



Fossil Free Oxfordshire: The case for divestment

Fossil Free Oxfordshire Divestment Campaign calls on Oxford City Council and Oxfordshire County Council to

1. Immediately freeze any new investments in fossil fuels
2. Divest from direct ownership and any commingled funds that include fossil fuel public equities and corporate bonds within 5 years

This paper sets out the moral and economic arguments for local authority divestment from fossil fuel companies.

Climate change

The world is warming due to unabated greenhouse gas emissions. We are seeing the effects in increasingly frequent extreme weather events, most recently and dramatically in the devastation caused by typhoon Haiyan in the Philippines and flooding closer to home in Oxfordshire. They cost lives, livelihoods, homes and will lead to droughts, floods, food and water shortages, ill health and conflict. They hint at what may be in store for us all in a future in which climate change continues unchecked. It's no longer just environmentalists who are issuing dire warnings about the path we are following: the [World Bank](#) and the [International Energy Agency](#) are joining the call for urgent change in the ways we generate and use energy.

Carbon budget and unburnable carbon

To prevent the worst impacts of climate change we need to keep global warming below 2°C. In order to do this we must operate within a global carbon budget, which refers to the amount of greenhouse gasses that can be released into the atmosphere without triggering dangerous climate change. Analysis from the [Intergovernmental Panel on Climate Change](#) (IPCC) has demonstrated that to run a reasonable chance of avoiding dangerous tipping points, we can only emit roughly 565 gigatons more of carbon dioxide

into the atmosphere. However, in the coal, oil and gas reserves owned by private and public companies and governments there is an equivalent to 2,795 billion tons of CO₂, far in excess of the total amount that can be burned without triggering climate catastrophe.

So 60-80% of known fossil fuel reserves must remain underground. Again, it is not just environmentalists who say so: this has been widely reported by [New Scientist](#) and [Financial Times](#) amongst many others.

Fossil fuel companies: a rogue industry

The fossil fuel industry has already committed to extracting and burning 5 times the “safe” level of carbon. Their reserves of coal, oil and gas may be below ground physically, but they’re already above ground economically and factored into the share price of every fossil fuel company.

Not only this, they spend \$1trillion per year exploring *further* “unconventional” sources of fossil fuels in ever more environmentally and socially destructive ways: tar sands, drilling in the Arctic and fracking. On top of this they spend [£n](#)/year *lobbying governments* to allow them to continue to pour CO₂ into the atmosphere with impunity.

They are a rogue industry. Their very business plan depends on locking us into a future we can’t survive.

Divestment

What is divestment?

When institutions such as local authorities, universities, retirement funds etc invest money, they might buy stocks, bonds or other investments that generate income to help run their institutions.

Divestment is the opposite of an investment—it simply means getting rid of stocks, bonds or investment funds that are unethical or morally ambiguous. Fossil fuel investments are a risk for investors and the planet—that’s why we’re calling on institutions to divest from these companies. 200 publicly-traded companies hold the vast majority of the world’s proven coal, oil and gas reserves. Those are the companies we’re asking our institutions to divest from.

Divestment is a clear and powerful action that helps build the case for government action, along with making the economic point that we should be moving our money into the solution as supposed to the problem. There have been a handful of successful divestment campaigns in recent history, including Darfur, tobacco and others, but the

largest and most impactful one came to a head around the issue of South African Apartheid. By the mid-1980s, 155 university campuses, 26 state governments, 22 counties, and 90 cities took their money from multinationals that did business in South Africa. The South African divestment campaign helped break the back of the Apartheid government, and usher in an era of democracy and equality.

The moral case for fossil fuel divestment

Just like in the struggle to end Apartheid in South Africa, the more we can make climate change a deeply moral issue, the more we will push society towards action. We need to make it clear that if it's wrong to wreck the planet, than it's also wrong to profit from that wreckage. At the same time, divestment builds political power by forcing our most prominent institutions and individuals to choose which side of the issue they are on. Divestment sparks a big discussion and gets prominent media attention, moving the case for action forward.

By divesting from fossil fuels, institutions are not only building the case for that government action, they're starting this important discussion about the fossil fuel industry's "stranded assets."

