preventable surprises

Finance Tackles Asian Utility Emissions

MARCH 26 - MARCH 28, 2018

31 PARTICIPANTS / 162 POSTS

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Convener's Welcome

Asian utilities contribute more than 20% of the greenhouse gases emitted globally. These emissions amplify extreme weather events, translating into annual losses of more than 1% of GDP in countries throughout the region, according to the Asian Development Bank. The human toll is even greater, with air pollution accelerating the deaths of more than two million people in India and China (State of Global Air 2017.)

Preventable Surprises seeks to convince the financial sector that climate change represents a systemic risk to their investments because of its potential to destroy value on a wide scale. Therefore, investors and lenders must take positive action on climate risk as part of their fiduciary obligation to their beneficiaries. We know there are large obstacles preventing the Asian finance sector from fulfilling this fiduciary duty. But we also know there are many creative and determined people—like you—working on this problem. Our hope is that by the third day of the dialogue we will be collaborating in ways that will take forward your creative ideas.

Carolyn Hayman
Senior Adviser, Climate Change
Preventable Surprises

Facilitator's Welcome

Welcome to this Sixth Virtual Dialogue convened by Preventable Surprises. I'm pleased to serve again as primary facilitator, with co-facilitation by Carolyn Hayman, Tom Murtha, and Casey Aspin of Preventable Surprises. While we will all serve as process facilitators, they will also play the occasional role of instigators / provocateurs.

When you're done reading this orientation, please click over to the Day 1: Why should investors care? Discussion Tab and contribute to the several threads there.

FACILITATOR

Bill Baue
Corporate Sustainability Architect

Dialogue Goals

- Develop a shared view of one or more strategies that people can work on together to begin to exert downward pressure on emissions
- Ensure the experience is personally enjoyable and professionally enriching so that people are motivated to come to subsequent dialogues and recommend to others
- Enable people to share ideas and 'meet' people with whom they subsequently find opportunities to work with on climate change-related work

Agenda

Day 1: March 26
Why should Investors care?

Climate Change & Asia
Rich Pancost, Cabot Institute

Air Pollution
David Murray Preventable Surprises

Stranded Assets
Laurence Watson, Carbon Tracker Initiative

Day 2: March 27
What can investors do?

Reporting
Antigone Theodorou, CDP

No New Coal
Heffa Schueking, Urgewald

Corporate Lobbying
Dylan Tanner, Influence Map

Forceful Stewardship
Ben McCarron, Asia Research & Engagement

Day 3: March 28
What will investors do?

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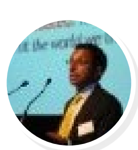

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GUEST EXPERTS

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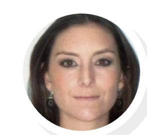

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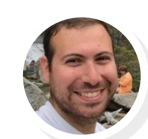

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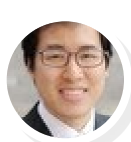

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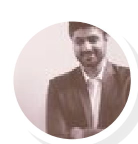

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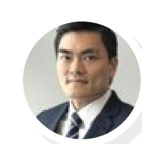

Ed Yau, CFA, CAIA
Director of Engagement

Charles Yonts
Analyst

EXECUTIVE SUMMARY

Day 1: Why should investors care?

Dozens of participants engaged on our first day to discuss how to focus the attention of financial institutions and government on utility emissions in Asia. Country-specific discussion centred mostly on China, India, and Japan. Topics ranged from the specific (the elevation of Chinese ports) to the more general (developing effective narratives that address issues beyond climate change, such as poverty and pollution).

Day 2: What can investors do?

Day two has seen a waterfall of ideas, insights, and data. One of the themes was finding the right message to target the right audience (investors, banks, global brands, government agencies) and tailoring the message to fit different contexts (e.g. Japan vs. India). Summaries of the four conversation threads follow.

Day 3: What will investors do?

The final day of discussion focussed on ideas proposed in the first two days that can translate into action. The four action ideas that emerged included:

- **Develop narrative templates that resonate in Asia**
- **Develop a 'Japan special' within the RE100**
- **East-West pressure on coal enablers**
- **GPIF strategy on better beta to embrace climate**

Day 1:
Why should investors care?

Day 1

Why should investors care?

