What can investors expect from Paris?

Anthony Hobley,  
CEO, Carbon Tracker Initiative

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Who Are We?

**Identity**

Carbon Tracker is a non profit financial think tank.

**Mission**

To enable a climate secure global energy market by aligning the capital markets with climate reality.

**Strategy**

To provide the financial and regulatory analysis to ensure that the risk premium associated with fossil fuels is correctly priced.

**How**

Mapping the transition for the fossil fuel industry to stay within a two degree budget.

Empower **investors** to identify and switch off capital to the highest cost, highest carbon projects.

Engage with **companies** to re-assess both the viability of such projects and of their business model.

Educate mainstream financial **markets** and **policy-makers** over the risk of a disorderly transition.

Work with **financial regulators** to bring transparency on climate and stranded asset risk and the fossil fuel risk premium.

Who Are We?
What is the Carbon Bubble?

Carbon Tracker has 'allocated' to the listed fossil fuel companies a Carbon Budget to 2050 with 80% likelihood of staying below the 2°C threshold.

Such a Carbon Budget could be broken in a few decades.
2°C Budget: broken in just few decades?

![Graph showing cumulative CO2 emissions projections](carbon_tracker_graph.png)

Source: IEA, IPCC
We know that the financial markets can be \textit{structurally flawed} and that an \textit{inadequate response to climate change} is one of these failings.

\textbf{Challenge: Articulating the Fossil Fuel Risk Premium}

We need to \textbf{level the playing field} between business as usual fossil fuel investment and low carbon investment.
Paris will send investors a clear message

- The **direction of travel** is towards decarbonisation, with no turning back

- This will not come under the form of a revolutionary new agreement, but will codify the existing transition

- While current levels of political ambition might not get us directly to 2 degrees, Paris will set in place a framework that will allow for progressively stringent targets – a major first step

- Investors who are not paying attention risk being left with **stranded assets**

- Significant amounts of capital are at risk

- Carbon Tracker’s analysis helps investors avoid assets being stranded
The Orderly V Disorderly Transition: And Financial Stability

Without a deal...

Disorderly Energy Transition

- Financial dislocation
- Stranded assets
- Shareholder value destruction

Fossil fuel industry still focused on BAU scenarios

With a deal...

Climate Deal at UNFCCC COP21 in Paris 2015

Orderly Energy Transition

- 2°C Global target
- Capital discipline
- Stronger transparency on climate risk

Fossil fuel companies create shareholder value over volume
Regulators are starting to notice

Mark Carney, Governor of the Bank of England:

The carbon budget renders ‘the vast majority of reserves “stranded” – oil, gas and coal that will be literally unburnable…’

• The abrupt transition to a low-carbon future is a financial stability risk

Of all the recent ideas climate change campaigners have come up with to convince the world to do more to curb global warming, none has been as potent as the concept of stranded fossil fuel assets.
Carbon Supply Cost Curves: Oil

- New oil sands
- Low demand scenario
- 2°C reference scenario
Carbon Supply Cost Curves: Thermal Coal

- Standardised BECP (Newcastle equivalent price required)
- Cash cost (C1 + royalty) adjusted to 6,000 NAR

$75/t

450ppm scenario = 675
IEEFA low demand scenario = 850

Million tonnes per annum (mtpa) potential thermal production (averaged over 2014–2035)

GtCO₂ equivalent over 2014–2035 period
Carbon Supply Cost Curves: Gas

$230 bn LNG projects unneeded in lower demand future

Indicative 450 gas demand: 10,274 bcm
LDS gas demand: 10,430 bcm
Breakeven threshold: $10/mmBtu

Source: Carbon Tracker & ETA analysis of Wood Mackenzie data
Lost in transition: How the energy sector is missing potential demand destruction

The majority of fossil fuel companies are betting on demand growing 30-50% as per business as usual.

The direction of travel we see from the worlds of policy and technology is for destruction of fossil fuel demand.

The greatest risks and opportunities will arise from more dramatic shifts rather than business as usual or incremental change.
Industry cherry-picking favourable assumptions to validate own business models

Christiana Figueres, UNFCCC Secretary General: We are no longer in a world of business as usual, we are in a world of business as urgent
Track record anticipating disruption isn’t great

Christiana Figueres, UNFCCC Secretary General: “We delude ourselves by thinking we have an option about where we go. The only option is how fast we go”
Easter Parade on Fifth Avenue, New York, 13 years apart

1900: where’s the car?  1913: where’s the horse?

R, shorpy.com/node/204.
Inspiration: Tona Seba’s keynote lecture at AltCar, Santa Monica CA, 28 Oct 2014.
http://tonaseba.com/keynote-at-altcar-expo-100-electric-transportation-100-solve-by-2016/
Key Questions

• What is the current market perception of the risk?

• Are energy companies preparing for the low-carbon transition?

• How do you turn off the capital flowing towards fossil fuels and bring the fossil fuel sector within the carbon budget?

• How can you enable investors to factor climate reality into decision making?

• How can we amplify support for energy transition & level the playing field for climate secure investments with financial data?
To help you convey this message to your stakeholders...

Carbon Tracker’s reports and blogs now available in translation!

Find French, German, Mandarin Chinese, Japanese, Spanish, Portuguese and Arabic versions on www.carbontracker.org
Thank you

Anthony Hobley,
CEO, Carbon Tracker Initiative

@Carbon Bubble
www.carbontracker.org