Fossil divestments pick up speed

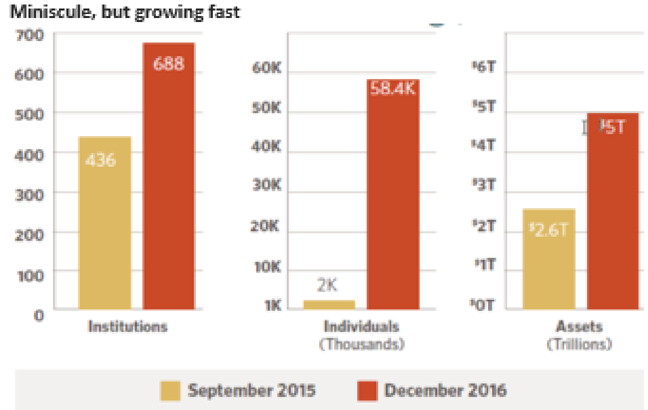
Perry Sioshansi's Letter from America

It may seem miniscule, but is growing. Like a giant oil tanker leaving the harbour, the motion may seem imperceptible at first. Likewise, the movement to divest away from carbon-heavy investments has just begun, and it may seem hardly moving. But in time, it is expected to pick up speed as more fund and asset managers begin to reconfigure their investment portfolios, and as environmentally conscious investors begin to pressure the financial community for better disclosure of risk exposure.

Moreover, heavily polluting enterprises will come under increased scrutiny. Eventually, even investors who don't care about climate will begin to think twice before they put their life savings in businesses that may be shunned by everyone else.

According to Arabella Advisors, a philanthropy services firm, big investment funds are beginning to move their assets away from fossil fuels and businesses that may be exposed to growing risks, as illustrated in graph below. In the past 15 months alone, the assets represented by the fossil fuel divestment movement have doubled. As of December 2016, there were 688 institutions and 58,400 individuals across 76 countries have committed to divest roughly $5tn from fossil fuels. While that is miniscule in terms of number of investors and the amount of global investments, it nevertheless is growing fast and may gain further speed once the recommendations of the Bloomberg Report are widely adopted.

The fossil divestment movement, initially limited to few universities and philanthropic or environmental organisations, has apparently grown to include others, including some pension funds.



Source: Arabella Advisors, Dec 2016

Noteworthy pioneers include Norway's sovereign wealth fund–the world's biggest–German-based financial services giant Allianz, and Amalgamated Bank, the first U.S bank to divest. Private businesses represent $4.6tn in assets being divested, nearly 90% of the total.

The recently ratified Paris climate agreement has been a contributing factor. The falling costs of renewables another. In 2015 renewables set a new $288bn record accounting for roughly 70% of all investments in the electric power generation worldwide. There have been other contributing factors such as the announcement by Google that it would purchase 100% of its energy needs from renewables in 2017. The company is already the largest private buyer of renewable energy in the world.

In December 2016, a group of investors worth $170bn led by Microsoft co-founder Bill Gates announced a $1bn fund, called Breakthrough Energy Ventures, dedicated to investing in clean energy innovation. In describing his motives, Gates said, "It's such a big market that the value if you're really providing a big portion of the world's energy, the value of that will be super, super big." That's how super, super rich talk.

If Bill says it is "super, super big," it must be. In other words, the investment community is likely to focus on enterprises that have future growth potential with little risk exposure. Coal mining or investing in a coal-fired plant is not likely to fit the bill, whether you are Bill Gates or Joe Blow.

Trump's anti climate views–at least those he espoused during the election campaign–may in fact help rather than hurt the cause. Those who are environmentally committed will now have an opportunity to put their money where their mouth is. Presidents come and go. A changing climate, however, will be around, and the problems will get worse the longer the investment community ignores it.

Perry Sioshansi is founder and president of Menlo Energy Economics and is the editor and publisher of *EEnergy Informer*, from which we have sourced this article, and which we commend.