January 13, 2013

It's High Time: Climate Change Solutions, A Public Forum

INVESTMENT ACTION Group Summary

Discussion Leader: Tim Smith, Walden Asset Management, senior vice president and the director of shareholder engagement related to environment, social or governance issues
Minutes taken by Lexington Global Warming Action Coalition

Investment related climate solutions:

South African campaign against apartheid was multipronged:
- Divestment
- Shareholder resolutions
- Citizen actions (pulling money out of banks involved in South Africa)
- Boycotts
- Civil disobedience

Fossil fuel interests are deeply connected to many current investment portfolios. It is difficult, but possible, to divest completely. Bill McKibben's recent "Do the Math" tour has focused the spotlight on divestment. There have been some other breakthroughs, for example, all major fossil fuel corporations now acknowledge the reality of climate change, and shareholder resolutions related to climate are becoming more frequent and compelling.

What about divestment from fossil fuel stocks?
Pros:
- No direct benefit is derived from dirty fuel profits (moral stand)
- Discussion surrounding the question brings to light the harm done by burning fossil fuel and raises use of fossil fuels as a moral issue. 350.org is fostering this discussion through their divestment campaign at colleges/universities, faith congregations, and local and state pension funds. (See: 350's http://gofossilfree.org)
- Large retirement funds (like CA state funds) could make a financial impact on fossil fuel companies.
- The image of fossil fuel companies is tarnished as the climate risks they foster are revealed to more people (both present and future investors and employees). Brand identity is challenged. (i.e. good executive candidates may choose not to work for them, or contracts may not be awarded to companies with questionable reputation)
- If enough people request fossil fuel free mutual funds, investment advisors will start to provide them.
- Eventually insurance costs and the negative impact of climate change will reduce the profits of fossil fuel companies and many people will want to divest; renewables will become more profitable investments.

Cons:
- Divestment by individuals and colleges/universities, unless on a massive scale, would not be a financial problem for large fossil fuel corporations. (70% of stocks are owned by institutions.)

- Stockholder power for change through voting/writing stockholder resolutions is lost. Religious groups have been fairly effective by offering stockholder resolutions. Even if a resolution is not adopted, every stockholder gets a copy of the resolution with supporting arguments. All members of the company's board are required to think about the issue.
- Fossil fuel investments are very profitable.
- There are few totally fossil free mutual funds available.
- Trustees do have a legally binding fiduciary responsibility to their institutions. They can be held liable if investments don't yield amounts necessary to fund the organization now and in the future. (But a broader view of benefits to the organization includes sustaining a livable planet)

What are other options?

- Select investments based on the carbon emissions of company. Green Century has an investment option that excludes fossil fuel. Other choices: Trillium, Pax World Fund, Walden Asset Management.
- Adopt a positive rather than negative strategy: Choose investments in renewable energy companies. In recent years these companies have rather volatile, in part due to erratic government subsidies. But investors could choose some renewable stocks (say 10%) as a portion of their portfolio.
- Look at "best of class" funds that eliminate some fossil fuel investments (say coal or coal and oil)
- Divest from some fossil fuel stocks and hold ones where you can be an active in shareholder resolutions.
- Read The United Nations' "Principles for Responsible Investment" http://www.unpri.org

Question: How do you find out what companies are doing?

- Check out shareholders' resolutions: **www.iccr.org/news/press_releases/2013/2013climateresos.pdf**
- Find out about the climate impact of a company. A climate risk profiles for companies were developed using data from Trucost, http://www.iccr.org/news/press_releases/2009/pr_trucost02.05.09.htm
- Look at company reports. Many now feature a "carbon disclosure" section. If not, ask. Look at long term goals. Do they include continued exploration for and development of fossil fuel reserves?
- Check out Industry Initiatives on Ceres website: http://www.ceres.org

Tim's advice: It is not easy (to change the investment culture). A carbon tax would be the cleanest way to change consumer habits. If the negative cost (health, environmental) of fossil fuel is considered, it becomes a less attractive investment. (Mindy Lubber notes: The economic costs of Hurricane Sandy and this summer's historic drought eclipsed $100 billion, an amount equal to the combined annual profits of just three big oil companies, Exxon, Chevron and Royal Dutch Shell.) Carbon pricing has fairly broad support, including from Exxon Mobil.

A comment related to this topic-- Divestment from fossil fuels compares more closely to divestment from tobacco interests or gun manufacturers in that the product of the company is itself harmful. Companies could manage to withdraw from South Africa without losing their business, but the fossil fuel companies (at least at the present) depend on oil, coal, and natural gas for their existence. We need to prove the harm caused by the products of fossil fuel companies.

Question: Is it possible to divest from fossil fuel stocks and still maintain a good income? A participant gave the example of divesting from fossil fuels many years ago and finally finding an investment advisor who helped her do well without them.

More on Tim Smith:
http://www.csrwire.com/blog/posts/562-tim-smith-a-shareholder-advocate-who-means-business?utm_medium=Twitter&utm_campaign=CSR+and+sustainability+news

Interfaith Center on Corporate Responsibility
http://www.iccr.org
Shareholder resolutions: http://www.iccr.org/shareholder/trucost/index.php
Trucost: http://www.trucost.com
Ceres: Advocates for sustainability leadership—A network of investors, companies and public interest groups. http://www.ceres.org/issues/climate-change
350.org