Country Head Focus – France

Eleonard Buono
Country Head

France: Responsible Investment spotlight

As governments introduce Covid-19 related economic recovery packages, they are subtly revealing their commitments to environmental, social and governance (ESG) initiatives. Nowhere is this truer than France, which is seeking to stimulate a green recovery. Along with Germany it has spearheaded the EU's agreed €750 billion recovery fund, of which a significant chunk has been reserved for climate-friendly measures.[31] And in France specifically, support for sectors such as the car industry include money for electrification.[32]

These initiatives crown an ambitious legislative agenda, designed to foster green growth and encourage investment in climate-friendly projects through the transformation of Paris into a leading global centre for sustainable finance.

At the One Planet Summit in France in 2017, French president, Emmanuel Macron, confirmed sustainable finance as a priority.[33] Further, in 2019 Robert Ophèle, chairman of the Autorité des Marchés Financiers, France's top financial regulator, urged Europe to speed up the introduction of common European standards on ESG to prevent so-called "greenwashing", whereby funds give a misleading impression of their green credentials.[34]

Five years of encouraging responsible investment

France's emphasis on a green recovery builds on five years of supporting green growth, partly through pioneering responsible investment. Characteristically, the state has been actively encouraging the sector through a series of measures. In 2015, for instance, it became the first country in the world to introduce mandatory climate change–related reporting for institutional investors.[35] This energy transition law, which came into effect at the beginning of 2016, required a wide range of investors, including fund managers, insurance companies and pension funds, to disclose how they integrate ESG factors into investment portfolios. They also had to measure the carbon footprint of their portfolios, a move which has been credited with diverting capital from carbon-intensive companies.[36]

Also in 2016, two public fund labels were introduced: the first, a Socially Responsible Investment (SRI) label, is designed to promote investor awareness of sustainable funds; the second is called TEEC (Energy and Ecology Transition for the Climate) and is for green funds. In 2018 the TEEC was extended to real estate funds, while 2020 saw the French government unveil an SRI label for real estate funds. Both fund labels are awarded for three years and must be audited by a third party. At the end of September 2018, the SRI label had been awarded to 166 funds from 36 asset management firms with the TEEC label awarded to 22 funds from 15 asset managers.[37]

Innovation in green finance

In the area of green finance, France has also made significant strides, becoming the first major global economy to launch a sovereign green bond in 2017. Since then, leading French companies including energy group Engie and state-owned public transport operator RATP have followed suit.

In 2019, France achieved another first with the issuance of the world's longest duration green bond to date, tapping into growing demand for longer duration bonds from pension funds and insurers. The money raised from the 100-year bond issued by railway operator SNCF was used to fund green projects.[38] That year France was the world's third biggest issuer of green bonds, behind the US and Germany, with issuance of just over $16.1 billion.[39]

Beyond the bond market, France was at the forefront of the then infant green loan market in 2017 when green electricity producer Quadran was granted the country's first green loan. That year also saw the launch of France's first green asset-backed security.[40]

Signs of sustainability

France's long history in responsible investment and green finance is paying dividends in terms of greening the economy. Money raised from green bonds in France has been used to finance clean energy projects as well as transport and building projects. Nearly two-thirds of proceeds from green bonds were used to finance clean energy in 2016. The following year building projects became the most popular investment destination for money raised from green bonds.[41]

What's more, French companies rank as world leaders on ESG criteria, according to a study published in June 2020 by the Sustainable Finance Programme at the University of Oxford.[42] French companies ranked first among 30 for their ESG scores.

The study also found that high ESG standards correlated with improved economic performance. According to the report, if Indonesia, which had the lowest ESG score of the countries surveyed, matched France's rating its per capita gross domestic product would be 15% higher.[43] This suggests France's green recovery package could foster a recovery that is sustainable in all senses of the word.

Source:

31 Will Covid-19 serve as a stimulus for the energy transition in France? *Crédit Agricole* https://etudes-economiques.credit-agricole.com/en/Publication-EN/2020-juin/Will-Covid-19-serve-as-a-stimulus-for-the-energy-transition-in-France

32 France and Germany lead EU countries in delivering green stimulus packages, *Green Car Congress.*

33 European SRI study, 2018, *Deloitte* https://www2.deloitte.com/content/dam/Deloitte/lu/Documents/sustainable-dev/lu-european-sri-study-2018.pdf

34 EU 'urgently' needs common ESG rules, says French watchdog, *Financial Times* https://www.ft.com/content/63e5a2d3-8ee2-40be-899b-5509b776a0c8

35 ESG integration in Europe, the Middle East, and Africa: Markets, practices and data, *CFA Institute* https://www.unpri.org/download?ac=6036

36 Impact of ESG disclosures, *KPMG* https://assets.kpmg/content/dam/kpmg/xx/pdf/2019/09/impact-of-esg-disclosures.pdf

37 European SRI study, 2018, *Deloitte* https://www2.deloitte.com/content/dam/Deloitte/lu/Documents/sustainable-dev/lu-european-sri-study-2018.pdf

38 SNCF Network launches 100-year Green bond, *International Railway Journal* https://www.railjournal.com/financial/sncf-network-launches-100-year-green-bond/

39 Green bonds set to gain strength in 2020 following bumper year, *Linklaters* https://www.linklaters.com/en/about-us/news-and-deals/news/2020/january/green-bonds-set-to-gain-strength-in-2020-following-record-year

40 France country briefing, *Climate Bonds* https://www.climatebonds.net/files/files/France_report_final_20_04_18.pdf

41 France country briefing, *Climate Bonds* https://www.climatebonds.net/files/files/France_report_final_20_04_18.pdf

42 The Effect of Firm-level ESG Practices on Macroeconomic Performance Xiaoyan Zhou, Ben Caldecott, Elizabeth Harnett, & Kim Schumacher, 3rd June 2020.

43 The Effect of Firm-level ESG Practices on Macroeconomic Performance, *University of Oxford* https://www.smithschool.ox.ac.uk/publications/wpapers/workingpaper20-03.pdf

To find out more visit
COLUMBIATHREADNEEDLE.COM

EMEA.Stewardship@columbiathreadneedle.com
US.Stewardship@columbiathreadneedle.com
RI.Thematic@columbiathreadneedle.com