CARBON RISKS: NEW REPORT ON FOSSIL INVESTMENTS IN THE AUSTRIAN FUND MARKET

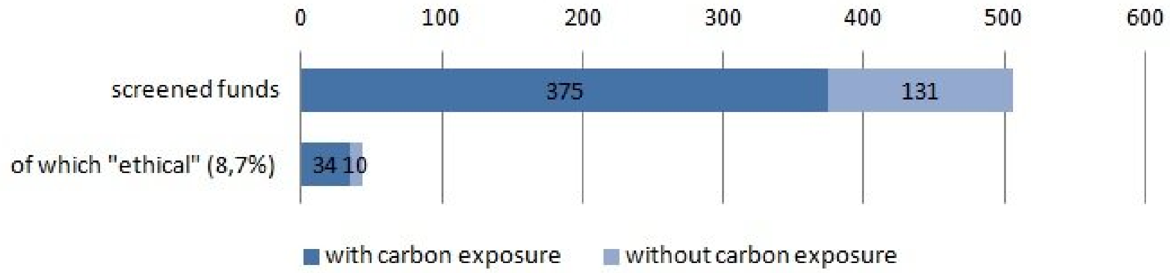
When the new UN climate deal ("Paris Agreement") entered into force on 4 November 2016, the international community committed itself not only to the common goal of keeping global warming to "well below 2°C above pre-industrial levels" but Article 2, para 1(c) explicitly addresses the role of the financial sector: ***"Making finance flows consistent with a pathway towards low greenhouse gas emissions and climate-resilient development."***

The Paris climate agreement assumes that the peak in climate-damaging emissions, and thus the imminent reduction of greenhouse gas emissions, should be achieved as quickly as possible. The later the greenhouse gas emissions decrease, the more abrupt the reduction or volume of the so-called negative emissions is needed to achieve greenhouse gas neutrality. Such an abrupt change poses a significant threat not only to the fossil industry but also to the financial markets. An increase in demand, which is the key assumption for explorations and the development of fossil energy reserves, will no longer be possible in many markets. In addition to the physical and the liability risks, this represents one of the key transformation risks for the financial market.

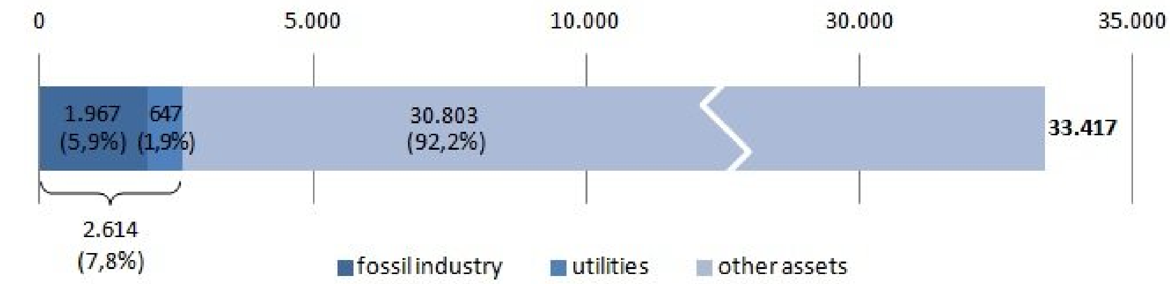
Foto Angie Rattay

A new report written by Günsberg Strategy Consulting, EGS Plus and Green Alpha now provides an overview of current international developments in the "Carbon Bubble" discussion for Austrian stakeholders and offers an assessment of the domestic carbon exposure with the help of an analysis of the mutual funds of Austrian investment companies. The report was presented at an event at Impact Hub Vienna in collaboration with NEONGREEN Network and with Sian Ferguson, Trust Executive of Sainsbury Family Charity Trust and part of the Divest Invest Europe network, as a key note speaker.

In Austria, as of 2016, 21 asset managers are offering slightly over 2,000 funds managing EUR 167.1 billion. Of these 1,183 are public funds, and 837 with a discretionary mandate. The mixed funds of which there are 1,100 constitute the largest group, followed by the group of 500 bond funds and approximately 350 equity funds. The analysis of the Austrian fund market concerning risky fossil investment and the related financed long-term CO_2 emission effect has focused entirely on the perspective of public funds which are relevant for consumers. By screening 500 equity, bond and mixed funds of different sizes and orientation, approximately one quarter of all investment funds managed by Austrian asset managers and about 40% of the total market volume were covered. In total, the Assets under Management (AUM) of this sample reached EUR 64.4 billion. The most recent (half) yearly reports of the funds served as the basis for this and other evaluations (valuation as of: 27/6/2015-31/8/2016, with only 23 of the 506 reports referring to valuation dates before 31/12/2015). Forty-four of the selected 506 funds (8.7%) bore names including "responsible", "sustainable", "ethical", "eco" and the like and were therefore identified as "ethical investment funds".



At the time of this analysis around three quarters of all screened funds were invested in the fossil sector and/or adjunctive industries and must therefore be considered as "at risk" in terms of the necessary transformation towards a decarbonized economy. Of those 375 investment funds with a "carbon exposure" 248 funds representing AUM of EUR 33.4 billion were analysed in greater detail (funds-of-funds are not included due to complexity reasons): On average, 5.9 percent of these assets were directly invested in coal, oil or gas sector companies, and another 1.9 percent in the suppliers and energy utilities dependent upon them.



The funds which have the largest shares of capital at carbon risk are those which specialize in investments in the energy sector (energy commodities and generation) or in the emerging markets which are heavily represented in those markets (e.g. Russia/Eastern Europe, Turkey, China, India, Brazil etc.). Among the top 30 riskiest funds analysed, 19 had this particular focus. These funds had invested up to 100% of their assets in the fossil fuel sector.

In the whole sample the emissions potential from only the fossil reserves of those companies thus financed adds up to around 128 million tonnes of CO_2 – the equivalent of Austria's current greenhouse gas emissions for a period of 20 months.

Of the 44 analysed ethical investment funds 34 demonstrated a carbon exposure as defined above. 33 funds were analysed in detail: Of the total volume of the funds' Assets under Management of almost EUR 3.14 billion, the climate-related risk capital reached around EUR 150 million, or 4.8 percent, at the time of investigation. Although this keeps the share of investments in fossil fuel companies (3.4%) or utilities (1.4%) under the total average for the analysed funds, some sustainable funds focused on Emerging Markets with a carbon exposure of almost 18 percent, turned out to be significantly higher. At the time of investigation only one of the 33 funds had no fossil shares, 31 were investing in oil reserves, 30 were financing natural gas, and 6 funds were holding coal investments. In total the CO_2 emissions thus financed reached 2.3 megatonnes (compared to 128 Mt for the total analysed fund assets). It is noteworthy that some sustainable or ethical funds also held positions in companies including Lukoil, Oil India, BHP Billiton, Schlumberger, Rio Tinto, Anglo American, Shell, Eni etc.

This overview and evaluation allow us to arrive at several political recommendations including e.g. creating a comprehensive and detailed database for the calculation of carbon risks in the Austrian capital market and for an analysis of the role of the state in its own investment strategies, and to heighten awareness of the related transformation risks. Further recommendations address a stronger integration of climate targets into sustainability criteria, setting up a fiscal Paris strategy for Austria, designing regulations in line with the Paris Agreement, and promoting more transparency to encourage a dialogue between stakeholders.

Link to english abstract

Link to full report (German language)