49. The case for fossil fuel divestment

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“We recognize that the world is on an unsustainable path,” wrote British Petroleum (BP) chairman Helge Lund in a May 2019 *Financial Times* op-ed. The findings of climate scientists are real. The world must move to a net-zero carbon future in the decades to come. It must transition to a low-carbon future as rapidly as possible. “We say this not to protect our license to operate, nor as some elaborate form of greenwashing. Apart from being the right thing to do, it is simply in our best interests,” he concludes.¹

Published to coincide with BP’s Annual General Meeting (AGM) in Aberdeen, Scotland, the op-ed from the oil and gas supermajor reads like an arms manufacturer signing onto a pacifist manifesto. Not everyone was convinced. Outside the Aberdeen Exhibition and Conference Centre on the day of the AGM, protestors held up signs reading “climate emergency” and “BP climate criminals.”² A month later, 78 artists signed an open letter protesting against the London National Portrait Gallery’s acceptance of funding from BP.³ The letter noted that BP invests only 3 percent of its available capital in renewable energy – far less than it spends actively looking for new fossil fuel reserves at a time when most of the reserves already on its books must stay in the ground.

Since the invention of the steam engine 300 years ago, the carbon-fueled economy has delivered tremendous progress. It has helped to alleviate poverty, improve health, and advance civilization. Coal, oil, and gas have brought light to billions, but for the past 30 years we have known that burning them also has a darker side. Putting short-term profits over the long-term well-being of the planet, the fossil fuel industry has evolved from an engine of civilizational progress to its archenemy.

A decade ago, no supermajor would have conceded as bluntly as BP did that the world is on an unsustainable path. Today, the global narrative around climate change has shifted, thanks to the growing climate movement, comprising in part the scientists, activists, and other actors discussed in this book. Among them are thousands of investors who are tired of trying to influence fossil fuel companies with the shares they hold – and so instead have abandoned them.

The Rockefeller Brothers Fund (RBF) announced its own decision to divest on September 22, 2014. A day earlier, 400 000 people from across the world marched through the streets of Manhattan demanding climate action. A day after, UN Secretary-General Ban Ki-moon assembled 120 heads of state in New York for the most important climate gathering since the failed Copenhagen Conference. That gathering in 2009 had enshrined 2°C of warming as the threshold for disaster, but it had failed to extract meaningful commitments to limit carbon emissions to meet this target.

In making our announcement, the RBF joined 800 other individual and institutional investors, then controlling over \$52 billion in assets, in the Divest-Invest movement. The standard pledge – no new investments in fossil fuel companies; sell existing fossil fuel assets within five years; and invest in the new energy economy – was flexible enough that different investors could tailor it to fit their different circumstances. At the RBF, we went one step further: we committed to divest from coal and tar sands, the most egregious pollutants, by the end of that year, and embark on a path to eliminate our investment exposure to the remaining fossil fuel sources.

Our decision was consistent with the Rockefeller family's long tradition of stewardship of nature and the environment. John D. Rockefeller, Jr. donated thousands of acres of land and millions of dollars to natural parks around the country, including some of the most iconic – Grand Teton National Park, the Great Smokey Mountains, and Acadia National Park. When his five sons founded the Rockefeller Brothers Fund in 1940, conservation remained a focus of their philanthropy. They were guided by the simple principle that, as current board chair Valerie Rockefeller puts it, “not only rich people should have access to beautiful natural places.”

In the 1970s, as society's understanding of ecological threat evolved, so too did the RBF's environmental grantmaking. The Fund's Environmental Program, launched in 1974, expanded our focus from park land acquisition to more complex ecosystem issues at the intersection of population, food, capital, pollution, and values. The addition of Steven Rockefeller, a scholar of ethics and religion and co-author of the *Earth Charter*,⁴ to the RBF board of trustees in 1977 defined the path forward, establishing the holistic approach that continues to guide our work on the environment and sustainability.

