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Wall Street: Your Climate War Has Arrived

An unlikely alliance hopes to transform investors into advocates in battles over global warming.

Ben Geman | Jun. 26, 2014

Neither Robert Rubin nor Henry Paulson has the look or resume of a climate-change activist.

But the bipartisan duo of former Treasury secretaries, who share a Goldman Sachs pedigree, are part of an increasingly prominent effort to fight global warming with financial weapons and arguments.

And both joined billionaire activist Tom Steyer and billionaire former New York City Mayor Michael Bloomberg on Tuesday to roll out a detailed report, called "Risky Business," on the economic risks of climate change.

It's a piece of a loosely connected, and sometimes contradictory, set of activist movements aimed at focusing Wall Street and corporate boardrooms on global warming.

And now that set is having something of a moment: Attention to the financial world's potential to address climate change is growing—buoyed by the involvement of Wall Street and White House veterans, and boosted by a new push from the Obama administration itself.

The effort to use financial levers and arguments to move climate action is not new, nor is it unified. Instead, it includes a spectrum of groups pushing a spectrum of financial tools: from advocates of pulling investor holdings from fossil-fuel companies to those aiming for a softer, slower approach.

On Wednesday, current Treasury Secretary Jacob Lew, Commerce Secretary Penny Pritzker, and top White House advisers John Podesta and Valerie Jarrett met with Steyer and others behind the "Risky Business" report, a study that seeks to convince the business world of climate risks.

In a speech to University of California graduates this month, Obama gave an apparent (albeit cryptic) shout-out to a far more aggressive set of activists who urge divestment from fossil-fuel stocks, calling on students to "divest from what harms."

To be sure, it's not a cohesive movement. (For instance, Paulson thinks the Keystone pipeline should be built—he doesn't like oil sands but thinks they'll get to market anyway, he told PBS on Wednesday.)

Some activists organize shareholders to use their clout pushing companies to advocate for strong climate policies, and pushing carbon-heavy industries to transform their business into something more climate-friendly.

A related effort seeks to pressure securities regulators into requiring companies to account for what climate change could mean for their bottom line.

Others, including the prominent activist Bill McKibben and his group 350.org, take a very different and far more hard-core approach: pressuring universities, city governments, and other shareholders to dump their fossil-fuel holdings altogether, rather than engage with the companies. Activists have won commitments—or at least recommendations to investment managers—from about two dozen cities, roughly a dozen higher-education institutions, and others.

Jamie Henn, the strategy director for 350.org, said shareholder advocacy has "failed to deliver the type of fundamental changes that are needed in these companies," and that outright divestment is a more powerful tool.

But Michael Lynch, president of the consulting firm Strategic Energy & Economic Research, predicted the divestment push will yield limited returns. "There will always be people who say this stock is undervalued and will buy the stock, and that will offset the small portion of people who will not hold it in their portfolio," he said.

What all wings of this movement share an interest in deploying, one way or another, are financial levers and pressure to force changes in corporate behavior.

Both Rubin and Paulson, in comments this week, said the Securities and Exchange Commission should be requiring public companies to reveal the risks they face from climate change in filings with the regulators. Advocates say the SEC's climate-disclosure program has been toothless thus far.

"Investors, I think, need to demand that businesses make disclosures ... about the risks," Paulson told Bloomberg News. Among those risks, he said, are "stranded assets."

"Stranded assets" is increasingly part of the lexicon of climate activism. The term refers to investments in reserves or other assets that are costly to develop (think deepwater and the Arctic) or very carbon-heavy (think oil sands or coal plants) and could turn into big losers in a world that finally takes strong steps to limit emissions.

The basic thinking is that preventing runaway global warming will mean leaving massive amounts of fossil-fuel reserves unburned.

The investor advocacy group Ceres has been publicly urging oil and gas, coal, and power companies to assess their exposure to those risks and describe plans for managing them.

The goal of global climate talks is limiting the global rise to 2 degrees Celsius above pre-industrial levels, which appears increasingly unlikely but is the benchmark for a late 2013 Ceres letter to dozens of companies asking about their risk of stranded assets.

"Despite the risk that a portion of current proven reserves of fossil fuels cannot be consumed if governments act on the 2°C goal, recent analysis by the Carbon Tracker Initiative and the Grantham Research Institute found that the world's 200 largest fossil-fuel companies collectively still spent $674 billion in 2012 on finding and developing new reserves. This raises concern about the possibility that returns on this capital may never be realized," the version of the investor letter sent to companies like Exxon, Shell, BP, and others states.

In a first-time report three months ago, Exxon answered—and rebuffed—concerns about stranded assets. "Based on this analysis, we are confident that none of our hydrocarbon reserves are now or will become 'stranded,'" the company wrote, adding that the assets are "essential" to meeting growing global energy demand.

The report came in response to pressure from the wealth-management company Arjuna Capital and the activist group As You Sow, and also responded to Ceres's inquiry.

The activists are hardly trying to be just good Samaritans on Wall Street. Ceres is part of the environmental movement, not a neutral actor. But Ceres's Ryan Salmon said that the information the group is seeking would help markets "apply greater scrutiny in deploying capital" to fossil-fuel assets that could become stranded.

"You have to ID what are the projects most at risk and make sure the markets are pricing that risk accordingly," Salmon, who manages the oil and gas program at Ceres, said in an interview.

The goal? "Ultimately to have capital not go toward those types of projects," he said, adding that it should be "redeployed into clean-energy solutions."