



# UNHEALTHY INVESTMENTS

FOSSIL FUEL INVESTMENT AND THE  
UK HEALTH COMMUNITY

## APPENDIX 1: DIVESTMENT AND REINVESTMENT

### DEFINING THE ‘FOSSIL-FREE’ PORTFOLIO

In defining ‘fossil-free’ investments, the fossil fuel divestment movement has tended to focus upon the fossil fuel extraction companies that are (a) publicly traded (and thus candidates for investment/divestment), and (b) hold large fossil fuel reserves. The main reasons for this are twofold: firstly, these companies are those most at risk from the ‘carbon bubble’, since the majority of their assets take the form of fossil fuel reserves – at risk of being stranded by climate change mitigation policy – and their business model is predicated upon development of further fossil fuel reserves and their exploitation and, ultimately, combustion. Secondly, these are the companies whose vested interests in preserving an unsustainable international energy economy are strongest; many other companies (utilities, large industrial manufacturers) at present have large carbon footprints, but this is a contingent fact about their operations within current energy infrastructures; their energy needs could as easily be met by renewable energy provision. See Appendix 2 for further detail on this.

We therefore define ‘fossil-free’ portfolios as those that do not hold investments – either directly, or indirectly via hedge/pool funds – in any of the top 200 fossil fuel extraction companies, as listed by current carbon reserves. An up-to-date list of these companies is provided by Fossil Free Indexes’ Carbon Underground report.<sup>1</sup>

Divestment, meanwhile, is best understood as a process, not a discrete act. A pathway laid out by Boston think tank the Tellus Institute and the Responsible Endowments Coalition begins with an immediate freeze on further investment in the 200 companies mentioned above. Direct investments in these companies can then be sold in as expeditious a manner as possible. The longer-term part of divestment is the exit from, or divestment of, pooled funds in which investors may have placed assets. The Tellus report projects that this can be achieved over a 5-year period.<sup>2</sup>

### REINVESTMENT

A distinct, but related, issue from divestment is how institutions should reinvest the assets released from fossil-fuel industry investments. While it is beyond the scope of this report to explore in detail potential reinvestment options, it should be noted that,

as much as investing in the fossil fuel industry serves to exacerbate the climate crisis, reinvestment can be used to work toward solutions.

Perhaps the most obvious solution is simply to reinvest in more sustainable industries. Financial services providers are increasingly responding to the demand for fossil-free investments by providing targeted services. Notably, the FTSE Group has teamed up with the world’s largest investment managers BlackRock, to launch a fossil-free fund.<sup>3</sup> Additionally, many financial services providers specialise in sustainable and fossil-free investment and provide a range of more sustainable investment options.

In particular, this reinvestment option permits a particular focus on investment in renewable energy generation. The funds diverted from fossil fuels can thus power the transition to a green economy. The UK Parliament’s Environmental Audit Committee has already called for measures to improve green investment to drive it up from the £8-10bn a year currently to a target £20bn/yr, saying that “a significant scale-up is needed.”<sup>4</sup> Reinvestment offers an opportunity to help close this gap, as well as to take advantages of legislative measures designed to incentivise investors to do so. Renewable energy holds other advantages for investors: it provides some of the advantages of portfolio diversity currently gained from fossil fuel investments while shielding the investor from energy price shocks and Environmental and Social Governance-related risks, while helping to create energy security.<sup>5</sup>

Renewable energy investment may alternatively come through direct investment in local, community-owned renewable energy projects. As noted above, such projects have been driving the renewable energy transition in Germany and Denmark, and are growing in the UK. The health sector is particularly well-positioned to engage in community energy generation in the UK; the NHS is both a major energy consumer and large landowner in the UK, so becoming energy provider as well as consumer could both prove a more reliable and cheaper means of long-term energy provision.<sup>6</sup>

Alternatively, assets freed by divestment could instead be used for energy-efficiency modifications to existing buildings and infrastructure. The returns on investment of improved energy efficiency (and thus lower future energy expenditure) are often greater than comparable returns from investing in companies, and are guaranteed to reduce institutional carbon footprints.<sup>5</sup>

## APPENDIX 2: RESPONSES TO COMMON ARGUMENTS

### ‘THE FOSSIL FUEL INDUSTRY IS ESSENTIAL TO MEETING OUR ENERGY NEEDS’

Across most of the world, fossil fuels are still important in supporting our food, electricity, heating and transportation needs, as a result of the path along which our societies have developed. Health workers are aware that fossil fuels have contributed to the protection and improvement of human health, and this is the main difference between the uniformly harmful health impacts of tobacco consumption and the complex impacts of fossil fuels.

To make this argument against divestment is, however, to mistake a contingent fact about our current energy economy for a necessity, and to neglect our responsibility to drive a transition to clean, low-carbon energy. There is ample evidence to demonstrate that a low or even zero carbon energy economy is not only physically and technically feasible through a combination of demand and supply side activities, but also economically beneficial, especially once the avoided costs of climate impacts are considered. Researchers at Stanford University have presented detailed plans for establishing a zero-carbon energy infrastructure in the USA by 2050;<sup>7,8</sup> they recently concluded that this would save the average consumer \$3400 per year by 2050, and that “the greatest barriers to a conversion are neither technical nor economic. They are social and political.”<sup>9</sup> The same applies in the UK; other reports<sup>10,11</sup> have demonstrated the great potential for rapid decarbonisation in the EU and China, amongst others, with adequate political will.

Furthermore, the renewable energy transition is rapidly leaving conventional generation and fossil fuel extraction companies behind. In Germany, 47% of renewable energy infrastructure is citizen- or co-operatively owned;<sup>12</sup> in sub-Saharan Africa, local off-grid renewable energy will be essential for providing energy access to many rural populations in line with the UN goal of universal energy access by 2030,<sup>13</sup> with potential for large health co-benefits as discussed previously.

