OPENING STATEMENT by Minister of State Michael D'Arcy
Joint Oireachtas Committee on Finance, Public Expenditure and Reform, and Taoiseach, Tuesday, 27 June 2017

PRE-LEGISATIVE SCRUTINY
Fossil Fuel Divestment Bill 2016

I would like to thank the Chair for the invitation to address the Committee today on the topic of the Fossil Fuel Divestment Bill 2016.

As you will be aware and as outlined at Second Stage, the Bill which does not form part of the Government's legislative programme gives rise to a number of concerns. However, as also outlined at Second Stage, the Government is committed to working with Deputy Pringle and the Oireachtas on the Bill to help ensure a beneficial outcome.

In that regard, this is a welcome opportunity to contribute to the Committee's deliberations.

I would like to take you through the rationale for the Government's position on this Bill including the underlying concerns and priorities.

Government's Position

As you will be aware, responsibility for Ireland's energy and climate action policies is under the remit of the Minister for Communications, Climate Action and the Environment. However, as the Bill seeks to amend the Ireland Strategic Investment Fund's investment approach through an amendment to the National Treasury Management Agency (NTMA) Acts, I, as Minister of State at the Department of Finance must lead on it.

The intention behind the Bill is well understood by both myself and my colleagues in Government, including the Minister for Communications, Climate Action and the Environment, Denis Naughten. In that regard I commend Deputy Pringle for the work he has done in progressing it this far.

This Bill was published at a time of significant developments in the areas of energy and climate policy both nationally and internationally. In considering the intentions behind the Bill, there also has to be careful consideration of its wider

policy implications and we must never lose sight of the continuing reality of Ireland's dependence on fossil fuels for our energy and transport needs.

Therefore, the Government does not think that ISIF's investment policy should be driving national energy and climate policy. Energy and climate policy should be decided in a holistic manner with energy and climate at its core, and with all factors considered, including our environment, our economy, people's jobs and our international obligations.

The Government also has concerns that the Bill, as drafted, poses real risks to ISIF's ability to support the transition of our economy to a low carbon economy and poses risks to our economy and employment. In addition, the Bill gives rise to a number of difficulties for the Ireland Strategic Investment Fund (ISIF), which I will address shortly. We must also take into account progressive actions already adopted by ISIF in relation to fossil fuel investments.

Energy and climate policy

Ireland is currently heavily reliant on fossil fuels accounting for 91 per cent of all energy used in Ireland in 2015. This is broken down between oil (48 per cent), natural gas (27 per cent), coal (10 per cent) and peat (6 per cent).

Ireland's climate and energy priorities together govern the national decarbonisation strategy in line with Ireland's climate change commitments.

The issues of decarbonisation and the long term transition towards a low carbon economy are central to the Paris Agreement. The extent of the challenge here is well understood by Government and is reflected in the:

- National Policy Position on Climate Action and Low Carbon Development (published in 2014); and
- The Climate Action and Low Carbon Development Act 2015,

Critically, there is consistency and coherence between Ireland's climate and energy policies.

Similarly, the Energy White Paper (Ireland's Transition to a Low Carbon Energy Future 2015-2030 published in December 2015) sets out a vision to reduce greenhouse gas emissions from the energy sector by 2050.

Importantly, the White Paper highlights that fossil fuels will continue to have a key role in Ireland's energy mix even in a significantly decarbonised energy sector. In light of this, continued investment in fossil fuel related technologies and businesses is a necessity.

Energy import dependency

In properly considering this Bill, we must take full account of Ireland having a very high energy import dependency with over 88% of our energy needs met through imports in 2015. We have a significant security of supply dependency in relation to imported fossil fuels – in particular from the UK. Although Ireland has an excellent relationship with the UK in terms of energy, it is possible that this could be further complicated by Brexit in the coming years.

In order to ensure continued secure supplies of energy to Ireland in the future, investment from ISIF in strategic energy infrastructure may prove very necessary. This Bill as currently drafted would preclude such investment.

Definition of 'fossil fuel company'

The Bill's definition of a 'fossil fuel company' is of significant concern. It currently states that a:

> "fossil fuel company' means a company whose business either wholly or partly engages in the exploration, extraction, refining, processing or delivery of fossil fuels (geological deposits)"

This definition appears to encompass a wide range of companies including Bord na Mona and the National Oil Reserves Agency (NORA). It also appears to capture any business, local, national or international involved in the delivery of fossil fuels. This could include local distributors of oil, gas, coal and peat products to homes and businesses across Ireland. This definition would prevent ISIF credit or equity funds from supporting Irish SMEs which are active in these sectors.

The definition also appears to restrict investment by ISIF in companies which are developing innovative technologies that could improve the energy efficiency

of fossil fuel based processes. It may also restrict investment in technologies that could lead to improved air quality.

ISIF – background and NPRF legacy

The old National Pensions Reserve Fund (NPRF) transitioned to the Ireland Strategic Investment Fund (ISIF) in December 2014. ISIF has a statutory mandate to invest on a commercial basis to support economic activity and employment in Ireland. All ISIF investments, since December 2014, comply with both this double bottom line mandate and the Fund's Sustainability and Responsible Investment Policy, which sets out key principles for responsible investment.

Review of exclusions

Historically, the only category of investment which was specifically excluded from the NPRF or ISIF was Cluster Munitions in accordance with the Cluster Munitions and Anti-Personnel Mines Act. The NTMA is now conducting a review of the exclusion of categories of investment.

The review includes a case-by-case analysis of all ISIF energy holdings in order to assess their sustainability and ultimately the investment case. ISIF acknowledges that companies which are most exposed to and least prepared for transition to low carbon economy may be candidates for divestment.

Transition

The Global portfolio of the old NPRF is being sold or divested over a period of years in order to provide capital for investment in Ireland, in line with ISIF's mandate.

Energy investments in the Global portfolio should be considered in the context of ISIF's Irish portfolio and its significant commitment to renewables. ISIF's investment strategy, and its €800m energy allocation, is aligned with government policy and the State's commitment to transition to a low carbon, climate resilient and sustainable economy. ISIF published its Sustainability and Responsible Investment Policy in July 2016 emphasizing climate change as part of their investment decision making process

To date renewable energy investment commitments include:

- €44 million for the €500 million Dublin Waste to Energy project.
- €35 million commitment to NTR's onshore wind fund.
- Investment in the Bluebay SME credit fund which made loans to Gaelectric and Mainstream, Irish headquartered renewable energy developers.
- Being a cornerstone investor in the Irish Infrastructure Fund (IIF) which holds a number of Irish onshore wind assets, forestry and energy efficiency technologies.

These are positive developments. However, as drafted, the Bill would lead to ISIF investments being directed away from supporting the implementation of Government policy and many companies and businesses which are vital to the functioning of Ireland's economy and society.

Conclusion

I would like to thank the Committee for this opportunity to outline the Government's concerns regarding this Bill. As outlined I want to constructively work with you to consider the provisions of this Bill, but also the wider implications.

In all areas of public policy, it is during the implementation of legislation that it is critical to balance a range of policy priorities. In reference to this Bill, it is important to consider carefully how its provisions would be implemented. We must legislate appropriately and avoid any unintended consequences of the legislation which we enact.

The Government is concerned that unintended consequences of this Bill as drafted could impact on the activities of both Commercial Semi-State and private companies which are focused on developing climate-friendly and energy-efficient policies and technologies.

During his closing address at Second Stage, Deputy Pringle, as well as other contributors to the debate, indicated willingness to work closely to allay concerns regarding potential impacts from divestment. I welcome this and I

reiterate that I am committed to working closely with colleagues to achieve that same shared objective.