

# Why U of T should divest from fossil fuels

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2015-APR-17

*Text of presentations given to the Presidential Advisory Committee on Divestment from Fossil Fuels on April 17th 2015, with citations added*

## 1 | Introduction — Katie

Thank you for this opportunity to present the case for fossil fuel divestment today in person. We have been working on this proposal for about three years, during which we have seen other major institutions around the world commit to divestment. Stanford University has committed to stop investing in coal.<sup>1</sup> Just this month, Syracuse University committed to stop investing its US\$1.2 billion endowment in the world's 200 largest fossil fuel companies. The University of Glasgow committed to divest based on a modified version of our brief. Recently, Desmond Tutu endorsed the idea that fossil fuel divestment is morally similar to divestment from apartheid, which the university did in 1988.<sup>2</sup>

We aim to keep our presentation to 30 minutes, with 90 minutes following for questions and discussion.

To begin with, I will summarize the University of Toronto's policies and procedures on divestment, developed in 2008 when the university divested from the Tobacco industry, and how our presentation today will address these.<sup>3</sup>

In order to establish that divestment from the world's 200 fossil fuel companies with the largest reserves is compatible with U of T's policies and procedures on divestment, we are obligated to establish a series of facts.

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<sup>1</sup>Toronto350.org, *The Fossil Fuel Industry and the Case for Divestment: Update*, See: <http://www.uoftfacultydivest.com/files/fossil-fuel-divest-new.pdf#page=141>.

<sup>2</sup>Ibid., See: <http://www.uoftfacultydivest.com/files/fossil-fuel-divest-new.pdf#page=10>.

<sup>3</sup>Ibid., See: <http://www.uoftfacultydivest.com/files/fossil-fuel-divest-new.pdf#page=220>.

First — we must show that the link between fossil fuel production and the social injury caused by climate change is not “properly the subject of ongoing academic inquiry and debate”. This will be covered in detail by Ariel: [Climate change is not properly the subject of ongoing academic inquiry and debate — Ariel](#)

U of T’s policies and procedures incorporate the Yale definition of “social injury”. Ben will be going through the case in detail, including the injurious impacts fossil fuel companies impose on “consumers, employees, or other persons”. He will also describe how these companies “frustrate the enforcement of, rules of domestic or international law intended to protect individuals against deprivation of health, safety, or basic freedoms”: [Climate change and social injury — Ben](#)

Divestment must also meet the standard of “prudent investment”, including by honouring the university’s fiduciary duties. Milan will be making the financial case for divestment. He will describe how it meets the “legal standards applicable to prudent institutional investors”: [The financial case for divestment — Milan](#)

The policy and procedures also include some lesser requirements which are covered in the brief, such as showing that governments are taking action on the issue.<sup>4</sup>

We wish today also to introduce a suggestion that this committee expedite the process for producing their recommendation, in light of the urgency of the social harm caused by climate change, the shrinking time frame for making a difference, and of actions already taken by other institutions since the brief was prepared. Milan will conclude with the argument for this suggestion before opening the floor to discussion.

We trust the committee recognizes that the the university’s procedural requirements for consideration of divestment have been duly followed to bring us to this point. We wish to express our appreciation for each of you in taking on this sobering and difficult, but nonetheless crucial, task in developing a recommendation on divestment from the 200 fossil fuel corporations with the largest reserves.

Of course, we cannot hope to cover and cite all of the arguments, evidence and sources provided in the brief today, so we trust you will dutifully consult the document itself in future discussions, as well as during this presentation. On that note, we wish to bring your attention to p. ii of the brief for instructions on the different kinds of text in the brief.<sup>5</sup> Everything which is identical to the brief we originally presented in September 2013 is in standard text; everything added in the update is bold; the few things which have been

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<sup>4</sup>Toronto350.org, *The Fossil Fuel Industry and the Case for Divestment: Update*, See: <http://www.uoftfacultydivest.com/files/fossil-fuel-divest-new.pdf#page=103>.

<sup>5</sup>Ibid., See: <http://www.uoftfacultydivest.com/files/fossil-fuel-divest-new.pdf#page=2>.

removed are crossed-out. The brief also contains FAQs as well as answers to specific questions put forward to us by the committee.<sup>67</sup>

Some of the many university groups that have endorsed our brief include: UTFA, GSU, ASSU, UTSU, and the Scarborough Students Union.<sup>8</sup>

One major update you will find is to chapter 5 entitled *Why Start with Royal Dutch Shell?*<sup>9</sup> Between the completion of the original brief in September 2013 and the formation of the *ad hoc* committee, the university sold off its direct stock holdings in Shell. Given that this decision was taken for purely financial reasons, rather than as the result of a divestment petition, the choice bolsters the case that selling fossil fuel stock is financially prudent. Nonetheless, Shell remains an especially problematic investments. As a result, we recommend that U of T publicly state that share ownership in Shell is not in keeping with its investment policies and commit to not re-investing in the future.

According to the latest information we have been able to access, Chevron is now U of T's largest direct stock holding. Thus we have added in section 5.4 an argument for why Chevron is a similarly particularly problematic investment.<sup>10</sup>

Divestment has proven to be a successful strategy in the past, notably in the cases of tobacco and South African apartheid. Divestment campaigns have undermined damaging companies' social license to operate. They have also signaled that important institutions with access to large amounts of expert advice have considered the questions involved seriously and decided that it is important to act.

