Audubon

Dumping Coal Is Easy. But Who Will Divest the Rest?

Daniel Glick | Sep. 09, 2014

Sometimes revolutions break out in unlikely quarters. On the sprawling and immaculately landscaped Stanford University campus in Palo Alto, California, 14 students cap their Memorial Day weekend in a stuffy room in the Old Union building, plotting the overthrow of the carbon status quo. The scent of cilantro and habanero wafts from a pair of four-foot-long vegan burritos on a low table, and stickers pasted on MacBook Airs herald the group's name and its mission: Fossil Free Stanford.

The students are basking in their recent success. On May 6 the Stanford Board of Trustees announced it would sell off the university endowment's investments in coal stock. "Stanford has a responsibility as a global citizen to promote sustainability for our planet," President John Hennessy said in a statement. "The university's review has concluded that coal is one of the most carbon-intensive methods of energy generation and that other sources can be readily substituted for it."

The decision was a welcome if partial response to Fossil Free Stanford's demand that the university divest from a range of fossil fuel companies in an effort to help reformulate the carbon calculus of our warming planet. The group reacted with measured gratitude. "We are proud that our university is responding to student calls for action on climate by demonstrating leadership," the students wrote. "Stanford's commitment to coal divestment is a major victory for the climate movement and for our generation."

Three weeks later, when I sit in on the students' Memorial Day meeting, it's obvious they are not sated by coal-stock divestment alone. Their original demand—for the university to divest from the top 200 fossil fuel companies—remains on the table, and they're brainstorming new lines of attack, from corralling "charismatic mega-alumni" to forming intercollegiate coalitions of the willing. "Ready for a Divest-the-Rest Fest?" Yari Greaney, one of the organizers, asks the room. Wiping away rice and black bean morsels with the backs of their hands, her fellow travelers all nod in the affirmative.

With the front-page announcement that it would dump its coal stocks, Stanford joined a divestment movement that's expanding around the country and the world. To date, 27 U.S. cities, 2 counties, and 28 foundations have taken steps to reduce or eliminate investments in at least some forms of fossil fuel. In July the World Council of Churches, which represents 345 Christian churches and more than a half-billion people worldwide, made the extraordinary announcement that its members were moving to divest not just from coal but from all fossil fuels, period. Stanford, meanwhile, became the 12th university to commit to divestment of some fossil fuel stocks, and with an $18.7 billion endowment, it is by far the largest, joining smaller schools like College of the Atlantic, San Francisco State, and Naropa University—a tiny, private college in Colorado that invests in ways "consistent with the Buddhist precept of 'not causing harm.'"

Stanford's decision may have been less about good karma than about shedding bad investments and dodging a publicity bullet. As The New Republic's Jeffrey Ball, who is also scholar-in-residence at Stanford's Steyer-Taylor Center for Energy Policy and Finance, points out, the university made its decision at least in part because, well, it was easy. In an article relating a conversation he'd had with President Hennessy, Ball explained that "Stanford divested only from companies that mine coal. That step was small enough, the university decided, that it wouldn't hurt Stanford's investment returns." Conveniently, a speedy resolution also meant that "the coal controversy wouldn't cloud the university's upcoming graduation ceremonies."

If some claimed that Stanford's move was more symbol than substance, however, that hardly bothered the students. The symbol was part of the point. Divestment, says Peter Kinder, one of the pioneers of socially responsible investment (SRI) and coauthor of the groundbreaking 1984 book Ethical Investing, "is about marking the boundaries of acceptable behavior." The fact that Stanford historically had not been a leader in SRI by any metric makes its shift away from coal that much more remarkable. "This is a huge story," Kinder says.

