

Paper G2

Mission and Finance Committees
Ethical Investment Guidelines on
Climate Change Issues

United Church 2015
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Ethical Investment Guidelines on Climate Change Issues

Basic Information

Contact name and email address	David Martin, Chair of Investment committee: david.b.martin@ntlworld.com John Ellis, Treasurer: john.ellis@urc.org.uk
Action required	Decision
Draft resolution(s)	See end of paper
Alternative options to consider, if any	N/A

Summary of Content

Subject and aim(s)	To establish an ethical investment policy in relation to fossil fuels
Main points	See Executive Summary
Previous relevant documents	<i>Environmental URC policy update</i> Mission Council Paper 12 of November 2014; see also Bibliography at end of paper
Consultation has taken place with...	Mission, Finance and Investment committees

Summary of Impact

Financial	No necessary impact on investment income long term
External (e.g. ecumenical)	A clear policy will help guide URC input to the ecumenical Church Investors Group

Ethical Investment Guidelines on Climate Change Issues

Executive Summary

- S1. The United Reformed Church has a set of Ethical Investment Principles agreed at General Assembly in 2010 and 2013 used by the central bodies of the Church and also commended for use by synods and local churches. They prescribe avoidance of investment in a number of areas but currently do not include environmental issues.
- S2. Following growing concerns regarding climate change and the widely understood contribution by the extractors and users of fossil fuel, there is a growing movement among some investors, including religious groups and Christian denominations world-wide, to develop ethical investment guidelines in this area. This paper sets out the background and proposes a set of such URC guidelines.
- S3. Christians have a divinely mandated responsibility for the world, its creatures and one another - especially the weakest and least. This requires us to mitigate whatever is damaging creation. The broad scientific consensus is that greenhouse gas emissions from human activities are the most significant contributor to world climate change. Urgent action is needed to avert the worst consequences of climate change on ecosystems, and on present and future generations. Limiting concentrations of CO₂ is critical. **The conclusions** from this paper's analysis are:
- Cutting greenhouse gas emissions medium and long term and decarbonising energy are essential
 - Reducing such emissions from energy production is needed. Characteristics of each fossil fuel need to be considered, and priority given to reducing use of those with the worst impacts.
 - Addressing poverty and access to energy in low income countries may mean that fossil fuel consumption and greenhouse gas emissions there increase for at least a period of time.
 - Reducing greenhouse gas emissions requires a holistic approach
 - From an investment perspective, climate change is best seen as a challenge of transition.
- S4. **Thermal coal** is principally used to generate electricity and heat and is the most emissions intensive, while **Oil**, widely used for transport (with few alternatives), for the chemicals industry and as a lubricant is next. Oil recovered from tar sands involves emissions intensity 20-25% greater than that of conventional oil. **Natural gas**, used to generate electricity and heat has lower emissions. There is a wide variety of **Biofuels** - typically carbon-based. Carbon is first absorbed from the atmosphere before combustion so net greenhouse gas emissions are significantly lower. **Nuclear** and **Renewable Energy Sources** have very low carbon emissions, though they have practical disadvantages.
- S5. Widespread concern about the contribution of fossil fuels to climate change has led to a call for immediate divestment from extraction companies. There is, however, strong evidence that investor engagement with companies has made a significant contribution to improving their practices.

- S6. The URC Investment committee, with the full support of the Mission committee and the Finance committee, believe URC trustees need to engage collectively with other church investors. Taking the action proposed in the policy summarised below is not inconsistent with Trustees' fiduciary duties:
- a) **engage intensively with companies in which our assets are invested that make a significant contribution to greenhouse gas emissions to encourage them in the transition to a low carbon economy;**
 - b) **conduct corporate and public policy engagement in collaboration with other investors, including through the Church Investors Group, the Institutional Investors Group on Climate Change and the Carbon Disclosure Project;**
 - c) **do not invest in any company where more than 10% of its revenues are derived from the extraction of thermal coal or the production of oil from tar sands;**
 - d) **disinvest, after appropriate engagement, from companies making significant contributions to greenhouse gas emissions considered not to be taking seriously their responsibilities;**
 - e) **where practicable increase investments in areas such as climate change adaptation, sustainable energy, energy efficiency, carbon capture and storage, to the extent that such investments meet investment risk/return criteria;**
 - f) **continue to encourage those organisations that invest money on our behalf to build climate change into their investment practices and processes, in line with the goals and objectives set out in this climate change policy;**
 - g) **monitor and report periodically on their implementation of this policy.**

