



Divestment in Fossil Fuels

Opportunities for Local Governments in WA

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1.0 Introduction

WALGA has been approached by WA Local Governments to provide information on Local Government divestment from fossil fuel industries. In Western Australia, since 2014, eight Local Governments have divested - including the Cities of Fremantle, Armadale, Stirling, Vincent and Swan; the Towns of Bassendean and East Fremantle and the Shire of Goomalling. Across Australia, twenty-seven Local Governments have divested during this time. This document includes an overview of divestment and what is driving it, and provides examples of Local Governments around Australia that have divested and how they approached their divestment.

Divestment is the opposite of an investment – it simply means getting rid of stocks, bonds, accounts or investment funds that are morally ambiguous. For the purposes of this paper, divestment will refer to removing investment from companies who are involved in fossil fuel projects. Fossil fuels are defined as “A natural fuel such as coal or gas, formed in the geological past from the remains of living organisms.”¹ Fossil fuel divestment is therefore aimed at companies who invest in coal, oil and natural gas projects.

Most world governments agreed through the 2009 Copenhagen Accord and the more recent 2015 Paris Agreement that it is imperative to keep global warming to under two degrees Celsius. To achieve this, it is necessary to keep global carbon emissions to 550 gigatonnes between now and 2050. However, current plans from the fossil fuel industry include burning 2860 gigatonnes of known fossil fuel reserves, and continued exploration for more fossil fuels.²

Fossil fuel reserves are currently valued at US \$28 trillion, but the industry can only safely use US \$6 trillion. To remain within the carbon budget and keep global warming to a minimum, the industry would have to eliminate almost US \$22 trillion of their value. This US \$22 trillion is now commonly referred to as the “carbon bubble”.²

If warming is limited to two degrees, the carbon bubble will pop, leaving trillions of dollars in stranded assets. Stranded assets result when environmentally unsustainable assets suffer from “unanticipated or premature write-offs, downward revaluations or are converted to liabilities.”³ Factors that influence the risk of assets becoming stranded include environmental challenges such as climate change or water availability constraints; changing government regulation such as the introduction of carbon pricing; the falling costs of clean energy technology including solar and wind energy; evolving social norms which includes divestment;

¹ Oxford dictionary. *Definition of Fossil Fuel*. Retrieved on 1/6/2016 from <http://www.oxforddictionaries.com/definition/english/fossil-fuel>

² The Telegraph. 2013. G20: Fossil Fuel fears could hammer global financial system. Retrieved on 03/11/2016 from <http://www.telegraph.co.uk/finance/economics/11563768/G20-to-probe-carbon-bubble-risk-to-global-financial-system.html>

³ Ansar, A., Caldecott, B. Tilbury, J. 2013. *Stranded assets and the fossil fuel divestment campaign: what does divestment mean for the valuation of fossil fuel assets?* Retrieved on 25/5/2016 from www.smithschool.ox.ac.uk/research.../stranded-assets/SAP-divestment-report-final.pdf

and litigation and statutory interpretation changes.² Divestment reduces the risk of investors being impacted by these factors.

The risks outlined above suggest that it is financially imprudent to invest in fossil fuel assets that can never safely be extracted if the world is to limit warming to two degrees Celsius. By divesting, organisations send a market based signal to financial institutions and the wider community about the environmental and financial risks posed by investing in high-carbon sectors, and in doing so, drives demand for low-carbon investment options.

The aim of the divestment campaign is to shift investment out of Australia's fossil fuel industry and into clean energy alternatives and sustainable industries.

This structure of this paper is outlined below.

Section 2 details background information on divestment, including where it has been used elsewhere to bring about changes in policy.

Section 3 details examples of divestment in Local Government Associations and Superannuation funds.

Section 4 details examples of divestment in Governments, including Western Australian Local Governments.

Section 5 details barriers and arguments against divestment, and ways to overcome these barriers.

Section 6 provides our conclusion.

2.0 Background

Divestment has been used as an effective strategy in campaigns as diverse as against violence in Darfur, tobacco advertising and South African apartheid. The apartheid divestment campaign in the mid-1980s culminated in 155 university campuses, 26 state governments, 22 countries and 90 cities taking their money from multinationals that did business in South Africa. The divestment campaign helped to end apartheid in South Africa by spurring the US Government into placing sanctions on South Africa.⁴

The recent interest in divestment as a tool to mitigate climate change has been led by university activism in the United States. More than thirty universities and colleges in the United States have divested so far, including Stanford, Yale and the University of California.⁵

Hampshire College divested in 2012, and the College president wrote at the time: "As 'mission-driven' (rather than 'for profit') institutions, colleges and universities often grapple with the question of whether to apply their values to the way that they invest as well as the way that

⁴ Leber, R. 2015. *Divestment Won't Hurt Big Oil, and that's OK*. New Republic. May 21, 2015.

<https://newrepublic.com/article/121848/does-divestment-work>. Retrieved May 10, 2016.

