Institute for Energy Economics and Financial Analysis
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# IEEFA Energy Finance Conference 2020 (online)

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## Accelerating the Global Capital Shift Away from Fossil Fuels

Globally significant financial institutions are increasingly limiting their exposure to fossil fuels, particularly coal. These efforts should not simply target pure-play fossil fuel companies, but also the entire supply chain on which they rely. How best to step up the pace of the energy transition across a wider range of industries?

*Speakers:*

**Heffa Schücking**, Founder, urgewald

**Tim Buckley**, Director Energy Finance Studies, Australia/South Asia, IEEFA

*Moderator:*

**Justin Guay**, Director for Global Climate Strategy, The Sunrise Project

Archived video: https://www.youtube.com/watch?v=tQam9MRnuCc

**Q & A***

1. Countries, including the U.S. and Canada, are spending billions to prop up the fossil fuel industry in response to the current economic crisis. How will these current policies impact the global shift to renewables over the next decade? (Krista Shennum, Yale School of Environment)

Heffa Schücking

Economic recovery packages need to be about building for the future rather holding on to the past. The transition to renewables is inevitable, but backward-looking economic rescue programs will indeed steal valuable time and resources that should be used to speed up the energy transition. We therefore need to challenge all efforts to prop up fossil fuel industries with public money.

Tim Buckley

The Government can slow the progress, but the technology shift is inevitable, and unstoppable. The government can waste huge amounts of taxpayer monies, but it won't change the end result, but it will encourage more stranded assets and a more costly transition. In the end, this is a global race, China totally knows that, and any delay by North America just plays into China's hand, giving them more time to win this new industrial revolution, with all the benefits of new technology, investment, exports and employment that come with it. Elon Musk gets it, and that is why China's leadership are embracing him, and Telsa, and getting him so well set up in China. That lets them copy all his brilliant ideas, easier and faster than if he is sitting in America.

2. I've read in several places that there is a looming debt crisis in the oil/gas industry. How serious is this debt crisis and how do you see that playing out? (Tyler Comings, Applied Economics Clinic)

Heffa Schücking

Currently, about half of the corporate bankruptcies in the U.S. are companies from the energy sector and we'll likely see a restructuring in the sector as more and more companies are skidding into financial distress. All this should serve as a warning to the finance industry that investments in fossil fuel companies are high-risk and threaten the profitability of their portfolios.

Tim Buckley

There is an absolute looming debt crisis of about US$500bn of fossil loans swamping the North American banking sector, many of which are already in financial distress. Witness the moves into insolvency of Whiting Petroleum, Murray Energy and Chesapeake Energy, with Peabody not far behind them. Not even the pro-coal Trump Administration could save these companies.

How will this play out? Banks and investors will lose their shirts, workers and communities will be left holding the bag while management will get off scot-free and the circus will continue.

But the smart money in places like NextEra Energy and Brookfield Renewable Energy already have proven who will win. Have a look at their share prices.

3. What kind of pressure can we put on global corporates like BlackRock to move even faster? Time is absolutely of the essence! (Neelesh Pandey, Friends of the Earth)

Heffa Schücking

BlackRock is the world's largest fossil fuel investor, but the bulk of its clients come from North America and Europe. As many of Europe's largest investors have already adopted good policies on coal and tar sands, I think it's important to expand the BlackRock campaign to Europe and address its client base here. And for the US, I think the campaign needs to be broadened to address other major investors and initiate a climate policy "race to the top" within the US investor community.

Tim Buckley

Time is absolutely of the essence. I am certain technology will win this race. Just as certain as Heffa is that we won't win in time. Unfortunately, we are both going to be right.

So, work harder, keep the pressure on. Play BlackRock off vs Vanguard and State Street and Fidelity. Hold them to account. Call out their hypocrisy and keep pushing them harder. IEEFA will continue to occasionally stroke their ego and count each step forward they take, but players like FOE need to push them to go 5 steps more, and a lot faster! It is a carrot and stick approach, as Heffa said, there are a lot of sheep in finance who can be led by just a few key actors (not necessarily the biggest actors), but they need herding and constant cajoling.

4. 70% of divestment is only in coal. Can you describe the new *Oil Exit List* you are developing and how that can address this problem? (Tzeporah Berman, Stand.Earth)

Heffa Schücking

The coal exit list has helped shape financial institutions' policies on coal and we hope that the Global Oil & Gas Exit List (GOGEL) can have a similar impact. But we shouldn't forget that we are talking about a much bigger industry here. The coal exit list features around 2,100 companies and in the U.S. alone, there are over 8,000 independent oil and gas producers. So, building a global oil and gas database is a much bigger task. We, however, don't have time to lose and will therefore initially focus GOGEL on upstream oil and gas companies and critical midstream infrastructure companies that are developing LNG terminals or pipelines. But we plan to expand the scope of the database from one year to the next.

