NGOs and carbon divestment: reaching a tipping point?

Briefing note for SIGWATCH clients

23rd March 2015

Carbon divestment has been promoted by environmental groups since the middle of the last decade. However it only really took off in 2012 when the climate campaigner Bill Mckibben and his 350.org, which had been heavily involved in the campaign against Keystone XL, relaunched carbon divestment as a campus initiative in the United States.

Carbon divestment, modelled on the South African apartheid divestment movement of the 1980s, has since gone practically global. It is now the most influential and effective climate campaign since the creation of the IPCCC, despite (or maybe because of?) bypassing national governments and international agencies.

We believe that the carbon divestment campaign is close to reaching its tipping point. That is, carbon divestment will become the norm for investors instead of the exception, or investors will need a very good reason why not. This has serious implications for both financial institutions and fossil fuel producers and major users.

This briefing presents the evidence for our conclusion, forecasts how the NGOs' campaign is likely to develop in the coming months, and suggests the likely implications for investors and the fossil fuel companies.

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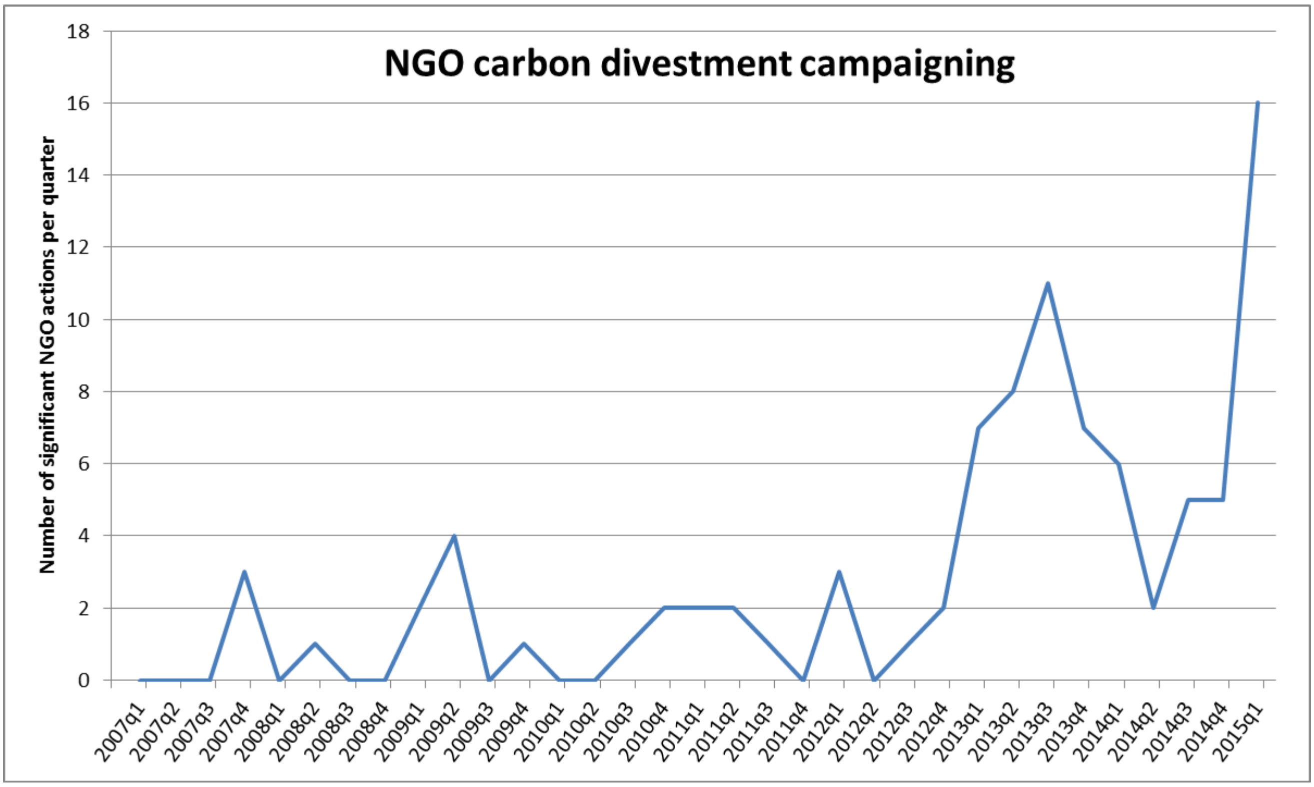
How carbon divestment is approaching its tipping point

NGO campaigning is strong and getting stronger

The global carbon divestment campaign is being pressed in waves (see chart below). This is typical of NGOs which have to follow the political cycle and rely on term-time availability of student volunteers. The first serious wave peaked in the third quarter of 2013; we are now in the middle of the second wave. Campaigning in the current incomplete quarter already exceeds the level of all previous quarters.



It's spreading globally

Within just two years, 350.org's carbon divestment campaign has grown into an international franchise involving all the major environmental NGOs. Outside the U.S. there are copycat campaigns in Australia, Canada and the UK. However the campaign cannot be dismissed as an Anglo-Saxon preoccupation, since there is also significant campaigning in Brussels, the Netherlands, Sweden, Norway, Denmark, France, Switzerland, Germany and Portugal. There is even campaigning in Russia and parts of Eastern Europe.

