

Scottish Parliamentary Pension Scheme: The case for divestment from Rolls Royce

Scottish Parliamentary Pension Scheme's investments

Analysis of figures in the “*Scottish Parliamentary Pension Scheme’s Annual Accounts 2017-2018*” and in the “*Baillie Gifford Report on the SPPS for quarter ending 30 09 18*” shows that the Scheme currently holds shares worth **£175,495 in Rolls Royce**.

Rolls Royce’s nuclear weapons work

Rolls Royce is one of four key contractors involved in Britain’s Trident nuclear weapons program. Rolls Royce is the only company in the UK capable of manufacturing the nuclear power reactors for the Royal Navy’s nuclear-armed submarines. Without Rolls Royce there would be no Trident.

Rolls Royce was involved in the development of the UK’s current fleet of nuclear-armed Vanguard class submarine’s and provides ongoing maintenance. The company has been working with Babcock Marine and BAE Systems on the development of the successor – Dreadnought class – submarines since 2007. Rolls Royce will design, develop and manufacture the new PWR3 nuclear reactor which will power the submarines, and will also provide in-service support and safety reviews.

Rolls Royce is explicitly excluded by 11 of the 22 financial institutions in the world which have policies prohibiting financial involvement with nuclear weapons producers.¹

Rolls Royce’s nuclear contracts

Rolls Royce currently has contracts with the Ministry of Defence’s “Nuclear Enterprise”² worth £4.7 billion. These include:³

	Value
• in services support and decommissioning for nuclear propulsion systems;	£1,213 million
• two contracts for design and production of new propulsion system for Dreadnought (including PWR3);	£1,082 million
• upgrade to site facilities to enable continued production of nuclear cores;	£938 million
• foundation contract.	£551 million

The PWR3 reactor project is reportedly the second largest of all Rolls Royce’s current projects, employing 600+ of the 3,000 staff in the company’s nuclear business.⁴ Revenue from Rolls Royce’s nuclear work rose by 4% to £818 million in 2017, according to the company’s annual report, “driven mainly by increased production activity in support of the Dreadnought class build programme”.⁵

¹ 2018 Don’t Bank on the Bomb Report: <https://www.dontbankonthebomb.com/2018-hof/>.

² Some of these contracts cover work on non-nuclear armed, nuclear-powered submarines.

³ “The Defence Nuclear Enterprise: a landscape review”, National Audit Office, May 2018: <https://www.nao.org.uk/wp-content/uploads/2018/05/The-Defence-Nuclear-Enterprise-a-landscape-review.pdf>.

⁴ *The Telegraph*, 8 October 2016: <http://www.telegraph.co.uk/business/2016/10/08/why-britain---and-bae-systems---must-make-a-success-of-the-41bn/>.

⁵ <https://www.rolls-royce.com/~media/Files/R/Rolls-Royce/documents/annual-report/2017/2017-full-annual-report.pdf>.

Why divest?

Nuclear weapons are uniquely destructive

- Nuclear weapons are designed to destroy entire cities and kill indiscriminately.
- Around 150,000 people were killed in Hiroshima on 6 August 1945 and each of the UK's Trident nuclear missiles is eight times more powerful than the bomb dropped on the city.
- Organisations that invest in nuclear weapons producers are helping to fuel a new nuclear arms race which endangers us all.⁶

Nuclear weapons are prohibited by international treaty

- The Treaty on the Prohibition of Nuclear Weapons prohibits the development, production, testing, possession and use of nuclear weapons. It also prohibits assistance with these activities (article I(l)e).
- Financing is a recognised form of assistance so when the treaty enters into force, most likely in 2020, financing nuclear weapons producers will contravene international humanitarian law.
- The treaty has increased the financial risk of investing in the companies that produce nuclear weapons as it represents a step towards eliminating nuclear weapons and therefore the industry that supports them.
- The treaty establishes an international norm against the possession and use of nuclear weapons. Companies that continue to make nuclear weapons therefore face growing reputational damage, making them a risky investment. Thirty financial institutions have already divested since the treaty was signed in 2017.⁷

