Open Space and Ecology Committee Memo re: state divestment bill

OSEC member Glenn Fieldman requested the committee consider recommending to City Council a resolution expressing the City of Brisbane's support for SB 1173 introduced by Senator Lena Gonzalez which would require that the state's pension funds, CalPERS and CalSTRS, divest from fossil fuels.

Background

Upon OSEC's recommendation, the City Council passed Resolution No. 2014-19 on June 19, 2014 encouraging the state's pension funds to divest from fossil fuels. The resolution followed a presentation by Fieldman to the City Council on April 21, 2014. Meeting pages and videos:

- archive.brisbaneca.org/city-council/2014-06-19
- archive.brisbaneca.org/city-council/2014-04-21

Divestment efforts have grown since the City's previous consideration of this issue, but more recently some advocates have suggested that engagement may be a more effective strategy for meeting climate goals. Attachments include a two-part series from Forbes laying out the pros and cons of divestment versus engagement strategies, as well as an article from the Guardian which specifically references CalPERS' position on the issue.

Attachments

1. Template resolution to support SB 1173
2. SB 1173 (Gonzalez) Fossil Fuel Divestment Fact Sheet
3. City of Brisbane Agenda Report on Fossil Fuels Divestment from June 19, 2014, including attached letter to CalPERS and Resolution No. 2014-19
4. City of Brisbane Agenda Report on Fossil Fuels Divestment from April 21, 2014, without attachments (full packet: archive.brisbaneca.org/sites/default/files/Fossil%20Fuels.pdf)
5. Forbes article "The Case for Fossil Fuel Divestment", posted Feb 20, 2021
6. Forbes article "The Case for Fossil Fuel Engagement", posted Mar 2, 2021
7. The Guardian article "The climate advocates who say Harvard's oil divestment is a mistake", posted Sept 14, 2021

Municipal template resolution in support of SB 1173 (Gonzalez) Fossil Fuel Divestment Act

WHEREAS, climate change, through rising sea levels, drought, heat waves, and increased wildfires is already negatively affecting human wellbeing, ecosystems and biodiversity; and

WHEREAS, climate change is an issue of environmental justice, disproportionately impacting Indigenous communities, communities of color, and low income communities due to historical oppression, inequity of power, and lack of access to resources for prevention and relief; and

WHEREAS, the International Panel on Climate Change concluded in 2018 that we have 12 years to make dramatic cuts in the use of fossil fuels (coal, oil, gas and tar sands) if we are to keep warming to 1.5^{o} C and avoid more catastrophic change; and

WHEREAS, the fossil fuel industry is the single most powerful obstacle to addressing climate change, using their immense lobbying power in Washington D.C. and Sacramento to block climate legislation; and

WHEREAS, fossil fuel companies' own scientists knew their products were causing climate change, but the companies kept it secret.

WHEREAS, to effectively address climate change, most fossil fuel reserves must remain in the ground, never to be used. This makes fossil fuel stocks a risky investment; and

WHEREAS, a Corporate Knights study found if CalPERS and CalSTRS had divested in 2010 they would have gained $11.9 and $5.5 billion respectively by 2019.

WHEREAS, independent studies by financial consulting firms Blackrock and Meketa found divestment reduces risk, and improves, not weakens, investment returns; and

WHEREAS, divestment in specific segments or business operations by CalPERS and CalSTRS is already standard practice and is specifically allowed by the California Constitution; and

WHEREAS, divestment means selling directly held or commingled assets including fossil fuel public equities and corporate bonds; therefore be it

RESOLVED, that the _______________ strongly supports SB 1173 (Gonzalez) the fossil fuel divestment act. And upon passage, a copy of this resolution will be sent to Senator Lena Gonzalez's office requesting that _________________ be listed as an official supporter of the bill.

SB 1173 (Gonzalez) **Fossil Fuel Divestment**

SUMMARY

Senate Bill (SB) 1173 will prohibit the California Public Employees Retirement System (CalPERS) and the California State Teachers' Retirement System (CalSTRS) from investing in fossil fuel companies, and require that they divest any current investments by 2027.

BACKGROUND/PROBLEM

Californians, along with states and nations around the globe, are facing the real and immediate threats of climate change and its ever-growing impacts on our health, safety, environment, and our ability to pass on a livable planet to future generations.