### ‘IT WILL HAVE A NEGLIGIBLE IMPACT’

One response to calls for divestment is that the divesting institutions are too small to affect the targeted companies financially. This point, however, rests on the assumption that the primary purpose of divestment is to redirect the institution’s financial resources; but, as the University of Oxford’s Stranded Assets Programme Report highlights, this is not the most

important argument in favour of divestment. The primary effect of divestment campaigns is to change market norms and to stigmatise the companies from whom institutions divest, to force longer-term legislative and/or internal policy change.<sup>14</sup>

As discussed previously, evidence from previous divestment campaigns,<sup>15,16</sup> such as those against apartheid and the tobacco industry, including the actions of medical organisations in particular,<sup>17,18</sup> shows that these indirect effects can be significant. They clearly present enough of a threat to concern fossil fuel companies, since some Australian industry representatives have lobbied to make campaigning for divestment illegal.<sup>19</sup>

### ‘WE HAVE A DUTY TO MAXIMISE RETURN ON INVESTMENTS’

Trustees of institutions have a ‘fiduciary duty’ to those institutions – they are obliged to act in the best financial interests of the institution, which tends to be interpreted as an obligation to maximise short-term returns – rather inconsistently given their typically long-term purposes. In the case of charities, trustees have a primary duty to ensure that the charity operates in a manner consistent with the charity’s objectives: maximising returns from investment is not a primary duty of trustees to a charity.

Many institutions already include as part of their trustees’ deed instructions to carry out investments in a way that is consistent with the organisation’s aims, as when screening out tobacco companies. As is argued elsewhere, investment in fossil fuel industries is strongly inconsistent with the objectives of health institutions, providing a clear case for divestment. Other institutions take into account Environmental, Social and Governance (ESG) Criteria for financial reasons, based on the finding that these tend to affect the institution’s returns in a positive way.<sup>20</sup>

Even in organisations in which the trustees’ sole mandate is to maximise risk-adjusted revenues, divestment from fossil fuels need not be in conflict with this. As discussed, fossil free portfolios have not underperformed benchmark portfolios in recent years.<sup>20</sup> Moreover, there is a growing concern regarding the existence of a carbon bubble, as reflected by recent announcements from such mayor players as Bloomberg, Blackrock or FTSE (see above).

We have argued that fossil fuel divestment can be consistent with even the strictest interpretation of fiduciary responsibilities. There is, additionally, a growing concern

that the current interpretation tends to overemphasise short-term performance, comparatively neglecting longer-term risks. In the UK, this is currently the subject of legal debate. The 2012 Kay Review into Equity Markets and Long-term Decision Making highlighted precisely this problem, recommending that the Law Commission publish guidance on its interpretation. The Law Commission's final report not only concluded that "where trustees think ESG issues are financially material they should take them into account," but that furthermore trustees are empowered to make decisions based on non-financial factors, provided that scheme members share the concerns trustees are seeking to address, and there is no risk of significant financial detriment.<sup>21</sup> These comments support a broader interpretation of fiduciary duty, such that socially and environmentally responsible approaches to investment are, at the least, consistent with this duty, and that institutional investors acting in their clients' best interests should consider the environmental and social impacts of their investments.<sup>4</sup>

Alternatively, assets freed by divestment could instead be used for energy-efficiency modifications to existing buildings and infrastructure. The returns on investment of improved energy efficiency (and thus lower future energy expenditure) are often greater than comparable returns from investing in companies, and are guaranteed to reduce institutional carbon footprints.<sup>5</sup>

### 'IT IS BETTER TO BE AN ENGAGED INVESTOR THAN TO DIVEST'

Many argue that, since shareholders have a voice in the way in which a publicly-listed business conducts its operations, it is better to engage with the fossil fuel industry as shareholders than to lose that voice by divesting. There is some value in this position in principle, assuming a high level of influence and accountability; however, it likely underestimates the degree to which the industry will have to change to meet the challenges of climate change mitigation. The industry's record of funding climate change denial and lobbying to prevent legislation for mitigation indicates a clear disregard for the societal risks posed by exceeding our global carbon budget, whilst the \$674 billion spent on exploration and development of new fossil fuel reserves

by the largest extraction companies in 2012<sup>22</sup> suggests a certain determination to continue in the same manner. Contrast this with the \$318 billion sum of all investment in renewable energy in 2012, falling to just \$254 billion in 2013.<sup>23</sup>

Furthermore, attempts by shareholder activists to force companies to engage with the stranded asset risk have largely met with little success, as described in 'the fossil fuel industry's response' on page 14. In most cases, fossil fuel companies have variously said one thing and done another, ignored shareholders' demands, or assumed that international mitigation policy will never materialise. Those whose responsibilities include the protection of public health should not legitimise this irresponsible behaviour, and cannot in good faith both advocate for effective climate policy and gamble, through their investment policies, that attempts to mitigate climate change are destined to fail.

### 'CARBON CAPTURE AND STORAGE IS KEY TO MEETING OUR ENERGY NEEDS'

Carbon capture and storage (CCS) is often highlighted as a feasible technical solution by fossil fuel companies, and one that contravenes the stranded assets argument, but at present it remains at the pilot stage, with no large-scale implementation. The IPCC's latest Assessment Report states that 'barriers to large-scale deployment of CCS technologies include concerns about the operational safety and long-term integrity of CO<sub>2</sub> storage as well as transport risks'.<sup>24</sup> We cannot afford to assume that as-yet unproven technologies will enable fossil fuel reserves to be burnt without associated GHG emissions, given the major technical uncertainties which remain.

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