these plans found it to be consistent with global warming of 3-5°C *or more*.¹²

Shell has paid millions of dollars in fines for pollution caused by its operations in Nigeria,¹³ which the company is accused of falsely blaming on local communities.¹⁴ Its Mossmorran plant in Fife is accused of

5 [churchofscotland.org.uk/__data/assets/pdf_file/0020/50186/Right_Rev_Dr_Derek_Browning_-_Scotlands_faith_communities_and_the_Climate_Change_Bill_-_18_April_2018.pdf](https://www.churchofscotland.org.uk/__data/assets/pdf_file/0020/50186/Right_Rev_Dr_Derek_Browning_-_Scotlands_faith_communities_and_the_Climate_Change_Bill_-_18_April_2018.pdf)

6 [snp.org/first_minister_nicola_sturgeon_speech_to_the_un_climate_change_conference_in_bonn](https://www.snp.org/first_minister_nicola_sturgeon_speech_to_the_un_climate_change_conference_in_bonn)

7 [churchofscotland.org.uk/__data/assets/pdf_file/0003/50682/Church_of_Scotland_Investors_Trust_-FINAL_2017.pdf](https://www.churchofscotland.org.uk/__data/assets/pdf_file/0003/50682/Church_of_Scotland_Investors_Trust_-FINAL_2017.pdf), p.7

8 [churchofscotland.org.uk/__data/assets/pdf_file/0006/48885/Statement_of_Investment_Principles.pdf](https://www.churchofscotland.org.uk/__data/assets/pdf_file/0006/48885/Statement_of_Investment_Principles.pdf)

9 [churchofscotland.org.uk/__data/assets/pdf_file/0003/50682/Church_of_Scotland_Investors_Trust_-FINAL_2017.pdf](https://www.churchofscotland.org.uk/__data/assets/pdf_file/0003/50682/Church_of_Scotland_Investors_Trust_-FINAL_2017.pdf), p.17 (Shell = largest holding of Church of Scotland Investors Trust Growth Fund (£11.7m/4.18% of portfolio))

10 BP styled themselves ‘Beyond Petroleum’ in a major promotional campaign launched in the year 2000. Their withdrawal from green energy is recorded by CNBC in 2013, see here: [cnbc.com/id/100647034](https://www.cnbc.com/id/100647034)

11 [theguardian.com/environment/2015/jul/02/bp-will-pay-largest-environmental-fine-in-us-history-for-gulf-oil-spill](https://www.theguardian.com/environment/2015/jul/02/bp-will-pay-largest-environmental-fine-in-us-history-for-gulf-oil-spill)

12 Share Action (2017) ‘Two Years After Aiming for A: Where Are We Now?’

13 [theguardian.com/environment/2015/jan/07/shell-announces-55m-payout-for-nigeria-oil-spills](https://www.theguardian.com/environment/2015/jan/07/shell-announces-55m-payout-for-nigeria-oil-spills)

14 [bloomberg.com/news/articles/2018-03-15/shell-eni-misled-nigeria-regulators-on-oil-spills-amnesty-says](https://www.bloomberg.com/news/articles/2018-03-15/shell-eni-misled-nigeria-regulators-on-oil-spills-amnesty-says)

affecting local people's health and received a £40,000 fine in 2018.¹⁵ Shell has threatened to drill in the fragile environment of the Arctic¹⁶ and the company is involved in shale gas fracking in the Permian, Haynesville and Appalachian basins in the United States.¹⁷ 15,000 Dutch citizens are currently taking Shell to court for its historical contribution to climate change.¹⁸

Total's Chief Executive said "we will remain first and foremost an oil and gas company" in the long term, with only 20% of its assets low-carbon by 2035.¹⁹ Total's Sullom Voe plant in Shetland is one of the UK's biggest sources of CO₂²⁰ and in 2015 the company was fined over £1 million for one of the UK's biggest ever gas leaks.²¹ Total has been criticised for planning to drill for oil near a reef in the Amazon rainforest.²² Like BP and Shell, Total is a 'supermajor' one of the six biggest publicly-traded oil producers in the world.

