The Case for Fossil Fuel Divestment:
Written Submission to Leicestershire County Council Pension Fund Committee

October 2021

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Foreword

Climate Action Leicester and Leicestershire is submitting this document for the consideration of the Pensions Committee members before, during and after their next quarterly Pensions Committee meeting on 26 November 2021.

Climate Action L+L has been consulting with other organisations concerned about the investment practices of Local Government Pension Schemes and the impact it has on the long-term health of the fund, the reputation of the County Council, the Council's own ethical and environmental commitments and scheme members themselves.

Scheme members are becoming increasingly aware and concerned that their pension funds continue to support climate change. Some may have even withdrawn from the scheme itself on principle because of these practices. We are also hearing of members' frustrations in having no say in where their funds are invested.

We strongly urge you to consider the evidence and recommendations in the following document with a view to divesting from companies complicit in driving the climate crisis, and place much greater effort on engaging scheme members in the formulation and execution of the Council's responsible investment policy.

Introduction

Aligning Leicestershire Council Pension investments with containing global heating to 1.5°C requires immediate divestment from fossil fuel companies and increased investment in zero carbon technologies.

To contain global heating to 1.5°C as outlined by the Paris Agreement, the IPCC have specified that 2010 global greenhouse emissions levels must be halved by 2030[1]. This urgent action must then be followed by continued marked reductions to reach 'net zero' global emissions by the middle of the century. The equity principle of the Paris Agreement means that emissions reductions trajectories for Global North countries must be significantly faster.

Making initial efforts to align with the Paris Agreement, the UK government has signed a 'net zero' emissions target by 2050 into law. It is now widely agreed among climate scientists, financial experts and policy makers alike, that to achieve the steep emissions reductions required, the vast majority of fossil fuel reserves can't be burned[2]. Indeed, research from September 2021 found that nearly 60% of oil and fossil methane gas, and 90% of coal must remain unextracted to keep within a 1.5 °C carbon budget.[3] To further underscore the incompatibility of fossil fuels in a zero carbon future, a recent landmark report by the International Energy Agency (IEA) stated unequivocally[4] that - beyond 2021 - "*there is no need for investment in new fossil fuel supply in our net zero pathway*."

The UN's Production Gap report[5] states that for a 1.5°C-consistent pathway, the world will need to decrease fossil fuel production by roughly 6% per year between 2020 and 2030. Indeed, to align with the seismic implications of the IEA report, oil and gas companies must prepare for major production declines, with half of the world's largest listed oil and gas companies facing cuts of 50% or more by the 2030's[6]. However, fossil fuel companies continue to invest billions of their capital expenditure into expansion of existing, or exploration of new, fossil fuel reserves. In the UK, Shell plc, one of Leicestershire's largest fossil fuel investments, is supporting the exploration of the Cambo oil field to the Northwest of the Shetland Islands[7].

Whilst fossil fuel companies risk pension holders' investments in stranded assets, positive public and private investment is helping bring about a prosperous clean energy revolution. In 2019 - in

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[1] IPCC (2018), *Special Report: Global Warming of 1.5ºC - Headline Statements,* available at: https://www.ipcc.ch/site/assets/uploads/sites/2/2019/06/SR15_Headline-statements.pdf

[2] Grantham Research Institute on Climate Change and the Environment (2018) *What are stranded assets?,* available at: https://www.lse.ac.uk/granthaminstitute/explainers/what-are-stranded-assets/

[3] Welsby, D., Price, J., Pye, S. *et al.* Unextractable fossil fuels in a 1.5 °C world. Nature 597, 230–234 (2021), available at https://www.nature.com/articles/s41586-021-03821-8#citeas

[4] IEA (2021) *Net Zero by 2050: A Roadmap for the Global Energy Sector,* available at: https://www.iea.org/reports/net-zero-by-2050

[5] UN Environment Program (2020) *The Production Gap*, available at: https://productiongap.org/2020report/#R1

