



Response to IIGCC Paris Aligned Investment Initiative: Net Zero Investment Framework for Consultation

Background

- The Local Authority Pension Fund Forum was set up in 1991 and is a voluntary association of 81 local authority pension funds and six LGPS pool companies, based in the UK with combined assets of approximately £300 billion. It exists to promote the investment interests of the funds, and to maximise their influence as shareholders to promote high standards of corporate governance and corporate responsibility amongst the companies in which they invest.

Response

The Forum wishes to congratulate IIGCC on producing this framework document, which many of our members will find extremely helpful. Rather than address the specific consultation questions, the Forum felt that it would be more helpful to make a few general comments. These are aimed at strengthening the framework and based on our experience of working with our members and engaging with companies on climate change.

- Asset owners (and managers) are at different stages in how climate risk is integrated into their investment strategy and processes. Furthermore, asset owners vary widely in size and the level of resources available. This framework currently provides detailed examples of what investors should consider. This is to be applauded. However, progress in parts of the energy sector seems to be decarbonising faster than anticipated and full portfolio adjustment may be needed earlier than 2025, indeed some fossil fuel companies are already showing a shift to managed decline, and divesting of fossil fuel assets. BP is doing that, as is BHP
- It is welcome that the document covers asset managers and their importance to reducing climate risk. However, the Forum's view is that there could be more emphasis on how asset owners should direct and hold their managers to account. The Forum's view is that the framework should

include high level guidance for asset owners, who sit at the top of the investment chain, on asset manager selection and oversight from a climate risk perspective.

- There is a brief reference to asset manager selection. The framework states that owners should select managers that have Paris aligned engagement and voting approaches. Research by the Forum has shown that some managers do not vote in ways that might be considered Paris aligned, which raises the question of their overall investment rigour in asset selection. LAPFF members have indicated that at times they wish to take more robust positions than their asset managers but face obstacles around split voting. As part of the obligations of managers under the framework the Forum would suggest adding enabling split voting, especially where it furthers Paris alignment.
- While the investment framework rightly focuses on material environmental risks of climate change, there are also material social risks around a just transition to net zero. The Forum's view that it is critical as responsible investors that asset owners and managers consider the social implications of a transition to net zero on stakeholders, including the timing and impact on employees and communities. By doing so long term shareholder value can be protected and enhanced. We also consider it a matter of enlightened self-interest - by not considering stakeholders in the transition it is likely to slow or undermine the case for reaching net zero. The Forum would therefore suggest that the 'just' component of the transition is factored into the framework, and that in the engagement section of the framework that investors are encouraged to engage with wider stakeholders.
- It is welcome to see that the issue of emissions offsetting is addressed in the framework in relation to funds using such means to meet emission reduction targets. The Forum would like to see the framework extend its scepticism about this approach to company approaches to emission reductions. The Forum's engagement with parts of the energy sector is already showing carbon capture and storage (CCS) as part of their view on solutions and other parts are sceptical. The proposition that large scale carbon capture by compression and storage could reduce emissions by a fifth does of course assume that carbon hasn't been replaced by renewable energy, making CCS redundant. In September 2020 the European association for grid operators, which includes National Grid, states how the take-up of renewables has been much faster than anticipated and that

Europe's grids could be 80% carbon free by 2030.¹ On 16 September 2020 the Head of the European Commission announced her intention to increase the 2030 CO₂ emissions reduction target, from 40% to at least 55% compared to 1990 levels.²

- However, in view of the economics shifting very favourably away from fossil fuels towards renewable sources, the prospect needs to be raised that a target date of 2050 is almost irrelevant for investment purposes, given that investment is forward looking, that renewables are more attractive investments than fossil fuel ones, and that investing in an industry in decline is unattractive. It is clear, as the research on the LAPFF website³ shows, that CCS in places is being used as a tool to delay the roll out of renewables and extend the life of coal fire power plants, even where the power companies wish to close the plants and make the investment in renewables for replacement. CCS in power in many ways is emblematic of the wrong assumption that the existing large fossil fuel companies would dictate both the pathway and the timescale to transition. The rapid collapse of the coal sector in the USA indicates that will not be the case.
- It is the Forum's view that carbon capture should not be a contributor to policy objectives of zero carbon emissions. As indicated, some of the issues with CCS are set out on the LAPFF website with clear examples of its capabilities being exaggerated, and its causing delay to transition. A view that a technology not yet proven with any scale will provide most of the solutions is risky given the large reductions in emissions that need to be made from now on.

¹ https://www.eurelectric.org/news/pr_powerbarometer_2020/

² <https://www.eurelectric.org/news/2030targetsreaction/>

³ <https://lapfforum.org/engagements/lapff-members-should-be-sceptical-of-viewing-carbon-capture-and-storage-without-hard-evidence-of-positive-impact/>