California has been a world leader in taking steps to combat the causes of climate change, and have set historic carbon reduction goals and taken meaningful actions to help prevent environmental destruction and protect communities who bear the overwhelming brunt of carbon emissions.

Despite these forward-thinking actions, California's multi-billion dollar retirement pension funds are actively investing billions of dollars in the very fossil fuel companies that are causing climate change.

CalPERS and CalSTRS, which invest the pension funds of state employees and teachers, have an investing power of $469 billion and $327 billion, respectively. A recent report estimates that out of these funds CalPERS invests $5.5 billion in fossil fuel companies and CalSTRS invests $3.4 billion.[1]

With the explosion of investment and development in carbon-free technologies, and consumer choice and governmental regulation driving markets away from fossil fuels, it has become clear that the fossil fuel industry may be a risky and myopic financial investment. Major investment management firms, BlackRock and Meketa, have concluded that divestment from fossil fuels actually improves, not weakens, investment returns.[2] A further study has shown that if CalPERS and CalSTRS had divested from fossil fuels in 2010 they would have gained $11.9 and $5.5 billion in returns by 2019.[3]

Many of the beneficiaries and union members whose retirement futures are invested by CalPERS and CalSTRS have passed resolutions calling for the divestment of fossil fuels, including the United Teachers of Los Angeles, the California Federation of Teachers, and the California Faculty Association.

An estimated 1,500 institutions with over $39 trillion in assets have already committed to divestment, including the University of California, the California State University, the State and City of New York, the State of Maine, the Vatican, and the province of Quebec.

The Legislature already began the work of divesting from dangerous carbon emitting companies through the passage of SB 185 (De Leon, Chapter 605, Statutes of 2015), which required CalPERS and CalSTRS to liquidate their investments in thermal coal companies. Further, Governor Newsom also recently issued an Executive Order on Climate Change (EO N-19-19) which called on CalPERS and CalSTRS to "leverage the state's $700 billion investment portfolio to advance California's climate leadership."

[1] https://climatesafepensions.org/wp-content/uploads/2021/12/CSPN-The-Quiet-Culprit.pdf

[2] https://ieefa.org/major-investment-advisors-blackrock-and-meketa-provide-a-fiduciary-path-through-the-energy-transition/

[3] https://drive.google.com/file/d/1k27W2oTzaqueEZrvit4RLfve6pvakqMI/view

SOLUTION

SB 1173 seizes the momentum of the worldwide divestment movement and continues the bold and progressive actions that California must take to address climate change. SB 1173 ends the contradictory and incongruous polices that position the state as a leader in the fight against climate, while simultaneously investing billions in the fossil fuel companies that are causing climate change.

Specifically, SB 1173 will prohibit CalPERS and CalSTRS from investing in the top 200 fossil fuel companies, and require that they divest any current investments in those fossil fuel companies by 2027. Additionally, SB 1173 will require CalPERS and CalSTRS to annually report, beginning in 2024 on their divestment progress.

SUPPORT

California Faculty Association (Sponsor)
Fossil Free California (Sponsor)

CONTACT

Trevor Taylor, Legislative Director
(916) 651-4033
Trevor.Taylor@sen.ca.gov

City of Brisbane
Agenda Report

To: City Council via City Manager

From: Administrative Services Director

Subject: Fossil Fuels Divestment

Date: June 19, 2014

Purpose:
Present the Resolution and letter to CalPERS drafted from the Open Space and Ecology Committee.

Recommendation:
Send letter to CalPERS and adopt Resolution No. 2014-19.

Background:
At the City Council meeting on Monday, April 21st, Glenn Fieldman (OSEC member) presented to council. The presentation was to urge council to consider divesting from fossil fuels and urge CalPERS to cease new investment and begin to divest. The following Brisbane specific items were added to the resolution per council: the City of Brisbane believes that its investments should be socially responsible, the divestment of fossil fuels will not negatively impact the rate of return on investment, and the City of Brisbane will not invest in the fossil fuels industry now and in the future.

Discussion:
Divesting from fossil fuels is an environmental and social responsible move. Investment in renewable energy and minimally polluting technologies will assist with reducing carbon emissions and energy goals. Continuing to invest in fossil fuels will only increase the severity of global warming and reduced air quality.

