Debunking Myths About Fossil Fuel Divestment

Divestment is one of the most powerful statements that an institution can make with its money. It helps remove the social license that allows the fossil fuel industry to continue to emit dangerous pollutants into the atmosphere at no cost. To stay below 2 degrees Celsius of warming, scientists and economists say we must leave 80 percent of the current coal, oil, and gas reserves in the ground. Simply put, to avoid the most catastrophic effects of climate change we can only burn 565 gigatons of carbon, while the fossil fuel industry currently holds 2795 gigatons in its reserves. The fossil fuel industry’s business model depends on its ability to burn all of the carbon in its reserves.

Campuses have a moral imperative to address climate change in a manner that is consistent with the urgency and severity of the crisis. Colleges and universities exist to educate new generations of young people. “If their college’s endowment is invested in fossil-fuel stock, then their educations are being subsidized by investments that guarantee that they won’t have much of a planet on which to make use of their degree,” wrote Bill McKibben in a recent Rolling Stone piece.

The following myths, culled from numerous conversations with college administrators, presidents and trustees, represent common misperceptions about fossil fuel divestment:

1. 'Fiduciary responsibility' and donor wishes make divestment too legally problematic.

Fiduciary responsibility, or fiduciary duty, is a legal term meaning that trustees must act in the best interest of the institution. At many schools, this is interpreted to mean maximizing short-term returns at the expense of all other factors. Many administrators justify this policy by stating that any other course of action would be breaking their legal responsibility. Fortunately, this interpretation of fiduciary duty is a fallacy, as evidenced by the steps that many administrators and other institutional investors have taken to align investment and values, whether it be in low-carbon index funds, engaging in shareholder activism, community investing, and more.
The fiduciary responsibility to act in the interests of stakeholders, for example, makes little sense without a commitment to inter-generational equity—a cornerstone of sustainable investment. Your institution has both the opportunity and the obligation to recognize that responsibility means looking beyond immediate, short-term, unsustainable and morally untenable ways of generating profits and returns.

Furthermore, donors do not dictate institutional investment policy—their main goal is to support the mission of the university or college. Since fossil free investment fits the institution’s mission, it should pose no problem for them. Did donors who contributed 100 years ago know that their money would be financing the destruction of the climate?

2. Shareholder engagement is a more effective means for change.

Sometimes shareholder resolutions are effective avenues for change, but the fossil fuel industry is different. Their business plan is inherently flawed since it is based on burning 5 times the maximum amount of carbon established as the limit for keeping global climate change beneath 2 degrees Celsius. Shareholder resolutions that limit potential profits for a corporation are often thrown out before even going to a vote by the SEC.

Due to the urgency of the problem, divestment is a more effective approach. Divestment campaigns work in part by removing the social license that will allow the companies to continue to burn that carbon. Our institutions must draw a hard line against an industry whose actions result in the degradation of communities across the planet, and the destabilization of our climate.

3. Divestment is not the best strategy for addressing climate change solutions; instead we should focus on research or advocacy.

Congress is deadlocked, and our political system is rigged to benefit fossil fuel companies. We have marched on Washington, protested at our Senators’ and Representatives’ offices, and will continue to do so to push for carbon regulation. But to win real legislative efforts, we need to take the social license away from the fossil fuel companies so they can no longer dictate our national energy policy. Divestment is way to both economically and politically marginalize the fossil fuel industry and to build a movement large and powerful enough to overcome their millions of dollars in campaign contributions.

Divestment also means the opportunity for re-investment. As the endowment sells off any fossil fuel holdings a portion of that money can be re-invested in climate solutions making a positive impact in the developing clean tech sector or local infrastructure, for example.
While research is an important part of advancing climate change solutions, we also must create space to implement our research. The responsibilities of our research institutions are not only to advance research, but also to use that research to positively impact the world around us.

4. The amount of money divested from university endowments won’t make a difference compared to the trillions currently invested in coal, oil, and gas extraction.

College and University investments are a reflection of their institutional values. By investing in fossil fuel companies, we actively sponsor climate change. Universities are leaders in the investment space. As universities move their money other investors will begin to follow amplifying the impacts of divestment. This has been demonstrated recently by the commitments made by 11 US cities to divest from fossil fuels.

If institutional fund managers are compelled to change their policies by universities and colleges, this will create more opportunity for other investors to do the same. By becoming familiar with fossil free investment products, there is the opportunity for fund managers to share those opportunities with other clients, and to advertise those services.

5. The fossil fuel industry is best poised for leading in the development of renewable energy infrastructure.

The fossil fuel industry is at odds with the developing clean tech infrastructure needs. In past decades, fossil fuel companies have shown little to no interest in shifting their business models away from extraction, and have lobbied heavily to keep their monopoly on the world’s energy systems. Companies like BP are decreasing investments in clean energy instead of increasing them. In addition, because of the growing risk of a “carbon bubble,” a number of studies show the potential decline of companies with carbon intensive operations in coming years.

Make no mistake, Exxon could still make a profit as an energy company if it transitioned its massive wealth and expertise over to renewables, but they’ll do it because of government regulation, not because they willingly decide to make the move.

