

Why the Ireland Strategic Investment Fund should be Divested of Fossil Fuels

This submission has been prepared by the signatory civil society organisations as a joint request to the Ministers of Finance and Public Expenditure and Reform, the Minister for Communications, Climate Action and Environment, the Investment Committee of the Ireland Strategic Investment Fund (ISIF) and NTMA Managers. We call on the above named to ensure that key outcomes from the ongoing review of the ISIF investment strategy include:

- **Divesting the ISIF of all investments in fossil fuel companies within the next five years¹**
- **The adoption of a 100% renewables policy for energy investments**

Divesting the ISIF from fossil fuels is a logical operationalisation of the Fund's Sustainability and Responsible Investment Policy, and, we believe, the only moral option. It would also be a substantive step toward greater policy coherence and a much needed signal by the Irish Government of its intentions to meet its commitments under the Paris Agreement.

The Only Moral Option

Climate change affects us all, but not equally. In all countries, the poorest women, men and children are the most vulnerable to its impacts. Current climate impacts are already having devastating consequences. Today, around 10 million people in Ethiopia, around twice the population of this country, are in need of food aid due to drought intensified by El Nino and human-induced global warming. These are the women and men on the front lines of a climate crisis to which they have not contributed. The impacts of increasingly unpredictable and severe weather are also being felt in Ireland, costing millions in flood damage and resulting in significant distress for many households and small businesses². The Intergovernmental Panel on Climate Change estimates that **impacts will become increasingly manifest over the next 10-15 years and will increase thereafter³**. The prospect that we may fail to deliver on the temperature limits adopted in the Paris Agreement and precipitate even further devastation is something that cannot and must not be accepted.

*'Continued emission of greenhouse gases will cause further warming and long-lasting changes in all components of the climate system, increasing the likelihood of severe, pervasive and irreversible impacts for people and ecosystems.'*⁴

Intergovernmental Panel on Climate Change, 2014

The Paris Agreement was an incredibly important achievement. It has thrown a lifeline to multilateral climate cooperation. However, the agreement is not a solution but **a call to action**. The text emphasises,

'With serious concern the urgent need to address the significant gap between the aggregate effect of Parties' mitigation pledges in terms of global annual emissions of greenhouse gases by 2020 and aggregate emission pathways consistent with holding the increase in the global average temperature

¹ Divest from direct ownership and any commingled funds that include fossil fuel public equities and corporate bonds within 5 years. The top 200 fossil fuel companies by emissions potential are listed annually in the [Carbon Underground](#) publication.

² <http://www.independent.ie/irish-news/storms/cold-snap-to-deepen-weather-misery-as-flood-costs-top-60m-34335997.html>; <http://www.farmersjournal.ie/the-hidden-costs-of-flooded-farms-231247>; <http://www.irishtimes.com/news/home-insurance-costs-to-rise-after-224m-winter-payout-1.570338> (Accessed 24/10/2016)

³ 'Too late, too sudden: Transition to a low-carbon economy and systemic risk' (2016) Page 7.

⁴ IPCC, 2014: Climate Change 2014: Synthesis Report. Summary for Policymakers. Fifth Assessment Report of the Intergovernmental panel on Climate Change. P. 8.

to well below 2 °C above preindustrial levels and pursuing efforts to limit the temperature increase to 1.5 °C⁵.

The need for fossil fuels to be phased out as part of climate action is a widely accepted fact. Evidence for how quickly this phase out needs to happen if the Paris temperature limits are to be achieved is amassing rapidly. In 2009 financial analysts highlighted that the current business plans of major fossil fuel companies are not in line with the then global commitment to remain below a 2°C rise in temperature, and that investment flows were enabling this misalignment. It estimated that **around 80% of the fossil fuel reserves of these companies would have to remain unburned if a 2°C limit is to be respected⁶.**

The Paris Agreement subsequently asserted the global consensus to remain *well below* a rise of 2°C, and to pursue efforts to remain within a rise of 1.5°C given the severity of impacts at 2°C. Research published in October 2016 has examined the carbon potential of not only the *reserves* of fossil fuel companies but their *currently operating fields*. This research highlights that even fully exploiting currently operating fields would breach the 2°C limit, and that current oil and gas fields alone, i.e. excluding coal, are enough to breach the 1.5°C limit. This means that **not only must fossil fuel companies stop exploring for new reserves, there must be managed decline of many currently operating fields before the end of their potential⁷.** Fossil fuel companies have repeatedly asserted, however, their intention to exploit and explore. **They are planning to break the climate using other people's money.**

