

A Breakdown of the 2020 Divestment Report

The full report can be read on the Cambridge Zero Carbon Society website here:

http://zerocarbonsoc.soc.srcf.net/wp-content/uploads/sm6_divestment_report.pdf

This is a useful summary put together by Extinction Rebellion Cambridge:

<https://xrcambridge.org/divestment-report-summary>

What is the report?

In 2019 Cambridge Zero Carbon society created a 'Grace' calling for a new report into the advantages and disadvantages of divestment. It was [signed by over 300 Regent House members](#). In April 2019, [the University Council committed to producing the report](#) to examine the "advantages and disadvantages, including the social and political ones, of a policy of divestment from fossil fuels".

The new report was led by Dr Ellen Quigley, a researcher appointed to initiate work on a part-time basis before the appointment of an ESG Officer, a new position agreed on the 2017 recommendation of the DWG. The report was presented to the University Council in September 2020 and led to the Chief Investment Office proposing their own plan for Divestment alongside the report. This was discussed and agreed upon in council.

How can this report help my college campaign?

In this report, it is made clear that Divestment is possible for all colleges. By understanding the report you can see the key arguments for & against Divestment that bursars are likely to bring up.

Summary of the report

Blue = Direct Quotes, Red = Anti-Divestment arguments, Highlighted = Useful arguments

Executive summary (Pages 2-5)

- This part is very clear about the importance of the climate crisis and stresses the urgency of taking action.
- *"The University of Cambridge holds assets of approximately £3.5 billion, the largest university endowment in Europe."*
- Outlines three main reasons for Divestment: (1) It is a moral imperative, (2) it promotes societal/political change, (3) investing in Fossil Fuels makes poor financial sense.
- Notes that the actual cost of divestment is very small as only 2.8% of fund is invested: *As at 31st December 2019, the Cambridge University Endowment Fund (CUEF), which significantly supports the University's research and teaching activities, had only 2.8% of the fund invested in fossil fuel companies.*

1. Introduction (Pages 6-10)

- This outlines the threat of the climate crisis and emphasises the large endowment fund of Cambridge University.
- *Climate change may be the ultimate challenge – and threat – of our time.*
- Dismisses discussion of individual fossil fuel consumption, agrees that it is not relevant.
- Notes that indirect impacts of divestment are just as important as the direct impacts (e.g. Cambridge's reputation means Divestment will have a huge social impact even if not a very large material impact)
- Divestment has several motivations:
 - Alignment with the institution's values
 - Demonstrating support for environmental efforts on campus
 - Positive reputational effects
 - Desire to play a leadership role
 - Moral imperative to mitigate climate catastrophe
 - Long-term stability of the investment portfolio

2. Framework, Context, and points of clarification (Pages 10-27)

- **Key Argument: Fiduciary Duty** Page 11, Point 3 - 'Fiduciary Duty' - this section declares that Fiduciary Duty is '*not normally a barrier to divestment*'. This is an argument frequently used by bursars to say that the University has a duty to stay financially stable in the long term. However, this section outlines that '*Dozens of other UK universities have now divested with no attendant legal issues*'.
- The only drawback labelled here is the 'Funds of Funds' model but individual colleges do not work on this model, only the central University does.
- **Key Argument: Stranded Assets** - Page 15 about the fear of stranded assets, *This evidence on the future demand for oil under a range of oil price and climate policy scenarios all suggests that there is no likely future without significant stranded assets, i.e. proven reserves being left in the ground.*
- **Key Argument: Renewables are financially better** Page 18, point 14 - Renewables are more highly valued by the stock market
- However: it outlines the changes Fossil Fuel companies are making:
- Page 18, point 14: *Furthermore, following BP's August 4th 2020 announcement that it would significantly reduce its fossil fuel investment and significantly increase its investment in renewable energy alongside clear short-term targets, its share price rose by over 10%, suggesting that investors are willing to be supportive of a transition strategy by the oil and gas majors* - A bursar may be likely to point to this and say that Fossil Fuel companies will be increasing their support for renewables.
- Argues in favour of needing 'supply-side' as well as 'demand' policies for change
- Page 20, point 19 - '*Now is a cost-effective time to decarbonise the economy*'

3. Moral Arguments (Pages 22-27)

Note: This section may seem the most compelling for you, as a student or climate-sympathetic person. However, the financial arguments are the ones that are more likely to persuade your college.