The economic case for fossil fuel divestment

A swathe of reports from a variety of sources, from academics, asset managers and church groups to a former commissioner for the SEC, have made a persuasive financial case for fossil fuel divestment. They warn that fossil fuel stocks are overvalued: increasing recognition of the concept of unburnable carbon, tighter regulations on greenhouse gas emissions and falling demand could make fossil fuel reserves "stranded" and ultimately rendered worthless. [Research](#) published in 2013 by Carbon Tracker and the Grantham Research Institute identified the risk of a \$6trillion carbon bubble and stranded assets. In the introduction to this report, Professor Lord Stern (former World Bank Chief Economist) says: "*Smart investors can see that investing in companies that rely solely or heavily on constantly replenishing reserves of fossil fuels is becoming a very risky decision.*"

According to a report from HSBC economists, major oil and gas companies, including, BP, Shell, and Statoil, [could face a loss in market value of up to 60%](#) if the international community sticks to its agreed emission reduction targets.

As Duncan Clark, co-author of [The Burning Question](#) wrote in the Guardian, "*Blithely ignoring the fact that there is already far more accessible fuel than can be safely burned, pension fund managers and other investors are allowing listed fossil fuel companies [to spend the best part of \\$1tn a year](#) (comparable to the US defence budget, or more than \$100 for every person on the planet) to find and develop yet more reserves. If and when we emerge from this insanity, the carbon bubble will burst and those*

investments will turn out to have been as toxic as sub-prime mortgages. Don't take my word for it. HSBC analysts recently concluded that oil giants such as BP – beloved of UK pension funds – could have their value cut in half if the world decides to tackle climate change. Coal companies can expect an even rougher ride, and yet our financial regulators still allow them to float on stock markets without mentioning in their share prospectuses that their assets may soon need to be written off.”

The President of the World Bank, Jim Yong Kim, at the World Economic Forum in Davos this year, remarked on divestment both as a tactic to cut emissions and as a practical aspect of financial responsibility: *“Be the first mover. Use smart due diligence. Rethink what fiduciary responsibility means in this changing world. It’s simple self-interest. Every company, investor, and bank that screens new and existing investments for climate risk is simply being pragmatic.”* And *“Through policy reforms, we can divest and tax that which we don’t want, the carbon that threatens development gains over the last 20 years.”*

Lord Stern, former World Bank Chief Economist, in his introduction to the Carbon Tracker Report, says *“Smart investors can see that investing in companies that rely solely or heavily on constantly replenishing reserves of fossil fuels is becoming a very risky decision.”*

Reports from [IMPAX Asset Management](#) and MSCI show that removing fossil fuels from a portfolio carries no financial risk, and investment portfolios biased in favour of fossil fuels are increasingly demonstrated to be at risk of stranded assets.

Increasingly, long term investors are interested in the impact of divesting fossil fuel stocks from their portfolios. Impax Asset Management addresses questions about the impacts of divestment of fossil fuel stocks, evaluating the historical return benefits from divestment and low carbon solutions. Based on analysis of 7-year historical data, they found that a portfolio that removed fossil fuel stocks would outperform the world index (MSC World) by on average 0.5% each year without any material increase in risk. They conclude that *“investors should consider reorienting their portfolios towards low carbon energy by replacing fossil fuel stocks with energy efficiency and renewable energy investments, thereby retaining exposure to the energy sector while reducing the risks posed by the fossil fuel sector.”*

Pension funds can’t sensibly safeguard people’s retirements by investing in companies that wreck the future. Operation Noah’s [Bright Now](#) report demonstrates that fossil free investment portfolios are doing better, the minimal risks of removing, and how divestment is in line with institutional investors' fiduciary duties. It says:

“Investors have been used to thinking of oil, gas and coal as safe investments, but this can no longer be the case. Publicly listed fossil fuel companies, with reserves valued in

the trillions of dollars on the world's stock markets, will have to leave most of their assets in the ground if we are to keep climate change below 2°C. Fossil fuel companies are hugely overvalued. Their shareholders risk being left with stranded assets – worthless fuel stocks that regulation will prevent from being burned or can only be consumed at unimaginable cost to us all. Either result will be a disaster for investments and pension funds.”

