Are Fossil Fuel Divestment Campaigns Working? A Conversation With Economist Robert Pollin

Prof.dr. Robert Pollin

Is fossil fuels divestment an effective strategy in tackling climate change? A newly released study by the Political Economy Research Institute (PERI) at the University of Massachusetts at Amherst suggests that this strategy is not sufficient on its own in affecting the global battle against climate change and that new approaches are needed. Robert Pollin, a distinguished professor of economics at the University of Massachusetts, Amherst, co-director of PERI and co-author of the study spoke to C.J. Polychroniou about the limits of the movement to divest from fossil fuels and the need for fresh approaches and a more holistic type of action for combatting climate change.

C. J. Polychroniou: Climate change is one of the most significant threats facing human civilization today. According to some projections, there is a very high probability that temperatures will rise by several degrees in less than 100 years. In that context, and given that the largest source of greenhouse gas emissions stems from burning fossil fuels, mitigating the effects of climate change demands a transition to clean energy sources. Yet adapting to climate change does not seem to be an easy undertaking for modern societies, although the hidden costs of climate change run already into hundreds of billions of dollars a year. In your view, why is it that we are ignoring the costs associated with climate change?

Robert Pollin: I don't think it is accurate to say that "we" are ignoring the costs associated with climate change. The evidence on the effects of climate change are widely known and are getting increasingly understood with time. Millions of people around the world are committed to disseminating valuable information and advancing policies to dramatically cut carbon dioxide (CO2) emissions, which is the most significant factor driving climate change. Certainly, the experience in the US and the Caribbean last summer and fall, with three severe hurricanes in short order — i.e. Harvey, Irma and Maria — made even more people aware of the reality that we are playing Russian roulette with the climate.

There is, rather, one fundamental reason why policy makers in most countries throughout the world are unwilling to cut their CO2 emissions sufficiently, notwithstanding the ever-mounting ecological threat. It is because the only way countries can achieve serious CO2 emissions cuts is to stop burning so much oil, coal and natural gas to produce energy. Confronting this reality in turn creates three problems that are distinct but interrelated.

The first is that workers and communities throughout the world whose livelihoods depend on people consuming fossil fuel energy will face major losses — layoffs, falling incomes and declining public-sector budgets to support schools, health clinics and public safety. The second is that profits will fall sharply and permanently for the colossal fossil fuel companies, such as Exxon-Mobil, Shell and the range of energy-based businesses owned by the US mega-billionaires David and Charles Koch. The world's publicly owned energy companies — such as Saudi Aramco, Gazprom in Russia and Petrobras in Brazil, which together control about 90 percent of the world's total oil reserves — will take still larger hits to their revenues. The third problem pushes us beyond the fossil fuel industry itself and into broader issues of jobs and prospects for economic growth. According to most analysts, economies will face higher energy costs when they are forced to slash their fossil fuel supplies. It will therefore become more expensive to operate the full gamut of buildings, machines and transportation equipment that drive all economies forward.

Just to say briefly, these three problems may seem overwhelming, but they are actually less daunting than they appear. First, it is not the case that economies will face higher energy costs through a clean energy transformation. The two critical features of a clean energy transformation are investments in energy efficiency and clean renewable energy sources, which will then supplant oil, coal

and natural gas as energy sources. These clean energy sources, in combination, are already cheaper than fossil fuels on average in delivering a given amount of energy.

Second, building the clean energy economy — through a Green New Deal — will generate 2-3 times more jobs overall in all regions of the globe than maintaining our existing fossil-fuel dominant energy infrastructure. Third, there will certainly be job losses and displacement for workers and communities that are presently dependent on the fossil fuel industry. These workers and communities simply need to be supported through generous Just Transition policies, as one critical feature of the Green New Deal.

And finally, what about the private and public fossil fuel companies? The only answer here is that we simply cannot worry about their profits when we are facing a planetary emergency. Smart investors need to get the message that it is time to move their money out of fossil fuels and into more benign endeavors — starting with clean energy. And even if the investors plug their ears and cover their eyes to reality, we need to succeed in delivering the message anyway through effective political struggles that foreclose their profit opportunities.

A wide range of policies have been suggested and, to some extent implemented, in order to tackle climate change, such as limiting carbon dioxide emissions and transitioning to solar and wind power energy sources. Are such policies sufficient enough to reverse the increasing trend in anthropogenic greenhouse gases and thus containing future rise in global surface temperatures?

These are, indeed, the most important policies that need to be implemented. They are not sufficient on their own, because they do not deal with other sources of greenhouse gas emissions, such as deforestation and methane emissions generated through industrial agriculture. But the critical factor here is not just that we, say, expand supply of solar and wind power and raise energy efficiency standards. The issue is how quickly we do it and at what scale. At a global level, we need to invest on the order of 1.5 to 2 percent of GDP per year in raising energy efficiency standards and expanding the supply of renewables in order to have a good chance at driving global emissions down by 80 percent within 20 years and eliminating emissions altogether within 30 years.

