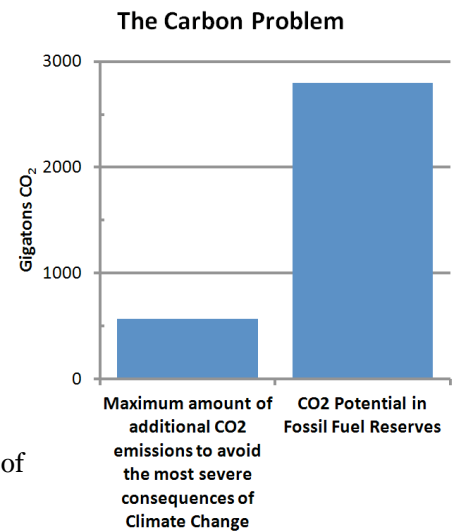


# Fossil Fuel Divestment

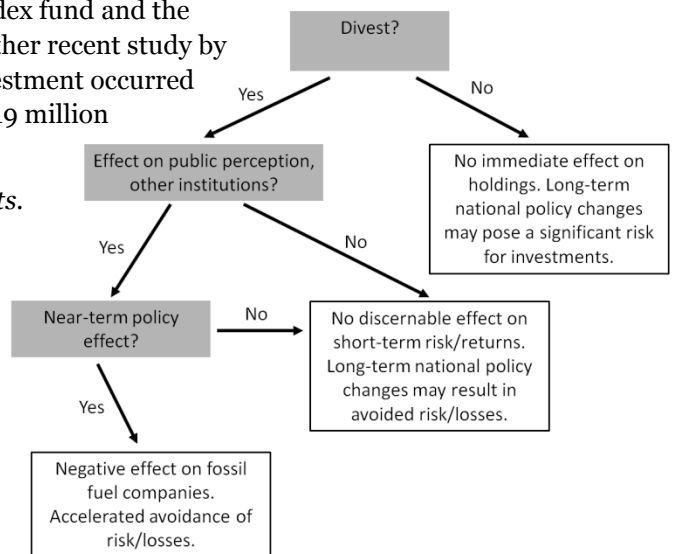
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This document addresses fossil fuel divestment from several perspectives. The background for such a proposal includes three important general facts<sup>1</sup>: (1) A net increase of average global temperatures above 2° C will have severe catastrophic environmental, economic and other social consequences; (2) Emitting more than 565 Gigatons of CO<sub>2</sub> will lead to a net increase above 2° C; and (3) Fossil fuel reserves amount to more than 2,795 of potential CO<sub>2</sub> (see diagram to the right).



