

Fossil Fuel Divestment: A Guide for Presbyterians

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The Presbyterian Church (USA) believes that the mission and purpose of the church is to be “a provisional demonstration of what God intends for all humanity.” In other words, Presbyterians seek to model right living while also taking responsibility to relieve suffering and promote good throughout society.

There is no mystery that human-induced climate change will increasingly cause massive suffering, and it seems safe to say that God does not intend for humanity to spoil the earth in this way. Even apart from climate effects, the mining of fossil fuels is a polluting, risky, and eventually unnecessary business. Fracking merely extended a declining industry. Alternative power sources that avoid atmospheric degradation are currently economically competitive. The transition away from fossil fuels is inevitable and will be complete in 75 years, assuming the normal rate of recapitalization. Unfortunately, this pace is too slow to avoid a calamitous rise in temperature.

Presbyterians have recognized the situation and recommended action. The General Assembly has endorsed several statements urging environmental protection. Many congregations designate themselves as Earth Care congregations and are active on a wide variety of fronts. Among the many steps that can be taken, divesting from companies engaged in the production of fossil fuels is easy and effective. We examine why this is the case and discuss how to go about it.

The impact of divestment

In theory, divestment will reduce the value of corporate stocks, which will in turn accelerate the demise of the fossil fuel industry. [Critics](#) claim that, while divestment might feel good as a moral posture, these effects don't play out. Bill Gates argues against divestment and instead recommends investing in climate-positive technologies. Others point out that it is demand rather than supply that needs to be curtailed, and that the demand will be met by even less responsible providers if the major companies are hampered by divestment. So how do we reduce demand? Economists recommend a carbon tax, but this and many other regulatory approaches have been blocked. Others point out that it is corporate debt (loans and bonds) that primary fund operations, not stock offerings.

Divesting in stock may indeed not be the strongest or most direct lever against fossil fuels, but divestment certainly gets the attention of top managers and major investors whose fortunes are highly sensitive to stock price. Their immediate response may be to argue that business ‘fundamentals’ are sound and justify a high stock price. There is a major flaw in this argument. Companies claim vast assets on their balance sheets in the form of undeveloped fossil fuel reserves. Critics argue that these reserves are grossly overvalued because they are “stranded,” meaning that they will never be developed. A [study](#) found that between 40% and 60% of the market value of BP, Royal Dutch Shell and other European fossil fuel companies are stranded assets. The limit on development of these

assets is set by nature, even if governments don't eventually curtail development. One [estimate](#) concludes that, in order to keep warming below 2°C, the fossil fuel industry will need to leave approximately 90% of their reserves of coal, oil, and gas unburned.

Another approach to defending a company's stock price is simply public relations. ExxonMobil has for years attempted to blunt criticism while remaining fully committed to fossil fuel. The results? Over the last decade investors have taken a 25% loss, and its market capitalization has gone from a peak in 2007 of \$500B to \$138B (currently equal to Zoom). ExxonMobil was recently removed from the Dow Jones index, and it is defending itself [in court](#) for deceiving the public about climate change.

A few companies, such as [BP](#), have recognized that their prospects have dimmed and are making a sincere attempt to shift away from petroleum, before it is too late. The [Center for Climate Aligned Finances](#) is helping to arrange agreements among banks and industrial partners to voluntarily commit to lowering the climate impact of investments. These agreements will amount to more than "greenwashing" (i.e., public relations efforts without substance).

One [market observer](#) argues that, judging on the basis of conventional analysis, ESG investing (i.e., the use of Environmental, Social and Governance criteria to evaluate investments) shouldn't be profitable. He has to admit, however, that ESG investors have been getting better returns for a very long time and there are no signs that the trend will stop: "It is raising the cost of capital for "bad" companies and lowering it for good ones. If it continues, it just might result in the disappearance of the fossil fuel industry."

The most important result of divestment is the shift of investor and top management attention to alternative lines of business. [\\$14.5 trillion](#) has already been divested worldwide. A shift of sentiment of that size can speed along the transition from fossil fuels.

Stocks to avoid

It is not a simple matter to identify companies that significantly contribute to global warming. Criteria vary widely; does it include fossil fuel consumers, investors, banks, insurers, servicing companies, and so forth? Included on any list are the companies that extract large amounts of coal, petroleum, and gas that are the material source for large emissions of greenhouse gasses (methane as well as CO₂). Aggressive developers of fossil fuel reserves, such as those that extract Arctic oil and tar sands, surely qualify. The [Carbon Underground 200](#) is an annually updated list of the top 100 coal companies and top 100 oil and gas companies globally. One [study](#) points out that "just 100 companies are responsible for a whopping 71% of global emissions since 1988. Incredibly, only 25 corporations and state-owned entities were responsible for more than half of global industrial emissions in that same period."

