Carbon Tracker Initiative

WWF

CARBON TRACKER INITIATIVE'S STUDY SUPPORTS WWF'S VISION FOR A SUSTAINABLE AND ACCOUNTABLE FINANCIAL SYSTEM

Coal occupying the London Stock Exchange

New analysis from Carbon Tracker shows how the growing number of coal mining companies listing in London exposes the financial market to a significant systemic risk. Investors tracking the FTSE AllShare Index are facing increasing efforts across the world to regulate the carbon dioxide (CO_2) emissions from coal-fired power generation, most recently in Australia. Carbon Tracker estimates that coal reserves equivalent to 44.56 $GtCO_2$ are held by companies listed on the London Stock Exchange. This is equivalent to 400 years of emissions from coal power stations in the UK, which currently stand at around 0.1Gt CO_2 per annum.[iii]

London's growing coal reserves

In July 2011, Carbon Tracker published its ground-breaking 'carbon bubble' analysis which, for the first time, showed the levels of potential carbon emissions listed on the world's stock exchanges in the form of fossil fuel reserves.[iii] As the recent IEA World Energy Outlook 2011 confirmed, only a fraction of these reserves can be exploited without busting the remaining "safe" global carbon budget.[iv] A striking feature was the high level of carbon stocks listed in London, in contrast to the limited economic coal reserves that exist in the UK. Over a quarter of the FTSE100 is oil, gas and mining stocks and the levels of coal listed in London are higher than those listed in the US, India, South Africa, Indonesia or Australia.

Carbon accountability

The 44.56 $GtCO_2$ of proven coal reserves were owned by 16 companies, (listed on the next page) including the recently listed Bumi, Glencore and Evraz. Investors have already raised concerns over the corporate governance arrangements of overseas extractives companies and our analysis adds further risk. The concentration of reserves in London as a coal capital has increased in recent years. The focus to date on annual emissions levels has distracted regulators from the growing stock of carbon.

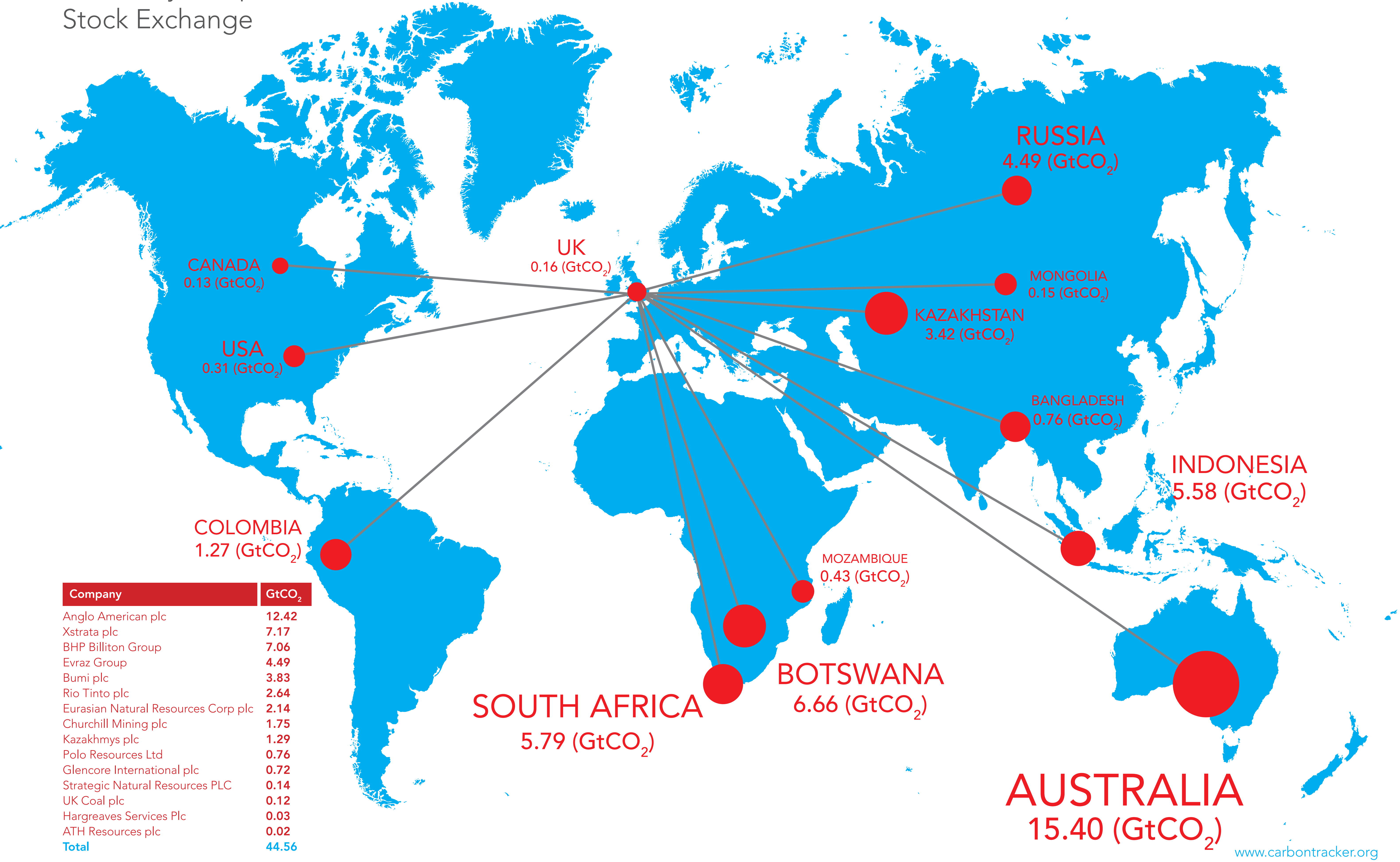
Investor exposure

Through their pension plans, insurance policies or savings, most investors in the UK will be exposed to this substantial carbon risk as their funds either passively track the market, or benchmark against it The UK has only 0.02% of the world's coal reserves, and campaigners have been largely successful in preventing new coal-fired power stations in the UK and the rest of Europe. However the UK continues to play a major role in providing capital to support the development of the world's coal stocks via the London stock market.

