# Investors vs. the Paris Climate Agreement

## Who is still Investing in Coal Plant Development?

Newspaper headlines such as "BlackRock Issues Climate Change Warning" or "Investors Call for Climate Risk Disclosure" are now commonplace.[1] [2] And associations such as the "Institutional Investors Group on Climate Change" representing assets of over 21 trillion € continuously push for governments to speed up the transition to a low carbon economy. Investors' concerns are, however, almost exclusively focused on the risks climate change poses for their portfolios. But the question they need to be asking is: Which risks do their portfolios pose for our climate?

Meeting the goals set out in the Paris Climate Agreement is a race against time. In order to keep the 1.5°C target within reach, global $CO_2$ emissions must begin declining by 2020 and drop by 50% over the following decade.[3] Whether we succeed or fail in this race will largely depend on how quickly we manage to phase out the over 1,964,000 MW of coal-fired power stations currently on line. To stay within the limits laid out in the Paris Climate Agreement, climate scientists calculate that emissions from the world's coal plant fleet must be reduced by at least 30% by 2025.[4]

### Coal Expansion Instead of Coal Exit

While most large institutional investors acknowledge the urgency of decarbonizing energy production, they continue to invest in companies which are planning a massive expansion of the global coal plant fleet. Currently, over 1,600 new coal plants and units are planned or under development in 62 countries. If built, these new plants would increase the world's installed coal capacity by over 42%.[5] As Bill Hare, CEO of Climate Analytics and lead author of the 4Th IPCC Assessment Report, says: "Building these coal plants would lead to a failure to reach the Paris climate goals and put us on a fast-track towards a 4°C temperature rise."

This briefing paper summarizes research Urgewald and its partners commissioned to determine which institutional investors are backing the world's top 120 coal plant developers. These 120 companies are responsible for 2/3 of the new coal-fired power stations planned around the globe.[6] Collectively, they plan to build over 550,000 MW of new coal plants – this is equal to the combined coal fleets of India, the United States and Germany. Investments in coal plant developers are investments against the Paris Climate Agreement.

### US$ 140 billion that Could Make Paris Fail

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[1] „BlackRock Issues Climate Change Warning", Financial Times, Sept. 6, 2016

[2] „Investors Call for Climate Risk Disclosure", The Herald, Dec. 15, 2016

[3] „2020 – The Climate Turning Point", Mission 2020, 2017

[4] „The 10 Most Important Short-term Steps to Limit Warming to 1.5°C", Climate Action Tracker, 2016

[5] https://coalexit.org/biggest-coal-plant-developers-worldwide

[6] For a full list of these companies, see: https://coalexit.org/database

All in all, our research identified 1,455 institutional investors with a total investment of over US$ 139.6 billion in coal plant developers.[7] These are investments held by pension funds, insurance companies, mutual funds, asset management companies, commercial banks, sovereign wealth funds and other types of institutional investors. The top 7 institutions in our ranking account for almost 1/3 of the total value institutional investors hold in top coal plant developers.

First and foremost is the US-based investment giant BlackRock, which holds shares and bonds of 52 coal plant developers with a total investment value of US$ 11.5 billion. BlackRock is the world's largest asset manager and according to its webpage, its clients are "governments, companies, foundations and millions of individuals saving for retirement, their children's education and a better life."[8] What its clients don't realize is that BlackRock is sinking their money into companies whose coal power expansion plans threaten to make everyone's life on this planet much, much worse.

BlackRock is also a perfect showcase for investors' unwillingness to connect the dots. BlackRock is a member of the Institutional Investors Group on Climate Change (IIGCC) and calls on companies to disclose their climate risks. BlackRock warns that "investors can no longer ignore climate change", and its position papers show that it is fully aware that coal reserves must stay in the ground. Yet BlackRock is incapable of acknowledging the inconvenient truth that its own investment choices are helping accelerate climate change.

The world's second largest investor in coal plant developers is Japan's "Government Pension Investment Fund" (GPIF), which manages the pensions of Japanese public sector employees. It is the world's largest sovereign pension fund and holds investments of US$ 7 billion in the bonds and shares of 32 coal plant developers.

