A Study by

ArtisansdelaTransition

LaRevue Durable

The Swiss National Bank's Investments in the Fossil Fuel Industry Inflicts Heavy Losses to Switzerland

www.artisansdelatransition.org

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German translation:
Sandro Leuenberger and Markus Keller
English translation:
Thomas Guibentiff and Vanessa Haines-Matos
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p.18. Fraunhofer-Institut für Windenergie
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Front page:
View of Saint-Ursanne city centre, canton of Jura, January 23rd, 2018. After heavy rainfall, the Doubs overflowed its banks and flooded the town. The flow rate of the river was at least five times higher than normal

Key Messages

1) The known portion of the **Swiss National Bank**'s equity portfolio (95.6 billion dollars, 92 billion Swiss francs, representing 60% of the bank's equity investments) was the source of 48.5 million tons of CO_2 in 2017. That is more than the total emissions attributable to Switzerland in 2016 (48.3 million tons), the last available data.

2) If it had decided to divest 7.4 billion francs that are invested into more carbon-intensive companies and had used this instead to finance more climate-friendly companies, the SNB would have halved the emissions resulting from its equity portfolio.
And it would have improved its financial performance by 20 billion francs over the last three years (between January 1st, 2015 and December 31st, 2017.

3) The SNB manages a portfolio of 843.3 billion francs.
As a comparison, the 1700 swiss pension funds were managing a total wealth of 824 billion francs at the end of 2017. The weight of the SNB in steering the Swiss global financial centre towards respecting the Paris Agreement and influence the unfolding of the energy and ecological transition is thus tremendous.

4) The SNB is under-investing in the renewable energy sector: only 11% of its shares in electricity production are invested in renewable energy-oriented companies, while a 2°C scenario would require twice as much. Similarly, in the automotive sector, the SNB still prefers manufacturers that use mostly combustion engines: 94% of its shares in the car industry finance this old technology, while a 2°C scenario requires a reduction to 75%.

5) Some of the more carbon intensive companies in the SNB portfolio are responsible for human rights violations and severe environmental destruction locally.

6) In addition, profound contradictions between the SNB's policy and federal public policies lead to a waste of resources and undermine the effectiveness of measures that would help to reduce the problem. Here are three examples of glaring contradictions that should be stopped :

- With other 18 countries, Switzerland, created the Past Coal Alliance, which fights for the end of conventional coal by 2030. Yet, the SNB supports this industry through its investments –about two billion dollars at least – in coal or in electric companies that strongly rely on coal.

- The CO_2 law amendment project being discussed in Parliament foresees that Switzerland could spend until 3.75 billions francs to compensate 50 millions of tonnes of CO_2 emissions for it's mobility-related oil use. Yet, the SNB invests at least 6.2 billion francs to help out oil companies extracting even more of this fuel.

- Switzerland spends about 2 billion francs per year to improve living conditions in countries whose populations are the first victims of the SNB's investments in the fossil fuel industry: 80% of the countries targeted by Swiss Agency for Development and Cooperation are among the most affected by climate change.

7) If the SNB was to invest its money in a way that supports federal policies to address climate change and poverty, the effectiveness of these political efforts would multiply. An appropriately adapted investment strategy would be ground breaking for the Swiss financial centre, which, like the SNB, has so far supported a development path leading to an increase in temperature between 4°C and 6°C.

8) Worldwide, there is a multiplication of high-level initiatives to steer finance in line with the objectives stated in the Paris Agreement. On December 12th, 2017, eight central banks launched a discussion and exchange network on ways to shift financial markets towards fighting climate change. That same day, the World Bank announced its decision to stop any financing of gas and oil infrastructure by 2019.

9) The SNB has all the legitimacy and tools it needs to adopt a responsible climate policy. If it refuses to do so, the Federal Council and parliament must intervene to make sure that it acts consistently with the interests of the country.

Susana Jourdan and Jacques Mirenowicz*

The Swiss National Bank's Investments in the Fossil Fuel Industry Inflicts Heavy Losses to Switzerland

* Susana jourdan and Jacques Mirenowicz are CoDirectors of the Association Artisans de la transition
www.artisansdelatransition.org

The known portion of the **Swiss National Bank**'s equity portfolio (95.6 billion dollars, 92 billion Swiss francs, representing 60% of the bank's equity investments)[1] was the source of 48.5 million tons of CO_2 in 2017[2]. That is more than the total emissions attributable to Switzerland in 2016 (48.3 million tons), the last available data.

If it had decided to divest 7.4 billion francs that are invested into more carbon-intensive companies and had used this instead to finance more climate-friendly companies, the SNB would have halved the emissions resulting from its equity portfolio. And it would have improved its financial performance by 20 billion francs over the last three years (between January 1st, 2015 and December 31st, 2017). These are the key takeaways from the analysis that the Artisans de la Transition have commissioned to the Zürich-based firm ISS-Ethix.

These numbers confirm those published in December 2016 in the first report by the Artisans de la Transition about SNB's investments in the US fossil fuel industry (Artisans de la transition, 2016). Only the total of the portfolio has increased steeply – from 61.5 to 92 billion francs – mostly due to the appreciation of currencies and the growth of the stock markets in the meantime, from December 31st, 2015, when the snapshot analysed in the first report was taken, to September 30th, 2017.

Moreover, this analysis now includes SNB's investments on the London Stock Exchange and in some other European companies, data that was not available at the time of the first report.