Beyond publicly traded producer companies, one could add as targets banks that finance fossil fuel projects, plus the companies that insure and reinsure projects, and add other means of influence besides divestment. One could, for example, move a bank account from JP Morgan Chase (the [largest](#) financier of fossil fuel projects) to a fossil-free bank such as Aspiration Bank. One could also avoid Liberty Mutual, the largest insurer. Bill McKibben offers a [concise scan](#) of the complete financial system that keeps fossil fuels afloat, plus the levers that might be applied to crack it open. Curious Presbyterians are encouraged to explore these additional pressure points, but for this guide we resume the focus on producer stocks.

Better substitutes

It would be quite a chore to determine exactly which portion of your current holdings are targets for divestment. Thankfully, there's a tool at [Fossil Free Funds](#) that will tell you what fossil fuel stocks are included within many of the common mutual funds. The average overall fossil-fuel exposure in broad stock indexes is between 10% and 11% of assets, and cutting out just the major fuel producers can knock that down to 3-4%.

There are plenty of substitute funds that achieve this, but do they add risk? Over the past several years the subtraction of fossil fuel stocks from the S&P 500 index produced a better return compared to their inclusion. Even so, keep in mind that this performance has been boosted by a lucky coincidence: broad ESG funds that drop fossil fuels end up being weighted toward tech companies, and the tech sector has grown for reasons that have nothing to do with ESG. Further discussion of the upside to divestment is discussed [here](#) and [here](#). We discuss more specific substitutions in the context of two basic styles of investing.

Indexing strategy. Many experts recommend investing and holding broad baskets of stocks and bonds that are indexed to the total market, then rebalancing among funds to maintain proportions aligned with your age and retirement plans. This strategy was most famously promoted by John Bogle at Vanguard, who also pioneered lower expenses. The Bogle plan is to hold these indexed funds in four categories: US stock, international stock, US bonds, and international bonds. Vanguard features such funds, but Fidelity and most of the other major investment houses offer essentially the same choices, and many of them have recently lowered expenses to match Vanguard. Another way to keep expenses down is through ETFs (exchange traded funds). Below are some **sample** substitutes in each category that omit fossil fuel companies. They are not the only ones, and they are not recommendations. The full range of funds that restrict fossil fuel companies are listed and rated in this [database](#).

US stocks

- [SPYX](#) (SPDR S&P 500 Fossil Fuel Reserves Free ETF) takes the standard S&P 500 index and subtracts only the Carbon Underground 200 companies. SPYX holds 5.72% of its portfolio in oilfield services firms and coal-fired utilities. It gains a "C" rating from Fossil Free Funds, but compromises to that standard are inevitable in a broad market index fund. Its 12% three-year annualized return ranks in the best decile of the large-blend Morningstar Category. [SPXE](#) (ProShares S&P 500 Ex-Energy ETF) cuts out the entire energy sector but leaves in fossil fuel-consuming utilities.
- [CHGX](#) (Change Finance U.S. Large Cap Fossil Fuel Free ETF) divests entirely from problematic stocks and sectors. Not only does CHGX exclude oil and gas producers, it also excludes coal miners, oil and gas refiners, and processors and utilities that burn fossil fuels. It is one of the few ESG U.S. equity ETFs that exclude Tesla, Facebook, Amazon, McDonalds, Uber and additional companies that have been criticized for labor, privacy, and other environmental issues. Despite omitting many stocks, the result doesn't significantly deviate from a complete index fund.

International stocks

- [EFAX](#) (SPDR MSCI EAFE Fossil Fuel Free ETF), and [EEMX](#) (SPDR MSCI Emerging Markets Fossil Fuel Free ETF) (), which charges 0.3%.
- S&P Dow Jones has three global stock indexes adjusted for climate change: S&P Global 1200 Carbon Efficient Index Series, S&P Global 1200 Carbon Efficient Select Index Series, and S&P Global 1200 Fossil Fuel Free Index Series.
- [VSGX](#) (Vanguard ESG International Stock ETF) excludes adult entertainment, alcohol, tobacco, weapons, fossil fuels, gambling, nuclear power, failure to meet UN global compact principles, and diversity criteria.

Bonds

- No bond ETFs target fossil fuels exclusively, but several include this consideration within broader ESG criteria. Nuveen ESG US Aggregate Bond ETF (0.2% expense ratio) has fossil fuel exposure of 1.3%, and the iShares ESG US Aggregate Bond ETF (0.1% expense ratio) has overall exposure of 1.6%.
- [Green bonds](#) are issued to finance projects that contribute to climate-change solutions. While green bond funds aren't fully diversified, they are composed of bonds that are only marginally riskier. The iShares Global Green Bond ETF ([BGRN](#)) tracks the Bloomberg Barclays MSCI Global Green Bond Select (USD Hedged) Index and has an expense ratio of 0.2%. Because its bonds must be investment-grade and are a mix of government and corporate issues, it could fulfill part of an investment-grade bond allocation.

