Divest Derbyshire

The Case for Fossil Fuel Divestment

Briefing for Derbyshire County Council
18 Jan 2016

Divest Derbyshire is a campaign supported by the following 13 organisations across Derbyshire: Calow Against Gas Extraction (CAGE); Derby Climate Coalition; Glossopdale Transition Initiative; Melbourne Area Transition; Sustainable Edale; Sustainable Hayfield; Transition Belper; Transition Chesterfield, Transition Hope Valley, Transition Matlock; Transition New Mills. Transition Wirksworth; and University of Derby Students' Union.

What are we asking?

We are urging Derbyshire Pension Fund to:

- immediately freeze any new investments in fossil fuels; and
- divest from any existing investments in fossil fuels within 5 years

According to details obtained through a Freedom of Information request for the year ending March 2014 (latest figures available) Derbyshire Pension Fund had £224 million in fossil fuels holdings including direct holdings[1] and holdings in pooled funds, out of total holdings of £3.8 billion.

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Why are we asking?

There is a moral imperative to keep fossil fuels in the ground. At the Paris climate conference (COP21) in December 2015, 195 countries adopted a universal, legally binding agreement to limit global warming to well below 2°C above pre-industrial levels. They also aimed to limit the increase to 1.5°C, since this would significantly reduce risks and impacts of climate change[2].

To maintain temperatures at below 2°C we need to keep 80% of fossil fuels in the ground[3]. If we burn all the identified oil, gas and coal reserves, the greenhouse gases released will have catastrophic consequences for the planet.

As public bodies, local governments have a responsibility to work for the public good; they shouldn't be financially and politically supporting the most destructive industry on the planet.

There is growing evidence that fossil fuels are also a serious financial risk. Fossil fuel companies risk wasting up to $2 trillion (£1.3 trillion) of investors' money in the next decade[4] and Mark Carney has warned of risks to investors from unburnable stranded assets[5]. There is also evidence that funds that have divested perform better[6].

Who else is divesting?

In December 2015 it was estimated that around 500 organisations globally had divested US$3.4 trillion (£2.4 trillion) from fossil fuels[7]. In the UK the British Medical Association, Church of England, Glasgow University and the Environment Agency (a member of the Local Authority

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1 The top ten fossil fuel holdings were in the following companies: Royal Dutch Shell; BP Plc; Rio Tinto; BG Group; BHP Billiton Plc; Exxon Mobil Corp; Anadarko Petroleum Corp; Pioneer Natural Resources Co.

2 Even at 2C the consequences are serious www.carbonbrief.org/what-happens-if-we-overshoot-the-two-degree-target-for-limiting-global-warming

3 Globally, this equates to 88% of the world's known coal reserves, 52% of gas and 35% of oil. www.nature.com/nature/journal/v517/n7533/full/nature14016.html

4 www.carbontracker.org/report/stranded-assets-danger-zone/

5 www.theguardian.com/environment/2014/oct/13/mark-carney-fossil-fuel-reserves-burned-carbon-bubble

6 www.theguardian.com/environment/2015/apr/10/fossil-fuel-free-funds-out-performed-conventional-ones-analysis-show

7 http://gofossilfree.org/commitments/

Pension Fund Forum) have divested or committed to divest from fossil fuel companies. The Environment Agency policy has a broad objective of ensuring that investments are aligned with limiting climate change to a 2°C warming whilst focussing on low carbon investment, decarbonisation and engagement with industry.[8] The Fund will reduce its investment in coal by 90% over the next five years and reduce its investments in oil and gas by half.

Why we support divestment rather than engagement?

There is no evidence that shareholder engagement with fossil fuel companies is the best way to drive change. The Derbyshire Pension Fund currently supports a policy of engagement rather than divestment following the position of the Local Authority Pension Fund Forum (LAPFF). The LAPPF guidance notes a couple of examples of engagement, including shareholder resolutions to BP and Shell which asks the companies to report on strategic resilience and '*set out their business strategy in alignment with a two degree increase in global temperature*' [9].

Firstly, while we agree engagement and shareholder resolutions can be effective tools for changing aspects of a company strategy or operations – for example improving risk disclosure or issuing sustainability reports – there is no evidence that they are effective in changing the core business of a company.