⁵ Fossil Free. 2016. *Divestment Commitments*. Retrieved on 27/9/2016 from

<http://gofossilfree.org/commitments/>

they spend their funds, even if doing so might diminish their funds.”⁶ A number of US cities — including Seattle, San Francisco and Portland — have also adopted socially responsible investment policies, addressing fossil fuel investment, sustainability and climate change.⁷

Other large organisations who have pledged to divest include the Rockefeller Brothers Fund, the World Council of Churches, the British Medical Association, Local Government Super NSW, AMP and Glasgow University.⁸

These organisations divested from fossil fuels to:

- 1) Align investments with organisational values
- 2) Shape public policy and limit the influence of energy companies
- 3) Potentially reduce financial risk
- 4) Reallocate investment to companies leading the transition to a more sustainable economy⁹

The current fossil fuel divestment campaign is being led by 350.org, an organisation co-founded in the United States, which aims to develop solutions to climate change. The campaign led by 350.org, Fossil Free, encourages and assists Local Governments and other public institutions to divest from fossil fuels. Local Governments generally do not have direct investment in fossil fuel companies due to restrictions on investing in shares. However Local Governments are indirectly exposed through placement of deposits with the four major Australian Banks which are estimated to have funded \$49.5 billion dollars’ worth of coal and gas projects across the country according to Market Forces, a website that provides information on institutions that invest in fossil fuels.¹⁰ The Fossil Free website reports the latest institutions to divest, and includes a breakdown of the number and type of institutions that have divested around the world.⁵ So far more than 590 institutions have divested worldwide.⁵

This report outlines the methods Local Governments, both in Western Australia and nationally, have used to divest from fossil fuels, to provide some examples for Local Governments as they investigate their options for divestment.

⁶ McGee. 2016. *Is divesting from fossil fuels the best tactic for tackling climate change?* The Guardian. April 24, 2016. Retrieved 10/5/16. http://www.theguardian.com/environment/blog/2016/apr/24/fossil-fuels-divestment-tactic-tackling-climate-change?CMP=Share_iOSApp_Other.

⁷ Rimmer, M., and Wood, C. 2014. *Think global, act local: the role for councils in climate change*. Jan 30. Retrieved on 5/5/2016 from <http://www.crikey.com.au/2014/01/30/think-global-act-local-the-role-for-councils-in-climate-change/>

⁸ Millan, L. 2015. Global divesting institutions reach 500. December 4. Retrieved on 1/6/2016 from <http://www.financialstandard.com.au/news/view/55805051>

⁹ 350.org, Green Century Funds and Trillium Asset Management. 2014. *Extracting Fossil Fuels from Your Portfolio: A Guide to Personal Divestment and Reinvestment*. Retrieved on 1/6/2015 from <http://www.trilliuminvest.com/extracting-fossil-fuels-from-your-portfolio-a-guide-to-personal-divestment-and-reinvestment/>

¹⁰ Market Forces. 2016. *Banks – funding a huge problem*. Retrieved on 9/6/2016 from <http://www.marketforces.org.au/campaigns/banks>

3.0 Divestment and Local Government Associations

3.1 WALGA

WALGA has been asked by the City of Fremantle to look into its own investment portfolio. At the City of Fremantle's Ordinary Council Meeting held on 16 December 2015 the City resolved that:

"The Western Australian Local Government Association consider amending their investment strategy/policy to provide for divestment away from carbon supporting financial institutions while maintaining financial prudence"¹¹

WALGA is in the process of exploring its investment opportunities and will have a formal stance on divestment once it has been considered by WALGA's Executive Committee and State Council. This is expected to occur in late 2016.

3.2 Local Government Superannuation

Local Government Super (LGS) is an industry superannuation fund for Local Government employees in NSW. LGS manages approximately \$9 billion of retirement savings.¹²

In October 2014, LGS made the decision to discontinue investments in companies which derive 33% or more of their revenue from high carbon sensitive activities. Companies that LGS will no longer invest in include those which obtain revenue or assets from coal mining, oil tar sands and coal fired electricity utilities.¹³

LGS has continued to make ethical investing a core part of its business, and in 2016 it achieved a number one ranking in Australia for sustainable investing, and number two ranking globally. This ranking comes from the Asset Owners Disclosure Project (AODP), an independent organisation which ranks the 500 biggest investors worldwide, based on their management of the risks and opportunities connected with climate change.¹⁴ LGS has \$5 billion invested in environmentally and socially responsible investment strategies. The fund has achieved its high rankings due to:

- Being one of only seven asset owners to reduce their carbon intensity from the previous year
- Their ability to calculate portfolio-wide emissions

¹¹ City of Fremantle. 2015. Ordinary Council Meeting Minutes 16 December 2015. Retrieved on 27/09/26 from <http://www.fremantle.wa.gov.au/council/agendas-and-minutes>

¹² Local Government Super. 2016. *About LGS*. <https://www.lgsuper.com.au/about-us/about-lgs/>. Retrieved on 12/5/2016 from <https://www.lgsuper.com.au/about-us/about-lgs/>

¹³ Local Government Super. 2015. *Sustainable and Responsible Investment Policy*. Retrieved on 12/5/2016 from <https://www.lgsuper.com.au/investments/sustainable-investment/investment-restrictions/>

