



# Thermal Coal Position

U.N.-CONVENED NET-ZERO ASSET OWNER ALLIANCE

In partnership with:



M2020

Our foundational commitment as members of the United Nations-convened Net-Zero Asset Owner Alliance (the Alliance) is to fully decarbonize our portfolios to contribute to global efforts to avoid a global average temperature increase above 1.5°C, consistent with our fiduciary duty. This will be achieved by inducing reductions of greenhouse gas emissions from companies in which Alliance members own stakes, in line with the 1.5°C limit and net-zero emissions pathways as well as increasing the funding of low or zero-greenhouse gas emissions-related investments.

Our commitment signals to our stakeholders, the global business and finance community and all government policy makers that we are ready to support corporate action and expect the creation of ambitious public policy to promote rapid decarbonization of developed and emerging economies in a socially responsible manner.<sup>1</sup>

In the lead up to the convening of his Climate Action Summit in New York in September 2019, the UN Secretary-General made clear that as part of the global effort to avert the climate crisis, there should be “no new coal” from 2020 onwards. Since thermal coal-generated power is responsible for two-thirds of the emissions that come from the energy sector globally we cannot decarbonize several other sectors, including transport, if we do not decarbonize power generation and supply first. So the impact we can achieve with a net zero energy sector is fundamental.

The burning of thermal coal<sup>2</sup> for energy is the single largest contributor to man-made global temperature increase, accounting for about one third of the 1°C temperature rise above pre-industrial levels already observed.<sup>3</sup> The total remaining carbon budget consistent with limiting global warming to 1.5°C is less than 420 Gt CO<sub>2</sub>,<sup>4</sup> with annual<sup>5</sup> depletion of the budget by about 42 Gt CO<sub>2</sub>.<sup>6</sup> However, CO<sub>2</sub> emissions already committed from existing coal fired power plants (~200Gt) and plants that are planned or under construction (~150 Gt) would themselves nearly exhaust this budget.<sup>7</sup>

In addition, according to the Intergovernmental Panel on Climate Change (IPCC), coal-fired electricity generation must be reduced to near-zero in all climate scenarios (and resulting pathways) consistent with limiting warming to 1.5°C. All pathways analyzed in the IPCC’s 1.5 degrees report published in October 2018 required a “steep reduction” in the use of thermal coal. Under the report’s middle-of-the-road scenario, combustion of thermal coal needs to be reduced by 75% from 2010 levels by 2030, and by 98-100% by 2050<sup>8</sup>. Early retirement of existing coal power generation and infrastructure by 2040 globally—and earlier in jurisdictions such as the U.S. and European Union that have older coal fleets—is crucial for achieving net-zero emissions globally by 2050.<sup>9</sup>

We believe that all companies in our portfolios should have a firm understanding of the wider implications for the activities, operations and projects that they are engaged in. Specifically on thermal coal, we wish to see companies develop their individual transition pathways towards decarbonization. Ideally, companies should guide their strategies as much as possible with the following principles:

- Other than coal plants currently under active construction,<sup>10</sup> no further thermal coal power plants should be financed, built, developed or planned.
- There should be an immediate cancellation of all new thermal coal projects, including thermal coal plant, coal mines and related infrastructure (i.e. supplying products or services to thermal coal-based projects or business models) that are in pre-construction phase.<sup>11</sup>
- There should be a phase-out of all unabated existing coal-fired electricity generation in accordance with 1.5°C pathways, as provided by the IPCC and referenced by the International Energy Agency (IEA)<sup>12</sup> and Powering Past Coal Alliance (PPCA).<sup>13</sup> The most recent energy system models require an accelerated transition in developed economies including phase outs in most thermal coal assets by 2030 for industrialized countries and a full phase out globally by 2040.<sup>14</sup>

Participation in activities and projects that are not aligned with these principles is incongruent with our net-zero goals and the aspirations we have in respect to the different decarbonization strategies of the companies we invest in.