Climate Change & Asia, Asia is the region most at risk from climate change. Between 1996 and 2015 six of the countries most affected (loss of life and economic losses) by extreme weather events were in Asia. Asian nations have particularly acute reasons to lead on climate change action, and are doing so. However investment in fossil-fuel powered energy continues at great speed and locks in carbon emissions, threatening the hopes of restraining global warming. Many participants engaged on this topic by pointing out specific risks and opportunities that should catch the attention of investors and governments tracking the impact of climate change on physical infrastructure.

GUEST EXPERT
Rich Pancost
Director, Cabot Institute

> *"Potential impact on the Pearl River Delta which is responsible for 40% of Chinese exports, but which is less than 2 metres above sea level built upon a sinking delta and for which "hard" defences are apparently not considered to be feasible."*

> *"On top of the sea level rise there is also the potential for storm surges and Kong tides. The outcome is that we can potentially estimate the extent of mitigation that Asian utilities will need to implement just to control their risks to an acceptable level."*

> *"The costs for large Asia Pacific ports to elevate themselves to adapt to climate change range from US$31 billion to US$ 49 billion, according to a paper we produced commissioned by HSBC."*

> *"Re. renewables build out: How robust are the grids in Asia? Who controls what? Who invests in what? What risks are the grids facing?"*

Why should investors care?

Climate Change & Asia. Participants also looked at the effective framing of climate risk for investment analysts, government officials, and those paying attention to geopolitical positioning in a carbon constrained future.

GUEST EXPERT
Rich Pancost
Director, Cabot Institute

"Investors are well suited to think in terms of fat tails and their implications for risk. Those in the financial sector deal with wide probability distributions, especially those dealing with pension funds and long-term projections."

"By taking the lead in green energy, Beijing hopes to make itself an energy exporter to rival the United States, offering other countries the opportunity to reduce their purchases of foreign oil and gas—and cut their carbon emissions in the process."

"Climate change is a threat to growth, exacerbates poverty and inequality, and is linked to other forms of pollution. So stimulating a conversation that more overtly aligns climate change to other challenges will be critical."

"Global inaction has led to the point that, to have any serious chance of avoiding catastrophic impacts, climate change must now be treated as an immediate existential risk."

Why should investors care?

Air Pollution. Coal combustion contributes to premature deaths on a massive scale throughout Asia. In Europe, litigation on air pollution is based on a failure to meet legal standards. Cases have also been brought in India, Pakistan, Bangladesh and Nepal based on fundamental constitutional rights to health and a clean environment (Mapping Climate Change and Air Pollution Litigation in the Asia Pacific Region.) Comments in this thread addressed the role of public demand for clean air in China and India and false solutions that address air pollution but not carbon emissions.

GUEST EXPERT
David Murray
Chief Executive Officer at Preventable Surprises

"In China, air pollution is not just a environmental issue. Investors need to be wary about funding companies that are causing air pollution in China, because air pollution is now a political issue tied to the highest levels of government in China."

"There is a significant amount of groudswell pressure building up in major Indian cities on air pollution. The 'right to breathe' has been taken forward through isolated cases as a core constitutional issue, which is intended to shape future laws aimed at the corporate sector. This could one day impact retail investing in utility and automobile stocks."

"HSBC's Fragile Planet report last week ranked India as the most exposed country globally to climate change. Are these issues likely to break the vested interest strangle hold on serious climate action?"

"To remedy the air pollution issue, one need only filter the flue discharge. Not cheap, but do-able. China Light and Power does a good job of this in Hong Kong. Once done, there is no reduction of CO2 emissions and we are back to square one. Clean coal anybody?"

Why should investors care?

Air Pollution. Possible avenues to pursue including pushing for TCFD-type disclosures and framing around growing opportunities, such as NTPC's pivot to green bonds and solar arrays.

GUEST EXPERT
David Murray
Chief Executive Officer at Preventable Surprises

"We need uptake of explicit climate risk disclosure and actions on these, a la TCFD. My Japanese friends in this field are not waiting on the pension fund to drive anything radical anytime soon."

"NTPC, India's largest state owned utility company has floated green bonds recently and is diversifying into solar, so investors in that green bond with strong ESG risk frameworks are happy too. 'Engage with an 'opportunity'' - Mantra"

Why should investors care?

