WHITE PAPER

Divesting of Fossil Fuels:
A Campus, Climate & Community Initiative

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January 6, 2016

As the 21st century continues, issues of climate change and curtailing carbon emissions have hardened in the cement of discussion. The constant stream of abnormal weather conditions, man-made disasters and other climate-related events has also provided the broader environmental movement more attention in the media, from oil spills to record-breaking floods. Perhaps as a result of this increasing collective awareness, a variety of strategies have risen to address issues across society, from an individual to an organizational level. From the White House, President Obama recently halted construction on the Keystone XL pipeline, and with it the massive transport of unrefined tar sands, in a statement that reaffirms the environmental agenda he desires as his legacy. All climate mitigation strategies ultimately seek solutions that improve our relationship to the planet and strengthen a global economy to sustain the Earth's finite resources as well as its growing population. This white paper explores a piece of the campaign for ecological reform, a tool that has brought radical and necessary change in past application but now stands against a unique and formidable foe: divestment from fossil fuel.

Defining Divestment

Divestment is the process of selling off an asset, subsidiary business, or investment. It can reflect a shift in organizational strategy or social values and concerns. Its practice takes prudent planning and deliberation. Upon deciding to divest from a poor performing stock for example, one must consider when is best to maximize returns on the sale, and where to redirect freed assets with new purpose. Handling investments in general requires ample foresight and consideration of the long-term effects behind each decision. Especially when divesting is used to reflect a moral or ethical stance,

but could adversely affect bottom lines in the process. Despite what financial advisors might caution from a business perspective, by taking a financial stake in another business an investor is implicitly supporting what they do: their goods or services, their values, and their impact. Though a business's investment portfolio is generally a financing tool to support their own function, this strategy entails a certain degree of responsibility as to where money is going, and what it influences. Most companies want to support their own practices without adversely impacting the world through inconsiderate investing decisions, but organizations are not always aware of the impacts they may be enabling. This lack of awareness is a typical symptom of investing because of the abstract nature of its practice. Investors manipulate money within a system of numbers, figures and valuations that represent a lot of businesses, projects, etc., but they don't necessarily experience the consequences of these actions. And they don't necessarily have to, because typically their focus is on *return* on investments, not the *result* of them.

In recent years, with growing awareness in the global market the investing community has recognized a renewed sense of responsibility and conscientiousness, along with its own terminology to support it. The term, "impact investing" describes a portfolio strategy that intends to generate both financial returns as well as positive social and environmental impact. These investors understand profitability as having a triple-bottom line—social, environmental, and financial returns are combined to describe a type of prosperity that surpasses a purely economic focus. Socially responsible investors (SRIs) are those who negatively screen investments deemed inconsistent with personal or organizational values, while aiming to seek proactive investments that contain a social or environmental component in their strategy. Taking this a step further, "sustainable investments" can be identified as those that actively seek opportunities to benefit from market conditions, pursuing industries that project positive growth while also having social and environmental benefits: like solar and wind energy. In recent years we have seen an increasing prevalence of green bonds as well, where proceeds from the issuance of these securities will be used in support of sustainability projects, climate mitigation and other environmentally friendly opportunities. These terms and practices have become more commonplace with the advent of climate change and notable climate-related impacts, as investors are taking more notice of the world around them both near and far. As the opportunities to make a positive difference while also seek profits arise, people seize them. At the same time the fossil fuels divestment campaign hopes to capitalize on this newfound sense of social responsibility by urging those who still support environmentally delinquent companies to reconsider their marriage to profit and seek new strategies for the sake of our planet and future generations.

Evolution of Divestment

The fossil fuels divestment movement seeks inspiration from another pivotal campaign, to end South African Apartheid. Historically the most well documented use of divestment, this is what climate activists hope to achieve with fossil fuel—to stimulate discussion and highlight an issue that can no longer be swept under the rug. But the issues of today are different. Ending our relationship with oil and related industry practices is cause for much more controversy than the eradication of apartheid, a violation of basic human rights. While our egregious carbon footprint demands attention, it cannot be isolated from our economy's systemic reliance on energy, a reliance that has been satisfied by fossil fuels since the industrial revolution. Current demand cannot be met without an energy mix that includes fossil fuels.