Huge Weight

As a complement to ISS-Ethix's analysis, the Artisans de la Transition have asked 2 Degrees Investing to assess the portfolio of the SNB against the goal, stated in the Paris Agreement, of limiting the average global warming to 2°C compared to the pre-industrial era. This organisation, based in Paris, London, Berlin and New York, is in charge of developing a standard metric to assess the alignment of equity investing with this international goal. The Swiss Federal Office

1) *The SNB does not disclose any data about its investments. The analysis presented here is based on research by the Dutch firm Profundo, which has access to specialised databases.*

2) *This amount includes the emissions over the whole lifecycle of the goods and services provided by the company. Experts call those «Scope 1, 2 and 3 emissions».*

A «clean» portfolio would have emitted half the CO_2 and generated 20 billion more francs

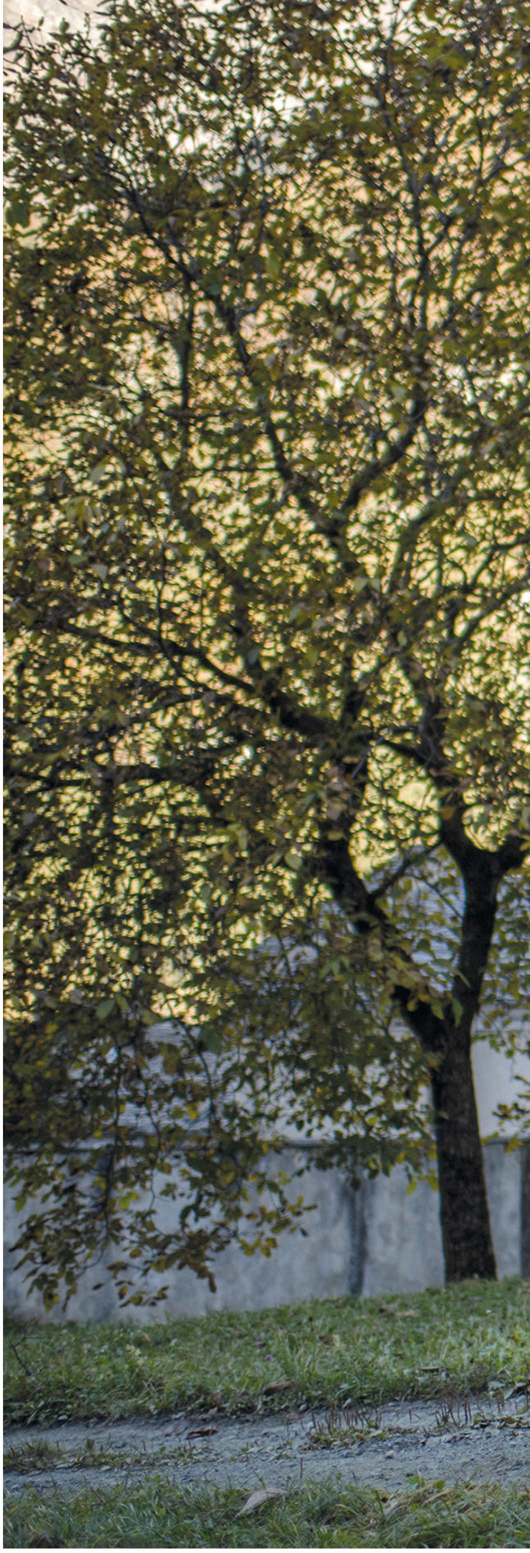
ISS-Ethix simulated the evolution of the SBN's portfolio value if it had «divested» on January 1st, 2015. In order to do this, they removed all companies of the Carbon Underground 200 index, those targeted by the global divestment campaign, as well as the ones that generate 30% or more of their turnover from coal extraction or use.

Then they invested these amounts retrieved from fossil fuel industry shares into companies clearly committed towards creating a Paris Agreement-aligned future: companies from the Clean 200 or those which have set emission reduction targets based on scientific data. Clean 200 is the list of the largest publicly traded companies that draw their total benefits from clean energy or provide infrastructure and services needed for the energy transition.

ISS-Ethix then computed the evolution of the «cleaned» portfolio between January 1st, 2015 and December 31st, 2017. The result: there is a 20 billion francs difference in favour of the clean portfolio. And this portfolio emits half the CO_2 of the current one. In other words, the SNB could tip the scales in favour of the energy transition instead of throwing its full weight against it. At no cost. Better still, with a significant benefit.

Every financial stakeholder, including the SNB, is used to seeing entire sectors under-perform for a period of time, up to a several years, before rising again. Thus, the motivation to have a mixed portfolio, to diversify it, in order to compensate transitory losses in some sectors with gains from other sectors. The SNB might have lost 20 billion francs in three years by keeping its investments into the fossil fuel industry. But it probably wonders: Why wouldn't this sector, like many others, ultimately bounce back up?

The problem here is that everything must be done at the political level – and, increasingly, is being done – to ensure that the value of fossil fuel industry shares never rises again. Therefore, every responsible stakeholder, on political and financial levels, should contribute to the irreversible shrinking of this sector, for the benefit, in particular, of the renewable energy and energy efficiency sectors.



for the Environment, in particular, has commissioned 2 Degrees Investing in 2017 to assess the portfolios of participating Swiss pension funds.

According to the analysis performed by 2 Degrees Investing for the Artisans de la Transition, over a quarter (26%) of the portfolio of the SNB is invested in very carbon intensive sectors: the fossil fuel industry, the automotive industry, the production of concrete and other construction

Saturday, October 14th, 2017, an inhabitant of Bondo comes back home. On Wednesday, the 23rd of August, a landslide of approximately four million cubic meters of rocks from Piz Cengalo forced the dwellers of the village, in the Bergell Mountains, to leave for nearly two months. According to the Swiss Academies of Arts and Sciences, the alpine permafrost will continue to melt down to its deepest layers, increasing the frequency of rock falls and landslides.

materials, the steel and aluminium industries and aviation.

