Coal Seen as New Tobacco Sparking Investor Backlash: Commodities

By Jesse Riseborough and Thomas Biesheuvel - Nov 20, 2013

About $8 trillion of known coal reserves lie beneath the earth’s surface. The companies planning to mine and burn them are being targeted by a growing group of investors concerned with the greenhouse gases that will be made.

**Storebrand ASA (STB)**, which manages $74 billion of assets from Norway, sold out of 24 coal and oil-sands companies since July including **Peabody Energy Corp. (BTU)**, the largest U.S. coal producer, citing a desire to cut fossil-fuel industry holdings. This month Norway’s opposition **Labour Party** proposed banning the country’s $800 billion sovereign wealth fund from coal investments.

“Maybe we’ve hit some kind of nerve in the debate,” Christine Torklep Meisingset, Storebrand’s head of sustainable investments in Oslo, said by telephone. “Hopefully, other investors will be acting along the same lines. There could be an interesting parallel to tobacco.”

The movement is an offshoot of a campaign by more than 70 investors to pressure all fossil-fuel industries on **climate change**. It harks to the 1990s anti-tobacco push and is gaining help from unlikely partners. The International Energy Agency, a 28-nation group promoting **energy security**, is lobbying increasingly to limit the release of heat-trapping gases.

“Investors make decisions everyday on buying and selling stock and we’re confident that the strong long-term outlook for coal and Peabody’s specific investment appeal will carry the day,” Vic Svec, a spokesman for Peabody Energy, said yesterday by phone. “Coal has been the fastest-growing major fuel around the world for the past decade and is expected to surpass oil as the world’s largest energy source.”

**No Retreat**

Coal, whose burning spews about twice the **greenhouse gases** as natural gas, is not in retreat. In 2011, coal was used to generate 30.3 percent of the world’s primary energy, the highest level since 1969, according to the World Coal Association, an industry trade group. That share slipped only to 29.9 percent last year.
Investors cite both ethical and financial concerns with carbon-bearing fossil fuels. The Norwegian fund, the largest of its kind in the world, owns shares in some of the biggest coal producers including a $2 billion holding in BHP Billiton Ltd. (BHP), the biggest mining company and stakes in Glencore Xstrata Plc, the largest coal exporter, and Anglo American Plc.

The call to divest coal holdings is a political issue that the fund won’t comment on, said Thomas Sevang of Norges Bank Investment Management, which manages Norway’s sovereign wealth fund. “We’re investing according to the mandate that we have at any given time.”

**Rising Concern**

Future curbs on carbon emissions beyond 2020 may cut valuations on coal assets by as much as 44 percent, according to HSBC Holdings Plc.

“There is the beginnings of divestment out of pure play coal by some investors,” Nick Robins, head of HSBC’s climate change center of excellence in London, said in a Nov. 12 phone interview. “There’s been a very marked rise in concern about this issue. There’s a recognition that as you move to a low-carbon economy that coal is potentially most vulnerable.”

Coal remains a “good story” with demand from China and India estimated to grow almost 4 percent a year through to 2020, Godfrey Gomwe, chief executive officer of Anglo American (AAL)’s thermal coal unit, said in e-mailed comments.

“We believe that fossil fuels will continue to play a significant role in the global energy mix,” Ivan Glasenberg, CEO of Glencore Xstrata, wrote in the company’s sustainability report last week.

**Share Prices**

Globally, share prices of thermal coal producers have slid over the past two years on declining demand for the fuel and fears of oversupply. U.S. producer Patriot Coal Corp. filed for bankruptcy last year while Arch Coal Inc. (ACI) has dropped 71 percent and Peabody 44 percent over the past two years. China Shenhua Energy Co., the nation’s biggest producer, is down 27 percent over the same period while Indonesia’s biggest exporter PT Bumi Resources is off about 80 percent.

Prices for thermal coal shipped from Newcastle in Australia have slumped about 8.9 percent so far this year and are heading for a third straight annual decline.

“There’s a pretty plausible case that this is the beginning of the end,” Craig Mackenzie, investment director
and head of sustainability at Scottish Widows Investment Partnership, which manages 145 billion pounds ($233 billion) in assets, said by phone. Scottish Widows divested from pure-play coal producers last year on the prospect that demand for the fuel will continue to wane amid a booming U.S. natural gas market.

**Warsaw Talks**

Even so, Mackenzie said the divestment campaign has had little to no effect to date, and the sell-off in coal stocks has been driven by fundamentals.

“It’s quite easy to paint a scenario where coal demand never recovers,” Mackenzie said. “Gas prices are the biggest short-term driver. Over the longer term climate and clean air polices are the structural drivers.”

Other investors are starting to echo Storebrand’s views as ministers, executives and activists debate climate change for a second week at United Nations talks in Warsaw amid concern the current rate of carbon emissions growth will see temperature gains exceed a UN target of 2 degrees Celsius (3.6 degrees Fahrenheit) by 2100.