The International Energy Agency expects \$37 trillion to be spent on energy supply infrastructure between 2012 and 2035.<sup>11</sup> Humanity must decide whether to spend this money digging ourselves deeper into a pit of fossil fuel dependence, or whether to redirect it toward moving beyond fossil fuels. U of T can help lead the necessary redirection of investment that will allow humanity to prevent climatic catastrophe while building a safe and efficient global energy system that can be relied upon indefinitely. Selling its shares in fossil fuel companies would be an effective way of contributing to this transition. As with divestment from apartheid

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<sup>6</sup>Toronto350.org, *The Fossil Fuel Industry and the Case for Divestment: Update*, See: <http://www.uoftfacultydivest.com/files/fossil-fuel-divest-new.pdf#page=138>.

<sup>7</sup>Ibid., See: <http://www.uoftfacultydivest.com/files/fossil-fuel-divest-new.pdf#page=164>.

<sup>8</sup>See: [http://www.toronto350.org/divestment\\_supporters](http://www.toronto350.org/divestment_supporters)

<sup>9</sup>Toronto350.org, *The Fossil Fuel Industry and the Case for Divestment: Update*, See: <http://www.uoftfacultydivest.com/files/fossil-fuel-divest-new.pdf#page=126>.

<sup>10</sup>Ibid., See: <http://www.uoftfacultydivest.com/files/fossil-fuel-divest-new.pdf#page=136>.

<sup>11</sup>Ibid., See: <http://www.uoftfacultydivest.com/files/fossil-fuel-divest-new.pdf#page=10>.

South Africa and the tobacco industry, this choice would make a powerful statement about the kind of future the university wishes to help bring about. It would also help strip the fossil fuel industry of its social license to operate, which is increasingly undeserved.

## **2 | Climate change is not properly the subject of ongoing academic inquiry and debate — Ariel**

The university does not want to take sides in an issue that is still the subject of ongoing debate. The social injury that results from climate change is not the subject of debate as the most reputable minds in science, along with the world's major governments, have confirmed the effects of changes to our global climate as caused by humans. Their irrefutable evidence has been outlined in chapter 2 of the brief.<sup>12</sup>

- According to NASA, 2014 was the hottest year on record since 1880. This is a trend “driven by increase in CO<sub>2</sub> [carbon dioxide] emissions in the planet’s atmosphere”, the majority of which has occurred in the past 3 decades.
- Nine out of the ten hottest years since 1880 have been since 2000.
- We know that burning coal, oil and gas produces large quantities of CO<sub>2</sub> and that since humans began this practice in the Industrial Revolution, the number of parts per million (ppm) of carbon in the atmosphere has risen from around 280 to 401 (its current level)
- It therefore follows that climate change is caused by humans
- Human civilization is now adding 31.6 billion tonnes of CO<sub>2</sub> to the atmosphere annually, causing atmospheric levels of carbon to rise about 2 ppm per year.
- The 2007 IPCC report confirms what we were told as far back as 1979 by the US National Academy of Sciences report, that this extra carbon load in the atmosphere traps the energy Earth would normally radiate back into space, causing the heat to be kept inside the atmosphere and the planet to warm.
- Evidence from ice cores, discussed in an article published in 2009 in the journal *Nature*, shows that doubling the level of CO<sub>2</sub> in the atmosphere causes global temperatures to rise about 3 degrees. It is

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<sup>12</sup>Toronto350.org, *The Fossil Fuel Industry and the Case for Divestment: Update*, See: <http://www.uoftfacultydivest.com/files/fossil-fuel-divest-new.pdf#page=18>.

important to remember that this is an average global temperature, but would be felt more drastically nearer to the poles, as Canada is.

Even fossil fuel companies recognize this reality.<sup>13</sup> In the 2011 Carbon Disclosure Project, ExxonMobil acknowledged “risks to society and ecosystems from rising greenhouse gas emissions”. On their website, Shell asserts that “CO<sub>2</sub> emissions must be reduced to avoid serious climate change”.<sup>14</sup> Chevron claims that “a successful climate policy will be one in which the reduction of GHGs is accomplished”. BP even refers to the conclusions of the IPCC on their website, stating that even with more aggressive GHG mitigation policies intended to curb CO<sub>2</sub> emissions, it will “probably not be enough to limit warming to no more than 2 degrees”.

Various expert institutions, including the *Copenhagen Accord*, tell us that if the world is to stay below the globally recognized 2 degree warming limit, as agreed upon in Copenhagen in 2009 at the UN Climate Change Conference, most of the fossil fuel reserves must stay in the ground. If we burned all existing reserves, as fossil fuel corporations plan to do, we would certainly not be able to meet this target, nor maintain a world that is at all recognizable to the one we live in now. Kevin Anderson, former director of the Tyndall Centre for Climate Change Research, warns that warming of more than 4 degrees Celsius is “incompatible with any reasonable characterization of an organized, equitable, and civilized global community”.<sup>15</sup> Canada is part of this agreement of nations and, as an institution at the forefront of shaping the future landscape of this country, U of T is ideally situated to change the tone of the conversation on this issue going forward.