One approach that has become quite popular in recent years is the strategy of

divestment. However, the recent study you coauthored with Tyler Hansen questions the effectiveness of the strategy of divestment in reducing carbon emissions. How did your study come to that conclusion?

In this new research paper, Tyler Hansen and I concluded that divestment campaigns have not been especially effective as a means of significantly reducing CO2 emissions, and they are not likely to become more effective over time. Our study includes both an analysis of the available data on global divestment patterns as well as a formal statistical modeling exercise that evaluates the impact of divestment events — such as when the New York City pension fund decided last January to sell off all of their fossil fuel company holdings — on the stock market prices of fossil fuel companies.

We found two basic things from this research. First, to date, we found the total level of divestment commitments to be at about 0.7 percent of total global private fossil fuel assets (assets committed to divestment are at about $36 billion while total global private fossil fuel assets are at $4.9 trillion). Second, we found no evidence that any divestment actions, including the recent New York City pension fund decision, has had any significant negative effect on the stock prices of fossil fuel companies.

The basic problem with the strategy is straightforward. Ethically motivated owners of fossil fuel stocks and bonds — such as the New York City Council — do certainly have the power to sell these assets as a statement of principle and act of protest. But this act of protest will have no direct impact on the operations of the fossil fuel companies as long as investors who are profit-seekers, as opposed to being motivated ethically, are willing to purchase the stocks and bonds that ethically motivated investors have put up for sale. Indeed, the core divestment strategy of selling fossil fuel assets is, at best, incomplete until one addresses this question: Is there somebody out there still willing to purchase these fossil fuel assets, and if so, and at what price? The answer is, yes, there are plenty of people ready to purchase shares of fossil fuel companies as long as they can profit by owning these shares.

In addition, the profit opportunities from owning oil, gas and coal company stocks are not diminished through the divestment-led sales per se. This is because divestment per se does not affect either how much it costs to produce fossil fuel energy or how much consumers are willing to buy. In theory, divestments might

be capable of pushing down stock market prices of fossil fuel companies. But it is also likely that any such impact on stock prices is going to remain negligible as long as profit-seeking investors continue to make money. And they will continue to make money unless we succeed in either raising costs of producing fossil fuels or limiting how much fossil fuel energy consumers can buy.

We do also greatly respect the accomplishments of the divestment movement. To begin with, they enable activists to fight for goals that can be clearly articulated and achieved within the institutions and communities in which they work and live, as opposed to attempting to influence public policies where the decision-making process is more remote. Divestment campaigns also have a demonstrated record of success in raising consciousness as to the urgency of dramatic action on climate change, and the need to confront the power of the fossil fuel industry as the single greatest barrier to advancing a viable climate stabilization project.

Despite these substantial accomplishments, we nevertheless conclude, based on the findings we present here, that most efforts now devoted to divestment campaigns would be better spent on more direct efforts to drive down fossil fuel consumption and CO2 emissions. We simply don't have time to lose in pushing as effectively as possible on the fundamental goal which we cannot lose sight of — which is to drive CO2 and other greenhouse gas emissions down to zero as quickly as possible. We need to remember that, at best, divestment is a means to an end, with the end itself being eliminating emissions.

Are there any fresh approaches to tackling climate change? And how can they be put into action?

In my view, we must, again, stay focused on the ultimate goal: of eliminating CO2 and other greenhouse gas emissions within 40 years, working steadily to get there. The basic framework of getting there is the Green New Deal. That, again, is focused on investing in energy efficiency and clean renewable energy sources at a rate of about 1.5 to 2 percent of GDP per year, in the US, China, Europe, India — indeed, everywhere. In the US, I have been greatly encouraged by substantial initiatives and campaigns around these goals that are growing in many states, including California, Washington, New York and Colorado — this is even while Trump is busy eviscerating any and all decent federal government-level climate policies enacted under Obama.

To really succeed with such Green New Deal programs will mean, specifically, campaigns around implementing strong policies in the areas of regulation, subsidies for clean energy and taxing carbon emissions. The climate movement has to also unequivocally embrace Just Transition for workers and communities that are presently dependent on the fossil fuel industry. Let's recognize honestly that Trump and company have been feasting on the fact that, to date, environmentalists have not demonstrated a serious commitment around Just Transition. Activists should, of course, also still engage in direct action at institutions where they live and work. But divestment isn't the only option here. For example, college students can demand that their campuses convert to 100 percent renewable sources and high efficiency to produce energy. Communities can similarly insist that their local governments eliminate the use of fossil fuels altogether. When we win victories on these demands on campuses and in communities, we will at least know that we are directly pushing down CO2 emissions, and thus, very clearly, keeping our eyes on the prize.