**Divestment from Fossil Fuels - The What, Why and How**

The government declared a Climate Emergency in 2019 and Surrey County Council was one of the first councils to do the same, but strong words imply actions and in Surrey Pension Act Now (SPAN) we feel that divestment from fossil fuels is one that is anessential part of our fight for a liveable future.

**Background**

Pension funds are among the largest institutional investors in fossil fuels. Nearly 30% of fossil fuel industry shares are held by pension funds, this is in spite of many organisations within the pension industry stating their commitment to net zero and positive climate action.

The Institute and Faculty of Actuaries has recently revised and reported its assessment that climate change impacts such as fires, flooding, drought and the breakdown of nature could cause a 50% reduction in Global GDP between 2070 and 2090.

**Why Divest?**

There are two main categories of arguments for fossil fuel divestment: moral and financial/economic.

The moral argument is based on widely accepted scientific research that to limit global heating to under 2 degrees C and prevent catastrophic levels of climate change, between 60 and 80% of fossil fuels need to stay in the ground. However fossil fuel companies are currently ignoring this reality and continuing to extract, refine and sell their products, in addition many are pursuing policies of exploration and the development of new fields.

The financial argument rests on the premise that if international agreements on climate change are met, then fossil fuel investments will become worthless, stranded assets. This argument is widely supported, Mark Carney, ex-Governor of the Bank of England explained that ‘the vast majority of reserves are unburnable’. The World Bank has also said ‘every company, investor and bank that screens new and existing investments for climate risk is simply being pragmatic’.

In addition to divestment from fossil fuel companies SPAN has also drawn attention to their ‘enablers’ the banks and insurance companies without which fossil fuel companies could not operate.

It is recognised that the impact of divestment on shar prices may be relatively small, however the reputational damage that may follow could have serious financial consequences.

**The story so far…**

A number of pension funds have divested away from fossil fuels in recent years. Some have made announcements to divest but also included a time frame such as ‘we will completely divest by 2030’.

 Waltham Forest Council divested in 2022. Waltham Forest belongs to the London Collective Investment Vehicle which is a pension pool, when planning its divestment it worked with the pension pool to ensure that all councils within the pool were offered alternative investment options so that they could also divest but still be part of the pension pool.

 Lambeth Council has moved £350 million from its pension fund into

 fossil fuel-free investments.

 Islington and Cardiff City councils have both announced that they will decarbonise their pension funds. Southwark Council has similar plans.

 Wiltshire Pension Fund has said it will divest from fossil fuels by 2030 and achieve net zero across its fund by 2050.

 There was a high level of media coverage when the Church of England announced its divestment plans.

**Engagement**

Many pension funds including SPF value engagement over blanket divestment. This approach suggests that it is better to act as an ‘activist investor’ to push fossil fuel companies to make improvements than it is to divest and to lose a position of influence. There may be instances where investors are able to influence company direction however to imagine that an oil company can be influenced to move away from its core business model of extracting, refining and producing oil that is quickly turned into harmful emissions is seen by many as a ludicrous idea.

**Where should investments be made?**

In SPAN we would hope that divestment away from fossil fuels creates opportunities to support low carbon industries and funds with a focus on sustainability, often referred to as the green economy.However, it is important to take a close look at companies that say they have a green focus, for instance many carbon offset operations when examined do not live up to their claims.

**It takes time**

We recognise that not everything happens quickly. Some investments are complex, e.g. some fossil fuel investments will be held within a fund where other shares are viewed as positive choices, there are also investments made through the pension pool and influence on these can be a lengthy process.

Over time SPF has significantly reduced its fossil fuel holdings, we believe that by constantly drawing attention to the issue, ensuring that the committee are aware of relevant reports and scrutinising SPF’s actions we have played a part in securing the level of divestment that has occurred.

Jackie Macey, submitted to SPAN

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