Why is the UK's largest pension scheme still investing in fossil fuels?

Universities' divestment policies are undermined by the USS' continued investment in oil companies, says Bill Spence

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Bill Spence

Source: Getty

The Universities Superannuation Scheme's recent announcement that it will "exclude, and where necessary, divest" from tobacco companies, thermal coal and some weapons industries is welcome but long overdue.

Members may be surprised, for instance, that it took 70 years for the discovery that cigarettes cause lung cancer to translate into a decision from the UK's largest pension fund by assets to withdraw its £190 million support for the industry. They may also be surprised that the fund, currently worth £75 billion, ever even considered financing the production of cluster munitions, white phosphorus and landmines.

But the really critical issue is that the USS continues to actively promote industries that are accelerating the climate emergency. The announced disinvestment in thermal coal is pure greenwash as the fund does not appear to have any holdings that would be affected. More revealing is what isn't mentioned in the press release: the more than £1.3 billion that will remain directly invested in supporting oil and gas companies, plus large fuel-intensive infrastructure investments such as 10 per cent ownership of Heathrow Airport.

Keep in mind the context. The United Nations has given us little more than a decade to drastically reduce our use of fossil fuels or risk much more disastrous global heating than we have already seen. In response, more than half of UK universities have committed to divesting from fossil fuels. Yet these divestments are dwarfed by their huge contributions to the USS – whose largest single holding, according to members' group DivestUSS, is an enormous £500 million in the oil company Shell.

The USS argues that the most effective way to ensure changes in climate impact is by engaging with such corporations at annual general meetings. But documents on the USS website itself show that in *every single motion* relating to climate change at Shell AGMs since 2010, the USS has voted with the company. This includes repeatedly voting against setting corporate targets in alignment with the Paris Climate Agreement; on the most recent occasion, in May, the USS explained that it "didn't want to undermine [Shell's] management team".

USS CEO Bill Galvin presents this all differently. He writes that a "ground-breaking" example of the effects of USS pressure is Shell's announcement of plans to reduce its carbon emissions by "around half" by 2050. But the 2018 UN climate report highlights that carbon pollution needs to be cut to *zero* by 2050 to keep warming to 1.5 degrees, while Shell is actually forecast to increase oil production by 38 per cent during the next decade. This at a time when the company is reportedly far behind its own very limited targets for investing in green energy and the oil industry as a whole commits just 1.3 per cent of its capital expenditure to low-carbon technologies.

In response to criticism of its investment strategy, the USS cites its key legal duty to underwrite future pensions. Its head of responsible investment argues that this rules out divestment from particular companies or sectors for ethical reasons alone.

But even discounting ethics, the accelerating climate crisis means that fossil fuel investments are not even a good medium-term bet. The world's largest fund manager, BlackRock, is lowering its overall exposure to them, stating that "we are on the edge of a fundamental reshaping of finance". Shell has recently cut its dividend – previously the largest in the FTSE100 – by a swingeing two-thirds. The huge USS investment in Heathrow already looked ill-judged in February, when the airport's expansion plans were ruled illegal and in conflict with the government's climate commitments. And the pandemic has shattered the airline sector, with experienced investors like Warren Buffet dumping all their vast holdings in it. All of this will surely give the USS' new chair, Dame Kate Barker, much food for thought when she takes over in August.

While the USS appears rather cosy with companies like Shell, it struggles to engage with the members whose money it is investing. During the 2018 strike by university staff against plans to shift the USS to a defined contribution scheme, the fund's managers failed dismally to persuade members of the validity of their financial assessments (their image was hardly helped when a professor of medical statistics who had consistently criticised the valuations was removed from the USS board last year). Staff were again on strike this year, with pensions one of the key issues; the current use of their money by the USS may not help in persuading them to increase contributions.

When the next annual climate crisis conference, COP 26, is held in Glasgow in 2021, the world's eyes will be looking to see what leadership the UK has been showing. The country's academics have been playing a leading role in understanding and reacting to the rapidly developing climate emergency; they deserve a lot better than having their pension savings used to support the businesses driving this crisis.

It is high time that the UK's largest pension fund stopped the greenwashing and got clean out of fossil fuels.

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