By the mid-1980s, our grantmaking pivoted again in response to a new threat. Scientists had known for over a century that greenhouse gases in the atmosphere, including carbon dioxide, absorb heat from the sun with important effects on the climate. By the time the RBF made its first grant to understand global warming in 1986, to Sweden's Beijer Institute, it was clear to scientists – but not yet to the public at large – that the combustion of coal, oil, and gas over the centuries was warming the planet. The world's bottomless appetite for

carbon-based energy would exacerbate the reality of the threat at the same time that our scientific understanding of it became clearer.

The RBF established its Sustainable Development program in 2003, and by 2010, directed the program's entire budget to work on climate change. By the time we announced our decision to join the Divest-Invest pledge in 2014, the RBF was devoting more than 40 percent of its total worldwide annual grants budget to combating the crisis. "John D. Rockefeller built a vast fortune on oil. Now his heirs are abandoning fossil fuels," read *The New York Times*. The media reveled in the historical irony.

Yet, John D. Rockefeller became the wealthiest man on Earth by looking furthest into the future – not by clinging to the past. He revolutionized the energy industry at a time when oil was being extracted from whale blubber. Certainly, it should not come as a surprise that his descendants would support the next phase of energy innovation. The real irony was not that we divested from fossil fuels, the source of the Rockefeller family's wealth and the RBF endowment. It was that for years we had been spending tens of millions of dollars on efforts to mitigate the climate crisis, while at the same time *investing* in the very industry most damaging to our cause. Why hadn't we shifted our portfolio sooner?

Philanthropic foundations in the United States are required by law to pay out 5 percent of their endowment each year for charitable expenditures. If a foundation aspires to exist in perpetuity, as the RBF does, the other 95 percent goes to investments that are used to regenerate the endowment and preserve its purchasing power. The conventional logic of non-profit endowment management prescribes a church–state divide between a foundation's grantmaking and investment activities.

This logic of separation is pervasive in the non-profit world, not only at grantmaking foundations. Harvard, which has the largest endowment of any U.S. university, has long justified defiance of its students' call for divestment through appeal to this supposedly sacred principle. "The endowment is a resource, not an instrument to impel social or political change," writes Drew Gilpin Faust, the school's former president.⁵

The RBF has always had an expansive understanding of what it means to pursue its mission – advancing a more just, sustainable, and peaceful world. Our grantmaking dollars are our most important tool, but they aren't our only one. Our convening power is another tool. Our reputation, rooted in the Rockefeller name, is yet another. Why should 95 percent of our endowment be off limits? Climate change is the existential crisis of our century. We wouldn't step into the ring of the most consequential fight of our lives with one hand tied behind our back.

We began thinking about the other 95 percent in 2002, a year after I joined the RBF as president. Our first concrete step toward reconciling our

investments with our mission, however, came in 2005, when we adopted proxy-voting guidelines. Over the course of a year, and under the leadership of Steven Rockefeller, board chair at the time, our Investment Committee drafted a 33-page document that detailed how we would deploy our common stock ownership as assets to advance our mission and to encourage environmental, social, and governance progress. In the case of fossil fuel companies, the idea was that more transparent and equitable corporate governance structures would push the companies to become more responsible stakeholders in society.

The fossil fuel companies had other plans. In 2008, 73 Rockefeller family members threw their weight and the history of their family name behind a shareholder resolution that called for an independent chairman role at Exxon, the largest legacy company of John D. Rockefeller's Standard Oil. Neva Goodwin and Peter O'Neill led the family's shareholder crusade, which included three other resolutions, with varied levels of family support, to address global warming and renewable energy. Unfortunately, money spoke louder than morals: Exxon had just posted the highest profits in American corporate history. At Exxon's AGM in Dallas that year, none of the resolutions passed.⁶ Similar resolutions failed in subsequent years. Shareholder activism, it seemed, was not the answer.

