DIVESTMENT MYTHBUSTER

CAMBRIDGE ZERO CARBON SOCIETY

CAMBRIDGE, 19TH OF JANUARY OF 2018

INTRO: WHY DIVESTMENT?

Climate change is already having a massive impact on millions of people around the globe, and is only set to worsen at an ever-increasing speed. The main perpetrators of this crisis are the fossil-fuel-producing giants such as BP, Exxonmobil, and Royal Dutch Shell, with just 100 companies contributing to 70% of the world's greenhouse gas emissions since 1988[1].

However, it's not just the fossil fuel giants themselves who are responsible for this crisis: those who invest in these companies are also complicit. The University of Cambridge is one such investor, with estimated indirect investments of over £300 million in the fossil fuel industry, in addition to million of pounds in direct investments in oil giants and oil exploration and drilling expeditions. By holding these investments, the University of Cambridge legitimises the fossil fuel industry's destructive practices, and funds the climate crisis and its devastating impacts.

Disinvestment, or divestment, has the primarily effect of delegitimising the fossil fuel industry, contributing to a wider societal rejection of the industry operating model. When public opinion is strongly against the fossil fuel industry and society is attuned to environmental issues, our representatives have no choice but to push climate action up the political agenda. This has already happened in Cambridge, with the main political candidates at the last general election all campaigning on divestment - knowing it to be an important issue for Cambridge residents and this happens at national and international scale too. Once public opinion is united in supporting action against the climate crisis, then policy can change, and we can win climate justice.

It is imperative that the University of Cambridge divest immediately from fossil fuels. Universities, as institutions who contribute to society through knowledge and learning, must make clear to the public, and the world, that the fossil fuel industry has no place in a sustainable future. So far, 59 universities in the UK (that's over a third), have committed to divest a total of £11 billion, joining a global commitment of £2.7 trillion. As a top-ranking university, recognised as a world-leading public institution, and with the largest endowment in Europe, it's time Cambridge joined them.

The University's mission statement, its institutional commitments, and the will of its members bind it to divest from fossil fuels. The mission statement of the University of Cambridge includes its commitment 'to contribute to society,' something which it certainly cannot do if it holds investments in an industry responsible for climate breakdown. In 2008 the University Council approved a Statement of Investment Responsibility for University investments. In 2016, in response to student pressure to divest, a working group was set up to consider whether any changes should be made to the Statement of Investment Responsibility. The group concluded that The Investment Office 'will take due care to ensure that its management reflects the interests and values of the University,' prompting that trustees consider 'the ethical nature of investments.'

Due to the University's inaction on these commitments pressure has grown from members of the University. In 2016 a pro-divestment petition with over 2000 signatories was submitted to the University Council, both the CUSU council and Graduate Union voted in support of divestment, an unprecedented 140 fellows passed a grace in Regent House calling on the University to divest, and more recently, following revelation of the University's complicity in the Paradise Papers scandal, CUSU unanimously passed a motion in support of divestment. All values, rules, and members of the University of Cambridge require it to divest immediately.

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MYTH I. RESEARCH FUNDING

One frequent argument we hear against divestment is that it may lead to an end in research funding from the companies from which we divest.

Most of Cambridge's research funding comes from Research Councils, which are predominantly funded by the taxpayer. The University of Cambridge should therefore focus their research in areas which benefit the public, and to do this the University must maintain strategic independence. Having to balance a decision like divestment on the funding of third parties is in clear conflict with academic independence, especially when the University values contributing "to society through the pursuit, dissemination, and application of knowledge" and highlights a "concern for sustainability and the relationship with the environment." This contribution and concern cannot be properly fulfilled if the University puts third party funding interests above public and societal good. To prioritise funding from the fossil fuel industry is especially unjust when in 2015/16 it only contributed to 0.4% of overall research funding in the University[1].

