

Divestment Report  
Committee for Investor Responsibility  
Drafted May 2013; Updated February 2014

Recently, various students and alumni have contacted the Committee for Investor Responsibility (CIR) expressing concern regarding Wesleyan's investments in energy companies that extract fossil fuel resources. This concern stems from recognition that the consumption of fossil fuels is one of the most significant anthropogenic drivers of climate change.<sup>1</sup> Climate change is an issue that will have a wide variety of negative human rights, economic, and environmental consequences. Concerned parties see a fundamental discord between these investments and the moral principles of Wesleyan University. The University is purposed to serve as a place where "students learn to do productive and innovative work that makes a positive difference in the world."<sup>2</sup> There is a fundamental disconnect between the University's stated educational goals and the negative impacts of certain investments in its endowment. This report presents the arguments for and against divestment at Wesleyan so as to inform future discussions on the matter.

## **Our Responsibility to Act**

The production and burning of fossil fuels presents not only great environmental concern, but also a grave danger to fundamental human rights. The release of greenhouse gases into the atmosphere is the most significant factor contributing to global warming, which causes mass extinctions, desertification, air pollution and other environmental consequences.<sup>1</sup> Climate models predict an increase in global temperatures of between 1.4-5.8 °C by the year 2100, much greater than any temperature increase experienced in the previous 10,000 years.<sup>3</sup> In Resolution 7/23, the United Nations Human Rights Council recognized that "climate change poses an immediate and far-reaching threat to people and communities around the world and has implications for the full enjoyment of human rights."<sup>4</sup> Research suggests that the effects of climate change, such as droughts, desertification, and flooding, may create 50-200 million new internally-displaced persons and international refugees by the end of the next century.<sup>5</sup> The impact of such massive refugee flows will extend beyond those directly impacted, posing political, social, and economic strains on many areas already confronting various other forms of instability.<sup>6</sup> The effects of climate change are being felt most strongly in developing countries. Damage to agricultural production from extreme weather linked to climate change has contributed to deaths from malnutrition, poverty and their associated diseases. According to a recent report published by the

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<sup>1</sup> <http://www.epa.gov/climatechange/basics/>

<sup>2</sup> <https://www.wesleyan.edu/about/>

<sup>3</sup> <http://climate.nasa.gov/effects>

<sup>4</sup> [http://ap.ohchr.org/documents/E/HRC/resolutions/A\\_HRC\\_RES\\_7\\_23.pdf](http://ap.ohchr.org/documents/E/HRC/resolutions/A_HRC_RES_7_23.pdf)

<sup>5</sup> Docherty, Bonnie; Tyler Giannini (2009). "Confronting a Rising Tide: A Proposal for a Convention on Climate Change Refugees". *Harvard Environmental Law Review*33: 349–403

<sup>6</sup> <http://www.independent.co.uk/voices/commentators/mary-robinson-climate-change-is-an-issue-of-human-rights-1059360.html>

DARA Group and the Climate Vulnerable Forum in May 2012, climate change already costs the world \$1.2 trillion a year and results in 400,000 deaths annually. Additionally, air pollution caused by the burning of fossil fuels results in 4.5 million deaths per year.<sup>7</sup> Experts predict that climate change will cause 1/4 of the earth's species to face extinction by 2050.<sup>8</sup> Continuing to invest in practices that contribute to climate change has made Wesleyan the target of much criticism.

Climate change will also likely increase income inequalities both between and within countries. Developing countries lack the resources to adapt to the difficulties associated with more frequent severe weather caused by climate change. Similarly, the most disadvantaged residents within countries lack the means to confront the obstacles presented by climate stress. It is estimated that by 2030, the combined impact of burning fossil fuels due to air pollution and climate change will result in a 3.2 percent decrease in global GDP, with the world's least-developed countries suffering losses of as much as 11 percent of GDP.<sup>6</sup> According to the Millennium Ecosystem Assessment, 20 percent of the world's arid regions have already become desertified due to climate change and this percentage will rise as atmospheric greenhouse gas concentrations increase. The environmental effects of climate change will place great stress on global food and water resources, placing 2 billion people at risk for starvation.<sup>9</sup>

### **What Statement Does Divestment Make?**

Wesleyan's divestment does not necessarily imply that endowments have *a unique* responsibility to address climate change, only that they have *a* responsibility to address climate change. In the same vein that Wesleyan considers the environment in its recycling program, Do It In The Dark energy saving program, Waste Not Tag Sale, College of the Environment think-tank, conferences such as "Pricing Carbon", and the 2050 climate commitment, Wesleyan can also address environmental concerns through its endowment.<sup>10</sup>