In contrast, the SNB is under-investing in the renewable energy sector: only 11% of its shares in electricity production are invested in renewable energy-oriented companies, while a 2°C scenario would require twice as much. Similarly, in the automotive sector, the SNB still prefers manufacturers that use mostly combustion engines: 94% of its shares in the car industry finance this old technology, while a 2°C scenario requires a reduction to 75%.

The SNB manages a portfolio of 843.3 billion francs. As a comparison, the 1700 pension funds active in Switzerland at the end of 2017 were managing a total wealth of 824 billion francs. The weight of the SNB in steering the Swiss global financial centre towards implementing the Paris Agreement and influence the unfolding of the energy and environmental transition is thus tremendous.

The SNB's and Political Response

Following its first report on SNB's investments into the US fossil fuel industry, the Artisans de la Transition wrote on December 22nd, 2016 to the SNB management, offering to present the results of the study in-house. In his reply on February 8th, 2017, the SNB Secretary General, Peter Schöpf, explained why the bank will not divest from the fossil fuel industry and deems useless such a presentation.

His argument unfolds in three main points. Peter Schöpf first points out that the investment policy of the SNB is "governed by the primacy of monetary policy". As such, "it must be carried out in accordance with the criteria of security, liquidity and return". Moreover, he adds, given the large volume of securities at stake, it is essential to "ensure their optimal diversification". Also, "within each investment category, [the SNB] strives to cover as much of the market as possible".

The fossil fuel industry severe environmental damages

The ArtisansdelaTransition asked ISS-Ethix to assess the SNB portfolio against the norms stated as the ten principles of the United Nations Global Compact. These principles cover the areas of the human and labour rights, environmental protection and corruption. It is the barest available social responsibility standard. The outcome: about 1% of the companies in which the SNB invests are known for disrespecting this minimum standard.

Remarkably, among the 15 companies at stake, half are active in the fossil fuel industry. That is not really surprising: the exploration, extraction, refining and transportation of fossil raw material require huge infrastructure which has a strong grip on the territories and cause heavy damage to ecosystems, on which the poorest rely for their survival.

Away from Börsenstrasse, in Zürich, where the headquarters of the SNB are located, millions of people suffer the effects, sometimes particularly harmful, of the underground exploration that the institution finances without proper discernment.

For instance, the Royal Dutch Shell oil company is known for its established lack of ability to prevent and clean water and soil pollution and remediate the environmental impact of its activities in Nigeria. Amnesty International has, moreover, accused its Nigerian subsidiary of using the army to silence criticism. The French company Total is also active in Nigeria, where it faces fierce criticism for the pollution of the Niger delta.

Chevron is another oil company among the most reckless in the world when it comes to environmental and human rights. The most symbolic case of rights violations affected Ecuador. Chevron has been sentenced there in 2011 to a 9,5 billion dollars fine for damage caused to the Amazon rainforest between 1964 and 1990. But the company refused to pay.

The world's largest oil company, ExxonMobil, is a synonym for reckless actions. Along with Royal Dutch Shell, Chevron and two other companies, it is being legally investigated following a complaint filed on September 20th, 2017 by the cities of San Francisco and Oakland

Second, Peter Schöpf goes on to say, the SNB manages its equity investments, “passively and according to a set of rules based on a strategic benchmark comprising a combination of equity indices in various markets and currencies”. The SNB Secretary General ensured that “this management strategy enables the National Bank to act as neutrally as possible on the different markets”.

Thirdly, Peter Schöpf asserts that the SNB excludes, since 2013, shares of “companies that systematically cause severe environmental damage”. But he argues that the bank cannot exclude an entire branch of the economy from its investments. That would be incompatible with the diversification principle and “would set a precedent, since activities in several branches have consequences that, depending on who is setting the priorities, could be considered socially undesirable or damageable”.

In short, the SNB claims that climate is outside its competency and intervention scope, that it has, from its point of view, no particular issue associated with it, that its investment choices are neutral with respect to the markets and that it already

for their participation to casting doubts over the human contribution to global warming.

In ExxonMobil’s case, internal documents prove that it was simultaneously taking action to protect its infrastructure from climate change. ExxonMobil is furthermore involved in several ongoing trials for its responsibility for the pollution of oil sands exploration sites in Canada and Russia.

TransCanada: this company has undertaken the oil pipeline project Keystone XL, which has been at the heart of an unprecedented mobilization in the United States since 2012. Facing an extension licence refusal from the Obama Administration, the company has sued the US Government to claim 15 billion dollars as compensation. The Keystone pipeline operating since 2010 has caused significant and repeated oil leaks.

Suncor and Pétrolière Impériale are liable for severe pollution around the Syncrude mine in Alberta, Canada.

Enbridge Inc, Marathon Petroleum and Phillips 66 face a lot of controversy about Human Rights in the United States linked to their Dakota Access Pipeline (DAPL), which went into operation in April 2017. The Lakota people, a Native American tribe living in the Standing Rock reservation, still battle to have this infrastructure shut down.

BHP Billiton is active in coal extraction and many other minerals. It is accused of originating one of the worst ecological catastrophes of Brazil’s history through the management of its Samarco mine. On November 19th, 2015, the dam that held iron ore mining waste collapsed, spilling a mudflow loaded with heavy metals that killed 19 people, destroyed the dwellings of 600 others, cut off the supply of water to 280 000 inhabitants in two states and polluted the river over 650 kilometres.

Vedanta is another mining company, which also owns oil and gas extraction infrastructure as well as coal power plants. The British newspaper *The Independent* described it as «the world’s most hated company». It periodically hits the headlines of British and Indian newspapers with the pollution it generates, local community rights violations in India and Africa as well as corruption affairs.

excludes companies that systematically cause severe environmental damage.

The SNB thus claims that it is fair and appropriate for it to turn its back on the universal Paris agreement on climate and deliberately proceed with favouring a global warming of +4 to +6°C. That is a shocking positioning, which is not acceptable.

