January 4, 2016

To: Gonzaga University Board of Trustees
From: Professor Brian G. Henning, PhD
Re: Gonzaga's endowment in an age of climate change, the arguments for fossil fuel divestment

Dear members of the Board of Trustees,

President McCulloh's gracious invitation to write this "white paper" on the topic of fossil fuel divestment is timely as students at Gonzaga are beginning to organize a divestment movement. Before starting the analysis proper, perhaps it would be helpful to give some context for my interest in the topic. I have spent much of the last decade researching and teaching on the ethics of global climate change. This work culminated in the publishing of a book last spring, *Riders in the Storm: Ethics in an Age of Climate Change*. Based on this research, I have come to share Pope Francis's assessment: "A very solid scientific consensus indicates that we are presently witnessing a disturbing warming of the climatic system" (*Laudato Si'* 18, 23). And "The problem is aggravated by a model of development based on the intensive use of fossil fuels" (19, 23). The actions that individuals and institutions take over the next decade will determine the duration and extent of climate disruption, and how harshly this disruption falls on the world's poor. "Climate change is a global problem with grave implications: environmental, social, economic, political and for the distribution of goods. It represents one of the principal challenges facing humanity in our day. Its worst impact will probably be felt by developing countries in coming decades" (20, 25).

My analysis is organized into three parts. The first two parts consider the main arguments for fossil fuel divestment respectively: the financial argument and the moral argument. The third section considers some likely objections to divestment. After research, reflection, and discernment on fossil fuel divestment, I hope you will conclude as I have that it is both morally indefensible and financially unwise to attempt to secure short term profit from the sale of the very substances that are causing such harm. As Pope Francis puts it, "There is an urgent need to develop policies so that, in the next few years, the emission of carbon dioxide and other highly polluting gases can be drastically reduced, for example, substituting for fossil fuels and developing sources of renewable energy" (2, 27).

It is my hope that this brief document will serve as a basis for open and frank discussion of the nature of socially responsible investing in an age of dramatic—and potentially catastrophic—climate disruption. Should it be helpful, it would be my pleasure to meet with members of the Board, whether individually or collectively.

Yours in stewardship,

Brian G. Henning, PhD
Professor of Philosophy and Environmental Studies

The Financial Argument for Fossil Fuel Divestment

Thanks in no small part to the moral leadership of Pope Francis, in December the nations of the world came together in Paris and agreed for the first time to limit global temperature increase "well below" 2°C (3.6°F) and to pursue efforts to limit it to 1.5°C. This "guardrail" is needed in order to avoid catastrophic global warming, which could cause massive species extinction, ocean acidification, and dangerous sea level rise that could displace many millions of people, especially the poor. The Paris Agreement sends a clear "signal" to the marketplace and to nations that significantly alters the financial risk associated with fossil fuel investment. These conditions are now creating a "carbon bubble." A carbon bubble refers to the fact that known fossil fuel reserves are approximately five times greater than can be burned if global warming is to be limited to an increase of 2°C (3.6°F). That is, if we are to avoid catastrophic climate disruption, more than 80% of known fossil fuel reserves must not be brought to market. These reserves then become "stranded assets." On the other hand, if in a misguided and selfish attempt to profit from the creation of global warming currently accessible fossil fuel reserves are extracted and sold, releasing the carbon that they currently trap, then more than 6°C (10.8°F) warming could be expected this century.

(One way to conceive of the magnitude of these possible changes to the global surface temperature is to liken it to your body's core temperature. An increase of 3.6°F brings your core temperature to 102.2°F. You would feel terrible and would certainly seek medical treatment. On the other hand, a 10.8°F (6°C) increase of core body temperature to 109.4°F would be truly life threatening. The same is true for the climate. Thus, if catastrophic climate change is to be averted, the vast majority of fossil fuel assets must not be realized, making them unsound vehicles for investment.)

