

Why Canadian pension plans must divest of fossil fuel investments...

From: Command News <fp.news.lbetzner@commandnews.com>
To: "Betzner, Lynn (CAB)" <lynn.betzner@ontario.ca>
Date: Thu, 23 Nov 2017 11:27:51 -0500

Profile: LBETZNER / My Drawer / Ontario General News - Clip 25 (limit 100)
Nov 23 2017 11:27:00 - Source: CP [The Canadian Press]

Why Canadian pension plans must divest of fossil fuel investments (TheConversation-Pension-)
By Deborah de Lange, Ryerson University

THE CANADIAN PRESS

This article was originally published on The Conversation, an independent and nonprofit source of news, analysis and commentary from academic experts. Disclosure information is available on the original site.

Author: Deborah de Lange, Assistant Professor, Global Management Studies, Ryerson University

Combating **>climate change<** hinges on divestment of fossil fuels across all spheres of activity. According to scientists, we are facing an impending disaster if we do not stop burning fossil fuels.

Therefore, companies must reduce their carbon footprint to net zero, and carbon-based firms that cannot or refuse to change must wind down.

Communities with significant economic dependence on firms that refuse to change must invest in and attract clean sustainable industries instead. Communities have to act now so as to save their local economies before some of these large firms shrink, withdraw or fail.

Canadian pension plans have an important role to play in this transition.

In a review of the top Canadian pension plans' policies (see below), I have found that they don't discuss divestment. What's more, the information provided on their investments is inconsistent and not very transparent. As the pension plan becomes smaller, the information becomes sparser _ to the point that there is insufficient information available to draw any conclusions. The lack of transparency is a serious problem that needs to be rectified.

I was able to surmise from a study of several years' reports of Canada's top five pension plans, all of them offering incomplete information, that the **>Ontario<** Teacher's Pension Plan (OTPP) seems to be reducing its share of fossil fuel investments. But not with any stated intention.

No apparent plans to divest

Other plans have not made significant moves to divest.

Prior research has overwhelmingly shown that ethical funds perform as well as traditional funds, yet pension funds in Canada are not ethical and are not divesting.

These huge Canadian institutional investors have the discretion to make divestment decisions compared to pension plans in other countries that do not.

In addition, many of them are United Nations PRI (Principles for Responsible Investment) signatories. This initiative emphasizes what's known as ESG _ environmental, social and corporate governance. Its six core principles are focused on ethical, sustainable investing.

The big Canadian pension plans have signed onto these principles, yet they aren't divesting of fossil fuels.

Fossil fuel assets are becoming even more volatile as the world works towards the Paris climate targets. Pension plans in Canada primarily view these investments from a risk-management perspective, however, failing to employ an ethical lens. ESG considerations have become merely part of a risk management assessment and aren't central to investment decisions. That flies in the face of their UN PRI promises.

But even when taking a risk-management perspective, divestment makes investing sense.

Pension funds not applying ethics

After much investigation, I believe the problem is that the norms of investment as they relate to the concept of fiduciary duty are roadblocks to making this crucial investment policy change. Even though on an official basis, our pension plans have wide discretion, they seemingly don't yet have the social licence to become ethical funds.

That's because the concept of fiduciary duty _ which calls for working in the best interest of pension members _ needs to be revisited so that it's in line with ethical investing.

Canadian pension plans apply an unenlightened perspective of fiduciary duty. They've translated fiduciary duty into meaning that pension funds must maximize returns without regard to what they're investing in, or where.

Some investment funds place a few limits on the types of businesses they will invest in _ like weapons, for example _ but it's a small list. The British Columbia Investment Management Corporation and the Alberta Investment Management Corporation screen out tobacco, munitions and land mines and nuclear investments.

The Caisse de depot et placement du Quebec also recently announced plans to begin divesting of coal and invest in clean industries. Hopefully the leadership of CEO Michael Sabia may signal the start of a trend.

Working in the best interests of pension members, after all, includes not just today's beneficiaries, but also the generations who are contributing now and will draw from the fund in the future, as well as those who will join as members in the more distant future.

The businesses and industries chosen for pension fund investments

matter to the economy of those future generations. It should be self-evident that pensions are inherently meant to provide future benefits over the long term. And so sustainability should be a key priority for pension plan managers.

Fiduciary duty is an ethical concept and ethics seem to demand that inter-generational equity should be a top consideration. What is actually in the best interests of all pension members is to divest of unsustainable assets that are likely going bust in the future anyway. Let's take the profits and move on as any smart investor would do.

It's also not in the best interests of pension plan members to invest in foreign multi-national fossil fuel corporations.

Pension-plan members are Canadians whose jobs rely on healthy communities that would benefit from local entrepreneurship, technological development and diversification. It's in their interests to invest in the sustainability of their own local economies.

Billions of pension dollars in fossil fuels

Our pension plans are very large in terms of assets under management, but the truth is that the fossil fuel industry is so big that whether pensions plans invest in it or divest has very little impact.

The greater impact of pension plan divestment, in fact, arises through the redirection of investment to local sustainable industries that would monumentally benefit from the capital infusion.

For example, the Canadian Pension Plan Investment Board invests in a range of roughly \$6.5 billion to \$10.5 billion in oil and gas, depending on the year. Imagine if those funds were instead invested into the sustainable development of our economy, and the impact it would have on pensioners and future generations who live and work in those local economies. The health of Canada's middle class is at stake.

It bears repeating: Sustainable investments provide returns as good as any investments, and there are few reasons for Canada to invest in fossil fuels anymore, according to the International Monetary Fund and other commentators.

Time to blaze a trail

Oil-and-gas assets are unreliable commodities primarily controlled by international interests. Because the industry is not Canadian-controlled, it has no stake in working in the best interests of Canadian communities.

It's time for sustainable investing to go mainstream. Canadian pension plans have the power to send the right message, given the urgency of **>climate change<**, by divesting of fossil fuels. They can blaze a trail for other institutional investor members of the UN PRI, thus setting precedents for funds in other nations where they are forced to respect strict investing guidelines.

Our pension plans can change outdated investing practices by showing what fiduciary duty truly means _ sustainable, ethical investments.

When Canadian pension plans divest and refocus on sustainable investing, our local economies will experience an increase in needed capital investment to grow and develop, setting an example for the world.

This article was originally published on The Conversation.
Disclosure information is available on the original site. Read the original article:
<https://theconversation.com/why-canadian-pension-plans-must-divest-o>
<https://theconversation.com/why>

Visit thecanadianpress.com for more services from The Canadian Press, Canada's trusted news leader.