Climate responsible investment of pension savings

Position statement

Bridge to the future
Alliance for a green and just transition

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The position statement is prepared by:
FOA, DM, Ingeniørforeningen IDA, MS, Klimabevægelsen & Læger for Klimaet with contributions from WWF.
Coordinators: Reiner Burgwald & Anette Buus Rosholm (FOA).

Climate responsible investment of pension savings

Introduction

The Danish pension funds manage up to DKK 4,000 billion of our common pension savings. It is an important source of funding for the global green and just transition, which is urgent and requires major investments. Investments in a green and fair transition are increasingly profitable and ensure good returns, while fossil investments are risky and economically very uncertain.[1] However, billions of dollars remain invested in fossil energy and utilities etc. [2], which directly oppose the transition and thus make it difficult for us to achieve the goals of the Paris Agreement.

Several pension funds, especially the more democratically governed and their affiliated labour unions, have taken the first steps. However, issues remain to be addressed before our common pension saving can become a key driver in the green transition. Much have to be done through state, intergovernmental and global regulation, but at the same time pension funds also have a large responsibility.

The green transition must be fair and secure jobs and education and include opportunities for retraining and further education for all, not least for the most vulnerable groups and professions in Denmark, the EU and globally.

Pension funds and high-income countries must contribute by providing risk capital on fair terms to low-income countries which are hit hard by the climate crisis and lack funding for their transition.[3]

The Bridge to the future has – because many member organizations are labour unions – a special role in relation to labour market pension funds, but will cooperate purposefully with all types of institutional investors with the clear purpose that they must invest sustainably.

The labour unions themselves should also invest their savings in a climate-responsible way.

Position statement

The Bridge to the future members and their affiliated pension funds

The labour unions, as being among the member organizations in The Bridge to the future have a special relationship with the pension funds to which they are interconnected. It gives a special responsibility.

- The federations and labour unions within the Bridge to future will inform and influence members to push for a sustainable development of the affiliated pension funds. At the same time, the Bridge to the future places demands on politicians and the authorities, for example the Danish Financial Supervisory Authority[4], that the legislation should regulate the behaviour of pension funds for the benefit of both their members and for a green and fair transition.

[1]https://www.ifc.org/wps/wcm/connect/news_ext_content/ifc_external_corporate_site/news+and+events/news/climate-change-to-affect-investment-returns

[2] https://broentilfremtiden.dk/MS%20Mener%20-%20pensionspengene%20ud%20af%20olie%20og%20fossiler%20v5.pdf

[3] https://kefm.dk/klima-og-vejr/klimaforhandlinger/parisaftalen-2015 and https://kefm.dk/klima-og-vejr/klimafinansiering

[4] https://www.finanstilsynet.dk/Tilsyn/Information-om-udvalgte-tilsynsomraader/Baeredygtig_finansiering/Tilsyn

- The members of the Bridge to future call on the affiliated pension funds to involve pension fund members to take action on climate and to join the debate on responsible investments in order to democratize the dialogue.

Pension funds' contribution to a green and fair transition

The Bridge to the future asks for a significant increase in sustainable investments both in Denmark and globally. Investments in a green and fair transition are increasingly perceived as profitable and ensure a good risk-adjusted return. Any risks must be handled carefully to secure pension savings for Danish employees.

- Pension funds must have collective climate-friendly pensions as a standard for the main investment portfolio and not as a voluntary option, hence putting the responsibility on the individual pension holder.[5]

- Pension funds should significantly increase investments in the green transition going towards 2030. Pension funds must set clear targets, which may be based on the EU's 'green taxonomy'. The goal towards 2030 is for the pension funds' to continuously increase the share of green investments of total AUM and to report transparently on this redistribution of investments. In addition, the aim is that a significant proportion of these investments should be made as risk risk capital investments in green infrastructure, such as solar and wind energy, PtX etc. As long-term institutional investors, pension funds both have the opportunity - and a special social responsibility - to take part in this type of investments in complex, often large and illiquid assets.

- Pension funds must contribute to develop and mature sustainable investments in areas such as renovation of older buildings and in new construction; public transport systems and cycling; climate renovations; transition to circular economy; production of plant-based foods; nature and natural restoration; renewable energy; and secure solutions that help capture and store CO_2.
- Pension funds must contribute to the creation of decent jobs, job development opportunities, and ensure that new initiatives are taken, for example to establish apprenticeships, education and training for the green transition in both Denmark and in low-income countries, also through active ownership.[6]
- Inspired by the EU's “green taxonomy”, standards must be developed to define “green transition” and “just transition” and what a positive contribution to development entails.

Stopping funding for the fossil sector

Coal, oil and gas contribute to climate change. A UN report states that a large part of the known fossil resources must remain in the ground and that fossil fuel production must be reduced by 6% annually going forward to 2030 if we are to reach the 1.5ºC target[7]. Also, the International Energy Agency (IEA) has concluded, that this will require a full end to all investment in new oil extraction, gas and coal as of today[8].

