

Report of the President's *Advisory Committee on Divestment from Fossil Fuels*

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December 15, 2015

Preface and context

The Petition

On March 6, 2014, Toronto350, the University of Toronto chapter of the larger 350.org movement, presented the Office of the President with a petition requesting that the University of Toronto fully divest from direct investments¹ in fossil fuels companies within the next five years and to stop investing new money in the industry [the “Petition”].²

In response to this petition, President Gertler struck an ad hoc Advisory Committee on Divestment from Fossil Fuels [the “Committee”] under the terms of the University's *Policy on Social and Political Issues With Respect to University Divestment* [the “Policy”]. The Committee's mandate was to review the Petition and accompanying brief, and consider the University's response to the call for divestment. The Committee was also invited to reflect more generally on the University's role in responding to the challenges posed by climate change. The Committee was asked to bring recommendations to the President in December 2015.

The Challenge

The United Nations (2015) has called climate change “the major, overriding environmental issue of our time” and noted that it is no longer a “scientific curiosity” but is now a “growing crisis with economic, health and safety, food production, security, and other dimensions”. The World Health Organization (2015) has called climate change “the greatest

¹Please refer to the note regarding the nature of the University's investments at the end of this report.

²The text of the Petition's request is quoted in full in Appendix B.

The Committee is grateful to the President and the University community for the opportunity to tackle this daunting and humbling task—and for the confidence they have placed in us. We are indebted to the students for their thoughtful initiation of the discussion of this important topic and for their responsive, open, and helpful engagement in the Committee's work.

threat to global health in the 21st century”.³ The crisis is being felt by all of us today, but the most pronounced and harmful effects will come in the future. Those effects will disproportionately fall on students and generations of future students and children around the world.

In this context, the Committee sees an important role and a special responsibility for our academic community. The University of Toronto and institutions like it have a significant and distinctive focus on the future and the people who will inhabit it. The University’s research and education missions are distinguished by our dedication to advancing truth, knowledge, and understanding, and to making the world a better place. Climate change therefore represents an existential challenge for the University of Toronto.

It also represents an extraordinary opportunity. The University of Toronto is already engaged at many levels in meeting this urgent challenge. Our faculty, staff, students, and alumni comprise a widely respected academic community centred on advanced research and research-intensive education. The University and our partners anchor one of the most productive and influential research hubs in the world, with an elite health sciences cluster, a leading entrepreneurial ecosystem, a top engineering school, and exceptional strength in the fundamental sciences, humanities, and professional programs. Many advances in the study of climate change have come—and will come—from this community.

The Response

With the receipt of the Petition from Toronto350, President Gertler identified an opportunity for the University of Toronto to reflect not only on the call to divest from the fossil fuels industry, but on the University’s role in responding to the challenges posed by climate change more generally. Accordingly, he charged the Committee with a broad mandate to address a number of critical questions: First and foremost, how should the University respond to the fossil fuels divestment movement and the specific demands of the Petition? More broadly, what is the University of Toronto doing to meet the existential challenge of climate change and the overriding environmental issue of our time? And should we be doing more?

In summary, the Committee believes, and will argue in this report, that targeted and principled divestment from companies in the fossil fuels industry that meet certain criteria, as outlined below, should be an important part of the University of Toronto’s response to the challenges of climate change. Furthermore, the Committee stresses that, in the larger context, the University’s most valuable and effective contributions to the global effort to avert and mitigate the consequences of climate change will flow from the University’s fundamental role as an academic community leader. The Committee makes a number of recommendations as to how the University might further amplify these contributions later in the report.

It is the Committee’s view that this report takes its place as part of an ongoing sustainability process at the University of Toronto. This process, undoubtedly, will continue

³The *Lancet* Commission on Health and Climate Change (Watts et al., 2015) goes further:

Given the potential of climate change to reverse the health gains from economic development, and the health co-benefits that accrue from actions for a sustainable economy, tackling climate change could be the greatest global health opportunity of this century.

and intensify past the completion and submission of this report; the Committee hopes that some of the recommendations and principles articulated here will help inform that future. Not everyone will agree. The debate will carry on, into the laboratories, common rooms, offices, and ultimately into classrooms and into the curriculum. This is, of course, exactly how it should be.

Recommendations regarding the Petition

Here in brief are the Committee's recommendations regarding the Petition. Details and reasons for these recommendations are presented in the next section.

This Committee recommends that the University of Toronto adopt a strategy of targeted divestment from those fossil fuels companies whose actions meet the specific criteria outlined below. In the Committee's judgment, such targeted divestment would be a principled and appropriate response to the student petition under consideration. In particular, the Committee makes the following observations and recommendations regarding the student petition:

1. The Committee acknowledges that all companies in the fossil fuels industry engage in activities that, to some degree, are socially injurious by their very nature.
2. The Committee acknowledges that certain activities, though socially injurious, nevertheless offer society indispensable benefits that currently cannot reasonably be gained in any other way. In the Committee's view, such activities are not properly the focus of divestment action.
3. However, the Committee also acknowledges that some fossil fuels companies, notwithstanding social benefits as described in #2, engage in egregious behaviour and contribute inordinately to social injury. These are the fossil fuels companies whose actions blatantly disregard the international effort to limit the rise in average global temperatures to not more than one and a half degrees Celsius above pre-industrial averages by 2050 [the "1.5-degree threshold"]. Such actions, if unchecked in the near term, would make it impossible to achieve internationally agreed limits to the rise in average global temperatures and would greatly increase the likelihood of catastrophic global consequences. In the Committee's view, fossil fuels companies engaged in such activity are properly the focus of divestment action.
4. The Committee therefore recommends that the University determine a method to evaluate whether a given fossil fuels company's actions blatantly disregard the 1.5-degree threshold as described in recommendation #3. These are fossil fuels companies whose actions are irreconcilable with achieving internationally agreed goals.
 - (a) In particular, the Committee suggests that the University focus on:
 - i. Firms that derive more than 10% of their revenue from non-conventional or aggressive extraction. (We include in this category fossil fuels firms engaged in aggressive exploration or investing in non-conventional or aggressive extraction.) We leave it to the University to define fully what counts as 'non-conventional or aggressive extraction'. However, the Committee would