Stranded Assets. Climate scenario modelling shows all coal capacity needs to close or cease generation by 2040. To align with a 2 degree future translates to $540 billion in capital allocated to plants that will not be able to recover their costs. Investors and power asset owners both need to be ready for the energy transition, and aware of the potential for enormous asset stranding. Participants agreed the future of government regulation and policy will be critical in determining the timing and extent of asset stranding.

GUEST EXPERT
Laurence Watson
Data Scientist, Carbon Tracker Initiative

> *"Corporates, investors and the utilities look to the government for long-term energy plans. Government policy and detailed regulations (e.g. planning, siting, import tariffs on fuel, subsidies etc) determine the costs of fossil fuel vs nuclear vs renewables."*

> *"But it remains the case that renewable power is NOT cheaper in Japan and other parts of Asia due to a plethora of government regulations favoring large-scale fossil fuel capacity and disadvantaging distributed and smaller scale renewables units"*

> *"The tumbling costs of renewables and batteries (and EVs) means that regulation need only provide an enabling environment that allows wholesale displacement."*

> *"The response (by the Korea Development Bank to a legislator's inquiry) mentions that 'dispatch order / generation costs' and 'fixed return rates' make coal power low risk / low return projects. I believe this shows why Asian public financial institutions are so into coal. How the power market is operated or how power is priced is the key issue - there may be a limit to naming and shaming such public financial institutions, unless we go into the unfair market structures of these countries."*

Why should investors care?

Stranded Assets. In many countries, in particular India, coal is a catch-up fuel, as economic development hinges on access to domestic supply. Some of the conversation turned on the impact on jobs of shutting down coal plants.

GUEST EXPERT
Laurence Watson
Data Scientist, Carbon Tracker Initiative

> *"While I think Kathleen's question around jobs and retraining are very important, at some point these governments will come for the coal plants."*

> *"Consequently, it is between very hard and impossible to let employees go. This has typically come up when considering shutting smaller, old and inefficient power stations and replacing them with new ones. The new efficient coal-power stations usually need less workers."*

> *"Shuttering coal generation is some of the lowest hanging fruit for climate action, even in places where renewables are comparatively expensive, like Japan."*

Day 2: What can investors do?

What can investors do?

Encouraging Reporting. "At CDP, we are firm believers that disclosure is a critical first step for insight and action. The current state of disclosure of Asia Electric Utilities companies shows that we have a long way to go to achieve this. In 2017 from the 30 Asian Electric Utilities companies that were requested to respond to the CDP Climate Change questionnaire only a handful did." Many participants discussed the obstacles to effective disclosure and some ideas around improving transparency.

GUEST EXPERT
Antigone Theodorou
Regional Director, Asia Pacific, Latin America and Partner Regions at CDP - Global environmental reporting system

"Most utilities have a considerable sea level rise exposure, given their coastal locations… Scenarios, if they are used properly, must explore the extremes - as Glenn mentioned, the latest NOAA estimate is for 2.5m SLR by 2100, far greater than IPCC."

"Trucost has a methodology where they can estimate the extent of a company's carbon emissions. Should a consideration be given to providing something similar with Asian utilities as an introduction to engagement / governmental discussions?"

"Many Asian companies, including utilities, do not yet have a systematic approach to collecting data. Even if they have, they are very reluctant to disclose absolute emissions information, often citing 'business secrets' as a reason."

"Our engagement focuses on creating a constructive dialogue that provides evidence of the benefits of disclosure, how improved quality of data can enhance the performance of a company."

Encouraging Reporting. Participants also looked at the degree of unacknowledged risk building in the sector, including water constraints.

GUEST EXPERT

Antigone Theodorou

Regional Director, Asia Pacific, Latin America and Partner Regions at CDP - Global environmental reporting system

> *"CLP may be leading a CDP discloser in the region, but the company is planning to build over 3,000 MW of new coal-fired capacity at a time when the UN and other bodies have clearly warned that there is no room for new coal plants."*

> *"I find it unbelievable that in 2018 water as a commodity is thoroughly unaccounted for and under priced, especially in countries like India where ground water is free if you can pump it up. No water, no power plant and no sustained and healthy economic growth."*

What can investors do?