Furthermore, evidence from all other divested universities shows that this concern simply does not become material. Of the third of UK universities that have thus far divested, not one of them has reported impacts on research funding. Precedent already shows that the University of Cambridge needn't fear any impact on research funding, but for even more certainty, the executives of the fossil fuel companies themselves tell us that funding will continue. In November, at the Shell annual lecture in Emmanuel college, Andrew Brown, member of the executive board of Royal Dutch Shell, stated explicitly and repeated, that Cambridge disinvesting would not lead to any cessation of research with the University. Brown repeated that, "even if there's disinvestment we would continue to research." These companies value the expertise and academic excellence of the University and have every reason to continue research.

All evidence shows that research funding will continue after the University of Cambridge divests. Funded by the public, The University of Cambridge should focus their research in areas which benefit the public, leading the way in combating the climate crisis, and enabling the just transition to a low-carbon world and alternatives to fossil fuel usage. In order to do this effectively, the University of Cambridge must stop profiting from the fossil fuel industry which is producing the climate crisis, and regain academic independence. Cambridge must divest now.

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MYTH II. DIVESTMENT WILL NOT WORK

One criticism made of divestment campaigns is that they are not effective – the charge is sometimes levelled that selling shares will not affect the companies involved (as someone else simply buys the shares), and consequently divestment is simply a 'symbolic' act, without substantive effect[1]. This section will explain why this approach misunderstands the purpose of divestment, and emphasise the huge potential of a divestment decision at Cambridge in the fight against climate change.

The first thing to say is that the purpose of divestment is not to directly financially impact on fossil fuel companies. Instead, its aim is to stigmatise the fossil fuel industry, revoking its social license to operate and thus forcing legislative action from governments on energy policy, bringing about the major shift to renewable energy that is necessary. That is not to say, however, that there is *no* financial impact whatsoever, but rather an indirect one. As the authors of the 2013 Oxford Smith School report, 'Stranded assets and the fossil fuel divestment campaign: what does divestment mean for the valuation of fossil fuel assets?', remarked, "a campaign can impact on the enterprise value of a target firm in the long term if the divestment campaign causes neutral equity and/or debt investors to lower their expectations of the target firm's net cash flows"[2]. Furthermore, they remarked, the aura of stigmatisation "adds to the uncertainty surrounding the future of a target company or industry"[3]. Such an uncertainty, particularly when combined with the threat of a carbon tax or future government action on fossil fuels, "will indirectly influence all investors … to go underweight in fossil fuel stocks and debt in their portfolios"[4].

This is the real aim of divestment: to catalyse restrictive legislation on fossil fuels by stigmatising the industry. A 2015 report in the *Climate Policy* journal quotes a divestment campaigner: "the goal is to turn big oil into big tobacco – a pariah industry that politicians can't stand beside in good faith"[5]. One of the consequences of this, according to the report, is "the possibility that governments will impose restrictive regulatory measures affecting the ability of companies to conduct business, further increasing uncertainty in the market"[6]. Dramatic state action is the only way we can truly tackle the climate crisis, given that our current trajectory gives us just a 5% chance of remaining below the 2C limit[7]. As Ayling and Gunningham comment, "unlike 'investor-driven governance networks' (IGNs)…which focus on 'softly, softly' change… the divestment movement… posits the need for far more fundamental change to the global economy to bring about climate change mitigation"[8].

The Smith School report goes into more detail about the impact of this stigmatisation, and its potential to catalyse government action. Referring to the impact of stigmatisation (which a divestment decision from Cambridge would do much to bring about), the authors remarked that "governments and politicians prefer to engage with 'clean' firms to prevent adverse spillovers that could taint their reputation or jeopardise their re-election"[9]. Government is then liberated to take action: "stigmatised firms may be barred from competing for public tenders, acquiring licenses or property rights for business expansion, or be weakened in negotiations with suppliers"[10]. In the case of the fossil fuel industry, we might expect to see legislation to limit extraction of coal, oil and/or natural gas, or potentially the introduction of a carbon tax. Moreover, the industry receives significant subsidies from government (in the UK focused around North Sea oil and gas)[11]. The viability of the industry without this huge state support is questionable.

