Middlebury College Environmental Council Divestment Brief
May 6, 2014

I. Introduction

The 2013-14 Environmental Council, which consists of 21 members representing faculty, staff and students, has taken up the question of fossil fuel divestment from the endowment and whether it is an effective action for addressing the larger issue of climate change from human induced carbon emissions. After several months of research and discussion the EC formed two groups – those who are not convinced that divestment is an effective means toward addressing the problem, and those who are.

This is a summary of the two viewpoints and their arguments for and against divestment. It should be noted that this document is intentionally not a position paper of the EC. We have chosen to present the two views here because we were not of one mind on the topic and decided at the outset that we would instead provide majority and minority positions summarizing our respective views on the question.

A majority of EC members are of the view that divestment is not an effective means to address climate change. The two groups came at the question with different frameworks for addressing it. The unconvinced group looked at the question from the perspective of whether it could in fact cause society to move away from using fossil fuels and make a major shift toward non-carbon emitting energy sources. The convinced group takes the perspective of keeping actions aligned with institutional values around the issue of climate change and the ethics associated with continued fossil fuel usage.

II. View of EC Members Unconvinced that Divestment is Necessary

We agree with that reducing institutional and personal production of greenhouse gases is an essential step toward combating climate change. Middlebury is an environmental leader among U.S. colleges and universities; as such, we find great value in finding new ways to lead in issues related to the environment. Much can be said for being the first among our peers. Indeed, in 2007, Middlebury was among the first to set a goal of carbon neutrality. However, we remain unconvinced that divestment would be an effective solution to decreasing our institutional and global dependence upon fossil fuels. In fact, if we thought that divestment could make a difference, we would fully support the proposal.

The following four points summarize the argument against fossil fuel equity divestment.

A) Divestment does not affect intermediate demand for fossil fuels. The price of an equity share in a publicly traded corporation represents investors' collective estimate of the present value of future cash flows. Cash flows, or profits, are driven by the market forces of supply and demand. Who or what comprises the demand for products produced and brought to market by fossil fuel extraction firms? We can generally decompose demand for these products into two categories: final consumption among households, and intermediate consumption among firms using fossil fuels as inputs. Of these two sources of demand, investors can directly control the former through their own choices. (More on this is #2 below.) The second is more complicated as nearly every industrial sector in the U.S. economy consumes fossil fuels. Thus, if one divests in hopes of adversely affecting the share price of fossil fuel extraction firms, there is considerable momentum working in the opposite direction through intermediate demand. If funds are withdrawn from divestment-targeted firms, where do said funds go? If one re-invests in *any* industry, one is indirectly supporting fossil fuel extraction.

B) Divestment does not eliminate individual behaviors that support fossil fuel extraction. If Middlebury were to divest, members of the College community will still support the fossil fuel industry indirectly through behaviors that rely on the consumption of fossil fuel. The ethical basis for divestment is jeopardized by this behavioral inconsistency. A more direct way to undercut the prospects of fossil fuel extraction firms is to *continue* to reduce the campus' dependence on fossil fuel and, importantly, to share these practices with other similar institutions. Reducing the use of fossil fuel dramatically while increasing funds for sustainable investing and improving ESG criteria makes a symbolic and measured statement against the fossil fuel industry.

C) Fossil fuel extraction firms are leading investors in renewable/alternative energy. Fossil fuels are a limited resource; alternatives need to be developed for these energy companies to be viable and profitable in the long-term. Critics argue the fossil fuel industry is only doing this for the purposes of public relations and compared to their overall spending on fossil fuel extraction, their "green energy" investments are a paltry and inconsequential amount. Although tens of billions of dollars might not mean a lot to an industry that profits hundreds of billions of dollars annually, it's huge for the renewable energy sector. According to the American Petroleum Institute (API), a trade group, the fossil fuel industry has invested $71 billion into renewable energy technologies in the last 10 years, compared to $43 billion by the U.S. Government in the same time span. Though the motives behind Exxon, B.P, and Chevron, among others, investing in renewables is debatable, divesting in fossil fuel companies could have a negative impact on the funds of alternative energy development.

D The costs of divestment include an inefficient allocation of human capital. Every environmentalist understands that there is a limited amount of human capital available for use in the environmental movement. Simply put, the political capital spent on efforts of divestment would be more efficiently directed elsewhere. With divestment receiving all the attention (thanks to grassroots organizations like 350.org) the country has been discussing serious approaches to managing the carbon externality less and less. Instead of feeling intense pressure for cap-and-trade or carbon tax legislation, political leaders in the vanguard of environmental policy have instead put those issues on the back burner behind the divestment campaign. There are enough passionate, youthful leaders involved in the environmental movement to go through the U.S. system and put direct pressure on our politicians.

III. View of EC Members Convinced that Divestment is Necessary

A) Consistency

Aligning actions with values is important to the reputation of the College. Middlebury was an early leader in higher education in recognizing climate change issues and committing significant effort and resources to making sure it is contributing to solutions - including its goal of carbon neutrality by 2016 and its previous goal which it met ahead of schedule. The college is well along the path to achieving its 2016 goal through real and substantive changes and commitments which entail eliminating fossil fuels from its energy mix. There is a dissonance between that effort and continued investment in companies that are producing the bulk of the fuels causing climate change. This is a reputational issue that diminishes the college's great accomplishments as a model for how to achieve carbon neutrality

Joining the growing list of institutions (higher education, foundations, and religious groups) and municipalities who have committed to divesting would strengthen the signal to colleges and universities that their endowment investing should also align with the institution's values and commitments. Over seven hundred higher education institutions have signed the American College and University Presidents Climate Commitment and have set goals for carbon neutrality as Middlebury has. They are all confronted with the same dissonance between actions and values and will have to make an explicit decision about divestment if they take their public commitments seriously.

