Avoid greenwashing and make a difference

11 November 2022

Brian Davidson

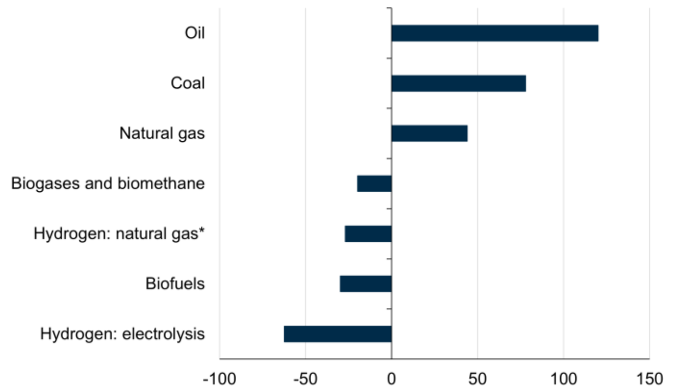
- One of the noteworthy developments at the COP27 climate conference this week was a new push by the UN to identify and clamp down on 'greenwashing'[1]

- Fathom can help clients to devise their own, credible, decarbonisation plans, and to identify greenwashing where it occurs; this is thanks to our understanding of sector-specific decarbonisation options, and our ability to produce metrics that can be used to compare companies and measure progress over time towards achieving the Paris goal

- Our recently published report *An investor's guide to net zero by 2050*, co-authored with BNY Mellon Investment Management, also contains important findings which can inform the greenwashing debate

- First, we found that the investment required on non-polluting fixed assets is huge, and needs to be scaled up significantly from current levels – a finding also supported by analysis from the International Energy Agency (IEA)

Over/under investment by fuel supply
2021 vs annual average required in net zero scenario, USD, billions



*With carbon capture, utilisation and storage (CCUS)

Source: BNYM / IEA / Fathom Consulting

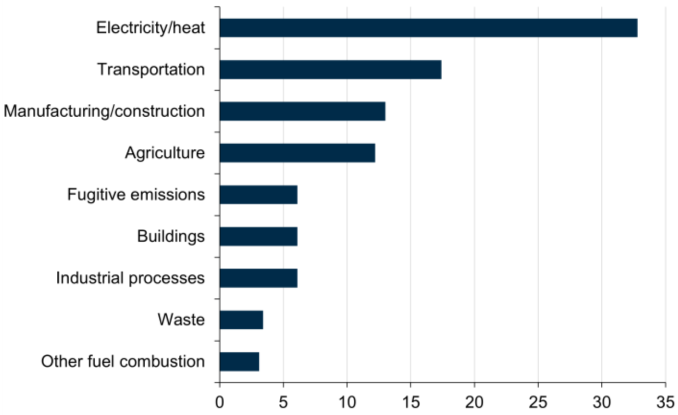
- Second, nearly half of the investment needed from the corporate sector will have to come from utilities and energy companies

- For investors that want to 'do the right thing' this creates a conundrum, since these are two of the most polluting industry sectors and among the most exposed to climate transition risks

1. Greenwashing is an informal term, which may have different meanings to different audiences. In this context we consider it to be the setting of lofty climate targets with little or no plan or action to deliver on these promises, and/or the use of irrelevant information to support these claims.

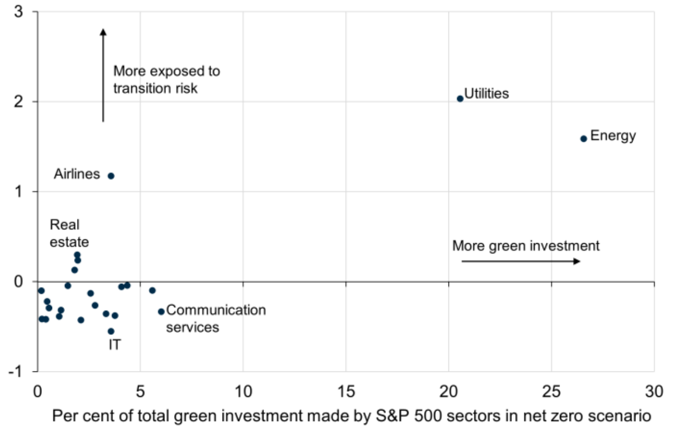
Continued

Global greenhouse gas emission breakdown by activity
Per cent of total, 2019



Source: CAIT / IPCC / BNYM / Fathom Consulting

Green investment required and transition risk, S&P 500
Transition risk score



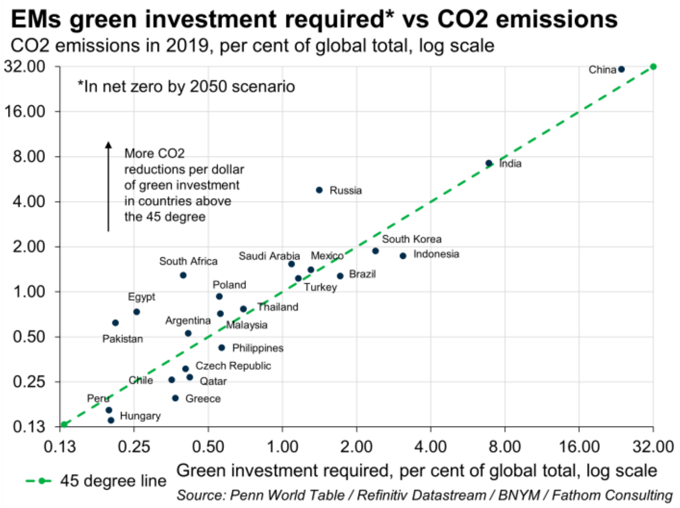
Source: Refinitiv Datastream / BNYM / Fathom Consulting

