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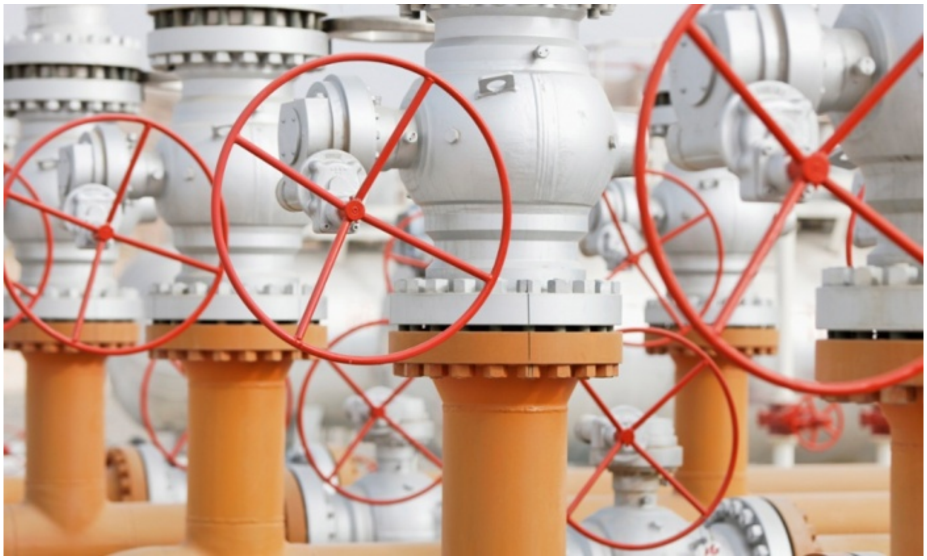
Climate Campaigners Losing Faith in Value of Engaging With Fossil Fuel Firms

As the divestment campaign gathers pace, those in favour argue that investor pressure is 'useless' as an effective means for industry reform – but some experts say putting all your eggs in one basket is a risky strategy

Suzanne Goldenberg | Apr. 07, 2015



Is engagement or divestment the most effective way to get fossil fuel companies to face up to the risks of climate change? Photograph: Corbis

It's been 23 years since investor activists first tried to get the oil business to face up to the risks of climate change. Progress has been painfully slow and gains have been few. Now many campaigners have concluded that engagement is not delivering anywhere near fast enough: it is time to sever ties with fossil fuel companies.

"Engagement is useless," said Bevis Longstreth, a securities and exchange commissioner during the Reagan administration, who has signed on to the divestment campaign by Harvard alumni who are calling on that university to shift its investments from fossil fuels. Oil and gas companies were never going to give up their core business because of shareholder proposals, he argues.

"The engagement process has had some effectiveness with issues that don't go to the heart and soul and pocketbook of directors and officers."

When it comes to the massive changes required of fossil fuel companies he reaches for a tobacco analogy. "When you ask Philip Morris to stop making cigarettes, you are really barking up a different tree and they are not going to do that."

The experiences over the past two decades of working with BP, ConocoPhillips, ExxonMobil, Shell and other companies led Shelley Alpern, advocacy director for Clean Yield Asset Management to a similar conclusion: investor pressure was painfully slow in pushing companies to reform.

"For years they equally ignored both the very small investor who was filing resolutions with token shares and the very large investor coming in with hundreds of thousands of shares," she said.

With the gathering urgency of climate change, time is running out. "My job description is to be a shareholder activist but we are just at this critical moment with fossil fuel companies, and it really is all hands on deck to deliver the strongest political message that the world's governments have to enact meaningful carbon constraints," Alpern said.

Investors have made headway in pushing companies to disclose their carbon footprint and their potential liabilities – in terms of fossil fuel holdings that could be stranded in a carbon-constrained world, or facilities at risk from sea-level rise or the other effects of climate change.

That's no longer enough, said Alpern, whose firm manages $275m (£186m) in assets. "The resolutions are too soft. It's been a lot about further transparency or setting goals to reduce operational emissions. At this point we think it needs to be filing shareholder proposals – like one that I am aware of with ExxonMobil – asking the company to reduce capital expenditures on high-cost risky development such as the tar sands and return that capital to shareholders."

It's an even bigger ask to press energy companies to put out a plan for their managed decline, she said. "What they need to do is unprecedented. They need to change their core business model in almost no time flat. They need to acknowledge that 80% of proven reserves is dangerous to bring to production," she said.

"It flies in the face of any precedent for an industry to just say: 'yes, the times are changing, and we are going to basically almost put ourselves out of business or radically reform'."

The frustration at the lack of real progress has driven the growing fossil fuel divestment movement. Over 200 organisations including universities, colleges, churches and philanthropic funds worth over $50bn (£33bn) have now committed shift their investments from coal, oil and gas.

Last month, Guardian launched its Keep it in the Ground campaign which calls on two of the world's largest charitable funds, the Bill and Melinda Gates Foundation and the Wellcome Trust, to withdraw their holdings in coal, oil and gas companies.