- highlight open-pit mining of natural bitumen in Canada, Arctic extraction or exploration, and thermal coal mining in Canada and the United States as examples.
- ii. Firms that knowingly disseminate disinformation concerning climate change science or firms that deliberately distort science or public policy more generally in an effort to thwart or delay changes in behaviour or regulation.
 - iii. Firms that derive more than 10% of their revenue from coal extraction for power generation or Canadian and American power generation firms that derive more than 10% of their revenue from coal-fired plants.
- (b) The Committee encourages the University to be as nuanced in this evaluation as is reasonable. For example, perhaps firms that derive more than 10% of their revenue from non-conventional or aggressive extraction but are demonstrating a pattern of significant material reductions in such extraction might be noted in the report mentioned in recommendation #4.e and reevaluated in this light.
 - (c) The Committee recognizes that determining a method to evaluate whether a given company's actions blatantly disregard the 1.5-degree threshold and how properly to define 'non-conventional or aggressive extraction' may be difficult tasks. At the President's invitation, the Committee could reconvene to consider possible avenues to achieve these goals.
 - (d) The Committee notes that the results of this evaluation may differ from year to year, as a company's activities change over time, as the scientific and regulatory landscape evolves, or as the need for carbon reduction becomes more acute.
 - i. The Committee hopes that such an open process might provide opportunities for the University to engage with the fossil fuels industry and promote a new level of partnership.
 - (e) The Committee recommends that, should the University choose to implement these recommendations, the entity charged with making the evaluation be asked to report its findings and methodology publicly to the University community on an annual basis.
5. The Committee recommends that the University of Toronto instruct its investment managers to divest immediately the University's direct holdings in any fossil fuels companies identified in the evaluation of recommendation #4, determining in consultation with the Investment Advisory Committee and others, a well-defined and responsible timeline for achieving this urgent goal.
- (a) The Committee identifies the following as clear examples of companies that appear to meet the criteria set out in recommendation #4:
 - i. ConocoPhillips Co., for its arctic extraction activities and plans;⁴
 - ii. ExxonMobil Corp., for its alleged funding of disinformation;⁵ and

⁴For example, see the 2016 ConocoPhillips Operating Plan, Analyst and Investor Update (ConocoPhillips, 2015).

⁵Farrell (2015a) and Farrell (2015b) use network and computational text analysis to identify and quantify ExxonMobil's influence.

- iii. Peabody Energy Corporation, Arch Coal Inc., Alpha Natural Resources LLC, Cloud Peak Energy, and Westmoreland Coal Company for their production of thermal coal.⁶
6. The Committee recommends that the University refrain from making any new investments in companies identified as acting in the manner described in recommendation #4.
7. Taking into account the principles set out in the Policy, the Committee considers companies identified as acting in the manner described in recommendation #4 properly the focus of divestment action.
 - (a) Furthermore, the Committee considers investing in such companies not to be in the long-term best financial interest of the beneficiaries of the Funds or the University.
8. The Committee recommends that UTAM provide the President with an annual report on its efforts to comply with the President's directions, should he choose to accept any of the Committee's recommendations.
9. Finally, the Committee recommends that the University review the *Policy on Social and Political Issues With Respect to University Divestment* adopted by Governing Council on March 4th, 2008, with the goal of attaining greater clarity and, possibly, reconsidering some of its provisions in light of this Committee's work.
 - (a) At the President's invitation, the Committee could provide the President with suggestions or advice in respect to this recommendation.

In the Committee's estimation, divesting from fossil fuels companies as articulated in this report would be consistent with the Policy's requirement that the University's response to the Petition be based on the principles the Policy sets out. We consider these principles individually in an appendix to this report.

The Committee stresses that divestment should be placed within the larger context of the University's most valuable and effective contributions to the global effort to avert, mitigate, or meet the worst consequences of climate change. These contributions flow first and foremost from the University's fundamental role as an academic community: from its teaching and research; from the breadth, depth, and interaction of its scholarship; from the open, multi-institution, and multi-national exchange of ideas and people; from the extended community's efforts in entrepreneurship and innovation; and from the University's commitment to operational ingenuity. Accordingly, in addition to a targeted divestment strategy, this Committee recommends that the University of Toronto continue and amplify its dedication to excellence in its academic mission and to enhance those areas that intersect with the challenges raised by climate change. We propose several recommendations regarding possible ways in which the University might achieve this goal, together with additional observations, in a subsequent section of this report.

⁶For example, see U.S. Energy Information Administration (2013) and Westmoreland Coal (2015).

Reasons for recommendations regarding the Petition

The Committee arrived at its recommendations regarding the student petition after considerable research, consultation, debate, and deliberation.⁷

In approaching the question of divestment, the Committee first considered a series of fundamental questions. Namely: Why divest? What is the goal? How will it be achieved? As the first step in describing the reasoning behind the Committee's recommendations, it will be helpful to start with the Committee's answers to these fundamental questions.

The fundamental question: Why divest?

First, the Committee wishes to emphasize that it is unanimously and unambiguously of the view that the University of Toronto should be motivated by what it believes as a community to be right. There is, naturally, considerable difficulty in determining these beliefs and it is expected that there will be disagreement and debate, in the best tradition of our academic community.