¹⁴ Local Government Super. 2016. *Media Release: Local Government Super number one for sustainable investment*. Retrieved on 12/5/2016 from <https://www.lgsuper.com.au/about-us/media-releases/>

- Having the widest range of climate change related portfolio risk mitigation actions of all asset owners.¹⁵

LGS' Sustainable and Responsible investment policy, effective on May 1, 2015, included investment restrictions into companies which derive:

- Any revenue from controversial weapons or tobacco
- More than 10% of revenue in armaments, gambling or old growth logging; or
- More than one-third of revenue in high carbon sensitive activities, including coal mining, oil tar sands and coal fired electricity utilities.¹⁶

LGS does not invest in companies with high environmental, social or governance risk profiles.¹⁶

3.3 WA Super

WALGA currently holds its employees' superannuation accounts with WA Super, formerly the Local Government Superannuation Plan. WA Super has not pursued any steps toward divestment at the present time, but the fund has a *Sustainable Futures* option, which invests in two share funds managed by AMP Capital Investors and BT Financial Group.¹⁷ The BT Wholesale Ethical Share Fund pledges not to invest in:

- Uranium mining for the purpose of weapons manufacture
- Production of alcohol or tobacco
- Manufacturing of or providing gaming facilities
- Manufacturing of weapons and armaments
- Any companies who have been subject to environmental and/or human rights prosecutions¹⁸

The Fund also has an 'ethical screen' provided by Regnan Governance Research and Engagement, which identifies and favours companies who derive more than 20% of their revenue from sustainable technologies, products and services.¹⁸

The Sustainable Futures option from WA Super gives WALGA, and Local Government employees, the opportunity to move their investments to a more ethical option without changing their superannuation provider. However, as above, this option does not yet rule out investment into fossil fuel industries.

¹⁵ 350.org. 2015. Local Government Leadership on Fossil Fuel Divestment. Retrieved on 9/3/2016 from https://350.org.au/.../Local-Government-Leadership-on-Fossil-Fuel-Divestment_Web

¹⁶ Local Government Super. 2015. *Sustainable and Responsible Investment Policy*. Retrieved on 12/5 2016 from <https://www.lgsuper.com.au/investments/sustainable-investment/>

¹⁷ WA Super. 2016. *Socially Responsible Investment*. Retrieved on 10/5/2016 from <http://www.wasuper.com.au/investments/socially-responsible-investment/>.

¹⁸ BT Investment Management. 2015. *BT Wholesale Ethical Share Fund – Fact Sheet*. Retrieved on 5/5/2016 from <https://btim.com.au/products/bt-wholesale-ethical-share-fund/>

4.0 Divestment and Governments

In 2015, the number of Australian Local Governments who have divested from fossil fuels grew from two to fifteen. The divestment movement has continued to gather strength in 2016, and currently twenty-seven Local Governments across Australia have committed to divest.¹⁹

350.org's November 2015 report, *Local Government Leadership on Fossil Fuel Divestment*, reported that Australian Local Governments who have pledged to divest have over \$5.5 billion in investments. As these funds are currently in the process of being divested, by the report publication date approximately two-fifths (41.75%) of participating council's money had moved to banks and financial institutions that do not fund fossil fuels.¹⁵ In WA, as of 30 April 2016, this figure is more than 67% in non-fossil fuel banks.²⁰ As the numbers of Local Governments committed to divestment increases, this percentage continues to grow.

4.1 ACT

In August 2015, the Australian Capital Territory passed a motion to divest from coal, oil and gas companies, making them the first Australian Government to divest.²¹ The motion was worded as follows:

The ACT Government refrain from new investments in fossil fuel companies in which it does not have a controlling interest (less than 50%). The ACT Government develops a plan to responsibly divest over a five year period from companies that are listed in the Carbon Underground Top 200 list published by Fossil Free Indexes. The ACT Government makes public its plan to divest from fossil fuels.²¹

The decision to divest was a result of a two year community campaign run by health, faith, union and environment groups. By November 2015 the government had sold its shares in the world's fifth largest owner of coal reserves, Anglo American, as well as coal miners

¹⁹ 350.org. 2016. *Bass Coast Shire to shift \$17m from coal, oil, and gas*. Retrieved on 9/8/2016 from <https://350.org.au/news/bass-coast-shire-to-shift-17m-from-coal-oil-and-gas/>

²⁰ 350.org. 2016. Number calculated using multiple sources

City of Fremantle Minutes Finance, Policy, Operations and Legislation Committee 18 May 2016

<http://www.fremantle.wa.gov.au/sites/default/files/FPOL%20Minutes%2018%20May%202016.pdf>

City of Stirling Ordinary Meeting of Council Minutes 31 May 2016

<http://www.stirling.wa.gov.au/Council/Meetings/Council%20meetings%20and%20petitions/Council%20Meetings%20Agenda%20and%20Minutes/Council%20Minutes%20-%2031%20May%202016.pdf#search>

City of Armadale City Strategy Committee Minutes 20 June 2016

https://www.armadale.wa.gov.au/sites/default/files/assets/documents/council/minutes_-_city_strategy_committee_-_20_june_2016.pdf