Number 3 is the US investment manager Vanguard, which holds investments of US$ 5.7 billion in the bonds and shares of 53 coal plant developers. Vanguard is a client-owned mutual fund company and the world's second largest asset manager.

Number 4 is Malaysia's sovereign wealth fund Kazanah Nasional Berhad. It holds investments of US$ 5.5 in shares of the utility TNB which is building coal power stations in Bangladesh, Indonesia and Malaysia.

The number 5 in our ranking is the National Pension Service of South Korea, the world's 3rd largest pension fund. It holds shares of US$ 4.2 billion in 3 coal plant developers.

Number 6 is the Life Insurance Corporation of India, a state-owned insurance and investment company, which holds shares of US$ 3.8 billion in 6 coal plant developers.

Number 7 is the California-based Capital Group, one of the world's oldest investment management companies. It holds bonds and shares of US$ 3.4 billion in 13 coal plant developers.

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[7] Out of this total, US$ 102 billion are in shares and US$ 28 billion in bonds.

[8] https://www.blackrock.com/corporate/en-in/about-us

The following chart shows the top 30 institutional investors in coal plant developers. They account for 55% of all institutional investments that were identified in these companies.

| Rank | Investor Parent | Country | Shareholding Value (in mln US$) | Bondholding Value (in mln US$) | Total Value (in mln US$) |
|---|---|---|---|---|---|
| 1 | BlackRock | United States | 10.216 | 1.291 | 11.506 |
| 2 | Government Pension Investment Fund | Japan | 4.767 | 2.237 | 7.004 |
| 3 | Vanguard | United States | 5.570 | 113 | 5.683 |
| 4 | Khazanah Nasional | Malaysia | 5.458 | | 5.458 |
| 5 | National Pension Service | South Korea | 4.172 | | 4.172 |
| 6 | Life Insurance Corporation of India | India | 3.846 | | 3.846 |
| 7 | Capital Group | United States | 1.407 | 2.021 | 3.428 |
| 8 | Butterfield Group | Bermuda | 3.292 | | 3.292 |
| 9 | Employees Provident Fund | Malaysia | 2.360 | | 2.360 |
| 10 | Mizuho Financial | Japan | 2.080 | 11 | 2.091 |
| 11 | Yayasan Pelaburan Bumiputra | Malaysia | 1.977 | | 1.977 |
| 12 | Dimensional Fund Advisors | United States | 1.511 | 293 | 1.804 |
| 13 | JPMorgan Chase | United States | 1.473 | 295 | 1.768 |
| 14 | Mitsubishi UFJ Financial | Japan | 1.671 | 42 | 1.713 |
| 15 | Fidelity Investments | United States | 1.089 | 583 | 1.672 |
| 16 | Franklin Resources | United States | 1.138 | 531 | 1.669 |
| 17 | Citigroup | United States | 1.513 | | 1.513 |
| 18 | State Street | United States | 1.155 | 208 | 1.362 |
| 19 | Prudential (UK) | United Kingdom | 995 | 348 | 1.343 |
| 20 | Nippon Life Insurance | Japan | 1.313 | 1 | 1.313 |
| 21 | Wellington Management | United States | 377 | 914 | 1.291 |
| 22 | Norwegian Government Pension Fund - Globa | Norway | 1.284 | | 1.284 |
| 23 | Allianz | Germany | 321 | 958 | 1.279 |
| 24 | T. Rowe Price | United States | 783 | 473 | 1.256 |
| 25 | ICICI Bank | India | 796 | 432 | 1.229 |
| 26 | TIAA | United States | 539 | 676 | 1.215 |
| 27 | Sumitomo Mitsui Trust | Japan | 1.059 | 15 | 1.074 |
| 28 | KWAP Retirement Fund | Malaysia | 1.049 | | 1.049 |
| 29 | National Social Security Fund | China | 1.007 | | 1.007 |
| 30 | Central Huijin Asset Management | China | 930 | | 930 |

