

The background of the entire page is a black and white photograph of a large, curved industrial tank with vertical corrugations. The top half of the image is cut off by a red horizontal band.

Divestment from fossil fuel companies

VIEWS AND OPINIONS FROM THE ACCA GLOBAL FORUM FOR SUSTAINABILITY

About ACCA

ACCA (the Association of Chartered Certified Accountants) is the global body for professional accountants. We aim to offer business-relevant, first-choice qualifications to people of application, ability and ambition around the world who seek a rewarding career in accountancy, finance and management.

Founded in 1904, ACCA has consistently held unique core values: opportunity, diversity, innovation, integrity and accountability. We believe that accountants bring value to economies in all stages of development. We aim to develop capacity in the profession and encourage the adoption of consistent global standards. Our values are aligned to the needs of employers in all sectors and we ensure that, through our qualifications, we prepare accountants for business. We work to open up the profession to people of all backgrounds and remove artificial barriers to entry, ensuring that our qualifications and their delivery meet the diverse needs of trainee professionals and their employers.

We support our 162,000 members and 428,000 students in 173 countries, helping them to develop successful careers in accounting and business, with the skills needed by employers. We work through a network of over 91 offices and centres and more than 8,500 Approved Employers worldwide, who provide high standards of employee learning and development.

ABOUT ACCA'S GLOBAL FORUMS

To further its work, ACCA has developed an innovative programme of global forums which bring together respected thinkers from the wider profession and academia around the world.

Global Forum for Sustainability

In the context of increasing environmental regulation and the need for businesses to identify and manage a more diverse range of risks, the goal of the forum is to articulate and communicate the relevance of sustainability issues for the business community and the accountancy profession. It monitors international trends and developments in sustainability and leads ACCA's contribution to policy development in this area.

Climate change is arguably the greatest challenge facing humankind today – one that is not receiving the necessary attention from political and business leaders. In response to this, the fossil fuel divestment campaign aims to pressure governments to limit the amount of fossil fuels that can be extracted and used.

ACCA's Global Forum for Sustainability has explored the potential issues associated with divestment from fossil fuel companies, and collated the various views and opinions expressed by forum members in this paper.

FOR MORE INFORMATION CONTACT

Rachel Jackson

Head of Sustainability, ACCA
rachel.jackson@accaglobal.com

Gordon Hewitt

Sustainability adviser
gordon.hewitt@accaglobal.com

1. Introduction

Climate scientists have been able to calculate a global carbon budget that details the amount of greenhouse gases that can be emitted while still allowing a reasonable chance of keeping within 2°C of warming – the threshold temperature increase above which there is likely to be dangerous climate change. In light of this, it is becoming untenable for policymakers and business leaders to ignore climate change. At present, global efforts to keep within this carbon budget are falling well short, and the current rate of decarbonisation shows that the carbon budget will have been exceeded by 2034.

Research has shown that the potential greenhouse gas emissions from use of the fossil fuel reserves held by the world's largest 100 listed coal companies and the world's largest 100 oil and gas companies also exceeds the global carbon budget. Such companies continue to explore for fossil fuel reserves, so the gap between the amount of fossil fuels available to burn and the amount that should be burned is set to increase.

These points highlight the disconnection between the scientific consensus on climate change and the response from policymakers and business leaders in the energy sector. In response to this disconnection, the fossil fuel divestment campaign aims to pressure governments – via legislation – to limit the amount of fossil fuels that can be extracted and used; pressure fossil fuel companies to shift to cleaner, less carbon-intensive forms of energy; and pressure governments to implement a ban on fossil fuel exploration and subsidies. This campaign is being spearheaded by 350.org, which focuses primarily on universities but is also gaining traction with religious and public sector asset owners and pension funds.

COMMENTS FROM ACCA'S GLOBAL FORUM FOR SUSTAINABILITY

The forum has explored the potential issues associated with divestment from fossil fuel companies, and collated the various views and opinions expressed by forum members in this discussion paper.

In addition to this, the forum has identified a number of areas requiring continued discussion and research. These have been included throughout the discussion paper and constitute areas for further analysis.

The ACCA Global Forum for Sustainability

The forum was created to contribute to ACCA's technical and research work on sustainability issues facing business and the accountancy profession.

It brings together experts from the public and private sectors and from academia around the world to advise ACCA on its thinking on current and future issues.

The composition of the forum is intended to reflect the diverse international character of ACCA's membership and to help ACCA to develop a genuinely representative international perspective on issues facing accountants and businesses. Sharing of national experiences by members is seen as a key virtue of the forum.