After extensive research, consultation, and deliberation, the Committee believes it would be right for the University to refrain from participating in and contributing to socially injurious activities that offer society no indispensable benefits that currently cannot reasonably be gained in any other way. In the Committee's judgment, this principle would support the decision to divest from fossil fuels companies whose actions blatantly disregard the international effort to limit the rise in average global temperatures to not more than 1.5 degrees Celsius above pre-industrial averages by 2050. In doing so, the Committee argues that the University would be exercising its 'social responsibility as an investor' on moral grounds. Certainly, the University is bound by its policies and the regulatory and legal framework in which it exists. It is the Committee's view that the targeted divestment recommended in this report is consistent with these constraints, a point to which this report returns in Appendix A.

The targeted approach to divestment recommended here accords with the Committee's understanding of the principles behind a divestment strategy. In the Committee's view, when an institution divests from a company on account of some behaviour in which the company is engaged, the institution is declaring all such behaviour worthy of divestment. Divestment would not be warranted in cases in which an institution sought merely to reduce the scale or intensity of a particular behaviour. Divestment is a binary strategy when deployed in a principled manner: behaviour worthy of divestment is behaviour the institution would see eliminated, not simply diminished. This was undoubtedly true when the University divested from the Apartheid regime in South Africa in 1980 and from tobacco manufacturers in 2007: no amount of second-hand smoke is beneficial; Apartheid has no redeeming elements.

However, in the Committee's estimation, the fossil fuels industry is not uniformly engaged in behaviour the institution would see eliminated. Even with optimistic assumptions regarding improvements in renewable energy infrastructure and technology, burning fossil fuels—of certain kinds, in certain regions, at certain levels—will remain necessary for many years. For example:

⁷See Appendix B.

- India’s former minister of the environment, Jairam Ramesh, recently predicted that “under the best scenario—the most aggressive programs for nuclear, hydro, solar, and wind—bloody coal will still [account for] 50 percent” of India’s power supply in 25 years (Martin, 2015).
- A January 2015 article in *Nature* makes the point: “But given the crucial role of energy in economic development, how can countries be convinced to forgo the use of fossil fuels if this is perceived to imperil primary policy objectives such as poverty reduction?”(Jakob & Hilaire, 2015) The article goes on to quote Tanzania’s energy minister: “We in Africa, we should not be in the discussion of whether we should use coal or not.”(Jakob & Hilaire, 2015)
- Closer to home, the fossil fuels industry and the resource sector more generally have been cornerstones of the Canadian economy for most of our country’s history. Canada’s long-term economic development will continue to benefit from resource extraction, but will need strategies to address the boom and bust cycles that have historically tested narrowly focused resource and energy sectors. The current economic challenges facing western Canada should not be overlooked and are felt broadly across the economy—from revenue loss to unemployment to socio-economic instability. The developing world is not the only region in which the fossil fuels industry can be an indispensable social benefit, even as we transition to a less carbon-intensive future.
- At a local and immediate level, fossil fuels will remain an irreplaceable component of modern infrastructure at least for the foreseeable future. Diesel back-up equipment, for example, used to bridge temporary electrical outages for essential services (like hospitals, water supply stations, air traffic control services, emergency response infrastructure, and other core services) currently has no cost-effective and reliable alternative.

There are many such examples. The Committee recognizes that fossil fuels will remain indispensable and a contributor to social welfare for many years. Consequently, the Committee finds that fossil fuels companies, as defined in the Petition, are not uniformly engaged in behaviour that would warrant divestment. A blanket divestment strategy would be unprincipled and inappropriate in the Committee’s view.

Notwithstanding these observations, the Committee regards specific kinds of behaviour carried out in the fossil fuels industry as unacceptable and the appropriate target of a focused and strategic divestment action. Researchers are agreed that average global temperatures must not rise by more than two degrees Celsius above pre-industrial averages by 2050 if the planet is to avoid irreversible effects of climate change. At the time of writing, policy makers in Paris had just committed to the more stringent limit of 1.5 degrees Celsius. Should the global community fail to observe this limit, the effects are predicted to range from profound to catastrophic and include detrimental impacts in nearly every sphere; from health, poverty, equity, and security, to education, the economy, the environment, and global habitats.⁸

⁸See, for example, Watts et al. (2015), Edenhofer et al. (2014), and Pachauri et al. (2014).

To have a reasonable chance of keeping within the 1.5-degree threshold, total global carbon emissions must not exceed 1,000 gigatonnes by 2050 (Pachauri et al., 2014). This observation is compatible with the continued use of fossil fuels, but incompatible with the unrestricted extraction of fossil fuels.

To help specify the constraints that restricting fossil fuels extraction places on us, the Committee notes that were we to burn all of the planet’s current proved fossil fuel reserves, we would grossly exceed our carbon dioxide budget—in some estimates, by 300 per cent—and eclipse the 1.5-degree threshold (Pachauri et al., 2014). To observe the 1.5-degree threshold, we cannot burn all of our fossil fuels reserves. In fact, according to the recent article in *Nature*, even with advances in carbon capture and storage, “globally, a third of oil reserves, half of gas reserves and over 80 per cent of current coal reserves should remain unused from 2010 to 2050 in order to meet the target of 2°C” (Meinshausen et al., 2009).

Researchers also argue for regional limits to extraction. For example, one respected study concludes that, “open-pit mining of natural bitumen in Canada [must drop] to negligible levels after 2020 ... 85% of [Canada’s] 48 billion barrels of bitumen reserves thus remain unburnable if the 2°C limit is not to be exceeded” (Jakob & Hilaire, 2015; McGlade & Ekins, 2015). Similarly, Jakob and Hilaire, 2015 write: “all Arctic resources should be classified as unburnable.”

