



Divestment from Fossil Fuels

A Briefing for Churches prepared by Christian Aid

Christian Aid has decided to seek to divest its financial investments from fossil fuels. This is not a simple process, and may take some time to complete in full, but is one to which we are committed.

This briefing note is intended to explain our rationale for divestment, and to encourage other partners – notably churches – to accompany us on this journey.

Our starting point has been to shift those funds within our direct control out of fossil fuels. We are now working with our pension providers to find options that will, we hope, enable our pension funds to follow a similar path over time.

Why is Christian Aid seeking to divest from fossil fuels?

Climate change is being accelerated by the extraction and burning of fossil fuels, and it is widely accepted that the vast majority of current reserves must stay in the ground.

Christian Aid's preferred approach of divestment reflects the urgency with which our partners, and the communities with which they work, require change to happen. We want to send the strongest possible signal in support of the rapid transition to the low-carbon world that is required.

Divestment is a public indication of withdrawal of consent from the actions of companies involved in the exploration for and extraction of yet more fossil fuels.

It is important that we acknowledge the inherent challenges and contradictions involved in taking such a position. We have a carbon reduction policy including carbon budgets, but we will continue to use fossil fuels in our travel and operations. We might end up retaining investments in companies that in some ways support, or are supported by, fossil fuel-related industries. We recognise and accept the imperfections and inconsistencies involved, but feel that imperfect action is better than none. We understand that the solution must be systemic, and mass movement of investment capital from fossil fuels into renewables could prompt such a systemic shift.

Why might a Christian organisation consider divesting?

For all the shared good reasons above, but also because we believe that 'the earth belongs to God' (Psalms 24:1), and that humankind has a God given task to care for it. If overuse of fossil fuels is harming creation and contributing to the climate changes that are bringing poverty to many people in our world now and in the future, then we need to speak out and to act.

Christians have long experience of withholding investment from industries and actions that they believe are harming the world and its people, and have often argued and believed that it can be right to do this.

Christians are also committed to imagining, hoping and planning for a different future, and will want to 'invest' prayer, action and resources in a better world and in different ways of finding and using clean energy.

In an article published in 2014, Anglican Archbishop and Nobel Peace Prize Winner Desmond Tutu, wrote "We must stop climate change. And we can, if we use the tactics that worked in South Africa against the worst carbon emitters...People of conscience need to break their ties with corporations financing the injustice of climate change...It makes no sense to invest in companies that undermine our future. To serve as custodians of creation is not an empty title; it requires that we act, and with all the urgency this dire situation demands."¹

Who has divested so far?

The global movement for divesting from fossil fuels is gathering pace with churches and universities leading the way, and hundreds having divested already. In the UK, the Quakers in Britain announced their intention to divest central funds from fossil fuel extraction companies in late 2013 and the World Council of Churches announced their intention to pull their fossil fuel investments in June 2014. In 2015, so far the URC in Scotland has announced its intention to divest, and the investment bodies of the Church of England and Methodist Church have announced withdrawal from firms heavily involved in coal or tar sands.

In addition there have been divestment announcements or endorsements of divestment as a strategy from various secular institutions Glasgow University, The Rockefeller Foundation, the British Medical Association and the UNFCCC.

Shouldn't we be engaging with fossil fuel companies rather than divesting?

We engage with all manner of companies in order that they improve their environmental practices, often with a level of success. We see fossil fuel companies as different however, as their core business involves exploiting and burning fossil fuels, directly leading to environmental degradation.

Over 50 years of engagement with fossil fuel companies, there has been no indication that any major fossil fuel company is serious about the real change that is needed, and aggressive expansion continues.