Some mining companies “are increasingly aware that this is going to be a show-stopper.” Storebrand’s Meisingset said. “Regulations and access to capital will be more demanding for the fossil fuel companies if politicians worldwide act on the 2-degree target.”

**Biggest Elephant**

Like tobacco companies, coal producers may move to paying high dividends to attract investors amid an uncertain longer term future for the fuel, Meisingset said.

A group of 70 investors including California’s two largest public pension funds and F&C Management, holding more than $3 trillion in combined assets, wrote to the world’s top 40 oil, gas, coal and electric power companies in September urging them to assess the risks climate change poses to their business.

International Energy Agency Executive Director Maria van der Hoeven last week described coal as the “biggest elephant in the room” in the debate about how to shift away from fossil fuels to help manage climate risks. Coal-fired power stations remain the cheapest form of energy for developing nations, she said. The agency has said coal demand would need to fall by 3.5 percent a year in the 2020s to meet the 2-degree target.

That target allows investors to evaluate the long-term impact to their holdings, according to HSBC.

**Cleanest Possible**
Total production rose 2.9 percent to an estimated record 7.8 billion tons last year. There’s about 1 trillion tons of reserves left, equivalent to 132 years of global output at the 2012 rate, according to the coal association.

“It is important that the international community recognize that much of the developing world is turning to coal to fuel development,” Anglo’s Gomwe, also chairman of the association’s energy and climate committee, said in a Nov. 18 speech at its International Coal & Climate Summit in Warsaw that coincided with the UN talks. “We need to help them do that in the cleanest way possible.”

The U.K. today joined a U.S. commitment to minimize funding of foreign coal-fired power stations as they seek to curb use of a fuel. Energy Secretary Edward Davey said in Warsaw the country will seek wider support for the pledge from other nations and development banks.

**Swarthmore College**

The beginnings of a fossil fuels divestment campaign are rooted in the U.S. where in 2010 Swarthmore College called on its endowment fund to sell all shares in producing companies, according to a report last month from the University of Oxford titled, “Stranded Assets and the Fossil Fuel Divestment Campaign.”

The Oxford University report analyzed previous divestment campaigns on tobacco stocks and companies that operated in apartheid South Africa in the 1980s. Both movements gathered momentum at the involvement of large universities such as Harvard, John Hopkins and Columbia, it said.

Still, the report concluded that such a campaign would have “negligible direct impact” on direct equity valuations on fossil-fuel companies. Funds withdrew about $5 billion of investments in tobacco stocks in a push that took hold in the 1990s, according to the report.

**Rising Emissions**

Greenhouse gas emissions from the energy industry are forecast to rise 20 percent above 2011 levels by 2035, according to a Nov. 12 report by the IEA. This means that global temperatures could rise an average of 3.6 degrees Celsius above pre-industrial levels by mid-century, far above the internationally agreed-to target of 2 degrees.

UN scientists said in September that humans have now emitted more than half the carbon permissible to remain within the 2-degree limit. To meet that target, about two-thirds of proven fossil-fuel reserves must remain in the ground, mostly coal, according to the IEA.
“Coal must change rapidly and dramatically for everyone’s sake,” Christiana Figueres, executive secretary of the UN Framework Convention on Climate Change, said in a Nov. 18 speech to industry executives at the Warsaw Coal & Climate Summit. “The coal industry faces a business continuation risk that you can no longer afford to ignore.”

Negotiators in Warsaw are hoping to develop a plan to reach a global agreement at the 2015 summit in Paris. Countries at a climate summit in Doha, Qatar, at the end of 2012 committed to adopt a broad climate pact in 2015 to give nations time to ratify the agreement so it can go into effect in 2020.

California Teachers

“There’s potential risk here that could be very material to companies involved in coal production resulting from a potential future in which coal demand declines more quickly than companies are currently anticipating,” Vicki Bakhshi, Head of Governance and Sustainable Investment at F&C Investments, which has $152 billion of assets, said in a phone interview.

Glencore Xstrata (GLEN), BHP, Anglo American and Rio Tinto Group have the biggest exposure to coal assets on the London stock exchange. Combined, they reported sales of coal for use in power stations and steel mills of $17 billion in the first half of this year.

The World Coal Association, which represents producers including Glencore and BHP, says coal-fueled energy is essential to lift people out of poverty and is calling on governments to increase the efficiency of power plants and for development banks to help fund clean-coal technologies.

“We see the world moving toward a low-carbon future in which fossil fuel reserves that companies continue to develop may actually become a liability, which could take a toll on shareholder value,” Jack Ehnes, CEO of the Sacramento-based California State Teachers’ Retirement System with $172 billion in assets under management, wrote in an Oct. 24 statement.

The U.S.’s second-largest public pension fund is a member of the group of 70 investors that wrote to energy companies. In the letter they asked the fossil fuel producers to identify measures available to them to manage the risk of climate change on their business including selling their “most carbon intensive assets.”

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