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Fossil Free Stanford activists convinced the university to unload the coal investments in its endowment. Now they're pushing to expand that divestment to all carbon-polluting energy sources, which, many experts say, carry a growing financial risk for investors. Photo Credit: Courtesy Zachary Gold/Fossil Free Stanford

The import of Stanford's act was amplified because it stood in stark institutional contrast to, say, Harvard, which had already come out against divestment. In October Harvard's president, Drew Faust, wrote that divestment would "likely have negligible financial impact on the affected companies," and implied that the university's $32.7 billion endowment would take a financial bath on any such divestment. "The endowment is a resource, not an instrument to impel social or political change," Faust wrote. Others echoed her technocratic critique: Selling fossil fuel company stock is a naïve and ultimately ineffective gesture that will cost colleges endowment income they use for student aid and research, they said. Some went on to question the intellectual honesty of divestment. Christina Paxson, president of Brown University, wrote that "I believe that although the social harm is clear, this harm is moderated by the fact that coal is currently necessary for the functioning of the global economy."

Many students find the arguments used to reject divestment by some high-profile universities pointlessly pinched and equivocal. Some faculty members are similarly vocal. An open letter signed by 157 members of Harvard's faculty after Faust's announcement stated their case: "We now know that fossil fuels cause climate change of unprecedented destructive potential," they wrote. "Divestment is an act of ethical responsibility."

Trying to pressure business to reflect emerging social values is not a new idea, says SRI pioneer Kinder, and dates at least as far back as the late-18th-century Quakers in England, who avoided investing in guns and slaves as a matter of conscience. By the time oil companies started exerting influence in the early 1900s, wrote philanthropy scholar Robert L. Payton, morality and money were joined in the pulpit. Washington Gladden, a Congregational minister, coined the term "tainted money," using it to describe the church's acceptance of a $100,000 gift from John D. Rockefeller in 1905. "The church which accepts the Standard Oil Company as its yokefellow," Gladden said, "can hardly hope to keep the respect of right-minded young men and women."

Such moral and ethical arguments should hold particular sway at institutions of learning, argues David Hales, who just recently stepped down as president of Second Nature, a Boston-based group committed to promoting sustainability through higher education. He thinks the idea that there should be an arbitrary Chinese wall between a university's endowment and its programs is shortsighted at best. "Everything you do should be guided by your mission and your values," says Hales. "Everything."

Is selling off carbon-based fuel stocks justifiable on moral, ethical, and financial grounds? Is an endowment an appropriate context for a debate about global warming and related climate changes? Will endowments be able to get comparable returns without Shell, ExxonMobil, and Arch Coal in their portfolios? Is divestment unifying Millennials the way Vietnam-era student protests unified Baby Boomers? Can it have the impact of the university divestment movement in the 1970s and 1980s, which helped end apartheid in South Africa?

The answers, according to divestment activists, are "Yes," "Yes," "Yes," "Yes," and "Hell, yeah." And they are countering their doubters' questions with passion, moral suasion, and spreadsheets alike. "In 20 or 30 years, when our children ask us if we did everything we could about climate change, we can say, 'Yeah. Hell, yeah, we did,' " says Nicole Bennett-Fite, one of Fossil Free Stanford's members.

The basic argument of this divestment movement is simple: "If you own fossil fuel companies, you own climate change and all the problems it's going to create," says Thomas Van Dyck, senior vice president-financial adviser in the SRI Wealth Management Group at RBC, Canada's largest bank.

The movement includes veterans of the South African campaign, labor groups, church groups, old-school financial analysts, new senergy technologists, and Silicon Valley entrepreneurs. But just as Vietnam-era protests were driven in part by college-age men worried about their draft-lottery numbers, Millennials know they're going to have a much more intimate relationship with the future than their parents will. "Our generation is the first to have been raised our entire lives with this looming specter of climate change," says Michael Peñuelas, one of the Stanford activists. "They believe we're just going to graduate and get out of their hair," he says. "That's not gonna happen." And the activists are spreading the word using every social media tool they can find—including the British website pushyourparents.org, which reminds the geezers: "Mum and Dad, did you know your pension is f@!#ing up my future?"

"We're not interested in doing something that's ineffective, like voting," says Jay Carmona, the national divestment coordinator for 350.org, an organization founded by Bill McKibben, author of The End of Nature, the first popular book on global warming. Carmona sums up her reason for urging direct action like divestment with the famous quip usually attributed to Emma Goldman: "If voting changed anything, they'd make it illegal."