Bevis Longstreth, a former commissioner with the [US Securities and Exchange Commission \(SEC\)](#), makes the [financial case for divestment](#) from fossil fuel companies, arguing that the future prospects for fossil fuel companies are suffering as a result of four rapidly evolving developments:

- (a) Governmental restrictions on carbon release, leading to the stranding of carbon-bearing fossil fuel assets carried on the balance sheets of fossil fuel companies.
- (b) Advances in alternative sources of energy for power, electricity and transportation, resulting in a lessening demand for coal, gas and oil.
- (c) A rising tide of public action at the grass-roots level, including actions by stockholder groups, against fossil fuel companies, demanding such obvious steps as cessation of CAPEX on exploration and development of more fossil fuel.
- (d) Growing reputational effects from the foregoing, turning fossil fuel companies into pariahs, with adverse consequences for hiring, employee morale and motivation, stockholder satisfaction and equity valuations.

He highlights the danger of stranded assets, pointing out the imprudence of the top 200 fossil fuel companies' allocation last year of \$674 billion for finding and developing more fossil fuel reserves and new ways of extracting them, given that 60-80% of current known fossil fuel reserves have to be left in the ground in order to give us a chance of keeping global warming below 2 degrees centigrade.

“There is no good reason for this vast expenditure of stockholder wealth. It is wasted capital, an offense against stockholders in terms financial alone. It suffices as justification for a fiduciary to divest from any company so engaged.”

Effectiveness of the divestment campaign

A [report](#) published this year by Oxford University's Smith School of Enterprise and the Environment concludes that a divestment campaign can cause significant reputational damage. Stigma attached to a company or an industry as a result of a divestment campaign can have far-reaching consequences for its attractiveness to governments and politicians, shareholders, suppliers and subcontractors. Negative consequences can include being barred from competing for public tenders, cancellation of contracts, mergers or acquisitions. Stigma attached to one area of a large company can impact on sale across the board. Divestment campaigns have a strong track record in lobbying for restrictive legislation.

Local authorities

Our local authority has a duty to look out for the public good. Fossil fuels are in direct conflict with the public good: investing in them poses a risk both to investors and to the planet. So Oxford City Council and Oxfordshire County Council should take a moral, political and economic stand against them by taking our money away from fossil fuel companies and putting it into investments that are less at risk from climate change legislation and more compatible with our values. Divestment from fossil fuels would make a powerful statement that the fossil fuel industry is morally and economically unviable, and that the people of Oxfordshire wish to support an alternative, sustainable energy future that will leave the planet in a shape that allows us, our children and grandchildren to live safely on it.

Other cities and municipalities that have divested

In the USA, 22 cities and 2 counties have committed to divest from fossil fuels, including Seattle, San Francisco and Portland Oregon.

Additionally, 20 religious institutions and 9 Universities and colleges have pledged to divest.

See here for a list of institutions <http://gofossilfree.org/commitments/>

Reports and further information

Carbon Tracker Initiative's *Unburnable Carbon 2013: Wasted Capital and Stranded Assets* report

<http://www.carbontracker.org/wastedcapital#>

University of Oxford' Smith School of Enterprise and the Environment *Stranded Assets and the Fossil Fuel Divestment Campaign* report

<http://www.smithschool.ox.ac.uk/research/stranded-assets/SAP-divestment-report-final.pdf>

Project Noah's *Bright Green: Towards fossil free Churches* report

<http://brightnow.org.uk/wp-content/uploads/2013/08/Bright-Now-report.pdf>

Divestment economics Q&A

<http://gofossilfree.org/divestment-economics-ga/>

News articles

World Bank Chief backs fossil fuel divestment

<http://www.rtcc.org/2014/01/27/world-bank-chief-backs-fossil-fuel-divestment-drive>

UN Climate Chief backs fossil fuel divestment

<http://www.bbc.co.uk/news/science-environment-25743457>

Quakers pledge to divest

<http://www.energylivenews.com/2013/10/14/quakers-plan-to-convert-to-low-carbon-investments/>

Mary Robinson on divestment

<http://www.theguardian.com/commentisfree/2014/feb/17/carbon-divestment-emissions-climate-change>

17 leading philanthropic foundations pledge to divest from fossil fuels

http://dealbook.nytimes.com/2014/01/29/foundations-band-together-to-get-rid-of-fossil-fuel-investments/?_php=true&_type=blogs&_r=0

Fossil Free Oxfordshire

Introduction to Fossil Free Oxfordshire on CAG site

<http://www.cagoxfordshire.org.uk/news-archive/424-fossil-free-oxfordshire-an-introduction>

Petition

<http://campaigns.gofossilfree.org/petitions/fossil-free-oxford-city-council>

Facebook page

<https://www.facebook.com/fossilfreeoxon?ref=hl>