The Moral and Financial Risks of Fossil Fuel Investments in a Climate Emergency

James K. Rowe, School of Environmental Studies, UVic

Two of UVic's major strategic priorities are **Promoting Sustainable Futures** and **Fostering Respect and Reconciliation**.

- These are values many of us seek to live by in our teaching, research and community engagement. For us, they are not just buzzwords.
- This image is from earlier this year. This is the RCMP invading unceded Wet'suwet'en territory to facilitate the building of the Coastal Gaslink pipeline that will ship fracked gas from Northern British Columbia to Kitimat.
- You may have participated in the nation-wide protests to denounce this colonial incursion.
- And yet despite that participation we all materially support the very company violating Wet'suwet'en law: TransCanada. Our pension fund has three million dollars invested in TransCanada.
- When you go to sleep at night your retirement savings are contributing to colonial dispossession even if during the day you are teaching about the need for decolonization.
- Likewise, UVic claiming leadership on **Respect and Reconciliation** while investing millions of endowment dollars in two of the biggest despoilers of Indigenous lands and waters in Canada (Suncor Inc. and Canadian Natural Ltd.) is hypocritical and colonial.
- The Beaver Lake Cree are currently in court fighting the cumulative effects of oil sands development, mainly oil and gas wells, on their traditional land and way of life.
- Suncor and Canadian Natural are two of the biggest culprits in this regard and UVic continues trying to profit from these operations.
- Reconciliation, decolonization, Indigenization are all nice words, but UVic's continued efforts to profit from the dispossession and denuding of Indigenous lands and waters means we are not walking the walk. This hypocrisy is a moral failing and a reputational risk.
- The same is true for climate change. UVic likes to present itself as a climate leader. And yet our endowment fund has 2.5 million invested in Imperial Oil, the Canadian subsidiary of Exxon Mobil.
- Likewise, BCI who manage the foreign equity investments of our pension fund have $148 million dollars invested in Exxon Mobil itself.
- ExxonMobil is the poster child for climate change denial. It has spent millions obstructing action on climate change and sowing doubt on climate change science.
- While climate denial has been good for ExxonMobil's bottom line, it has been very bad for efforts to reduce emissions and avoid the dangerous effects of global warming such as extreme weather, drought and increasing wildfires.
- By investing millions of dollars into Imperial Oil and Exxon, UVic and our pension fund are tacitly supporting Exxon's history of climate change denial; indeed, we are trying to profit from it. That is sustainability leadership in high speed reverse.
- The political theory underlying divestment is that the biggest barrier to climate action, the reason we are now facing a climate emergency, is the role the fossil fuel industry has played in denying the science and obstructing needed policy.
- Many oil and gas companies have moved past blatant denial and are instead focused on policy obstructionism.
- Bill Carroll from Sociology at UVic released a report earlier this month showing that the oil and gas industry is this country's biggest lobbyist. Bill and his colleagues found that over the last seven years the industry has averaged 6 lobby visits with the Canadian government per day for a total of over 11,000 visits.
- The industry is pursuing its self-interest and seeking to expand production at a time when we need to keep reserves in the ground.
- The rub, is that we are materially supporting these endeavours with our investments. Between our pension fund and the endowment, we are invested in some of the biggest lobbyists such as Suncor and TransCanada.
- Many of us teach about the vital importance of robust climate action, and yet these efforts are being materially undercut since our pension fund and endowment are helping to fund policy obstructionism. This is a moral failing and a reputational risk.

