ACSRI Proposal Submission Overview

Date of Submission to the ACSRI: December 1, 2022

Subject of Review: Fossil fuel divestment

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Dept./Office: ______

Requesting on behalf of an organization? [circle one] Yes No

If yes, which organization? Columbia Policy Institute

Provide a summary of the issue, the action requested, and the rationale:

The Columbia Policy Institute welcomed the announcement last year that Columbia would divest from fossil fuels as an important step in the fight against climate change but found a few unresolved issues that we are now asking ACSRI to change. We would like the University to close the indirect investment loophole, and commit to divestment from private funds that themselves invest in or benefit from fossil fuel reliant companies. This would better uphold the ethical commitments of the University and increase the efficacy of the previous fossil fuel divestment pledge. We ask that the University publicly define what it considers "primary" and "secondary" fossil fuel revenue businesses in order to promote transparency between the institution and the community it serves. Finally, we request that the University analyze fossil fuel reliance in such a way as to include Scope 2 and Scope 3 emissions because those account for a great proportion of total emissions. Implementing these recommendations would help ensure fossil fuel divestment has the largest possible positive impact.

Please attach in PDF format the following additional required information and supporting evidence **(20 pages max)**:

1) State which criteria the proposal is using to make the case (1 paragraph)
2) Provide all the critical data with footnotes for any arguments in your proposal
3) Provide research on the possible opposite argument against your conclusions
4) Conclusion - provide bullet points for the final recommendations to the ACSRI citing the criteria for each one

Email the proposal to the ACSRI Chair and Staff Administrator as posted on the website

December 1, 2022

A Proposal to the Columbia Advisory Committee on Socially Responsible Investing

By the Energy and Environment Center at the Columbia Policy Institute

The Energy and the Environment Center of the Columbia Policy Institute, along with many of our peers, believes that the divestment criteria adopted in 2021 allowed a loophole for indirect investments and failed to deliver sufficient clarity and transparency to the Columbia community.[1] Therefore, we ask that the ACSRI recommend to the trustees of Columbia University to direct Columbia Investment Management Company (CIMC) to cease all remaining, and abstain from any future investments, in private funds which are involved, funded, and invested in public and private fossil fuel companies. This extends to companies reliant upon oil and gas as secondary sources of income revenue streams. We urge the University to close the indirect investment loophole, which allows them to use third-party groups to put money into fossil fuel companies and associated businesses. We ask that the University define what it considers “primary” and “secondary” fossil fuel revenue businesses in order to promote transparency between the institution and the community it serves. And finally, we request that the University analyze fossil fuel reliance in such a way as to include Scope 2 and Scope 3 emissions.

Our petition and repeated proposals to the ACSRI about this issue demonstrate that there exists a broad consensus within the University community regarding total fossil fuel divestment. The scientific consensus, as understood by our very own faculty and researchers and taught in our classrooms, recognizes the threat of anthropogenic climate change. The merits of the

[1] https://www.finance.columbia.edu/content/relevant-investment-policies

dispute—that we must do our part to prevent it—lie clearly on the side of our proposal. And finally, the nature of indirect investments and the high profile of Columbia mean that divestment is more viable and appropriate than ongoing communication and engagement with company management. These points are elaborated further below.

The importance and impact of green investment

Global investment in green and low-carbon energy increased by 27% in 2021, reaching a record $755 billion invested in clean energy technologies. The largest share of green investments in 2021 supported the renewable energy sector, which already attracted $366 billion for primarily wind and solar technologies that have the potential to disrupt and feasibly replace the fossil fuel industry altogether[2]. In the same year, Columbia University unveiled its participation in the 'Race to Zero' challenge – a commitment to achieve net carbon neutrality prior to 2050 through a transition to new and retro-commissioning building strategies, zero-emission energy sources, strategic electrification, and further tactics encompassing the reduction of Scope 1, 2, and 3 emissions[3] [4]. While Columbia University espouses these environmental pledges, as of 2018, the University maintained an investment of 33% of its portfolio in hedge funds, which is the largest allocation of the University's endowment as well as the largest apportionment of hedge fund investment by any Ivy League institution.[5] Columbia's net-zero emissions commitment belongs