By continuing to burn fossil fuels at the present rate, we are committing ourselves to warming of 4 °C or more by the end of the century as stated by the IPCC report. This outcome is projected to cause severe global effects, and may not be stable. The direct warming from fossil fuels is compounded by feedback effects like melting sea ice and methane release from melting permafrost.<sup>16</sup> These feedbacks will add further warming to that caused directly by fossil fuel emissions, and so add to the danger of continued fossil fuel use. If we continue to burn fossil fuels at the current rate, we will commit ourselves to surpass the 2 °C safety threshold within 15 years.<sup>17</sup> Scientists predict that doing so would have severe effects both locally and globally, including in the form of more extreme weather events, more severe droughts and floods, agricultural

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<sup>13</sup>Toronto350.org, *The Fossil Fuel Industry and the Case for Divestment: Update*, See: <http://www.uoftfacultydivest.com/files/fossil-fuel-divest-new.pdf#page=28>.

<sup>14</sup>Ibid., See: <http://www.uoftfacultydivest.com/files/fossil-fuel-divest-new.pdf#page=28>.

<sup>15</sup>Ibid., See: <http://www.uoftfacultydivest.com/files/fossil-fuel-divest-new.pdf#page=10>.

<sup>16</sup>Ibid., See: <http://www.uoftfacultydivest.com/files/fossil-fuel-divest-new.pdf#page=60>.

<sup>17</sup>Ibid., See: <http://www.uoftfacultydivest.com/files/fossil-fuel-divest-new.pdf#page=8>.

impacts, and widespread detriments to human health. In his discussion of social injury, Ben will provide more information on the observed and projected consequences of climate change.

This year, scientists at the Lawrence Berkeley National Laboratory observed an increase in CO<sub>2</sub>'s greenhouse effect at Earth's surface for the first time.<sup>18</sup> This correlates with “theoretical predictions of the greenhouse effect due to human activity” and confirms that “calculations used in today's climate models are on track when it comes to representing the impact of CO<sub>2</sub>”. The accord between paleoclimatic evidence, observational evidence, and computer modeling strongly indicates that humanity's influence on the climate system through the burning of fossil fuels is now understood.

Fossil fuel companies sometimes claim that their efforts in developing renewable energy will address the problem of climate change.<sup>19</sup> In 2008, BP launched a rebranding effort in which it claimed that its initials now mean Beyond Petroleum. This is now widely seen as an example of “greenwashing” — that is, devoting extensive resources to advertising how environmentally-friendly an organization claims to be, while not actually adopting sustainable practices. BP has since abandoned its exploration into solar power, and sold its US wind farm business. Chevron similarly launched a strong push towards renewables at the turn of the millennium, but as recently as January 2014, pulled funding from these initiatives. The fact remains that the sums fossil fuel companies are investing in renewable energy is still dwarfed by the investments they are making in unconventional sources of coal, oil and gas.

To refer to the original point, taking action on climate change is not needlessly taking sides in a controversial issue, it is part of acting in accord with a necessary global transition confirmed by strong scientific and academic evidence. It is important to note that there is still ongoing research on apartheid and tobacco, similarly, we cannot hope to discover every bit of information about climate change in the near future. Just because there is continuing research, in no way indicates that we do not yet know enough to say with certainty that climate change is occurring, who is causing it, and what the effects are to the world in which we live.

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<sup>18</sup>Toronto350.org, *The Fossil Fuel Industry and the Case for Divestment: Update*, See: <http://www.uoftfacultydivest.com/files/fossil-fuel-divest-new.pdf#page=23>.

<sup>19</sup>Ibid., See: <http://www.uoftfacultydivest.com/files/fossil-fuel-divest-new.pdf#page=149>.

The University of Toronto is already taking action on climate change in various ways.<sup>20</sup> In 2009, the university signed the “Ontario Universities Committed to a Greener World” pledge, which accepts universities’ social responsibility and need to incorporate principles of sustainability into their operations. In 2010, U of T adopted an Environmental Protection Policy that recognizes its potential to have “significant effects on the environment”. The Sustainability Office at U of T reports annually on the GHG emissions of the St. George Campus. The university’s actions show climate change to be “directly pertinent to higher education and academic research”, as required by the *Policy on Social and Political Issues With Respect to Divestment*. Divestment from fossil fuel stocks would be wholly in keeping with these objectives and would be a key part of solving the challenge of environmental sustainability that the university has already committed to addressing.

### 3 | Climate change and social injury — Ben

Hello, I’m honoured to be here.

So let’s begin by talking about the university’s definition of social injury.

Our university’s policy defines social injury as injurious activities by companies that harm consumers, employees, or other persons. Furthermore, activities which violate, or frustrate the enforcement of, rules of domestic or international law.

The fossil fuel industry is a defining example of social injury. The connection between fossil fuels and social harm can be understood through the following 3 questions:

- What injuries do climate change and the fossil fuel industries practices inflict?
- Does the business model of the top 200 fossil fuel companies require that they worsen climate change?
- Is shareholder action appropriate redress to the harm done by the fossil fuel industry?

First What injuries does climate change and the fossil fuel industries practices inflict?

The brief you have received contains an entire chapter showing how the fossil fuel industry imposes social harm according to U of T’s definition.<sup>21</sup> This chapter is based on the peer-reviewed scientific literature on

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<sup>20</sup>Toronto350.org, *The Fossil Fuel Industry and the Case for Divestment: Update*, See: <http://www.uoftfacultydivest.com/files/fossil-fuel-divest-new.pdf#page=24>.