The group helps to develop ACCA's policy positions on key issues, including consultation exercises with national and international standard-setting and regulatory bodies, and advises on proactive initiatives such as events, publications and research projects.

2. Forum views and opinions

GEOGRAPHICAL FOCUS

The divestment from fossil fuels campaign originated in the US, and is gaining momentum and traction in the UK and Australia – predominantly through universities. Beyond these countries, there is some activity in Africa and Asia. This geographical focus is similar to that of previous campaigns, such as the anti-Apartheid and anti-smoking divestment campaigns in the 1970s and 1980s.

Areas for further discussion

- How can campaigns such as 350.org spread their message and deepen their impact?
- What lessons can be learnt and applied from previous divestment campaigns?

REMIT OF PUBLIC, FAITH-BASED AND UNIVERSITY FUNDS, BUT BECOMING MORE MAINSTREAM

At present, the investors who are engaged in this debate represent public, faith-based and university endowment and pension funds. Such funds (especially faith-based funds) tend to be more engaged on environmental and social issues, and often apply strict investment policies screening out 'sin stocks' such as tobacco, munitions and alcohol. Hence, extending their screens to include fossil fuel companies owing to concerns about climate change appears a consistent policy.

Organisations such as CDP and the CERES Investor Network on Climate Risk are supported by an impressive number of investors, representing both niche and mainstream funds. Although this divestment campaign is largely the remit of niche funds, there is an expectation that mainstream investors will get more involved in the future because a much broader range of funds are taking an active stance on climate change through these investor networks. Mainstream funds are beginning to question companies operating in the coal and tar sands sectors, but such action is limited at present.

Areas for further discussion

- Do public, faith-based and university funds have sufficient influence over fossil fuel companies to drive change?
- How can mainstream investors join the divestment debate and how significant will be their potential impact?

DIVESTMENT VS ENGAGEMENT

Shareholders are key stakeholders of business and therefore have a certain degree of influence over company directors. As a result, shareholders of fossil fuel companies are able, either individually or in collaboration with other shareholders, to engage with the company executive team on the issue of climate change. This can be done informally, through letters and meetings with management or formally, through the filing of shareholder resolutions and voting at general meetings.

By divesting from a company, investors lose this influence over senior management. In addition, the shares may be sold to a passive investor with no interest in climate change. When looking to engage with company directors on an issue such as climate change, divestment is often considered the 'last resort', the final act when all other approaches to persuade a company to address an issue have failed.

Areas for further discussion

- Is engagement or divestment a better means of influencing fossil fuel companies?
- Do some stakeholders prefer one method over another and if so, why is that?

IMPACT OF DIVESTMENT ON PORTFOLIO RETURNS

Fossil fuel companies are some of the largest listed on the world's stock exchanges, and are a significant source of dividend income. By divesting from such companies, investors will no longer receive these dividends so therefore need to consider whether this loss of income is compatible with their investment strategies.

In terms of risk management and performance, separate studies from Corporate Knights and Harvard Business School have demonstrated that it is possible to have sufficiently diversified fossil-fuel-free investment portfolios to manage risk and outperform broad market indices, but whether or not investors choose to hold such portfolios will depend on the timeframe over which they measure performance and their cash flow and/or client requirements.

Areas for further discussion

- How can investors balance their cash flow/client requirements for portfolio returns with the risks posed by climate change?
- How can the incompatibility between any short-term horizons of investors and longer-term considerations of climate change be addressed?

UNINTENDED CONSEQUENCES OF DIVESTMENT

Divestment from fossil fuel companies could result in unintended consequences. Investors taking an active stance against climate change may sell their shares in fossil fuel companies to passive investors who do not share these concerns. As such, the senior management of fossil fuel companies will face less pressure from shareholders to address impacts on climate change.

Forum members have argued that the divestment campaign would not cripple the fossil fuel industry because investors divesting are very much in the minority, but it would send a signal to the market that the energy sector should consider other options, thus creating a push towards renewable energy.

THE GLOBAL DEMAND FOR FOSSIL FUELS

Climate change is largely the result of use and demand for fossil fuels as a source of energy and an input into industrial processes. This cause/effect relationship is clear, but unfortunately switching from fossil fuels will not be straightforward. The current economic system has been developed during a period when fossil fuels have been used unabated, and existing energy and transport systems are almost entirely dependent on fossil fuels. There are alternatives available, but many are currently too expensive or unproven to be viable on a global scale. Further to this, fossil fuels are deeply embedded in the supply chains of staple goods, such as food. As a result, the substitution of alternatives for fossil fuels could result in higher prices for such staples, which would hit the poorest in society worst.