Many worry that it appears hypocritical to use electricity and heat generated by fossil fuels while concurrently divesting from companies that are producing them. First, this hypocrisy works in both directions; that is, how can Wesleyan commit to climate neutrality if it is still invested in companies that are fueling the original problem? Second, Divestment does not inherently imply that fossil fuel companies should not exist, or that fossil fuels should immediately be excluded as an energy source. It can only imply that energy companies in their current form – receiving subsidies at the expense of support for renewables and expanding reserves well beyond the level that contributes to climate change – are acting morally irresponsibly, and it is therefore irresponsible to profit from them. Like all socially motivated efforts, Wesleyan's choice to divest from fossil fuels will not singlehandedly stop climate change, but neither will any of these other initiatives; instead they represent important steps towards

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<sup>7</sup> <http://www.guardian.co.uk/environment/2012/sep/26/climate-change-damaging-global-economy>

<sup>8</sup> <http://www.nature.org/ourinitiatives/urgentissues/global-warming-climate-change/threats-impacts/wildlife-at-risk.xml>

<sup>9</sup> <http://dissidentvoice.org/2013/04/top-ten-dreadful-effects-of-climate-change/>

<sup>10</sup> <http://www.wesleyan.edu/sustainability/climate-action/CAP-update-2012.pdf>

creating a sustainable future.

Unlike these other initiatives however, the power of fossil fuel divestment is precisely derived from its public nature. And thus Wesleyan, as a visible and prestigious institution, may have particular influence. Previously, Tobacco divestment and divestment from South Africa did not gain serious traction until prestigious American universities joined the movement.<sup>1</sup>

### **Effects of Divestment Beyond Wesleyan**

Divestment implies selling shares of a company to another investor, and therefore giving up shareholder privileges. Some argue that shareholder activism would be a more effective way to fundamentally transform energy companies because it can put visible public pressure on its management. Additionally, consider the case of a large oil company that is also developing alternative energies; it is likely already profitable and successful, and thus has more financial resources to devote towards expanding renewables research. It is an established business, and thus may be able to get larger credit lines than an unknown, smaller firm can get, which ultimately will allow it to expand its clean energy projects much faster than a smaller firm could.

However, shareholder engagement is unlikely to be a powerful enough tool to redirect the activities of most major fossil fuel producers, and divestment puts both social pressure on fossil fuel companies and society at large to address climate change and deploy renewable energy. It is important to acknowledge that direct economic effects of divestment are limited. The \$400 billion in university endowments would not be sufficient to significantly move stock prices of the largest energy corporations in the world. Furthermore, these companies' profits are derived from selling energy, not stocks, and less than one quarter of all oil in the world is owned by publicly-held companies. On the other hand, divestment offers the opportunity to stigmatize a firm and its associated industry. Economic research supports the intuition that stigmatization hurts companies financially by impeding their ability to obtain contracts, licensing partners, employees, suppliers, and customers. In the case of firearm and tobacco industry, stigmatization has driven firms to take steps towards improving their reputation.<sup>1</sup> Most importantly, stigmatization aids lobbying efforts to pass restrictive legislation by mobilizing public support for such regulations. Thus, divestment is a powerful statement that highlights the urgency of combating climate change.

Divestment from South Africa, in many ways a parallel movement, had little economic power according to many economists. It was, however, one of the main forces that drove the U.S. Congress to pass the Comprehensive Anti-Apartheid Act of 1986. In the same vein, the status and influence of University endowments may be conducive to leveraging public policy.

### **Effects of Divestment At Wesleyan**

By divesting, Wesleyan would be join a number of cities committed to various gradations of fossil fuel divestment, including San Francisco, Portland, Seattle, Eugene, Berkeley, Richmond, Santa Monica, Boulder, Santa Fe, Madison, Ithaca, Truro, Provincetown, Providence, Cambridge, Northampton, Ann Arbor, Boxtel, New London, and Amherst, along with academic institutions including Unity College, Hampshire College, Sterling College, College of the

Atlantic and Naropa University.<sup>11</sup> Divestment would position Wesleyan as a leader in a growing movement for climate advocacy among liberal arts institutions.

