ESG investing

Shell's green exodus, BoE climate hoax, a papal blessing for conscious capitalism

Oil and gas producer has a green PR mess on its hands

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Gillian Tett, **Billy Nauman**, **Patrick Temple-West** and **Andrew Edgecliffe-Johnson** 52 MINUTES AGO

Welcome to Moral Money. Today we have:

- Shell clean energy execs hit the exit
- Bank of England targeted by environmentalists
- New sustainable finance guidance from ICMA
- The pope joins forces with responsible capitalism group
- Japan's green stimulus

Shell execs stage green revolt

With the upcoming anniversary of the Paris Climate Change accord dominating the sustainability agenda this week, most companies are trying hard to talk about their green credentials. Royal Dutch Shell, however, has a green PR mess on its hands.

In the coming weeks, the company is expected to unveil a new strategy for its energy transition. But as Anjli Raval and Leslie Hook reveal, the company "has been hit by the departure of several clean energy executives amid a split over how far and fast the oil giant should shift towards greener fuels".

Besides being a big embarrassment for Shell in an already tumultuous year for the industry, it indicates two key points: first, attitudes surrounding the acceptability of fossil fuels is shifting more quickly than most executives anticipated; second the clean energy lobby is becoming increasingly vocal about the need to curb fossil fuel use *and* embrace new energy sources. Sticking a picture of a wind farm on a poster might have once seemed like good PR; for many investors, however, it is no longer good enough. *(Gillian Tett)*

Mark Carney, a fake email, and the future of global warming mitigation

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If you want to get another sense of how rapidly the zeitgeist is shifting, consider what is happening with one of Britain's beloved cultural rituals: the BBC's Reith lectures.

This annual event, which was first started in 1948 by the philosopher **Bertrand Russell**, has featured numerous intellectual luminaries, ranging from **Hilary Mantel**to **Stephen Hawking**. This year's star, however, is Mark Carney, former governor of the Bank of England — speaking on the topic of climate change.

The content is not as gripping as *The Crown*. But Mr Carney's sermons have serious messages for British voters. During last week's lecture, for example, he called for the introduction of carbon pricing and suggested this should be ringfenced from the vagaries of political shifts (ie elections). One model to copy, he suggested, was the way that politicians have outsourced monetary policy decisions to independent central banks. "It is easier to be a central banker in a democracy than it is to be a politician in a democracy," Mr Carney said.

The timing of that last comment was a touch unfortunate. Earlier this week, Mr Carney's former employer was the victim of a hoax — apparently by environmentalists. The spoofers sent an email to the Financial Times and other media saying the BoE would exclude debt that was most exposed to climate risk from its bond-buying programme.

It seemed a bombshell announcement. But a second (also fake) email then arrived claiming to be from the BoE, which declared the first email a fake — and declared that was "truly disheartening to see fakery cause premature hope."

BoE then issued a (real) statement saying the announcement was phoney and that it would investigate the misuse of its name. But the attack shows how green activists are watching central banks. And it would be foolish to discount the possibility that some of those spoof ideas might even become policy one day.

Consider what happened last year, in January 2019, when a similar spoof of **Larry Fink**'s highly anticipated annual letter was distributed to the press — apparently from the same activists targeting the BoE. That letter warned companies that they must take climate change seriously or risk being sold by BlackRock.

BlackRock denounced the fake at the time. But this year Mr Fink's real letter echoed some of the spoof's sentiment. (He committed to withdraw from some coal companies and drew applause from climate warriors in calling on corporations to address their climate risks.)

Did we mention how the zeitgeist keeps shifting? *(Patrick Temple-West)*

New green bond guidance

Defining a "green" bond has often involved dealing with issues that often seem a little, er, grey. But the International Capital Market Association (ICMA) has just offered new help: it is publishing a handbook for companies looking to issue green and transition bonds, offering guidance on what information they should be disclosing to investors.

This tackles questions that are becoming increasingly important as more companies tap into sustainable finance such as: "should companies in high-emitting industries qualify for green financing?" and "what sort of projects should count as green?"

ICMA outlines four important issues to consider, building on its existing green and sustainable bond principles, which have become the de facto market standard.

First, it defines proper use cases for sustainable financing: green bonds should be targeted at "enabling an issuer's climate change strategy"; transition bonds should be used to "transform [a company's] business model in a way that effectively addresses climate-related risks".