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[2] Mathis, W. (2022, January 27). *Energy Transition Drew Record $755 Billion of Investment in 2021*. Bloomberg. https://www.bloomberg.com/news/articles/2022-01-27/energy-transition-drew-record-755-billion-of-investment-in-2021?leadSource=uverify wall

[3] *Columbia University joins global "Race to zero" pledging immediate action against climate change*. (2021, October 29). Sustainable Columbia. https://sustainable.columbia.edu/news/columbia-university-joins-global-race-zero-pledging-immediate-action-against-climate-change

[4] *Plan 2030: Executive summary*. (2021). Sustainable Columbia. https://sustainable.columbia.edu/content/plan-2030-executive-summary

[5] Smith, K. (2018, April 18). *Bloomberg*. Hedge Funds Are Columbia's Big Bet in $10 Billion Endowment. https://www.bloomberg.com/news/articles/2018-04-27/hedge-funds-are-columbia-s-biggest-bet-in-10-billion-endowment?leadSource=uverify%20wall&sref=oXbZyqbs.

hand-in-hand with a net-zero investment commitment, but these hedge funds further fuel the carbon energy industry through lucrative investments, which currently includes Columbia University's financial contributions. As a powerful institution and member of the influential Ivy League, Columbia University houses one of the world's leading centers for climate research, and has the potential to assume a leadership role in the divestment movement.[6] Further, Columbia University is the largest private landowner in New York City, making it a de-facto trendsetter for renewable energy investment in the City.[7] A commitment in good faith from Columbia University towards a net-zero investment plan would incentivize the University's partner businesses in the City to simultaneously strive for divestment in order to retain their positions as investment partners with the University. The Columbia University community is disappointed that the University's research, education, and facilities is funded through fossil fuel investments, and University members and affiliates have demonstrated their support for divestment through the Columbia Policy Institute's Energy and Environment Center's petition, which has garnered over 232 signatures and is growing.[8] ACSRI has the power to fulfill Columbia University's potential as a leader of the divestment movement. Fossil fuel investments are misaligned with the University's net-zero commitments, contradict the University community's values, and restrict the University's potential for leadership within the climate movement. Divestment through the solutions outlined in this proposal is a clear path forward for Columbia University.

As previously mentioned, the University has touted itself as a leader in the climate movement and in socially responsible investment. In order for these actions to be considered of

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[6] (2022). Columbia Climate School. https://www.climate.columbia.edu
[7] https://www.residentmar.io/2016/05/27/biggest-landowners-nyc.html
[8] Columbia Policy Institute, Energy & Environment Center. (2022). *Columbia isn't keeping its promise: Our fossil fuel divestment pledge needs to be revised*. Action Network. https://actionnetwork.org/petitions/columbia-isnt-keeping-its-promise-our-fossil-fuel-divestment-pledge-needs-to-be-revised?source=direct_link&

good-faith, the University needs to reevaluate its decision to divest from only direct investments in fossil fuels and to include only Scope 1 investments in its considerations.[9] For the University community, attitudes towards divestments are not contingent upon whether or not the investment is direct or indirect, or whether the money is in a hedge fund or not. Therefore, in the words of ACSRI, there is "broad consensus within the University community regarding the issue at hand." In continuing to take advantage of the indirect-direct loophole, the University and its Trustees have failed to fulfill their self-proclaimed commitment to the community and to the planet.

Comparative perspectives

While Columbia has joined other institutions of equivalent standing in *initiating* divestment, the university has not yet achieved an equivalent promise of divestment as many of its peers. Many of these institutions have achieved or promised total divestment from fossil fuels, both direct and indirect. These institutions, being of similar standing and endowment, have proven that Columbia does have the ability to implement similar measures, yet chooses not to. Still, some educational institutions have shown to be in a more difficult situation compared to Columbia University, whether due to their larger size or dependence on fossil fuel investment.