The top 30 investors in coal power expansion companies fall into two distinct groups. The 12 US investors and investors from Germany, Norway and the UK hold stakes in coal plant developers all around the world, while investors from Japan, Malaysia, India, China and South Korea are mainly invested in their own "national champions" among the coal plant developers. It is important to note that these "national champions" are, however, building many of their coal plants abroad. A typical example is Japan's Marubeni, which is planning to build coal-fired power stations in Botswana, Egypt, Indonesia, Japan, Mongolia, Myanmar, South Africa, Vietnam and the Philippines. Marubeni's two largest institutional investors are the Japanese Government Pension Investment Fund and BlackRock. Both the global investment strategies of Western investors and the more nationally focused investments of Asian investors thus end up fueling the global coal plant pipeline.

## Ranking of Investor Countries

While most of the top banks underwriting share and bond issues of coal plant developers are Chinese (See our sister publication "Banks vs. the Paris Agreement"), the picture from the investor side is quite different. The country whose institutional investors hold the largest stakes in coal plant developers is the United States. All in all, US investors account for 37% of total institutional investments in the bonds and shares of coal plant developers. The second most important country is Japan, whose investors account for 13% of the investments identified in our research. The following chart shows the 15 countries, whose institutional investors hold over US$ 1 billion in shares and bonds of coal plant developers.

| | Sum of Per Investor Value | Type of financing (short) | | |
|---|---|---|---|---|
| Rank | Investor Parent Country | Shareholding | Bondholding | Grand Total |
| 1 | United States | 37.584 | 14.110 | 51.694 |
| 2 | Japan | 15.352 | 2.445 | 17.796 |
| 3 | Malaysia | 11.610 | | 11.610 |
| 4 | China | 9.835 | 257 | 10.092 |
| 5 | India | 5.487 | 2.922 | 8.408 |
| 6 | United Kingdom | 5.423 | 1.873 | 7.296 |
| 7 | South Korea | 5.381 | 3 | 5.384 |
| 8 | Canada | 2.971 | 1.463 | 4.434 |
| 9 | Bermuda | 3.351 | 32 | 3.383 |
| 10 | Germany | 1.462 | 1.562 | 3.024 |
| 11 | France | 1.443 | 1.315 | 2.758 |
| 12 | Switzerland | 1.858 | 724 | 2.582 |
| 13 | Netherlands | 1.985 | 245 | 2.230 |
| 14 | Australia | 1.251 | 272 | 1.523 |
| 15 | Norway | 1.341 | 26 | 1.367 |
| | **Grand Total** | **111.508** | **28.092** | **139.600** |

One of the most positive outcomes of the 2017 Climate Summit in Bonn was the launch of the "Powering Past Coal Alliance", led by Canada and the UK. The Alliance's 19 member countries commit themselves to a moratorium for new coal plants and a rapid national phase-out of existing coal plants.[9] In a press release, civil society organizations from throughout Southeast Asia applaud this move, but urge members of the Alliance to also curb public and private financial flows from their countries to the global coal plant pipeline.[10] The validity of this demand is underlined by the fact that 5 of the "Powering Past Coal" member countries (Canada, France, the Netherlands, Switzerland and the UK) are among the 14 nations, whose institutional investors hold the largest stakes in coal plant developers.

## Standard Divestment and Decarbonization Approaches Fall Short

In June 2015, the Norwegian Parliament announced that it was "pulling the Norwegian Government Pension Fund Global out of coal"[11] and in November 2015, Germany's insurance giant Allianz announced that it will "phase out coal".[12] Yet both institutions are still among the top 30 investors in coal plant developers. How so?