<sup>21</sup>Ibid., See: <http://www.uoftfacultydivest.com/files/fossil-fuel-divest-new.pdf#page=31>.

the impacts of climate change, as well as the conclusions of authoritative bodies ranging from the Intergovernmental Panel on Climate Change to the World Bank to the U.S. Defense Department to the World Health Organization.

To begin, we must recognize that globally, only 565 gigatonnes of carbon that can be emitted without making dangerous climate change — more than 2 °C — probable.<sup>22</sup> Right now, the top 200 fossil fuel companies plan to exploit over 3,000 gigatonnes of underground carbon reserves. Investing in the top 200 fossil fuel companies means investing in 3000 Gigatonnes of carbon extraction — more than 4 degrees of global warming.

3,000 gigatonnes of burnt carbon will mean social harms in the ways I will now describe. These are detailed extensively in the brief.

Climate change is limiting agricultural production as weather patterns change and become more extreme.<sup>23</sup> The International Food Policy Research Institute estimates that by 2050 there will be 20% more child malnutrition than there would be in a world without climate change. 3,000 gigatonnes of burnt carbon will guarantee this.

3,000 gigatonnes of burnt carbon will make sea levels rise and inundate people living in coastal areas.<sup>24</sup> Research in the proceedings National Academy of Sciences estimates countries such as a Bangladesh and the Netherlands face “massive inundation”.

3,000 gigatonnes of burnt carbon will ensure storms, droughts, other extreme weather events become more common and increase the frequency of wildfires.<sup>25</sup> Extreme weather events are expensive. The National Roundtable on the Environment and Economy predicted the costs of adapting to climate change could reach \$43 billion per year by 2050 — in Canada alone.<sup>26</sup> As broadly diversified share-holder, this will depreciate the value of the university’s other investments in Canada and abroad.<sup>27</sup>

3,000 gigatonnes of burnt carbon will increase risks to human health.<sup>28</sup> Impacts caused by infectious critters and bacteria that spread in a warmer changing climate have caused the World Health Organization

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<sup>22</sup>Toronto350.org, *The Fossil Fuel Industry and the Case for Divestment: Update*, See: <http://www.uoftfacultydivest.com/files/fossil-fuel-divest-new.pdf#page=14>.

<sup>23</sup>Ibid., See: <http://www.uoftfacultydivest.com/files/fossil-fuel-divest-new.pdf#page=36>.

<sup>24</sup>Ibid., See: <http://www.uoftfacultydivest.com/files/fossil-fuel-divest-new.pdf#page=40>.

<sup>25</sup>Ibid., See: <http://www.uoftfacultydivest.com/files/fossil-fuel-divest-new.pdf#page=44>.

<sup>26</sup>Ibid., See: <http://www.uoftfacultydivest.com/files/fossil-fuel-divest-new.pdf#page=47>.

<sup>27</sup>Ibid., See: <http://www.uoftfacultydivest.com/files/fossil-fuel-divest-new.pdf#page=99>.

<sup>28</sup>Ibid., See: <http://www.uoftfacultydivest.com/files/fossil-fuel-divest-new.pdf#page=50>.



to estimate climate change is responsible for 140,000 deaths per year since 2004. The WHO also estimates a majority of these deaths were children. A more recent study by 20 governments places this number at 400,000 deaths a year.

3,000 gigatonnes of burnt carbon will increasing the risk of ecosystem collapse, especially in already threatened ecosystems such as coral reefs, the Amazon, and within the acidifying Global Ocean.<sup>29</sup>

3,000 gigatonnes of burnt carbon all but guarantees abrupt and non-linear destabilization of our current climate, arising from positive feedback loops and important tipping points in the global climate system.<sup>30</sup>

3,000 gigatonnes of burnt carbon will have tremendous security implications according both to the US Department of Defense and Canadian Security and Intelligence Service as people move and governments struggle to cope with all the changes described above.<sup>31</sup>

3,000 gigatonnes of burnt carbon disproportionately impacts on the world's most impoverished people.<sup>32</sup> They are already experiencing difficult changes.

I saw this firsthand in the course of my undergraduate research in rural Indonesia. The family I lived with had a simple livelihood. They farmed and fished in a Kalimantan rainforest hours away from the nearest city. But in the last two years, their river started flooding between one to two times a year. The rainy season is now less predictable and this is frustrating their ability to know when they should plant their subsistence and market crops. These changes are creating additional stresses on their harvests and increasingly frequent floods endanger people such as their eight year old daughter.

These environmental changes were in line with research on local climate changes German scientists were doing as part of a broader project on deforestation and environmental change in the region. 3,000 gigatonnes of burnt carbon will make this much worse across the Global South for people with negligible carbon emissions.

Furthermore, the fossil fuel industry's practices constitute social harm by threatening First Nations groups and indigenous cultures.<sup>33</sup> Numerous studies cited in the brief show how climate change is happening first and most in the arctic, threatening the food supplies and lifeways of Inuit and Aboriginal communities who

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<sup>29</sup>Toronto350.org, *The Fossil Fuel Industry and the Case for Divestment: Update*, See: <http://www.uoftfacultydivest.com/files/fossil-fuel-divest-new.pdf#page=53>.

<sup>30</sup>Ibid., See: <http://www.uoftfacultydivest.com/files/fossil-fuel-divest-new.pdf#page=60>.