Adele Simmons, former President of Hampshire College, juxtaposes the divestment campaign against Apartheid with that of fossil fuels in a Chicago Tribune article: "fossil fuel campaigners are having an effect, but the situation is different. They are attacking oil companies' core business. In the 1980s, nobody was asking GM to stop making cars." The campaign to protect our planet, though justified, demands alterations to entire industries that make up the core of our economy. This is a massive undertaking.

Anti-Apartheid: Divesting from South Africa

In the late 1970s, schools in the United States were encouraged to remove any money in their endowment funds allocated to companies trading or doing business in South Africa, opposing the institutionalized racism and segregation imposed by apartheid. By 1988, over 150 colleges had at least partially divested. And though the push began on campuses, larger stakeholders followed, with companies like General Motors selling their factories in South Africa. By the end of the 80's over 200 U.S. companies had divested, resulting in a billion dollars withdrawn from South Africa's economy. The U.S. Senate passed the comprehensive Anti-Apartheid Act in 1986, legislature that affirmed America's stance towards the injustices of apartheid. The divestment movement was an influential contributor to the cause, even recognized as such by Nelson Mandela in later years. It brought relevance and attention to the issues at hand, inciting further legislative action.

The broader implications of an anti-oil campaign address challenging global issues. Where the movement to end apartheid fought a battle against social injustice, fossil fuel divestment aims at the stability of international economies that value crude oil as

an extremely wealthy asset. It comes as no huge surprise that the latter cause is met with some hesitation. Bill Gates regarded today's campaign as a "false solution", warning against using up people's idealism for a cause that wouldn't have any real effects. The Gates Foundation has roughly $1.4 billion invested in fossil fuel companies. In 2013, Harvard's president Drew Faust issued a statement explaining the college's decision not to divest cautioning, "we should be wary of steps intended to instrumentalize our endowment in ways that would appear to position the University as a political actor rather than an academic institution…the endowment is a resource, not an instrument to impel social or political change." Yet the last time Harvard divested, albeit selectively, was without a doubt to impel social and political change in South Africa. While a school that decides to divest from fossil fuels has a right to be concerned with the stability of the endowment's portfolio, there is also potential for a less measurable but very real impact through the symbolic gesture of taking a moral stand on issues that effect us all.

Expert Opinions

Is it worth the risk of financial loss to act as an agent of change? This depends who you ask. An economic consulting group, Compass Lexecon, recently released a report titled *Fossil Fuel Divestment: A Costly and Ineffective Investment Strategy*. Amidst a cautionary summary of divestiture and a torrent of related expenses from trading fees to loss of portfolio diversification, the consultants were very skeptical of whether divestment had any strategic value in this case. Cause-backed divestment is a risky business that often contradicts sound financial investment strategies, because it entails acting on an opinion-driven impetus as opposed to a profit-driven one. Especially with consideration to a historically stable and lucrative sector like oil and gas, divestment can be hard to justify to a company's CFO. But still, this objective analysis fails to consider the intangible benefits of inciting positive change through responsible action.

Businesses and schools must focus on core operations. Many universities rely on endowments as a means to realize ambitious goals, from funding research and new developments to financial aid packages. But this doesn't necessarily make divestment and financial stability mutually exclusive. A thoughtful approach could bridge the gap between impulsive eco-driven activist decisions, and cold-blooded conservative investing. Ernst & Young's Global Corporate Divestment Study (2014) summarizes strategic considerations for divestiture.

The study continually emphasizes the importance of keeping an ear to the ground, maintaining a high level of involvement with portfolio management. In doing so, a

company executes divestment as a way to capitalize on new opportunities, has ideas on where to reinvest if they so choose, and has tacit agreement on how these actions factor into the long-term goals of the organization. Divesting of fossil fuels specifically may not be the simplest strategic play, but it doesn't need to precede financial loss either. On the contrary it can coincide with restructuring, funding new business ventures, or bolstering currently profitable operations. Developing a company's strategy takes healthy discussion and insightful thought, which is why financial consultants exist to optimize these types of decisions. Even if a firm's impetus for divesting is cause-driven, handling its execution practically without acting on emotional inclinations can minimize risk.

