Why Divest?
The case for fossil fuel divestment in Somerville

Quick Summary
By investing in fossil fuel companies, Somerville is helping to fund the biggest impediment to reducing carbon emissions and building a sustainable future. By divesting from fossil fuel companies, we can join a growing movement and continue to be leaders on climate change. Fortunately this is a case where the right thing to do and the financially smart thing to do align. Several market studies show that divestment poses little risk and may lead to a small increase in returns in the short-term. In the medium- to long-term, fossil fuel companies represent a risky investment as a result of industry trends and the international requirement to reduce carbon emissions. By divesting, we can help to protect both the financial and environmental future of Somerville.

The Moral Reasons for Why We Should Divest

Fossil fuels are not part of a sustainable future, and we must begin transitioning away from fossil fuels now in order to remain within the global consensus for acceptable climate change.

We have known for nearly 30 years that we cannot continue releasing carbon dioxide and other greenhouse gasses into the air indefinitely without terrible consequences for the ecosystem and the sustainability of our way of life. The most recent international scientific consensus report (IPCC) on climate change concluded that failure to reduce fossil usage “could threaten society with food shortages, refugee crises, the flooding of major cities and entire island nations, mass extinction of plants and animals, and a climate so drastically altered it might become dangerous for people to work or play outside during the hottest times of the year”.

Recent analyses show that we can only burn around 20% of currently known fossil fuel deposits and keep climate change within the internationally accepted limits set to avoid these consequences. In fact, if carbon emissions continue at their current rate, we will exceed these limits within the next 16 years. Clearly this is an urgent issue: we must begin moving away from fossil fuels now.

By investing in fossil fuel companies, the City of Somerville is currently funding the biggest impediment to a transition away from fossil fuels and to a sustainable future.

Despite the fact that a wide range of measures to address climate change are popular with the general public, they consistently fail to gain political support at the highest levels. Instead, in a time when we need to be urgently moving away from fossil fuels, the fossil fuel industry continues to receive billions of dollars each year in subsidies and tax breaks. In fact, across the globe more total money is given to
fossil fuel companies in subsidies and tax breaks than all the money spent by governments to fight climate change!\(^7\)

This is in large part because the fossil fuel industry is one of the biggest lobbies in Washington and the world.\(^9\) In 2014 alone they spent $144 million on lobbying members of the US congress and employed 754 lobbyists (nearly two per congress member).\(^10\) They fight tooth and nail against even the most commonsense measures to reduce fossil fuel usage and increase alternatives. Not surprisingly, research shows that congressional votes are predicted well by fossil fuel industry donations. In addition to their lobbying efforts, fossil fuel companies fund climate change denial and other efforts to mislead the public about the science and seriousness of climate change. Simply put, fossil fuel companies are committed to using their enormous wealth and power to prevent a transition away from fossil fuels, and currently Somerville's pension fund is helping to fund these efforts.

In the face of increasingly dangerous inaction at the national and international levels, cities like Somerville must continue to be leaders in building a sustainable future.

Climate change is a global issue, but it is a product of individual, local, national, and international decisions and actions. To deal with climate change effectively we need action at all these levels. In Somerville we have taken that responsibility seriously. We have passed a resolution recognizing that there is a climate emergency; we have established the Office of Sustainability and Environment which manages a number of projects including tracking our greenhouse emissions and retrofitting buildings for energy efficiency; and we have joined the U.S. Conference of Mayors Climate Protection Agreement which commits us to meet or beat the Kyoto Protocol targets in our city. Given the urgency of the problem and the disappointing progress for sustainability at the national and international levels, it is vital that cities like Somerville continue to take leadership on this issue.

Instead of being part of the problem, we can be part of the solution by joining a growing movement of cities and institutions divesting from fossil fuels.

Divestment has been a successful strategy in past movements, most famously in the movement against South African apartheid—a movement that Somerville joined along with the rest of Massachusetts by divesting from companies doing business in South Africa. By divesting from fossil fuels, Somerville can join a growing international movement of municipalities, universities and colleges, and other institutions who are taking a strong stand. These governments and institutions are making clear which side they are on and saying that they will not take part in the industry that is undermining our future. If it’s wrong to destroy the planet, it’s wrong to profit from the destruction of the planet, and divestment is a key part of a movement to undermine the moral, political, and economic legitimacy of the fossil fuel industry.