Furthermore, the Committee believes that the misrepresentation, distortion and obstruction of scientific research—and their deliberate financial sponsorship—are sizeable obstacles to informed public discourse and the shaping of public policy. These actions are consequently sizeable obstacles to achieving our goal of limiting average global temperature increases to 1.5 degrees Celsius. This kind of behaviour is especially objectionable in our academic community, given the University’s role in education and advanced research, and our commitment to truth, knowledge, and open discourse.⁹

Underlying each of these considerations is the significance and urgency of limiting the rise in average global temperatures to 1.5 degrees Celsius over the next 30 years. The Committee suggests that the extent to which a fossil fuel company’s actions are consistent with respecting the 1.5-degree threshold is a principled way of distinguishing acceptable from unacceptable behaviour in the fossil fuels industry, and, correspondingly, demarcating appropriate and inappropriate targets of a focused divestment action. The Committee further suggests that the principle of respecting the 1.5-degree threshold should inform the constraints governing what the Committee has considered the ‘necessary’ use of fossil fuels. As the Committee has argued, these constraints surround the kinds of resources and the methods of their extraction, the locations of those resources, and the intensity of their consumption. In this way, the University community is helping bring evidence-based research, education, and public debate to bear on the transition to a less carbon-intensive era while encouraging the optimal use of those carbon-intensive energy reserves which remain necessary.

Accordingly, the Committee recommends that the University determine a method to evaluate whether a given company’s actions blatantly disregard the 1.5-degree threshold and divest from direct holdings in any companies identified as acting in this manner. The Com-

⁹Farrell, 2015a and Farrell, 2015b offer a compelling analysis.

mittee also recommends that the University conduct this evaluation annually and publish both its methodology and its results in an annual report. The Committee hopes that publicizing the results of this evaluation will foster discussion and debate within the industry and society more generally. This approach also recognizes that the divestment strategy we propose, and sustainability efforts more generally, are part of a dynamic process for an evolving future, rather than a one-time decision.

The Committee stresses that such a targeted approach to divestment, unlike a blanket divestment strategy, can be implemented in a consistent and principled fashion. This would satisfy the principle articulated earlier: namely, it would be right for the University to refrain from participating in and contributing to socially injurious activities that have no social benefits currently unachievable in any other way.

The instrumental argument for divesting

In addition to the moral reason for divesting from certain fossil fuels companies, the Committee argues that there is an important instrumental reason for divesting as well.

By divesting from certain fossil fuels companies, as described in these recommendations, the Committee believes that the University of Toronto will help the world meet the challenge of climate change. As many commentators have pointed out, divestment actions are unlikely to help achieve this goal by weakening the financial position of the fossil fuels industry directly. It is unlikely that divestment actions will affect the share price of the divested company or impose a cost on the company's stakeholders, at least in the short or medium terms.

Instead, when an institution decides to divest, it is making a statement or sending a signal that is the source of the action's instrumental value. The aim of this statement is to educate and contribute to the debate highlighting the industry's 'social licence'—the accommodation, acceptance, or indulgence granted the industry by the public and the government—with the goal of informing public opinion and public policy.

Helping inform and shape public opinion and public policy are important precursors for the changes in regulations and incentives that are ultimately necessary to meet the challenges of climate change. Examples include emissions caps, carbon taxes and prices, consumption-targeted tax incentives, vehicle fuel efficiency regulation, energy infrastructure investment, targeted government subsidies, and other similar initiatives. These regulations and incentives are designed to encourage consumers and producers alike to move away from carbon-intensive energy sources towards more sustainable alternatives. Left alone, the market is unlikely to accomplish this transition, at least not efficiently. As Sir Nicholas Stern famously said nearly a decade ago, "Climate change is a result of the greatest market failure the world has seen." (Benjamin, 2007) From this perspective, climate change represents a tragedy of the commons; it sets the expediency of self-interest against the exigency of collective action. In such cases, rationally self-interested use of a common resource collectively depletes the resource, leaving everyone worse off. Collective action, undertaken as a result of leadership, regulation, or incentive, is one means of changing this kind of ultimately counter-productive, self-interested behaviour. In democratic societies, it falls to leaders—institutions or individuals—to persuade governments to implement these regulations or incentives and to persuade the public both to accept and to demand such policies.

This should be the University's objective in making a statement by divesting from the fossil fuels industry.

In addition, a clear divestment strategy focused on fossil fuels companies whose actions blatantly disregard the 1.5-degree threshold, avoids the equivocation that would taint a blanket divestment strategy. Such equivocation would undermine the value of the University's statement which might be weakened by the interpretation of hypocrisy. A targeted divestment strategy allows for reinforcement of and collaboration with the acceptable behaviour of certain fossil fuels companies while identifying the unacceptable behaviour of other fossil fuels companies. As the Committee has argued, only the latter is the proper focus of a divestment strategy.

Finally, the Committee would highlight one additional consideration. As noted, the Committee recognizes that the University's holdings are not sufficiently large to have a direct impact on the financial position of the fossil fuels industry or any of the companies that comprise it. However, the Committee believes that the University's holdings once moved out of the fossil fuels industry might have a meaningful impact in other areas. Indeed, renewable energy and climate-friendly technologies are undercapitalized, relative to the fossil fuels industry; small changes in their ability to attract capital may translate into disproportionately enhanced political capacity, greater social impact, escalated business activity, and increased research, development, and innovation.

To address the challenges of climate change it will be necessary to change large-scale capital investments—not just in fossil fuels, but in energy production generally, as well as in infrastructure, transportation, and urban planning. A targeted divestment strategy such as the one recommended by the Committee is an example, albeit a small one, of the kind of capital reinvestment the global community will require in order to move away from the network of systems locked into the use of fossil fuels. Indeed, more than simply setting an example, through a targeted divestment action, the University of Toronto would be taking a step towards normalizing a different idea for how society should be organized. In this regard, a divestment campaign is a collective effort to alter what is considered an appropriate and profitable set of priorities for society and, by extension, what are appropriate decisions regarding investments, behaviour, and public policy. The notion of helping society reimagine how it is organized is entirely consistent with the University's mission as an institution of advanced research and higher education.

