

The SNB : a strategic key to the energy and social transition

The Swiss National Bank, like other national banks, could play a central role in the unprecedented energy and social transition required by the climate challenge, in four different ways, by :

- 1) Divesting its huge holdings in fossil fuels**
- 2) Re-investing these sums, and more, in the energy transition**
- 3) Financing a just, rapid and massive transition with its profits, or by the direct creation of credit**
- 4) Deterring private banks from financing fossil fuel by financial regulation**

1) The first obvious step would be to divest its shares in companies that produce or consume large quantities of fossil fuels. One must be aware that the SNB's purchases of foreign currencies on the foreign exchange markets, made to prevent a rise in the value of the Swiss franc, have led it to hold one trillion francs (1,000 billion) in foreign currencies and securities. This is the world's second-largest State fortune, second only to the Chinese sovereign wealth fund. Of this trillion, 184 billion are in the form of shares or bonds[1], part of which is invested in oil companies, including those engaged in the most polluting activities: oil sands in Canada, fracking, drilling in the Arctic or on the high seas, etc.[2] When the International Energy Agency warns that two thirds of current fossil fuel reserves must remain underground to stay below the 2 degrees warming threshold[3] and that reaching net zero emissions implies *no* new fossil fuel projects as of 2021,[4] it is inadmissible that a public entity still finance new, and worse, unconventional fossil fuel extraction projects, even more harmful for the climate and the environment. Divestment by the SNB would in itself be a huge measure for the climate, but also a strong signal to private banks. So doing, the SNB would also catch up with other central banks, which are already divesting from fossil fuels.[5]

It is possible that the bank (like many pension funds) will resist divestment with the pretext of having a neutral or "passive" investment policy (i.e. distributed more or less proportionally over the entire market in order to reduce risk). Yet precedents exist for excluding investments considered to be against the interests of the population (e.g., in pornography, weapons, terrorism or nuclear power). Clearly, the financing of climate chaos falls into this category![6] Moreover, the SNB is obliged to respect the Swiss constitution, which includes the principle of sustainability. Finally, after a long period of denial concerning climate risk, the SNB has finally announced a very partial withdrawal from coal, investments that it now recognizes

as contrary to "Swiss values" (sic!)[7]. It thus admits that its responsibility is engaged concerning climate change, and thus that it could do much more.

2) SNB should not only reinvest this capital in the energy transition, but also invest in it more massively. A good part of the other 800 billion it holds in currency reserves could be invested in this, while still leaving the bank ample flexibility for its monetary policy.

3) SNB should immediately accelerate massively the transition would be by distributions, to the Confederation and the cantons, taken from its 40 billion annual surplus profits[8], specifically granted to finance the urgent social and energetic transition, and to assume responsibility for the climatic chaos that the rich countries have **provoked in the global** South. If necessary, SNB, like other national banks, would also have the capacity to finance even larger amounts, by the creation of specific credits [SEE ANNEX BELOW].

4) Finally, the SNB (together with FINMA, the federal monetary authority) should intervene in their role of regulators of the financial market in order to dissuade private banks from financing fossil energies.

It would be possible to integrate climate impact criteria into the variable remuneration of financial actors, in order to ensure that they have a longer-term perspective; to encourage them to get involved in low-yield projects by explicitly integrating climate criteria into the concept of fiduciary responsibility; or to use prudential regulation to integrate climate criteria into the financial decisions of banks. For example, banks could be required to advance more capital when lending to polluting companies, making such loans less profitable than others.[9]

The bailout of banks during the banking crisis of 2007, as well as the measures taken to mitigate the effects of the pandemic, show that the "neutrality" of monetary policy is not a « sacred cow » when interests deemed vital are at stake. So what is the SNB waiting for in order to act? What are the Cantons, majority shareholders of the SNB waiting for ? What is Parliament and the Federal Council waiting for to give it a clear mandate to do so, if necessary?

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Foot Notes

Note 1: 999 027.9 billion in December 2020:

https://www.snb.ch/en/i/about/snb/annacc/id/snb_annac_balance

Note 2 : Scandalously, the SNB's investments are not public, but transparency requirements in the United States and Great Britain reveal that its investments in those countries (101 billion Swiss francs as of December 31, 2019, or 66% of the bank's equity investments) were responsible for 43.3 million tons of CO₂eq emissions per year. This is almost as much as Switzerland's total emissions (47 million tons of CO₂eq in 2017).