Finally, beyond the financial risk of stranded assets and the carbon bubble, there is strong evidence to suggest that institutions that divest can do well financially.[1] Thus, the prudent financial decision is to avoid risky, carbon-intensive investments. In a world committed to creating a low-carbon economy, fossil fuels are a poor investment.

Specific objections and replies will be considered in the third section, but it is worth recognizing here that complete fossil fuel divestment is not currently possible. The global economic system is still highly dependent on the energy that comes from carbon-intensive forms of energy. Thus, it is important to be clear what the fossil fuel divestment movement is and is not calling for:

> While the demands of the fossil fuel divestment movement vary, the most common demand is for institutions to freeze any new investment in the 200 publicly traded fossil-fuel companies with the highest amount of reported carbon reserves, and within five years remove their current investments in the fossil fuel industry through divesting from direct ownership of fossil fuel stocks and any commingled funds that include fossil-fuel public equities and corporate bonds.[2]

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[1] Geddes, P., Goldberg, L., Tymoczko, R., & Branch, M. (2014). "Building a Carbon-Free Equity Portfolio." https://www.aperiogroup.com/system/files/documents/aperio_group_-_building_a_carbonfree_equity_portfolio.pdf and MSCI. (2013). "Responding to the Call for Fossil-fuel Free Portfolios." http://www.msci.com/resources/factsheets/MSCI_ESG_Research_FAQ_on_Fossil-Free_Investing.pdf.

[2] Lenferna, "Divest-Invest" 2. The Fossil Free Index maintains a list of the top 200 most carbon-intensive companies http://fossilfreeindexes.com/.

The Moral Argument for Fossil Fuel Divestment

The primary argument in favor of investing our endowment in carbon-intensive companies is that doing so will yield the highest return, allowing the educational mission of the university to be maintained and strengthened. The financial argument above puts this logic into question on financial grounds. Here the goal is to determine whether such investment is compatible with Gonzaga's understanding of "Environmental, Social, and Governance considerations" (ESG). Specifically, the question is whether moral arguments are sufficiently compelling to "exclude from the Fund, securities of firms or managers whose policies or practices are inimical to the values the University espouses."[3] As with Gonzaga's decision in the past to divest from companies doing business in South Africa as a protest against the injustices of apartheid, the systemic injustices created by the burning of fossil fuels requires similar action today.

Since Saint John Paul II's 1990 World Peace Day speech, "The Ecological Crisis: A Common Responsibility," the Catholic Church has consistently concluded that environmental degradation is not merely an economic or technical problem to be managed; "the ecological crisis is a moral issue."[4] Pope Francis greatly expanded on this sentiment in his recent Papal Encyclical *Laudato Si'*. As he notes, no one is exempt from the effects of a global climate changed by warming of the atmosphere, but the effects of climate change will disproportionately harm the poor.[5] This is a grave injustice, for the poor are least responsible for having caused the problem, received very little of the wealth derived from its creation, and have the fewest resources to adapt. On the other hand, Pope Francis notes, "Many of those who possess more resources and economic or political power seem mostly to be concerned with masking the problems or concealing their symptoms, simply making efforts to reduce some of the negative impacts of climate change" (21, 26).

As you know, justice and solidarity with the poor is particularly distinctive of our own Jesuit charism. As stated in General Congregation 35, part of the Society of Jesus's mission is to respond to ecological or environmental challenges, —"to appreciate more deeply our covenant with creation" (D 3, 36). The care of the environment "touches the core of our faith in and love for God" (D 3, 3). While the financial argument may be open to disagreement among experts, the moral argument is unambiguous and compelling. To continue to invest our endowment in carbon-intensive companies is to seek intentionally to profit from the systemic destruction of creation and the unjust harm of the world's poorest and most vulnerable. In short, continued investment in the fossil fuel industry is immoral. We should follow the brave example set by the Board of Trustees of Dayton University, who unanimously voted to divest their $670 million endowment of fossil fuels.[6]