- Really persuasive, very useful when read independently - need to ensure this is considered as valid a part of the report as the financial arguments as it is very persuasive.
- *Divestment advocates believe that '[i]f it's wrong to wreck the climate, then surely it's wrong to profit from that wreckage'.*
- *The divestment movement has also advocated for wider climate justice issues (Grady-Benson and Sarathy 2016). These include the maltreatment of frontline communities, environmental racism, intergenerational equity, and the particular responsibility of the UK – and Cambridge as one of its preeminent institutions for centuries – for disproportionate historical and current emissions (Friedlingstein et al. 2019; Peters et al. 2011) and therefore disproportionate consumption of the carbon budget since preindustrial times (Morrow 2016).*
- Last paragraph on page 25 - notes that shareholder engagement is arguably also 'moral' and Cambridge shouldn't take the 'easy route' by divesting - this is easily disputed by arguments from the Divestment Mythbuster - shareholder engagement doesn't work!
- **Key argument:** The college needs to be a place that morally stands up for the rights of affected communities and supports the future of its students.

4. Social and political arguments (27 -39)

This section notes the need to change public opinion, and delegitimize the Fossil Fuel industry.

4.1 Divestment and the Cambridge Community (28-30)

- It lists the different votes for Divestment across the University and the mass of student support
- *One college Bursar – who was not personally in favour of divestment, and who was surprised by the number of student and staff signatories to a divestment petition at his college – felt that such a democratic outpouring meant that divestment had to be on the table, saying as a parallel, "I didn't vote for Brexit, but that's what the electorate wants".* **Key argument: It's what the students want!**
- Outlines how refusing to Divest is hypocritical at a scholarly level if you are warning against climate change and yet also contributing to it.
- *"By encouraging individuals to think about institutional relationships to foreign events, divestment prompts a collective examination of community links to transnational issues, and offers those communities a concrete way in which they can demonstrate their growing concern" (Seidman 2015, 1030).*
- It does note that it could impede climate friendly research but the Mythbuster has a statement from BP saying they would still want to work with Cambridge even after divestment.

- **Key argument:** cambridge should not be engaging in research with a company that requires investments to do so - this is not academically *just*.

4.2 Divestment, Cambridge and External Audiences (30-34)

- Divestment is a powerful symbol, '*sometimes the symbolic thing is the right thing to do*' page 31.
- **Key argument: shareholder engagement doesn't work** - Dismisses shareholder engagement on page 32 *Divestment advocates also argue that without divestment, its most common foil – shareholder engagement – has no teeth.*

4.3 Divestment: Political Arguments (34-39)

- Divestment gives Cambridge (and colleges) more authority to speak on climate engagement
- Fossil Fuel companies lobby against climate change, this is '*intellectual dishonesty*'
- **Argue against Divestment: Divestment leaves the investment to people who do not care about the climate, this is a missed opportunity to engage with companies. Fear of being left out of climate conversations: What happens after we divest?**
- But, what impact was Cambridge actually making towards Fossil Fuel companies?
- **Argument against: Divestment focuses too much on markets, detracts from government issues.**

5. Reputational Arguments (40-42)

- Notes that cambridge is 'not yet at risk of being viewed as *'laggard*'
Arguably this is not true at all - perhaps a point to bring up via student representative, that from student perspectives, cambridge is very at risk and is already having extreme reputational damage
- Some believe that '*Divestment would neither help nor harm cambridge's relationship with donors or cantab graduates*' This is incredibly misguided and shows a lack of awareness of student opinion that only gets more pro-divestment as the generations move on and new students enter the university
- **Argument against: Divestment could be viewed as greenwashing**
 - Material impact, students have been pushing for this - full divestment would be praised and absolutely not seen as worse than shareholder engagement

6. Financial Arguments (42-45)

- Would have little impact on returns (page 42)
- Cambridge could face **restrictions on research funding**
- Main issue is the divestment model (Funds of Funds)
- **Key argument: colleges do not use this model!**

7. Exploration of Possible costed strategies for divesting from fossil fuels (45-48)

All options are for full divestment. This section is not very relevant for colleges as the Funds of Funds model is very different to any college-based model. The Divestment decision does,

however, show that even with this model, the University can still divest - so the colleges have no excuse!