It then addresses how companies can prove to investors that the bonds they issue will impact core areas of their business, rather than niche projects and explains how they should track their decarbonisation progress using science-based targets. ICMA also calls for issuers to disclose the capital, operating and R&D expenditures linked to the proceeds of any green or transition bond they issue.

Can this allay concern about greenwashing? Not completely. But it is an important step forward for the sector and shows how it is maturing. ICMA's previous green bond principles were created nearly seven years ago and a lot has changed since they were first launched.

Most notably, the idea of dividing the world into rigid "brown" and "green" buckets is being replaced by an awareness that the real challenge now is to push brown (ie dirty) companies onto a greener path (or, as we like to call it at Moral Money, to become "olive".)

If ICMA can help companies become a greener shade of olive by supporting the issuance of "transition" bonds that would be a thoroughly good thing; especially if it can also create consensus around what can be defined as a truly green shade of "green". *(Billy Nauman)*

A pope and a Rothschild look to turn dung to poetry

When **Pope Francis** agreed to lend his name to **Lynn Forester de Rothschild**'s Council for Inclusive Capitalism, it "was a surprise to me. I think it was a surprise to Lynn as well," admits **Marcie Frost**, who runs California's giant public sector pension fund Calpers.

Lady Lynn has "some pretty hefty convening power", as Ms Frost puts it, but this is a pope who has dubbed unbridled free markets "the dung of the devil".

So what will the Vatican's endorsement mean for an initiative that has already signed up the managers of more than $10tn of assets and companies with a combined market value of more than $2tn?

Lady Lynn, who has been working to make capitalism more inclusive since the "wake-up call" of Occupy Wall Street in 2011, stresses that the council's members must make measurable commitments on which the public can hold them to account.

The group's guiding principles also adhere to the UN's sustainable development goals, but establishing how many of its members' pledges would not have happened without some papal prodding is hard to do from the outside.

For Lady Lynn, the task is nothing less than to get capitalism back to what it was meant to be. "Look at Adam Smith. His first book was the *Theory of Moral Sentiment*. He assumed capitalism would be based on morality and the 1980s greed is good [mantra] was a terrible deviation from the way capitalism was born," she says.

She has been a catalyst in several efforts to get capitalism back on track, but says they have been "more prose than poetry . . . What we missed was the poetry of a movement" that could give the public confidence that a capitalist reformation is real.

And besides, "unlike other efforts, we're with the pope". *(Andrew Edgecliffe-Johnson)*

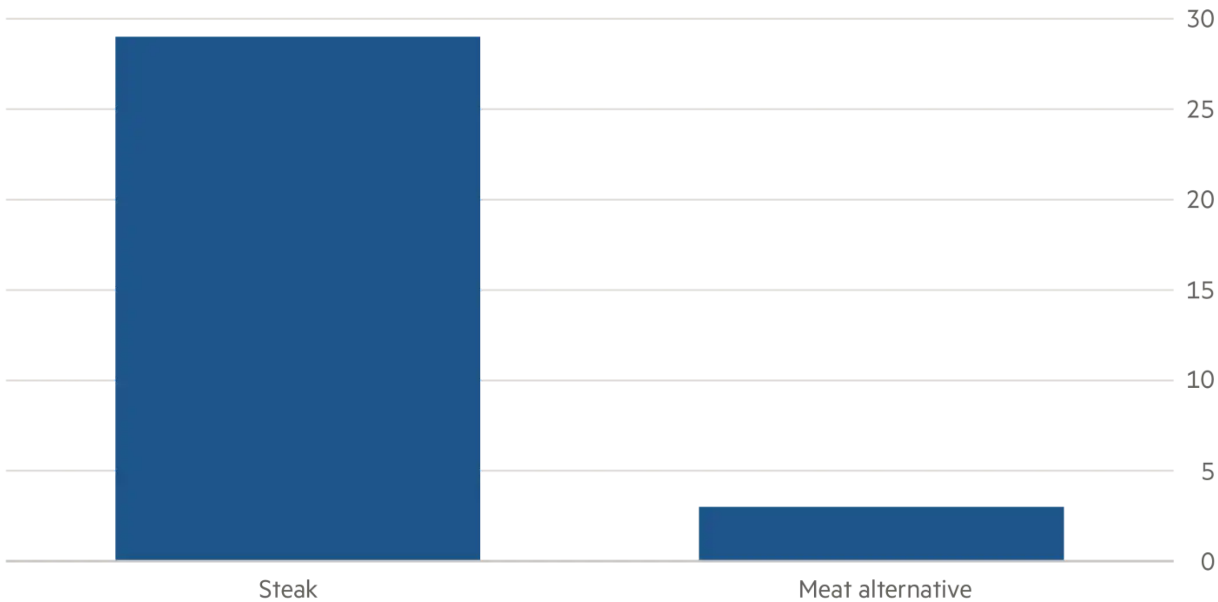
Insights wanted on battling short-termism

