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Corporate climate polluters must pay for damage

February 25th, 2021, by Quintin Rayer, Karsten Haustein and Pete Walton

A drought-struck lake near Ouagadougou, the capital of Burkina Faso. *Image: By YODA Adaman on Unsplash*

Who should pay the huge costs of climate change's damage? There's a case for corporate climate polluters to contribute.

LONDON, 25 February, 2021 − The world's big oil and mining companies emit vast amounts of climate-changing greenhouse gases into the atmosphere.

By extension, the actions of these corporate giants stand accused of contributing to floods and droughts and other climate-related disasters around the globe, extremely costly in both human and financial terms.

Our suggestion, which we describe as "a hypothetical climate liability regime", is for the companies to become at least partially liable to pay for their destructive, climate-changing activities.

Investors should also be made aware of the risks involved in putting money into such enterprises. Only then will a realistic market valuation of these companies be calculated.

We examined nine top-emitting publicly-owned companies – all fossil fuel giants: Chevron, ExxonMobil, BP, Royal Dutch Shell, ConocoPhillips and Total are all primarily involved in oil.

Whilst Peabody Energy is one of the world's biggest coal conglomerates, BHP Billiton is a mining behemoth and CNX Resources is a large gas company.

Cumulative emissions

In mid-2018 these nine companies had a combined market capitalisation of US$1,358bn on the world's stock markets. In total we estimate that the cumulative emissions of the companies concerned over an extended period of time have added up to 14.5% of total global emissions.

Analysing the occurrence of floods and droughts around the globe over a recent five-year period, it was calculated the costs totaled US$265bn.

If a liability regime was introduced, the nine companies above would stand to pay up to a 14.5% share of those costs – amounting to US$38.4bn, a figure representing 2.8% of their combined market worth.

Floods and droughts occurred before global warming, so only the additional intensity or frequency of flood and drought damages from company emissions matter – an active area of research.

How much should fossil fuel users pay as a share of responsibility? We explore this too. Not all is down to the users, but neither is all of it the responsibility of the producers. Even after allowing for both, we still suggest that 2.0% of their combined market worth might be a "fair" share.

Further impacts

If other impacts of global warming, such as hurricanes and sea-level rise, were taken into account, these companies would have to contribute much larger sums to pay for the damage caused.

Our calculations are based only on historical emissions: we do not take into account the damage, both in human and financial terms, likely to be caused by the activities of the companies concerned as global warming intensifies.

More than 50 years ago it became clear that emissions of CO2 and other greenhouse gases were damaging the climate.

The leading carbon producers could see their activities were harmful and that they had a responsibility to reduce the damage caused by capturing emissions or developing safe substitutes, such as carbon-free energy.

Instead, fossil fuel firms ignored their responsibilities, and promoted climate denial.

Public pressure grows

If these and other companies became liable for the damage caused by their emissions, investors could well think again before putting their money into such enterprises.

The City of New York is taking steps to remove fossil fuel companies from its US$189bn pension fund portfolio. Other investment funds – both big and small – are following the New York pension fund lead in the face of mounting public pressure aimed at supporting more sustainable enterprises.

Investors are also becoming increasingly aware of the growing financial risks of investing in companies founded on the exploitation of fossil fuels.

The value of these conglomerates could rapidly decline if they became liable for their past emissions: new regulations aimed at tackling the climate crisis could result in corporate fossil fuel reserves being left in the ground as so-called stranded assets. − *Climate News Network*

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The project of which this article is a summary is due to be published as a chapter in Water Risk and Its Impact on the Financial Markets and Our Society: New Developments in Risk Assessment and Management, forthcoming from Palgrave Macmillan. Current title: Global Warming: Flood and Drought Investment Risks

Dr Rayer and Dr Haustein contributed to Global Warming and Extreme Weather Investment Risks (Palgrave Macmillan, 2020).

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