<sup>31</sup>Ibid., See: <http://www.uoftfacultydivest.com/files/fossil-fuel-divest-new.pdf#page=62>.

<sup>32</sup>Ibid., See: <http://www.uoftfacultydivest.com/files/fossil-fuel-divest-new.pdf#page=64>.

<sup>33</sup>Ibid., See: <http://www.uoftfacultydivest.com/files/fossil-fuel-divest-new.pdf#page=56>.

live there. Social harm from the industry is, however, not just limited to climate change as cancers occur 30% more than expected in communities near the tar sands such as the Mikisew Cree First Nation and Athabasca Chipewyan First Nation according to the Alberta Cancer Board. We cannot be good Treaty people and ignore this.

Moreover, a part of our definition of social harm is to ask if the business activities of these companies frustrate the enforcement of the rules of domestic and international law.<sup>34</sup>

The brief describes numerous instances when top 200 fossil fuel companies failed to value indigenous peoples right to free prior and informed consent to the use of their land and influenced governments to ensure indigenous rights did not interfere with extraction.

There is the famous example where Shell frustrated international and domestic law by paying soldiers to terrorize civilians in Ogoniland, Nigeria.<sup>35</sup> This led to Ken Saro Wiwa and eight other Ogoni leaders being hanged in 1995.<sup>36</sup>

Another poignant example is how between 1964 and 1990, Texaco (which merged with Chevron in 2001) had substantial oil extraction operations in the Ecuadorian Amazon.<sup>37</sup> The campaign group ChevronToxico alleges that during that time the company deliberately dumped more than 18 billion gallons of toxic wastewater and spilled close to 17 million gallons of crude oil. The “[c]ontamination of soil, groundwater, and surface streams has caused local indigenous and campesino people to suffer a wave of mouth, stomach and uterine cancer, birth defects, and spontaneous miscarriages”.

The Ecuadorian Supreme Court finally ruled in late 2013 that Chevron is responsible and should pay \$9.51 billion in damages to the people affected. They have not.

And now back to our second question: Is worsening climate change inherent to the business model of the top 200 fossil fuel companies?

The brief shows how the top 200 fossil fuel companies are in the business of extraction for the purpose of combustion. The Canadian government’s own figures state that 80% of the fossil fuels produced and consumed in Canada are combusted to meet energy needs.

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<sup>34</sup>Toronto350.org, *The Fossil Fuel Industry and the Case for Divestment: Update*, See: <http://www.uoftfacultydivest.com/files/fossil-fuel-divest-new.pdf#page=68>.

<sup>35</sup>Ibid., See: <http://www.uoftfacultydivest.com/files/fossil-fuel-divest-new.pdf#page=127>.

<sup>36</sup>See also: <https://www.flickr.com/photos/sindark/sets/72157636446975176/>

<sup>37</sup>Toronto350.org, *The Fossil Fuel Industry and the Case for Divestment: Update*, See: <http://www.uoftfacultydivest.com/files/fossil-fuel-divest-new.pdf#page=136>.

The recent example of divestment from tobacco also shows that our university has recognized some industries' business models depend on inflicting social harm and that divestment from these industries is thus consistent with the values of our university.

There are four notable similarities to U of T's divestment from tobacco.<sup>38</sup>

First, tobacco companies denied the scientific connection between smoking and cancer. ExxonMobil alone gave \$27 million to 66 organizations that deny climate science between 1998 and 2012. The same individuals and PR firms who once denied the connection between smoking and cancer were re-hired by the fossil fuel industry to deny climate science. This is documented extensively in Naomi Oreskes' book *Merchants Of Doubt*.<sup>39</sup>

Second, and to answer the third question of whether shareholder action appropriate redress to the harm done by the fossil fuel industry: the answer is no because in both the case of tobacco and fossil fuels, the problem is the product being produced by the industry.<sup>40</sup>

Our university recognized shareholder voice was inadequate to convince a tobacco company to stop producing and selling tobacco.

Does anyone here believe shareholder activism can convince fossil fuel companies to stop producing fossil fuels — and leave 2,400 gigatonnes of theoretically profitable coal, oil, and gas in the ground?

When the university decided to divest from tobacco, it concluded that “[t]he University of Toronto has neither the resources nor the jurisdiction to monitor the business practices of tobacco companies, or any other enterprises”. In short, U of T recognized shareholder activism could not change the fundamental business model of an entire industry. We find ourselves here again.

Third, both tobacco and fossil fuel consumption are distinct from other products that can be argued to cause social harm in that each item has “no safe use”.

As stated before, globally, only 565 gigatonnes of carbon that can be emitted without making dangerous climate change probable according to the 2 degree ceiling governments are committed to. The top 200 fossil fuel companies plan to exploit over 3,000 gigatonnes of underground reserves. We are investing in companies

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<sup>38</sup>Toronto350.org, *The Fossil Fuel Industry and the Case for Divestment: Update*, See: <http://www.uoftfacultydivest.com/files/fossil-fuel-divest-new.pdf#page=80>.

<sup>39</sup>Oreskes and Conway, *Merchants Of Doubt*.

<sup>40</sup>Toronto350.org, *The Fossil Fuel Industry and the Case for Divestment: Update*, See: <http://www.uoftfacultydivest.com/files/fossil-fuel-divest-new.pdf#page=140>.

that aim to ignore the the international carbon budget of 2 degrees and burn 3,000 gigatonnes.