[6] Carbon Tracker, *Adapt to Survive: Why oil companies must plan for net zero and avoid stranded assets,* available at: https://carbontracker.org/reports/adapt-to-survive/

[7] Offshore Technology (2021) *Cambo Oil Field,* available at: https://www.offshore-technology.com/projects/cambo-oil-field/

line with a zero-carbon future - renewables accounted for 72% of all new energy capacity additions worldwide.[8] Driving this increased capacity is the plummeting costs of new wind, solar and clean energy storage infrastructure. For example, during the 2010s solar became 89% cheaper and wind 70% cheaper, whereas the price of electricity from coal declined by 2% [8]. As a consequence, between 2010 and 2018, 411 million people gained access to clean electricity.[9]

We need to reduce exposure to fossil fuel risk to bring it in line with the international 1.5°C target'. As regards fossil fuel investments, the most appropriate means to accomplish this aim is the divestment of all fossil fuel holdings from the pension funds' investments.

The Financial Consequences of Fossil Fuel Divestment

Historically, divestment from fossil fuels would have had little effect on returns. In the very longest time frames studied, coal was the very worst performing sector over 118 years in the US; while oil slightly outperformed the market in the US and slightly underperformed in the UK over the same period.[10] Of course, the relevant studies' conclusions are highly dependent on the time period chosen - as there have been long and short periods of over and under performance for both sectors across this time period. Studies that examine returns from the past 50 years tend to find the sectors overperformed the market, while of more relevance, all studies covering the period from 2010 onwards show fossil fuels underperforming.

Over the past decade, as over 1,000 institutional investors, representing over $14.5Tn in combined assets, have moved to divest from fossil fuels, concerns have eased about financial risks attached to divestment. For example, the Rockefeller Brothers Fund, which divested from fossil fuels in 2014, found in 2020 that its investment returns beat market benchmarks.[11] Similarly, investment fund guru Jeremy Grantham published data on what he called 'the mythical perils of fossil fuel divestment'. The research showed that excluding any single sector of the economy had no real effect on long-term financial returns, finding that "if investors take out fossil fuel companies from their portfolios, their starting assumption should not be that you have destroyed the value. Their starting assumption should be until proven otherwise, that it will have very little effect and is just as likely to be positive as negative."[12]

In March 2021, two major investment advisors, BlackRock and Meketa, found in separate studies that investment funds have experienced no negative financial impacts from

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[8] Roser, M (2020) *Why did renewables become so cheap so fast? And what can we do to use this global opportunity for green growth?*, available at: https://ourworldindata.org/cheap-renewables-growth

[9] Tracking SDG 7 (2018) *The energy progress report*, available at: https://trackingsdg7.esmap.org/

[10] Atta-Darkua, Vaska, and Elroy Dimson (2018), "*Sector Exclusions*." Available at: In Energiaksjer i Statens Pensjonsfond Utland, edited by NOU, 117–34. Oslo: Norwegian Ministry of Finance.

[11] Rockefellers Brothers Fund, *"Investing in Our Mission',* available at: https://www.rbf.org/news/five-years-out-oil-rbf-isnt-looking-back

[12] Grantham, J (2018), commentary based on a lecture by Jeremy Grantham, which can be accessed in full at: https://www.lse.ac.uk/granthaminstitute/news/the-mythical-peril-of-divesting-from-fossil-fuels/

divestment[13][14], in reports undertaken at the request of New York City's comptroller on behalf of three of the city's pension funds.