Fiscal Impact:
CalPERS has alternative management investment programs that are more environmentally responsible. The rate of return is expected to be unaffected.

Measure of Success
The City of Brisbane will join other neighboring participating cities in campaigning against fossil fuels divestment.

Attachments:

Stuart Schillinger
Administrative Services Director

Clay Holstine
City Manager

Mr. Rob Feckner
President
CalPERS
400 Q Street
Sacramento, CA 95811

Dear Mr. Feckner,

On behalf of the City Council of the City of Brisbane, we request that your agency cease new investments in fossil fuel companies, and begin divesting your investment portfolios of fossil fuel companies.

Carbon dioxide levels in the atmosphere are increasing, adding to the warming effect of the planet. We have begun to experience several negative impacts due to climate change; extreme weather events, reduced air quality and a shift in circadian and seasonal rhythms of plants and animals. The cumulative impacts will result in erratic weather patterns, ultimately effecting our quality of life and instability of food supply. All of these impacts will only be amplified by the growing population.

Governmentally mandated legislation such as AB 32; to reduce carbon dioxide emissions by 2020 to 1990 levels, has created action for communities to develop plans for change. Global warming is the responsibility of the world, all communities must take action. Continuing to invest in fossil fuels negates all the work communities are doing, thus we ask that you do your part in efforts to combat climate change. Continuing to invest in fossil fuels is contributing to GHG emissions and global warming.

Beyond the impacts of climate change due to global warming, harvesting of oil and coal has devastated environments and the health of those who work in such industries. In 2010, the Deep Water Horizon explosion and oil spill occurred in the Gulf of Mexico. The leak resulted in a loss of human lives, loss of animals, damages to the habitat, and in the end releasing close to 5 million barrels of oil into the Gulf. The habitat may never recover to the way it was before the spill, endless hours from volunteer groups and BP will go into cleaning-up, and millions of dollars will be spent in the process. This incident highlights one occasion out of many spills that has occurred, divesting from fossil fuels will show we do not support these activities that cause great harm.

CalPERS has alternative investment management programs that are more environmentally responsible. We urge that CalPERS chooses to invest in energy efficient and minimally polluting technologies. The return on investment will not be negatively impacted due to the availability of more responsible portfolios to invest in. Economics aside, it is time to end investment in fossil fuels and begin making positive change for the future.

Sincerely,

W. Clarke Conway
Mayor

RESOLUTION NO. 2014-19

URGING CALPERS TO DIVEST FROM PUBLICLY-TRADED FOSSIL FUEL COMPANIES

WHEREAS, the climate crisis is a serious threat to current and future generations here in Brisbane and around the world; and

WHEREAS, the Intergovernmental Panel on Climate Change (IPCC) Fourth Assessment Report found that global warming is already causing costly disruption of the human and natural systems throughout the world including the melting of Artic ice, the ocean's rise in acidity, flooding and drought; and

WHEREAS, almost every government in the world has agreed through the 2009 Copenhagen Accord that any warming above 2°C (3.6°F) rise would be unsafe, and the humans can only pour about 565 more gigatons of carbon dioxide into the atmosphere to maintain this limit; and

WHEREAS, for the purpose of this ordinance, a "fossil fuel company" shall be define as any of the two hundred publicly-traded companies with the largest coal, oil, and gas reserves as measured by the gigatons of carbon dioxide that would be omitted if those reserves were extracted and burned, as listed in the Carbon Tracker Initiative's "Unburnable Carbon" report; and

WHEREAS, in its "Unburnable Carbon" report, the Carbon Tracker Initiative found that fossil fuels companies possess proven fossil fuel reserves that would release approximately 2,795 gigatons of CO2 if they are burned, which is five times the amount that can be released without exceeding 2°C of warming; and

WHEREAS, the City of Brisbane has a responsibility to protect the lives and livelihoods of its inhabitants from the threat of climate change; and

WHEREAS, the City of Brisbane will draft an Energy Action Plan in 2014. The plan is targeted to reduce energy use and carbon emissions. The community aims to reduce GHG emissions significantly by the year 2020, through energy use reduction; and

WHEREAS, the City of Brisbane believes that its investments should support a future where all citizens can live healthy lives without the negative impacts of a warming environment; and

WHEREAS, the City of Brisbane believes that its investments should be socially responsible; and

WHEREAS, the divestment of fossil fuels will not negatively impact the rate of return on investment; and

WHEREAS, students at more than two hundred colleges and universities in the United States have launched campaigns to have their institutions divest from fossil fuel companies; and

WHEREAS, the City of Brisbane will not invest in the fossil fuels industry now and in the future.

