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“Coal – harmful, unprofitable, and replaceable“

Paul Severin



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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 Röbber, ESG analyst with Erste Asset Management, explains why in the long run a withdrawal from coal is unavoidable.

Stefan Röbber, ESG Analyst, Erste Asset Management

Mr. Röbber, what are the reasons for the withdrawal from coal, which we have seen from a vast number of players?

Röbber: 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?

Röbber: 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?

Röbber: 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.

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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.

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