[9] http://www.ym.fi/download/noname/%7B2ECC2AA5-F5D9-4551-BEC1-63C29DDB57A4%7D/132328

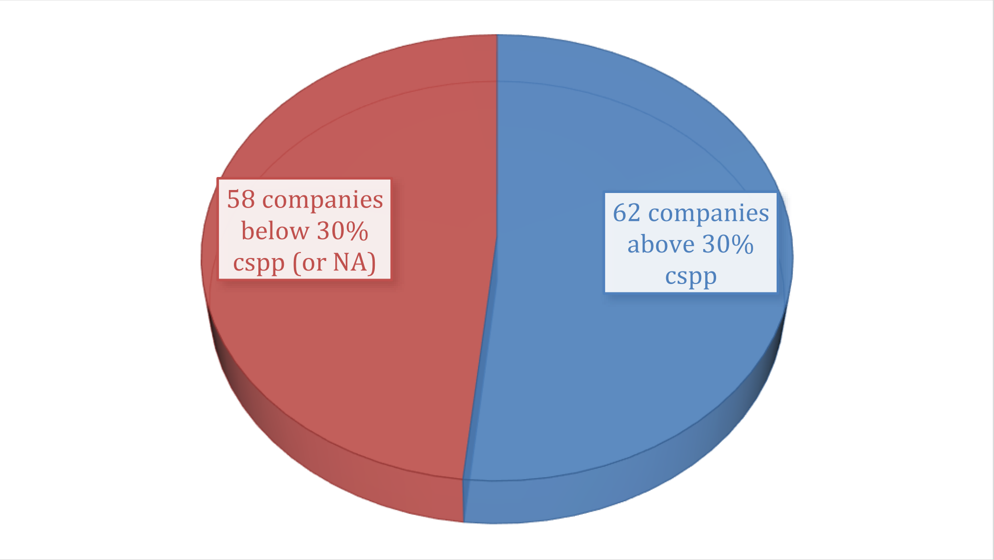
[10] "Southeast Asian CSOs and Movements on the UK-Canada Powering Past Coal Alliance", Nov. 16, 2017

[11] http://newsroom.unfccc.int/financial-flows/norway-decides-to-pull-its-pension-fund-out-of-coal/

[12] https://www.allianz.com/en/press/news/financials/stakes_investments/151123_allianz-is-phasing-out-coal/

Both the Norwegian Government Pension Fund Global (GPFG) and Allianz only divest companies that base over 30% of their power generation or revenues on coal.[13] While this approach prevents them from investing in coal-based utilities such as India's National Thermal Power Corporation (94% coal share of power production) or South Korea's KEPCO (39% coal share of power production), a 30% coal share of power production threshold only captures about half of the 120 top coal plant developers.

**Coal Share of Power Production of the 120 Top Global Coal Plant Developers**




Investors tend to assume that the key drivers of new coal projects are always the "old" coal-based utilities. But the top 120 coal plant developers are, in fact, a diverse group. They include companies like China's Harbin Electric and Dongfang Electric, whose major business is manufacturing boilers and turbines for new coal plants. In some cases, these equipment providers, however, plan to own and operate coal plants, especially in frontier countries like Egypt or Pakistan that have little or no coal-fired capacity up to now. Some coal plant developers are power companies, but have only recently begun moving into coal. An example is ACWA Power from Saudi Arabia, which has a history of developing gas and renewables projects, but has now become the world's 25th largest coal plant developer with plans to build coal power stations in Egypt, Mozambique, South Africa, Turkey, the United Arab Emirates and Vietnam.[14] Some coal plant developers are huge diversified companies like the Japanese Trading House Marubeni, others are oil companies like PetroVietnam or steel companies like China's Jiuquan Iron & Steel Group, which wants to build Jamaica's first coal-fired power plant – a project that would increase the country's $CO_2$ emissions by 80%.[15]

The 30% criteria adopted by Allianz and the Norwegian GPFG do not prevent these institutions from investing in coal plant developers. The same is true for the decarbonization approach taken by investors such as the Dutch pension fund ABP. ABP has committed to reduce the $CO_2$ footprint of its portfolio by 25% and to massively

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[13] Allianz applies this threshold to its own investments, but not to the assets it manages for third parties. Many coal plant developers in Allianz's portfolio are thus assets it holds for third parties.

[14] ACWA Power has installed around 2,200 MW in renewables, but plans to build coal plants totaling over 6,000 MW.