No New Coal. Corporate bond or share issues and bank loans are financing new coal development projects throughout Asia. While many Western investors acknowledge the urgency of decarbonizing energy production, they nonetheless buy bonds of companies like China's State Power Investment Corporation or India's National Thermal Power Corporation, which together plan to build a coal plant fleet as large as Germany's. "We are looking beyond utilities because our research shows that the companies planning new coal plants include huge diversified trading houses such as Japan's Marubeni, equipment suppliers such as Shanghai Electric from China, or companies which are only now entering the coal sector, such as PetroVietnam." Participants in this thread made very strong cases for pointing up the hypocrisy of British banks that don't walk their talk and at reframing the climate risk debate from different angles.

GUEST EXPERT
Heffa Schuecking
Director Urgewald

"Since coal thermal power stations are reliant on freshwater for operating and 40% of India's coal thermal power plants are in water stressed areas, the climate related financial risk of HSBC and other banks exposing their loan books to yet more thermal power operations seems all the more apparent. I believe this water risk angle should be leveraged by asset managers to pressure HSBC (using their own report against them) and Standard Chartered to de-risk and avoid exposing their loan book to new projects in India and other water stressed countries."

"It seems to me there's an opportunity to use some very strong language around economic colonialism ("we don't want dirty coal in our country but we're happy to fund it in yours")."

"Over the past 3 years, HSBC has provided loans or underwriting services to companies, which collectively plan to build over 254,000 MW of new coal-fired capacity. This is equal to the entire operating coal fleet of India, the UK and Poland combined. It's really time for HSBC to become the target of a concerted NGO campaign in the UK."

"Urgewald's publication of the Global Coal Exit List (GCEL) means lack of information can no longer be an excuse for inaction by investors."

What can investors do?

No New Coal. Ideas here focused on a successful anti-coal campaign in Australia and pushing index providers to rethink their definition of market exposure.

GUEST EXPERT
Heffa Schuecking
Director Urgewald

> *"Without addressing the role of passively managed asset (including assets in ETFs), we will not be able to shift the required trillions from the fossil fuel to a low-carbon economy. Unless asset owners explicitly request investments in fossil fuel companies, asset managers like BlackRock and Allianz should offer fossil fuel free funds for their investments, including passive investments."*

> *"All of the big 4 Australian banks as well as many international banks have refused to finance Adani's Carmichael mine and this is largely due to a strong and unwavering NGO campaign."*

Action on Lobbying. "We argue that the most effective role for forceful stewardship is to engage with Japanese technology, finance, healthcare, consumer goods, materials etc. companies explaining the high level of concern at Japan's energy policy. Investors can demand that these companies (e.g. Panasonic, Ricoh, Toyota) utilise their political clout (which far exceeds that of the utilities) to shift government policy." Participants in this thread shared ideas for action (focussing on global brands with a large footprint in Japan) and some of the hurdles campaigners face.

GUEST EXPERT

Dylan Tanner

Executive Director, InfluenceMap.org

"If one can get (Apple, WalMart, other RE100 members) to deploy their considerable clout with their Asian supply chains to create a more positive climate/energy pathway this will work. We know that Apple is beginning to lobby the Japanese government and other Asian governments for more favourable renewables policy to help them with their RE100 roll out. Similarly with IKEA, Microsft and some others. This needs to happen more strategically and more often. And this is what will move the needle."

"Japan, Korea & other economies poor in resources but strong in technology should be rushing fully into the renewable revolution and supporting their domestic sectors here."same year, banks were compelled to incorporate ESG into lending criteria."

"The issues that do inform local politics are air pollution, water pollution/scarcity, government regulation and public opinion (where it is appropriate). Look at Singapore. Modern developed city-state but arch-conservative on climate. But 2015 haze issue was a game changer, and that same year, banks were compelled to incorporate ESG into lending criteria."

"A significant structural challenge to consider in the case of Japanese utilities, including coal and natural gas would be of the inter-locking relationship with the wholesale trading firms, many of which are significant rights-holders in coal and natural gas (particularly shale gas) extraction. These trading firms are closely affiliated with mega banks, many of which have significant business relationships with these utilities."

What can investors do?

Action on Lobbying, In addition, one participant gave some fascinating insights on the political and economic environment in Korea.