NOW, THEREFORE, BE IT RESOLVED, by the Council of the City of Brisbane that the Council urges CalPERS to join the City in these efforts and divest their own holdings from fossil fuel companies.

W. Clarke Conway, Mayor

I hereby certify that the foregoing Resolution No. 2014-19 was duly and regularly adopted at the meeting of the Brisbane City Council on June 19, 2014 by the following vote:

AYES:

NOES:

ABSENT:

Sheri Marie Spediacci, City Clerk

City of Brisbane
Agenda Report

To: City Council via City Manager

From: Open Space and Ecology Committee

Subject: Fossil Fuels Divestment

Date: April 21, 2014

Recommendation:

1. The Open Space and Ecology committee recommends that the City of Brisbane not invest funds under City control in fossil fuels.

2. The Open Space and Ecology Committee further recommends that the City of Brisbane urge CalPERS, which has Brisbane funds under management, to divest from fossil fuels within the next five years.

Background:

The Open Space and Ecology committee feels that it is important to cease investing in the fossil fuels industry, due to the environmental impacts of global warming such as sea level rise that are already apparent and that will increase unless fossil fuel use is drastically reduced. The Committee's review of materials pertaining to divestment led to interest in taking steps to encourage the City of Brisbane and CalPERS to divest from fossil fuels. Materials have been circulated to Open Space and Ecology members: An online list of committed educational institutions, religious institutions and neighboring cities; a resolution passed by the Berkeley City Council calling for divestment from fossil fuels, and a letter from the Santa Clara Valley Water District to the CalPERS president requesting that CalPERS divest from fossil fuels

Discussion:

Global warming caused by fossil fuel burning and other human activities such as deforestation may pass two degrees Celsius over pre-industrial levels as early as 2036. Two degrees is widely considered by scientists to be, in the words of renowned climate scientist Michael Mann, "a threshold into environmental ruin" ("Earth will cross the climate danger threshold by 2036," *Scientific American,* March 20, 2014). Because fossil fuel consumption is the major driver of this global temperature rise and the consequent destabilization of the climate, it would behoove the City of Brisbane to divest from publicly traded fossil fuel companies and redirect its investments into financial instruments supporting renewable non-carbon energy sources and other environmentally beneficial goods and services.

While the primary purpose of divestment from fossil fuels is to protect society from the civilizational threat presented by climate destabilization, it is also fiscally prudent: as climate risks are more widely recognized, fossil fuel investments may come to be much less "safe" than they have been historically (VERIS Wealth Partners, "Emerging Research on Climate Change Risk and Fossil Fuel Divestment," April 2013; "Oil's Future Draws Blood and Gore in Investment Portfolios," Bloomberg News, November 2013).

Communities in the bay area and several neighboring cities have voted to opt out of investing in fossil fuels and/or to call upon CalPERS to divest. Divestment will withdraw funds from companies that earn profits in ways that contribute to climate change and cause other kinds of environmental damage. For instance, coal plants reduce air quality by releasing sulfur dioxide and nitrous oxides; fluid from hydraulic fracturing used to extract natural gas contaminates local ground water. Continued investment in such projects is counter productive to improving air quality and decreasing the carbon emissions added to the atmosphere. By selling stocks held in these companies, cities and other institutions convey their objection to environmentally damaging activities and help to delegitimize the fossil fuel industry.

