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Hitting fossil fuel companies where it hurts

Across the world, the divestment movement is growing at an encouraging pace

One way to undermine activities connected with elite networks of the fossil fuel industry complex is to take aim at their finances. Initial attempts to do this by some environmentalists were ridiculed as being too feeble. But we should recall that the ultimate collapse of apartheid in South Africa was due to hardship caused to the regime by the divestment movement. A committed campaign by various organizations has, over the last decade or more, systematically attacked equity, or investments, and loans, or credit, available to the fossil fuel industry. The campaign's persistence is finally being noticed for its successes. How much fossil fuel wealth is at stake? Saudi Aramco's revenue in 2019 was $111.1 billion, Royal Dutch Shell's revenue was $23.9 billion, and Exxon Mobil's was $20.8 billion — and these are just three companies.

Arguments for divestment do not apply to India at this time. The reason is that India's contribution to the stock of greenhouse gases is minimal. Even in terms of annual flows, the country's contribution is less than two tonnes of CO_2/capita. But policymakers should take note that the costs of production and storage of renewables are falling precipitously and we therefore need to be poised to make a just transition away from coal in the near future. This process will be complex and necessarily involve many sectors and activities including land restoration, local jobs, and timely transfer of storage technologies for renewable energy, apart from dealing with entrenched vested and political interests. Recent reports from Prayas and the Centre for Science and Environment provide pathways for coal power plants to retire in a meaningful time frame.

PULLING THE RUG

A large network of activists including Rainforest Action Network, 350.org, Go Fossil Free, People and Planet, youth protesters, university students and faculty, and committed people have been undertaking systematic organized drives for divestment from fossil fuel companies. Divestment is the process by which money put into stocks and bonds of certain companies is withdrawn. In this case, divestment has been directed against companies that extract, refine, sell and make profits from fossil fuels. The purpose is to restrict fossil fuel companies' ability to function with no regard for their impact on climate change.

The divestment operations targeted large investment funds. These are primarily faith based, philanthropic, educational, pension, insurance, and metropolitan funds. Noteworthy among those that have divested are the World Council of Churches, large pension funds from France and Australia, the Norwegian Sovereign Wealth Fund, the Rockefeller Brothers Fund, New York City, many U.K. universities, the University of California, and Columbia University. Withdrawal from investing has been 'partial' (from certain kinds of fossil fuels such as tar sands) or 'full' (from all fossil fuels). As of 2019, it is estimated that more than $11 trillion in assets has been committed to divestment from fossil fuels.

Targeting banks that provide loans to fossil fuel groups, organizations that are part of this movement have been hitting the bull's eye quite often. What drew media attention recently was that Goldman Sachs announced that it would, among other things, no longer finance new oil drilling in the Arctic National Wildlife Refuge and also not provide capital for some of the worst kinds of coal mines, such as mountaintop mining.

According to the 2020 report Banking on Climate Change by the Rainforest Action Network, after the Paris Agreement of 2015, where countries agreed to try to limit average global warming to well below 2°C, global banks continued to finance the fossil fuel industry with $2.7 trillion. The report finds that big U.S. banks dominate this arena with JPMorgan Chase, Wells Fargo and Citi being the world's top fossil fuel financiers. In other parts of the world, the Royal Bank of Canada, Barclays in the U.K., the Bank of China and MUFG in Japan dominate the scene. The main fossil fuel subsectors are oil from tar sands; Arctic oil and gas, for which financing has been increasing; fracked oil and gas; liquefied natural gas; mining of coal, for which financing is dominated by Chinese banks; and coal power financing, again led by Chinese banks.

Banks support companies that are expanding fossil fuels, including new kinds of fuel and in new places. A total of $975 billion was the bank financing for 100 key oil, gas, and coal companies between 2016 and 2019. The report uses a point system to assess bank policies on ending financing of fossil fuels and finds that Crédit Agricole performs best even though it makes only about 40% of the possible points. This demonstrates how misaligned the banking sector is with the goals of the Paris Agreement.

HAVING AN EFFECT

That these efforts are having an effect is seen from statements made in various finance and investment related documents. According to a recent report of the climate related Market Risk Subcommittee (a body under the Commodity Futures Trading Commission, an independent agency of the U.S. government), climate change poses a major risk to the stability of the U.S. financial system. Regulators need to assess, understand and act on them. Divestment appears to be putting the squeeze on the industry. On October 6, Daniel Pinto, the co President of JPMorgan Chase and CEO of its Corporate and Investment Bank, announced that the company would “help clients navigate the challenges and capitalise on long term economic and environmental benefits of a low carbon world”. The bank proposes establishing a Center for Carbon Transition and setting “intermediate emission targets for 2030” for its financing portfolio.

Companies going bankrupt state that the divestment movement is making it difficult to raise capital. Shell, for instance, considers the movement a “material risk”. When banks and investors begin to shift away from fossil fuel companies because they become risky business, then the campaign must be having an effect. The UC Regents’ Investment Committee Chair said that the University of California was divesting not for ethical reasons but because it considers fossil companies to be risky. The divestment movement against banks is gathering steam. Three members of the Rockefeller family have set up Bank FWD, which aims to persuade major banks to phase out financing for fossil fuels. All of these changes are positive steps. Whether these will effectively pull the planet from the brink is unclear.

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