



# A BRIDGE TO NOWHERE

## THE CASE FOR OIL AND GAS DIVESTMENT

In January of 2020, BlackRock, the largest fund manager in the world, announced that it would focus on sustainability and climate change as it allocates capital around the globe. BlackRock's CEO, Larry Fink, stated that "climate change has become a defining factor in companies' long-term prospects," and that the financial risks stemming from the climate crisis are the most significant he has seen during his time on Wall Street.<sup>1</sup> He announced that BlackRock, with \$7 trillion in assets under management, will no longer invest in thermal coal. This is smart but not forward looking. Carbon Tracker, a leading financial think tank focused on the energy transition, recently found that the "levelized cost of renewable energy is cheaper than the levelized cost of coal in all major markets today."<sup>2</sup>

Despite the obvious decision to abandon coal, curiously, BlackRock will continue to invest oil and gas-related securities. During a CNBC interview, Fink stated that "we are not running away from hydrocarbons. We believe they play a role. We believe natural gas plays a very large role in the energy transition. We believe this is a process."<sup>1</sup>

At Change Finance, we do not believe that any fossil fuel represents a wise investment, and we avoid companies that extract, transport, process, or burn fossil fuels for electricity generation. BlackRock's actions imply that coal-related investments carry too much risk, but somehow, the investment thesis for oil and gas is fundamentally sound. Many analyses indicate that this is not the case.

## COAL INVESTMENTS COLLAPSED DESPITE CURRENT US CONSUMPTION OF 687 MILLION MMST/YEAR

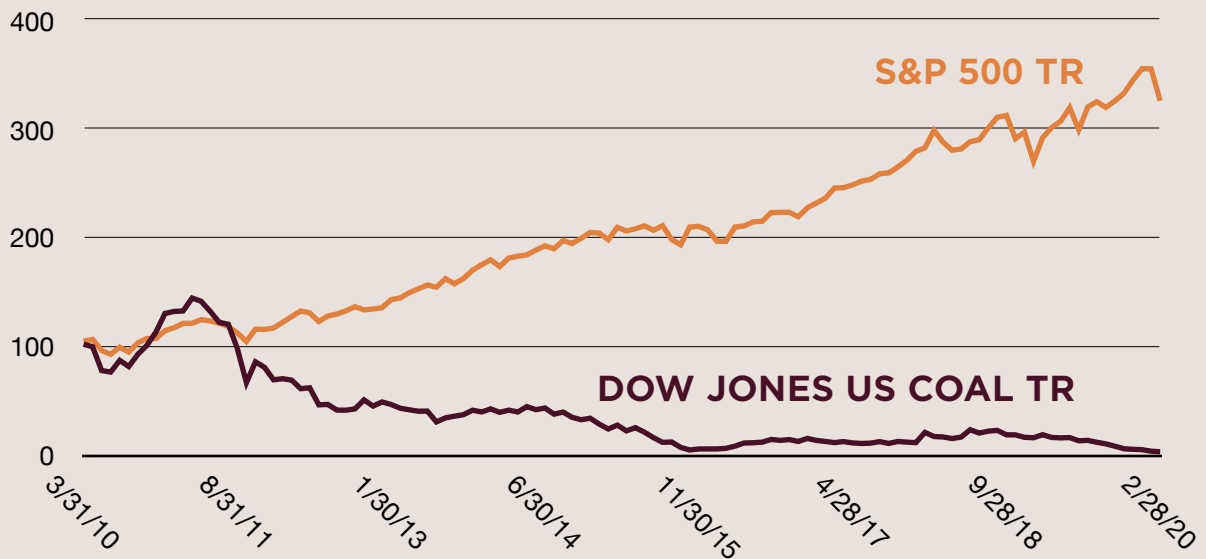


Figure 1

Source Data: S&P Dow Jones Indices

Fink's perception of oil and gas as "bridge" energy sources that play a short term role may be correct, but it does little to improve the investment theses. The market is a ruthless discounting mechanism that discerns long term winners and losers. It rarely rewards an outlook for short-term utility and long-term obsolescence. After all, the United States still burns more than 600 million tons of coal every year, a fact that did little to prevent the near-total collapse of coal-related stock prices over the last decade (Figure 1).<sup>3</sup> With that in mind, let's consider the outlook for oil and gas.

continue to operate existing combined cycle gas plants, an outcome that would create over \$100 billion in stranded natural gas infrastructure.<sup>6</sup>

The reduced cost of battery storage also has profound implications for the transportation industry and oil demand. Bloomberg NEF projects that by 2040 sales of electric vehicles will represent 57% of passenger vehicles, 56% of light commercial vehicles, and 31% of medium commercial vehicles.<sup>7</sup> The growth of the EV market, combined with efficiency gains in internal