Perhaps most renowned, the University of California (UC) system divested entirely across all nine of its campuses in June 2020. A total of $1 billion was divested from fossil fuel energy and instead has been put into renewable energy. $1.03 billion of the $126 billion in assets will be put forth permanently toward "promising clean energy projects," with the majority ($750 million) going toward solar and wind energy developers alone.[10] The complete divestment took

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[9] As far as we can find, there is no mention of which scopes of emissions the University or ACSRI considers on the ACSRI website. In an email exchange with April Croft earlier this year, the ACSRI declined to clarify this position.
[10] Florence, Bree. "University of California Divests from Fossil Fuels, Puts $1 Billion into Clean Energy." *Cronkite News - Arizona PBS*, Arizona PBS, 16 June 2020, https://cronkitenews.azpbs.org/2020/06/16/university-divests-

five years to achieve—alongside their replacement by environmentally sustainable investments.[11] UC not only removed their names from the investment pool through their endowment but also through their pension and all working capital pools.[12] The massive size of this institution (285,000 students), alongside its ability to succinctly divest within an adequate time frame, are hallmarks of the efficiency and expertise that institutions such as Columbia possibly possess, and yet do nothing with.

American University has maintained a net-zero emissions status on its campus grounds and facilities since 2018, being the first in the United States to achieve such a feat.[13] Their fossil fuel divestment is of a different status. They have completely divested from fossil fuels within their public endowment portfolio, worth a total of $12.9 million. There has not been any direct investment for several years, and it appears that the trend will continue into the future. American has also sold a total of $350 million in index funds, opting to reinvest in funds without any fossil fuel holdings.[14] They have gone a step beyond Columbia by making efforts to invest in more positive index funds.

We can also look towards other Ivy League institutions for proof of our ability to divest and as examples of what we should, should *not*, or could be pursuing. Cornell University has a divestment action encompassing *all* private fossil fuel company investments. However, Cornell

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fossil-fuels-clean-energy/#:~:text=With%20285%2C000%20students%20and%20a,of%20carbon%20neutrality%20by%202025.

11 Watanabe, Teresa. "UC Becomes Nation's Largest University to Divest Fully from Fossil Fuels." *Los Angeles Times*, Los Angeles Times, 19 May 2020, https://www.latimes.com/california/story/2020-05-19/uc-fossil-fuel-divest-climate-change.

12 Smithies, Sam. "UC Fully Divested from Fossil Fuels." UCLA Sustainability, UCLA Sustainability, 15 Sept. 2020, https://www.sustain.ucla.edu/2020/05/31/uc-fully-divested-from-fossil-fuels/.

13 Office of Sustainability. "Tracking Progress." *American University*, American University, 2022, https://www.american.edu/about/sustainability/tracking-progress.cfm.

14 University Communications. "American University Eliminates All Public Fossil Fuel Investments from Its Endowment." *American University*, 22 Apr. 2020, https://www.american.edu/media/news/20200422-divestment.cfm.

itself has not officially agreed to 'divest,' opting to rather outline steps for a phasing out of nonspecific fossil fuel investments. Because of this, Cornell has allowed itself a loophole to continue, even with the next 5-7 years of divestment, indices, public equity funds, private equity, and bonds in fossil fuels.[15] Harvard has taken a similar approach, not agreeing to 'divest,' but letting private equity funds with fossil fuel holdings expire. The university has pledged, unlike others, to reach net-zero greenhouse gas emissions within their endowment by 2050.[16] This wide breadth of time and the noncommittal elements of their current plans in divestment, however, also allows for loopholes. The missing pieces of these pledges demonstrate that the impact of an improved Columbia pledge could be magnified by spurring improvements among peer institutions.

Yale has taken a more unique approach, looking to *specifically* target certain fossil fuel companies for divestment. In order to recognize what companies they can divest from, five principles were created, alongside the creation of the Fossil Fuel Investment Principles committee, to help guide and recommend specific divestment and investment.

1. "Avoid exploration and production of fossil fuels that generate high levels of greenhouse gas emissions relative to energy emissions
2. An effort to minimize greenhouse gas emissions in their operations via technologies, administrative structure, and other methods
3. Support government policies on climate change
4. Utilize accurate climate research

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[15] Stamm, Kathryn. "Cornell to Effectively Divest from Fossil Fuels, Trustees Vote." *The Cornell Daily Sun*, 23 May 2020, https://cornellsun.com/2020/05/22/cornell-to-divest-from-fossil-fuels-trustees-vote/.

