Transitioning from talk to action

What is the role of investors in implementing the Paris Agreement?

Frédéric Janbon
CEO, BNP Paribas Investment Partners

COP21 was pivotal in the fight to curb global warming, as 195 countries plus the EU undertook to collectively build a low-carbon global economy. We no longer ask whether the transition will happen, but how long it will take, and how and who will finance it. Reaching agreement was mainly down to governments; implementing it requires collective action, including, critically, by investors.

Paris made history by establishing a clear, unmoveable goal and direction of travel, but was also notable for how efficiently the United Nations Framework Convention on Climate Change (UNFCCC)[1] built inclusiveness beyond governments, involving more than 4,000 Non-State Actors (NSAs) representing corporates and investors, as well as public representatives such as cities and regions. The UNFCCC gave stakeholders a sense of ownership and belief that future success depends upon them.

Threefold strategy

As an asset manager, we were among the NSAs invited to participate. We responded by declaring our commitment[2] to measuring and publicly disclosing annually the carbon footprint of our investment portfolios[3] and acting to gradually reduce their carbon intensity.[4]

We were proud to be among the first mainstream asset managers to sign the Montréal Carbon Pledge, formalising this commitment by joining the Portfolio Decarbonisation Coalition. We also published our climate change policy of gradually moving portfolio holdings towards a sub-2°C scenario in line with the agreement, including favouring green investments.

Our strategy is threefold: actions and initiatives on allocation of capital, responsible stewardship, and commitment and transparency.

Meaningful data

Reducing carbon intensity requires identifying and assessing investee companies' exposure to carbon risks, both direct physical impacts of climate change and 'transitional', or financial, risks associated with adjusting to a low-carbon economy.

These relate to revaluing assets due to energy transition and include the impact of disruptive or innovative technologies on markets, and policy and regulatory framework changes.

Achieving this requires full, meaningful quantitative and qualitative data on companies' exposures and risk mitigation strategies, CO_2 and carbon intensity performance, and 2°C stress-testing when appropriate.[5]

The G20 has commissioned a task force, chaired by Michael Bloomberg, to develop consistent climate-related financial risk disclosures for use by companies to provide information to investors and other stakeholders.

Defining clear carbon reduction targets also requires knowing how, and through which policies, countries aim to meet their Climate Pledges. This is vital in assessing how companies' strategies and performance fit their countries' nationally determined contributions (NDCs) and subsequent climate-related policies.

Understanding the collective effect of NDCs towards the global target is also equally important. Flexibility was favoured in the interests of reaching agreement, with little consistency implied regarding the scope, format or detailed content of pledges.

Major shifts needed

The future requires more consistency, accuracy and transparency, as current qualitative and quantitative information is difficult to compare and monitor. Climate talks have moved towards more technical discussions about metrics, monitoring processes and standards.

Limiting global warming to sub-2°C therefore calls for major shifts in the allocation of resources and development and adoption of cleaner, more efficient technologies.

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The estimated potential investment needed is US$1.3 trillion annually until 2050.[6] In comparison, the global asset management industry manages US$55 trillion.[7]

The investment community must play a prominent role in green financing. We are committed to further expanding our low-carbon product offering, but scaling up investments to necessary levels means overcoming some real hurdles. With our Institutional Investor Group on Climate Change (IIGCC) colleagues, we encourage governments to help by[8]:

- providing stable, reliable and economically meaningful carbon pricing that helps redirect investment;
- strengthening regulatory support for energy efficiency and renewable energy, where needed to facilitate deployment;
- supporting low-carbon technology innovation and deployment, including financing clean energy research & development;
- developing plans to phase out fossil fuel subsidies; and
- considering the impact of unintended constraints from financial regulations on investments in low-carbon technologies and climate resilience.

The Paris Agreement created the policy signal needed to unlock investor action. How far that action goes depends on its implementation – Marrakech is key – and on the policies governments implement to meet their contributions.

We need policy support as much as countries need investors to meet their national plans and, ultimately, the global sub-2°C target.

As a leading asset manager, our commitment to acting responsibly is central to our overall approach. We will continue to play a key role by supporting, implementing and proposing sustainable solutions. ■

1 www.unfccc.int
2 http://climateaction.unfccc.int/
3 PRI-managed Montréal Carbon Pledge www.montarealpledge.org
4 Portfolio Decarbonization Coalition (PDC), run by the UNEP, and its Finance Initiative (UNEP FI) and the Carbon Disclosure Project (CDP) http://unepfi.org/pdc/
5 See more at: www.iigcc.org/publications/publication/gic-disclosure-letter
6 International Energy Agency, 2014: Energy Technology Perspectives 2014
7 www.efama.org
8 www.iigcc.org/publications/category/global-climate-policy