### MARKET FORCES

A recent analysis from Bloomberg New Energy Finance indicates that since 2010, the cost of wind energy has fallen by 49% while solar and battery storage costs have both dropped by 85% (Figure 2).<sup>4</sup> Consequently, wind and solar are the least expensive sources of electricity in two-thirds of the world today. They will be the least expensive across the globe as early as 2030.<sup>4</sup> This spells trouble for natural gas, which makes up approximately 35% of U.S. electricity generation.<sup>5</sup> So much so that the Rocky Mountain Institute anticipates that by 2035 it will be more economical to build new renewable energy capacity than to

### TECHNOLOGY COST DECLINES 2010 - PRESENT

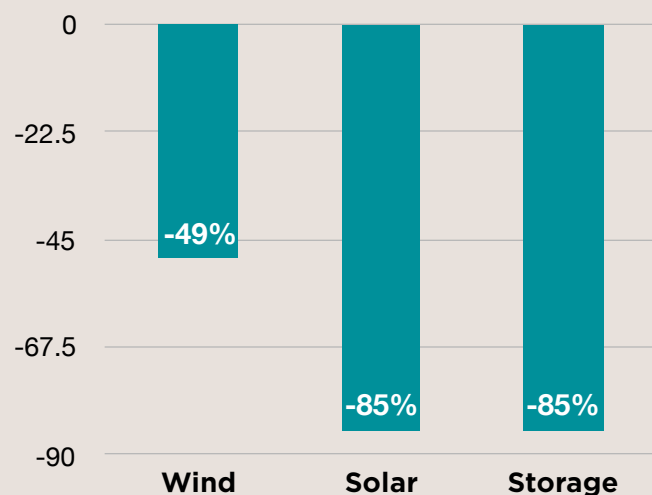
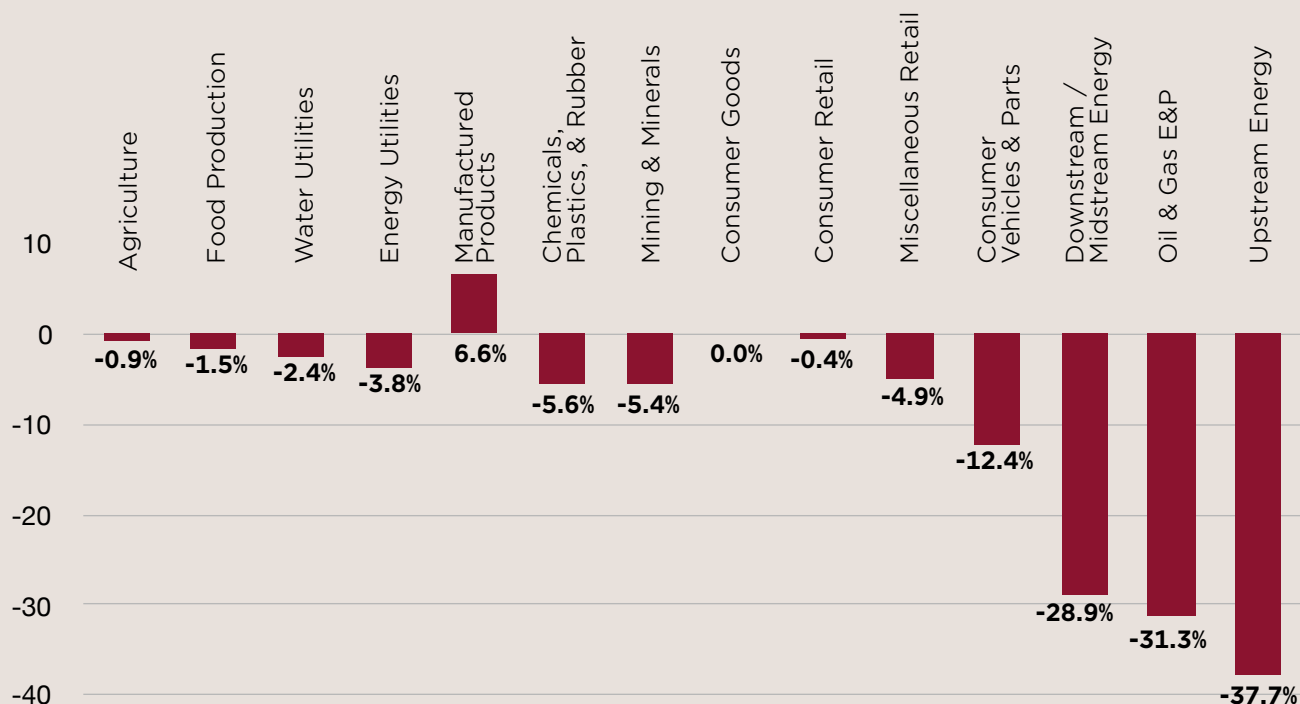