²¹ 350.org 2015. *ACT Government to divest from fossil fuels*. Retrieved on 17/3/2016 from <https://350.org.au/news/act-government-to-divest-from-fossil-fuels/>

Glencore and Whitehaven Coal. Once the ACT had sold those shares, their remaining holdings of carbon reserves had been reduced by two thirds.²²

4.2 City of Melbourne

The City of Melbourne became the tenth and the largest Australian Local Government to commit to stop investing in fossil fuels in 2015. The City had long been interested in initiating sustainability ventures, and in 2002 committed to the target of Zero Net Emissions by 2020.²³ Cr Arron Wood stated that “it is important that the City of Melbourne leads by example through its own operations.” The motion was worded as follows:

1. *That Council:*

1.1. *Reaffirms its commitment to clean energy through its investments.*

1.2 *Notes that the City of Melbourne has no direct investment (shareholdings) in any fossil fuel companies or fossil fuel aligned companies.*

1.3 *Commits to not directly investing in any fossil fuel or fossil fuel aligned companies into the future. This commitment will be reflected in the City of Melbourne’s Investment Policy when it is next reviewed.*

1.4 *Requests management write to the Trustees of Council’s default superannuation fund Vision Super and request a Fossil Free Investment option be available to members.*

1.5 *Resolves that when the transactional banking services are next tendered, respondents will be requested to complete a questionnaire on their exposure and support to the fossil fuel sector. These responses are to be taken into consideration when deciding to award the transactional banking services contract.*²³

The motion was carried unanimously by the City of Melbourne on October 27, 2015.

It is not clear from this motion whether the City of Melbourne intends to divest from indirect fossil fuel exposures such as banks. However their commitment to consider the banks’ exposure to fossil fuels when awarding their transactional banking services contract suggests that they plan to monitor the fossil fuel investments of the banks that they use.

4.3 City of Leichhardt, NSW

In March 2015, Leichhardt Council, a Local Government Area in inner western Sydney, voted to completely divest from financial institutions that fund the fossil fuel industry within three

²² McIlroy, T. 2015. *ACT government fossil fuel divestment speed wins praise from environmental campaigners*. November 5. Retrieved on 14/4/16 from <http://www.canberratimes.com.au/act-news/act-government-fossil-fuel-divestment-speed-wins-praise-from-environmental-campaigners-20151105-gkr8wh.html>

²³ City of Melbourne. 2015. *Council Meeting – Agenda item 7.4. Notice of Motion, Cr Arron Wood: City of Melbourne Clean Energy*. October 2015. Retrieved on 14/4/2016 from <http://www.melbourne.vic.gov.au/about-council/committees-meetings/Pages/committees-meetings.aspx>

years, pending a successful review after 12 months.²⁴ The Council planned to increase the proportion of the investment portfolio to 60% invested in non-fossil fuel aligned financial institutions in the first twelve months and then to 100% divestment within three years.

The twelve month review was put in place so that Leichhardt Council could identify any risk factors and continue to protect their investment portfolio.

The resolution passed at the Leichhardt Council policy meeting on March 10, 2015 stated that the Council would:

- *Increase the proportion of its term investment portfolio in APRA supervised non-fossil fuel aligned financial institutions from its current level of approximately 50% on a phased based;*
- *Increase the proportion of its term investment portfolio to 60% in non-fossil fuel aligned financial institutions over the next 12 months (subject to existing contractual obligations);*
- *Notes that it is envisaged that Council's term investment portfolio will be fully divested from fossil fuel aligned financial institutions within a period of around 3 years pending a successful review after 12 months*
- *Prepare a report to review the progress after 12 months and that this report also covers relevant economic and environmental factors to enable consideration of appropriate further increases and appropriate time lines.*²⁴

Following the 12 month review, Leichhardt Council released a statement saying that they would divest all of their investments from financial institutions that fund the fossil fuel industry.²⁵ Leichhardt Mayor Darcy Byrne stated that “after successfully phasing in divestment, Council had now committed to a target of a 100% non-fossil fuel investment portfolio as soon as possible”²⁵

4.4 Western Australia's Local Governments and Divestment

Many Western Australian Local Governments have supported divestment from fossil fuels, with eight councils divesting between 2014 and the present.

The *Local Government Act 1995* includes the following clause in Introductory Matters – Content and Intent.

In carrying out its functions a local government is to use its best endeavours to meet the needs of current and future generations through an integration of environmental protection,

²⁴ Leichhardt Council. 2015. Leichhardt Council Votes to Divest from Fossil Fuels. Retrieved from <http://www.leichhardt.nsw.gov.au/News-and-Events/Media-Releases/2015/Leichhardt-Council-Votes-to-Divest-From-Fossil-Fuels> on 17/3/2016

²⁵ Leichhardt Council. 2016. Media Release. Council Leading the Way on Fossil Fuel Divestment. <http://www.leichhardt.nsw.gov.au/news-and-events/media-releases/2016/council-leading-the-way-on-fossil-fuel-divestment>. April 6 2016. Accessed 13/4/2016.

social advancement and economic prosperity. (Local Government Act 1995 Part 1, Section 1.3(3))

Local Governments can use divestment as a tangible demonstration of their approach to integrating environmental protection into their organisations.