BP, Shell and Total all featured in the top 20 of a list of global corporations independently compiled according to the historic greenhouse gas emissions linked with their activities.²³

With their primary business focussed on the extraction of fossil fuels, these companies have been found in several assessments of their activities to behave a way that is incompatible with global climate targets.

- ShareAction assessed the business plans of BP and Shell and found them to be consistent with global warming of 3-5°C or more.²⁴
- An assessment by Carbon Tracker found that the vast majority of oil and gas companies were developing significant levels of fossil fuel reserves that would be uneconomic if globally agreed targets on climate change were to be met.²⁵



There is only a finite amount of carbon we can burn if we are to meet globally agreed targets on climate change. As time goes on and we use up our 'carbon budget', the case for exploring more fossil fuels further diminishes. More recent studies suggest that almost all the known reserves of fossil fuels need to be kept in the ground to avert dangerous warming.²⁶

In his speech to the 2018 General Assembly, Rev Dr Richard Frazer, Convenor of the Church and Society Council, said:

*"We find it deeply uncomfortable that the Church, as an organisation concerned about climate justice, is investing in something which causes the very harm we seek to alleviate. There are profound transformations that are taking place moving us to a low carbon economy. Yet oil and gas companies... continue to make exploration and development of new resources the centre of their business model."*²⁷

¹⁵theferret.scot/gas-flares-mossmorran-record-high/

¹⁶theguardian.com/business/2015/sep/28/shell-ceases-alaska-arctic-drilling-exploratory-well-oil-gas-disappoints

¹⁷shell.us/energy-and-innovation/unconventional-resources/where-we-operate.html

¹⁸foei.org/news/shell-climate-demands-court-action

¹⁹ft.com/content/04985ba4-21c8-11e6-aa98-db1e01fab0c

²⁰shetnews.co.uk/2018/08/31/sepa-names-shetland-s-top-co2-polluters/

²¹bbc.co.uk/news/uk-scotland-north-east-orkney-shetland-35159351

²²thelocal.fr/20180923/france-fountains-protest-against-totals-brazil-oil-project

²³cdp.net/en/articles/media/new-report-shows-just-100-companies-are-source-of-over-70-of-emissions

²⁴Share Action (2017) 'Two Years After Aiming for A: Where Are We Now?'

²⁵carbontracker.org/reports/2-degrees-of-separation-update/

²⁶priceofoil.org/content/uploads/2016/09/OCI_the_skys_limit_2016_FINAL_2.pdf

²⁷churchofscotland.org.uk/_data/assets/pdf_file/0011/51005/Church_and_Society_Convener_Speech.pdf

A financial and legal imperative

Global leaders agreed in Paris in 2015 to limit global warming to 1.5°C and the Scottish Government intends to make the country carbon neutral.²⁸ It plans to implement this through policies including phasing out petrol and diesel cars by 2032, growing renewable energy, and stopping fracking. As the future demand for fossil fuels declines, the business models of fossil fuel companies become less reliable.

Mark Carney, Governor of the Bank of England, has warned that the “vast majority of [fossil fuel] reserves are unburnable” if climate change is to be limited to safe levels as pledged by the world’s governments.²⁹ In April 2018 Carney compared the risks stemming from climate change to the financial instability which caused the 2008 financial crash.³⁰

Reduced demand for fossil fuels is one of many risks inherent in the industry’s business model. A recent survey found that 90% of fund managers expect climate risks to reduce the value of oil and gas companies within 2 years, citing risks such as reputational damage; litigation for losses from climate change; and regulation to curtail pollution.³¹

As part of the Church of Scotland the Investors Trust must operate in accordance with the mission of the Church, including investing in a way that is consistent with the its mission.

A legal opinion from Christopher McCall QC, 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’.³²

Far from posing a risk, divestment from fossil fuels may in fact reduce risks by excluding the companies whose business plans are most vulnerable to climate change.

There is also evidence that divestment may lead to increased returns, with many large fossil-free investors continuing to make good returns from their portfolios.³³

Tactical engagement

In 2016 the Church of Scotland General Assembly asserted in its deliverance that “Scotland needs to play a leading part in the global drive to reduce carbon emissions through major changes in energy production and consumption and the Church’s ethical investment policies should be aligned with this objective”. It was agreed to divest from companies engaged in coal and tar sands (a particularly damaging form of oil extraction). It also agreed to “to engage with oil and gas companies ...to establish their commitment to meeting the UN climate change targets and to report back to the General Assembly of 2018.”

