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Initiative Underscores Financial Risks of Climate Change

by Steve Zind

Recently, 70 large investors, including those who manage pension funds in New York City, California, and Vermont signed letters sent to dozens of large utilities and fossil fuel companies.

The letters cite the continuing pressure to reduce carbon emissions and ask the companies to recognize that they are not going to be able to develop all remaining oil, gas and coal resources.

It asks them to calculate the future financial risk of not having those resources available. The goal is to steer the companies away from fossil fuels and toward renewable energy investments.

The campaign is organized by the Boston-based advocacy group Ceres. Andrew Logan of Ceres says so far the response from the companies has been surprising. "Surprising in somewhat of an encouraging way," he adds.

Logan says in the short amount of time since the letter was sent two-thirds of the companies have responded and none have dismissed the investors' request.

His group sent the letters to companies seen as at greatest financial risk from climate change because of their dependence on fossil fuels. By using investor pressure to curb their fossil fuel consumption, Logan says Ceres is following a tried and true approach.

"Largely companies do want to be responsive to their investors and their investors' concerns and there's a long history of shareholder activism that has forced pretty fundamental change in corporate behavior," says Logan. "There's a model here that we're building on of how investors influence companies."

Logan says his group shares the goal of the divestment movement which is calling on investors to strip fossil fuel investments from their portfolios. Vermont State Treasurer Beth Pearce says this is about investors changing companies from within, rather than moving investments elsewhere.

"The discussion about divestment has been helpful," Pearce says. "I think it's pushed the discussion about more proactive strategies. But I believe to be effective; we need to have a seat at the table to make change from within."

Pearce says oil and gas companies and utilities must shift from investing in fossil fuel resources to investing in renewables.

The actual investment of more than $3 billion in state pension assets is done indirectly through professional managers but the Vermont Pension Investment Committee has guidelines for how it votes as a shareholder on environmental, human rights and other issues. Vermont pension funds have about $48.25 million invested in 25 of the 45 large fossil fuel companies that received the letter.

The idea at work in the investor appeal is that fossil fuels that can't be burned because they would accelerate climate change are essentially stranded assets. They represent a financial risk to a company.

Professor Anant Sundaram at Dartmouth's Tuck School of Business says this approach has the potential to effectively curb carbon emissions. But Sundaram says it can't work without a global agreement on carbon limits.

"The only way to get companies to internalize this or to have them factor it into their strategies is to put a global price on carbon. Right now there isn't one. So companies have no incentive to say, I need to worry about this at this point," says Sundaram.

And Sundaram says the idea has yet to gain traction with investors, either. But he says it's probably only a matter of time until the financial impact of climate change will become a important calculation.

"Is this likely to become a very important issue for companies and investors five years or ten years down the road? Yes," he says.

Sundaram says another issue is the fact that a significant percentage of the world's fossil fuel resources are state-owned, not publicly traded or investor owned.