Divestment in the broader context of the University's mission

As described at the outset, the Committee believes that the debate over divestment must be placed within the larger context of the University's most valuable and effective contributions to the global effort to avert or mitigate the consequences of climate change. Research, pedagogy, and debate are the University's indisputable strengths and the core of its mission. Accordingly, the Committee believes that harnessing these strengths is a vital part—indeed, the most vital part—of the University's response to the challenges of climate change.

It bears noting that the University of Toronto is already an international leader in climate change research and pedagogy. There are dozens of examples: from the Centre for Global Change Science, the Division of Environmental Engineering & Energy Systems, and

the School of the Environment, to our School of Public Policy and Governance, the Environmental Governance Lab at the Munk School of Global Affairs, our Faculties of Law and Medicine, our Department of Philosophy, as well as the Environmental Studies programs at UTM and UTSC. Our campuses are leaders in operational sustainability, excelling in waste diversion, greenhouse gas reduction, sustainable food sourcing, and local, efficient power generation. The cumulative effect of these institutional efforts is impossible to quantify, though undoubtedly great.

Nevertheless, the challenges posed by climate change are of such urgency, that the Committee calls for new engagement from the broad and deep academic community of which it is a part. Divisional independence is one of the University of Toronto's institutional strengths; academic priorities are established and driven by the collegium. In this context, the Committee recognizes that promoting coordination and collaboration can be difficult. Hence, we urge the divisions to renew their efforts at coordination and collaboration under divisional and central leadership. The Committee suggests specific initiatives be instituted, perhaps including the following:

1. The University of Toronto should consider creating a 'Meeting Climate Change Fund' (MCCF) and a 'Sustainability Fund' (SF) with significant additional committed funding. The SF would build on the University's strong (and under-recognized) work in sustainability: improving our waste diversion rate; improving our water reclamation and reduction rates; lowering our energy footprint; reducing our greenhouse gas emissions; refitting our aging infrastructure; protecting green space; building incentives for low- or no-carbon transportation to and from our campuses; continuing to invest in local, sustainable food for our community; and so on. Our campuses are living laboratories and the Committee recommends that the University continues to invest in them as such—and to celebrate them better as such.
2. The MCCF would build on the University's academic strength in research and education on climate change. It could be used to seed academic collaborations; to assist in coordinating and cataloguing our disparate initiatives in climate science, environmental engineering, earth sciences, sustainability, public policy, law, etc.; to fund student research through annual competitions; to help create a climate change-focused course development fund, similar to the one already implemented by the Provost's Office; to fund scholarships and bursaries, and to help integrate critical discussion of climate change into all levels of the curriculum.
3. The evolution of a less carbon-intensive society can be achieved only through collaboration with the energy industry. The University should establish a Collaboration Fund and invite partners from the fossil fuels industry to deepen their collaborations with our researchers and students, perhaps with central matching funds. The goal would be to enhance industry research partnerships with the aim of building a less carbon-intensive society, as well as providing research and education opportunities to our faculty, staff, and students.
4. The Committee believes the MCCF, the SF, and the Collaboration Fund—or similar ideas—might prove to be compelling advancement initiatives, particularly as we move into the high-profile closing stages of the Boundless campaign.

5. The Committee recommends that the University consider promoting climate change-focused entrepreneurship, perhaps by establishing a climate change-specific incubator (possibly in collaboration with other Toronto-area universities), or a climate change-focused entrepreneurship course, to help bring ideas, innovations, and inventions more quickly to bear on environmental challenges.

The Committee suggests that these ideas and others like them would have important results. The direct benefits would be substantial. These would include scientific, technological, policy, and other innovations. Renewed focus on climate change education and climate-related research-intensive education would help create an engaged, influential, and creative population. Moreover, the University's burgeoning entrepreneurial community could be mobilized and channelled, capitalizing on what is one of the most compelling entrepreneurial opportunities of the 21st century.

Crucially, the University community would deepen its important partnerships with the fossil fuels industry and energy industry more generally. The Committee does not believe that strategic divestment from certain fossil fuels companies will inhibit this.¹⁰ On the contrary, the Committee predicts that the University's principled, positive stance and energetic engagement along multiple dimensions in the reality posed by climate change will make it an attractive partner for every aspect of the energy sector.

Summary

In conclusion, the Committee believes that the University of Toronto has an important role in, and a special responsibility for, meeting the challenges of climate change. It is our view that fossil fuels firms engaging in activities that blatantly disregard the 1.5-degree threshold are engaging egregiously in socially injurious behaviour that is irreconcilable with internationally agreed limits to the rise in average global temperatures and thereby greatly increasing the likelihood of catastrophic global consequences. The University should, in a targeted and principled manner, divest from its direct holdings in such firms.

In the larger context, the Committee insists that the University's most valuable and effective contributions to the global effort to avert and mitigate the consequences of climate change will flow from our fundamental role as an institution of research and education. The Committee respectfully calls upon our academic community to amplify its collective efforts—in climate change-related scholarship, education, innovation, and entrepreneurship—to help meet the overriding social and environmental issue of our time.

¹⁰Some commentators argue that divestment would entail reduced industry engagement from the lost opportunity for shareholder activism. There is some evidence to support this. However, the Committee believes there are also reasons to be sceptical, particularly with respect to firms engaged in fossil fuels extraction. Byrd and Cooperman (2012, pg. 103), for example, find evidence that "Examining differences in future actions occurring or not by type of industry, extractive industry firms appear to be less likely to engage in climate change actions related to climate change proxy proposals versus firms in non-extractive industries."

Note regarding the nature of the University's investments

Investments are aggregated in three investment pools: University funds are composed of two pools: the Expendable Funds Investment Pool (EFIP) that contains expendable funds invested with minimal risk and a low target return; and the unitized Long-Term Capital Appreciation Pool (LTCAP) that includes about 5,800 individual endowments, usually governed by an agreement with a donor, and several other funds, invested for the long term with a higher risk tolerance and return target, with the risk tolerance and target return for each pool approved by the Business Board from time to time.