For the above reasons, significant research and development into renewable energy resources and alternatives to fossil fuels as an industrial input will be necessary. Making the transition to a low-carbon economy is possible, and much research has been conducted into how this can be achieved, but such a significant shift is not going to happen in the short term.

IMPACT OF DIVESTMENT ON COMPANY SHARE PRICES

As there is an active market for shares in fossil fuel companies, and as only a minority of investors are prepared to divest because of concerns about climate change, any likely levels of divestment will not have a significant impact on share prices. This would be different if the majority of investors sold off their shares, but this is unlikely to take place in the medium term.

Previous divestment campaigns, such as those connected with the anti-Apartheid and anti-smoking campaigns, have shown that their main impact is in raising awareness of an issue, changing social norms and ultimately in changing legislation. If the fossil fuel divestment campaign goes the same way, it could place additional pressure on governments to act on climate change and reach a legally binding agreement on global emissions, which would have major implications for fossil fuel companies.

Areas for further discussion

- Given the systemic risks posed by climate change, do you expect more investors to divest from fossil fuel companies? If so, will this happen in the short, medium or long term?
- Will the fossil fuel divestment campaign follow a similar pattern to those associated with the anti-Apartheid and anti-smoking campaigns (ie pushing legislative change)?

3. The fossil fuel divestment campaign

The fossil fuel divestment campaign is being led by the NGO, 350.org. Through online campaigns, 'grassroots' organising and mass public actions, 350.org aims to raise awareness about climate change and create a global climate movement. The organisation was set up in 2008 in the US and, largely through universities, has coordinated and supported climate change campaigns in 188 countries around the world.

350.org's fossil-free campaign aims to persuade the pension and endowment funds of educational and religious institutions, city and state governments, and other institutions that serve the public good, to divest from fossil fuels. The organisation wants institutions to freeze any new investment in fossil fuel companies immediately and to divest, within five years, from direct ownership and any commingled funds that include fossil-fuel public equities and corporate bonds.

350.org has calculated that the vast majority of listed coal, oil and gas reserves are held by 200 publicly traded companies, so it sees an opportunity to lobby such companies to stop exploring for new reserves, stop lobbying governments to continue fossil fuel subsidies and to pledge to keep 80% of their current reserves in the ground forever. To date, the campaign has been supported by a number of universities, cities, religious institutions and foundations in the US, Australia, New Zealand, the UK and Canada.

These funds are relatively small by global standards and are basing their decision to divest from fossil fuels on moral grounds. Such an approach may not have an impact on a company's share price or access to finance, but can be successful in raising awareness of an issue, in effect stigmatising fossil fuel companies. This could drive governments and regulators to enact legislation that prohibits fossil fuel companies from exploring for new reserves and prohibits them from extracting their current reserves.

Beyond the ethical argument for divestment from fossil fuels, a few mainstream banks and investment funds are assessing their investments in fossil fuels on financial grounds. Storebrand, a financial services group in Norway, has pledged to pull out of investments in a number of coal and tar sands companies because they will not offer long-term, stable returns and will be 'financially worthless' in the future. Further to this, Norway's sovereign wealth fund (the world's largest) has set up an expert group to determine whether or not the \$840 billion oil fund should stop investing in fossil fuel sector. Like Storebrand, this group will be looking at whether fossil fuel assets are sufficiently risky to present a genuine business case for divestment.

4. Key points

The following key points emerged through the discussion and serve as a summary of the views and opinions of the global forum members.

FOSSIL FUEL DIVESTMENT IS A MINORITY ACTIVITY AT PRESENT, BUT SET TO BROADEN

It is currently confined largely to the US and UK markets, and within faith-based, university and public pension and endowment funds. This is expected to broaden in the future.

LOSS OF ENGAGEMENT OPPORTUNITIES

By divesting, investors lose the ability to engage with company directors. Divestment is often considered the 'last resort', once all other engagement activities have failed.

LOSS OF DIVIDENDS

Investors who divest will lose any dividends associated with those shares. Investors need to balance this with the potential risks associated with holding shares in fossil fuel companies.

RAISING PUBLIC AWARENESS

Past divestment campaigns have shown that their main effect is to raise awareness of an issue rather than reducing company share prices.

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