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FINANCE

Universities Cut Oil Investments as Student Activism Builds

Push for large-scale divestment at colleges marks the latest blow to companies; some call it counterproductive

Divestment is being pursued by some as a way to influence national policy on climate change. Activists rush the field at a Harvard-Yale football game in 2019.

PHOTO: JIMMY GOLEN/ASSOCIATED PRESS

By Matt Wirz

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When the University of Michigan's chief financial officer asked the school's Board of Regents in December to authorize a new $50 million oil-and-gas investment, they gave an answer he had never heard before: No.

The board delivered the news at a meeting packed with student activists. They had spent months pushing the university to stop funding fossil-fuel companies. A few weeks later, the school said it was freezing all direct investments in such companies.

U.S. university and college endowments control more than $600 billion of investments, and the movement to divest those funds from fossil fuels is gaining momentum—even though the pandemic has kept students off many campuses and issues of racial injustice have dominated the national discourse since George Floyd was killed in police custody in May.

Activists say years of alarm about the costs of climate change have unified a broad base of support, including among the alumni that typically fund endowments. Big universities rarely capitulate to such campaigns and fossil fuels seem to be joining a very short list of investments deemed off-limits by the ivory tower, such as apartheid-era South Africa and tobacco products.

'I didn't think we'd get this far,' said Jayson Toweh, a pro-divestment candidate for a board that votes on members of the corporation supervising Harvard's $40 billion endowment.

PHOTO: JAYSON TOWEH

In May, Cornell University swore off new direct investments in oil and gas, and George Washington University decided in late June to divest from the industry entirely following a similar action by Georgetown University in February. Alumni of Harvard University are voting this month on whether to appoint pro-divestment candidates to the board of overseers, which votes on the membership of the corporation that supervises its endowment, the largest in the country at about $40 billion.

"I'm going to be honest, I didn't think we'd get this far," said Jayson Toweh, an Environmental Protection Agency program analyst and Harvard alumnus who is one of the candidates. “The process just to get nominated as a candidate was very arduous and made complicated, in my opinion, to keep us off the ballot.”

Even Yale University’s rock-star endowment headDavid Swensen is feeling the pressure. An opponent of divestment, Mr. Swensen agreed to meet with the school’s faculty senate and students in February for a public debate on the issue, his first such meeting in 35 years at the university. The endowment’s natural-resource investments declined to a 10-year low of about 5% in 2019 from 7% the prior year.

Mr. Swensen and Harvard President Lawrence Bacow both published open letters this year favoring proactive engagement with the energy industry to reduce carbon emissions.

The push for large-scale divestment by colleges marks the latest blow to big oil companies, which are already reeling from a price crash and a broad effort to move toward low-carbon technologies. Shifts by endowments often sway the behavior of public pensions, which control about $4 trillion in assets, according to data from the National Association of State Retirement Administrators.

The Independent Petroleum Association of America, a trade group, has launched a media campaign against divestment, arguing that it would cost U.S. pensions as much as $431 million in losses annually.

Some in academia are pursuing divestment as a way to influence national policy on climate change, much like the antiapartheid movement on campus helped spur U.S. sanctions against South Africa in the 1980s.

“Our university can be a model for others,” said Mark Bernstein, a trial lawyer who serves on the University of Michigan’s board of regents. “We have to do everything we possibly can to disrupt the flow of carbon into the atmosphere, and that includes disrupting the flow of capital to the fossil-fuel industry.”

The University of Michigan in February said it was putting a moratorium on future direct fossil-fuel investments. A Washtenaw County Climate Strike at the university last year.

PHOTO: JACOB HAMILTON/ASSOCIATED PRESS

Others see it as a necessary step to reduce the risk of investment losses. Shares of Exxon Mobil Corp. XOM 0.02% ▲ have lost nearly half of their value since the start of 2018.

"I don't think it's a political issue; it's an issue of what's best for the university," said Ron Weiser, a former chairman of the Michigan Republican Party who is also a regent at the University of Michigan. "Some institutions have come to the conclusion that the long-term risk of investing in fossil fuels is substantial."