The Moral Money Forum is launching a series of in-depth reports early next year, informed with your insights. Our first report will ask how investors and the companies they invest in can encourage long-term behaviour in a world of short-term pressures. Thanks to those of you who have already shared thoughts, case studies and data. Those of you who have not yet done so can do so here.

Chart of the day

8oz of steak emits nearly 10x more greenhouse gases than a meat alternative

Equivalent of miles driven (in terms of GHG emissions)



Source: Federation of American Societies for Experimental Biology (FASEB)
© *FT*

Morgan Stanley has published a report on "the future of food" that says alternative protein foods, such as Beyond Meat burgers, reduce carbon emissions from food production.

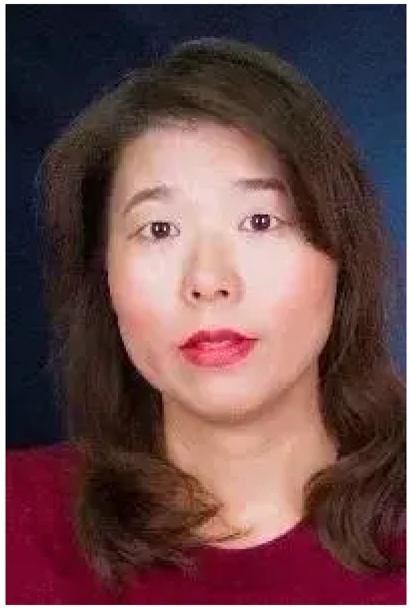
Grit in the Oyster

Fintech has been a darling of the impact investing world in recent years. No wonder: digital finance has the potential to raise financial inclusion among marginalised, unbanked communities in the west, as well as many emerging market regions too. Women also often stand to benefit.

However, a striking report from the UK-based Finance Innovation Laboratory shows that there is a dark side to fintech too: a lack of data privacy and concentration of power on some platforms, and extensive energy usage. "Global computing and internet-connected devices now account for about 5 per cent of the world's electricity production — and this could rise to 20 per cent by 2025," the report notes.

If fintech really wants to earn the "impact" label, in other words, there needs to be more debate about whether the energy being consumed is green or brown. *(Gillian Tett)*

Tips from Tamami



Nikkei's Tamami Shimizuishi helps you stay up to date on stories you may have missed from the eastern hemisphere.

Japanese prime minister **Yoshihide Suga**'s cabinet approved a new stimulus plan worth ¥73.6tn ($706bn) on Tuesday, and decarbonisation and digitalisation are key pillars of the economic recovery plan.

The stimulus package includes a ¥2tn fund to assist ambitious carbon-neutral projects over the next decade. Mr Suga's government is also considering a corporate tax deduction of up to 10 per cent for capital expenditures that help achieve the government's net-zero emission target by 2050.

This is the third round of stimulus, and some investors are concerned that the country's total bond issuance for 2020 will probably surpass ¥100tn for the first time, according to Nikkei.

The cost is high, and it remains to be seen whether Mr Suga's gambit will work. But if it succeeds, the 2020 Summer Olympics (in 2021) will be the new model for the sporting extravaganza of the "Build Back Better" era — just like the last Tokyo Olympics, in 1964, was a symbol of Japan's previous economic success.

Smart read

- The FT this week published a new series on **young people's push for moral capitalism**. We investigate how students are pushing university endowments to divest from fossil fuels as well as student demand for impact investing funds.

Further reading

- Employees step up pressure for corporate reform (FT)
- Jobs are the wrong metric to judge a 'Green Industrial Revolution' (FT)
- Malaysia's CIMB commits to phase out coal financing by 2040 (Reuters)
- Companies Could Face Pressure to Disclose More ESG Data (WSJ)
- ICI Backs SASB ESG Framework (Ignites)