THE FINANCIAL REASONS FOR WHY WE SHOULD DIVEST

Several market studies have shown that divestment poses low financial risk and that fossil fuel divestment will likely have little to no impact on returns in the short-term.

Currently only 1.9% of the Somerville pension fund is invested in the top 200 fossil fuel companies. This means that any impact of divestment, positive or negative, will necessarily be quite small. We also know that there are numerous stocks that provide return rates that are as good as or better than fossil fuel companies, so fossil fuel companies are not necessary to achieve high returns. The relevant question is whether, by restricting the scope of investments, fossil fuel divestment increases risk. No investment decision has zero risk (including maintaining fossil fuel investments—see below), but
market studies have shown that the increase in risk from fossil fuel divestment is extremely small: around 0.01% in the most widely cited study. Another study from a leading investment analysis firm concluded that fossil fuel divestment could decrease risk, due to the volatility of the energy sector. In addition, there are now several fossil fuel free portfolios on the market, and their performance has been as good as or better than index funds that include fossil fuel companies. In fact, because fossil fuel stocks have under-performed over the last few years, the most likely immediate impact of divestment is a small increase in returns.

In the medium- to long-term, fossil fuel stocks are a risky investment; in fact, they may be at the core of a large market bubble.

Fossil fuel stocks have underperformed index funds over the last few years, and many analysts believe that this trend will continue. There are two primary reasons for this.

The first is that as easily accessible deposits of oil, coal, and gas are exhausted, companies are moving to more difficult and expensive to extract deposits, such as fracked natural gas and tar sands oil. This change reduces profit margins and it will increasingly undermine the competitiveness of fossil fuel companies versus alternatives (e.g., solar and wind), particularly as the cost of alternatives drops.

The second reason has to do with the global response to climate change. We know that 80% of known fossil fuel deposits must stay in the ground to keep global warming within the international consensus of 2°C Celsius. This means that we must take strong measures to reduce fossil fuel usage, and whether that is massive investment in renewable energy, new regulation, a carbon tax, or any number of other policies, it is going to hurt the profitability of the fossil fuel industry. The current business plans of the fossil fuel companies depend on the alarming assumption that profits will be realized on all of the deposits they own (and they continue to spend billions of dollars each year searching for more!). The fact that this is impossible has led many analysts to conclude that fossil fuel stocks represent an enormous market bubble, possibly larger than $20 trillion (10 times the size of the recent housing bubble). Just like the housing bubble, the tech bubble, and other historical market bubbles, anyone left holding fossil fuel stocks will stand to lose a lot of money. We don't know when this bubble will burst—that's a central characteristic of market bubbles—but trying to play chicken and get out just before it does is the definition of a risky investment strategy. Think about it: if there is any industry in the entire stock market that we know must decline in the future, it's the fossil fuel industry. So why would we stay invested in it?

THE BOTTOM-LINE

On the one hand, Somerville is taking climate change very seriously and taking actions to reduce our carbon emissions. As a city on the ocean particularly at risk of rising sea levels and other effects of climate change, we must hope that large-scale reductions in fossil fuel usage start in the near future. On the other hand, we are invested in fossil fuel companies and this means that we are assuming and hoping that the fossil fuel industry continues to do well. In other words, our investments are fundamentally inconsistent with our actions and values.

Just as the pension fund provides security for retirement, we should also provide for the environmental security of our workers, our children, and grandchildren. We cannot do this while investing in an industry that depends on extracting fossil fuel deposits deemed unsafe to burn and that spends millions of dollars every year spreading misinformation and lobbying against policies that could ensure a livable future for all. We do not believe the pension fund should contribute to jeopardizing the health and safety of future generations.
We know that the pension fund can be healthy and profitable without investing in companies who constitute a major barrier to progress in stopping climate change. In fact, we believe that the necessity of a world without fossil fuels means that fossil fuel stocks are not a reliable long-term investment. We therefore believe the Somerville retirement system has both a fiduciary and moral responsibility to divest.

**FAQ**

**Q: Who is arguing for divestment in Somerville and who supports divestment?**
A: Fossil Free Somerville is a grassroots group of Somerville residents, workers, and retirees who are concerned about climate change and want Somerville to be a leader in addressing the impact of the fossil fuel industry.

Fossil fuel divestment has the support of every elected official in Somerville: Mayor Curtatone and all 11 members of the Board of Alderman have publicly indicated their support for divestment.

You can learn more or contact us at fossilfreesomerville.org.