Section 1: Introduction

- 1.1 The United Reformed Church has a set of Ethical Investment Principles agreed at General Assembly in 2010. These cover the general approach to investment taking account of Ethical Principles and are used by the central bodies of the Church; they are also commended for use by synods and local churches. They prescribe avoidance of investment in manufacture or supply of weapons or in companies a significant part of whose business is in the manufacture or supply of alcoholic drinks, or tobacco products, or military equipment (other than weapons); or the provision of gambling facilities, or the publication or distribution of pornography. In 2013, a further document was agreed on behalf of Assembly, restricting investment in high interest rate lending including home credit (also known as home-collected credit) or doorstep lending, payday loans, money lending, fringe lending, pawn broking and rent-to-own activities.
- 1.2 Following growing concerns regarding climate change and the widely understood contribution to it by the activities of extractors and users of fossil fuel, there has been a movement among a growing band of investors, including religious groups and Christian denominations in UK and world-wide, to develop ethical investment guidelines in this area. This paper sets out the background and proposes a set of ethical investment guidelines for the URC related to the extraction and use of fossil fuels. The Assembly has urged the URC to work ecumenically in this area and so this paper draws very extensively on the work of other Christian denominations¹. Their publications are listed in the Bibliography at the end of this paper.

Section 2: Biblical Background

- 2.1 As Christians, we have a divinely mandated responsibility for the physical world, for its creatures and for one another, especially the weakest and least (Gen 1. 26, 31, Gen. 2.15, 20). This requires us to do all we can to mitigate whatever is damaging creation and God's creatures, and to promote all that is good and brings the kingdom nearer. In relation to climate change, the broad scientific consensus is that greenhouse gas emissions from human activities are the most significant contributor to changes in the world's climate. Urgent action is needed if we are to avert the worst consequences of climate change on ecosystems, and on present and future generations. Climate change is a present day reality and already leading to significant impacts on the poorest and most marginalised in the world.
- 2.2 God calls into being a people to serve him in caring for his world (Gen. 8.21-9.17). This carries through to the New Testament (Col. 1.15-20). There is an inevitable judgement whereby those who 'sow the wind shall reap the whirlwind' (Hosea 8.7).
- 2.3 This implies we must do all we can to mitigate whatever is damaging creation and God's creatures, and to promote all that is good and brings the kingdom nearer (Rom. 13.11-14).
- 2.4 The Covenant made after the flood *was with all creatures in every generation* and so we should not view the interests of those in future generations as being any less important than our own. God's care is for all creation rather than just humanity;

1 Content from the Methodist church and Church of England Reports have been particularly helpful.

the injunction to 'have dominion' over all other creatures is an injunction to be wise stewards of creation, not an indulgence to exploit the rest of creation for our own ends.