- Because of this, some investors have stopped investing in these sectors completely. But while this may reduce their carbon footprint on paper, it will not solve climate change or put the world on track to meet the Paris climate goal – completely starving these sectors of funds would also tank the economy
- But equally, investors and companies in these sectors need to recognise that continuing to invest heavily in fossil fuels is inconsistent with achieving the Paris goal[2] – and it also increases the transition risk for the companies making such investments

2. Under the IEA's Net Zero by 2050 scenario, starting in 2021 no new oil and gas fields are approved for development, and no new coal mines are built or extended; in 2021 Fatih Birol, the head of the IEA, said: "If governments are serious about the climate crisis, there can be no new investments in oil, gas and coal, from now – from this year." https://www.theguardian.com/environment/2021/may/18/no-new-investment-in-fossil-fuels-demands-top-energy-economist

Continued

- We have seen some oil & gas majors make record profits due to fossil fuel prices inflated by the war in Ukraine, yet instead of ramping up their investment in green energy, some of these firms continue to return large amounts of cash to shareholders and invest heavily in fossil fuels – behaviour which is not consistent with net zero by 2050 or the Paris climate goal
- Investors and corporates that wish to claim compliance with the Paris climate goal need to recognise this, figure out what is consistent with net zero by 2050 and invest accordingly; differentiating between the companies in these sectors with credible decarbonisation and risk management plans will be key
- Investors should engage with the incumbents to encourage them to make the necessary investment and requisite changes, but also be aware that it could be new players that lead the way, as Tesla did with electric vehicles
- Finally, investors and corporates can also make a positive contribution to climate goals by financing the transition in emerging markets, where more than half of all global green investment needs to be made for net zero to be achieved, but just 10% of the global wealth is located
- As well as having economic benefits, such investment can have wider social benefits too; to find out more, read our research note on this topic earlier this week; or read the full report using the button below



To read this series of research notes based on *An Investor's Guide to Net Zero by 2050*, and to access the report in full, click here

Continued

Further reading:

EMs need to scale up green investment

Spotting net zero's investment opportunities

Net zero transition may require scrapping $20 trillion of ‘dirty’ assets

Fathom Consulting
47 Bevenden Street
London
N1 6BH
Tel: +44 (0)20 7796 9561

Contact information
brian.davidson@fathom-consulting.com
www.fathom-consulting.com

This newsletter is a confidential, copyright protected communication intended only for the person to whom it was originally sent. If received in error, please notify the sender and delete immediately. Its intended recipients may not make copies of this newsletter, or distribute it to third parties, without the written consent of Fathom Consulting.

Fathom Consulting is a trading name of Fathom Financial Consulting Limited, a company registered in England & Wales under the Companies Act, company number 04942817, © 2022

Regulatory Disclaimer

FFC LIMITED and all of its affiliates (henceforth FFC) do not conduct “investment research” as defined in the FCA Conduct of Business Sourcebook (COBS) section 12 nor do they provide “advice about securities” as defined in the Regulation of Investment Advisors by the U.S. SEC. FFC is not regulated by the SEC or by the FCA or by any other regulatory body.

This research report has not been prepared in accordance with legal requirements designed to promote the independence of investment research and is not subject to any prohibition on dealing ahead of the dissemination of investment research. Nonetheless, FFC has an internal policy that prohibits “front-running” and that is designed to minimize the risk of receiving or misusing confidential or potentially material non-public information.

The views and conclusions expressed here may be changed without notice. FFC, its partners and employees make no representation about the completeness or accuracy of the data, calculations, information or opinions contained in this report. This report may not be copied, redistributed or reproduced in part or whole without FFC’s express permission.

Information contained in this report or relied upon in its construction may previously have been disclosed under a consulting agreement with one or more clients. The prices of securities referred to in the report may rise or fall and past performance and forecasts should not be treated as a reliable indicator of future performance or results. This report is not directed to you if FFC is barred from doing business in your jurisdiction. Nor is it an offer or solicitation to buy or sell securities.

Analyst Certification

I Brian Davidson, the lead analyst, certify that the views expressed herein are mine and are clear, fair and not misleading at the time of publication. They have not been influenced by any relationship, either a personal relationship of mine or a relationship of the firm, to any entity described or referred to herein nor to any client of FFC nor has any inducement been received in relation to those views.

I further certify that in the preparation and publication of this report I have at all times followed all relevant FFC compliance protocols including those reasonably seeking to prevent the receipt or misuse of material non-public information.