

Oxford Martin Principles for Climate-Conscious Investment



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The challenge of investing for net zero

Apartheid in South Africa gave investors moral headaches in the 1970s. Should they continue to invest in South Africa or should they divest, sending a signal about the illegitimacy of the apartheid regime? In response to this conundrum, a set of simple principles was advanced, “The Sullivan Principles”, providing guidelines for investment in ethically acceptable companies.

Climate change is creating similar moral headaches today. Should investors continue to invest in fossil fuels or should they divest, sending a signal about the perceived illegitimacy of particular business models in a changing climate? Further, given the internationally agreed aspiration towards achieving net-zero emissions in the second half of the century, how should investors manage the legal and financial risks of this transition? The financial sector has a crucial role in either sustaining the status quo or aiding the transition to a net-zero carbon world. However, investors, asset managers and companies can easily get lost and frustrated in the maze of standards and disclosure criteria proliferating around the climate issue. A climate-specific set of principles can provide modern, minimal and fact-based guidance for climate-conscious investment and can be implemented by investors across the economy.

There are myriad scientific facts relevant to climate-responsible investment, but two are of the utmost importance. Firstly, net emissions of CO₂ must fall to zero for temperatures to stabilise. Reaching net-zero emissions is necessary to stabilise temperatures at any level, be it 2 °C, 3 °C or 4 °C above preindustrial, to avoid ever-increasing climate impacts. Secondly, achieving the goals of the Paris Agreement requires that net CO₂ emissions must be zero well before temperatures exceed 2 °C. The cumulative impact of CO₂ emissions on temperatures means that no further CO₂ may be emitted into the atmosphere (without offsetting CO₂ removal) after human-induced warming reaches the limit agreed at Paris: “well below 2 °C above pre-industrial levels and pursuing efforts to limit the temperature increase to 1.5 °C”.

A crucial test of any investment strategy is whether it drives or hinders these developments, while also enabling the expected expansion in global demand for affordable, safe and clean energy system services. This will clearly require significant development of existing zero-carbon energy systems, as well as the creation and deployment of new zero-carbon and carbon-negative technologies. Given the increasing interest in forward-looking climate-related disclosures, the time is now right for the long-term constraints implied by science to be employed by the financial community in assessing whether investments are compatible with the transition to a stabilised climate.

Oxford Martin Principles for Climate-Conscious Investment

The following Principles provide a framework for engagement between climate-conscious investors and companies across the global economy. Building upon the science of long-term climate change, they focus on how investments contribute to the global stock of cumulative carbon dioxide emissions, complementing other measures, such as carbon footprinting, that focus on emission flows.

1. **Commitment to net-zero emissions**

Net global emissions of carbon dioxide must reach zero to stabilise global temperatures, whether at +2 °C, +3 °C or any other level. All industries must eventually reach net-zero emissions, even if some industries do so before others. Companies should commit to a date (or a temperature increase, such as 1.5 °C or “well below 2 °C”) before which the net CO₂ emissions associated with their activities (including both supply chains and products sold) will be zero. Companies should develop and publish a net zero transition plan. If the company envisages a substantial role for offsetting of residual emissions, what is the offset mechanism, is it reliable and available at sufficient scale for a global transition, and who is going to pay for it? The company’s public statements and support for other organisations and lobby groups should be consistent with advancing public, political and corporate action towards net zero emissions.

2. **Profitable net-zero business model**

Company executives should have business plans that ensure the profitability of their business, and limit supply chain risks, once emissions reach net zero. For companies that provide a carbon-intensive service or fuel for which there is no currently available substitute, a clear plan is required for contributing to the development and deployment of substitutes or remediation measures. For products and services for which zero-carbon substitutes already exist, a company should have a clear strategy and timescale for adopting them. If carbon dioxide removal plays a substantial role in the company’s plans, how will it be achieved, paid for, monitored and maintained in perpetuity?

3. **Quantitative medium-term targets**

Mid-term targets (for example, for 2030) that are directly relevant to achieving a net-zero business model, such as the rate and long-term trajectory of reductions in CO₂ emissions, are vital to assess compatibility with the Paris Agreement. If a company has a plan for a progressive transition to net-zero emissions, investors should be able to monitor their progress to ensure it is consistent with minimising risks to future climate and risks to future asset owners, consumers and taxpayers. Global temperatures are projected by the IPCC’s Fifth Assessment Report to reach around 1.2 °C above preindustrial by about 2030. By this level of warming, emissions scenarios approximately consistent with the 1.5 °C goal will have seen global CO₂ emissions reduce by at least 40% relative to business as usual, or at least 20% below business as usual for the 2 °C goal. These rates of emissions reductions can act as useful benchmarks against which company progress can be measured.

While science alone cannot decide questions regarding climate-relevant investment or divestment in a given company or sector, a sound basis in scientific reality is a necessary starting point. Our hope is that funds, institutional investors and endowments choose to act — whether for moral or financial reasons — with sound science behind them.

Oxford Martin Net Zero Carbon Investment Initiative

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The Oxford Martin School, in collaboration with the Stranded Assets Programme of the University's Smith School for Enterprise and the Environment and the Environmental Change Institute, worked with a range of stakeholders, including asset owners, asset managers, companies and academic and non-governmental communities, to devise constructive principles for climate-conscious investment. This aims to allow both investors and companies to play their part in safeguarding the future climate.



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