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Climate change groups split on fossil fuel divestment

Pilita Clark in London   Author alerts

A rift is emerging among investors in some of the world's biggest energy companies over a global campaign that aims to combat climate change by making fossil fuels as unpopular as tobacco.

Over the past seven months, investors including the heirs to the Rockefeller Standard Oil fortune and the board of trustees at California's Stanford University, have decided to avoid shares in coal companies.

Some church groups and the University of Glasgow have gone a step further and said they will shun all fossil fuel investments amid a grassroots campaign based on the 1980s divestment movement that pushed South Africa to end its apartheid system of racial segregation.

Altogether, institutions and individuals responsible for at least $50bn of investment have said they will sell some or all of their fossil fuel holdings.

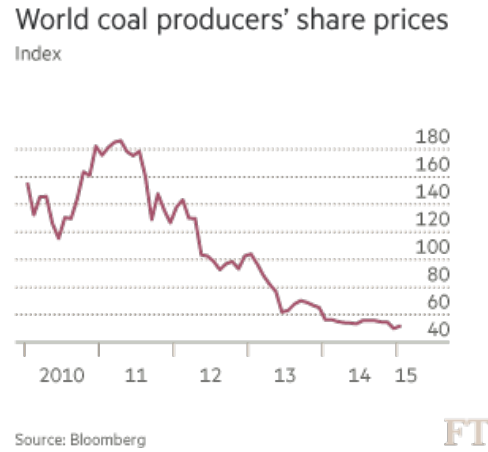
But other investors concerned about global warming say it is better to hang on to shares in oil and gas companies such as Royal Dutch Shell and ExxonMobil, or coal groups such as Peabody Energy of the US, and use the holdings as a way to engage directly with companies to encourage them to adopt more climate-friendly strategies.

"The idea that shaming an industry will somehow reduce greenhouse gas emissions is not correct," says Jonathan Naimon, managing director of Light Green Advisors, a New York asset management firm that specialises in environmental sustainability investing. "It isn't like divestors are bringing any solutions to the table."

"It's actually projects and technologies that reduce emissions and the people developing them are in energy supply companies as well as energy-using companies," he adds.

Mr Naimon points to work his firm had done with Ford Motor Company to encourage it to make hybrid sports utility vehicles, which are now part of New York City's taxi fleet.

Norway's huge $845bn oil fund appears to be moving towards a similar position. A panel set up to advise Norway's finance ministry on whether to sell out of coal and oil companies counselled against such a move in December. It said active ownership of, and engagement with, fossil fuel companies on climate change was preferable.



A similar argument has been made by the largest public pension fund in the US, the $299.4bn California Public Employees' Retirement System, which also points out it has a fiduciary duty to meet its financial commitments to members.

Harvard University has also repeatedly rejected student and faculty pressure to sell its fossil fuel holdings, a move its president, Drew Faust, has said would not be "warranted or wise".

But Bill McKibben, the US environmental activist and writer who co-founded the 350.org climate campaign group spearheading the divestment push, says engagement strategies only suited some companies.

"If we have a problem with Apple paying Chinese workers bad wages you don't need to throw away your iPhone and boycott Apple stock. You need to put pressure on them so they pay people better and the price of an iPhone goes up a dollar and everyone's happy," he says.

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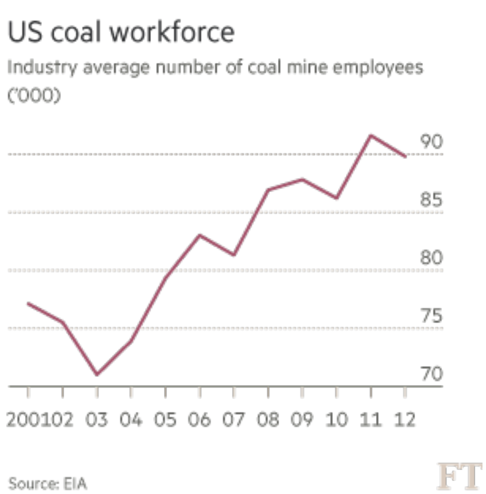
But he argues fossil fuel extraction companies are a very different case because their value is so dependent on their reserves of oil, gas and coal. "There's no way that engagement can persuade them to get out of this business as long as it remains a profitable business," he says

"The idea that anyone else is going to merrily persuade Chevron or BP that they want to be in the renewables business or something is nuts," he says. He argues this would only happen with government pressure and that in turn would require the dilution of energy companies' political power by efforts such as the divestment movement.

Mr McKibben's campaign was inspired by research from a London-based think-tank, Carbon Tracker, showing that the best way for the world to avoid dangerous climate change is to keep from using most of the known oil, gas and coal reserves. The think-tank argues that climate change pressure groups could turn such holdings into "stranded assets" as their value falls.

But Carbon Tracker itself does not recommend a pure divestment strategy.

"We're not advocating blanket divestment," said Anthony Hobley, the group's chief executive. "We think both engagement and divestment together will achieve more. The sum is greater than the parts because either alone isn't going to achieve the ultimate objective of a climate-secure energy system."



The divestment movement may not have persuaded the world's largest investors, but the idea of stranded assets has provoked an unusually public response from Shell, ExxonMobil, Norway's Statoil and other big oil and gas groups this year.

They argue investors should not be concerned that the divestment movement will push down values because demand for energy is strong and renewable energy sources are unlikely to be a realistic alternative to fossil fuels for many decades.

But pressure on the industry is unlikely to go away.

Among the measures some countries are proposing for a global climate deal due to be agreed next year is a plan that would lead to fossil fuels being phased out as early as 2050. Other nations will oppose this move but a later deadline for eliminating the use of oil, gas and coal is likely to stay on the negotiating table for much longer than the industry would like.

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Churches join the fossil fuel debate

The world's churches have become an arena for the debate over whether it is better to tackle global warming by divesting from fossil fuel companies or by holding shares and engaging with energy groups to spur more climate-friendly business models.

The World Council of Churches, which represents around 560m Christians in 140 countries, has adopted a divestment strategy for its SFr16.7m investment portfolio. Its finance policy committee decided in July that fossil fuels should be added to the list of sectors in which the council would not invest.

"The use of fossil fuels must be significantly reduced and by not investing in those companies we want to show a direction we need to follow as a human family to address climate changes properly," said Rev Dr Olav Fykse Tveit, WCC general secretary.

But the Church of England, which has an investment portfolio worth around £9bn, has opted for engagement. It announced last month it would use its stakes in Royal Dutch Shell and BP to urge the companies to cut their carbon emissions and invest more in renewables.

The Church of England has about £100m invested in Shell and just over £50m in BP and plans to file shareholder resolutions asking both companies to take greater action to tackle climate change.

"Church investors have an excellent record of achieving change through engagement, including on climate change issues," said Edward Mason, head of responsible investment at the Church Commissioners, the denomination's endowment fund.

More than half the 53 major British companies that the endowment fund engaged with in 2014 had improved the way they disclosed and managed their carbon emissions, he said.

A University of Edinburgh academic who assessed the engagement strategy concluded "with a 95 per cent degree of certainty" that these improvements were due to the influence of church investors.