



Climate Alliance Newsletter

December 21, 2015

Vale 2015. Another year and what an ending!

Very few anticipated the success of COP21 in Paris. Most people were still bruised from the disappointment of Copenhagen and the mixed progress we have made since then. There is no question that much needs to be done, but at least the instructions to change direction have been made. Whether the ship actually changes direction remains to be seen.

Here in Australia, we have just come out of the Dark Ages under the Abbott Government. Although Mr Turnbull is treading very carefully in the minefield of climate change policy, it is very likely that over time the conservative deniers in the Coalition will need to accept that we in Australia have global obligations that are bigger than party factions.

Share Prices of Coal Companies

Many column inches have been written about the possibility of stranded assets in the fossil fuel industry, should the world decide to limit global warming to 2°C. Notwithstanding the goals announced in Paris, no one anticipated the rout that has already happened to the market capitalisation of the world's largest coal companies. The decline in share value for many companies started 5 years ago.

Coal Company	Share Price Decline over last 5 Years
Anglo American	92%
Glencore	85%
Peabody	99%
BHPB	62%

Considering this breathtaking drop in market value and the amount of money involved, it's curious that the story has had so little traction. One would think that a country that has been so dependent on mining would be more interested? On the investor side, many superannuation funds are substantially invested in fossil fuel shares. Are their fund managers concerned?

Mark Carney, the Governor of the Bank of England, has raised the issue of stranded assets in the fossil fuel industry because the BoE controls the Prudential Regulation Authority in the UK. The PRA regulates insurance companies and they have large share portfolios that include shares in fossil fuel companies. The PRA is concerned with the possibility of a "carbon bubble" in the insurance industry.

Why are the predictions of value loss getting so little attention, when one could argue the predictions have already happened?

Moral Coal

The Minerals Council and the Resources Minister Josh Frydenberg have been promoting the argument that Australia should continue to export coal because we have a “moral obligation” to supply energy to the world’s poorest. This argument suggests that the atmosphere can tell the difference between carbon dioxide that has been burnt for “good” intentions and the other carbon that has been burnt for profit. The argument conveniently ignores that fact that the burning of coal is one of the main causes of global warming. And what about the extremes in air pollution that are already occurring in India?

Brendan Pearson, CEO of the Minerals Council, also said last week that Australia’s “high energy, low impurity coal” coal should be used for power generation in India. It begs the question what we are doing in Victoria – where the bulk of our power is generated with moist, low grade brown coal. Is it OK to pollute Gippsland residents with the emissions of brown coal?

Energy Prices

As the poor cousin of the energy supply mix, it can be rationalised why shares in coal companies are in so much trouble. The really breathtaking trajectory is the price of crude and gas. The Saudis seem determined not to lose market share and are continuing to pump oil. The loss of revenue has forced them to borrow money in order to meet their expenditure and their national budget has gone into deficit. Some analysts are predicting oil will go below \$30/Bbl. One can only imagine what this price will do to Venezuela, Nigeria, Russia and the other more expensive producers?

The \$64 question is why the oil and gas companies continue to spend about **half a trillion** (of today's) dollars annually on exploration? Why are shareholders not demanding these funds be used for dividends or share buybacks? Why spend today's dollars exploring for something you are unlikely to be able to turn into a profit?

These very interesting questions will need to wait till January, because most of you will be enjoying a hard earned break with your family and friends. All the best from Climate Alliance and we'll be back in touch in the New Year.

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Climate Alliance is a not-for-profit, membership based organisation that collects and disseminates information on climate change. Our primary focus is to provide independent, business-oriented information to Company Directors, to help them inform themselves about the opportunities and risks resulting from climate change. We do not consult, lobby or develop policy.