

FOSSIL FUEL DIVESTMENT

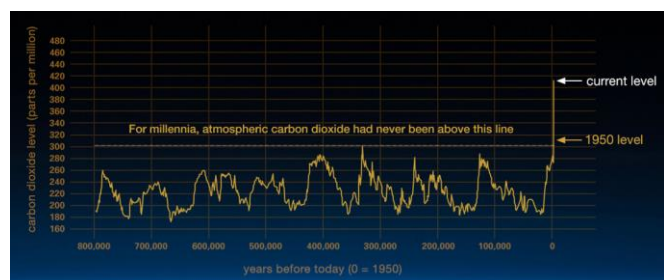


The climate crisis has put high emitting industries under pressure. The fossil fuel divestment campaign has captured global attention, with many high-profile institutional investors such as churches and university colleges withdrawing investment from fossil fuels. We are often asked for our views on the campaign and how the EdenTree Responsible & Sustainable Funds are positioned; this RI Expert Briefing seeks to respond to those enquiries.

WHAT LIES BEHIND THE CAMPAIGN TO DIVEST FROM FOSSIL FUELS?

A consensus of scientific opinion agrees that the world is warming and this is largely due to human activity, with global planetary temperatures greater than they have been for 11,000 years. Our planet has already warmed by approximately 1 degree Celsius compared to pre-industrial levels¹. The top five hottest years on record are 2014-2018. According to the IPCC (Intergovernmental Panel on Climate Change) we might reach an increase of 1.5 degrees as early as 2030. A two degree temperature rise would be catastrophic.

The release of greenhouse gases in the atmosphere, largely from the burning of fossil fuels causes climate change. Research shows that a safe level of greenhouse gases in the atmosphere would be around 350 parts per million of carbon dioxide. Before the industrial revolutions, these levels were at 280 parts per million, whereas now we dangerously exceed this at 415 parts per million.



Source: Nasa

WHAT ARE THE PRESUMED CONSEQUENCES OF EXCEEDING THE 2 DEGREE LIMIT?

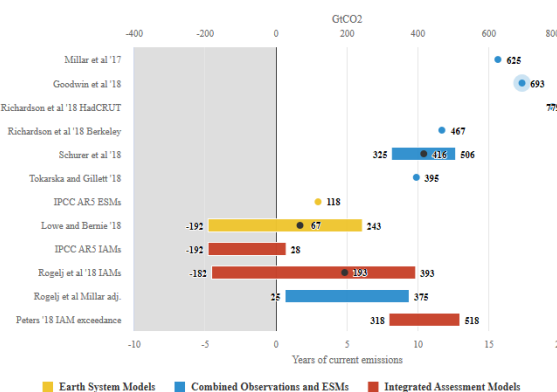
Scientists predict dramatic climate related consequences if emissions continue unabated. Sea levels could rise by over 1 metre as melting of the polar ice sheets accelerates; even if the world remains within the 2°C limit, sea levels will rise by

over 500mm putting low lying communities at risk. The intensity and frequency of catastrophic weather events will accelerate; with each degree of warming, wildfires proliferate, displacing communities and destroying ecology. Conversely elsewhere, heavy precipitation caused by warming will see river rise to dangerous and unprecedented levels with a consequent risk of mass flooding. Other consequences will see communities increasingly stressed through drought and water shortages.

WHY ARE EMISSIONS A PROBLEM?

Greenhouse gas emissions, once released, are trapped in the atmosphere, and thereby retain heat. This in turn leads to global warming. Carbon Tracker, explains that “A carbon budget is the cumulative amount of carbon dioxide (CO₂) emissions permitted over a period of time to keep within a certain temperature threshold.” The carbon budget is the maximum amount of carbon the atmosphere can hold without causing global warming to rise above 1.5C. There is however no clear consensus on the carbon budget. For a carbon budget that allows for a 66% chance of less than 1.5 °C warming, the different conclusions range between “having already burnt the entire carbon budget” to “we have about 20 years left”. According to the IPCC’s modelling, we have fewer than 5 years left in the carbon budget based on current annual emissions.

Remaining carbon budget for a 66% chance of less than 1.5C warming



Source: carbonbrief.org

HAS THE DIVESTMENT CAMPAIGN MADE A DIFFERENCE?

It is having a material impact on thinking and in stigmatising coal as the heaviest contributor to global warming. The divestment campaign was launched in 2012 by www.350.org a NGO committed to building a global climate movement (the

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name 350 comes from how much atmospheric carbon must be reduced to – currently standing at 417ppm [parts per millionⁱⁱ]. Atmospheric carbon first exceeded 400ppm for a complete year in 2016. According to 350.org, over 1,184 institutions (representing over USD 14 trillion) have made divestment pledges.ⁱⁱⁱ The campaign has achieved particular traction among faith investors, local authorities and education establishments such as US and European universities. In the UK 50% of universities have made such commitments^{iv}. The Quakers, Church of Sweden and Rockefeller Institute are three high-profile divesting bodies, whilst denominations such as the Church of England and the Methodist Church in the UK have announced they will withdraw from some thermal coal assets and from tar sands.

Recently some notable developments included Storebrands' (A Nordic hedge fund worth more than \$90bn) move to divest from Exxon, Chevron and Rio Tinto, responsible for lobbying against climate action^v. In the UK, the government-backed National Employment Savings Trust (Nest) – the biggest pension fund – announced that it will start divesting from companies involved in coal mining, oil from tar sands and arctic drilling^{vi}.

