

# CENTRAL MANAGEMENT GROUP (CMG)

14<sup>th</sup> April 2015

## REPORT OF THE FOSSIL FUELS REVIEW GROUP

### Description of paper

This paper presents the report of the Fossil Fuels Review Group, established by CMG at its meeting of 8<sup>th</sup> October to review the request from EUSA to divest from fossil fuels.

### Action requested

To note and approve the recommendations from the Fossil Fuels Review Group and to note associated plans to manage substantial staff and stakeholder interest.

### Background and Context

The University has reviewed its existing Responsible Investment policy- a process which has included consultation with staff, student and alumni communities, review of best practice elsewhere and production of a new draft Responsible Investment policy statement. During the process of consultation, the Edinburgh University Students' Association (EUSA) formally requested that the University consider divestment from fossil fuels and armaments companies and the request to consider divestment was agreed at the Central Management Group (CMG) meeting of 8<sup>th</sup> October 2014.

A short life review group (the Fossil Fuels Review group- 'the group') was formed to consider the issue of divestment from fossil fuels in depth and to report back to the CMG on possible options in this area and the impact of those options. A copy of the group's full report is included as Annex 1.

### Principles Informing the Group's Work

The review group was formed to consider the issue of divestment from fossil fuels in depth and to report back to the CMG on possible options in this area and the impact of those options. The group was chaired by the Senior Vice-Principal, Professor Charlie Jeffery, and consisted of a range of experts in climate policy and science, geosciences and law, as well as representation from EUSA and senior University managers. The group met on 6 occasions between November 2014 and April 2015. The approach was evidence-led, drawing on evidence of various kinds to help assess the case for divestment against the following criteria provided by CMG:

- Whether investment in fossil fuel companies is an activity wholly contrary to the values and ethos of the university
- The impact of divestment on investment capital and returns
- The ease of avoiding investment within realistically available investment options
- The impact of divestment on other areas of University activity (research, teaching, fund raising, procurement)
- The University's view of future changes and 'direction of travel' in the area of fossil fuels.

This was the first time these criteria had been applied to a live issue. The group's role was not to decide the matter, but to examine the issues closely and ensure that all relevant issues had been considered, that CMG was presented with a range of options and that the impact of those options was stated as clearly as possible.

## **Main Findings and Recommendations**

The group concluded that the evidence on the changes happening to the climate was clear and that a substantial transition to a low carbon future is required over the coming decades. The Group agreed that the University of Edinburgh, as a global civic institution, should take a lead through our research, teaching and knowledge exchange in helping society understand, manage and reduce such climate risks.

The range of decisions made by other Universities led the group to conclude that the nature of these decisions is complex and that each University must decide based on its own values, institutional context and impacts applying expert judgement to questions where the evidence was unclear, partial or contradictory. The group came to the clear conclusion from this evidence that taking no action on this issue was unacceptable.

It was also clear that whatever choice was made on the specific question of divestment, the University would continue to make a significant contribution to mitigating risks associated with climate change through its teaching, research and procurement activities.

A review of University values indicated that the University should be involved in activities to mitigate, and adapt to, climate change. However the group concluded that investment in fossil fuels per se could not be deemed 'wholly contrary' to those values. Beyond agreement that action should be taken, the question appeared to the group to become one of balancing the evidence and making a judgement about which actions were most likely to make an effective contribution in a way that was commensurate with the other values and activities of the university.

The group concluded that full divestment would have an impact on learning and teaching and research. Full divestment could – and likely would – be seen as calling into question the appropriateness of teaching about fossil fuel exploration, and the appropriateness of carrying out research on means of exploitation of fossil fuel resources. Students and staff wished to know about, and understand fossil fuels and their usage and impacts. Full divestment would amount to an undue limitation on academic freedom and potentially impact negatively on interlinked research such as Carbon Capture and Storage. Full divestment from fossil fuels could increase the risks associated with investments, due to the reduced range of investments that could be used.

The group noted that there are mixed views on the impact of divestment campaigns on capital availability and the value of targeted activities. However, campaigns can have important signal value to society. The desire expressed in University strategic documents to act as an agent of change suggested concentrating action where most impact can be made and that engagement with companies can be an important part of that process.

The group concluded that the aim of any options put forward should be to assist the University in making a contribution to solving the climate problem via its investments, but not in a way that inappropriately restricts its ability to make free choices on research and teaching. Action taken may accept some financial impact but should not be at the expense of the broader financial health of the endowment funds. In producing a range of options for CMG to consider, the group considered that there were a series of options and choices that existed, beyond a simplistic choice between divestment and taking no action.