Preparing the list is, however, really only a first step. The next and more important step is building a campaign that forces financial institutions to stop channeling new money to the industry. So once GOGEL is published, we need all hands on deck to make sure that this new tool can achieve the same impact that the coal exit list has had.

Tim Buckley

IEEFA's list is separate and less comprehensive to the great work Heffa's team is doing on the oil & gas exit. We are starting a count of globally significant financial institutions with a formal tar sands and arctic drilling exit policy. We are at about 20 so far, way less than the 139 with formal coal exit policies. But on the positive, half the announcements to-date in 2020 have included either a tar sands or arctic drilling exit policy alongside their updated coal exit policy. So, momentum is building beyond thermal coal mining and coal-fired power generation to the next set of most vulnerable stranded assets.

5. How good are those 'coal exit' pledges? CalSTRS & CalPERS love to say that they've 'gotten out of coal' but we have numbers to show that they still have billions invested. What kind of threshold (time and % coal revenue) do you use to determine actual coal exit? (Vanessa Warheit, Fossil Free California)

Heffa Schücking

You are right that it's important to look at the "details" of coal exit pledges. As far as I am aware, CalSTRS and CalPers have only exited companies that generate over 50% of their revenues from coal mining. This means their policies cover less than 20% of the companies on the Global Coal Exit List (GCEL). The GCEL uses three criteria to define the coal industry: over 20% coal share of revenue or power production, 5 million tons of coal production or 10 GW of coal-fired capacity and all companies that have plans to develop new coal power plants, mines or coal transport infrastructure. If any one of these 3 criteria apply, the company should be considered part of the coal industry and needs to be divested. CalSTRS and CalPERS thus still have a lot of homework to do!

Tim Buckley

I'm with Heffa. They are a start, but nowhere near enough. Not comprehensive, not all inclusive, initially, full of loopholes. But they get better with each iteration.

To-date we have said 'well done' to BlackRock's first five steps in the right direction in January 2020, but they have to take another 50 steps to align with Paris. But the first steps are the hardest, hence why I'm positive. The next step will be for BlackRock to formally divest the world's largest coal-fired power generators. This will come within six months, would be my guess. And then a progressive shift to a low carbon MSCI World Free Country Index for their massive index funds will come 12 months after that, I would guess.

6. Do you see any linkages between the movements for racial justice and climate? How do you build more power at the intersection of the two? (David Tuft, 2030 Solutions)

Heffa Schücking

Yes, there are indeed many linkages. Police brutality is just one facet of the systemic inequality and racism that characterize U.S. society. People of color are disproportionately exposed to the pollution and health impacts of the fossil fuel industry. Black communities are disproportionately located in areas that are vulnerable to climate hazards like hurricanes or flooding, but the government does less to protect them as we saw during Hurricane Katrina. The fight against climate change can only be successful, if it is also a fight for human rights and against discrimination and racism.

Tim Buckley

Absolutely. Although IEEFA has an energy-finance focus, we're very aware of the disparities that exist and the way fossil fuel industries impact certain communities more than others. That's why data and research are essential. They can demonstrate the weak business case for some of these industrial interests that have caused such harm to the communities that are most impacted. Civil society groups need to partner with the research community to strengthen the environmental, public health, and economic aspects of polluting industries.

7. What can be done to stop the IMF and World Bank from still promoting tax breaks for new capital investments in fossil fuel infrastructure - do you know of any champions on this issue? (Heike Mainhardt, urgewald)

Heffa Schücking

It is indeed scary to see how the World Bank is using technical assistance and development policy loans to prepare the ground for new fossil fuel infrastructure. The only champion I can think of here is us - the climate movement. We need to pressure the major shareholders of these institutions to stop pushing a fossil fuel agenda.

Tim Buckley

The IMF and WB have done good so far, but maybe a retrograde step is in the making with new management. My champions are the Nordens and the EU (Angela Merkel, Christiana Figueres, Mark Carney, Christine Lagarde – funny, one older white guy got in there, but he has done great things for shifting the global finance regulatory debate!). I'll risk an internal IEEFA muntiny and add Bernard Looney as well, I reckon he will break through, or break at BP. Each to their own on personal champions. Plus, I root for Narendra Modi, he is making a huge difference in advancing the energy transition in India.

The issue I see for multilateral development banks is that, for now, they still see fossil gas as a transition fuel. How wrong they are, but we know that now with the 2020 satellite data. Read about it here. There is also too much greenwash going on about hydrogen – to me there is only fossil hydrogen vs renewables hydrogen. "Blue" is PR spin for fossil gas.

8. What is the best explanation for Exxon's persistent lagging on climate: do its executives (and presumably investors) view it as "too big to fail"? How can we tackle this? (Zorka Milin, Global Witness)

Heffa Schücking

I would turn the question around: Why should Exxon change? As long as investors and banks continue to stick with the company, regardless of how much harm it's causing to our climate, there is no real incentive for it to change. The best way to tackle Exxon is to go after its banks and investors.

