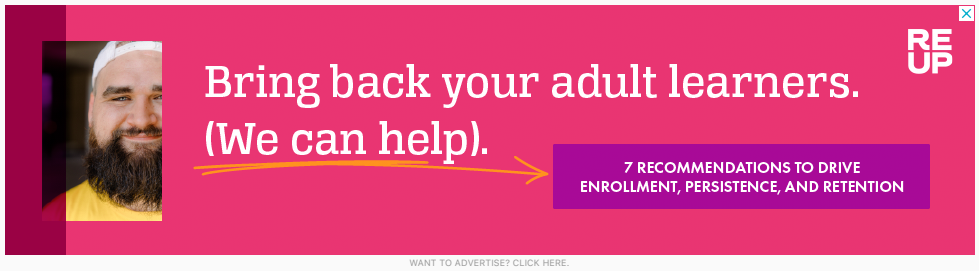

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OPINION SUSTAINABILITY

The Global Significance of Fossil Fuel Divestment

We're in a climate emergency, and it's time for universities to take action, Sheldon Pollock and Jacqueline Goodman write.

By Sheldon Pollock and Jacqueline Goodman • Published December 1, 2022

Climate activists rallied in London in 2021. (Mark Kerrison/In Pictures/Getty Images)

Warning lights are flashing. "It's now or never, if we want to limit global warming to 1.5°C (2.7°F)," cautioned Jim Skea, the co-chair of the United Nations' Intergovernmental Panel on Climate Change working group on climate change mitigation. "Without immediate and deep emissions reduction across all sectors, it will be impossible."

The IPCC states unequivocally in its April 2022 report that human behaviors have warmed the globe, and that—to limit warming to 1.5 degrees Celsius—drastic action is needed to cut greenhouse gas emissions 43 percent by 2030. This will require "a substantial reduction in fossil fuel use … and [increased] use of alternative fuels."

Universities and colleges throughout the world have been responding to the crisis. Scholars have carried out essential climate research from a variety of disciplinary perspectives, students have mobilized to push universities toward divestment from fossil fuels and alumni have joined the movement, even launching a "no donations until divestment" initiative.

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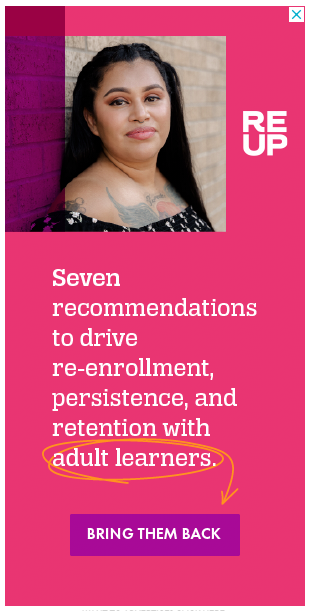
More than 1,500 institutions of higher learning, foundations, pension funds and faith-based organizations from around the world, including such famous universities as Harvard University and the Universities of Cambridge and Oxford, have committed to remove fossil fuels from their portfolios. One of the world's largest and most influential investors, the New York State Common Retirement Fund, with $226 billion in assets, announced in late 2020 that it would fully divest from fossil fuels by 2040. The total amount of capital committed to be removed from the fossil fuel energy sector now stands at more than $40 trillion.

By contrast, the vast majority of American colleges and universities continue to hold endowment investments in fossil fuel. Of the approximately 140 universities and colleges with endowments over $1 billion, we estimate that fewer than a quarter have committed to fully divest from fossil fuels as of this writing. (Compare this with the 65 percent of universities in the United Kingdom that have pledged to divest.) This means that of their aggregated endowment—which amounted to nearly three-quarters of a trillion dollars for fiscal year 2021—a substantial portion continues to underwrite companies that have brought us to the brink of climate chaos.



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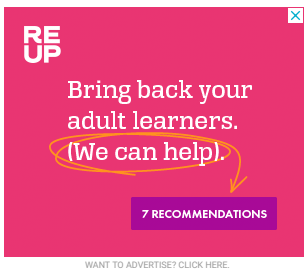

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And this is to say nothing of those financial institutions holding university and college retirement funds. The Teachers Insurance and Annuity Association of America, for example, an investment fund with $1.3 trillion in assets under management and contracting with over 15,000 institutions for retirement services, has an estimated $78 billion invested in oil, coal and fracked gas. TIAA is now the subject of a complaint filed by hundreds of its customers with the U.N.-supported group Principles for Responsible Investment.

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Toxic Financial Investments

Some universities and colleges continue to question the financial exigency of fossil fuel divestment, as reported by Josh Moody in a recent *Inside Higher Ed* article. Moody cites Charlie Eaton, a professor of sociology at the University of California, Merced, who argues that universities resist divestment due to their fiduciary responsibility—maximizing profit and minimizing risk.