The group considered six main options, as summarised below and discussed at length in the full report:

**Option 1 – No Additional Action**

*No action taken on investment but the University continues to make a significant contribution to solving the climate problem through its research, teaching and operations.*

**Option 2 – Assess Stranded Assets Argument**

*The Investment Committee should keep the ‘stranded assets’ argument under active review, identify indicators that would suggest University capital or returns were at risk from stranded assets, and take action as appropriate*

**Option 3 – Identify and Replace**

*Commit to low or zero carbon investment products that deliver the same level of return and risk as existing investments*

**Option 4 – Report, Benchmark and Improve**

*Press companies to measure and monitor their carbon emissions and to effect more efficient uses of energy across the chain of fossil fuel production, refining and use*

**Option 5 – Divest From Highest Carbon-Emitting Fuels Where Alternatives Exist**

*Divest from companies that are substantially engaged in the production or refining of high carbon-intensity fuels (such as coal or tar sands), where alternatives exist and where they do not also invest sufficiently in carbon emissions reduction technology*

**Option 6 – Full Divestment from All Energy Related Fossil Fuel Companies**

*Full divestment from all energy-related fossil fuel production and exploration companies over, say, a period of 5 years.*

The options developed were not mutually exclusive but drew upon the evidence and themes discussed above. The group could not recommend either Options 1 (no action) or 6 (full divestment).

The group felt that Option 2- Assessment of the stranded assets argument, was a necessary option to pursue but should not be pursued in isolation and could not therefore be recommended on its own. The group developed further options to: Identify and replace investments with lower carbon alternatives (Option 3); Report, benchmark and improve (focus on companies that are the highest emitters to reduce carbon emissions) (Option 4) and Divest from highest carbon activities where alternatives exist (Option 5). The group felt that options 3, 4 and 5 could be recommended to CMG, either on their own or as part of a wider package of measures.

The decision on which package of options to pursue is a decision for University management, but on balance the group recommends that options 2,3,4 and 5 should all be pursued.

The group also makes a series of additional recommendations for the CMG to consider:

**Recommendation 1 - Further action on learning and teaching**

Working through the Senate Learning and Teaching Committee and with the support of academic colleagues, the University should explore further means to enhance the student offer on climate change and sustainability issues within the curriculum building on the existing strong foundation.

## **Recommendation 2 - Scanning and Advice**

The group recommends that horizon scanning to identify sustainability and social responsibility issues of concern should be formally embedded in the activities of the Investment Committee to assist it in anticipating future issues, taking the advice of the SRS Committee as appropriate.

## **Recommendation 3 - Further Embedding of Environment, Social and Governance (ESG) Issues**

The group noted that the PRI commitment requires the embedding of ESG issues into the investment strategy and the appointment of investment managers and recommends that guidance is produced as soon as possible on how this is to be done by the University.

## **Recommendation 4 - Single Statement of Values**

The group noted the difficulty of assessing issues against the University's values in the absence of a consolidated single statement and that therefore the University might wish to reflect on this point.

## **Recommendation 5 - Research Ethics**

The group recognised that different aspects of the University's values could stand in tension with one another. The group was concerned to ensure that individual academics were free to continue to develop their research and teaching in line with principles of academic freedom, but within a framework that was able to take account of the sorts of issues raised by investment choices including decisions of the University to divest from specific types of economic activity. This is not a new issue – it has for example existed for some time around the tobacco industry – but the University does not have an explicit means to address it. The group considered that the most appropriate means of addressing the issue was through the research ethics process, and recommends that the Research Policy Group should consider this issue as part of its review of governance and procedures.

## **Conclusions**

The group found this to be a complex undertaking and its recommendations are accordingly nuanced and represent a package of measures to take forward. It is important to engage with investment managers and companies prior to finalising action.

It is recognised that there is a great deal of public and stakeholder interest in the recommendations of the group and associated discussions have taken place with Communications and Marketing.

The work of the group was intensive, involving six lengthy meetings and significant work in preparing evidence for discussion and drafting reports by group members, but in particular the Department of Social Responsibility and Sustainability. This work was necessary in addressing an issue of great complexity on which powerful countervailing arguments have been made both within and beyond the university community. As CMG has agreed to consider EUSA's other request for consideration of divestment from the armaments industry it may wish to reflect on how best to take an armaments review forward.

## **Resource Implications**

In due course action on any recommendations will have implications for the investment approach of the University, the Investment Committee and investment managers and support groups within the University including finance, SRS, procurement and academic colleagues. These will need to be managed from within existing resources.

## **Risk Management**

The group's report seeks to balance the need to maintain the capital and returns for the University via the endowment fund, with the need to take action on climate change, and to consider all aspects of the reputation of the University in this debate. The group proposes a package of measures to achieve a balanced and proportionate response to the issue.

## **Equality & Diversity**

No assessment required, as the consideration of equality and diversity issues are inherent in the nature of the consideration of socially responsible investment.

## **Next steps/implications**

Subject to agreement, the report will be released to staff and stakeholders immediately following the CMG meeting. A period of consultation and engagement with the investment community and affected companies will follow.

## **Consultation**

A consultation with staff and students on the PRI and the revised responsible investment policy was undertaken in 2014. Discussions have taken place with student groups and with staff within Geosciences.

## **Further information**

Copies of the minutes and papers of the group will be available in due course.

## Author & Presenter

Author: Dave Gorman, Director of Social Responsibility and Sustainability on behalf of the Fossil Fuels Review Group

Presenter: Professor Charlie Jeffrey Senior Vice-Principal

## **Freedom of Information**

Can this paper be included in open business? *No*