Several of their core findings are noteworthy for Leicestershire Council:

- Divestment actions by hundreds of funds worldwide have passed the prudence tests required of fiduciaries.
- Fossil fuel stocks have underperformed for the last five years - and forward-looking analysis shows they are exposed to significant regulatory, technological and market risks.
- There is no uniform model for divestment. Some funds divested from coal but most adopted broader divestment strategies across the coal, oil and gas sectors. All divestment options have proven to be financially sound.
- The global trend in the investment world is toward more public pension fund divestment from fossil fuels. In the past, such actions were mostly consigned to universities, foundations and other private institutions. The size of individual Funds that are currently divesting is increasing.[15]

For a passive investor or a fund with a small number of external managers such as Leicestershire Council, the cost of divestment is likely to be small or non-existent. Indeed, there is considerable reason to believe that divestment from fossil fuels will improve, not weaken, investment returns.

Fiduciary Duty and Divestment

'We can't divest—we have to maximise returns because of our fiduciary duty'

Fiduciary duty is a legal obligation that requires trustees to act in the best interest of their members. Simply, this means they have an obligation to be careful with investors' money. Pensions exist to provide steady and long-term returns.

In the past, fiduciary duty was often used as an excuse by those opposed to divestment to say that they could not divest from specific asset classes for 'ethical' reasons because a pension fund should be neutral in how it makes its returns. This was despite the fact that divestment from tobacco, arms, pornography and apartheid South Africa, among many other campaigns, have been common around the world for decades.[16]

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[13] BlackRock (2021), '*Investment and Fiduciary Analysis for Potential Fossil Fuel Divestment',* accessible at: http://ieefa.org/wp-content/uploads/2021/03/BlackRock-Phase-Two.pdf

[14] Meketa (2021), *'Investment and Fiduciary Analysis of Prudent Strategies for Divestment of Securities Issued by Fossil Fuel Reserve Owners',* available at at: http://ieefa.org/wp-content/uploads/2021/03/Meketa-Phase-Two.pdf

[15] Taken directly from Institute for Energy Economics and Financial Analysis (2021) news release, available at: https://ieefa.org/major-investment-advisors-blackrock-and-meketa-provide-a-fiduciary-path-through-the-energy-transition/

[16] Ansar, A., Caldecott, B. and Tilbury, J. (2013) Stranded Assets and the Fossil Fuel Divestment Campaign: What Does Divestment Mean for the Valuation of Fossil Fuel Assets? Oxford: Smith School of Enterprise and the Environment, University of Oxford, www.fossilfuelsreview.ed.ac.uk/resources/Evidence%20-%20Investment,%20Financial,%20 Behavioural/Smith%20School%20-%20Stranded%20Assets.pdf

Any argument that uses fiduciary duty against divestment specifically in relation to the local government pension funds has a very weak basis. LGPS legal advice[17] and Law Commission guidance[18], applicable to England and Wales, says that fiduciary duty rules do allow pension funds to consider ethical factors in investment decisions, so long as these do not negatively affect financial performance and are not contrary to members' wishes. Similar conclusions have been reached by legal experts in Scotland[19].

Six local authority pension funds have committed to fully divesting from fossil fuels and have faced no legal or financial repercussions. In fact, a 2016 legal opinion for ClientEarth from two leading Queen's Counsel barristers found that pension fund trustees who fail to consider climate risk could be exposing themselves to legal challenges in the future for failing to protect the long-term interests of their members.[20]

Fiduciary duty requires fund managers to act in a way that best serves all their members fairly. This means that equal consideration should be given to current pensioners and those paying into a scheme at the very start of their career. In fact, it has been suggested that by not divesting from fossil fuel companies trustees could be in violation of their fiduciary duties on the grounds of impartiality, specifically putting the short-term interest on profit for current beneficiaries over the longer term interests of future members and current employees.[21] Furthermore, the leading international climate network, C40, finds that divestment sits comfortably within the fiduciary duty of trustees for the following reasons: 'climate change is a material financial risk,' climate solutions are more prudent long-term investment opportunities when compared to fossil fuels, ample portfolio diversification can be met with low-carbon assets, and averting warming and the negative impacts of climate change is well within the best interests of fiduciaries' beneficiaries.[22]