- (a) Fund of funds model retained, full divestment
 - Would need to redeem investments from 50% of current managers
 - Reduced choices & returns
- (b) Fully delegated model, full divestment
 - Fear of taking away the funds of funds model.
- (c) In-house asset management, full divestment
 - Dismissed as not an appropriate model

8. Conclusion (48-50)

- There is a sizeable investment opportunity in renewables
- This report concludes feeling as though the decision is not whether we should Divest, but whether/how it is possible.
- Therefore, it outlines how it is possible for colleges to Divest.

9. Appendices

- *“Indeed, some companies do appear to think divestment poses a risk to their share price. From 2017 onwards, Shell has included in its annual report a risk statement regarding divestment, saying, “some groups are pressuring certain investors to divest their investments in fossil fuel companies. If this were to continue, it could have a material adverse effect on the price of our securities and our ability to access equity capital markets” (Royal Dutch Shell 2017, 2018, 2019).”*
- *On encouraging institutions to switch banks: “Small firms, especially in countries with poor institutions, tend to face particular constraints due to reduced access to bank financing (Beck, Demirgüç-Kunt, and Maksimovic 2008) – the source of a majority of financing of fossil fuels and other real-economy activity (Cojoianu et al. 2019) – which does affect the growth of such companies. In Australia, the targeting of banks appears to have substantially reduced the size of what was going to be the world’s largest coal-mining project; although the divestment movement had hoped to put a halt to the mine altogether, it was partially successful¹¹⁷ in that the company (Adani) was unable to raise external financing and was forced to self-finance a smaller version of the project instead (Curran 2020).”*
- *“One might expect that a sector with high valuations would stimulate the creation of new companies, and that persistently low valuations – due to a lack of demand from divested institutions, for example – would logically discourage entrepreneurs from establishing new companies in the low-valuation sector.”*
- *“Divestment may also have an indirect financial impact on a company or sector by impairing investors’ level of certainty as to the future cash flow of a company (Ansar, Caldecott, and Tilbury 2013). This is an area in which divestment is likely to have a greater effect than other forms of responsible investment – because its influence on social norms and public discourse means that concepts like stranded assets can begin to seed other investors’ doubts in the fossil fuel sector’s business model.”*
- *Indeed, “[m]ost economists agree that it is virtually impossible for a socially motivated investor to increase the beneficial outputs of a publicly traded corporation by purchasing its stock” (Brest and Born 2013). Although divestment does not appear to*

have much of a direct financial effect on companies via public equity holdings – leaving aside its indirect effects on these same companies, as outlined in Sections 5, 6, and 7 – it may already have had an effect on the cost of capital of fossil fuel companies on the debt side, and could affect companies’ ability to roll over debt or issue new debt in the first place. This may increasingly be the case as the divestment movement turns its attention to the banking sector, the source of a majority of new finance for fossil fuels. A divestment mandate – and, on the positive side, an emphasis on green investments – may have a yet greater effect on investments in smaller companies and in early-stage ventures, a relevant consideration for the University of Cambridge as the site of much such activity.”

Further Contacts

If you want to get in contact with someone who has read the full report in depth (to answer any questions or advise on how to use this for your college) you can email:

- The author of the report: Ellen Quigley (ecq20@cam.ac.uk)
- The 2020-2021 SU Welfare & Communities Officer: Alice Gilderdale (alice.gilderdale@cambridgesu.co.uk)
- The 2020-2021 Ethical Affairs Chairs team: Daisy Thomas (djt64), Zannah Lindley (srl50)
- Cambridge Zero Carbon Society (current contact, Clem at cv333@cam.ac.uk)