4.4.1 City of Fremantle

In 2009 the City of Fremantle became Western Australia's first carbon neutral city. In August 2014, a Councillor of the City of Fremantle requested that the City consider developing an investment strategy which takes into consideration the support that financial institutions provide to fossil fuel industries. This request reflected the intention of the One Planet Fremantle Strategy and the City's commitment to carbon neutrality.²⁶

At the City's Ordinary Council meeting on the 27th of August 2014, a motion was put forward to amend the City's investment policy, Policy SG41, to include Divestment from Carbon Emissions. The motion was carried, and the Policy now contains the following paragraph:

The City of Fremantle has committed to carbon neutrality, and to this end seeks to ensure its financial investments consider the reduction of fossil fuels and our One Planet Fremantle Strategy. To this end the City of Fremantle will review and manage its investment portfolio to identify financial institutions which support either direct or indirect support of fossil fuel companies and will limit investments in these institutions to the minimum required which will allow compliance with parts 4 and 5 above.²⁷

This policy ensures that the City is able to divest while still limiting their risk. Compliance with part 4 refers to the credit framework, which limits the percentage of the portfolio exposed to any particular credit rating category. Part 5 refers to the counterparty credit framework, which limits the percentages of average annual funds invested with any one financial institution or managed fund and the relationship between credit rating and interest rate.²⁷

The amendment will result in limiting the City's use of investment with large banks. By August 2014 the City held 59% of its current investment of surplus cash in financial institutions which are registered as not supporting unlocking of carbon activities.²⁶ By May 2016, this number had risen to 75%.²⁸

4.4.2 Shire of Goomalling

The town of Goomalling is a rural service centre in the Wheatbelt in WA. In February 2015, the Shire of Goomalling pledged to divest from fossil fuel industries. The concept of divestment

²⁶ City of Fremantle. 2014. *Agenda – Strategic and General Services Committee 20 August 2014*. Retrieved on 7/3/2016 from <http://www.fremantle.wa.gov.au/council/agendas-and-minutes/strategic-and-general-services-committee-13>

²⁷ City of Fremantle. 2014. Policy: SG41 – Investment. Retrieved on 7/3/2016 from <http://www.fremantle.wa.gov.au/investment>

²⁸ City of Fremantle. 2016. *Minutes – Finance, Policy, Operations and Legislation Committee 18 May 2016*. Received as a personal communication from 350.org.

was brought to the Council by a local Councillor, who was concerned about the effect of climate change on biodiversity and the agricultural industry in Australia. The motion was carried unanimously.¹⁵

The Shire of Goomalling's *Policy 4.13: Investment of Surplus Funds* was amended in February 2016, to take into account the motion carried in 2015.

The amended policy now reads:

*When investing Council funds, a deliberate preference will be made in favour of authorised institutions that respect the environment by not investing in fossil fuel industries. This preference will however only be exercised after the foremost investment consideration of credit rating and risk diversification are fully satisfied.*²⁹

*The Shire of Goomalling considers the climate crisis a serious threat locally, nationally and internationally. In Paris in 2015, over 190 countries agreed that carbon emissions release should be significantly limited to support world efforts to limit global average temperature increase to 1.5°C above pre-industrial levels. A CSIRO and BOM publication in January 2015 stated that the South West of Western Australia has already warmed by 1.1°C since 1910. The Shire of Goomalling seeks to ensure its financial investments consider the reduction of emissions from burning fossil fuels and to this end the Shire of Goomalling will not invest in financial institutions which directly and/or indirectly support fossil fuel companies.*²⁹

4.4.3 City of Armadale

The City of Armadale received correspondence from 350.org in 2014, requesting Council give consideration to investing future surplus funds in financial institutions that do not invest in fossil fuel industries.³⁰

The City looked to the firm Market Forces which has a fossil fuel investment position comparison resource of banks, credit unions and building societies, to review their investments. The City used the term “green investment” to describe an investment that meets the requirements of Regulation 19C of the *Local Government (Financial Management) Regulations 1996* and is invested in an authorised institution that does not invest in fossil fuel industries.³⁰

The review of two years of investments showed that over time the City had invested more than 50% of their surplus funds in green investments and therefore a change in policy which preferences such investments would be easy to implement.

The motion was worded as follows:

²⁹ Shire of Goomalling. 2016. 4.13 Investment. Retrieved on 2/6/2016 from <http://www.goomalling.wa.gov.au/policies.aspx>

³⁰ City of Armadale. 2015. Ordinary Meeting of Council Monday 23 November 2015 Agenda. Retrieved on 14/4/2016 from <http://www.armadale.wa.gov.au/agendas-and-minutes/201511>

*The City when investing surplus funds will, as part of Council's commitment to protecting the environment, exercise a deliberative preference in "green investments" providing in all cases that such investments are authorised and meet the risk ratings and diversification tests outlined in the Management Practice.*³⁰

At the Ordinary Council meeting on the 23rd November the motion was carried unopposed. Armadale was the fourteenth Local Government in Australia to formally divest.

