Fidelity and the oil sands pudding

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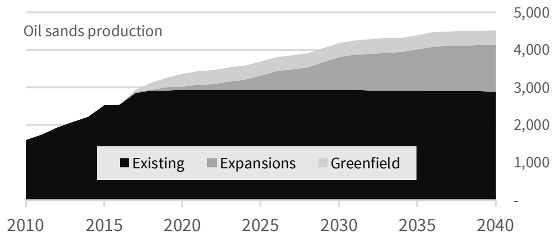
We applaud recent Fidelity International (FIL) statements around engaging at board-room level for implementation of ESG: "[Fidelity warns on climate and gender policy: Asset manager declares it will vote against directors who lag behind on ESG",] Financial Times, 26 Jul 2021.

Our analysis indicates that the Fidelity asset management companies[1] brought together are the biggest global equity owners of Canadian oil sands[2]. Thus, such engagement decisions – if consistently executed - will have an outsized effect of the currently unabated expansion of this type of particularly dirty hydrocarbon production. This is important for CO2 emissions reduction: we (and important investors, please see next page) would opine that a strong increase of oil sands production (Figure 1, right) over the next decade as in the last may not align well with the [IEA's recent net-zero 2050 scenarios.]

This is an outsized opportunity for FIL and FMR to showcase a change of trajectory in climate policies. The proof of these recent ESG commitments will be in the oil sands pudding, to paraphrase the old expression.

Figure 1. Left: Top five producers (~82% of total) in Canadian oil sands and FIL+FMR equity holdings and rank among all shareholders. 1=biggest shareholder. Right: Actual oil sands production expansion 2010-2017 and projected increases (mn barrels per day equivalent). Sources: Oil Sands Magazine, Bloomberg, Canada Energy Regulator, AFII calculations. Various dates for data sampling and calculations.

			FIL + FMR	
Producer	Bbl equiv per day (mn)	Share of production	Equity USDmn	Equity share rank
SUNCOR+SYNCRUDE	1.94	37.9%	4,253	1
CANADIAN NATURAL RES.	1.22	23.8%	4,089	2
CENOVUS ENERGY	0.53	10.4%	1,283	4
IMPERIAL OIL (EXXON)	0.49	9.6%	1,093	2
SHELL CANADA	0.32	6.3%	841	8



[1] Fidelity International (FIL, bond ticker FIDINT) and Fidelity Investments (FMR, bond ticker FIDINV) are formally independent companies, although the former is a spin-out from the latter. The founding Johnson family owns 40% of FIL and 49% of FMR. The companies are private and the remaining shares are generally held by current and former employees. The analysis in this note is based on the assumption that the Johnson family asserts enough control over both Fidelity companies to be able to effectively implement climate policies across both entities. If that assumption is invalid, we think any upcoming Suncor (the biggest oil sands producer) AGMs where FMR holds the biggest position (5.77% of shares) and FIL the second biggest (5.32%) could be potentially entertaining. In this context, FIL has an AUM of <USD1trn whereas FMR has an AUM of around USD10bn: as a percentage of AUM, FIL's position is much bigger than FMR's.
[2] Please refer to "[Biden and the oil-sand vanguard: Inaugural credit action]", AFII, 24 Jan 2021, for an analysis of debt ownership on the government support side, and the oil-sands section of the [AFII research synthesis].

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Sample exclusion motivation on oil sand majors

Below follows the motivations for the GPFG, also known as the Norwegian Oil Fund, to exclude Suncor from its portfolio. Similar decisions are available for other companies in Figure 1, specifically Canadian Natural Resources, Cenovus Energy and Imperial Oil.

"The Council on Ethics recommends that Suncor Energy Inc be excluded from investment by the Government Pension Fund Global (GPFG) due to an unacceptable risk that the company is contributing to or is itself responsible for actions or omissions which, at the aggregate company level, lead to an unacceptable level of greenhouse gas emissions.

Suncor Energy Inc is a Canadian company with a substantial output of oil from oil sand resources in Alberta, Canada. Oil production of this kind results in far higher greenhouse gas emissions than the global average, and the company has no specific plans that would reduce its emissions to this level within a reasonable period of time. The company's greenhouse gas emissions are not subject to a regulatory regime that is as stringent as the EU ETS, and have a government-imposed cost that is considerably lower than corresponding emissions in the EU.

The Council on Ethics recommended the company's exclusion for the first time in 2017. This recommendation was among the first issued under the climate criterion, whose application was at that time somewhat unclear. After clarification was obtained from the Norwegian Ministry of Finance in June 2019, the recommendation was reissued that autumn with minor adjustments relating particularly to the type of greenhouse gas emissions regime the company is subject to.

The Council on Ethics submitted its revised recommendation 7 November 2019. Norges Bank published its decision to exclude the company on 12 May 2020."

Council on Ethics, Government Pension Fund Global, 12 May 2020.

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