Assets associated with the University of Toronto Registered Pension Plan (RPP) and the University of Toronto OISE Registered Pension Plan (RPP(OISE)) [together called the "Pension funds"] are pooled for investment purposes in the unitized Pension Master Trust (PMT). Together, the University funds and the Pension funds are referred to throughout as the "Funds". It is important to note that Pension funds are expressly held in trust for the beneficiaries of the pension plans. The risk tolerance, target return, asset allocation, and other investment criteria for the PMT, are approved by the Pension Committee annually.

Note also, that the University Asset Management Corporation ["UTAM"] manages the investment of LTCAP and PMT by placing funds with third party investment managers. The majority of the LTCAP and PMT funds are invested in pooled funds in which funds from a number of investors are aggregated and invested in a collection of investment vehicles. The balance of the LTCAP and PMT investments is made in segregated accounts comprising individually purchased securities; however, here too, actual investment decisions are made by the third party investment manager. EFIP funds are invested primarily in money market vehicles.

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Appendix A

Considering the Policy's principles

The Committee's recommendations are governed by the terms of the *Policy on Social and Political Issues With Respect to University Divestment* under which this Committee was struck. The Policy dictates that, apart from academic issues, the University does not normally take positions on social and political issues. However, when its "social responsibility as an investor is questioned", the Policy offers "credible and effective procedures for responding". The Policy stipulates that any response "should be based on the following principles":

1. Actions taken by the University must be consistent with the University's fiduciary duty to follow a policy of prudent investment;
2. The investments singled out for divestment must be significantly involved in activities that cause social injury, according to the Yale concept; and
3. Actions taken by the University should consider actions taken by the Canadian government or other national or international bodies with regard to the particular issue of concern.

The Committee's deliberations in reaching its recommendations have been guided by the Policy and, in particular, by these principles. It is the Committee's view that divesting from fossil fuels companies, in a targeted and principled manner as articulated in this report, respects the Policy and its principles.

Regarding the Policy's third principle, concerning actions taken by national and international governments

The Government of Canada has taken several actions that indicate opposition to the indefinitely continued extraction and use of fossil fuels. Here are a few examples:

- In May, 2015, Canada's Environment Minister announced Canada's commitment to reduce its greenhouse gas (GHG) emissions by 30 per cent below 2005 levels by 2030. Canada submitted this target to the United Nations Framework Convention on Climate Change (Government of Canada, 2015).
- At the G7 Summit held the following month in Schloss Elmau, Canada's Prime Minister reiterated this commitment and further declared that Canada would eliminate its use of fossil fuels by the end of the century (CBC News, 2015).
- At the Commonwealth summit in November 2015, Canada pledged \$2.65 billion over five years "to help developing countries tackle climate change" (Prime Minister of Canada, 2015a).
- The government's Speech from the Throne in December, 2015, included a commitment to fight climate change: "We will fight climate change, with the provinces and territories, as Canada works to put a price on carbon and reduce carbon pollution. We will also invest in clean technology and introduce new environmental assessment

processes that seek and consider public input, with decisions informed by scientific advice” (Prime Minister of Canada, 2015b).

- On December 12, 2015, Canada joined 194 countries in a global pledge to limit the average rise in temperatures to 1.5 degrees Celsius (Prime Minister of Canada, 2015c).

The Committee emphasizes that, to meet our national energy goals, we must move to a less carbon-intensive energy economy and infrastructure. Fossil fuels will remain an important part of our energy system in the short and medium term, of course, but to observe the 1.5-degree threshold, the Committee believes Canada should contemplate immediate and aggressive investment in non-fossil fuels energy sources and infrastructure. The Committee also believes that greater regulation of the manner, means, and location of extraction, as noted above, will also be necessary in meeting our goals. To the extent that companies in the fossil fuels industry act in a manner that blatantly disregards the 1.5-degree threshold, those companies are thwarting the Government of Canada’s stated intentions and the intentions and efforts of international bodies to address the challenges of climate change.

Regarding the Policy’s second principle, concerning social injury

“Social injury” is defined in the Policy as:

The injurious impact which the activities of a company are found to have on consumers, employees, or other persons, particularly including activities which violate, or frustrate the enforcement of, rules of domestic or international law intended to protect individuals against deprivation of health, safety, or basic freedoms; for the purposes of these Guidelines, social injury shall not consist of doing business with other companies which are themselves engaged in socially injurious activities.

The 200 most heavily carbon-intensive companies identified in the Petition contribute to carbon pollution and climate change directly through their primary extraction activities. Furthermore, they contribute to latent carbon pollution and climate change as they facilitate and actively promote the carbon-pollution activities of their direct and indirect clients. The Committee considers this true irrespective of whether or not the companies are acting in a manner that blatantly disregards the 1.5-degree threshold.

However, the Committee also recognizes that, those companies acting in a manner that respects the 1.5-degree threshold—those firms, for example, not engaged in non-conventional or aggressive extraction or disinformation—may be acting in a manner that, though socially injurious, nevertheless offers society indispensable benefits that currently cannot reasonably be gained in any other way. As the Committee has argued, burning fossil fuels—of certain kinds, in certain regions, at certain levels—will remain a necessary source of social benefit for many years. In such cases, while the activities may be socially injurious, as noted in the report, the Committee does not believe that they warrant divestment.

By contrast, in the Committee’s opinion the social injury caused by fossil fuels companies whose actions blatantly disregard the 1.5-degree threshold is clear, egregious, and inordinate.

Regarding the Policy's first principle, concerning the University's fiduciary duty

The Policy articulates the principle of fiduciary duty thus:

Responses [to petitions] should be based on the following principles: ... (i) prudent investment. The University has a fiduciary duty to manage investments responsibly to maximize return on its investments within a policy risk tolerance as approved by Business Board from time to time.

The Policy continues:

Consideration of questions about social and political issues with respect to University investment must take into account applicable legislative requirements and government or University policy, as well as the legal standards applicable to prudent institutional investors.