Fourth, both investments in tobacco and fossil fuels challenge pre-existing policies that were developed and implemented in alignment with the university's core values.

For instance, the case for tobacco divestment was logical given that an anti-smoking policy was already implemented on campus "in recognition of the medical consensus on the health effects of smoking, and the University's place in the promotion of health".

In the case of divestment from South African apartheid, our university acted a year before the Canadian government acted to ban investments in the apartheid regime.<sup>41</sup>

Our university accepts the science of climate change. Our faculty work towards solutions. Our *Statement of Institutional Purpose* includes "a resolute commitment to the principles of equal opportunity, equity and justice".<sup>42</sup> The fossil fuel industry threatens to undermine our values. Fossil fuel divestment is the best way forward.

## 4 | The financial case for divestment — Milan

There is a widespread assumption that divestment is a matter of sacrificing financial security in order to uphold an ethical position. In the case of fossil fuel corporations, this characterization is inaccurate. These have been underperforming investments, and the companies face major risks to their performance going forward. The source of the social injury which Ben has described — the massive reserves of coal, oil, and gas which these companies own — are also the source of this financial risk. That risk arises, firstly, from the reality that governments are increasingly restricting the right to use the atmosphere as a free dump for carbon pollution and, secondly, from the increasingly extreme character of fossil fuel energy development. As Shell's mishaps with arctic drilling and BP's destruction in the Gulf of Mexico demonstrate, fossil fuel corporations are seeking out ever-more-expensive and ever-more-dangerous ways of sustaining and enlarging their reserves. In 2012, the top 200 oil and gas companies spent \$674 billion on exploration and development of new reserves — reserves which are at risk of becoming stranded assets in a carbon-constrained future.<sup>43</sup>

<sup>41</sup>Toronto350.org, *The Fossil Fuel Industry and the Case for Divestment: Update*, See: <http://www.uoftfacultydivest.com/files/fossil-fuel-divest-new.pdf#page=81>.

<sup>42</sup>Ibid., See: <http://www.uoftfacultydivest.com/files/fossil-fuel-divest-new.pdf#page=13>.

<sup>43</sup>Ibid., See: <http://www.uoftfacultydivest.com/files/fossil-fuel-divest-new.pdf#page=94>.

The first principle in U of T's policies and procedures on divestment is prudent investment.<sup>44</sup> The policy requires that legal standards applicable to prudent institutional investors be met. The university must honour its fiduciary duty to seek out strong returns and manage risks. Divestment is compatible with these obligations.

First, I will talk about returns, before turning to the subject of risk.

Compared with similar non-fossil-fuel investments, the sector has underperformed in recent years. Chapter 3 of the brief describes a number of credible assessments that support this conclusion, including a 2013 study by Impax Asset Management that found that fossil fuel stocks underperformed the MCSI World Index over the previous seven years and a 2013 study by MCSI ESG research which found that a divested portfolio performed 1.2 percent better between 2008 and 2013.<sup>45</sup>

The coal industry has been an especially poor performer — financially as well as in terms of human health and environmental impacts.<sup>46</sup> While the MCSI World Index rose 44% between 2010 and 2015, the global coal sector lost 43% of its value. 26 US coal companies went bankrupt between 2009 and 2014, and even total Chinese coal consumption has begun to fall.

We encourage the committee to request a retrospective analysis from UTAM — the U of T Asset Management Corporation — evaluating how U of T's investments would have performed if divestment from these 200 companies had happened 5, 10, or 20 years ago.

Of course, past performance does not imply future results. There are good reasons to think the future performance of the fossil fuel industry will be even worse. Firms themselves acknowledge a series of risks: governments are introducing stronger climate change regulations, the search for new reserves is driving fossil fuel corporations into the development of more expensive and riskier projects, and the economic viability of fossil fuel alternatives is improving rapidly.

Moving on to risk:

Many people have made the problematic argument that because the Canadian economy and that of the world as a whole are based to a large degree on fossil fuels, divestment is inappropriate.<sup>47</sup> This contradicts the most fundamental feature of risk management: diversification. The more extensively exposed you are to

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<sup>44</sup>Toronto350.org, *The Fossil Fuel Industry and the Case for Divestment: Update*, See: <http://www.uoftfacultydivest.com/files/fossil-fuel-divest-new.pdf#page=220>.

<sup>45</sup>Ibid., See: <http://www.uoftfacultydivest.com/files/fossil-fuel-divest-new.pdf#page=85>.

<sup>46</sup>Ibid., See: <http://www.uoftfacultydivest.com/files/fossil-fuel-divest-new.pdf#page=87>.

<sup>47</sup>Ibid., See: <http://www.uoftfacultydivest.com/files/fossil-fuel-divest-new.pdf#page=153>.

a particular set of risks, the more important it becomes to hedge the risk by shifting investment elsewhere. Even if U of T sells its direct holdings in these 200 corporations, it will remain exposed to the carbon bubble and fossil fuel industry risks through general exposure to the Canadian stock market. U of T is also exposed to the risk that government revenues which rely on fossil fuel production will shrink, putting further pressure on post-secondary funding.

Because fossil fuel development happens on the timescale of decades, there is a major risk that investments will be locked in which prove unproductive in the medium and long-term.<sup>48</sup> Offshore oil and gas projects, fossil fuel pipelines, refineries, and other such investments risk being unviable in a world that starts taking action with the scale and timing necessary to stay below the 2 °C “dangerous” limit for climate change.