Tim Buckley

Total self-interest and group think. They think they can continually personally profit by incumbency. The irony is they are consistently now destroying shareholder wealth with their climate science denial. But we saw that with Peabody and Chesepeake's management, they are the last to realise they are dinosaurs.

To me, this is about leaders (Nextera, Orsted, ENEL, Renew Power of India, Goldwind of China – not too many of these, unfortunately), firms belatedly seeing the writing on the wall and belatedly pivoting (ENGIE, Total, Shell, BP, Adani) and [then there are] the dinosaurs. There is no point campaigning on dinosaurs, they will never see reality, extinction is the end result for them.

9. When the oil & gas majors commit to net zero are they not baking in unrealistic CCS and BECCS scenarios and also basing alignment with demand scenarios that continue to allow them to expand? How do we better expose that? (Tzeporah Berman, Stand.Earth)

Heffa Schücking

You are absolutely right. Net zero pledges have become a kind of smoke screen to hide the fact that their business model and their capital expenditure plans are completely incompatible with climate stability. Up to now, none of these companies have actually laid open how much of the net zero would be achieved through real emission reductions and how much would be due to offsetting and other measures. What we need from the oil and gas majors are not vague net zero pledges, but concrete time-bound plans for a managed decline that leads to real zero.

Tim Buckley

True, all the EU Oil & Gas pledges of 2019/20 for "net zero by 2050 or sooner" type commitments have plenty of holes in them. But I think we'll look back at 1HCY2020 and see this as a pivotal moment, they have all started facing in the right direction, and are shuffling forward (albeit they mostly all wrongly still see fossil gas as a transition fuel, they are slow learners). Now we must make the shuffling go a lot faster.

10. This also doesn't include the hefty sovereign debt being taken on by emerging markets and developing countries which take on equity stakes in joint ventures, and are funding development based on promises of future revenues. (Isabelle Munilla, Extractive Industries Transparency at Oxfam)

Heffa Schücking

One hopes that the current crisis will reinforce the idea that betting on future revenues of fossil fuel projects in the middle of an energy transition is risky, stupid behavior.

Tim Buckley

The emerging markets are being guided by "Developed" Country government export credit agencies, and the promise of government-sponsored capital subsidies from the likes of JBIC, JICA, KEXIM, Sinosure, China Development Bank, USEXIM. The corruption is so much easier in developing countries when there are multi-billion-dollar foreign government-sponsored capital subsidies. Under-the-table payments are systematic here, and one of the reasons India has been so successful, is with their transparent, online, public reverse auctions for renewable energy. Competitive tension and transparency have virtually eliminated corruption, at least compared to a coal-fired power project.

11. How did you get investors to pay attention to the coal exit list, and what lessons learned are there for getting attention to the (future) O&G List? (Meredith Wingate, Energy Foundation)

Heffa Schücking

Before we published the coal exit list, we had meetings with many European investors and presented the key criteria and the methodology behind the database. We also gave some investors a pre-version of the database and incorporated their feedback, when we found it useful. So many investors already knew about the coal exit list before it was publicly launched. All in all, it wasn't hard to motivate investors to then use our list as it's an excellent database. Getting investors to, however, adopt policies that exclude companies on the coal exit list was a much harder task. It required relentless campaigning by a wide coalition of NGOs that made the coal exit list an integral part of their demands towards the finance industry. So I guess the lesson learned is that we shouldn't just be thinking about the oil & gas exit list as such, but also about the type of campaigns we need to build to accompany it.

Tim Buckley

Investors are increasingly aware of the coal exit list. We should all reference Heffa's team's huge investment in time and effort. But every time a global investor looks at the wealth hazard of continuing to hold fossil fuel firms, they are reminded why they should have acted a year or two ago, and will increasingly seek it out, either directly or via copying one of their financial peers.

12. How can we prevent Governments - such as in the UK - using the prospect of possible Carbon Capture and Storage (CCS, heavily subsidised by taxpayers) as a reason to continue subsidising oil and gas production? (Ken Penton, Global Witness)

Tim Buckley

We probably can't. Snouts in the public taxpayer trough is inevitable. But almost everyone I talk to knows coal-CCS is a joke, it only makes commercial sense with a really high price on carbon, so it is self-defeating given the commercial viability of renewable energy today. The EU oil and gas majors are giving one last hurrah to gas CCS in Scandinavia and the North Sea, supported by government subsidies. But it is a fig leaf that will be seen as such by anyone who actually looks. Don't expect an Oil & Gas company CEO to call this out, his job rests on his having this broken crutch as an excuse!