## Arguments in Favor

- Moral Transitivity Cannot Be Ignored.** If it is wrong to cause severe damage to the planet and to future and present generations of humans, then it is wrong to profit from such activities. By holding investments that sanction and legitimate the behavior that leads to such damage, we are subsequently endorsing the very business model which makes climate change education necessary in the first place. Universities are supposed to be the primary source of information and policy guidance for scientific and social matters, and should therefore align their portfolios with their mission statements and formal declarations.
- Fossil Fuel Companies Attempt to Undermine Research from the UC and other Academic Institutions.** It is well known that fossil fuel companies have attempted to conflate scientific uncertainty with colloquial uncertainty. Leaked internal memos point to information distortion and the promotion of minority skeptics, undermining the science, much of which has been led by UC researchers. Other memos point to attempts to undermine policy decisions in addressing climate change.<sup>2</sup> Such companies have displayed no real interest in the large consensus on climate change and the need to manage the problem,<sup>3</sup> even when their own internal scientific assessments have concluded that climate change represents a severe threat.<sup>4</sup> An additional moral corollary is that it is wrong (or at least befuddling) to profit by undermining one's own conclusions.
- Research Suggests Divestment has No (or Even a Positive) Long-Term Impact on Endowments.** A recent study from a financial consultant agency, the Aperio Group, found there is minimal risk (0.0001 increase) and no appreciable effect on returns by comparing the standard Russell 3000 index fund and the same fund excluding the top 200 fossil fuel companies.<sup>5</sup> Another recent study by S&P Capital IQ using the S&P 500 index shows that, had divestment occurred ten years ago, a \$1 billion endowment would have yielded \$119 million more than the index with no divestment.<sup>6</sup>
- Policy Impacts from Divestment May Benefit UC Investments.** Recent analysis suggests that fossil fuel companies may be overvalued.<sup>7</sup> According to research from HSBC Global, if any policy actions are taken regarding climate change, the returns on fossil fuel investments may decrease and the risks increase, leading up to a 40-60% loss of current market capitalization.<sup>8,9</sup> Policy implementation may be expedited by large-scale, unified divestment across many campuses. If the UC begins a five-year divestment strategy sooner than climate policy implementation, then it will be well-positioned to handle such market reactions. Not divesting could have the opposite effect.
- The University of California should Display Leadership.** The UC system was a leader in divestment from South Africa, helping to end apartheid. Many other universities are facing the same divestment issue, and ours could be the first large public institution to take a step in this direction. UC researchers already are top in their field for climate science and effects,<sup>10</sup> and have created a vision of a sustainable future in which the students can implement the knowledge they have received whilst at UC. The time has come for additional UC exceptionalism.



## Rebutting Arguments Against Divestment

What follows are arguments that we've heard about divestment and our responses to them. It is important to bear in mind that **none of the arguments below actually engage the moral arguments for divestment** (arguments 1 & 2 above), and we have not actually encountered a rebuttal to the moral arguments, nor have we found substantive positive moral arguments to remain invested. What follows are responses to practical objections.

### 6. [Shareholder engagement]

*The UC system could be more effective by more actively engaging the companies in which they are invested. Divesting means we would no longer have a say in the companies. This would mean we would have no right to, say, sponsor shareholder resolutions.*

This argument would potentially be effective for companies that have less egregious practices, or for companies that were more responsive to shareholder engagement. However, the fossil fuel industry has time and time again ignored shareholder resolutions that call for any large-scale improvements. For instance, the organization As You Sow has helped author numerous fossil fuel resolutions, with minimal success or change on the part of the companies. The organization also notes that divestment can bolster shareholder advocacy that remains, as companies may actually listen once large institutional investors make a bold move.<sup>11</sup>

### 7. [Carbon Tax]

*The UC system should try to offer broader solutions rather than divest. For instance, we could vigorously pursue a policy such as a carbon tax, which many economists agree is the most simple and straightforward way to manage the carbon problem within a market system.*

With the current policy climate so heavily influenced by corporations, legislation that would push for a carbon tax is frozen. Although there are fewer registered lobbyists in Washington (it is currently down to 8,823; about 17 per member of the legislative branch<sup>12</sup>), more and more lobbying is done behind the scenes in an unregistered way.<sup>13</sup> Divestment strips these corporations of their credibility, and legitimates the claim that these companies can no longer be seen as beneficial to society, despite their best public relations efforts to the contrary. This change in attitude clears the table for an unbiased discussion of the carbon tax and other policy mechanisms.

### 8. [Fossil Fuel Companies Invest a lot in Renewables]

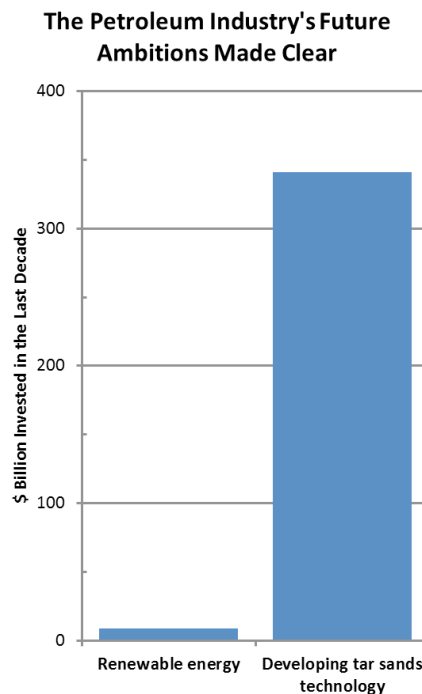
*Fossil fuel companies generally see themselves as energy companies, and have invested a great deal in renewable energy. To divest from them is to discourage them from cleaning up their energy sources.*