First, it is simply not true that the SNB already excludes any companies "that systematically causes severe environmental damage": this study by the Artisans de la Transition shows that shares of oil and mining companies whose systematic environmental wrongdoings are well documented are present in its equity portfolio.

In addition to Peter Schöpf's line of argument, Mrs. Andréa Maechler, a member of the SNB management, made a very important comment to a question of an RTS journalist, for the newscast on December 15th, 2016, about the results of the report published on that same day by the Artisans de la Transition. Andréa Maechler considered that the SNB investments in the fossil fuel industry are a political issue and that it is up to the political power to establish rules on this matter, which the SNB will apply.

The Artisans de la Transition therefore wrote and sent a letter on December 22nd, 2016, to Mrs. Doris Leuthard, Head of the Federal Department of the Environment, Transport, Energy and Communication (DETEC) and President of the Swiss Confederation in 2017, to request that she intercedes with the SNB on the major political issue of the bank's investments in the fossil fuel industry.

The Artisans de la Transition put the question to the Federal Councillor and future President of the Confederation in those terms: "Does the Federal Council agree that the money of Swiss people shall contribute to the climatic disaster? Does it agree to draw financial benefits from the irremediable destruction of the climate?"

In its reply, dated May 23rd, 2017, Doris Leuthard notes that "regarding the SNB's investments, neither the Federal Council nor the Parliament have the right to influence decisions or give any instructions. The independence on functional, financial and staff levels is anchored in the Constitution, thus ensuring the budgetary autonomy."

However, the Swiss President also points out that "the Confederation wants to take a role in supporting a general approach, coordinated at the international level, to determine strategic benchmarks allowing a comparison of several parameters of climate accountability. [...]
This approach will lay the foundations for a future report on the climate-aligned financial flows, which is to be provided by Switzerland to the United Nations Secretariat on climate change, according to the Paris agreement."

In plain language, the Confederation is involved in the definition of international climate accountability standards, by which the SNB might abide, independently, if it considers it appropriate, once those standards apply to all financial stakeholders worldwide.

The position of the Artisans de la Transition, given the alarming evolution of the climate, is that time is running short and that we cannot wait upon such a change of international rules: the SNB already has the capacity to do way better, without delay, on this decisive issue, than it does today. Signs that financial stakeholders have lately been progressing on this climate issue are everywhere. The SNB should join this growing wave.

As for politics, the question is becoming increasingly urgent: can politicians hide behind a Constitution in the face of available data on climate

Ski slope in Celerina, Engadine, on December 12th, 2016. According to the Swiss Academies for Arts and Sciences, the snow season will become shorter in coming years, and the snow line will raise several hundred meters evolution and on the huge liability of this institution whose mandate – the country's monetary policy – is eminently a political one?

Each of these two points – the progression of international financial stakeholders on climate and the possibility of putting political pressure on the SNB – deserve a closer examination.

The Finance World is Moving

On the global stage, several recent actions by large financial stakeholders reveal that the motivation to comply with the objectives set in the Paris Agreement is rising to the top of the agenda. This agreement came into effect unprecedentedly fast, on November 4th, 2016, less than one year after its approval, in Paris, on December 12th, 2015, by the parties of the 21st Conference of Parties of the United Nations Framework Convention on Climate Change (COP21).

Lead by France, the United Nations and the World Bank, about fifty heads of state and government leaders met again in the French capital for the One Planet Summit, on December 12th, 2017, to maintain the momentum acquired in Paris two years earlier, despite the withdrawal of the United States from the agreement, on June 1st, 2017, on the initiative of their president, Donald Trump.

Since the Paris agreement, eight central banks have announced, on December 12th, 2017, the launch of a discussion and exchange network on ways to shift financial markets towards fighting climate change. This consortium, called the Central Banks and Supervisors Network for Greening the Financial System, brings together the Banco de México, the Bank of England, the Banque de France, the Autorité de contrôle prudentiel et de résolution (Prudential supervision and resolution authority, in France), the De Nederlandsche Bank, the Deutsche Bundesbank, the Finansinspektionen, in Sweden, the Monetary Authority of Singapore and the People's Bank of China.

That same day, the World Bank (which had announced withdrawing from coal already in 2010) announced its decision to stop any financing of gas and oil infrastructure by 2019 to take account of a "rapidly changing world". And it unveiled a set of initiatives to improve the transparency of its activities in terms of the climate situation and to commit to financing the transition.

Also during the One Planet Summit, the Climate Action 100+ coalition was born. The goal of this gathering of 256 large institutional investors, worth over 28'000 billion dollars of managed assets, is to coordinate the action of its members vis-à-vis the hundred most greenhouse gas-emitting publicly traded companies – almost all of which are part of the SNB's portfolio. This common effort is meant to incite those companies to present an emission reduction strategy in accordance with the goals set in the Paris Agreement.

This enumeration yields certain findings. The first: the SNB is conspicuously absent from this positive trend in finance circles. It clearly does not understand that the entire fossil energy branch raises an unprecedented issue, which requires no less unprecedented sense of responsibility and responses from all investors, particularly central banks.

The second finding is that, if the SNB alone is unable to understand the obvious climate issue, upon whom shall we rely other than the political power to help it see reason?

Climate Change: a Reminder of the Facts

Mountains of ink have been poured in the last two years to comment on the economical impact in Switzerland of the discontinuation of the minimum exchange rate by the SNB in January 2015. Now, the impact for Switzerland from every perspective, including the economical one, of a 4° to 6°C global warming will be incommensurable with the effects of this decision about the exchange rate.

The higher the global warming, the more the country will suffer from intense and frequent heat waves, droughts, heavy rainfalls contributing to floods and "slow transformations – partly irreversible – of landscapes and ecosystems, such as the glacier melting or changes to the biodiversity, water quality, and incidence of pests and diseases" (Swiss Academies of Arts and Sciences, ProClim, 2016).