13. Despite investments in renewables, Adani is still one of the most aggressive coal power expansionists worldwide. How can the backlash companies like Siemens and Talanx recently faced for working with Adani be replicated to deter Adani's investors? (Jacey Bingler, urgewald)

Heffa Schücking

Just to be clear: However much Adani is investing in renewables, over 60% of its power generation is still coal-fired and next to the Carmichael mine in Australia, it is also still developing new coal power plants in India. So anyone who is acquiring Adani bonds or providing corporate loans to the company is helping to fuel new coal investments. I therefore think we should be putting much more pressure on banks like Standard Chartered, Barclays, JPMorgan Chase, Citigroup and Deutsche Bank, which are top financiers of Adani.

Tim Buckley

Gautam Adani is fully aware that this technology race has already been won. But India will still be using coal for several decades to come, and as such, Adani will continue to try to profit from being fuel agnostic. But don't underestimate the power of success. Adani is the largest investor in renewable and grid infrastructure in India, and his listed entities are flying sky-high, up 1100% and 800% respectively in the last 2-3 years. In contrast, Adani Power (owner of 12GW of coal-fired power generation) is down 60% in the last decade, and Adani is now delisting Adani Power because it no longer has access to debt or equity capital markets. Gautam Adani invested in Carmichael a decade ago, he is long and wrong, but unfortunately, he can still manipulate the situation to profit where no one else could. Any project is viable if you throw enough subsidies at it – and the Carmichael/Godda coal projects have received subsidies from Australia, India and Bangladesh.

14. How much can we trust these net-zero announcements by oil companies? Do they actually mean what they say or is it just greenwashing? (Nicole Rath, urgewald)

Heffa Schücking

In my view, these announcements are worthless. As long as companies like Total, Shell or BP are still developing new oil and gas projects, it's clear that they have no intention of changing their business model to become Paris-compliant. As the old saying goes: talk is cheap. The CEOs, who are making these net-zero promises today, will long be out of office or under the ground in 2050.

Tim Buckley

We can't trust them. We need to collectively hold them to account, call out their shortcomings, and make them go harder, faster and higher.

15. While working out the cost economics of solar or wind power, why is no attention given for cost towards reactive power compensation equipment which are required to manage the voltage in the grid? Again, my question is towards transition from fossil fuel to solar without considering the huge cost involved in

investing in reactive power compensation, like capacitor banks or synchronous condensers in solar power grids which is otherwise not required in fossil fuel-dominated grids [I am more interested in managing reactive power in RE grid without extra cost since conventional hydro or thermal power generators do the function of absorbing/supplying reactive power without any extra cost]. (Sudheendra K)

Tim Buckley

First, the fossil fuel companies claimed the moral high ground, RE is nice, but too expensive. Now RE is the lowest cost, and wins the merit order race every time once built. So now fossil fuel companies get the IEA to parrot the need to talk about the firmed cost of variable renewable energy (VRE), taking all the grid stabilization costs. Fair enough, but why does the IEA talk of firmed VRE LCOE but not the internalized cost of carbon when it comes to coal LCOE? It is all a game. The incumbents tell us what they want us to think, and the disrupters will disrupt. VRE is the ultimate disruptor, because it has a zero marginal cost once built, so it wins the war. The best transition would be if we had a proper price on everything. A time of day price for electricity, and a price for grid services. But once we have a price for grid services, coal power won't win that race either, a battery will win on some, PHS, DRM, interconnects or a gas peaker will win on time-of-day grid firming delivery. Managing grid voltage stability is just a service, put a price on it and let the best technology win – my bet is that this will be a battery or green hydrogen (in a decade's time), leaving a 24/7 baseload coal power plant dead and redundant!

16. To Justin's comment about owning Peabody -- what do you think of the strategy some advocate, of divesting a majority of holdings but keeping a toe in, in order to continue engagement? (Vanessa Warheit, Fossil free California)

Heffa Schücking

It's only worthwhile engaging companies if you think they can change. And as 100% of Peabody's business is coal, engagement is not a realistic option here. In general, I'd also like to state that you don't necessarily have to be invested in a company in order to engage it. The private Norwegian pension fund, KLP, for example, often continues to engage companies it has divested by pointing out what changes the company needs to make for KLP to be able to re-invest in it.

Tim Buckley

What good is there engaging with a dinosaur? They are so stuck in group think and denial, they will not listen. Why bang your head against a brick wall? They will go bankrupt, again, and again, until the financial markets eventually stop giving them new capital to destroy. Has engagement got anywhere with Exxon in the last two decades?! Why waste your breath, better to encourage the laggards to pivot harder and have a chance of surviving with some of their wealth still intact.

**Note that questions were submitted by attendees online during the live Q & A session. Written answers to some, not necessarily all questions, were provided post-event by presenters. For further information, please contact IEEFA Strategic Communications Director Vivienne Heston (vheston@ieefa.org).*

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