Individual stock portfolio strategy. For at least a portion of one's holdings, a common strategy is to assemble a portfolio of individual stocks. The Motley Fool advisory service is a proponent of this approach. (Tom Gardner, a founder, happens to be an enthusiastic PC-USA member in the National Capital Presbytery.) Their approach is to buy 15 to 30 individual high potential stocks and hold each for at least 3 to 5 years while making a few adjustments along the way. The theory is that at least one or two of the stocks is likely to do extremely well, but you can't predict which ones. The big winners are likely to outweigh any losers. In addition, all the stocks will go through gyrations over the period, but this is not a cause to trade them. This strategy may sound risky, but if it is applied with discipline it rarely fails and often works much better than the Bogle strategy. You may need some help from analysts to identify the "high potential" stocks. Consider that plenty of analysts, along with Motley Fool, singled out Amazon, Netflix, and similar stocks that grew exceedingly well, even through downturns.

Many analysts argue that climate-positive technologies and services will prosper, and that several companies that serve these various markets will have outstanding performance. Venture capital has been pouring into climate-positive schemes, based on the dual promise of technological innovation and a rapid shift from fossil fuels. This includes electric vehicles, batteries, and wind, solar, and later hydrogen-based technologies. Some stocks in these areas will succeed wildly, some will fail miserably, and most will have volatile prices. Motley Fool has discussed stocks that look good to them in the areas of [renewable energy](#) and in [energy](#) more generally. Stocks in one's full portfolio must range over a variety of markets, of course, but climate-positive stocks could certainly be included. One could revert to an indexing approach just for this sector, for example with the S&P Global Clean Energy Index that surged well over 100% in 2020.

Two additional factors may be of interest when picking stocks for a portfolio. Some climate-related stocks may have local relevance, where one might have an opportunity to exert additional influence through supporting legislation or by speaking up at stockholder meetings. Virginia's Dominion Energy, for example, has made significant shifts lately toward wind and solar, partly due to a thaw in legislation. Another interesting direction is to consider [B Corporations](#) that make explicit and audited pledges involving climate change mitigation. Many of these companies are not publicly traded, but there are newly available ways for qualified investors to participate.

Evaluating your divestment decisions

Tools are available to help select and evaluate fossil-free portfolios. The [Portfolio Decarbonizer](#) tool shows the financial implications of divesting high carbon companies in favor of those that derive at least 20% of their revenues from environmental markets or new energy. This tool shows what would happen to a portfolio that shifted to clean energy companies beginning in October 2012. The New York State pension fund, for example, would have been \$5.3 billion dollars richer today if it had divested fossil fuels holdings and reinvested in clean energy.

Special concerns for institutional investors

Those who oversee institutional investments have strict fiduciary responsibility, as spelled out in this [guide](#). While this reduces one's options, a prudent institutional policy no longer requires significant fossil fuel holdings, as explained [here](#): "In 1980, the [fossil fuel] industry claimed 29% of the S&P 500. Today, it only occupies 5.3%, the lowest level in more than 40 years. During the latter part of the last thirty years, the sector remained an important component of fund portfolios even as market support for the industry eroded. For investment advisors and fiduciaries that continue to hold oil and gas stocks, it is a much smaller task to reallocate 5% of an investment portfolio than 29%."

Over 1,300 large institutions, holding over \$14 trillion in assets, have changed policy and made [commitments](#) to avoid fossil fuel stocks. Religious institutions make up a large share of those divesting, led by the Episcopal Church, the United Church of Christ, and the World Council of Churches. Other major divesting institutions include the Rockefeller Brothers Fund (the legacy of the Standard Oil fortune), Ivy League and other universities, New York City, and Ireland. Parts of PC USA are also participating. Some pension funds, such as TIAA, are holdouts and may need encouragement from its beneficiaries.

Additional reading

[Fossil Free PCUSA](#) is a project of Presbyterian Peace Fellowship. In 2014 leadership of FFPCUSA and representatives from 12 concurring presbyteries traveled to the General Assembly in Detroit to present an [Overture](#) to divest. This overture was sent to the Mission Responsibility Through Investment (MRTI) committee for further study. In 2016, the support for an updated overture grew to 31 concurring presbyteries. and in 2018 there were 40 concurring presbyteries.

"Make a Clean Break: Your Guide to Fossil Fuel Free Investing," [350.org](#).

Bill McKibben writes a newsletter for the *New Yorker* available [here](#). Also see his latest book, *Falter: Has the Human Game Begun to Play Itself Out?*, Henry Holt, 2019.

Naomi Klein, *On Fire: The (Burning) Case for a Green New Deal*, Simon & Schuster, 2019. Also, *This Changes Everything: Capitalism vs. the Climate*, Simon & Schuster, 2015.

William MacAskill, Does Divestment Work? *New Yorker*, October 20, 2015. More detailed analysis of the mechanisms and impact.

Nathaniel Bullard. "Fossil Fuel Divestment: a \$5 trillion challenge," *Bloomberg New Energy Finance*, 2014. Covers a wide range of divestment topics with detailed research.