The effectiveness of divestment as a strategy for forcing government action is not conjecture, but historical fact. Commenting on the stranded assets report, author Ben Caldecott said that "in every case we reviewed, divestment campaigns were successful in lobbying for restrictive legislation"[12]. The report cited various examples, such as: the stigmatisation of the tobacco industry, which "led to several rounds of restrictive legislation"[13]; and the campaign against apartheid South Africa, which "deeply undermined the diplomatic standing of the apartheid regime"[14]. Divestment has been proven to impact on government policy.

Indeed the fossil fuel divestment movement, the fastest-growing such campaign in history[15], has already achieved a number of high-profile successes since its inception in 2012. Over 800 institutions have divested more than $6 trillion, including the Rockefeller Brothers Fund and the Norwegian Sovereign Wealth fund (partial)[16]. In January 2018 it was announced that New York City was divesting its near-$200 billion pension fund from fossil fuels, and that the city was also suing fossil fuel firms for their contribution to dangerous levels of global warming[17]. This demonstration of an increasing political turn against the fossil fuel industry came in the months following announcements from financial services behemoth Axa and the World Bank that they would be cutting off funding for fossil fuel projects[18], with Axa also significantly upping both its commitment to fossil fuel divestment and to green energy projects[19]. These developments have led some economists to suggest a "global shift" could be underway[20].

Political action on climate change is picking up steam in response to pressure from civil society. In the words of Christiana Figueres, Executive Secretary of the United Nations Framework Convention on Climate Change (UNFCCC) 2010-2016, "the global Divest-Invest movement was a primary driver of success at the Paris Climate Talks in 2015"[21]. Just a few months earlier, the Governor of the Bank of England, Mark Carney, utilised a key argument of divestment campaigners when he warned investors of the dangers of 'stranded assets'[22]. His Financial Stability Board later recommended investors to disclose to investors the impact of climate change on their businesses[23]. In 2017 the Labour Party's manifesto promised that 60% of the UK's energy would come from low carbon or renewable sources, with its shadow energy secretary later emphasising the role of the divestment movement in shifting policy[24]. These are just some of the ways in which the divestment movement is having an impact at a very high level. As Ayling and Gunningham write, divestment is already having a "substantial impact, judged in terms of publicity and support from influential institutions and powerful individuals, within a really short time"[25].

Cambridge now has the potential to make a huge impact for a sustainable future. The Smith School report emphasises how divestment campaigns have historically evolved over three waves: from a small group of determined investors making the issue known, followed by civil society institutions such as universities, providing a tipping point after which the campaign goes global, with large pension funds targeted and social responsibility investment funds[26]. To a certain extent we already find ourselves in stage three, with major pension funds such as Southwark Council and New York City divesting from fossil fuels[27], and the world's largest fund manager, BlackRock, launching a fossil-free fund[28]. We stand at a climate precipice, and Cambridge has the power to tip the balance into the favour of climate action.

With Europe's largest endowment and one of the most prestigious names in the world, Cambridge has a lot of power to make a social impact. If the University of Cambridge were to divest from fossil fuels, it would be a powerful message heard around the world. The debate at Cambridge around divestment has already prompted numerous newspaper articles in the UK[29,30], a front-page story in the Financial Times[31] and newspaper reports from as far away as the United States[32] and Iran[33]. If one of the United Kingdom's top higher education institutions were to announce a shift away from fossil fuels, alongside the many other UK universities who have done the same, it would go a long way to forcing stronger government action both here and abroad. The global problem of climate change requires a global solution – divestment is the most effective way Cambridge can contribute to that solution.