As the above section covered in detail the financial arguments for divestment, it is worth only repeating the findings of BlackRock and Meketa that divestment actions, in the hundreds of funds worldwide that they studied, have passed the prudence tests required of fiduciaries. The

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[17] LGPS Advisory Board (2019) Legal opinions and summaries, www.lgpsboard.org/index.php/board-publications/legal-opinions

[18] Law Commission (2015) 'Is It Always About the Money?' Pension Trustees' Duties When Setting an Investment Strategy: Guidance from the Law Commission, www.lawcom.gov.uk/app/uploads/2015/03/lc350_fiduciary_duties_guidance.pdf

[19] FOES (Friends of the Earth Scotland) (2019a) Local government divestment and the law in Scotland, https://foe.scot/campaign/fossil-fuel-divestment/local-government/local-gov-divestment-and-the-law

[20] ClientEarth (2017) Referral to the Pensions Regulator: Local Government Pension Scheme and Climate Risk, London: ClientEarth, www.documents.clientearth.org/wp-content/uploads/library/2017-02-10-clientearth-referral-to-thepensions-regulator-lgps-funds-coll-en.pdf

[21] Kathy Hipple (2019), IEEFA update: Fiduciary duty and fossil fuel divestment, Institute for Energy Economics and Financial Analysis, Available here: https://ieefa.org/ieefa-update-fiduciary-duty-and-fossil-fuel-divestment/

[22] C40 (2020) Why Divest-Invest action pays off, Available here: https://www.c40knowledgehub.org/s/article/Why-Divest-Invest-action-pays-off?language=en_US

evidence is conclusive that divestment from fossil fuels lies well within the fiduciary duty of the Leicestershire Council Pensions Committee.

The Case against Engagement

The Leicestershire Council Pensions Committee has continued to promote and defend a policy of ‘engaging’ with fossil fuel companies. Latest estimates from DivestUK[23] indicate that £154m is invested by the Pension Fund in fossil fuel companies such as Shell and BP. Even if (as your response to the Divest UK report on this shows you believe) this is an overestimate, the reality is still that many millions of pounds are invested in fossil fuel companies by the Leicestershire Fund.

We are told that this strategy of engagement is being followed because it gives the Fund a chance to improve the actions of the companies invested in. We are also aware that you are engaging with these companies on climate issues through your partners on climate issues. The question is, is this engagement being effective at the speed needed to prevent the world passing 1.5ºC of heating? If not, then does it simply support and legitimise these fossil fuel companies’ failure to take responsibility for the emissions they are creating?

We strongly welcome Leicestershire and Leicester Council’s declarations of a Climate Emergency, and understand your desire to make the fossil fuel companies you are invested in act more responsibly. However, the pensions fund’s current policy of engagement with oil, gas and coal companies threatens to frustrate and even thwart your work to address this emergency. This is because the historic and present actions of fossil fuel companies expose the limits of “shareholder engagement” as a practice and present no evidence that engaging with companies will yield the necessary change of behaviour required to not breach the 1.5ºC target of the Paris Agreement.

Proponents of "shareholder engagement" with fossil fuel companies suggest that, instead of divesting their portfolios, investors committed to climate action should hold on to their fossil fuel stocks in order to influence these companies to do better on environmental issues. This has been the main argument most LGPS funds, including Leicestershire, have made against divestment recently. While it is admirable that pension funds want to use their money to make things better, there is very limited evidence to suggest that engagement with fossil fuel companies can help meet this aim.

In order to keep warming below the 1.5ºC global threshold needed to avert unacceptable dangers to humanity, the measure of successful engagement with fossil fuel companies would be that these companies commit to keeping the vast majority of their oil, gas and coal stocks in

[23] https://www.divest.org.uk/councils/

the ground, stop exploring for more reserves and rapidly transition to become almost entirely renewable energy companies.