[16] Goodman, Jasper, et al. "Harvard Will Move to Divest Its Endowment from Fossil Fuels: News: The Harvard Crimson." *News | The Harvard Crimson*, 10 Sept. 2021, https://www.thecrimson.com/article/2021/9/10/divest-declares-victory/.

5. Transparency compliance"

Still, this method does leave loopholes, as Yale can continue investment in fossil fuel companies if the above criteria are met. The vague wording, reminiscent of noncommittal divestment pledges, also works to justify and *not* define what is considered high levels of greenhouse gas emissions or what is considered "adequate" support of climate change technology, research, and solutions promotion.[17]

Brown and Princeton Universities are of similar standing, opting to maintain a loophole by not specifying if a full commitment to divestment will even occur (Brown),[18] or when the dissociation process would be complete (Princeton).[19]

While some institutions have proven to be capable of achieving complete, or near-complete, divestment, others have remained noncommittal and hesitant to firmly position themselves opposite of the fossil fuel industries and their wealth. As Columbia University follows along the path of the latter, the opportunity to emulate the successes and methods of peer institutions, even those who maintain a similar divestment scene as Columbia (like other Ivy Leagues), could be immensely beneficial to further critique, fine-tune, and emulate more efficient divestment strategies and protocols.

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[17] Horowitch, Rose, et al. "Yale Creates New Principles for Divestment from Fossil Fuels." *Yale Daily News*, 16 Apr. 2021, https://yaledailynews.com/blog/2021/04/16/yale-creates-new-principles-for-divestment-from-fossil-fuels/.

[18] Faulkner, Tim, and News Staff. "Brown University Withdraws Investments from Fossil Fuels." *EcoRI News*, 5 Mar. 2020, https://ecori.org/2020-3-4-brown-withdraws-assets-from-fossil-fuels/.

[19] Bonette, Julie. "Trustees Vote to Divest and Dissociate from Fossil Fuel Companies | Princeton Alumni Weekly." *Princeton Alumni Weekly*, The Trustees of Princeton University, Nov. 2022, https://paw.princeton.edu/article/trustees-vote-divest-and-dissociate-fossil-fuel-companies.

Implementing a more robust divestment plan

As has been detailed previously, our recommendations for reinvestment into other green energy constituents serve as one of the foundations for this full divestment process. However, the University can begin this transitional process through a variety of routes.

A prospective beginning could focus on increasing transparency regarding Scope 3 Emissions according to the outline recommended by the Environmental Protection Agency to utilize Greenhouse Gas Protocol's *GHG Protocol Corporate Value Chain (Scope 3) Accounting and Reporting Standard*. This standard presents details on all Scope 3 categories, the requirements, and guidance recommended for reporting these emissions.[20] According to the EPA, Scope 3 emissions often constitute the majority of an organization's total greenhouse gas emissions.[21] Thus, the standard could promote potential emission reduction opportunities. With the acknowledgment of Scope 3 emissions within reporting, there will be a more transparent relationship between the University and its community.

More integral to this process, a general transformation in language within ACSRI policy would automatically invoke a change in the yearly investment list. A demand to alter and clarify language and requirements for investment or divestment has been one of our main concerns. With more succinct language and thus policy, it will cut more companies off from Columbia's portfolio. "Primary business" with fossil fuels can be altered within the policy's language to include far more specific criteria. As was done with thermal coal, it is advisable to include a percentile cutoff for "primary." Further, including percentage rates for companies with potential

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[20] Corporate Value Chain (Scope 3) Standard Accounting and Reporting Standard." *Greenhouse Gas Protocol,* World Resources Institute, World Business Council for Sustainable Development, Sept. 2011, https://ghgprotocol.org/standards/scope-3-standard.
[21] Scope 3 Inventory Guidance." *EPA Center for Corporate Climate Leadership*, EPA, 12 May 2022, www.epa.gov/climateleadership/scope-3-inventory-guidance.

"secondary business" with fossil fuels could further differentiate the two or more types of constituents we could exclude or include. As other institutions have done, we could include within our investment requirements that companies must have expressed, and already acted on, the intention of carbon neutrality and/or the promotion of succinct environmental policies.