This Committee has received an external expert legal opinion concerning the nature of the University's duties in relation to the pension and endowment funds. Both statutory obligations and common law fiduciary principles were considered. The Committee has examined the opinion carefully and the recommendations set out in this report have been informed by its analysis. The Committee has focused on the general principles that are relevant to the issues under consideration, and in particular to trusts that are similar in nature to those governing the University's pension and endowment funds. It is the Committee's understanding that in such trusts, where the trustees are required to put financial interests of the beneficiaries front and centre, they may exclude a class of investments where they have reached a well-founded, good faith conclusion that particular investments are not in the long-term best financial interest of the beneficiaries. This conclusion may take into account not only financial factors as distinct elements, but also environmental, social or governance ("ESG") factors as they may relate to the financial health of the funds. For trusts that are expected to continue over an extended period, such as the University's pension and endowments funds, the best financial interests of the beneficiaries should be assessed over the long term; the short-term return of possible competing investments is not determinative.

In weighing the external legal opinion and considering its implications, the Committee makes the following two observations:

First, the principle that institutional investments made in trust must reflect the best interests of the beneficiaries and not the views of the institution has been a fundamental guiding tenet for the Committee throughout this process.

Second, in the Committee's considered opinion, investing in fossil fuels companies whose actions blatantly disregard the 1.5-degree threshold is not in the long-term best financial interest of the beneficiaries of the Funds. Indeed, the Committee goes further and argues that divesting from the University's direct holdings in fossil fuels companies whose actions blatantly disregard the 1.5-degree threshold is in the long-term best financial interest of the beneficiaries of the Funds. To retain a reasonable chance of holding the rise in global average temperatures to two degrees Celsius, let alone the 1.5-degree target recently agreed in Paris, global anthropogenic greenhouse gas emissions must be reduced by 40 to 70 per cent from 2010 levels by 2050 (Pachauri et al., 2014, pg. 22). As we noted earlier, recent studies have found that even with optimistic measures of carbon capture success,

“a third of oil reserves, half of gas reserves and over 80 per cent of current coal reserves” (McGlade & Ekins, 2015) will need to remain unburned to meet this target. Delaying action beyond 2030 will require even greater emission reductions between 2030 and 2050 (Pachauri et al., 2014, pg. 24). Furthermore, in addition to committing to the aspirational target of 1.5-degrees from the climate talks in Paris, some countries have made even stronger longer-term pledges, such as Canada’s declared goal of eliminating the use of fossil fuels by the end of the century. This scientific and regulatory context is directly relevant to the long-term financial consequences of investing in firms whose actions blatantly disregard the 1.5-degree target.

The Committee reviewed evidence that investments in funds that exclude certain fossil fuels companies currently perform as well or better than funds that include those same companies. When questioned by the Committee, officials from UTAM were not of the view that investments in fossil fuels companies uniquely satisfied the University’s fiduciary responsibilities, understood as including a duty simply to maximize investment returns. This is particularly clear, in UTAM’s opinion, when considering the University’s investments over the long term.

While these arguments are sufficient to support divesting in the manner recommended in this Report, the Committee notes that there are other arguments that support this conclusion as well. Recall that it is agreed that respecting the 1.5-degree threshold will be essential for avoiding the worst effects of climate change. These effects include crises—possibly catastrophic crises—along multiple dimensions. Such crises would have profoundly negative financial implications for the University of Toronto and the global community upon which the University depends for its research and education missions as well as for returns from investments. The International Monetary Fund (Lagarde, 2014) noted, with uncharacteristic rhetorical flourish, that if we fail to meet the challenge of climate change we face a “grim” future: “Our fortunes will melt with the ice, evaporate like water under a relentless sun, and wither away like sand in a desert storm.” Investing in firms whose actions increase the likelihood of these profoundly negative financial implications is plainly not in the long-term best financial interest of either the beneficiaries of the Funds or the University itself.

Finally, while the Petition only sought divestment from the University’s direct holdings, the Committee also considered divestment with respect to the pooled funds. The Committee finds that divesting from the pooled funds would be particularly costly and potentially damaging to the financial interests of the beneficiaries at the present time. Further, though not related directly to the beneficiaries’ long-term best financial interests, the Committee also finds that divesting from the pooled funds, notwithstanding the additional cost, would achieve only a modest net additional benefit to divesting from the direct funds alone. The Committee therefore recommends not extending divestment beyond the Petition to include the pooled funds at this time. The Committee notes that the University may, of course, review this limitation as circumstances change and the University deems appropriate.

At the same time, the Committee recommends that the University urge its investment managers to reduce the carbon intensity of its pooled funds. In choices between two otherwise equally attractive funds, the Committee recommends that investment managers choose the fund with the lower carbon intensity. In part to help achieve this goal, the

Committee recommends that the University of Toronto sign the Montréal Carbon Pledge and consider joining the Institutional Investors' Group on Climate Change, whose members have access to the latest research on monitoring carbon exposure in investments. Furthermore, the Committee recommends that the University's investment managers pledge to avoid investment vehicles or instruments where identifying the constituent assets is not possible.

After considering all the evidence and given the long-term nature of the University's obligations with respect to the Funds, the Committee concludes that divesting from the University's direct holdings in fossil fuels companies whose actions blatantly disregard the 1.5-degree threshold (or any evolution of this standard, upwards or downwards, as the best scientific and policy evidence produces a new consensus) would be consistent with the University's fiduciary duties and the long-term financial best interests of the beneficiaries of the trusts. It should be noted that if divestment from particular firms were to occur, if the firms in question were to alter their behaviour and act in a manner that respects the 1.5-degree threshold, those firms may no longer warrant divestment and indeed might warrant re-investment. Alternately, the regulatory environment may change as the science and policy context evolves—for example, if the international community were to alter its target limits, or new technology provided easier mitigation or remediation techniques. The Committee's recommendations in this report contemplate a mechanism for these sorts of reconsiderations.