## **Timelines and Transition**

We recognize this transition towards zero-carbon business models requires decarbonizing actions by the companies themselves, with the support of their stakeholders, in particular institutional investors, and a rebalancing of the economic and societal incentives set by policy-makers.

In economies with a large amount of thermal coal currently in their energy mix, where many jobs either directly, or indirectly are likely to be affected by the transition, we support the implementation of abatement technologies and a “just transition” that minimize the cost of carbon neutrality by 2050 and maximize social value.

The latest research shows that already in 2018, 42% of the global thermal coal operating fleet was unprofitable. By 2030, about half of the global thermal coal capacity could be loss-making, and by 2040, 72% will be unprofitable. With a 2°C scenario, it is likely that investors and governments will face over USD 267 billion in negative stranded assets. This number will be much higher under a 1.5C scenario.<sup>15</sup>

## **Engagement with other stakeholders, including Policymakers**

The transition towards zero carbon business models requires economic incentives and the removal of disincentives, or perverse incentives to change, for example treating emissions as a no-cost by product of operations, in other words pricing of externalities.

Governments’ incentives and subsidies for major new thermal coal projects run counter to global efforts to tackle the climate crisis and distort market conditions that are naturally evolving in favour of cleaner energy sources. Supporting new thermal coal projects will lock in high carbon emission coal infrastructure for decades, creating a path dependency and a risk of stranded assets that will be difficult to undo.

Instead of supporting the growth of thermal coal capacity, governments must focus on incentivizing clean energy technologies and meeting energy needs in both developed and emerging economies with low-carbon options while supporting workers and communities impacted by the low-carbon energy transition.

Our engagement activities also include engagement with key stakeholders, including policy-makers, non-governmental organizations (NGO) and companies, in particular those targeted by the CA100+ initiative. We recognize that dialogue, coupled with the economic case, is the most effective solution to accelerate the transition towards a low carbon society, ensuring its just deployment through the inclusion of the workers and communities most directly affected. Investors and companies have strong shared interests in building resilience in all forms and ensuring that the necessary actions are taken quickly by companies and societies to build resilience in a world committed to rapid de-carbonization.

Together, investors, governments and companies all have a responsibility to act on global emissions reduction. Additional thermal coal developments for energy generation are ultimately irreconcilable with the exercise of this responsibility.

## **The Alliance**

# Endnotes

- 1 We hope this work contributes to the UN Sustainable Development Goals (SDGs). For example, SDG 7: Affordable and Clean Energy and SDG 13: Climate Action among others.
- 2 For the purposes of this paper thermal coal refers to the use of coal in power generation as well as the mining of the thermal coal. It does not apply to metallurgical coal or coal utilized in the production of steel or cement.
- 3 <https://www.iea.org/reports/global-energy-co2-status-report-2019/emissions>
- 4 For a 66% probability of limiting the global temperature increase to 1.5 °C; [https://www.ipcc.ch/site/assets/uploads/sites/2/2019/05/SR15\\_SPM\\_version\\_report\\_LR.pdf](https://www.ipcc.ch/site/assets/uploads/sites/2/2019/05/SR15_SPM_version_report_LR.pdf)
- 5 It is worth noting that the economic lockdowns to control transmission of Covid-19 during 2020 in many countries, mean that 2020 will be an anomalous year in terms of GHG emissions reductions.
- 6 [https://www.ipcc.ch/site/assets/uploads/sites/2/2019/06/SR15\\_Full\\_Report\\_High\\_Res.pdf](https://www.ipcc.ch/site/assets/uploads/sites/2/2019/06/SR15_Full_Report_High_Res.pdf)
- 7 [https://www.ipcc.ch/site/assets/uploads/sites/2/2019/06/SR15\\_Full\\_Report\\_High\\_Res.pdf](https://www.ipcc.ch/site/assets/uploads/sites/2/2019/06/SR15_Full_Report_High_Res.pdf)
- 8 IPCC Special Report: Global Warming of 1.5 °C <https://www.ipcc.ch/sr15/>
- 9 [https://www.ipcc.ch/site/assets/uploads/sites/2/2019/05/SR15\\_SPM\\_version\\_report\\_LR.pdf](https://www.ipcc.ch/site/assets/uploads/sites/2/2019/05/SR15_SPM_version_report_LR.pdf)
- 10 Construction: Site preparation and other activities are underway, see <https://endcoal.org/global-coal-plant-tracker/about-the-tracker/>
- 11 These include the following categories of projects: Announced: Projects that have appeared in corporate or governmental planning documents but have not yet moved actively forward by applying for permits or seeking land, coal, or financing. Pre-permit development: Projects that have actively moved forward in one or more of the following ways: applying for environmental permits, acquiring land, acquiring coal, acquiring water rights, acquiring transmission arrangements, or securing financing.  
  