Reverting back to our initial demands for full divestment, this would be most successful with reinvestment into carbon-neutral and/or clean technologies and companies. However, it can and should be acknowledged that *this full divestment will require a long-term commitment and process.* Current private equity funds may be allowed to expire naturally alongside any other necessary or additional methods. Likewise, a movement of investment into any remaining constituents that were originally within the University's portfolio could serve as, " [a] pure divestment approach to understand the active return related to the act of divesting without reinvesting in green stocks."[22] In transitioning indirect investments away from environmentally harmful ones, ACSRI may rely on groups such as Morningstar that produce monthly ratings, at the level of funds, on the ESG and sustainability.[23] There are also sustainable development equity ETFs, including the recently launched Newday Sustainable Development Equity ETF, that forefront environmental goals in their portfolio options, providing another option for redirecting Columbia's investment portfolio.[24] In this way, the University, if wanted, would be able to implement and witness the actual effects of divestment on its finances and portfolio.

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[22] Hunt, C., & Weber, O. (2019). Fossil Fuel Divestment Strategies: Financial and Carbon-Related Consequences. *Organization & Environment*, 32(1), 41–61. https://doi.org/10.1177/1086026618773985r
[23] https://www.morningstar.com/articles/957266/the-morningstar-sustainability-rating-explained
[24] https://newdayimpact.com/sustainable-development-equity/

Addressing counter arguments

There are a range of arguments that have been or could be leveled against the ideas contained in the current proposal. While legitimate, we believe these concerns are insufficient to reject our demands. The first counterargument, applied to all divestment proposals, is to consider whether divestment is “more viable and appropriate than ongoing communication and engagement with company management.”[25] There is an argument to be made, especially given recent explorations of giving ‘the environment’ a seat on corporate boards, that it could be more fruitful to convince companies from the inside that environmental sustainability should be among their goals.[26] We know ACSRI supports this conclusion[27] and this is potentially a relevant factor when discussing direct investments, but indirect investments carry with them a significantly reduced ability to influence corporate governance. When mediated by a mutual fund, an index fund, or other entity, Columbia will not be able to make a substantive impact on corporate governance by remaining indirectly invested. Additionally, our proposal asks for the application of investment criteria similar—though more specific and transparent—to ACSRI’s 2020 Position on Fossil Fuel Divestment. Therefore, it is hard to argue that the same criteria applied to indirect investments would decrease the relative viability of divestment. Finally, there is great moral, symbolic, and leadership value for Columbia University to take a thorough and consistent stand on fossil fuel divestment. ACSRI has recognized the signal the University’s decisions send to other investors, and the tensions of teaching climate science and remaining invested.[28] The

[25] https://www.finance.columbia.edu/content/proposal-submission-guidelines
[26]https://greenallianceblog.org.uk/2022/09/22/giving-nature-a-seat-on-the-board-is-a-powerful-way-to-make-sure-businesses-protect-our-environment/
[27] See 2020 “Position on Fossil Fuel Divestment,” page 3.
[28] See 2020 “Position on Fossil Fuel Divestment,” page 1.
[24]Vance, Shea, and Andrew Park. “Endowment Suffers More than $1B in Losses as Columbia Reports Negative Returns - Columbia Spectator.” *Columbia Daily Spectator*, 13 Oct. 2022, https://www.columbiaspectator.com/news/2022/10/13/endowment-suffers-more-than-1b-in-losses-as-columbia-reports-negative-returns/.

University also has the ability to impact peer institutions in the Ivy League and beyond. As such, the viable impact of the University's divestment choices extends beyond just our own financial resources. For these reasons, we believe that divestment is more viable than engaging company management.

