ERSTE
Asset Management

27. June 2016

https://blog.en.erste-am.com/?p=1200

“Coal – harmful, unprofitable, and replaceable“

Paul Severin

© © Fotolia.de

James Watt not only gave the physical unit for power its name, he also heralded the age of coal and hydrocarbon in the middle of the 18th century by improving and spreading the use of the steam engine. Today, almost 250 years later, we can see a change, even a reversal. Coal divestments, i.e. the outflow of capital from coal investments, have turned into a movement. A prominent example is the Rockefeller Foundation, which announced that it was going to withdraw completely from coal. And the intentions of the power plant operators E.ON and RWE, which want to get rid of its carbon legacy, also show that coal is currently on the way out. Stefan Rößler, ESG analyst with Erste Asset Management, explains why in the long run a withdrawal from coal is unavoidable.

Stefan Rößler, ESG Aanalyst, Erste Asset Management

Mr. Rößler, what are the reasons for the withdrawal from coal, which we have seen from a vast number of players?
Rößler: Let us first look at the aspects that support the use of coal: there is an abundance of reserves, and prices are low. The latter put pressure particularly on mining operators. Peabody, the biggest private coal-mining operator, filed for bankruptcy in April 2016. The situation in China worries us as well: every third one of the listed Chinese coal mines is currently operating at negative marginal earnings. Investments in this sector come with a high risk in view of the current price level. Therefore it comes as no surprise that more and more big, long-term investors are excluding coal from their investment universe. Among them are insurance companies, foundations, and public funds.

How dependent are we actually still on coal or hydrocarbon?

Rößler: Coal can be replaced. It disappeared completely from the private energy mix in the 90s. People do not need a commodity per se, but its use. Current data confirm that in the long run we will not need coal anymore: In May 2016 almost the entire energy demand of Germany was being covered by renewable energy for a few hours. In the UK, used next to no coal at all in its energy production for an entire week. While a complete switch to alternative sources of energy is not yet feasible due to the need for energy safety, the current development gives us cause to be optimistic, because the negative influence of coal on climate change is enormous.

Apart from the energy sector – what sector does the phasing-out of coal also affect?

Rößler: We have seen divestments especially in the insurance sector, and there is a simple reason for this development: coal is a main contributor to global warming, which from an insurance company’s point of view is a threat to its existence. The effects of a global warming of four degrees would entail incalculable environmental risks that could simply not be insured any longer.

Please note: Past performance is not a reliable indicator of the future performance of a fund. Investments in securities entail risks in addition to the opportunities presented here. The value of units and their earnings can rise and fall. Changes in exchange rates can also have a positive or negative effect on the value of an investment. For this reason, you may receive less than your originally invested amount when you redeem your units. Persons who are interested in purchasing units in investment funds are advised to read the current fund prospectus(es) and the Information for Investors pursuant to § 21 AIFMG, especially the risk notices they contain, before making an investment decision. If the fund currency is different than the investor's home currency, changes in the relevant exchange rate can positively or negatively influence the value of the investment and the amount of the costs associated with the fund in the home currency.

We are not permitted to directly or indirectly offer, sell, transfer, or deliver this financial product to natural or legal persons whose place of residence or domicile is located in a country where this is legally prohibited. In this case, we may not provide any product information, either.

Please consult the corresponding information in the fund prospectus and the Information for Investors pursuant to § 21 AIFMG for restrictions on the sale of the fund to American or Russian citizens.

It is expressly noted that this communication does not provide any investment recommendations, but only expresses our current market assessment. Thus, this communication is not a substitute for investment advice, does not take into account the legal regulations aimed at promoting the independence of financial analyses, and is not subject to a prohibition on trading following the distribution of financial analyses.

This document does not represent a sales activity of the Management Company and therefore may not be construed as an offer for the purchase or sale of financial or investment instruments.

Erste Asset Management GmbH is affiliated with the referring Sparkassen banks and Erste Bank.

Please also read the "Information about us and our securities services" published by your bank.

Subject to misprints and errors.

Paul Severin

Paul Severin has worked at Erste Asset Management since April 2008. Until 2012 he was responsible for the company's product management; he has directed communications and PR activities since April 2012. From 1992 to 2008, he was director of equity fund management and deputy director for institutional funds at Pioneer Investments Austria in Vienna.

His career in the securities business began in 1992 at Constantia Privatbank as a portfolio manager and analyst. He worked as primary analyst at Creditanstalt Investmentbank in Vienna from 1994 to 1999.

He studied international business at Innsbruck University and Marquette University in Milwaukee, WI, USA. Before his university studies, he worked at Dornbirner Sparkasse in letters of credit and export financing.

Paul Severin is a member of the board at ÖVFA (Austrian Association for Financial Analysis and Asset Management) and a CEFA charter holder.

Paul Severin is also on Twitter: @paulseverin