Section 3: Scientific Background

- 3.1 In its **Fifth Assessment Report (AR5)** (2014), the **Intergovernmental Panel of Climate Change (IPCC)** states that “Limiting peak atmospheric concentrations over the course of the century - not only reaching long-term concentration levels - is critical for limiting temperature change”. The IPCC acknowledges that there is no single pathway to stabilise greenhouse gas concentrations at any level but notes that reaching atmospheric concentrations levels of 430-480 ppm CO₂ by 2100 (levels that are likely to keep temperature change below 2°C over the course of the century relative to pre-industrial levels) are associated with global greenhouse gas emissions reductions of 40%-70% by 2050 compared to 2010.
- 3.2 The market for energy is a mix of global and local markets with some fuels being widely traded internationally and others not. The resource companies with headquarters in the UK have the majority of their operations overseas; it is therefore impossible to consider the UK in isolation. AR5 estimates that c.65% of global greenhouse gas emissions in 2010 were CO₂ released by burning fossil fuels. The UK Government estimates that 85% of the UK's greenhouse gas emissions arise from the production of energy from fossil fuels. It should be noted that the amount of carbon that can be burnt to keep atmospheric concentrations below 450ppm is absolute, and that further increases in population mean lower per-capita levels of acceptable emissions and greater per capita emissions reductions globally.
- 3.3 Given the level of fossil fuel reserves, a substantial proportion will need to remain unexploited in the coming decades to meet the target of limiting global warming to 2°C.
- 3.4 Even though the IPCC does not offer a view on the greenhouse gas emission reductions that should be achieved by individual countries, the need for economic growth and increased access to energy in low income countries is likely to result in increased greenhouse gas emissions from these countries in the near term. This, in turn, suggests that high income countries may need to bear a greater burden of the emissions reduction effort. For example, the UK Climate Change Act established a target for the UK to reduce its emissions by at least 80% from 1990 levels by 2050. The **UK's Committee on Climate Change (CCC)** has stated that “This target represents an appropriate UK contribution to global emission reductions consistent with limiting global temperature rise to as little as possible above 2°C.”
- 3.5 The CCC estimate that from 1990 to 2013, the UK's carbon emissions fell 25%, implying that emissions need to fall a further 73% to meet the 80% target by 2050. This would imply that emissions would need to fall 3.5% p.a. over the thirty seven year period. The policy recommendations of the CCC and the IPCC are in line with the need for sustained long term incremental cuts in carbon emissions rather than a dramatic cessation of emissions.
- 3.6 The high proportion of greenhouse gas emissions that comes from fossil fuel combustion for energy, combined with the need to reduce overall emissions, would suggest that over time fossil fuel use must reduce and also become less carbon intensive for the 80% target to be met. This would suggest that those fossil fuels that are most carbon intensive i.e. thermal coal and tar sands would be most likely to see their combustion for energy reduced early in scenarios consistent with the 80%

target. Given the increasingly onerous nature of the target, and of the CCC's carbon budgets, it is very likely that in the course of time, other fossil fuels will fall into the same category for many of their current uses. If emissions decreased less rapidly than envisaged at first, then this would imply that more rapid emissions targets would need to be made in later years.

- 3.7 The IPCC states that delaying mitigation until 2030 will increase the challenges of, and reduce the options for, bringing atmospheric concentration levels to 530 ppm CO₂ or lower by the end of the century. The IPCC suggests that delaying action until 2030 would mean that the rate of greenhouse gas emissions reductions from 2030 to 2050 would need to be 6% per annum compared to just over 3% per annum if early action is taken. Achieving greenhouse gas emission reduction rates of this magnitude would also require a much more rapid scale-up of low-carbon energy over this period and higher transitional and long term economic impacts.
- 3.8 The evidence from the various emission reduction scenarios analysed by the IPCC suggests that the decarbonisation of energy supply by 2100 is essential to enable the emissions reductions set out above to be achieved.
- 3.9 **Implications for other industries.** It is impossible to separate the production of energy from its use, especially as the vast majority of greenhouse gas emissions emanating from fossil fuels relate to their use rather than their extraction. Many industries are currently reliant on fossil fuels as an energy source (e.g. transport, cement, building products, glass and steelmaking). The need to decarbonise the energy sector has considerable implications for these industries, as they adapt to other fuel sources where currently possible and develop and utilise new fuel sources when needed. The practicability of substitution will be one of the factors which determines the order in which fossil fuel use is curtailed.
- 3.10 Any ethical judgment made on the extraction of fossil fuels, would need also to apply to these industries, given that it is the combustion of the fossil fuels which causes carbon emissions. The overwhelming majority of current economic activity, including economic development in developing countries, is dependent on the combustion of fossil fuels for energy.
- 3.11 **The conclusions** from this analysis are:
- Significant cuts in global greenhouse gas emissions in both the medium and long term and decarbonising energy supply are essential to keep temperature change below 2°C over the course of the century relative to pre-industrial levels.
 - Within the longer-term goal of decarbonising energy supply, the shorter term goal is one of reducing greenhouse gas emissions associated with energy production. This requires the characteristics of individual fossil fuels to be explicitly considered, and priority to be given to reducing the use of those fuels with the worst impacts on climate change.
 - The need to address poverty and access to energy in low income countries may mean that fossil fuel consumption and greenhouse gas emissions in these countries increase for at least a period of time.
 - Reducing greenhouse gas emissions requires that a holistic approach is adopted, and that attention is paid to, amongst others, energy supply, energy demand, wider fossil fuel use, patterns of consumption and land use.
 - From an investment perspective, climate change is best seen as a challenge of transition. That is, investors need to take actions now that enable or support the early reductions in greenhouse gas emissions (i.e. between now and 2030) that then enable atmospheric greenhouse gas concentrations to be stabilised at a level

likely to keep temperature change below 2°C over the course of the century relative to pre-industrial levels .

