Fossil fuels are not the future.

What are the myths causing our Leicestershire Local Government Pension Scheme to continue investing in fossil fuel producing companies?

A briefing by LeicsDivest,
part of Climate Action Leicester & Leicestershire.

Myth 1. The Pension fund is being asked to end all fossil fuel related investments, for example utility companies.

Reality. We are asking that the fund publicly divests only from the top 200 fossil fuel producing companies[1] for example Shell and BP. The aim is to remove social licence (ie public support) from the small number of companies which are producing, and therefore fueling, more than half of the world's carbon emissions.

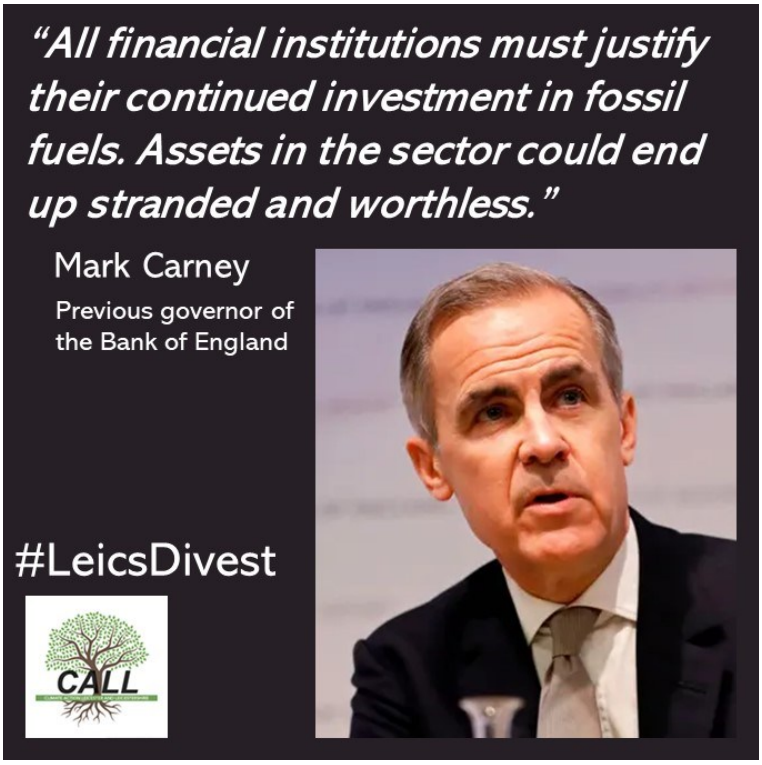
We are not saying these companies should be required to stop producing fossil fuels overnight. We are saying they should be required to steadily reduce their fossil fuel production at a speed which enables the world to reach Net Zero by 2050—in time to avoid catastrophic climate change. Fossil fuel companies will only change quickly enough if there is externally imposed national and international legislation, which is more likely if governments see support from investors.

Myth 2. Divestment from fossil fuel producers would be financially bad for the fund.

Reality. Divestment from the world's top 200 fossil fuel producers would be financially good for the Fund. This is because these shares run the risk of becoming stranded assets (worthless and unsellable). Funds excluding fossil fuel companies are already performing well in comparison to funds which include fossil fuel producers. For example, this MCSI index[2] and FTSE index[3] shows excluding fossil fuels to have a positive effect on returns. Data gathered by Carbon Tracker[4] (an independent financial think tank that carries out in-depth analysis on the impact of the energy transition on investments) show that the carbon bubble will burst soon, leaving fossil fuel shares stranded[5] Meanwhile, research by the Grantham Institute[6] shows that divesting from any group of companies does not have a negative impact on the portfolio and there is solid recent research showing that pension funds have lost revenue[7] as a result of retaining their fossil fuel investments.

Myth 3. Divestment from fossil fuel producers is contrary to the pension fund's fiduciary duty:

"any decisions the Committee make must first be in line with the Committee's fiduciary duty… achieving what is the best for the financial position of the Fund." ***From a letter to Hinckley and Bosworth Borough Council from the chair of the LLGPS Pension Committee. April 2023.***[8]



Reality: Fossil fuel divestment does meet fiduciary duty. Fiduciary duty requires safe investments resulting in returns which are sufficient to provide pensions. Risky investments which bring in high returns only if successful are questionable under fiduciary duty. Fossil fuel company shares are at real risk of becoming stranded due both to the international move to Net Zero and the rapid global switch to renewable energy generation. This makes the world's top 200 fossil fuel producing companies risky investments - see comments from Mark Carney[9] former governor of the Bank of England and a clear explanation of the risk from Campanale.[10]

Other pension funds in the UK and across the world are divesting, including Local Government Pension Schemes. For example, Waltham Forest LGPS[11] in London, Cardiff and Vale LGPS[12], the largest Dutch pension fund APB[13] and New York City.[14]

Myth 4. The pension Fund can only make decisions based on financial return: *Were the Fund to make decisions for reasons other than the primary benefit of financial returns it would be tantamount to making resource allocation decisions for employers"* ***Letter from LLGPS chair***.[8]

Reality: A primary reason for ending investment in the top 200 fossil fuel producing companies is financial as they risk becoming stranded and worthless (see myth 2)**. Climate change risks the long term financial security of the pension fund as a whole** and the LLGPS recognises this fact - *"The Fund views climate change as a material risk, and an issue that presents challenges that must be addressed"* [8] but is failing to adequately act on it. Making decisions which would help to secure the long term survival of the pension scheme is clearly within the remit of the Fund. Investing in fossil fuel producers gives implicit consent to carry on opening up new reserves, and lobbying governments to refrain from putting in place stricter and more effective legislation to reduce carbon emissions. These activities worsen climate change which risks the Fund.