Divestment would have implications for our student body and our endowment. On the one hand, the reaffirmation of Wesleyan's progressive ideals may attract more activist-minded applicants. On the other hand, some potential applicants may disagree with the decision. It is difficult to predict the net effect of divestment on total applications and the character of the student body.

Divestment could affect two areas of the endowment: returns and alumni donations. The companies producing these fossil fuels will continue to remain profitable as long as demand for their products exists, which should continue to provide investors with positive returns. One of the primary goals of the University's Investment Office should be to achieve *positive* returns on investments, albeit this is easier said than done. For the 2012 Fiscal Year, the Wesleyan Investment Office achieved returns on the Endowment of 3.6% – which are positive, yet nonetheless slim. Of this return on the Endowment, investments in the oil and gas asset class provided 23.0% percent of returns. For the 2011 Fiscal Year, Wesleyan's energy portfolio had returns of 24.7%. We must consider the negative effects of divesting from high-performing investments in oil and gas companies, which would also imply divesting from these sizable returns. While we cannot say whether future returns on assets related to oil and gas will continue to be as strong, we must recognize that we limit ourselves in investment options when we rule out certain asset classes. Limiting our investment options can only hurt our ability to diversify our portfolio allocation and achieve strong returns. The Wesleyan Community depends on strong endowment returns to continue to provide financial aid, improve University facilities, hire more faculty members, and pursue the academic mission of the University.

The endowment also grows through donations. Some alumni would likely believe divestment represents fiduciary irresponsibility, while other alumni would likely believe that divestment is the only morally responsible option. Perhaps there are additional generational divides among alumni that highlight these differences. Wesleyan has struggled to attract donations, in part because recent alumni in particular do not feel it stands up for its values. Divestment would make this demographic more likely to donate. On the other hand, another demographic may reconsider donations because they believe that divestment represents an undesirable change in Wesleyan's character. The net effect on endowment donations is difficult to discern. If a generational gap does exist, perhaps divestment would decrease net donations in the short term, but as current students become successful in their careers, they may be more likely to donate to Wesleyan if they feel that the actions of the University truly reflected their values.

## **Gradations of Divestment**

Up to this point, divestment has been discussed as an “all or nothing” action that applies

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<sup>11</sup> <http://gofossilfree.org/commitments/>

equally to all companies producing or contributing to the production of fossil fuels. However, it is possible to make a powerful statement on climate change with a more fuel-specific approach. Below is a list of possible Divestment Positions:

1. Recommendation from Bill McKibben and 350.org<sup>12</sup>: Divest entirely from the 200 companies<sup>13</sup> that represent the bulk of fossil fuel reserves.
2. Recommendation from Boston Common Asset Management: a fuel-specific divestment approach which would begin with divesting completely from coal and nuclear but retain some oil and natural gas holdings and engage with those companies to make practices more sustainable. In particular, the fund advocates for continuing investment in the expansion of natural gas for the next 10-20 years. And retaining holdings in oil but avoiding companies who engage in off shore drilling or drilling in the Tar Sands area.<sup>14</sup>
3. Divestment from only direct holdings in fossil fuel (or fuel-specific) companies.
4. Divestment from all managers and direct holdings involved in the oil and gas sector.
5. Divestment only from energy companies that have not made a commitment to sustainability comparable to that of Wesleyan, while maintaining investments in those which have met a certain set of parameters demonstrating their commitment.

## Conclusion

The negative effects of the production and consumption of fossil fuels pose an arguably paramount threat to the environment and human rights. Thus, as an institution of research and learning that touts its commitment to progressive values, Wesleyan must consider all strategies that reduce the extent to which our institutional choices perpetuate the problem without compromising other responsibilities and goals. Divestment presents an opportunity to make a powerful statement about climate change, but is also potentially harmful to Wesleyan's current and future financial health if carried out irresponsibly. Before any major decision is made, we must first make a complete financial assessment of the impact of a range of different divestment options on the endowment, as well as fully consider a strategy for re-investment. We must also make an assessment of what such a financial impact would have in real terms on Wesleyan and obtain some consensus from our stakeholders – students, faculty, staff, and alumni – that our decision is worth the risks it may entail.

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<sup>12</sup> <http://gofossilfree.org/>

<sup>13</sup> <http://gofossilfree.org/companies/>

<sup>14</sup> <http://www.bostoncommonasset.com/documents/ResponsibleInvestor-ResponsetoEnergyDivestment.pdf>