Internal Document · Year 6 · Number 28 · Monday 23 February 2015 · published by Fondazione Culturale Responsabilità Etica

ACTION!

THE RESPONSIBLE SHAREHOLDER'S REVIEW

THE MONTH AT A GLANCE

With oil trading at around 50-60$ per barrel the problem of "stranded assets" appears in all its seriousness. The concept of "stranded assets", introduced by the Carbon Tracker Initiative (CTI), refers to oil reserves that could become unusable if laws to curb emissions of carbon dioxide became really tight. Considering that a relevant part of reserves relies on high oil prices to be extracted, current oil prices are adding new financial risks to the possible regulatory risks. Carbon Tracker thinks, for example, that Shell is becoming too dependent on high prices, pointing out that, based on the company's own figures, the proportion of its potential output coming from projects with a break-even point of $80 a barrel (at current prices) will double between now and 2025. This would make the firm vulnerable to a carbon price which would switch demand away from oil to low-carbon energy. Eni is not as vulnerable to high oil prices as Shell. However by the end of 2025 projects requiring $95 per barrel or more will have risen to 18% of the company's potential future production and 34% will require at least $75 per barrel. Some of Eni's highest risk undeveloped projects are not yet on the company's list of likely developments and could be deferred to avoid value destruction. This is at least what Banca Etica's Foundation will ask Eni to do at the company's AGM in May.

IN ONE WORD

Large oil firms cut investments
In the long run, there are signs that the decline in oil prices will be lasting, which should prompt a broader restructuring of the industry. Large oil firms have announced cuts in capital spending of over 20% for this year. BP will spend $20 billion in capital projects in 2015, compared with $23 billion in 2014. New discoveries are also falling precipitously. According to IHS, a research firm, new finds of oil and gas amounted to the equivalent of 16 billion barrels last year, the lowest for 60 years. In 2015 Eni will cut capital spending by €2bn, or about 15 per cent, from 2014.
(Source: The Economist)

ENEL TO CLOSE 23 PLANTS IN ITALY

There are lots of electric power plants in Italy - too many. Quite a few don't operate. Or they're being held "in reserve", ready in case there's some kind of rare emergency. They operate for 1,500 hours a year, barely one-fourth of their total potential. The **oversupply** can be blamed in part on the economic situation that's been dampening consumption, but it's mostly due to the **advance of renewable energies**.
In October 2014, Enel CEO Francesco Starace told the Italian Parliament that at least 23 Enel plants will be decommissioned in the coming months, for a total of ca. 13.4 GW of installed capacity: mostly oil/gas or turbogas/combined cycle power stations but also some coal plants.
"It's **good news for the environment**, a clear sign that Enel is finally changing its strategies", says Andrea Baranes, President of Fondazione Culturale Responsabilità Etica (Fcre). "However, **it seems that some controversial coal power plants**, such as Brindisi, Civitavecchia and La Spezia **will continue to operate**. As engaged shareholders we will keep monitoring them".
The coal plant in La Spezia, in particular, is very close to the city centre. According to a research published by Greenpeace, it would cause ca. 70 premature deaths every year. (Sources: Sole24Ore/Italian Senate/Fcre)

INVESTORS SPLIT ON FOSSIL FUELS

A rift is emerging among investors in some of the world's biggest energy companies over a global campaign that aims to combat climate change by making fossil fuels as unpopular as tobacco. Over the past seven months a number of investors have decided to **avoid shares in coal companies** or even in **all fossil fuel investments** amid a grassroots campaign based on the 1980s divestment movement that pushed South Africa to end its apartheid system of racial segregation. Altogether, institutions and individuals responsible for at least $50bn of investment have said they will sell some or all of their fossil fuel holdings. But **other investors** concerned about global warming say **it is better to hang on to shares** in oil and gas companies and use the holdings as a way to **engage directly** with companies to encourage them to adopt more climate-friendly strategies. "We think both engagement and divestment together will achieve more. The sum is greater than the parts because either alone isn't going to achieve the ultimate objective of a climate-secure energy system", declared London-based think-tank **Carbon Tracker**. The Church of England, Norway's oil fund, US biggest pension fund CalPERS and the ICCR coalition of faith-based institutional investors (based in New York) won't divest: they have opted for engagement. (Source: Financial Times)

FINANCIAL RISKS OF OIL INVESTEMENTS

Listed companies have far larger reserves of coal, oil, and gas than we can allow ourselves to exploit. Therefore pension funds and other investors with a long time horizon should consider very well in relation to investment in these companies. They plainly have the risk of becoming a bad deal. This is the message from the British think tank **Carbon Tracker Initiative** (CTI), which was founded by professionals with broad experience in the finance sector. Where environmental organisations argue that it is morally wrong to earn money from extracting fossil fuels, which lead to global warming, **the arguments of CTI are financial**. They base their work on the word of scientists that **two thirds of the known fossil fuel reserves must remain in the ground** if the global warming is to stay below 2 degrees, as almost all countries in the world have agreed to. CTI **does not argue** that pension funds and other investors **should sell their stock** in oil and gas companies. Instead they believe, that investors should exercise their influence to have the companies **refrain from investing in expensive extraction projects**, that require a very high oil price to break even. They have no prospect of ever becoming profitable, if the world takes the two degree scenario seriously. When it comes to **coal**, however, CTI does not believe, that pension funds and other investors should hesitate to get rid of their stock. (Source: CTI)

