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Fossil Fuel Divestment Statement

October 3, 2013

CAMBRIDGE, MASS.

Dear Members of the Harvard Community,

Climate change represents one of the world's most consequential challenges. I very much respect the concern and commitment shown by the many members of our community who are working to confront this problem. I, as well as members of our Corporation Committee on Shareholder Responsibility, have benefited from a number of conversations in recent months with students who advocate divestment from fossil fuel companies. While I share their belief in the importance of addressing climate change, I do not believe, nor do my colleagues on the Corporation, that university divestment from the fossil fuel industry is warranted or wise.

Harvard is an academic institution. It exists to serve an academic mission — to carry out the best possible programs of education and research. We hold our endowment funds in trust to advance that mission, which is the University's distinctive way of serving society. The funds in the endowment have been given to us by generous benefactors over many years to advance academic aims, not to serve other purposes, however worthy. As such, we maintain a strong presumption against divesting investment assets for reasons unrelated to the endowment's financial strength and its ability to advance our academic goals.

We should, moreover, be very wary of steps intended to instrumentalize our endowment in ways that would appear to position the University as a political actor rather than an academic institution. Conceiving of the endowment not as an economic resource, but as a tool to inject the University into the political process or as a lever to exert economic pressure for social purposes, can entail serious risks to the independence of the academic enterprise. The endowment is a resource, not an instrument to impel social or political change.

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We should also be clear-sighted about the risks that divestment could pose to the endowment's capacity to propel our important research and teaching mission. Significantly constraining investment options risks significantly constraining investment returns. The endowment provides more than one-third of the funds we expend on University activities each year. Its strength and growth are crucial to our institutional ambitions — to the support we can offer students and faculty, to the intellectual opportunities we can provide, to the research we can advance. Despite some assertions to the contrary, logic and experience indicate that barring investments in a major, integral sector of the global economy would — especially for a large endowment reliant on sophisticated investment techniques, pooled funds, and broad diversification — come at a substantial economic cost.

Because I am deeply concerned about climate change, I also feel compelled to ask whether a focus on divestment does not in fact distract us from more effective measures, better aligned with our institutional capacities. Universities own a very small fraction of the market capitalization of fossil fuel companies. If we and others were to sell our shares, those shares would no doubt find other willing buyers. Divestment is likely to have negligible financial impact on the affected companies. And such a strategy would diminish the influence or voice we might have with this industry.

Divestment pits concerned citizens and institutions against companies that have enormous capacity and responsibility to promote progress toward a more sustainable future.

I also find a troubling inconsistency in the notion that, as an investor, we should boycott a whole class of companies at the same time that, as individuals and as a community, we are extensively relying on those companies' products and services for so

much of what we do every day. Given our pervasive dependence on these companies for the energy to heat and light our buildings, to fuel our transportation, and to run our computers and appliances, it is hard for me to reconcile that reliance with a refusal to countenance any relationship with these companies through our investments.

I believe there are a number of more effective ways for Harvard both to address climate change and to enhance our commitment to sustainable investment.

Our teaching and research on environmental and climate issues is significant and growing, and it is a priority in The Harvard Campaign. MENU

We offer some 250 courses in the broad domain encompassing environmental studies and energy. We support some 225 faculty who work in the area, as well as a graduate consortium that involves more than 100 students and seven Schools.

We have a thriving University Center for the Environment. Outstanding faculty in chemistry, biology, earth and planetary sciences, engineering, and beyond are making profoundly important contributions to envisioning the future of energy and shaping the relevant science and technology. The Kennedy School's Belfer Center has won international acclaim for its influential work on climate change economics and policy. Harvard scholars in design are on the frontier of thinking about sustainable cities; scholars in law, business, economics, and public policy are leaders in addressing regulatory, commercial, and economic aspects of energy and the environment; scholars in public health do vital research on environmental health and its relation to energy use. Indeed, the foundation of our current national clean air regulations was a study undertaken more than two decades ago by faculty at the Harvard School of Public Health.

We also have a strong institutional commitment to sustainability in how we live and work. Our Office for Sustainability is doing outstanding work. We are making substantial progress in reducing our greenhouse gas emissions. We have become much more conscious of sustainable design principles in all of our physical planning and construction. We have created awards to recognize "heroes" who are helping to make Harvard green. And Harvard has earned an array of honors to recognize various

sustainability efforts. I am very proud of all that our students and faculty and staff are doing on this front, and those efforts will continue and grow.

As a long-term investor, we need to strengthen and further develop our approach to sustainable investment. This is no small undertaking, and it will present challenges along the way. Especially given our long-term investment horizon, we are naturally concerned about environmental, social, and governance factors that may affect the performance of our investments now and in the future. Such risks are complex, often global in nature, and addressing them effectively often entails collaborative approaches. Generally, as shareholders, I believe we should favor engagement over withdrawal. In the case of fossil fuel companies, we should think about how we might use our voice not to ostracize such companies but to encourage them to be a positive force both in meeting society's long-term energy needs while addressing pressing environmental imperatives. And, like other investors, we should consider how to obtain further, better information on how companies not only in the energy industry but across all sectors take account of sustainability risks and opportunities as part of their business strategies and practices.

To help us pursue this path, Harvard Management Company has recently brought on its first-ever vice president for sustainable investing. She will help us think in more nuanced, forward-looking ways about sustainable investment, including the consideration of environmental, social, and governance factors. And, in concert with colleagues, she will play a central role in considering how Harvard can achieve superior investment returns as it fulfills a university's distinctive responsibilities to society.

Harvard has a strong interest in marshaling its academic resources to help meet society's most important and vexing challenges, and there is no question that climate change must be prominent among them. We will continue to do so, through the energy and ideas of our faculty, students, and staff, in ways that are true to the purposes of our endowment and that best take advantage of the University's distinctive capacities as an academic institution.

Sincerely,
Drew Faust