Analysis of Fuel types

3.12 The following table shows the primary energy mix both globally and in UK in 2013:

	World 2013 (BP Statistical Review of World Energy)	UK 2013 (Digest of UK Energy Statistics)
Oil	32.9%	34.1%
Coal	30.1%	18.3%
Natural gas	23.7%	34.2%
Nuclear	4.4%	5.3%
Renewables	8.9% (Hydro 6.7%)	8.1% (Bioenergy 4.1%)

- 3.13 Until 2014 the proportion of global energy derived from oil had been falling in response to high oil prices. The proportion derived from coal had been increasing following high demand in Asia Pacific and that derived from other renewables had been increasing from a very low base following significant investment globally. The International Energy Agency estimates that despite only accounting for 30% of primary energy, coal accounts for 44% of energy related emissions. The emissions from oil (35%) are similar to its energy share. The emissions from natural gas (20%) are lower than its energy share, while those from nuclear and renewables (1% in total) are, unsurprisingly, much lower.
- 3.14 The primary energy mix in the UK in 2013 was markedly different with a greater reliance on natural gas and a lesser reliance on coal.
- 3.15 **Thermal coal** is principally used to generate electricity and heat. It is the most emissions intensive of the major fossil fuels. The greater carbon intensity relates to a larger proportion of carbon within the chemical composition of coal compared with other fossil fuels, with an average emissions intensity per unit of energy being 94kg CO₂/GJ. This is then compounded by the lower thermal efficiency typically exhibited by coal-fired plant resulting in much higher emissions than for other fossil fuels. Lignite has an emissions intensity which is c. 7% higher than that of other coal, and also typically has higher emissions of other pollutants associated with its use.
- 3.16 **Oil** is widely used as a transport fuel, a feedstock for the chemicals industry and a lubricant. Historically, it was used to generate electricity, though following the oil price shocks of the 1970s this no longer occurs on a large scale. There are currently few practicable alternatives for oil for some forms of transport (e.g. aviation or shipping). Oil has an emissions intensity per unit of energy of 78kg CO₂/GJ. The emissions

embedded in the extraction of oil should be considered as well as just that involved in its combustion. Oil recovered from tar sands (sometimes also called oil sands) involves much greater use of energy in the extraction process than conventional oil. As a result of this the IEA estimates that it has an emissions intensity 20-25% greater than that of conventional oil.