Middlebury could help tip that significant segment of society toward divestment and increase momentum and action on more systemic, market based solutions like a price on carbon that would have a large effect on reducing emissions from fossil fuels from carbon capture/storage and significant growth in renewable energy and efficiencies. Even though it can be seen as an irrational action in terms of its immediate impact, not all rational appearing choices are the best ones over the long term.

B) Societal and Economic Change

There is a consensus amongst EC members that climate change from global warming is being accelerated by the release of carbon dioxide by humans into the atmosphere and that this problem needs to be solved soon. We believe that divestment can have significant symbolic impact that can shift public perception and policy to more effectively addressing climate change and its causes by increasing pressure to put a price on carbon.

Although it is hard to predict whether widespread divestment will significantly affect the business practices of the oil industry, each decision to do so can influence other groups and institutions to divest, thus creating a larger signal to the oil industry that we want them to change their business model to protect the climate, i.e., to find ways that the use of their products does not emit carbon into the earth's atmosphere

C) Investment Performance and Social Responsibility

The impact on the performance of the endowment by divesting from fossil fuels is likely to be negligible. Numerous studies comparing performance of portfolios with and without fossil fuel investments show that this is the case. Only 4 percent of Middlebury's portfolio in fossil fuels and divesting from the remainder would do little harm to those activities the endowment supports.

Divestment means not supporting companies that are the biggest corporate players affecting climate change. Although this industry isn't the only culprit in the world's current emissions crisis, it is vital that we tackle the problem from any angle we can. While individual consumers obviously use the fossil fuels extracted by big oil companies, they only do so because it is the energy source of choice. Corporate players are only focused on making as much money (quarter by quarter, year by year) as possible. This means that they are willing to go to very great length, and spend immense amounts of money, on new exploratory extraction procedures in new and untapped regions. By doing so, they are ruining pristine natural habitats and locations and are further providing the means for the extensive, and still increasing, use of oil around the world. Not investing in companies like this says we do not support corporate practices that are severely harming our planet. Divestment is a strong means of creating a larger voice among public and institutional investors that would promote positive solutions like renewable, clean energy solutions.

Middlebury College has already taken significant steps to invest some of its endowment in greener companies and that is to be commended. Middlebury College is seen as a role model for other institutions. If Middlebury College divests, other institutions will have more reason to follow, and we will have once again established ourselves as leaders in sustainability efforts.

IV. Environmental, Social and Governance Criteria for Investment

Although the Environmental Council has been divided on the issue of divesting fossil fuel investments from Middlebury College's endowment, there has been unanimous agreement about promoting the ideas and tenets of ESG (environmental, social, and governance) investing, also known as sustainable investing. With the growing problems brought on by climate change, we recognize that it will become increasingly important to consider an investment's ESG impacts when making investment decisions. This method of considering an investment's strengths and weaknesses is fundamental to long-term growth, and we feel that companies that perform well in their environmental, social, and governance performance will be better able to combat the challenges of climate change which will likely cause more volatile global markets.

While the initial reactions to ESG investing were mixed, there is an overwhelming consensus that including ESG considerations into the investment process not only leads to on par or increased financial returns, but also promotes companies that are doing good for both the planet and for society as a whole. Middlebury's recent commitment to ESG and sustainable investing through two recent actions is something that the Environmental Council believes should be applauded and continued in the future. First, with the recent allocation of $50 million into the Sustainable Investment Initiative (SII), a sustainability tranche of the college's endowment, Middlebury has shown a strong commitment to sustainable investment. Secondly, the creation of the student-run group Research and Investment in Sustainable Equity (RISE), which will be investing $150,000 of the college's endowment using ESG criteria, also displays the college's growing commitment to embracing ESG investing.

In relation to divestment, utilizing ESG criteria could possibly achieve some core components of the divestment movement. With negative and best-in-class screens, two of the most common tools used in ESG investing, many of the top 200 oil and gas companies could be excluded from a sustainably invested portfolio. Thus, ESG investing and divestment can be viewed as tools that go hand-in-hand. In sum, while there is disagreement among members of the Environmental Council about divestment's ability to fully address the problems of climate change, we do agree that ESG investing is something that the college should continue to pursue as a means of confronting and mitigating the financial risks of climate change.

Members of the 2013-14 Middlebury Environmental Council

Students

Nate Cleveland ‘16.5
Jess Parker ’15.5
Ali Cook '16
Forrest Carroll '15
Darren Chen '16
Emma McGuirk '15
Danielle Hirshberg '14
Courtney Devoid '15
Elena Zhang '14
Hye-Jin Kim '17
Anahi Naranjo '17
Sarah Gledhill '17
Ali Rotatori '14 (Campus Sustainability Coordinators)
Jake Nonweiler '14 (SGA Environmental Affairs)

Faculty

Kemi Fuentes-George, Political Science
Natalie Eppelsheimer, German
Nick Muller, Economics, co-Chair
Will Amidon, Geology

Staff

Arlinda Wickland, Center for Careers and Internships
Sarah McGowen, Academic Affairs
Jack Byrne, Sustainability Integration Office, co-Chair
Kris Williams, College Advancement
Sophie Esser-Calvi, Food and Farm Educator
Paul Dow, Dining