Policymaking on the national and international levels, too, would disappoint before the decade's end. The Waxman-Markey Bill passed the House of Representatives in June 2009. Had it passed the Senate, it would have established a cap-and-trade system – a carbon-pricing scheme that RBF-supported think tanks had helped devise. Weeks and months passed as advocates pushed for Senate action, but the bill was never brought up for a vote. Not a single Republican Senator was prepared to break ranks and support climate action.

Then came December, a dark month for the climate movement. Many had hoped that the UN Climate Change Conference in Copenhagen that year would result in a legally binding treaty to reduce emissions. What it gave us instead was a document that acknowledged the scope of the problem but did nothing about it. In his poem "The Snow Man," Wallace Stevens could have been writing about Copenhagen when he famously beheld "nothing that is not there and the nothing that is."

Disappointments in Dallas, Washington, and Copenhagen were top of the mind for the RBF during Investment Committee discussions in 2009 and 2010. On the grantmaking side, our Sustainable Development program director Michael Northrop would absorb the hard knocks of 2009 by shifting focus to the subnational levels of government. How would we respond on the investment side to a crisis growing more urgent by the day? In March 2010, the RBF board of trustees approved staff's recommendation to allocate up to 10 percent of our endowment to "impact investments," with a focus on clean energy and other green business ventures. We set a high bar for these investments: they

must meet standard financial return objectives while also measurably contributing to positive environmental or social impact.

It would take years before our impact investments would get off the ground. As we started, our investments were managed by an investment firm along with those of a number of other institutional investors in co-mingled funds, which meant that a dozen investors had to sign off on any change in investment strategy. A second, perhaps even more fundamental obstacle was the dearth of attractive impact investment products.

If our impact investments were slow to take off, another philanthropic investment we made in 2010 brought quick returns. In July, together with the Growald Family Fund, the RBF gave \$90 000 to a year-old UK organization called Investor Watch, co-founded by Mark Campanale. It was the first foundation grant Investor Watch received for a project that sought to track the fossil fuel reserves of coal companies, and later oil and gas companies.

Soon, Campanale's project at Investor Watch would spin off into its own organization, Carbon Tracker, and fundamentally change the debate around climate change. Carbon Tracker published its groundbreaking report, *Unburnable Carbon*, in late 2011.⁷ Scientists had been able to calculate, approximately, what remained of our carbon budget – that is, the amount of carbon we could burn before crossing the 2°C threshold would become a foregone conclusion. What we hadn't known at the time was how much carbon fossil fuel companies had on their balance sheets. Carbon Tracker supplied the missing piece of the puzzle: 2795 gigatons. That was nearly five times the 565 gigatons of carbon that scientists had determined we could “safely” burn.

In other words: in order to stay below 2°C warming, 80 percent of known fossil fuel reserves would have to stay in the ground. They would become, as economists say, stranded assets. But investors were still pricing these companies under the assumption that every drop of oil on their books would be brought to the market. The world's financial markets were carrying a carbon bubble that would make the housing bubble of 2008 look playful by comparison. The question was when, not if, the carbon bubble would burst.

Now there was an economic dimension to a conversation that had previously been conducted along moral lines. The moral case for divestment argues that it is wrong to abet and profit from companies whose business models are premised on the destruction of the planet. The economic argument strikes the word “profit”: fossil fuel companies, it says, are simply bad investments. In a widely read 2012 *Rolling Stone* article, “Global warming's terrifying new math,”⁸ Bill McKibben powerfully married the moral argument with the economic argument supported by Carbon Tracker's analysis. Later that year, he went on tour with his organization 350.org to prosecute the case.

Slowly, but surely, Carbon Tracker's “stranded assets” report and McKibben's “Do the math” tour had begun to shift the public debate.

Divestment was in the air when Ellen Dorsey, Executive Director of the Wallace Global Fund, first came to the RBF in the summer of 2013.

