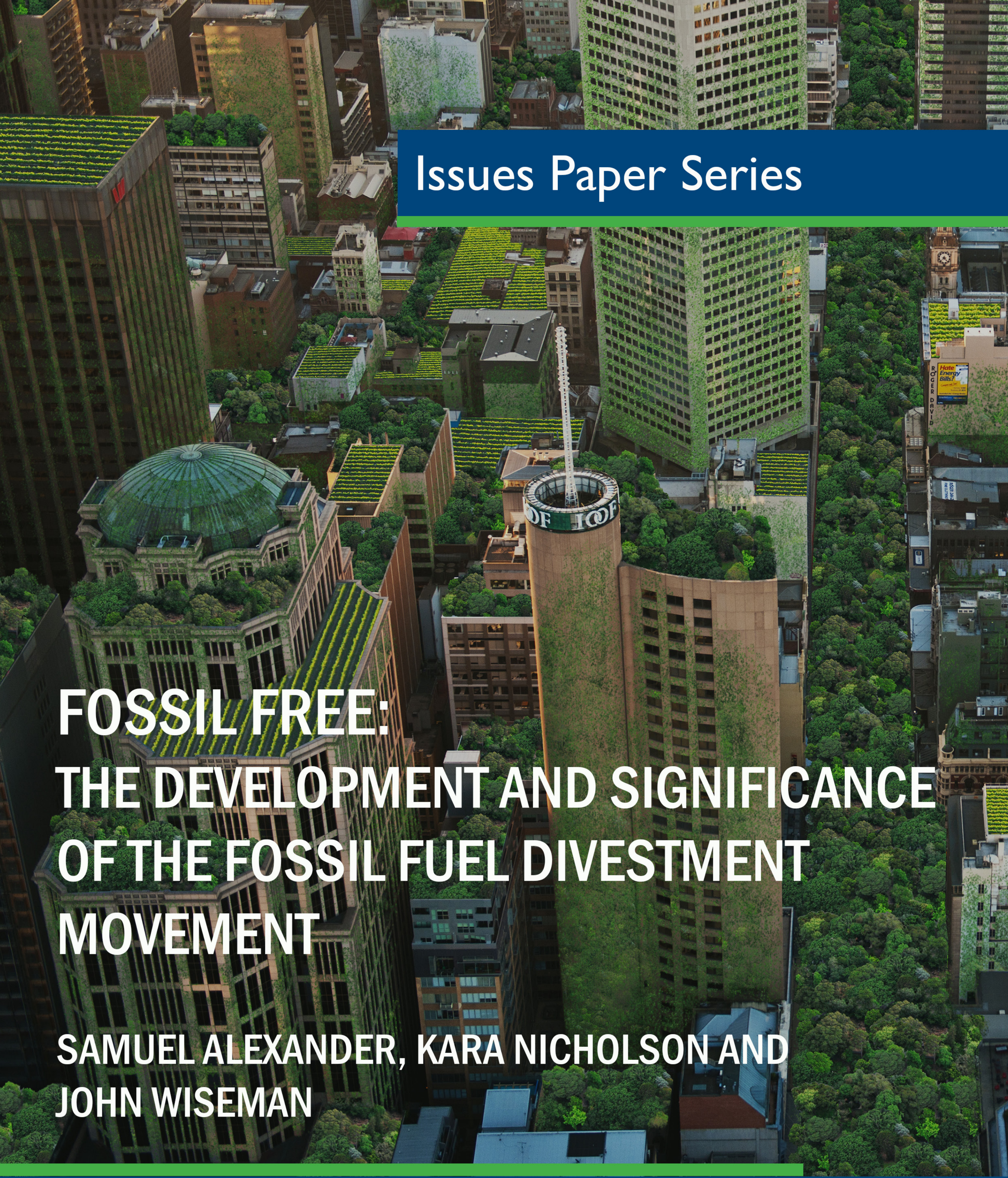

Issues Paper Series

FOSSIL FREE:
THE DEVELOPMENT AND SIGNIFICANCE OF THE FOSSIL FUEL DIVESTMENT MOVEMENT

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Fossil Free: The Development and Significance of the Fossil Fuel Divestment Movement

Issues Paper No. 4 September 2014

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Authors Samuel Alexander, Kara Nicholson and John Wiseman. The authors would like to thank Brendan Gleeson, Lauren Rickards and Cathy Alexander for feedback on earlier drafts of this paper.

