

# INSIGHTS

## For the Mainstream Investor

WEEK ENDING MARCH 16, 2018 EDITION 236

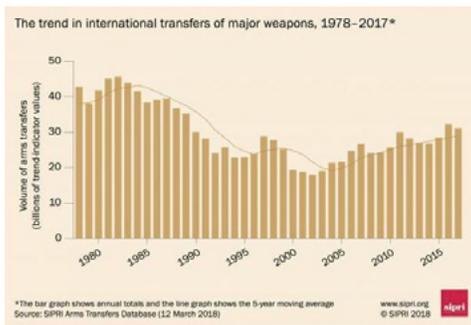


### ENERGY MAJORS GO GREEN

*Strategy changes*

Energy majors are revealing different strategies to cope with the inevitable energy transition. Last weekend, two German utilities, E.ON and RWE, announced a [deal](#) whereby RWE's [Innogy](#) subsidiary – created in 2016 when RWE split-off its renewables, network and retail businesses into one entity – will be acquired for Euro [43 billion](#) by E.ON, while RWE will acquire E.ON's and Innogy's renewable businesses and take a stake in E.ON. This will leave E.ON focused on energy networks and retail customers, while RWE will concentrate on generation including renewables. Meanwhile, in the oil sector, the Royal Dutch Shell CEO has [stated](#) that coping with energy transition will be crucial to the company. To underline this strategy he commented that the company's remuneration policy includes metrics for the management of greenhouse gases. He also stated that 'we intend to grow our low carbon energy...tackle carbon intensity...help others decarbonize...and explore the opportunity to offset emissions'. However, he also made clear that he sees an energy transition future which has 'an evolving mix of renewables and hydrocarbons'. The financial markets will watch the capital expenditure programs of the oil companies to determine their [strategies](#). Stark differences are already emerging.

### INFOGRAPHIC OF THE WEEK



Source: [Stockholm International Peace Research Institute](#)

### CHINA'S POLLUTION

*Global impact*

China is the [largest](#) emitter of carbon dioxide in the world, and by some margin. Of the top 20 global emitters, China accounts for 28% of the CO2 emissions on its own, with the US second with 14% of the total. On a [per capita basis](#), the ranking changes with China failing to make the top 10. It is headed by Qatar with Bahrain, UAE and Saudi Arabia also making the top 10. Bottom of the list, with the lowest level of CO2 per capita, is Denmark.

China is responding to its national pollution problem, agreeing to increase anti-pollution spend by 19% to Yuan 40.5 billion (US\$6.4 billion). It is also pushing ahead with [electric vehicle](#) subsidies by subsidizing the manufacturers. It is aiming for sales of 7 million by 2025. In 2017, China accounted for 50% of global plug-in car sales. With China set to invest Yuan 2.5 trillion (US\$396 billion) in [renewable generation](#) by 2020, it is clear which country is leading the environmental transformation; and there will be global benefits.

### WE'RE WATCHING

ESG data provision is seen as a profitable business by a number of corporations. Consolidation continues in this area, confirmed by the recent [announcement](#) that Institutional Shareholder Services (ISS) is to acquire oekom research. ISS has already acquired other ESG researchers such as South Pole Group, IW Financial and Ethix. See our [research](#) on the ESG rating agencies.

### WE'RE LEARNING

When the Tohoku earthquake struck followed by the [tsunami](#), problems started at the Fukushima nuclear power plant. A widespread evacuation was ordered. But was this the correct thing to do? [Analysis](#) is now showing that the forced move caused depression, unemployment and alcoholism among the 63,000 displaced. Since the event, 29,000 have returned.