FURTHER READING

- Less than 2 °C warming by 2100 unlikely
- Campaign against fossil fuels growing, says study
- Stranded assets and the fossil fuel divestment campaign: what does divestment mean for the valuation of fossil fuel assets?
- Divestment commitments

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MYTH III. SHAREHOLDER ENGAGEMENT

In its 2016 report on ethical investment[1], the University's working group endorsed a strategy of shareholder engagement, preferring it to divestment, which was labelled 'tokenistic'. Alongside this report the former Vice-Chancellor sent out a letter to fund managers stating that "climate change is the deepest environmental problem of our times", and declaring that the University would use its voting rights as a shareholder along these lines. A similar argument is now being put forward by those opposed to fossil fuel divestment at the University. In this section we will demonstrate that shareholder engagement has not only failed historically, it is also destined to fail, and in doing so only hinders progress on tackling global warming.

Investors have been pursuing the path of shareholder engagement for thirty years. As prominent divestment activist Bill McKibben has made clear, this has consistently failed[2]. As climate change has developed from a solvable problem to an existential crisis, shareholder motions at fossil fuel companies have failed repeatedly. At the most recent Shell Annual General Meeting (AGM), a motion to set and publish annual targets to reduce carbon emissions was rejected by 94% of shareholders[3]. This is evidence of an obvious truth – shareholders will always put their own financial interests above climate justice. Moreover, the situation is not improving. One study reviewed shareholder engagement efforts at ExxonMobil and Chevron, finding that "shareholder support for the 25 resolutions requesting that management adopt GHG [greenhouse gas] emission reduction targets scarcely changed over five years, averaging 27%, 28%, 28%, and 20.5% respectively from 2012 to 2015". The study concluded: "we would have hoped, and frankly expected, to see shareholder support increasing, rather than the flat levels seen over several years"[4].

Taking a broader look, we can see that the aims of shareholder engagement – to influence fossil fuel companies to remain within climate targets - have not been achieved, despite the occasional success. Thus Tilman et al. argue in a 2015 report for the *BMJ* that "shareholder engagement has achieved little with fossil fuel companies", as evidenced "by the fact that fossil fuel companies continue to invest more in discovering further fossil fuel reserves than they do in renewable energy"[5]. Over $670bn (£442bn) was spent in 2013 exploring for new fossil fuels reserves, much of it on 'extreme' energy projects such as Arctic drilling or tar sands oil[6]. The bottom line is that fossil fuel companies will always have as their primary business practice the extraction of fossil fuels. No amount of shareholder engagement can alter this fundamental fact.

There are other structural reasons which make it impossible for shareholder engagement to force the transition from fossil fuels necessary if we are to remain below the universally-agreed 2C limit. These have been detailed by Emma Sjöstrom in her 2008 article, 'Shareholder Activism for Corporate Social Responsibility: What Do We Know?'[7]. Sjöstrom pointed out that 'process constraints make it difficult to successfully pass resolutions' (p.148) and that these resolutions are not even necessarily legally binding.

Another important point is that shareholder activism tends to affect specific private corporations, leaving the state-backed corporations who extract far more oil and gas untouched[8]. Returning to the Carbon Underground study, the reality is that the share of potential reserve-based CO2 emissions targeted by shareholder engagement is too small. The study found that "an overwhelming 91% of coal and oil- and gas-reserve-based CO_2 emissions are not targeted by shareholder resolutions", and that this number is not changing quickly enough to merit shareholder engagement as a course of action. The problem requires wholesale action, a societal shift in energy which can only be delivered by divestment, not by tinkering within certain companies.

Even if shareholder engagement *were* effective, the truth is that, with recent research giving us a mere 5% chance of remaining below the 2C limit[9], we have simply run out of time. Shareholder engagement can offer only extremely modest gains at a slow pace; yet the need to transition off of fossil fuels is urgent, and represents a mammoth task. Only divestment can answer this need. Legislative action is needed.

Indeed it is worth considering the aftermath of the University Council's decision to pursue the path of shareholder engagement. More than eighteen months on, there is no evidence of Cambridge having had any impact within these companies. Meanwhile, we have seen a summer of climate chaos, while 15,000 scientists recently issued a warning about the fate of humanity, declaring that not enough is being done to tackle our environmental crisis[10]. As a social leader, Cambridge must take decisive action.