Cover image

Courtesy of Anton Malishev, photographer at City of Melbourne

Citing this report

Please cite this paper as Alexander, S., Nicholson, K., Wiseman, J., 2014 *Fossil Free: The development and significance of the fossil fuel divestment movement,* MSSI Issues Paper No. 3, Melbourne Sustainable Society Institute, The University of Melbourne.

ISBN: 978 0 7340 4943 8

'Convince those in power to reduce our carbon pollution. Push your own communities to adopt smarter practices. Invest. Divest.'

– President Barack Obama, June 2013[1]

As the probability and risks of catastrophic climate change continue to increase (Potsdam, 2012; Christoff, 2013), fossil fuel divestment has become an increasingly important strategic focus for organisations seeking to counter the power of vested interests and accelerate support for rapid reductions in CO_2 emissions. In this context, "divestment" refers to strategies designed to encourage the withdrawal of existing investments from fossil fuel related industries and activities, as well as discouraging new investments. In some instances the divestment movement aims also to include action to promote and support the reinvestment of funds in alternative, more "climate friendly" industries such as renewable energy and energy efficiency.

The fossil fuel divestment movement has grown quickly over the last few years, with limited opportunity to document and reflect on its achievements, limitations, and implications. This paper therefore aims to provide an initial overview of fossil fuel divestment initiatives, focussing particularly on Australia.[2] The paper concludes with some reflections on how the divestment movement could potentially contribute to helping society transition swiftly to a just and resilient post-carbon economy.

Our central conclusion is that divestment is playing an increasingly significant "disruptive innovation" role in strengthening support for rapid de-carbonisation. While global investments in fossil fuels represent an asset class worth over $5 trillion, the quantum of investment funds so far shifted through divestment campaigns remains relatively small (Bloomberg Finance 2014). At this stage the major impacts of divestment strategies are in highlighting the rapidly diminishing size of the available "carbon budget" and in stigmatising the role played by the fossil fuel industry and its allies in increasing the probability and risks of catastrophic climate change. The movement is also beginning to demonstrate significant potential to open up broader discussions about the policy and institutional choices needed to drive de-carbonisation investment switching at the necessary speed and scale.

The Emergence of the Global Divestment Movement

While divestment strategies have been part of discussions among climate change policy makers and activists for some time, the key trigger for the recent sharpened focus on divestment has been growing awareness of the scientific, political, and economic implications of the global "carbon budget" (Alexander, 2014). The concept of a "carbon budget" refers to the maximum amount of carbon emissions that can be released into the atmosphere in order to retain a reasonable chance of keeping global temperature levels below a 2°C temperature rise above pre-industrial levels (e.g. IPCC, 2013; Committee on Climate Change, 2013; Le Quere *et al.,* 2013; Meinshausen *et al*., 2009). The 2011 Carbon Tracker Report *Unburnable Carbon* played an important role in demonstrating the economic as well as climatic risks arising from the realisation that the current "carbon budget" is significantly less than the amount of fossil fuel reserves physically available to burn (Carbon Tracker, 2011). Decisive action to stay within the carbon budget would therefore require not mining or burning a vast proportion of currently priced and valued fossil fuels. These "unburnable carbon" reserves would become unsaleable "stranded assets" – leading to the bursting of the "carbon bubble".

The 2012 International Energy Agency *World Energy Outlook* provided further support for the carbon bubble thesis, concluding that 'no more than one-third of proven reserves of fossil fuels can be consumed prior to 2050 if the world is to achieve the 2°C goal, unless carbon capture and storage (CCS) technology is widely deployed' (IEA, 2012: 3). The 2013 Fifth Intergovernmental Panel on Climate Change (IPCC) Assessment Report concluded that, to achieve a greater than 66 per cent chance of limiting warming to 2°C, 1000 gigatons of carbon can be emitted (see IPCC, 2013: 27-28). As of 2011, 515 gigatons has already been emitted. A number of analysts take an even stronger position, arguing that a global warming "guard rail" of well below 2°C is an essential precondition for preventing key climatic change tipping points. If that is the case then the world's "carbon budget" is already fully committed (see e.g., Spratt, 2014a; Spratt, 2014b).