Amongst those who previously advocated engagement is former Sustainable Development Commissioner Jonathon Porritt, who concluded after many years of effort that engagement was futile, writing in a January 2015 op-ed that despite the urgency and conversations: "the lengths they

¹ <http://www.theguardian.com/environment/2014/apr/10/desmond-tutu-anti-apartheid-style-boycott-fossil-fuel-industry>

[major fossil fuel companies] went to justify their continuing investments in new hydrocarbons (to the tune of billions of dollars every year) have become more and more extreme.”²

We do recognise that some institutions may favour engagement as an interim approach, especially if it is backed up by a real intention of divestment if companies remain intransigent, or during the process of divestment.

Would churches divesting from fossil fuels cause people to lose their jobs?

We advocate a fair, just, and managed transition to a green economy and see this as preferable to the kind-of sudden unmanaged transition that could be caused by a bursting of the carbon bubble.

Church divestment is intended to prompt such a transition, especially as re-investment of money from fossil fuels to renewable energy could help create new green jobs. A coalition of trade unions produced a report in 2009 estimating that 1 million climate jobs could be created by a shift to renewables and other green measures.³

Similarly in poorer countries, various Christian Aid reports have documented how low carbon development is capable of assisting countries to ‘leapfrog’ dirty development and create many new jobs in renewable energy.⁴

Would it make a lot of difference to the investment performance of funds?

This is, first and foremost, a decision to better reflect Christian Aid’s values in its investments. But such decisions must also reflect financial realities – we have an obligation to maximise the impact of supporters’ donations and to steward our limited resources carefully.

Studies suggest that there is presently very little difference in return between funds with and without fossil fuels. According to one,, ‘removing the fossil fuel sector in its entirety and replacing it with “fossil free” portfolios of energy efficiency, renewable energy, and other alternative energy stocks’ would raise average annual portfolio returns over the past five years from 1.8% to 2.3%.⁵ A financial impact report prepared for the Church of England General Synod debate on environmental issues in February 2014 demonstrated that the financial impact of screening fossil fuel companies from an investment portfolio would be very small.

In reality it is difficult to predict the impact of removing fossil fuels from portfolios. By definition, removing a substantial proportion of the overall market will make returns differ from the returns of the market as a whole – i.e. the deviation from the performance of (for example) the FTSE350 is likely to increase, though this could be positive or negative and such deviations are likely to be smoothed out over time.

² <http://www.theguardian.com/environment/2015/jan/15/engaging-with-oil-companies-climate-change-futile-admits-leading-environmentalist>

³ <http://www.campaigncc.org/sites/data/files/sites/data/files/Docs/one%20million%20climate%20jobs%202014.pdf>

⁴ E.g. <http://www.christianaid.org.uk/Images/low-carbon-south-asia-november-2014.pdf>, <http://www.christianaid.org.uk/images/LowCarbonAfrica.pdf>

⁵ Impax Asset Management, ‘Beyond fossil fuels: the investment case for fossil fuel divestment’, 2013; MSCI ESG Research, ‘Responding to the call for fossil-fuel free portfolios’, 2013; 350.org, ‘Analysts: fossil fuel-free portfolios outperform investments that include carbon polluters’, 2013

In the medium and long term, maintaining investments in fossil fuels is financially risky as well as counter to our work to protect the climate. The unburnable reserves represent trillions of dollars in investment. If we are successful in our campaigns, and win a global settlement to limit greenhouse gas emissions, more than two thirds of the assets on which oil, gas and coal investments are valued will see a drastic fall in value and could become 'stranded' or worthless.

Would it impact pensions?

There are particular challenges in divesting from fossil fuels in pension funds. Very few (if any) commercial products currently exist that offer fossil fuel free funds appropriate to pensions. For example, a person's pension fund will typically be moved from higher risk assets (equities) into lower risk assets (such as bonds) as s/he approaches retirement. This requires the provision of a range of funds across spanning various asset classes. Pension funds also have maximum fee thresholds, which makes it difficult to offer funds that involve more complexity (as is the case here). Christian Aid is working closely with its two pension providers to examine workable options. We are also campaigning in collaboration with Share Action to pressure pension funds to offer commercially available fossil free pension options.