The Fossil Free Campaign is working to get educational institutions, religious institutions and governments, as well as large-scale managers of retirement funds such as CalPERS, to divest from fossil fuels "in order to make[e] the activities of these companies more visible and socially unacceptable" ("Divestment from Fossil Fuels: A Guide for City Officials and Activists," February 2014) Fossil Free's goal is to get such institutions to divest from the top two hundred fossil fuel companies within the next five years. According to *Sacramento News and Review:*

"CalPERS, the nation's largest pension system, owns shares in at least 292 different companies involved in oil, gas and coal exploration, production, refining and transport. About 10 percent of the market value of CalPERS' stock portfolio is fossil-fuel investments. The pension's largest fossil-fuel stock picks are U.S. corporations Exxon Mobil Corp., Chevron Corp. and Schlumberger.
CalPERS also owns about $1.4 billion in oil, gas and coal company bonds. Through the bond market, CalPERS has financed the activities of companies like Nexen Inc., one of the largest exploiters of Canada's massive oil sands." ("Students and environmentalists pressure CalPERS, CalSTRS, UC to ditch big-oil investments," May 2013)

Fiscal Impact:

Sufficient returns can be achieved without investment in the fossil fuels industry. An alternative to investing in fossil fuels is to invest in renewable energy and renewable resources. Sources such as the Divestment Guide for City Officials (cited above) and a June 2013 article in *University Business* ("Is Fossil Fuel Divestment a Wise Move?") suggest that the absence of fossil fuel stocks has little effect on returns. Moreover, divesting from fossil fuels may be fiscally prudent. The effects of unmitigated climate change, government regulation, or both may turn fossil fuels into "stranded assets" and result in a collapse of the value of fossil fuel company stocks—a possibility that has generated considerable press attention (for example, "How the carbon bubble will pop," *Washington Post*, Oct. 30, 2013).

Measure of Success

The community will be informed of the fossil fuels divestment and joining of the campaign. The measure of success will be when return on investment will be maintained or above average.

Attachments:

Divestment letter from the City of Berkeley

Divestment letter from Santa Clara Valley Water District

List of committed organizations

Divestment from Fossil Fuels – A Guide for City Officials and Activists

Sacramento New Review "Students and environmentalist pressure CalPERS, CalSTRS, UC to ditch big-oil investments"

Bloomberg "Oil's Future Draws Blood and Gore in Investment Portfolios"

Veris Wealth Partners “Emerging Research on Climate Change Risk and Fossil-Fuel Divestment”
Scientific American “Earth Will Cross the Climate Danger Threshold by 2036”
The Washington Post “How the carbon bubble will pop”
University Business Magazine “Is the Fossil Fuel Divestment a Wise Move?”

Open Space and Ecology Committee

Attachment 5

Feb 20, 2021, 12:11pm EST | 10,047 views

The Case For Fossil Fuel Divestment

David Carlin Contributor

Sustainability

Helping you to understand and thrive in our changing world

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Citizens demand divestment from fossil fuels in a climate action protest in New York City.

LIGHTROCKET VIA GETTY IMAGES

Cookie Preferences

This piece highlights the merits of the fossil fuel divestment approach. My next piece covers an alternative view, evaluating the advantages of engagement with fossil fuel companies.

A decade ago, noted environmentalist Bill McKibben had a radical-sounding idea. To save the planet, we needed to "revoke the social license of the fossil fuel industry." His comprehensive vision of fossil fuel divestment would require financial institutions and civil society to stand shoulder-to-shoulder. This plan was audacious; in 2011 Exxon Mobil was the largest company in the world, and nearly every foundation and academic endowment invested in fossil fuels.

However, divestment has gained remarkable traction in recent years, going from a fringe strategy to a $14.5 trillion movement with over a thousand major investors, pension plans, and endowments committed. Today, as institutional and retail investors pour money into environmentally conscious funds, it is time to consider the financial and social benefits of the movement.

The divestment movement changed the conversation around fossil fuel finance. Investors and banks are increasingly questioning the long-term viability of the entire sector. Divestment seeks to stigmatize fossil fuels and raise uncertainty around their continued use, to reduce the financial desirability of fossil assets. Fossil fuel mining, exploration, and extraction all are capital intensive activities that demand constant access to capital. If capital costs rise or the supply of capital is reduced, projects can become uneconomical and fossil fuel companies can see their valuations fall. This process is well underway in financial markets for the most polluting and least efficient fossil fuel, coal. Even for oil and gas, a study across thirty-three nations indicates that increased divestment pledges are associated with decreased debt and equity capital flows to fossil fuel firms. Unsurprisingly, the effectiveness of divestment is amplified in countries with strong environmental policies and diminished in those that subsidize fossil fuels.