- 3.17 **Natural gas** is principally used to generate electricity and heat, though is also used as a feedstock for the chemicals industry. There has been some progress towards using it as a fuel for the transport industry following the large increases in the oil price relative to the gas price, though this is of minor importance. Natural gas has an emissions intensity per unit of energy of 56kg CO₂/GJ.
- 3.18 **Biofuels** encompass a wide variety of fuels. These are typically carbon-based, though they differ from fossil fuels in that the carbon is first absorbed from the current atmosphere before combustion. Some biofuels are crops specifically designed to be burnt (e.g. sugar based ethanol or willow crops) while others involve the burning of by-products (e.g. straw or wood offcuts). The term is also often used for natural gas (methane) obtained from landfill sites or the anaerobic digestion of organic waste, the burning of which dramatically reduces its global warming impact. Biofuels typically are less energy intensive than fossil fuels, and can involve higher gross greenhouse gas emissions per unit of energy. The arguments in favour of biofuels assert that, with the carbon released having been absorbed from the atmosphere in the very recent past or in the present, the net greenhouse gas emissions from biofuels are significantly lower than those for fossil fuels. The arguments against biofuels note that the land from which biofuels are harvested would probably have been covered with vegetation and absorbed a similar amount of carbon irrespective of whether that vegetation was subsequently burnt for energy. There are further ethical concerns regarding implications for food security from large-scale biofuels production in some developing countries.
- 3.19 **Nuclear** has the advantage of very low carbon emissions per unit of energy, though it has some practical disadvantages. It is very difficult to vary the amount of energy produced, and it is difficult to deliver nuclear energy in forms other than electricity. Pumped storage plants are often developed alongside nuclear plants for this reason. There are also significant ethical concerns relating to issues other than climate change. These are dealt with in a later section. Nuclear energy has high capital costs though relatively low ongoing running costs. During various periods it has been viewed as being either expensive or cheap compared to fossil fuels, though the projected costs of new-build nuclear plants in developed markets are towards the high end of the spectrum of energy costs.
- 3.20 **Renewable Energy Sources** tend to have very low emissions per unit of energy, with the emissions being primarily those embedded in the construction process. Similar to nuclear, it is difficult to deliver renewable energy in forms other than electricity. Some sources of energy have the disadvantage of being intermittent (e.g. wind or solar) while others have levels of availability similar to other sources of energy (e.g. hydro or geothermal). The intermittency of wind and solar energy involve extra costs to the overall system through the need for back-up electricity generation plants and/or energy storage, though the direct costs of many renewable sources of energy have fallen significantly and are now comparable with other forms of energy. There are concerns regarding the local environmental and human rights impacts for renewable sources of energy. These are dealt with in a later section.

Implications other than climate change issues

- 3.21 There are many **social issues** which arise from any reduction in use of fossil fuels. For example mining communities can be supported by fossil fuel extraction but devastated by the closure of their principal raison d'être. Some third world economies are dependent on coal. For example in Southern Africa developing economies depend extensively on energy derived from coal and a removal or reduction in that supply would likely have devastating effects on many in those communities – particularly the poor.
- 3.22 It is clear from a section above that **nuclear power** has certain environmental advantages. There are also, however, significant ethical concerns relating to issues other than climate change. The possibility of catastrophic incidents such as Chernobyl or Fukushima Daiichi and the safety management systems of nuclear power plants are a cause for concern, as are the systems in place for the processing and storage of radioactive waste, and these must be subject to the most stringent safety requirements. However this is the only type of electricity generation which recycles the fuel and fully costs the environmental impact of its activities.
- 3.23 While **natural gas** has advantages over other fossil fuels, over recent years technological developments that have enabled the commercial extraction of shale gas (**fracking**) have become controversial. These concerns typically relate to the impact on the local environment and human rights concerns regarding local communities rather than to the emissions intensity of shale gas. Such concerns would be a matter for the policy on extractive industries rather than for a policy on climate change. It is possible for companies engaged in the extraction of shale gas to operate in such a manner that it involves significant fugitive methane emissions, but it is not inherent in the process. It may be argued that exploration and related activities to determine the size of potential reserves do not create any presumption that any such reserves should or will be exploited. The ethical questions around exploration and any later extraction and exploitation are different and may need to be treated separately.
- 3.24 There are concerns regarding the local environmental and human rights impacts for **renewable** sources of energy. There are aesthetic environmental issues surrounding both wind and solar power, and their effect on wildlife. These need to be evaluated as they are for extractive industries.
- 3.25 **Other uses of fossil fuels.** Fossil fuels are not solely used for energy. The two principal industrial uses are for metallurgical coal in the steel making process and oil and natural gas as feedstocks in the chemicals industry. In addition the manufacture of plastics use petroleum products. There are not currently commercial-scale alternative means of replicating these processes without fossil fuels, which would suggest that the use of these should be viewed differently from the combustion of fossil fuels for energy. Metallurgical coal has a different chemical composition from thermal coal, and tends to trade at a premium to thermal coal. As a result of this, metallurgical coal is very rarely used for other purposes, and the two types of coal can be considered as functionally different.
- 3.26 **Methane** (CH₄) is the second most prevalent greenhouse gas emitted in developed countries from human activities. In 2013, CH₄ accounted for about 10% of all U.S. greenhouse gas emissions from human activities. Methane is emitted by natural sources such as wetlands, as well as human activities such as leakage from natural gas systems and the raising of livestock. Natural processes in soil and chemical reactions in the atmosphere help remove CH₄ from the atmosphere. Methane's lifetime in the atmosphere is much shorter than carbon dioxide (CO₂), but CH₄ is more efficient at trapping radiation than CO₂. The comparative impact of CH₄ on

