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# Bank of England urged to review UK exposure to high carbon investments

(London, 19th January 2012) In an open letter to the Bank of England today, a coalition of over 20 leading experts, investors, NGOs and universities urges the Bank of England to investigate how Britain's exposure to polluting and environmentally damaging investments might pose a systemic risk to the UK financial system and prospects for long term economic growth.

The group which includes Climate Change Capital, FairPensions, Lord Gummer, Zac Goldsmith MP, UK Sustainable Investment and Finance Association, Carbon Disclosure Project, WWF-UK, Greenpeace UK, The Climate Group, E3G, The Green Alliance, Oxford University's Smith School of Enterprise and the Environment, Carbon Tracker Initiative, the London School of Economics, and Anglia Ruskin University's Global Sustainability Institute, wants the recently created Financial Policy Committee (FPC) at the Bank of England to work on these issues given its new mandate 'to contribute to the Bank's financial stability objective by identifying, monitoring, and taking action to remove or reduce, systemic risks with a view to protecting and enhancing the resilience of the UK financial system.'

According to the letter, Britain's collective financial exposure to high carbon and environmentally unsustainable investments could become a major problem as we approach environmental limits. As technology developments and policy rightly reduce returns in coal, oil, gas, mining and other high-carbon assets, while supporting low carbon ones, long term institutional investors - such as pension funds with 20 to 30 year investment horizons - may find that if they continue to invest in unsustainable areas they are left holding stranded assets with poor returns.

**Ben Caldecott, Head of Policy at Climate Change Capital, said:**

*"We need to prevent the deep and profound harm that could be wrought by an over-exposure to high carbon assets and a rapid shift in their values. Unlike sub-prime mortgages before the financial crisis, this time regulators must act to prevent the build-up of systemic risk in our financial system."*

**James Cameron, a Member of the Prime Minister's Business Advisory Group, said:**

*"Counter intuitively, investors continue to pour cash into unsustainable high carbon assets without understanding or being able to manage the risks associated with these investments, such as climate change, local pollution, fossil fuel price volatility, political risk and catastrophes such as Deepwater Horizon. This poses significant strategic challenges for the future prosperity of Britain that just can't be ignored."*

**Aled Jones, Director of the Global Sustainability Institute, said:**

*"The 'default' investments of institutional investors created by the desire to track the short to medium term stock market movements mean that the high carbon exposure of the leading indices is a systemic risk that needs to be explored by the Financial Policy Committee."*

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**Sir David King, Director of the Smith School of Enterprise and the Environment, said**

*“The longer we progress along a high carbon route the greater the risk and uncertainty for the economy. Sustainable economic growth is achievable. Those industries that can combine efficiencies with growth will be the winners in the low-carbon economy. And given the rise in global oil prices, those that find alternatives to fossil fuels will be well placed to deal with climate change, energy security and pricing.”*

**James Leaton, Project Director of the Carbon Tracker Initiative, said:**

*“Our research shows that those who track the London market have huge exposure to coal around the world. The capital markets need to recognise the systemic risk of continuing to back fossil fuels whilst also continuing to invest in sectors and economies vulnerable to climate change.”*

**Nick Mabey, Chief Executive of E3G, said:**

*“It is essential that the financial authorities examine these risks and how they can be managed now, given that governments have agreed to negotiate comprehensive global limits on carbon emissions by 2015. Current financial reforms are so preoccupied with bolting the stable door on the last crisis which regulators failed to prevent that they are not tackling the potential causes of the next one.”*

**David Nussbaum, Chief Executive of WWF-UK, said:**

*“There are significant long term financial and environmental risks associated with high carbon investments, and policymakers and regulators need a thorough appreciation of these. It's clear that we cannot burn all the fossil fuels currently listed as assets on the world's financial markets without seriously impacting the value of other listed assets - which would affect the future pensions on which we'll all depend. Taking the high carbon risks seriously should also assist us in the transition towards low carbon investments like renewables.”*

**John Sauven, Chief Executive of Greenpeace UK, said:**

*“The ongoing addiction of UK institutional investors to big oil and coal no longer offers the security many of their investors demand. These large investment groups and major banks need to turn away from the risks underpinning environmentally damaging dirty fuels and instead take this opportunity to look at ways they can use the huge sums they have available to support the UK and world's emerging clean technology markets.”*

**Penny Shepherd, Chief Executive of UKSIF, said:**

*“The financial crisis demonstrated that sound regulatory oversight is in the long-term interests of investors and clients as well as the economy and society. FPC action on high carbon will support UK leadership in mitigating or avoiding tomorrow's emerging threats to financial stability”.*

At present, regulators are not monitoring the concentration of high carbon investments in the financial system and have no view on what level would be too high. The letter cites that five of the top 10 FTSE 100 companies - which account for 25% of the index's entire market capitalisation<sup>1</sup> - are almost exclusively high carbon and that similar levels of exposure are likely in other indices,

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<sup>1</sup> FTSE 100, 11<sup>th</sup> July 2011.

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by companies, in bank loan books and in the strategic asset allocation decisions taken by institutional investors.

In the letter, the signatories outline ways in which regulators can protect investors from the systemic risks of high carbon investment. These include: understanding the dangers of exposure to high carbon investments from listed and non-listed companies, bank loan books and institutional investor portfolios; examining how exposure and relative values between high carbon and low carbon investments could change over time and how this might affect the financial system; and developing a strategy that could manage the dangers of over-exposure [See Notes to Editors].

**ENDS**

### **ENQUIRIES:**

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## NOTES TO EDITORS

1. The Financial Policy Committee (FPC) was created in 2011 to, “contribute to the Bank of England’s financial stability objective by identifying, monitoring, and taking action to remove or reduce systemic risks with a view to protecting and enhancing the resilience of the UK financial system.”
2. The Carbon Tracker Initiative’s July 2011 publication entitled ‘Unburnable Carbon’ illustrated how the global markets may be ripe for a bursting of the ‘carbon bubble’, since upwards of 80% of the world’s fossil fuels may not be extractable in a 2 degree global warming target scenario. Their new report released today, supported by WWF-UK, highlights the role played by London in funding overseas coal mining via listing on the London Stock Exchange. It unpacks issues of carbon accountability as well as significant financial risks that may underlie UK investments. Please see <http://www.carbontracker.org/> for more details.