In his July 2012 *Rolling Stone* article 'Global warming's terrifying new math' US environmentalist and co-founder of the climate advocacy group *350.org,* Bill McKibben drew on the *Carbon Tracker* (2011) analysis to argue that there are 'three simple numbers that add up to global catastrophe'. The first number, he argued, is 2°C, which the Copenhagen climate change conference in 2009 agreed must be the maximum temperature rise above preindustrial levels. The second number is 565 gigatons, a rough estimate of the maximum amount of carbon dioxide that can be released into the atmosphere by mid-century to keep the global rise in temperature under the 2°C threshold. The final number is 2795 gigatons, reflecting the amount of carbon dioxide in known coal, gas and oil reserves owned by fossil fuel companies. This final number of 2795 gigatons is five times the maximum carbon budget required to stay within the 2°C climate "guard rail", meaning that approximately 80 per cent of current fossil fuel reserves must stay in the ground if the world is to have a reasonable chance of avoiding runaway climate change. McKibben argues that while these carbon reserves are physically below the ground, they are in fact 'economically above ground', in the sense that they are reflected in the share prices of fossil fuel companies.

McKibben continues to hope that the catastrophic prospect of runaway climate change will provoke and sustain the 'moral outrage' required to fuel a reinvigorated climate movement. However he also notes that (effective) social movements require 'enemies', and that a clear, identifiable 'adversary' has largely been missing from the climate change debate (McKibben, 2012). This leads him to reflect that fossil fuel companies are in a very real sense the crucial 'enemy' of decisive climate change action, given their role in driving the accelerating extraction of fossil fuel reserves and in opposing the implementation of emissions reduction policies. McKibben therefore proposes divestment as a crucial strategy for exposing and challenging this 'rogue industry' (McKibben, 2012).

Fossil fuel divestment has now become a central focus of the campaign work of *350.org* (see 350.org, 2013) with major divestment campaigns now underway in the US, Canada, UK, Sweden, Finland, India, Bangladesh, New Zealand and Australia. These campaigns have had a variety of aims and targets. The primary focus in the US and Canada has been on university colleges, cities and NGOs. By mid 2014, thirteen colleges and universities, twenty-eight cities and forty-two religious organisations had committed to pursuing divestment. One of the most high profile victories during this period was the decision in May 2014, by Stanford University, that it ensure its $18.7 billion endowment was not invested with coal companies. In India, a *350.org* divestment campaign focussed on Delhi has sought a freeze on new investments in fossil fuels and divestment from previous ownership within five years. In Moscow the Russian branch of *350.org* collected close to 17,000 signatures calling for the European Bank of Reconstruction and Development to stop lending to fossil fuel projects.

The international divestment campaign work triggered by *350.org* and now being taken up by a diverse array of climate activist organisations is driving a rapidly expanding mix of other divestment initiatives. In 2013 the Norwegian financial services company, Storebrand, decided to negatively screen six oil sands companies and thirteen coal projects from its investment portfolio (Vorrath, 2013). Christine Tørklep Meisingset from Storebrand noted that 'the reason for divesting is to secure long-term returns. The greatest risk for investors is to do nothing' (quoted in Liinanki, 2013). The Norwegian government's sovereign wealth fund has also recently mandated investment in renewable energy and is investigating the possibility of divesting the fund from fossil fuels. In Sweden the Centre Party (part of the governing coalition) has called for pension funds across the country to divest from fossil fuel companies, citing the financial risk of a potential carbon bubble (Liinanki, 2013). In 2013 the Dutch Rabobank announced it would no longer finance companies involved in shale gas extraction and in 2014 HSBC, Deutschebank, and Credit Agricole have all taken positions against the financing of new coal ports in Australia. Both the World Bank (Yukhananov and Volcovici, 2013) and the European Investment Bank (McGarrity, 2013) have also now agreed to limit lending to coal-fired power projects, highlighting the capacity for the divestment movement to create significant public pressure on institutional investors leading to increased caution about being associated with new fossil energy projects.

In June 2013, the First Global Investment Forum on Climate Change, held in Hong Kong, discussed the financial risks associated with climate change and explored investment opportunities in Asia. At the 2014 World Economic Forum in Davos, World Bank President Jim Yong Kim called on investors to start taking climate risks seriously: 'It's simple self-interest. Every company, investor, and bank that screens new and existing investments for climate risk is simply being pragmatic' (cited in Swann and Denniss, 2014). In July 2014 RWE, Germany's second largest energy supplier, posted a loss of 2.8 billion Euros. RWE CEO Peter Terium pointed to the 'unstoppable' competition from renewable energy sources as a key driver for these losses and for urgent consideration being given to switching investment from fossil fuels to renewables. 'We were late entering into the renewables market – possibly too late', he said (Parkinson, 2014). In June 2014 the British Medical Association became the first major health organisation to vote for an end to investment in fossil fuel companies.