4.4.4 Town of Bassendean

The Town carried a unanimous motion pledging to divest their \$8.6 million fund in March 2016. Mayor John Gangell then called on other councils to divest from coal and gas.³¹ The Town's Investment Policy was amended so that Point 4 now reads: *"Preference will be given to invest in financial institutions who do not invest in or finance the fossil fuel industry"*.³²

4.4.5 City of Stirling

The City of Stirling is Western Australia's biggest council with over 223,000 residents.³³ The City unanimously carried a motion to change their Investment Policy on May 3, 2016. The policy now includes the objective of Environmentally and Socially Responsible Investment.³⁴ The objective reads: *"The investment should align to Council values through Environmentally Responsible Investment and Socially Responsible Investment in line with the other objectives of this policy."*³⁴

4.4.6 Town of East Fremantle

In June 2016, The Town carried a unanimous motion to revoke their previous Investment Policy and introduce a new Policy Investment of Surplus Funds. The policy gives preference to financial institutions that are deemed not to invest in or finance the fossil fuel industry, subject to conditions.³⁵

4.4.7 City of Vincent

The City unanimously voted for a policy to shift investments away from coal, oil and gas-investing banks in August 2016. This will result in the City moving \$19 million dollars of fossil

³¹ 350.org. 2016. *Mayor of Bassendean calls on other councils to "divest from the fossil fuel industry"*. Retrieved on 17/5/2016 from <https://350.org.au/news/mayor-of-bassendean-calls-on-other-councils-to-divest-from-the-fossil-fuel-industry/>

³² Town of Bassendean. 2016. *Minutes: Audit and Risk Management Committee 9 March 2016*. Retrieved on 27/9/2016 http://www.bassendean.wa.gov.au/3_your_council/agendas_minutes/audit-2016-03-09-min.htm

³³ City of Stirling. 2016. *Community Profile*. Retrieved on 27/9/2016 from <http://www.stirling.wa.gov.au/community/Community-profile-and-statistics>

³⁴ City of Stirling. 2016. *Minutes of the Ordinary Meeting of Council 3 May 2016*. Retrieved on 11/5/2016 from <http://www.stirling.wa.gov.au/Council/Meetings/Council%20meetings%20and%20petitions/Council%20Meetings%20Agenda%20and%20Minutes/Council%20Minutes%20-%203%20May%202016.pdf>

³⁵ Town of East Fremantle. 2016. *Minutes – Council Meeting Tuesday 21 July 2016*. Retrieved on 9/8/2016 from <http://www.eastfremantle.wa.gov.au/council-meetings/past-meetings/2016>

fuel investments into banks which do not invest in fossil fuel projects. The City also pledged to invest \$80,000 into carbon abatement opportunities.^{36 37}

4.4.8 City of Swan

The City unanimously voted to move \$122 million dollars in investments away from coal, oil and gas in September 2016, becoming the eighth Local Government in WA, and twenty-seventh nationally, to divest.³⁸ The City of Swan's policy now states: "*The City will ensure its financial investments consider the reduction of fossil fuels, by investing with non-fossil fuel lending banks.*"³⁹

5.0 Barriers to Divestment

Barriers or arguments against divestment may limit the extent to which Local Governments can divest. Possible barriers or arguments against divestment are discussed in the following section.

5.1 Does divestment affect the fossil fuel industry?

One of the main questions in the discussion on divestment is whether it is the best course of action for climate change mitigation, given that the action may not have a significant financial effect on fossil fuel companies.⁴⁰ This assumption is made given that a standard investment portfolio contains between two to four per cent fossil fuels.⁴¹ However past divestment campaigns have been successful despite not damaging the financials of their target. After the successful divestment campaign against South African apartheid, a study of the campaign found that divestment did not impact South Africa's economy, but attention brought to the regime by the divestment campaign led to political scrutiny and legislation changes.⁴²

³⁶ Bell, D. *Vincent out of the Coal*. Perth Voice. Retrieved on 6/9/2016 from

<http://readnow.isentia.com/ReadNow.aspx?27P04xy1G6QP>

³⁷ 350.org. City of Vincent dumps investments in coal, oil and gas. Retrieved on 6/9/2016 from

<http://350.org.au/news/city-of-vincent-dumps-investments-in-coal-oil-and-gas/>

³⁸ 350.org. 2016. Two WA Councils dump fossil fuel investments. Retrieved on 27/9/2016 from

<https://350.org.au/news/two-wa-councils-dump-fossil-fuel-investments/> September 14, 2016.

³⁹ City of Swan. 2016. *Minutes of the Ordinary Council Meeting held on 7 September 2016. 1.3 Policy Review Investment of Surplus Funds*. Retrieved on 27/9/2016 from <https://www.swan.wa.gov.au/Lists/Council-Minutes-listing>

⁴⁰ McGee. 2016. *Is divesting from fossil fuels the best tactic for tackling climate change?* The Guardian. April 24, 2016. http://www.theguardian.com/environment/blog/2016/apr/24/fossil-fuels-divestment-tactic-tackling-climate-change?CMP=Share_iOSApp_Other. Retrieved 10/5/16.