Where are the reserves?

A third of coal listed in the UK is actually located in Australia, where the government has recently agreed to deliver a carbon tax and emissions trading scheme.[v vi] So "UK" investors are potentially exposed to climate change regulatory risk in Australia. However, Australia and Indonesia export around three-quarters of their coal production. So, in fact, around half of the coal owned by UK-listed companies is supplying developing economies in China, Russia, India and South Africa.[vii] The Chinese government has announced its latest 5 year plan for 2011 - 2015[viii] which includes a number of carbon intensity targets, and is considering a range of measures to reduce emissions in 2020 and beyond.

Map showing the location of coal reserves owned by companies listed on the London Stock Exchange



Company	$GtCO_2$
Anglo American plc	12.42
Xstrata plc	7.17
BHP Billiton Group	7.06
Evraz Group	4.49
Bumi plc	3.83
Rio Tinto plc	2.64
Eurasian Natural Resources Corp plc	2.14
Churchill Mining plc	1.75
Kazakhmys plc	1.29
Polo Resources Ltd	0.76
Glencore International plc	0.72
Strategic Natural Resources PLC	0.14
UK Coal plc	0.12
Hargreaves Services Plc	0.03
ATH Resources plc	0.02
Total	**44.56**

Mongolian coal rush

This map continues to change as new companies come to list in London. There is currently a lot of interest amongst investment banks seeking to act on behalf of Mongolian mining companies considering coming to London to raise capital.[ix] Again this investment would be primarily based on supplying China and India with coal. Erdenes Tavan Tolgoi, the state-owned natural resources company has been in talks to raise £3billion by offering 30% of its equity overseas.[x]

The four investment banks currently selected to lead and arrange the share offering are Deutsche Bank, BNP Paribas, Goldman Sachs and Macquarie Group. The Tavan Tolgoi mine is estimated to have at least 5 billion tonnes of coal reserves. The Mongolian state company is expected to retain a stake in the mine with a consortium of US, Chinese and Russian companies developing the project in return for a share.

Whose carbon is it anyway?

The traditional focus of global climate negotiations has been on the carbon emissions emitted by different countries within their own borders. But the globalisation of capital markets means that investors can hold a coal company stock on the London market which has coal reserves in, for example, Australia, which is then sold in a third country, for example, China. As owners of these stocks, investors are in part responsible for these emissions, and also exposed to efforts to reduce them. It also means that the scope of national responsibility for carbon goes beyond traditional national boundaries and needs to include the 'financial carbon' of stock markets. Specifically, in this case London is providing the capital to fund extraction of the coal, and banking the dividends that result from the profits.

Capital accountability

To recap, the west is investing in companies listed in its financial centres which provide capital to extract coal around the world. Much of this coal is supplying rapidly growing economies and generating electricity to produce consumer goods for western markets. This new perspective on the flows of capital through the financial system needs to permeate the disconnected world of climate change policy. At present capital is almost unrestrained in investing for short-term returns from fossil fuels.

A financial system fit for purpose

Many asset owners and fund managers representing $20trillion of capital reiterated their call for the Durban climate negotiations at the end of November to deliver a 2°C policy framework.[xi] Now is the time for them to also ask financial regulators to deliver a 2°C capital market system.

- The FSA needs to address the systemic risks of reserves concentrating on the London Stock Exchange and monitor the levels of fossil fuels listed in London.
- Asset owners investing in the UK market should request that the FSA introduces limits to the levels of overseas fossil fuel reserves.
- Accountants and analysts should review which reserves are lower quality due to risk of carbon regulation, and climate change, and discount their value accordingly.

References

[i] http://www.decc.gov.uk/assets/decc/Statistics/climate_change/1515-statrelease-ghg-emissions-31032011.pdf

[ii] The 44.56 CO2 figure is derived using the same methodology as used for Carbon Tracker's previous global analysis, applying IPCC emissions factors, as per the approach used by the Potsdam Institute to calculate a global carbon budget, available at http://www.nature.com/nature/journal/v458/n7242/full/nature08017.html

[iii] http://www.carbontracker.org/carbonbubble

[iv] IEA (2011) World Energy Outlook 2011 – Figure 6.17

[v] The location of reserves owned by companies listed in London is based on analysis of data provided by the Raw Materials Group, a specialist mining data company. More details available at www.rmg.se

[vi] http://www.bbc.co.uk/news/world-asia-15632160

[vii] Based on coal import /export figures provided by the World Coal Association, the IEA and the national coal organisations in relevant countries.

[viii] http://www.businessgreen.com/bg/news/2097932/report-china-unveil-plan-cutting-carbon-intensity-cent-2015

[ix] http://www.ft.com/cms/s/0/c8ebc000-33c0-11e0-b1ed-00144feabdc0.html#axzz1ds9RYSfT

[x] http://online.wsj.com/article/SB10001424052748703842004576163412167115364.html

[xi] http://www.iigcc.org/__data/assets/pdf_file/0019/15283/2011-Global-Investor-Statement-Press-Release.pdf

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