We’re all complicit in fossil fuel consumption, and we should do all that we can to reduce our own use, but the real culprits—the ones who are rigging the system—are the fossil fuel companies. The largest 200 coal, gas and oil companies own the vast majority of the proven
oil, gas and coal reserves, and represent a significant percentage of the entire global market. These companies, incidentally, are also the largest contributors to politicians’ of all stripes in this country and across the world—they’re the ones writing laws, and getting billions of dollars of government handouts each year.

6. It’s not possible to divest from fossil fuels without significantly increasing portfolio risk.

On average fossil fuels make up about five percent of a university's endowment. This means relatively small portion of the endowment’s holding will be affected by divestment. Investment managers are beginning to develop fossil free options and as demand grows more fossil free investment products will become available. An immediate freeze on new fossil fuel investments, and divestment over five years allows ample time for managers to develop alternative investment strategies. A recent report by the Aperio Group reveals that excluding the top 200 fossil fuel companies from an indexed portfolio would increase theoretical return risk by a mere 0.003%.

Additionally, some institutions have the opportunity to invest parts of the endowment in needed capital improvement projects, such as energy efficiency upgrades for buildings. By establishing a revolving fund a portion of the energy cost savings can be returned to the endowment, often gaining a higher rate of return than if invested in stock.

7. Divesting will impact returns on the endowment, thus impacting financial aid and student services.

The return on investment is not the only income that a campus should be concerned with. Campus operating budgets also heavily rely on tuition and alumni donations. Unity College in Maine reported that after they announced divestment they saw a significant increase in donations and interest in the university. Daily campus administrators make choices on how to spend their operating budget to meet numerous different needs. In the case of any hypothetical downturn, the campuses operating budget can be managed in way that does not sacrifice the mission of the institution. For example, during the recession in FY2009, Brown University's endowment shrunk 29%, yet financial aid increased 10.9%.

Long-term investments in the fossil fuel industry will likely prove to be bad investments. It carries very low risk to the portfolio and hedges against the foreseeable decline in the fossil fuel industry known as the "Carbon Bubble." If more than 80% of fossil fuel reserves cannot be extracted and burned for profit, they are considered stranded assets, which inflates the
value of the companies’ stock. These reserves are currently valued at nearly $6 trillion forming a bubble that dwarves the housing tech bubbles that led to past recessions.

Endowments are some of the longest-term investments in existence, thus should consider long-term risk, not short-term returns. Responsible investment is one of the best means by which to mitigate long-term risk, as it rewards companies and investments that are truly sustainable, and will therefore be profitable in the long-term, not just the short-term. Responsible Investment mitigates long-term risk by identifying potential environmental, social, and governance (ESG) risks before they become portfolio risks. Consider the BP oil spill and the Fukushima nuclear disaster; these catastrophes occurred partially because of environmental and governance failures. Responsible investment addresses ESG risks and factors that conventional investors do not price into investment.

8. It’s very difficult to know where an institution’s money is invested, so it’s impossible for the administration to take action.

A common refrain from administrators, and even sometimes College Presidents or Board members is “We can’t divest because we don’t even know where the money is invested—and even if we did know, we couldn’t make that information public because it would reduce our profits.”

It may be true that they don’t know what stocks or bonds they own at any given moment, but administrators and boards hire the money managers, and thus get to decide where their money is, or isn’t, invested. If they really wanted to divest from fossil fuels, all they would have to do is tell the money managers to do just that!

Institutional investors are beginning to move away from fossil fuels and investing in the growing green economy. Foundations like Wallace Global Fund have divested from dirty energy. Two of the nation’s largest pension funds, CalPERS and CalSTRS, have already allocated $1.1bn into energy efficient infrastructure projects with commitments from the American Federation of Teachers, AFL-CIO, and Clinton Global Initiative to collectively invest $10bn in the clean energy economy.

It is not the responsibility of the students to develop a full proposal for how and where the institution should re-invest all of the endowments previous fossil fuel holdings. Administrators should work with students to identify solutions and alternative investments. Ultimately the endowment holdings are directed by the Trustees, who can direct their investment managers and consultants to identify alternative investment options.
Acknowledgements

This resource is adapted from key arguments in:
Responsible Endowments Coalition Student Handbook
Fossil Free Frequently Asked Questions
Harvard Student Divestment Guide

Another great resource from the students at Divest Harvard is a very comprehensive rebuttals document: divestharvard.com/rebuttals

A glossary on financial terminology can be found here: http://www.endowmentethics.org/student-handbook/glossary

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i http://www.carbontracker.org


iii http://www.law.cornell.edu/wex/fiduciary_duty - A fiduciary duty is a legal duty to act solely in another party's interests. Parties owning this duty are called fiduciaries. The individuals to whom they owe a duty are called principals. Fiduciaries may not profit from their relationship with their principals unless they have the principals' express informed consent. They also have a duty to avoid any conflicts of interest between themselves and their principals or between their principals and the fiduciaries' other clients. A fiduciary duty is the strictest duty of care recognized by the US legal system.

iv http://www.endowmentethics.org/faq


vii http://www.carbontracker.org/unburnable-carbon/stranded-assets

viii http://www.endowmentethics.org/is-my-university-or-alma-mater-invested-in-fossil-fuels/


x http://greenbillion.org/resources/#reports

xi http://www.brown.edu/about/facts/financial-aid

xii http://www.carbontracker.org/unburnable-carbon/stranded-assets