⁴¹ Mitchell, T. 2015. *Fossil Fuel Divestment Reaches \$3.4 Trillion Globally*. New Matilda. Retrieved on 23/5/2016 from <https://newmatilda.com/2015/12/03/fossil-fuel-divestment-reaches-3-4-trillion-globally/>

⁴² Leber, R. 2015. *Divestment Won't Hurt Big Oil, and that's OK*. New Republic. May 21, 2015.

<https://newrepublic.com/article/121848/does-divestment-work>. Retrieved May 10, 2016.

Government sanctions were brought by the US Congress in 1986, which were instrumental in bringing about the end of apartheid in 1994.⁴³

The tobacco divestment campaign borrowed many strategies from the apartheid movement, and once again, this campaign did not financially impact the tobacco industry. However the campaign helped to point out the strategies industry used to continually misinform consumers on the health impacts of smoking. This led to new taxes, limits on smoking in public spaces, and other policies to change public behaviour.⁴²

Fossil fuel divestment may not initially have a significant effect on the profits of banks which invest in fossil fuel companies, but it does begin to create doubt about the long term practicality of the fossil fuel industry's business model.⁴⁴

5.2 Which banks do and don't invest in fossil fuels?

Detailed information on banks that do and don't invest in fossil fuel companies are listed on the Market Forces website (<http://www.marketforces.org.au/>) and a summary is provided in Table 1 below. Market Forces also has a clickable map of Australia, illustrating which banks are investing in each fossil fuel project across the country.

5.3 Risk and divestment

Financial risk is defined as “the probability that an actual return on an investment is lower than an expected return”.⁴⁵ Banks are rated according to their level of risk, and given a credit rating according to their capacity to meet their financial commitment on an obligation. The highest credit rating is AAA.

The following table shows how a selection of Australian banks compare in terms of exposure to fossil fuels and credit ratings. Note, all references to credit rating are based upon Standard and Poor's Long Term Credit Rating.

Table 1 Profile of Australian Banks

| Bank | Banks Funding fossil fuels | Long-Term Credit Rating (S&P) |
|-------------------------|----------------------------|-------------------------------|
| AMP | Y | AA+ |
| ANZ | Y | AA- |
| Commonwealth Bank (CBA) | Y | AA- |
| NAB | Y | AA- |
| Westpac | Y | AA- |
| HSBC Australia | Y | A+ |

⁴³ McGee. 2016. *Is divesting from fossil fuels the best tactic for tackling climate change?* The Guardian. April 24. Retrieved on 10/5/16 from http://www.theguardian.com/environment/blog/2016/apr/24/fossil-fuels-divestment-tactic-tackling-climate-change?CMP=Share_iOSApp_Other..

⁴⁴ 350.org. *Frequently Asked Divestment Questions*. Received on 29/3/2016 from 350.org

⁴⁵ Business dictionary. 2016. *Risk: definition*. Retrieved on 8/6/2016 from <http://www.businessdictionary.com/definition/risk.html>

| Bank | Banks Funding fossil fuels | Long-Term Credit Rating (S&P) |
|--------------------|----------------------------|-------------------------------|
| Suncorp | N | A+ |
| ING | Y | A |
| Macquarie | Y | A- |
| Adelaide Bank | N | A- |
| Bendigo Bank | N | A- |
| Rural Bank | N | A- |
| Bank of Melbourne | Owned by Westpac | |
| Bankwest | Owned by CBA | |
| Rabobank | No | A+ |
| RAMS | Owned by Westpac | |
| St George | Owned by Westpac | |
| Beyond Bank | N | BBB+ |
| ME Bank | N | BBB+ |
| Bank of Queensland | N | A- |
| Auswide | N | BBB |

Long-Term Issue Credit Ratings are explained as below. Positives and negative signs refer to the direction the risk is trending.

AAA

An obligation rated 'AAA' has the highest rating assigned by Standard & Poor's. The obligor's capacity to meet its financial commitment on the obligation is extremely strong.

AA

An obligation rated 'AA' differs from the highest-rated obligations only to a small degree. The obligor's capacity to meet its financial commitment on the obligation is very strong.

A

An obligation rated 'A' is somewhat more susceptible to the adverse effects of changes in circumstances and economic conditions than obligations in higher-rated categories. However, the obligor's capacity to meet its financial commitment on the obligation is still strong.

BBB

An obligation rated 'BBB' exhibits adequate protection parameters. However, adverse economic conditions or changing circumstances are more likely to lead to a weakened capacity of the obligor to meet its financial commitment on the obligation

A bank's credit rating guides investors as to where to invest their funds. Some Local Government investment policies include a condition that they will not invest in banks that have a credit rating below A. These policies may also impose a maximum investment on each rating, for example a maximum of ten percent per A rated institution.

There are currently four banks in Australia which do not fund fossil fuel projects and have a rating of A or higher, including SunCorp, Bendigo Bank, Adelaide Bank, Rural Bank and Rabobank (Table 1). The low number of banks reaching this requirement may restrict the level

of fossil fuel divestment from Local Governments. The level of divestment will also depend on individual Local Government's attitude to risk.