[5] The EU is preparing a “Green taxonomy” which defines investments that can be defined as sustainable and climate-friendly investments: https://ec.europa.eu/info/business-economy-euro/banking-and-finance/sustainable-finance/eu-taxonomy-sustainable-activities_en

[6] For example, when investing in energy islands, pension funds can require apprenticeships, training, etc.

[7] https://productiongap.org/2020report/#R1

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

Investments in the fossil sector also provide uncertain returns and are increasingly perceived as risky because companies that do not adapt to the green transition will lose value when the Paris Agreement is transformed into concrete policy in all the countries around the world. Therefore, pension fund savings must be withdrawn from the fossil sector and invested in a green and just transition:

- Companies engaged in the extraction of fossil energy (coal, oil, fossil gas and tar sands) and where these products account for more than 5% of the turnover and where the company does not have a credible and Paris-compatible plan for a green transformation of their business model, must be divested. In assessing the Paris compatibility of companies, their possible lobbying activities should also be assessed[9] and there should be zero tolerance for companies with activities in the Arctic region. The divestment must be completed by the end of 2023, and pension funds must publish the main conclusions of the analyses on which they base their decisions, including for the companies they choose not to divest from.
- Also on the demand side, there are material economic risks related to fossil fuel investments, and at the same time a great potential for accelerating the green transition. This is particularly true for utilities, which base their production of electricity and heat on fossil energy. There must therefore be a systematic divestment of investments in private utilities by 2023, where more than 20% of the energy mix in production comes from fossil energy sources[10], and where the company does not have a credible and Paris-compatible plan for their green transition. In assessing Paris compatibility, there should be a particular focus on coal-fired power stations to be phased out within a short number of years.
- Other investments that are harmful to climate change, such as energy-intensive industry, transport, construction and agriculture must be influenced through active ownership and divested if they do not have or will develop a clear strategy to achieve, both in the short and long term, the objectives of the Paris Agreement. As the green transition progresses, investors must continuously reassess their demands to companies in each sector and escalate these demands to sustain the momentum of the green transition.

- As jobs are phased out in the fossil sector in Denmark and globally, pension funds must contribute to securing jobs in the green transition, cf. the previous section.

Active ownership, divestment and real transparency

Active ownership can be an important instrument for investors to push companies towards the necessary transition. The main objective with active ownership must be to ensure a real reduction in companies' greenhouse gas emissions and that companies become compatible with the 1.5ºC of the Paris Agreement, both from their own production, from distribution and from the use of their products (scope 1,2 and 3 emissions[11]). In order for active ownership to have a real impact and be credible, the following elements must be in place:

[9] Influence Map charts the fossil sector's lobbying efforts annually: https://influencemap.org/reports/Reports?type=287770&year=287550

[10] https://coalexit.org/methodology

[11] A distinction is made between the emissions caused directly by the company itself (e.g. burning of oil and petrol) – called Scope 1; emissions through the energy it buys (electricity and district heating) – called Scope 2; and emissions related to the products and services that the company consumes, or by burning fossil products that the company produces – called Scope 3 . https://concito.dk/files/dokumenter/artikler/rapport_gcfr_endelig.pdf

- Pension funds must have a credible strategy with targets for reducing the CO_2-emissions (scope 3 emissions) from their investment portfolios in line with the Paris Agreement, including clear milestones for the short (year 2025), medium and long term (year 2040).
- Through active ownership, pension funds must push investee companies to set targets for reducing their CO_2 emissions (scopes 1, 2 and 3) in line with the Paris Agreement, including clear milestones for the short (year 2025), medium and long term (year 2040). Investors need to make it clear that if there are no clear objectives, sufficient strategies and investment plans in place and that these are followed, then this will lead to divestment. In addition, companies must have transparent and clear reporting of their climate footprint, including how the planned emission reductions are achieved by actual reductions or, where appropriate, by compensation (e.g. using the Task Force on Climate-related Financial Disclosures (TCFD) template, which the Danish government also recommends used).
- The active ownership must be transparent so that pension savers can see the objective of the active engagement with each company and follow the progress and dialogue with the companies.
- Active ownership is more effective if it is managed in international coalitions of progressive investors. Therefore, pension funds must cooperate with other Danish and international investors by joining progressive international investor coalitions such as Climate Action 100+ and the Net Zero Asset Owner Alliance and strengthen the level of ambition in these coalitions.
- Danish pension funds and institutional investors have a special responsibility to ensure a transparent and clear dialogue and active engagement with Danish companies. This is due to these investors' knowledge of the way in which Danish companies work, the culture and the context, and their often quite high ownership shares.

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