These investments also risk being undermined by the improving commercial viability of climate-safe energy alternatives, from interlinked networks of renewable power sources of the sort emerging in Europe to improved energy efficiency as a route to reduced fossil fuel dependence. For example, in 1975 solar photovoltaic panels cost \$101 per watt and two megawatts of solar capacity was installed globally; in 2015, the price per watt has fallen to \$0.61 and installation has risen to nearly 65,000 megawatts.

The rapid development of renewables risks undermining the financial viability of long-term fossil fuel investments, even in the absence of concerted government effort on climate change.

Price volatility is another major risk associated with fossil fuels.<sup>49</sup> Oil reached \$140 per barrel in June 2008, before falling to \$45 per barrel in March 2015. Because investment in major fossil fuel developments happens on the timescale of decades, price volatility enhances the risk of inefficient investment. Because of very high capital costs, Canada’s bitumen sands face one of the highest levels of risk from price volatility. Nonetheless, the Conference Board of Canada expects a further \$364 billion to be invested in the sector by 2035. Getting off the fossil fuel price roller coaster is a major benefit associated with decarbonization.

Divestment would help control these risks, while also helping to address a major source of social injury and helping push the world as a whole toward a more enduring form of prosperity.

If U of T wants to do more to control exposure to the carbon bubble, as well to encourage a global shift to climatic stability, it could take steps that go further than what this proposal recommends. It could choose

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<sup>48</sup>Toronto350.org, *The Fossil Fuel Industry and the Case for Divestment: Update*, See: <http://www.uoftfacultydivest.com/files/fossil-fuel-divest-new.pdf#page=93>.

<sup>49</sup>Ibid., See: <http://www.uoftfacultydivest.com/files/fossil-fuel-divest-new.pdf#page=160>.

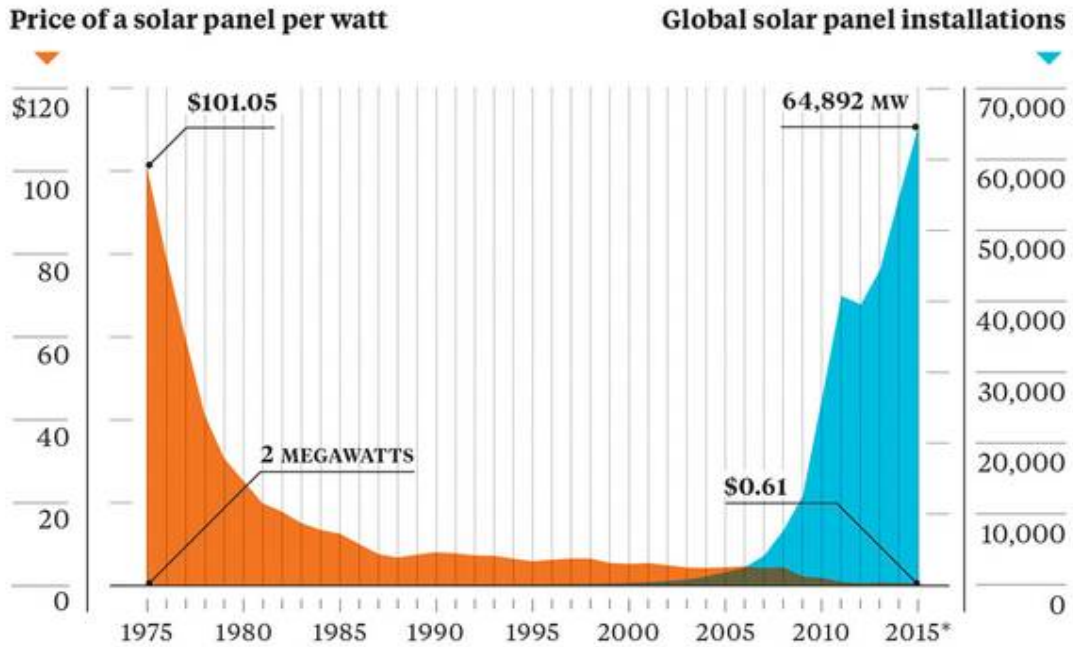


Figure 1: Solar photovoltaic panels — price per watt and rate of installation 1975 to 2015. Source: Earth Policy Institute / Bloomberg

to divest from pooled funds with a large fossil fuel component, encourage the emergence of new low-carbon investment products, or adopt a portfolio-wide screening system for climate change risk.<sup>50</sup>

Climate change also creates risks for U of T's portfolio as a whole, as described in detail in chapter 3 of the brief.<sup>51</sup> Studies like the Stern Review have attempted to quantify the total risk to the global economy from different degrees of climate change. The Stern Review estimated that climate change could cost 5-20% of global GDP, depending on the future course of emissions. Nicholas Stern has since stated that he thinks the review likely underestimated the cost. 90% of the companies in the S&P global 100 index list climate change as a present or future threat to business. U of T cannot control the threat of climate change alone, but divestment would send a powerful signal to other institutional investors and encourage a widescale transition away from fossil fuels.

A range of attractive substitutes exist, if U of T decides to divest.<sup>52</sup> These are described in chapter 3

<sup>50</sup>Toronto350.org, *The Fossil Fuel Industry and the Case for Divestment: Update*, See: <http://www.uoftfacultydivest.com/files/fossil-fuel-divest-new.pdf#page=165>.