Note 3: Article from Le Monde (newspaper) https://www.lemonde.fr/idees/article/2012/11/15/nous-devons-laisser-deux-tiers-des-energies-fossiles-dans-le-sol_1791553_3232.html

Note 4: *Net Zero by 2050: a Roadmap for the Global Energy Sector*, IEA, <https://t.co/nnpk3Ik1fH?amp=1>

Note 5: <http://www.bloomberg.com/news/articles/2021-03-03/bank-of-england-gets-new-mandate-to-drive-net-zero-goals> & <https://reclaimfinance.org/site/en/2021/02/23/banque-de-france-position-decarbonisation-ecb/>

Note 6: Indeed, the SNB should invest in a way that is compatible with the Paris Agreement ratified by our country, since according to its mandate "The National Bank shall pursue a monetary policy serving the interests of the country as a whole." <https://www.fedlex.admin.ch/eli/cc/2004/221/en> Questioned on this subject at its last General Assembly by the Cantons of Vaud and Neuchatel (the Cantons are the SNB's main shareholders), the SNB recognized that climate change risk is important for monetary policy, financial stability and investment strategy, and put forward their partial exclusion of coal. However, it also claimed that the Paris Agreement was only signed by the States, and thus does not constrain central banks ! They also justified their inaction by the fact that the CO₂ law included nothing about SNB's investments. For the SNB, these reflect the state of the economy, which will with time decarbonize...

Note 7: This cosmetic "divestment" concerns less than 0.1% of its fossil investments, which overall correspond to a global warming of 4 to 6% in 2100. And in reality, the SNB is not even fulfilling this commitment to divest from companies that primarily exploit coal. https://www.blick.ch/politik/klima-versprechen-gebrochen-nationalbank-steckt-noch-immer-kohle-in-kohle-id16527556.html?__twitter_impression=true

Note 8 : Currently, the Federal Council and SNB have agreed to distribute only a maximum of 6 billion CHF out of the 40 billion surplus profits (i.e. profits after dividends paid to its shareholders) https://www.snb.ch/en/i/about/snb/annacc/id/snb_annac_profit

Note 9 : See <https://www.finance-watch.org/publication/breaking-the-climate-finance-doom-loop/> et <https://www.i4ce.org/download/can-financial-regulation-accelerate-the-low-carbon-transition/>

Note 10: The Japanese central bank is a notable exception. It is currently the country's largest investor.

Note 11: See the appeal to the European Central Bank by 100 economists, "Cancel the public debt and take back control of our destiny", <https://www.euractiv.com/section/economy-jobs/opinion/cancel-the-public-debt-held-by-the-ecb-and-take-back-control-of-our-destiny/> and also "L'Heure de la planification écologique", by Cédric Durand & Razmig Keucheyan, on how the current crises are revealing bits of a different economic logic. <https://www.monde-diplomatique.fr/2020/05/DURAND/61748>

Annex

Why central banks could finance a just, massive and rapid transition to a practically unlimited extent, by specific creations of credit

Contrary to popular belief, the enormous majority of funds invested in the economy do not correspond to the savings of individuals. They are credits created by private banks by simply creating a line of credit in their accounts. (backed by a guarantee from the central This is routine in our economy, and in itself is not inflationary, since these credits are erased when the loan is repaid. Of course, central banks could do the same, and have often done so in the past, for example to finance major public works, industrialization, war... or post-war reconstruction.

However, in the neoliberal era, in most countries central banks have been arbitrarily forbidden to lend directly (especially to the government).[10] Thus, the SNB is not allowed to buy bonds issued, on what is called the "primary" market. It can only buy them on the secondary market, i.e. from private banks that have previously purchased them. Thus, in effect, the SNB can only lend via the private banks, which as intermediaries get richer in the process. This system is most blatantly abusive when it involves bonds issued by the government, since the banks are thus cashing in while incurring zero risk, being certain that the SNB will in turn buy the bonds from them!

The activity of the central banks was thus limited with the pretext that the central bank had to be barred from financing governments considered too spendthrift ... The financial sphere thus not only bridled democracy, it also secured a monopoly on the creation of credit! A scandal, since in the last analysis, a credit is only the green light to use a portion of the productive capacity of the society as a whole. And that thus the bankers arrogate to themselves the right to collect interest on this enormous and fundamental common good.

If this restriction on the activities of the SNB was abolished, it could issue all the credits necessary for the huge economic, energy and social transition that is necessary. Issued according to the production capacities in question, they would not cause inflation. This would also avoid excessive public debt - the credits could even be interest-free, like the CoVid credits. In fact, this is no doubt the main reason why some will resist it. Indeed, it would undermine both the myth of "the lack" of financial resources in general, and the need for fiscal austerity in particular.[11] The control over our societies by the owners of capital depends in large part on the belief that credit is a scarce commodity, and must therefore be remunerated.

In fact, according to financial experts, in the current period of negative interest rates the Federal government could borrow money to finance the transition at practically zero interest. The fact that this possibility is not even mentioned in political and public debates illustrates how important it is for those who profit from the old world order to make real social progress seem impossible. It is also a measure of the Federal Council's reluctance to really respect the Paris Agreements.

It has been said that it is easier to imagine the end of the world than the end of capitalism. All the same, doesn't the issue call for shaking it up a bit?