The fossil fuel industry has generally avoided renewable energy in favor of more extraction of carbon-based energy. For instance, although the American Petroleum Institute points to \$71 billion invested in energy improvements in the last decade, only \$9 billion of that was actually invested in renewable energy.<sup>14</sup> By contrast, the petroleum industry has dedicated \$341 billion in developing tar sands technology during that same period.<sup>15</sup> Furthermore, global energy investment in renewables for year 2011 alone topped \$257 billion.<sup>16</sup> These numbers show that the fossil industry is only concerned with extraction, not viable alternatives to extraction.

### 9. [No Politics]

*It is not the UC's role to get involved in political matters. This proposal steps over the bounds of being a research and educational institution.*

Investing is in itself a political statement, especially once it is made well-known that an institution is actively and highly invested in an industry associated with large-scale political problems. Although it is not the direct intention of the investments committee to exacerbate climate change, the declarations of our own institutions of the dramatic consequences of policy inaction and complicity are taught to students time and time again in almost every department of our University. We do not want to be a "do as I say, not as I do" institution on such an important issue. Additionally, climate change is not a *partisan* issue, as both sides have not engaged the issue enough (hence the problem), and



solutions have been offered by minority figures in both, so divestment is much less political than one might think. What's more, the UC has been involved in political matters, including lobbying.<sup>17</sup> The UC has also politically engaged on Sudan, South Africa, and tobacco, regarding genocide, apartheid, and public health, respectively. Although each were important matters, climate change is clearly much more dangerous in terms of severity of its global impact and effect on human populations.

10. [Divestment is too risky]

*There is a high amount of risk associated with pulling out from a single industry. This could affect long term profits.*

Divesting from one industry is not in itself fundamentally risky. While it is possible that long term profits could be affected, the arguments presented in favor of divestment (see arguments 3 & 4 above) show that the negative perspective is at best contentious. And given potential catastrophic events' potential impact to spur public dialogue, failure to divest is in some ways associated with high risk itself. Public opinion on climate change, although somewhat variable (and linked to the increasing ineffectiveness of the fossil fuel industry's public relations tactics), is transitioning to a broader agreement that something must be done.

11. [Green our Campuses First]

*There are better, more relevant things to do on our campuses that show our commitment to mitigating climate change. For instance, we would have stronger green building standards, source our energy from clean sources, and encourage faculty, staff and students to drive less.*

The UC system has a very strong policy on sustainable practices that includes things such as local organic food, green purchasing, and green building standards.<sup>18</sup> However, at this point, improving such standards will yield diminishing returns. We certainly should look to additional opportunities in these areas, but we cannot ignore the broader implications of investment in industries actively and consciously engaged in exacerbating climate change.

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<sup>1</sup> Although subject to debate and tweaking under various scenarios, these numbers generally hold true. See McKibben, Bill, "Global Warming's Terrifying New Math", *Rolling Stone*, 19 Jul 2012. Available at: <http://www.rollingstone.com/politics/news/global-warmings-terrifying-new-math-20120719?print=true>

<sup>2</sup> Union of Concerned Scientists. "Smoke, Mirrors and Hot Air", January 2007. Available at: [http://climate.envsci.rutgers.edu/pdf/UCSexxon\\_report.pdf](http://climate.envsci.rutgers.edu/pdf/UCSexxon_report.pdf)