The Divestment Movement in Australia

In addition to the compelling evidence of the high levels of risk facing Australia from climate change impacts – and the ethical implications of Australia's role as one of the world's highest per capita sources of greenhouse gas emissions – there is also a strong financial risk case for Australian divestment action. The 2013 *Carbon Tracker* report, prepared in collaboration with the Grantham Institute, notes the particularly high risk to Australia's coal companies of 'stranded assets' as other countries transition to a low carbon economy. This analysis builds on the 2011 *Carbon Tracker* report analysing the fossil fuel exposure of global stock exchanges which identified the Australian Securities Exchange as one of the top five globally at risk, with an 'estimated 20-30 per cent of their market capitalisation connected to fossil fuels' (Carbon Tracker, 2011: 2).

As in other jurisdictions the various strands of the Australian divestment movement have led to a variety of strategic priorities and approaches. *350.org.au's Go Fossil Free Australia* campaign has placed strong emphasis on encouraging divestment by public organisations such as universities, religious groups and local governments (350.org Australia, 2013). Unlike its US counterpart, *Go Fossil Free Australia* explicitly advocates reinvestment in renewable technology. In mid 2014 *350.org.au* released the results of a Lonergan Research poll of 1314 Australians which found 72 per cent were concerned about the Australian economy's reliance on the fossil fuel sector and 67 per cent of people prepared to their money away from fossil fuels (Cowie, 2014).

By mid 2014 a number of Australian banks and financial institutions had begun to announce significant divestment commitments (Cowie, 2014). In July 2014 Bendigo and Adelaide Bank announced that they would become the first major bank to take a strong divestment stance with senior bank executive Marnie Baker explaining that 'the bank does not lend to companies for whom the core activity is the exploration, mining, manufacture or export of thermal coal or coal seam gas.' Cowie, 2014). On August 29 2014 the Australian university staff superannuation fund, Unisuper announced that 'from 1 September 2014, alcohol, gaming, weapons and companies involved in fossil fuel exploration and production (in addition to the screening of tobacco) will be excluded from both the Socially Responsible Balanced and Socially Responsible High Growth options.' (Unisuper August 29 2014). On September 4 2014 former *GetUp!* Convenor Simon Sheikh announced the launch of Australia's first "fossil free" superannuation fund, *Future Super.* (Hannam 2014a).

As of mid 2014 the Uniting Church of New South Wales and Australian Capital Territory and the Unitarian Church of Melbourne, along with five Anglican Dioceses in New Zealand, had committed to pursuing fossil fuel divestment. On August 29 2014 the Uniting Church in Australia Assembly resolved to divest from investments in corporations engaged in the extraction of fossil fuels. Uniting Church President Rev. Professor Andrew Dutney described the decision as 'an important act of public witness adding that:

> As Christians we are called to respect and care for the whole of creation. With national governments reluctant to take difficult decisions, it falls to us as members of the body of Christ to show leadership in taking action to reduce damaging pollution. To avoid damaging climate change we must move quickly to a clean energy economy. The Uniting Church recognises that continued investment in fossil fuel industries does not support the change needed. Our partner churches in the small island states have been calling on Australia to take seriously the threat to their futures. We simply must act. This is a matter of social, environmental, and intergenerational justice. (Uniting Church in Australia August 29).

Reponses to divestment advocacy from Australian universities have been mixed. In March 2014 University of Melbourne vice-chancellor Glyn Davis noted that the University would be proceeding cautiously on this issue but informed staff that the University investment management committee would be 'monitoring closely the potential impact of climate change issues on the value of investments' and was working with external fund managers 'on the risk profile of fossil fuel investments.' (Hannam, 2014) In August 2014, Sydney University announced that 'the university had issued an instruction to its Australian equities managers to make no further investments in the coal and consumable fuels subsector of the ASX'– and that it was actively considering divesting from other existing coal investments (Hannam, 2014). This decision drew a range of reactions with New South Wales Minerals Council CEO, Stephen Galilee arguing that it was 'a shame that Sydney University has caved in to the bullying of environmental activists masquerading as financial advisers.' Investor Group on Climate Change CEO Nathan Fabian took a different view pointing to the significance of Australian Universities beginning to follow the example of US universities such as Stanford. 'We're at the start of this process in Australia. Sydney University's move will be influential. Australian investors are acutely aware of the fossil fuel exposure of their portfolios.' (Hannam, 2014b).