In his response to the campaign, the head of the Wellcome Trust Jeremy Farrar argued that engagement was a better way to effect change: "Our view is that it is more constructive and effective to take a case-by-case approach to investments in the energy sector ... with active engagement with the companies in which we invest. We use our access to boards to encourage them to adopt more transparent and sustainable policies that support transition towards a low-carbon economy."

Many activists agree. In the past two decades, shareholder activists have brought more than 150 climate proposals to fossil fuel companies and more than 650 similar proposals to other businesses, according to the Interfaith Center on Corporate Responsibility.

But Ellen Dorsey, head of the Wallace Global Fund, which began divesting six years ago and has mobilised philanthropies to pull their funds out of fossil fuels, says progress has been too slow.

"It's not working in a time-frame that is commensurate with the science," she said.

An effective engagement strategy needs clear goals, Dorsey said. Companies must be held to account if they don't hit defined benchmarks.

She argues that divestment delivers a much bigger bang for the buck than shareholder engagement, by putting pressure on companies while motivating the public.

"I thought it could be very effective for changing the debate about climate change, and to put a sharp point on the industry itself," she said. "Everyone was trying to figure out how to move the needle ... Effort after effort to move policy, but at a certain point the system isn't responding."

In a very significant move, the United Nations agency guiding negotiations for a global climate change agreement next December recently came out in favour of divestment – as a means of sending a message to coal companies that "the age of 'burn what you like, when you like' cannot continue".

But not everyone agrees. The Ceres green business network, the Interfaith Center for Corporate Responsibility and the Carbon Tracker Initiative argue divestment should be left as a last step – to be used only when all other points of pressure are exhausted.

And they argue that point has not yet arrived. Industry is now more susceptible than ever to investor pressure as the reality sinks in of a carbon-constrained future.

The World Bank chief, Jim Yong Kim, who is adamant that the world must leave most of the world's fossil fuels in the ground and has asked the bank to review its own holdings in coal, oil and gas, endorses this view.

The divestment campaign has re-energised the debate about climate change, he told divestment activists at a speech in Georgetown University in March. "The conversation in the last year has changed dramatically, I think. What you guys have done to change the public conversation is a very good thing," he told campaigners. "I just say: 'don't put all of your eggs in one basket'."

Investor activists have not given up either. Activists have put up at least 76 climate proposals ahead of the coming season of annual general meetings, asking fossil fuel companies about their climate plans, the high cost of fossil fuel extraction, and the risks of transporting oil by rail.

Energy companies are also being pressed on their plans to protect their assets from sea level rise and other climate-fuelled disasters, according to a list compiled last month by Proxy Preview.

The fall in oil prices has also strengthened the financial argument for getting out of fossil fuels, campaign groups said.

Over the past several months, Shell and Statoil have dropped plans to drill for oil in the Alberta tar sands, and Chevron has given up on exploration in the Canadian Arctic.

The industry has cancelled some $170bn (£114bn) in new projects, according to Jeremy Leggett of Carbon Tracker. "The writing is very clear for those with the eyes to see that this is a bubble in the process of going pop," he said. "There are multiple examples of places you can go in the world where it makes no economic sense to bring the stuff up out of the ground, never mind about climate change," he said.

Andrew Logan, who oversees the oil and gas programme at Ceres, argued there was still time to persuade oil and gas companies to give up on drilling for new oil – especially with the high costs of deepwater drilling, tar sands extraction and Arctic exploration – and manage an orderly transition to cleaner future.

It was too late for coal, but he said he saw a business future for oil and gas companies even in a carbon-constrained world.

"The industry is still generating a fair amount of cash flow from older, low-cost projects," he said.

"We think there is a strategy for the Exxons and Chevrons of this world to milk those projects as long as they can and go out of business in a very profitable and long-term way, or put those profits into something that is more sustainable in a carbon-constrained world."

He argued that managed decline could even help mobilise the trillions of investment needed for the transition to clean sources of energy if, for example, oil companies diverted their enormous capital expenditure budgets into clean energy. "Divestment in it and of itself is not going to have the impact that we need. It is not going to move massive industries," Logan said. "The simple truth is that if something isn't done about how the oil industry invests its capital it's just not going to be possible for the world to meet its climate change goals."

Longstreth countered that engagement at this point is giving oil and gas companies an easy out – helping them to postpone the day when governments impose stricter emissions cuts.

His old university, Harvard, has given those oil companies additional cover by refusing to divest, he argued.

The only worthy point of engagement now, he said, was to persuade fossil fuel companies to themselves lobby for the elimination of industry subsidies or stronger regulation.

Alpern, despite her frustrations, was not going that far. “I haven’t given up entirely on filing shareholder resolutions,” she said. But she thought it would be more effective for investors to divest the bulk of their fossil fuel holdings, retaining a nominal amount to maintain a communications channel as shareholders.

“Engagement without divestment is like having laws on the books with no police to enforcement them,” she said. “Let’s get some teeth.”

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