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[3] Gonzaga University Investment Policy and Guidelines for the Endowment Fund, updated December 2015.
[4] Saint John Paul II, (1990) "The Ecological Crisis: A Common Responsibility," https://w2.vatican.va/content/john-paul-ii/en/messages/peace/documents/hf_jp-ii_mes_19891208_xxiii-world-day-for-peace.html
[5] See, "If present trends continue, this century may well witness extraordinary climate change and an unprecedented destruction of ecosystems, with serious consequences for all of us. A rise in the sea level, for example, can create extremely serious situations, if we consider that a quarter of the world's population lives on the coast or nearby, and that the majority of our megacities are situated in coastal areas" (Pope Francis 20, 24).
[6] "Dayton Divests," (2014) https://www.udayton.edu/news/articles/2014/06/dayton_divests_fossil_fuels.php.

Objections and Replies to Fossil Fuel Divestment

Shareholder activism instead? Some may suggest that instead of divesting from fossil fuels Gonzaga should engage in shareholder activism to affect the behavior of these industries. This is rightly included as a strategy in Gonzaga's own ESG considerations, which state that the Board may choose to "influence the social behavior of firms invested in through the exercise of ownership rights." The size of Gonzaga's endowment may not make this an effective option. Further, the need for shareholder activism does not obviate the compelling moral and financial arguments provided above. Seeking to profit from the harm of the poor and the destruction of creation is "inimical to the values the University espouses."[7]

Hypocrisy? Some may claim that divestment is hypocritical when we still rely so heavily on fossil fuel infrastructure. Though understandable, this reasoning is mistaken. Moral finitude should not be confused with moral hypocrisy. Hypocrisy entails not merely that there is a gap between one's beliefs and actions. As its ancient Greek origin suggests,[8] hypocrisy hinges on whether one is merely "playing the part" or whether one takes every opportunity to realize more fully one's values. The real concern of hypocrisy should be claiming concern for justice and care of creation while continuing to seek to profit from the sale of fossil fuels.

Politicking? Some may rightly be concerned that fossil fuel divestment could appear to position the University as a political actor rather than an educational institution. For instance, this is the concern of the president of Harvard University, Drew Faust.[9] While an understandable concern, Gonzaga's Jesuit character does not make such supposed neutrality an option. As the precedent of Gonzaga's South African divestment demonstrates and our own ESG considerations affirm, we must consider whether our investments are consistent with our values. Though South African divestment may have been politically charged in the 70s and 80s, Gonzaga was right to conclude that profiting from the injustices of apartheid was morally wrong. If the case of South African divestment was compelling, the case for fossil fuels divestment is even more urgent: millions of the most vulnerable lives are at stake.

By way of conclusion I would like to quote a passage from Pope Francis's comments upon arriving in America last September. We must have the courage to take up the challenge he poses.

> Accepting the urgency, it seems clear to me also that climate change is a problem which can no longer be left to a future generation. When it comes to the care of our "common home", we are living at a critical moment of history. We still have time to make the changes needed to bring about "a sustainable and integral development, for we know that things can change" (*Laudato Si'*, 13). Such change demands on our part a serious and responsible recognition not only of the kind of world we may be leaving to our children, but also to the millions of people living under a system which has overlooked them. Our common home has been part of this group of the excluded which cries out to heaven and which today powerfully strikes our homes, our cities and our societies. To use a telling phrase of the Reverend Martin Luther King, we can say that we have defaulted on a promissory note and now is the time to honor it.[10]

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[7] Gonzaga University Investment Policy and Guidelines for the Endowment Fund, updated December 2015.

[8] The English word "hypocrisy" is rooted in the ancient Greek word *hypokrisia*, which means playing a part on stage.

[9] Drew Faust (2013) http://www.harvard.edu/president/news/2013/fossil-fuel-divestment-statement.

[10] Pope Francis (2015) http://www.popefrancisvisit.com/pope-francis-u-s-visit-speech-transcripts/#whitehouse.