Market Forces, affiliated with *Friends of the Earth*, targets banks, superannuation and fossil fuel government subsidies with a focus on discouraging and preventing investment in projects that are environmentally destructive. *Market Forces* also works to encourage investment in renewable energy and other "climate friendly" industries and projects. As *Market Forces* founder, Julien Vincent, notes, the organisation 'was created to fill a gap in the environment movement that often didn't seem fully aware of the importance of money when it comes to making or breaking major projects.'[3] Speaking at the September 2014 launch of the new *Super Switch* web site www.superswitch.org.au/ Vincent posed the following question for prospective superannuation investors: 'is it sensible to build up a superannuation nest egg when the price is a world not fit to live in?'

The Vital Few, the activist arm of the *Asset Owners Disclosure Project (AODP)*, campaigns for investment transparency in superannuation funds by encouraging individuals to write to their superannuation companies and seek disclosure on fossil fuel asset exposure (AODP 2013). The AODP conduct and publish an annual survey and analysis of the world's 1000 largest asset owners, ranking their management of climate change risk. Their main concern is protecting retirement savings from this risk and shifting investment to low carbon assets. AODP estimate that between 50–60 per cent of retirement savings worldwide are invested in high-carbon assets and less than 2 per cent are invested in low carbon assets (AODP, 2013).

Individuals with significant involvement in the initial development of the Australian divestment movement have identified a range of reasons for the rapid expansion of interest in this initiative. For some, such as Vicky Fysh – campaign co-ordinator with the *Melbourne University Fossil Free* student activist group – divestment provides an important new opportunity for reenergising climate activism at a time of widespread disillusionment and frustration with the lack of action by government and business. Justin Whelan from the Uniting Church echoed Bill McKibben's observations about the value of being able to identify and target a clear and tangible adversary. Adam Verwey from *Australian Ethical Investments* focused more sharply on the potential for divestment to enable superannuation fund clients to locate their individual investment decisions in a broader political context.

> When people have come to us [Australian Ethical] previously it has been a very individual thing. However what this campaign has done has made it much more than an individual thing. So people

> who are coming to us now who have a particular interest in not investing in fossil fuels are doing it knowing that this is part of a wider movement. The campaign has has allowed people to see the potential in actually moving their capital. When people were doing this as individuals I'm not sure they saw the entire $1.5 trillion in superannuation funds as what they were trying to influence, but I think they're making this connection now.

Simon O'Connor, CEO of Responsible Investment Association Australia, pointed our that 'our research shows that only about 1.5 per cent of the population actively choose ethical or SRI investment options in their super funds. So you've got such a minor portion who are actively engaged in choosing where money goes, despite lots of surveys showing us that there is potentially a lot of latent demand. We need to build more engagement and interaction with Australians about where their money is invested.' *Melbourne University Fossil Free* campaigner, Vicky Fysh argues that while there is merit in encouraging people to change their individual superannuation investment preferences it might be easier to motivate people to take action in relation to the investment of institutions with which they have a closer personal connections such as universities, churches or local governments. Martin Laskowski, former financial advisor to the *Asset Owners Disclosure Project,* suggests an increased emphasis on demonstrating to fund managers that investment in "green stocks" is less risky than fossil fuels. This would require beginning work on the creation of a range of "fossil fuel free" portfolios to show fund managers that there were real possibilities.

Key Challenges And Debates Facing The Divestment Movement

Key questions about the future potential and priorities of the fossil fuel divestment movement include the following.

1. Should the key aim be to actually shift investment funds away from fossil fuels? Or should the main priority be stigmatising fossil free investments and stimulating public debate about climate change and "unburnable carbon'?

While recognising that the amount of funds to be affected by divestment initiatives in the short term is likely to be modest, divestment advocates working within the superannuation and finance industries generally emphasise the need to demonstrate the financial risks of carbon bubble exposure, alongside the opportunities created through switching to 'greener' investments. The recent Oxford University report on fossil fuel stranded assets (Ansar, Caldecott & Tilbury, 2013) concluded, for example that 'the maximum possible capital that might be divested by university endowments and public pension funds from the fossil fuel companies represents a relatively small pool of funds' and that the share price of fossil fuel companies is unlikely to fall as a result (Ansar, Caldecott & Tilbury 2013: 12). The report therefore argues that the primary impact of the divestment movement is likely to be in industry stigmatisation and changing market norms. Similarly, in Australia while the total dollar amount of funds divested to date is probably in the order of hundreds of millions rather than billions there is increasing evidence of the impact which this campaign has had on the climate change debate both in the public domain and within the finance industry and superannuation sector.