Proponents of divestment may seek to starve fossil fuel producers of capital, but they are also making a savvy business decision. Over the past decade, the fossil fuel supermajors (e.g., Exxon, Chevron, Shell, BP) have tumbled from their perch as the planet's largest companies. In 2020, Exxon was booted from the Dow. The once mighty energy sector is now the smallest sector in the S&P 500. Since its inception in 2012, the S&P 500's Fossil Fuel Free Total Return Index has consistently outperformed the S&P 500 overall. As fossil fuel equity prices plummet, holding onto these companies has been value-destroying for many shareholders, leading market commentator Jim Cramer to declare "I'm done with fossil fuel stocks."

Fossil fuel debt has also proven a risky proposition. The raft of bankruptcies last year among fracking companies (including fracking pioneer Chesapeake Energy) revealed the volatility, capital-intensity, and unsustainability of their business models. Even larger companies are feeling the pain. Exxon, Shell, and Sonoco all saw their credit ratings cut this month.

Fundamentally, fossil fuel companies are valued on their reserves. Climate science tells us that to maintain a safe climate, most of those reserves must remain in the ground. Unexploitable reserves become worthless, stranded assets. Write-down the value of these potentially stranded assets and fossil fuel companies are looking at a grim financial future. Financial institutions can choose divestment to avoid major losses and gain the opportunity to reinvest in more promising industries.

Despite the accelerating growth of the divestment movement, capital has continued flowing into fossil fuels since the 2015 Paris Climate Agreement. Some might argue that these continued inflows indicate that divestment has not worked. However, considering only immediate financial impacts of divestment misses the wider effects of the movement. An Oxford study made this point, stating, “the most far-reaching threat to fossil fuel companies” comes from increased social and political stigmatization of their activities and the resultant uncertainties around their long-term viability. Within finance, government, and civil society, the divestment movement has forced a fundamental reckoning with the future of the global energy system.

Divestment has its share of critics. Many of them look at the continued financing of fossil fuels and see divestment as a blunt, or perhaps, naïve approach to addressing a complex problem. While the divestment movement alone may not solve the climate crisis, divestment must be considered within the broader ecosystem of climate action. Although it sits at one end of the climate finance spectrum, divestment has shifted the discourse around climate considerations in finance, which empowers other climate actors.

In terms of avoided emissions, the divestment movement’s impact will continue to grow, but it has already succeeded in putting the fossil fuel sector on notice.

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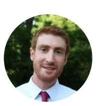

David Carlin

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Attachment 6

Mar 2, 2021, 03:16pm EST | 1,983 views

The Case For Fossil Fuel Engagement

David Carlin Contributor

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Engagement with fossil fuel companies can help support the low-carbon transition while supporting ... [+] GETTY

This piece evaluates the merits of engagement with fossil fuel companies. My prior article discussed the benefits and importance of the divestment movement.

Fossil fuel divestment has grown into a socially influential and impactful movement. It has unquestionably succeeded in changing the conversation around the future of fossil fuels. However, when considering direct financial impacts and avoided emissions, divestment's effectiveness has been less clear. Since the Paris Climate Agreement, global banks have provided over $3 trillion in fossil fuel funding.

Limits to divestment?

A coordinated divestment movement has the potential to increase the cost of capital for emitters. However, for individual financial institutions seeking to accelerate decarbonization, a pure divestment approach may have limitations. In largely efficient securities markets, for every seller there is a buyer at the right price. Thus, a firm may dump their fossil fuel shares only to see them snapped up by a less climate-conscious investor. This issue occurs in debt financing too, for when larger banks divest from international extraction projects, national banks often step in. These state-run banks are often less transparent and less accountable to environmental stakeholders. Likewise, divestment from private sector fossil fuel firms may advantage national oil companies (NOCs), who already hold the majority of global hydrocarbon reserves.