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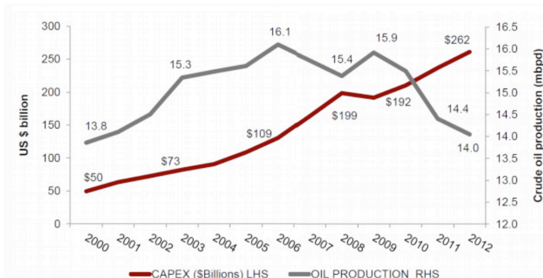
VOICES FROM THE SOUTH

The global system for holding corporations to account is in need of serious reform
A UK company (GCM Resources) plans to build a huge coal mine that would displace more than 40,000 people and destroy over 14,000 acres of land in Bangladesh. For over a decade local people have tried to prevent the coming of the mine. To date their protests, supported by NGOs such as International Accountability Project (IAP) and Global Justice Now (GJN), have prevented the mine being built. But GCM Resources continues to push. NGOs decided to make use of one of the very few mechanisms available to hold corporations to account for their activities overseas by filing a complaint against the company to the **National Contact Point (NCP)** under the **OECD guidelines** for multinational enterprises. The UK-National Contact Point's final assessment has been particularly corporate-friendly in the end and the protests by local populations are continuing. In a world where the government-corporate nexus seems to become ever more tight and intimate, the few public mechanisms of accountability that are available seem to be in danger of becoming little more than window dressings and are in need of serious reform. (Source: Christine Haigh of GJN, published by The Guardian)

GRAPH OF THE MONTH



Capital expenditure and the crisis of oil & gas
The oil and gas sector is undergoing an existential crisis centred on spiralling capital expenditure costs. From 2000-2013, worldwide capex related to oil and gas production increased from $250bn in 2000 to nearly $700bn (both figures in 2012 dollars). However, this rising investment has been yielding progressively smaller increases in global oil supply; from 1999 to 2013 exploration and production capex per barrel increased at a compound annual growth rate of 10.9% - roughly 10 times faster than the previous 14 years. The figure above demonstrates these trends for selected oil and gas majors. This divergence between capex and production reflects the increasingly incompatible and technologically challenging environments companies are having to explore for oil and gas – as such, the laws of thermodynamics state these trends are unlikely to reverse. (Source: Carbon Tracker Initiative)
Link: *http://www.carbontracker.org/wp-content/uploads/2014/10/CTI-Climate-risk-disclosures-Report-Web.pdf*

JUST BEFORE GOING TO PRESS

Kashagan project's profitability in doubt also with oil at 100$
Sauat Mynbayev, President of KazMunaiGas, said that costs at Kashagan' oil field could be recouped with an oil price of about $100 per barrel. However, it looks like that even with an oil price of $100 per barrel the profitability of the project could appear to be negative. One should take into account the costs "added" to each barrel due to the replacement of pipelines "worn out" by sulphides (about $2 bn), but also the budget for the field's development, estimated at $139 bn. Considering such costs, it makes sense to speak about the recoupment of the costs rather than the project's profitability. Under current oil prices, Kazakhstan won't see profits for decades. (Source: CaspianBarrel)

Eni could have problems in selling a further 10% stake in Mozambique
The sale of a 10 percent stake in Eni's Mozambique gas field is still on the agenda, the CEO of the Italian oil and gas major Claudio Descalzi said last week. However, with economic growth also slowing among major LNG customers, notably in Asia, potential top-tier investors have become reluctant to take on the risk of buying a stake in Eni's Mozambique LNG export project. "Given the downward oil and LNG price trends and slowing demand growth, this is not the best time to blow your brains out on Mozambique", a source with knowledge of the matter said to Reuters. (Source: Reuters)

BOOKS, FILMS & MORE

ShareAction (UK) trains engaged shareholders for the "AGM army"
"Crash a corporate party in 2015". This is the slogan of ShareAction for this year's AGM season. ShareAction (formerly FairPensions) is a London based investors coalition whose members are a. o. the Unison trade union, Greenpeace, Christian Aid, Eccr, Eiris, Oxfam and WWF. On 24 February ShareAction organises a training for engaged shareholders in London. "We're training an army of volunteers to go along as shareholders and hold companies to account, by asking tough questions on the issues that matter", reports ShareAction on its website.
In 2014, the UK coalition trained over 100 people to be active members of the "AGM Army", equipping them with the know-how needed to stand in front of company executives and ask questions on living wage, high executive pay, environmental record, human rights or "any issue you are interested about".
"On a cold and grey February morning, I found myself on a train from St Pancras to Luton Airport", reports Juliet Phillips, Campaigns Officer at ShareAction. "I was accompanying my colleague Lisa to the EasyJet AGM to ask some probing questions about human trafficking and the living wage". Easyjet's AGM has been the first to be covered by ShareAction in 2015. Many others will follow in the coming weeks. For more information: *http://shareaction.org*

ShareAction»

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