Shell: *'..Our scenarios... do not limit emissions consistent with the back calculated 4450ppm 2°C scenario. We also do not see governments taking the steps now that are consistent with the 2°C scenario'.⁸*

ExxonMobil: *'While the risk of regulation where GHG emissions are capped to the extent contemplated in the 'low carbon scenario' during the Outlook period is always possible, it is difficult to envision governments choosing this path.'⁹*

Investment decisions being taken now are critical in determining whether the Paris Agreement commitments can be met. Despite increasing evidence showing that fossil fuels are a risky investment, and the increasing growth and profitability of the renewables sector, around 70% of new energy investments in 2015 were in fossil fuels¹⁰. A study of the ISIF's investment portfolio indicated that in 2015 it had investments of more than €100mn in fossil fuel companies¹¹. While this represents a small percentage of the Fund's overall assets, the carbon potential of the companies

⁵ Adoption of the Paris Agreement. Decision 1/CP.21. FCCC/CP/2015/10/Add.1 P.2.

⁶ 'Unburnable Carbon – Are the world's financial markets carrying a carbon bubble?' Carbon Tracker Initiative (2009, 2014). P.2.

⁷ 'The Sky's Limit: Why the Paris Climate Goals Require a Managed Decline of Fossil Fuel Production'. Oil Change International. (2016). P.5. Carbon Capture and Storage (CCS) has not been successfully deployed at scale despite major efforts. Despite implicit reliance on CCS in many emissions scenarios, last year, the UK and US governments cancelled major investment projects and four leading European utilities pulled out of the European Union's Zero Emission Platform, a long-term project to study and develop CCS technology. There are also significant doubts as to whether CCS will ever be affordable or environmentally safe. The logic of investing limited financial resources in CCS rather than renewables is also highly questionable given that even if CCS were developed at scale it is estimated that the carbon budget would only be extended by 12% to 14% by 2050. Ibid. P.41.

⁸ [Letter on climate change and stranded assets](#). Shell (2014) P.6.

⁹ [Energy and Carbon – Managing the Risks](#). ExxonMobil (2014) P.11.

¹⁰ 'Too late, too sudden: Transition to a low-carbon economy and systemic risk' (2016) Page 6.

¹¹ 'The Ireland Strategic Investment Fund, Fossil Fuels and Climate Change', Toby Heaps (2016).

invested in is of critical importance. Out of the eight oil, gas and coal companies with greatest responsibility for cumulative emissions, at least four were in the ISIF's 2015 portfolio¹². **To continue to invest in the future emissions potential of these or other fossil fuel companies, is to knowingly invest in those emissions and their impacts.**

Ireland has among the highest levels of consumption emissions and resource use per capita in the world among its peers¹³. This means that despite its small size, Ireland has a significant responsibility to act. The Global Green Economy Index published in September 2016 saw Ireland slide significantly in global rankings due to noted lack of political leadership on climate change and poor performance on environmental commitments¹⁴. This is entirely out of step with Ireland's strong and proud tradition of championing multilateralism and global poverty eradication. Divesting the ISIF from fossil fuels and adopting a 100% renewables policy for energy investments for the Fund would be a substantive step toward greater policy coherence and a much needed signal by the Irish Government of its intentions to meet its commitments under the Paris Agreement.

Divesting is in line with the ISIF's Sustainability and Responsible Investment Policy

The ISIF's Sustainability and Responsible Investment Policy rightly places significant importance on climate change, acknowledges the important role of investors in tackling climate change, and the mandate of the Fund to align with the Government's decarbonisation commitments¹⁵. The Policy also asserts the widely accepted investor belief that responsible companies that effectively integrate environmental, social and governance factors are more likely to endure and provide strong, long-term value. On this basis, it should be of concern to the ISIF that while more than 170 companies have now committed to set targets to reduce their emissions in line with the climate agreement adopted in Paris, no fossil fuel energy company has agreed to do so¹⁶. This is despite more than two decades of investor engagement with the industry, and a now six year old global political consensus on remaining below a 2°C rise¹⁷. **Investor engagement with all companies to speed up decarbonisation of the global economy is essential, but when it comes to fossil fuel companies, engagement is not enough and divestment is needed.** In the past two decades, shareholder activists have brought more than 150 climate proposals to fossil fuel companies. Shareholder engagement has, after many years, begun to achieve some concessions in relation to company carbon footprint and potential liability, but many active investors now acknowledge that fossil fuel companies are unlikely to ever voluntarily accept an end to their core business – and time is running out.

