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Media release

Fossil fuel stocks increase risk, not returns

New report makes the case for divestment by ethical and responsible investors

Investments in coal, oil and gas increase financial risk without increasing returns, according to a new report aimed at Australian investors such as universities, religious groups and local councils.

According to the report, published by The Australia Institute and released today in partnership with 350.org and Market Forces, portfolios containing coal, oil and gas companies risk lower returns in the long run while portfolios avoiding these companies can provide competitive returns.

Climate proofing your investments: Moving funds out of fossil fuels concludes that investors who divest from companies such as Whitehaven Coal, Woodside Petroleum and Origin Energy need not sacrifice their investment returns.

“Investors have traditionally been reluctant to screen out fossil fuel companies because of the perception of increased financial risk,” Dr Richard Denniss, Executive Director of The Australia Institute said.

“Our findings show that fossil free investment portfolios can not only provide similar returns on investment but they also help mitigate the risk of an ‘unburnable carbon’ bubble bust.

“It’s a no-brainer. If you can protect your holdings without lowering your returns, why wouldn’t you?” Dr Denniss said.

The report includes the first simulation comparing performance of an Australian fossil fuel free investment portfolio with an indexed ASX portfolio. The simulation shows that excluding coal, oil and gas companies from a diversified equities portfolio over a full business cycle may not have any material impact on investment returns, disproving the assumption that “ethical” investment portfolios cannot perform on par with others.

The report looks at the financial risk of ‘unburnable carbon’ to shareholders of coal, oil and gas companies. To meet the internationally-agreed two degree global warming limit, fossil fuel businesses must leave in the ground two-thirds of the reserves currently on their books. Failure to incorporate this risk is causing inaccurate share valuations.

It identifies a series of ASX-listed companies that are most at risk of stock devaluation due to climate change.

Key findings of the report are:

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- When held over a full business cycle, a diversified equities portfolio which excludes fossil fuel producing companies could perform on par with a fossil fuel inclusive portfolio
- The report categorises ASX-listed companies by their level of fossil fuel exposure. Woodside Petroleum, Origin Energy and Whitehaven Coal are amongst those most at risk of stock devaluation due to climate change, and therefore primary divestment candidates.
- Unburnable carbon poses a substantial financial risk to investors holding shares in fossil fuel exposed companies. Balance sheet valuations of reserves held by coal, oil and gas companies are based on the assumption they can extract over three times more carbon than is compatible with the internationally agreed two degree global warming limit.
- Fossil fuel valuations are at risk from global regulatory efforts to reduce carbon emissions, a trend towards reduction in subsidies for fossil fuel extraction companies and a growing international divestment movement which has won public support from the World Bank, President Obama and the UNFCC.

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