The Wallace Global Fund had begun its own divestment discussions in 2009, after Copenhagen and Waxman-Markey had failed in large part because the fossil fuel industry had sabotaged them. In an analogy to the South African divestment movement that had helped to end apartheid, Dorsey saw divestment from fossil fuel companies as an opportunity to take away their social license and expose them for what they were: rogue actors. She formally launched the Divest-Invest Philanthropy a year later. The RBF was not among the initial wave of 17 foundations, controlling \$1.7 billion in assets, who took the three-part pledge. But the seed had been planted.

In February 2014, frustrated with the slow progress of our impact investments, the RBF engaged a new outsourced chief investment office (OCIO), Perella Weinberg Partners (PWP). They didn't yet know – and neither did we, quite yet – that divestment was where we were heading. By the time our Investment Committee convened in May, our sense of urgency had grown more acute and our thinking had evolved. Studies were indicating that the climate crisis was more dire than had previously been predicted. Dorsey wanted to make a big announcement timed to Ban Ki-moon's Climate Summit in September, and she asked whether we would join. Divestment, she explained, offered an opportunity for foundations long accustomed to funding movements to instead become part of one. And doing so made economic sense, we now knew.

Could PWP help us think through divestment in time for a September announcement? The crucial question for us was what divestment would mean for the financial health of our endowment. PWP conducted an analysis that looked back 20 years and determined how our endowment would have performed had we been divested from the 200 largest coal, oil, and gas companies during that time. The result was devastating. We called it the Doomsday Scenario.

The past does not predict the future, as any investment professional will say. Confident that Carbon Tracker's analysis was fundamentally sound, we knew that the Doomsday Scenario wouldn't come to pass. Still, divestment was an untested strategy and uncharted territory. Getting out of fossil fuels made sense over the long term, but what would it mean for an institution such as ours now – especially when energy accounted for nearly 20 percent of the global economy?

We decided to take the risk. While this was a recommendation championed by the Fund's professional staff, we owe the decision to our grantees, who had been producing cutting-edge research around climate change; to our peer institutions, who pioneered the path of divestment and showed us the way; to the Rockefeller family, who had leveraged their own investments and reputa-

tions to test the waters; and to our trustees, who had the courage to follow the arguments and examples to their logical and moral conclusions.

If our decision to divest was not easy, the hard part came next: making our intention a reality. Divestment doesn't happen overnight. In our case, we had legacy investments with fossil fuel exposure that we could not sell off quickly or easily; we initially had difficultly engaging high-quality managers, some of whom would not accept our investments that came with a fossil fuel exclusion; and finally, much to our irritation, we would sometimes come across funds with attractive renewable energy solutions that we would have to forego because fossil fuels were also in the mix.

Despite the challenges of implementation, our decision to divest has paid off. As of June 2019, almost five years after we decided to divest, our endowment has outperformed a standard 70/30 benchmark (70 percent stocks, 30 percent bonds). We are now almost fully divested, with the 1 percent of our endowment still exposed to fossil fuels on track to zero as remaining legacy investments expire in the next few years. The market for fossil-free investment opportunities has grown dramatically over the past decade, as increased demand for these products from individual and institutional investors has led to increased supply.

Opportunities for impact investing have grown in parallel. While fossil fuel supermajors continue to drill for new oil and gas reserves incompatible with a livable future, the innovative companies that will replace them are expanding renewable power supplies through massive infrastructure projects; optimizing water and agriculture resources; and developing new sustainable forestry practices. Harnessing solar energy has become cheaper and more efficient than ever, with new photovoltaic installations cresting 100 gigawatts for the first time in 2018.⁹ In two-thirds of the world, wind and solar are already the cheapest forms of power.¹⁰

As the availability of investment products grew, our 2010 goal to allocate 10 percent of our portfolio to impact was finally in sight. So, in 2016, we increased our impact investment target to 20 percent. We have already allocated 13 percent, overwhelmingly in funds that focus on clean energy and sustainable development.