Switzerland will be all the more unable to escape heavy deterioration of the climatic conditions if temperature increases significantly, as it sits on the Alpine arc, where the warming is twice as steep as the global average: between 1864 and 2016, the average temperature increase reached 1,8°C in Switzerland, against 0,85°C worldwide.

And of course, a temperature increase of 4° to 6°C compared to the pre-industrial era will not only have detrimental effects in Switzerland. The entire planet will suffer its devastating impact and come out of it dramatically changed.

Such a horizon turns SNB's discourse on the neutrality of its positioning on the markets particularly weird or out of phase when it justifies its continued investments into the fossil fuel industry. Every banking, financial or state institution mentioned above, recognises that such a choice is not neutral and are taking action or trying and shifting towards enhancing accountability above "market laws".

The SNB could tip the scales in favour of the energy transition instead of throwing its full weight against it. At no cost. Better still, with a significant benefit.

Similarly, Doris Leuthard's analysis referring to the Constitution to let the SNB promote a global warming trajectory of 4° to 6°C until further international decisions are made – on which her influence is all the weaker as Switzerland is not setting an example at home – is the admission of extreme powerlessness.

In conclusion, this partial abdication of political actors, unable to exert a strong and legitimate pressure on the SNB's strategy and decisions, as the bank declines to face its responsibility in the climate issue despite the fact that this action should be given absolute priority, makes all the more remarkable and relevant the responsibility taken by the National Council member Adèle Thorens Goumaz of the Green Party.

Together with fifteen other MPs, she introduced, on June 15th, 2017, a parliamentary initiative to modify the law on the SNB and to specify the notion of general interest that it already includes, by referring to article 2 of the Constitution. This article mentions sustainability and the protection of natural resources.

Everything indicates that this is a step in the right direction: investments in the fossil fuel industry by such a pivotal Swiss institution as the SNB directly and massively contribute to worsening global warming, while the country, when ratifying the Paris Agreement on October 6th, 2017, has indeed committed to fight climate change.

But for now, borrowing the words of the science historians Amy Dahan and Stefan Aykut (2015), by worsening an issue that the Swiss Government has an overriding duty to fight and is only partly fighting with targeted public climate policies, the SNB's policy is deepening the

Facing the photograph, Anna Giacometti, mayor of Bregaglia, greets an inhabitant of Bondo. After a two months exile caused by the torrential mudslide that swept through their village, the villagers come back to their place of living on October 14th, 2017. In Switzerland and worldwide, women are on the frontline of climate change impacts.

inconsistency, the "schism" dividing the federal climate policy. A particularly flagrant schism in respect to the law on CO_2 and the international cooperation policy.

Swiss Schism: an Inconsistent Climate Policy

Inconsistency on coal

In parallel to COP23 negotiations in Bonn, a group of 19 countries, among which Canada, the United Kingdom, France and Switzerland, created the Past Coal Alliance, which fights for the end of conventional coal (without carbon capture and sequestration) by 2030 in countries of the Organisation for Economic Co-operation and Development (OECD) and of the European Union and by 2050 worldwide. It goes without saying that it is most desirable that this alliance succeeds and pushes the equity prices of companies in the coal industry off the cliff.

Yet, the SNB directly invests about two billion dollars – at least – in coal or in electric companies that strongly rely on coal[3]. This investment choice from the SNB alone contradicts the official international action of the Confederation, a sound and fair one.

Of course, the Past Coal Alliance will take time to change international rules on coal. But the SNB could anticipate such a desirable and inevitable evolution, take the lead, light the path ahead and give the example, as other financial institutions around the world are doing.

Inconsistency on Gas and Oil

The CO_2 law amendment project being discussed in Parliament suggests reducing Swiss CO_2 emissions by 50% by 2030 compared to their level in 1990. Alleging a lack of leeway inside the country (something far from proven, but is not the topic here), the current version of the amendment stipulates that 30% reductions will be achieved in Switzerland and the remaining 20% achieved through the purchase of emission reduction certificates. These certificates shall mainly "compensate" emissions related to Swiss transportation, which relies on oil for 95% of the required energy.

In total, according to this amendment project, Switzerland shall buy 50 million tons of CO_2 abroad between 2021 and 2030. Since the price of good quality certificates – securing a true CO_2 economy achieved through the highest standards – is around 75 dollars per ton of CO_2 (WWF, 2017), Switzerland thus foresees an expenditure of 3.75 billions francs to reduce CO_2 emissions abroad between 2021 and 2030 to compensate for it's mobility-related oil use.

And in this context, the SNB is investing at least 6.2 billion francs[4] to help out oil companies extracting ever more of this fuel, on top of that in conditions ever more damageable and risky for the ecosystems and neighbouring populations.

Yet it seems absurd, to say the least, to invest billions with the left hand to increase CO_2 emissions worldwide while spending billions with the right hand to purchase certificates abroad to compensate CO_2 emissions caused by oil imports fostered by these investments.

Sure enough, more consistency is possible. But that would require a declared political will to use every available lever to defuse the climate peril. Unfortunately, the list of inconsistencies is not over yet.

3) *That's certainly an underestimated figure as the SNB's investments in coal outside the US and UK are not known.*

4) *This is the money invested in the «Oil & Gas» sector, excluding coal and power plants. In reality, the SNB invests much more in that sector since its investments outside the US and the UK are not known.*

Inconsistency on Development Assistance

A study by the World Bank shows that climate change generates poverty and that poorer people are more vulnerable to this change. The study estimates that 100 million more people might fall into poverty by 2030 because of climate change if adequate development policies are not immediately adopted (Hallegatte et coll., 2016).

