

*Harvard Faculty
For Divestment*

Fossil Fuel Divestment FAQ

1) What's the point?

Two points, immediate and long-run. Immediately, we should stop using endowment funds to back companies whose profitability is directly linked to environmental degradation. The logic is simple and compelling. For investments in the fossil-fuel industry to pay off, the industry must utilize its enormous reserves of coal, oil and gas. Burning these reserves is likely to cause irremediable damage to the planet. Fossil-fuel companies have stated publicly that their business plans are based on continued extraction. Our investments will make money only to the extent that those business plans succeed. We should not touch any investment predicated on this outcome.

Now and in the long run, Harvard should exercise intellectual and moral leadership to help spur the change in opinion and policies needed to prevent climate catastrophe. Our divestment will catalyze needed debates and divestments elsewhere.

2) How do you expect divestment to have any effect? You are surely not expecting to put Exxon out of business.

Divestment will accelerate a growing movement to change public opinion and, eventually, public policy.[1] U.S. public opinion is not there yet, and we need to do what we can to make the issue more urgent. Sixteen colleges and universities have divested or are divesting entirely from fossil fuels.[2] The Rockefeller Brothers Fund was the most recent non-profit to make headlines doing this.[3] Stanford University has recently divested from coal.[4] Research on public opinion change/diffusion of information reveals a pattern known as an “opinion cascade.” Each new entrant reduces the costs for new entrants and increases the costs of not entering. The actions of key players, particularly early on, make more difference than their numbers alone. Nelson Mandela, Desmond Tutu, and others have argued that university and non-profit divestment from South Africa in the U.S. significantly helped the anti-apartheid movement in South Africa.[5]

3) Isn't it hypocritical to divest from fossil fuels institutionally if neither the institution nor any of us personally can stop using fossil fuels?

Transitioning to sustainable energy requires collective action -- it cannot be accomplished by individual action alone. A first step towards appropriate public policy is to move climate change from the political back burner to which fossil-fuel companies (with a little help from their friends) have effectively relegated it. Divestment will facilitate that movement.

We therefore advocate three complementary tracks: 1) Divesting from our holdings in the fossil-fuel industry as soon as possible, while at the same time 2) winding down institutional and personal reliance on such fuels and 3) advocating government financing for the infrastructure required to replace those fuels with sustainable energy sources.

The current reserves of fossil fuels are booked as assets on the companies' balance sheets. These companies have stated that they have no intention of altering business plans.[6] In investing in the fossil-fuel industry we effectively bet that there will be no major restrictions on future extraction and sale. This is not a moral position. According to international scientific consensus, if this carbon is extracted and burned, we are likely to experience irreversible climate catastrophe.

Although we applaud the steps that Harvard and other institutions have taken to lighten our carbon footprint, we must do more. Continuing on a path to sustainability on campuses, in businesses, on the road, and at home and divesting our holdings in the fossil-fuel industry are complementary initiatives; both have a place in the movement to eliminate our dependence on fossil fuels.

4) Can't we can do better through research and innovation in green technology?

We do not see the choice as “either/or.” The best course is to do everything possible. Harvard should be a leader in research and green technology. We welcome the new Sustainability Plan[7] and other measures that make us a leader in this field. At the same time, we should divest from fossil fuels. We need to change the rules of the game so that these fuels stay in the ground.

5) Can't we learn to dispose of the carbon?

Many technological fixes have been proposed to allow greater use of fossil fuels without endangering the planet (e.g., carbon capture and sequestration). Some of these new technologies have promise and may turn out to be part of the solution to global warming, but none is ready for prime time. It would be foolhardy to bet the planet on any one of them, or on all of them together.

6) Won't this open a way to other calls for divestment on political grounds?

This divestment movement is not like any other. The university would be divesting from a bet with an immoral foundation because the value of fossil-fuel shares depends on a scenario inconsistent with the welfare of humanity. As Derek Bok said in the context of earlier divestment proposals, “There are rare occasions when the very nature of a company’s business makes it inappropriate for a university to invest in the enterprise.” This is such an occasion because the fossil-fuel industry’s business involves potential catastrophe for the planet. It is thus qualitatively different from other divestment issues, on which reasonable people may differ.

In a case like this, there is no avoiding political action: not divesting is as political as divesting. If one reason for the university’s disinclination to divest derives from the symbolic signal such an action would give, the decision not to divest is an equally political signal.

7) Won't some fossil fuel companies discontinue funding for important research at Harvard?