In the history of shareholder engagement with fossil fuel companies, this has not happened.[24] The limit of this approach is especially evident in the case of local government pension funds, whose size and capacity limits them even further in their ability to achieve any fundamental change to the core business model of fossil fuel companies.[25]

It is becoming increasingly clear to the public and asset managers that these companies are not changing at the speed the climate crisis demands. A survey of 64 institutional investors, with almost $11tn in assets, found that only 17% believe oil groups will transform their businesses to focus on green energy.[26]

In April 2021, the Local Authority Pension Fund Forum (LAPFF) said that it did not believe Shell was changing its business to respond to climate change fast enough and that its net-zero plans were unreliable.[27]

In May 2021, the OECD-funded International Energy Agency (IEA), the most influential energy modelling agency in the world, announced that if we are to reach net-zero by 2050 and meet the Paris targets then all fossil fuel companies must stop new oil and gas exploration projects this year.[28] Not one of the fossil fuel companies most heavily invested in by LGPS members has made this commitment, despite many celebrating their supposed “net-zero” plans.[29]

While it is true that several large fossil fuel companies have garnered a considerable amount of publicity for their climate or 'net-zero ambitions', the reality is that these all fall far short of what is required if we're to avoid catastrophic climate change ('the only real path to protect long-term investment value and returns' – CA100+). Indeed, the last five-and-half years of ‘engagement’ have failed to bring a single such company into alignment with the goals of the 2015 Paris

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[24] In a 2020 study of the sustainability practices of the largest pension funds in the world, representing ownership of over £70 billion in fossil fuel assets, researchers found only one example of direct engagement with a fossil fuel firm where the company was asked to keep their fossil fuel assets in the ground, and even this did not lead to a commitment to do so from the firm.
See Rempel, A. & Gupta, J. (2020) Conflicting commitments? Examining pension funds, fossil fuel assets and climate policy in the organisation for economic co-operation and development (OECD), Energy Research & Social Science, 69. Available at: https://www.sciencedirect.com/science/article/pii/S221462962030311X

[25] For more on engagement, see Friends of the Earth (2018) Briefing: Pension Funds’ engagement with fossil fuel companies. Available at: https://cdn.friendsoftheearth.uk/sites/default/files/downloads/Briefing%20Pension%20Funds%27%20engagement%20with%20fossil%20fuel%20companies%20March%202018.pdf

[26] Mooney, A. & Nauman, B. (2021) Most big investors sceptical over oil majors’ green ambitions, Financial Times, 3 May. Available at: https://www.ft.com/content/fdb34abf-5990-474a-a5c9-6d601ae41826

[27] Rust, S. (2021) UK public pension forum recommends vote against Shell on climate, IPE, 28 April. Available at: https://www.ipe.com/news/uk-public-pension-forum-recommends-vote-against-shell-on-climate/10052498.article
The Local Authority Pension Fund Forum represents 82 local authority pension funds and seven pool companies worth over £300 billion across the UK. LGPS members hold £266 million worth of shares in Shell, second only to BP. SeeUK Divest (2021) Divesting to protect our pensions and the planet An analysis of local government investments in coal, oil and gas, p.11. Available at: https://www.divest.org.uk/report

[28] [33] Hook, L. and Raval, A. (2021) Energy groups must stop new oil and gas projects to reach net zero by 2050, IEA says. Financial Times, 18 May. Available at: https://www.ft.com/content/2bf04fff-5b2f-4d96-a4ea-ff55e029f18e

[29] UK Divest (2021) Divesting to protect our pensions and the planet An analysis of local government investments in coal, oil and gas, p.11. Available at: https://www.divest.org.uk/report

Climate Agreement – a fact highlighted in recent assessments by Oil Change International[30] and the Transition Pathway Initiative.[31]

The former, published in September 2020, concluded that 'not a single climate plan released by a major oil company comes close to aligning with the urgent 1.5ºC global warming limit'. The Transition Pathway Initiative assessment, published in October 2020, found that 'none' of the 59 large, publicly-listed fossil fuel companies that it examined 'were yet on track to align their emissions with a 2°C climate pathway by 2050' – let alone a 1.5°C pathway now.[32]