Reality. The pension fund is allowed to make investment decisions for reasons other than financial. At the start of the Russia/Ukraine war the LLGPS – along with most other UK government pension funds – **decided to divest from Russian shares**[15] in the space of only a few months. This decision was not taken for primarily financial reasons.

Myth 5. Engagement with fossil fuel producing companies is effective in avoiding catastrophic climate change: *"The Fund believes that by targeting and engaging with these companies …we can best support the goals of the Paris Agreement and drive real-world carbon reduction."* ***Letter from LLGPS chair.*** [8]

Reality: Engagement is not fast or effective enough to create the change needed in the time available. Engagement by the Local Authority Pension Fund Forum, the Church of England and other pension funds over 30 years has failed to stop fossil fuel companies from opening up new oil, gas and coal reserves. This year we have seen **BP**[16] and **Shell**[17] two of the companies our Pension Scheme is engaging with, backtrack on their already inadequate climate commitments. The Church of England has just **decided to divest**[18] after 30 years of engagement, saying fossil fuel companies are "failing to show sufficient ambition to become Paris aligned", and the largest pension fund in Holland has explicitly divested from fossil fuel production because it has not found its engagement with Shell and other fossil fuel companies to be effective.

Myth 6. Divestment does not create real world change. *"While stopping investment in companies with exposure to fossil fuel reserves…would do nothing to insulate the Fund from the impact of climate change which affects all sectors"* ***Letter from LLGPS chair.*** [8]

Reality. Divestment does (and has) created real world change. It becomes more effective as more financial bodies do it. The pension Fund statement above assumes that real world change only comes from fossil fuel companies choosing to change their fossil fuel business model. Not only does divestment cut off a source of income for fossil fuels, but the actions of pension Funds can help to drive the introduction of regulations which require change: Christiana Figueres was the UN diplomat involved in the Paris talks in 2015 which resulted in the International Paris agreement to keep the world below 2°C of heating. She is very clear that financial institutions divesting from fossil fuel production were a **key factor in the success of these negotiations.** [19]

Myth 7. Divesting from fossil fuel companies makes them less likely to tackle climate change. *"divested shares could be purchased by less responsible investors [and removes] any ability to influence a company."* **[Letter from LLGPS Chair.](8)** [8]

Reality: divestment from fossil fuel companies makes them more likely to be required to change, and to choose to change. Recent[20] academic research has found that where divestment occurs, fossil fuel companies' carbon emissions fall. Even public statements of planned divestments can have an impact on fossil fuel companies as shown by the fall in share prices when the Irish government's **announcement of their plans to divest went viral.** [21]

Losing investment from reputable investors sends a signal to governments and financial markets that the company is no longer a safe and valid investment. Banks, insurance companies and governments are then encouraged to stop supporting new fossil fuel production through the provision of funding, licences, services and tax breaks. They also become more likely to introduce climate legislation.

Myth 8. The pension fund has an effective Net Zero Climate Strategy.
"the Fund's Strategy includes a four-step escalation of evaluation, engagement, voting and divestment…to advance companies' transition towards net zero." ***Letter from LLGPS chair***.[8]

Reality: The Funds Net Zero Climate Strategy has major flaws[22] when it comes to protecting the fund from climate change or encouraging real world action because it fails to directly address fossil fuel producing investments.

~ The CA100+ assessment measures facilitate greenwashing : As a result, fossil fuel companies such as Shell & BP end up looking like shining examples of climate action when in reality they fuel climate change.

~ The Fund's engagement lacks teeth: The strategy lacks detail about what companies are required to do, by when, and most importantly the consequences of failure to act. The escalation process is not clearly defined and does not include either consistently voting against the re-election of CEOs whose companies are failing to act, or divestment from these companies.

~ The engagement strategy does not specifically target banks and insurance companies even though these are the key enablers of additional fossil fuel production. It also fails to target fossil fuel producers who are among the highest carbon emitters in the Fund's portfolio.

Myth 9. The pension fund's members want the Fund to continue investing in fossil fuel producing companies: *"From the extensive views received it was clear our scheme members and employers support the proposed approach to the climate crisis, in a way that is managed prudently so that the Fund's financial returns are not negatively impacted."* ***Letter from LLGPS chair.***[8]

Reality: Fund members want the fund to end their investments in fossil fuel producing companies. The consultation and survey put out by the Fund were very complicated, leading, and did not clearly ask the question "Would you like the Fund to stop investing in companies involved in producing new fossil fuels". Responses to both consultations indicated that the vast majority of members wanted policies put in place which would tackle climate change. However, the consultations gave the impression that the fund's proposed measures would effectively do this. In reality the measures proposed (and now in place) allow companies to greenwash themselves rather than take action, failed to require real action, and did not include penalties for failing to act.

Our own ongoing survey of (so far) 222 pension scheme members currently paying into the scheme includes the statement "I would like my pension fund to stop investing in fossil fuel companies". 79.2% of the members surveyed so far agree with this statement, 63.9% agree strongly or very strongly. Only 16% disagree (8.1% strongly or very strongly). Many of the members surveyed also said they had not seen or had not understood the pension scheme's consultation.

Myth 10. The world needs investment in fossil fuel companies in order to have fossil fuels as it moves to Net Zero.

Reality. There are vast reserves of oil gas and coal already in production. The fuel contained within these reserves is more than enough to take the world to Net Zero by 2050 and because they are already in production, these reserves do not require investment. If even just the fuel in these reserves is burnt, it will push the world well above 2^{o}C of global warming. The huge sums of money involved in opening up new reserves need to be spent on renewable energy generation, battery production and recycling, insulation and other essential aspects of the Net Zero transition if that transition is to succeed.

References and further information:

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