'When you ask Philip Morris to stop making cigarettes, you are really barking up a different tree and they are not going to do that.'

¹² Exxon Mobil, Chevron, Conoco Phillips and Consol Energy. NTMA Annual Report and Accounts 2015. Portfolio of Investments ISIF; *'The Climate Accountability Scorecard: Ranking Major Fossil Fuel Companies on Climate Deception, Disclosure, and Action'*. Union of Concerned Scientists (2016) P.1.

¹³ *'Our Sustainable Future; a framework for sustainable development for Ireland'* (2012) P. 31; [EPA website](#) .

¹⁴ Ireland's performance results on the Global Green Economy Index have declined considerably since 2014, falling 19 points in the last year. The two dimensions responsible for Ireland's performance decline are Leadership & Climate Change and the Environment. The GGEI registered weak commitments to green economic growth from Irish leadership, and a lack of a strong presence promoting action at the recent COP21 in Paris. Global Green Economy Index, 2016. P.41.

¹⁵ *'Sustainability and Responsible Investment Policy'*. Ireland Strategic Investment Fund (2016) Ps.3-4.

¹⁶ *'The Climate Accountability Scorecard: Ranking Major Fossil Fuel Companies on Climate Deception, Disclosure, and Action'*. Union of Concerned Scientists (2016) P.18.

¹⁷ https://unfccc.int/meetings/cancun_nov_2010/meeting/6266.php

Bevis Longstreth, a securities and exchange commissioner during the Reagan administration, who has signed on to the fossil fuel divestment campaign by Harvard University alumni¹⁸.

The Sustainability and Responsible Investment Policy of the ISIF also acknowledges the risk of **reputational damage** should the Fund be invested in companies associated with controversial business practices, and commits to monitoring of ISIF investments to avoid this. The NTMA should be considerably concerned therefore by its **association with fossil fuel companies, whose efforts to undermine climate action have been as significant as their disproportionate responsibility for causing the problem**¹⁹.

Who's getting Irish Taxpayer Money?

ExxonMobil, the world's largest oil explorer by market value, has been in the international media consistently in recent times. Evidence of the company's decision to bury the findings of its research into fossil fuels and climate change a decade before the issue reached the attention of the international community has received widespread attention. Evidence has also emerged of Exxon Mobil's funding of lobby groups and politicians that spread disinformation about climate science and actively seek to block, delay or dilute climate regulation at various levels²⁰. The company is currently being investigated by the New York Attorney General for misleading investors and regulators²¹.

ExxonMobil is part of plans for major new oil and gas development in Qatar which, if allowed to proceed, would – on its own - use 13% of the 1.5°C carbon budget²². This is among the projects referred to by civil society as 'carbon bombs', that if operationalised could commit us to carbon emission levels well beyond the agreed Paris Agreement limits.

ExxonMobil was among the ISIF's listed holdings in 2015.

It is the blatant disregard for societal goals by the fossil fuel industry, and the more urgent than ever need to shift the global emissions trajectory – which is currently on a path to a rise of well above 2° C– that has sparked the fossil fuel divestment movement. Spearheaded by students in the US calling on their universities to divest given the moral inconsistency of investing in an industry that is undermining their future, the movement has spread across the world and is the fastest growing divestment movement in history²³. Faith groups, philanthropies, major cities such as Berlin, Copenhagen, Oslo, Sydney, towns and many towns and councils in Europe and the US have committed to divest from fossil fuels. The Amalgamated bank in the US is the first bank to commit to divest all fossil fuel assets, but increasing numbers of insurance companies are also offloading fossil

¹⁸ ['Climate-campaigners-losing-faith-in-value-engaging-with-fossil-fuel-firms'](#) The Guardian (2015). (Accessed 24/10/2016)

¹⁹ 90 companies have produced and marketed the fossil fuels and cement responsible for almost two-thirds of the world's industrial carbon emissions over the past two and a half centuries. Fifty are investor-owned coal, oil, and natural gas companies. *'The Climate Accountability Scorecard: Ranking Major Fossil Fuel Companies on Climate Deception, Disclosure, and Action'*. Union of Concerned Scientists (2016) Page 1. The fossil fuel industry spends around \$213m on lobbying in the US (equates to half a million every week), and €44 a year in the EU. In contrast, the entire renewable energy sector spends the equivalent of two of the highest spending oil companies each year. *'Food, fossil fuels and filthy finance'*, Oxfam (2014) P21.