Should Colleges Divest from Fossil Fuels?

To return to Faust's remarks distancing Harvard from divestment, it is fair that academic institutions have a divided opinion. A school's endowment is intended to facilitate educational pursuits, a coveted resource. For a prestigious center of research like Harvard the desire to avoid anything that would dilute those resources is understandable. However Harvard is also inherently regarded as a role model to its community and the world at large. These institutions are hubs of debate, fresh thought, action, and the growth of a new generation of societal contributors. Knowledge is power, and what better place to fuel a world-changing movement than a place in the business of providing knowledge?

Organizational social responsibility becomes all the more imperative when a real impact *is* achievable. A study released by Oxford University explores the fossil fuel divestment campaign, and what realistic impact could come of it. In the study, divestment movements are segmented into three phases; citing examples of past movements that gained steam by targeting different groups in a sequence. The first, industry related public organizations and religious groups, the second, universities, select public institutions and cities, and third, a wider market. We see a disproportionate amount of influence that academic institutions have in carrying a divestment campaign to a wider public audience, despite their relatively small market shares. A little can go a long way when colleges make a statement of support or dissent. It is difficult to know exactly what transpires in the time before enough stakeholders at a school agree to utilize their latent political influence and address an issue. Administrators are aware that they possess a platform with potential for far reaching exposure, but must act in the school and immediate community's best interest. So perhaps this is entirely dependent on when that community—students, faculty, and staff—finds the cohesion to voice their opinions in a unified manner, causing a university to make changes that reflect the collective ideals of its members.

Williams College, a private liberal arts college in Massachusetts, has an advisory committee that specifically addresses issues of social responsibility. They have been exploring the complexities of divestment and trying to address their community's consensus on a responsibility to combat climate change. The committee seeks to find ways to target the specific handful of firms commingled within the fund they invest in that are considered the "worst actors". This task is difficult, as Williams College is just one small stakeholder within a large investment fund, and their opinions cannot alter its fundamental investing strategy. A more realistic goal they hope to achieve would involve discussions with fund managers about divesting from specific firms involved in organized-disinformation campaigns that attempt to discredit climate science and the impact of fossil fuels. The fact that Williams College has formed a committee to pursue these issues, and its respect for its own community's desire to be part of the solution demonstrates the power of synergy; individuals have united and voiced their collective opinion, internalizing issues that once seemed unrelated to the school, in order to ensure they are addressed. Consequently, administrators and those with the power to make changes cannot ignore what is important to their resident community. Below is a table with a list of action steps one can take to gauge commitment in any community and support this cause, or one like it.

Steps Toward Divestment Policies at your School
1. **Research.** Browse online for inspiration from current members of the divestment movement, and find organizations similar to your own that are committed to divesting. Some helpful sites: gofossil.org, divestinvest.org, 350.org, http://www.intentionalendowments.org/ http://www.endowmentethics.org/
2. **Determine your focus & organize.** Whether through school clubs, sustainability committees, social media, or a group of friends, a helpful first step is to find like-minded people to discuss what issues matter in your community; be it fossil fuels, free trade, child labor, etc.
3. **Analyze and Engage.** Find out who manages your school's endowment, ask questions—who makes decisions, what influences their choices, and how closely do they align with the school's mission? Try offering an online survey (www.surveymonkey.com) to poll classmates for a better idea of how people perceive the issue. Share what you find from independent research.
4. **Call to action.** Use your findings and those passionate about the issue to appeal to stakeholders at your college, and discuss the possibility of making changes to reflect the opinions of you and your fellow classmates to take a stand against dirty energy by committing to divest. Just by creating a dialogue with administrators, you can get the ball rolling.
5. **Celebrate success.** Take the pledge at divestinvest.org and add your name to the ever-growing list of divestors. Notify the community of your achievements and continue to seek ways of impelling change for a greener future!

Progress Now

The fossil fuel divestment movement is currently welcoming all the support it can get. Go Fossil Free, an organization and online presence of the cause, lists over 450

institutions that have committed to divestment in full or partial pledges. The University of California schools have divested nearly $100 billion from coal mining and oil companies focused on tar sands, while also implementing sustainable investing criteria across their portfolio. The Rockefeller Brothers Fund, a continuing legacy of one of the wealthiest oil families the world has ever known, has committed to full divestment of fossil fuels. Symbols of progress like these cannot be measured in financial gain or loss, for they represent a shifting paradigm far more important. The issue is garnering attention worldwide, and the social licenses of big oil and gas are facing more scrutiny than ever.