[15] http://jamaica-gleaner.com/article/lead-stories/20160825/coal-plant-will-increase-jamaicas-co2-emission-79-82-cent-us-coal

increase its investments in renewable energy, but it is still the world's 34th largest investor in coal plant developers.[16]

"Percentage criteria only capture the status quo of a company's dependency on coal, but do not address the new coal projects companies have in their pipeline," says Heffa Schuecking, director of Urgewald. In November 2017, Urgewald and partners therefore launched the "Global Coal Exit List", a forward-looking database that reveals the names of 282 companies planning new coal power projects.

**Today's Investments Form Tomorrow's World**

"Responsible investment" has become a buzzword, but most large institutional investors still fail to heed the warning climate scientists keep on repeating: **There is no space for new coal.** It does not require a giant leap of logic to understand this also means: There is no space for investments in new coal.

Investors self-perception is that they are already mitigating climate change by buying green bonds, increasing investments in renewables, offering low-carbon funds or engaging with companies to improve their climate risk reporting. These are all laudable steps, but climate risk reports are no guarantee for effective actions to reduce emissions. And green bonds do not undo the damage of investing billions of dollars in companies whose business plans are a blueprint for overshooting the Paris goals and triggering catastrophic climate change.

For an institution like BlackRock, the US$ 11.5 billion it has invested in 52 top coal plant developers is tiny, and in fact represents less than 0.2% of the total assets BlackRock manages.[17] Yet collectively, these 52 companies account for coal power expansion plans of 340,622 MW – this is equal to the entire coal fleets of India, Japan, South Korea and Russia combined. And in many cases, BlackRock's stakes make it a significant shareholder in these companies. "The hypocrisy of warning against climate change while simultaneously delivering it through massive investments in coal plant developers is shameful," comments Schuecking. "It is a clear case of BlackRock vs. Paris and we have to make sure Paris wins."

The first large investor to acknowledge that investments in coal plant developers are at odds with science-based climate targets is the Norwegian insurer und pension provider, Storebrand, which manages a portfolio of almost US$ 70 billion. In 2013, Storebrand was already a first mover on coal divestment and began excluding companies on the basis of their coal share of revenue. During COP23, the CEO of Storebrand Asset Management, Jan Erik Saugestad announced: "With a view to the UN climate negotiations in Bonn, we have decided to act on what we see as our responsibility: We are taking a more confrontational course towards the coal industry and pulling our money out of 10 companies planning large coal plants. We call on all investors to follow suit and thereby accelerate an exit from the coal industry. This is meant as a warning to coal plant developers: Companies that build new plants will have to forgo our capital."[18]

[16] ABP has investments of US$ 891million in 33 coal plant developers.

[17] According to its 3rd Quarter Report 2017, BlackRock currently manages assets of US$ 5.98 trillion.

[18] Own translation. Quoted from „Storebrand hofft auf Dominoeffekt", Börsenzeitung, Nov. 18, 2017. The 10 companies Storebrand dropped were: Eskom Holdings, PGE, Uniper SE, Genting International, Tenaga

Storebrand hopes for a "domino effect", but hope is not enough. Today's investments form tomorrow's world and we must act now to ensure that investors like BlackRock, Vanguard and the Japanese Government Pension Investment Fund do not propel us into a future where the Paris climate goals are no longer within reach.

Note on Our Research:
The data for this briefing was compiled by the research consultancy Profundo. The research focused on institutional investors and does not cover shares and bonds held by governments, companies or private individuals. In order to identify the institutional bond- and shareholders of the 120 top coal plant developers, Profundo used financial databases such as Thomson EIKON and Bloomberg. The gathered data is, however, far from complete as many pension funds do not report on their holdings, but also because financial databases fail to reflect all available information. While shareholding data is generally more complete, coverage of bondholders is mostly very low. It is therefore likely that institutional investments in the bonds and shares of coal plant developers are in fact, significantly higher than the US$ 139.6 billion that were identified.

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Nasional Berhad, Kyushu Electric Power, Origin Energy, EDP Energias do Brasil, RWE AG and Power Assets Holdings Ltd.