This cannot mean engagement with fossil fuel companies on issues of extraction. Their stigmatisation is the only path to this; its effectiveness has been demonstrated by the 2013 Oxford report 'Stranded assets and the fossil fuel divestment campaign: what does divestment mean for the valuation of fossil fuel assets?', as explored in our '*Divestment will not work*' mythbuster. Indeed when you consider that just 200 fossil fuel companies have in their reserves potential carbon emissions more than *six times* what we can safely burn, it is clear engagement is not a viable option[11]. A managed decline in the production of all carbon-based energy is needed, to which fossil fuel companies are simply not assenting. A 2016 report by Oil Change International found that coal mines and oil & gas wells *currently in operation* contain more CO_2 than can safely be burned[12].

No amount of cajoling from within will make fossil fuel companies give up these profits. To do so would not only be to lose out on billions of dollars, it would be to admit the untenability of their core business practice. Esteemed environmentalist Jonathan Porritt spent years collaborating with fossil fuel companies such as BP and Shell, in the hope that they would diversify into green energy. Eventually he gave up: "without some kind of truly traumatic shock to the system ('Macondo x 10', as one of my erstwhile and most trusted colleagues in BP once described it), we came to the conclusion that it was impossible for today's oil and gas majors to adapt in a timely and intelligent way to the imperative of radical decarbonisation," he wrote in the Guardian[13].

The shift to renewables which is so desperately needed will not come about through shareholder engagement, it will come about when the government stops subsidising fossil fuel companies and starts legislating against it. Only divestment offers a path to this outcome.

Bill McKIbben wrote that “there’s a certain point at which noble failure turns into moral cover – by continuing this process past the point where any reasonable person can see it’s a failure, shareholder “activists” actually help the company they’re targeting”[14]. We have reached such a moment – for Cambridge to blithely insist on the possibility of reforming these companies when its own research is telling it that there is no such option would be profoundly wrong. If Cambridge is serious about its commitment to sustainability, enshrined in its mission statement, then it should divest from fossil fuels, not legitimise them.

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FURTHER READING

- **Shareholder Resolutions in The Carbon Underground 200 Companies, 2012-2016: A Complex Picture**
- **Stranded assets and the fossil fuel divestment campaign: what does divestment mean for the valuation of fossil fuel assets?**
- **Less than 2 °C warming by 2100 unlikely**

MYTH IV. FOSSIL FUEL COMPANIES ARE PART OF THE SOLUTION

The argument is sometimes made that we would do better to collaborate with fossil fuel companies rather than divest from them. We will demonstrate a) how divestment does not harm collaboration and b) how collaboration itself is a flawed model, as fossil fuel companies are far more the problem than they are the solution.

A) DIVESTMENT DOES NOT HARM COLLABORATION

Both the evidence and the fossil fuel companies themselves say that divestment will not prevent collaboration on projects such as carbon capture storage. At the annual Shell Lecture in Cambridge on the 20th November 2017, Shell director Andy Brown stated repeatedly that collaboration would not be discontinued were Cambridge to decide to divest. The joint report by People & Planet and the National Union of Students submitted to the Working Group explained why such a decision would make no sense: “it would be incredibly foolish if, on top of a divestment decision from a world-leading university, oil majors decided to discontinue their research funding at that very same institution. This would be tantamount to a very serious public relations nightmare”[1]. Fossil fuel companies benefit majorly by these relationships, it would make no sense to end them. Moreover, the suggestion of repercussions for collaboration is simply not borne out by the evidence - there are no recorded cases of this happening in the UK, despite over ⅓ of UK universities divesting from fossil fuels in one form or another.