Figure 2

Source Data: BloombergNEF



## SECTORS IMPACTED BY POTENTIAL CLIMATE CHANGE POLICY

**Figure 3**

Source Data: Principles for Responsible Investment

combustion engines, is expected to erase demand for 13.9 million barrels of oil per day.<sup>8</sup> Carbon Tracker asserts that “EVs alone could cause peak oil demand by the late 2020’s – with annual marginal growth in oil demand entirely offset by EVs as early 2027.”<sup>9</sup>

### POLICY IMPLICATIONS

Market forces alone should lead investors to question the logic of continued capital allocations to the fossil fuel industry. When considered in conjunction with the projected consequences of policy responses to climate change, investors should forget about asking questions and walk out of the room. In 2019, the Principles for Responsible Investment found that global equity markets stand to lose \$2.3 trillion of market capitalization due to inevitable policy responses to climate change.<sup>10</sup> Losses are expected to vary considerably by company and sector. Unsurprisingly, energy stocks will be hit hardest with 37.7% of market capitalization projected to disappear from upstream energy producers (Figure 3).<sup>10</sup> This is hardly an investment outcome that Change Finance finds acceptable for

our clients, and we are not alone. As of 2019, thousands of institutional investors, managers, and individuals have committed to divesting over \$11 trillion from the fossil fuel industry.<sup>11</sup>

### CONCLUSION

Understandably, decades of investment analysis and trillions of assets under management create an inertia that is difficult to overcome. Like the Titanic, it cannot be easy to avoid the hazards before you, even after they have presented themselves for all to see. Yet inertia is an inadequate justification for underperformance, volatility, and financial loss. An overwhelming quantity of research is pointing toward an iceberg, dead ahead. In these uncertain waters, Change Finance is privileged to be unbound by last century’s investment frameworks. We will continue to examine all of the available data regarding the energy transition and invest in a manner that minimizes risk, even when the largest investor in the world charts a different course.



<sup>1</sup> Mufson, Steven, and Rachel Siegel. 2020. "Blackrock Makes Climate Change Central to its Investment Strategy." *Washington Post*, January 14. <https://www.washingtonpost.com/business/2020/01/14/blackrock-letter-climate-change/>

<sup>2</sup> Carbon Tracker Initiative. 2020. "How to Waste Over Half a Trillion Dollars: The Economic Implications of Deflationary Renewable Energy for Coal Power Investments." Carbon Tracker Initiative, March. <https://carbontracker.org/reports/how-to-waste-over-half-a-trillion-dollars/>

<sup>3</sup> U.S. Energy Information Administration. 2019. "Use of Coal." Last updated, May 9. <https://www.eia.gov/energyexplained/coal/use-of-coal.php>

<sup>4</sup> Bloomberg NEF. 2019. "New Energy Outlook 2019." Bloomberg New Energy Finance. <https://about.bnef.com/new-energy-outlook/>

<sup>5</sup> U.S. Energy Information Administration. 2019. "Electricity in the United States." Last updated, April 19. <https://www.eia.gov/energyexplained/electricity/electricity-in-the-us.php>

<sup>6</sup> Dyson, Mark. 2019. "A Bridge Backward? The Risky Economics of New Natural Gas Infrastructure in the United States." *Rocky Mountain Institute*, September 9. <https://rmi.org/a-bridge-backward-the-risky-economics-of-new-natural-gas-infrastructure-in-the-united-states/>

<sup>7</sup> BloombergNEF. 2019. "Electric Vehicle Outlook 2019." Bloomberg New Energy Finance. <https://about.bnef.com/electric-vehicle-outlook/#toc-download>

<sup>8</sup> Murtaugh, Dan. 2019. "How Much Oil Is Displaced by Electric Vehicles? Not Much, So Far." *Bloomberg*, March 19. <https://www.bloomberg.com/news/articles/2019-03-19/how-much-oil-is-displaced-by-electric-vehicles-not-much-so-far>

<sup>9</sup> Carbon Tracker Initiative. "How Much Might Electric Vehicles (EVs) Cut in to Demand for Oil?" <https://www.carbontracker.org/electric-vehicles-displacement-chart/>

<sup>10</sup> Principles for Responsible Investment. 2019. *Impacts of the Inevitable Policy Response on Equity Markets*. <https://www.unpri.org/download?ac=9857>

<sup>11</sup> Nauman, Billy. 2019. "Sharp Rise in Number of Investors Dumping Fossil Fuel Stocks." *Financial Times*, September 9. <https://www.ft.com/content/4dec2ce0-d0fc-11e9-99a4-b5ded7a7fe3f>

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