But in fact, divestment from fossil fuels minimizes investment risk. A recently released report from the Institute for Energy Economics and Financial Analysis (IEEFA) directly challenges continued investment in the carbon economy on the very basis of fiduciary responsibility. "Fiduciaries can opt for different investment strategies to address climate risk," the authors argue, "but without a plan that fully articulates a fossil free portfolio, those strategies are devoid of a sound fiduciary basis for investment decision-making."

Despite recent unprecedented short-term gains in oil and gas stocks (ExxonMobil reported profits of almost $18 billion in *three months* ending June 30) principally due to geopolitical effects of the Russian invasion in Ukraine, the IEEFA's data plainly predict a decline in fossil fuel assets over the long term. The IEEFA report notes, "In 2020, fossil fuels supplied 59 percent of electricity worldwide and renewables 26 percent. The U.S. Energy Information Administration (EIA) projects that in 2035, fossil fuels will have 44 percent of the market and renewables 46 percent."

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Market forces favor the renewable energy sector due to greater cost efficiency, innovation and public sentiment in favor of climate-safe energy, according to the report. It concludes, "Weak economic performance and an unstable future for fossil fuels have made it clear that divestment can be achieved without financial harm to any individual investment fund. Divestment is a defensive tool employed to protect investors from the loss of value—losses as certain as climate change's global reach."

Numerous other sources, including prominent economists and the International Renewable Energy Agency (IRENA), make the same case as IEEFA. A recent IRENA report found "almost two thirds … of newly installed renewable power in 2021 had lower costs than the world's cheapest coal-fired option in the G-20."

As Bloomberg reported in 2021, over the past decade, global renewable power stocks have tripled in value compared to fossil fuel stocks, posting 426 percent returns since 2010. Despite increased supply chain costs, as of June 2022, the cost to build and run new solar and wind facilities is cheaper than for gas or coal plants, with a new BloombergNEF report finding that "new onshore wind and solar projects cost roughly 40 percent less than coal or gas plants built from scratch—and the gap is widening."

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Larry Fink, CEO of Black Rock, which manages about $8 trillion in assets, put the matter bluntly in a letter to CEOs in 2020: "Climate risk is investment risk." And as the IEEFA report states, "When a fiduciary acknowledges a risk, they are obligated to act."

In a word, managers of multibillion-dollar university and college endowments still encumbered with fossil fuel investments, such as those at Stanford and Yale Universities, the Massachusetts Institute of Technology, and the University of Chicago, ignore climate risk at their peril.

The Ethical—and Legal—Imperative

Not only is fossil fuel investment financially unviable in the long term, it is also antithetical to the mission of the university, from both a legal and an ethical standpoint.

According to Ted Hamilton, an attorney with the Climate Defense Project, "The law is clear: universities are required to invest their endowments so as to further their educational mission and promote the public interest … Fossil fuel investments cannot be squared with those duties."

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This contradiction was sharply delineated in complaints filed last February with their state attorneys general by students at the Massachusetts Institute of Technology and Princeton, Stanford, Vanderbilt and Yale Universities in conjunction with the Climate Defense Project. The complaints alleged that universities have a duty under the Uniform Prudent Management of Institutional Funds Act to consider their charitable purposes in investing.

In a major win for the climate, Princeton trustees have since voted to divest the endowment from all publicly traded fossil-fuel companies and, furthermore, to "dissociate"—that is, to refrain from entering into any financial relationship and to refuse to accept gifts—from 90 companies "active in the thermal coal or tar sands segments of the fossil fuel industry, which are among the sector's largest contributors to carbon emissions."

A recent letter signed by more than 100 economists called on universities to, in effect, wield their capital more ethically. "When our largest banks, most influential investors and most prestigious universities place bets on the success of the fossil fuel industry, they provide it with the economic and social capital necessary to maintain the dangerous status quo," the letter states. "Instead, these institutions should divest from fossil fuel companies and end financing of their continued operations while reinvesting those resources in a just and stable future."

Institutions of higher learning successfully promoted the public interest during the life-threatening COVID-19 pandemic. They responded swiftly and prudently by moving to remote instruction, setting up systematic testing and mandating vaccinations and masks. They understood the immediacy of the threat and the need to act expeditiously for the well-being of the community. The climate crisis is an infinitely graver threat, and the majority of the educational institutions with the greatest financial power are not only failing to respond but they are exacerbating the problem with their fossil fuel investments—as if they had chosen during the pandemic to actively release new pathogens into the air.

Institutional Resistance

Despite student demands for endowment transparency, many institutions maintain secrecy over their investment information. Tools are nonetheless available for gaining some insight into a university's direct or indirect engagement in the carbon economy. The various complaints submitted to attorneys general, for example, estimated that Yale has between $800 million and $2.5 billion of its endowment invested in fossil fuel stocks and Vanderbilt $506 million. Student groups have made similar calculations: a student group at the University of Illinois estimated as of April that the university holds $230 million in fossil fuel investments, and a student group at the University of Wisconsin estimated as of last November that the university held $315 million in fossil fuel investments. In the most extreme case, Bloomberg recently reported that the University of Texas is earning more than $6 million *a day* derived from vast oil and gas holdings in the Permian Basin.