- Divestment seeks to remove the social licence of fossil fuel companies, shine a light on their dangerous activities so that it becomes easier for legislators to pass the transformative policies that we need to avoid catastrophic climate change.
- It is a promising sign, and a feather in the movement's cap, that two of the leading contenders for the Democratic primaries, Bernie Sanders and Elizabeth Warren, have endorsed a Green New Deal, have robust climate plans, and have both promised to prosecute fossil fuel companies for their role causing an emergency and delaying needed action.
- If more high-profile institutions divest, then more space will open up for other legislators to pursue the rapid energy transition we need. UVic needs to support this transition with more than words. Indeed, we need to stop blocking it with our investments in fossil fuel companies.
- The moral and political case for divestment has always been strong but critics sometimes worry about the financial implications. Won't our endowment and pension funds lose money if we stop trying to profit from fossil fuel companies?
- The answer is no. The financial case for divestment is growing stronger by the day. Solar and wind stocks are outperforming oil and gas shares by a widening margin this year.
- And divested portfolios can perform better than those with fossil fuels. Something for us to seriously consider since our pension fund had negative returns last year.
- As a local example, The British Columbia Government Employees Union chose to divest their strike fund from fossil fuels in 2014 on purely economic grounds. They avoided the oil price crash and their divested portfolio continues to perform better than the Toronto Stock Exchange Composite Index.
- And this is without considering the major financial headwinds facing the fossil fuel industry.
- As energy generation shifts away from fossil fuels, investors who do not respond could be left with "stranded assets"—investments that are no longer profitable.
- Limiting global warming means limiting the total global emissions of carbon dioxide.
- Using the 1.5-degree limit, the IPCC has calculated a carbon budget—the amount of carbon dioxide equivalent that human society can burn before that limit is reached.
- That carbon budget is 420 billion tonnes of CO2e for a 66 per cent probability of staying below the 1.5-degree threshold.
- For perspective, this budget will be exhausted in 10 years at current global emission rates.
- The world's carbon budget is much smaller than the fossil fuel reserves available for extraction and combustion.
- According to the Carbon Tracker Initiative, total proven fossil fuel reserves contain approximately 2,800 billion tonnes of C02e—a figure that dwarfs our remaining carbon budget of around 420 billion tonnes.
- While these reserves remain underground geologically, they are above ground economically, as they are factored into company share prices.
- The fundamental contradiction facing the fossil fuel industry and its investors is that a large portion of known reserves already factored into company valuations must stay in the ground if we are to avoid disastrous levels of climate change.
- If governments legislate for a 1.5-degree world, huge supplies of fossil fuels will become unburnable, and the companies and investors that own them or the rights to extract them could lose billions of dollars.
- Canadian fossil fuel companies and their investors are especially exposed to stranded asset risk since the majority of oil produced in Canada is high-cost, carbon-intensive bitumen from the oil sands.
- Indeed Exxon is currently being sued by the state of New York for overvaluing their fossil fuel reserves, particularly their oil sands reserves, downplaying the risks of those investments and essentially lying to their investors.
- Partly because divested portfolios tend to perform better and partly because of stranded asset risk more and more large institutions are turning away from fossil fuels on financial grounds.
- In September, the University of California – one of the world's largest universities announced the full divestment of their 13 billion endowment and 70 billion pension on financial grounds.
- Last week, the European Investment Bank, the world's largest multinational lender, announced that they would stop financing fossil fuel extraction and production.
- Similarly, the Swedish central bank sold off the government of Alberta bonds that they hold. They did not do this in an act of national solidarity with Greta Thunberg. Instead, they did it because Alberta's carbon footprint is particularly high and this does not bode well for the needed energy transition.
- So far over 1,000 institutions with a collective worth of 11 trillion dollars have divested.
- Despite Concordia university announcing divestment earlier this month, Canadian institutions have been slow to act on stranded asset risk.

Why?

- If you look at the regions with the highest concentrations of divestment: California, New York, the UK and continental Europe, none of them are major fossil fuel producers.
- Canada is. The fossil fuel industry is very powerful here. And they use that power to shape public debate in a way that serves their interests.
- Fossil fuel companies are major donors to universities, for example. And this is not simply in Alberta and Saskatchewan. At Dalhousie in Nova Scotia, Shell who is a significant donor, recently waded into their local divestment debate.

According to Chris Moore, now Provost at Dal, "A senior executive at Shell... told me directly that the company is monitoring the university divestment movement closely and would look unfavorably on any university that divested in regard to future investment."

- Industry influence has likely slowed the rate of divestment in Canada, which is a risk to current and future returns because divested portfolios generally perform better and because of stranded asset risk.
- Here at UVic, I am not aware of direct industry interference influencing divestment decisions. But it I noteworthy that the new Chair of our Endowment board is also on the board of Horizon North Logistics, which builds modular camps for oil sands production.
- For our endowment Chair to pursue divestment she would be materially harming the interests of a company she is a fiduciary of and so she is unlikely to do so.
- Again, the industry had broad reach in Canada and is a key reason why our institutions are responding more slowly than other jurisdictions to stranded asset risk. This compromises us morally and financially
- I'd like to conclude my time by raising questions about shareholder engagement, which is a preferred strategy of asset managers such as BCI for dealing with climate risk.
- I brought copies of an analysis that myself and colleagues published in the Vancouver Sun last year targeting BCI's limited response to climate risk.
- I think shareholder engagement and ESG integration can be valuable strategies for improving other industries. They are toothless, however, for achieving the kind of emissions reductions required to avoid 1.5 degrees warming.
- To avoid blowing past our carbon budget, fossil fuel companies need to keep significant amounts of their reserves in the ground, and no company will willingly strand their own assets.
- For example, in 2017, Exxon accepted a shareholder resolution calling on the company to report on the potential risks to its business posed by the Paris Agreement, a resolution that BCI supported.
- Nine months later, Exxon fulfilled its obligations by publishing a report concluding that fossil fuel assets "face little risk" despite the Paris Agreement. The company justified this conclusion based on the assumption that countries would not make the aggressive cuts needed to limit global warming to 1.5°C.
- And that's a successful shareholder resolution.
- I think that shareholder engagement with fossil fuel companies in the context of a climate emergency is our Neville Chamberlain moment; it's a form of appeasement that makes us feel like we've addressed the problem, while the threat only grows more severe.
- No strategy is perfect, but divestment is far better suited to protect us from moral and financial risk, while also targeting the primary reason for climate action: the organized obstruction of the fossil fuel industry.

Thank you.