



Acting on Climate Change: **Extending the Dialogue Among Canadians**

A collection of texts in response to
Acting on Climate Change:
Solutions from Canadian Scholars,
a consensus document released in March 2015





ABOUT THE AUTHOR

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François Meloche is Extrafinancial Risk Manager for Bâtirente, a pension system established by the Confederation of National Trade Unions in Quebec. Through external managers, Bâtirente manages assets of approximately C\$1 billion. Mr. Meloche's role is to contribute to the implementation of the responsible investment strategy at Bâtirente, particularly in terms of shareholder engagement.

Mr. Meloche says climate change is at the heart of Bâtirente's strategy. Climate change is discussed with businesses in the energy sector, such as oil and gas, but also with industrial companies, retail trade, supermarkets, and so on. Bâtirente expects that companies disclose the greenhouse gas (GHG) emissions from their operations, and also that they provide plans to reduce those emissions. As a signatory to the Montreal Carbon Pledge, Bâtirente is currently conducting a carbon footprint exercise of its equity portfolios.

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Investing to Facilitate Transition to a Low-carbon Society

An Interview With François Meloche, Bâtirente

Conducted by Ms. Divya Sharma, *Sustainable Canada Dialogues*

Original text in French available at www.sustainablecanadadialogues.ca/fr/vert/versundialogue

Question from Sustainable Canada Dialogues:

You work in the investment sector. How is climate change a risk for investors?

François Meloche: It's a risk at two levels: it's directly a financial risk for the companies in which we invest. Some economic sectors, such as energy suppliers, will be more affected by climate change than others, but all will be affected. Moreover, climate change has and will continue to have an impact on the global economy, resulting in what we can call a systemic risk. We also see a wider risk to the beneficiaries who have entrusted us with their retirement savings: a global risk. We make sure, of course, that our beneficiaries have money when they take their pensions. But our duty is broader than strictly their financial interest; it includes their interests as citizens, consumers and workers. Think of someone who's 20 years old and begins to contribute to our pension fund. After 40 years, this person will have to live with all the costs generated by the enterprises they helped finance through their pension fund.

Institutional investors are therefore, in our societies, among the few companies that have long-term public interest at the heart of their business plans. Insurance companies have similar motivations because they look at the long-term and they fear the costs of climate change. So I think institutional investors like Bâtirente and others have a role to play.

One way to manage carbon risk is to reallocate assets of carbon intensive sectors toward renewable energy, green infrastructure and energy efficiency, as well as toward the commodity sector, including agricultural land and forests. In other words, we must take the money from old industries and invest in new. This will help the transition to a low-carbon economy. At the same time, it could be more profitable and reduce risk. It's a kind of hedging: maybe climate change will have less impact than expected. Maybe governments will not do much. In this case, moving assets out of the older sectors would result in losses. It's a risk, but there's also a risk of continuing to invest in oil companies while other sectors

are developing, such as renewable energy, and not participating in their development.

Question from Sustainable Canada Dialogues:

Acting on Climate Change: Solutions from Canadian Scholars asserts a need to invest in technology that's clean, in terms of energy production and consumption. What are the necessary conditions to stimulate sufficient investments that can aid the transition toward a low-carbon economy?

François Meloche: First, we must put a price on carbon. This will allow companies and organizations to allocate their capital to clean energy. Without this price imposed on GHG emissions, we are in some ways now subsidizing fossil fuels.

Currently the price of carbon in most economies is non-existent or not high enough to have the desired effect. Taxation has to be seen both as a way to finance the activities of the government *and* as a way to shape behaviour. For example, with a price on carbon, oil companies will have to consider this cost when assessing the profitability of significant development projects. Now, when we ask, "What will you do if production costs, including the price of carbon, continue to rise and demand is lower than expected? Upon which scenarios of demand growth do you base your cost-benefit analyses? How do you manage these risks?", oil sector businesses respond that they don't see how the economy will get rid of oil in 50 years. However, we're beginning to hear a new discourse that evokes the desire to survive even if the sector is declining (i.e. "we want to be the last man standing").

