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M.I.T. Debates Whether to Drop Fossil-Fuel Investments

Benjamin Hulac | Apr. 10, 2015

Last night, speakers at the nation's most prestigious engineering school held forth on an array of financial and educational strategies to crack the challenge of man-made climate change.

They included: complete fossil fuel divestment; shareholder engagement with energy firms to advocate environmental concerns; frequent proxy voting on the resolutions of coal, oil and gas companies; educational outreach to politicians and the public to convey the gravity of rising emissions; tax incentives; steadfast energy research; and global emissions pricing.

Yet at this forum, an on-campus debate at the Massachusetts Institute of Technology over whether the university should divest the fossil fuel holdings within its $11 billion endowment, might not have happened if market forces properly priced the economic and environmental costs of climate change, a theme that Anthony Cortese, the event moderator, alluded to at the outset.

Since late 2012, college students in the United States have led the push, starting on their campuses with their school endowments, to boycott the fossil fuel industry by urging investors to sell off any coal, oil or natural gas holdings.
Credit: WhisperToMe/Wikipedia

"Some have called it an existential crisis," said Cortese, a principal at the Intentional Endowments Network, which studies sustainable finance, referring to climate change. "This is happening for the failure of the market economy to equally account for many of the negative human and environmental impacts that are imposed upon society and the life support system."

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Most efforts have targeted the largest 200 publicly traded fossil fuel firms, maintained by a company called Fossil Free Indexes. The MIT divestment advocates are requesting that the university block any new fossil investments and sell fossil fuel shares within five years.

"We must stop betting against our future," said Don Gould, a financial manager who helped oversee Pitzer College's divestment process last year, arguing in favor of MIT divestment yesterday.

Those in favor of divestment—John Sterman, a professor at MIT'S management school; Naomi Oreskes, a Harvard University professor and co-author of "Merchants of Doubt"; and Gould—said it is a symbolic act that can drive political policies to rein in emissions.

Conventional political efforts to mitigate global warming, this trio argued, have fallen short. Divestment creates the social and political will to shift public discussion on climate change and raise awareness of the risks that come with a hotter planet, they said.

... and also beat Harvard

"Divestment aligns the institute's actions with its values," Gould said, drawing roars from the crowd as he suggested MIT could show up cross-town rival Harvard University, also embroiled in a divestment debate, by selling its carbon-centric holdings first. "It can be done, and it is being done."

Frank Wolak, an economics professor at Stanford University, which has pledged to divest its coal holdings, responded that MIT's endowment, one of the biggest in the world, is a blip in the $60 trillion pool of public equities sloshing around worldwide, and the cost of divesting would be negligible.

Instead, Wolak said, slowing demand for fossil fuels is the step that would address the root of climate change. Fossil fuel corporations are simply meeting the public's request for energy, he said.

"They're only providing the demand for the services that we would like," he said, throwing his support behind a global carbon tax. "Divestiture does nothing to address that problem," he said, calling divestment "purely symbolic, divisive and largely ineffective."

Companies targeted by divestment campaigns—whether against firms involved in South Africa under apartheid, Darfur conflicts or this current carbon struggle—historically have responded that divestment does not affect their bottom lines.

However, in its latest annual report, Peabody Energy Corp., the largest private-sector coal company, cited divestment efforts as a business risk.

Recent divestment efforts, the filing reads, "may adversely affect the demand for and price of securities issued by us, and impact our access to the capital and financial markets."

The goal underpinning divestment, at least for Oreskes, is not directly running coal, gas and oil businesses into the ground but inciting a discussion to generate the political atmosphere to pass bolder climate policies.

"How do we get the will to pass a carbon tax?" she said, noting that the divestment campaign could be a way. "I want to say, first of all, that symbols matter."

The movement has had spillover impacts beyond the college quad; U.N. Secretary-General Ban Ki-moon, World Bank President Jim Yong Kim and former U.S. Vice President Al Gore are some of top world leaders to support the divestment effort. Environmental advocates are calling on Pope Francis to support divestment, too.

To divest or vote stock holdings?

In the latest filings available from the Securities and Exchange Commission dated June 2011, the MIT investment management lists BP PLC; Conoco Inc., now ConocoPhillips; Dow Chemical Co.; Duke Energy Corp.; Exxon Mobil Corp.; and Halliburton Co. among its holdings.

Selling stocks is a financial option to mitigate climate change, said Timothy Smith, an investment expert with Walden Asset Management, but not the only choice. (Smith, alongside Brad Hager, a professor at MIT's Earth Resources Laboratory, and Wolak, the Stanford professor, argued against divestment.)

Ceres, an investment network that studies sustainable finance and leads a group of more than 100 investors overseeing more than $10 trillion in assets under management, is a strong example of engaged shareholders pushing fossil energy companies to improve their climate policies, Smith said. And CDP, formerly known as the Carbon Disclosure Product, does impressive work with the corporate sector and climate risk disclosure, he added.

"There are investors who are using their voice and vote," said Smith, to, in some cases, push companies to stop flaring methane releases or publish their carbon footprints.

This shareholder-engagement strategy paid dividends for Arunja Capital, which has about $1 billion in managed assets, and As You Sow, a nonprofit focused on sustainable investing and finance (ClimateWire, March 26).

After asking the SEC to stop a resolution filed by Arunja and As You Sow, Chevron Corp. will see its shareholders vote on the petition, which asks the energy major to reassess high-cost projects due to the possibility that such energy deposits could be stranded by climate regulation.

Earlier this year, a U.K. group of investors with $300 billion in assets under their watch prompted the boards of BP and Royal Dutch Shell PLC to support similar resolutions at their upcoming annual meetings (ClimateWire, Feb. 19).

After committing to support these resolutions for increased carbon emission disclosure, the CEOs of both companies also publicly endorsed pricing greenhouse gas emissions.

Environment, morality and government force

"The stakes are immense," said John Sterman, the MIT management professor who backs divesting. "The impacts are already being felt."

With atmospheric concentrations of 400 parts per million, far above what scientists widely consider safe, oceans are becoming more acidic, wildfires rage and droughts stifle communities around the world, Sterman said. Investing in fossil companies, he told the audience, is not just antithetical to MIT's mission of long-term education and academic stewardship. "It is also and fundamentally a moral issue," he said.

Visibly exasperated at the forum about scant leadership working to draw down heat-trapping emissions, Sterman said educating citizens and policymakers on climate risks is not enough. Ultimately, he said, government force is needed. "Politics always trump PowerPoint," he said. "Divestment is not only right, it's powerful."