Although the directives of the policy will guide the level of divestment a Local Government can achieve, adjusting an investment policy to include divestment in fossil fuels sends a message about the Local Government's attitude to fossil fuels. As institutions and individuals around the world continue to divest, it is likely that the increasing demand will encourage banks to consider changing their investments.

Until that happens, institutions can word their policies to allow divestment while still protecting themselves from undue financial risk.

5.4 High profits from fossil fuel investments

Despite the fact that some sectors of the fossil fuel industry have been highly profitable in the last decade, many authorities such as the International Energy Agency, Goldman Sachs, the IMF, Lord Stern, HSBC and Citi, have begun to warn their customers about financial risks of investing in fossil fuel reserves that cannot be safely combusted.⁴⁴

Past achievements of the fossil fuel industry do not guarantee successful future prospects, and situations such as the Exxon Valdez and BP oil spills, and unpredictability in supply and demand, create volatile markets for fossil fuels.⁴⁴

Cultural attitudes towards fossil fuel investments have begun to shift, with major investors such as Storebrand, Rabobank, the World Bank, and the European Investment Bank reducing their fossil fuel investments⁴⁴.

5.5 Divestment feasibility

Divestment is a realistic and achievable goal, but it may take time. The speed and degree of divestment will depend on the attitudes, size, governing policy/legislation and structure of the organisation wanting to divest. This paper lists Local Governments, universities, and religious organisations that have already divested, showing that divestment is possible for these types of institutions.

5.6 Reinvestment in Clean Energy

One argument against fossil fuel divestment, is that it is only one half of the equation, and investors need to reinvest in renewable energy projects to make a difference to climate change. Recently the Clean Energy Finance Commission and Palisade Investment Partners announced a strategy to accelerate the development of Australian renewable energy projects valued at \$1 billion.⁴⁶ The strategy aims to meet the growing desire from mainstream investors to invest in renewable energy projects. It will also assist in meeting the funding gap in new investments in renewable energy to meet the Renewable Energy Target.

⁴⁶ CEFC. 2016. Media Release. Retrieved on 18/4/2016 from [http://www.cleanenergyfinancecorp.com.au/media/releases-and-announcements/files/cefc-and-palisade-draw-major-funds-to-support-renewable-energy-projects-valued-at-\\$1-billion.aspx](http://www.cleanenergyfinancecorp.com.au/media/releases-and-announcements/files/cefc-and-palisade-draw-major-funds-to-support-renewable-energy-projects-valued-at-$1-billion.aspx)

Local Governments who commit to divestment can include the intention to reinvest in renewable energy in their Council motion and Investment Policy.

6.0 Conclusion

Divestment of fossil fuels is a policy Local Governments can pursue to align with their values set out in their Sustainability and Climate Change policies. Local Governments are significant customers for banks, and they can use their influence to encourage banks to reconsider their financial support for fossil fuels.

The fossil fuel divestment movement has grown exponentially within Local Governments across Australia in the last 18 months. In total, twenty-seven Australian Local Governments have divested from fossil fuels, the majority of these in 2015 and 2016. Western Australia is one of the leaders in Local Government divestment, with eight Local Governments who have divested. As Local Government divestment becomes more common, Local Governments seeking information and examples of divestment have a range of cases to refer to.

Local Governments can reduce risk when divesting by guiding the conditions attached to their policies, or by pledging to partially divest with an option to increase the percentage of their divestment after a certain period of time. The examples outlined in this paper detail a range of possibilities.

7.0 Resources

The table below details useful resources for information on divestment.

Table 2 Divestment resources

| | |
|--|---|
| Go Fossil Free | http://gofossilfree.org.au/ |
| Market Forces | http://www.marketforces.org.au/ |
| 350.org Divestment | https://350.org/category/topic/divestment/ |
| City of Armadale: Agendas and Minutes | http://www.armadale.wa.gov.au/agendas-and-minutes/201511 |
| Town of Bassendean: Minutes | http://www.bassendean.wa.gov.au/3_your_council/agendas_minutes/audit-2016-03-09-min.htm |
| Town of East Fremantle Council Meeting | http://www.eastfremantle.wa.gov.au/council-meetings/22/council-meeting |
| City of Fremantle: Agendas and Minutes | http://www.fremantle.wa.gov.au/council/agendas-and-minutes |
| Shire of Goomalling: Council Policies | http://www.goomalling.wa.gov.au/policies.aspx |
| Leichhardt Council: 2015 Policy Meetings | http://www.leichhardt.nsw.gov.au/About-Council/Meetings/Policy-/2015/2015-Policy-Meetings |
| City of Melbourne: Committees and Meetings | http://www.melbourne.vic.gov.au/about-council/committees-meetings/Pages/committees-meetings.aspx |
| City of Stirling: Meetings | http://www.stirling.wa.gov.au/Council/Meetings/Pages/default.aspx |
| City of Swan: Council Minutes listing | https://www.swan.wa.gov.au/Lists/Council-Minutes-listing |
| City of Vincent: Agendas and minutes | http://www.vincent.wa.gov.au/Your_Council/Agenda_Minutes |