The next set of objections we will address revolves around the financial impact of divestment on the University. The financial resources of the University are important; they fund our world-class research, teaching, and student life. With the endowment shrinking last year for the first time since 2015,[24] we recognize that there may be hesitancy to make changes that may impact the endowment negatively by reducing our portfolio options. We have two responses: First, a more substantial divestment from fossil fuels may not actually harm the investment prospects of the University. A study from the University of Chicago's Booth School of Business found that even during the economic volatility characterized by the Covid-19 pandemic, the sustainable investments of funds with better ESG ratings caused these funds to perform better than others, relative to their respective benchmarks.[29] funds with better ESG, and especially the environmental part, performed better than those with worse ESG ratings. From the same study, it should also be noted that the more climate disasters occur and the more the public cares about choosing green options, a trend that is increasing, the better green investments will perform. Second, the University exists to aid its students and, by extension, the world.[30] Future students' Columbia experience will be drastically different, for the worse, if climate change continues unabated. Current and past students, as alumni, will have their lives harmed as well. The purpose of a university's financial resources is to help its students, so to continue to invest those

[29] https://www.chicagobooth.edu/review/when-green-investments-pay
[30] See President Bollinger's announcement of a "Fourth Purpose" for the University. https://president.columbia.edu/news/fourth-purpose-task-force-report-and-recommendations

resources in companies we know to be harming students is both logically inconsistent and ethically wrong. Even if divestment has short term implications on the financial resources of the University, remaining invested would do greater harm to its intellectual, human, and moral resources.

Another counterargument is that increasing the specificity and transparency of divestment criteria is bad because it will reduce necessary flexibility to invest as the needs of financial resources demand. Notwithstanding the argument above against the prioritization of finances over all else, this counterargument is antithetical to the mission of ACSRI and harms the ability of students and faculty to know important information about the school they attend or work at. Being transparent is a critical step in empowering the Columbia community to better understand and have a voice in how the University can pursue its sustainability goals through their investments and policies. To successfully guide climate-conscious action from our university community, specific criteria for investment and data on Columbia's involvement in the fossil fuel industry must be made transparent. Publicizing this information would act as a springboard for future positive policy change in the private sphere and encourage community involvement in forming a proactive, sustainable Columbia. It also won't harm flexibility. A well justified investment movement does not have to be kept hidden from the Columbia community.

The last realm of counterarguments we would like to discuss is those against the inclusion of 'Scope 3' emissions. Scope 3 emissions are oftentimes called value chain emissions and constitute the emissions that are not under the direct control of an institution, oftentimes referred to as occurring "upstream" or "downstream" of the institution.[31] This includes assets not owned or controlled and indirect investments. Categories typically include suppliers, consumers,

[31] https://www.epa.gov/climateleadership/scope-3-inventory-guidance

and suppliers.[32] Unaddressed in the Position on Fossil Fuel Divestment, Scope 3 emissions are oftentimes the greatest source of a company's emissions.[33] Failure to account for these when determining whether the "primary business" of a company relies on fossil fuels misrepresents the true impact of the company.

Conclusion

- We urge the ACSRI to recommend to the trustees of Columbia University to direct Columbia Investment Management Company (CIMC) to cease all remaining, and abstain from any future investments, in *private* funds which are involved, funded, or themselves invested in companies whose business is reliant on fossil fuel extraction and use. This extends to companies reliant upon oil and gas as secondary sources of income revenue streams. In short, we hope the University will close the indirect investment loophole.
- We ask that the University publicly define what it considers "primary" and "secondary" fossil fuel revenue businesses in order to promote transparency between the institution and the community it serves.
- We request that the University analyze fossil fuel reliance in such a way as to include Scope 2 and Scope 3 emissions.
- The three criteria for divestment— 1) a broad consensus within the University community regarding the issue at hand, 2) the merits of the dispute must lie clearly on one side, and 3) divestment must be more viable and appropriate than ongoing communication and engagement with company management—have been met.

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[32] https://www.fourkites.com/blogs/what-are-scope-3-emissions/
[33] https://www.epa.gov/climateleadership/scope-3-inventory-guidance

1. Our petition, conversations with fellow students, repeated proposals from varying student groups, and the lack of difference between direct and indirect investments in the mind of the community demonstrate consensus.
2. University research and teaching definitively holds that climate change must be addressed with all speed. Transparency is widely acknowledged as an important factor in governance.
3. ACSRI's 2020 "Position on Fossil Fuel Divestment" illuminates the important role of divestment, indirect investments provide less opportunity for engagement and make divestment even more critical.