<sup>51</sup>Ibid., See: <http://www.uoftfacultydivest.com/files/fossil-fuel-divest-new.pdf#page=96>.

<sup>52</sup>Ibid., See: <http://www.uoftfacultydivest.com/files/fossil-fuel-divest-new.pdf#page=98>.

and 7.<sup>53</sup><sup>54</sup> In particular, U of T should consider the return from further investments in on-campus energy efficiency. This month, U of T announced that a retrofit of the Medical Sciences Building will save more than \$1 million per year, while reducing CO<sub>2</sub> emissions by hundreds of tonnes. Updates to OISE are saving over half a million dollars per year, while those at Robarts Library are saving more than a million. In a city with both summer and winter temperature extremes, efficiency upgrades and higher standards for new buildings are attractive options. Such investments also address the charge that divestment is hypocritical because the university uses fossil fuels. We can divest and reduce our fossil fuel dependence at the same time.

On the subject of fiduciary duty, World Bank Group President Jim Yong Kim has urged investors to give thought to what fiduciary duty means in a world impacted by climate change:

Be the first mover. Use smart due diligence. Rethink what fiduciary responsibility means in this changing world. It's simple self-interest. Every company, investor and bank that screens new and existing investments for climate risk is simply being pragmatic.<sup>55</sup>

This accords with analysis from Paul Fisher, Deputy Head of Supervision for Banks and Insurance Companies at the Bank of England, as well as the Environmental Audit Committee of the British House of Commons.

The compatibility of divestment with fiduciary duty was also supported by legal analysis carried out on behalf of U of T in 2007 by Timothy Youdan of Davies Ward Phillips & Vineberg, on the subject of tobacco divestment.<sup>56</sup> He concluded that: “pension trustees [may] properly exclude investments for nonfinancial reasons if doing so will not have a detrimental effect on the financial performance of the fund”.

The *ad hoc* committee is required to consider “the extent and significance of the University’s investment in a particular entity”.<sup>57</sup> The limited information made available by UTAM — combined with their unwillingness to date to provide this information when asked — makes it impossible for any divestment campaign to meet this requirement. Nonetheless, if the university’s overall investments remain similar to those in 2013, the amount invested in these companies is large enough to be considered significant.

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<sup>53</sup>Toronto350.org, *The Fossil Fuel Industry and the Case for Divestment: Update*, See: <http://www.uoftfacultydivest.com/files/fossil-fuel-divest-new.pdf#page=98>.

<sup>54</sup>Ibid., See: <http://www.uoftfacultydivest.com/files/fossil-fuel-divest-new.pdf#page=164>.

<sup>55</sup>Ibid., See: <http://www.uoftfacultydivest.com/files/fossil-fuel-divest-new.pdf#page=83>.

<sup>56</sup>Ibid., See: <http://www.uoftfacultydivest.com/files/fossil-fuel-divest-new.pdf#page=84>.

<sup>57</sup>Toronto350.org, *The Fossil Fuel Industry and the Case for Divestment: Update*, See: <http://www.uoftfacultydivest.com/files/fossil-fuel-divest-new.pdf#page=101>.



Not only are more than ten percent of these corporations' present-day revenues derived from the undesirable activity of fossil fuel production, but the extent of their reserves establishes that this will continue to be true for as long as they are able to keep using them.

Notably, Harvard's total investment in these 200 companies is US\$36 million. Roughly similar holdings with a much smaller endowment means U of T is much more exposed to these risks as a proportion of our total holdings.

To conclude:

The relevance of the apartheid and tobacco precedents has already been discussed, but one feature of climate change distinguishes it from both. While undoubtedly severe, the amount of harm done by South Africa's apartheid regime and by tobacco use was reasonably constant across time. As the chart from the IPCC on p. 26 of the brief clearly shows, the harm done by climate change rises at a growing rate as the amount of fossil fuel burned increases.<sup>58</sup> By continuing with the status quo, the IPCC has concluded that we face a "high to very high risk of severe, widespread, and irreversible impacts globally". If we cross key climate thresholds, the level of damage may jump abruptly.

This proposal should be considered in context. Events around the world raise questions about the appropriateness of this committee's timeline for decision.

An unprecedented coalition of influential organizations — many of them not known for environmental advocacy — has drawn attention to the carbon bubble, the risk of fossil fuel reserves becoming stranded assets, and the prudence of divestment.<sup>59</sup> Over 180 institutions with collective investments of over \$50 billion have already committed to divest.<sup>60</sup> The strength of the scientific, ethical, and moral cases — combined with the force of these precedents — suggest that this committee should consider making a recommendation before the December deadline.

A strong and well-justified recommendation from this committee will set the stage for President Gertler's decision, and for the approval of the Governing Council. Both for the sake of U of T's future financial health, and for the sake of the future prosperity of the whole world, such a recommendation would be prudent.

Thank you

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<sup>58</sup>Ibid., See: <http://www.uoftfacultydivest.com/files/fossil-fuel-divest-new.pdf#page=32>.

<sup>59</sup>Ibid., See: <http://www.uoftfacultydivest.com/files/fossil-fuel-divest-new.pdf#page=62>.

<sup>60</sup>See: <http://gofossilfree.org/commitments/>

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