Global warming will have the most impact on the agriculture sector. The poorest two regions in the world – Sub-Saharan Africa and Southern Asia – will suffer the most from it. By 2030, the deterioration of agricultural yields might make food products by an average 12%, in Sub-Saharan Africa. Destitute households, which devote up to 60% of their revenues to feed themselves, risk suffering badly from it. On top of that, malaria will affect 150 million more people.

A warming planet is disproportionately harsher on poorer people because they are more exposed and vulnerable to climatic shocks. They also have less resources and benefit from less support from their families, their community, from the financial system and even from social safety nets to prevent, mitigate and adapt.

Fight against poverty and its human consequences. That's exactly the mandate of the Swiss Agency for Development and Cooperation (SDC), which has defined, on this basis, a list of 35 priority countries to carry out development actions, for which it receives a budget of two billion francs per year. However, what do we find when we compare this mandate against the content of the World Bank's report?

Profound contradictions between the SNB's policy and federal public policies lead to a waste of resources and undermine the effectiveness of measures that would help to fight climate change and poverty

That 80 % of the 35 priority countries targeted by the SDC are among the countries most affected by climate change. In plain language, Switzerland spends about 2 billion francs per year to improve living conditions – namely to help manage ecological issues – in countries whose populations are the first victims of the SNB's investments in the fossil fuel industry.

On this inconsistency between the cooperation and development policy and the laisser-faire vis-à-vis the SNB, the Federal Council and the Parliament have, for now, only tried to elude Switzerland's responsibility.

According to the Paris Agreement, taking into account Switzerland's total climate footprint and its share of OECD's economical capacity, the country should invest one billion dollars per year from 2020 onwards to support populations in developing countries with climate protection and adaptation measures (Staudenmann, 2018). But the Federal Council, followed by the competent Commission of the National Council, has proposed to pay only 450 to 600 millions and, instead of providing new funding, to take that amount from the cooperation and development budget already allocated to the SDC.

Thus, on the one hand, the issue is being worsened through the SNB's investments. And, on the other hand, the costs of this policy abroad are not being fully compensated for.

People most vulnerable to climate change impacts would be better off if the international community would intensify its fight against the phenomenon and reinforce the implementation of development aid policies. The study by the World Bank shows that it is not inevitable that 100 million people would fall into poverty by 2030 (Hallegatte et coll., 2016).

For Switzerland, the most pressing issue is to determine how to align the monetary policy implemented by the SNB with its declared will to contribute at the international level to the resolution of the climate issue.

The SNB is not the only body or institutional channel through which the Confederation is conducting an economical policy that is contradicting its willingness to address the climate issue. But in the case of SNB, it would be easier to solve this inconsistency: it only needs that the SNB adopts a strict climate change mitigation policy. That's why this entity is such an important one for the highly desirable progression of Swiss policy towards respecting the Paris Agreement.

Vast Unexplored Room for Action

The worldwide fossil fuel divestment campaign was born when a handful of philanthropic foundations understood the absurdity of financing the best pro-climate activists with revenues from their investments in the fossil fuel industry, which is at the very root of the problem they meant to fight (LaRevueDurable, 2015).

Divesting from fossil fuels will obviously not solve the whole issue. But it is an essential piece in the puzzle and an important step, which draws attention on the necessity to put a lid on the gas and oil deposits and coal mines, that is: on the source of the issue. As a reminder, the International Panel on Climate Change (IPCC) has estimated that 80% of fossil energy deposits should be left underground to comply with the Paris Agreement (IPCC, 2013).

Profound contradictions between the SNB's policy and federal public policies lead to a waste of resources and undermine the effectiveness of measures that would help to reduce the problem. Managing the SNB's wealth in a way consistent with deliberate federal climate policies would help fight poverty and is a winning strategy on every level: this study shows that, far from being costly, such a consistency would bring financial benefits.

What is at stake goes well beyond the management of the SNB alone: all the global financial center in Switzerland present the same bias: but how can one expect to see pension funds, insurance companies and all institutional and private investors putting the fossil fuel industry behind if the country's highest financial institution gives no impulsion in this direction? It is very likely that, should the SNB adopt a climate policy, a large part of the Swiss financial center would follow its example.

The magnitude of the climate peril and the multiplication of high-level initiatives to steer finance in line with the objectives stated in the Paris Agreement vindicate that the SNB should initiate a climate policy. If it persists in not doing so, the country's highest authorities have a duty to impose one. The current opposition to move on this issue from the part of this institution is shocking and unacceptable. And no less shocking and unacceptable is the laisser-faire attitude of the political power as regards the Bank. ●

The cost of photovoltaic systems decreased by 73% and that of on-shore wind turbines receded 20% between 2010 and 2017. Investments nevertheless do not rise to the potential profitability of these technologies. The renewable electricity production capacity has indeed leaped forward 8,5% per year during the period, but it could have progressed even faster if investors had prioritised the renewable energy industry instead of overinvesting in the fossil fuels industry.

For a transitioning European Union

The «climate finance» is making its way through the European Union. On January 31st, 2018, an expert panel published a report for the European Commission expressing thirty ideas to steer finance in line with the objectives stated in the Paris Agreement. On March 8th, the European Commission unveiled its roadmap to achieve «a financial system that supports the EU's climate and sustainable development agenda».

The European Central Bank (ECB), which has also been pointed at for its indifference on the climate issue, will be progressively constrained to harmonising its policies with this evolution. On November 21st, 2017, the European Parliament adopted a resolution on the ECB «[noting] that the ECB as an EU institution is bound by the Paris Agreement».

Most of the SNB's wealth (68% of its balance sheet) is invested into government bonds, of which a large part is in Euros. As the European Commission states that about 180 billion Euros of investments per year will be needed for the EU to reach its 2030 emission reduction objectives and as the European civil society rallies around the «Climate 2020»[5] campaign requiring that the ECB's money creation be used to finance the energy transition, the SNB would be a partner of choice, at the heart of Europe, to help implement a financing strategy for the ecological and energy transition.

