Holistic policies needed to realize the potential for fossil fuel divestment

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Replacing fossil fuel investments with "green energy" stocks has minimal impact on reducing greenhouse gas (GHG) emissions, and is also unlikely to provide a safer haven for investors. But with the right policies in place, divestment could accelerate progress toward a low carbon economy and change social norms over acceptable investment practices.

These are among the findings of a new white paper – Fossil Fuel Divestment: reviewing arguments, implications, and policy opportunities – released today by the Pacific Institute for Climate Solutions (PICS).

Grassroots divestment campaigns around the world are urging institutions to drop their holdings in oil, gas and coal companies as a strategy to fight climate change. Their arguments are founded on three core assumptions: (a) that divestment will protect investors from the financial risk of "unburnable carbon" or a "carbon bubble" whereby extracting fossil fuel reserves becomes too expensive due to climate policies or market conditions; (b) that divesting from publicly listed companies will keep fossil fuels in the ground; and (c) that "green" energy stocks can substitute for fossil fuel holdings in the portfolios of institutional investors.

The authors Justin Ritchie and Hadi Dowlatabadi from the University of British Columbia (UBC), evaluated these claims and provide evidence of why each is unfounded or of small effect—not least because governments, rather than shareholder companies, control the vast

majority of the world's oil reserves.

"Divestment movements are socially significant but currently exert little influence on financing transition to sustainability," says Dowlatabadi. "The current economy is heavily dependent on fossil energy, which is integrated into assets across multiple sectors including low carbon industries. This means that divestment may end up being 'greenwash' when money is taken away from fossil fuel companies and reinvested, for example, in banks, which typically fund such companies anyway. "

To test the assumptions, the authors evaluated equities for 280 green companies to see how they would stand up as alternative investments to oil, gas and coal. They also modelled the impact of UBC substituting renewable energy companies for the fossil fuel companies that comprise 10 per cent of its endowment. They found that this action would reduce the portfolio's GHG exposure, or "carbon shadow" by around three per cent—an unexpectedly low result given that these companies are among the heaviest carbon emitters in the university's portfolio.

Dowlatabadi says contrary to popular belief, switching to renewables will not protect investors from a potential carbon bubble given that the financial impacts would extend to the whole economy. And he warns that divestment from fossil fuels into green funds en masse could even create a boom-bust cycle for renewables, through the sudden inflation of stock values in the relatively young sector.

Instead, the authors highlight the need for a more holistic approach to climate solutions. For example, for divestment to become a potent solution, they recommend financial institutions and government create opportunities for divested funds to be directed toward much-needed low carbon infrastructure, energy efficient measures and the development of renewable energy resources.

The report offers the following recommendations for the BC government, institutions and divestment campaigners:

Provincial & municipal policy-makers

1. Establish a public finance entity: Create an "energy transition bank" to offer bonds and other financial tools to ease investors into the low carbon economy, and to support BC's green tech sector.
2. Review tax incentives: A low-carbon-transition investment tax credit could attract private capital to domestic investments in a low carbon economy.
3. Assess risk: Review BC's "unburnable carbon" risk. Support public fund managers in their potential decisions to invest in a low carbon transition.

Universities and other institutions

1. Begin an open conversation: Commitments to divestment or action on carbon risk can be issued along a timeline set by the institution.
2. Review: Review sustainability goals and revise fund managers' mandates on how to screen investments to meet environmental, social and governance targets and quantify a portfolio's carbon intensity. Re-evaluate benchmarks, and establish positions on green funds or bonds.
3. Research: Leverage on-campus expertise, such as that in business schools, around assessing and researching divestment strategies. Investment managers can develop statements of the carbon intensity of their investments and detail how those revenues support specific services and initiatives.

Divestment campaigns

- Propose a parallel endowment: Consider launching a separate low-carbon or fossil free endowment fund, creating the opportunity for comparing returns.
- Contribute: Launching crowdfunding campaigns for students, faculty and/or staff to donate to a fossil-free endowment could help to demonstrate support.
- Plan: Develop a timeline of divestment components, such as how to proceed after receiving a statement that discloses oil, gas and coal investments, and explore how investment returns fit into broader campus sustainability goals. Don't shy away from the symbolic elements of divestment.

More information: "Fossil Fuel Divestment: Reviewing Arguments, Implications & Policy Opportunities" (2015). by Justin Ritchie and Hadi. pics.uvic.ca/sites/default/fil … lications/Divestment %20WP%20Jan%202015-FINAL.pdf

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