Reporting back to the 2018 General Assembly the Church and Society Council said: “Engagement with oil and gas companies may encourage them to change some aspects of their business, but it is unlikely to lead to a change in their core business of exploration and production. The huge scale of finance and operation, the time-lag between investment and returns in developing oil fields, which can be 10 years or more, and its historic profitability, all make it very difficult for fossil fuel companies to diversify from their core business and contribute positively to a low carbon economy.”³⁴

The Church of Scotland has published letters to oil companies asking for further action on climate change.³⁵ As well as making public statements, the Church of Scotland Investors Trust engages with companies it

²⁸news.gov.scot/news/commitment-to-net-zero-greenhouse-gas-emissions

²⁹theguardian.com/environment/2014/oct/13/mark-carney-fossil-fuel-reserves-burned-carbon-bubble

³⁰theguardian.com/business/2018/apr/06/mark-carney-warns-climate-change-threat-financial-system

³¹uksif.org/wp-content/uploads/2018/04/UKSIF-Not-Long-Now-Survey-report-2018.pdf

³²Christopher McCall QC, ‘Opinion of Christopher McCall QC on Ethically Questionable Investments: A Summary for Trustees’, 2015 bwblp.com/file/summary-and-opinion-pdf

³³See later in this document for examples

³⁴Church and Society Council Report to the 2018 General Assembly

³⁵ft.com/content/fda63c26-5906-11e8-b8b2-d6ceb45fa9d0 and thirdforcenews.org.uk/tfn-news/church-pressures-oil-companies

invests in via its use of Newton Asset Management, who run their Growth Fund, and the UK-wide Church Investors Group.”³⁶ Unfortunately, engagement with the oil companies has not spurred adequate action to bring these companies in line with global targets on climate change, and time is running out.

Hampering these efforts is the business model of oil and gas companies. Fossil fuel extraction is their core business. That makes them ill-equipped to meaningfully respond to approaches from shareholders about cutting fossil fuel extraction.

The Church’s engagement efforts could be more effectively directed to companies whose core business *can* transition to low-carbon alternatives, for example encouraging steel, automotive, housing and construction companies to reduce carbon emissions.

Discussing their pension fund’s commitment to divest, former Deputy Comptroller of New York State, Tom Sanzillo, wrote in the Financial Times:

*“The shareholder engagement process increasingly looks like a cynical exercise through which shareholders and fossil fuel companies talk instead of act, the urgency of climate change is denied and real questions of fossil fuel profitability are ignored.”*³⁷

The good news is that if we want alternatives to fossil fuels to be developed, we do not need to wait for fossil fuel companies to provide them. We can invest in those companies already building and operating renewable energy and green jobs here in Scotland.³⁸

Public sector backing for these changes is rising. In 2017 the Scottish Government announced a new ‘Just Transition Commission’ to ensure jobs and communities aren’t left behind in the transition to a green economy.³⁹ The Scottish Government is also creating a new multi-billion pound National Investment Bank which will have financing low-carbon business as one of its goals.⁴⁰ The Church of Scotland has the opportunity to invest in a way that reinforces positive changes being made on climate change from the national to local levels.

Good company

By making a commitment to divest from fossil fuels, the Church of Scotland would be joining over 1,000 institutions jointly valued at more than £6 trillion, including:

- The **University of Edinburgh**, the UK’s third wealthiest university, with funds under management of around £1 billion. It invests £60 million in renewable technology, sustainable water, energy and food. Following a long-running student-led campaign, the University has committed to divest from fossil fuels by 2020.⁴¹
- The **Church of Ireland**, committed to fully divest its €640 million fund from fossil fuels in May 2018. General Synod member Stephen Trew said, “Ethical investors around the world, and now the Church of Ireland, have looked at the ethics and the risks and concluded that divestment from all fossil fuels is the right thing to do.”⁴²
- **BMO’s** \$483 million Responsible Global Equity investment fund, which is used by pension funds such as NEST. In 2017 the fund removed all fossil fuel equities from its portfolio and committed to remain fossil free in perpetuity. The fund maximises its impact with a tripartite policy of investing in responsible businesses, avoiding investments in harmful companies, and improving practice where