<sup>3</sup> Cook, John, et al. "Quantifying the Consensus on Anthropogenic Global Warming in the Scientific Literature", *Environmental Research Letters* 8, 15 May 2013. Available at: <http://iopscience.iop.org/1748-9326/8/2/024024/article>

<sup>4</sup> Revkin, Andrew. "Industry Ignored Its Scientists on Climate", *The New York Times*, 23 Apr 2009. Available at: <http://www.nytimes.com/2009/04/24/science/earth/24deny.html?pagewanted=all&r=0>

<sup>5</sup> Gardner, Ken. "Divesting From Fossil-Fuel Companies Is Unlikely to Harm Endowments, Report Says", *The Chronicle of Higher Education*, 29 Jan 2013. Available at: <http://chronicle.com/blogs/bottomline/divesting-in-fossil-fuels-shouldnt-harm-endowments-report-finds/>

<sup>6</sup> Begos, Kevin, and Joan Loviglo. "College fossil-fuel divestment movement builds", *Associated Press*, 22 May 2013. Available at: <http://news.yahoo.com/college-fossil-fuel-divestment-movement-builds-173849305.html>

<sup>7</sup> "Unburnable Fuel", *The Economist*, 4 May 2013. Available at: <http://www.economist.com/news/business/21577097-either-governments-are-not-serious-about-climate-change-or-fossil-fuel-firms-are>

<sup>8</sup> HSBC Global Research, "Oil and Carbon Revisited", 25 January 2013. Available online at: <http://gofossilfree.org/files/2013/02/HSBCOilJan13.pdf>

<sup>9</sup> Former Security and Exchange Commissioner Bevis Longstreth has helped to clarify the HSBC Report. See his "The Case for Cool: Student Engagement to Save the Planet", *The Huffington Post*, 3 May 2013. Available at: [http://www.huffingtonpost.com/bevis-longstreth/the-case-for-cool-student\\_b\\_3211186.html](http://www.huffingtonpost.com/bevis-longstreth/the-case-for-cool-student_b_3211186.html)

<sup>10</sup> UC Berkeley, UC San Diego, and UC Santa Barbara are in the top 20 research institutions, including government laboratories and agencies. See "Climate Change: Top 20 Overall Institutions by Citations", Thomson Reuters Science Watch, Nov 2009. Available at: <http://archive.sciencewatch.com/ana/st/climate/institution/>

<sup>11</sup> "Carbon Divestment", *As You Sow*. Available at: [http://www.asyousow.org/health\\_safety/carbon-divestment.shtml](http://www.asyousow.org/health_safety/carbon-divestment.shtml)

<sup>12</sup> "Lobbying Database", *Open Secrets.org*. Accessed 24 May 2013 at: <http://www.opensecrets.org/lobby/>

<sup>13</sup> Overby, Peter. "Why Lobbying is Now Increasingly in the Shadows", *NPR Morning Edition*, 3 May 2013. Available at: <http://www.npr.org/blogs/itsallpolitics/2013/05/03/180582381/why-lobbying-is-now-increasingly-in-the-shadows>

<sup>14</sup> Wells, Ken. "Big Oil's Big in Biofuels", *Businessweek*, 10 May 2012. Available at: <http://www.businessweek.com/articles/2012-05-10/big-oils-big-in-biofuels>

<sup>15</sup> Wells, Ken. "Big Oil's Big in Biofuels".

<sup>16</sup> "Global Trends in Renewable Energy Investment 2012", *Frankfurt School UNEP Collaborating Centre*. Available at: <http://fs-unesp-centre.org/publications/global-trends-renewable-energy-investment-2012>

<sup>17</sup> "University of California Lobbying", *Opensecrets.org*. <http://www.opensecrets.org/lobby/clientsum.php?id=D000000406>

<sup>18</sup> <http://sustainability.universityofcalifornia.edu/policy.html>