Community based divestment activists tend to see the economic and symbolic aspects of divestment as 'two sides of a coin', noting that it is useful to have a range of arguments for involving people with a variety of motivations. As Julien Vincent (*Market Forces*) noted the key task is to ensure that a strong narrative clearly communicates the link between the financial and climatic risks involved in fossil free investments. A further practical dilemma noted by Uniting Church campaigner Justin Whelan relates to the difficulty of knowing where to draw the line when arguing for divestment: 'from the fossil fuel industry to the banks that loan to them to other related industries such as steel production'. More broadly many divestment activists consistently return to the argument that the real goal is building a climate action movement that can achieve rapid and fundamental change. Michael Pulsford (*350.org.au*), argues that 'if you achieve divestment without building a movement you've squandered part of the possibility of it'. For Simon O'Connor the key goal should be 'to build a movement of people who will start engaging with where their money is; I call it a democratisation of capital. Our money could be doing a lot of great things'.

2. What should be the balance between negative divestment arguments (i.e. "anything but fossil fuels") and more positive arguments for switching investment to "greener" alternatives such as renewable energy and energy efficiency?

One point of view here is that people considering divestment will generally be seeking answers to the question – 'so where should these funds be reinvested in a more positive way?' Justin Whelan reflected that while original divestment proposals put to the Uniting Church Synod of New South Wales and Australian Capital Territory did not include reference to reinvestment priorities, the motion finally agreed to was amended to recommend investment in renewable energy. His personal view however remains that 'divestment stands alone as a line in the sand statement: We are not willing to profit from wrecking the earth. It's different to saying we want to be part of the solution. Both are important but don't necessarily have to be tied together.'

Many commentators noted that the largest obstacle to the encouragement of investment switching from fossil fuels to renewables in Australia is the ongoing lack of appropriate reinvestment options. As Simon O'Connor (*Responsible Investment Australasia*) explains: 'It is critical but difficult for super funds to invest in renewable energy as there are not very many listed companies and those that are don't perform well because of policy uncertainty. As much as a divestment campaign is an honourable objective we need places to put the money.'

In fact, O'Connor, noted, many fund managers regard divestment as a 'ridiculous request. In their view it's nearly impossible to divest completely from fossil fuels. It's an excessively simplified message for a large universal owner who owns every company on the ASX. They tend to not be able to divest especially when you're talking about 15% of the ASX exposed to the fossil fuel industry.' Adam Verwey added this observation.

> We don't have a diversified stock market in Australia and if we're going to divest from a substantial part of our ASX we should move that money into diversified stock. It's a bit different in the US because fossil fuel companies don't dominate the markets so you can divest and there's a broad range of other things you can invest in.'

Bob Welsh, former CEO of the major Australian superannuation fund VicSuper builds on this analysis in the following way.

> Mainstream investment and financial institutions remain strongly inclined to make capital allocation decisions on the basis of their investment beliefs rather than advocacy arguments. These

> investment choices are heavily influenced by modern portfolio theory with individual investments drawn from various asset classes that, combined, offer the maximum optimal return for a given level of risk for the whole portfolio. The resultant portfolio will hold diverse investments drawn from a range of industry sectors including resources, oil and gas and utilities.
>
> To date institutional investors have been relatively agnostic about whether their exposure to energy infrastructure is dependent on carbon for returns or renewables. The fact that there are more opportunities to invest in carbon intensive assets probably explains their high concentration in portfolios. Institutional investors are aware that the mega trends are pointing towards low carbon energy futures. Nevertheless while returns from carbon intensive assets over the short to medium return remain attractive they will continue to feature in portfolios.
>
> Some institutional asset owners are being encouraged (both by beneficiaries and the activities of climate activists) to examine their dependency on carbon for returns and therefore their long-term carbon risk. Asset owners may respond to the risk of stranded assets in two ways. The asset owner may seek to identify their risk and engage with the entities in which they are invested in order to persuade them to lessen their exposure or to diversify including disinvestment and reinvestment. Alternatively the asset owner may seek to lobby the jurisdictions in which they are invested to retain existing fossil based energy policies in order to forestall the impairment of their carbon intensive investments.[4]

Former AODP adviser Martin Laskowski suggests that in fact a range of steps and links might be necessary in developing an effective divestment campaign.