GUEST EXPERT
Dylan Tanner
Executive Director, InfluenceMap.org

> *"Government (in Northeast Asia) has become more and more inefficient and uncompetitive. … The power sector is a typical example. The government just does not understand that the technology game between renewables and coal is almost at its end. Sometimes there are very obviously unfair policies in the power sector. In other words, Northeast Asia is an area full of low-lying fruits, in terms of pursuing environmental integrity."*

> *"My experience at Solutions for Our Climate … tells me that directly engaging public institutions like KEPCO or KEXIM generally does not work. … For that reason, we try to address and amplify issues that may receive internal audit attention (e.g., issues revealing waste of tax money, rather than discussing about climate itself) through and along with outside groups (e.g., National Assembly, press, overseeing ministry etc.). This may stir up internal discussions and politics within KEPCO, KEXIM or other similar organizations, which may lead to actual policy changes."*

Day 2

What can investors do?

Forceful Stewardship in Asia. “Regarding domestic efforts, at the time of the report, five out of twelve major Asia Pacific markets had stewardship principles or codes. This has already increased to eight out of twelve. We also reviewed public disclosure for a total of 30 significant domestic institutional investors. This found that 16 have CG policies, 15 of which referred to ESG, and nine of which referenced climate change.” Participants here looked at both obstacles and opportunities to use stewardship as a tool to combat emissions.

GUEST EXPERT
Benjamin McCarron
Independent ESG strategist

> *“Barriers (to a stewardship strategy) include small holding size, so low prioritisation; divestment by leading ESG interested investors; and soft barriers such as lack of relevant research, language barriers, finding appropriate introducers, and travel budgets. For domestic investors high fund turnover generally in Asia is a more generic barrier to active ownership.”*

> *“Our credibility is enhanced by part of the policy dialogue. For example, being a member of the China UK green finance committee, an initiative backed by the Bank of England and the PRoC, the central bank in China, gives us a platform to support policy work.”*

> *“I note that the TCFD has recently held meetings in Singapore with Asia companies and investors, so I presume we will see increasing take up of the TCFD recommendations. I think it is important to ensure this does not become a box-ticking exercise, as appears to be happening in Australia to some extent.”*

> *“To make permanent change the behaviour of Asian utilities to combat climate change,, we must take an ecosystem mindset, working on policy, influencers as well as with champions within each company to induce change.’ Christine Chow, Hermes EOS.”*

Day 3:
What will investors do?

What will investors do?

"Develop a set of fact-based arguments that stakeholders can draw on when engaging with utilities, government, providers of capital." Commenters debated effectiveness of TCFD while offering up Japan's alternative approach and the valuable research of BNEF.

"Investors are actively working on what good climate disclosure looks like including how TCFD can be woven into their disclosures considering the breadth of their reporting requirements. See Guide produced in conjunction with Aus/NZ Investor Group on Climate Change and AIGCC. http://aigcc.net/wp-content/uploads/2017/04/IGCC-TRANSPARENCY-in-TRANSITION-FINAL.pdf"

"Bloomberg NEF info useful in appealing to greed/opportunity (eg $10 trillion market for renewable power equipment, mostly in Asia). ... There is a role for climate finance to ensure these projects happen sooner rather than later and coal/fossil fuel vested interests' narratives are slapped down by analysis of the biz opportunities this energy revolution will bring to the region. And investors need to question all companies they own in Asia: "what are you doing about this huge opportunity and where is it in your business model" (this is what TFCD says)."

"Developing a resonant climate risk narrative for Asia is absolutely essential and it must be brutally frank about the existential nature of the threat, and get over the "black elephant" problem - a known, knowable fact that no-one wants to acknowledge - the dimension that Donald Rumsfeld forgot to mention! We need to mention that regional and local climate impacts will vary around the averages and connect the dots by bringing attention to [concomitant climate impacts] such as water, declining agricultural and workplace productivity and ultimately the disappearance of markets and demand. With climate we often think in silos and ignore systemic implications."

"Japanese Ministry of Environment and others created the Principles for Financial Action Towards a Sustainable Society back in 2011. This was a Japanese led amalgamation of many of the so-called Western led approaches (Equator, CDP, etc) and it was supported/ adopted by around 200 Japanese financial institutions - but as it was voluntary."

What will investors do?

"Global brands with Japanese supply chains lobby government to pivot toward clean energy." Comments looked at opportunities with pensions and government policy.

