

Divestment from Fossil Fuels

A Briefing for the Season of Creation

Why 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. 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 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 Churches consider divesting?

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

The global movement for divesting from fossil fuels is gathering pace with churches and universities leading the way, and hundreds having divested already. The World Council of Churches announced their intention to pull their fossil fuel investments in June 2014. Bill McKibben, the founder of climate campaign group 350.org, said: "The World Council of Churches reminds us that morality demands thinking as much about the future as about ourselves – and that there's no threat to the

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

future greater than the unchecked burning of fossil fuels. This is a remarkable moment for the 590 million Christians in its member denominations: a huge percentage of humanity says today ‘this far and no further’.”²

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

Over 50 years of engagement with fossil fuel companies, and 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 [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.”³

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 would 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. Similarly in poorer countries, low carbon development is capable of assisting countries to ‘leapfrog’ dirty development and create many new jobs in renewable energy.

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

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%.⁴ For example, 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.

² https://350.org/press-release/world-council-of-churches-endorses-fossil-fuel-divestment/?utm_content=buffer3dfb0&utm_medium=social&utm_source=twitter.com&utm_campaign=buffer

³ <http://www.theguardian.com/environment/2015/jan/15/engaging-with-oil-companies-climate-change-futile-admits-leading-environmentalist>

⁴ 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 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.

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 to keep global warming below 1.5c or even 2C as recommended in the Paris Agreement, 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.