36 Church and Society Council 2018 General Assembly report

37 [ft.com/content/b5346cac-1e45-11e8-a748-5da7d696ccab](https://www.ft.com/content/b5346cac-1e45-11e8-a748-5da7d696ccab)

38 There are plans to massively expand Scotland’s off-shore wind production ([bbc.co.uk/news/uk-scotland-scotland-business-44189335](https://www.bbc.co.uk/news/uk-scotland-scotland-business-44189335)) and solar capacity continues to expand

(solarpowerportal.co.uk/news/scotlands_largest_solar_farm_approved_in_first_for_government)

39 gov.scot/groups/just-transition-commission/

40 theguardian.com/uk-news/2018/feb/28/scottish-government-to-launch-national-investment-bank

41 ed.ac.uk/about/sustainability/themes/responsible-investment/reviews/fossil-fuels-2018/announcement

42 irishtimes.com/news/social-affairs/religion-and-beliefs/church-of-ireland-to-end-investments-in-fossil-fuel-companies-1.3492315

progress can be made.⁴³

- The **London Borough of Southwark Pension Fund**, a £1.49 billion local government pension fund that provides pensions for over 22,000 members in South London. The fund committed to divest from fossil fuels in December 2016. In pursuance of their commitment Southwark has since invested £150 million in the Blackrock Low Carbon Target Equity Fund.⁴⁴
- Timothy Ravinder, Bishop of the **Church of South India**, represented his congregation of 3.8 million at the 2018 Church of Scotland General Assembly, saying they did not invest in fossil fuels. The Church has committed to using low-energy lighting, solar power, rainwater harvesting, making churches free of plastic, tree planting, and promoting organic farming and public transport.⁴⁵

The Church in transition

As Scotland's largest community of faith and an institution at the heart of Scottish society, the Church of Scotland can make a huge difference in influencing change.

Divestment would form part of the Church's wider response to climate change, including addressing emissions from travel and heating with congregations, encouraging Church members to invest wisely, encouraging Government to go further on climate change, and supporting a just transition for workers and communities dependent on the fossil fuel industry.



The Church of Scotland can cut its own contribution to climate change, support political progress, divest from fossil fuels, and invest in a way that backs solutions to climate change.

Archbishop Desmond Tutu has made the call: "Divest from fossil fuels and invest in a clean energy future. Move your money out of the problem and into solutions."⁴⁶

In his speech to the 2018 General Assembly, Rev Dr Richard Frazer, Convenor of the Church and Society Council, said:

*"Over \$5 trillion has now been withdrawn from fossil fuels by churches, universities and institutional investors worldwide. This is sending a powerful signal that due to climate change, the time has come to move away from oil and gas to a low carbon economy based on renewables."*⁴⁷

Divestment is a practical, legal and responsible way for the Church of Scotland to respond to climate change by withdrawing support for the companies most responsible for causing it. Divestment actively contributes to tackling climate change by bolstering a global movement of investors who are drawing serious attention to climate risks and gathering support for action from political and business leaders. Divestment would cut the Church's exposure to the long-term risks inherent in owning shares in an industry whose business plans are inconsistent with action on climate change.

⁴³bmogam.com/documents/responsible-investment-funds-summary-criteria/

⁴⁴msci.com/documents/10199/a61f00d8-7f84-4125-ae11-db8776e981b6

⁴⁵thehindu.com/todays-paper/tp-national/tp-kerala/church-of-south-india-devotes-itself-to-earth/article22914673.ece

⁴⁶tutufoundationusa.org/2017/03/28/desmond-tutu-climate-change-human-rights-challenge-time

⁴⁷churchofscotland.org.uk/_data/assets/pdf_file/0011/51005/Church_and_Society_Convener_Speech.pdf

Ideas for action

1. The Church of Scotland to commit to divestment from fossil fuels by the end of 2020 and to develop a 'Statement of Investment Principles' which enshrines an ongoing commitment to investing for the climate.
2. Invest in industries which are helping to tackle climate change, such as renewable energy, and engage with companies that can adapt to climate change and reduce their emissions without changing their core business.
3. Seek to support ways in which the Church and its members can cut consumption of fossil fuels and support a just transition to a zero-carbon Scotland.