Given the urgency of the climate threat and the need to keep 80% of fossil fuels in the ground there is nothing fossil fuel companies can do, other than changing their core business, to satisfy the UN-agreed principle of preventing global temperatures rising by more than 2°C.

Engagement without any threat of sanctions is an empty gesture. However a time-limited engagement with a threat of sanctions can be effective. For example, Aviva, which has around £250 billion in assets, has said it will divest from around 40 companies with more than 30% of their revenues from coal, where they consider the companies are not making sufficient progress towards the engagement goals set. It has set a goal of one year for engagement. Aviva is also investing £2.5 billion in renewable power and energy efficiency over the next five years to avoid what its Chief Executive describes as "eye-watering" financial risks[10].

The benefits of reinvesting

Examples of local authority pension funds who are using their investment funds to make "impact investments" include Greater Manchester, West Yorkshire, South Yorkshire, Merseyside and West Midlands, who have joined the Investing4Growth (I4G)[11] initiative to commit £152 million to projects that have an economic impact as well as positive social and environmental outcomes. The Greater Manchester Pension Fund (GMPF) with estimated assets of £16 billion, was the first fund to divest from tobacco, and has diversified its investments to focus on innovative and ethical local projects. In 2014 it partnered with The Homes and Communities Agency to provide a £25 million investment fund to build over 200 affordable homes in the Greater Manchester area.[12] Examples of local authority investments in community renewable energy schemes are shown in an Appendix.

Conclusion

Fossil fuel divestment can be a win-win strategy for the Derbyshire Pension Fund. Not only is divestment fully consistent with the fiduciary responsibilities of the trustees as shown by the good rates of return from fossil free indexes, and the risks of carbon-intensive investment, it would also enable Derbyshire County Council to play a leading role in tackling climate change.

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8 See Announcement of 19 October 2015 at www.eapf.org.uk/en/news-feed
9 www.lapfforum.org/news/files/Fossil_fuel_guidance_Sept.pdf
10 www.aviva.com/media/thought-leadership/climate-change-value-risk-investment-and-avivas-strategic-response/
11 www.investing4growth.co.uk/
12 www.blog.foe-scotland.org.uk/index.php/2015/06/6-local-governments/

Appendix: Local Authority Investments in Community Renewable Schemes

Commercially viable community initiatives are beginning to be seen in a favourable light by Local Authorities. A number of Local Authorities have already invested in community owned solar farms; Bath and North East Somerset, West Sussex County Council, and Telford and Wrekin.

Lancashire County Council invested £12 million in Westmill Solar Coop, the UK's largest community owned solar farm. The solar farm has 1,648 members, who all bought shares in the project. Lancashire and the individual members will receive interest for 23 years, with a projected 11% annual return.[13]

Bristol City Council has also been closely involved by providing land for rent to their local Community Benefit Society for a solar farm. Community benefit societies are incorporated industrial and provident societies (IPS) that conduct business for the benefit of their community. Profits are not distributed among members, directors, or external shareholders, but are instead returned to the community, and the assets remain in community or charitable ownership.

To pick a local example, Nottinghamshire Community Energy (NCE) was formed in August 2015 as a community benefit society, with the intention of owning and operating two solar farms.

We understand from Philip Angus (Chair of NCE) that NCE has raised the funding to cover the £5.7m required to purchase their first 5MW solar farm. The largest lender to the project is Triodos Bank who have committed just under three million pounds. Five hundred thousand pounds is coming from Nottingham Energy Partnership, and a further nine hundred thousand pounds has been raised via a share offer to individual investors who bought withdrawable shares with an anticipated return of 7%. NCE approached the Nottinghamshire Pension Fund to see if they would like to invest in the solar farm, and after a number of meetings, including one with Triodos Bank, Nottinghamshire Pension Fund have agreed to invest up to one and a half million pounds.

Community ownership and renewables in general have seen financial incentives withdrawn or significantly cut by the Government. If renewable energy ownership by community benefit societies is to continue, they will need to develop closer links with Local Authorities who recognise the local benefits, as well as seeing investment opportunities.

13 http://gofossilfree.org/uk/wp-content/uploads/sites/3/2015/08/Council_Pensions_Divest-Reinvest_briefing.pdf