How finance can drive client transitions

These concerns have led many financial institutions to argue that engaging fossil fuel clients can be more impactful than simply divesting. As the world moves away from fossil fuels, financial engagement can promote economic and energy continuity by helping businesses effectively transition a low-carbon world. With a financial stake in emitting companies, climate-focused financial institutions have leverage to demand decarbonization. Investors can bring shareholder resolutions on climate disclosures and climate strategy. In recent years, the number of these resolutions has increased markedly. In addition, investors can vote against management decisions that are not aligned with societal climate goals. Banks often have even greater influence with their fossil fuel clients, as debt financing is required for capital-intensive exploration and production activities. Lenders can apply covenants to restrict certain environmentally damaging activities. In addition, they can tie future financing to decarbonization plans and verify progress through emissions data.

Across the financial sector, such engagement initiatives are gathering steam. Cambridge University is working with banks to develop a tool to help financial institutions "design and execute transition plans, assess decisions, and monitor progress." Specific metrics on client progress are a critical consideration for any credible engagement program. Late last year, JP Morgan launched its Center for Carbon Transition to help their clients constructively manage the risks and opportunities of a low-carbon future. The center will aim to improve data and reporting on client emissions. Likewise, Aviva Investors started its Climate Engagement Escalation Programme, with a focus on the largest emitters in its portfolio. This initiative will require companies to provide a roadmap on immediate climate action and reach net-zero emissions by 2050.

Sincerity is essential

Despite the financial sector's increasing focus on decarbonization, the impacts of many engagement strategies may take years to fully evaluate. Emitters will need to fundamentally reorient their business models to a low-carbon world. Furthermore, it is no guarantee that all of today's emitters have a place in that world. Without hard commitments to emissions reductions, client engagement can look suspiciously like business as usual.

Divestment activists are right to be skeptical, since business as usual is unsustainable both for the climate and the economy. Genuine financial engagement demands a genuine commitment to moving clients and society towards societal climate goals. Engagement strategies that fail to contemplate transformative change should be rightly condemned as greenwashing.

Expand the financial toolkit

Ultimately, climate action in the financial sector is far more complex than a choice between divestment and engagement. Institutions can use their financial leverage to push clients onto a more sustainable path through shareholder actions and lending requirements. Financial institutions can also be valuable long-term partners for clients looking to transition to a role in a low-carbon economy. However, financial institutions must also be willing to divest from companies who remain unwilling or unable to align with climate goals.

Beyond engagement and divestment, there are other ways for financial institutions to accelerate the net-zero transition. They can provide capital at critical stages in the development and deployment of green technologies. They can lobby for stronger public sector climate policies on issues such as efficiency standards, carbon pricing, and climate-resilient infrastructure. Ambitious climate action can be a boon to financial institutions, as capital markets benefit from certainty around strong future demand for green assets.

The financial sector has a wide range of tools for confronting the climate challenge, and given the size and urgency of that challenge, they must be willing to consider all of them.

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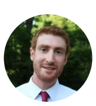

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Climate crimes

The climate advocates who say Harvard's oil divestment is a mistake

As the university sheds its fossil fuel investments, some argue it's dangerous to limit leverage over oil and gas companies

Chris McGreal

Tue 14 Sep 2021 06.00 EDT

Even as climate activists celebrated Harvard University's promise to cleanse its multibillion-dollar investment fund of holdings in fossil fuel companies last week, others dedicated to the fight against the climate crisis wondered if the real winner was the oil industry.

Harvard bowed to pressure from students and advocacy groups who likened their campaign to the push to divest from apartheid South Africa in the 1980s. The group, Fossil Fuel Divest Harvard, described the decision as a "massive victory" and "proof that activism works, plain and simple".

That victory drew widespread praise from within the environmental movement, including from the former vice-president Al Gore.

But other major oil industry investors, who are also committed to addressing the climate crisis, regard the dumping of shares as a mistake. They say it removes a key area of leverage over fossil fuel companies.

"If big investors divest their holdings, we lose the base of ownership, which is going to be able to drive change," said Anne Simpson, who leads the sustainable investment strategy for the $400bn California Public Employees' Retirement System, CalPers. "If we sell our shares in oil and gas companies, we're losing an opportunity to have an influence."

The difference over strategies hinges on sharply opposing views of the future of oil and gas firms. The Harvard activists, alongside national environmental groups such as 350.org, want to see the fossil fuel companies put out of business as quickly as possible.