Appendices

1. Church of Scotland General Assembly Deliverances on Fossil Fuels

2016 deliverance

Divestment from fossil fuel companies

10. Recognise that Scotland needs to play a leading part in the global drive to reduce carbon emissions through major changes in energy production and consumption and that the Church's ethical investment policies should be aligned with this objective.
11. Call on the Scottish and UK Governments, and businesses active in the North Sea oil and gas industry to help speed the transition to a low carbon economy and to ensure that the skills and experience of workers in the offshore industry are not lost as North Sea oil and gas fields run down.
12. Urge the Trustees of the Church of Scotland Investors Trust and the Church of Scotland Pension Fund not to invest in companies which derive more than 15% of their turnover from extraction and/or sale of thermal coal and/or oil extracted from tar sands.
13. Instruct the Church and Society Council, in partnership with Investors Trust and Pension Trustees to engage with oil and gas companies, in which the church has significant holdings, to establish their commitment to meeting the UN climate change targets and to report back to the General Assembly of 2018.
14. Instruct the Church and Society Council to explore with the Trustees of the Church of Scotland Investors Trust, the Church of Scotland Pension Fund and others how to alter existing investment policies to promote the transition to a low carbon global economy by 2050 and to report back to the General Assembly in 2018.

2018 deliverance

Instruct the Council to engage with the oil and gas companies to continue to seek alignment with the Paris

Climate Agreement rather than divest from the oil and gas industry.

2. Technical note: Congregational Investment with The Church of Scotland Investors Trust

Congregations have monies invested with the Investors Trust in two ways: (a) by investing directly through the Investors Trust and (b) when congregations sell glebeland or buildings, the proceeds are credited to the Consolidated Stipend Fund and the Consolidated Fabric Fund both of which are administered by the General Trustees. The General Trustees currently choose to invest both Funds through the Investors Trust. The two Funds support Parish Ministry and assist congregations in the provision of suitable buildings.

The Church of Scotland Investors Trust is a statutory corporation, and a component element of the Church of Scotland which has Designated Religious Charity status. The Church of Scotland consists of the Unincorporated Councils and Committees of the General Assembly of the Church of Scotland, The Church of Scotland General Trustees and The Church of Scotland Investors Trust, none of which are controlled by each other but all of which are related parties and report individually to the General Assembly.

The function of the Investors Trust is to provide investment services to the Church of Scotland and to bodies and trusts within or connected to the Church. Investing parties remit monies to the Investors Trust along with written instructions to invest in one or more of the three funds offered by the Investors Trust – congregations only provide such written instructions for direct investments.

Ethical considerations form an integral part of the investment management process and the Trustees have given instructions to the investment managers, taking into account views expressed by the General Assembly. The Income and Growth Fund managers employ the screens from EIRIS (Ethical Investment Research System) in arriving at an appropriate investment universe. Additionally the Trust looks to the Church Investors Group for guidance. At their own meetings, the Trustees regularly review and consider matters arising in respect of ethical investment. Investment is avoided in any company which engages in management practices which are judged by the Trustees to be unacceptable. In particular, investment is avoided in any company substantially involved in gambling, tobacco products, alcohol, armaments and in other activities which are felt to harm society more than they benefit it. In addition to the foregoing exclusions, in 2016 the Trustees agreed to avoid investment in companies which derive more than 15% of their turnover from extraction and/or sale of thermal coal and/or oil extracted from tar sands. In general, investment is sought in companies that demonstrate responsible employment and good corporate governance practices, have regard to environmental performance and human rights and act with sensitivity to the communities in which they operate.

Compiled by Jenny Adams, Church of Scotland minister from sources Investors Trust Annual Report 2017 (churchofscotland.org.uk/about_us/stewardship_finance_and_trusts/investors_trust) and General Trustees Annual Report 2017 (churchofscotland.org.uk/about_us/councils_committees_and_departments/departments/general_trustees)

Help and information

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