At 350.org's office in a former Pilates studio in a resurgent downtown Oakland, Carmona walks me across polished wood floors, and sandblasted brick walls exude a Zen calm in the eye of this national storm. A whiteboard shows an elaborate flow chart, with circles, boxes, and arrows that depict the gamut of grassroots activism, from organizing campaigns on far-flung college campuses to appealing to pension fund managers in San Francisco skyscrapers to approaching evangelicals. Carmona says this divestment movement has hundreds of distinct campaigns and voices. "We'd love to divest the Vatican," she says, not entirely offhandedly. "It's the right Pope for it."

Carmona, a recent college graduate, is armed with any number of articulate arguments for divestment, but the most effective ones outside progressive precincts are resolutely financial. "There's this Jed Clampett myth that oil makes everybody millionaires," she says. "It's counter to the investment data." Carmona is touching on a theme finance types have increasingly begun to echo: People who might not care about penguins and polar bears get pretty exercised about their portfolio performance. For them, phrases like "stranded assets" and "carbon bubble" are scarier than "mass extinction" and "ocean acidification," and ROI (return on investment) is more important than ppms of CO_2 (parts per million of atmospheric carbon dioxide).

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These people are increasingly receptive to a smart pitch about socially responsible investing, says Kinder, who also co-founded Domini Social Investments. And it's not just coal that's making them uneasy. The entire fossil fuel sector isn't as attractive as it used to be to many investors.

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Kinder bristles at the "canard" that you have to sacrifice ROI for morality—or vice versa. "The data simply don't support it," he says. Many analyses of back-tested portfolio returns, for example, show negligible differences between indexed investments with and without fossil fuel holdings. RBC's Van Dyck, whose company counsels foundations and institutions about divestment, adds that divesting from fossil fuel companies requires very little heavy lifting by portfolio managers. A typical endowment holds less than 5 percent of its investment in fossil fuels, he says. That's much less than during the South African divestment movement, when endowments were being asked to divest up to 40 percent of their portfolios to rid themselves of companies doing business with Pretoria. If you divest from the top 200 fossil fuel companies, Van Dyck says, and invest in other blue chip stocks instead, "you tell me that's going to have an impact on your portfolio? It's old-school Wall Street thinking to think you'll lose money on this, and it's absolutely bad math."

Van Dyck says that actually there's growing exposure in owning fossil fuel stocks. Companies are blowing up mountains to mine coal, and oil companies are spending hundreds of billions of dollars to drill farther offshore or to develop in ever-riskier places like the Russian or Alaskan Arctic. Capital expenditures have risen rapidly, he says—by between 50 percent and 85 percent, in some cases—while revenues have stayed static or risen by single digits. "As a shareholder, you're not getting your bang for the buck," says Van Dyck. "You are owning a lot of risk."

What's more, energy companies include what are known as "proven reserves" on their balance sheets. This is the assumed value of oil, gas, or coal the company believes it can extract and sell, which is counted as an asset on the books—and it's all baked into the company's stock price. The problem, say many analysts, is that those reserves are enough to throw climate change into hyperdrive if they're combusted using current feasible technologies—which means, of course, that these companies simply can't extract and sell all that oil, gas, and coal. Those unused reserves therefore become stranded assets and, eventually, could represent a nasty hit for shareholders. Andrew Behar, CEO of **As You Sow**, a group that encourages corporate social responsibility, says the stock prices of many energy companies include about 20 percent to 30 percent of these proven reserves, and if you add up all of those that can't be burned, you have "a $20 trillion carbon bubble and considerable shareholder risk."

These arguments are moving into the financial mainstream, and coal companies are obvious first targets. "People doing analyses of coal companies came to independent conclusions that it was risky," says Behar. "Just from a fiduciary standpoint, coal has lost 58 percent of its value in the last four years. Leave the morals aside: If a food company or a pharmaceutical company lost 58 percent of its value, would you still hold it?"