> Activists need to decide what the final goal is because we think we have clout and voice but we are actually just a gnat irritating a giant. But if you're specific and fast enough we can do some cool things and it starts with pressuring the likes of Australian Ethical to create fossil free investment options. Then you need to go to Melbourne Uni or Monash Uni and say "we will go away if you will invest in this portfolio". Every movement has an early commitment to mobilisation, that's not unique to divestment. But when you're dealing with what we are you need to check how committed you are by finding out how far down the rabbit hole you're willing to go.

The alternative perspective is that divestment advocates need to be careful about providing advice in relation to investment priorities with such advice best left to individuals and organisations with significant expertise. Drawing on her experience as a campaigner with *MU Fossil Free* and *350.org.au* Vicky Fysh also raises the question as to whether an over emphasis on the possibilities of "green investment" might reduce the potential for opening a broader debate about the implications of institutions such as universities becoming increasingly business and investment oriented.

> There is this discomfort I feel sometimes in saying "just reinvest, continue to be a business". There's no focus on the broader criticism of the university investing in the first place and being a business and no broader criticism of how that might be compromising their morals and our education. Nonetheless we have to work within the parameters that we're given to a certain extent because if we try and build something broader that is critiquing the whole neoliberal system, we're just not going to achieve the goal of rapidly reducing fossil fuel emissions.

When asked about the importance of including a stronger focus on renewable energy investment options in divestment campaigns, Bill McKibben provided the following blunt response.

> It is useful. But even if you just put the money into candy bar makers or bowling alley stocks, it will do much good just to divest. One point of the campaign is simply to say: these are now rogue industries. We don't want to be associated with them. (cited in Wiseman 2013: 2).

3. What are the implications of the 'fiduciary duty' requirements on finance and superannuation industry companies and managers?

Fiduciary duty refers to the ethical and legal requirements arising from the relationship of trust between trustee and beneficiaries. One arguably dominant interpretation of the fiduciary duty of finance and superannuation managers has been to focus narrowly on the duty of fund managers to maximise financial returns to shareholders and superannuation fund clients. As Ransome and Sampford (2010) note, this interpretation tends to lead to the argument that it would be unethical and perhaps illegal to advocate for investment decisions to be made on the basis of other principles – such as concern about the climate change implications of fossil fuel emissions. This narrow view of fiduciary duty underpins recent threats by the Liberal-National government in Australia that they are considering expanding "secondary boycotts" legislation to prevent environmental and consumer groups from advising consumers against buying products due to poor environmental practice (Ritter, 2013). Similar legislation could potentially be used to discourage advocacy against investment in fossil fuel related industries (see Davidson, 2014).

An increasingly influential alternative perspective is that fiduciary duty should be understood in a broader, longer term context. The 2005 UNEP Report on the *Integration of Environmental, Social and Governance Issues into Institutional Investment,* for example argued that 'there is no duty to "maximise" the return of individual investments, but instead a duty to implement an overall investment strategy that is rational and appropriate for the fund' (UNEP-FI, 2005: 8). One interpretation of this view is that the responsibilities of fund managers could and should be extended to include the financial risks arising from carbon bubble stranded assets as well as the broader economic risks arising from climate change trends and impacts. An additional line of argument might be to convince investors and fund managers of the potential financial gains of switching investment towards "green economy" priorities and opportunities.

Simon O'Connor reminds us however that, in his experience, while some fund managers can see the logic of the carbon bubble and investment switching argument, they remain generally unconvinced. This is primarily due to the pervasive narrow focus on short term financial returns which dominates their views, decisions and practices.

> The way they value companies is not based on what's in the ground, it's really based on their cash flows over the next 5-10 years which are the current resources that they're selling. Anything beyond this is discounted in their cash flow models. A hardnosed financial person will tell you that the risk of me losing out now because I'm holding fossil fuels today is low when any revaluation will not happen for 5-10 years… they think "we'll get out in time".

4. What priority should be given to engaging directly with the fossil fuel industry to build a dialogue about the benefits of switching investment priorities away from fossil fuels?