The Pension Committee's current policy – shrinking the Fund's exposure to fossil fuel companies down while refusing to make a public divestment commitment – is effectively providing cover for these companies' ongoing attempts to block and slow-down effective climate action. The recent development of fossil fuels companies suing governments across the world for climate policy that threatens their profits is just the latest example of the industry's attempts to impede climate action.[33]

As academics Dario Kenner and Richard Heede have noted, 'what the executives and directors [of companies like BP, Shell, Exxon and Chevron] have in common is a desire to maintain

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[30] Big Oil Reality Check: Assessing Oil and Gas Company Plans, Oil Change International, September 2020, http://priceofoil.org/2020/09/23/big-oil-reality-check

[31] 'Fossil fuel giants still aiming wide of 2ÅãC mark, investors say', Transition Pathway Initiative, 7 October 2020, https://www.transitionpathwayinitiative.org/publications/60.pdf?type=Publication. This conclusion was reiterated in the TPI's 13 April 2021 'State of Transition Report 2021': https://www.transitionpathwayinitiative.org/publications/82.pdf?type=Publication

[32] A few more illustrations:
(1) In 2019 the oil and gas industries were forecast to spend $4.9 trillion over the next decade on new oil and gas fields – none of which is compatible with limiting warming to 1.5ÅãC ('Overexposed: How the IPCC's 1.5℃ report demonstrates the risks of overinvestment in oil and gas', Global Witness, April 2019, https://www.globalwitness.org/en/campaigns/oil-gas-and-mining/overexposed/);
(2) While BP and Total have declared 'Net Zero' goals for 2050, neither 'goal' actually covers all of the company's owned production and global product sales. For example, BP excludes its stake in Rosneft from its Net Zero goal, even though this makes up around a third of BP's global production volume. Likewise, Total's goal fails to include end-user ('scope 3') emissions for its customers outside Europe. ('Absolute Impact 2021: Why oil and gas "net zero" ambitions are not enough', Carbon Tracker, May 2021, https://carbontracker.org/reports/absolute-impact-2021/);
(3) None of Shell, Equinor, Repsol, Occidental, Conoco-Philips, Chevron and Exxon have made any commitment to absolute emissions reductions by 2030 (meaning that they could actually increase their emissions during this period without breaching their 'goals'). This despite the fact that CO2 emissions from oil and gas must fall by at least 44% and 39% by 2030 respectively if we're going to limit global warming to 1.5ÅãC. (See 'Big Oil Reality Check', op. cit., p.7 and 'Analysis: Why coal use must plummet this decade to keep global warming below 1.5ÅãC', CarbonBrief, 6 February 2020, https://www.carbonbrief.org/analysis-why-coal-use-must-plummet-this-decade-to-keep-global-warmingbelow-1-5c);
(4) Even where companies have net zero 'goals', these remain 'heavily reliant on a range of unproven technologies to mitigate emissions, impacting their credibility'. For example, 'Eni and Shell's plans involve a combined 140Mt/CO2 of carbon dioxide removal per year through afforestation, effectively implying a forest larger than Bulgaria, and potentially nearly as large as Spain.' As Carbon Tracker note: 'This is a huge land area needed to address just 0.3% of current average emissions (41.5Gt/CO2 per year).' ('Absolute Impact', op. cit.)
(5) Earlier this year the Economist set out to assess the impact of the CA100+ investor initiative using a portfolio of 100 large emitters that were not engaged by CA100+ but which roughly matched the CA100+ firms in terms of sectors and regions represented. They found little difference between the two groups, in terms of commitments made, concluding that '$50trn-worth of investor pressing does not seem to result in much change'. ('The Impact of Green Investors', Economist, 27 March 2021.)