In addition to concealing investment information, many universities have employed strategies that either defend or deflect from their divestment choices. One is to brand divestment a biased political act. The University of Chicago, for example, has consistently refused to divest on the grounds that it must "maintain an independence from political fashions, passions, and pressures." This language comes from the 1967 University of Chicago Kalven Report on social and political action, which continues to be used in arguments against fossil fuel divestment. Such framing of divestment is similar to that of Republican state treasurers around the country, who label divestment part of the "woke" liberal political agenda, while pushing laws that prohibit state agencies from doing business with financial institutions that divest from fossil fuels.

A second deflection strategy is partial divestment, typically limited to thermal coal or tar sands. A good illustration is provided by Johns Hopkins University. Students petitioned for full divestment at Hopkins in 2015 and 2017, yet the university offered to divest only coal in 2017. As of October 2021, student activists estimated the university continued to hold $417 million in the fossil fuel industry. Similar processes have unfolded at Stanford and Tufts Universities and elsewhere.

A variant is to agree to divest but only with a future—sometimes vanishingly distant—timeline. Thus Wesleyan University will only divest by 2030, Williams College by 2033, University of Pittsburgh by 2035 and onward to 2050. But divestment can be accomplished near term and without delay, as the University of California system demonstrated in 2020 by completely liquidating its $1 billion investment in fossil fuels and reinvesting it in clean energy.

A third approach is to argue divestment isn't practical. The president of the University of Notre Dame asserted in 2016 there is "no practical plan by which we could cease using fossil fuels in the immediate future." He added, "It seems to me at least a practical inconsistency to attempt to stigmatize an industry—as proponents of divestment hope—from which, we admit, we must purchase their product to do our work." There's no question we are in a deep fossil-fuel hole, but "the first rule of holes," as Jesse Jenkins, climate and energy expert at Princeton, puts it, "is to stop digging … Then you can figure out how to climb out." Every dollar directed away from carbon to renewables is a dollar redirected toward our all-important green transition.

Some universities (as well as pension fund managers like TIAA) continue to insist that they can best accomplish change from inside the boardroom. Maintaining fossil fuel investments, they assert, enables them to hold fossil fuel companies accountable. No evidence appears to support this claim. For example, during the spring 2022 shareholder meetings for ExxonMobil and Chevron, as well as for Citigroup, Bank of America and Wells Fargo, resolutions offered by activist investors to end further fossil fuel development or stop financing it were all defeated.

Yet another common strategy is to swap fuel divestment plans for net-zero emissions of the university's physical plant. The University of Virginia, for example, maintains "it can most effectively impact climate change through continued investment in teaching, research and operational sustainability initiatives," yet it strenuously resists endowment divestments. In contrast, the University of Washington illustrates it can all be done simultaneously. Its regents recently voted to exit fossil fuel investments by 2027, even as the university takes other steps to address the climate crisis through its physical operations, research and teaching. And while decarbonizing the university physical plant should be applauded, that cannot offset simultaneous investments in fossil fuel companies that are the very source of the problem. Indeed, this is precisely the sort of contradictory behavior exemplified by ExxonMobil itself: in January, the company trumpeted its ambition to achieve "net zero greenhouse gas emissions for operated assets by 2050," only to announce a few weeks later that it would boost capital spending 45 percent for oil drilling expansion.

What's Next?

The call for phasing out fossil fuel is a global effort, well over a decade old. Numerous institutions, cities, Nobel laureates, heads of state, scientists, academics and civil society organizations have signed on, some in the name of a Fossil Fuel Non-Proliferation Treaty. Universities should be leading this movement, not resisting it. Students, staff, faculty, alumni and local communities must encourage them to do what is right financially, legally and ethically.

The global demand for clean energy is irreversible, as investment in renewable energies of $226 billion in the first half of 2022, a new record, portends. "We will be moving, whether it's in 10 years or five years or 20 years to a green economy," Nobel Prize–winning economist Joseph Stiglitz urges. "Don't be in those assets that are going to go down. It's foolish."

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Sheldon Pollock is the Arvind Raghunathan Professor Emeritus of South Asian Studies at Columbia University. Jacqueline Goodman is professor emeritus of sociology at the State University of New York at Potsdam and a retired professor of women's and gender studies at Eastern Michigan University. Both are members of the Third Act Educators, a working group of senior faculty committed to a carbon-free economy. *They thank Harry Rick Moody, retired vice president and director of academic affairs for AARP, in Washington, D.C., and Manuel Espinosa, principal at the Phoenix Group, a Silicon Valley–based management consultancy, for assisting in research.*

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