Investors should integrate climate change issues into the strategic allocation of assets, which is to begin to allocate assets where they would be less exposed to the risks associated

with climate change. This would help ensure that more assets go toward activities contributing to climate change mitigation. Governments have a role to play in terms of providing subsidies toward renewable energy rather than fossil fuels. At the moment, some speak of a ratio of 6:1 – that global fossil fuel subsidies are six times higher than clean energy subsidies. However, estimates vary widely: the International Monetary Fund (IMF) estimates there are approximately \$5 trillion in global subsidies to the fossil fuel industry, versus \$100 billion in subsidies for renewable energy¹². The arrival of green bonds is promising. It has to be done well and the certification must be appropriate, but I think eventually it will give a new asset class that will be very interesting for investors. There will be more and more ways to reduce the carbon footprint of investment portfolios.

Question from Sustainable Canada Dialogues:

In September 2014, the Principles for Responsible Investment (PRI)³ announced creation of the Montreal Carbon Pledge⁴. Can you tell us about this initiative?

François Meloche: This initiative is part of the effort to measure the carbon footprint of investment portfolios. More than 50 investors worldwide have signed the Montreal Carbon Pledge⁵. That is to say, at Bâtirente, we measure the carbon footprint of our investments – the emissions that we have in some way financed. I do not mean the GHGs we produce directly, such as through employees' travel. With around 10 employees, our emissions are relatively low. I'm referring

1 <http://www.imf.org/external/pubs/cat/longres.aspx?sk=42940.0>

2 <http://www.theguardian.com/environment/2015/may/18/fossil-fuel-companies-getting-10m-a-minute-in-subsidies-says-imf>

3 <http://www.unpri.org>

4 <http://montrealpledge.org>

5 <http://montrealpledge.org/signatories/>

to the carbon footprint of our investments, of the companies in which we invest. The idea is to measure our share of emissions in these companies. So the Montreal Carbon Pledge ensures that by the end of 2015, we are able to begin to measure the impact of our equity portfolios.

So the Montreal Carbon Pledge calls for the measurement of carbon footprints. Once the carbon footprint is measured, what happens? We're currently studying various approaches to reduce this footprint. Having a broader view would enable adopting a strategy like reallocation into different sectors, different geographies and different asset classes. Or it could allow us to liquidate a security that contributes significantly to our footprint. Thus, ultimately, it promotes the transition to a low-carbon economy. Take for example the idea of divestment, i.e. selling oil-related shares. Divesting from oil companies (for example, as called for by DivestMcGill⁶) means there will be hundreds of millions of dollars to re-allocate – many assets to invest. The idea of reallocation is to send this capital to the right places to aid in the transition to a decarbonized economy.

Another strategy is shareholder engagement, which is what we practice actively at Bâtirente. In this case we encourage, with dialogue, GHG emitters to reduce their emissions and invest in the transition to a low-carbon economy. We engage in dialogue with the company, asking environmental and social questions to understand how the company manages risk, how it tries to reduce its environmental footprint, and how it's trying to improve its products/services to improve its environmental and social value. Basically, we aim to encourage companies to adopt responsible practices toward their stakeholders. For example, we're talking to Suncor, the

most important oil sands company, among others, about business opportunities for its Petro-Canada service stations. Could they not promote electric vehicles by installing charging stations?

Question from Sustainable Canada Dialogues:

Since the Rockefeller Foundation publicly announced its divestment from oil companies⁷, we often hear about this type of initiative.

What are the risks related to divestment and how can these be minimized?

François Meloche: Indeed, fossil fuel energy divestment is the biggest divestment movement since the 1980s, when South Africa was targeted for the Apartheid system and which had an impact. Now the movement is really very large and it has triggered several discussions on the subject. Does it have a financial impact? That's difficult to measure. Rockefeller, which announced it would divest from fossil fuels, is a symbolic example, but there is the sovereign fund of Norway, which manages assets of \$900 billion and has liquidated its shares in coal companies⁸. However, we must remember that in divesting the shares are bought by other investors. It's possible this has an impact on share prices, but it's certain that it has an impact on the industry's reputation.