Permitted: Projects that have secured all environmental permits but have not broken ground. <https://endcoal.org/global-coal-plant-tracker/about-the-tracker/>
- 12 Coal with CCS would still represent 5% of world energy mix in 2050 under the IEA Sustainable Development scenario (SDS). With net negative emissions, at a level well below the median for scenarios assessed by IPCC, the IEA SDS would be consistent with a 50% probability of 1.5°C <https://www.iea.org/reports/coal-fired-power>  
  
In Oct 2020 the IEA published a new scenario for the energy sector globally to reach net-zero emissions by 2050 called Net Zero Emissions by 2050 (NZE2050). In this scenario The share of renewables in global electricity supply rises from 27% in 2019 to 60% in 2030 in the NZE2050, and nuclear power generates just over 10%, while the share provided by coal plants without CCUS falls sharply from 37% in 2019 to 6% in 2030. [https://www.iea.org/reports/world-energy-outlook-2020/achieving-net-zero-emissions-by-2050?utm\\_campaign=IEA%20newsletters&utm\\_source=Send-Grid&utm\\_medium=Email](https://www.iea.org/reports/world-energy-outlook-2020/achieving-net-zero-emissions-by-2050?utm_campaign=IEA%20newsletters&utm_source=Send-Grid&utm_medium=Email)
- 13 <https://poweringpastcoal.org/about/declaration> and [https://climateanalytics.org/media/climateanalytics-coalreport\\_nov2016\\_1.pdf](https://climateanalytics.org/media/climateanalytics-coalreport_nov2016_1.pdf)
- 14 Energy-system models show that the phase out of unabated coal-fired power plants needs to be largely completed by 2040 globally and fully completed by 2050. Under a least-cost strategy, coal phase out dates differ across regions, but to comply with Paris Agreement compatible pathways with no or limited overshoot of 1.5 degrees, the following reductions need to happen; between 2030 and 2040 all the regions should phase out of coal. The first regions to phase out are the OECD, Eastern Europe and Former Soviet Union countries - by 2031, followed by Latin America by 2032, Middle East and Africa by 2034, and finally non-OECD Asia by 2037, completing a global coal phase-out before 2040. See reports by Climate Analytics; "Implications of the Paris Agreement for Coal Use in the Power Sector" (2016) [https://climateanalytics.org/media/climateanalytics-coalreport\\_nov2016\\_1.pdf](https://climateanalytics.org/media/climateanalytics-coalreport_nov2016_1.pdf) and "Global and regional coal phase-out requirements of the Paris Agreement: Insights from the IPCC Special Report on 1.5°C" (2019) [https://climateanalytics.org/media/report\\_coal\\_phase\\_out\\_2019.pdf](https://climateanalytics.org/media/report_coal_phase_out_2019.pdf)
- 15 From Carbon Tracker Coal Portal: <https://www.carbontracker.org/reports/coal-portal/> Where profitability is defined as revenues minus long-run operating costs. The Carbon Tracker analysis assumes that due to high fuel costs 42% of coal capacity operating in 2018 was losing money. From 2019 onwards, Carbon tracker assumed that a combination of renewable energy costs, air pollution regulation and carbon pricing would result in further cost pressures and make 72% of the fleet cashflow negative by 2040. This scenario assumed fuel costs would fall over 10% (on average) after 2018 and only includes existing climate and air pollution policies.



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