

FOSSIL FUELS and the future



“Corporate leaders should not wait to act until market signals are right and national investment policies are in place. Be the first mover. Use smart due diligence. Rethink what fiduciary responsibility means in this changing world.”

World Bank Group President Jim Yong Kim, Davos 2014

**Joint Advisory
Committee on
the Ethics of
Investment 2014**

FOSSIL FUELS and the future

We must establish a way of supporting church structures at all levels in making reductions in greenhouse gas emissions proportionate to the overall reductions necessary by 2050 of at least 80% from 1990 levels, with the urgent and immediate interim steps this requires. ... Church policy in many areas, including the investment of church funds, will need to be reviewed in the light of this commitment.

Hope in God's Future – statement of the 2011 Methodist Conference

The future demand for fossil fuels

The Joint Advisory Committee on the Ethics of Investment (JACEI) has been actively engaged in the growing debate around investment in companies involved in the extraction and use of fossil fuels. 1.3 billion people, or 18% of the world's population, do not currently have access to electricity. Global demand for energy is expected to increase as developing countries become more prosperous. Consequently there is likely to be a continued need for fossil fuels to generate energy over the coming decades. To avert catastrophic climate change, however, the amount of power generated by fossil fuels must substantially reduce. The scientific analysis suggests that we need nothing less than an energy revolution.

According to the International Energy Agency, two-thirds of proven fossil fuel reserves must remain unburned if we are to avoid global warming in excess of two degrees, the point at which climate change is likely to become catastrophic. Power generation companies have a huge role to play as they assess whether future capacity will be powered by fossil fuels, nuclear reaction or renewable sources. Investment in unabated coal-fired power stations would entail emissions at a level inconsistent with meeting the UK's 2050 emissions reduction target. This is reflected in the Electricity Generation Policy recommended by JACEI and adopted by the Central Finance Board of the Methodist Church (CFB).

Will fossil fuel extraction companies remain profitable at the expense of the planet? Or will they have to write off a large part of the



value of their reserves, leaving so-called 'stranded assets' if fossil fuels remain unburned to mitigate climate change? From an investment perspective the reality is that, while these 'stranded assets' could lose value, this is likely to be many years away. In addition, other industries using fossil fuels to make products, such as the petrochemical industry, will continue to rely on them for the foreseeable future.

Should we divest from fossil fuels?

There is a growing call in some quarters to divest from fossil fuel extraction companies on ethical grounds. What are we to make of this call? The CFB divests from a company when dialogue with it proves impossible or when the nature of a business is opposed to Methodist Church teaching. Our approach thus far with fossil fuel companies has been one of active and critical engagement.

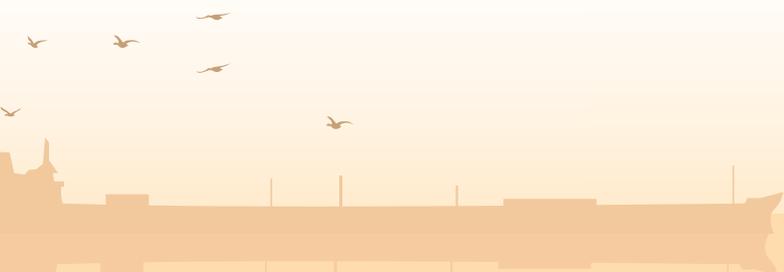
Disinvestment from companies involved in the extraction and burning of fossil fuels would close the door to further engagement. Disinvestment also has implications for the fiduciary duty of the CFB by narrowing the options open to achieve superior returns on investment, though such a duty would not ultimately override ethical concerns. The Chair of JACEI would welcome hearing the views

of Methodist Church members and beneficiaries of Methodist pension and investment funds on these questions.

Reducing the carbon footprint of our investments

JACEI supports moves by the CFB to construct investment portfolios that have a below average energy intensity. One way this is measured is by commissioning independent carbon footprint analysis. Although this is not a hard science, the results are promising and show the carbon intensity of the portfolio to be 12.3% lower in terms of tonnes of CO₂e per unit of market capitalisation than the FTSE All Share Index in 2013. This has fallen 17% per unit over the past 4 years. The CFB seeks for this trend to continue through the prioritisation of good environmental performance as a factor in investment decisions.

The CFB is also working to persuade all companies that are heavy users of fossil fuels to reduce their carbon footprints (see next page). In addition, climate change issues have been integrated into CFB voting practices. In future it will oppose the re-election of the Chair or members of appropriate board committees if a high-carbon footprint company is failing to improve its emissions performance.



“Aiming for A” – engaging with companies to tackle climate change

Encouraging the companies which have the greatest carbon emissions to be world leaders in reducing those emissions will influence other companies to do likewise. The Carbon Disclosure Project (CDP) rates companies on the effectiveness of their disclosure and publishes a leadership index of those companies that are peer leaders in reducing emissions. The highest performers are rated ‘A’.

The CFB is actively involved in the ‘Aiming for A’ project, run by institutional investors. ‘Aiming for A’ identifies companies operating in carbon intensive, and, therefore, high-impact sectors which may have the potential to achieve an ‘A’ rating by CDP for leadership in reducing emissions.

The CFB has led this investor engagement programme with Royal Dutch Shell and assisted with Centrica. Both companies were rated ‘B’ in the 2013 survey. This work will continue through 2014.

The CFB is also part of the Church Investors Group programme to engage with companies that are identified as ‘laggards’ in terms of carbon emissions management and disclosure as well as engaging directly with companies outside this programme.



From the Chair of the Joint Advisory Committee on the Ethics of Investment (JACEI):

While this short report has focused on fossil fuels, during 2013/2014 JACEI has advised the CFB on a wide range of ethical issues. Together we have:

- developed a position paper and policy statement on gambling, which reflects changes in the way gambling is accessed and recognises the impact on children
- engaged with several companies encouraging adoption of the Living Wage in the UK and seen progress with a number of them. (CFB is an accredited Living Wage employer)
- commenced thinking on investment in 'high interest lenders' following a request by the CFB Council for advice
- endorsed engagement with clothing retailers following the Rana Plaza tragedy in Bangladesh and commended moves to establish the Bangladesh Fire and Building Safety Accord
- engaged with the telecommunications industry on access to pornography and protection of children
- remained informed on issues of tax justice and business ethics in the wake of the public debate on corporate tax avoidance
- engaged with the hospitality sector on human rights and trafficking.

A full report on the work of JACEI is available from www.methodist.org.uk/jacei.

Position papers and ethical policies are available from www.cfbmethodistchurch.org.uk/ethics.

We very much welcome comments and feedback on the work of JACEI and I encourage you to contact me if you have questions or concerns about ethical investment.

*The Revd John Howard, Chair,
Joint Advisory Committee on the Ethics of Investment (JACEI)*





The **Methodist Church** Joint Advisory Committee
on the **Ethics of Investment**

The Joint Advisory Committee on the Ethics of Investment (JACEI) is composed of representatives appointed by the CFB and by the Methodist Council. It meets four times a year to advise the CFB on the ethical aspects of its work and monitors its decisions from an ethical standpoint.

Joint Advisory Committee on the Ethics of Investment (JACEI)

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Central Finance Board
of the **Methodist Church**

The Central Finance Board of the Methodist Church (CFB) is responsible for managing and investing over £1 billion of Methodist assets. Its challenge is to make good financial returns, whilst acting within the teachings of the Methodist Church. Its mission statement affirms that “we aim to construct investment portfolios which are consistent with the moral stance and teaching of the Christian faith [and] to be a Christian witness in the investment community”.

Central Finance Board of the Methodist Church (CFB)

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