ICGN’s Policy Director George Dallas wrote the below letter which was subsequently published in the Financial Times @ www.ft.com

Letter: $360bn hit to oil majors may be tip of an iceberg

From George S Dallas, London, UK

In this era of inconvenient truths related to climate change, stranded assets can be added to the list. Indeed, for many, but certainly not all, they are there already. Patrick Jenkins rightly observes that “in our warming world, stranded energy assets are a growing concern” (Inside Business, March 3).

The potential $360bn hit to the value of the leading oil companies under a 2C global warming scenario is huge.

But it may be simply the tip of a melting global iceberg that not only threatens the market value of the energy sector, but would also bring damaging ripple effects to the capital base of the financial sector that provides funding and insurance to these assets.

This, in turn, affects the portfolios of asset managers and pension funds with direct or indirect exposure to stranded assets — and makes this a matter of both corporate governance and investor stewardship.

Whether it comes from central bank regulators or accounting standard setters — or both — investors would benefit from clear and objective standards that can help them assess both the near and long-term financial impacts of stranded assets to guide their investment decisions.

Many leading institutional investors, including investor bodies such as the International Corporate Governance Network, have recognised that climate change is a critical systemic risk that threatens healthy markets, economies and societies.

It may be a bitter pill to swallow, but without better understanding and concrete behaviour change relating to energy financing and the valuation of stranded assets, the investment community may be speaking nobly, but simply kicking the can down an unsustainable road.

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