The approach still has detractors, even among sustainable-investing advocates. Divestment is counterproductive, they say, because institutions that adopt it abdicate their ability to influence large energy companies such as Exxon Mobil.

"Divestment is a fancy word for selling your shares," said Anne Simpson, a director for sustainable investments at California Public Employees' Retirement System, or Calpers, which managed $383 billion in May. "We are using our position as owners of these companies to drive change. Walking away from a situation is not going to change it."

Environmental advocacy groups such as 350.org helped launch the university divestment movement around 2012, aiming to slow global warming by stopping oil-and-gas companies from extracting their known fossil-fuel reserves. Most large U.S. schools resisted the idea, fearing that it would damp their financial returns and embolden activists to push for divestment from a much broader swath of investments.

"Conceiving of the endowment not as an economic resource, but as a tool to inject the University into the political process or as a lever to exert economic pressure for social purposes, can entail serious risks," Harvard's then-president Drew Gilpin Faust said in 2013.

Brown University, The New School, Whitman College and some others such as Syracuse University adopted the measure. Most others, including Cornell, Harvard, Stanford University, University of Michigan and University of Pennsylvania rejected proposals from their students and faculty to divest.

Harvard Forward is backing the candidacy of Mr. Toweh, wearing a red jacket in 2019. 'There seems to be an arrogance by the people investing the university's money,' said Anne Sobol, who volunteers for the organization.

PHOTO: DANIELLE STRAUSBURGER

"There seems to be an arrogance by the people investing the university's money," said Anne Sobol, a former lawyer who graduated from Harvard in 1967 and now volunteers for Harvard Forward, the organization behind Mr. Toweh's candidacy. "The implication is that people like us just don't understand what's best."

College of the Atlantic, a small ecology-focused school in Maine, was one of the few educational institutions to fully divest in 2013. The college has a relatively small endowment of $67 million. But from 2013 to 2019 it averaged an 11.8% return, compared with 10.5% by the MSCI stock index, which included fossil-fuel companies, said Henry Schmelzer, one of the school's trustees.

"We didn't plan it this way," Mr. Schmelzer said. "It happened because of the wall of trouble the energy industry has been having."

The rise of shale production and alternative-energy sources have gutted fossil-fuel prices over the past five years, at the same time that concern about climate change has grown, even within the Republican party and on Wall Street.

Those changes have reinvigorated the divestment movements in many large schools.

University of Michigan President Mark Schlissel rejected a divestment initiative in 2015, saying the university used fossil fuels to operate and that oil-and-gas companies weren't as ethically problematic as businesses tied to apartheid. The school's endowment grew by about 20% to $12 billion in 2019, but investment returns underperformed the S&P 500 stock index, which averaged annual returns of 10.6% over the same period.

Investment in natural resources, primarily fossil fuels, accounted for about 9% of the university's total investments in 2019, according to its annual report. The average is 7.7% for U.S. endowments, according to data from Yale University. The University of Michigan averaged annual returns of 6.5% in the five years ended in June 2019, beating the 5.9% return of its custom benchmark index, according to a report by the school's chief financial officer.

A new drive for divestment gained steam on the University of Michigan campus in 2019. Student activists occupied an administration building in March, leading to several arrests, and began protesting regularly at the monthly meetings of the board of regents. When they learned that Chief Investment Officer Erik Lundberg wanted to make a $50 million investment in a fund focused on oil and gas they canvassed the regents to reject the idea, which they did at a Dec. 5 meeting.

“It felt amazing,” said Noah Weaverdyck, one of the students arrested in March who helps lead the divestment movement.

The euphoria proved short-lived. The university in February said it was placing a moratorium on future direct fossil-fuel investments but hasn’t budged on divesting the $1.3 billion of natural-resource investments it still holds.

“The freeze was only won after years of work and constant pressure.” Mr. Weaverdyck said. “Direct, collective disruptive action has been the only thing to actually achieve results.”

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