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First-Time Shareowner Resolutions Address Stranded Fossil Fuel Assets

Robert Kropp | March 11, 2013

As You Sow and the Unitarian Universalist Association have filed shareowner resolutions with two large coal companies, requesting that they report on material impact of reserves that must remain in the ground if climate change is to be addressed.

SocialFunds.com -- The term stranded assets refers to the fossil fuel reserves that will have to stay in the ground if global temperature increases are to be limited to two degree Celsius. If the human race is not in fact hell-bent on self-destruction and acts to address climate change in a meaningful way on the short time it has left to do so, then—as the investment firm Generation Investment Management described in a 2012 paper—such "negative externalities" will have to be internalized "through appropriate pricing."

According to last year's World Energy Outlook by the International Energy Agency (IEA), two-thirds of the known fossil fuel reserves will have to stay in the ground if climate change is to be addressed in a meaningful way. Therefore, companies in the fossil fuel industries can no longer project future earnings based on booked reserves, which if externalities are priced will never be used.

Such a rationale forms the basis of the growing divestment movement on college campuses, where students, spurred in part by an article published in Rolling Stone last summer, and looking to the anti-apartheid divestment campaign as an example, are pressuring their colleges and universities to divest their holdings in fossil fuel companies.

The Rolling Stone article, entitled Global Warming's Terrifying New Math, was authored by Bill McKibben of 350.org. "We know how much we can burn, and we know who's planning to burn more," McKibben wrote. "Climate change operates on a geological scale and time frame, but it's not an impersonal force of nature; the more carefully you do the math, the more thoroughly you realize that this is, at bottom, a moral issue."

The math of which McKibben wrote can also be applied to fiduciary duty, whether it be divestment or engagement through which fossil fuel companies accurately account for the pricing of externalities. To that end, two sustainable investment organizations have filed two shareowner resolutions this year, calling on large coal companies to report on "stranded assets that pose significant long-term risks to shareholder value for the company's investors."

As You Sow has filed a resolution with CONSOL Energy, requesting that the company report on its "goals and plans to address global concerns regarding fossil fuels and their contribution to climate change," according to the organization's recently published Proxy Preview 2013. CONSOL's 4.5 billion tons of coal reserves are the largest in the US, As You Sow states.

The Unitarian Universalist Association (UUA) has filed a similar resolution with Alpha Natural Resources, the nation's third largest producer of coal with 2.3 billion tons of proven coal reserves.

"It is of concern to investors that a portion of Alpha's coal reserves and/or related infrastructure may become unusable, unmarketable, or otherwise not economically viable as a result of greenhouse gas restrictions," the resolution states. "Given the increasing likelihood of material impact, shareholders need additional disclosure of the company's action plans, and risk scenarios, associated with likely greenhouse gas regulation."

According to As You Sow, Alpha has contested the resolution at the Securities and Exchange Commission (SEC), arguing that it has already implemented the resolution.

Significant in their own right, the two first-time resolutions also embody the spirit of sustainable capitalism espoused by Generation Investment Management. "The barriers to mainstreaming Sustainable Capitalism are formidable but not insurmountable," the firm stated in its report.

"Asset owners and fund managers with US$30 trillion in assets under management, which is approximately 20% of the world's capital are signatories to the UN Principles for Responsible Investment (UN PRI). If the majority of those assets were actually shifted into truly sustainable investment models, the effect would be dramatic and would signal that Sustainable Capitalism is entering the mainstream."