climate change is 25 times greater than CO₂ over a 100-year period. Natural gas and petroleum systems are the largest source of CH₄ emissions from industry in the United States. Methane is the primary component of natural gas. Some CH₄ is emitted to the atmosphere during the production, processing, storage, transmission, and distribution of natural gas. Because gas is often found alongside petroleum, the production, refinement, transportation, and storage of crude oil is also a source of CH₄ emissions. Domestic livestock such as cattle, buffalo, sheep, goats, and camels produce large amounts of CH₄ as part of their normal digestive process. Also, when animals' manure is stored or managed in lagoons or holding tanks, CH₄ is produced. Because humans raise these animals for food, the emissions are considered human-related. Globally, the Agriculture sector is the primary source of CH₄ emissions. Methane is generated in landfills as waste decomposes and in the treatment of wastewater. Methane (CH₄) emissions have generally decreased in the last 25 years. Emissions increased from sources associated with agricultural activities, while emissions decreased from sources associated with the exploration and production of natural gas and petroleum products.

- 3.27 **Natural Disasters.** Human activity is not the sole influence on the carbonation of the atmosphere. The Earth is amazingly resilient and is also prone to occasional incidents of a geological or astronomical nature which can have a much greater impact upon climate issues. Dramatic events such as meteorite impacts, massive floods and sudden releases of carbon have led to past changes in climate over timescales ranging from thousands of years to just decades. Short-lived volcanic eruptions and variations in the Sun's output have led to less dramatic climate changes over timescales from a few years to a few decades. Human beings alone do not control the Earth, but need to take responsibility for their own contributions to climate change.
- 3.28 **All fuels have advantages and disadvantages** with respect to practicability, cost and to their implications for climate change and other ethical issues. This involves the local environmental (including on water resources) and human rights impacts around the extraction of fossil fuels and renewable energy production sites, as well as additional safety and long term environmental concerns around nuclear energy.
- 3.29 The harnessing of energy (from whichever source) lies at the **centre of the economic system** and our current standard of living is dependent on it. Scenarios which involve considerable increases in the cost of energy are likely to have adverse impacts on standards of living and increases in the incidence of poverty compared with those which have lower costs of energy. This is both an issue within developed countries (e.g. fuel poverty in Britain) and for developing countries aspiring to the standards of living prevalent elsewhere. The issues around the extraction of fossil fuels in developing countries are further complicated by the international trade in coal and oil (and to a lesser extent in natural gas). The fossil fuels extracted might provide both direct economic benefits to the country concerned as well as providing energy. However, they are mostly exported to developed markets and so it is difficult to view the extraction of fossil fuels in developing countries independently from that in developed countries.

Carbon capture and storage

- 3.30 Carbon capture and storage (CCS) has long been one of the main hopes of those seeking to limit and reduce carbon emissions. The first commercial-scale electricity generation plant equipped with CCS started operations in Canada in October 2014, building on technology previously used to inject CO₂ into depleted oil fields to enhance recovery rates. The technology has yet to be widely deployed, and

significant challenges remain for this to occur. Should the technology progress to the point where it is widely deployed, then much of the analysis regarding the emissions intensity of fuels will need to be amended, and concerns expressed regarding the high emissions intensity of coal and oil-sands will need to be re-examined. CCS technology is currently only operable on large-scale plants, such as electricity generation units, while much of the combustion of fossil fuels is widely dispersed and small-scale.

Section 4: Investment Options

Climate change as a fiduciary issue

- 4.1 In its 2014 report on the fiduciary duties of investment intermediaries, including pension fund trustees, the UK Law Commission confirmed that it was unhelpful to suggest that trustees should only maximise risk adjusted financial returns. Instead, it said that trustees should use their investment power for the purpose for which it was given and secure the best realistic return over the long term, given the need to control for risks. The report went on to say that trustees should, in doing so, take into account financially material factors, including ethical, environmental, social and governance factors that were financially material, having regard to the particular circumstances of their fund, and acknowledging that some factors may be more financially material for some funds than for others. Taking the action proposed in this policy is not inconsistent with Trustees' fiduciary duties.