[33] Hannah Thomas-Peter, Fossil fuel firms sue governments across the world for £13bn as climate policies threaten profits, Available here: https://news.sky.com/story/fossil-fuel-companies-are-suing-governments-across-the-world-for-more-than-18bn-12409573

demand for oil and gas, and to defend their company's social license to operate'.[34] Pension funds carry real weight when it comes to providing social license because they represent society.

The never-ending process of 'shareholder engagement' and its associated greenwash plays into this: 'When BP, Shell and others talk of net zero, they are trying to stay part of the decision-making process. They want to be in charge of the transition as much as possible so they can slow it down – that is the whole point of trying to convince society to trust them … It can't be just about what Shell is doing or BP. It must be industry wide. And should be about acting on climate science and phasing out oil and gas in line with a 1.5°C target.'[35]

The record on engagement with fossil fuel companies provides insufficient reason to continue investing in oil, gas, and coal companies.

One argument provided for engagement by Leicestershire Council is that divestment can result in ownership of assets by 'bad' owners who have no interest in promoting ESG issues. The principal idea being that selling off these assets will land them in the hands of owners with less interest in climate action and responsible investment. However, this argument appears to be based on a belief rather than an observation based on evidence. It will be interesting to see if an evidence-based road map comes to the same conclusion.

While there is no evidence for 'bad owners' claim, the divestment movement globally is having a significant impact on the clout and ability to operate of the fossil fuel industry. The number of institutional investors committed to divest rose from 180 in 2014 to more than 1,100 in 2019[36]. As a result, Royal Dutch Shell listed divestment campaigns as a material risk in its 2019 annual report. Additionally, there is evidence on the impact of fossil fuel divestment in reducing the financial flows to oil, gas and coal companies in the countries in which the commitments are made.[37]

With all these factors in consideration, it stands to reason that Leicestershire's impact on fossil fuel majors would be greater by joining the divestment movement rather than remaining confined to periodic efforts at engagement that have generated no substantial success.

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[34] Dario Kenner and Richard Heede, 'White knights or horseman of the apocalypse? Prospects for Big Oil to align emissions with a 1.5C pathway', Energy Research & Social Science, 17 March 2021. https://www.sciencedirect.com/science/article/pii/S2214629621001420

[35] 'Oil firm bosses' pay 'incentivises them to undermine climate action', Guardian, 15 April 2021, https://www.theguardian.com/environment/2021/apr/15/oil-firm-ceos-pay-is-an-incentive-to-resist-climateaction-study-finds

[36] Billy Nauman,*Sharp rise in number of investors dumping fossil fuel stocks*, Financial Times, available here: https://www.ft.com/content/4dec2ce0-d0fc-11e9-99a4-b5ded7a7fe3f

[37] Cojoianu T.J.; Ascui, F.; Clark, C.L.; Hoepner, A.G.F.; and Dariusz Wójcik, Does the fossil fuel divestment movement impact new oil and gas fundraising?, *Journal of Economic Geography*, Volume 21, Issue 1, January 2021, Pages 141–164, https://doi.org/10.1093/jeg/lbaa027

Conclusion

The aim of this written submission has been to reinforce the financial case for divestment and convey how it is within the fiduciary duty of the council and the ability of its fund managers to exclude oil, gas, and coal companies. The failed history and inadequate recent record of engaging with these same companies should serve as a further reason to sever ties, following in many cases decades of climate denial, delay, and inaction.

As the leaders of the world gather in Glasgow in November for the crucial COP26 climate talks, the members of the Leicestershire Council Pensions Committee have a profound decision before them. Will they, heeding the advice of climate scientists, economics, and investment advisors, accelerate their shift away from fossil fuels, divest from fossil fuel companies and accelerate their path towards decarbonisation in line with the 1.5ºC target of the Paris Agreement? Or will they stick to the current course, choosing gradual decarbonisation and engagement over any measure of exclusion? Both options are possible but only one will cement Leicestershire Council as a UK-wide leader in tackling the climate emergency in its own district and through its investment portfolio.