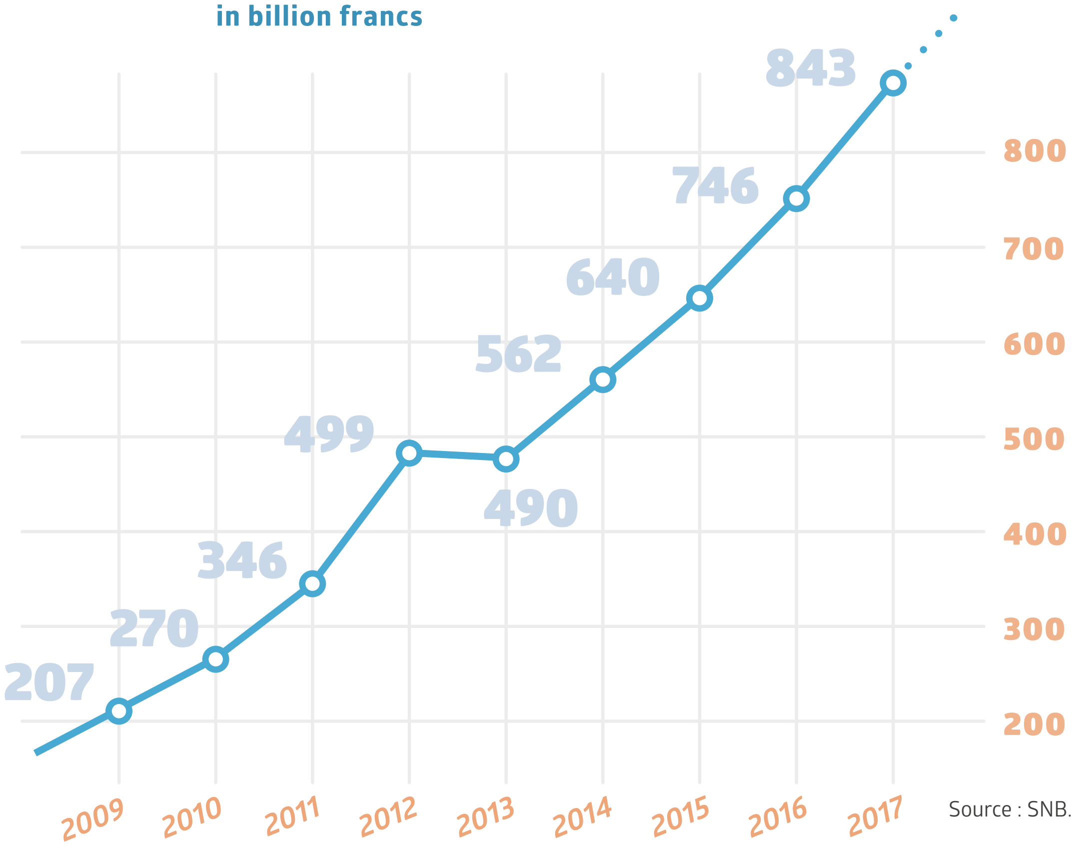
One can even dream that the European unification project, born from coal and steel, shall be metamorphosed into a project centred on the ecological and energy transition.

5) *https://climat-2020.eu/en/*

SNB Key figures

The SNB's balance sheet total amounts to 843.3 billion Swiss francs. This wealth has been accumulated mostly since 2009. To handle the withdrawal towards the Swiss franc, a safe-haven currency, it has to create astronomical amounts of francs that it sells for dollars, Euros and other currencies to slow down the appreciation of the Swiss franc. The outcome is a four-fold increase of its wealth between 2009 and 2017.

SNB Balance sheet amount at year-end, in billion francs

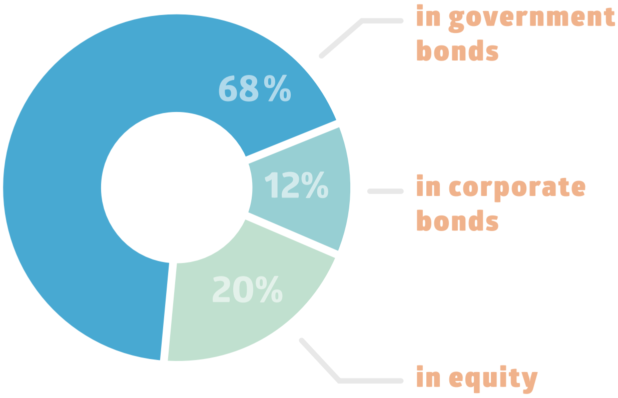


Source : SNB.

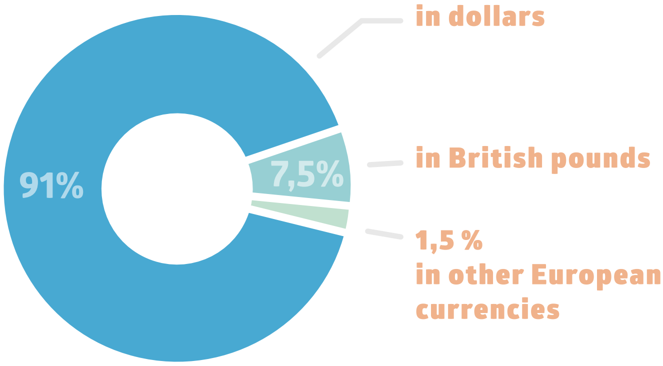
According to the SNB, who does not disclose its investments in detail 93% of this amount is currency-denominated assets, the remaining being gold reserves and Swiss franc debt securities.