The Scope of the URC Investment Guidelines

- 4.2 The current Assembly guidelines refer principally to investment of monies in the care of Trustees of The URC Trust and Pension Funds. They do not necessarily cover other assets invested by synods or churches of the URC. They do not cover the general public policy of the URC on climate change issues. Nor they do attempt to cover related issues such as, on this topic, the monitoring of carbon footprints of churches and manses, installation of solar panels on church and manse roofs, energy performance certificates for churches and manses, appropriate fuels for manse and church heating, and guidance relating to appropriate fuels for church vehicles. Neither do they cover recommendations to members that they avoid the use of particular fuels in their lives. Mission Council will recall that some other aspects of the effect of fossil fuels and climate change are covered in the Environmental Policy being prepared by the Mission committee.

The Record of Investor Engagement

- 4.3 The widespread concern about the contribution of fossil fuels to climate change have led some to call for immediate divestment from companies engaged in their extraction. This form of prophetic action has an honourable history but has not been the main thrust of ethical investment work in the United Reformed Church and its partner denominations. In the Reformed tradition it has usually been felt that Christians need to engage with worldly forces in order for yeast and salt to have their maximum impact rather than withdraw from engagement to maintain our purity.
- 4.4 Even if the principle of engagement is clear, it is nonetheless reasonable to ask whether this approach actually does have any impact in practice. Particularly since the strong encouragement of the 2002 General Assembly to put energy into this area and to do so ecumenically, there are good stories to be told. Much of the URC's contribution today is achieved through our support for the ecumenical Church

Investors Group, which has had a healthily disproportionate input from URC Elders since its inception.

- 4.5 There is strong evidence that investor engagement - individually and collectively - with companies has made a significant contribution to companies improving their social and environmental practices, processes and performance, strengthening their governance processes, better managing their social and environmental risks, and making better strategy and capital investment decisions. These all contribute to long-term financial performance.
- 4.6 Climate change has been a particular engagement focus for a number of years. Church investors have successfully engaged with companies to encourage them to improve their climate change-related disclosures, to set greenhouse gas emission reduction targets and to invest in projects that deliver both greenhouse gas emission reductions and provide positive returns on investment. An important recent focus has been on a wide range of current and emerging risks that could result in 'stranded assets'. These are environmentally unsustainable assets suffering from unanticipated or premature falls in value or even becoming liabilities rather than assets. Examples would be investments in mines or wells which are suddenly uneconomic to exploit due to a change in policy or legislation, or a change in relative costs or prices of other fuels or physical changes like flood, drought or transport problems. Church and other investors have encouraged fossil fuel companies to explain how they take account of the risks presented by climate change policy in their capital investment and portfolio decisions.

Collaboration

- 4.7 The URC Investment committee, with the full support of the Mission committee and the Finance committee, believe URC trustees need to engage collectively with other church investors to encourage the development and implementation of comprehensive climate change policies that are ambitious (in terms of their goals), robust (in terms of the incentives provided) and sufficiently dependable to enable appropriate levels of investment in mitigating greenhouse gas emissions.
- 4.8 Much of the most effective engagement has been conducted through collaborative initiatives, ie where various Church investors find common cause with other like-minded investors. Church investors and their professional fund managers, have:
- encouraged companies to produce a comprehensive account of their approach to climate change, their emissions, their objectives and targets, amongst others;
 - asked the world's highest emitting companies to make emissions reductions year-on-year, to publish their greenhouse gas emission reduction targets and to invest in projects that provide positive returns on investment. The Carbon Disclosure Project (CDP) began in 2003;
 - collaborated in the "Aiming for A" Coalition. The coalition has engaged with the largest emitter companies listed in the UK with the aim of reducing their carbon emissions and improving their disclosure. As a result of this, in 2015 various church denominations have co-filed resolutions at both BP and Royal Dutch Shell's AGMs pressing the companies to make further efforts around reporting their resilience in a carbon constrained world. Other companies subsequently saw these resolutions as setting a new standard for the industry;
 - engaged, through the Church Investors Group, with laggard companies in the FTSE350 (ie the largest 350 companies on the London Stock Exchange) to encourage these companies to take action to disclose and manage their greenhouse gas emissions.