One point of view here is that direct engagement with at least some fossil fuel based companies has the potential to strengthen the understanding of senior business leaders of the scientific, ethical and financial case for divestment and accelerate investment switching towards the infrastructure required for a rapid transition to a low carbon economy. This agenda could also include opening up a discussion about the most cost effective strategies for ensuring that "unburnable carbon" reserves are indeed left unmined and unburned – and not simply on-sold to other less scrupulous companies.

> There are very few pure fossil fuel companies. The only one on the ASX is Whitehaven. When a big thermal coal mine is owned by BHP we know that they will maintain certain standards and shareholders will have access to the boardroom. The risk with divestment is that the assets will be sold to a less scrupulous company. There are fewer levers to pull if you want to change the outcome. You could use BHP and Rio to not invest in greenfield projects'.
>
> Simon O'Connor (Responsible Investment Australasia)

Other divestment activists such as Adam Verwey are more sceptical about an over reliance on shareholder activism and engagement with fossil fuel companies. 'With shareholder activism you get more resistance and it moves slower. Divestment is a more direct and effective and immediate way to make change.'

Conclusion
The Potential And Limitations Of The Divestment Movement

Mark Zirnsak, Director of the Justice and International Mission Unit at the Uniting Church in Victoria and Tasmania points to the risks of an overly simplistic understanding of the potential impact of divestment strategies.

> My biggest concern is that the neoliberal argument that action on climate change should be voluntary has been very seductive within the church community. So in other words it's not about getting government to do anything. "If climate change worries you well, don't invest in the fossil fuel industry… reduce your own emissions… put solar panels on your roof." The hope is that these individual actions will lead to a desire for political action and political change. But for the church community it hasn't worked that way. It gets stuck at individual action. So there's been a great deal of enthusiasm for the program we have to reduce our emissions by 20 per cent by 2020 within the church. But if I put forward a proposal to put aside some money to hire a full time campaigner to lobby government on climate change about the necessary regulatory and legislative changes we need to get serious about climate change… that doesn't get a lot of enthusiasm within the church.[5]

As Simon O'Connor also emphasises care is needed to ensure that the case for fossil fuel divestment continues to be argued on ethical as well as financial grounds – and that there is ongoing awareness of the leadership role which governments will need to play in driving an integrated suite of emissions reduction policies. 'The market won't solve everything. There's always intervention needed for societal and environmental goals, that's the role of government. We need to keep working within the mechanisms and institutions that we have. We need people on multiple fronts. Movements can shift regulations.'

Finally, as safe climate activist, candidate for the BHP Billiton Board and former head of the Australian Coal Association, Ian Dunlop, argues:

> Divestment is a valuable part of the campaign for real action on climate change, but it must be seen as only one element of a much broader process. The urgency for action requires many different components: corporate, government, regulatory action, market-based initiatives, but divestment can act as a "threat multiplier" as the military like to put it, across the board. It is important that divestment is presented as a hard-nosed business imperative primarily (in the light of the

real scientific risk implications), but with strong ethical and moral underpinning – particularly intergenerational equity.

While noting these cautionary caveats, the initial impressive achievements of the divestment movement in broadening and provoking debate both among the general public and within the finance and superannuation industry suggest that divestment is likely to become an increasingly important component of the "disruptive innovation" strategies needed to drive rapid economic de-carbonisation. While the actual quantum of investment funds so far shifted through divestment remains relatively small, the movement does have the potential to highlight the rapidly diminishing size of the available "carbon budget" – and the destructive role which the fossil fuel industry and other vested interests play in increasing the probability and risks of dangerous climate change.

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[1] President Barack Obama, 'Remarks by the President on Climate Change, George Town University, June 25 2013, http://www.whitehouse.gov/the-press-office/2013/06/25/remarks-president-climate-change

[2] The paper is informed by a range of interviews conducted by Kara Nicholson during 2013 with activists and policy makers working on fossil fuel divestment issues. These interviews were conducted as part of the research undertaken for her Masters thesis for the Office of Environmental Programs, University of Melbourne.

[3] Unless otherwise noted all direct quotations in this paper are drawn from a series of interviews conducted during 2013 by Kara Nicholson with activists and policy makers working on fossil fuel divestment and investment issues.

[4] From correspondence between Bob Welsh and John Wiseman, July 2014

[5] The quote by Dr Mark Zirnsak was recorded at a public divestment forum held at Melbourne University on the 17th of October 2013

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