### THIS WEEK IN NUMBERS

77 percent of S&P 500 companies reported Q4 revenue above the mean sales estimate, the highest percentage since FactSet began tracking this metric in Q3 2008

75 percent of new infectious diseases in recent decades came from animals says the FAO

52 hours will be the new lower weekly work hours in South Korea, down from 62

45 % of US adults favour allowing teachers to carry guns in schools

40 % of audits have serious problems according to the International Forum of Independent Regulators

13 cities have been identified as having the greatest risk of significant temperature rises

10 rivers discharge 90% of all plastic marine debris

8.6 % is the forecasted growth in coal-powered generation to 2040, accounting for 26% of power generation

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### BLUE IS THE NEW GREEN

*Financing environmental projects*

As the financing of environmental projects becomes more sophisticated and specialized, so we are seeing the emergence of 'blue' finance. Although there is no hard and fast definition, it is often assumed to be the financing of projects associated with the oceans and fish. For example, the company [Blue Finance](#), specifically specializes on the 'management of coral reef ecosystems'. Albeit it small, the World Bank [approved](#) a US\$20 million 'Blue Bond' to improve fisheries and marine resources in the Seychelles last year. It's worth remembering that green bonds started from humble [beginnings](#) back in 2008 when the World Bank issued the first one along with SEB for US\$290 million. We expect further growth in this nascent financing, propelled by [Sustainable Development Goal 14](#) – life below water. If this SDG sets the definition for blue financing, expect it to be defined as instruments that 'aim to sustainably manage and protect marine and coastal ecosystems from pollution, as well as address the impacts of ocean acidification'.

### GOOD NEWS

VW's giant Wolfsburg plant is to [stop burning coal](#) for power generation. The two power stations on the site, which also supply heat to the city of Wolfsburg, will be converted to gas by 2012 and 2022. VW has pledged to reduce its environmental impact by 45% between 2010 and 2025. This announcement should help.

### DID YOU SEE?

The Philippines intends to hold a number of global corporations to account on climate change. The country's Human Rights Commission has agreed to [investigate the claim](#) that 'Carbon Majors' (47 corporations) are largely to blame for climate change. The Commission can only make recommendations to the Government; it has no enforcement powers. Will improvements in scientific knowledge allow links between harm and corporate emissions to be established?

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### WELL-BEING

*How to calculate it*

There is plenty of [literature](#) that exposes the flaws with GDP, widely used to compare countries' standard of living. See the [Stiglitz Commission](#) Report of 2009. GDP is difficult to measure accurately which technological development has further complicated. For example, online services do not make people poorer. And how should we account for (say) mobile devices which become more sophisticated but may be cheaper than predecessors? So economists and others have been examining a wider definition of welfare and [well-being](#) to help determine what makes people better off. Work by Jones and Klenow in 2016 recognized that welfare is highly correlated with GDP per capita but 'deviations were often large'. Other research has argued for a '[green GDP](#)' which adjusts for environmental factors, or an [Index of Sustainable Economic Welfare](#) which accounts for income distribution as well as the costs of pollution and unsustainable costs. More recent work by Bannister and Mourmouras suggests that 'GDP does capture the main component of well-being' but health needs to be considered as it is 'critical to raising welfare and income'. More [work](#) needed, perhaps?

### WE'RE HOPING

Has a cure for the [bleaching of coral reefs](#) been found? Researchers are finding that by treating reefs with probiotics they assist the microbes that live on the surface and inside corals, helping them to deal with disease-causing bacteria associated with pollution and climate change.

### QUOTE OF THE WEEK

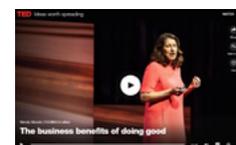
Look those people in the eyes that are starving and tell them you can't have electricity... because as a society we decided fossil fuels were bad. I think that is immoral.  
– U.S. Energy Secretary, Rick Perry

### LISTENING LIST



*Three revolutions – The future of cars*  
[Infinite Earth Radio](#)  
*The fish farming revolution*  
[BBC](#)

### WATCH LIST



[The business benefits of doing good](#)  
[Wendy Woods \(TED\)](#)

### READING LIST

*Performance and SRI*  
[US SIF](#)  
*The 2018 Proxy Season*  
[Proxy Preview](#)  
*The known unknowns of plastic pollution*  
[The Economist](#)  
*Key world energy statistics*  
[IEA](#)  
*Passive investment and ownerless companies*  
[Financial Times](#)

### CHECK THIS OUT

[European air quality](#) can be monitored on this site.

### BELIEVE IT OR NOT

Massachusetts is a state which has some of the strictest gun control regulations and the lowest firearm death rate. It is also the largest maker of firearms in the US and houses the head office of Smith & Wesson.  
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