Critics of the movement argue that divesting doesn't strip those companies of capital as other investors will buy their shares, and divestment doesn't reduce fossil fuel exploration and production.

WHY IS THERE A STRONG FOCUS ON THERMAL COAL AND OIL SANDS?

All fuel sources have a climate change impact and intensity in the form of greenhouse gas (GHG) emissions. Different fuels emit different amounts of carbon dioxide in relation to the energy produced when combusted. Thermal coal emits the most carbon per MWh of energy produced (414 kg) and compares unfavourably to gas (227 kg), LPG (259 kg). Oil has a mid-way impact of 314 kg per MWh of energy produced^{vii}. It is more complex when looking at the entire life cycle impact of these fuel sources.

HOW ARE ENERGY COMPANIES RESPONDING?

The major oil companies have long known about their impact on global warming. They can no longer avoid engaging with the subject, and have made various announcements. In its 2020 Energy outlook, BP recognises that the world is moving towards lower carbon, the global energy system restructures,

whilst energy consumption shifts away from fossil fuels. Shell and BP have both announced long-term transition plans. Earlier this year, BP's new CEO, Bernard Looney, announced a road map for the company to achieve zero carbon emissions by 2050. Several months later Shell announced its plans to become a net-zero carbon company by the same date.

However these commitments are contradictory to other activities in the sector. The targets set do not seem to put an end to any new E&P and both BP and Shell leave room for further exploration in their long term plans, even though when launching its latest energy outlook, BP did announce a reduction in E&P. Further exploration and production is however not compatible with the goals of the Paris Agreement given that research shows that burning all current reserves exceeds our carbon budget. The sector relies too much on mitigation, technology and adaptation to reduce overall emissions impacts over the next two to three decades rather than a comprehensive transition to a low carbon energy environment away from fossil fuel exploitation. In addition, despite green marketing campaigns and noble ambitions, the sector continues its lobbying activities against climate policies. According to InfluenceMap, an NGO that monitors lobbying expenditures, the five largest listed oil and gas companies (BP, Shell, ExxonMobil, Chevron and Total) spend approximately \$200m a year on climate lobbying.

HOW ABOUT OTHER HIGH EMITTING INDUSTRIES?

For the purposes of fossil fuel divestment, the definition of fossil fuels appears to be linked in the main to the extraction of thermal coal (used in electricity generation), oil exploration and production (especially oil sands) as well as gas. The modern world relies heavily and exclusively on fossil fuels for production, energy and transport. We support investment and innovation that will help transition away from fossil fuels towards low carbon alternatives in order to meet the 2°C target. However, realistically, this is not an easy task, and for the foreseeable future fossil fuels will be at the heart of the means of production (e.g. steel manufacture, plastics and lubricants), mobility (aviation, shipping and automobiles) and electricity generation. The question is therefore how far the exclusions should go and whether industries that rely heavily on fossil fuels should also be part of the fossil fuel divestment debate. Climate activists are also tackling other sectors such as the meat industry and any activities that contribute to deforestation.

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WHAT IS EDENTREE'S APPROACH?

The Responsible & Sustainable Funds have adopted a policy of not investing in companies that have a material exposure to Fossil Fuel Exploration & Production. The funds avoid investments in oil & gas exploration & production as well as thermal coal extraction & production. This is one of the funds exclusion criteria. We can and do invest in utility companies where the principal fuel source is gas, viewing this to be a 'transition' fuel that has a markedly lower climate change impact than either coal or oil. The Funds, where there is a compelling investment case, do invest in companies developing clean technologies or renewable energy. Overall we believe the Funds are well positioned for clients who would prefer a lower weighting or exposure to fossil fuels. You can find out more about our work on climate change and our portfolio carbon footprints on our website.

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THE EDENTREE SRI TEAM



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We have a specialist in-house Socially Responsible Investment (SRI) team who carry out thematic and stock-specific research to identify ethically responsible investment ideas for our range of Amity Funds. Headed up by Neville White, Head of SRI Policy & Research, and supported by Responsible Investment Analyst Esmé van Herwijnen, the team is also responsible for creating an on-going dialogue with companies, allowing us to engage on a wide variety of ethical and socially responsible investment concerns. For investors, it's an added layer of assurance that client money is being invested in companies that are operating in a responsible and sustainable way. Our ethical and responsible investment process is overseen by an independent Amity Panel that meets three times a year, and comprises industry and business experts, appointed for their specialist knowledge.

We hope you enjoy this SRI Expert Brief and find it useful and informative. For any further information please contact us on 0800 011 3821 or at ifa@edentreeim.com

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SOURCES:

ⁱ Global Temperature Index (NASA)

ⁱⁱ Moa Launa observatory

ⁱⁱⁱ <https://350.org/2019-annual-report-actions/>

^{iv} <https://350.org>

^v <https://www.theguardian.com/environment/2020/aug/24/major-investment-firm-dumps-exxon-chevron-and-rio-tinto-stock>

^{vi} <https://www.theguardian.com/environment/2020/jul/29/national-employment-savings-trust-uks-biggest-pension-fund-divests-from-fossil-fuels>

^{vii} Gov.uk greenhouse gas reporting – conversion factors