Investor Concerns About Fossil Fuels Are Growing

by Mindy Lubber — *Forbes Sustainable Capitalism Blog*
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For many years, advocates fighting climate change and the fossil fuel industry were like ships passing in the night. Advocates pressed for comprehensive climate policies strong enough to stop or slow fossil fuel pollution and climate change. Meanwhile, the fossil fuel industry argued that until global limits were in place, they would follow 'business as usual' by tapping existing fossil fuel reserves and spending over $650 billion a year finding new hydrocarbon sources.

But something changed along the way: even though a global climate deal is obviously unlikely at the UN talks in Warsaw, the fossil fuel industry's iron-clad grip on the global economy appears to be loosening. Rather suddenly, concepts like unburnable carbon, carbon asset risk and stranded assets are now very real – and not only in the minds of Bill McKibben and 350.org, but also mainstream investors and Wall Street.

Coal demand is softening in many parts of the world, especially in the U.S. where coal reserves are going unused and coal company share prices have fallen by three quarters or more since 2011. Oil majors are also feeling pressure as global demand is likely approaching a tipping point, pinching their earnings and share prices. Companies with the highest production costs – in Canada's oil sands and deepwater offshore-drilling, for example – are already getting tough questions from analysts who are suggesting they curb their spending on such projects.

Most surprisingly, all this is happening without a worldwide price on carbon.

What happened? Wide-ranging regulatory, market and societal forces are changing the global landscape for fossil fuels.

Climate change is certainly a key factor. Reams of powerful research by the International Energy Agency, the Carbon Tracker, the United Nations, investment banks and other reputable groups are connecting the dots between status-quo burning of fossil fuels and the catastrophic climate change impacts we can expect. The reports all send the same message: avoiding 4 to 5 degrees of global warming requires substantial and immediate pollution reductions that would keep most of the world's fossil fuel reserves in the ground.

Societal pressures are growing too. Chinese citizens are protesting 'apocalyptic' coal pollution that is shutting down airports and entire cities. Student activists worldwide have been galvanized by McKibben's "Do the Math" tour and are calling for fossil fuel divestment by university endowments.

Bolstering these activities are other market factors such as an expanding mix of regional and national policies worldwide to reduce carbon and other pollutants. Disruptive energy technologies are having an enormous role, too – in particular, hydraulic fracturing, which has unleashed natural gas production (stifling coal demand in the U.S.) and cost competitive wind and solar technologies that has made renewable energy the fastest growing source of new electricity in the U.S.

Even multinational corporations recognize these trends. Nearly 60 percent of the combined Fortune 100 and Global 100 companies have set goals for renewable energy sourcing and greenhouse gas reductions. Companies are embracing these cleaner activities not only because it's cost effective and sustainable, but also because they understand that fossil fuel energy is increasingly risky and prone to volatile price swings.

The end result of all these forces: fossil fuel industries are facing wide-ranging risks that are already impacting their strategies and bottom lines.

Last month, 70 global investors with collective assets totaling $3 trillion launched the first-ever coordinated effort asking the world's 45 largest oil, coal and power companies, including Exxon, BP and Arch Coal, to assess the financial risks that climate change and these other trends pose to their business plans. The investors, coordinated by Ceres and the Carbon Tracker, sent letters to the companies this fall requesting detailed responses by early next year.

"We would like to understand [the company's] reserve exposure to the risks associated with current and probable future policies for reducing greenhouse gas emissions by 80 percent by 2050," the investors wrote in their letter to oil and gas companies. "We would also like to understand what options there are for [the company] to manage these risks by, for example, reducing the carbon intensity of its assets, divesting its most carbon intensive assets, diversifying its business by investing in low carbon energy sources or returning capital to shareholders."

These investors know that capital spent today will determine the future carbon intensity of our global energy system. The policies and technologies that will be in place in 2020 will be very different than those we see today. This will make high cost, carbon-intensive assets a risky bet.

Investors are rightly asking questions about how companies are positioning themselves for the future. It is encouraging that many of the companies they have talked with so far consider this a reasonable request. Companies responding otherwise by following a business-as-usual path will disappoint investors – and will be making a potentially perilous choice.

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