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Norway’s Wealth Fund Considers Divesting From Oil Shares

By: Clifford Krauss, November 16, 2017

Norway’s \$1 trillion sovereign wealth fund is considering a divestment of holdings in international petroleum companies, a sign that even Europe’s dominant producer does not have full confidence in oil’s future.

The recommendation on Thursday by the Norwegian Central Bank, which manages the fund, is potentially the biggest advance yet for a global fossil-fuel divestment campaign that has been promoted on college campuses and by environmental activists.

It could also be a setback for the proposed initial public offering of the Saudi national oil company, known as Aramco, since the Norwegian sovereign wealth fund, the world’s largest, would be a potentially large investor. The public offering depends on high oil prices, while the move by the Norwegian bank suggested uncertainty about the future demand for oil.

“It’s very significant symbolically because it sends a signal that even the people who make money from oil and gas are coming up with divestment plans,” said Michael Webber, deputy director of the Energy Institute at the University of Texas at Austin. “The Norwegian view is that oil has had a good run and will have a good run for a couple of decades but it’s not the only future that is out there.”

With roughly \$35 billion invested in oil companies, the Norwegian sovereign wealth fund is a large investor in Exxon Mobil, Royal Dutch Shell, Total, Chevron and Norway’s own oil giant, Statoil. Statoil has begun to diversify its holdings by building large offshore wind-energy projects.

Although it is Europe’s top oil producer, Norway is also a leader in the movement to control climate change. With hefty incentives, roughly 40 percent of cars bought in Norway last year were electric, and the government plans to phase out diesel- and gasoline-fueled cars in the next decade.

The Norwegian Central Bank said in a letter to the Finance Ministry that the nation needed to diversify its investments. The fund, with Parliament’s approval, decided in 2015 to begin selling off its investments in mining companies and utilities that depend on burning coal.

The potential Norwegian divestment of oil is not expected to happen until late 2018 at the soonest.

But on a day when oil prices were down moderately and most global stock markets soared, shares of several large oil companies were down by up to 1 percent.

“It sends a signal that others could follow, and if this becomes a growing movement it could have a material impact,” said Brian M. Youngberg, senior energy analyst at Edward Jones Investments. “It shows the global environmental movement continues to gain steam.”

Environmentalists praised the potential divestment as historically important.

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Religious institutions, pension funds and other financial institutions in more than 70 countries controlling more than \$5 trillion in assets have already committed to dropping some of their fossil-fuel holdings in recent years. The movement gained a major push from the 2015 Paris climate agreement, which set targets for reducing greenhouse gas emissions.

Another movement by investors has pressured European and American oil companies to disclose how climate change and future carbon taxes might affect the sustainability of their reserves, arguing that there is a risk to investors that many resources will need to be left in the ground.

The future of oil will also be dependent on demand and prices. There is a hot debate among analysts about exactly when demand for oil will peak. Some note that with the economies of China and other developing countries growing, there are decades more of growth for oil. BP has projected that the global auto fleet will double by 2035 to 1.8 billion vehicles.

But others say the electric cars and more efficient internal combustion engines will dominate transportation in the future, and deeply depress demand in gasoline and diesel. Several major car companies are investing in hydrogen fuel-cell vehicles, and Exxon Mobil is investing in advanced biofuels.

Royal Dutch Shell has projected that gasoline demand is likely to peak by the 2030s. Chevron’s departing chief executive, John Watson, recently said he was confident of demand growth for oil over the next decade or two.

“There is no sign of peak demand right now,” he said.