The UN estimates that the world must invest \$2.4 trillion annually through 2035 to avert the worst consequences of climate change – or almost \$40 trillion over the next 16 years.¹¹ In 2018, global investments in clean energy totaled just \$334 billion.¹² Despite some fluctuation, that number has hardly budged since 2011.

Lack of clarity about how to measure impact – and what counts as impact investing at all – remains a hurdle for investors toying with this idea. At the RBF, we expect clean energy investments and all impact investments to

deliver market-rate returns, and we ask managers to report regularly on their contributions toward the UN Sustainable Development Goals.

Organizations such as the US Impact Investing Alliance and the newly launched UK Impact Investing Institute are helping to bring much-needed clarity and coherence to the field.¹³ For the field to advance, we need better definitions and metrics. We need case studies. We need dissemination of best practices. Most of all, we need trillions of dollars and a revolution in investing. Our economy feeds on energy to power our homes, cars, computers, machines, and other equipment. Fossil fuels are like fast food: cutting them out without replacing them with new sources of energy, like cutting out burgers and fries without finding healthier substitutes, will starve us, not save us.

Five years after our Divest-Invest pledge, the performance of our portfolio makes a strong argument that the strategy, at the very least, does not hurt an endowment's bottom line. We hope and expect that our experience, on which we provide regular updates on our website, will only strengthen the argument in the years to come. In the spring of 2020 we shared the details of our performance data for this five-year period.¹⁴ Indeed, as an institution that exists in the public trust, we believe that transparency about divestment is an important responsibility and a service to the public. As mounting evidence busts the myth that fossil fuel divestment will be painful, more investors will divest.

The last five years have debunked a second myth, too: that divestment is painless for the fossil fuel industry. When the RBF announced its divestment decision in September 2014, it was largely seen as a symbolic gesture. Our endowment at the time stood at \$851 million, hardly enough to impact the multi-trillion-dollar fossil fuel industry. Even with their combined \$52 billion, the 800 individual and institutional investors who took the Divest-Invest pledge that month were, given the size of the fossil fuel industry, mosquitoes to an elephant.

By the 2015 UN Climate Change Conference in Paris, that figure had risen to over \$3 trillion and by the end of 2016 it was \$5 trillion. The movement has spread beyond the traditional civil society actors to local and even national governments. New York City and Ireland both made headlines in 2018 with their divestment announcements, and in June 2019, Norway announced that it would partially divest its trillion-dollar sovereign wealth fund – the largest in the world.¹⁵ Nearly 60 000 individuals and over 1000 institutional investors with combined assets of more than \$12 trillion have now pledged to fully or partially divest from fossil fuels.¹⁶ That is more than a symbolic gesture.

Fossil fuel companies are feeling threatened and exposed. When Peabody, the world's largest coal company, declared plans for bankruptcy in 2016, it cited difficulty raising capital – in part a consequence of the divestment movement – as one of the reasons. Shell announced in 2018 that it considers

divestment a “material risk” to its business.¹⁷ BASF, the German chemical company, worries that its large carbon footprint will scare away investors.¹⁸

Last July, shortly after its AGM in Aberdeen, BP made a remarkable public announcement: some of its resources “won’t see the light of day.”¹⁹ Declining oil prices, uncertainty about carbon demand in the future, and pressure from investors mean that carbon-heavy projects in difficult to reach places are simply bad business. “There’s no doubt that some of those resources won’t come out the ground,” said BP’s head of strategy.

Carbon Tracker’s thesis of stranded assets has become mainstream in the investment community. Now those assets are really becoming stranded. In the weeks after BP’s announcement, its stock slid six percentage points as investors recalibrated what they thought the company was worth and where they thought it was going. Some sold their stock, perhaps because the massive heatwave that swept across Europe that month, bringing record-shattering temperatures to regions across the continent, jogged their conscience. Others sold them, no doubt, for purely financial considerations.

Why Divest-Invest? As Helge Lund might say, apart from being the right thing to do, it is simply in your own best interest.

NOTES

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