**Q: Who else supports divestment and has anyone done it?**
World leaders including Desmond Tutu, Ban Ki-moon, Al Gore, Barack Obama, Paul Krugman, Christiana Figueres (UN Climate Chief), and many others have spoken in support of divestment.

Many institutions and cities around the world have already committed to divesting some or all of their funds from fossil fuels stocks including Hampshire College, Stanford University (coal only), Syracuse University, Oakland, CA, Seattle, WA, and many local and national churches and foundations.

**Q: How would divestment work?**
A: The decision to divest ultimately rests with the Somerville Retirement Board. If they choose to divest, they would ask their fund managers to remove investments from fossil fuel companies over a five year period and reinvest this money in a financially prudent way.

**Q: How could this affect my pension?**
A: Pensions are currently funded by a combination of the pension fund investments and tax dollars. The City of Somerville is obligated to fully fund you pension regardless of how the pension fund performs. In other words, pension payments will remain the same regardless of any positive or negative financial impact of divestment. That being said, for the reasons noted above and in the resources below, we also firmly believe that fossil fuel divestment is in the best interest of fund performance and the long-term security of city pensions. We encourage any concerned worker, retiree, or resident to read the financial studies listed in the resources below.

**RESOURCES**

**General resources**

1. Fossil Free Somerville: [http://www.fossilfreesomerville.org](http://www.fossilfreesomerville.org)
   *This is the website of Fossil Free Somerville, the group of Somerville residents, workers, and retirees arguing for fossil fuel divestment in Somerville.*

   *The main website for the international fossil fuel divestment movement.*
An overview of the reasons for, financial implications, and logistics of fossil fuel divestment.

4. Alex Lenferna, 350Seattle and Divest UW: “Fossil Fuel Divestment Report for the Seattle City Employees Retirement System”.  
https://www.academia.edu/8651774/Fossil_Fuel_Divestment_Report_for_the_Seattle_City_Employees_Retirement_System  
On the seriousness and urgency of climate change and the moral/political reasons to divest

5. Bill McKibben: “Global Warming’s Terrifying New Math”.  
A striking and straightforward article on the seriousness of the situation we face and the danger posed by the fossil fuel industry.

http://vimeo.com/66066932  
Similar to the article above, but as a documentary film.

A summary of the most recent IPCC report representing the global scientific consensus on climate change.

8. David Abel, Boston.com: “Rising Sea Level a Threat to East: Boston Could Feel Especially Strong Impact, Study Says”.  
An article on why the Northeast is particularly at risk from climate change.

On the fossil fuel lobby


http://priceofoil.org/fossil-fuel-industry-influence-in-the-u-s/

On the financial impacts of divesting and not divesting

http://www.theguardian.com/environment/2013/apr/19/carbon-bubble-financial-crash-crisis  
A general summary of the Carbon Tracker Institute reports. “Every pension fund manager needs to ask themselves have we incorporated climate change and carbon risk into our investment strategy? If the answer is no, they need to start to now.”


14. Oil Change International: “Oil and investor risk” [http://priceofoil.org/2011/05/15/oil-and-investor-risk/](http://priceofoil.org/2011/05/15/oil-and-investor-risk/) “As oil becomes harder to find and produce, oil companies are increasingly dependent on riskier, more costly, and more polluting resources.”


18. IMPAX Asset Management: “Beyond Fossil Fuels: The Investment Case for Fossil Fuel Divestment”. [http://350nyc.files.wordpress.com/2013/08/impax-investment-case-for-fossil-fuel-divestment-us-financial-1.pdf](http://350nyc.files.wordpress.com/2013/08/impax-investment-case-for-fossil-fuel-divestment-us-financial-1.pdf) This study shows that a fossil fuel free fund outperforms a fund with fossil fuel stocks over the last 7 years and suggests that “investors should consider reorienting their portfolios towards low carbon energy by replacing fossil fuel stocks with energy efficiency and renewable energy investments.”

19. MSCI: “Responding to the Call for Fossil-Free Portfolios”. [http://www.msci.com/resources/factsheets/MSCI_ESG_Research_FAQ_on_Fossil-Free_Investing.pdf](http://www.msci.com/resources/factsheets/MSCI_ESG_Research_FAQ_on_Fossil-Free_Investing.pdf) This report from a leading investment analysis firm showed that a fossil fuel free fund outperformed a fund including fossil fuel stocks over the last 1, 3, and 5 years. They also conclude that “fossil fuel divestment has the potential to reduce overall portfolio risk because of Energy Sector volatility.”