All the leading NGOs are now involved

The most active European NGOs on carbon divestment are Greenpeace, Friends of the Earth and WWF (they are also the region's three biggest and richest environmental NGOs). The UK student ENGO People & Planet and the national newspaper The Guardian are very involved, as are smaller but influential groups like FiVH in Norway. In the U.S., 350.org still leads the effort but is supported by Energy Action Coalition, the very substantial Sierra Club (assisted its student caucus), Greenpeace and the effective Rainforest Action Network.

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In Asia, the issue is principally an Australian one linked to opposition to coal exports and coal-seam gas development. There groups like the local branch of 350.org, Friends of the Earth and Greenpeace are involved. Meanwhile WWF has been campaigning on the issue in the Philippines and New Zealand (but there is no divestment campaigning in South America or Africa).

Evidence for the success of the divestment 'meme' is that pre-existing campaigns about fossil fuels such as unconventional gas and coal exports have adopted divestment as a principal demand and targeted investors as a key strategy.

Divestment has an ever wider range of targets

The main focus of carbon divestment campaigns is coal from which stems demands to divest from coal miners and coal-fired power utilities. Subsequently NGOs added shale gas in the U.S. and then oil and gas in general. Lately the campaign has sprouted a new slogan, 'leave it in the ground', which says that humans cannot safely burn any more fossil fuels and therefore it is pointless to exploit new fossil fuel resources. NGOs and think-tanks have developed an economic corollary to the environment case based on the notion of 'stranded assets' and the 'carbon bubble'.

The carbon divestment campaign has also broadened in its choice of pressure points. Before 350.org came along, the main targets were the banks most closely involved in financing coal mining and oil sands. With the campus campaign, college endowments became the focus, and in Europe, public pension and other state funds as well. Latterly, charities and philanthropic foundations have been targeted, on the grounds that they cannot both acknowledge the threat of climate change and logically or morally continue to invest in carbon emitters. The effect of this change of strategy has been to reduce the direct pressure on banks somewhat, but we suspect this is only temporary.

It seems to be gaining traction

Evidence for the carbon divestment campaign's effectiveness is largely anecdotal and comes in the main from campaigners. However it does seem to be gaining increasing momentum. For example, according to 350.org, around 180 academic institutions and health and other philanthropic foundations in the U.S. and UK, most small but including some large ones, have agreed to sell out of coal and/or other fossil fuels. In the U.S., Netherlands, Sweden and Norway, several public sector funds including Norway's huge government pension fund have announced that they will divest or have already started. This week the universities of Oxford, Harvard and Imperial College, London announced a project to study how academic institutions should best use divestment as a climate strategy.

Prognosis

The number of institutions who divest now is perhaps less important than the 'snowball effect' resulting from their decisions. By their actions, pressure is increased on all those that don't follow suit to justify why, a challenge they'd never previously had to address, or risk opprobrium if they refuse or prevaricate.

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We expect NGO campaigns to continue to spread geographically and also by target, from public sector and philanthropic targets to large company pension funds (starting with industries that would be negatively affected by climate change such as food and agriculture), socially responsible investors (strict and not so strict in their exclusion policies), and ultimately to institutional investors in general. Here the most prominent institutions and those that stress their attention to CSR matters will likely be targeted first.

For the first time, mainstream investors will be forced to review investments in highly regarded global companies such as Rio Tinto, Shell and ExxonMobil. Such investments will become a category problem, in the same way as investments in tobacco or arms companies.

It is hard to envisage that many investors will want, or indeed be legally able under their fiduciary duty to divest wholesale from the fossil fuel sector. Most campaigners know this too, so we expect that “divestment-lite” strategies will be negotiated, at least as pro tem solutions.

For example, investors and NGOs might agree to assess energy companies according to their exposure to the more controversial carbons (eg., coal or oil sands) or on the proportion of their revenues/capital investment in renewables. The ones scoring worst might then be divested first. This will have serious implications for some of the world’s biggest oil and gas companies.

Some investors are already arguing that divestment is short-sighted and that they should retain their stakes so that they can influence energy companies to change for the better. But for this defence to work, the investors will need to push for meaningful policy change, and energy companies will need to respond in a positive way.

Ultimately energy companies strongly exposed to fossil fuels will need to lay out their own long-term decarbonisation strategies, if only to retain investor confidence and allow investors to defend continued large holdings. NGOs and investors will surely expect companies to rebalance their portfolios towards renewables, invest much more in GHG mitigation (eg. carbon capture and storage) and abandon the most controversial fossil fuel plays.

How NGOs might respond

For many years environmental NGOs have generally had a low opinion of energy companies, and the main reason is climate change. NGOs feel industry pays only lip service to the need to reduce GHG emissions (one senior NGO staffer complained to us that the oil and gas sector is a textbook case of an industry wanting its cake and eating it). In January this year the influential British environmentalist Jonathon Porritt stated that he was ending longstanding relationships with Shell and BP because he no longer had any confidence that they or their sector were serious about exiting fossil fuels. And Shell and BP are generally considered the ‘good guys’ in their industry.

It would be ironic, though fitting, should the NGOs’ carbon divestment campaign, albeit on the backs of the investment community, becomes the spur that changes all this. It may even be that the energy sector and environmental NGOs are forced into partnership, because the energy companies have the best technical and financial resources to tackle decarbonisation seriously.

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