The Scottish Parliament opposes nuclear weapons

- The Scottish government and most MSPs oppose nuclear weapons. First Minister Sturgeon has signed ICAN's parliamentary pledge of support for the Treaty on the Prohibition of Nuclear Weapons, as have a majority of Members of the Scottish Parliament and a majority the Scottish MPs at Westminster.
- The Scheme's investment in Rolls Royce demonstrates tacit approval of the company's activities, which is at odds with the Parliament's opposition to nuclear weapons.
- A decision to divest would increase the pressure on Rolls Royce and other companies to end their involvement with nuclear weapons projects.

Scots support divestment

- In March 2018, a Survation poll found that nearly three quarters of Scots believe that the Scottish Parliamentary Pension Scheme should divest from arms companies, which includes Rolls Royce, and from tobacco and fossil fuel companies.⁸

⁶ <https://thebulletin.org/sites/default/files/2018%20Doomsday%20Clock%20Statement.pdf>.

⁷ <https://www.dontbankonthebomb.com/2018-dont-bank-on-the-bomb/>.

⁸ http://www.heraldscotland.com/news/16063941.Call_to_stop___3m_MSP_pension_fund_investments_in_weapons__tobacco_and_dirty_fuel_after_poll/?ref=twtrrec.

How can divestment be achieved?

- The Scheme's Statement of Investment Principles could be amended to include wording that clearly excludes companies like Rolls Royce from investment, for example: "Companies involved in the development, production, testing, maintenance or trade in nuclear weapons, their delivery systems or their delivery platforms are excluded".
- The Scheme's funds are currently held in pooled funds managed by Baillie Gifford. The Scheme's trustees could move the Scheme's funds into an ethical fund, such as Baillie Gifford's Positive Change Fund. This fund directs investment towards projects that address social needs in four areas—social inclusion, environment and resources, healthcare, and addressing the needs of the world's poorest people.

Examples of pension funds that have already divested from nuclear weapons

These examples are taken from the 2018 *Don't Bank on the Bomb Report* by Dutch NGO, Pax: https://www.dontbankonthebomb.com/2018_report/

1. PNO Media (The Netherlands)

PNO Media is a Dutch voluntary pension plan for employees in the Dutch media industry. PNO's Social Responsible Investment Code explicitly states that "*PNO Media does not want to be involved in the production of arms or arms systems, or vital elements therein which are banned by international law or use of which violates fundamental humanitarian principles.*" The code recognises the nuclear Non-Proliferation Treaty, and the responsibility of the recognised nuclear armed countries to disarm under that agreement. PNO Media therefore does not invest in companies that are involved in the production of nuclear weapons for any country.

PNO Media publishes a list of companies excluded from investment because of their involvement with the manufacture of weapons systems that are disproportionate or cannot distinguish between military and civil targets, like nuclear weapons. This list includes Rolls Royce.

2. AP7 (Sweden)

AP7 is a Swedish state-owned pension fund. In line with Swedish government policy, AP7 does not invest in companies deemed to be involved in developing and producing nuclear weapons. AP7 excludes companies involved in all nuclear weapons related weapon systems, including but not limited to ballistic missile submarines and missiles that have the primary purpose of carrying nuclear warheads. AP7 maintains a publicly available list of excluded companies and Rolls Royce is one of them.

3. Australian Ethical

Australian Ethical is an Australian investment manager and superannuation fund. The Australian Ethical Charter states that "*Australian Ethical shall avoid any investment which is considered to unnecessarily: create, encourage or perpetuate militarism or engage in the manufacture of armaments.*" The website goes on to explain that "*At Australian Ethical, we won't invest in nuclear or other weapons*".

Australian Ethical doesn't invest in any nuclear associated companies and applies a 0% revenue threshold for companies for manufacture of weapons, uranium mining and nuclear power generation. Australian Ethical applies the policy to all the assets it manages, including third party funds.