How to fix the movement for fossil fuel divestment

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Bankers and environmentalists alike are increasingly calling for capital markets to play a bigger role in the war on carbon. In the absence of a meaningful global price on carbon, however, capital continues to flow freely toward fossil fuels and other carbon-intensive industries. The movement for fossil fuel divestment has been trying since 2012 to reverse this trend. A strong media presence and divestment pledges from high-profile investors notwithstanding, the movement has had little, if any, impact on the market valuation or bottom line of fossil fuel companies to date. A recent *Nature Climate Change* comment by Felix Mormann, a professor at Texas A&M University School of Law, reveals a number of critical shortcomings that prevent the movement from achieving its stated goals of delegitimizing the fossil fuel industry and reducing its access to capital.

The most fundamental shortcoming lies in the divestment movement's failure to properly differentiate among companies based on their relative contributions to global warming and climate change. "Drawing a binary divestment line between fossil and non-fossil stocks misses the reality that, when it comes to climate action, there are good actors and bad actors on both sides of the divide," notes Mormann. "The current focus on extractive and energy companies has undoubtedly proven media-effective. But it misrepresents the complex push-and-pull dynamics across the value chain of energy and other climate-relevant products and services."

If the divestment movement can be faulted for being under-inclusive as regards non-fossil companies with excessive carbon footprints, then a similar critique can be extended to the movement's investor reach. The latest divestment tally lists more than 1,200 commitments from pension funds, philanthropic foundations, faith-based organizations, and other institutional investors, managing over $14 trillion in assets. Individual investors who hold stocks and other securities for their personal account, however, account for fewer than 60,000 commitments worldwide, representing just over $5 billion in assets. Compared to the nearly $25 trillion in equities owned by individual investors in the United States alone, the latter numbers reveal the divestment movement's egregious failure to mobilize a key contingent of the global financial market—not to mention potential jurors in the court of public opinion.

"The divestment movement deserves huge credit for shining a spotlight on the crucial role that capital markets have to play in the war on carbon," emphasizes Mormann, who also holds an appointment in Texas A&M University's College of Engineering. "But the more I studied it, the clearer it became that major reforms are needed if the movement is to achieve its stated goals and move the needle on corporate climate action."

One such reform that Mormann suggests in his comment is to rebrand beyond fossil fuel divestment toward a more nuanced campaign for low-carbon (re-)investment. To do so, the overly crude fossil vs. non-fossil distinction should be abandoned in favor of a more sophisticated assessment of companies' climate impact and governance, modeled after the ratings of creditworthiness that have long been a staple of capital markets. "Think of a rating agency à la Moody's or Standard & Poor's, only for climate change," explains Mormann. The international non-profit CDP, formerly known as Carbon Disclosure Project, has begun to rate thousands of companies annually on their climate impact and action. Substituting such ratings for the binary fossil vs. non-fossil divestment criterion could go a long way toward mobilizing capital markets, companies, and investors in the quest to combat global climate change.

More information: Felix Mormann, Why the divestment movement is missing the mark, *Nature Climate Change* (2020). DOI: 10.1038/s41558-020-00950-2

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