Simpson and other institutional investors say the oil and gas industry will remain essential to the US economy for some time and will probably contribute to the transition to green energy, and so it is more important to force the business to change the way it operates.

Morgan Whitten, an environmental science and public policy student at Harvard who was one of the organizers of the divestment campaign, is skeptical.

"There's no evidence right now that fossil fuel companies can be changed. If engagement is an effective strategy, why hasn't it already worked?" she said. "There are plenty of studies that show that no major fossil fuel company is aligned with the Paris climate accords. Investors like Harvard have had a seat at the table for decades, and companies have not changed course at all."

CalPers, the combined pension and health scheme for 2 million public workers in California, is experimenting with new approaches toward changing oil and gas companies from within. In May, it was a key player in helping the activist investor fund

Engine No 1 force three new directors on to the board of ExxonMobil to press the company to take the climate crisis seriously.

CalPers was also instrumental in bringing together hundreds of large investors to identify the worst polluters in their portfolios. Out of about 10,000 firms, the funds found about 100 responsible for about 85% of greenhouse emissions, ranging from from oil and gas to steelmakers, shipping and cement manufacturers.

The investors formed a group, Climate Action 100+, to press change on those companies. The group looked at where it had leverage, principally over elected members of the boards of directors, and set out to require that those boards take charge of addressing pollution instead of leaving it to managers.

Climate Action 100+ demanded that the worst carbon emitters commit to specific actions - about half agreed - and pressed for full disclosure of carbon emissions by each firm. Support for Climate Action 100+ has expanded from a few dozen institutional investors to more than 600, with combined holdings of $55tn.

Harvard University last week announced its divestment from fossil fuel holdings. Photograph: Xinhua/Rex/Shutterstock

"If we can team up with other investors who also have exposure to these companies, we can begin to not just request but require that companies do these things," said

Simpson. "If we sold our shares in order to comply with the divestment mandate, we wouldn't be in a position to do this."

Simpson said the group had won commitments to reduce emissions from Chevron and BP, among other changes. Even Exxon, which remains committed to increasing its oil output in the coming years, was forced to reveal its carbon emissions under the threat of a shareholder vote.

"You have to be in it to win it. Mitigating the risk of climate change driven by emissions requires that we drive business action to bring these down," said Simpson.

Bill McKibben, a founder of 350.org, said this was all too little, too late and risked providing cover for the fossil fuel industry to appear to take the climate crisis seriously while dragging its heels. He said that shareholder engagement could be effective in getting a company to pay its workers more or adapt its business model - but that was not what was at stake with the oil and gas industry.

"The problem with fossil fuel is that it's not like there's a flaw in an excellent business plan. The business plan is that these are companies that essentially exist for one purpose, which is to dig stuff up and burn it. That's all they know how to do," he said. "Their track record, both as companies and as political actors over the last three decades, has been that they will do whatever they can maintain that business model, even in the case of the planet breaking."

McKibben said that far from divestment relinquishing leverage, it had added to the pressure on fossil fuel companies.

"Shell oil announced that divestment had become a material risk to its business," he said.

CalPers did stop investing in coal under pressure from the California state government and because it was hard to see any kind of future for coal companies. Simpson argues that oil and gas producers are different because, like it or not, they will remain important fuels for years to come.

Some institutional investors also fear that a rush to kill oil and gas risks collapsing parts of the economy if there are insufficient sources of green energy for large industries such as steel, with a knock-on effect for other manufacturers, such as car makers.

They want to see the fossil fuel firms pouring resources into solving the problem, not dying out. McKibben, like others, doubts that Exxon and Chevron will ever commit to that.

Whitten sees another benefit of divestment: stigma.

"It clearly points to who the villain is. Companies for decades have been trying to shape the narrative on climate change and make individuals feel like they're responsible and the fossil fuel companies are honest actors in this fight. But they're not," she said.

"They were undermining science. Exxon was attacking scholars, including at Harvard. So when divestment makes clear who is perpetrating the harms, we think that there's got to be a financial impact to them as well."

This article was amended on 24 September 2021. An earlier version misspelled Morgan Whitten's name.

This story is published as part of Covering Climate Now, a global collaboration of news outlets strengthening coverage of the climate story