The university should not accept funds from entities that impose a condition that the university invest in them. Would the university invest in a company owned by an individual simply because that individual said it was a prerequisite for a donation?

8) Will divesting hurt our portfolio?

Some Wall Street analysts compare the “carbon bubble,” based on assumptions about use of current reserves, to the recent housing bubble, based on assumptions of constantly rising prices.[8] If this is right, there would be financial gain in divesting from fossil-fuel companies. If it is wrong, and fossil-fuel companies are underpriced in terms of future returns, fossil-fuel investments comprise only a small part of the endowment portfolio. Any loss will likely be minimal.[9] The major problem for the portfolio in divesting is loss of diversity in investments. That said, even if there were to be significant impact, this should not be a primary consideration in a matter of this urgency.

9) Isn't it better to work from within?

This has not worked so far. Harvard's relatively small holdings in fossil fuels give us little leverage. Moreover, we have no special expertise in these stocks. We urge a division of labor in which investors who have a potential effect on public opinion, such as Harvard, divest and those who can marshal real expertise on the subject of fossil fuel stocks, such as Ceres, [10] work from within.

When the university has acted as a responsible stockholder in fossil fuel companies, it has acted for good ends. Yet it has been cautious even here. On the most important recent stockholder move, which pressed Exxon to make the statements on fossil fuel that revealed how deeply their expectations of future profits depend on greater use of fossil fuels, Harvard was not a participant.[11]

A frequently suggested alternative to divestment would be for the university, as a responsible stockholder, to exert strong pressure for limits on exploration and on taking known reserves out of the ground in accordance with good scientific estimates of the percentage of known

reserves that must remain unused to avert catastrophic climate change. The UK financial research firm Carbon Tracker, for example, has estimated that fossil fuel companies will be investing nearly \$700 billion a year to explore for new fuel that is highly expensive, volatile, and difficult to extract.[12] Harvard could press for the cancellation of such capital expenditures designed to acquire reserves that should not be burned.

If the companies in which we invested accepted such a shareholder proposal, it would be reasonable to rethink our divestment strategy. If they rejected it, as we imagine would be the case, divestment should be our response. Harvard has not taken this position. Moreover, the decision by the Rockefeller Brothers Fund to divest, based on moral and economic grounds, occurred, as the NY Times reported, after the Rockefellers had “met privately with the company over the years in efforts to get it to moderate its stance on issues pertaining to the environment and climate change” and “acknowledged that they have not caused the company to greatly alter its course.”[13] Given the probabilities, it would be better simply to divest now.

We strongly believe that the good that Harvard can do by divesting from an immoral bet and by accelerating a cascade of divestment among universities and non-profits is greater than what we can add to the work of other responsible investors in influencing these companies from within.

10) Wouldn't divestment further polarize the climate issue?

A: Stanford's early step helps counter any charge that divestment is a radical option. Rather, it is on the verge of becoming mainstream. By taking the next step we will accelerate the trajectory of opinion change to include more and more universities, which can in turn influence the public, policy makers, and other civil society organizations to take the steps needed to keep the fossil fuel in the ground, which is the sine qua non of preventing catastrophic climate change.

For *More Information*,

and to Sign Our

Open Letter, Visit:

harvardfacultydivest.com

[1] <http://www.smithschool.ox.ac.uk/research/stranded-assets/SAP-divestment-report-final.pdf>

[2] <http://www.rbf.org/content/divestment-statement>

[3] <http://www.rbf.org/content/divestment-statement>

[4] <http://news.stanford.edu/news/2014/may/divest-coal-trustees-050714.html>

[6] <http://corporate.exxonmobil.com/en/energy/energy-outlook/download-the-report-and-presentation/download-the-outlook-for-energy-report>

[7] <http://green.harvard.edu/commitment/our-plan>

[8] http://www.nytimes.com/2014/06/22/opinion/sunday/lessons-for-climate-change-in-the-2008-recession.html?_r=0

[9] http://www.aperiogroup.com/system/files/documents/building_a_carbon_free_portfolio.pdf; *and* <http://www.impaxam.com/media-centre/white-papers/beyond-fossil-fuels-investment-case-fossil-fuel-divestment>

[10] <http://www.ceres.org/>

[11] <http://www.ceres.org/press/press-releases/investors-ask-fossil-fuel-companies-to-assess-how-business-plans-fare-in-low-carbon-future>

[12] <http://carbontracker.live.kiln.it/Unburnable-Carbon-2-Web-Version.pdf>

[13] <http://www.nytimes.com/2014/09/22/us/heirs-to-an-oil-fortune-join-the-divestment-drive.html>

