

Starting to see the problem: miners and investors

Unburnable Carbon: Australia's carbon bubble • April 2013

The International Energy Agency, investment houses and miners are aware of the problem of potentially unburnable carbon and interest is accelerating. Carbon Tracker finds that only 20 to 40 per cent of global fossil fuel reserves can be burnt for there to be an 80 per cent chance of achieving internationally agreed targets to limit global warming to less than 2°C.

A mix of social, political or technological development scenarios to achieve that warming goal could leave the remaining assets stranded. This speculative 'carbon bubble' – carbon intensive assets and investments exposed to potential rapid devaluation – is on the radar for some prominent industry and investment leaders.

Here are some recent public statements reflecting this:

"To remain competitive in a future carbon-constrained world, Australia will need turn into a lower carbon economy ... our relative competitive advantages have given us an economy that has traditionally and increasingly produced products for the export market that are materially carbon intensive."

Marius Kloppers
CEO of BHP
15 September 2010ⁱ

"In a carbon constrained world where energy coal is the biggest contributor to a carbon problem how do you think this is going to evolve ... I suspect the usage of thermal coal is going to decline, and frankly it should."

Marcus Randolph
Chief Executive of Ferrous and Coal at BHP
5 November 2012ⁱⁱ

"There's an impression people can trade out of these sorts of problems in time but one of the things we saw in the financial crisis in 2007 is that this is not always possible."

Nick Robins
Head of HSBC's Climate Change Centre of Excellence
4 November 2012ⁱⁱⁱ

"The scale of 'listed' unburnable carbon revealed in this report [Unburnable Carbon 2013] is astonishing. This report makes it clear that 'business as usual' is not a viable option for the fossil fuel industry in the long term. [The market] is assuming it will get early warning, but my worry is that things often happen suddenly in the oil and gas sector."

Paul Spedding
Oil and Gas Analyst at HSBC
19 April 2013^v

"According to scientists ... humanity now has a strictly limited 'carbon budget' that may be emitted in future. To emit more than this would seriously jeopardise our chances of keeping below the 2°C threshold (which, incidentally, many believe is not low enough to prevent significant changes to the climate that would affect low-lying states and other vulnerable areas). It seems to us that the idea of a global carbon budget makes simple, logical sense and gives us all a clear target to work with."

Mark Cutifani
CEO of AngloAmerican
20 October 2011^v

"Resilience will become a watchword in the boardroom – to policy responses as well as to the climate ... More radical and disruptive policy reactions in the medium term could lead to high-carbon assets being stranded."

"The new reality is a much more challenging future in terms of planning, financing and predictability."

Jonathan Grant
Director of Sustainability and Climate Change at PwC
5 November 2012^{vi}

“Capitalism does millions of things better than the alternatives. It balances supply and demand in an elegant way that central planning has never come close to. However, it is totally ill-equipped to deal with a small handful of issues. Unfortunately, they are the issues that are absolutely central to our long-term wellbeing and even survival.”

“... if we mean to burn all the coal and any appreciable percentage of the tar sands, or even third-derivative, energy-intensive oil and gas, with 'fracking' for shale gas on the boundary, then we're cooked, we're done for.”

Jeremy Grantham

Co-founder and Chief Investment Strategist of Grantham
Mayo van Otterloo (GMO)
12 April 2013^{vii}

“Civilization is facing our \$20 trillion big choice - our investments or our planet. Recall the direct financial losses of the subprime crisis in the US were a mere \$2.7 trillion, and we know what that did.”

John Fullerton

Founder and President of Capital Institute
23 July 2012^{viii}

“...doubling the carbon dioxide we belch into the atmosphere may far more than double the subsequent problems for society. Realizing this, the world properly worries about greenhouse emissions.”

Warren Buffett

CEO of Berkshire Hathaway
18 August 2009^x

“Financial models that only rely on past performance and creditworthiness are an insufficient guide for investors. By analysing the potential impact of future carbon constraints driven by global climate change policies, our study shows a deterioration in the financial risk profiles for smaller oil companies that could lead to negative outlooks and downgrades. However, the effect on the majors would be more muted.”

Michael Wilkins

Head of Environment Finance at Standard & Poor's
1 March 2013^x

“Without commercially viable carbon capture and storage, the asset value of oil and gas reserves is overstated if, under a future global climate change agreement and/or national policies, carbon budgets to avoid the two degree guardrail are introduced.”

ANU report for Investor Group on Climate Change^{xi}

21 March 2013

“Unburnable carbon is clearly a risk, but we suspect the more likely scenario is of greater fossil fuel use than in the extreme 'unburnable carbon' scenario, and a greater degree of warming. Key factors that will influence the outcome include progress with global carbon policies, and cost reductions in renewables, particularly solar.”

Citigroup Australia Research Equities report

8 April 2013

For more information on the *Unburnable carbon: Australia's carbon bubble*, please visit

www.climateinstitute.org.au/unburnable-carbon.html

ⁱ Speech to the Australian British Chamber of Commerce, September 15 2010

ⁱⁱ *Australian Financial Review* 051112

ⁱⁱⁱ <http://www.ft.com/intl/cms/s/0/82c199a0-1dd0-11e2-8e1d-00144feabdc0.html#axzz2BMEMTaAx>

^{iv} <http://www.guardian.co.uk/environment/2013/apr/19/carbon-bubble-financial-crash-crisis>

^v <http://www.bdlive.co.za/articles/2011/10/20/mike-brown-and-mark-cutifani-climate-change;jsessionid=7C6F89C74F08F58AFB6EA27D68844633.present1.bdfm>

^{vi} <http://www.guardian.co.uk/environment/2012/nov/05/climate-change-carbon-emissions>

^{vii} <http://www.guardian.co.uk/environment/2013/apr/12/jeremy-grantham-environmental-philanthropist-interview>

^{viii} <http://www.capitalinstitute.org/blog/financial-overshoot>

^{ix} <http://www.nytimes.com/2009/08/19/opinion/19buffett.html?ref=opinion&r=0>

^x <http://www.carbontracker.org/bonds>

^{xi} http://www.igcc.org.au/Resources/Documents/oil_gas_assessing_climate_change_risks_for_investors.pdf