Laurier's Investment Decarbonization Claims: WLUFA Responds—Part 3 of 3

The Drawbacks of 'carbon Footprint' targets, and next Steps for Laurier

By the WLUFA Climate Action Committee (Lead Author: Derek Hall), 6 May, 2024

In the second post in this series, we developed several critiques of Laurier's public statements regarding the university's purportedly-achieved commitment to reduce the carbon footprint (intensity) of equities within the endowment fund by 40%. In this final post we argue that commitments of this type have inherent problems that would still apply even if the clarity and transparency problems we identified in the second post were resolved. Ultimately, we urge Laurier to open up its decarbonizing investment strategies to wider scrutiny and collaboration, so that the university can move towards actions that have a real impact in responding to the climate emergency.

"Intensity" carbon footprint metrics have major weaknesses and can be highly misleading.

While we do not know what specific "intensity" metric Laurier is using (the 2022-23 Responsible Investment Report, again, presents or defines Laurier's metric in three incompatible ways), normalized/intensity metrics in general have significant problems. The tCO2e/$M invested metric, which appears to be the most common choice of Canadian universities, is subject to "denominator effects" through which simple increases in the value of the assets in the portfolio (share prices) make the denominator bigger and thus lower the "carbon footprint" even in the absence of any actual changes in the portfolio's GHG emissions. The University of Toronto Asset Management Corporation, to its credit, pointed out in its 2021 Responsible Investing Report (p.17) that most of the 29.8% reduction in its LTCAP Sub-Portfolio's tCO2e/$M figure was a result of strong equity market performance rather than actual emissions reductions. It did not, however, go on to explain *why* U of T has targeted a metric that makes such situations possible.

The climate does not respond to the "intensity" of GHG reductions. It responds to the actual, absolute quantities of GHGs emitted. Organizations that choose to target 'intensity' metrics need to explain why, at a time of climate emergency, they are not committing to reduce the *actual* GHG emissions of their investments. We argue that following standard practice in the sector is not good enough if that practice is flawed. At the very least, Laurier should, like the University of Toronto, be reporting calculations of the actual reductions of portfolio emissions alongside intensity reductions.

Commitments that are restricted to Scope 1 and 2 emissions may lead to the reallocation of investment to firms with high Scope 3 emissions.

Our second post noted that Laurier's investment carbon footprint commitment and reporting also follow standard practice at Canadian universities and beyond by including Scope 1 and 2

emissions and excluding Scope 3. It is of course not reasonable to expect Laurier or others to report Scope 3 data that is unavailable or of poor quality, so the Scope 3 exclusion is understandable from that perspective. It seems to us, however, that **without Scope 3 emissions data the rationale for the whole investment carbon footprint reporting project collapses.** We have not found anything in the commitments we reviewed that would prevent universities from 'reducing their carbon footprint' or 'decarbonizing' by reallocating their investments from firms with high Scope 1 and 2 emissions to firms with low Scope 1 and 2 but high Scope 3 ones.

Laurier could, for instance, likely lower the "carbon footprint (intensity)" of its investments by shifting them towards Canada's four big banks. As the Jarislowsky Fraser data in Appendix A of Laurier's 2022-23 Responsible Investment Report indicates, financial institutions generally have low Scope 1 and 2 emissions relative to their market value. Yet Canada's big banks are massive financers of fossil fuel development by other firms. *Banking on Climate Chaos: Fossil Fuel Finance Report 2023* states (pp. 10-11) that over the 2016-2022 period, RBC placed fifth in the global fossil fuel-financing league table with an astonishing $254 billion of funding, with Scotiabank ranking 9th, TD 10th, and Bank of Montreal 15th. In 2022, RBC provided more fossil fuel finance than any other financial institution in the world. The emissions of other companies that Canada's banks finance are Scope 3 from the banks' point of view, and are therefore invisible to standard carbon footprint accounting practices.

There are other reasons (see our more detailed report) to doubt the value of reporting that only covers Scope 1 and 2 and excludes Scope 3 emissions. Here we simply state that to demonstrate that its carbon footprint reduction commitments have value, **Laurier needs to show that it is not reallocating investments to firms with low Scope 1 and 2 but high Scope 3 emissions.**

Persuasion, not box-ticking.

Laurier claims that it has met an ambitious investment decarbonization target almost a decade ahead of schedule. Unfortunately, the university has not explained what the target is, what it does and doesn't cover, where the data used to track the commitment comes from or how it is calculated, or why targets of this kind are beneficial for sustainability and the climate.

The *Laurier Strategy 2019-2024* affirms that Laurier "excels at creating a culture of engagement…by facilitating the expression, testing, and challenging of a range of perspectives and ideas grounded in reason, evidence, and frameworks of knowledge and creativity". We argue that this culture of engagement based on reason and evidence belongs not only in the classroom but also in the university's wider institutional approach to major societal challenges like climate change. We call on the university to shift its approach to investment climate action from box-ticking to a transparent effort to navigate the difficult questions around investment decarbonization. This is a prerequisite to charting a path with the potential for meaningful impact.

In this spirit, the goal of Laurier's communications around its responsible investment strategy should be to persuade a reasonable member of the Laurier community (and one who does not have a background in climate accounting) that the university has convincing answers to the questions we have raised across our blogs on this issue. This communication should be done as clearly as possible and should all be located in one place (presumably the annual Responsible

Investing Reports). Developing this more transparent approach should be seen as an opportunity and not a burden – it is a chance for Laurier to show leadership in communication about climate action, and for it to open its responsible investment strategies to scrutiny and debate within the Laurier community.

As it stands, Laurier lags behind other Canadian universities in this respect. Until the university improves its communications and reporting, we will not accept either that it has met the 40% reduction target or that the target is meaningful.