> *"For Japan's largest pension funds, we need to make the best intellectual case for linking "better beta" with [the systemic risk of] climate? This requires understanding the official Japanese government frame on climate and linking this frame to portfolio returns [for universal owners in Japan as well as elsewhere in Asia]."*

> *"We should focus on those investors who are pumping money into tar sands in North America as a priority. For Japan we may need to circular approach looking at optimizing developmental costs concerning impacts to health care, re-development of the countryside areas, mitigation costs for sea level rise etc."*

What will investors do?

“Banks in the West and in Asia must feel the heat on ending funding to new-coal projects. Hypocrisy of green posturing at Western banks must be addressed.” Comments focused on the power of the Chinese government vis a vis banks, access to capital, and China’s carbon trading market.

“With China developing their carbon trading markets, there should be an opening to consider optimizing costs and looking to focus investments. My colleague Changhua Wu who is the Founder of the Academy at Guangzhou State Guest Innovation College has years of experience and would be a helpful contact on this.”

“We were told that Western investors behave differently between Asian and western markets. In Asia, they care less on climate risks and more on quick money. How do we deal with this kind of dual behavior?”

“Even state-owned Chinese companies such as the State Grid Corporation of China (SGCC) raise substantial amounts via international bond issues. Just last April, SGCC sold bonds in value of almost US$ 1 billion through a consortium of Australian, US and European banks. So Western investors, which are buying these bonds (as well as the banks peddling them) are, in fact, helping to fuel the pipeline of new coal projects. The key ask in this context is not necessarily divestment, it is for investors to stop making NEW investments in companies that are expanding coal-fired capacity.”

“In China, having channels of communication developed over years into the policy-making bureaucracy is key to influencing policy. Because banks largely take their lead from government, efforts to encourage reducing coal finance should focus should be on policy makers, not the banks. Obviously, this will be different for other developing countries.”

What will investors do?

“I wonder if we can tap into GPIF’s “better beta through ESG” narrative by linking forceful stewardship on climate to it.”

“While the GPIF has been increasingly vocal on ‘ESG’, the most keen interests they have seemed to be on traditional corporate governance and gender diversity. As all stakeholders, such as us, keep raising issues, it would be more likely for the GPIF to raise the priority level among their focuses.”

“In GPIF’s current investment principles, there is no mention of “climate change” (they mention ESG), so it might be helpful to encourage them to integrate specific/explicit investment beliefs/principles on climate change as part of institutionalization of climate risk management.”

“Maybe we can suggest that the GPIF fully and actively utilize the specific ‘asks’ in the TCFD recommendations toward asset managers as an engagement tool/guide. It is easier for the GPIF to rationalize the specific reference to the TCFD, given their authority is tied to the FSB (thus G20 as well as the context of Paris Agreement) than integrating climate change as a stand-alone issue. Of course, the discussion eventually needs to go beyond the TCFD, but it might be a practical starting point.”

“We will need to enlist the ADB, and importantly the AIIB. We should look to see how conditions could be attached or related to investments in CO2 emissions reduction.”

Convener's Conclusion

This dialogue was a leap into the dark for Preventable Surprises. We're not Asia experts and we know many others are. Would we be able to attract the best brains to wrestle with the 'wicked problem' of how to bring down emissions as fast as is needed? How on earth would a dialogue that never sleeps allow people from different time zones to have satisfying interactions? And would participants from different cultures all feel at home in the lively and open ambience of a Convetit dialogue?

As it turns out, this has been extraordinarily interesting, with a variety of perspectives perhaps greater than we've seen in other dialogues, and fascinating insights into the politics and economics of very different Asian countries. It has also been the most participative to date, with 84% of participants posting at least once. I'd like to thank all the guest experts for preparing such excellent opening statements, and to Bill and Casey for their facilitation round the clock.

However, it has to be said that the conversation on Days 1 and 2 – 'Why should investors care?' and 'What can investors do', has been much greater than when it comes to 'What will investors do?' on Day 3. And yet perhaps this isn't surprising – our dialogues invite people to participate as individuals, not as organisations. That's why the survey we are posting out after the dialogue is exceptionally important. Will this torrent of intellectual energy lead to enhanced capacity to accelerate the change we all want to see? Did we, even in a small way, spark some collaborative action? We will be waiting expectantly for the answer.

Carolyn Hayman
Senior Adviser, Climate Change
Preventable Surprises

preventable surprises

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