**Briefing Paper:**

**What is Divestment?**

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Divesting is selling off of assets, e.g shares. Typically used in the context of selling of assets that are deemed immoral such as fossil fuels or weapons.

**What is the purpose?**

Divesting is primarily a way for an organization to distance itself from actions it deems undesirable. The aim is to removal the social license that industries possess in order to drive investment and subsides away from them. Divestment is **not about damaging a company economically**. The direct impact of divesting is minimal, the aim is to stigmatise and highlight your principles.

**How does owning shares have an impact?**

The impact will depend on the way the shares were bought to begin with, whether they were/are being bought on the primary or secondary market.

**Primary Markets:** Buying shares directly from the selling company and thus giving money to them.

**Secondary Markets:** Buying shares on the stock market which are being sold by individuals. This is what the majority of trades are. On the secondary market the same shares are sold, bought and resold by many people as ownership is passed around (like buying a secondhand car).

Buying shares on the primary market is unusual as new shares are not released often so the majority of sales are secondary whereby the original issuer does not receive any money.

**Example: How does that work?**

A fossil fuel company puts 1 million shares on the primary market (where you buy direct from the company) which are bought by a bank. The company make £500 million on the sale and goes and builds an oil pipeline with the money (shares sales to raise capital).

A year later the bank then decide they don’t want the shares and sell them. A university buys them and pays the bank for them. (Secondary sale). The fossil fuel company gets nothing in this sale.

The university now own 1 million shares in the fossil fuel company but hasn’t given them any money. However, they are taking money from the company in the form of dividends and may be criticised for supporting their operations. The bank who did finance them directly have now divested and so are praised (despite primarily funding them in the first place).

This leads to the argument that responsible institutions should hold the shares and affect the company from within by voting, calling for change and blocking proposals. This is the way some activist groups like [Greenpeace](https://corpwatch.org/article/netherlands-greenpeace-buys-shell-stock) operate. If this is what you choose to do you should be very open about it and be sure to actively use your influence to affect change and call for improvements.

**Economic Impact**

Whilst divestment can have an economic impact in lowering the share price it is extremely small or non-existent in most cases. In addition, selling shares with the intent of lowering the price or damaging the company would be illegal. A quick sell off may also result in a huge loss for the seller if market conditions are not good which is why divestment can take several years.

Lower prices would also mean other investors will buy shares as the share price is not related to the company assets or fundamentals, e.g if the share price drops it doesn’t necessarily affect what the company owns or how it operates.

For industries like fossil fuels there are good economic arguments for divesting to prevent “[stranded assets](https://www.smithschool.ox.ac.uk/publications/reports/SAP-divestment-report-final.pdf)” for example owning shares in a coal mine when there is no demand for coal and no one to buy your shares from you meaning you lose your money.

**Why is it contentious?**

Very few fossil fuel companies are on the stock market, only 10% of the world’s oil comes from Independent Oil Companies (e.g. BP, Shell). The other 90% are from National Oil Companies (see Figure 1). Currently Independent Oil Companies (IOC) face far higher scrutiny and environmental targets than National Oil Companies (NOC) who often have very low standards. As a result the [pollution per unit of fuel from an NOC](https://6fefcbb86e61af1b2fc4-c70d8ead6ced550b4d987d7c03fcdd1d.ssl.cf3.rackcdn.com/cms/reports/documents/000/003/858/original/CDP_Oil_and_Gas_Executive_Summary_2018.pdf?1541783367) is higher than from an IOC. Some argue that if divestment forces IOCs to diminish it will result in them ceding market share to NOCs, [potentially causing a increase in global carbon emissions](https://theconversation.com/fossil-fuel-divestment-will-increase-carbon-emissions-not-lower-them-heres-why-126392).

Figure 1: NOC vs IOC Assets

**What if you divest?**

Divesting for moral reasons and doing it publicly will always attract some level of scrutiny which you should be aware of. Everyone has a different idea of what is moral and some may question why you deem a fossil fuel company immoral but not a bank or an airline.

A clearer position to take is to invest for good. Rather than looking to minimize the damage caused by investment, you look to maximise the benefits with who you invest in and select companies who are aiming to have a positive impact. For a holistic overview it is best to check the [Environmental, Social and Governance (ESG) score](https://www.smithschool.ox.ac.uk/publications/reports/SAP-divestment-report-final.pdf) of your investments. This score is calculated by an independent 3rd party organisation whose job it is to research investments and rank them on their ethical and sustainability impacts. Be aware that the same issues of primary and secondary investing still apply but any dividends you receive are at least “guilt free” and you are no longer profiting from dividends from “immoral” industries.

**Summary**

Divesting publicly and loudly does raise awareness of the issue and will catch people’s attention. It is important to stress divestment is about removing the social license to operate and showing that you don’t believe in this particular industry. It is essential that divestment is public and transparent if you are aiming to affect change as selling assets quietly has little direct impact. Divestment often results in a lot of media attention as you publicly move away from an industry so be sure you are prepared for that to happen and are clear about the message you are sending.

**Further Resources**

* [**Share Action – Responsible Investments**](https://shareaction.org/)
* [**Positive Investment and Social Finance – University of Edinburgh**](https://www.ed.ac.uk/sustainability/what-we-do/responsible-investment/policy/positive-investment-and-social-finance)
* [**Ethical Investing Approaches and Scams**](https://lffinancialplanning.co.uk/ethical-investments/)
* [**What is Sustainable Investing?**](https://www.ftadviser.com/2015/03/02/investments/equities/what-is-sustainable-investing-anyway-4JclDMeUDw9DHrkJZxKQiN/article.html)