²⁰ *'Business Europe's Narrow Climate Change Vision'*. Influence Map (2016) P10-11; ['ExxonMobil gave millions to climate-denying lawmakers despite pledge'](#). The Guardian (2015).

²¹ *'The Climate Accountability Scorecard: Ranking Major Fossil Fuel Companies on Climate Deception, Disclosure, and Action'*. Union of Concerned Scientists (2016) Page 1.

²² *'The Sky's Limit: Why the Paris Climate Goals Require a Managed Decline of Fossil Fuel Production'*. Oil Change International. (2016). P.25.

²³ *'Stranded Assets and the Fossil fuel divestment campaign; what does divestment mean for fossil fuel asset valuation?'* Stranded Assets Programme, University of Oxford 2013. P.11.

fuel investments²⁴. The movement has the support of figures of moral stature such as Archbishop Desmond Tutu and Mary Robinson. In Ireland campaigns are active in Trinity College, UCD and NUI Galway, as well as Queens University in Belfast - and this is growing. In the last few months, almost 11, 000 people have signed a petition calling on the Irish Government to stop investing in fossil fuels.

The fossil fuel divestment movement is capturing the attention of a wide and varied range of stakeholders because the moral and financial arguments for it align. **As a steward of public assets, the ISIF should divest from fossil fuels because it is both the moral and pragmatic option.**

“When the credit bubble burst in 2008, the damage was devastating. We’re making the same mistake today with climate change. We’re staring down a climate bubble that poses enormous risks to both our environment and economy²⁵.”

Hank Paulson, Former US Treasury Secretary, 2014

The way forward

Divesting from fossil fuel companies is not about ‘turning off the tap’ overnight. To divest is to act in pursuit of a just and orderly transition which requires managed decline of the fossil fuel industry to begin now. Divestment is an investor decision that sends a clear message regarding the need for an end to new exploration and development, and a managed, orderly decline of current operations.

The Governor of the Bank of England, Mark Carney, has repeatedly highlighted the risks of failure to anticipate the implications of climate change for financial stability until it is too late²⁶. A study by an Advisory Committee to the European Systemic Risk Board this year indicated that based on current commitments and trends, a late, abrupt decarbonisation path is more likely, resulting in a ‘hard landing’ which could result in constraints to energy supply, increased costs of production for the whole economy, with effects equivalent to a large and persistent negative macroeconomic shock²⁷.

The following summarises three potential scenarios relating to investors such as the ISIF and fossil fuels:

1. The ISIF and other investors continue to invest in fossil fuels, while also investing in renewables. Fossil fuel companies continue to invest in new fields, mines and infrastructure. Governments act to regulate fossil fuel emissions in line with their commitments and so these assets become stranded with potentially significant impacts on financial markets and the real economy.
2. The ISIF and other investors continue to invest in fossil fuels while also investing in renewables. Fossil fuel companies continue to invest in new fields, mines and infrastructure. Governments fail to adequately regulate fossil fuel emissions, investors and fossil fuel companies continue to invest – the Paris limits are breached, resulting in human, environmental and economic catastrophe.
3. The ISIF and other investors take responsibility for their part in avoiding unnecessary major human suffering and environmental and economic devastation, and instead creating a safe, sustainable future. They divest from fossil fuel companies and sufficiently increase their investment in the renewables sector to enable achievement of the temperature limits in the

²⁴ <http://gofossilfree.org/commitments/>; <http://gofossilfree.org/endorsements/>

²⁵ ‘The Coming Climate Crash: Lessons for Climate Change in the 2008 Recession’. New York Times (2014).

²⁶ ‘Resolving the climate paradox’ Speech given by Mark Carney Governor of the Bank of England Chair of the Financial Stability Board. Arthur Burns Memorial Lecture, Berlin 22 September 2016.

