

By: S. Richards- Kent Unison  
To: Superannuation Fund Committee – 5 March 2010  
Subject: **Ethical investment issue**  
Classification: Unrestricted

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Summary: Request to support shareholder motions within BP and Shell calling for internal reviews of certain large scale mineral projects.

**FOR DECISION**

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**INTRODUCTION**

1. In accordance with the UN principles of responsible investment, Unison wishes to draw Members' attention to the controversial nature of large scale "oil sands" projects and imminent company meetings in which projects of this kind will be called into question.

**BACKGROUND**

2. The campaign group "FairPensions", based at the Fairshare Educational Foundation, describes itself as follows:- "FairPensions campaigns for UK pension funds and fund managers to adopt responsible investment practices, managing environmental, social and governance (ESG) issues which have the potential to be financially relevant. FairPensions is supported by a number of leading charities and trade unions, including ActionAid, Amnesty, BECTU, CAFOD, Community, CWU, ECCR, EIRiS, Greenpeace, NUJ, Occupational Pensioners' Alliance, Oxfam, PCS, Traidcraft, Unison, Unite and WWF, as well as thousands of individuals".
3. Through its managers the Fund holds voting shares in Royal Dutch Shell plc and BP plc. Both these companies exploit, or have plans to exploit, oil sands.
4. "FairPensions" supporters among shareholders have issued statements supporting their motions relating to the two companies. The group says "These resolutions were co-filed by a diverse group of fund managers, pension funds, foundations and faith groups, and call upon BP and Shell to report on the investment risks associated with tar sands projects and their plans to address them, citing greenhouse gas emissions, environmental damage and impacts upon indigenous communities".

5. According to these statements 30% of Shell's resources comprise Canadian oil sands where extraction is costly and ecologically destructive. The Shell statement (appendix 1) refers to shifting (operational and market) circumstances deserving "much greater examination than they have had thus far".
6. BP's investment involves the "Sunrise Project" led by Canadian company Husky Energy. In 2004 according to Husky's website the project was expected to ultimately produce 200,000 barrels of bitumen per day (32,000 cubic metres per day) during a 40-year production period starting in 2008. Husky had then started a public consultation process to obtain input from area residents and other stakeholders. The BP campaign statement (appendix 2) says again for commercial reasons "Shareholders require assurances regarding the assumptions underpinning the Sunrise Project".
7. The BP resolution (appendix 3) moves "That in order to address our concerns for the long term success of the Company arising from the risks associated with the Sunrise SAGD [steam assisted gravity drainage] Project, we as shareholders of the Company direct that the Audit Committee or a Risk Committee of the Board commissions and reviews a report setting out the assumptions made by the Company in deciding to proceed with the Sunrise Project regarding future carbon prices, oil price volatility, demand for oil, anticipated regulation of greenhouse gas emissions and legal and reputational risks arising from local environmental damage and impairment of traditional livelihoods. The findings of the report and review should be reported to investors in the Business Review section of the Company's Annual Report presented to the Annual General Meeting in 2011". This is scheduled for debate at the BP AGM provisionally on 15 April 2010 (TBC). A similar resolution (appendix 4) is to be proposed at the Shell AGM on 18<sup>th</sup> May 2010.
8. BP plc and Royal Dutch Shell plc have confirmed that the resolutions will be discussed at their AGMs on 15 April 2010 (TBC) and 18<sup>th</sup> May 2010 respectively.

## **INTERPRETATION**

9. While the reasons given in the supporting statements are based on commercial risks there is a more broadly based campaign in their support based mainly on environmental concerns. Oil sands (also known as tar sands) are amongst the world's most controversial industrial projects due to the extremely high levels of carbon emissions (conversion into fuel produces on average 3 times the greenhouse gas emissions of conventional oil), huge quantities of toxic waste produced, local air and water pollution, deforestation, and indigenous community impacts. This follows investor concerns that these companies are failing to properly account for future legislation over carbon emissions, high operational costs, environmental clean up costs and the risk of litigation. Resolution co-filers feel this is not a prudent approach and the companies are risking both financial and reputational damage in

the long term by developing what some investors view to be toxic assets.

**The Committee is asked to**

**(a) Note the attached resolutions and supporting statements**

**(b) Instruct any of its fund managers holding relevant shares to vote in favour of the resolutions.**

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