Concurrently, measureable progress can also be achieved through addressing potential, "stranded assets". A stranded asset is essentially something that becomes obsolete, no longer demanded in an economy due to a more cost-effective or efficient substitute. Take the whaling industry, which died out in America *not* because of environmentalism or scarcity, but the emergence of petroleum and its derivatives that created a superior market. As Oxford's study on divestment explains, a limited but focused divestment strategy may achieve the most noticeable impact by targeting low-hanging fruits like potential stranded assets. Some industries are poised to become obsolete in coming years as a variety of conditions gather in the perfect stranding storm: the U.S. coal industry for example, is not only one of the dirtiest energy sources but also at risk of being edged out of the market mix by technological improvements that drastically cut the price of natural gas. While there is enough coal in America to mine for decades to come, reasons to retire this emission-heavy energy source abound. Costly scrubbers to filter out carbon pollution, adverse health effects to communities, ancient coal plants on the verge of being decommissioned, and cleaner, cheaper energy alternatives all weigh in on the decline of the industry. Putting concentrated pressure on the industry through divestment is an empowering opportunity to quicken what appears to be an inevitable transition in the near future. In 2014, our nation's two largest coal producers each lost over half a billion dollars. Twenty-six coal companies went bankrupt. Experts cite many contributing factors, but consensus points to structural change in the industry instead of its recovery in coming years. While crusaders against fossil fuel face many formidable opponents, injured sectors like coal could see their decline further accelerated due to divestment.

The Power of the Increment

Perhaps the most important realization to have in the divestment hemisphere is the notion of a little going a long way. Divestment does not aim to dramatically affect portfolio valuations. In fact, universities in the US and UK have very limited equity exposure in the fossil fuel industry—2% and 4% respectively, of university

endowments are invested in fossil fuel-related public equities. These combined percentages amount to roughly 570 million U.S. dollars; no insignificant sum, but also not an amount expected to deliver a knife through the heart of the fossil fuel industry. Nevertheless, if an amount of similar magnitude were divested in the name of social responsibility, it would undoubtedly achieve prominence in the media and deliver an influential message to the global community. In the words of the study's own authors, "The outcome of the stigmatization process, which the fossil fuel divestment campaign has now triggered, poses the most far-reaching threat to fossil fuel companies and the vast energy value chain."

In years to come, we will likely witness the continued transformation of energy markets. To a certain extent, progress must maintain a pace that satisfies our ongoing energy demand while we continue building infrastructure for alternative power. By phasing out dirty energy and allowing the renewables sector to simultaneously spread deeper roots, higher consumer adoption could enlist energy suppliers and utilities to shift their scope of business from heavy-carbon emitting practices toward lucrative *and* practical clean energy end-goals. Now is a pivotal time to work out the kinks before seeing to widespread adoption of these energy alternatives. Effectively enabling their application in developing regions is imperative if we are to meet outlined CO2 emission cuts. Brazil, Russia, India and China are referred to as the BRIC countries because they are poised at similar stages of newly advancing economic development. Cooperation and support from all nations will be an integral facet of CO2 remediation strategies as these countries seek new projects to accommodate their larger capacities.

Instead of repeating past follies, we have an opportunity to learn from the pitfalls of unsustainable infrastructure and erect better models for energy production. Brazil has set a goal to install 7 GW of solar capacity by 2024, doubling its projections from 2013. This past November, 1.5 GW were awarded to energy developers in contracts for wind and solar projects, and projects of this nature are only becoming more common. Wheels are indeed in motion thanks to technological advances, plunging alternative energy costs, and increased awareness. Divestment is only a piece of the puzzle, but it represents the kind of collective action that facilitates healthy progress. It takes the involvement of many stakeholders, big and small, to realize the true Power of the Increment. No pebble is too small to roll in the right direction! We strive to do our part here at EcoMotion, and love to see others jump on board as agents of change!