Again, one really must have an overview, and know where one's assets are allocated. They're mostly found in large pension funds, which should also pay particular attention to climate risk. Most large banks are cautious about the idea of completely withdrawing from a sector because they have to maintain some level of diversification to meet their obligations to their beneficiaries. They could,

6 <http://divestmcgill.com>

7 <http://www.theguardian.com/environment/2014/sep/22/rockefeller-heirs-divest-fossil-fuels-climate-change>

8 <http://www.theguardian.com/world/2015/may/27/norway-sovereign-fund-reduce-coal-assets>

however, decide to reduce their exposure to the fossil fuel sector and invest more in assets that are resilient to climate risk. An interesting example is that of CalPERS, a pension fund manager in California⁹, which announced it would invest in green bonds. CalPERS continues to invest in oil and coal but we can expect that, over time, for investors who decide to invest in clean energy, the fossil fuel industry will occupy less and less space in their portfolios.

What happens in sectors that have reached a level at which there is no more prospect of growth? Some investors are beginning to see fossil fuels as such a sector. Investing in a declining sector may, however, meet certain needs; for some, investing in oil will enable them to earn dividends. Another factor in the oil industry's decline is its reputation. I suspect there's a decline in young engineers who want to work for oil companies. It's hard to imagine oneself 40 years in the future becoming a petroleum manufacturer and giving one's career to oil. Young people will think it's better to become a mining geologist, for example, than to make a career as a petroleum engineer.

Question from Sustainable Canada Dialogues:

Do you think divestment from oil companies will necessarily result in an increase in investment in clean technologies?

François Meloche: No. This is not a mandatory requirement, but it certainly helps. We must be careful. For example, if an investor sells its oil shares, but then transfers into companies that produce cement, what is

the benefit? The exposure (risk) will perhaps be as large, since cement production emits a lot of GHGs. Similarly, supermarkets have many emissions via their supply chains. For example, a company like Alimentation Couche Tard is a food retailer, but also has petrol service stations. In fact, approximately half of Alimentation Couche Tard's turnover comes from gasoline sales. Even though it's not an oil company, it's a company that depends directly on the oil economy.

Governments encourage the mining industry by giving a tax return when one invests in a mining company, which promotes investment in this sector. This financial instrument is known as the "flow-through share"¹⁰. Governments could use the same kind of incentive for clean energy. One would even have to think more broadly than clean energy, because the objective of keeping a global temperature increase below 2°C will require many changes. Governments must accelerate the transition, and investors should encourage governments to do so and also demonstrate leadership and contribute to the transition. At the end of the day, I believe that the investment community is not sufficiently present in the public square to request appropriate action.

In *Acting on Climate Change: Solutions from Canadian Scholars*, Sustainable Canada Dialogues calls for elimination of all direct and indirect subsidies to the fossil fuel industry. This is not enough. We must eliminate fossil fuel subsidies, but we must also *create* subsidies that will direct investment towards low-carbon society. The Green Budget Coalition has worked on this¹¹.

9 <https://www.calpers.ca.gov/index.jsp?bc=/investments/home.xml>

10 <http://miningtaxcanada.com/flow-through-shares/>

11 <http://greenbudget.ca>



ABOUT THE INITIATIVE

SUSTAINABLE CANADA DIALOGUES

This contribution is part of a collection of texts, *Acting on Climate Change: Extending the Dialogue Among Canadians*, stemming from interactions between Sustainable Canada Dialogues, an initiative of the UNESCO-McGill Chair for Dialogues on Sustainability, and business associations, First Nations, non-governmental organizations, labour groups, institutions, organizations and private citizens.

Sustainable Canada Dialogues is a voluntary initiative that mobilizes over 60 researchers from every province in Canada, representing disciplines across engineering, sciences and social sciences. We are motivated by a shared view that putting options on the table will stimulate action and is long overdue in Canada.

Together, the contributions enrich the scope of possible solutions and show that Canada is brimming with ideas, possibilities and the will to act. The views expressed in *Acting on Climate Change: Extending the Dialogue Among Canadians* are those of the contributors, and are not necessarily endorsed by Sustainable Canada Dialogues.

We thank all contributors for engaging in this dialogue with us to help reach a collective vision of desired pathways to our futures.

FOR MORE INFORMATION, VISIT OUR WEBSITE

sustainablecanadadialogues.ca/en/scd/acting-on-climate-change