As a final note, the Pensions Committee should consider the case of the Cambo oil field, currently awaiting UK Government approval. The Cambo field, co-owned by Shell, who has a 30% stake in the project, and Siccar Point Energy, who has the remaining stake, is intended to extract 170 million barrels of oil in its first phase alone[38]. The emissions equivalent to this much oil is 18 coal-fired power stations running for a year[39]. The field is set to begin production next year, start producing oil in 2025 and remain in operation until 2050 - the same year the UK is meant to be carbon neutral and well after Leicestershire's net zero target[40]. In total, Shell and Siccar Point Energy plan to extract 255 million barrels of oil, making Cambo the second largest undeveloped field in the UK Continental Shelf[41]. If the UK government approves this field, it will be in direct contradiction to the warnings of the International Energy Agency[42] and the warnings of the chief of the UN[43] that we can allow no new oil, gas, and coal development if we want to limit warming to 1.5ºC.

Civil society groups, political parties and key international figures like the Executive Director of the International Energy Agency, Dr. Fatih Birol, and United States Special Presidential Envoy for Climate, John Kerry[44], have voiced their concern about the project. Over 80,000 individuals

[38] Information on the project available here: https://www.siccarpointenergy.co.uk/our-portfolio/corona-ridge-area

[39] Greenpeace, Cambo chaos: the oil field embarrassing the government ahead of the COP climate talks, Available here: https://www.greenpeace.org.uk/news/cambo-chaos-oil-embarrassing-government-ahead-cop-climate-talks/

[40] ibid

[41] ibid

[42] https://www.iea.org/reports/net-zero-by-2050

[43] France 24 (2021), Climate report must be 'death knell' for fossil fuels: UN chief, available here: https://www.france24.com/en/live-news/20210809-climate-report-must-be-death-knell-for-fossil-fuels-un-chief

[44] Climate Crisis: John Kerry says next 100 days could 'save many lives' ahead of COP 26 https://www.channel4.com/news/climate-crisis-john-kerry-says-next-100-days-could-save-many-lives-ahead-of-cop-26

and almost 80 civil society organisations have delivered a letter to Boris Johnson urging him to reject the Cambo field.[45] The UK Labour Party[46], Scottish Labour, Green Party and Scottish Green Party[47] have all condemned the project and the Scottish National Party[48] has written to Boris Johnson urging him to reassess the field development.

In the weeks leading up to COP26, the Cambo oil field has become a litmus test of climate action. Whether or not a government, politician or political party approves of the project is a clear indicator of whether they are willing to heed the warnings of the IEA and UN and work to end all new oil, gas and coal development. The question we want to leave you with is how does the Cambo field relate to the Leicestershire Council Pension Fund?

Leicestershire's largest fossil fuel investment lies with Shell. Shell is one of the driving forces behind the Cambo field and has made no plans to cease all new oil and gas production in the UK or elsewhere. Shell's refusal to end new production contradicts the findings of the world's leading energy agency on the best possible path to net zero emissions and the ruling of the case in the Netherlands that ordered Shell to reduce its emissions by 45% by 2030[49].

How is Leicestershire leveraging its investments in Shell in order to stop the Cambo field? How likely is it that Shell will change its core business model of oil and gas production and end exploring and extracting from new fields this year, in line with the recommendations of the IEA? What will Leicestershire's response be if the Cambo field is approved and Shell opens up a new field that will run until 2050?

These are the questions that the Pension Committee will continue to face as long as it remains invested in oil, gas and coal companies. The weight of the evidence shows that fossil fuel divestment is financially prudent and legally sound. The moral argument for severing ties with an industry that has historically denied climate change and is now actively delaying climate action has never been in question. We hope that in the weeks and months ahead, the members of the Pensions Committee use their power to set a new standard for Responsible Investment for Leicestershire Council and a clear example for the rest of the country to follow.

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