Finally, in relation to the legal issues pertaining to fiduciary duties, the Committee hopes that Canadian courts and regulators will take notice of the widespread scientific and political consensus regarding climate change, particularly as an element in assessing compliance with the standards of prudence in the discharge of fiduciary obligations. This might include an elaboration of the concept of financial impact to include a more nuanced view of financial prudence over the long term.

Appendix B

On the process

On March 6, 2014, Toronto350, the University of Toronto chapter of the larger 350.org movement, presented the Office of the President with a petition requesting that the University of Toronto:

- Make an immediate statement of principle, expressing its intention to divest its direct holdings of stock in fossil fuel companies,
- Immediately stop making new investments in the industry,
- Instruct its investment managers to wind down the university's existing direct stock holdings in the 200 fossil fuel companies listed in Appendix II [of the brief]: The 200 companies with the largest fossil fuel reserves within five years of the fully-endorsed brief being delivered to the president, and
- Divest from Royal Dutch Shell within one year of receiving the endorsed brief.

In response to this petition, the President struck an ad hoc *Advisory Committee on Divestment from Fossil Fuels* under the terms of the University's *Policy on Social and Political Issues With Respect to University Divestment*. The Committee's mandate was to review the Petition and accompanying brief, and—first and foremost—consider the University's response to the call for divestment. The Committee was also invited to reflect more generally on the University's most appropriate and effective responses to the challenges posed by climate change. The committee was asked to bring recommendations to the President in December, 2015.

On October 22, 2014, the Executive Committee of the Governing Council approved the advisory committee's membership, and on November 3, 2014, the President announced the creation of this Committee to the University community (PDAD&C #37, 2014-15).

The Committee began its work in December 2014. Between December 2014 and December 2015, the Committee met, in its entirety, 12 times. The Committee welcomed submissions from the beginning, and invited University experts and Toronto350 to present to the Committee during the research phase of its meetings. Over the course of the summer (May 2015 to September 2015), members conducted their work through subcommittees, focused on specific aspects of the Committee's mandate. These subcommittees made oral reports to the larger Committee at the meeting held on September 18, 2015.

On June 3, 2015, the chair of the Committee issued a consultation notice and call for submissions to the entire University community (PDAD&C #97, 2014-15). The Committee invited the submissions in response to the petition prepared by Toronto350.org. The Committee also welcomed ideas and proposals as to what other actions—notwithstanding the University's ultimate decision on the Petition—the University might consider in order to respond to challenges of climate change. The deadline for submissions was set for Wednesday, September 30, 2015. The call was also disseminated through social media and in an article published in the Bulletin.

The consultation notice and call for submissions was re-issued in early September and emailed to all student societies. The deadline was extended two weeks. In response to the call, the committee received 21 submissions from students, faculty, staff, alumni and friends,

and concerned members of the larger community. In addition to these submissions, and the consultations with invited experts, the Committee conducted a review of the literature relevant to issues concerning fossil fuel divestment and undertook a thorough assessment of divestment decisions taken at peer universities and other institutions around the world. These analyses informed the Committee's lengthy deliberations.

197 members of the University of Toronto community, including representatives from eight student groups and the Faculty Association, contributed to the process and informed the Committee's deliberations.

Appendix C

The Committee's membership

Bryan Karney, Chair (Associate Dean, Cross-Disciplinary Programs; Professor and Chair, Division of Environmental Engineering & Energy Systems, Faculty of Applied Science & Engineering)

Peter N. Burns (Professor and Chairman, Department of Medical Biophysics; Senior Scientist, Sunnybrook Research Institute)

Graham Coulter (Undergraduate student, Innis College)

Andrew Green (Associate Professor, Faculty of Law)

Matt Hoffmann (Professor, Department of Political Science, UTSC; Co-Director of the Environmental Governance Lab at the Munk School of Global Affairs)

Arthur Hosios (Professor & Senior Academic Advisor to the Dean, Financial Strategy and Projects, Department of Economics)

Mohan Matthen (Professor and Canada Research Chair, Department of Philosophy)

Carl Mitchell (Alumnus, Past President, University of Toronto Alumni Association)

Rita O'Brien (Acting Warden and Chief Administrative Officer, Hart House)

Barbara Sherwood Lollar (University Professor, Canada Research Chair in Isotope Geochemistry of the Earth and the Environment, Department of Earth Sciences)

Susan Christoffersen, Vice-Dean Undergraduate and Pre-experience Programs; Associate Professor of Finance, Rotman School of Management *Resource to the Committee*

Appendix D

List of consultations and submissions

Ten individuals acting in a personal capacity, and the following groups and individuals acting in official capacities, provided the Committee with written submissions or appeared before the Committee. The Committee gratefully acknowledges these contributions and the efforts that went into them.

Anthropology students, staff, and faculty group submission

APUS, group submission

Brown, Sheila; Chief Financial Officer

DLSPH, group submission

Hildyard, Angela; Vice-President, Human Resources and Equity

Massey College students, staff, and faculty group submission

Moate, Steve; Senior Legal Counsel

Moriarty, Bill; President and CEO, University of Toronto Asset Management Corporation

NEI Investments, group submission

Palmer, David; Vice-President, Advancement

SCSU et al., group submission

SSM 2020 “Sustainability Ethics”, class submission #1 (University of Toronto Mississauga)

SSM 2020 “Sustainability Ethics”, class submission #2 (University of Toronto Mississauga)

Theology, students, staff, and faculty group submission

Toronto350, presentation to the Committee; Ben Donato-Woodger, Milan Ilnyckyj, Katie Krelove, Ariel Martz-Oberlander

Toronto350, “The fossil fuel industry and the case for divestment”; original petition and brief

Toronto350, Responding to three questions from the Committee; group submission