Meanwhile, says Behar, distributed solar power and wind energy are on "grid parity" with traditional coal-fired electricity generation—even without counting the substantial public health costs of coal-related pollution. A 2013 report by Deutsche Bank says that 10 U.S. states are already at the point where electricity produced by solar photovoltaic systems costs essentially the same as power from traditional sources.

Now there is a "massive, growing global movement," says Behar, that's looking to "divest—and invest," to raise $1 trillion a year for new energy efforts: renewables like solar, biofuels, wind, energy-efficiency projects, materials science leaps, restoration projects, new investment portfolios. Huge investment management firms like BlackRock, which is partnering with the Natural Resources Defense Council and the London Stock Exchange's FTSE Group, and smaller ones like Trillium, Calvert, Aperio, and Green Century are providing alternative, carbon-free ways to invest.

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So why is this a hard sell to places like Harvard? "The biggest impediment is their financial advisers," Behar says, adding that “many university trustees have been scared off by advisers who say that divestment will cost endowments too much. There’s no truth to this. Many case studies are showing carbon-free portfolios outperforming their pre-divestment returns. Advisers who try and stop clients from reducing risk in their portfolios and aligning their values with their investments will find themselves losing customers.” He likens the resistance to people who could not make the transition when whale oil was being phased out because the humpback and other leviathans had been hunted nearly to extinction and petroleum was cheaper. “If they can’t make the transition, they’re all going to go the way of Captain Ahab.”

We should take heart in the fact that low-carbon investment opportunities seem to be expanding, says 350.org’s Carmona. She believes that development points to an inspiring and achievable transformation. “We’re talking about giving people hope that we can change this,” she says. “You can’t shovel snow back onto a glacier.”

Just before heading into final exams, fossil Free Stanford holds its last event of the school year. They’ve already doled out tasks and chores for the summer, from cleaning up their Google Drive to planning a welcome rally for incoming freshmen in the fall. For now, however, there’s a momentary calm and a sense that the battle has been well joined. Outside a university co-op, with overstuffed couches placed on the lawn under shade trees, a juggler manages to keep six balls in the air for a few exhilarating seconds, and three young women struggle to hang a #DivestTheRest banner in the light breeze.

A couple of students reconstruct their coordinated, year-and-a-half-long efforts for me. At first they faced bafflement and indifference as they held divestment placards in public spaces. They greeted new students, passed out fliers by campus eateries, and organized sparsely attended rallies. Slowly they raised the campaign’s profile. At all public events President Hennessy attended, they made sure an audience member asked a divestment question. “We put it on the radar,” says Stanford activist Peñuelas. When the student association held its election in April, Fossil Free Stanford’s divestment referendum was approved by three-quarters of the more than 3,000 votes cast (an initiative to raise money for a Quidditch team, by contrast, went down in flames).

Mikael Wolfe, an assistant professor of history, stops by to lend his moral support. He tells me that President Hennessy announced he was in favor of divestment at a faculty luncheon, weeks before the students even knew. It surprised him. “Stanford can be pretty conservative,” he says. “That’s why this decision to divest from coal was so remarkable. And I hope it puts pressure on other schools.”

When the students were later called to a meeting with the administration, they hadn’t yet heard about Hennessy’s decision, recalls Yari Greaney. She wasn’t optimistic. The previous week one of their faculty liaisons had tipped them off that things weren’t looking promising. But Greaney put on high heels, and her male colleagues donned blazers, as if girding for a boardroom battle. They strode in and announced, “We’re ready to give you some updates.” The administration representatives replied, “We’re ready to give you some updates, too.”

That update was the coal divestment announcement. At first there was a stunned euphoria, says Greaney. Within hours, though, it was on to the next battle.

As I was getting ready to leave the Divest-the-Rest Fest, Greaney adds one more item to her list of reasons to divest. The economic arguments are strong, she knows, and so are the scientific ones. But one other reason, she insists, needs to be high on the list: “Because it’s the right thing to do.”