- 4.9 Church investors need to build common ground with other investors to maximise the effectiveness of their engagement with companies and with policymakers.

Suggested policy criteria

- 4.10 **The objective** in relation to climate change is assisting transition to a low carbon economy. The proposed primary focus for the delivery of this commitment is engagement with companies and with policy makers.
- 4.11 **Disinvestment.** The threat of disinvestment is a useful weapon in the armoury of ethical investment and in the current URC guidelines some industries where the product is both unnecessary and harmful are simply excluded from investment. In the area of climate change it is proposed to avoid investment in those energy forms that are most harmful and which the world could, in due course, manage without. It is hard to see how engagement with those companies specialising in activities associated with the highest carbon emissions could produce a business model that was acceptable. Such companies are unlikely ever to be in a position to make a meaningful contribution towards transition to a low carbon economy. Therefore where thermal coal mining or the production of oil from oil sands (or the use of their products) represents a significant proportion of a company's business it is proposed not to invest in them at all.
- 4.12 However, **engagement** to encourage diversified fossil fuel companies to reduce their extraction of particular fossil fuels or to divert capital to lower carbon fossil fuels has, subject to wider economic and regulatory conditions, a greater likelihood of success.
- 4.13 The **investment criteria** should relate to the investment plans and future trajectory of a company's emissions and those of its products rather than on its current operations. This does not override the need to have portfolios with relatively low and measurably declining carbon emissions. In addition, companies should be expected to reduce emissions arising from their supply chains and the use of their products, where possible.
- 4.14 Companies which are dedicated to the exploration of new fossil fuel reserves should be viewed more seriously than companies dedicated to the exploitation of existing reserves. Companies whose activities are the facilitation of exploration or extraction should not be viewed less seriously than those companies engaged in exploration and extraction. Any adverse lobbying actions of companies should also be evaluated.
- 4.15 Investment decisions in the fossil fuel sector need to take account of likely changes in climate change policy, of likely changes in energy prices, and of how companies are likely to respond to the stranding (or potential stranding) of their assets.
- 4.16 Our approach to climate change - mitigation and adaptation - needs to take explicit account of the development needs of low income countries and of the needs of those living in poverty in middle and high income countries.
- 4.17 Trustees should encourage those organisations that invest money on their behalf to build climate change into their investment practices and processes, in line with the goals and objectives of this climate change policy.

Resolution

Mission Council, acting on behalf of the General Assembly, agrees to add the following text as an Appendix to the 2010 statement of principles for the use of the United Reformed Church in making investment decisions:

Application of the Guidelines in relation to Climate Change

Those responsible for investment decisions on behalf of the URC and its Trust bodies should:

- a) engage intensively with those companies in which they are invested that make a significant contribution to global greenhouse gas emissions (such as fossil fuel producers, electricity generation utilities, large energy users, and producers of energy intensive products) to encourage them to assist in the transition to a low carbon economy;
- b) conduct corporate and public policy engagement wherever possible in collaboration with other investors, including through the Church Investors Group (CIG), the Institutional Investors Group on Climate Change (IIGCC) and the Carbon Disclosure project (CDP);
- c) not invest in any company where more than 10% of its revenues are derived from the extraction of thermal coal or the production of oil from oil sands;
- d) disinvest, after appropriate engagement, from companies that make a significant contribution to emissions of greenhouse gasses and that are considered not to be taking seriously their responsibilities to assist with the transition to a low carbon economy;
- e) where practicable increase their investments in climate change adaptation, and in sectors and activities such as sustainable energy, energy efficiency, carbon capture and storage that may make a significant contribution to reducing global greenhouse gas emissions or facilitating the transition to low carbon economy, to the extent that such investments meet their investment risk/return criteria;
- f) continue to encourage those organisations that invest money on their behalf to build climate change into their investment practices and processes, in line with the goals and objectives set out in this climate change policy, including through integrating climate change into relevant requests for proposals and due diligence processes, making climate change an explicit part of their asset management appointment processes, integrating climate change into their investment principles, and monitoring their asset managers' approach to climate change;
- g) monitor and report periodically on their implementation of this policy.

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