

CARBON SUPPLY COST CURVES: EVALUATING FINANCIAL RISK TO OIL CAPITAL EXPENDITURE

In April 2013, the Carbon Tracker Initiative alerted the financial world that \$674bn is invested annually in what might prove to be "unburnable" fossil fuel assets leading to potentially stranded assets.

Today, we are launching of a new research series which identifies the highest carbon content highest priced assets with potential for future development, mapping company exposure to these assets. This new report extends the notion of a carbon budget to market realities.



KEY QUESTIONS ADDRESSED:

Where is the potential new oil production coming from?
Who is going to supply it? At what price?

Interacting with demand scenarios allows investors and providers of capital to focus on the viability of the potential capital expenditures that are at risk. Markets will allocate the carbon budget through economics where policy constraints are reflected. This empowers investors to ask if their capital is being managed well and whether it makes sense to further develop high cost - high carbon projects at sometimes great expense. For regulators it raises the issue of disclosure - do investors have adequate information about companies intentions around their capital expenditures and reasons for making them?



WHAT IS IT ABOUT?

The analysis will show:

- The differences between company / industry oil demand & price scenarios and low carbon / IEA 450ppm scenarios.
- Oil production /emissions / capex plotted out to 2050 compared to carbon budgets.
- An overlay of the cost and carbon associated with major oil locations on the horizon – combined into a carbon cost curve, putting in context how the most expensive oil projects may make neither economic or climate sense.
- The location / type of oil category involved in the high cost/carbon projects: eg oil sands, oil shale, deepwater, Arctic, etc.
- The relative exposure of different sectors and companies (private and state companies) to these projects.

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WHY IS IT DIFFERENT?

This will bring out into the open the financial analysis around future oil investment, to enable a wider debate about how capital is being deployed. It challenges some of the demand & price scenarios promoted by the industry by examining scenarios including more aggressive demand destruction and not betting on ever rising prices to cover increasing costs. By looking to the future it will identify the places where capital hasn't been spent yet – ie the decision can still be influenced by shareholders as the final investment decision hasn't been made.



WHO DO WE WANT TO DO WHAT?

- Investors to challenge company development strategies on capital expenditure plans on high cost / high carbon projects.
- Investors to challenge financial analysts on demand/price scenarios.
- Financial regulators to start requiring companies to demonstrate how their business model is adapting to a low carbon future.

The report will mark the launch of a new research series – three reports on oil, coal, and gas - exploring who is best placed to adapt to a low carbon future.



LAUNCH EVENT

The first of this new generation of analytical research, entitled "**Carbon Supply Cost Curves. Evaluating financial risk to oil capital expenditures.**", will be launched on the 8th May (8.00 am - 12 pm) at Norton Rose Fulbright, in London.

Introduction: Anthony Hoble, CEO, Carbon Tracker Initiative & Special Adviser, Norton Rose Fulbright

Opening Keynote: Christiana Figueres, Executive Secretary, UNFCCC

Presentation of the research findings: Mark Fulton, ETA Adviser to Carbon Tracker Initiative

Panel debate, with energy experts and financial analysts, including: Matthias Beer, Associate Director of Governance and Sustainable Investment, F&C Investments; Christine Tørklep Meisingset, Portfolio Manager and Head of ESG Research, Storebrand; James Leaton, Research Director, Carbon Tracker Initiative; Martijn Rats, Head of European Oil and Gas, Morgan Stanley.