B) COLLABORATION IS A FLAWED MODEL

Fossil fuel companies maintain that they are an essential part of the future energy mix, and so collaboration with them is vital to a sustainable future with sufficient energy supply. This is fallacious on a number of levels. Firstly, it is wrong to suggest they are simply supplying demand, and that their dominant position in energy supply is a result of this. Rather, they work politically to maintain this position, and only political action - as in the divestment movement - will be sufficient to break their energy stranglehold. In the first instance, they have consistently funded climate denial. Fossil fuel companies have poured huge funds into climate denial. The US-based Heartland and Cato Institutes, which deny the reality of climate change, have both received huge sums from ExxonMobil[2]. The same company is being investigated for fraud in the US, following revelations that it found out about climate change in the 1980s and covered it up.

Fossil fuel companies continue to lobby extensively across the West in order to retain favourable government treatment. In the United States, where many officials still outright deny or downplay the reality of climate breakdown, fossil fuel companies lobbied Congress between 2013 and 2014 to the tune of $350 million[3]. In the United Kingdom, oil executives donated £400,000 to the Conservative Party within a year of Theresa May taking office[4], far more than to any other party[5]. The Conservatives recently increased North Sea oil subsidies, while it was recently revealed that the Department for International Trade has been lobbying the Brazilian government on behalf of Shell and BP[6]. The fossil fuel industry is not merely supplying demand, it exercises political power in the form of lobbying, in order to maintain its position. As we will demonstrate, it will not change to accommodate the reality of climate change, and thus it is up to civil society to force legislative change.

Despite some fossil fuel companies superficially assenting to the Paris Climate Accord, in truth their business model is in no way compatible with a world in which warming remains below 1.5C, or 2C at a maximum. In 2016 a study by a group of NGOs gave a powerful warning: there can be no new fossil fuel projects anywhere if we are to meet our climate targets[7]. Yet still fossil fuel companies are seeking new reserves, building new pipelines and undertaking new fracking projects. Thus it is no surprise that Shell and BP were recently caught planning for a world that is 5 degrees hotter, because they have no intention of remaining below 2C[8]. The bottom line is that these fossil fuel companies must keep extracting fossil fuels in order to remain profitable. They will not comply willingly, and therefore it requires government action, under pressure from social leaders like Cambridge, to force action.

This duplicity on the part of fossil fuel companies is best demonstrated through the phenomenon of greenwashing, in which oil, gas and coal companies present themselves as environmentally friendly in order to gain a ‘social license’ to operate. This was explored in Zero Carbon’s previous report, ‘Fossil Fuel Divestment at the University of Cambridge’. In the early 2000s, for example, BP undertook a substantial rebranding exercise in which it depicted itself as ‘Beyond Petroleum’. Yet within a decade it had dropped almost all its renewables projects[9], while even taking care to lock away much of its renewable energy research[10]. In the meantime it has been the source of major oil spills in Alaska and the Gulf of Mexico. The problems caused by fossil fuel companies in the form of carbon emissions and ecological disaster far outweigh any positives brought by unproven technologies such as carbon capture storage.

Cambridge academics themselves are clear that a major shift is needed. A recent report from the Cambridge Institute for Sustainability Leadership stated that “one of the main obstacles to the transition is institutional, and concerns the enduring government support to fossil fuel energy producers and consumers”[11]. Meanwhile, the late Cambridge Professor of Regius Engineering, Sir David MacKay, wrote in his celebrated book *Sustainable Energy: without the hot air* that the cuts in emissions needed in Britain mean that “the best way to think about it is *no more fossil fuels* [original emphasis]”[12]. Science from the University itself supports fossil fuel divestment.

Divestment need not be a negative. Just as the renewable energy system in the UK will flourish once it gets the right support from government, so too could Cambridge reinvest in renewables and sustainability. Possible reinvestment tactics are explored in our report “Decarbonising Cambridge: A Pathway to Divestment and Positive Reinvestment”. Our main point, however, is that Cambridge should be collaborating with renewable energy companies, not fossil fuel ones.

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