²⁷ ‘Too late, too sudden: Transition to a low-carbon economy and systemic risk’. Reports of the Advisory Scientific Committee No 6. By: A group of the European Systemic Risk Board Advisory Scientific Committee (2016) Pages 6-9.

Paris Agreement. Fossil fuel companies are forced to enter into managed decline and/or fundamental transformation. Investors work with governments to enable the proven potential for renewables to entirely replace fossil fuels by mid-century, and to facilitate a just and orderly transition for workers and households²⁸.

The third scenario is the only one that can reasonably be expected to enable achievement of the commitments made in Paris through an orderly transition to a low carbon future. The Sustainability and Responsibility Policy of the ISIF states that the Fund has a duty to actively contribute to the sustainability of the Irish economy for future generations, and to encourage others to do the same²⁹.

The ISIF can and must play a role in shifting the current emissions trajectory. The current investment strategy places a strong emphasis on renewable energy. This is welcome and should be reinforced as a contribution to the significant increase in investment in the sector needed to meet the Paris temperature limits³⁰. Continued investment in the fossil fuel industry however significantly undermines this positive contribution. The commitment in the ISIF Sustainability and Responsibility Policy to identify its carbon exposure and set goals to reduce exposure over time is welcome³¹. There are many sectors and companies in the Fund's Irish and global portfolios that have significant carbon implications³². All such companies should be put on notice to develop transition plans in line with the temperature limits agreed in Paris. **However, given the clear evidence that the fossil fuel industry must immediately go into managed decline if the Paris limits are to be achieved, and the equally clear lack of intention of fossil fuel companies to do so, the ISIF must be divested of all fossil fuel exploration and extraction companies, and a 100% renewables policy for energy investments adopted without delay.** This should be one of the key outcomes emerging from the ongoing review of the ISIF investment strategy. This would be a substantive and symbolic action, demonstrating to Irish people and the international community Ireland's commitment to the global hard won consensus achieved in Paris.

Outcomes:

- Divest the ISIF of all investments in fossil fuel exploration and extraction companies without delay.
- Adopt a 100% renewables policy for energy investments for the Fund³³.
- Integrate 1.5°C decarbonisation pathway compatible business planning within criteria for new and long-term investments.
- Ensure and strengthen resources for active and direct oversight of and engagement with global and Irish portfolios on all environmental, human rights and governance issues.

²⁸ The OECD estimates that investment would still need to increase by \$1tn annually in order to decarbonise the economy while maintaining sufficient energy supply. *'Too late, too sudden: Transition to a low-carbon economy and systemic risk'* (2016) P.6; *'The Sky's Limit: Why the Paris Climate Goals Require a Managed Decline of Fossil Fuel Production'*. Oil Change International. (2016). P.41.

²⁹ *'Sustainability and Responsible Investment Policy'*. Ireland Strategic Investment Fund (2016) P.1.

³⁰ [Bloomberg New Energy Finance](#) estimates that a 75% increase in current investment projections for renewable energy is needed if Paris Agreement Temperature limits are to be achieved.

³¹ We acknowledge the ongoing transition process in which the global portfolio is being reduced with a view to focusing on investments in Ireland. We note however the provision in the NTMA Act 2014 for the Fund to continue to invest globally should sufficient opportunities be unavailable in Ireland. Furthermore we note the importance of avoiding investing in continued or expanded use of fossil fuels in Ireland, and the important signal a 100% renewables investment policy would send within the Irish economy.

³² *'Exploring the carbon implications of Ireland's strategic investments'*. Joseph Curtin and Paul Deane UCC (2015).

³³ Bioenergy can only qualify as a renewable if it meets strict sustainability criteria.

Signed by:

An Taisce

Christian Aid

NUIG Climate Change Agriculture & Food Security Society

Cork Environmental Forum and Cork Climate Action

Cultivate

Debt and Development Coalition Ireland

Friends of the Earth

Fossil Free TCD Campaign

Feasta

Maynooth Green Campus

Kimmage Development Studies Centre

Kerry Sustainable Energy Coop

Oxfam

People's Climate Ireland

ShamrockSpring

Social Justice Ireland

The Climate Gathering

The Environmental Pillar

The Irish Cycling Advocacy Network

The Jesuit Centre for Faith and Justice

Transition Kerry

Trinity Global Development Society

TCD Environmental Society

Trinity Students Union

Trócaire