The ArtisansdelaTransition asked the firm ISS-Ethix to analyse a partial SNB portfolio totalling 95.6 billion dollars – that is 92 billion Euros at the exchange rate prevailing at the end of September 2017, the date when the snapshot of the portfolio was taken – representing 60% of its equity investments. This portfolio is the outcome of a research carried out through data from the Amsterdam-based specialised firm Profundo.

The currency-denominated assets are allocated as follows:



Analysed portfolio, by currency:



SNB investments into the fossil energy industry

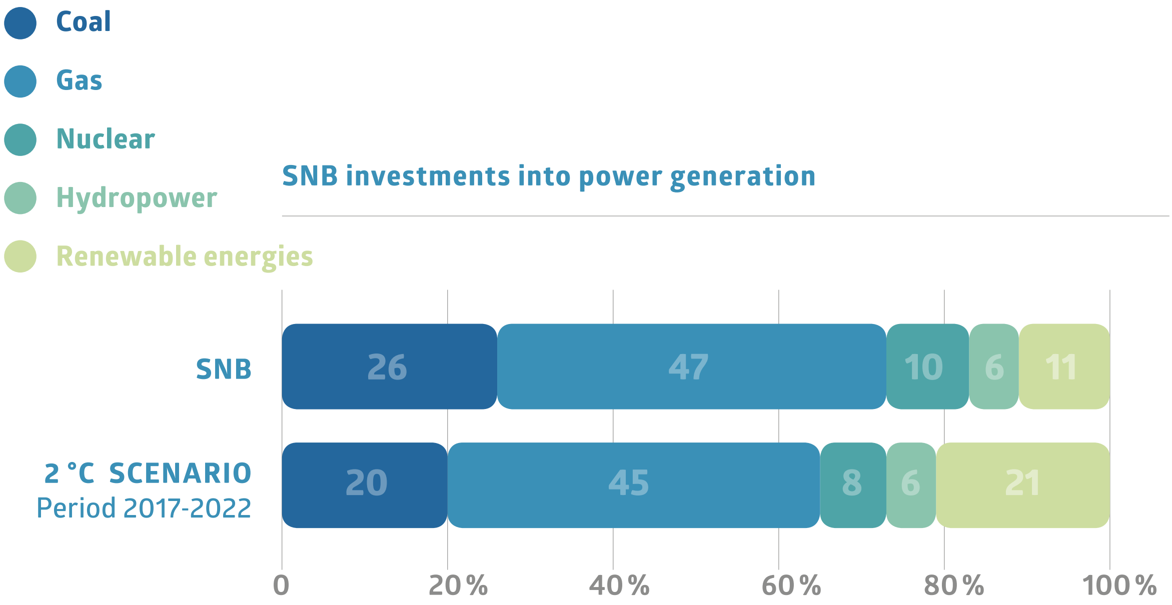
Total CO_2 emissions, in tons*	48 444 746
Exposure to fossil energy as a percentage on the portfolio's total amount	8,9 %
Exposure to CU200 as a percentage of the portfolio's total amount	5,9 %

*This amount includes the emissions over the whole lifecycle of the goods and services provided by the company. Experts call those «Scope 1, 2 and 3 emissions».

Source: ISS-Ethix for Les Artisans de la transition, 2018.

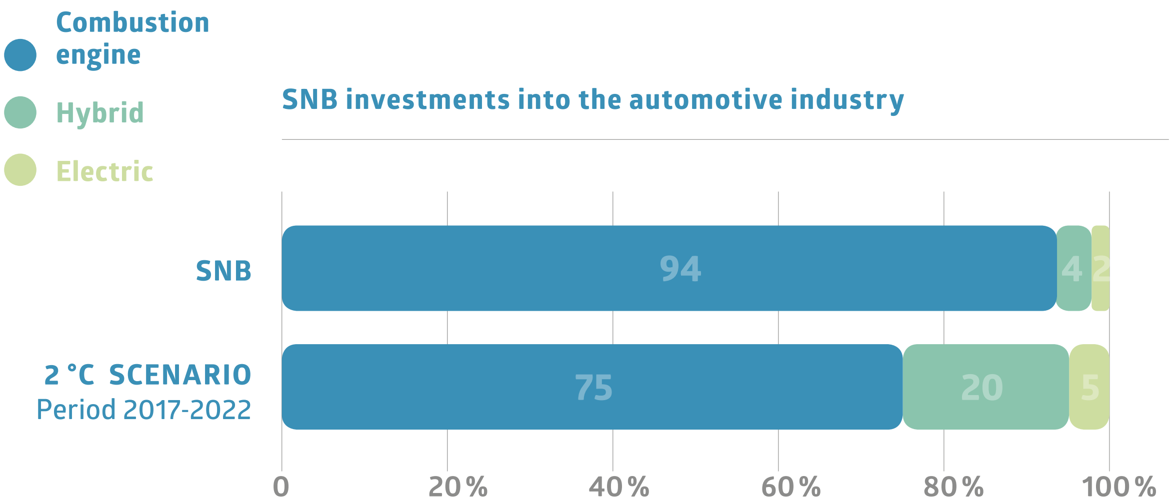
The analysis of the SNB's portfolio by the association 2 Degrees Investing shows the inconsistency between the SNB's investment choices and the objective of limiting global warming to 2°C. To do so, this association compared the share of technologies in the portfolio to a scenario compatible with that objective developed by the International Energy Agency. This scenario only ensures a 50% chance of respecting the 2°C threshold but is often taken as a reference. ●

SNB investments into power generation



Source : 2 Degrees Investing for Les Artisans de la transition.

SNB investments into the automotive industry



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La transition vers une société écologique viendra de personnes déterminées qui se retroussent les manches et les méninges…

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ArtisansdelaTransition
LaRevue Durable
Rue de Lausanne 23
1700 Fribourg
IBAN : CH2300768300140932307
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